

Overseas Exchange Transactions (OET)

March 2021

Release Date: 8 July 2021

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-21	Feb-21	Jan-21	Dec-20	Mar-21	Mar-20
Overall Balance	-6.7	-12.9	29.7	85.3	228.2	-7.5
Net Current Account	-7.2	-14.9	18.2	75.5	164.4	4.0
Net Capital Account	0.9	4.7	3.5	4.1	43.0	31.5
Net Financial Account	-0.4	-2.8	8.0	5.7	20.8	-43.0
Foreign Reserve Levels	685.7	692.4	705.3	675.6	685.7	457.5

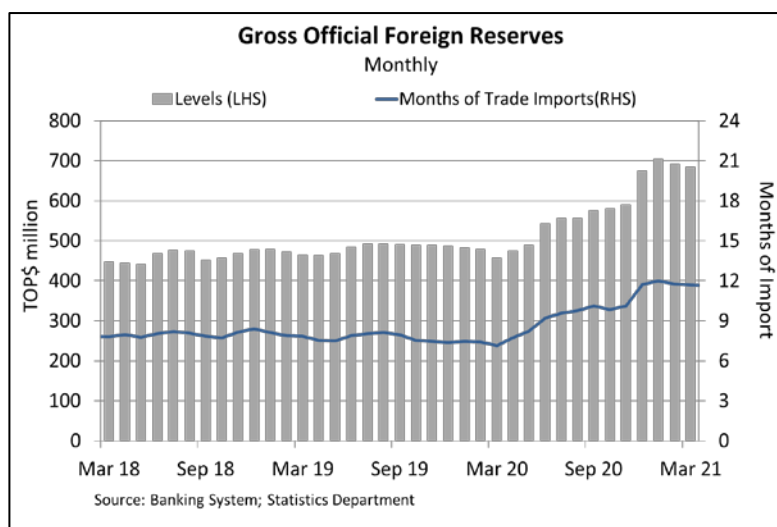
Sources: Banking System; NRBT

Foreign reserves fell on the back of higher import payments

Overall Balance & Foreign Reserves

Official foreign reserves decreased at the end of March 2021 by \$6.7 million to \$685.7 million, equivalent to 12.2 month of imports. This was attributed to an increase in transfers for large import payments during the month. However, foreign reserves increased significantly over the year to March 2021 by \$228.2 million. This stemmed mostly from receipts of budget support, official grants, and remittances.

The Overseas Exchange Transactions (OET) overall balance recorded a lower deficit of \$6.7 million in March 2021 compared to the \$12.9 million deficit recorded in the previous month. Both net current and financial accounts improved over the month, resulting in a lower deficit in the overall balance. In the year to March 2021, the OET balance surplus rose substantially by \$235.7 million on the back of higher official transfer receipts. This was also supported by higher remittance receipts and lower investment transfers.



Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-21	Feb-21	Jan-21	Dec-20	Mar-21	Mar-20
Net Current Account	-7.2	-14.9	18.2	75.5	164.4	4.0
Merchandise Trade	-45.9	-39.0	-36.7	-36.7	-435.2	-404.0
Services	-2.7	-7.3	-2.1	-4.3	-20.4	31.9
Income	2.6	3.0	3.4	3.1	27.0	1.6
Transfers	38.8	28.5	53.7	113.4	592.9	374.4

Sources: Banking System;NRBT

Improvement in the current account in March 2021 was due to higher net receipts in the transfer account and a lower deficit in the services account. Similarly, the current account surplus increased significantly by \$160.4 million in year-ended terms, driven mostly by higher net receipts in the transfers and income accounts.

Both private and official transfer receipts increased in March 2021 by \$9.4 million and \$2.6 million, respectively. The firm growth in private transfer receipts was underpinned mainly by higher family support and gifts. It was also partially due to ongoing events such as the Tonga High School ex-student fundraising. Receipts of donor funds drove the increase in official transfer receipts during the same period. This had offset the decline in non-profit transfer receipts by \$1.4 million, mostly from lower receipts of church donations. Over the year to March 2021, the surplus in the transfer account rose substantially by \$218.5 million, due mainly to higher official transfer receipts for budget support and relief for COVID-19, TC Harold, and remittances.

The services account improved by \$4.6 million over the month, driven by a \$3.0 million (24.2%) decline in service payments whilst service receipts rose by \$1.5 million. Lower service payments mainly were for government services, professional & management, and telecommunication. In year ended terms, the services account recorded a \$20.4 million deficit compared to the \$31.9 million surplus in March 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 \$109.5 million (82.5%) and \$34.9 million (65.7%), respectively.

The income account surplus fell by \$0.4 million (13.3%) in March 2021, resulting from a \$1.7 million increase in income payments. Annually, the income account surplus increased by \$25.4 million as income receipts rose by \$15.0 million (59.4%), mainly from wages of seasonal workers abroad. This also supported remittances over the year despite the negative impacts of COVID-19.

Import payments increased over the month by \$7.1 million (17.8%) due to higher payments for wholesale & retail trade, other imports (mostly government imports for medical supplies), motor vehicles, and oil imports. Similarly, total export proceeds rose marginally over the month from higher marines and other export receipts. In the year to March 2021, the merchandise trade deficit widened by \$31.2 million (7.7%) as import payments increased by \$24.4 million (5.8%), coupled with the \$6.8 million (35.4%) decline in exports receipts. The increase in import payments was due to higher payments for construction materials, wholesale & retail goods, motor vehicles, and other imports. However, proceeds from all export

categories declined over the year, with marine exports decreasing the most. The impact of COVID-19 on the fisheries sector continues as closed borders affect the frequency and volume of export via air-freight.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-21	Feb-21	Jan-21	Dec-20	Mar-21	Mar-20
Net Capital Account	0.9	4.7	3.5	4.1	43.0	31.5
Official	0.2	2.9	1.7	2.4	28.5	18.0
Private	0.7	1.9	1.7	1.8	14.5	13.5

Sources: Banking System;NRBT

The capital account for March 2021 recorded a lower surplus of \$0.9 million. This stems from declining official and private capital receipts by \$2.7 million and \$1.2 million, respectively.

In year ended terms, the capital account recorded a higher surplus of \$43.0 million, underpinned by higher official receipts mainly for the reconstruction projects for houses destroyed by tropical cyclones Gita and Harold. This is in addition to the slight decline in capital account payments as both private and official payments for investment projects abroad fell over the year.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-21	Feb-21	Jan-21	Dec-20	Mar-21	Mar-20
Net Financial Account	-0.4	-2.8	8.0	5.7	20.8	-43.0
Direct Investment	0.0	0.0	-0.1	0.4	0.7	-3.6
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	-22.4
Other Investment	-0.4	-2.7	8.2	5.3	20.1	-17.0

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 lower deficit of \$0.4 million in March 2021, supported by the inflow of other investments, particularly interbank transfer receipts.

Over the year to March 2021, the financial account improved to a surplus of \$20.8 million compared to the \$43.0 million deficit in March 2020. This was due mainly to the lower outflow of other investments, primarily for interbank transfers.

Outlook

The NRBT anticipates economic growth to contract in the medium term, given the ongoing COVID-19 pandemic and associated uncertainties. At the same time, global oil and commodity prices have rebounded as economies start to recover from the pandemic. This will continue to hinder domestic economic growth and trading behaviour between Tonga and the rest of the world.

However, the level of foreign reserves is expected to decline further in the medium term but will remain above the 3 months minimum threshold of imports cover. Import payments are expected to increase in the upcoming months along with remittance receipts in line with domestic activities. 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 departing to Australia and domestic fundraising activities. The prolonged state of emergency and high uncertainty of the pandemic, along 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*
	Mar-21	Feb-21	Jan-21	Dec-20	Mar-21	Mar-20			
Total Payments	67.6	60.7	54.4	61.6	680.1	756.5	11.5%	-10.1%	100.0
Current Account	66.0	59.9	52.5	58.4	654.2	690.9	10.1%	-5.3%	96.2
Imports	47.2	40.0	37.8	38.0	447.6	423.2	17.8%	5.8%	65.8
Services	9.6	12.6	7.6	12.3	119.9	170.9	-24.2%	-29.8%	17.6
Primary Income	2.4	0.6	0.4	1.0	13.3	23.7	277.7%	-43.7%	2.0
Transfers	6.9	6.7	6.7	7.0	73.5	73.1	3.5%	0.5%	10.8
Official	0.1	0.0	0.0	0.0	3.3	5.0	0.0%	-35.5%	0.5
Private	6.7	6.1	6.4	6.9	69.8	67.8	9.5%	3.0%	10.3
Non-Profit	0.1	0.6	0.3	0.2	0.4	0.3	-74.1%	46.2%	0.1
Capital Account	0.0	0.0	0.0	0.1	0.8	1.7	0.0%	-52.0%	0.1
Official	0.0	0.0	0.0	0.0	0.1	0.4	0%	-76.8%	0.0
Private	0.0	0.0	0.0	0.1	0.7	1.3	0%	-43.8%	0.1
Financial Account	1.6	0.7	1.9	3.2	25.1	63.9	120.0%	-60.8%	3.7
Direct Investment	0.1	0.0	0.2	0.0	1.0	7.9	112.8%	-87.6%	0.1
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	22.4	0.0%	-99.9%	0.0
Other Investment	1.5	0.7	1.7	3.2	24.1	33.6	120.5%	-28.4%	3.5
Total Receipts	63.4	56.4	80.3	144.0	942.0	812.1	12.5%	16.0%	100%
Current Account	58.8	45.0	70.7	133.9	818.7	694.8	30.6%	17.8%	93%
Exports	1.3	1.0	1.1	1.3	12.4	19.2	29.9%	-35.4%	2%
Agriculture	0.4	0.5	0.6	0.8	6.8	7.9	-20.8%	-13.8%	1%
Marines	0.6	0.4	0.4	0.4	4.3	9.8	52.2%	-55.9%	1%
Other	0.2	0.0	0.1	0.0	1.2	1.3	540.1%	-6.2%	0%
Services	6.8	5.3	5.5	8.0	99.5	202.8	28.9%	-50.9%	11%
Travel	1.8	1.5	1.5	1.9	23.2	132.7	25.2%	-82.5%	3%
Other	5.0	3.8	4.0	6.1	76.3	70.1	30.3%	8.8%	8%
Primary Income	5.0	3.6	3.8	4.1	40.4	25.3	37.0%	59.4%	8%
Transfers	45.7	35.1	60.3	120.4	666.4	447.5	30.2%	48.9%	72%
Official	3.6	1.0	26.9	72.2	223.9	74.3	248.0%	201.5%	6%
Private	38.3	28.9	28.6	39.3	385.5	319.2	32.5%	20.8%	60%
Non-Profit	3.8	5.1	4.9	8.9	57.0	54.1	-26.5%	5.4%	6%
Capital Account	0.9	4.7	3.5	4.2	43.8	33.1	-81.5%	32.1%	1%
Official	0.2	2.9	1.7	2.4	28.6	18.4	-92.9%	55.3%	0%
Private	0.7	1.9	1.7	1.8	15.2	14.7	-64.1%	3.1%	1%
Financial Account	3.8	6.6	6.1	6.0	79.6	84.1	-43.3%	-5.4%	6%
Direct Investment	0.1	0.0	0.1	0.4	1.7	4.3	0.0%	-61.1%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0%
Other Investment	3.6	6.6	6.0	5.6	77.9	79.8	-45.0%	-2.4%	6%

Sources: Banking System; NRBT