

# Overseas Exchange Transactions (OET) November 2020

Release Date: 11 February 2021

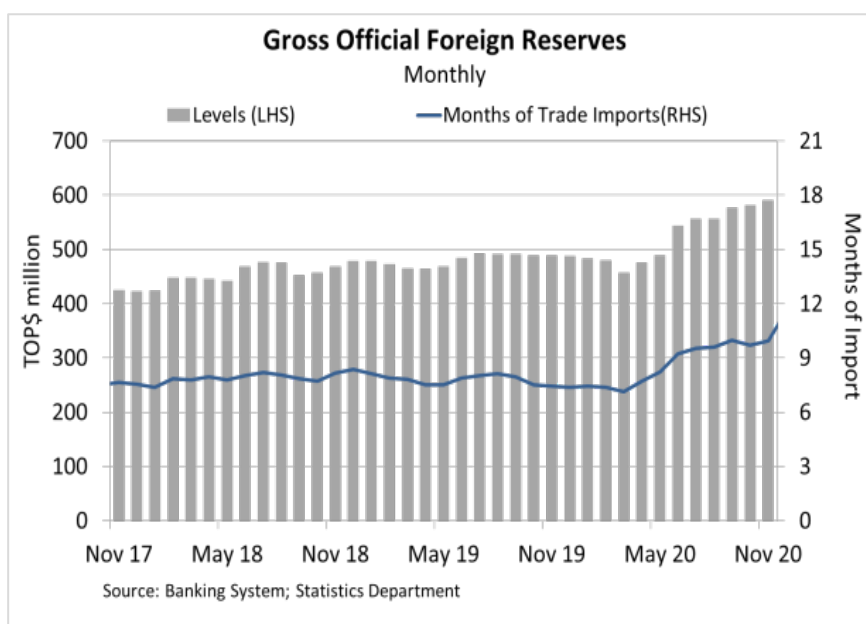
Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Nov-20	Oct-20	Sep-20	Aug-20	Nov-20	Nov-19
<b>Overall Balance</b>	<b>8.7</b>	<b>5.1</b>	<b>20.4</b>	<b>0.1</b>	<b>100.7</b>	<b>20.9</b>
Net Current Account	6.4	-3.1	9.2	2.7	80.6	-9.9
Net Capital Account	7.2	9.1	4.0	0.7	38.7	36.8
Net Financial Account	-5.0	-1.0	7.3	-3.2	-18.5	-6.0
<b>Foreign Reserve Levels</b>	<b>590.2</b>	<b>581.6</b>	<b>576.5</b>	<b>556.1</b>	<b>590.2</b>	<b>489.5</b>

Sources: Banking System; NRBT

## Lower import payments and higher service receipts support overall balance

### Overall Balance & Foreign Reserves

The Overseas Exchange Transactions (OET) overall balance recorded a higher surplus of \$8.7 million in November 2020 compared to the \$5.1 million surplus recorded in the previous month. OET payments fell by \$5.1 million (8.7%) while receipts increased slightly by \$0.2 million (0.3%) in November 2020. Hence, the current and capital accounts recorded net receipts over the month. In year ended terms, the OET balance surplus increased



significantly to \$100.7 million with the current account contributing the most. This was attributed to higher official transfer receipts, lower merchandise trade deficits, and higher income receipts.

The official foreign reserves rose over the month of November 2020 by \$8.7 million to \$590.2 million and equivalent to 9.9 months of imports. This is also higher by \$100.7 million compared to the \$489.5 million in November 2019. The annual increase reflected higher receipts of budget support, official grants, relief funds and remittances.

## Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Nov-20	Oct-20	Sep-20	Aug-20	Nov-20	Nov-19
Net Current Account	6.4	-3.1	9.2	2.7	80.6	-9.9
Merchandise Trade	-35.5	-40.0	-34.5	-34.5	-406.8	-407.1
Services	2.5	-2.0	-1.3	-0.6	4.0	27.3
Income	2.4	2.8	2.6	1.6	15.8	5.0
Transfers	37.1	36.1	42.4	36.1	467.5	364.8

Sources: Banking System;NRBT

The current account recorded a \$6.4 million surplus in November 2020 following the \$3.1 million deficit in the previous month. This stemmed from higher net receipts in the transfers and services accounts, and a lower deficit in the merchandise trade account. Over the year, the current account significantly improved by \$90.5 million, underpinned mainly by higher net receipts in the transfers and income accounts, and the lower merchandise trade deficit.

Import payments declined over the month by \$4.5 million, supporting the lower deficit in the merchandise trade account. The decrease in import payments resulted from lower payments for wholesale & retail trade, oil, construction materials, and other imports (mostly government imports). Similarly, total export proceeds rose by \$0.1 million (8.3%) from higher agricultural receipts primarily from squash exports. In year ended terms, the merchandise trade deficit narrowed by \$0.4 million (0.1%) with import payments declining the most by \$8.0 million (1.9%). This was due to a decline in payments for imports of oil and wholesale & retail trade. This may also reflect the lower global and commodity prices during the year. However, export proceeds also fell by \$7.7 million (36.8%) as proceeds from all categories fell over the year, mostly marine and agricultural exports. This is mostly in line with the impacts of COVID-19 on the fisheries sector and kava exports. Additionally, squash exports are not as strong as in previous years.

Official transfer receipts rose in November 2020 by \$2.4 million due to receipts of budget support and project grants from development partners as well as remittances. This was coupled with an increase in non-profit transfer receipts by \$0.7 million (13.5%), partially offsetting the decline in private transfer receipts of \$2.6 million (7.2%). Conversely, total transfer payments fell over the month by \$0.4 million (5.8%). Annually, the surplus in the transfer accounts rose by \$102.7 million (28.2%) to \$467.5 million due mostly to higher official transfer receipts and remittances. During the year, we have seen large inflows of donor funds to support the Government efforts in combating COVID-19 and relief from previous Tropical Cyclones.

The services account improved over the month to a \$2.5 million surplus from the \$2.0 million deficit in October 2020, driven by a \$3.3 million (50.0%) increase in receipts. This resulted from higher receipts mainly from transport services, government goods & services, and travel services (primarily from credit card transactions). Over the year, the services account recorded a surplus of \$4.0 million which is lower compared to the \$27.3 million surplus in November 2019. 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 \$82.2 million (60.6%) and \$26.9 million (49.1%) respectively as passenger arrivals declined.

The income account recorded a \$2.4 million surplus in November 2020, which is lower than the \$2.8 million surplus in the previous month. This was attributed to a \$0.7 million increase in income payments while income receipts rose by \$0.3 million (9.6%). Annually, the income account surplus increased by \$10.8 million over the year as income receipts rose by \$6.0 million (23.6%), 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.

### Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Nov-20	Oct-20	Sep-20	Aug-20	Nov-20	Nov-19
Net Capital Account	7.2	9.1	4.0	0.7	38.7	36.8
Official	5.6	7.6	3.0	0.1	25.3	17.6
Private	1.6	1.5	1.0	0.6	13.4	19.3

Sources: Banking System;NRBT

A surplus of \$7.2 million was recorded in the capital account for the month of November 2020, lower than the \$9.1 million surplus in the previous month. This was largely due to declines in both official and private capital receipts by \$1.9 million and \$0.02 million respectively.

In year ended terms, the capital account recorded a higher surplus of \$38.7 million compared to the \$36.8 million surplus recorded in November 2019. This stemmed from higher receipts mainly for the reconstruction projects of houses that TC Gita and TC Harold destroyed. 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 November 2020.

### Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Nov-20	Oct-20	Sep-20	Aug-20	Nov-20	Nov-19
Net Financial Account	-5.0	-1.0	7.3	-3.2	-18.5	-6.0
Direct Investment	0.0	-0.1	0.3	-0.1	-0.4	-2.4
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	-22.4
Other Investment	-5.0	-0.9	7.0	-3.1	-18.1	18.8

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 deficit widened over the month by \$4.0 million from \$1.0 million deficit recorded in October 2020. This was mostly due to lower inflow of other investments, particularly interbank transfer receipts.

Over the year to November 2020, the financial account deficit widened by \$12.5 million from the \$6.0 million deficit in the previous year. This resulted mainly from the 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 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*
	Nov-20	Oct-20	Sep-20	Aug-20	Nov-20	Nov-19			
<b>Total Payments</b>	<b>53.5</b>	<b>58.6</b>	<b>53.4</b>	<b>53.3</b>	<b>673.6</b>	<b>750.3</b>	<b>-8.7%</b>	<b>-10.2%</b>	<b>100.0</b>
<b>Current Account</b>	<b>51.8</b>	<b>57.1</b>	<b>50.5</b>	<b>51.5</b>	<b>638.2</b>	<b>695.5</b>	<b>-9.2%</b>	<b>-8.2%</b>	<b>94.7</b>
Imports	<b>36.7</b>	<b>41.2</b>	<b>35.1</b>	<b>35.6</b>	<b>420.0</b>	<b>428.0</b>	<b>-10.8%</b>	<b>-1.9%</b>	<b>62.3</b>
Services	7.5	8.6	8.7	9.1	132.0	174.9	-13.0%	-24.5%	19.6
Primary Income	<b>1.1</b>	0.3	0.4	0.9	15.7	20.5	227.5%	-23.3%	2.3
Transfers	6.5	6.9	6.3	6.0	70.6	72.1	-5.8%	-2.1%	10.5
Official	0.0	0.2	0.0	0.0	4.1	4.4	0.0%	-6.7%	0.6
Private	6.3	6.5	6.0	5.7	66.1	67.4	-2.9%	-1.9%	9.8
Non-Profit	0.2	0.3	0.3	0.3	0.3	0.3	-22.7%	12.4%	0.0
<b>Capital Account</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>1.0</b>	<b>1.7</b>	<b>0.0%</b>	<b>-43.3%</b>	<b>0.1</b>
Official	0.1	0.0	0.0	0.0	0.1	0.4	0.0%	-76.8%	0.0
Private	0.0	0.1	0.2	0.2	0.9	1.3	0.0%	-32.3%	<b>0.1</b>
<b>Financial Account</b>	<b>1.6</b>	<b>1.5</b>	<b>2.7</b>	<b>1.6</b>	<b>34.4</b>	<b>53.2</b>	<b>8.7%</b>	<b>-35.2%</b>	<b>5.1</b>
Direct Investment	0.2	0.2	0.0	0.1	2.3	6.1	0.0%	-61.9%	0.3
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	22.4	0.0%	0.0%	0.0
Other Investment	1.4	1.3	2.7	1.4	32.1	24.6	11.2%	30.4%	4.8
<b>Total Receipts</b>	<b>70.2</b>	<b>70.0</b>	<b>71.4</b>	<b>59.9</b>	<b>840.1</b>	<b>808.9</b>	<b>0.3%</b>	<b>3.9%</b>	100%
<b>Current Account</b>	<b>58.2</b>	<b>54.0</b>	<b>59.7</b>	<b>54.2</b>	<b>718.8</b>	<b>685.6</b>	<b>7.9%</b>	<b>4.9%</b>	83%
Exports	1.2	1.1	0.7	1.1	13.2	20.9	8.3%	-36.8%	1.8%
Agriculture	0.8	0.6	0.4	0.7	6.4	9.7	31.6%	-33.7%	1%
Marines	0.3	0.4	0.2	0.2	5.5	9.4	-18.9%	-41.6%	0%
Other	0.1	0.2	0.1	0.1	1.2	1.5	-12.7%	-20.8%	0%
Services	10.0	6.6	7.5	8.6	136.0	202.3	50.0%	-32.8%	14%
Travel	2.0	1.6	1.8	1.9	53.5	135.7	20.7%	-60.6%	3%
Other	8.0	5.0	5.6	6.7	82.5	66.6	59.4%	23.9%	11%
Primary Income	3.4	3.1	3.0	2.5	31.6	25.5	9.6%	23.6%	5%
Transfers	43.6	43.0	48.6	42.1	538.0	436.9	1.3%	23.2%	62%
Official	4.6	2.2	9.5	5.1	134.0	69.5	109.7%	92.9%	7%
Private	33.0	35.5	33.0	33.5	351.2	317.6	-7.2%	10.6%	47%
Non-Profit	6.0	5.3	6.2	3.4	52.9	49.8	13.5%	6.3%	9%
<b>Capital Account</b>	<b>7.3</b>	<b>9.2</b>	<b>4.2</b>	<b>0.9</b>	<b>39.6</b>	<b>38.5</b>	<b>-20.5%</b>	<b>2.9%</b>	10%
Official	5.7	7.6	3.0	0.1	25.4	18.0	-24.7%	41.2%	8%
Private	1.6	1.7	1.2	0.8	14.2	20.5	-1.4%	-30.7%	2%
<b>Financial Account</b>	<b>4.6</b>	<b>6.8</b>	<b>7.5</b>	<b>4.8</b>	<b>81.7</b>	<b>84.9</b>	<b>-31.4%</b>	<b>-3.7%</b>	7%
Direct Investment	0.1	0.1	0.3	0.0	1.9	3.7	0.0%	-49.0%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-100.0%	0%
Other Investment	4.5	6.7	7.2	4.8	79.8	81.1	-32.6%	-1.7%	6%

Sources: Banking System; NRBT