

Monthly Economic Bulletin

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I. MONEY AND BANKING SECTOR

Money Supply

Total money supply (M3) grew slightly by 0.1% to \$3,203 million at the end of February 2014, following a slow growth of 0.6% witnessed in the previous month. The increase was driven by a rise in narrow money (M1); despite the fall in other deposits (savings and time). M1 increased marginally by 0.4% to \$2,587 million resulting from the 0.3% to \$2,098 million rise in demand deposits together with the increase in currency in circulation by 0.5% to \$489 million. Meanwhile, other deposits (time and savings) continued its downward trend for the third consecutive month by 1% to \$616 million.

Net Foreign Assets

Total net foreign assets (NFA) of the banking system in February stood at \$3,678 million, an increase of 0.2% from \$3,672 million in the previous month. The increase was driven mostly by the growth in the NFA of Other depository corporations (ODCs) by 69% to \$47 million from \$28 million recorded in January. The rise mainly reflected a large increase in the ODCs' foreign assets over their foreign liabilities at the end of the month. On the other hand, the NFA of CBSI fell by 0.4% to \$3,631 million.

Domestic Credit

Net domestic credit increased further by 5% to \$164 million, continuing similar trend witnessed in the previous month. The rise was driven mainly by fall in the ODCs' net credit to government (NCG) by 7% to net liabilities of \$135 million; reflecting the drawdown of government deposits in the banking system. In contrast, CBSI's NCG increased marginally by 0.1% to net liabilities of \$1,137 million. Credit to private sector remained unchanged at \$1,436 million as in the previous month.

Liquidity

Total liquidity in the banking system fell by 4% to \$1,299 million following a 5% increase in the previous month. The fall reflected a decrease in accumulations of government deposits with CBSI, fall in CBSI's

NFA and other items net respectively. As a result, free liquidity decreased by 4% to \$1,074 million.

Domestic Market Operation

Total government treasury bills (T-bills) auctioned on behalf of the government by CBSI in February was \$9 million, same as in the previous month. Total bids received were \$24 million of which only \$9 million was accepted and the rest rejected. The weighted average yield (WAY) for 56 days maturing T-bills declined from 0.25% to 0.22%. In contrast, the WAY for 91 days and 182 days increased slightly to 0.46% and 1.08% from 0.18% and 1.04% respectively.

Moreover, CBSI floated \$710 million worth of Bokolo bills in February, a decrease of \$295 million from the previous month. Of this amount, commercial banks' absorbed \$705 million. The WAY for the 28 days Bokolo bill increased from 0.59% in January to 0.61% at end of February 2014.

II. BALANCE OF PAYMENTS

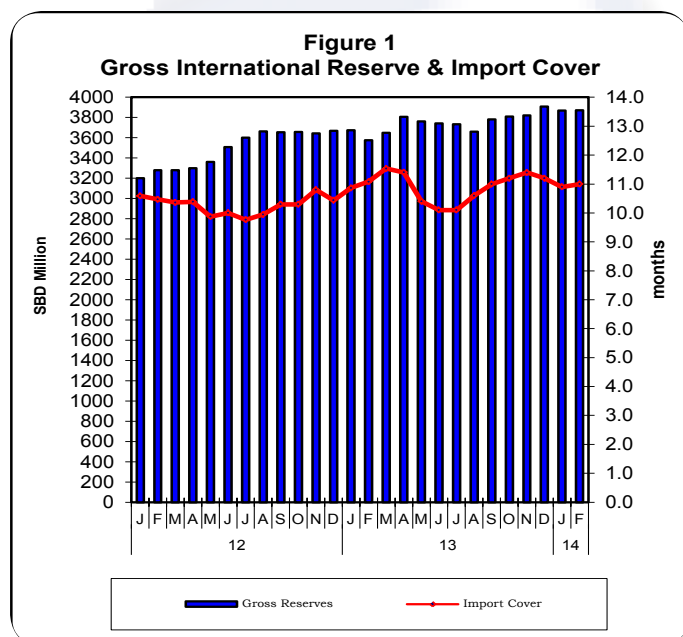
Trade in goods

The provisional balance on trade in goods widened to a deficit of \$34 million from the \$11 million deficit (revised) in the previous month. This was attributed to a larger fall in exports by 36% to \$208 million compared to a 26% fall in imports (f.o.b) to \$241 million.

All major export commodities plummeted during the month driven largely by fall in export volumes. Exports from round log and timber dropped by 33% to \$100 million, minerals by 63% to \$24 million, agricultural crops namely copra, cocoa and palm oil exports fell by 24% to \$28 million, and fish exports dropped by 63% to \$24 million. Meanwhile, other exports rose from \$4 million to \$5 million.

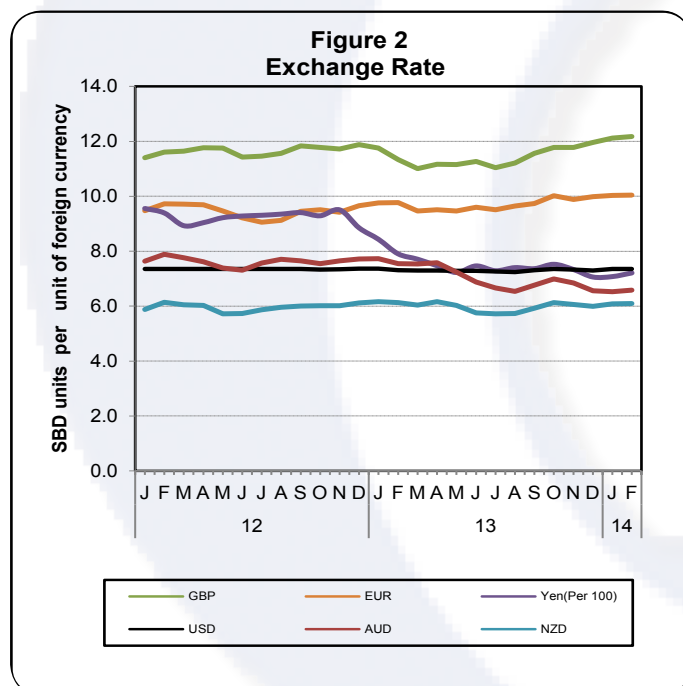
Similarly, the drop in imports during the month came from all the major import categories. Food imports fell by 39% to \$44 million due to fall in rice payments. Mineral fuel slid by 30% to \$75 million as bulk of fuel payments were made in the previous month.

Machineries and transport equipment dropped by 26% to \$67 million, basic manufactures by 13% to \$39 million, and all other import categories¹ by 10% to \$46 million.



Gross Foreign Reserves

The gross foreign reserves in February slightly fell to \$3,871 million from \$3,875 million (revised) in the previous month. This resulted from a net outflow of \$12 million associated with the high trade in goods deficit. This level of reserves is sufficient to cover 11.0 months of imports for goods and services.



1. Imports excluding food, fuel, machineries, and basic manufactures.

Exchange rate

The Solomon Islands dollar (SBD) on average for the month remained firm against the United States dollar at \$7.36 per USD but depreciated against the Australian dollar by 1% to \$6.59 per AUD. The SBD also depreciated by 0.5% against the British pound to \$12.17 per GBP, 0.1% against the Euro to \$10.04 per EUR, 1.8% against the Japanese Yen to \$7.21 per 100JPY, and 0.1% against the New Zealand dollar to \$6.09 per NZD.

III. GOVERNMENT FINANCE

The government recorded a smaller deficit of \$7 million² in January compared to the \$74 million deficit in the previous month. The outcome was due to a higher reduction by 48% to \$202 million in expenditure relative to the 37% decline in total revenue. Meanwhile, public debt stock in February remained at \$941 million same as in January.

Revenue

Total revenue collected in January fell by 37% to \$195 million against the previous month and below the budget by 5%. The lower outturn reflected subdued collections across all revenue categories.

Inland Revenue Division (IRD) collections declined by 44% in January to \$119 million but slightly higher than the month's budget by 0.9%. The under collection against the previous month was driven by lower turnovers in company tax, private sector PAYE, withholding tax, sales tax and goods tax. The fall in company tax from \$62 million to \$4 million was anticipated following settlement of the December quarterly dues. In contrast, government PAYE rose from \$6 million to \$10 million.

CED collections scaled back by 8% to \$68 million against the preceding month but edged slightly above budget by 1%. The outcome against the previous month was attributed to lower collections on import duties, export duties and excise duties which more than offset a 2% gain in log duties to \$39 million. The fall in excise duties by 16% to \$11 million was underpinned by muted collections on beer and spirits.

Non Tax Revenue (NTR) fell by \$16 million to \$8 million against December. This was mainly driven by constrained collections on foreign vessel fishing licence fees by the Ministry of Fisheries and Marine Resources (MFMR), falling from \$17 million to \$3 million. Receipts from other government ministries remained broadly subdued consistent with trend levels.

2. This figure excludes donor support grant

Expenditure

Total government expenditure³ fell by 48% to \$202 million but within budget estimates at 29%. The outcome against December reflected spending restraints on development and “other charges”. Conversely, payroll and budget support exceeded spending in the prior month.

The increase in payroll expenditure by 22% to \$75 million was driven largely by a 44% surge in spending by the Ministry of Health and Medical Services (MHMS) to \$16 million coupled with higher spending across most government ministries. Meanwhile the Ministry of Education and Human Resource development (MEHRD,) spending, which constituted 37% of payroll expenses, remained at \$27 million. On goods and services spending, the decline by 23% to \$98 million was reflected by spending cuts by the MEHRD from \$49 million to \$16 million, MHMS from \$16 million to \$5 million and Ministry of Finance and Treasury (MoFT) from \$11 million to \$2 million.

Budget support spending went up by 39% to \$28 million boosted by a total of \$27 million in Australian Aid (AusAID) funding expended by MHMS. The rest comprised of New Zealand Aid (NZAID) funding to MHMS and Ministry of Fisheries and Marine Resources (MFMR) and European Union (EU) funding to the Ministry of Environment, Conservation and Meteorology (MECM).

Debt Stock and Servicing

Total public debt stock at the end of February remained broadly unchanged at \$941 million. In terms of debt servicing, a total of \$5 million was made during the month, of which \$2.5 million was on external and the other half on domestic debt repayment. Meanwhile, the debt-to-GDP ratio remained at 15% since November 2013.

IV. DOMESTIC ECONOMY

Logs

Log production as proxied by export volumes fell by 33% in February to 115,707 cubic meters compared to 173,515 cubic meters in the previous month. This production level was 26% below the same period in 2013. In terms of prices, the average international log price slightly rebounded by 2% to US\$292 per cubic meter following three months of falling prices.

Minerals

Following a sizable pick up in gold production in January, gold output for this month increased noticeably by 22% to 6,354 ounces (oz) from 5,216 ounces a month ago. Against the same period in 2013,

production was 29% above. Average international price for gold rose 6% to US\$1,300 per oz in February from US\$1,224 per oz the month earlier. Similarly, silver output increased significantly by more than 50% to 3,588 oz compared to 2,235 oz in January. Against the same month in 2013, this output was two times higher. Meanwhile, average international prices for silver increased by 5% to US\$21 per oz.

Palm Oil products

Crude palm oil slipped by 1% to 3,076 tons compared to 3,093 tons. However, this was 27% higher than output in the same period a year ago. On the upside, palm kernel oil went up for the second consecutive month by 9% to 316 tons from 289 tons in the previous month. The export price for crude palm oil declined by 5% to US\$923 per ton while that for palm kernel oil rose further though marginally by 1% in February to US\$1,403 per ton, a record high in almost a year.

Fish

Fish catch went down this month by 39% to 1,742 tons after registering increases in the two previous months. Despite the fall, this output was 8% above the same period in 2013. International fish prices rose by 6% to US\$1650 per ton in February compared to a 13% decline a month earlier.

Inflation

Headline Inflation for January as measured by the three months moving average (3mma) further eased to 2.9% compared to 3.0% in December. The slowdown was driven by falls in the domestic food component falling from 3.7% to 0.7% and household operations declining from 6.9% to 3.8%. These falls outweighed uptick in drinks and tobacco, from 12.4% to 20.9%, clothing and footwear from 4.7% to 6.9% and transport and communications from 3.6% to 3.7%. As a result, domestic inflation for January slightly eased from 5.7% to 5.6%. On the same note, imported inflation remained negative at minus 1.1% from minus 0.9%, reflecting broad based falls in all imported categories.

In terms of contributions to the overall inflation rate of 2.9%, food accounted for 1.2%, a slight fall from 1.3% in December. Contributions by other categories were the same as the December levels with housing and utilities at 0.7%, transport and communication at 0.4%, drinks and tobacco and recreation each contributing 0.2%. The three remaining categories clothing and footwear, household operations and miscellaneous contributed 0.1% each (see figure 3).

3. This excludes debt principal repayment

Figure 3: Inflation Contributions by Components

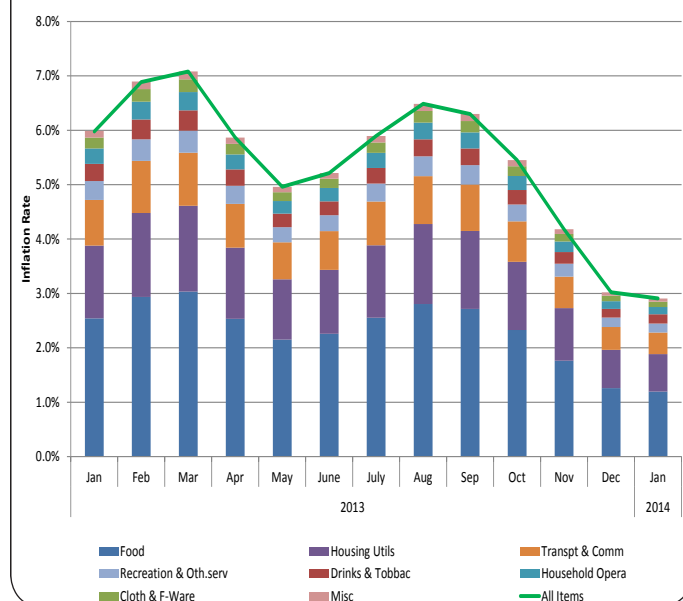
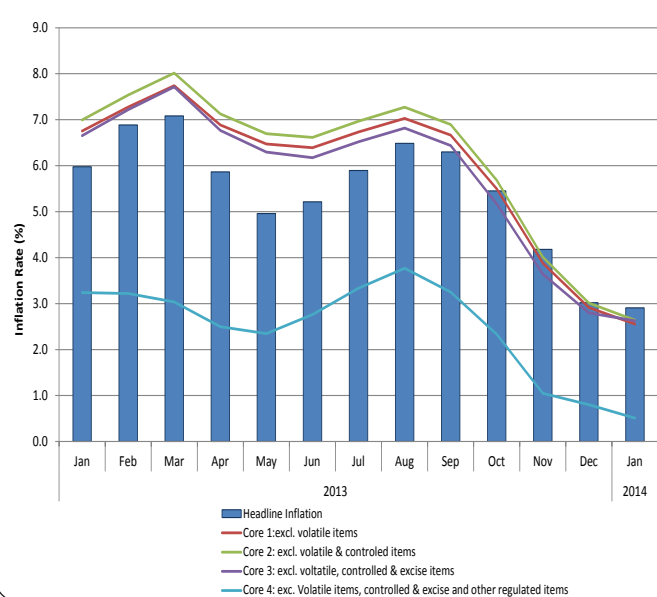


Figure 4: Underlying Inflation Rate



Despite the easing in prices shown from the 3mma, recent inflation movement⁴ showed that month-on-month inflation rate for January stood at 4.3%, compared to minus 0.1% in the previous month, driven by domestic month-on-month inflation of 7.1%.

Underlying inflation⁵ as indicated by the exclusion based measures⁶ hovered around 2.8% for January. CPI excluding volatile items showed 2.7%. CPI excluding volatile items, price control items and excise items showed 2.8%.

Honiara Fuel Prices

The average fuel price in Honiara slightly went up to \$11.42 per litre from \$11.34 per litre in January. The increase was driven by marginal uptick in all fuel categories, with diesel slightly rising by 6 cents to \$11.37 per litre, petrol increasing by 5 cents to \$10.84 per litre and kerosene surging by 14 cents to \$12.04 per litre over the month.

4. Using month-on-month price changes

5. Based on a three month moving average

6. I. ALL CPI excluding volatile items

II. ALL CPI excluding volatile items and price control items

III. ALL CPI excluding volatile, price control and excise item

IV. ALL CPI excluding volatile, price control, excise item and other selected items