

# Overseas Exchange Transactions (OET)

## February 2021

Release Date: 15 June 2021

Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Feb-21	Jan-21	Dec-20	Nov-20	Feb-21	Feb-20
<b>Overall Balance</b>	<b>-12.9</b>	<b>29.7</b>	<b>85.3</b>	<b>8.7</b>	<b>212.5</b>	<b>6.4</b>
Net Current Account	-14.9	18.2	75.5	6.3	168.2	-3.9
Net Capital Account	4.7	3.5	4.1	7.2	44.2	31.6
Net Financial Account	-2.8	8.0	5.7	-4.9	0.1	-21.3
<b>Foreign Reserve Levels</b>	<b>692.4</b>	<b>705.3</b>	<b>675.6</b>	<b>590.2</b>	<b>692.4</b>	<b>479.8</b>

Sources: Banking System; NRBT

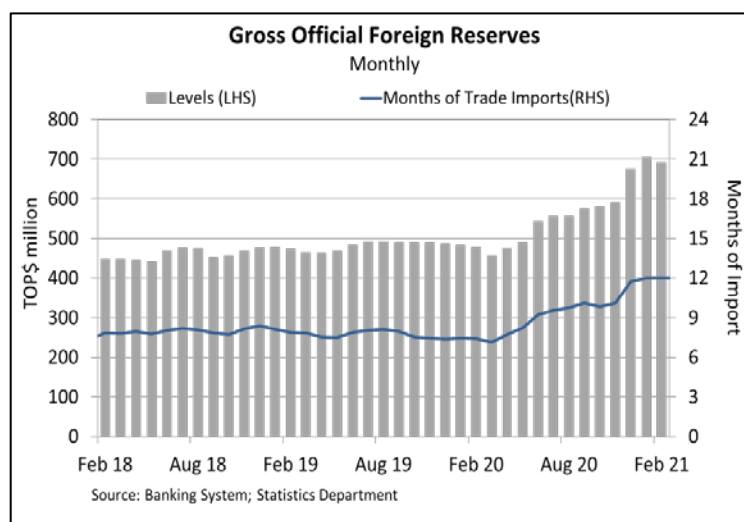
### Current account deficit reflects lower foreign reserves

#### Overall Balance & Foreign Reserves

The official foreign reserves declined at the end of February 2021 by \$12.9 million (1.8 %) to \$692.4 million, equivalent to 11.7 months of imports. This was mainly underpinned by an increase in business and government payments for goods and services. However, foreign reserves rose significantly over the year to February 2021 by \$212.5 million (44.3 %). This attributed mostly to receipts of budget support, official grants, and remittances.

The Overseas Exchange Transactions (OET) overall balance recorded a deficit of \$12.9 million in February 2021 compared to the \$29.7 million surplus recorded in the previous month. This stemmed from the decline in OET receipts by \$23.9 million (29.8%), while OET payments increased by \$6.3 million (11.5%). Both net current and financial accounts fell over the month, resulting in a deficit in the overall balance. In the year to February 2021, the OET overall balance surplus rose significantly by

\$206.2 million, owing to the expansion of the current account surplus. This was attributed mostly to higher receipts of official, private and non-profit transfers and income receipts during the year.



## Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Feb-21	Jan-21	Dec-20	Nov-20	Feb-21	Feb-20
Net Current Account	<b>-14.9</b>	<b>18.2</b>	<b>75.5</b>	<b>6.3</b>	<b>168.2</b>	<b>-3.9</b>
Merchandise Trade	-39.0	-36.7	-36.7	-35.5	-421.8	-406.2
Services	-7.3	-2.1	-4.3	2.5	-17.0	32.4
Income	3.0	3.4	3.1	2.4	23.5	2.3
Transfers	28.5	53.7	113.4	37.1	583.4	367.6

Sources: Banking System;NRBT

The \$14.9 million deficit in the current account in February 2021 was due to lower net receipts in all categories, mostly the transfers account. The current account surplus increased significantly by \$172.1 million in year-ended terms, underpinned mostly by higher net receipts in the transfers and income accounts.

Official transfer receipts declined in February 2021 by \$25.8 million, following higher receipts of donor funds and official grants in the previous months. This had offset increases in private and non-profit transfer receipts by \$0.4 million and \$0.2 million, respectively. Over the year to February 2021, the surplus in the transfer account rose substantially by \$215.8 million (58.7%), due mostly to higher official transfer receipts for budget support and relief for COVID and TC Harold, and remittances.

The services account declined by \$5.3 million over the month, driven by a \$5.1 million (66.9%) increase in service payments. This was due to higher payments mostly for professional & management services, telecommunication services, sea freight, and computer services. In year ended terms, the services account recorded a \$17.0 million deficit compared to the \$32.4 million surplus in February 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 \$107.8 million (79.8%) and \$35.5 million (64.9%), respectively.

Import payments rose over the month by \$2.2 million (6.0%) due to higher payments for wholesale & retail trade, and construction materials. Conversely, total export proceeds fell marginally over the month from lower agricultural and other exports receipts. In the year to February 2021, the merchandise trade deficit widened by \$15.5 million (3.8%) as import payments rose by \$8.3 million (2.0%), coupled with the \$7.2 million (37.3%) decline in exports receipts. The increase in import payments stems from higher imports of wholesale & retail goods, construction materials, and motor vehicles. However, proceeds from all export categories decreased over the year, with marine exports declining 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.

The income account surplus fell by \$0.4 million (10.5%) in February 2021, resulting from a \$0.2 million (41.1%) increase in income payments. Annually, the income account surplus increased by \$21.2 million over the year as income receipts rose by \$12.0 million (47.0%), supported by receipts of wages from seasonal workers abroad. This also supported remittances over the year despite the negative impacts of COVID-19.

## Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Feb-21	Jan-21	Dec-20	Nov-20	Feb-21	Feb-20
Net Capital Account	4.7	3.5	4.1	7.2	44.2	31.6
Official	2.9	1.7	2.4	5.6	29.0	18.6
Private	1.9	1.7	1.8	1.6	15.2	12.9

Sources: Banking System;NRBT

The capital account for February 2021 recorded a higher surplus of \$4.7 million. This was mainly due to the increases in official and private capital receipts by \$1.1 million and \$0.1 million.

Over the year to February 2021, the capital account recorded a higher surplus of \$44.2 million, reflecting 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	
	Feb-21	Jan-21	Dec-20	Nov-20	Feb-21	Feb-20
Net Financial Account	-2.8	8.0	5.7	-4.9	0.1	-21.3
Direct Investment	0.0	-0.1	0.4	0.0	0.1	-2.9
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	-22.4
Other Investment	-2.7	8.2	5.3	-4.9	0.0	4.0

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 \$2.8 million in February 2021, owing to a higher outflow of other investments, particularly interbank transfer payments.

In year-ended terms, the financial account improved to a surplus of \$0.1 million compared to \$21.3 million deficit in February 2020. This was driven mainly by lower transfers of direct investments offshore during the year.

## Outlook

The NRBT anticipates economic growth to contract in the medium term, given the ongoing COVID-19 pandemic and associated uncertainties. Movements in the foreign exchange markets continue to affect the strength of the Tongan Pa'anga. At the same time, global oil and commodity prices are expected to rebound 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. However, it 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*
	Feb-21	Jan-21	Dec-20	Nov-20	Feb-21	Feb-20			
<b>Total Payments</b>	<b>60.7</b>	<b>54.4</b>	<b>61.6</b>	<b>53.6</b>	<b>672.7</b>	<b>756.2</b>	<b>11.5%</b>	<b>-11.0%</b>	<b>100.0</b>
<b>Current Account</b>	<b>59.9</b>	<b>52.5</b>	<b>58.4</b>	<b>51.9</b>	<b>640.5</b>	<b>697.4</b>	<b>14.2%</b>	<b>-8.2%</b>	<b>95.2</b>
Imports	40.0	37.8	38.0	36.8	433.9	425.6	6.0%	2.0%	64.5
Services	12.6	7.6	12.3	7.5	120.3	175.4	66.9%	-31.4%	17.9
Primary Income	0.6	0.4	1.0	1.1	14.0	23.2	41.1%	-39.6%	2.1
Transfers	6.7	6.7	7.0	6.5	72.3	73.2	-0.2%	-1.3%	10.7
Official	0.0	0.0	0.0	0.0	3.3	5.1	0.0%	-34.3%	0.5
Private	6.1	6.4	6.9	6.3	68.6	67.8	-5.0%	1.2%	10.2
Non-Profit	0.6	0.3	0.2	0.2	0.3	0.3	126.4%	0.3%	0.0
<b>Capital Account</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.8</b>	<b>1.7</b>	<b>0.0%</b>	<b>-54.9%</b>	<b>0.1</b>
Official	0.0	0.0	0.0	0.1	0.1	0.4	0%	-76.8%	0.0
Private	0.0	0.0	0.1	0.0	0.7	1.3	0%	-48.0%	0.1
<b>Financial Account</b>	<b>0.7</b>	<b>1.9</b>	<b>3.2</b>	<b>1.6</b>	<b>31.4</b>	<b>57.0</b>	<b>-61.9%</b>	<b>-44.9%</b>	<b>4.7</b>
Direct Investment	0.0	0.2	0.0	0.2	1.5	7.3	-78.3%	-79.8%	0.2
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	22.4	0.0%	-99.9%	0.0
Other Investment	0.7	1.7	3.2	1.4	29.9	27.3	-59.7%	9.5%	4.5
<b>Total Receipts</b>	<b>56.4</b>	<b>80.3</b>	<b>144.0</b>	<b>70.2</b>	<b>936.1</b>	<b>811.1</b>	<b>-29.8%</b>	<b>15.4%</b>	<b>100%</b>
<b>Current Account</b>	<b>45.0</b>	<b>70.7</b>	<b>133.9</b>	<b>58.2</b>	<b>808.7</b>	<b>693.5</b>	<b>-36.3%</b>	<b>16.6%</b>	<b>80%</b>
Exports	1.0	1.1	1.3	1.2	12.1	19.4	-6.4%	-37.3%	2%
Agriculture	0.5	0.6	0.8	0.8	6.8	7.9	-4.4%	-13.9%	1%
Marines	0.4	0.4	0.4	0.3	4.2	9.9	0.0%	-57.5%	1%
Other	0.0	0.1	0.0	0.1	1.0	1.3	-55.4%	-19.2%	0%
Services	5.3	5.5	8.0	10.0	103.4	207.8	-3.7%	-50.2%	9%
Travel	1.5	1.5	1.9	2.0	27.4	135.2	-0.4%	-79.8%	3%
Other	3.8	4.0	6.1	8.0	76.0	72.6	-4.9%	4.7%	7%
Primary Income	3.6	3.8	4.1	3.4	37.5	25.5	-4.5%	47.0%	6%
Transfers	35.1	60.3	120.4	43.6	655.7	440.8	-41.8%	48.7%	62%
Official	1.0	26.9	72.2	4.6	225.7	70.9	-96.1%	218.1%	2%
Private	28.9	28.6	39.3	33.0	370.7	319.7	1.4%	16.0%	51%
Non-Profit	5.1	4.9	8.9	6.0	59.3	50.2	4.6%	18.2%	9%
<b>Capital Account</b>	<b>4.7</b>	<b>3.5</b>	<b>4.2</b>	<b>7.3</b>	<b>45.0</b>	<b>33.3</b>	<b>36.1%</b>	<b>35.2%</b>	<b>8%</b>
Official	2.9	1.7	2.4	5.7	29.1	19.0	64.8%	52.7%	5%
Private	1.9	1.7	1.8	1.6	15.9	14.3	7.5%	11.8%	3%
<b>Financial Account</b>	<b>6.6</b>	<b>6.1</b>	<b>6.0</b>	<b>4.6</b>	<b>82.3</b>	<b>84.3</b>	<b>8.1%</b>	<b>-2.4%</b>	<b>12%</b>
Direct Investment	0.0	0.1	0.4	0.1	1.6	4.4	-100.0%	-64.7%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-100.0%	0%
Other Investment	6.6	6.0	5.6	4.5	80.7	79.9	9.7%	1.1%	12%