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MONETARY POLICY ANNOUNCEMENT

December 31, 2021

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

Global inflationary pressures, influenced mainly by supply-side constraints, mounted during the second half of 2021. Such pressures led to a tightening of monetary policies in several countries. In the United States, with inflation above its 2 per cent target for the ninth consecutive month, the Federal Reserve significantly reduced its net asset purchases in a bid to restrain monetary expansion. The Bank of England increased its policy rate by 15 basis points to 0.25 per cent—the first rate hike by a major central bank since the onset of the pandemic. Many emerging and developing economies also continued on a path of interest rate rises, to deal with domestic inflation and in anticipation of the potential impact of higher interest rates in advanced economies on capital flows. At the same time, the outlook for global growth has dimmed with the onset of the rapidly spreading Omicron variant of COVID-19, with some countries reverting to tough travel and other restrictions on mobility and economic activities.

Domestically, business operations are starting to recover following the gradual opening of the economy since the third quarter, a signal of cautious optimism for 2022 if such momentum is maintained. With respect to financing, business credit rose by 1.3 per cent (year-on-year) in October 2021—the first increase since August 2018. Recent lending was particularly buoyant to the construction, finance and insurance sectors, alongside the 4.6 per cent rise in mortgage lending. However, consumer lending contracted by 2.3 per cent, despite a slight decrease in interest rates: the weighted average lending rate of commercial banks declined to 7.04 per cent in September 2021, 16 basis points lower than in March 2021. Financial system liquidity remained ample, with banks' excess reserves at the Central Bank averaging $7.37 billion during the first half of December 2021. In addition, the interest rate differential between Trinidad and Tobago and United States 90-day treasury securities was relatively stable at around 27 basis points since June 2021.

Following a lag of several months, external price pressures are currently having a direct and broad-based bearing on domestic inflation. Headline inflation measured 3.9 per cent (year-on-year) in October 2021 compared with 2.4 per cent a month earlier. Food inflation surged to 7.6 per cent (from 5.8 per cent in September) and is likely to rise further given the situation in global grain markets. Core inflation (which excludes food items) almost doubled to 2.9 percent from the previous month. Stronger price pressures were also observed for building materials, with the Index of Building Material Prices rising by 12.6 per cent during the third quarter of 2021 when compared to the same quarter a year earlier.

The Monetary Policy Committee (MPC) took note of domestic economic developments, including the resumption of business operations in a more open setting, alongside the transmission of external inflation to local prices. The MPC also considered that the outlook was clouded by significant uncertainty regarding the path of the coronavirus. Taking all factors into account, **the MPC agreed to maintain the repo rate at 3.50 per cent**. The Central Bank will continue to carefully monitor and analyse international and domestic developments and prospects.

The next Monetary Policy Announcement is scheduled for March 25, 2022.

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