

# Overseas Exchange Transactions (OET)

Release Date: 27 December 2018

## August 2018

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-18	Jul-18	Jun-18	May-18	Aug-18	Aug-17
<b>Overall Balance</b>	<b>-1.5</b>	<b>7.7</b>	<b>26.8</b>	<b>-4.0</b>	<b>70.0</b>	<b>38.8</b>
Net Current Account	-5.7	0.8	27.8	-4.7	11.1	43.1
Net Capital Account	2.4	3.8	3.5	2.6	39.8	32.4
Net Financial Account	1.8	3.1	-4.4	-1.9	19.1	-36.8
<b>Foreign Reserve Levels</b>	<b>475.0</b>	<b>476.5</b>	<b>468.7</b>	<b>441.9</b>	<b>475.0</b>	<b>405.0</b>

Sources: Banking System; NRBT

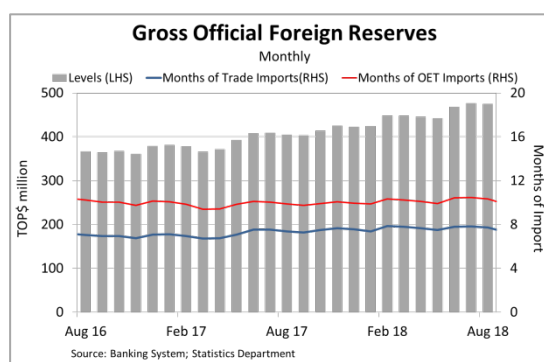
## Higher merchandise trade balance drives a deficit in the overall OET balance

### Overall Balance & Foreign Reserve

Over August, the balance of the overall OET recorded a deficit of \$1.5 million following a surplus recorded last month. This stemmed largely from higher payments for services and import purposes. Consequently, the official foreign reserves fell to \$475.0 million over the month. The monthly balance was equivalent to 7.7 months of import cover.

Annually, the overall OET surplus balance rose by \$31.2 million to \$70.0 million due to surpluses in all accounts with the capital account recording the highest surplus. This was attributed to the rise of the official foreign reserves from \$405.0 million in August 2017 (7.4 months of import).

In the near term, the Reserve Bank continues to forecast that the level of foreign reserves will remain at a comfortable level and above the 3 months of import cover. This is expected to be backed by the delayed budgetary support from 2017/18, grant funds from development partners, and anticipated higher receipts of remittances. This will be partially offset by the expected increase in imports and the Government's external loan repayments. The pace of development in the domestic economic activities may also pose a risk to the foreign reserves outlook. Global uncertainties regarding oil and commodities prices paired with Tonga's vulnerability to natural disasters are also risks to the projections above.



## Current Account

Over the month, the deficit in the current account balance resulted from higher payments for services and import purposes. The decline was largely attributed to freight service payments for both sea and air freight. Additionally, payments for oil imports contributed to the overall rise in import payments. Furthermore, private transfer payments increased resulting from higher private transfers (such as gift payments to family and friends) and workers remittances (expatriate salary payments). The current account receipts declined particularly the official transfer receipts further aligning with the deficit recorded over the month.

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-18	Jul-18	Jun-18	May-18	Aug-18	Aug-17
Net Current Account	-5.7	0.8	27.8	-4.7	11.1	43.1
Merchandise Trade	-36.7	-36.7	-35.3	-36.0	-390.1	-354.1
Services	2.2	5.9	-2.2	-3.4	22.2	39.1
Income	1.9	1.9	-3.4	0.6	-1.9	-20.4
Transfers	27.0	29.7	68.6	34.0	381.0	378.4

Sources: Banking System; NRB

Import payments continued to be the highest payment made, recording growth of 0.4% to \$38.1 million. Payments for oil imports increased by \$4.7 million due to a bulk payment made in August. This growth had offset the decline in payments for all other import categories, payments for other imports fell the most by \$2.0 million. Furthermore, export proceeds rose slightly by \$0.1 million and resulted mainly from an increase in the export of agricultural products.

The service account noted a surplus of \$2.2 million in August 2018, lower than the surplus recorded last month. Despite the increase in service payments particularly air freight, sea freight, business travel, and school fee payments, it was outweighed by the service receipts, the majority of these receipts stemmed from travel purposes.

Although the income balance continued to record a surplus, both income receipts and income payments remained unchanged compared to the previous month.

In year ended terms, the surplus in the current account was lower by \$32.0 million to \$11.1 million. More specifically, the deficits in the merchandise trade and income accounts had partially offset the surpluses recorded for the services and private transfer accounts. As such, the higher payments for imported wholesale & retail goods, oil, and motor vehicles drove the higher merchandise trade deficit. This coincided with a rise in container registrations recording an increase of 812 containers indicating growth in the trade sector. Additionally, this was supported by the decline in proceeds from all sectors of export except other marine exports which recorded an increase. However, the private transfer receipts rose the most over the year recording an increase of \$18.2 million whilst official transfer receipts remained stable. This resulted from continuous rises in remittances driving the increase in transfer receipts and further indicative of the consistent support of Tongan families abroad.

## Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-18	Jul-18	Jun-18	May-18	Aug-18	Aug-17
Net Capital Account	2.4	3.8	3.5	2.6	39.8	32.4
Official	1.1	2.9	2.4	1.3	17.3	11.6
Private	1.2	0.9	1.0	1.3	22.5	20.9

Sources: Banking System; NRBT

The surplus in the capital account fell by \$1.5 million over the month. This was driven solely by the \$1.8 million decline in the surplus of the official capital account offsetting the \$0.3 million increase in the surplus from the private capital account. Both official capital and private capital transfer accounts recorded no payments during the month.

Annually, the capital account continued to maintain its position of holding the highest surplus in the overall OET balance. The capital account surplus increased by \$7.3 million to \$39.8 million. The fund receipts by both Government and the private sector for investment projects and capital expenditures (for construction purposes) rose over the year. As such, the official capital transfer receipts rose by \$6.5 million whilst the private capital transfer receipts rose by \$2.0 million. This outweighed the rise in official capital and private capital payments. The construction projects include the Tonga Transport Sector Consolidation road maintenance projects, the renovation works at Fua'amotu Airport under the Pacific Aviation Investment Program and individuals and private companies' renovation works after Tropical Cyclone Gita.

## Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Aug-18	Jul-18	Jun-18	May-18	Aug-18	Aug-17
Net Financial Account	1.8	3.1	-4.4	-1.9	19.1	-36.8
Direct Investment	-0.7	-0.1	0.2	0.4	-8.5	-4.0
Portfolio Investment	0.0	0.3	0.0	0.0	0.3	0.0
Other Investment	2.5	3.0	-4.6	-2.2	27.3	-32.7

Sources: Banking System; NRBT

The surplus in the financial account over the month was lower compared to the previous month as a result of a drop in the transfers by foreign commercial banks to their accounts in Tonga for payments to customers. Over the year, the financial account again recorded a surplus, and this was owing largely to other investments specifically, interbank receipts.

## Overseas Exchange Transactions

TOP\$ millions

	Month Ended				Year Ended	
	Aug-18	Jul-18	Jun-18	May-18	Aug-18	Aug-17
Total Payments	<b>66.9</b>	<b>61.6</b>	<b>67.6</b>	<b>66.6</b>	<b>721.0</b>	<b>657.3</b>
Current Account	<b>62.3</b>	<b>57.5</b>	<b>64.4</b>	<b>64.5</b>	<b>677.6</b>	<b>613.6</b>
Imports	38.1	38.0	37.4	37.6	409.5	379.0
Services	17.3	13.6	16.5	20.0	172.0	142.1
Primary Income	0.3	0.3	5.9	2.4	26.9	36.7
Transfers	6.6	5.6	4.6	4.5	69.1	55.8
Official	0.0	0.0	0.0	0.0	9.0	2.5
Private	6.2	5.5	4.4	4.3	59.8	52.8
Non-Profit	0.4	0.1	0.2	0.2	0.3	0.5
Capital Account	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>4.0</b>	<b>2.8</b>
Official	0.0	0.0	0.0	0.1	0.9	0.1
Private	0.0	0.0	0.0	0.0	3.2	2.7
Financial Account	<b>4.6</b>	<b>4.1</b>	<b>3.1</b>	<b>2.0</b>	<b>39.4</b>	<b>40.8</b>
Direct Investment	0.8	0.1	0.1	0.0	10.2	13.8
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	3.8	4.0	3.0	2.0	29.2	27.0
Total Receipts	<b>66.1</b>	<b>73.2</b>	<b>118.2</b>	<b>70.7</b>	<b>839.9</b>	<b>787.4</b>
Current Account	<b>56.7</b>	<b>58.3</b>	<b>92.2</b>	<b>59.8</b>	<b>688.7</b>	<b>656.7</b>
Exports	1.4	1.3	2.1	1.6	19.4	24.9
Agriculture	0.8	0.4	1.1	1.2	10.9	11.4
Marines	0.5	0.7	0.6	0.3	5.8	8.4
Other	0.0	0.1	0.4	0.2	2.5	4.8
Services	19.5	19.5	14.4	16.7	194.2	181.2
Travel	12.7	12.2	9.5	9.0	112.0	113.5
Other	6.8	7.3	4.9	7.7	82.2	67.7
Primary Income	2.2	2.2	2.4	3.0	25.0	16.3
Transfers	33.6	35.3	73.3	38.5	450.1	434.2
Official	1.4	5.3	41.3	2.0	91.3	91.3
Private	28.5	27.2	27.4	31.5	313.9	295.8
Non-Profit	3.6	2.8	4.5	5.0	44.8	47.2
Capital Account	<b>2.4</b>	<b>3.8</b>	<b>3.5</b>	<b>2.7</b>	<b>43.8</b>	<b>35.3</b>
Official	1.1	2.9	2.4	1.4	18.1	11.7
Private	1.2	0.9	1.0	1.3	25.7	23.6
Financial Account	<b>7.1</b>	<b>11.0</b>	<b>22.5</b>	<b>8.2</b>	<b>107.4</b>	<b>95.4</b>
Direct Investment	0.1	0.0	0.3	0.4	1.7	9.8
Portfolio Investment	0.0	0.3	0.0	0.0	0.3	0.0
Other Investment	7.0	10.8	22.2	7.8	105.4	85.6

Figures may not add up due to rounding errors

Sources: banking system; NRBT