

Overseas Exchange Transactions (OET)

April 2018

Release Date: 15 August 2018

Overseas Exchange Transactions Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Apr-18	Mar-18	Feb-18	Jan-18	Apr-18	Apr-17
Overall Balance	-1.8	-0.3	23.9	1.6	74.2	48.8
Net Current Account	-4.9	-12.3	21.5	-6.3	19.4	32.8
Net Capital Account	2.8	1.0	2.7	2.0	43.3	25.0
Net Financial Account	0.3	11.0	-0.2	6.0	11.6	-9.0
Foreign Reserve Levels	445.9	447.7	448.0	424.1	445.9	371.7

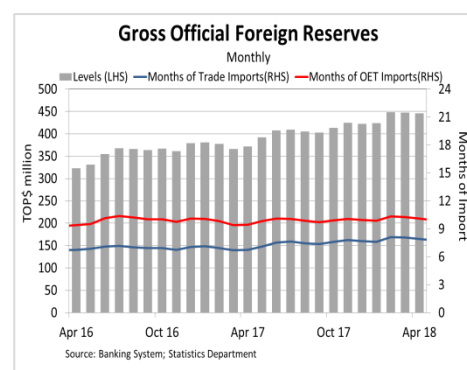
Sources: Banking System; NRBT

Higher interbank payments widened deficit in the overall balance

Overall Balance & Foreign Reserves

In April 2018, the deficit of the overall OET balance widened by \$1.5 million to \$1.8 million. This was mainly due to a \$4.9 million deficit in the current account balance which was partially offset by the surpluses in the capital and the financial accounts. As a result, the official foreign reserves declined to \$445.9 million, which is equivalent to 7.9 months of import cover.

In year ended terms, the overall OET surplus balance declined by \$25.4 million to \$74.2 million. Subsequently, the foreign reserves increased from \$371.7 million in April 2017 (6.7 months of import). All accounts recorded surpluses with the capital account recording the highest surplus of \$43.3 million, which almost doubled its record of last year and contributed the most to the annual increase. This was followed by a \$19.4 million surplus in the current account which was lower than what was recorded in April 2017. The financial account also noted a surplus of \$11.6 million after recording a deficit of \$9.0 million last year.



The Reserve Bank anticipates the level of foreign reserves to remain at comfortable level in the current financial year and to remain above the 3 months of import cover in the near term supported by higher receipts of remittances and foreign aid. However, any delays to the inflow of aid and budget support from development partners, the commencement of loan principal repayment to the Export - Import (EXIM) Bank 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 world fuel and commodities prices and Tonga's vulnerability to natural disasters are also a risk.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Apr-18	Mar-18	Feb-18	Jan-18	Apr-18	Apr-17
Net Current Account	-4.9	-12.3	21.5	-6.3	19.4	32.8
Merchandise Trade	-30.3	-32.4	-26.5	-33.2	-385.1	-333.5
Services	0.7	-4.3	10.4	6.8	45.4	20.1
Income	1.2	-0.9	0.9	-0.2	-13.5	-5.1
Transfers	23.5	25.4	36.7	20.3	372.6	351.4

Sources: Banking System; NRBT

The deficit in the overall current account balance for the month of April 2018 narrowed by \$7.4 million to a deficit of \$4.9 million. The decline in the current account payments of \$11.5 million outweighed the decrease in receipts over the month of \$4.1 million. Payments for services declined the most by \$5.7 million, and were mainly for professional, management consulting, and other business services. Lower payments for wholesale and retail goods supported the trend and this was in line with the decrease in container registrations by 91 containers in April. Both primary income and transfer payments also declined over the month due to lower external debt and subscriptions payments. Private transfer payments, on the other hand, slightly rose by \$0.9 million while no official transfer payments were recorded during the month.

The lower receipts in the current account were driven by a decrease in receipts for all sectors except primary income receipts. The transfer account receipts decreased the most by \$3.6 million due mainly to private remittance receipts which declined by \$2.2 million. Both official and non-profit transfer receipts also fell by \$0.8 million and \$0.5 million respectively. Service receipts also declined by \$0.7 million, and were attributed mainly to lower receipts for Government goods and services especially for High Commission offices which were partly offset by the rise in travel receipts. The export proceeds slightly fell by \$0.3 million due to lower proceeds from marine and agricultural exports outweighing the rise in proceeds from other exports. Primary income, on the other hand, slightly rose by \$0.5 million due mainly to higher receipts from seasonal workers overseas.

Annually, the current account surplus declined to \$19.4 million from \$32.8 million last year. This was due mainly to higher deficit in the merchandise trade balance and net payments of income offsetting the net receipts from transfers and services. The higher merchandise trade deficit was attributed mainly to higher payments for oil imports and wholesale & retail goods, which coincided with the rise in container registrations of 1,146 containers indicating growth in the trade sector. All export proceeds declined over the year, which also contributed to the trend. The net income payments were mainly dividend sent abroad to non-resident shareholders. The rise in transfer receipts reflected the continuous increase in remittances, indicating the willingness of Tongan families abroad to support the local families in events that had happened during the year. Net service receipts were due to higher net receipts from telecommunication and travel related services, supporting growth in these sectors.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Apr-18	Mar-18	Feb-18	Jan-18	Apr-18	Apr-17
Net Capital Account	2.8	1.0	2.7	2.0	43.3	25.0
Official	1.4	0.3	1.2	-0.2	16.3	6.6
Private	1.4	0.7	1.4	2.2	27.0	18.5

Sources: Banking System; NRBT

The capital account for April 2018 recorded a surplus of \$2.8 million, a \$1.8 million rise over the month. This was attributed mainly to a rise in both the surpluses of the official and the private capital accounts. The rising receipts of grants for investment projects or capital expenditures for construction purposes by both Government and individuals & private companies, contributed to the higher surplus. This was supported also by no capital payment recorded for the month.

Over the year, the capital account remained in surplus due to official capital receipts for construction purposes increasing by more than double and was supported by a significant increase in private capital receipts for construction purposes. These projects included the Tonga Transport Sector Consolidation road maintenance projects, the renovation works at the airport and individuals and private companies' renovation works after Tropical Cyclone Gita. Payments slightly increased over the year but have very minimal impact on the balances over the year.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Apr-18	Mar-18	Feb-18	Jan-18	Apr-18	Apr-17
Net Financial Account	0.3	11.0	-0.2	6.0	11.6	-9.0
Direct Investment	0.2	0.0	0.0	-1.0	-11.8	11.0
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	0.1	11.0	-0.2	7.0	23.3	-20.1

Sources: Banking System; NRBT

In April 2018, the surplus in the financial account dropped by \$10.7 million to \$0.3 million, due mainly to lower interbank transfer receipts. In year ended terms, the financial account recorded a surplus of \$11.6 million, after recording a deficit of \$9.0 million last year, and was attributed mainly to higher interbank transfer receipts.

Overseas Exchange Transactions

TOP\$ millions

	Month Ended				Year Ended	
	Apr-18	Mar-18	Feb-18	Jan-18	Apr-18	Apr-17
Total Payments	54.5	63.4	45.0	56.8	705.0	620.4
Current Account	50.7	62.2	44.0	52.2	658.9	585.6
Imports	31.4	33.8	27.8	34.2	404.9	356.9
Services	12.2	17.9	10.7	10.5	152.9	143.6
Primary Income	1.1	2.8	0.5	1.5	34.0	24.6
Transfers	6.0	7.7	5.0	5.9	67.1	60.5
Official	0.0	0.0	0.2	0.0	8.7	4.5
Private	5.9	5.1	4.2	5.5	57.8	55.7
Non-Profit	0.1	2.7	0.5	0.4	0.5	0.3
Capital Account	0.0	0.1	0.0	1.0	4.0	2.9
Official	0.0	0.0	0.0	0.8	0.8	0.1
Private	0.0	0.1	0.0	0.2	3.3	2.8
Financial Account	9.9	1.2	4.4	3.5	72.2	122.3
Direct Investment	0.0	0.0	0.0	1.0	12.9	11.6
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	9.9	1.2	4.4	2.5	59.3	110.7
		0.7		2.7		
Total Receipts	58.8	62.4	72.3	55.7	809.3	759.7
Current Account	45.8	49.9	65.4	45.9	678.2	618.5
Exports	1.1	1.3	1.3	1.0	19.8	23.4
Agriculture	0.5	0.6	0.7	0.6	9.6	10.5
Marines	0.2	0.5	0.4	0.3	5.9	9.0
Other	0.4	0.2	0.2	0.1	4.3	4.3
Services	12.9	13.6	21.2	17.3	198.3	163.7
Travel	6.9	6.6	6.2	10.3	113.1	102.8
Other	6.0	7.0	15.0	7.0	85.1	60.9
Primary Income	2.4	1.9	1.3	1.3	20.5	19.5
Transfers	29.5	33.1	41.7	26.3	439.7	411.9
Official	2.4	2.9	16.7	3.0	86.8	84.8
Private	23.2	25.4	21.7	22.6	309.7	279.3
Non-Profit	3.9	4.7	3.2	0.7	43.2	47.8
Capital Account	2.8	1.0	2.7	3.0	47.3	28.0
Official	1.4	0.3	1.2	0.6	17.1	6.7
Private	1.4	0.7	1.4	2.4	30.2	21.3
Financial Account	10.2	12.2	4.2	9.5	83.8	113.3
Direct Investment	0.2	0.0	0.0	0.0	1.2	22.6
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	10.0	12.2	4.2	9.5	82.6	90.6

Sources: Banking System; NRBT