

Overseas Exchange Transactions (OET)

June 2019

Release Date: 17 October 2019

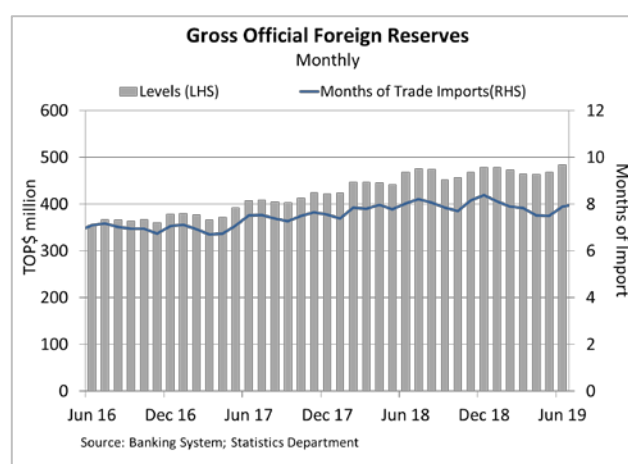
Overseas Exchange Transactions						
Net Change to Foreign Reserves (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-19	May-19	Apr-19	Mar-19	Jun-19	Jun-18
Overall Balance	16.0	4.1	-0.8	-8.5	15.6	60.9
Net Current Account	19.8	5.1	-0.8	-11.3	-2.7	21.0
Net Capital Account	9.1	4.7	2.7	2.2	42.1	40.6
Net Financial Account	-12.9	-5.7	-2.7	0.6	-23.8	-0.7
Foreign Reserve Levels	484.3	468.3	464.2	465.0	484.3	468.7

Sources: Banking System; NRBT

Foreign Reserves hit new high on Budget support receipts

Overall Balance & Foreign Reserve

The official foreign reserves rose by \$16.0 million in June 2019 to \$484.3 million, equivalent to 7.9 months of import cover. As expected, higher official receipts for budgetary support and government-funded projects contributed to the higher level of foreign reserves. Additionally, the official foreign reserves increased over the year by \$15.6 million as a result of higher receipts for budget support, grants, and cyclone relief funds from development partners.



The overall Overseas Exchange Transactions (OET) balance edged higher in June 2019 as total receipts rose by \$24.6 million and outweighed a \$10.6 million rise in total payments. Total OET receipts peaked at \$100.9 million in June 2019, of which 33% were for official current transfers, and 24% were for private transfers, including remittance. The high level of official transfers reflects the inflow of budget support and committed grant funds for the closing of the fiscal year. Other receipts also rose for interbank transactions and construction and telecommunication services. Higher payments over the month were for investment and dividends sent abroad. Despite the favourable monthly movement, the surplus in the overall balance decreased to \$15.6 million (-45.3%) over the year and was due mainly to higher imports & services payments, offshore investments, and interbank transfers. These outflows outpaced the rise in receipts from travel, income, and official receipts.

On the outlook, the Reserve Bank continues to expect the level of foreign reserves will remain at comfortable levels and above 3 months of imports cover in the upcoming months. However, external debt repayments, implementation of infrastructure projects, and expected transfer of offshore

investments pose a risk to the foreign reserves outlook. Global uncertainties in oil and commodity prices are also risks to these expectations.

Current Account

Current Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-19	May-19	Apr-19	Mar-19	Jun-19	Jun-18
Net Current Account	19.8	5.1	-0.8	-11.3	-2.7	21.0
Merchandise Trade	-35.5	-36.3	-31.5	-34.7	-424.4	-386.1
Services	4.0	0.3	6.6	1.1	32.2	32.3
Income	-4.8	2.5	1.3	-0.2	8.8	-7.7
Transfers	56.1	38.6	22.8	22.6	380.7	382.5

Sources: Banking System; NRBT

The significant official transfer receipts drove the current account surplus higher to \$19.8 million in June 2019, an \$11.9 million rise. The services account surplus and merchandise trade deficit also improved. However, the income account recorded a deficit due to higher payments, income receipts declined over the month. The transfer account rose by \$17.6 million primarily due to the substantial increase in official transfer receipts, which were mainly for budget support and other government-funded projects. Official transfer receipts increased by \$26.7 million and outweighed the decline in private transfer receipts.

Moreover, the goods and services account balances improved over the month, mainly due to lower payments in June 2019. The services account surplus increased by \$3.7 million over the month as payments for services declined from a high level of payments for transport-related services in May 2019. Receipts for services other than travel increased by \$1.0 million for construction and telecommunication purposes. The merchandise trade deficit narrowed marginally over the month due to lower import payments by \$1.2 million for wholesale & retail goods, followed by payments for oil and motor vehicle imports. Export receipts also declined by \$0.3 million due to the fall in proceeds from all export types.

However, the income account recorded a \$4.8 million deficit in June 2019 compared to a \$2.5 million surplus in May 2019. Income payments rose by \$6.8 million solely due to dividend paid to foreign investors during the month. Income receipts, on the other hand, declined by \$0.6 million due mainly to lower receipts from the Recognized Seasonal Employee and Seasonal Workers Programme schemes, which decreased by \$0.9 million over the month.

In year ended terms, the current account balance surplus fell from a \$21.0 million surplus to a \$2.7 million deficit owing to the trade deficit and lower private transfer receipts. The merchandise trade deficit widened, attributing to the continued growth in import payments by \$37.2 million, due to higher payments for all categories of imports such as wholesale & retail, government imports, motor vehicles, oil, and construction materials. Lower private transfer receipts were mainly due to lower receipts for family support. Nonetheless, the income account improved on the decline in income payments by \$14.6 million as payments for dividends and profits to overseas investors fell by \$12.4 million (59.4%). The slight decrease in the services account was mainly due to slightly higher service

payments for travel-related expenses (airfares & travel allowances), freight, maintenance & repair, professional services, and insurance premium pay-outs outweighing the increase in service receipts.

Capital Account

Capital Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-19	May-19	Apr-19	Mar-19	Jun-19	Jun-18
Net Capital Account	9.1	4.7	2.7	2.2	42.1	40.6
Official	6.8	2.6	1.9	1.3	22.0	16.4
Private	2.3	2.0	0.7	0.9	20.1	24.2

Sources: Banking System; NRBT

The capital account surplus rose over the month by \$4.4 million, mainly driven by government-funded project receipts, which increased by \$4.2 million, while private capital receipts rose by \$0.2 million. These receipts were mostly for investment projects and capital expenditures by the government and receipts by private households for construction purposes. There were no capital transfer payments recorded in June 2019.

Additionally, the capital account surplus increased over the year by \$1.5 million, solely attributed to official capital receipts, which increased by \$5.6 million. This reflects on-going project works funded by multi-national donors such as Tonga International Airport expansion and the Tonga Power network upgrades.

Financial Account

Financial Account (TOP\$ millions)						
	Month Ended				Year Ended	
	Jun-19	May-19	Apr-19	Mar-19	Jun-19	Jun-18
Net Financial Account	-12.9	-5.7	-2.7	0.6	-23.8	-0.7
Direct Investment	0.2	-3.1	0.0	0.1	-4.1	-11.3
Portfolio Investment	-11.2	0.0	0.0	0.0	-10.9	0.0
Other Investment	-1.9	-2.6	-2.7	0.5	-8.7	10.6

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

Sources: Banking System; NRBT

The financial account deficit widened over the month as a result of higher interbank payments by commercial banks to settle foreign exchange deals for their underlying customers, and offshore investment transfers. Consequently, the financial account recorded a \$23.8 million deficit over the year compared to a lower deficit in the previous year. The principal repayment of the Government loan to EXIM Bank of China and higher inter-bank payments contributed to the yearly deficit.

Overseas Exchange Transactions

TOP\$ millions

	Month Ended				Year Ended		Monthly Change	Annual Change	Shares of totals*
	Jun-19	May-19	Apr-19	Mar-19	Jun-19	Jun-18			
Total Payments	77.3	66.7	54.6	59.9	762.2	716.7	15.8%	6.3%	100.0
Current Account	62.8	61.6	50.4	58.8	702.3	671.7	1.9%	4.6%	92.1
Imports	36.6	37.8	32.7	35.9	443.7	406.5	-3.1%	9.1%	58.2
Services	13.6	17.2	10.5	14.5	172.1	166.7	-20.6%	3.3%	22.6
Primary Income	7.2	0.5	1.3	2.5	17.1	31.7	1477.4%	-46.1%	2.2
Transfers	5.3	6.2	5.9	5.8	69.5	66.8	-14.7%	4.0%	9.1
Official	0.1	0.0	0.1	0.0	3.7	8.8	0.0%	-58.4%	0.5
Private	4.2	5.7	5.5	5.5	65.5	57.6	-27.4%	13.9%	8.6
Non-Profit	1.0	0.5	0.3	0.4	0.3	0.5	128.8%	-43.4%	0.0
Capital Account	0.0	0.0	0.6	0.1	2.4	4.1	-100.0%	-41.9%	0.3
Official	0.0	0.0	0.0	0.0	0.5	0.9	-100.0%	-43.3%	0.1
Private	0.0	0.0	0.6	0.1	1.9	3.2	0.0%	-41.5%	0.2
Financial Account	14.5	5.1	3.7	1.1	57.5	41.0	183.1%	40.4%	7.5
Direct Investment	0.0	3.1	0.0	0.0	4.7	12.9	-99.7%	-63.7%	0.6
Portfolio Investment	11.2	0.0	0.0	0.0	11.2	0.0	0.0%	2516753.9%	1.5
Other Investment	3.3	2.1	3.7	1.1	41.6	28.0	59.6%	48.4%	5.5
Total Receipts	100.9	76.3	60.8	56.4	833.1	837.0	32.3%	-0.47%	100%
Current Account	82.5	66.6	49.6	47.5	699.6	692.7	23.9%	1.0%	82%
Exports	1.2	1.4	1.2	1.2	19.3	20.4	-19.9%	-5.4%	1%
Agriculture	0.4	0.7	0.3	0.5	9.7	10.8	-34.9%	-10.1%	0%
Marines	0.6	0.6	0.8	0.7	8.0	5.6	-9.7%	42.6%	1%
Other	0.1	0.1	0.1	0.0	1.3	3.8	-10.3%	-65.3%	0%
Services	17.6	17.5	17.1	15.6	204.3	199.0	0.8%	2.7%	17%
Travel	11.3	12.1	8.6	8.5	129.4	111.2	-7.2%	16.3%	11%
Other	6.3	5.3	8.5	7.1	74.9	87.7	18.9%	-14.6%	6%
Primary Income	2.4	3.0	2.6	2.3	25.8	24.0	-19.7%	7.7%	2%
Transfers	61.4	44.7	28.7	28.4	450.2	449.4	37.2%	0.2%	61%
Official	33.5	6.8	1.0	2.1	91.5	91.0	391.6%	0.6%	33%
Private	24.0	30.9	24.1	24.1	312.0	312.8	-22.3%	-0.2%	24%
Non-Profit	3.8	7.0	3.6	2.2	46.6	45.6	-45.4%	2.2%	4%
Capital Account	9.1	4.7	3.2	2.3	44.5	44.6	92.7%	-0.4%	9%
Official	6.8	2.7	1.9	1.3	22.5	17.2	155.9%	30.4%	7%
Private	2.3	2.0	1.3	1.0	22.0	27.4	10.3%	-19.8%	2%
Financial Account	9.3	4.9	7.9	6.7	89.1	99.7	88.2%	-10.7%	9%
Direct Investment	0.2	0.0	0.0	0.1	0.6	1.6	0.0%	-65.2%	0%
Portfolio Investment	0.0	0.0	0.0	0.0	0.3	0.0	0.0%	0.0%	0%
Other Investment	9.1	4.9	7.9	6.5	88.3	98.1	84.1%	-10.0%	9%

Sources: Banking System; NRBT