

Monday 28th September 2015 – 3:20 pm

Domestic

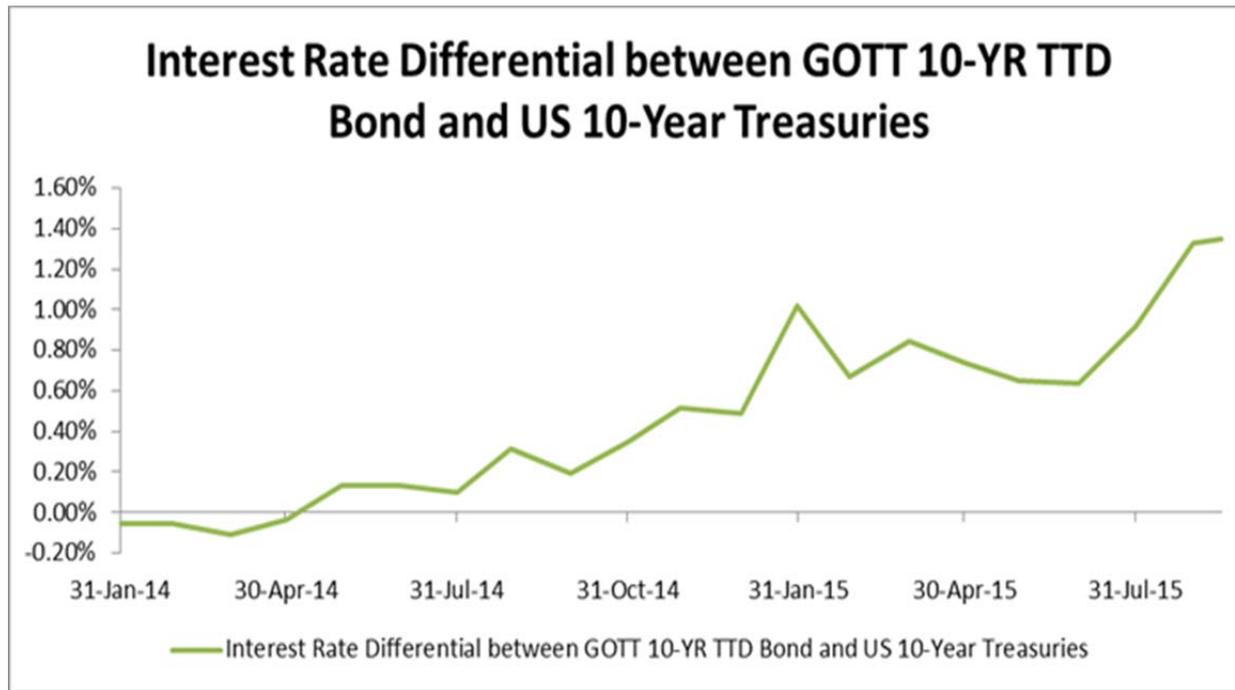
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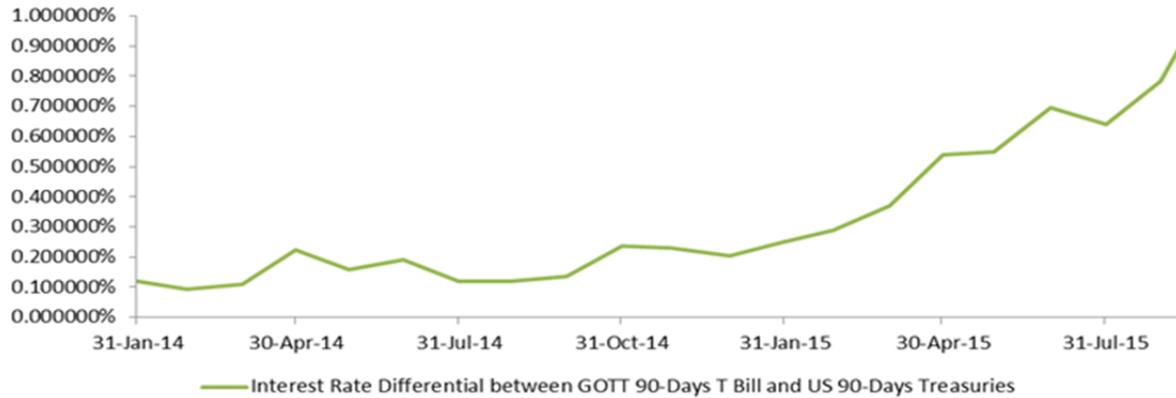
The Central Bank of Trinidad and Tobago Monetary Policy Update

- On September 25th 2015 the Central Bank of Trinidad and Tobago (CBTT) Monetary Policy Committee (MPC) agreed to increase the 'Repo' rate for a seventh consecutive time by 25 basis points to 4.50%. This represented a 125 bps increase in the Repo rate from the beginning of the year (3.25%) and a 175 bps increase from the rate (2.75%) at which the CBTT shifted its policy stance in Q3 2014.
- The most influential factor encouraging the rate increase, as cited by the CBTT, is the expected normalization of US interest rates which could reduce capital flows to Trinidad and Tobago. As such, the MPC believes that "higher domestic interest rates are necessary to mitigate potential capital outflows."
- As at August 2015 headline inflation slowed to 4% from just over 5.5% in the previous month on account of a deceleration in food inflation (August 2015: 8%, July 2015: 11.50%). Core inflation remained stable at 1.50% as at the end of August 2015. As such, Domestic inflationary pressures have not materialized as initially expected.
- Although prices seem to be contained, the CBTT holds the view that recently settled wage negotiations could increase consumers' discretionary income and as a result stoke inflationary pressures. Additionally, increased labor and production costs, as experienced across the agriculture sector have the ability to increase food inflation.
- Commercial Banks daily average excess liquidity stood at TTD3.3 billion for Q3 2015. It is the view of the MPC that in order for rising interest rates to have the desired effect on the financial system, the maintenance of an aggressive liquidity management programme is imperative.

- According to the CBTT's Index of Real Quarterly Gross Domestic Product (QGDP), the T&T economy declined by 2% (provisional y-o-y) in the first half of 2015. This follows growth of 0.9% in 2014.
- The energy sector experienced a 3.5% contraction in the first half of 2015, attributed to lower natural gas production. The energy sector contracted by 2% during 2014.
- The non-energy sector also contracted by 1% for the first half of 2015. This decline was mainly due to a slowdown in construction, distribution and manufacturing.
- The next Monetary Policy Announcement is scheduled for November 27th 2015.



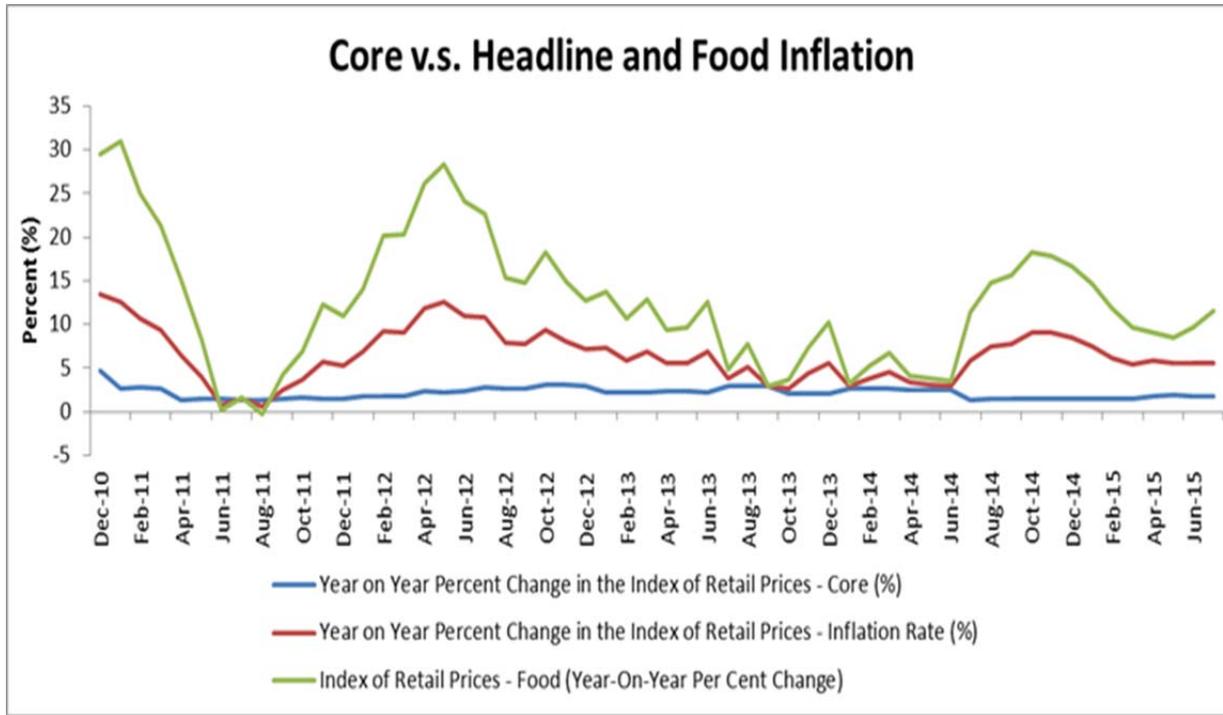
Interest Rate Differential between GOTT 90-Days T Bill and US 90-Days Treasuries



Commercial Banks Average Excess Reserves (TT\$Mn)



Source: CBTT



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