

Overseas Exchange Transactions (OET)

June 2016

Release Date: 05 September 2016

Table 1

<i>T\$ m</i>	June 16	May 16	Apr 16	Mar 16
Overall balance	24.2	7.8	5.5	-11.2
Total inflows	84.9	59.5	58.5	44.9
Total outflows	49.7	55.1	46.6	55.6
Foreign Reserves	354.9	330.7	322.9	317.3

Surplus soared due to large inflow of Foreign aid

Total OET Receipts

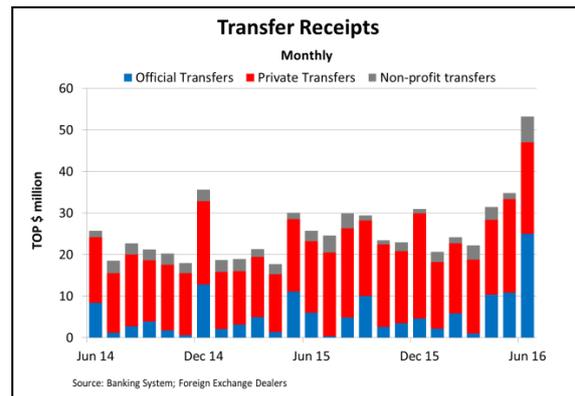
Total OET receipts reached a record high level of \$84.9 million in June 2016, a sizable difference of \$17.5 million from the previous high record of \$67.4 million in December 2014. The new monthly record is \$25.4 million (42.6%) higher than the previous month and is attributed mostly to transfer receipts during the month mostly in the form of budgetary support, government grants and remittances. Over the year ended June 2016, total OET receipts rose by \$138.5 million (26.6%) to \$659.5 million driven by higher receipts of remittances, budgetary support, government grants, interbank transfers, travel and other services.

59% of all receipt transactions in June were denominated in US Dollar (USD) rising from 46% last month. Receipts denominated in Australian dollar (AUD) were only 12%, falling from 26% last month, and receipts in New Zealand Dollars (NZD) slightly fell from 14% to 11%. 15% of the total receipts were transacted in Tongan Pa'anga (TOP).

Current Account Receipts

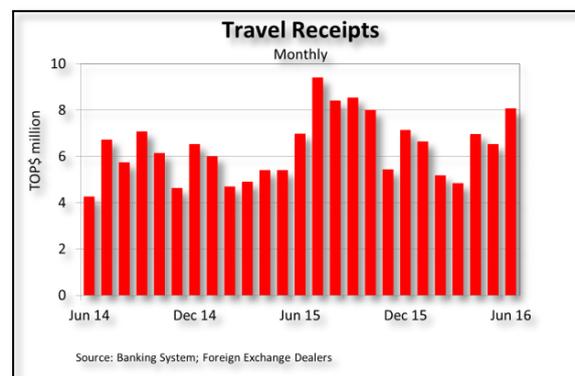
Current account receipts rose substantially to its highest level of \$69.5 million in June, \$21.3 million (44.0%) higher than that in May. The rise was attributed to an increase in official transfers mostly government grants and budget support, supported by higher travel receipts. Over the year, current account receipts rose by \$113.8 million (27.9%) to \$521.1 million, largely owing to higher transfer and services receipts over the year.

Transfer receipts markedly rose to \$53.2 million in June, \$18.4 million (52.9%) higher than the previous month, and were driven by a high inflow of foreign aid funds for budget support and government grants triggered by the closing of the fiscal year 2015/16. Official transfers more than doubled over the month from \$10.9 million to \$25.0 million, that is \$14.1 million (129.6%) higher than the previous month and



driving the rise in total OET receipts. Transfers received by non-profit institutions which were mostly funds to local churches also rose by \$4.8 million to \$6.2 million. Private transfer which are largely remittance receipts¹ remained at a high level of \$22.0 million despite incurring a slight fall of \$0.5 million (26.0%) over the month. The Tupou College 150th anniversary and the annual conference of the Free Wesleyan Church also contributed to the high transfer receipts in June. In year ended terms, transfer receipts rose by \$78.8 million (29.3%) to \$347.9 million as both official and private transfer receipts continues to increase.

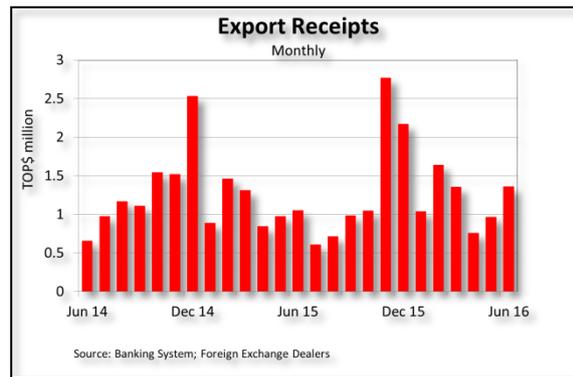
Services receipts also rose over the month by \$2.4 million (23.5%) to \$12.9 million as travel receipts rebounded in June particularly from personal travel. This coincides with the 37% rise in international arrivals in the same period as the Kingdom welcomed many visitors for the June celebrations. Services other than travel also rose by \$0.9 million (23.3%) to \$4.8 million which are mostly rises in professional, management and business services. In year ended terms, service receipts increased by \$ 31.1 million (29.4%) to \$136.9 million from higher receipts of travel, construction, transport, and telecommunication services. This also indicates positive performance from the tourism, construction and services sectors.



Export proceeds gradually rose to \$1.4 million in June, \$0.4 million (41.3%) higher than the level in May. Proceeds from exports of fish and marine products continued to grow by \$0.3 million (47.2%) to \$0.9 million over the month representing 64% of total export proceeds. A slight decline in proceeds from agricultural products of \$0.1 million (23.4%) was offset by a \$0.2 million rise in proceeds from other exported goods. Given the lagged effect of exports and the receipt of funds from its proceeds, the receipt for June may reflect export volumes from the previous months. Export

¹ Further information on remittances can now be found on our Remittances Data flash, available on the NRBT website.

receipts changed little over the year as it remained at \$15.4 million however there is noted improvement in proceeds from agricultural, fish and marine products. This reflects higher yield of crops during the harvest season of this year and the better weather conditions.



Financial Account & Capital Account Receipts

Over the month, financial account receipts increased by \$4.7 million (53.6%) to \$13.6 million driven mostly by new direct investments and higher interbank transfers. On the other hand, capital account receipts declined by \$0.6 million (25.0%) to \$1.8 million underpinned by lower receipts of private capital investments. Over the year, financial account receipts rose by \$32.9 million (37.9%), whilst capital account receipts declined by \$8.3 million (30.9%).

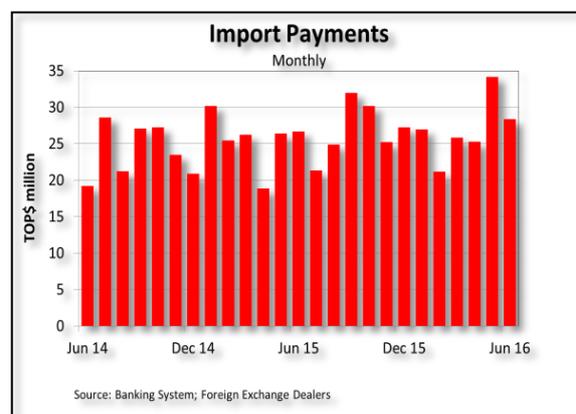
Total OET Payments

Total OET payments have fallen in June 2016 by \$5.4 million (9.8%) to \$49.7 million. This owes largely to lower import payments compared to the previous month. Looking back over the year, total OET payments continued to rise by \$62.5 million (12.4%) to \$568.7 million which is attributed to higher import, services and transfer payments.

Current Account Payments

Current account payments drove the fall in total OET payments by \$5.9 million (11.1%) in June to \$47.3 million as a result of lower import payments. Transfer payments also fell, but were offset by the rise in service payments. In year ended terms, current account payments continued to increase by \$50.9 million (10.8%) to \$522.2 million.

As mentioned above, import payments sharply dropped over the month by \$5.8 million (17.0%) to \$28.3 million. Lower payments for imports of oil and construction materials was responsible for the lower import payments despite the rise in payments for the import of motor vehicles, wholesale and retail goods. Although container registrations reported an increase in June by 7.5%, this may be related to the high advance import payments made in the previous month. In year ended terms, import payments continued to rise by \$20.1 million (6.7%) to \$322.1 million, underpinned by



higher payments for the imports of construction, motor vehicles, wholesale and retail goods.

Transfer payments also fell over the month by \$1.8 million (24.8%) to \$5.6 million and over the year by \$15.4 million (33.1%) to \$61.8 million. Majority of these transfer payments were for family support. In contrast, services payments rose over the month by the same amount of \$1.8 million (16.3%) due to payments made for professional, management and business services. Over the year, services payments rose by \$16.9 million (16.1%) to \$121.8 million.

There was no significant payment for primary income in June, whereas over the year it declined by \$1.5 million (8.4%) to \$16.6 million.

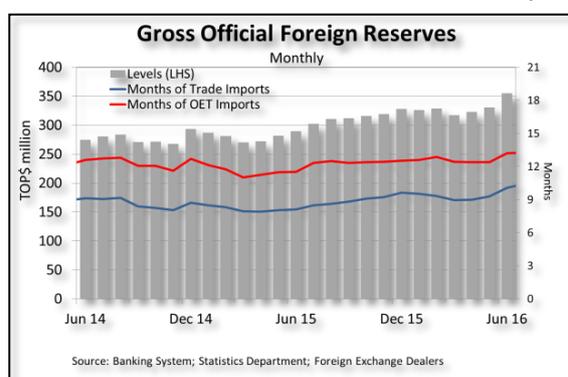
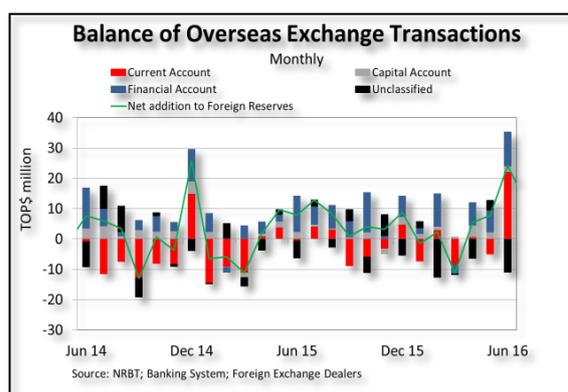
Capital & Financial Account Payments

Minimal capital payments were made over the month, and over the year, capital account payments fell to \$2.3 million from \$3.6 million. On the other hand, financial account payments rose over the month by \$0.6 million (37.9%) to \$2.3 million and over the year by \$13.0 million (41.6%) to \$44.2 million mostly in the form of inter-bank transfers.

Overall Balance & Foreign reserves

The balance of OET, which is equivalent to the net change to foreign reserves over the month of June 2016, was a very high surplus of \$24.2 million, which is \$16.4 million higher than the surplus in May. This resulted from the high surplus recorded in the current account for the month of June driven by the large inflows of budget support, government grants and remittances. In year-ended terms, the current account balance was a significantly small deficit of \$1.1 million, equivalent to USD \$0.5 million which is again much smaller than the projected deficit by the IMF Article IV of USD \$13.0 million. The overall balance on the other hand was a surplus of \$65.2 million, equivalent to USD \$29.3 million which is more than the IMF's projection of USD \$16.0 million.

Foreign reserves rose again to \$354.9 million in June, sufficient to cover 10.1 months of imports, well above the NRBT's minimum range of 3-4 months. The level of foreign reserves at the end of June is the equivalent of USD \$159.7 and is close to the IMF's projection of USD \$158.6



million by the end of fiscal year 2015/16, but with lower months of import cover of 6.2 months.

All in all the performance of OET over the year has been broadly positive and the outlook for foreign reserves continues to remain comfortably above the minimum range, given the upcoming LDS Tonga Mission centennial celebration, the Heilala Week Festival, the opening of the Tano'a Hotel, and other on-going projects funded by donor partners for the preparation of the Pacific Games. However, delays to the inflow of these funds may pose a risk to the outlook.

Table 2

Overseas Exchange Transactions
TOP\$ millions

	Month Ended				Year Ended	
	Jun-16	May-16	Apr-16	Mar-16	Jun-16	Jun-15
Total Payments	49.7	55.1	46.6	55.6	568.7	506.2
Current Account	47.3	53.2	44.5	44.2	522.2	471.4
Imports	28.3	34.1	25.2	25.8	322.1	301.9
Services	12.8	11.0	12.7	9.8	121.8	104.9
Primary Income	0.7	0.7	1.7	3.3	16.6	18.1
Transfers	5.6	7.4	5.0	5.4	61.8	46.4
Official	0.0	1.8	0.0	0.0	3.7	1.7
Private	5.1	5.4	4.8	4.8	57.9	44.6
Non-Profit	0.4	0.3	0.1	0.6	0.2	0.1
Capital Account	0.0	0.2	0.0	0.0	2.3	3.6
Official	0.000	0.0	0.0	0.0	0.0	0.0
Private	0.030	0.2	0.0	0.0	2.3	3.6
Financial Account	2.3	1.7	2.0	11.4	44.2	31.2
Direct Investment	0.1	0.0	0.0	0.4	3.1	0.3
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	2.3	1.6	2.0	11.0	41.0	30.8
Total Receipts	84.9	59.5	58.5	44.9	659.5	521.0
Current Account	69.5	48.3	45.2	35.8	521.1	407.3
Exports	1.4	1.0	0.8	1.4	15.4	15.4
Agriculture	0.2	0.3	0.2	0.4	6.2	4.8
Marines	0.9	0.6	0.4	0.8	7.2	5.3
Other	0.2	0.0	0.2	0.2	2.0	5.4
Services	12.9	10.4	11.2	10.5	136.9	105.8
Travel	8.1	6.5	7.0	4.8	85.1	70.1
Other	4.8	3.9	4.2	5.6	51.9	35.7
Primary Income	2.1	2.1	1.8	1.7	20.9	17.0
Transfers	53.2	34.8	31.4	22.2	347.9	269.1
Official	25.0	10.9	10.4	1.0	81.5	51.9
Private	22.0	22.5	17.9	17.8	235.2	186.7
Non-Profit	6.2	1.4	3.1	3.4	31.2	30.6
Capital Account	1.8	2.4	3.8	0.7	18.5	26.8
Official	0.3	0.2	2.2	0.0	8.0	7.7
Private	1.5	2.2	1.7	0.7	10.5	19.1
Financial Account	13.6	8.8	9.5	8.5	119.8	86.9
Direct Investment	1.3	0.0	0.0	0.0	2.1	3.5
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	12.2	8.8	9.5	8.5	117.7	83.4

Sources: banking system; foreign exchange dealers, NRBT