

Overseas Exchange Transactions (OET)

March 2020

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Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-20	Feb-20	Jan-20	Dec-19	Mar-20	Mar-19
Overall Balance	-22.4	-3.0	-4.6	-2.1	-7.5	17.3
Net Current Account	2.6	4.1	-7.8	-2.2	12.6	-7.9
Net Capital Account	2.1	1.6	2.0	3.1	31.5	34.5
Net Financial Account	-27.1	-8.7	1.2	-3.0	-51.6	-9.3
Foreign Reserve Levels	457.5	479.8	482.9	487.4	457.5	465.0

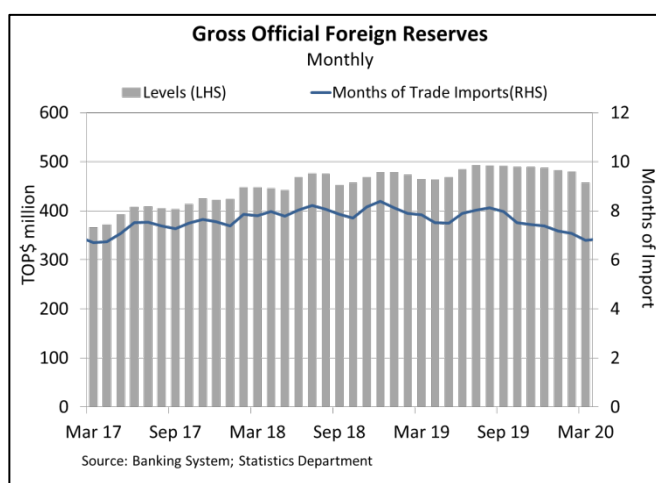
Sources: Banking System; NRBT

Foreign Reserves dipped due to external debt repayments

Overall Balance & Foreign Reserves

The overall OET balance deficit considerably widened in March 2020 by \$19.3 million to \$22.4 million. This was a result of a significant rise in total OET payments over the month offsetting the rise in total OET receipts, mostly for other investments, primary income and imports. Annually, the overall balance declined again by \$24.8 million and recorded a deficit of \$7.5 million. Total OET payments increased over the year to March 2020 by \$4.8 million for portfolio investment, primary income, direct investment, and private transfers. Total receipts declined substantially by \$23.1 million over the year driven mainly by lower receipts from official transfers and interbank transfers.

Consequently, the official foreign reserves declined to \$457.5 million in March 2020, equivalent to 7.1 months of import cover. This is lower than the \$479.8 million recorded in



February 2020 attributing to higher outflows for repayments of external debt and imports. In year ended terms, official foreign reserves also declined by \$7.5 million compared to \$465.0 million in March 2019. This was due to lower receipts of budget support, grants, and project funds from development partners.

On the outlook, the Reserve Bank expect the level of foreign reserves to remain at comfortable levels, above 3 months of import cover. Despite the negative impacts of the coronavirus pandemic on international travel and transport, the expected inflow of additional budget support and relief

funds will sustain foreign reserves at comfortable levels. Nevertheless, the payments of external debt, implementation of infrastructure projects, and expected transfer of offshore investments are downside risks to the outlook. This is in addition to uncertainties surrounding the COVID-19 pandemic, fluctuations in oil and commodity prices, and Tonga’s vulnerability to natural disasters.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-20	Feb-20	Jan-20	Dec-19	Mar-20	Mar-19
Net Current Account	2.6	4.1	-7.8	-2.2	12.6	-7.9
Merchandise Trade	-32.5	-30.1	-34.9	-32.5	-404.0	-422.7
Services	6.7	4.4	5.6	0.2	40.8	16.5
Income	-0.9	1.5	-1.2	1.6	1.6	8.3
Transfers	29.3	28.3	22.7	28.5	374.1	390.0

Sources: Banking System;NRBT

The current account recorded a surplus of \$2.6 million, after recording a surplus of \$4.1 million in the previous month. The surpluses from services and transfers accounts together with lower merchandise trade deficits outweighed the lower surplus in the income account.

The merchandise trade deficit worsened over the month by \$2.3 million to \$32.5 million. Import payments rose over the month by \$2.2 million mainly for wholesale & retail goods and construction materials. These movements outweighed a decline in total export proceeds of \$0.1 million due to lower proceeds from marine exports.

Following a surplus in the previous month, the income account recorded a deficit of \$0.9 million in March 2020. This was largely due to a \$2.8 million increase in primary income payments reflecting the high loan interest payments for government debts to EXIM bank of China which are paid twice a year in the months of March and September.

The receipts from non-profit and private transfers increased over the month by \$1.8 million and \$0.8 million respectively, outweighing the decline in official transfer receipts by \$1.3 million. Non-profit transfers are donations to non-profit organizations whereas private transfer receipts are mainly remittances. Official transfer receipts are mainly budget support and project funds to Government. On the other hand, private transfer payments increased by \$0.7 million while both official and non-profit transfer payments each fell over the month by \$0.2 million respectively.

The surplus in the service account increased by \$2.3 million to \$6.7 million over the month, due mostly to higher receipts of \$16.7 million whilst payments declined by \$1.2 million. Service receipts for travel increased by \$2.0 million whilst receipts from other services mainly construction and installation services declined by \$0.9 million over the month. Despite the sharp drop in international arrivals during the month from the world-wide travel restrictions and the commencing of the border lockdown, travel receipts still grew mostly owing to an increased usage of foreign card by stranded travellers and other foreign nationals who are working or residing here in Tonga. Meanwhile, lower

service payments were mostly derived for insurance & pension services purposes as well as lower travel costs.

In year ended terms, the current account surplus improved from a deficit of \$7.9 million to a surplus of \$12.6 million in June 2020. This was mainly driven by the higher surplus for the services account coupled with the lower deficit in the merchandise trade account. The transfer and income account surpluses deteriorated over the year.

The higher surplus for the services accounts was attributed to a decline in payments by \$8.7 million due to lower payments mainly for insurance & pension services and government goods & services. The merchandise trade deficit narrowed by \$18.7 million to \$404.0 million underpinned by a decline in import payments. Import payments declined by \$19.8 million due to lower payments for all categories except for oil import payments which rose over the year to March 2020. Export proceeds declined by \$1.1 million, which resulted from lower agriculture and other export proceeds. The transfer account recorded a lower surplus by \$15.9 million due mainly to lower official transfer receipts. Furthermore, the income account declined over the year by \$6.6 million to a surplus of \$1.6 million, reflecting payment of dividends abroad and EXIM loan interests.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-20	Feb-20	Jan-20	Dec-19	Mar-20	Mar-19
Net Capital Account	2.1	1.6	2.0	3.1	31.5	34.5
Official	0.7	0.6	1.0	1.7	18.0	15.8
Private	1.4	1.1	1.0	1.4	13.5	18.8

Sources: Banking System;NRBT

In March 2020, the capital account recorded a higher surplus of \$2.1 million compared to the previous month. This resulted from increases in both private and official capital receipts by \$0.4 million and \$0.1 million, respectively. There were no capital payments recorded for the month. These transactions are for government-funded projects and private construction purposes by individuals and non-profit organizations.

However, the capital account surplus declined by \$3.1 million to \$31.5 million over the year. Capital account receipts fell by \$3.3 million, driven by a \$5.4 million decrease in private capital receipts which outweighed a \$2.2 million increase in official capital receipts in the year to March 2020. Additionally, the capital account payments decreased over the year by \$0.2 million due to declines in payments made for both official and private capital purposes.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-20	Feb-20	Jan-20	Dec-19	Mar-20	Mar-19
Net Financial Account	-27.1	-8.7	1.2	-3.0	-51.6	-9.3
Direct Investment	-0.6	0.0	0.2	-0.5	-3.6	-0.5
Portfolio Investment	0.0	0.0	0.0	0.0	-22.4	0.3
Other Investment	-26.5	-8.7	1.0	-2.5	-25.6	-9.1

Note: The Net Financial Account figures incorporate also the net reconcillation items which is not reflected in the table below

Sources: Banking System;NRBT

The financial account recorded a deficit of \$27.1 million over the month of March 2020, primarily driven by a decline in other investments account by \$5.8 million. This was mostly due to repayment of EXIM loan principal for the Tonga National Roads Improvement Project. Payments for direct investment slightly fell while portfolio investments recorded no receipt over the month.

Over the year, the financial account recorded a deficit of \$51.6 million which is lower than the deficit of \$9.3 million in the previous year. This was largely due to higher outflows mainly for offshore investments, interbank transfers and loan repayments.

Overseas Exchange Transactions									
TOP\$ millions									
	Month Ended				Year Ended		Monthly Change	Annual Change	Shares of totals*
	Mar-20	Feb-20	Jan-20	Dec-19	Mar-20	Mar-19			
Total Payments	60.3	49.6	60.6	67.5	756.9	752.1	21.4%	0.6%	100.0
Current Account	52.3	48.0	59.2	61.4	690.9	707.3	8.8%	-2.3%	91.3
Imports	33.5	31.3	35.9	34.7	423.2	442.9	7.2%	-4.5%	55.9
Services	10.0	11.2	13.5	19.5	170.9	179.6	-10.3%	-4.9%	22.6
Primary Income	3.0	0.2	3.3	0.3	23.7	17.4	1231.9%	36.3%	3.1
Transfers	5.7	5.4	6.5	6.8	73.1	67.3	6.5%	8.6%	9.7
Official	0.0	0.2	0.0	0.0	5.0	2.3	0.0%	123.5%	0.7
Private	5.5	4.8	5.8	6.3	67.8	64.8	14.2%	4.7%	9.0
Non-Profit	0.2	0.4	0.7	0.5	0.3	0.3	-46.0%	-6.6%	0.0
Capital Account	0.0	0.0	0.0	0.2	1.7	1.8	0.0%	-9.6%	0.2
Official	0.0	0.0	0.0	0.0	0.4	0.5	0.0%	-18.6%	0.1
Private	0.0	0.0	0.0	0.2	1.3	1.3	0.0%	-6.2%	0.2
Financial Account	8.0	1.6	1.5	5.9	64.4	43.0	402.0%	49.8%	8.5
Direct Investment	0.6	0.0	0.0	1.1	7.9	1.7	0.0%	357.0%	1.0
Portfolio Investment	0.0	0.0	0.0	0.0	22.4	0.0	0.0%	0.0%	3.0
Other Investment	7.4	1.6	1.5	4.7	34.1	41.3	366.6%	-17.3%	4.5
Total Receipts	63.5	58.4	55.6	73.7	820.6	843.6	8.7%	-2.7%	100%
Current Account	54.9	52.1	51.4	59.1	703.5	699.4	5.4%	0.6%	86%
Exports	1.0	1.1	1.1	2.2	19.2	20.3	-8.2%	-5.4%	1.6%
Agriculture	0.4	0.3	0.4	0.8	7.9	11.0	33.7%	-28.5%	1%
Marines	0.6	0.8	0.6	1.2	9.8	7.0	-26.5%	38.8%	1%
Other	0.0	0.0	0.2	0.1	1.3	2.0	-2.3%	-35.6%	0%
Services	16.7	15.5	19.1	19.8	211.7	196.1	7.3%	8.0%	26%
Travel	12.0	9.9	12.1	11.8	141.6	122.8	20.4%	15.3%	19%
Other	4.7	5.6	7.0	7.9	70.1	73.3	-16.1%	-4.3%	7%
Primary Income	2.1	1.7	2.0	1.9	25.3	25.6	21.7%	-1.1%	3%
Transfers	35.1	33.7	29.2	35.3	447.2	457.3	4.1%	-2.2%	55%
Official	5.4	6.6	0.4	1.3	74.3	95.8	-18.9%	-22.5%	8%
Private	23.6	22.8	24.3	30.2	319.2	315.8	3.5%	1.1%	37%
Non-Profit	6.1	4.3	4.5	3.8	54.1	45.7	43.0%	18.4%	10%
Capital Account	2.1	1.6	2.0	3.4	33.1	36.4	29.5%	-8.9%	3%
Official	0.7	0.6	1.0	1.7	18.4	16.3	16.4%	13.3%	1%
Private	1.4	1.1	1.0	1.7	14.7	20.1	36.7%	-26.9%	2%
Financial Account	6.5	4.7	2.2	11.2	83.9	107.9	38.6%	-22.2%	10%
Direct Investment	0.0	0.0	0.2	0.6	4.3	1.2	0.0%	249.4%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.3	0.0%	-99.3%	0%
Other Investment	6.5	4.7	2.0	10.6	79.6	106.4	38.6%	-25.1%	10%

Sources: Banking System; NRBT