

Overseas Exchange Transactions (OET)

October 2021

Release Date: 11 April 2022

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-21	Sep-21	Aug-21	Jul-21	Oct-21	Oct-20
Overall Balance	0.0	5.3	47.0	-10.5	175.5	92.2
Net Current Account	0.5	-6.3	-1.7	-9.2	106.2	72.9
Net Capital Account	3.6	2.0	1.4	0.6	33.1	33.3
Net Financial Account	-4.1	9.6	47.2	-1.9	36.1	-14.0
Foreign Reserve Levels	757.0	757.0	751.7	704.8	757.0	581.6

Sources: Banking System; NRBT

Foreign reserves remained stable in October

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance changed little in October 2021 compared to the \$5.3 million surplus in September 2021. The increase in the current and capital accounts was mostly offset by the fall in the financial account. Official foreign reserves remained comfortable at \$757.0 million by the end of October, equivalent to 12.1 months of imports.

In year ended terms, the overall balance surplus expanded substantially by \$83.2 million (90.2%) from the higher net receipts in the current and financial accounts. Similarly, the official foreign reserves increased significantly by \$175.5 million (30.2%), underpinned by higher receipts of budget support, official grants, capital inflows, and remittances.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-21	Sep-21	Aug-21	Jul-21	Oct-21	Oct-20
Net Current Account	0.5	-6.3	-1.7	-9.2	106.2	72.9
Merchandise Trade	-42.7	-46.0	-39.1	-46.6	-486.2	-402.7
Services	-3.8	-4.6	-6.7	-4.7	-40.8	5.2
Income	4.1	2.5	3.9	3.7	26.7	15.1
Transfers	42.9	41.7	40.3	38.4	606.6	455.3

Sources: Banking System; NRBT

The current account rose to a surplus over the month by \$6.8 million, underpinned by improvements in all categories. Similarly, the current account surplus increased over the year by \$33.3 million (45.7%), mostly from higher net transfers and income receipts.

The merchandise trade deficit narrowed in October reflecting the drop in total import payments by \$2.8 million (6.0%), due to lower payments for wholesale & retail goods, oil, and motor vehicles. This was coupled with the rise in total export proceeds by \$0.4 million (36.3%), underpinned by increases in agricultural export proceeds (mainly squash and watermelon) and other export receipts. However, in the year to October 2021, the merchandise trade deficit widened by \$83.6 million (20.8%) as import payments increased by \$83.8 million (20.1%) in all import categories, particularly payments for wholesale & retail goods and motor vehicles. This offset a slight increase in total export proceeds over the year by \$0.2 million (1.4%) solely from higher agricultural export proceeds.

The income account surplus rose in October 2021 by \$1.6 million (62.1%), owing to a decline in income payments by \$1.5 million (85.7%). Annually, the net income surplus rose by \$11.6 million (77.0%), resulting from an increase in receipts by \$19.6 million (65.6%) mainly higher receipts from seasonal workers. This more than offset the higher income payments of \$8.0 million (54.1%), mostly for dividend payments offshore.

Higher net transfer receipts was recorded in October 2021, stemming from a faster decline in total transfer payments of \$2.3 million (32.1%), compared to the decline in transfer receipts of \$1.1 million (2.2%). The lower transfer payments is attributed to a \$2.3 million decrease in private transfer payments, whilst the lower transfer receipts was mostly from a decline in official transfer receipts. In year ended terms, transfer receipts increased significantly by \$156.0 million (29.7%), reflecting official receipts for the Government's budget support, project grants, and relief funds for COVID-19 pushing foreign reserves higher. This is in addition to higher remittance receipts over the year despite the impact of Covid-19 on remitting countries.

The deficit in the services account narrowed over the month by \$0.8 million (17.5%), underpinned mostly by a \$1.6 million (12.5%) decline in service payments. The lower service payments were mostly due to a decrease in payments for postal services, computer services and travel. In the year to October 2021, the net services receipts declined by \$45.9 million to a net deficit reflecting the sharp drop in travel receipts from the border lockdown. This is in addition to declines in receipts for insurance claims, postal services and shipping freights during the year.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-21	Sep-21	Aug-21	Jul-21	Oct-21	Oct-20
Net Capital Account	3.6	2.0	1.4	0.6	33.1	33.3
Official	1.2	0.7	0.0	0.0	16.9	20.2
Private	2.3	1.4	1.4	0.6	16.2	13.1

Sources: Banking System;NRBT

The capital account recorded a higher surplus of \$3.6 million in October 2021. This was mainly underpinned by increases in both private and official capital receipts by \$0.9 million and \$0.6 million, respectively. Capital payments fell slightly over the month by \$0.1 million.

In year ended terms, the capital account surplus slightly fell to \$33.1 million. This stemmed mostly from lower receipts of official funds for construction projects.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-21	Sep-21	Aug-21	Jul-21	Oct-21	Oct-20
Net Financial Account	-4.1	9.6	47.2	-1.9	36.1	-14.0
Direct Investment	-2.6	2.2	-0.1	0.6	-0.8	0.8
Portfolio Investment	0.0	0.0	0.0	0.0	-9.0	0.0
Other Investment	-1.5	7.4	47.3	-2.5	45.9	-14.7

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 deficit recorded in the financial account was \$13.7 million lower in October 2021 compared to the \$9.6 million surplus recorded in September 2021. This reflects a drop in financial receipts coupled with an increase in financial payments.

Annually, the financial account improved to a surplus underpinned by lower investment payments, specifically for interbank transfers.

Outlook

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

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 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*
	Oct-21	Sep-21	Aug-21	Jul-21	Oct-21	Oct-20			
Total Payments	63.4	70.2	60.6	67.0	754.5	676.7	-9.7%	11.5%	100%
Current Account	60.3	68.4	59.8	65.6	723.7	639.6	-11.9%	13.2%	95.9%
Imports	44.4	47.2	40.5	47.5	500.1	416.3	-6.0%	20.1%	66.3%
Services	10.9	12.4	12.4	11.1	125.5	137.9	-12.5%	-9.0%	16.6%
Primary Income	0.2	1.7	0.4	0.5	22.9	14.8	-85.7%	54.1%	3.0%
Transfers	4.8	7.0	6.5	6.6	75.2	70.5	-32.1%	6.8%	10.0%
Official	0.0	0.1	0.1	0.0	4.0	4.4	0.0%	-8.8%	0.5%
Private	4.5	6.8	6.1	6.5	70.9	65.7	-34.3%	7.9%	9.4%
Non-Profit	0.3	0.1	0.2	0.1	0.3	0.3	217.4%	-3.7%	0.0%
Capital Account	0.0	0.1	0.0	0.0	0.3	1.3	0.0%	-74.2%	0.0%
Official	0.0	0.0	0.0	0.0	0.1	0.3	0.0%	-71.2%	0.0%
Private	0.0	0.1	0.0	0.0	0.2	0.9	0.0%	-75.2%	0.0%
Financial Account	3.2	1.7	0.7	1.3	30.5	35.9	84.7%	-15.2%	4.0%
Direct Investment	2.6	0.0	0.2	0.0	4.5	2.2	0.0%	107.8%	0.6%
Portfolio Investment	0.0	0.0	0.0	0.0	9.0	0.0	0.0%	0.0%	1.2%
Other Investment	0.6	1.7	0.5	1.3	16.9	33.7	-64.1%	-50.0%	2.2%
Total Receipts	70.8	74.6	66.6	63.7	960.6	833.1	-5.1%	15.3%	100%
Current Account	60.8	62.0	58.2	56.4	829.9	712.5	-2.0%	16.5%	86.4%
Exports	1.7	1.2	1.4	0.8	13.86	13.7	36.3%	1.4%	1.4%
Agriculture	1.1	0.6	0.8	0.3	7.19	6.35	80.6%	13.2%	0.7%
Marines	0.4	0.6	0.5	0.4	5.53	6.06	-19.8%	-8.8%	0.6%
Other	0.1	0.0	0.1	0.1	1.1	1.3	92.8%	-10.6%	0.1%
Services	7.1	7.8	5.7	6.4	84.7	143.1	-9.5%	-40.8%	8.8%
Travel	2.4	1.7	1.7	1.8	21.1	62.3	47.5%	-66.2%	2.2%
Other	4.6	6.1	4.0	4.6	63.7	80.8	-24.8%	-21.2%	6.6%
Primary Income	4.4	4.3	4.3	4.2	49.5	29.9	2.7%	65.6%	5.2%
Transfers	47.7	48.8	46.7	45.0	681.8	525.8	-2.2%	29.7%	71.0%
Official	3.8	5.1	1.9	2.4	182.3	129.8	-26.1%	40.5%	19.0%
Private	39.0	39.0	38.3	37.5	432.4	345.3	0.0%	25.3%	45.0%
Non-Profit	4.9	4.6	6.5	5.0	67.0	50.8	5.8%	32.1%	7.0%
Capital Account	3.6	2.2	1.4	0.6	33.5	34.6	66.2%	-3.2%	3.5%
Official	1.2	0.7	0.0	0.0	17.0	20.5	0.0%	-17.0%	1.8%
Private	2.3	1.5	1.4	0.6	16.4	14.1	57.2%	16.9%	1.7%
Financial Account	6.4	10.4	7.0	6.7	97.3	86.0	-38.4%	13.1%	10.1%
Direct Investment	0.0	2.2	0.1	0.6	3.8	2.9	0.0%	27.5%	0.4%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0%	0.0%
Other Investment	6.4	8.2	6.9	6.0	93.5	83.1	-21.8%	12.5%	9.7%

*Shares based on year-end totals

Sources: Banking System; NRBT