

Overseas Exchange Transactions (OET)

June 2018

Release Date: 4 October 2018

Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-18	May-18	Apr-18	Mar-18	Jun-18	Jun-17
Overall Balance	26.8	-4.0	-1.8	-0.3	60.9	53.0
Net Current Account	27.5	-4.9	-4.9	-12.4	19.1	32.2
Net Capital Account	3.5	2.6	2.8	1.0	40.6	29.8
Net Financial Account	-4.1	-1.7	0.3	11.0	1.2	-9.0
Foreign Reserve Levels	468.7	441.9	445.9	447.7	468.7	407.9

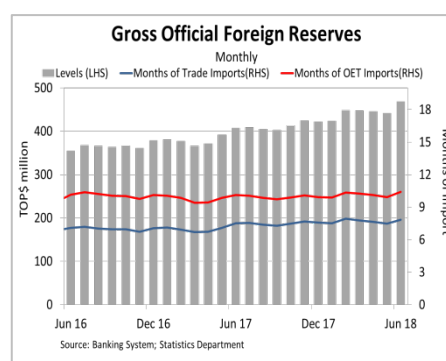
Sources: Banking System; NRBT

Official grant receipts fuel high surplus in the overall balance

Overall Balance & Foreign Reserve

In June 2018, the balance of the overall OET recorded the highest surplus since January 2013 of \$26.8 million. As a result, the official foreign reserves rose to a record high of \$468.7 million, which is equivalent to 7.9 months of import cover.

In year ended terms, the overall balance recorded a \$60.9 million surplus, \$7.9 million higher than the surplus in the year ended June 2017. Correspondingly the official foreign reserves rose from \$407.9 million in June 2017 (7.5 months of import).



The Reserve Bank anticipates the level of foreign reserves will remain at comfortable levels above the 3 months of import cover in the near term supported by higher receipts of remittances and foreign aid. However, any delays to the inflow of aid and budget support from development partners, the commencement of loan principal repayment to the Export - Import (EXIM) Bank of China, combined with the pace of development in the domestic economic activities, may pose a risk to the foreign reserves outlook. Uncertainties in the world fuel and commodities prices and Tonga's vulnerability to natural disasters are also a risk.

Current Account

The current account balance for this month marked its highest surplus since January 2017. This was attributed mainly to the receipt of grants from development partners consisting of cyclone relief funds, grants for technical assistance and for other current expenditure of the government ministries and boards. This was also supported by large funds received by schools and churches, although it was slightly lower this month. Higher export proceeds also supported the trend.

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-18	May-18	Apr-18	Mar-18	Jun-18	Jun-17
Net Current Account	27.5	-4.9	-4.9	-12.4	19.1	32.2
Merchandise Trade	-35.3	-36.0	-30.3	-32.4	-386.1	-343.7
Services	-2.2	-3.4	0.7	-4.3	32.3	26.9
Income	-3.7	0.4	1.2	-0.9	-9.0	-16.0
Transfers	68.6	34.0	23.5	25.4	382.0	365.0

Sources: Banking System; NRBT

Majority of payments made during the month was for import purposes, although it was slightly lower by 0.6% to \$37.4 million. These payments were mainly for the import of wholesale and retail goods which rose by 35%. On the other hand, the export proceeds rose by \$0.5 million and were mainly from marine and other products like paints. Both payments and receipts of services particularly for passenger fare payments and receipts of insurance claims were lower over the month which explained the lower deficit balance in the services account. However, dividend payments to non-resident shareholders rose by \$3.3 million and receipts from Regional Seasonal Workers and other residents who worked overseas declined over the month by 9.7% causing a deficit balance in the income account.

Over the year to June 2018, the surplus in the current account was lowered by \$13.1 million to \$19.1 million. The higher merchandise trade deficit and the deficit in the income account more than outweighed the higher surplus from transfer services. Higher payments for imported oil and wholesale & retail goods drove the higher merchandise trade deficit which coincided with a rise in container registrations by 857 containers indicating growth in the trade sector. Export proceeds from all sectors however, declined over the year. The net income payments were mainly dividend sent abroad to non-resident shareholders.

Both private and official transfer receipts rose over the year with private transfer receipts rising over the year by 8.9% reflecting the continuous increase in remittances indicating the willingness of Tongan families abroad to support the local families in events that had happened during the year. The telecommunication receipts drove the increase in service receipts, supporting growth in the telecommunication sector while service payments were mainly for professional, management consulting and other business services.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-18	May-18	Apr-18	Mar-18	Jun-18	Jun-17
Net Capital Account	3.5	2.6	2.8	1.0	40.6	29.8
Official	2.4	1.3	1.4	0.3	16.4	9.7
Private	1.0	1.3	1.4	0.7	24.2	20.1

Sources: Banking System; NRBT

The surplus in the capital account slightly rose by \$0.9 million over the month of June 2018 stemmed from a \$1.1 million rise in the surplus of the official capital account. The fund receipts by

Government for investment projects or capital expenditures, for construction purposes increased over the month while the fund receipts by private companies decreased. Both official and private capital payments recorded NIL payments over the month.

Over the year to June 2018, the capital account maintained its position of holding the highest surplus in the current account, as it rose by \$10.8 million to \$40.6 million. The fund receipts by both Government and private companies for investment projects or capital expenditures, for construction purposes increased over the year by \$7.4 million and \$4.6 million respectively. This outweighed the rise in official capital payments and supported by lower private capital payments. The construction projects include the Tonga Transport Sector Consolidation road maintenance projects, renovation works at the airport and individuals and private companies' renovation works after Tropical Cyclone Gita.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-18	May-18	Apr-18	Mar-18	Jun-18	Jun-17
Net Financial Account	-4.1	-1.7	0.3	11.0	1.2	-9.0
Direct Investment	0.2	0.4	0.2	0.0	-11.3	9.9
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	-4.3	-2.1	0.1	11.0	12.5	-18.9

Sources: Banking System; NRBT

The deficit in the financial account over the month of June 2018, widened by \$2.4 million due to higher interbank payments. In year ended terms, the financial account recorded a surplus after recording a deficit in June 2017, which was attributed mainly to higher interbank receipts.

Overseas Exchange Transactions

TOP\$ millions

	Month Ended				Year Ended	
	Jun-18	May-18	Apr-18	Mar-18	Jun-18	Jun-17
Total Payments	67.6	66.6	54.5	63.4	716.7	638.1
Current Account	64.4	64.5	50.7	62.2	671.7	601.3
Imports	37.4	37.6	31.4	33.8	406.5	367.8
Services	16.5	20.0	12.2	17.9	166.7	142.7
Primary Income	5.9	2.4	1.1	2.8	31.7	33.8
Transfers	4.6	4.5	6.0	7.7	66.8	57.0
Official	0.0	0.0	0.0	0.0	8.8	2.5
Private	4.4	4.3	5.9	5.1	57.6	54.2
Non-Profit	0.2	0.2	0.1	2.7	0.5	0.3
Capital Account	0.0	0.1	0.0	0.1	4.1	2.8
Official	0.0	0.1	0.0	0.0	0.9	0.1
Private	0.0	0.0	0.0	0.1	3.2	2.7
Financial Account	26.6	9.9	9.9	1.2	98.6	115.9
Direct Investment	0.1	0.0	0.0	0.0	12.9	11.6
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	26.5	9.9	9.9	1.2	85.6	104.3
Total Receipts	117.9	70.6	58.8	62.4	835.2	773.0
Current Account	91.9	59.6	45.8	49.8	690.8	633.4
Exports	2.1	1.6	1.1	1.3	20.4	24.1
Agriculture	1.1	1.2	0.5	0.6	10.8	10.9
Marines	0.6	0.3	0.2	0.5	5.6	8.7
Other	0.4	0.2	0.4	0.2	4.0	5.5
Services	14.4	16.7	12.9	13.5	199.0	169.6
Travel	9.5	9.0	6.9	6.6	111.2	108.8
Other	4.9	7.7	6.0	7.0	87.7	60.8
Primary Income	2.2	2.8	2.4	1.9	22.6	17.7
Transfers	73.2	38.5	29.5	33.1	448.8	422.0
Official	41.3	2.0	2.4	2.9	91.0	88.0
Private	27.3	31.5	23.2	25.4	312.1	286.7
Non-Profit	4.5	5.0	3.9	4.7	45.6	47.3
Capital Account	3.5	2.7	2.8	1.1	44.6	32.6
Official	2.4	1.4	1.4	0.3	17.2	9.8
Private	1.0	1.3	1.4	0.8	27.4	22.8
Financial Account	22.5	8.2	10.2	12.2	99.7	106.9
Direct Investment	0.3	0.4	0.2	0.0	1.6	21.5
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	22.2	7.8	10.0	11.5	98.1	85.4

Sources: banking system; NRBT