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Domestic

Prepared by: Vangie Bhagoo-Ramrattan, Head, First Citizens Research and Analytics

Vangie.Bhagoo-Ramrattan@firstcitizenstt.com

CBTT Raises Repo Rate

- The Monetary Policy Committee of the CBTT decided to increase the benchmark 'repo' rate for the third consecutive time at its January 2015 meeting.
- The repo rate (which is the rate at which the Central Bank is prepared to provide overnight financing to commercial banks that are temporarily unable to meet their liquidity requirements) now stands at 3.50%, from 3.25% previously.
- The decision was based on three (3) main factors:
 - Guidance from the US Federal Reserve about the future path of its monetary policy
 - Signs that the T&T economy is approaching full capacity
 - The positive growth outlook for the non-energy sector despite the decline in oil prices.
- According to the CBTT, the Fed Funds policy interest rate would likely increase to 1% by the end of 2015, which is expected to make US dollar assets more attractive relative to TT dollar assets, which may prompt capital outflows. The increase in the repo rate therefore, seems to be a preemptive to avoid portfolio capital flows out of Trinidad and Tobago.
- The CBTT also noted that the economy may be approaching full capacity, as evidenced by higher inflation (8.5% in December 2014 from 5.5% in January 2014), a low unemployment rate of just over 3% and strong consumer credit demand. Further, the CBTT has noted that the government substantially revised downwards its energy price assumptions for the current fiscal year budget, but intends to return to the original fiscal deficit target of around 2.5% of GDP. This suggests, according to the CBTT, a continuation of expansionary fiscal policy, which would add to elevated liquidity levels.
- The non-energy sector has expanded for 15 consecutive quarters to December 2014. The performance is supported by the ongoing recovery of the US economy, softer oil prices and the improving outlook for the tourism-based CARICOM economies, which will bolster T&T's non-energy exports.



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