

Overseas Exchange Transactions (OET)

October 2018

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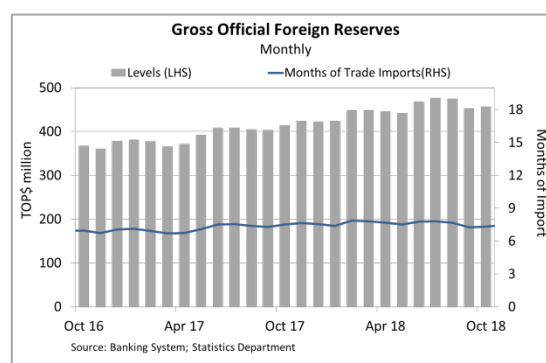
Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-18	Sep-18	Aug-18	Jul-18	Oct-18	Oct-17
Overall Balance	5.1	-22.8	-1.5	7.7	43.7	46.5
Net Current Account	0.5	-16.9	-5.7	0.8	-3.3	45.0
Net Capital Account	1.3	2.9	2.4	3.8	34.4	36.9
Net Financial Account	3.3	-8.8	1.8	3.1	12.7	-35.3
Foreign Reserve Levels	457.3	452.2	475.0	476.5	457.3	413.6

Sources: Banking System; NRBT

Foreign Reserves rise again on receipt of official transfers

Overall Balance & Foreign Reserve

The OET overall balance quickly bounced back from a deficit in the previous month to a surplus of \$5.1 million in October 2018. The receipt of budgetary support and grant funds from development partners during the month recovered some of the losses on foreign reserves following the commencement of the government principal loan repayment to the EXIM Bank of China in September 2018. In November 2018 the Minister of Finance and EXIM Bank of China signed the deferring of Tonga's loan repayment for another 5 years. Official foreign reserves rose to \$457.3 million in October equivalent to 7.3 months of imports cover. Over the year, the foreign reserves, was \$43.7 million higher than it was a year ago.



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On the horizon, the Reserve Bank forecasts foreign reserves to remain at a comfortable level and above the 3 months of import cover in the near term. This is to be supported by expected higher receipts of remittances and foreign aid. Delays to the inflow of aid and budget support from development partners and Tonga's vulnerability to natural disasters continues to pose a risk to the outlook.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-18	Sep-18	Aug-18	Jul-18	Oct-18	Oct-17
Net Current Account	0.5	-16.9	-5.7	0.8	-3.3	45.0
Merchandise Trade	-40.1	-40.9	-36.7	-36.7	-407.9	-358.9
Services	5.2	0.4	2.2	5.9	17.2	45.0
Income	1.5	-1.0	1.9	1.9	4.7	-18.3
Transfers	33.8	24.6	27.0	29.7	382.7	377.2

Sources: Banking System; NRBT

The current account balance improved in October and recorded a surplus compared to a deficit last month. This was due to improvements in all categories particularly the net transfer receipts. More than \$10 million of budget support and government grants funds were received in October, boosting net transfer receipts to a monthly record of \$33.8 million. Private transfer receipts also noted a slight increase of \$0.6 million due mostly to higher receipts of remittances for family support and gifts. Net services receipts also rose to \$5.2 million stemming mostly from higher personal travel receipts, whilst services payments declined, contributing to the monthly rise of the current account. The income balance also recorded a surplus in October following the deficit last month, and this was driven largely by lower payments outweighing the decline in receipts. In particular, this derived from lower payments of government loan interest compared to September. Minimal improvement was observed in the merchandise trade deficit due to a slight decrease in import payments.

In year ended terms, the current account balance deteriorated and recorded a deficit of \$3.3 million. This resulted mainly from a widening deficit in the merchandise trade account as import payments continued to grow strongly over the year. This is further supported by the decline in services receipts as payments of services outweighed the rise services receipts. The negative trends in the performance of merchandise trade and services over the year, more than offset the positive growth of net income and transfers. Service receipts increased due to higher receipts from private services over the year (professional, management, consultancy, and other service fees). As for transfer receipts, private transfer receipts recorded an increase of \$22.7 million which are mostly remittances.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-18	Sep-18	Aug-18	Jul-18	Oct-18	Oct-17
Net Capital Account	1.3	2.9	2.4	3.8	34.4	36.9
Official	0.8	2.2	1.1	2.9	17.2	13.8
Private	0.5	0.6	1.2	0.9	17.2	23.1

Sources: Banking System; NRBT

The lower surplus is recorded for the capital account in October due mostly to a \$1.4 million decline in receipts of government grants and project funds for investment projects. In year ended terms, the capital account continued to maintain its position of holding the highest surplus in the overall OET

balance although a slight decline of \$2.5 million is recorded. While receipts of official capital investment funds rose, the drop in the receipts of funds for construction and other capital expenditures by the private sector more than offset the rise in official capital receipts.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Oct-18	Sep-18	Aug-18	Jul-18	Oct-18	Oct-17
Net Financial Account	3.3	-8.8	1.8	3.1	12.7	-35.3
Direct Investment	-0.3	-0.3	-0.7	-0.1	-2.3	-11.5
Portfolio Investment	0.0	-0.1	0.0	0.3	0.1	0.0
Other Investment	3.6	-8.5	2.5	3.0	14.8	-23.8

Sources: Banking System; NRBT

In October, the turnaround in the financial account balance stemmed from the lower government loan repayments following the commencement of the principal payment to the Export-Import (EXIM) Bank of China last month. Financial account payments declined more than the fall in financial account receipts leading to a surplus over the year, and this was due mainly to other investments particularly interbank receipts.

Overseas Exchange Transactions

TOP\$ millions

	Month Ended				Year Ended	
	Oct-18	Sep-18	Aug-18	Jul-18	Oct-18	Oct-17
Total Payments	65.1	79.2	66.9	61.6	743.0	666.0
Current Account	60.8	66.6	62.3	57.5	694.0	616.1
Imports	41.8	42.5	38.1	38.0	426.2	383.8
Services	13.2	15.7	17.3	13.6	176.4	142.0
Primary Income	0.3	3.1	0.3	0.3	19.6	35.8
Transfers	5.5	5.3	6.6	5.6	71.7	54.6
Official	0.0	0.0	0.0	0.0	8.9	2.4
Private	5.5	5.3	6.2	5.5	62.6	51.6
Non-Profit	0.0	0.0	0.4	0.1	0.3	0.5
Capital Account	0.7	0.8	0.0	0.0	5.4	2.6
Official	0.3	0.2	0.0	0.0	1.3	0.1
Private	0.5	0.6	0.0	0.0	4.1	2.5
Financial Account	3.6	11.9	4.6	4.1	43.6	47.2
Direct Investment	0.3	0.3	0.8	0.1	3.7	20.3
Portfolio Investment	0.0	0.1	0.0	0.0	0.2	0.0
Other Investment	3.3	11.5	3.8	4.0	39.8	26.9
Total Receipts	69.3	66.7	66.1	73.2	843.1	792.9
Current Account	61.3	49.7	56.7	58.3	690.7	661.1
Exports	1.7	1.6	1.4	1.3	18.3	24.9
Agriculture	1.0	0.7	0.8	0.4	9.9	11.5
Marines	0.5	0.8	0.5	0.7	6.1	8.1
Other	0.2	0.0	0.0	0.1	2.1	4.8
Services	18.4	16.1	19.5	19.5	193.6	187.0
Travel	12.4	10.7	12.7	12.2	113.4	117.0
Other	6.1	5.5	6.8	7.3	80.2	70.0
Primary Income	1.8	2.1	2.2	2.2	24.3	17.5
Transfers	39.4	30.0	33.6	35.3	454.4	431.7
Official	10.6	0.5	1.4	5.3	96.2	83.1
Private	25.6	24.9	28.5	27.2	314.2	300.7
Non-Profit	3.2	4.5	3.6	2.8	44.0	47.9
Capital Account	2.0	3.7	2.4	3.8	39.7	39.5
Official	1.0	2.4	1.1	2.9	18.5	13.9
Private	1.0	1.2	1.2	0.9	21.2	25.6
Financial Account	6.0	13.3	7.1	11.0	112.6	92.3
Direct Investment	0.0	0.0	0.1	0.0	1.4	8.8
Portfolio Investment	0.0	0.0	0.0	0.3	0.3	0.0
Other Investment	6.0	13.3	7.0	10.8	110.9	83.5

Sources: Banking System; NRBT