



OFFICIAL PRESS RELEASE

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Headline Inflation continued to decline in February 2023

The February Consumer Price Index reported **inflation annual rate at 8.7%**, a decline from 9.7% in the previous month, and lower than 9.1% in February 2022. Inflation has generally been easing from its peak of 14% in September 2022. The Reserve Bank's Governor Tatafu Moeaki stated that "the February 2023 Monetary Policy Statement adjustment to the money supply and its exchange rate policy remains a priority to fight against inflation and will keep a tight stance where appropriate to minimize the negative impacts on families purchasing power especially the poorer and vulnerable."

2. Specific credit easing in liaison with the Government to support supply shortages and accelerate recovery in agriculture, fisheries, tourism and manufacturing are allowed to separate from money supply objectives. The policy separation are crucial to avoid unwarranted slowdown in economic growth. The main contributors to the headline inflation rate of February 2023 from highest to lowest are:

- i. Domestic food items (2.2 percentage points)
- ii. Fuel, gas, and electricity (1.7 percentage points)
- iii. Imported food items (1.3 percentage points)
- iv. Construction materials (0.7 percentage points)
- v. Local transport services, ferry, and freight (0.6 percentage points)
- vi. Catering services (0.4 percentage points)
- vii. Goods for personal care such as toiletries (0.3 percentage points)
- viii. Alcoholic beverages, tobacco and kava (0.3 percentage points)

3. Domestic food supply have been low due to the longer-than-expected lingering impacts of HTHH and COVID-19 lockdowns. Energy prices were high due to global oil price hikes caused by the war in Ukraine. Meanwhile, imported commodities were affected by disruptions to the supply chain and shipping since the COVID-19 restrictions.

4. However, there are signs of improvements in the global supply chains and global oil prices had been declining until March 2023. The housing reconstruction is progressing well and the agricultural sector is also expected to recover, improving local food supply. Headline inflation is expected to continue to fall within the 5% reference rate in the second half of 2023. However, unexpected shocks to global oil prices and natural hazards still pose a risk to this outlook. Governor Moeaki stated that "the Reserve Bank will continue to prioritize the fight against inflation in Tonga as part of its stability goals and protect the poor and vulnerable families' purchasing power for basic necessities."

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