

# Overseas Exchange Transactions (OET) July 2021

Release Date: 15 October 2021

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Jul-21	Jun-21	May-21	Apr-21	Jul-21	Jul-20
<b>Overall Balance</b>	<b>-10.5</b>	<b>25.7</b>	<b>9.9</b>	<b>-6.0</b>	<b>148.8</b>	<b>63.0</b>
Net Current Account	-9.2	21.9	15.9	7.1	122.5	57.0
Net Capital Account	0.6	2.7	1.9	0.5	39.9	23.6
Net Financial Account	-1.9	1.1	-8.0	-13.6	-13.6	-17.5
<b>Foreign Reserve Levels</b>	<b>704.8</b>	<b>715.2</b>	<b>689.5</b>	<b>679.7</b>	<b>704.8</b>	<b>555.9</b>

Sources: Banking System; NRBT

## Lower foreign reserves following higher official grants in June

### Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance recorded a \$10.5 million deficit in July 2021, following a \$25.7 million surplus in June 2021. This stemmed from declines in all of the accounts, particularly in the current account from lower official transfer receipts. Consequently, the official foreign reserves fell over the month of July 2021 to \$704.8 million, equivalent to 12.3 months of imports.

Over the year to July 2021, the OET balance surplus expanded by \$85.8 million, supported by higher official grants, budget support and remittance receipts. Similarly, the increase in receipts of official grants, budget support, project funds, and financial assistance for COVID-19 preparations resulted in the rise in official foreign reserves by \$148.8 million.

### Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jul-21	Jun-21	May-21	Apr-21	Jul-21	Jul-20
Net Current Account	<b>-9.2</b>	<b>21.9</b>	<b>15.9</b>	<b>7.1</b>	<b>122.5</b>	<b>57.0</b>
Merchandise Trade	-46.6	-41.4	-40.9	-35.6	-467.4	-399.1
Services	-4.7	-3.0	-2.7	-1.3	-29.4	12.5
Income	3.7	-10.1	3.5	4.4	23.2	7.0
Transfers	38.4	76.3	56.0	39.6	596.2	436.7

Sources: Banking System; NRBT

The deterioration in the current account from \$21.9 million surplus in June 2021 to \$9.2 million deficit in July 2021 was due mostly to lower net receipt in the transfer account. However, the current account surplus increased significantly by \$65.6 million in year-ended terms due to higher net inflows of transfers and income.

Total transfer receipts fell over the month by \$36.9 million (45.1%) to a total of \$45.0 million, mostly due to a \$39.9 million decline in official transfer receipts following higher receipts in the previous month. Non-profit transfer receipts also fell by \$0.7 million (12.0%), which outweighed the increase in private transfer receipts by \$3.7 million (10.8%). In year ended terms, transfer receipts continued to increase substantially by \$165.5 million (32.6%), supported by significant increases in the official transfer receipts by the government for budget support and relief for COVID-19 and TC Harold, in addition to remittances.

Total import payments increased in July 2021 by \$4.9 million (11.5%) from higher payments for oil and construction materials. Total export proceeds fell slightly over the month by \$0.4 million, underpinned by decreases in all categories, mainly from agricultural export proceeds and marine exports. Over the year to July 2021, the merchandise trade deficit widened by \$68.3 million (17.1%) as import payments increased by \$63.5 million (15.2%) from higher payments for wholesale & retail goods, motor vehicles, construction materials, and other imports. This offset lower payments for oil imports during the year. Conversely, total export proceeds declined over the year by \$4.8 million (27.7%) due to lower proceeds from marine exports and agricultural exports, reflecting the global impacts from COVID-19 and an unfavourable harvest season.

The deficit in inflow from services widened over the month by \$1.7 million as service receipts declined by \$1.3 million (16.5%) while service payments increased slightly by \$0.4 million (4.2%). The higher service payments were mainly for government services, postal & courier services, personal & cultural services and computer services. In year ended terms, the services account recorded a \$29.4 million deficit compared to the \$12.5 million surplus in July 2020. This reflects the impact of the border lockdown on tourism activities over the past year. Both travel receipts and payments fell over the year by \$74.3 million (78.3%) and \$19.5 million (48.7%), respectively.

Total net income rebounded from a \$10.1 million deficit in June 2021 to a \$3.7 million surplus in July 2021. This resulted from income payments declining by \$13.1 million over the month and dividend payments of \$12.9 million in the previous month. Over the year, the net income surplus rose by \$16.2 million, attributed to an increase in receipts of \$18.3 million (68.0%), mostly from wages of seasonal workers abroad. This also supported the higher remittances over the year despite the negative impacts of COVID-19.

### Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jul-21	Jun-21	May-21	Apr-21	Jul-21	Jul-20
Net Capital Account	0.6	2.7	1.9	0.5	39.9	23.6
Official	0.0	1.9	0.3	0.0	25.7	11.4
Private	0.6	0.7	1.6	0.4	14.2	12.2

Sources: Banking System;NRBT

The capital account recorded a lower surplus of \$0.6 million in July 2021. This stemmed from decreases in official and private capital receipts by \$1.9 million and \$0.1 million, respectively. There were no capital payments during the month.

Annually, the capital account improved, recording a higher surplus of \$39.9 million. This was mainly underpinned by higher receipts of official and private funds for construction projects. However, capital account payments still fell over the year, specifically official payments for investment projects abroad.

### Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jul-21	Jun-21	May-21	Apr-21	Jul-21	Jul-20
Net Financial Account	-1.9	1.1	-8.0	-13.6	-13.6	-17.5
Direct Investment	0.6	-1.0	-0.1	0.0	-0.3	1.8
Portfolio Investment	0.0	0.0	0.0	-9.0	-9.0	-11.2
Other Investment	-2.5	2.1	-7.8	-4.5	-4.2	-8.1

*Note: The Net Financial Account figures incorporate also the net reconciliation items which is not reflected in the table below*

*Sources: Banking System; NRBT*

The financial account recorded a deficit of \$1.9 million in July 2021 on the back of a higher outflow of other investments, mostly for interbank transfers.

In the year to July 2021, the financial account improved to a lower deficit of \$13.6 million from \$17.5 million in July 2020. This was largely due to the lower interbank transfer payments compared to the previous year.

### Outlook

The NRBT anticipates economic growth to contract in the medium term, given the ongoing COVID-19 pandemic and associated uncertainties. The global oil and commodity prices continued to rise as economies recover from the pandemic. This will continue to hinder domestic economic growth and trading behaviour between Tonga and the rest of the world.

However, the level of foreign reserves is expected to remain at very comfortable levels in view of the expected fund receipts pledged by donors to aid government operations during this pandemic stress. Additionally, deferrals and suspension of external debt repayments also support the outlook. Remittances are still holding up and are expected to increase in the near term, supported by more seasonal workers departing to Australia and domestic fundraising events. The prolonged state of emergency and high pandemic uncertainty, along with Tonga's vulnerability to natural disasters and external shocks, are downside risks to the outlook.

Overseas Exchange Transactions									
TOP\$ millions									
	Month Ended				Year Ended		Monthly Change	Annual Change	Shares of totals*
	Jul-21	Jun-21	May-21	Apr-21	Jul-21	Jul-20			
<b>Total Payments</b>	<b>67.0</b>	<b>76.0</b>	<b>56.9</b>	<b>62.3</b>	<b>725.6</b>	<b>713.9</b>	<b>-11.9%</b>	<b>1.6%</b>	<b>100.0</b>
<b>Current Account</b>	<b>65.6</b>	<b>72.4</b>	<b>56.0</b>	<b>52.5</b>	<b>694.3</b>	<b>665.4</b>	<b>-9.3%</b>	<b>4.3%</b>	<b>95.7</b>
Imports	<b>47.5</b>	<b>42.6</b>	<b>41.9</b>	<b>36.4</b>	<b>479.9</b>	<b>416.4</b>	<b>11.5%</b>	<b>15.2%</b>	<b>66.1</b>
Services	11.1	10.6	8.9	9.6	116.2	158.9	4.2%	-26.8%	16.0
Primary Income	0.5	13.7	0.4	0.4	22.1	20.0	-96.2%	10.6%	3.0
Transfers	6.6	5.5	4.7	6.2	76.1	70.2	19.3%	8.5%	10.5
Official	0.0	0.1	0.0	0.0	4.0	4.5	0.0%	-11.0%	0.6
Private	6.5	3.6	4.7	6.1	71.7	65.4	83.3%	9.6%	9.9
Non-Profit	0.1	1.9	0.1	0.1	0.4	0.3	-95.0%	62.0%	0.1
<b>Capital Account</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.8</b>	<b>0.9</b>	<b>0.0%</b>	<b>-11.0%</b>	<b>0.1</b>
Official	0.0	0.0	0.0	0.0	0.1	0.4	0.0%	-74.6%	0.0
Private	0.0	0.0	0.0	0.0	0.7	0.5	0.0%	37.6%	0.1
<b>Financial Account</b>	<b>1.3</b>	<b>3.6</b>	<b>0.9</b>	<b>9.8</b>	<b>30.5</b>	<b>47.7</b>	<b>-63.5%</b>	<b>-35.9%</b>	<b>4.2</b>
Direct Investment	0.0	1.0	0.1	0.0	2.1	2.5	-98.7%	-16.2%	0.3
Portfolio Investment	0.0	0.0	0.0	9.0	9.0	11.2	0.0%	-19.3%	1.2
Other Investment	1.3	2.6	0.8	0.8	19.4	34.0	-49.5%	-42.9%	2.7
<b>Total Receipts</b>	<b>63.7</b>	<b>123.6</b>	<b>80.7</b>	<b>66.2</b>	<b>949.9</b>	<b>834.1</b>	<b>-48.4%</b>	<b>13.9%</b>	<b>100%</b>
<b>Current Account</b>	<b>56.4</b>	<b>94.3</b>	<b>71.9</b>	<b>59.6</b>	<b>816.8</b>	<b>722.4</b>	<b>-40.2%</b>	<b>13.1%</b>	<b>89%</b>
Exports	<b>0.8</b>	<b>1.2</b>	<b>1.0</b>	<b>0.7</b>	<b>12.5</b>	<b>17.3</b>	<b>-30.8%</b>	<b>-27.7%</b>	<b>1%</b>
Agriculture	0.3	0.6	0.4	0.2	6.3	7.6	-39.6%	-16.8%	1%
Marines	0.4	0.5	0.4	0.5	4.8	8.4	-12.0%	-43.2%	1%
Other	0.0	0.1	0.1	0.1	1.2	1.2	-80.3%	6.7%	0%
Services	6.4	7.6	6.3	8.2	86.8	171.3	-16.5%	-49.3%	10%
Travel	1.8	1.7	1.4	1.8	20.6	94.9	5.6%	-78.3%	3%
Other	4.6	5.9	4.9	6.4	66.2	76.4	-22.9%	-13.4%	7%
Primary Income	4.2	3.6	3.9	4.8	45.2	26.9	17.9%	68.0%	7%
Transfers	45.0	81.9	60.7	45.9	672.3	506.9	-45.1%	32.6%	71%
Official	2.4	42.3	16.4	2.1	188.3	131.3	-94.2%	43.4%	4%
Private	37.5	33.8	38.7	37.9	418.1	325.6	10.8%	28.4%	59%
Non-Profit	5.0	5.7	5.6	5.9	65.9	50.0	-12.0%	31.9%	8%
<b>Capital Account</b>	<b>0.6</b>	<b>2.7</b>	<b>1.9</b>	<b>0.5</b>	<b>40.6</b>	<b>24.4</b>	<b>-76.8%</b>	<b>66.3%</b>	<b>1%</b>
Official	0.0	1.9	0.3	0.0	25.8	11.8	-99.2%	118.8%	0%
Private	0.6	0.7	1.6	0.4	14.9	12.7	-18.1%	17.3%	1%
<b>Financial Account</b>	<b>6.7</b>	<b>26.6</b>	<b>7.0</b>	<b>6.1</b>	<b>92.4</b>	<b>87.3</b>	<b>-74.9%</b>	<b>5.9%</b>	<b>10%</b>
Direct Investment	0.6	0.0	0.0	0.0	1.8	4.3	0.0%	-58.3%	1%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0%
Other Investment	6.0	26.6	6.9	6.1	90.7	83.0	-77.4%	9.2%	9%

Sources: Banking System; NRBT