

Overseas Exchange Transactions

December 2014

<i>T\$m*</i>	Dec 14	Nov 14	Oct 14	Sept 14
Overall balance	25.8	-3.6	0.6	-13.0
Current account	20.2	-5.8	-7.1	-15.2
Capital account	14.3	4.2	7.9	7.8
Unclassified	-8.7	-2.1	-0.2	-5.7

*Month-ended

Overall Balance

The overall balance on Overseas Exchange Transactions (OET) was in surplus of \$25.8 million in December, a turnaround from a deficit in November. The change resulted from higher net inflows in both the current account and the capital account. In year-ended terms the overall balance was also in surplus. The wider surplus was largely due to lower net unclassified outflows.

Current Account

The current account had a net inflow of \$20.2million over the month compared to a net outflow of \$5.8million in November. Import payments fell by 9.2% during the month driven by declining payments for oil. However, year ended data shows import payments slowly increasing since October. This is due to a significant rise in construction materials.

Export receipts increased over the month by 73.5%, a large portion of which is believed to be proceeds from squash which were not shown in the OET for October and November. This is due to the squash season peaking at the end of the year, therefore driving proceeds from squash exports during December. In year-ended terms, export receipts also rose, with the recent substantial increase contributing to the rise.

Travel receipts rose by 41.5% over the month as a result of additional flights to Tonga over the holiday season. However, in year-ended terms, travel receipts were 22.9% lower than a year ago despite an increase in international air arrivals. This fall may be

attributed to the classification of data. All foreign card transactions and remittances made via card transactions are recorded as travel receipts. Therefore, the series is likely to be overstated and the fall in year-ended terms may correlate to fewer foreign card transactions.

Remittances increased over the month by 25.7%. The increase stemmed from all three of our major source countries with low unemployment and a weaker Pa'anga contributing to the growth. In year-ended terms, remittances increased by 2.9% to \$217.8million.

Capital Account and Unclassified Transactions

The higher net capital account inflow over the month resulted from a boost in both private and official capital receipts. Much of these capital receipts came in the form of donor funds, with more expected in early 2015.

The balance of unclassified transactions was a net outflow of \$8.7 million in December. For the year ended December 2014, unclassified transactions amounted to a net outflow of \$9.2 million compared to a net outflow of \$48.2million for the year ended December 2013. This reduction in net unclassified outflows was the main reason for the higher year-ended surplus compared to the previous year.

Foreign Reserves

Gross official foreign reserves rose to its highest level on record of T\$293.6 million in December 2014, sufficient to cover 9.9 months of imports. This is well above the 3-4 months benchmark. Looking forward, the level of foreign reserves is anticipated to increase throughout the remainder of 2014/15 financial year due to the expected donor funds in early 2015. However, delays to the inflow of these funds will pose a risk to the outlook. However, even in a worst-case scenario the level of foreign reserves is forecast to remain comfortably above the benchmark.

While economic rationale broadly supports continued monetary stimulus, foreign reserves remain at high levels and the NRBT is closely monitoring this. The NRBT's expansionary monetary policy stance therefore remains.

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\$TOP millions

	Month ended			Year-ended	
	Dec-14	Nov-14	Oct-14	Dec-14	Dec-13
Overall balance	25.8	-3.6	0.6	21.8	14.5
Current account	20.2	-5.8	-7.1	-59.8	-41.1
Merchandise trade	-18.5	-21.7	-22.1	-266.2	-244.3
Services	1.5	-2.2	-3.0	-18.7	6.9
Investment	1.1	0.7	3.2	13.0	7.1
Transfers	36.1	17.5	14.9	212.1	189.2
Official	13.7	-0.7	0.2	36.6	12.3
Private	22.4	18.2	14.6	175.5	176.9
Capital account	14.3	4.2	7.9	90.8	103.8
Unclassified	-8.7	-2.1	-0.2	-9.2	-48.2

Sources: banking system; foreign exchange dealers; NRBT



