

Overseas Exchange Transactions (OET)

October 2020

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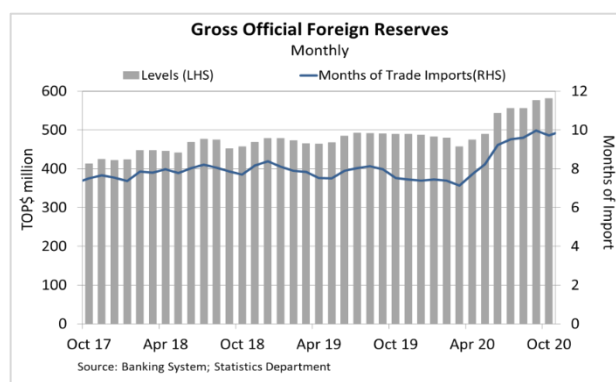
Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-20	Sep-20	Aug-20	Jul-20	Oct-20	Oct-19
Overall Balance	5.1	20.4	0.1	12.1	92.2	32.0
Net Current Account	-3.1	9.2	2.7	4.1	72.9	12.5
Net Capital Account	9.1	4.0	0.7	1.6	33.3	36.0
Net Financial Account	-1.0	7.3	-3.2	6.4	-14.0	-16.4
Foreign Reserve Levels	581.6	576.5	556.1	555.9	581.6	489.3

Sources: Banking System; NRBT

Higher import payments in preparation for peak season

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance recorded a lower surplus of \$5.1 million in October 2020. OET payments increased by \$5.2 million (9.8%) while receipts declined by \$1.4 million (2.0%) in October 2020. The capital account recorded a net receipt over the month while both current and financial accounts reflected a net loss. Annually, the OET balance surplus rose substantially by \$60.2 million on the back of higher current account surplus. This resulted from higher official transfer receipts, lower merchandise trade deficits, and higher-income receipts.



The official foreign reserves increased over the month by \$5.1 million, and significantly in the year to October 2020 by \$92.2 million to \$581.6 million, equivalent to cover 9.7 months of imports. This was from the receipt of project grant funds, budget support, and remittances. The official foreign reserves are mostly held in USD, AUD, and NZD.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-20	Sep-20	Aug-20	Jul-20	Oct-20	Oct-19
Net Current Account	-3.1	9.2	2.7	4.1	72.9	12.5
Merchandise Trade	-40.0	-34.5	-34.5	-33.7	-402.6	-409.4
Services	-2.0	-1.3	-0.6	-0.4	5.2	27.9
Income	2.8	2.6	1.6	2.6	15.1	4.6
Transfers	36.1	42.4	36.1	35.6	455.3	389.3

Sources: Banking System;NRBT

The current account recorded a \$3.1 million deficit in October 2020 following a \$9.2 million surplus in September 2020. This resulted from the lower net receipts in the transfer account and a higher deficit in the merchandise trade account and services account. Annually, the current account surplus continued to increase by \$60.4 million, attributed mainly to higher net receipts in the transfer and income accounts, while the merchandise trade deficit declined.

A \$6.0 million (17.2%) increase in import payments over the month widened the merchandise trade deficit by \$5.5 million (16.1%). Higher import payments were for wholesale & retail trade, other imports (mostly government imports), motor vehicles, and oil imports. So far, this is the highest monthly increase in import payments for 2020 as businesses and households prepare for the upcoming festive season. Similarly, total export proceeds rose by \$0.5 million (75.3%) from higher receipts in all export categories. Over the year, the merchandise trade deficit narrowed by \$6.7 million (1.6%), supporting the current account balance's improvement. Import payments fell by \$14.6 million (3.4%) as payments for imports of wholesale & retail trade, oil, and motor vehicles declined over the year. Export proceeds also declined by \$7.9 million (36.5%) as proceeds from all categories fell over the year, especially agricultural exports.

Official transfer receipts decreased in October 2020 by \$7.3 million (77.1%), following the influx of project grants, and additional funds from donor partners for Government projects in the previous month. This was coupled with a decline in non-profit transfer receipts by \$0.8 million (13.4%), which outweighed the \$2.6 million (7.8%) increase in private transfer receipts. On the other hand, total transfer payments rose over the month by \$0.7 million (10.9%). In year ended terms, the surplus in the transfer accounts increased by \$66.0 million (16.9%) to \$455.3 million driven mostly by higher official transfer receipts and remittances.

The services account deficit widened to \$2.0 million in October 2020 from \$1.3 million in the previous month, underpinned by the decline in receipts by \$0.8 million (10.8%). The decline in receipts for construction & installation and telecommunication services drove the lower service receipts over the month. Annually, the services account recorded a \$5.2 million surplus which is much lower than the \$27.9 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 \$72.2 million (53.7%) and \$23.9 million (43.9%) respectively.

The income account surplus slightly improved by \$0.2 million in October 2020 due to a \$0.1 million (5.0%) increase in income receipts while income payments fell by \$0.1 million (19.2%). In year ended

terms, the income account surplus increased by \$10.4 million over the year to October 2020 as income receipts rose by \$4.5 million (17.9%), supported by receipts of wages from seasonal workers abroad.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-20	Sep-20	Aug-20	Jul-20	Oct-20	Oct-19
Net Capital Account	9.1	4.0	0.7	1.6	33.3	36.0
Official	7.6	3.0	0.1	0.5	20.2	17.1
Private	1.5	1.0	0.6	1.1	13.1	18.9

Sources: Banking System;NRBT

The surplus in the capital account rose by \$5.2 million due to increases in both official (government-funded projects) and private capital receipts by \$4.6 million and \$0.5 million, respectively.

Over the year, the capital account recorded a lower surplus of \$33.3 million compared to the \$36.0 million surplus recorded in October 2019. This is due to lower receipts for private construction and TC Gita and TC Harold reconstruction in the previous months. However, the capital account payments increased marginally as official capital payments rose over the year to October 2020.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-20	Sep-20	Aug-20	Jul-20	Oct-20	Oct-19
Net Financial Account	-1.0	7.3	-3.2	6.4	-14.0	-16.4
Direct Investment	-0.1	0.3	-0.1	0.2	0.8	-3.7
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	-22.4
Other Investment	-0.9	7.0	-3.1	6.2	-14.8	9.6

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 \$1.0 million following the surplus of \$7.3 million in the previous month. This was mainly due to lower inflow of other investments which are mostly interbank transfer receipts.

In year ended terms, the financial account deficit slightly improved to \$14.0 million in October 2020 from the \$16.4 million deficit in the previous year. This stemmed from the higher inflow of other investments mostly for interbank transfers.

Outlook

The NRBT anticipates the macroeconomic indicators to remain subdued in the medium term given the ongoing COVID-19 pandemic uncertainties and its impact on the global economy. This will continue to hinder domestic economic growth, transactions, and trading behaviour between Tonga and the rest of the world. However, foreign reserves continue to record high levels and are still expected to remain above the 3 months minimum import cover threshold. Import payments is expected to decline in the coming months following the preparations for the holiday festivities which will continue to 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*
	Oct-20	Sep-20	Aug-20	Jul-20	Oct-20	Oct-19			
Total Payments	58.6	53.4	53.3	51.6	676.7	752.6	9.8%	-10.1%	100.0
Current Account	57.1	50.5	51.5	49.5	639.6	697.4	13.0%	-8.3%	94.5
Imports	41.2	35.1	35.6	34.8	416.3	430.9	17.2%	-3.4%	61.5
Services	8.6	8.7	9.1	8.3	137.9	174.3	-1.0%	-20.9%	20.4
Primary Income	0.3	0.4	0.9	0.7	14.8	20.7	-19.2%	-28.5%	2.2
Transfers	6.9	6.3	6.0	5.7	70.5	71.4	10.9%	-1.3%	10.4
Official	0.2	0.0	0.0	0.0	4.4	4.2	0.0%	5.0%	0.7
Private	6.5	6.0	5.7	5.5	65.7	67.0	9.3%	-1.9%	9.7
Non-Profit	0.3	0.3	0.3	0.2	0.3	0.2	-6.3%	38.3%	0.0
Capital Account	0.1	0.2	0.2	0.0	1.3	1.3	0.0%	1.0%	0.2
Official	0.0	0.0	0.0	0.0	0.3	0.1	0.0%	310.4%	0.0
Private	0.1	0.2	0.2	0.0	0.9	1.2	0.0%	-20.2%	0.1
Financial Account	1.5	2.7	1.6	2.1	35.9	54.0	-45.4%	-33.5%	5.3
Direct Investment	0.2	0.0	0.1	0.0	2.2	6.2	0.0%	-64.9%	0.3
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	22.4	0.0%	0.0%	0.0
Other Investment	1.3	2.7	1.4	2.0	33.7	25.4	-52.4%	33.0%	5.0
Total Receipts	70.0	71.4	59.9	62.3	833.1	827.2	-2.0%	0.7%	100%
Current Account	54.0	59.7	54.2	53.6	712.5	709.9	-9.6%	0.4%	77%
Exports	1.1	0.7	1.1	1.2	13.7	21.5	75.3%	-36.5%	1.6%
Agriculture	0.6	0.4	0.7	0.6	6.3	10.6	62.2%	-40.1%	1%
Marines	0.4	0.2	0.2	0.4	6.1	9.2	128.5%	-34.4%	1%
Other	0.2	0.1	0.1	0.1	1.2	1.5	126.9%	-17.9%	0%
Services	6.6	7.5	8.6	7.9	143.1	202.2	-10.8%	-29.2%	10%
Travel	1.6	1.8	1.9	1.9	62.3	134.5	-11.8%	-53.7%	2%
Other	5.0	5.6	6.7	6.0	80.8	67.7	-10.5%	19.3%	7%
Primary Income	3.1	3.0	2.5	3.2	29.9	25.4	5.0%	17.9%	4%
Transfers	43.0	48.6	42.1	41.3	525.8	460.7	-11.5%	14.1%	61%
Official	2.2	9.5	5.1	3.5	129.8	92.4	-77.1%	40.4%	3%
Private	35.5	33.0	33.5	34.0	345.3	318.8	7.8%	8.3%	51%
Non-Profit	5.3	6.2	3.4	3.8	50.8	49.6	-13.4%	2.4%	8%
Capital Account	9.2	4.2	0.9	1.6	34.6	37.2	120.3%	-7.2%	13%
Official	7.6	3.0	0.1	0.5	20.5	17.2	152.2%	19.5%	11%
Private	1.7	1.2	0.8	1.1	14.1	20.1	39.6%	-29.9%	2%
Financial Account	6.8	7.5	4.8	7.0	86.0	80.1	-9.8%	7.4%	10%
Direct Investment	0.1	0.3	0.0	0.2	2.9	2.6	0.0%	14.7%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-100.0%	0%
Other Investment	6.7	7.2	4.8	6.8	83.1	77.5	-7.6%	7.2%	10%

Sources: Banking System; NRBT