

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

#### Money Supply

Money supply (M3) continues to grow slowly by 2% to \$2,967 million by end April 2013, extending the marginal 0.2% increase in the previous month. The slow pace was driven by a weak 2% growth in narrow money (M1) to \$2,352 million. Driving the increase in M1 was the 3% growth in demand deposits held with the commercial banks, which outweighs the 2% fall in currency in circulation. Meanwhile, other deposits (time and savings) remained unchanged at \$615 million at the end of April.

#### Net Foreign Assets

Total net foreign assets (NFA) of the banking system increased at a much slower rate of 2% to \$3,524 million compared to 4% growth in the previous month. The slower pace was due to the 3% growth in CBSI's NFA driven mainly by trade receipts and donor inflows. Commercial banks' NFA, on the other hand, fell from \$56 million to \$30 million indicating an increase in their foreign liabilities over their foreign assets.

#### Domestic Credit

Total domestic credit contracted by 26% to \$140 million this month, continuing the 36% fall witnessed a month ago. The fall was largely due to an increase in net credit to government (NCG) from minus \$1,138 million a month ago to minus \$1,226 million. The increase in NCG reflects a continuous accumulation of government deposits in the banking system. Meanwhile, private sector credit went up by 3% to \$1,365 million following a 1% increase in the previous month.

Total liquidity in the banking system increased by 3% to \$1,256 million following an 8% drop in the previous month. Driving the upturn was the 4% rise in the call balances of the commercial banks held with CBSI combined with a 2% increase in CBSI NFA. This resulted in an increase in free liquidity of 4% to \$1,051 million at the end of April.

#### Domestic Market Operations

The Government floated \$11 million worth of treasury bills in the domestic market in April 2013, an increase of \$2 million from the previous month. This attracted total bids of \$25 million, of which \$11 million was accepted and the rest was rejected. The weighted average yields for the maturity terms of 56 and 182 days showed a slight increase from 0.49% and 1.49% to 0.50% and 1.88% respectively, whilst the rate for 91 days rate remained unchanged at 0.48% at the end of month. Meanwhile, the CBSI Bokolo bill floated in April remained unchanged at \$500 million. Total bids received from the commercial banks reached \$500 million, which resulted in the average yield of 0.47%, an increase from 0.44% for the maturity term of 28 days.

### II. BALANCE OF PAYMENT

#### Trade in goods

The provisional trade in goods balance in April 2013 registered a surplus of \$25 million from a (revised) deficit of \$108 million in the previous month. The positive outcome was due to recovery in exports that nearly doubled to \$309 million, combined with a 4% decline in imports to \$284 million.

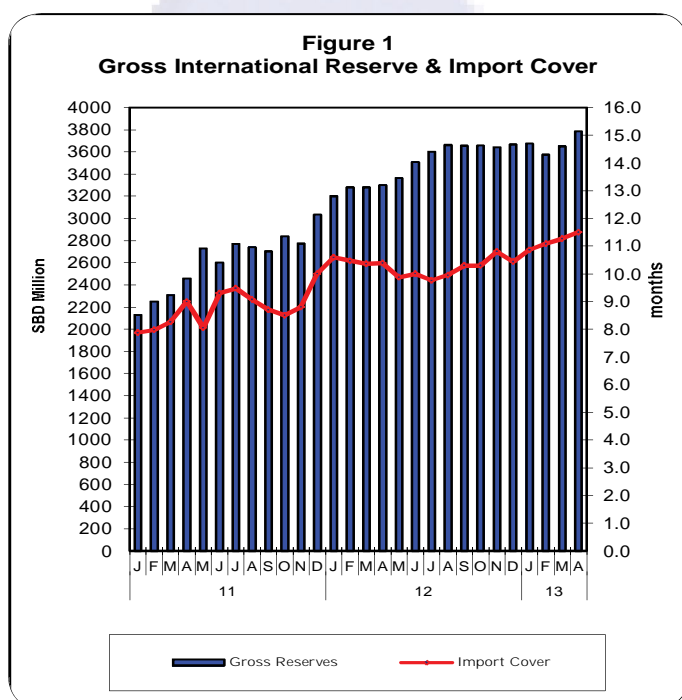
The surge in exports was driven by all major export commodities except for fish and sawn timber, falling by 6% to \$20 million and 1% to \$7 million, respectively during the month due to lower export volume and international prices. Round log, which predominantly exported to China significantly increased to \$178 million from \$105 million. Meanwhile, minerals rose to \$66 million from \$41 million, 'palm oil and kernels' up to \$11 million from \$1 million, cocoa rose to \$7 million from \$3 million, and 'copra and coconut oil' increased to \$5 million from \$3 million. The rise in these commodity exports was due to higher export volumes despite lower international prices, notably log, palm oil, and copra

during the month. Other exports also jumped to \$12 million from \$2 million in the previous month primarily due to export shipments of beche-de-mer which comprises 72% of other exports during the month.

The drop in total imports was due to decline in imported fuel, food, and basic manufactures. Fuel dropped by 16% to \$74 million, basic manufactures down by 18% to \$34 million, and food by 16% to \$63 million. Meanwhile, imports on machineries and transport equipment slightly increased by 4% to \$84 million, chemicals by 26% to \$31 million, beverages and tobacco to \$7 million from \$4 million, and miscellaneous items up to \$20 million from \$12 million.

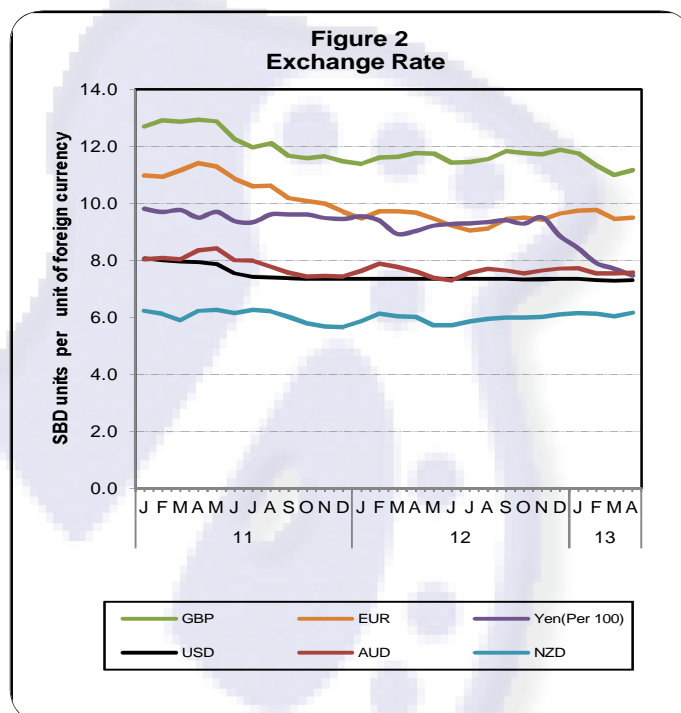
### Gross Foreign Reserves

Gross foreign reserves rose during the month by 4% to \$3,786 million at the end of April. This positive outturn was due to increase in trade and donor inflows. This level of reserves is equivalent to 11.5 months of import cover.



### Exchange rate

The Solomon Islands dollar (SBD), on average, depreciated against the major trading currencies during the month with the exception of the Japanese yen, which appreciated by 3.1% to \$7.47 per 100JPY. The SBD depreciated against the United States dollar by 0.1% to \$7.30 per USD, 0.5% against the Australian dollar to \$7.58 per AUD and by 2.1% against the New Zealand dollar to \$6.17 to NZD. It also depreciated against the British pound by 1.5% to \$11.17 per GBP, and against the Euro by 0.4% to \$9.51 per EUR.



## III. GOVERNMENT FINANCES

The Government fiscal position (exclude donor funds) for March showed an overall surplus of \$35 million, higher than the \$3 million surplus registered in the previous month. The favorable outcome stemmed from higher domestic collection related to quarterly dues, which exceeded spending during the period. Meanwhile, public debt stock declined further to \$980 million in April from \$991 million in March.

### Revenue

Revenue collection in March showed positive growth from all sources. This includes improved quarterly due collections from Inland Revenue Division (IRD), which was a major boost to the total collection. Customs and Excise Division (CED), and revenues from other government ministries also witnessed higher collections, compared to the previous month. Against the same period in 2012, total revenue collection rose relatively by 0.2% to \$219 million. However, these collections were below the budget by 17% for the period.

IRD collections for end the month of March stood at \$149 million, higher than the \$95 million recorded in the previous month. The robust performance came on the back of improved collections from income tax and personal income tax as quarterly payments were made. IRD collected \$43 million in corporate tax from \$4 million in February, and personal income



tax of \$39 million, up 67% from the previous month. Goods tax, however, slipped by a marginal 0.3% to \$51 million, reflecting weak collection at the wharf. Total withholding tax also fell by 3% to \$8 million in March.

CED in March collected total revenue of \$62 million, 15% higher than February collections. The increase was driven by significant rise in receipts from import duties in March of 113% to \$33 million, following strong compliance efforts. Logging revenue and export duties, on the other hand, weakened by 15% to \$29 million and 67% to \$0.1 million, respectively. Non-tax revenue, collected by "other government ministries" rose to \$9 million in March from \$6 million recorded in the preceding month. The increase was attributed to increase in revenue collections from overseas fishing licences from \$2 million received in February to \$3 million in March.

### Expenditure

Government spending in March, although higher than the previous month by 21%, was still lower than budgeted estimates by 22% to \$185 million. Government spending accounted for 84% of the domestic collection during the period, dominated by payroll, goods and services and capital expenditures.

Spending on wages and salaries rose by 29% to \$68 million compared to the previous month, and was above budget by 12%. The marked increase in payroll spending attributed to re-levelling of teachers' salaries and payment backdated to February 2012.

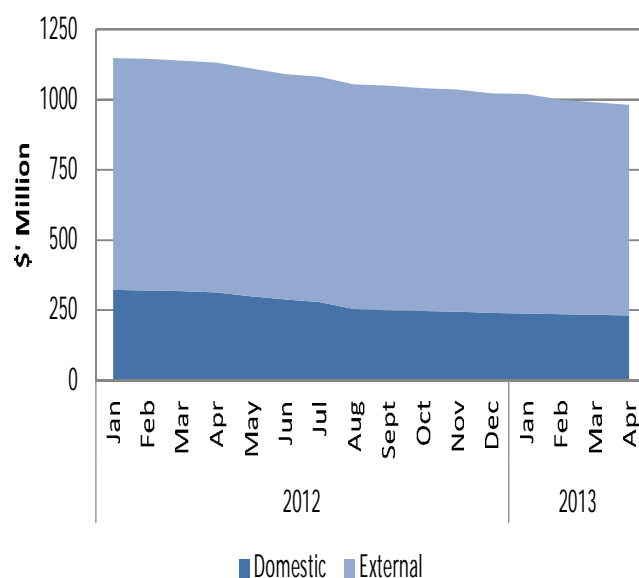
Purchase of goods and services spending also went up to \$97 million from \$92 million in February. This resulted from increased spending made to the Ministry of Education and Human Resources Development on tertiary scholarships and spending by the Ministry of Communication and Civil Aviation and Ministry of Environment, Conservation and Meteorology. However, government spending on purchase of goods and services was 13% lower against budgeted estimates.

Total capital expenditure rose significantly between February and March, increasing from \$3 million to \$13 million. In spite of this, the Government has yet to spend \$44 million worth of budgeted funds for capital projects estimated for the period. Major recipients of the month's expenditure were the Ministry of Public Service and Ministry of Finance and Treasury.

### Government Debt

At the end of April 2012, total stock of public debt declined to \$980 million (16% of GDP) from \$991 million (16.2% of GDP) at end of March. The fall in overall public debt stock was associated with total debt repayments of \$9 million, made towards both external and domestic debt. This level of servicing was 11% higher than expected repayment of \$8 million.

Figure 3. Public Debt



The stock of public external debt available reduced to \$750 million at end of April from \$758 million recorded at end of March. The fall in external debt stock was attributed to principle repayment of \$5 million and interest payment of \$1 million to both the multilateral and bilateral creditors, which exceeded the anticipated repayment schedule. This consisted of \$5 million principle repayment and interest payment of \$0.4 million.

The stock of domestic debt marginally fell by 1% in April to \$230 million. This fall was largely driven by debt servicing of \$3 million, which accounted for 97% of the total recorded for repayment in the schedule. In terms of domestic outstanding debts, the Central Bank of Solomon Islands holding of domestic debt at end of the reviewed period stood at \$79.5 million, compared to \$80 million in the previous month. Other Financial Corporations (OFCs) held \$64 million; Other Depository Corporations (ODCs) represented \$43 million, while "Other holders" held \$46 million.

## IV. DOMESTIC OPERATIONS

### Logs

Log production, as proxied by export volume, rose significantly by 66%, to 214,329 cubic meters from 128,876 cubic meters in the previous month, the highest monthly production recorded since April a year ago. This was due to an increase in the number of shipments during the month, which almost doubled that of the previous month. The accumulated volume produced for the first four months was recorded at 654,142 cubic meters, 8% higher when compared to output recorded in the corresponding months a year ago.

International log prices continued to remain low, falling by 3% to USD305 per cubic meter from USD314 per cubic meter in the previous month due to weakening log demand. The fall in international log prices was the lowest in two consecutive years since 2010.

### Palm Oil

Fresh fruit bunches increased by 23% to 14,052 tons from 11,418 tons in the preceding month. As a result, all palm by-products production went up during the month. Palm oil rose by 31% to 3,193 tons, palm kernel grew by 33% to 754 tons, kernel oil and meal increased by 34% tons to 318 tons and 394 tons, respectively. Year to April showed palm oil recorded 10,729 tons, 10% higher than the corresponding period in 2012. However, over the same period, palm kernel, kernel oil, and kernel meal production all fell by 3% to 2,423 tons, 1,023 tons and 1,268 tons, respectively.

International prices for both palm oil and kernel oil remained at very low levels, continuing the downward trend since April last year. Against the previous month, palm oil prices fell by 1% to USD842 per ton from USD854 per ton and kernel oil down by 0.6% to USD828 per ton. Contract prices for kernel oil also fell by 38% to USD889 from USD1,441 per ton in the previous month. However, contract prices for palm oil increased by 8% to USD954 per ton despite the decline in the international price.

### Copra

Copra production remained at the same level as the previous month at 1,053 tons, taking the year to April output to 4,243 tons. Against last year, monthly and year to April productions fell by 66% and 65%, respectively. The lower output resulted from the

continuous deterioration of copra prices, extending the decline by 2% to USD523 per ton at the end of the month.

### Cocoa

Cocoa production increased against the previous month by 42% to 279 tons totalling the year to April production to 870 tons. This level was 47% below the same month a year ago and 34% lower than the total output recorded in year to April of the preceding year.

International prices for cocoa rebounded by 7% to USD2,294 per ton, following the uninterrupted decline in prices in the last six months. However, both contract and domestic prices fell by 3% to USD1,240 per ton and by 8% to \$11.21 per kilogram, respectively.

### Fish

Fish catch in April declined by 8% to 1,379 tons against 1,493 tons in the previous month, bringing the year to date total output to 5,536 tons. Compared against the previous year, monthly and year to date catches both showed shortfalls by 34% and 27%, respectively. In addition to the weather related factors that affected the fishing outturn, fishing activities has slowed down over the month as two purse seiner fishing vessels went for dry docking in PNG and one pole and line ship was engaged in the Secretariat of the Pacific Community (SPC) tuna tagging trip.

The average international fish price fell by 3% to USD1,756 per ton following an uptick of 10% seen in the previous month. However, this price level was 4% higher than prices shown in the beginning of 2013.

### Minerals

Gold export, as a proxy for production, recorded a significant improvement from 3,369 ounces in the previous month to 5,909 ounces totalling year to date output to 15,810 ounces. However, the year to date output level was 44% below the corresponding production a year ago. Similar to gold, silver output improved by 28% from 1,649 per ounces to 2,106 per ounce over the month. However, compared to previous year, this was 20% lower against similar month and 59% below the year to date output recorded in 2012.

International prices for gold remained subdued owing to weak demand for the mineral around the

globe. Prices further declined by 7% to USD1,488 per ounce (oz) compared to USD1,593 per oz a month ago. International prices for silver contracted to USD25.36 per oz from USD28.79 per oz in the preceding month.

### Honiara Fuel Prices

The average fuel prices in Honiara rose slightly by 2% to \$11.94 per litre from \$11.73 per litre in the previous month. The increase was attributed to an uptick in the two main fuel categories, with diesel increasing by 2% to \$11.67 per litre, petrol up by 4% to \$11.72 per litre, whilst kerosene remained the same as the previous month.

Figure 4  
Honiara Fuel Prices

