

Overseas Exchange Transactions (OET)

September 2021

Release Date: 5 April 2022

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Sep-21	Aug-21	Jul-21	Jun-21	Sep-21	Sep-20
Overall Balance	5.3	47.0	-10.5	25.7	180.5	85.7
Net Current Account	-6.3	-1.7	-9.2	21.9	102.6	82.9
Net Capital Account	2.0	1.4	0.6	2.7	38.7	25.4
Net Financial Account	9.6	47.2	-1.9	1.1	39.2	-22.6
Foreign Reserve Levels	757.0	751.7	704.8	715.2	757.0	576.5

Sources: Banking System; NRBT

Foreign reserves still on the rise

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance recorded a surplus of \$5.3 million in September 2021, following a \$47.0 million overall surplus recorded in August 2021. This was attributed to a decline in the financial account balance and the widening of the current account deficit over the month, offsetting a slight increase in the capital account. Consequently, the official foreign reserves increased over the September 2021 month by \$5.3 million (0.7%) to a new high of \$757.0 million. This is equivalent to 12.4 months of imports, on the back of government project funds and remittance receipts.

In the year to September 2021, the OET balance surplus increased sharply by \$94.8 million from higher transfer receipts, both official and private, in addition to higher capital and financial receipts. Similarly, the foreign reserves rose substantially over the year by \$180.5 million (31.3%) from higher official grants, budget support, loan drawdowns, capital inflows, and remittance receipts.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Sep-21	Aug-21	Jul-21	Jun-21	Sep-21	Sep-20
Net Current Account	-6.3	-1.7	-9.2	21.9	102.6	82.9
Merchandise Trade	-46.0	-39.1	-46.6	-41.4	-483.6	-396.5
Services	-4.6	-6.7	-4.7	-3.0	-38.9	6.9
Income	2.5	3.9	3.7	-10.1	25.4	12.2
Transfers	41.7	40.3	38.4	76.3	599.7	460.3

Sources: Banking System; NRBT

The current account deficit widened over the month by \$4.7 million, specifically from the higher merchandise trade deficit and lower surplus in the income account. Conversely, the current account surplus increased over the year by \$19.7 million from higher net transfers and income receipts.

Total import payments increased by \$6.7 million (16.5%) in September 2021, underpinned by higher payments for wholesale & retail goods, oil and motor vehicles. However, total export proceeds fell slightly over the month by \$0.2 million, underpinned by declines in agricultural export proceeds and other export receipts. In year ended terms, the merchandise trade deficit widened by \$87.1 million (22.0%) as import payments increased by \$85.8 million (20.9%). This was attributed to higher payments in all import categories, such as wholesale & retail goods, motor vehicles, construction materials, other imports (mostly Government), and oil. Additionally, total export proceeds fell over the year by \$1.3 million (8.8%) solely from lower marine exports proceeds, reflecting the border lockdown. Proceeds from other export categories remained relatively stable.

Total net income declined over the month of September 2021 by \$1.3 million (34.6%) from a \$3.9 million surplus recorded in August 2021. This resulted from an increase in income payments by \$1.3 million, underpinned by higher dividend payments offshore. In the year to September 2021, the net income surplus rose by \$13.2 million, owing to an increase in receipts by \$20.0 million (70.5%), reflecting higher receipts from seasonal workers.

Total transfer receipts rose over the month by \$2.1 million (4.4%) to a total of \$48.8 million, due mostly to a \$3.2 million increase in official transfer receipts. This was followed by a slight increase in private transfers by \$0.7 million (1.9%), offsetting the decline in non-profit transfers receipts by \$1.8 million (28.1%). Similarly, total transfer payments also increased over the month by \$0.6 million (9.1%), specifically for private transfers. Annually, transfer receipts increased significantly by \$147.0 million (27.7%), reflecting major official transfer receipts for the Government's budget support, project grants, and relief funds for COVID-19. The firm growth in private transfers, mostly remittances, over the year, also supported the increase in transfer receipts, despite the negative impacts of COVID-19.

The deficit in the services account narrowed over the month by \$2.1 million (30.8%), underpinned mostly by a 35.9% increase in service receipts coupled with a marginal decline in service payments. The higher service receipts were mostly for insurance claims, telecommunication services, and government services. In year-ended terms, the services account declined by \$45.9 million as the impact of the border closures has halted tourism activities. This is in addition to declines in receipts for insurance claims and shipping freight during the year. Both travel receipts and payments fell over the year by \$52.9 million (72.3%) and \$12.1 million (36.2%), respectively.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Sep-21	Aug-21	Jul-21	Jun-21	Sep-21	Sep-20
Net Capital Account	2.0	1.4	0.6	2.7	38.7	25.4
Official	0.7	0.0	0.0	1.9	23.3	13.3
Private	1.4	1.4	0.6	0.7	15.4	12.1

Sources: Banking System;NRBT

The capital account recorded a higher surplus of \$2.0 million in September 2021. This was mostly attributed to an increase in official capital receipts by \$0.7 million. Capital payments rose slightly over the month by \$0.1 million, specifically for private construction projects abroad.

In the year to September 2021, the capital account surplus expanded to \$38.7 million. This was mainly attributed to higher receipts of official and private funds for construction projects. However, capital account payments fell underpinned by lower payments for both private and official capital investments.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Sep-21	Aug-21	Jul-21	Jun-21	Sep-21	Sep-20
Net Financial Account	9.6	47.2	-1.9	1.1	39.2	-22.6
Direct Investment	2.2	-0.1	0.6	-1.0	1.7	1.5
Portfolio Investment	0.0	0.0	0.0	0.0	-9.0	-11.2
Other Investment	7.4	47.3	-2.5	2.1	46.6	-12.9

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 surplus recorded in the financial account was lower by \$37.6 million in September 2021 compared to the \$47.2 million surplus recorded in August 2021. This reflects the sharp decline in other financial investment receipts following the IMF SDR reallocation in August 2021. Annually, the financial account surplus expanded by \$61.9 million, supported by the lower interbank transfer payments and higher financial receipts compared to the previous year.

Outlook

The NRBT projects foreign reserves to remain at comfortable levels above the 3 months of import cover in the medium term with anticipated financial relief and support coming into Tonga following the HTHH volcanic eruption, tsunami, and the Omicron outbreak – national lockdown, from both development partners and Tongan diaspora. This is in addition to the remaining budget support and grants already pledged by development partners for the current fiscal year. These inflows will continue to push foreign reserves higher. Tonga's on-going participation in the seasonal working schemes to Australia and New Zealand and the holiday festivities will also support remittance inflows.

On the downside, the sharp increase in imported prices (specifically oil and food) from ongoing supply chain disruptions and geopolitical tensions will increase import payments hence lower foreign reserves. The prolonged pandemic uncertainties and Tonga's vulnerability to natural disasters and external shocks are also downside risks to the outlook.

Overseas Exchange Transactions									
TOP\$ millions									
	Month Ended				Year Ended		Monthly Change	Annual Change	Shares of totals*
	Sep-21	Aug-21	Jul-21	Jun-21	Sep-21	Sep-20			
Total Payments	70.2	60.6	67.0	76.0	749.7	693.0	15.9%	8.2%	100
Current Account	68.4	59.8	65.6	72.4	720.5	643.4	14.3%	12.0%	96.1
Imports	47.2	40.5	47.5	42.6	496.9	411.1	16.5%	20.9%	66.3
Services	12.4	12.4	11.1	10.6	123.3	146.3	-0.1%	-15.7%	16.4
Primary Income	1.7	0.4	0.5	13.7	22.9	16.1	291.0%	42.2%	3.1
Transfers	7.0	6.5	6.6	5.5	77.4	69.8	9.1%	10.9%	10.3
Official	0.1	0.1	0.0	0.1	4.0	4.2	0.0%	-5.0%	0.5
Private	6.8	6.1	6.5	3.6	72.9	65.3	10.6%	11.7%	9.7
Non-Profit	0.1	0.2	0.1	1.9	0.4	0.3	-42.3%	65.8%	0.1
Capital Account	0.1	0.0	0.0	0.0	0.4	1.2	0.0%	-62.1%	0.1
Official	0.0	0.0	0.0	0.0	0.1	0.3	0.0%	-71.2%	0.0
Private	0.1	0.0	0.0	0.0	0.3	0.8	0.0%	-58.4%	0.0
Financial Account	1.7	0.7	1.3	3.6	28.7	48.5	134.7%	-40.8%	3.8
Direct Investment	0.0	0.2	0.0	1.0	2.2	2.6	0.0%	-17.8%	0.3
Portfolio Investment	0.0	0.0	0.0	0.0	9.0	11.2	0.0%	-19.2%	1.2
Other Investment	1.7	0.5	1.3	2.6	17.5	34.7	236.4%	-49.5%	2.3
Total Receipts	74.6	66.6	63.7	123.6	959.8	839.7	12.0%	14.3%	100%
Current Account	62.0	58.2	56.4	94.3	823.1	726.3	6.7%	13.3%	85.8%
Exports	1.2	1.4	0.8	1.2	13.4	14.6	-12.7%	-8.8%	1.4%
Agriculture	0.6	0.8	0.3	0.6	6.68	6.67	-19.9%	0.0%	0.7%
Marines	0.6	0.5	0.4	0.5	5.47	6.80	5.5%	-19.6%	0.6%
Other	0.0	0.1	0.1	0.1	1.2	1.2	-55.8%	3.6%	0.1%
Services	7.8	5.7	6.4	7.6	84.3	153.2	35.9%	-45.0%	8.8%
Travel	1.7	1.7	1.8	1.7	20.2	73.1	-2.3%	-72.3%	2.1%
Other	6.1	4.0	4.6	5.9	64.1	80.1	51.8%	-20.0%	6.7%
Primary Income	4.3	4.3	4.2	3.6	48.3	28.3	-1.7%	70.5%	5.0%
Transfers	48.8	46.7	45.0	81.9	677.1	530.1	4.4%	27.7%	70.5%
Official	5.1	1.9	2.4	42.3	180.7	140.7	163.0%	28.4%	18.8%
Private	39.0	38.3	37.5	33.8	429.0	337.2	1.9%	27.2%	44.7%
Non-Profit	4.6	6.5	5.0	5.7	67.5	52.2	-28.1%	29.3%	7.0%
Capital Account	2.2	1.4	0.6	2.7	39.1	26.6	49.6%	47.4%	4.1%
Official	0.7	0.0	0.0	1.9	23.4	13.6	0.0%	71.7%	2.4%
Private	1.5	1.4	0.6	0.7	15.8	12.9	3.6%	21.8%	1.6%
Financial Account	10.4	7.0	6.7	26.6	97.6	86.9	48.2%	12.3%	10.2%
Direct Investment	2.2	0.1	0.6	0.0	3.9	4.1	1548.2%	-6.6%	0.4%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Other Investment	8.2	6.9	6.0	26.6	93.8	82.8	19.0%	13.3%	9.8%

*Shares based on year-end totals

Sources: Banking System; NRBT