

Overseas Exchange Transactions (OET)

February 2019

Release Date: 21 June 2019

Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Feb-19	Jan-19	Dec-18	Nov-18	Feb-19	Feb-18
Overall Balance	-5.5	0.4	9.8	11.4	25.5	70.3
Net Current Account	-12.6	-9.7	6.7	21.2	-9.6	26.3
Net Capital Account	1.3	8.8	1.9	1.0	33.4	43.9
Net Financial Account	5.8	1.4	1.2	-10.9	1.7	0.1
Foreign Reserve Levels	473.5	478.9	478.5	424.8	473.5	448.0

Sources: Banking System; NRBT

Lower capital account surplus following a hike in January

Overall Balance & Foreign Reserve

Fewer receipts in the capital account in February 2019 compared to the previous month coupled with higher deficit in the current account widened, drove the overall balance to record a \$5.5 million deficit following the surplus recorded last month.

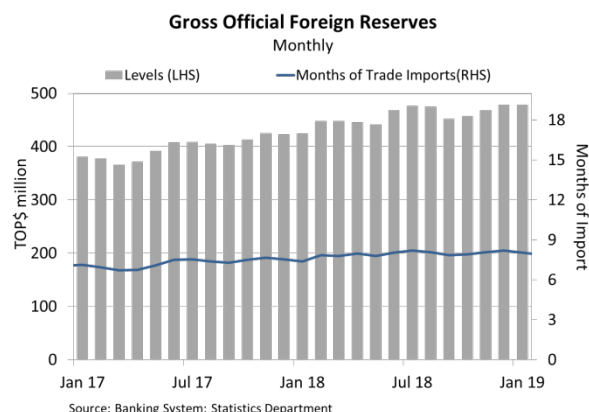
Consequently, the official foreign reserves fell to \$473.5 million over the month equivalent to 8.0 months of import cover. Annually, the surplus in the overall balance lowered by \$25.5 million and was attributed mainly to higher imports and services

payments. As such, the official foreign reserves increased over the year by \$25.5 million. The annual growth resulted from higher receipts of budget support, grants and cyclone relief funds from development partners.

The Reserve Bank anticipates the level of foreign reserves to remain at comfortable levels and above the 3 months minimum range of import cover for the remainder of 2019. However, any delays to the inflow of aid and budget support from development partners, combined with the pace of development in the domestic economic activities, may pose a risk to the foreign reserves outlook. Uncertainties in the global oil and commodities prices and Tonga's vulnerability to natural disasters are also risks to the forecast.

Current Account

Receipts in the current account declined coupled with an increase in payments, led to a widening of the current account deficit over the month. These were mainly higher payments for imported goods which outweighed the rise in the transfers account. The merchandise trade deficit widened due to higher payments by \$1.7 million for wholesale & retail goods and government imports. On the other hand, export receipts declined by \$0.3 million over the month due to lower receipts from the



agricultural sector. Although both payments and receipts to the services accounts declined in February, the higher payments compared to receipts led to a deficit in the account compared to a surplus in the previous month. Movements in the income account were similar to that of January with both payments and receipts remaining at the same amount and the net surplus remained at \$1.5 million. The surplus on the transfers account increased by \$2.5 million over the month due to higher receipts coupled with lower payments. More specifically, official receipts rose by \$1.6 million mainly for the purposes of government budget support and funded projects from development partners. Receipts for donations and projects to non-profit organizations also increased by \$1.0 million. However, lower private transfers resulted from lower remittances for family support over the month.

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Feb-19	Jan-19	Dec-18	Nov-18	Feb-19	Feb-18
Net Current Account	-12.6	-9.7	6.7	21.2	-9.6	26.3
Merchandise Trade	-34.3	-32.3	-31.8	-33.6	-420.4	-382.4
Services	-2.3	1.1	3.5	4.2	11.0	50.3
Income	1.5	1.5	1.6	1.2	7.7	-16.8
Transfers	22.6	20.0	33.5	49.4	392.1	375.2

Sources: Banking System;NRBT

In year ended terms, the current account balance recorded a \$9.6 million deficit compared to a surplus in the previous year. More specifically, the merchandise trade deficit and higher services payments have outweighed the rise in income and transfers receipts. Import payments increased by \$38.0 million due to higher payments for wholesale & retail, oil, government imports and motor vehicles. Higher service payments were noted for freight, travel related, professional services and maintenance & repair. Net income rose to a \$7.7 million surplus compared to a deficit recorded in the previous year. This was attributed to higher income receipts over the year whilst income payments declined. Additionally, receipts for compensation of employees also increased by \$5.2 million which includes wages paid under the Recognized Seasonal Employee and other jobs. The transfers account was higher by \$17.0 million due to higher transfer receipts which was greater than the rise in transfer payments. Private transfer receipts rose by \$9.2 million due to higher remittances for family support from abroad. Official transfer receipts increased by \$8.7 million particularly for government projects, aid, and budget support funds. Receipts by non-profit organizations also contributed to the yearly surplus and rose by \$5.3 million.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Feb-19	Jan-19	Dec-18	Nov-18	Feb-19	Feb-18
Net Capital Account	1.3	8.8	1.9	1.0	33.4	43.9
Official	0.7	0.3	1.2	0.0	14.7	16.3
Private	0.6	8.5	0.7	1.0	18.6	27.5

Sources: Banking System;NRBT

The surplus in the capital account fell by \$7.5 million over the month following the significant rise in capital account receipts in January 2019 which was for construction project in the agricultural sector. This was driven solely by the \$7.9 million decline in the surplus of the private capital account offsetting the \$0.4 million increase in the surplus from the official capital account. These receipts are mainly for investment projects and capital expenditures. Both official capital and private capital transfer accounts recorded no payments during the month.

Additionally, the capital account surplus also lowered over the year by \$10.5 million due to lower receipts from both private and official capital receipts. Private receipts and grants for investment projects and capital expenditures declined by \$10.8 million driving the yearly fall. The official capital transfer receipts also recorded a \$2.0 million fall. Despite on-going project works funded by multi-national donors, the decline over the year could reflect a delay in the implementation of the projects and other budget support receipts.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Feb-19	Jan-19	Dec-18	Nov-18	Feb-19	Feb-18
Net Financial Account	5.8	1.4	1.2	-10.9	1.7	0.1
Direct Investment	0.0	0.1	0.0	-0.1	-0.5	-11.5
Portfolio Investment	0.0	0.0	0.0	0.0	0.1	0.0
Other Investment	5.7	1.3	1.2	-10.8	2.0	11.6

Note: The Net Financial Account figures incorporate also the net reconciliation items which is not reflected in the table below

Sources: Banking System; NRBT

The surplus in the financial account increased over the month as a result of higher transfers by foreign commercial banks to their accounts in Tonga for payments to customers. Over the year, the financial account surplus rose by \$1.6 million due to higher inter-bank payments which was sufficiently covered by interbank receipts. This was also supported by the lower deficit in the direct investment accounts as fewer payments for dividends and capital were recorded over the year.

Overseas Exchange Transactions
TOP\$ millions

	Month Ended				Year Ended		Monthly Change	Annual Change
	Feb-19	Jan-19	Dec-18	Nov-18	Feb-19	Feb-18		
Total Payments	59.5	57.5	59.0	58.9	759.7	691.8	3.4%	9.8%
Current Account	55.0	55.5	56.1	55.0	710.7	646.6	-1.0%	9.9%
Imports	35.5	33.8	35.0	36.0	440.8	402.8	5.1%	9.4%
Services	13.6	15.2	14.9	12.8	183.0	144.9	-10.8%	26.3%
Primary Income	0.4	0.3	0.5	0.4	17.7	36.0	41.8%	-50.8%
Transfers	5.5	6.3	5.8	5.7	69.2	62.9	-12.0%	10.1%
Official	0.1	0.2	0.1	0.0	4.6	7.5	-69.0%	-38.5%
Private	5.0	5.9	5.4	5.5	64.3	54.9	-13.9%	17.3%
Non-Profit	0.4	0.2	0.2	0.3	0.3	0.5	76.4%	-48.2%
Capital Account	0.0	0.0	0.2	0.0	1.8	4.1	0.0%	-55.2%
Official	0.0	0.0	0.0	0.0	0.5	0.9	0.0%	-43.0%
Private	0.0	0.0	0.2	0.0	1.3	3.2	0.0%	-58.6%
Financial Account	4.5	2.0	2.7	3.9	47.1	41.0	128.9%	14.9%
Direct Investment	0.0	0.0	0.0	0.1	1.6	13.0	-100.0%	-87.5%
Portfolio Investment	0.0	0.0	0.0	0.0	0.2	0.0	0.0%	2977.3%
Other Investment	4.5	2.0	2.7	3.8	45.4	28.0	129.0%	62.3%
Total Receipts	48.1	57.4	77.3	81.4	849.9	797.0	-16.2%	6.6%
Current Account	42.4	45.8	62.8	76.2	701.1	673.0	-7.4%	4.2%
Exports	1.2	1.5	3.2	2.4	20.4	20.4	-19.6%	-0.2%
Agriculture	0.5	1.0	1.9	1.6	11.2	8.8	-48.6%	27.0%
Marines	0.6	0.5	0.9	0.7	6.8	6.9	13.9%	-1.9%
Other	0.1	0.1	0.4	0.1	2.2	4.4	184.4%	-50.4%
Services	11.3	16.3	18.4	17.0	194.0	195.3	-30.6%	-0.6%
Travel	7.6	11.7	12.2	9.5	121.0	113.8	-35.7%	6.3%
Other	3.8	4.5	6.2	7.5	73.1	81.5	-17.3%	-10.3%
Primary Income	1.8	1.8	2.1	1.6	25.3	19.2	4.7%	32.1%
Transfers	28.1	26.3	39.2	55.2	461.4	438.1	6.9%	5.3%
Official	1.7	0.1	5.2	23.3	96.7	88.0	2465.7%	9.9%
Private	21.8	22.7	30.0	28.2	316.5	307.3	-3.7%	3.0%
Non-Profit	4.6	3.5	4.0	3.7	48.2	42.8	28.8%	12.4%
Capital Account	1.3	8.8	2.1	1.0	35.2	48.0	-84.9%	-26.7%
Official	0.7	0.3	1.2	0.0	15.2	17.2	143.1%	-11.5%
Private	0.6	8.5	0.9	1.0	19.9	30.7	-92.9%	-35.1%
Financial Account	4.4	2.8	12.4	4.2	113.6	76.1	54.5%	49.3%
Direct Investment	0.0	0.1	0.0	0.0	1.1	1.5	-84.1%	-25.3%
Portfolio Investment	0.0	0.0	0.0	0.0	0.3	0.0	0.0%	0.0%
Other Investment	4.4	2.7	12.4	4.2	112.2	74.6	60.6%	50.5%

Sources: Banking System; NRBT