

Overseas Exchange Transactions (OET)

August 2016

Release Date: 14 February 2017

Table 1

| T\$ m | Aug 16 | July 16 | June 16 | May 16 |
|-------------------------|---------------|----------------|----------------|---------------|
| Overall balance | -1.2 | 12.6 | 24.2 | 7.8 |
| Total inflows | 61.0 | 57.0 | 84.8 | 59.5 |
| Total outflows | 52.8 | 52.3 | 49.7 | 55.1 |
| Foreign Reserves | 366.3 | 367.4 | 354.9 | 330.7 |

Rising outflow for gifts and family support abroad

Total OET Receipts

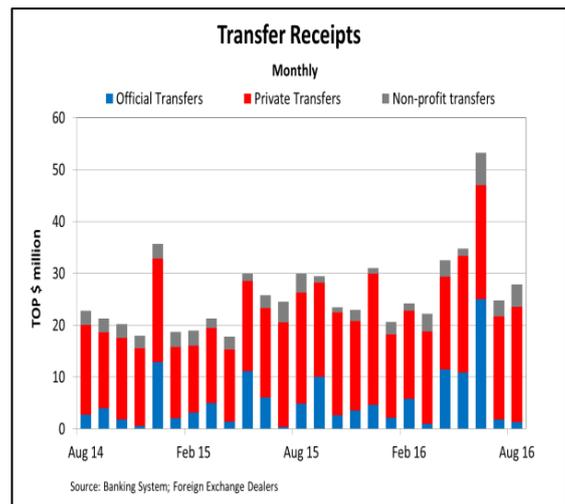
Total OET receipts rose to \$61.0 million in August, \$4.0 million (7.0%) higher than the previous month. The increase over the month was largely due to an increase in private transfer by \$2.4 million (11.8%), mostly remittance receipts. Over the year ended August 2016, total OET receipts rose by \$126.2 million (23.2%) to \$670.9 million driven mostly by remittance receipts, foreign aid, construction and telecommunication services.

The United States Dollar (USD) continued to be the dominant currency in OET receipts representing 51%, increasing from 44% in the previous month due to receipts of foreign direct investments denominated in USD. The Australian Dollar (AUD) followed with 18%, while the New Zealand Dollar (NZD) fell to 14% from 23% last month. Higher receipts of foreign direct investment in the previous month explained the dropped in the NZD share. Share of OET receipts in Tongan Pa'anga (TOP) was 15%.

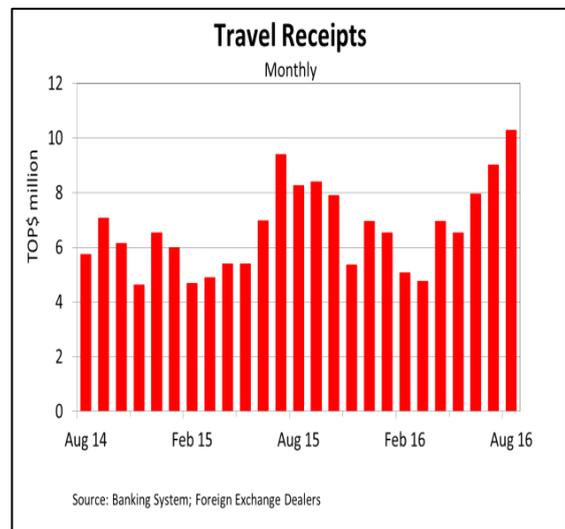
Current Account Receipts

Current account receipts rose to \$48.7 million in August, \$5.6 million (13.1%) higher than the previous month. This was largely due to an increase in remittance receipts and transfer receipts by churches. Over the year, current account receipts rose by \$105.9 million (24.9%) to \$531.4 million, largely owing to higher inflows from remittances, foreign aid and other services receipts over the year.

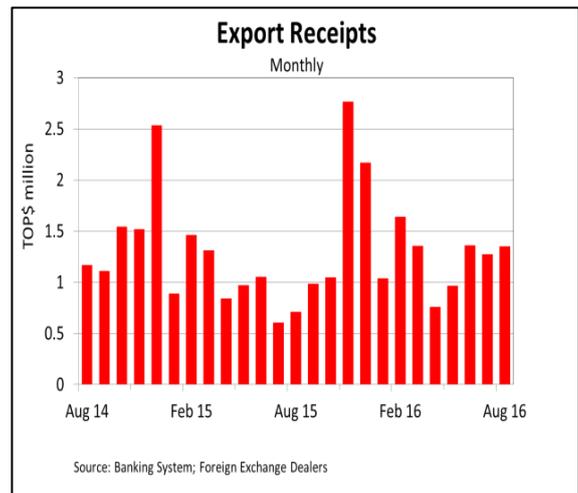
Transfer receipts rose by \$3.1 million (12.4%) to \$27.9 million in August. Private transfers which are largely remittance receipts¹ was at \$22.3 million, \$2.4 million (11.8%) higher than the previous month. Receipts by non-profit institutions which were mostly funds for the local churches also increased by \$1.2 million (39.5%) to \$4.3 million. The celebration of the Latter Day Saints Missionary 100th anniversary and Tonga's agricultural show largely attributed to the higher transfer receipts in August. In year ended terms, transfer receipts rose by \$66.2 million (23.7%) to \$345.7 million as both private and official transfer receipts continued to rise.



Services receipts slightly improved over the month by \$2.1 million (14.0%) to \$17.1 million. This was mainly due to an increase in travel receipts of \$1.3 million, particularly from personal travel and air transport services. This coincides with the increase in international arrivals by 17% for the same period, which includes the arrival of a cruise ship during the month. Services other than travel also rose by \$0.8 million (14%) to \$6.8 million which are mostly professional, management and business services. In year ended terms, service receipts increased by \$ 32.8 million (28.8%) to \$146.6 million, due mainly to higher inflows from personal travel, telecommunication services, and construction services.



Export proceeds slightly rose by \$0.1 million (5.7%) in August, largely owing to exports of marine products which increased by \$0.3 million (55.8%) over the month. The high volumes of marine exports recorded in July may have contributed to the high proceeds in August. However, receipts from the export of agricultural and other exported products, on the other hand, fell by \$0.1 million each to \$0.3 million (25.4%) and \$0.2 million (38.0%) respectively. Export receipts rose by \$2.1 million (14.8%) over the



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

year to \$16.7 million, underpinned by an increase in proceeds from the export of marine and agricultural products.

Financial Account & Capital Account Receipts

Over the month, financial account receipts slightly fell by \$0.2 million (1.6%) to \$10.9 million mostly driven by a \$1.8 million (60.9%) drop in foreign direct investments more than offsetting a \$1.6 million fall in other investments. Capital account receipts also fell by \$1.5 million (49.8%) to \$1.5 million underpinned by lower receipt of capital grants and investments. Over the year, financial account receipts rose by \$22.1 million (22.9%), while capital account receipts fell by \$1.8 million (7.8%).

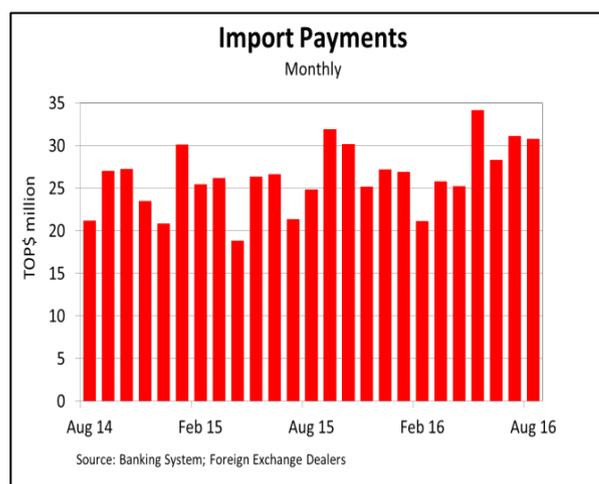
Total OET Payments

Total OET payments rose by \$0.5 million (1.0%) in August 2016 to \$52.8 million. This owed largely to higher personal transfers compared to July. In year ended terms, OET payments rose by \$86.6 million (17.2%) to \$591.2 million driven mostly by higher import and services payments.

Current Account Payments

Current account payments were at \$51.4 million in August, \$1.3 million (2.5%) higher than July and representing 97% of total OET payments. Individuals sending gifts and family support to friends and relatives abroad supported the rising trend. Majority of the funds were transacted in USD, mainly to friend and relatives in the US and China. This may have resulted from the revision of the NRBT Exchange Control Policy Guidelines which was effective in July 2016. In year ended terms, current account payments rose by \$81.5 million (17.5%) to \$548.0 million due to higher payments for imports and services over the year.

In August, import payments slightly fell by \$0.4 million (1.2%) to \$30.8 million driven mostly by lower oil imports which declined by \$1.3 million over the month. Payment for construction imports also fell by \$0.1 million. On the other hand, import payments for wholesale & retail goods, other imports and motor vehicles rose over the month by \$0.8 million, \$0.5 million and \$0.1 million respectively. The higher import payments coincide with the increase in container registrations over the month which rose by 8.5%, supported by the increase in banks lending for construction and manufacturing purposes. In year ended terms, import payments were \$39.5 million (13.2%) higher than the previous year at \$298.3 million.



Services payments were at \$12.7 million in August, \$0.7 million (5.3%) lower than the previous month mainly due to lower payments for telecommunication services. Over

the year, payments for services rose by \$26.0 million (25.4%) to \$128.2 million due mainly to higher payments for travel related transactions, telecommunication services, professional, management, consulting, and other business services.

Transfers, on the other hand, increased by \$1.4 million (29.3%) over the month to \$6.2 million attributed to higher private transfers, of which the majority were from individuals sending gifts and family support to family and relatives abroad. This reflects the revision of the Exchange Control Guideline that was effective in July which raised the annual limit for gift transactions from \$10,000 per year to \$50,000. Both foreign exchange dealers' and banking data recorded the highest amount of gift payments at \$4.3 million and \$1.3 million respectively in August. In year ended terms, transfers were recorded at \$64.0 million, increasing by \$16.4 million (35%) from the previous year, again due to higher private transfers.

Capital & Financial Account Payments

Again, there were no capital payments made during the month, and over the year it fell by \$1.3 million (36.3%). Financial account payments, on the other hand, declined by \$0.7 million (34.3%) over the month to \$1.4 million, and rose by \$6.4 million (18.6%) to \$40.9 million over the year, underpinned by higher foreign debt payments and interbank transfers.

Overall Balance & Foreign reserves

The balance of overseas exchange transactions, which is the net change to foreign reserves over the month of August 2016, recorded a deficit of \$1.2 million, which is \$13.8 million (109.5%) lower than the surplus in July. Foreign reserves has benefitted in the previous months from large inflows of remittances, government grants and budget support, however the persistent high level of import payments and the rising outflow of private transfers eventually weighed on the level of foreign reserves.

Hence, foreign reserves slightly fell to \$366.3 million in August, sufficient to cover 9.2 months of imports, well above the NRBT's minimum range of 3-4 months. The outlook for foreign reserves is considered to remain comfortably above the minimum range, given the expectation of high remittance receipts for the upcoming Christmas festivities and other assistance from donor partners.

However, delays to the inflow of these funds may pose a risk to the outlook.

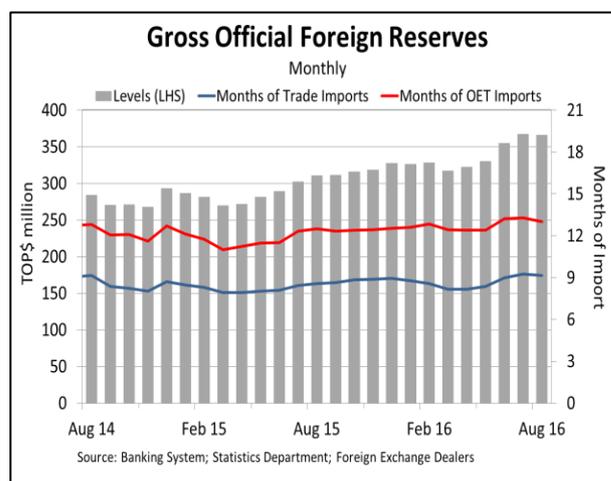
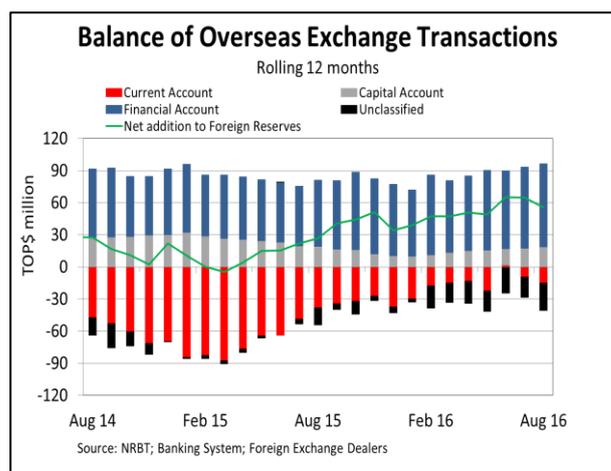


Table 2

| Overseas Exchange Transactions | | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| TOP\$ millions | | | | | | |
| | Month Ended | | | | Year Ended | |
| | Aug-16 | Jul-16 | Jun-16 | May-16 | Aug-16 | Aug-15 |
| Total Payments | 52.8 | 52.3 | 49.7 | 55.1 | 591.2 | 504.6 |
| Current Account | 51.4 | 50.2 | 47.3 | 53.2 | 548.0 | 466.5 |
| Imports | 30.8 | 31.1 | 28.3 | 34.1 | 337.8 | 298.3 |
| Services | 12.7 | 13.4 | 12.8 | 11.0 | 128.2 | 102.2 |
| Primary Income | 1.7 | 0.8 | 0.7 | 0.7 | 18.0 | 18.4 |
| Transfers | 6.2 | 4.8 | 5.6 | 7.4 | 64.0 | 47.6 |
| Official | 0.0 | 0.0 | 0.0 | 1.8 | 3.4 | 2.1 |
| Private | 6.1 | 4.8 | 5.1 | 5.4 | 60.4 | 45.4 |
| Non-Profit | 0.2 | 0.0 | 0.4 | 0.3 | 0.2 | 0.1 |
| Capital Account | 0.0 | 0.0 | 0.0 | 0.2 | 2.3 | 3.6 |
| Official | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Private | 0.0 | 0.0 | 0.0 | 0.2 | 2.3 | 3.6 |
| Financial Account | 1.4 | 2.1 | 2.3 | 1.7 | 40.9 | 34.4 |
| Direct Investment | 0.5 | 0.9 | 0.1 | 0.0 | 4.6 | 0.3 |
| Portfolio Investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investment | 0.9 | 1.2 | 2.3 | 1.6 | 36.3 | 34.1 |
| Unclassified Payments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Receipts | 61.0 | 57.0 | 84.8 | 59.5 | 670.9 | 544.7 |
| Current Account | 48.7 | 43.0 | 70.7 | 48.3 | 531.4 | 425.6 |
| Exports | 1.3 | 1.3 | 1.4 | 1.0 | 16.7 | 14.5 |
| Agriculture | 0.3 | 0.4 | 0.2 | 0.3 | 6.4 | 4.7 |
| Marines | 0.8 | 0.5 | 0.9 | 0.6 | 7.9 | 5.4 |
| Other | 0.2 | 0.4 | 0.2 | 0.0 | 2.4 | 4.4 |
| Services | 17.1 | 15.0 | 14.0 | 10.4 | 146.6 | 113.9 |
| Travel | 10.3 | 9.0 | 8.0 | 6.5 | 85.7 | 75.3 |
| Other | 6.8 | 6.0 | 6.0 | 3.9 | 60.9 | 38.5 |
| Primary Income | 2.4 | 2.0 | 2.1 | 2.1 | 22.5 | 17.7 |
| Transfers | 27.9 | 24.8 | 53.2 | 34.8 | 345.7 | 279.5 |
| Official | 1.3 | 1.8 | 25.0 | 10.9 | 80.3 | 53.3 |
| Private | 22.3 | 19.9 | 22.0 | 22.5 | 234.5 | 193.7 |
| Non-Profit | 4.3 | 3.1 | 6.2 | 1.4 | 30.9 | 32.5 |
| Capital Account | 1.5 | 2.9 | 1.8 | 2.4 | 20.8 | 22.6 |
| Official | 0.2 | 1.2 | 0.3 | 0.2 | 7.9 | 6.9 |
| Private | 1.3 | 1.8 | 1.5 | 2.2 | 12.9 | 15.6 |
| Financial Account | 10.9 | 11.1 | 12.3 | 8.8 | 118.7 | 96.6 |
| Direct Investment | 5.0 | 6.8 | 1.3 | 0.0 | 13.4 | 2.6 |
| Portfolio Investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investment | 5.9 | 4.3 | 11.0 | 8.8 | 105.3 | 94.0 |
| Unclassified Receipts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: banking system; foreign exchange dealers, NRBT