

Overseas Exchange Transactions (OET)

May 2018

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Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	May-18	Apr-18	Mar-18	Feb-18	May-18	May-17
Overall Balance	-4.0	-1.8	-0.3	23.9	49.6	61.6
Net Current Account	-4.9	-4.9	-12.3	21.5	2.7	46.8
Net Capital Account	2.6	2.8	1.0	2.7	41.7	27.0
Net Financial Account	-1.7	0.3	11.0	-0.2	5.2	-12.1
Foreign Reserve Levels	441.9	445.9	447.7	448.0	441.9	392.3

Sources: Banking System; NRB

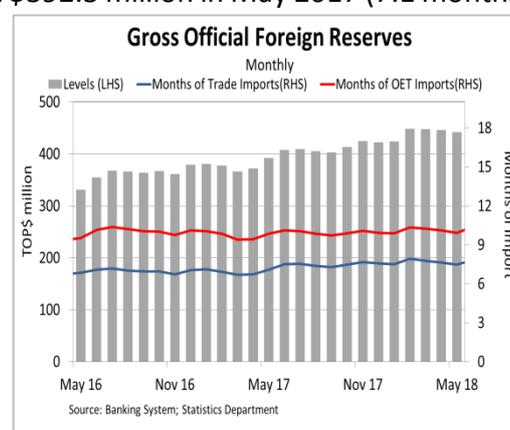
Lower interbank receipts widened the overall balance deficit

Overall Balance & Foreign Reserves

The overall OET balance for the month of May 2018 recorded a deficit of \$4.0 million. Subsequently, the official foreign reserves declined to \$441.9 million, which is equivalent to 7.5 months of import cover. This was due mainly to lower interbank receipts while interbank payments was sustained.

Over the year, the surplus in the balance of the overall OET declined by \$12.0 million to \$49.6 million. This contributed to the rise in the official foreign reserves from \$392.3 million in May 2017 (7.1 months of import).

The Reserve Bank anticipates the level of foreign reserves to remain at comfortable level and to remain 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 deficit balance of last month was maintained at \$4.9 million. Despite the large inflows in private transfers of \$31.5 million in May (largest in record since May 2014), it was outweighed by the increase in services and import payments over the month. Both merchandise trade and services accounts recorded deficit balances which outweighed the surpluses recorded in the transfers and primary income account over the month.

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	May-18	Apr-18	Mar-18	Feb-18	May-18	May-17
Net Current Account	-4.9	-4.9	-12.3	21.5	2.7	46.8
Merchandise Trade	-36.0	-30.3	-32.4	-26.5	-388.9	-332.6
Services	-3.4	0.7	-4.3	10.4	39.2	23.5
Income	0.4	1.2	-0.9	0.9	-12.4	-7.4
Transfers	34.0	23.5	25.4	36.7	364.9	363.3

Sources: Banking System; NRBT

The merchandise trade recorded a deficit balance of \$36.0 million. Import payments increased by \$6.3 million over the month which outweighed a rise in export receipts of \$0.5 million. The higher import payments were mainly for importing of wholesale and retail goods which rose by 53.0%. This is in line with the rise in container registrations by 105 containers over the month and supported by the normal celebrations during the month such as the white Sunday, Mother's Day and the Fathers' Day. On the other hand, the export proceeds were mainly from agricultural products.

The turnaround in the services account balance over the month to record a deficit balance of \$3.4 million reflected the large increase in payments of services by \$7.8 million more than offsetting a \$3.8 million increase in services receipts. The transfer of air passenger fares by airline companies to their head offices had driven the rise in service payments while travel receipts contributed the most to the increase in service receipts. This was supported by events that happened during the month as Tongans abroad visited their families here in Tonga to spend Children's Sunday, Mother's Day and Father's Day. The annual church conferences also started in May contributing to the increase in air arrivals by 52.3%. This also coincided with more international flights arriving during the month which increased from 75 to 91 flights. This indicates growth in the transport and tourism sectors. Telecommunication receipts also increased over the month.

The transfer account, on the other hand, recorded a surplus of \$34.0 million, while income recorded a surplus of only \$0.4 million. Both private and non-profit transfer receipts rose over the month although the official transfer receipts slightly declined. The total transfer payments declined by \$1.5 million, due mainly to a fall in private transfer payments. The rising private transfer receipt indicates the willingness of our families and relatives abroad to send money to families for Children's Sunday, Mother's Day and Father's Day. The net income surplus was due mainly to higher income receipts outweighing the total income payments. The higher income receipts were mainly income received from seasonal workers and Tongans working overseas while dividends paid to non-resident shareholders hold the largest share of the total income payments.

In year ended terms, the deficit in the merchandise trade and the income account balances widened driving a significant fall in the current account surplus from \$46.8 million last year to \$2.7 million. Higher payments for imported oil and wholesale & retail goods drove the higher merchandise trade deficit which coincided with the rise in container registrations of 935 containers indicating growth in the trade sector. This was also supported by the decline in export proceeds. The net income payments

were mainly dividend sent abroad to non-resident shareholders. The continuous rise in remittances continue to drive the increase in transfer receipts, indicating the willingness of Tongan families abroad to support the local families in events that had happened during the year. Net service receipts were due to higher net receipts from travel, supporting growth in the tourism sector.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	May-18	Apr-18	Mar-18	Feb-18	May-18	May-17
Net Capital Account	2.6	2.8	1.0	2.7	41.7	27.0
Official	1.3	1.4	0.3	1.2	16.0	8.0
Private	1.3	1.4	0.7	1.4	25.7	19.0

Sources: Banking System; NRBT

In May 2018, the capital account recorded a surplus of \$2.6 million, which was slightly lower than the surplus recorded in the previous month. Both surpluses in the official and the private capital accounts decreased over the month by \$0.1 million each. The rising payments for investment projects or capital expenditures, for construction purposes by Government plus the lower receipts for investment projects or capital expenditures, by individuals & private companies contributed to the lower surplus.

Annually, the capital account recorded a higher surplus of \$41.7 million in May, which contributed mainly to the rise in the official capital receipts mainly for construction purposes. This was supported also by a significant increase in private capital receipts for construction purposes. These construction projects included the Tonga Transport Sector Consolidation road maintenance projects, the renovation works at the airport and individuals and private companies' renovation works after Tropical Cyclone Gita. Payments slightly increased over the year but have very minimal impact on the balances over the year.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	May-18	Apr-18	Mar-18	Feb-18	May-18	May-17
Net Financial Account	-1.7	0.3	11.0	-0.2	5.2	-12.1
Direct Investment	0.4	0.2	0.0	0.0	-11.5	11.2
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	-2.1	0.1	11.0	-0.2	16.7	-23.3

Sources: Banking System; NRBT

The financial account for the month of May 2018, recorded a deficit of \$1.7 million after reporting a surplus last month, and this was attributed mainly to higher interbank payments. However, it recorded a surplus of \$5.2 million over the year ended May 2018, after recording a deficit of \$12.1 million last year, and was attributed mainly to higher interbank transfer receipts.

Overseas Exchange Transactions

TOP\$ millions

	Month Ended				Year Ended	
	May-18	Apr-18	Mar-18	Feb-18	May-18	May-17
Total Payments	66.6	54.5	63.4	45.0	716.5	620.4
Current Account	64.5	50.7	62.2	44.0	671.7	584.1
Imports	37.6	31.4	33.8	27.8	408.8	356.4
Services	20.0	12.2	17.9	10.7	162.1	143.5
Primary Income	2.4	1.1	2.8	0.5	34.5	25.8
Transfers	4.5	6.0	7.7	5.0	66.3	58.4
Official	0.0	0.0	0.0	0.2	8.7	2.8
Private	4.3	5.9	5.1	4.2	57.1	55.4
Non-Profit	0.2	0.1	2.7	0.5	0.5	0.2
Capital Account	0.1	0.0	0.1	0.0	4.1	2.8
Official	0.1	0.0	0.0	0.0	0.9	0.1
Private	0.0	0.0	0.1	0.0	3.2	2.7
Financial Account	9.9	9.9	1.2	4.4	80.4	123.0
Direct Investment	0.0	0.0	0.0	0.0	12.8	11.7
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	9.9	9.9	1.2	4.4	67.5	111.3
Total Receipts	70.6	58.8	62.4	72.3	805.8	771.5
Current Account	59.6	45.8	49.9	65.4	674.4	630.9
Exports	1.6	1.1	1.3	1.3	19.9	23.8
Agriculture	1.2	0.5	0.6	0.7	10.2	10.6
Marines	0.3	0.2	0.5	0.4	5.6	9.0
Other	0.2	0.4	0.2	0.2	4.1	4.9
Services	16.7	12.9	13.6	21.2	201.2	167.0
Travel	9.0	6.9	6.6	6.2	113.1	105.4
Other	7.7	6.0	7.0	15.0	88.1	61.6
Primary Income	2.8	2.4	1.9	1.3	22.0	18.4
Transfers	38.5	29.5	33.1	41.7	431.2	421.7
Official	2.0	2.4	2.9	16.7	75.6	87.1
Private	31.5	23.2	25.4	21.7	311.6	284.0
Non-Profit	5.0	3.9	4.7	3.2	43.9	50.7
Capital Account	2.7	2.8	1.0	2.7	45.7	29.8
Official	1.4	1.4	0.3	1.2	16.8	8.1
Private	1.3	1.4	0.7	1.4	28.9	21.7
Financial Account	8.2	10.2	12.2	4.2	85.6	110.8
Direct Investment	0.4	0.2	0.0	0.0	1.3	22.8
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	7.8	10.0	12.2	4.2	84.3	88.0

Sources: Banking System; NRBT