

Overseas Exchange Transactions (OET)

June 2021

Release Date: 01 September 2021

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-21	May-21	Apr-21	Mar-21	Jun-21	Jun-20
Overall Balance	25.7	9.9	-6.0	-6.7	171.4	59.5
Net Current Account	21.9	15.9	7.1	-7.2	135.9	53.3
Net Capital Account	2.7	1.9	0.5	0.9	40.8	22.2
Net Financial Account	1.1	-8.0	-13.6	-0.4	-5.3	-16.0
Foreign Reserve Levels	715.2	689.5	679.7	685.7	715.2	489.6

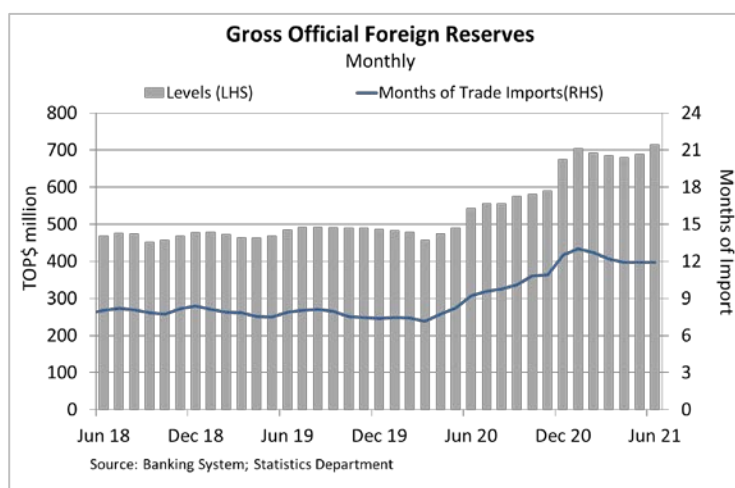
Sources: Banking System; NRBT

Foreign reserves increased on official grant receipts

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) recorded an overall balance surplus of \$25.7 million in June 2021 compared to the \$9.9 million surplus in May 2021. This resulted from increases in all of the accounts, and particularly from higher official transfer receipts. Therefore, the official foreign reserves rose to its highest record of \$715.2 million, equivalent to 12.5 months of import cover.

Over the year to June 2021, the OET balance surplus increased significantly by \$111.9 million on the back of higher official grants, budget support and remittance receipts. The high receipts of official grants, budget support, project funds, and financial assistance for COVID-19 preparations drove the official foreign reserves to increase by \$171.4 million over the year.



Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-21	May-21	Apr-21	Mar-21	Jun-21	Jun-20
Net Current Account	21.9	15.9	7.1	-7.2	135.9	53.3
Merchandise Trade	-41.4	-40.9	-35.6	-45.9	-454.5	-399.3
Services	-3.0	-2.7	-1.3	-2.7	-25.1	18.8
Income	-10.1	3.5	4.4	2.6	22.0	5.6
Transfers	76.3	56.0	39.6	38.8	593.5	428.2

Sources: Banking System;NRBT

The increase in the current account surplus from \$15.9 million in May 2021 to \$21.9 million in June 2021 resulted from the higher net inward transfers, offsetting higher net income payments, merchandise trade and services payments. The current account surplus increased substantially by \$82.5 million in year-ended terms due to higher net inflows of transfers and income.

Total transfer receipts rose over the month by \$21.2 million (34.9%) to a total of \$81.9 million, which stemmed mostly from an increase in official transfer receipts by \$25.9 million. This reflected receipts of budget supports and grants from development partners. Non-profit transfer receipts also increased by \$0.2 million (3.2%), partly offsetting the decline in private transfer receipts by \$4.9 million (12.7%). In year ended terms, transfer receipts continued to increase significantly by \$169.8 million (34.0%), supported by major increases in the official transfer receipts by the government for budget support and relief for COVID-19 and TC Harold, in addition to remittances.

The deficit in services inflow widened over the month by \$0.3 million as service payments rose by \$1.7 million (18.6%) while service receipts increased by \$1.4 million (22.1%). The higher service payments were mainly for sea freight services, insurance premiums, telecommunications services and personal travel. In year ended terms, the services account recorded a \$25.1 million deficit compared to the \$18.8 million surplus in June 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 \$87.4 million (80.8%) and \$23.5 million (53.8%), respectively.

Total net income went from a \$3.5 million surplus in the previous month to a deficit of \$10.1 million in June 2021, as income payments increased by \$13.3 million. This was mostly due to dividend payments of \$12.9 million during the month. Over the year, the surplus in income rose by \$16.4 million, due to an increase in receipts of \$18.4 million (71.3%) mostly from wages of seasonal workers abroad. This also supported the higher remittances over the year despite the negative impacts of COVID-19.

Total import payments increased in June 2021 by \$0.7 million (1.6%) on the back of higher payments for wholesale & retail goods, motor vehicles and construction materials. Total export proceeds rose slightly over the month by \$0.2 million, underpinned by increases in all categories but mainly from agricultural export proceeds (squash) and marine exports. In the year to June 2021, the merchandise trade deficit widened by \$55.1 million (13.8%) as import payments increased by \$50.0 million (12.0%) due to higher payments for wholesale & retail goods, motor vehicles, construction materials, and other imports. This offsets lower payments for oil imports during the year. Conversely, total exports declined over the year

due to lower proceeds from marine exports and agricultural exports, reflecting the global impacts from COVID-19.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-21	May-21	Apr-21	Mar-21	Jun-21	Jun-20
Net Capital Account	2.7	1.9	0.5	0.9	40.8	22.2
Official	1.9	0.3	0.0	0.2	26.2	11.2
Private	0.7	1.6	0.4	0.7	14.7	11.0

Sources: Banking System;NRBT

The capital account recorded a higher surplus of \$2.7 million in June 2021. This resulted from an increase in official capital receipts by \$1.7 million, offsetting a decline in private capital receipts by \$0.9 million. There were no capital payments during the month.

In year ended terms, the capital account improved, recording a higher surplus of \$40.8 million. This was mainly attributed to the lower outflow of other investments mostly for interbank transfers and offshore investments. 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	
	Jun-21	May-21	Apr-21	Mar-21	Jun-21	Jun-20
Net Financial Account	1.1	-8.0	-13.6	-0.4	-5.3	-16.0
Direct Investment	-1.0	-0.1	0.0	0.0	-0.7	-0.5
Portfolio Investment	0.0	0.0	-9.0	0.0	-9.0	-11.2
Other Investment	2.1	-7.8	-4.5	-0.4	4.5	-4.3

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 higher surplus of \$1.1 million in June 2021, driven mainly by the higher inflow of other investments, mostly for interbank transfers.

Over the year to June 2021, the financial account improved to a lower deficit of \$5.3 million compared to the \$16.0 million deficit in June 2020. This was primarily due to the lower outflow of portfolio investments and interbank transfer payments than 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 rising 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 decline in the medium term from higher import payments and anticipated decrease in receipts of official grants, but it will continue to remain at very comfortable levels. 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 activities. 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*
	Jun-21	May-21	Apr-21	Mar-21	Jun-21	Jun-20			
Total Payments	76.0	56.9	62.3	67.7	710.2	723.1	33.6%	-1.8%	100.0
Current Account	72.4	56.0	52.5	66.0	678.1	673.2	29.3%	0.7%	95.5
Imports	42.6	41.9	36.4	47.2	467.3	417.2	1.6%	12.0%	65.8
Services	10.6	8.9	9.6	9.6	113.5	165.2	18.6%	-31.3%	16.0
Primary Income	13.7	0.4	0.4	2.4	22.2	20.2	3291.5%	10.1%	3.1
Transfers	5.5	4.7	6.2	6.9	75.2	70.6	17.4%	6.5%	10.6
Official	0.1	0.0	0.0	0.1	4.1	4.4	0.0%	-5.4%	0.6
Private	3.6	4.7	6.1	6.7	70.6	66.0	-23.6%	7.0%	9.9
Non-Profit	1.9	0.1	0.1	0.1	0.4	0.2	2670.4%	83.6%	0.1
Capital Account	0.0	0.0	0.0	0.0	0.8	1.1	0.0%	-25.9%	0.1
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	0.7	0.0%	0.3%	0.1
Financial Account	3.6	0.9	9.8	1.6	31.3	48.8	286.0%	-35.9%	4.4
Direct Investment	1.0	0.1	0.0	0.1	2.1	4.9	637.0%	-57.3%	0.3
Portfolio Investment	0.0	0.0	9.0	0.0	9.0	11.2	0.0%	-19.3%	1.3
Other Investment	2.6	0.8	0.8	1.5	20.1	32.7	224.6%	-38.4%	2.8
Total Receipts	123.6	80.7	66.2	63.5	948.5	838.2	53.1%	13.2%	100%
Current Account	94.3	71.9	59.6	58.8	814.0	726.5	31.2%	12.0%	76%
Exports	1.2	1.0	0.7	1.3	12.8	17.9	19.0%	-28.4%	1%
Agriculture	0.6	0.4	0.2	0.4	6.6	7.8	30.1%	-15.1%	0%
Marines	0.5	0.4	0.5	0.6	4.7	8.7	20.2%	-46.2%	0%
Other	0.1	0.1	0.1	0.2	1.4	1.2	17.0%	14.7%	0%
Services	7.6	6.3	8.2	6.8	88.3	184.0	22.1%	-52.0%	6%
Travel	1.7	1.4	1.8	1.8	20.7	108.1	25.2%	-80.8%	1%
Other	5.9	4.9	6.4	5.0	67.6	75.9	21.3%	-10.9%	5%
Primary Income	3.6	3.9	4.8	5.0	44.2	25.8	-8.5%	71.3%	3%
Transfers	81.9	60.7	45.9	45.7	668.7	498.8	34.9%	34.0%	66%
Official	42.3	16.4	2.1	3.6	189.4	128.2	158.1%	47.7%	34%
Private	33.8	38.7	37.9	38.3	414.6	321.5	-12.7%	29.0%	27%
Non-Profit	5.7	5.6	5.9	3.8	64.7	49.2	3.2%	31.6%	5%
Capital Account	2.7	1.9	0.5	0.9	41.6	23.3	41.5%	78.9%	2%
Official	1.9	0.3	0.0	0.2	26.3	11.6	648.1%	127.3%	2%
Private	0.7	1.6	0.4	0.7	15.4	11.7	-54.7%	31.2%	1%
Financial Account	26.6	7.0	6.1	3.8	92.8	88.3	281.9%	5.1%	22%
Direct Investment	0.0	0.0	0.0	0.1	1.4	4.4	-100.0%	-68.7%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0%
Other Investment	26.6	6.9	6.1	3.6	91.4	83.9	282.6%	9.0%	22%

Sources: Banking System; NRBT