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MONETARY POLICY ANNOUNCEMENT

December 30, 2022

CENTRAL BANK KEEPS REPO RATE UNCHANGED

The global economy was faced with multiple headwinds in 2022. The spillover effects of the Russia-Ukraine war, a sharp slowdown in China, and widespread inflationary pressures dampened global growth. Supply shocks caused rapid increases in food and fuel prices resulting in multi-decade high inflation in many countries. In response, many central banks tightened monetary policy. For example, the United States Federal Reserve (Fed) hiked its Federal Funds target range on seven occasions (for a total increase of 425 basis points), while the Bank of England increased the Bank rate eight times (totaling 325 basis points). Policy actions have cooled price pressures in some areas, but at the expense of growth, and volatility in capital markets.

In Trinidad and Tobago, the recovery of economic activity is gradually taking shape. The start-up of several upstream projects will provide a fillip to energy production. Strengthening business activity and consumer demand also augur well for the non-energy sector. Nonetheless the revival of the labour market remains sluggish, with the unemployment rate up from 4.5 per cent in the second quarter to 5.4 per cent in the third quarter of 2022.

The latest available data from the Central Statistical Office put headline inflation at 6.2 per cent (year-on-year) in September 2022, slightly lower than the 6.3 per cent in the previous month. Food inflation was registered at 11.6 per cent, while core inflation (excluding food items) measured 4.8 per cent in September. External influences continued to dominate the trajectory of domestic inflation in the first nine months of 2022. A combination of imported commodity prices, flooding and the impact of the reduction in the subsidy on local fuel prices is expected to lead to further price rises during the final quarter of this year.

There is good evidence that financing for business expansion is improving. Financial system credit to businesses rose by 9.6 per cent in October 2022 on a year-on-year basis. Banking system liquidity is also quite high in mid-December ($7.1 billion in excess reserves at the Central Bank). Some of this liquidity surge may be temporary as banks prepare to cater for end-of-year tax commitments by their customers. In the context of Fed monetary tightening, the TT/US differential on three-month treasuries reached -387 basis points in November 2022 while the differential on 10 year treasuries was +148 basis points.

The Monetary Policy Committee (MPC) assessed the evolving local and international landscape. The Committee recognized that tremendous uncertainty characterised expected geopolitical developments into 2023, while financial markets remained unsettled. Domestically, business operations were poised to rebound further, supported by bank credit and potentially some of the additional fiscal space afforded to the Government from higher energy prices. The MPC however noted with concern the rising path of domestic inflation, albeit dominated in 2022 by external or weather related shocks as well as the fuel subsidy reduction.

In balancing all considerations, **the Committee decided to maintain the repo rate at its current level of 3.50 per cent**. At the same time, the MPC considered that the Bank should be prepared to further employ other monetary tools—including more active open market operations—in addressing the inflationary situation in a flexible manner.

The Central Bank will continue to monitor international and domestic developments and will take further actions as necessary.

The next Monetary Policy Announcement is scheduled for March 31, 2023.

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