

Overseas Exchange Transactions (OET)

June 2020

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Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-20	May-20	Apr-20	Mar-20	Jun-20	Jun-19
Overall Balance	54.2	14.5	17.7	-22.4	59.5	15.6
Net Current Account	40.9	13.4	19.2	-3.4	53.0	-2.0
Net Capital Account	4.3	1.9	1.0	2.1	22.2	42.1
Net Financial Account	8.9	-0.8	-2.5	-21.1	-15.7	-24.5
Foreign Reserve Levels	543.8	489.6	475.1	457.5	543.8	484.3

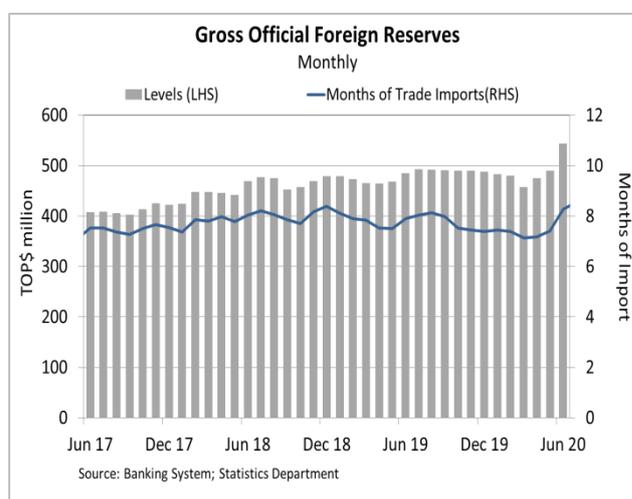
Sources: Banking System; NRBT

Current Account Surplus reflects Covid-19 economic slowdown and high Foreign Reserves

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) balance recorded its highest monthly surplus of \$54.2 million in June 2020 compared to a \$14.5 million surplus last month. This was fuelled mainly by the influx of transfer receipts. Annually, the overall OET balance surplus also recorded its highest surplus at \$43.9 million in June 2020, compared to the previous year. This reflects the improvement in the current account during the year on the back of lower imports of goods and services, coupled with the rise in transfers from government receipts and remittances.

The official foreign reserves increased substantially by \$54.2 million to its highest record of \$543.8 million in June 2020 (equivalent to 8.3 months of import cover) from \$489.6 million in May 2020. This is also higher by \$59.5 million compared to \$484.3 million in June 2019. The monthly increase attributes to the inflow of funds for budget support, government projects, and financial assistance for COVID-19 preparations and TC Harold.



Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-20	May-20	Apr-20	Mar-20	Jun-20	Jun-19
Net Current Account	40.9	13.4	19.2	-3.4	53.0	-2.0
Merchandise Trade	-36.3	-32.0	-30.2	-32.5	-399.3	-424.4
Services	-3.8	8.8	-7.2	0.6	18.8	32.2
Income	2.4	2.5	-2.0	-0.9	5.6	8.8
Transfers	78.7	34.1	58.6	29.3	427.9	381.4

Sources: Banking System;NRBT

The current account recorded a higher surplus of \$40.9 million, compared to the \$13.4 million surplus in the previous month. This was largely driven by the \$34.8 million (57.9%) increase in total receipts primarily for the inflow of official transfers. In year ended terms, the current account considerably improved noting a surplus of \$53.0 million from a deficit of \$2.0 million in June 2019. This was mainly due to the higher surplus in the transfers account and the lower deficit in merchandise trade. However, surpluses in the services and income accounts fell over the year.

The official transfer receipts rose significantly over the month by \$48.4 million, offsetting the declines in both private and non-profit receipts by \$3.2 million (10.1%) and \$1.2 million (28.4%) respectively. The increase in official receipts was mainly due to inflow of budget support for the closing of the fiscal year, project grants, and additional funds from donor partners providing assistance for the COVID-19 impacts. Total transfer payments, however, declined over the month by \$0.5 million (9.9%). Over the year, the surplus in the transfer accounts increased significantly by \$46.5 million to \$427.9 million, again driven mostly by government assistance from development partners for the Government Budget, cyclone relief funds and COVID-19.

Contrastingly, the services account recorded a deficit of \$3.8 million in June 2020 following the \$8.8 million surplus in the previous month. This resulted from lower receipts of \$9.4 million (55.2%) coupled with the increase in payments of \$3.1 million (38.1%). Service receipts declined following the large insurance claim received in May 2020 from the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) to assist with the damages from TC Harold. Meanwhile, the increase in service payments was underpinned mostly by higher payments for professional & management, telecommunication, and computer services over the month. Annually, the services account recorded a surplus of \$18.8 million lower than that of the previous year, reflecting the impact of the border lockdown on tourism services over the past couple of months. Both travel receipts and payments declined over the year by \$21.3 (8.1%) million and \$10.6 million (19.6%) respectively in line with the decline in passenger arrivals over the year.

The merchandise trade deficit worsened from the previous month by \$4.3 million (13.4%) to a \$36.3 million deficit. This was driven by the pick-up in import payments over the month by \$4.2 million (12.7%) owing to higher payments for all import categories except oil imports. Export proceeds on the other hand slightly declined by \$0.1 million (10.2%) mostly for marine exports. During the year, the

merchandise trade deficit improved by \$25.0 million to \$399.3 million. Import payments declined by \$26.4 million (6.0%) due to lower payments for wholesale & retail trade, motor vehicles and construction materials. Meanwhile, export proceeds also declined by \$1.4 million (7.3%) due to lower agricultural and other export proceeds. Agricultural export proceeds suffered from an unsuccessful squash season, whereas marine exports are affected by the unavailability of airfreight exports.

The income account recorded a slightly lower surplus of \$2.4 million in June 2020 compared to \$2.5 million in the previous month. This resulted from a \$0.4 million increase in income payments which were partially offset by the rise in income receipts of \$0.3 million. However, the lower income account surplus of \$5.6 million compared to a surplus of \$8.8 million in June 2019 was driven by the increase in income payments of \$3.1 million (18.2%), mainly for payment of dividends abroad.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-20	May-20	Apr-20	Mar-20	Jun-20	Jun-19
Net Capital Account	4.3	1.9	1.0	2.1	22.2	42.1
Official	3.7	0.6	0.2	0.7	11.2	22.0
Private	0.6	1.3	0.7	1.4	11.0	20.1

Sources: Banking System;NRBT

The capital account recorded a higher surplus of \$4.3 million in June 2020. This reflected the increase in official capital receipts by \$3.1 million, whilst the private capital receipts increased by \$0.7 million (54.7%). There were no capital payments recorded for the month.

Contrastingly, the capital account surplus declined by \$19.9 million (47.3%) to \$22.2 million over the year to June 2020. The decreases in both official and private capital receipts drove the \$21.2 million (47.6%) decline in capital account receipts. This largely reflects the lower receipts for capital investments such as reconstruction and renovations from the aftermath of TC Gita. Furthermore, the capital account payments fell by \$1.3 million (54.3%) for both private and official capital accounts.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-20	May-20	Apr-20	Mar-20	Jun-20	Jun-19
Net Financial Account	8.9	-0.8	-2.5	-21.1	-15.7	-24.5
Direct Investment	0.2	0.1	0.0	-0.6	-0.5	-4.1
Portfolio Investment	0.0	0.0	0.0	0.0	-11.2	-10.9
Other Investment	8.8	-0.8	-2.5	-20.5	-4.1	-9.4

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 balance rebounds to a surplus in June 2020 of \$8.9 million following the deficit in the previous month. This resulted mainly from the higher inflow of other investments which are mostly interbank transfers from overseas correspondent banks to their bank accounts held in our domestic banks.

Over the year, the deficit in the financial account narrowed to \$15.7 million from the \$24.5 million deficit in the previous year. This was largely due to lower payments offshore for investment purposes coupled with the decline in interbank receipts.

Outlook

In light of the deteriorating global economy, and the expected contraction in the domestic economic growth, the NRBT is expecting the economic fallout to affect macro-economic stability. However, the foreign reserves increased to record high levels and will likely be sustained at comfortable levels above 3 months of import cover in the near term. This is supported by the expected lower imports payments reflecting the economic impact of COVID-19 which has weakened aggregate demand and delayed the implementation of major infrastructure projects. Deferrals or suspension of external debt repayments may also support the outlook. However, the prolonged state of the pandemic and 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*
	Jun-20	May-20	Apr-20	Mar-20	Jun-20	Jun-19			
Total Payments	56.9	49.8	58.6	60.3	723.5	762.2	14.3%	-5.1%	100.0
Current Account	54.0	46.8	56.2	52.3	673.2	702.3	15.5%	-4.1%	93.0
Imports	37.2	33.0	30.9	33.5	417.2	443.7	12.7%	-6.0%	57.7
Services	11.4	8.2	15.9	10.0	165.2	172.1	38.1%	-4.0%	22.8
Primary Income	0.7	0.2	4.6	3.0	20.2	17.1	172.6%	18.2%	2.8
Transfers	4.8	5.3	4.8	5.7	70.6	69.5	-9.9%	1.6%	9.8
Official	0.0	0.0	0.1	0.0	4.4	3.7	0.0%	19.6%	0.6
Private	4.4	4.6	4.6	5.5	66.0	65.5	-3.7%	0.7%	9.1
Non-Profit	0.3	0.7	0.1	0.2	0.2	0.3	-50.5%	-11.9%	0.0
Capital Account	0.0	0.0	0.0	0.0	1.1	2.4	0.0%	-54.3%	0.1
Official	0.0	0.0	0.0	0.0	0.4	0.5	0.0%	-22.2%	0.1
Private	0.0	0.0	0.0	0.0	0.7	1.9	0.0%	-62.5%	0.1
Financial Account	2.9	3.0	2.4	8.0	49.2	57.5	-4.4%	-14.4%	6.8
Direct Investment	0.1	0.0	0.0	0.6	4.9	4.7	0.0%	4.3%	0.7
Portfolio Investment	0.0	0.0	0.0	0.0	11.2	11.2	0.0%	0.0%	1.5
Other Investment	2.8	3.0	2.4	7.4	33.1	41.6	-6.8%	-20.4%	4.6
Total Receipts	109.0	66.6	88.5	57.5	837.7	833.9	63.7%	0.5%	100%
Current Account	95.0	60.1	75.4	48.9	726.2	700.3	57.9%	3.7%	87%
Exports	0.9	1.0	0.7	1.0	17.9	19.3	-10.2%	-7.3%	0.8%
Agriculture	0.4	0.4	0.5	0.4	7.8	9.7	-20.3%	-19.8%	0%
Marines	0.4	0.5	0.1	0.6	8.7	8.0	-16.6%	9.7%	0%
Other	0.1	0.0	0.0	0.0	1.2	1.3	152.5%	-9.6%	0%
Services	7.6	17.0	8.7	10.6	184.0	204.3	-55.2%	-9.9%	7%
Travel	2.2	2.4	2.9	6.0	108.1	129.4	-8.1%	-16.5%	2%
Other	5.4	14.6	5.9	4.7	75.9	74.9	-62.8%	1.3%	5%
Primary Income	3.1	2.8	2.6	2.1	25.8	25.8	10.7%	0.0%	3%
Transfers	83.4	39.4	63.4	35.1	498.5	450.9	111.8%	10.6%	77%
Official	51.6	3.2	40.5	5.4	128.2	91.5	1509.1%	40.1%	47%
Private	28.8	32.0	20.6	23.6	321.5	312.7	-10.1%	2.8%	26%
Non-Profit	3.0	4.2	2.3	6.1	49.2	46.6	-28.4%	5.5%	3%
Capital Account	4.3	1.9	1.0	2.1	23.3	44.5	126.3%	-47.6%	4%
Official	3.7	0.6	0.2	0.7	11.6	22.5	502.1%	-48.6%	3%
Private	0.6	1.3	0.7	1.4	11.7	22.0	-54.5%	-46.7%	1%
Financial Account	9.7	4.5	12.2	6.5	88.2	89.1	113.7%	-1.0%	9%
Direct Investment	0.2	0.1	0.0	0.0	4.4	0.6	0.0%	693.8%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.3	0.0%	-100.0%	0%
Other Investment	9.4	4.5	12.1	6.5	83.7	88.3	112.3%	-5.1%	9%

Sources: Banking System; NRBT