

Overseas Exchange Transactions (OET) December 2021

Release Date: 6 July 2022

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Dec-21	Nov-21	Oct-21	Sep-21	Dec-21	Dec-20
Overall Balance	33.6	26.9	0.0	5.3	141.9	188.1
Net Current Account	26.9	22.3	0.5	-6.3	73.6	158.2
Net Capital Account	1.2	0.9	3.6	2.0	23.9	39.7
Net Financial Account	5.5	3.6	-4.1	9.6	44.4	-9.7
Foreign Reserve Levels	817.5	783.9	757.0	757.0	817.5	675.6

Sources: Banking System; NRBT

Foreign reserves edge higher from official budget support

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) recorded an overall surplus of \$33.6 million in December 2021 compared to the \$26.9 million surplus in November 2021. This stemmed mostly from increases in net transfer receipts and income, offsetting the widening trade and services deficits. Consequently, the official foreign reserves increased notably over the month by \$33.6 million (4.3%) to a new record high of \$817.5 million, equivalent to 12.7 months of imports.

In the year to December 2021, the OET balance surplus was lower than the previous year by \$46.2 million (24.6%). Net transfers and financial receipts increased, while higher increases in the net trade and service deficits resulted in a lower overall surplus. The official foreign reserves, however, still increased significantly over the year by \$141.9 million (21.0%), supported by higher receipts of budget support, official grants, external debt proceeds, and remittances.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Dec-21	Nov-21	Oct-21	Sep-21	Dec-21	Dec-20
Net Current Account	26.9	22.3	0.5	-6.3	73.6	158.2
Merchandise Trade	-45.7	-38.5	-42.7	-46.0	-498.2	-411.0
Services	-8.3	-1.3	-3.8	-4.6	-48.5	-0.5
Income	4.2	3.2	4.1	2.5	28.5	17.4
Transfers	76.7	59.0	42.9	41.7	591.8	552.3

Sources: Banking System; NRBT

The current account expanded over the month by \$4.6 million (20.6%) from the higher surplus in the transfer and income accounts. However, the current account surplus declined significantly over the year by \$84.6 million (53.5%), specifically from higher import payments and lower travel receipts.

Total transfer receipts rose over the month by \$18.4 million (28.2%) to a total of \$83.4 million. This was largely driven by a \$9.2 million increase in both official transfer receipts and private transfer receipts, reflecting an inflow of budget support and remittances. Similarly, total transfer payments also increased over the month by \$0.7 million (11.2%), mainly due to private transfer payments. Annually, transfer receipts also increased by \$43.2 million (6.9%) underpinned by the strong inflow of private remittances, in addition to non-profit transfers.

The income account surplus increased over the month and year to December 2021 by \$1.1 million (33.4%), and \$11.1 million (63.7%), respectively. This stemmed from higher-income receipts, mostly from seasonal workers.

Total import payments rose in December 2021 by \$7.5 million (18.9%), mostly for oil, construction materials, motor vehicles, and government imports. This may also reflect the increase in imported inflation due to ongoing supply chain disruptions and geopolitical tensions. However, import payments for wholesale & retail goods declined over the month. Meanwhile, total export proceeds rose over the month by \$0.3 million (25.8%), underpinned by a \$0.4 million (52.3%) increase in agricultural export proceeds. In the year to December 2021, the merchandise trade deficit widened by \$87.2 million (21.2%) as import payments increased by \$89.2 million (21.1%). This was attributed to higher payments for all import categories especially wholesale & retail goods, oil, and motor vehicles, reflecting a pick-up in the pace of economic activities. Total export proceeds also increased over the year by \$2.0 million (16.4%) from higher proceeds from all export types.

The services account deficit widened over the month by \$7.0 million, due mostly to a \$10.2 million (54.4%) decline in service receipts. The lower service receipts were mostly from telecommunication services. Service payments also declined over the month by \$3.2 million (16.2%), underpinned by lower payments for telecommunication services and postal services. In year ended terms, the services receipts declined by \$30.3 million (24.4%), reflecting the impact of the border lockdown on tourism activities and travel receipts. This is in addition to a decline in receipts for insurance claims, postal services, and construction & installation services during the year. Both travel receipts and payments fell over the year by \$21.5 million (49.4%) and \$1.1 million (4.7%), respectively.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Dec-21	Nov-21	Oct-21	Sep-21	Dec-21	Dec-20
Net Capital Account	1.2	0.9	3.6	2.0	23.9	39.7
Official	0.0	0.1	1.2	0.7	9.1	25.9
Private	1.2	0.8	2.3	1.4	14.8	13.7

The capital account surplus was higher by \$0.3 million (30.9%) in December 2021. This was attributed to an increase in private capital receipts by \$0.4 million. Capital payments rose slightly over the month by \$0.02 million, specifically for private construction projects abroad.

Annually, the capital account surplus declined by \$15.7 million (39.7%). This stemmed mostly from lower receipts of official funds for construction projects. Similarly, capital account payments fell by \$0.5 million, reflecting lower payments for both private and official capital investments.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Dec-21	Nov-21	Oct-21	Sep-21	Dec-21	Dec-20
Net Financial Account	5.5	3.6	-4.1	9.6	44.4	-9.7
Direct Investment	-0.3	-0.5	-2.6	2.2	-1.9	0.5
Portfolio Investment	0.0	0.0	0.0	0.0	-9.0	0.0
Other Investment	5.7	4.1	-1.5	7.4	55.3	-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 expanded over the month and the year to December 2021 by \$1.8 million and \$54.1 million, respectively. This was due to higher investment receipts, mainly from interbank transfers.

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 the 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 workers schemes in 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 is in addition to scheduled payments of external debts and higher global inflation, which will put pressure on the 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*
	Dec-21	Nov-21	Oct-21	Sep-21	Dec-21	Dec-20			
Total Payments	74.9	68.2	63.4	70.2	782.3	667.9	9.8%	17.1%	100%
Current Account	71.5	66.4	60.3	68.4	751.3	635.3	7.6%	18.3%	96.0%
Imports	47.4	39.8	44.4	47.2	512.5	423.3	18.9%	21.1%	65.5%
Services	16.8	20.0	10.9	12.4	142.5	124.8	-16.2%	14.2%	18.2%
Primary Income	0.6	0.5	0.2	1.7	21.8	16.4	26.2%	32.9%	2.8%
Transfers	6.8	6.1	4.8	7.0	74.5	70.8	11.2%	5.2%	9.5%
Official	0.0	0.0	0.0	0.1	4.1	3.7	0.0%	11.3%	0.5%
Private	6.4	6.0	4.5	6.8	70.0	66.8	6.2%	4.9%	9.0%
Non-Profit	0.4	0.1	0.3	0.1	0.3	0.3	301.8%	7.7%	0.0%
Capital Account	0.1	0.0	0.0	0.1	0.3	0.8	41.1%	-65.9%	0.0%
Official	0.0	0.0	0.0	0.0	0.0	0.1	0.0%	-100.0%	0.0%
Private	0.1	0.0	0.0	0.1	0.3	0.7	41.1%	-61.1%	0.0%
Financial Account	3.3	1.7	3.2	1.7	30.7	31.8	94.5%	-3.6%	3.9%
Direct Investment	1.4	0.5	2.6	0.0	6.3	1.2	177.0%	421.2%	0.8%
Portfolio Investment	0.0	0.0	0.0	0.0	9.0	0.0	0.0%	75194.6%	1.2%
Other Investment	1.9	1.2	0.6	1.7	15.4	30.6	59.6%	-49.8%	2.0%
Total Receipts	114.8	99.8	70.8	74.6	961.0	910.4	15.0%	5.6%	100%
Current Account	98.4	88.7	60.8	62.0	824.9	793.5	10.9%	4.0%	85.8%
Exports	1.6	1.3	1.7	1.2	14.3	12.3	25.8%	16.4%	1.5%
Agriculture	1.1	0.7	1.1	0.6	7.3	6.4	52.3%	14.3%	0.8%
Marines	0.2	0.4	0.4	0.6	5.4	4.7	-50.4%	15.5%	0.6%
Other	0.4	0.2	0.1	0.0	1.5	1.1	104.5%	30.3%	0.2%
Services	8.5	18.7	7.1	7.8	94.0	124.3	-54.4%	-24.4%	9.8%
Travel	2.5	2.4	2.4	1.7	22.1	43.6	5.9%	-49.4%	2.3%
Other	6.0	16.4	4.6	6.1	71.9	80.7	-63.1%	-10.9%	7.5%
Primary Income	4.8	3.6	4.4	4.3	50.4	33.8	32.5%	48.8%	5.2%
Transfers	83.4	65.1	47.7	48.8	666.3	623.1	28.2%	6.9%	69.3%
Official	29.0	19.8	3.8	5.1	154.4	204.8	46.5%	-24.6%	16.1%
Private	46.7	37.5	39.0	39.0	444.4	360.3	24.5%	23.3%	46.2%
Non-Profit	7.7	7.7	4.9	4.6	67.5	58.0	-0.3%	16.4%	7.0%
Capital Account	1.3	1.0	3.6	2.2	24.2	40.4	31.4%	-40.2%	2.5%
Official	0.0	0.1	1.2	0.7	9.1	26.0	-86.3%	-65.0%	0.9%
Private	1.3	0.8	2.3	1.5	15.1	14.4	50.8%	4.7%	1.6%
Financial Account	15.1	10.1	6.4	10.4	111.8	76.4	48.8%	46.3%	11.6%
Direct Investment	2.7	0.4	0.0	2.2	6.3	1.7	578.1%	278.7%	0.7%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Other Investment	12.4	9.7	6.4	8.2	105.5	74.8	27.3%	41.2%	11.0%

*Shares based on year-end totals

Sources: Banking System; NRBT