PRESS RELEASE

22 December 2016

Central Bank: Reduction in the Discount Rate by 50 basis points to 4.00%

The Central Bank wishes to advise the public of its decision to reduce the Discount Rate, by 50 basis points to 4.00 percent, effective immediately. The Bank expects financial institutions to follow suit with a corresponding reduction in the Prime Rate, from 4.75 percent to 4.25 percent and adjustments in lending rates on new credit facilities. Interest rate reductions for existing facilities should be accorded in line with contractual provisions that govern the timing of such changes.

This policy action is intended to position the domestic business sector to take more advantage of growth opportunities in the near to medium term, and to provide more support to housing sector investments.

In taking this action, the Bank considered several factors, including the prospects for a pick-up in growth in the coming year resulting mainly from the expansion in the tourism plant and the potential for increased foreign currency inflows to buttress the external reserves, which stand currently at $928.6 million or an estimated 17.4 weeks of total merchandise imports—well above the 12.0 weeks benchmark. The economy also faces reduced pressures on the balances given the significant reduction in the oil import bill, which is expected to be sustained in large part over the medium-term.

Other prudential constraints remain in place to ensure sustainable credit trends. This includes the maximum debt servicing ratio limit of 40%-45% percent (on the aggregate of personal loans, mortgages, rent and property maintenance) and the minimum down payment requirement of 15% percent for such loans. The recent, temporary easing in these requirements still only applies for hurricane recovery facilities. Lending policies should also continue to be conservative, as commercial banks manage the expected gradual reduction in the overhang of non-performing loans.

The Central Bank will continue to closely monitor economic and monetary developments and will, where prudent, make further adjustments in its monetary stance in order to ensure the stability of the financial sector and contribute to sustainable economic growth. The Bank will also continue to explore other interventions to increase the private sector’s access to financing of a growth enhancing nature, having regard to activities that strengthen net foreign exchange earnings potential.

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