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Reserve Bank Seeks to Better Control Inflation through Monetary Policy

The National Reserve Bank Board of Directors approved to release its Monetary Policy Statement (MPS) for February 2023 which outlines the revised monetary policy stance following a review of Tonga's economic performance and macroeconomic conditions.

The Reserve Bank has revised its current accommodative policy to focus on policy measures that adjust the money supply to manage any resurgence in prices over the next six months. At the same time, targeted measures will be adopted, including credit easing to support the vulnerable businesses and households to help economic recovery from the double shocks in 2022.

The Reserve Bank forecasts GDP growth for FY2022-23 at 3.4%, underpinned by the stronger growth anticipated for the tertiary and industry sectors. All sector growths are estimated to pick up momentum in 2023 contributing to the growth outlook of 3.7% in FY2023/24, despite the weaker global outlook. The official foreign reserves remained comfortable at T\$911.1 million by the end of January 2023, equivalent to 14.2 months of imports coverage.

The financial system continued to remain sound supported by the banks' strong capital position, adequate profitability, and high liquidity.

Inflation grew steeper and higher at 14% in September 2022 before cooling off in the last two months of 2022 where domestic inflation surprised on the upside and overtook imported inflation since August 2022. Business and households' purchasing power are declining and the Reserve Bank stresses the importance of price stability in the short-term as it moves to strengthen the monetary policy framework that seeks to better control inflation, and build the resilience of the financial sector, promote macroeconomic stability and support economic growth recovery.

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