

Overseas Exchange Transactions (OET) December 2020

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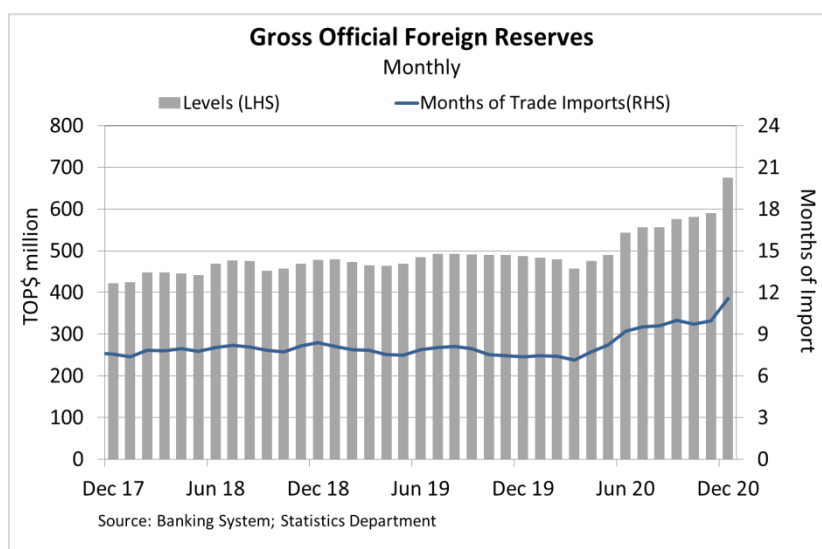
Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Dec-20	Nov-20	Oct-20	Sep-20	Dec-20	Dec-19
Overall Balance	85.3	8.7	5.1	20.4	188.1	8.9
Net Current Account	75.5	6.3	-3.1	9.2	158.2	-19.6
Net Capital Account	4.1	7.2	9.1	4.0	39.7	38.0
Net Financial Account	5.7	-4.9	-1.0	7.3	-9.7	-9.5
Foreign Reserve Levels	675.6	590.2	581.6	576.5	675.6	487.4

Sources: Banking System; NRBT

Tonga continues to receive support from donor partners boosting foreign reserves

Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance recorded a significantly higher surplus of \$85.3 million in December 2020 compared to the \$8.7 million surplus recorded in the previous month. OET receipts increased by \$73.8 million while payments rose by \$8.1 million (15.1%) in December 2020. Hence, all categories recorded net receipts over the month with the current account contributing the most. In year ended terms, the OET balance surplus rose



significantly to \$188.1 million from the \$8.9 million in December 2019. This stemmed from higher receipts of official and private transfers, income receipts, and the lower merchandise trade deficits.

The official foreign reserves increased significantly over the month of December 2020 by \$85.4 million to \$675.6 million and equivalent to 11.5 months of imports. This was attributed mainly to receipts of donor funds to support Tonga's recovery from COVID-19 and Cyclone Harold. Similarly, the foreign reserves increased significantly in the year to December 2020 by \$188.2 million due to higher receipts of budget support and official grants.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Dec-20	Nov-20	Oct-20	Sep-20	Dec-20	Dec-19
Net Current Account	75.5	6.3	-3.1	9.2	158.2	-19.6
Merchandise Trade	-36.7	-35.5	-40.0	-34.5	-411.0	-407.9
Services	-4.3	2.5	-2.0	-1.3	-0.5	24.1
Income	3.1	2.4	2.8	2.6	17.4	5.0
Transfers	113.4	37.1	36.1	42.4	552.3	359.1

Sources: Banking System;NRBT

The substantial rise in the current account surplus from \$6.3 million in the previous month to \$75.5 million in December 2020 was a result of higher net receipts in the transfers, and income accounts. Annually, the current account surplus increased significantly by \$177.8 million, driven mostly by higher net receipts in the transfers and income accounts, and the lower merchandise trade deficit.

Official transfer receipts rose significantly in December 2020 by \$67.6 million reflecting the receipts of new donor funds to further support Tonga's recovery from COVID-19 and Cyclone Harold. This is in addition to increases in both private and non-profit transfer receipts by \$6.4 million (19.3%) and \$2.9 million (47.1%) respectively, which are mostly remittances and donations to churches. Similarly, total transfer payments also increased over the month by \$0.5 million (7.7%). Over the year to December 2020, the surplus in the transfer accounts rose significantly by \$193.2 million (53.8%) to \$552.3 million, due mostly to higher official transfer receipts and remittances.

The income account surplus rose by \$0.8 million (32.4%) in December 2020, driven by a \$0.7 million (20.4%) increase in income receipts while income payments fell slightly by \$0.1 million (6.2%). Annually, the income account surplus rose by \$12.4 million over the year as income receipts increased by \$8.5 million (33.6%), supported by receipts of wages from seasonal workers abroad. This also contributes to remittances holding up over the year despite the negative impacts of COVID-19. Tonga has deployed about 162 workers in December to work in Australian farms.

Import payments increased over the month by \$1.2 million (3.3%), contributing to the higher deficit in the merchandise trade account. The higher import payments resulted from an increase in payments for wholesale & retail trade, other imports (mostly government imports) and construction materials. Similarly, total export proceeds rose marginally over the month from higher marine and agricultural receipts. In year ended terms, the merchandise trade deficit widened by \$3.2 million (0.8%) as export receipts fell by \$7.6 million (38.1%). Proceeds from all categories declined over the year with marine exports decreasing the most. This reflected the impact of COVID-19 on the fisheries sector as closed borders drastically affected the volume of fisheries export. On the other hand, import payments fell over the year by \$4.4 million (1.0%) as payments for imports of oil and wholesale & retail trade declined, coinciding with the lower global oil and commodity prices during the year in addition to weak consumption activities.

The services account deteriorated over the month to \$4.3 million deficit following the \$2.5 million surplus in November 2020, driven by a \$4.8 million (64.1%) increase in service payments. This was attributed to higher payments mainly for transport services, government goods & services, and travel services (primarily from credit card transactions). Over the year to December 2020, the services account recorded a \$0.5 million deficit which is lower compared to the \$24.1 million surplus in December 2019. This reflects the impact of the border lockdown on tourism activities over the past year. Both travel receipts and payments declined over the year by \$91.8 million (67.8%) and \$33.3 million (58.5%) respectively.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Dec-20	Nov-20	Oct-20	Sep-20	Dec-20	Dec-19
Net Capital Account	4.1	7.2	9.1	4.0	39.7	38.0
Official	2.4	5.6	7.6	3.0	25.9	18.1
Private	1.8	1.6	1.5	1.0	13.7	19.9

Sources: Banking System;NRBT

A surplus of \$4.1 million was recorded in the capital account for the month of December 2020, lower than the \$7.2 million surplus in the previous month. This was mainly due to a decline in official capital receipts by \$3.3 million.

Annually, the capital account recorded a higher surplus of \$39.7 million compared to the \$38.0 million surplus recorded in December 2019. This reflected receipts mainly for the reconstruction projects of houses that was destroyed by tropical cyclones Gita and Harold. This is in addition to the decline in capital account payments as both official and private payments for investment projects abroad fell over the year to December 2020.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Dec-20	Nov-20	Oct-20	Sep-20	Dec-20	Dec-19
Net Financial Account	5.7	-4.9	-1.0	7.3	-9.7	-9.5
Direct Investment	0.4	0.0	-0.1	0.3	0.5	-2.9
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	-22.4
Other Investment	5.3	-4.9	-0.9	7.0	-10.2	15.8

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 improved over the month by \$10.6 million from \$4.9 million deficit recorded in November 2020. This was mainly due to higher inflow of other investments, particularly interbank transfer receipts.

In year ended terms, the financial account deficit widened by \$0.3 million from the \$9.5 million deficit in the previous year. This was mostly driven by higher outflow of other investments mostly for interbank transfers.

Outlook

The NRBT anticipates macroeconomic 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 expected to remain above the 3 months minimum import cover threshold. Import payments are expected to pick in the upcoming high season months along with remittance receipts.

In addition, 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 of emergency and high uncertainty of the Covid-19 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*
	Dec-20	Nov-20	Oct-20	Sep-20	Dec-20	Dec-19			
Total Payments	61.6	53.6	58.6	53.4	667.9	758.8	15.1%	-12.0%	100.0
Current Account	58.4	51.9	57.1	50.5	635.3	700.8	12.5%	-9.3%	95.1
Imports	38.0	36.8	41.2	35.1	423.3	427.7	3.3%	-1.0%	63.4
Services	12.3	7.5	8.6	8.7	124.8	179.6	64.1%	-30.5%	18.7
Primary Income	1.0	1.1	0.3	0.4	16.4	20.3	-6.2%	-19.1%	2.5
Transfers	7.0	6.5	6.9	6.3	70.8	73.1	7.7%	-3.2%	10.6
Official	0.0	0.0	0.2	0.0	3.7	4.7	0.0%	-21.8%	0.6
Private	6.9	6.3	6.5	6.0	66.8	68.1	8.7%	-1.9%	10.0
Non-Profit	0.2	0.2	0.3	0.3	0.3	0.3	-21.6%	4.7%	0.0
Capital Account	0.1	0.1	0.1	0.2	0.8	1.7	-35.1%	-55.4%	0.1
Official	0.0	0.1	0.0	0.0	0.1	0.4	-100%	-76.8%	0.0
Private	0.1	0.0	0.1	0.2	0.7	1.3	585%	-48.7%	0.1
Financial Account	3.2	1.6	1.5	2.7	31.8	56.3	104.1%	-43.5%	4.8
Direct Investment	0.0	0.2	0.2	0.0	1.2	7.3	-93.7%	-83.5%	0.2
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	22.4	-100.0%	-99.9%	0.0
Other Investment	3.2	1.4	1.3	2.7	30.6	26.7	128.0%	14.8%	4.6
Total Receipts	144.0	70.2	70.0	71.4	910.4	804.7	105.1%	13.1%	100%
Current Account	133.9	58.2	54.0	59.7	793.6	681.1	129.8%	16.5%	93%
Exports	1.3	1.2	1.1	0.7	12.3	19.9	3.5%	-38.1%	0.9%
Agriculture	0.8	0.8	0.6	0.4	6.4	8.7	4.4%	-26.1%	1%
Marines	0.4	0.3	0.4	0.2	4.7	9.7	32.8%	-51.3%	0%
Other	0.0	0.1	0.2	0.1	1.1	1.3	-69.4%	-14.0%	0%
Services	8.0	10.0	6.6	7.5	124.3	203.7	-19.4%	-39.0%	6%
Travel	1.9	2.0	1.6	1.8	43.6	135.4	-2.4%	-67.8%	1%
Other	6.1	8.0	5.0	5.6	80.7	68.3	-23.5%	18.2%	4%
Primary Income	4.1	3.4	3.1	3.0	33.8	25.3	20.4%	33.6%	3%
Transfers	120.4	43.6	43.0	48.6	623.1	432.3	176.2%	44.2%	84%
Official	72.2	4.6	2.2	9.5	204.8	65.6	1476.7%	212.0%	50%
Private	39.3	33.0	35.5	33.0	360.3	317.1	19.3%	13.6%	27%
Non-Profit	8.9	6.0	5.3	6.2	58.0	49.5	47.1%	17.1%	6%
Capital Account	4.2	7.3	9.2	4.2	40.4	39.8	-42.7%	1.6%	3%
Official	2.4	5.7	7.6	3.0	26.0	18.5	-58.4%	40.4%	2%
Private	1.8	1.6	1.7	1.2	14.4	21.2	11.9%	-32.2%	1%
Financial Account	6.0	4.6	6.8	7.5	76.4	83.7	28.5%	-8.7%	4%
Direct Investment	0.4	0.1	0.1	0.3	1.7	4.4	157.2%	-61.8%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-100.0%	0%
Other Investment	5.6	4.5	6.7	7.2	74.8	79.4	24.4%	-5.8%	4%

Sources: Banking System; NRBT