

Overseas Exchange Transactions (OET)

August 2020

Release Date: 30 December 2020

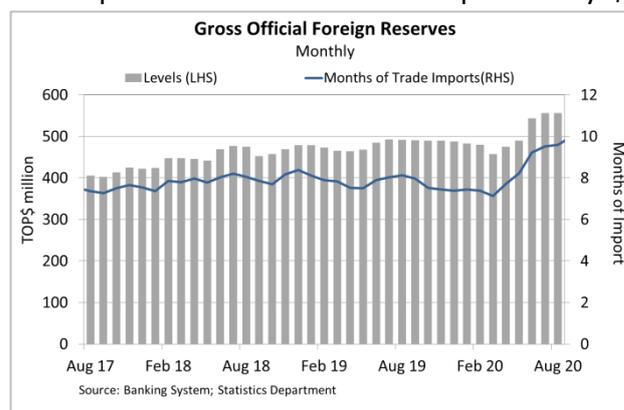
Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-20	Jul-20	Jun-20	May-20	Aug-20	Aug-19
Overall Balance	0.1	12.1	54.2	14.5	64.3	16.8
Net Current Account	2.7	4.1	40.9	13.4	61.2	1.8
Net Capital Account	0.7	1.6	4.3	1.9	23.1	37.3
Net Financial Account	-3.2	6.4	8.9	-0.8	-20.0	-22.2
Foreign Reserve Levels	556.1	555.9	543.8	489.6	556.1	491.8

Sources: Banking System; NRBT

A significant decline in financial account drove the lower overall balance

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance recorded a surplus of \$0.1 million in August 2020, although significantly lower than the surplus in the previous month. OET receipts fell by \$2.4 million (3.8%) while payments rose by \$1.8 million (3.4%) in August 2020. All accounts recorded a net receipt over the month except for the financial account. In year ended terms, the overall OET balance also recorded a surplus underpinned mainly by the improvement in the current account balance due to higher receipts of official transfers and lower import payments.



The official foreign reserves increased marginally over the month by \$0.1 million to a new record high of \$556.1 million (equivalent to 9.6 months of import cover), an increase of \$64.3 million compared to \$491.8 million in August 2019. This increase is attributed mostly to receipts of budget support, relief and project funds from development partners, and remittances.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-20	Jul-20	Jun-20	May-20	Aug-20	Aug-19
Net Current Account	2.7	4.1	40.9	13.4	61.2	1.8
Merchandise Trade	-34.5	-33.7	-36.3	-32.0	-397.4	-421.1
Services	-0.6	-0.4	-3.8	8.8	10.2	31.7
Income	1.6	2.6	2.4	2.5	7.8	7.0
Transfers	36.1	35.6	78.7	34.1	440.6	384.1

Sources: Banking System;NRBT

The current account recorded a lower surplus of \$2.7 million, compared to the \$4.1 million surplus in the previous month. The lower current account surplus was a result of lower net receipts in the transfers and income accounts. In contrast, deficit in the merchandise trade and services accounts widened compared to last month. Over the year, the current account surplus continued to increase by \$59.4 million, driven mainly by the higher net transfers receipts and the lower deficit in merchandise trade.

Official transfer receipts rose in August 2020 by \$1.6 million (45.3%), reflecting the inflow of project grants, and additional funds from donor partners. This was partially offset by the declines in both private and non-profit transfer receipts, which fell by \$0.4 million (1.2%) and \$0.4 million (10.1%) respectively. On the other hand, total transfer payments increased over the month by \$0.3 million (5.3%). In year-end terms, the surplus in the transfer accounts increased by \$56.4 million (14.7%) to \$440.6 million underpinned mostly by higher official transfer receipts and remittances.

The merchandise trade deficit widened over the month by \$0.8 million (2.4%) as import payments rose by \$0.7 million (2.1%), mainly payments for oil and construction materials. However, total export proceeds fell by \$0.1 million (8.0%) due mostly to lower proceeds from marine exports. Annually, the merchandise trade deficit narrowed by \$23.7 million (5.6%), supporting the current account balance's improvement. Import payments declined by \$28.1 million (6.4%) over the year due to lower payments for imports of wholesale & retail trade, motor vehicles, construction materials, and other imports. On the other hand, export proceeds decreased by \$4.5 million (21.7%) as proceeds from all categories declined over the year, primarily agricultural exports.

The services account deficit deteriorated further to \$0.6 million in August 2020 from \$0.4 million in the previous month. This is attributed to the increase in payments of \$0.8 million (9.7%), offsetting the increase in receipts of \$0.6 million (8.0%). Increases in payments for government and telecommunication services drove the higher service payments over the month. Over the year, the services account recorded a lower surplus of \$10.2 million compared to the surplus of \$31.7 million a year ago. This resulted from the impact of the border lockdown on tourism services over the past couple of months. Both travel receipts and payments fell over the year by \$49.8 million (37.4%) and \$18.0 million (33.1%) respectively in line with the decline in passenger arrivals over the year.

The income account surplus fell to \$1.6 million in August 2020 from \$2.6 million in the previous month. This was due mainly to a \$0.7 million (22.3%) decline in income receipts in addition to a \$0.2 million (31.5%) increase in income payments. Annually, the income account recorded a higher surplus of \$7.8

million over the year to August 2020, compared to a surplus of \$7.0 million in the previous year. This was mainly due to the increase in income receipts of \$1.3 million (22.3%) driven by receipts of wages from seasonal workers abroad.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-20	Jul-20	Jun-20	May-20	Aug-20	Aug-19
Net Capital Account	0.7	1.6	4.3	1.9	23.1	37.3
Official	0.1	0.5	3.7	0.6	11.4	18.3
Private	0.6	1.1	0.6	1.3	11.7	19.0

Sources: Banking System;NRBT

The \$0.7 million surplus in the capital account was lower than \$1.6 million in the previous month. This resulted from declines in both private and official capital receipts by \$0.5 million (45.2%) and \$0.4 million (84.0%), respectively. The \$0.2 million capital payments for private projects also contributed to the lower surplus during the month.

Over the year, the capital account surplus also declined by \$14.2 million (38.1%) to \$23.1 million in August 2020. Both official and private capital accounts contributed to the \$15.8 million (39.6%) decline in capital account receipts, reflecting lower receipts for private construction and TC Gita and TC Harold reconstruction. However, the capital account payments fell by \$1.6 million (60.1%) for private and official capital accounts.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-20	Jul-20	Jun-20	May-20	Aug-20	Aug-19
Net Financial Account	-3.2	6.4	8.9	-0.8	-20.0	-22.2
Direct Investment	-0.1	0.2	0.2	0.1	1.5	-5.2
Portfolio Investment	0.0	0.0	0.0	0.0	-11.2	-11.2
Other Investment	-3.1	6.2	8.8	-0.8	-10.2	-5.9

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 deficit of \$3.2 million following the surplus of \$6.4 million in the previous month. This was primarily driven by the lower inflow of other investments which are mostly interbank transfers.

In year-end terms, the deficit in the financial account improved to \$20.0 million from the \$22.2 million deficit in the previous year. This attributed mainly to lower payments offshore for investment purposes.

Outlook

The NRBT expects the ongoing COVID-19 pandemic uncertainties and its impact on the global economy to affect macroeconomic stability. This will, in turn, continue to impact domestic economic growth and transactions and trading behaviour between Tonga and the rest of the world. Meanwhile, foreign

reserves continue to record high levels and are still expected to remain above the 3 months minimum import cover threshold. The anticipated lower import payments reflecting the economic impact of COVID-19, which has presumably weakened aggregate demand, also support the high levels of foreign reserves. The delay in the implementation of major infrastructure projects also contributes to the slowdown in domestic economic growth.

Additionally, deferrals and suspension of external debt repayments may also affect the outlook. Remittances are still holding up and expected to increase in the near term supported by seasonal workers' departure to Australia. The prolonged state and high uncertainty of the pandemic paired 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-20	Jul-20	Jun-20	May-20	Aug-20	Aug-19			
Total Payments	53.3	51.6	56.9	49.8	702.3	759.3	3.4%	-7.5%	100.0
Current Account	51.5	49.5	54.0	46.8	653.8	702.9	4.1%	-7.0%	93.1
Imports	35.6	34.8	37.2	33.0	413.5	441.7	2.1%	-6.4%	58.9
Services	9.1	8.3	11.4	8.2	151.7	172.1	9.7%	-11.8%	21.6
Primary Income	0.9	0.7	0.7	0.2	19.3	18.8	31.5%	2.5%	2.8
Transfers	6.0	5.7	4.8	5.3	69.2	70.3	5.3%	-1.5%	9.9
Official	0.0	0.0	0.0	0.0	4.2	3.9	0.0%	7.8%	0.6
Private	5.7	5.5	4.4	4.6	64.8	66.2	4.1%	-2.2%	9.2
Non-Profit	0.3	0.2	0.3	0.7	0.3	0.2	39.6%	34.4%	0.0
Capital Account	0.2	0.0	0.0	0.0	1.1	2.6	0.0%	-60.1%	0.1
Official	0.0	0.0	0.0	0.0	0.3	0.5	0.0%	-37.4%	0.0
Private	0.2	0.0	0.0	0.0	0.7	2.1	0.0%	-65.8%	0.1
Financial Account	1.6	2.1	2.9	3.0	47.4	53.8	-23.3%	-11.8%	6.8
Direct Investment	0.1	0.0	0.1	0.0	2.6	6.2	0.0%	-57.5%	0.4
Portfolio Investment	0.0	0.0	0.0	0.0	11.2	11.2	0.0%	0.0%	1.6
Other Investment	1.4	2.0	2.8	3.0	33.6	36.4	-29.7%	-7.6%	4.8
Total Receipts	59.9	62.3	109.0	66.6	824.6	830.2	-3.8%	-0.7%	100%
Current Account	54.2	53.6	95.0	60.1	715.0	704.7	1.2%	1.5%	91%
Exports	1.1	1.2	0.9	1.0	16.1	20.6	-8.0%	-21.7%	1.8%
Agriculture	0.7	0.6	0.4	0.4	7.2	10.4	15.6%	-31.1%	1%
Marines	0.2	0.4	0.4	0.5	7.6	8.5	-43.4%	-10.5%	0%
Other	0.1	0.1	0.1	0.0	1.3	1.4	3.2%	-7.5%	0%
Services	8.6	7.9	7.6	17.0	161.9	203.8	8.0%	-20.6%	14%
Travel	1.9	1.9	2.2	2.4	83.3	133.0	-3.0%	-37.4%	3%
Other	6.7	6.0	5.4	14.6	78.7	70.8	11.5%	11.1%	11%
Primary Income	2.5	3.2	3.1	2.8	27.2	25.8	-22.3%	5.2%	4%
Transfers	42.1	41.3	83.4	39.4	509.8	454.4	1.9%	12.2%	70%
Official	5.1	3.5	51.6	3.2	132.9	88.8	45.3%	49.7%	9%
Private	33.5	34.0	28.8	32.0	328.8	317.2	-1.2%	3.7%	56%
Non-Profit	3.4	3.8	3.0	4.2	48.1	48.5	-10.1%	-0.8%	6%
Capital Account	0.9	1.6	4.3	1.9	24.1	39.9	-43.7%	-39.6%	2%
Official	0.1	0.5	3.7	0.6	11.7	18.8	-84.0%	-37.9%	0%
Private	0.8	1.1	0.6	1.3	12.4	21.1	-26.1%	-41.1%	1%
Financial Account	4.8	7.0	9.7	4.5	85.5	85.6	-32.3%	-0.2%	8%
Direct Investment	0.0	0.2	0.2	0.1	4.1	1.0	0.0%	293.9%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-100.0%	0%
Other Investment	4.8	6.8	9.4	4.5	81.4	84.6	-29.9%	-3.8%	8%

Sources: Banking System; NRBT