

Overseas Exchange Transactions (OET)

February 2017

Release Date: 28 June 2017

Table 1

<i>T\$ m</i>	Feb 17	Jan 17	Dec 16	Nov 16
Overall balance	-3.2	2.1	17.8	-6.1
Total inflows	44.8	57.5	92.3	51.8
Total outflows	45.9	42.8	51.2	51.5
Foreign Reserves	377.7	380.8	378.8	360.9

Lower financial account receipts leads to overall balance deficit

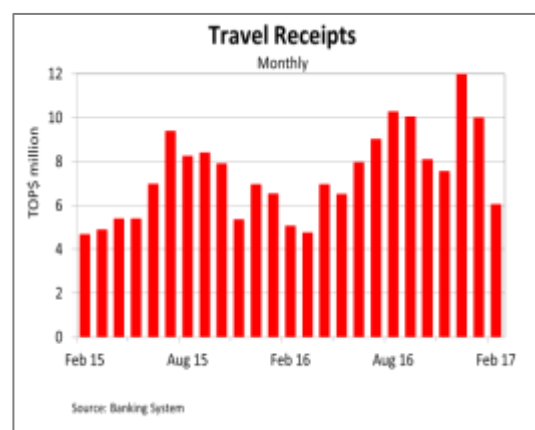
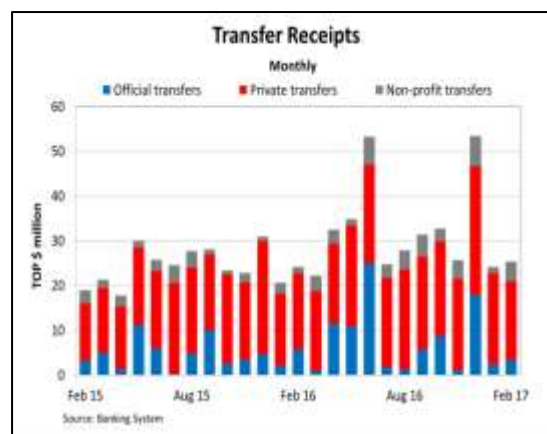
Total OET Receipts

Lower OET receipts were reported for the month of February 2017, as it declined by \$12.7 million (22.2%) to \$44.8 million. This was due mainly to lower receipts in the financial and current accounts over the month. Over the year to February, OET receipts reached \$736.0 million, which was \$141.7 million (23.8%) higher than the previous year. The US dollar (USD) remained the major currency for receipt transactions over the month with a share of 52% (\$23.4 million), lower than the share of 58% (\$33.3 million) last month. The Tongan Pa'anga followed with a share of 16% (\$7.4 million), higher than the share of 13% (\$7.4 million) last month, and Australian dollar share was 15% (\$6.8 million), lower than the share of 14% (\$7.8 million) last month while the New Zealand dollar share of 13% (\$7.6 million) last month was still maintained but with the total amount of \$5.9 million.

Current Account Receipts

Receipts in the current account declined by \$4.5 million (10.8%) over the month to \$37.1 million. This was mainly driven by a decline in the service and export receipts of \$5.1 million (35.5%) and \$0.7 million (30.2%) respectively. These were partly offset by a \$1.2 million (5.0%) increase in transfer and primary income receipts which rose by \$0.1 million (9.6%). Current account receipts represented 83% (\$37.1 million) of total OET receipts for February. Over the year, receipts in the current account rose by \$126.4 million (27.1%) to \$592.7 million, due mainly to a rise in transfer and service receipts.

Transfer receipts rose over the month by \$1.2 million (5.0%) to \$25.3 million. While a decrease was noted in private transfers received, this was offset by a \$4.0 million (258.9%) increase in the receipt of official and non-profit official transfers. Private transfers declined to \$17.5 million in February, which was \$2.8 million (13.9%) lower than it was in January, highlighting the end of the festive season. On the other hand, non-profit organisations' transfers rose by \$3.0 million (215.3%) underpinned by donations/grants to schools' alumni and churches activities. Official transfers rose by \$1.0 million due mainly to higher grants received by government for technical assistance and other current expenditures. Over the year, transfer receipts rose by \$90.6 million (30.5%) to \$388.1 million, due to a rise in all categories, particularly private transfers. It also represented 57% of total OET receipts. Improvement in the economic conditions in Tonga's major trading partner countries during the year contributed to the higher transfer receipts.¹



Service receipts fell over the month by \$5.1 million (35.5%) to \$9.3 million. Travel receipts declined the most by \$4.0 million (39.6%) due mainly to a decline in personal travel receipts. This coincided with the fall in international arrivals by 598 passengers (6.0%) in February. Other service receipts also declined by \$1.1 million (26.1%), owing mostly to lower receipts for transport and telecommunication services. Over the year, service receipts however rose by \$30.0 million (22.7%) to \$162.4 million, again driven mainly by higher receipts for personal travel and telecommunication services



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

which coincided with both the rise in international arrivals and the growth in the tourism and telecommunication sector.

Exports receipts for February slightly declined to \$1.5 million which was \$0.7 million (30.2%) lower than that of the previous month. While noting increases in the proceeds from marines and other exports, these were offset by a decrease in agricultural export proceeds of \$1.0 million (83.8%) to \$0.2 million. This was in line with the decline in volumes of agricultural exports by 188.8 tonnes (86.5%) in February. Proceeds from export of marine products rose over the month by \$0.1 million (16.9%) to \$0.9 million, supported by the rise in marine export volumes of 14.1 metric tonnes (6.3%) during the month. Total export proceeds over the year however, rose by \$7.0 million due mainly to an increase in agricultural export proceeds. The favourable squash season and better harvest of root crops during the year contributed to this annual growth.

Financial Account & Capital Account Receipts

Driving the lower OET receipts was the decline in financial account receipts which fell by \$10.8 million over the month to \$4.0 million. This was driven by no receipt of direct investments funds during the month compared with \$7.1 million received in the previous month, and lower deposits in resident banks by non-residents as well as lower deposits in non-resident banks by residents. In year ended terms, financial account receipts rose by \$4.8 million (4.3%) to \$116.4 million underpinned by higher direct investments during the year which were partly net-off by lower payments for other investments like interbank transfers.

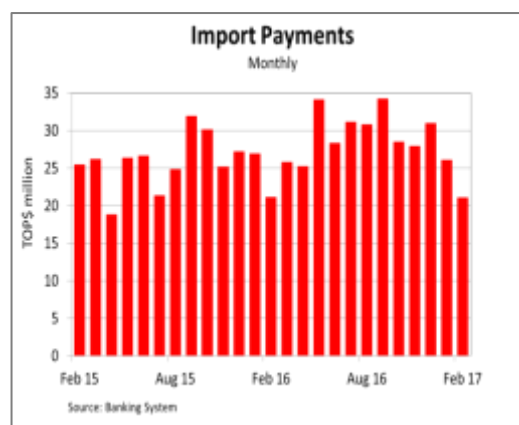
Capital account receipts, on the other hand, rose over the month by \$2.6 million (242.9%) to \$3.6 million mainly due to higher official and private grants for capital expenditure purposes like constructions by government, individuals and churches. Over the year, capital account receipts rose by \$10.5 million to \$26.9 million (63.5%) due mainly to a rise in private grants for capital expenditures such as constructions by individuals and churches.

Total OET Payments

An increase of \$3.1 million (7.2%) in total OET payments was reported for February 2017. This was largely attributed to higher payments in the financial account. Over the year to February 2017, the total OET payments reached \$616.9 million, which was \$87.0 million (16.4%) higher than the same period of last year. Higher import and service payments drove the annual rise in OET payments. The US dollar (USD) remained as the major currency for payment transactions over the month with a share of 59% (\$26.8 million), followed by the New Zealand dollar (NZD) with a share of 26% (\$11.9 million) and the Australian dollar with a share of 7% (\$3.3 million).

Current Account Payments

Lower current account payments of \$38.2 million were recorded in February, which was \$3.3 million (8.0%) lower than it was in January. This was driven mainly by lower import payments over the month. In year ended terms, current account payments increased by \$85.4 million (17.5%) to \$572.7 million due to higher payments for imports and services, representing 92.8% of total OET payments.



Import payments declined to \$21.0 million in February, which was \$5.0 million (19.2%) lower than the previous month. Lower payments for wholesale and retail goods, construction materials, vehicle and government imported goods payments drove the decline in imports payments. This marked the ending of the Christmas festivities and also supported the decline in vehicle registrations by 32 vehicles (11.2%). Container registrations however rose by 243 containers (37.6%) which indicate the lagged effect of payments of these containers and their arrival in Tonga. In year-ended terms, import payments rose by \$37.4 million (12.2%) to \$344.1 million due to higher payments for construction materials and wholesale & retail goods. Import payments accounted for 55.8% of total OET payments.

Service payments, on the other hand, rose by \$3.5 million (35.5%) to \$13.5 million over the month, underpinned by higher payments for airline and telecommunication business services. Over the year, service payments were \$143.7 million, \$32.1 million (28.8%) higher than the previous year, due mainly to higher travel payments.

Primary income and transfer payments slightly declined by \$0.1 million (14.8%) and \$1.8 million (36.5%) respectively due to lower payments of dividends, interests on external loans and private transfer payments. Over the year they both rose by \$8.0 million (50.9%) and \$7.9 million (14.7%) respectively, driven by higher dividends remitted to foreign investors and higher private transfers for family support and gift during the year.

Capital & Financial Account Payments

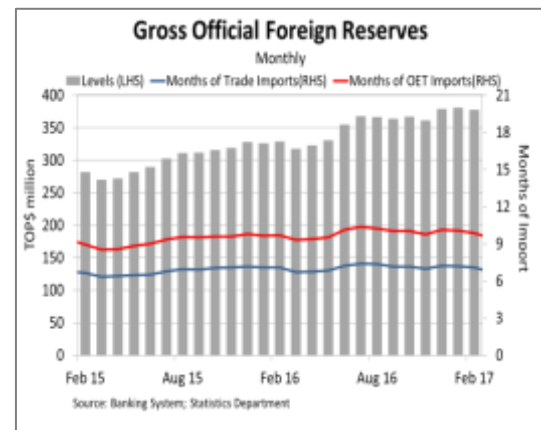
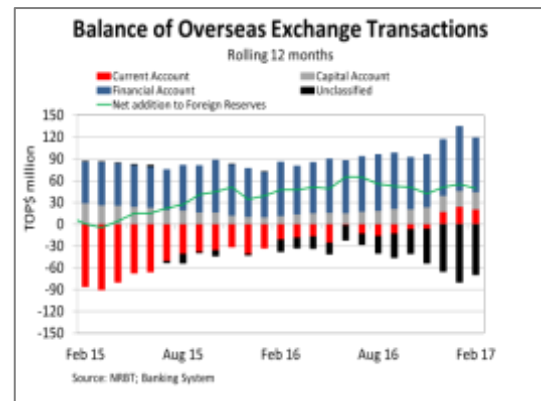
There was no capital account payments reported in February 2017 while financial account payments increased by \$6.6 million (572.2%) to \$7.7 million due mainly to reimbursements of intercompany funds to overseas investors. Over the year, capital account payments declined by \$2.4 million underpinned by lower private grants for

individuals and churches' constructions while financial account payments rose by \$4.0 million (10.8%) to \$41.3 million mostly in the form of interbank transfers.

Overall Balance & Foreign reserves

In February 2017, the balance of OET was a deficit of \$3.2 million. This contributed to the decline in the official foreign reserves to \$377.7 million in February 2017, sufficient to cover 7.1² months of imports, well above the Reserve Bank's minimum range of 3-4 months of imports.

The outlook for the foreign reserves is to remain comfortably above the minimum range, given the expectation of on-going remittance receipts, Government aid in the form of budget support, and other assistance from donor partners partly offset by the higher anticipated import payments. However, delays to the inflow of these funds will pose a risk to the outlook.



² Method of calculation changed in February 2017 to include imports of both goods and services (previous method used imports of goods only)

Table 2

Overseas Exchange Transactions
TOP\$ millions

	Month Ended				Year Ended	
	Feb-17	Jan-17	Dec-16	Nov-16	Feb-17	Feb-16
Total Payments	45.9	42.8	51.2	51.5	616.9	529.9
Current Account	38.2	41.5	48.7	45.1	572.7	487.3
Imports	21.0	26.0	30.9	27.9	344.1	306.6
Services	13.5	10.0	12.2	11.1	143.7	111.6
Primary Income	0.5	0.6	0.9	1.3	23.6	15.7
Transfers	3.1	4.9	4.7	4.7	61.3	53.4
Official	0.0	0.0	0.0	0.0	3.4	1.9
Private	3.1	4.8	4.3	4.7	57.7	51.3
Non-Profit	0.1	0.1	0.4	0.1	0.2	0.2
Capital Account	0.0	0.2	0.0	2.1	2.8	5.3
Official	0.0	0.0	0.0	0.0	0.0	0.0
Private	0.0	0.2	0.0	2.1	2.8	5.2
Financial Account	7.7	1.1	2.5	4.3	41.3	37.3
Direct Investment	6.4	0.0	0.3	2.8	11.9	2.8
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	1.3	1.1	2.2	1.5	29.4	34.5
Unclassified Payments	0.0	0.0	0.0	0.0	0.0	0.0
Total Receipts	44.8	57.5	92.3	51.8	736.0	594.3
Current Account	37.1	41.6	76.7	42.4	592.7	466.3
Exports	1.5	2.2	3.9	3.0	22.1	15.1
Agriculture	0.2	1.2	2.9	2.0	10.7	5.7
Marines	0.9	0.8	0.6	0.9	8.5	6.8
Other	0.3	0.2	0.3	0.2	3.0	2.6
Services	9.3	14.4	18.2	12.3	162.4	132.4
Travel	6.0	10.0	12.8	7.6	100.1	80.5
Other	3.2	4.4	5.4	4.7	62.4	51.9
Primary Income	1.0	0.9	1.3	1.4	20.0	21.2
Transfers	25.3	24.1	53.4	25.7	388.1	297.5
Official	3.4	2.4	17.9	1.1	90.8	57.7
Private	17.5	20.4	28.8	20.3	251.3	214.4
Non-Profit	4.4	1.4	6.7	4.2	46.1	25.5
Capital Account	3.6	1.1	1.9	2.8	26.9	16.5
Official	0.8	0.3	0.4	0.7	5.9	9.6
Private	2.8	0.8	1.5	2.1	21.0	6.8
Financial Account	4.0	14.8	13.7	6.6	116.4	111.5
Direct Investment	0.0	7.1	0.0	0.7	22.1	1.4
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	4.0	7.7	13.7	5.9	94.3	110.1
Unclassified Receipts	0.0	0.0	0.0	0.0	0.0	0.0

Sources: banking system; NRBT