

Overseas Exchange Transactions (OET)

November 2021

Release Date: 9 June 2022

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Nov-21	Oct-21	Sep-21	Aug-21	Nov-21	Nov-20
Overall Balance	26.9	0.0	5.3	47.0	193.7	100.7
Net Current Account	22.3	0.5	-6.3	-1.7	122.2	80.5
Net Capital Account	0.9	3.6	2.0	1.4	26.8	38.7
Net Financial Account	3.6	-4.1	9.6	47.2	44.7	-18.4
Foreign Reserve Levels	783.9	757.0	757.0	751.7	783.9	590.2

Sources: Banking System; NRBT

Foreign reserves increased sharply to a new record

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) recorded an overall surplus of \$26.9 million in November 2021. This stemmed from higher net receipts in both the current and financial accounts, offsetting the decline in net capital receipts. Consequently, the official foreign reserves rose sharply by \$26.9 million (3.5%) over the month to a new record high of \$783.9 million, equivalent to 12.4 months of imports.

In year ended terms, the OET balance surplus expanded notably by \$92.9 million (92.3%) from the higher net receipts in the financial and current accounts. Similarly, the official foreign reserves increased significantly over the year by \$193.7 million (32.8%) supported by higher receipts of budget support, official grants, capital inflows, external debt proceeds, and remittances.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Nov-21	Oct-21	Sep-21	Aug-21	Nov-21	Nov-20
Net Current Account	22.3	0.5	-6.3	-1.7	122.2	80.5
Merchandise Trade	-38.5	-42.7	-46.0	-39.1	-489.2	-406.9
Services	-1.3	-3.8	-4.6	-6.7	-44.5	4.0
Income	3.2	4.1	2.5	3.9	27.4	15.8
Transfers	59.0	42.9	41.7	40.3	628.5	467.5

Sources: Banking System; NRBT

The current account expanded over the month by \$21.8 million from the lower deficits in the merchandise trade account and service account, in addition to the higher surplus in the transfer account. Similarly, the current account surplus increased over the year by \$41.7 million (51.8%), specifically from higher net transfers and income receipts.

Total transfer receipts increased over the month by \$17.4 million (36.4%) to a total of \$65.1 million. This was mostly from a \$16.0 million rise in official transfer receipts, followed by an increase in non-profit transfer receipts by \$2.8 million mainly to churches. Similarly, total transfer payments also increased over the month by \$1.3 million (27.0%), mainly for private transfer payments. Annually, transfer receipts also increased substantially by \$165.2 million (30.7%), supported by major increases in the official transfer receipts by the Government for budget support, project grants, and relief funds for COVID-19, in addition to private remittances and non-profit transfers.

Total import payments fell in November 2021 by \$4.5 million (10.2%), mostly from lower payments for government imports, construction materials, and oil driving the improvement in the trade deficit. However, import payments for wholesale & retail goods increased over the month. Meanwhile, total export proceeds fell over the month by \$0.3 million (20.8%), underpinned by a \$0.4 million (36.9%) decline in agricultural exports. In the year to November 2021, the merchandise trade deficit widened by \$82.4 million (20.2%) as import payments increased by \$83.1 million (19.8%). This was attributed to higher payments in all import categories, especially wholesale & retail goods, motor vehicles, and oil. The higher import payments were also partially due to imported inflation. Additionally, total export proceeds rose slightly over the year by \$0.8 million (5.7%) from higher proceeds from agricultural and marine exports.

The deficit in the services account improved over the month by \$2.5 million (65.9%), attributed mostly to a \$11.7 million increase in service receipts. The higher service receipts was mostly from telecommunication services. Service payments also increased over the month by \$9.2 million (84.2%), underpinned by higher payments for professional & management services and telecommunication services. In year ended terms, the net service receipts declined substantially by \$48.5 million reflecting the impact of the border lockdown on tourism activities and travel receipts. This is in addition to declines in receipts for insurance claims, postal services, and construction & installation services during the year. Both travel receipts and payments fell over the year by \$32.0 million (59.9%) and \$5.6 million (20.2%), respectively.

The income account surplus declined over the month of November 2021 by \$1.0 million (23.2%) from a \$4.1 million surplus recorded in the previous month. This reflected declines in income receipts by \$0.7 million (17.0%), attributed to lower receipts from seasonal workers and rent income. Annually, the net income surplus expanded by \$11.6 million (73.3%), supported by an increase in receipts by \$18.1 million (57.5%) mainly from higher receipts from seasonal workers. This offset increases in income payments by \$6.5 million (41.5%), mostly for dividend payments offshore.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Nov-21	Oct-21	Sep-21	Aug-21	Nov-21	Nov-20
Net Capital Account	0.9	3.6	2.0	1.4	26.8	38.7
Official	0.1	1.2	0.7	0.0	11.5	25.3
Private	0.8	2.3	1.4	1.4	15.4	13.4

Sources: Banking System;NRBT

The capital account surplus was lower by \$2.6 million (74.0%) in November 2021. This stemmed from declines in both private and official capital receipts by \$1.5 million and \$1.1 million, respectively. Capital payments rose slightly over the month by \$0.05 million, specifically for private construction projects abroad.

In the year to November 2021, the capital account surplus declined by \$11.8 million (30.6%). This resulted mostly from lower receipts of official funds for construction projects. Similarly, capital account payments fell reflecting lower payments for both private and official capital investments.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Nov-21	Oct-21	Sep-21	Aug-21	Nov-21	Nov-20
Net Financial Account	3.6	-4.1	9.6	47.2	44.7	-18.4
Direct Investment	-0.1	-2.6	2.2	-0.1	-0.9	-0.4
Portfolio Investment	0.0	0.0	0.0	0.0	-9.0	0.0
Other Investment	3.7	-1.5	7.4	47.3	54.6	-18.0

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 expanded over the month and the year to November 2021 by \$7.7 million and \$63.1 million, respectively. This was largely attributed to higher investment receipts mainly from interbank transfer receipts.

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 Hunga-Tonga- Hunga- Ha'apai 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 ongoing participation in the seasonal working schemes to Australia and New Zealand will also support remittance inflows, in addition to the holiday festivities.

However, risks to the outlook include the sharp increase in imported prices (specifically oil and food) from ongoing supply chain disruptions and geopolitical tensions. This will increase import payments hence lower foreign reserves. The prolonged pandemic uncertainties, along with 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*
	Nov-21	Oct-21	Sep-21	Aug-21	Nov-21	Nov-20			
Total Payments	68.2	63.4	70.2	60.6	769.1	673.7	7.4%	14.2%	100%
Current Account	66.4	60.3	68.4	59.8	738.2	638.3	10.2%	15.6%	96.0%
Imports	39.8	44.4	47.2	40.5	503.2	420.0	-10.2%	19.8%	65.4%
Services	20.0	10.9	12.4	12.4	138.0	132.0	84.2%	4.6%	17.9%
Primary Income	0.5	0.2	1.7	0.4	22.2	15.7	86.4%	41.5%	2.9%
Transfers	6.1	4.8	7.0	6.5	74.8	70.6	27.0%	6.0%	9.7%
Official	0.0	0.0	0.1	0.1	3.9	4.1	0.0%	-5.1%	0.5%
Private	6.0	4.5	6.8	6.1	70.6	66.1	34.0%	6.7%	9.2%
Non-Profit	0.1	0.3	0.1	0.2	0.3	0.3	-69.7%	-9.2%	0.0%
Capital Account	0.0	0.0	0.1	0.0	0.3	1.0	0.0%	-71.9%	0.0%
Official	0.0	0.0	0.0	0.0	0.0	0.1	0.0%	-100.0%	0.0%
Private	0.0	0.0	0.1	0.0	0.3	0.9	0.0%	-68.8%	0.0%
Financial Account	1.7	3.2	1.7	0.7	30.6	34.4	-46.3%	-11.2%	4.0%
Direct Investment	0.5	2.6	0.0	0.2	4.9	2.3	-80.2%	108.6%	0.6%
Portfolio Investment	0.0	0.0	0.0	0.0	9.0	0.0	0.0%	75192.6%	1.2%
Other Investment	1.2	0.6	1.7	0.5	16.7	32.1	94.3%	-48.1%	2.2%
Total Receipts	99.8	70.8	74.6	66.6	990.2	840.1	41.1%	17.9%	100%
Current Account	88.7	60.8	62.0	58.2	860.4	718.8	46.0%	19.7%	86.9%
Exports	1.3	1.7	1.2	1.4	13.9	13.2	-20.8%	5.7%	1.4%
Agriculture	0.7	1.1	0.6	0.8	7.1	6.4	-36.9%	10.1%	0.7%
Marines	0.4	0.4	0.6	0.5	5.6	5.5	-3.5%	2.9%	0.6%
Other	0.2	0.1	0.0	0.1	1.2	1.2	123.9%	-6.0%	0.1%
Services	18.7	7.1	7.8	5.7	93.5	136.0	165.6%	-31.3%	9.4%
Travel	2.4	2.4	1.7	1.7	21.5	53.5	-3.3%	-59.9%	2.2%
Other	16.4	4.6	6.1	4.0	72.0	82.5	254.7%	-12.7%	7.3%
Primary Income	3.6	4.4	4.3	4.3	49.7	31.6	-17.0%	57.5%	5.0%
Transfers	65.1	47.7	48.8	46.7	703.3	538.0	36.4%	30.7%	71.0%
Official	19.8	3.8	5.1	1.9	197.5	134.0	425.2%	47.4%	19.9%
Private	37.5	39.0	39.0	38.3	437.0	351.2	-3.8%	24.5%	44.1%
Non-Profit	7.7	4.9	4.6	6.5	68.7	52.9	57.3%	29.9%	6.9%
Capital Account	1.0	3.6	2.2	1.4	27.1	39.6	-72.7%	-31.6%	2.7%
Official	0.1	1.2	0.7	0.0	11.5	25.4	0.0%	-54.8%	1.2%
Private	0.8	2.3	1.5	1.4	15.6	14.2	-64.3%	9.9%	1.6%
Financial Account	10.1	6.4	10.4	7.0	102.7	81.7	57.8%	25.8%	10.4%
Direct Investment	0.4	0.0	2.2	0.1	4.0	1.9	0.0%	109.5%	0.4%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Other Investment	9.7	6.4	8.2	6.9	98.7	79.8	51.7%	23.8%	10.0%

*Shares based on year-end totals

Sources: Banking System; NRBT