

# Overseas Exchange Transactions (OET)

## March 2018

Release Date: 7 June 2018

Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-18	Feb-18	Jan-18	Dec-17	Mar-18	Mar-17
<b>Overall Balance</b>	<b>-0.3</b>	<b>23.9</b>	<b>1.6</b>	<b>-2.3</b>	<b>81.6</b>	<b>48.7</b>
Net Current Account	-12.3	21.8	-6.3	-4.5	24.7	37.6
Net Capital Account	1.0	2.7	2.0	7.3	42.6	25.6
Net Financial Account	11.0	-0.6	6.0	-5.1	14.3	-14.5
<b>Foreign Reserve Levels</b>	<b>447.7</b>	<b>448.0</b>	<b>424.1</b>	<b>422.5</b>	<b>447.7</b>	<b>366.0</b>

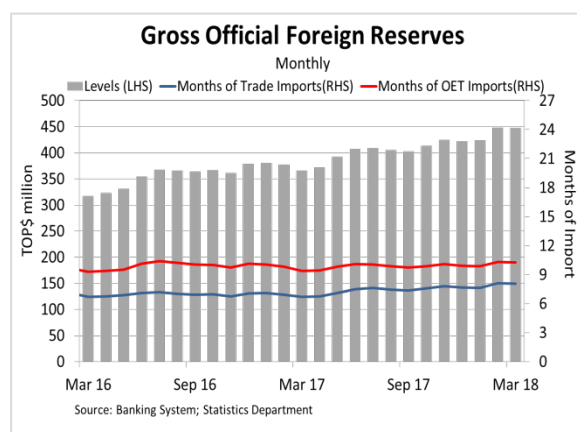
Sources: Banking System; NRBT

## TC Gita recovery activities increased current account payments

### Overall Balance & Foreign Reserve

After recording a high surplus in February 2018, the overall OET balance recorded a deficit of \$0.3 million in March 2018. Payments for services and imports increased rapidly reflecting the recovery activities in the aftermath of Tropical Cyclone (TC) Gita. The receipts were also lower in March after its hike in the previous month. This explained the turnaround in the current account balance over the month to record a deficit of \$12.3 million. The capital account recorded a lower surplus of \$1.0 million and the financial account had a surplus of \$11.0 million after recording a deficit of \$0.6 million in February 2018. As a result, the official foreign reserves was slightly lower at \$447.7 million, which is equivalent to 8.1 months of import cover.

Over the year to March 2018, the overall OET balance surplus widened by \$32.9 million to \$81.6 million. Subsequently, the foreign reserves increased from \$366.0 million in March 2017 (6.7 months of import). All accounts recorded surpluses with the capital account recording the highest surplus of \$42.6 million, which was almost double its record of last year and contributed the most to the annual increase. This was followed by a \$24.7 million surplus in the current account though lower than what was recorded in March 2017. The financial account also noted a surplus of \$14.3 million after recording a deficit of \$14.5 million last year.



The Reserve Bank anticipates the level of foreign reserves to remain at comfortable level in the current financial year and the next. 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	
	Mar-18	Feb-18	Jan-18	Dec-17	Mar-18	Mar-17
Net Current Account	<b>-12.3</b>	<b>21.8</b>	<b>-6.3</b>	<b>-4.5</b>	<b>24.7</b>	<b>37.6</b>
Merchandise Trade	-32.4	-26.2	-33.2	-36.2	-379.0	-333.5
Services	-4.3	10.8	6.8	-2.4	46.8	17.8
Income	-0.9	0.9	-0.2	1.1	-18.1	-1.5
Transfers	25.4	36.3	20.3	32.9	374.9	354.8

Sources: Banking System; NRBT

The current account deficit in March 2018 was due to net service payments, higher merchandise trade deficit and the deficit in the income account. The transfer account however, remained in surplus over the month. The net service payments was attributed mainly to higher payments for shipping freights and professional, management consulting and other business services while the receipts from services were lower mainly on insurances services. The deficit in the merchandise trade widened over the month due to a significant increase in import payments by private companies. This was mainly for payments of imported wholesale and retail goods and coincided with the rise in the container registration of 493 containers. Primary income deficit was attributed mainly to higher external debt service payments as March and September of every year are the scheduled months for two major loans payments. On the other hand, the transfer account recorded a surplus of \$25.4 million; which was \$10.9 million lower than the surplus of \$36.3 million last month. This was mainly driven by lower grant received by Government for technical assistance and other current expenditures, compared to grant receipt of \$24.3 million for Tropical Cyclone (TC) Gita recovery in the previous month. Both private and non-profit transfer receipts also rose over the month mainly for family support to individuals and grants to churches and schools.

In the year ended March 2018, the surplus in the current account was \$12.9 million lower at \$24.7 million. The higher net receipts from the transfer and services accounts partially offset the rise in the merchandise trade deficit and net income payments. 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. The higher merchandise trade deficit was attributed mainly to higher payments for imported oil and wholesale & retail goods, which coincided with the rise in container registrations by 1,112 containers indicating growth in the trade sector. Proceeds from the export of agricultural and marines declined by \$2.5 million over the year, which contributed to the lower surplus in the current account. The net income payments were mainly dividend sent abroad to non-resident shareholders.

## Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Mar-18	Feb-18	Jan-18	Dec-17	Mar-18	Mar-17
Net Capital Account	1.0	2.7	2.0	7.3	42.6	25.6
Official	0.3	1.2	-0.2	3.0	16.0	6.5
Private	0.7	1.4	2.2	4.3	26.6	19.1

Sources: Banking System; NRBT

The surplus in the capital account decreased by \$1.7 million to \$1.0 million as both the private and the official capital accounts recorded lower surplus. Capital payments made over the month were minimal but the receipts of grants for investment projects or capital expenditures, mainly for construction purposes by both Government and individuals & private companies, were lower compared to the previous month.

In year ended terms, the capital account surplus rose significantly 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 TC 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	
	Mar-18	Feb-18	Jan-18	Dec-17	Mar-18	Mar-17
Net Financial Account	11.0	-0.6	6.0	-5.1	14.3	-14.5
Direct Investment	0.0	0.0	-1.0	0.2	-11.5	10.6
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	11.0	-0.6	7.0	-5.3	25.8	-25.1

Sources: Banking System; NRBT

The financial account recorded a surplus of \$11.0 million for the month of March 2018, after recording a deficit of \$0.6 million last month, due to higher interbank transfer receipts. Similarly over the year, the financial account balance recorded a surplus of \$14.3 million compared to a deficit of \$14.5 million in March 2017, due mainly to higher interbank transfer receipts.

### Overseas Exchange Transactions

TOP\$ millions

	Month Ended				Year Ended	
	Mar-18	Feb-18	Jan-18	Dec-17	Mar-18	Mar-17
Total Payments	<b>63.4</b>	<b>44.1</b>	<b>56.8</b>	<b>63.7</b>	<b>695.2</b>	<b>621.4</b>
Current Account	<b>62.2</b>	<b>43.1</b>	<b>52.2</b>	<b>58.9</b>	<b>651.5</b>	<b>586.0</b>
Imports	33.8	27.5	34.2	37.3	399.1	356.2
Services	17.9	10.4	10.5	15.8	150.5	146.1
Primary Income	2.8	0.5	1.5	0.4	37.3	21.9
Transfers	7.7	4.8	5.9	5.4	64.6	61.8
Official	0.0	0.2	0.0	0.0	8.9	4.4
Private	5.1	4.1	5.5	5.3	55.2	57.1
Non-Profit	2.7	0.5	0.4	0.2	0.5	0.3
Capital Account	<b>0.1</b>	<b>0.0</b>	<b>1.0</b>	<b>2.5</b>	<b>4.1</b>	<b>2.9</b>
Official	0.0	0.0	0.8	0.0	0.8	0.1
Private	0.1	0.0	0.2	2.5	3.3	2.8
Financial Account	<b>1.2</b>	<b>-2.7</b>	<b>3.5</b>	<b>-8.3</b>	<b>10.6</b>	<b>-61.9</b>
Direct Investment	0.0	0.0	1.0	0.0	13.0	11.5
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	1.2	-2.7	2.5	-8.4	-2.5	-73.4
Total Receipts	<b>62.4</b>	<b>71.7</b>	<b>55.7</b>	<b>72.0</b>	<b>806.0</b>	<b>764.4</b>
Current Account	<b>49.9</b>	<b>64.9</b>	<b>45.9</b>	<b>54.4</b>	<b>676.1</b>	<b>623.6</b>
Exports	1.3	1.3	1.0	1.1	20.1	22.6
Agriculture	0.6	0.7	0.6	0.3	9.2	10.5
Marines	0.5	0.4	0.3	0.7	6.4	8.7
Other	0.2	0.2	0.1	0.1	4.5	3.8
Services	13.6	21.2	17.3	13.4	197.2	163.9
Travel	6.6	6.2	10.3	10.1	113.3	102.7
Other	7.0	15.0	7.0	3.3	83.9	61.2
Primary Income	1.9	1.3	1.3	1.6	19.2	20.4
Transfers	33.1	41.1	26.3	38.4	439.5	416.6
Official	2.9	16.7	3.0	1.5	88.0	92.7
Private	25.4	21.1	22.6	31.3	308.4	276.9
Non-Profit	4.7	3.2	0.7	5.5	43.1	47.1
Capital Account	<b>1.0</b>	<b>2.7</b>	<b>3.0</b>	<b>9.7</b>	<b>46.7</b>	<b>28.6</b>
Official	0.3	1.2	0.6	3.0	16.8	6.6
Private	0.7	1.4	2.4	6.7	29.9	21.9
Financial Account	<b>12.2</b>	<b>4.2</b>	<b>9.5</b>	<b>7.9</b>	<b>83.2</b>	<b>112.3</b>
Direct Investment	0.0	0.0	0.0	0.3	1.5	22.1
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	12.2	4.2	9.5	7.6	81.7	90.2

Sources: Banking System; NRBT