

Overseas Exchange Transactions (OET)

July 2018

Release Date: 23 November 2018

Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Jul-18	Jun-18	May-18	Apr-18	Jul-18	Jul-17
Overall Balance	7.7	26.8	-4.0	-1.8	67.6	41.5
Net Current Account	0.8	27.5	-4.9	-4.9	14.8	44.2
Net Capital Account	3.8	3.5	2.6	2.8	41.5	29.8
Net Financial Account	3.1	-4.4	-1.9	0.3	11.2	-32.5
Foreign Reserve Levels	476.5	468.7	441.9	445.9	476.5	407.9

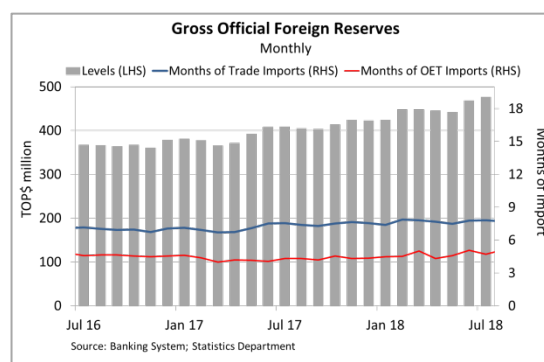
Sources: Banking System; NRB

Overall OET balance remains in surplus following the hike in June

Overall Balance & Foreign Reserve

Over the month of July 2018, the balance of the overall OET recorded a lower surplus of \$7.7 million following the high surplus recorded last month. Subsequently the official foreign reserves rose to \$476.5 million over the month, which is equivalent to 7.8 months of import cover.

Over the year, the overall OET surplus balance rose by \$26.1 million to \$67.6 million. This resulted in a rise in the official foreign reserves from \$408.9 million in July 2017 (7.5 months of import).



The Reserve Bank continues to anticipate that the level of foreign reserves will remain at a comfortable level and above the 3 months of import cover in the near term. This is expected to be supported by higher receipts of remittances and foreign aid. Any further delays to the inflow of aid and budget support from development partners, the commencement of loan principal repayment to People's Republic 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 global oil and commodities prices and Tonga's vulnerability to natural disasters are also risks to the projections above.

Current Account

The surplus in the current account balance for July 2018 declined over the month driven by lower receipts of official grants from development partners and other grants for technical assistance. This decline was also assisted by higher import payments over July which drove the widening in the merchandise trade deficit. On the other hand, receipts for services (particularly personal travel and

other private services) and remittances increased which contributed to the surplus recorded in the transfer account balance over the month.

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jul-18	Jun-18	May-18	Apr-18	Jul-18	Jul-17
Net Current Account	0.8	27.8	-4.7	-4.8	14.8	44.2
Merchandise Trade	-36.7	-35.3	-36.0	-30.3	-390.9	-345.8
Services	5.9	-2.2	-3.4	0.7	24.2	39.4
Income	1.9	-3.4	0.6	1.3	-4.6	-18.6
Transfers	29.7	68.6	34.0	23.5	386.2	369.2

Sources: Banking System; NRB

The import payments continued to increase slightly over the month by 1.6% to \$38.0 million. These payments were mainly for import of wholesale and retail goods and motor vehicles which increased respectively by 13% and 88% over the month of July. These trade movements coincided with the increase of container registrations over July by 15.6%. Contrastingly, export proceeds declined by \$0.8 million due mainly to a fall in proceeds from agricultural export products.

The service account noted a surplus of \$5.9 million in July 2018 resulting from lower payments and higher receipts recorded over the month. The higher receipts were due to increases in personal travel, insurance claims, and ocean freight service receipts. Meanwhile, lower payments were recorded for passenger airfare payments and other private services (professional and management).

The income balance recorded a surplus in July following a deficit in previous month. Income receipts declined over July by \$0.2 million to \$2.2 million whilst income payments fell by \$5.5million to \$0.3 million. Lower income payments stemmed from a decline in investment income payments particularly pay out of dividends. The lower income receipts resulted largely from a decline in compensation of employees.

Over the year to July 2018, the surplus in the current account was lowered by \$29.3 million to \$14.8 million. The deficits in the merchandise trade and income accounts had partially offset the surpluses recorded for services and transfer accounts. The rise in both private and official receipts outweighed the rise in all categories of transfer payments. Private transfer receipts rose the most yet again over the year by 8.0%. This was attributed to the continuous rise in remittances driving the increase in transfer receipts indicating the willingness of Tongan families abroad to support the local families in events that took place during the year. Other service receipts drove the increase in service receipts over the year, more specifically, insurance claim receipts, receipts for professional, management consulting services, and other modes of transport service receipts. As for payments, higher payments for imported wholesale & retail goods and oil drove the higher merchandise trade deficit. This was supported also by a rise in container registrations by 1,148 containers indicating growth in the trade sector. This was also supported by the decline in proceeds from all sectors of export except other marine exports and agricultural which noted minimal increases. The net income payments were mainly dividend sent abroad to non-resident shareholders.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jul-18	Jun-18	May-18	Apr-18	Jul-18	Jul-17
Net Capital Account	3.8	3.5	2.6	2.8	41.5	29.8
Official	2.9	2.4	1.3	1.4	18.3	9.6
Private	0.9	1.0	1.3	1.4	23.3	20.2

Sources: Banking System; NRBT

The surplus in the capital account slightly increased by \$0.4 million over the month of July 2018. This was driven solely by the \$0.5 million rise in the surplus of the official capital account, which were partly offset by a \$0.1 million decline in the surplus from the private capital account. The fund receipts by Government for investment projects, capital expenditures, and for construction purposes rose over the month while the fund receipts by private companies fell. Both official and private capital payments recorded no payments over the month.

Over the year to July 2018, the capital account continued to maintain its position of holding the highest surplus in the total OET, as surplus increased by \$11.8 million to \$41.5 million. The fund receipts by both Government and the private sector for investment projects and capital expenditures (for construction purposes) rose over the year by \$8.7 million and \$3.1 million respectively. This outweighed the rise in official capital and private capital payments. The construction projects includes the Tonga Transport Sector Consolidation road maintenance projects, the renovation works at Fua'amotu Airport and individuals and private companies' renovation works after Tropical Cyclone Gita.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jul-18	Jun-18	May-18	Apr-18	Jul-18	Jul-17
Net Financial Account	3.1	-4.4	-1.9	0.3	11.2	-32.5
Direct Investment	-0.1	0.2	0.4	0.2	-8.2	0.8
Portfolio Investment	0.3	0.0	0.0	0.0	0.3	0.0
Other Investment	3.0	-4.6	-2.2	0.0	19.1	-33.3

Sources: Banking System; NRBT

The surplus in the financial account over the month of July 2018 rose from a deficit in the previous month as a result of higher receipts of foreign currency pursued by the financial corporations (commercial banks) to meet private sector and public demand for these currencies. In year ended terms, the financial account again recorded a surplus, and this was attributed mainly to other investments particularly, interbank receipts.

Overseas Exchange Transactions

TOP\$ millions

	Month Ended				Year Ended	
	Jul-18	Jun-18	May-18	Apr-18	Jul-18	Jul-17
Total Payments	61.6	67.6	66.6	54.5	717.4	646.8
Current Account	57.5	64.4	64.5	50.7	677.6	602.7
Imports	38.0	37.4	37.6	31.4	411.5	369.7
Services	13.6	16.5	20.0	12.2	169.1	140.4
Primary Income	0.3	5.9	2.4	1.1	29.5	35.5
Transfers	5.6	4.6	4.5	6.0	67.5	57.1
Official	0.0	0.0	0.0	0.0	8.9	2.5
Private	5.5	4.4	4.3	5.9	58.1	54.4
Non-Profit	0.1	0.2	0.2	0.1	0.5	0.3
Capital Account	0.0	0.0	0.1	0.0	4.0	2.8
Official	0.0	0.0	0.1	0.0	0.9	0.1
Private	0.0	0.0	0.0	0.0	3.2	2.7
Financial Account	4.1	3.1	2.0	3.8	35.7	41.3
Direct Investment	0.1	0.1	0.0	0.0	9.8	14.0
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	4.0	3.0	2.0	3.8	25.9	27.3
Unclassified Payments	0.0	0.0	0.0	0.0	0.0	0.0
Total Receipts	73.2	118.2	70.7	58.9	845.9	778.1
Current Account	58.3	92.2	59.8	45.8	692.5	646.8
Exports	1.3	2.1	1.6	1.1	20.5	23.9
Agriculture	0.4	1.1	1.2	0.5	10.9	10.8
Marines	0.7	0.6	0.3	0.2	5.9	8.6
Other	0.1	0.4	0.2	0.4	3.4	4.1
Services	19.5	14.4	16.7	12.9	193.3	179.7
Travel	12.2	9.5	9.0	6.9	112.0	111.2
Other	7.3	4.9	7.7	6.0	81.3	68.5
Primary Income	2.2	2.4	3.0	2.4	24.9	16.9
Transfers	35.3	73.3	38.5	29.5	453.7	426.4
Official	5.3	41.3	2.0	2.4	94.9	87.6
Private	27.2	27.4	31.5	23.2	314.1	290.9
Non-Profit	2.8	4.5	5.0	3.9	44.8	47.9
Capital Account	3.8	3.5	2.7	2.8	45.6	32.6
Official	2.9	2.4	1.4	1.4	19.1	9.7
Private	0.9	1.0	1.3	1.4	26.4	22.9
Financial Account	11.0	22.5	8.2	10.2	107.9	98.7
Direct Investment	0.0	0.3	0.4	0.2	1.6	14.8
Portfolio Investment	0.3	0.0	0.0	0.0	0.3	0.0
Other Investment	10.8	22.2	7.8	10.0	106.0	83.9
Unclassified Receipts	0.0	0.0	0.0	0.0	0.0	0.0