

Overseas Exchange Transactions (OET) September 2020

Release Date: 13 January 2021

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Sep-20	Aug-20	Jul-20	Jun-20	Sep-20	Sep-19
Overall Balance	20.4	0.1	12.1	54.2	85.7	38.7
Net Current Account	9.1	2.7	4.1	40.9	82.8	6.1
Net Capital Account	4.0	0.7	1.6	4.3	25.4	36.1
Net Financial Account	7.3	-3.2	6.4	8.9	-22.6	-3.5
Foreign Reserve Levels	576.5	556.1	555.9	543.8	576.5	490.8

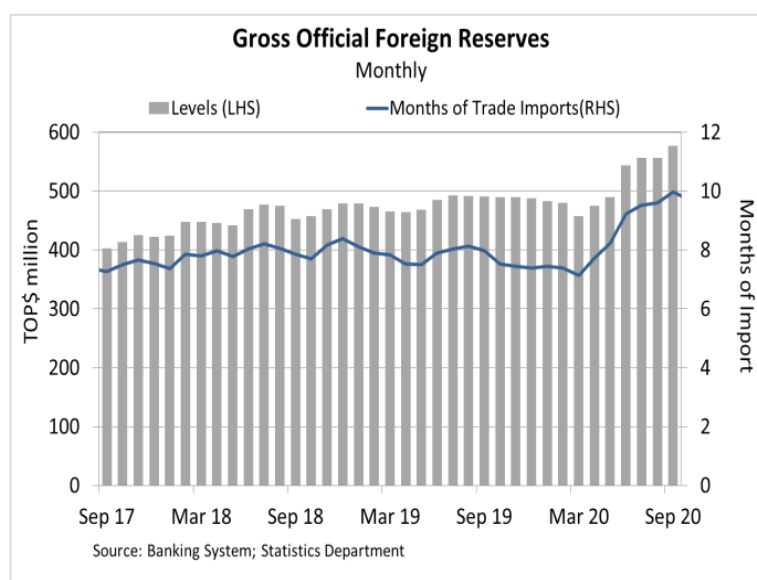
Sources: Banking System; NRBT

Official receipts drove the overall balance and foreign reserves higher

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance recorded a surplus of \$20.4 million in September 2020 which is significantly higher than the previous month's surplus. OET receipts rose by \$11.5 million (19.1%) while payments increased slightly by \$0.1 million (0.1%) in September 2020. All accounts recorded a net receipt over the month with the net financial account increasing the highest. In year ended terms, the overall OET balance also recorded a surplus of \$85.7 million attributed mainly to the improvement in the current account balance underpinned by higher receipts of official transfers and lower import payments.

The official foreign reserves rose over the month of September 2020 by \$20.4 million to \$576.5 million (equivalent to 10.0 months of import cover), an increase of \$85.7 million compared to \$490.8 million in September 2019. This increase reflected receipts of budget support, relief and project funds from development partners, and remittances.



Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Sep-20	Aug-20	Jul-20	Jun-20	Sep-20	Sep-19
Net Current Account	9.1	2.7	4.1	40.9	82.8	6.1
Merchandise Trade	-34.5	-34.5	-33.7	-36.3	-396.5	-415.6
Services	-1.3	-0.6	-0.4	-3.8	6.9	33.3
Income	2.6	1.6	2.6	2.4	12.2	6.2
Transfers	42.4	36.1	35.6	78.7	460.3	382.1

Sources: Banking System;NRBT

The current account recorded a higher surplus of \$9.1 million in September 2020, compared to the \$2.7 million surplus in August 2020. The higher current account surplus resulted from higher net receipts in the transfers and income accounts. Over the year, the current account surplus continued to increase by \$76.8 million, due mainly to higher net transfer receipts and the lower merchandise trade deficit.

Official transfer receipts increased in September 2020 by \$4.4 million (85.2%), resulting from the inflow of project grants, and additional funds from donor partners for Government projects. This was coupled with an increase in non-profit transfer receipts by \$2.7 million (79.5%), partially offsetting the decline in private transfer receipts of \$0.6 million (1.7%). On the other hand, total transfer payments increased over the month by \$0.3 million (4.4%). Annually, the surplus in the transfer accounts rose by \$78.1 million (20.4%) to \$460.3 million driven mostly by higher official transfer receipts and remittances.

Import payments declined over the month by \$0.4 million (1.2%) resulting in a \$0.02 million (0.1%), a slight decrease in the merchandise trade deficit. The decline in import payments was due to lower payments for oil, other imports (mostly government imports), and motor vehicle imports. Similarly, total export proceeds fell by \$0.4 million (38.5%) from lower receipts in all export categories. In year-end terms, the merchandise trade deficit narrowed by \$19.1 million (4.6%), supporting the current account balance's improvement. Import payments decreased by \$25.6 million (5.9%) as payments for imports of wholesale & retail trade, motor vehicles, oil, and other imports fell over the year. However, export proceeds declined by \$6.5 million (30.6%) as proceeds from all categories fell over the year, mainly agricultural exports.

The services account deficit widened to \$1.3 million in September 2020 from \$0.6 million in the previous month. This was owed to the decline in receipts by \$1.2 million (13.8%), offsetting a \$0.4 million (4.4%) decline in payments. The decline in receipts for transport and insurance services drove the lower service receipts over the month. Over the year, the services account recorded a lower surplus of \$6.9 million compared to the \$33.3 million surplus a year ago. This reflects 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 \$61.3 million (45.6%) and \$21.1 million (38.6%) respectively coinciding with the declining passenger arrivals over the year.

The income account surplus improved to \$2.6 million in September 2020 from \$1.6 million in the previous month. This was due to a \$0.5 million (19.2%) increase in income receipts in addition to a \$0.5 million (53.4%) decline in income payments. Annually, the income account surplus increased by \$12.2 million

over the year to September 2020, attributed mainly to a \$2.7 million (10.7%) increase in income receipts supported by receipts of wages from seasonal workers abroad.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Sep-20	Aug-20	Jul-20	Jun-20	Sep-20	Sep-19
Net Capital Account	4.0	0.7	1.6	4.3	25.4	36.1
Official	3.0	0.1	0.5	3.7	13.3	17.2
Private	1.0	0.6	1.1	0.6	12.1	18.9

Sources: Banking System;NRBT

The surplus in the capital account increased by \$3.3 million to \$4.0 million in September 2020. This reflected increases in both official and private capital receipts by \$2.9 million and \$0.4 million, respectively.

In year ended terms, the capital account recorded a lower surplus of \$25.4 million compared to the \$36.1 million surplus recorded in September 2019. Both private and official capital accounts contributed to the \$11.5 million (30.2%) decline in capital account receipts, following receipts for private construction and TC Gita and TC Harold reconstruction in the previous months. However, the capital account payments fell slightly as payments for private and official capital accounts decreased over the year to September 2020.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Sep-20	Aug-20	Jul-20	Jun-20	Sep-20	Sep-19
Net Financial Account	7.3	-3.2	6.4	8.9	-22.6	-3.5
Direct Investment	0.3	-0.1	0.2	0.2	1.5	-4.6
Portfolio Investment	0.0	0.0	0.0	0.0	-11.2	-11.2
Other Investment	7.1	-3.1	6.2	8.8	-12.9	12.3

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 surplus of \$7.3 million following the deficit of \$3.2 million in the previous month. This was mainly due to a higher inflow of other investments which are mostly interbank transfer receipts.

Over the year, the financial account deficit deteriorated to \$22.6 million in September 2020 from the \$3.5 million deficit in the previous year. This is attributed mainly to the higher outflow of other investments mostly for interbank transfers.

Outlook

With the ongoing COVID-19 pandemic uncertainties and its impact on the global economy, the NRBT anticipates the macroeconomic stability to remain weakened in the medium term. This will continue to hinder domestic economic growth and transactions and trading behaviour between Tonga and the rest of the world. However, the 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*
	Sep-20	Aug-20	Jul-20	Jun-20	Sep-20	Sep-19			
Total Payments	53.4	53.3	51.6	56.9	693.0	742.8	0.1%	-6.7%	100.0
Current Account	50.5	51.5	49.5	54.0	643.3	697.3	-2.0%	-7.7%	92.8
Imports	35.1	35.6	34.8	37.2	411.1	436.7	-1.2%	-5.9%	59.3
Services	8.7	9.1	8.3	11.4	146.3	170.5	-4.4%	-14.2%	21.1
Primary Income	0.4	0.9	0.7	0.7	16.1	19.4	-53.4%	-16.7%	2.3
Transfers	6.3	6.0	5.7	4.8	69.8	70.7	4.4%	-1.2%	10.1
Official	0.0	0.0	0.0	0.0	4.2	4.1	0.0%	2.8%	0.6
Private	6.0	5.7	5.5	4.4	65.3	66.4	4.3%	-1.6%	9.4
Non-Profit	0.3	0.3	0.2	0.3	0.3	0.2	5.6%	24.0%	0.0
Capital Account	0.2	0.2	0.0	0.0	1.2	2.0	0%	-41.5%	0.2
Official	0.0	0.0	0.0	0.0	0.3	0.3	0.0%	-3.9%	0.0
Private	0.2	0.2	0.0	0.0	0.8	1.6	0.0%	-49.4%	0.1
Financial Account	2.7	1.6	2.1	2.9	48.5	43.5	68.1%	11.6%	7.0
Direct Investment	0.0	0.1	0.0	0.1	2.6	5.8	0.0%	-54.9%	0.4
Portfolio Investment	0.0	0.0	0.0	0.0	11.2	11.2	0.0%	0.0%	1.6
Other Investment	2.7	1.4	2.0	2.8	34.7	26.4	84.7%	31.2%	5.0
Total Receipts	71.3	59.9	62.3	109.0	839.7	819.8	19.1%	2.4%	100%
Current Account	59.6	54.2	53.6	95.0	726.2	703.4	10.0%	3.2%	84%
Exports	0.7	1.1	1.2	0.9	14.7	21.1	-38.5%	-30.6%	0.9%
Agriculture	0.4	0.7	0.6	0.4	6.6	10.6	-47.7%	-37.4%	1%
Marines	0.2	0.2	0.4	0.4	6.8	8.6	-16.6%	-21.2%	0%
Other	0.1	0.1	0.1	0.1	1.1	1.6	-54.7%	-29.3%	0%
Services	7.4	8.6	7.9	7.6	153.1	203.9	-13.8%	-24.9%	10%
Travel	1.8	1.9	1.9	2.2	73.1	134.4	-1.3%	-45.6%	3%
Other	5.5	6.7	6.0	5.4	80.0	69.5	-17.2%	15.2%	8%
Primary Income	3.0	2.5	3.2	3.1	28.3	25.6	19.2%	10.7%	4%
Transfers	48.6	42.1	41.3	83.4	530.1	452.8	15.5%	17.1%	68%
Official	9.5	5.1	3.5	51.6	140.7	90.0	85.2%	56.4%	13%
Private	33.0	33.5	34.0	28.8	337.2	316.8	-1.7%	6.4%	46%
Non-Profit	6.2	3.4	3.8	3.0	52.2	46.0	79.5%	13.3%	9%
Capital Account	4.2	0.9	1.6	4.3	26.6	38.0	361.9%	-30.2%	6%
Official	3.0	0.1	0.5	3.7	13.6	17.5	3747.9%	-22.2%	4%
Private	1.2	0.8	1.1	0.6	12.9	20.5	42.8%	-37.0%	2%
Financial Account	7.5	4.8	7.0	9.7	86.9	78.4	57.4%	10.9%	11%
Direct Investment	0.3	0.0	0.2	0.2	4.1	1.3	0.0%	219.6%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-100.0%	0%
Other Investment	7.2	4.8	6.8	9.4	82.8	77.1	51.5%	7.4%	10%

Sources: Banking System; NRBT