

Overseas Exchange Transactions (OET)

January 2021

Release Date: 30 April 2021

Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Jan-21	Dec-20	Nov-20	Oct-20	Jan-21	Jan-20
Overall Balance	29.7	85.3	8.7	5.1	222.4	3.9
Net Current Account	18.2	75.5	6.3	-3.1	185.0	-18.4
Net Capital Account	3.5	4.1	7.2	9.1	41.1	31.3
Net Financial Account	8.0	5.7	-4.9	-1.0	-3.7	-9.0
Foreign Reserve Levels	705.3	675.6	590.2	581.6	705.3	482.9

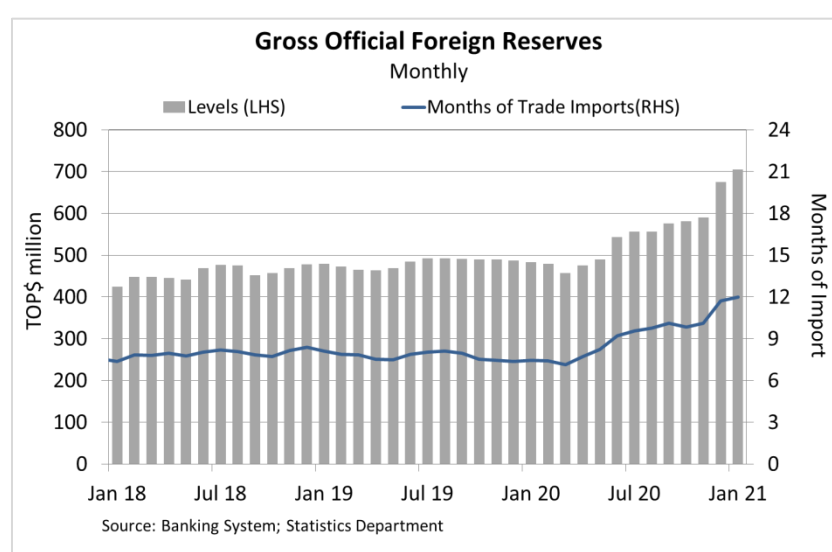
Sources: Banking System; NRBT

New government loan pushes foreign reserves higher

Overall Balance & Foreign Reserves

The official foreign reserves rose in January 2021 by \$29.7 million (4.4%) to \$705.3 million and equivalent to 12.0 months of imports. This was mainly attributed to the receipt of a government loan from the IMF Rapid Credit Facility. Funds related to COVID-19 and TC Harold were also received and contributed to the monthly rise. Similarly, the foreign reserves increased significantly in the year to January 2021 by \$222.4 million (46.1%). This was driven largely by receipts of budget support, official grants, and remittances.

The Overseas Exchange Transactions (OET) overall balance recorded a lower surplus of \$29.7 million in January 2021 compared to the \$85.3 million surplus recorded in the previous month. This owes to the drop in OET receipts by \$63.7 million (44.3%) while OET payments also fell by \$7.3 million (11.8%). All major accounts recorded net receipts over the month, with the current account recording the highest surplus. In the year to January 2021, the OET overall balance surplus rose significantly by \$218.5 million again owing to the expansion of the current account surplus. This was supported by higher receipts of official and private transfers, income receipts, coupled with lower payments for portfolio investments.



Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jan-21	Dec-20	Nov-20	Oct-20	Jan-21	Jan-20
Net Current Account	18.2	75.5	6.3	-3.1	185.0	-18.4
Merchandise Trade	-36.7	-36.7	-35.5	-40.0	-412.8	-410.4
Services	-2.1	-4.3	2.5	-2.0	-7.5	27.9
Income	3.4	3.1	2.4	2.8	22.0	2.3
Transfers	53.7	113.4	37.1	36.1	583.3	361.8

Sources: Banking System;NRBT

The significant decline in the current account surplus from \$75.5 million in the previous month to \$18.2 million in January 2021 was attributed solely to lower net receipts in the transfers account. In year-end terms, the current account surplus rose substantially by \$203.3 million, due mostly to higher net receipts in the transfers and income accounts.

Official transfer receipts fell in January 2021 by \$45.3 million following higher receipts of donor funds to further support 'Tonga's recovery from COVID-19 and Cyclone Harold in the previous month. This is in addition to declines in ,private and non-profit transfer receipts by \$10.8 million (27.4%) and \$4.0 million (44.7%), respectively, mostly remittances and donations to churches. Similarly, total transfer payments also decreased over the month by \$0.4 million (5.2%). Over the year to January 2021, the surplus in the transfer accounts rose significantly by \$221.5 million (61.2%), owing mostly to higher official transfer receipts and remittances.

The income account surplus rose by \$0.2 million (7.0%) in January 2021, resulting from a \$0.6 million (55.6%) decline in income payments. Annually, the income account surplus increased by \$19.7 million over the year as income receipts rose by \$10.0 million (39.1%), supported by receipts of wages from seasonal workers abroad. This also supported remittances over the year despite the negative impacts of COVID-19.

Import payments decreased slightly over the month by \$0.2 million (0.5%) due to lower payments for wholesale & retail trade and construction materials. Similarly, total export proceeds fell marginally over the month from lower agricultural receipts. In year ended terms, the merchandise trade deficit widened by \$2.4 million (0.6%) as export receipts fell by \$7.1 million (38.1%), more than the fall in imports by \$4.7 million (1.1%). Proceeds from both agricultural and marine exports decreased over the year, with marine exports declining the most. The impact of COVID-19 on the fisheries sector is still felt as closed borders drastically affect the frequency and volume of export. The decline in import payments stems from lower imports of oil and wholesale & retail trade goods. This coincides with the lower global oil and commodity prices during the year and weaker consumption activities.

The services account improved over the month by \$2.2 million, driven by a \$4.8 million (38.7%) decline in service payments. This was attributed to lower payments mainly for transport services, government goods & services, and travel services (primarily from credit card transactions). Annually, the services account recorded a \$7.5 million deficit compared to the \$27.9 million surplus in January 2020. This

reflects the impact of the border lockdown on tourism activities over the past year. Both travel receipts and payments fell over the year by \$101.4 million (75.1%) and \$35.2 million (62.9%), respectively.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jan-21	Dec-20	Nov-20	Oct-20	Jan-21	Jan-20
Net Capital Account	3.5	4.1	7.2	9.1	41.1	31.3
Official	1.7	2.4	5.6	7.6	26.7	18.8
Private	1.7	1.8	1.6	1.5	14.4	12.5

Sources: Banking System;NRBT

The capital account for January 2021 recorded a lower surplus of \$3.5 million., This is mainly due to the decline in official capital receipts by \$0.6 million.

Over the year to January 2021, the capital account recorded a higher surplus of \$41.1 million, reflecting official receipts mainly for the reconstruction projects for houses destroyed by tropical cyclones Gita and Harold. This is in addition to the decline in capital account payments as both private and official payments for investment projects abroad fell over the year to January 2021.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jan-21	Dec-20	Nov-20	Oct-20	Jan-21	Jan-20
Net Financial Account	8.0	5.7	-4.9	-1.0	-3.7	-9.0
Direct Investment	-0.1	0.4	0.0	-0.1	0.1	-2.8
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	-22.4
Other Investment	8.2	5.3	-4.9	-0.9	-3.8	16.3

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 surplus improved by \$2.3 million in January 2021, attributing to a higher inflow of other investments, particularly interbank transfer receipts.

In year-end terms, the financial account deficit narrowed by \$5.3 million from the \$9.0 million deficit in the previous year. This was driven mainly by higher payments for portfolio and direct investments during the year.

Outlook

Going forward, the NRBT anticipates economic growth to contract in the medium term, given the ongoing COVID-19 pandemic and associated uncertainties. This will continue to hinder domestic economic growth and trading behaviour between Tonga and the rest of the world. However, the foreign reserves continue to record high levels and is expected to remain above the 3 months minimum threshold of import cover. Import payments are expected to pick in the upcoming high season months along with remittance receipts. Additionally, deferrals and suspension of external debt repayments also support the outlook. Remittances are still holding up and expected to increase in the near term,

supported by more seasonal workers' departure to Australia and domestic fundraising activities. The prolonged state of emergency 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*
	Jan-21	Dec-20	Nov-20	Oct-20	Jan-21	Jan-20			
Total Payments	54.4	61.6	53.6	58.6	661.7	762.9	-11.8%	-13.3%	100.0
Current Account	52.5	58.4	51.9	57.1	628.6	704.4	-10.1%	-10.8%	95.0
Imports	37.8	38.0	36.8	41.2	425.1	429.9	-0.5%	-1.1%	64.3
Services	7.6	12.3	7.5	8.6	118.9	177.8	-38.7%	-33.1%	18.0
Primary Income	0.4	1.0	1.1	0.3	13.6	23.3	-55.6%	-41.7%	2.1
Transfers	6.7	7.0	6.5	6.9	71.0	73.4	-5.2%	-3.2%	10.7
Official	0.0	0.0	0.0	0.2	3.3	5.0	0.0%	-34.3%	0.5
Private	6.4	6.9	6.3	6.5	67.4	68.0	-6.8%	-1.0%	10.2
Non-Profit	0.3	0.2	0.2	0.3	0.3	0.3	51.7%	9.1%	0.1
Capital Account	0.0	0.1	0.1	0.1	0.8	1.7	-100.0%	-55.4%	0.1
Official	0.0	0.0	0.1	0.0	0.1	0.4	0%	-76.8%	0.0
Private	0.0	0.1	0.0	0.1	0.7	1.3	-100%	-48.7%	0.1
Financial Account	1.9	3.2	1.6	1.5	32.3	56.8	-39.5%	-43.1%	4.9
Direct Investment	0.2	0.0	0.2	0.2	1.4	7.3	2184.9%	-80.3%	0.2
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	22.4	0.0%	-99.9%	0.0
Other Investment	1.7	3.2	1.4	1.3	30.8	27.1	-46.4%	13.8%	4.7
Total Receipts	80.3	144.0	70.2	70.0	935.8	802.7	-44.3%	16.6%	100%
Current Account	70.7	133.9	58.2	54.0	813.6	686.0	-47.2%	18.6%	88%
Exports	1.1	1.3	1.2	1.1	12.3	19.4	-17.4%	-36.8%	1.3%
Agriculture	0.6	0.8	0.8	0.6	6.6	8.1	-32.2%	-18.1%	1%
Marines	0.4	0.4	0.3	0.4	4.6	9.7	1.3%	-53.0%	1%
Other	0.1	0.0	0.1	0.2	1.0	1.4	92.5%	-25.7%	0%
Services	5.5	8.0	10.0	6.6	111.4	205.8	-31.6%	-45.9%	7%
Travel	1.5	1.9	2.0	1.6	33.6	135.0	-23.3%	-75.1%	2%
Other	4.0	6.1	8.0	5.0	77.7	70.7	-34.2%	9.9%	5%
Primary Income	3.8	4.1	3.4	3.1	35.6	25.6	-8.1%	39.1%	5%
Transfers	60.3	120.4	43.6	43.0	654.3	435.2	-49.9%	50.3%	75%
Official	26.9	72.2	4.6	2.2	231.3	66.0	-62.8%	250.5%	33%
Private	28.6	39.3	33.0	35.5	364.6	318.7	-27.4%	14.4%	36%
Non-Profit	4.9	8.9	6.0	5.3	58.5	50.5	-44.7%	15.8%	6%
Capital Account	3.5	4.2	7.3	9.2	41.9	33.0	-17.2%	27.1%	4%
Official	1.7	2.4	5.7	7.6	26.8	19.2	-26.9%	39.7%	2%
Private	1.7	1.8	1.6	1.7	15.1	13.8	-4.7%	9.5%	2%
Financial Account	6.1	6.0	4.6	6.8	80.3	83.7	2.7%	-4.1%	8%
Direct Investment	0.1	0.4	0.1	0.1	1.6	4.4	-76.5%	-64.8%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-100.0%	0%
Other Investment	6.0	5.6	4.5	6.7	78.8	79.3	8.0%	-0.7%	8%

Sources: Banking System; NRBT