

Overseas Exchange Transactions (OET)

August 2021

Release Date: 5 January 2022

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-21	Jul-21	Jun-21	May-21	Aug-21	Aug-20
Overall Balance	47.0	-10.5	25.7	9.9	195.6	64.3
Net Current Account	-1.7	-9.2	21.9	15.9	118.2	61.1
Net Capital Account	1.4	0.6	2.7	1.9	40.6	23.1
Net Financial Account	47.2	-1.9	1.1	-8.0	36.9	-19.9
Foreign Reserve Levels	751.7	704.8	715.2	689.5	751.7	556.1

Sources: Banking System; NRBT

Foreign reserves at record high in August

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance recorded a \$47.0 million surplus in August 2021, following a \$10.5 million deficit in July 2021. This resulted from increases in all accounts over the month, particularly the financial and current accounts. Consequently, the official foreign reserves increased over the month of August 2021 to a new peak of \$751.7 million, equivalent to 13.1 months of imports. The significant increase over the month is largely attributed to receipts of Special Drawing Rights (SDR) allocated from the International Monetary Fund.

Over the year to August 2021, the OET balance surplus expanded by \$131.3 million, supported by higher official grants, budget support, and remittance receipts. Similarly, the foreign reserves increased substantially by \$195.6 million.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-21	Jul-21	Jun-21	May-21	Aug-21	Aug-20
Net Current Account	-1.7	-9.2	21.9	15.9	118.2	61.1
Merchandise Trade	-39.1	-46.6	-41.4	-40.9	-472.1	-397.4
Services	-6.7	-4.7	-3.0	-2.7	-35.6	10.2
Income	3.9	3.7	-10.1	3.5	25.4	7.8
Transfers	40.3	38.4	76.3	56.0	600.4	440.6

Sources: Banking System; NRBT

The improvement in the current account deficit from \$9.2 million in July 2021 to \$1.7 million in August 2021 was due mostly to the lower merchandise trade deficit. However, the current account surplus increased substantially by \$57.0 million in year-ended terms due to higher net inflows of transfers and income.

Total import payments declined in August 2021 by \$7.0 million (14.7%) from lower payments for oil, wholesale & retail goods, motor vehicles, and construction materials. However, payments for other imports (mostly government) increased over the month. Total export proceeds, however, rose slightly over the month by \$0.6 million mainly from higher agricultural export proceeds and marine export receipts. Annually, the merchandise trade deficit widened by \$74.6 million (18.8%) as import payments rose by \$71.3 million (14.7%), driven by payments for wholesale & retail goods, motor vehicles, and construction materials. This offset lower payments for oil imports. Additionally, total export proceeds fell over the year by \$3.3 million (20.5%) underpinned by lower proceeds for marine exports and agricultural exports. This reflected the impact of the border lockdown on the fishing industry and an unfavourable harvesting season particularly for the squash exports.

Total transfer receipts rose over the month by \$1.7 million to a total of \$46.7million, due mostly to a \$1.4 million increase in non-profit transfer receipts. This was followed by a slight increase in private transfers by \$0.8 million, offsetting the decline in official transfers receipts by \$0.5 million. Over the year, transfer receipts increased significantly by \$167.2 million (32.8%), reflecting major official transfer receipts for the Government’s budget support, project grants, and relief funds for COVID-19, as well as higher private remittances.

Total net income rose marginally from a \$3.7 million surplus in July 2021 to a \$3.9 million surplus in August 2021. This stemmed from increases in income receipts by \$0.8 million over the month supported by higher compensation of employees. In the year to August 2021, the net income surplus rose by \$17.6 million due to an increase in receipts by \$19.9 million (73.2%), largely from seasonal workers. The higher remittances over the year have also contributed to the increase despite the negative impacts of COVID-19.

The deficit in services widened over the month by \$2.0 million as service payments increased by \$1.4 million (12.6%) while service receipts declined slightly by \$0.6 million (10.1%). The higher service payments were mainly for sea freight, professional & management services, and postal & courier services. This reflects the increasing cost of transportation in relation to disruptions to shipping routes, additional security measures, and rising global oil prices. In year-ended terms, the services account recorded a \$35.6 million deficit compared to the \$10.2 million surplus in August 2020. This reflects the impact of the border lockdown, which has taken a toll on tourism activities over the past year. Both travel receipts and payments fell over the year by \$62.9 million (72.1%) and \$15.8 million (43.3%), respectively.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-21	Jul-21	Jun-21	May-21	Aug-21	Aug-20
Net Capital Account	1.4	0.6	2.7	1.9	40.6	23.1
Official	0.0	0.0	1.9	0.3	25.6	11.4
Private	1.4	0.6	0.7	1.6	15.0	11.7

Sources: Banking System;NRBT

The capital account recorded a higher surplus of \$1.4 million in August 2021. This was mostly attributed to an increase in private capital receipts by \$0.8 million. There were no capital payments during the month.

In year-ended terms, the capital account surplus expanded to \$40.6 million. This was mainly supported by higher receipts of official and private funds for construction projects. However, capital account payments fell underpinned by lower payments for both private and official investments.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-21	Jul-21	Jun-21	May-21	Aug-21	Aug-20
Net Financial Account	47.2	-1.9	1.1	-7.9	36.9	-19.9
Direct Investment	-0.1	0.6	-1.0	-0.1	-0.2	1.5
Portfolio Investment	0.0	0.0	0.0	0.0	-9.0	-11.2
Other Investment	47.3	-2.5	2.1	-7.8	46.1	-10.2

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 surplus of \$47.2 million in August 2021 following the \$1.9 million deficit recorded in July 2021. The sharp increase in other investment net receipts reflects the IMF SDR reallocation, coupled with the lower interbank transfers. This monthly movement also contributed to the financial account surplus over the year to August 2021 of \$36.9 million, compared to the \$19.9 million deficit in August 2020. This was also 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, supported by the successful vaccine rollout, the reopening of the border for international travel and the resumption of tourism activities. Budget support and grants pledged by donors to assist the Government's efforts in COVID-19 preparedness and economic recovery will also support the foreign reserves. Additionally, deferrals and suspension of external debt repayments also support the outlook. Remittances are expected to increase in the near term, supported by more seasonal workers departing for Australia and New Zealand as well as the holiday festivities. The prolonged pandemic uncertainties, 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*
	Aug-21	Jul-21	Jun-21	May-21	Aug-21	Aug-20			
Total Payments	60.6	67.0	76.0	56.9	732.8	702.3	-9.6%	4.3%	100.0
Current Account	59.8	65.6	72.4	56.0	702.6	653.8	-8.8%	7.5%	95.9
Imports	40.5	47.5	42.6	41.9	484.8	413.5	-14.7%	17.2%	66.2
Services	12.4	11.1	10.6	8.9	119.5	151.7	12.6%	-21.2%	16.3
Primary Income	0.4	0.5	13.7	0.4	21.6	19.3	-15.8%	12.0%	3.0
Transfers	6.5	6.6	5.5	4.7	76.6	69.2	-2.3%	10.6%	10.4
Official	0.1	0.0	0.1	0.0	4.0	4.2	0.0%	-3.4%	0.6
Private	6.1	6.5	3.6	4.7	72.1	64.8	-5.7%	11.3%	9.8
Non-Profit	0.2	0.1	1.9	0.1	0.4	0.3	88.5%	60.2%	0.1
Capital Account	0.0	0.0	0.0	0.0	0.5	1.1	0.0%	-48.2%	0.1
Official	0.0	0.0	0.0	0.0	0.1	0.3	0.0%	-71.2%	0.0
Private	0.0	0.0	0.0	0.0	0.4	0.7	0.0%	-37.7%	0.1
Financial Account	0.7	1.3	3.6	0.9	29.7	47.4	-45.1%	-37.4%	4.1
Direct Investment	0.2	0.0	1.0	0.1	2.2	2.6	1560.2%	-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	0.5	1.3	2.6	0.8	18.5	33.6	-61.3%	-45.0%	2.5
Total Receipts	66.6	63.7	123.6	80.7	956.6	824.6	4.6%	16.0%	100%
Current Account	58.2	56.4	94.3	71.9	820.8	715.0	3.1%	14.8%	87%
Exports	1.4	0.8	1.2	1.0	12.79	16.10	67.0%	-20.5%	2%
Agriculture	0.8	0.3	0.6	0.5	6.43	7.19	122.9%	-10.6%	1%
Marines	0.5	0.4	0.5	0.4	5.08	7.58	25.6%	-32.9%	1%
Other	0.1	0.1	0.1	0.1	1.28	1.27	37.3%	0.3%	0%
Services	5.7	6.4	7.6	6.3	84.0	161.9	-10.1%	-48.1%	9%
Travel	1.7	1.8	1.7	1.4	20.4	83.3	-5.7%	-75.5%	3%
Other	4.0	4.6	5.9	4.9	63.5	78.7	-11.8%	-19.2%	6%
Primary Income	4.3	4.2	3.6	3.9	47.0	27.2	2.0%	73.2%	6%
Transfers	46.7	45.0	81.9	60.7	677.0	509.8	3.9%	32.8%	70%
Official	1.9	2.4	42.3	16.4	185.1	132.9	-20.7%	39.3%	3%
Private	38.3	37.5	33.8	38.7	422.9	328.8	2.2%	28.6%	58%
Non-Profit	6.5	5.0	5.7	5.6	69.0	48.1	28.0%	43.4%	10%
Capital Account	1.4	0.6	2.7	1.9	41.2	24.1	131.8%	70.6%	2%
Official	0.0	0.0	1.9	0.3	25.7	11.7	0.0%	119.7%	0%
Private	1.4	0.6	0.7	1.6	15.5	12.4	137.5%	24.4%	2%
Financial Account	7.0	6.7	26.6	7.0	94.7	85.5	5.5%	10.8%	11%
Direct Investment	0.1	0.6	0.0	0.0	1.9	4.1	-79.3%	-53.0%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0%
Other Investment	6.9	6.0	26.6	6.9	92.8	81.4	14.7%	14.0%	10%

Sources: Banking System; NRBT