

Overseas Exchange Transactions (OET)

May 2021

Release Date: 26 August 2021

Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	May-21	Apr-21	Mar-21	Feb-21	May-21	May-20
Overall Balance	9.9	-6.0	-6.7	-12.9	199.9	21.3
Net Current Account	15.9	7.1	-7.2	-14.9	154.9	32.2
Net Capital Account	1.9	0.5	0.9	4.7	42.5	27.0
Net Financial Account	-8.0	-13.6	-0.4	-2.8	2.5	-37.8
Foreign Reserve Levels	689.5	679.7	685.7	692.4	689.5	489.6

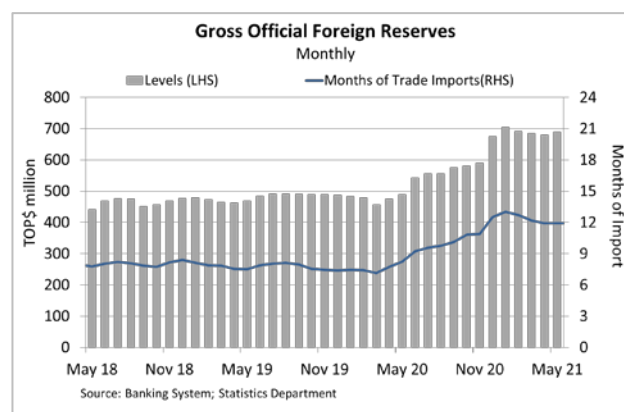
Sources: Banking System; NRBT

Tonga continues to receive financial aid for COVID-19 recovery supporting Foreign reserves

Overall Balance & Foreign Reserves

Official foreign reserves increased in May 2021 by \$9.9 million to \$689.5 million, equivalent to 12.0 months of imports. This is attributed mostly to receipts of donor funds to support Tonga's economic recovery from COVID-19. In the year to May 2021, foreign reserves increased significantly by \$199.9 million from receipts of budget support, official grants, external debt and remittances.

The Overseas Exchange Transactions (OET) recorded an overall balance surplus of \$9.9 million in May 2021 compared to a \$6.0 million deficit in April 2021, particularly the transfers account on official grants.



Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	May-21	Apr-21	Mar-21	Feb-21	May-21	May-20
Net Current Account	15.9	7.1	-7.2	-14.9	154.9	32.2
Merchandise Trade	-40.9	-35.6	-45.9	-39.0	-449.4	-398.5
Services	-2.7	-1.3	-2.7	-7.3	-25.9	26.5
Income	3.5	4.4	2.6	3.0	34.4	-1.6
Transfers	56.0	39.6	38.8	28.5	595.8	405.7

Sources: Banking System; NRBT

The \$15.9 million surplus in the current account in May 2021 was due to a higher net receipt in the transfer account, offsetting the higher net payments in the merchandise trade and services accounts. Similarly, the current account surplus increased significantly by \$122.7 million in year-ended terms, underpinned mostly by higher net receipts in the transfers and income accounts.

Total transfer receipts rose over the month by \$14.8 million (32.3%) to a total of \$60.7 million, underpinned mostly by an increase in official transfer receipts by \$14.3 million. These mainly were grants from development partners to support Tonga’s recovery from COVID-19. Private transfer receipts also increased by \$0.8 million (2.2%), partly offsetting the decline in non-profit transfer receipts by \$0.3 million (5.7%). In the year to May 2021, transfer receipts increased significantly by \$193.4 million (40.6%), reflecting increases in private remittances and official transfer receipts by the government for budget support and relief for COVID-19 and TC Harold.

Total import payments increased in May 2021 by \$5.5 million (15.3%) due to higher payments for oil, wholesale & retail goods, other imports (mostly government imports), and motor vehicles. Total export proceeds rose slightly over the month by \$0.3 million, underpinned by increases in agricultural exports mainly for squash and root crops, offsetting the decline in marine export proceeds. Over the year, the merchandise trade deficit widened by \$50.9 million (12.8%) as import payments increased by \$45.3 million (10.9%). These import payments were mainly for wholesale & retail goods, construction materials, motor vehicles, and other imports. This offsets the lower payments for oil imports during the year. Conversely, proceeds from all export categories declined except from other exports (mostly recycled metals), which rose slightly over the year. The impact of COVID-19 on the fisheries sector continues as closed borders affect the frequency and volume of export via air-freight.

The income account surplus declined by \$0.9 million (19.7%) in May 2021 as income receipts fell by \$0.8 million (17.5%). Annually, the income account surplus rose by \$36.1 million due to an increase in receipts of \$18.5 million (73.6%), mainly from wages of seasonal workers abroad, coupled with lower income payments. This contributed to increasing remittances over the year despite the negative impacts of COVID-19 on our source remitting countries.

The deficit in the services account widened over the month by \$1.4 million as service receipts fell by \$2.0 million (24.0%). The lower service receipts were mainly for government services, telecommunication, personal travel and professional & management services. In year ended terms, the services account recorded a \$25.9 million deficit compared to the \$26.5 million surplus in May 2020. This reflects the impact of the border lockdown on tourism activities over the year. Both travel receipts and payments fell annually by \$96.0 million (81.9%) and \$26.7 million (57.2%), respectively.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	May-21	Apr-21	Mar-21	Feb-21	May-21	May-20
Net Capital Account	1.9	0.5	0.9	4.7	42.5	27.0
Official	0.3	0.0	0.2	2.9	28.0	14.3
Private	1.6	0.4	0.7	1.9	14.5	12.7

Sources: Banking System;NRBT

The capital account for May 2021 recorded a higher surplus of \$1.9 million as both private and official capital receipts rose by \$1.2 million and \$0.2 million, respectively. There were no capital payments during the month.

Annually, the capital account recorded a higher surplus of \$42.5 million, resulting from higher official receipts, mainly for the reconstruction projects for houses destroyed by tropical cyclones Gita and Harold. However, capital account payments fell over the year, specifically official payments for investment projects abroad.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	May-21	Apr-21	Mar-21	Feb-21	May-21	May-20
Net Financial Account	-8.0	-13.6	-0.4	-2.8	2.5	-37.8
Direct Investment	-0.1	0.0	0.0	0.0	0.5	-0.4
Portfolio Investment	0.0	-9.0	0.0	0.0	-9.0	-22.4
Other Investment	-7.8	-4.5	-0.4	-2.7	11.1	-15.0

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 lower deficit of \$8.0 million in May 2021, following an offshore portfolio investment transfer last month.

In May 2021, the financial account improved to a surplus of \$2.5 million compared to the \$37.8 million deficit in May 2020. This stemmed mostly from the lower outflow of offshore 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. At the same time, global oil and commodity prices have rebounded as economies start to 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 increase in the medium term, supported by receipts of budget support from donor partners. Import payments will continue to increase in the upcoming months in line with domestic activities and remittances will continue its upward trend. Additionally, deferrals and suspension of external debt repayments also support the foreign reserves outlook. 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*
	May-21	Apr-21	Mar-21	Feb-21	May-21	May-20			
Total Payments	56.9	62.3	67.7	60.7	691.1	743.5	-8.7%	-7.0%	100.0
Current Account	56.0	52.5	66.0	59.9	659.8	682.0	6.6%	-3.3%	95.5
Imports	41.9	36.4	47.2	40.0	461.9	416.6	15.3%	10.9%	66.8
Services	8.9	9.6	9.6	12.6	114.2	167.4	-6.6%	-31.8%	16.5
Primary Income	0.4	0.4	2.4	0.6	9.2	26.8	9.1%	-65.5%	1.3
Transfers	4.7	6.2	6.9	6.7	74.4	71.1	-24.2%	4.6%	10.8
Official	0.0	0.0	0.1	0.0	2.5	5.1	0.0%	-50.7%	0.4
Private	4.7	6.1	6.7	6.1	71.4	65.8	-23.9%	8.6%	10.3
Non-Profit	0.1	0.1	0.1	0.6	0.4	0.3	-35.4%	76.1%	0.1
Capital Account	0.0	0.0	0.0	0.0	0.8	1.1	0.0%	-25.5%	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%	1.0%	0.1
Financial Account	0.9	9.8	1.6	0.7	30.5	60.4	-90.4%	-49.6%	4.4
Direct Investment	0.1	0.0	0.1	0.0	1.1	4.8	567.5%	-76.5%	0.2
Portfolio Investment	0.0	9.0	0.0	0.0	9.0	22.4	0.0%	-59.6%	1.3
Other Investment	0.8	0.8	1.5	0.7	20.3	33.2	6.2%	-38.9%	2.9
Total Receipts	80.7	66.2	63.5	56.4	933.9	830.1	22.0%	12.5%	100%
Current Account	71.9	59.6	58.8	45.0	814.7	714.1	20.6%	14.1%	89%
Exports	1.0	0.7	1.3	1.0	12.5	18.2	34.6%	-31.3%	1%
Agriculture	0.4	0.2	0.4	0.5	6.4	7.9	162.6%	-18.6%	1%
Marines	0.4	0.5	0.6	0.4	4.6	8.9	-22.3%	-48.2%	0%
Other	0.1	0.1	0.2	0.0	1.3	1.2	83.3%	13.3%	0%
Services	6.3	8.2	6.8	5.3	88.3	194.0	-24.0%	-54.5%	8%
Travel	1.4	1.8	1.8	1.5	21.2	117.2	-26.0%	-81.9%	2%
Other	4.9	6.4	5.0	3.8	67.1	76.8	-23.5%	-12.6%	6%
Primary Income	3.9	4.8	5.0	3.6	43.7	25.2	-17.5%	73.6%	5%
Transfers	60.7	45.9	45.7	35.1	670.2	476.8	32.3%	40.6%	75%
Official	16.4	2.1	3.6	1.0	198.7	110.1	691.4%	80.5%	20%
Private	38.7	37.9	38.3	28.9	409.6	316.7	2.2%	29.3%	48%
Non-Profit	5.6	5.9	3.8	5.1	61.9	50.0	-5.7%	23.9%	7%
Capital Account	1.9	0.5	0.9	4.7	43.3	28.1	286.0%	54.3%	2%
Official	0.3	0.0	0.2	2.9	28.1	14.7	454.5%	91.5%	0%
Private	1.6	0.4	0.7	1.9	15.2	13.4	268.2%	13.6%	2%
Financial Account	7.0	6.1	3.8	6.6	75.9	88.0	14.1%	-13.7%	9%
Direct Investment	0.0	0.0	0.1	0.0	1.6	4.4	-57.9%	-63.3%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0%
Other Investment	6.9	6.1	3.6	6.6	74.3	83.6	14.5%	-11.0%	9%

Sources: Banking System; NRBT