

Monthly Economic Bulletin

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I. MONEY AND BANKING SECTOR

Money Supply

Total money supply (M3) grew by 2% to \$3,263 million at the end of April 2014, reversing a marginal decline of 0.3% in the previous month. The increase was driven by a rise in narrow money (M1) despite fall in other deposits (savings and time). M1 increased by 3% to \$2,540 million resulting from a 4% rise to \$2,033 million in demand deposits, while currency in circulation remains unchanged at \$507 million. Meanwhile, other deposits (time and savings) fell by 2% to \$723 million, following a growth of 19% in the previous month.

Net Foreign Assets

Total net foreign assets (NFA) of the banking system in April stood at \$3,593 million, a decline of 4% from \$3,739 million in the previous month. The fall was driven by the reduction in the NFA of CBSI by 5% to \$3,543 million. In contrast, the NFA of other depository corporations (ODCs) grew significantly to \$50 million from \$6 million in the previous month. The rise in the ODCs' NFA reflected a large increase in their foreign assets over their foreign liabilities at the end of the month.

Domestic Credit

Net domestic credit increased significantly by 142% to \$234 million, following a notable decline of 41% in the previous month. The rise was driven mainly by the fall in the net credit to government (NCG) by 10% to net liabilities of \$1,233 million. This was attributed to the downward movements in both the NCG of CBSI and ODCs by 8% and 26% to net liabilities of \$1,128 million and \$106 million, respectively. Credit to private sector remained unchanged at \$1,467 million as in the previous month.

Liquidity

Total liquidity in the banking system picked up by 3% to \$1,294 million in April, following two consecutive months of decline. The growth reflected an increase in the accumulation of government deposits with CBSI combined with the increase in CBSI's NFA and other items net. As a result,

excess liquidity increased by 4% to \$962 million.

Domestic Market Operations

Auctioned government treasury bills (T-bills) increased in April to \$12 million from \$9 million in the previous three months. Total bids received were \$26 million, of which only \$12 million was accepted and the rest rejected. The weighted average yields (WAY) for the 56 and 91 days T-bills declined from 0.21% and 0.19% to 0.18% and 0.16%, respectively. In contrast, the WAY for 182 days increased to 1.28% from 1.14% in March.

CBSI floated \$710 million worth of Bokolo bills in April as in the past three months. Of this total, the commercial banks absorbed the full amount. The WAY for the 28 days Bokolo bill increased marginally to 0.61% from 0.60% a month ago.

II. BALANCE OF PAYMENTS

Trade in Goods

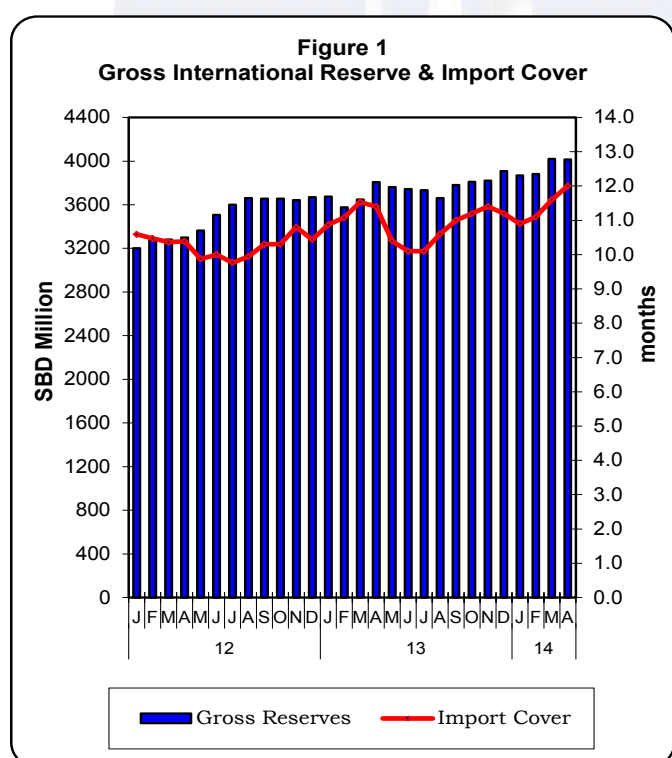
The provisional balance on trade in goods widened to a deficit of \$67 million in April from the revised deficit of \$36 million in the previous month. This was driven by a large fall in exports by 17% to \$193 million (f.o.b) compared to a smaller 4% decrease in imports to \$260 million (f.o.b) during the month.

The fall in exports was driven largely by the decline in exports of round logs and timber and minerals. Round logs and timber exports fell by 14% to \$122 million and mineral exports significantly dropped by 65% to \$12 million. Mineral exports, in particular, dropped as a result of the temporary suspension of Gold Ridge mining operations, following the excessive flooding in early April. Meanwhile, all agricultural commodities namely copra, cocoa, and palm oil exports went up from \$34 million to \$35 million owing to favourable commodity prices, which negated the fall in exports volumes. Fish exports also increased from \$18 million to \$20 million on the back of higher fish catch during the month. All other exports fell marginally from \$4 million to \$3 million.

The increase in imports during the month stemmed from higher mineral fuel and machineries import payments. Mineral fuel imports grew significantly by 42% to \$107 million and machineries increased by 11% to \$76 million. Meanwhile, food imports fell by 20% to \$46 million, basic manufactures by 31% to \$26 million, and all other import categories declined by 20% to \$36 million during the period.

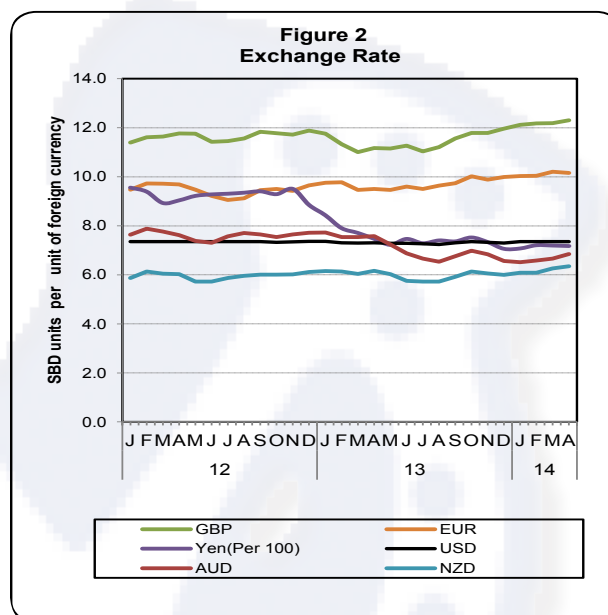
Gross Foreign Reserves

The level of gross foreign reserves fell to \$4,015 million from \$4,020 million recorded in the previous month. This was due to a large one-off payment the Solomon Islands Government made during the month. This level of foreign reserves is sufficient to cover 12.6 months of imports of goods and services.



Exchange rate

During the month, the Solomon Islands dollar (SBD), on average, remained stable against the United States dollar (USD) at \$7.36 per USD. However, it weakened against the Australian dollar (AUD) by 2.7% to \$6.85 per AUD. The SBD also depreciated against the British pound by 1.0% to \$12.31 per GBP and 1.4% against the New Zealand dollar to \$6.35 per NZD. Meanwhile, the SBD appreciated against the Euro by 0.5% to \$10.16 per EUR and 0.3% against the Japanese Yen to \$7.18 per 100JPY during the month.

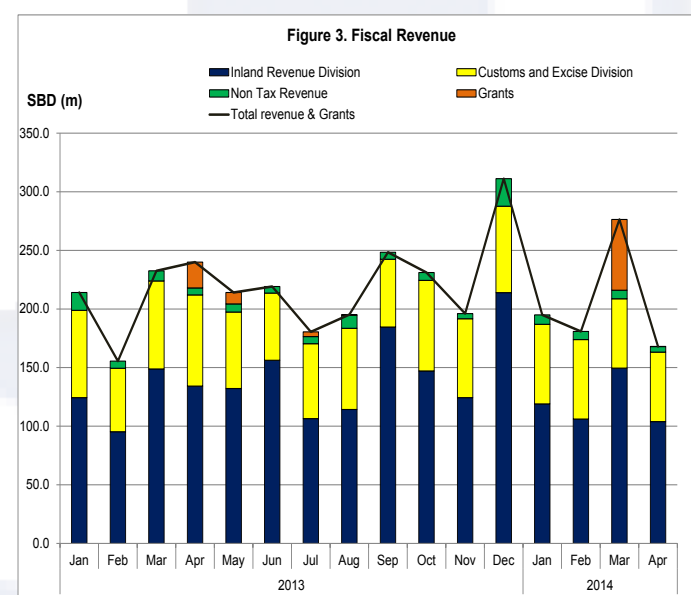


III. GOVERNMENT FINANCE

The Government recorded a preliminary fiscal surplus¹ of \$16 million in March following the \$20 million deficit in the previous month. This was due to a stronger growth in revenue over expenditure during the month.

Revenue

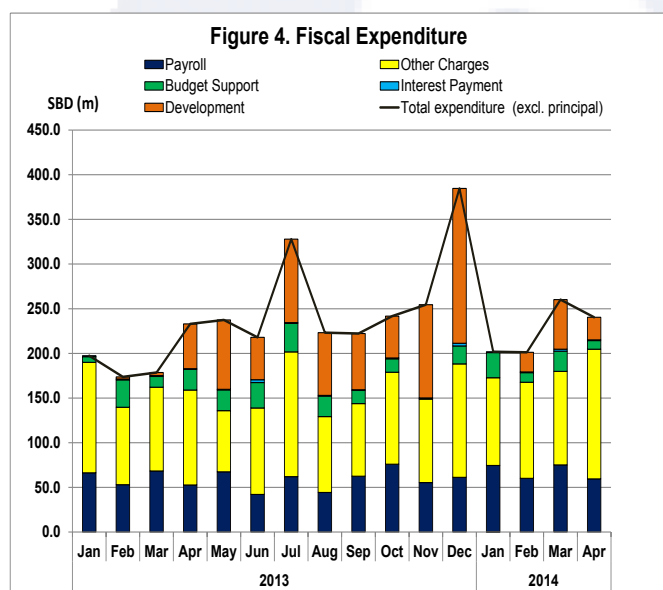
Total revenue rose by 53% to \$276 million. The increase was driven by a 41% surge in Inland Revenue Division (IRD) collection to \$150 million. Collections from Customs and Excise Division (CED), however, continued the downward trend seen since January 2014, dropping by 13% both against the previous month and budget to \$59 million. Meanwhile, non-tax revenue remained broadly unchanged at \$7 million as in February but fell short of the budget by 59%. Grants received during the month totalled \$60 million (see Figure 3).



1. This includes donor support grants but excludes debt principal repayment

Expenditure

Total expenditure increased by 30% to \$261 million. The upsurge against the prior month reflected increased spending on payroll by 25% to \$75 million along with increases in budget support and development expenditure from \$11 million to \$23 million and from \$22 million to \$55 million, respectively. However, other charges declined by 3% to \$105 million. Despite the increase in monthly expenditures, total expenditure was 8% below budget (see Figure 4).



Debt Stock and Servicing

Total public debt stock in April stood at \$933 million, 0.5% lower than the previous month. This was equivalent to 14% of GDP, slightly lower the 15% maintained since November 2013. Debt servicing made during the month totalled \$9 million, of which \$5 million was for external repayments and \$4 million on domestic debt repayments.

IV. DOMESTIC ECONOMY

Logs

Log exports, as a proxy to production, declined by 8% to 141,081 cubic meters in April in contrast to the 33% growth in March. Year-on-year exports also witnessed a drastic fall by 34%. In terms of prices, average international log prices weakened by a further 0.2% against the previous month to US\$290 per cubic meter.

Palm Oil Products

Harvested fresh fruit bunches plunged by 45% against the previous month to 7,285 tons due to excessive flooding in early April. As a result, crude palm oil fell by 47% over the same period to 1,563 tons while kernel oil declined by 44% to 157 tons. On the flipside, year-to-April kernel oil output

improved by 2% year-on-year to 1,040 tons whilst palm oil maintained the same level as in the previous year at 10,702 tons.

Contract prices for crude palm oil improved further by 26% against a month ago to US\$1,248 per ton. On the contrary, palm kernel oil moved negatively by 21% to US\$1,370 per ton, reversing the 24% price hike registered in the previous month.

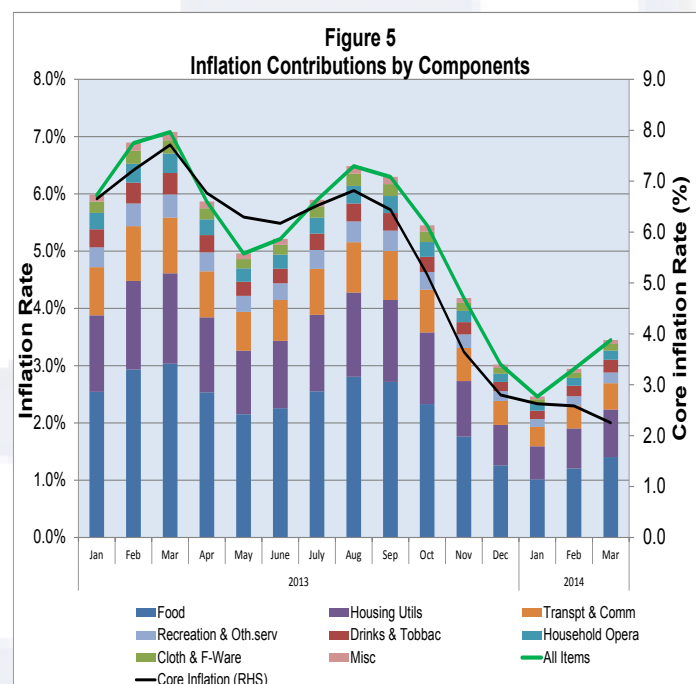
Fish

Fish catch outperformed the previous month by 26% to 2,297 tons. This is 67% above the same period last year. Total catch to April stood at 8,713 tons and was 57% above the corresponding period in 2013. Meanwhile, preliminary estimates showed average international fish prices worsened by 0.4% to US\$1,405 per ton.

Inflation

Headline inflation for March, as measured by the three months moving average (3mma), continued to rise from 3.3% in February to 3.7% in March. The sustained uptick was driven by a surge in domestic components to 7.3% from 6.3% in the previous month. On the other hand, imported inflation remained negative at minus 2.1% from minus 1.3% in the previous month. The fall was driven by further easing in all imported items over the month.

The overall inflation rate of 3.7% was driven mostly by food, which rose by two basis points to account for 1.5%; housing utilities that rose by one basis point to 0.9%; and transport and communications that contributed 0.5% from 0.4% in the previous month (see Figure 5). All the other categories accounted for the remaining 0.8% and their individual contributions remained unchanged from the previous month.



Despite the increase in overall inflation rate for March, the month-on-month inflation rate eased to 0.3% from 1.1% in the previous month, indicating inflationary pressures were losing momentum in March.

Underlying inflation, as indicated by the exclusion-based measures dropped to 2.3% in March from 2.6% in February. This implies price increases are not broad based but due to movements in volatile items as well as regulated and excise items.

Honiara Fuel Prices

Average fuel prices for Honiara slightly dropped by two cents in April to \$11.69 per litre due to movements in kerosene prices. The price of kerosene fell by thirty one cents to \$12.42 per litre to outweigh those of petrol and diesel that rose by nineteen cents and five cents to \$11.38 and \$11.27 per litre, respectively.