

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money Supply

Money supply (M3) went down by 2% to \$2,868 million compared to the 1% decline in the previous month. The fall was driven by narrow money (M1) and other deposits which fell by 2% to \$2,255 million and 1% to \$612 million respectively. The 2% drop in M1 was largely influenced by the 10% decline in currency in circulation and to a lesser extent by the 0.4% fall in demand deposits.

Net Foreign Assets

Net foreign assets (NFA) declined slightly by 1% to \$3,381 million following a 3% increase in the previous month. The fall was due to a drop in the commercial banks' NFA from \$12 million to minus \$30 million. The fall in Commercial banks' NFA indicates an increase in their foreign liabilities over its foreign assets. Meanwhile CBSIs' NFA increased negligibly during the month to \$3,411 million following a 2% increase in the previous month.

Domestic Credit

Net domestic credit increased by 25% to \$285 million following a 39% fall in the previous month. The increase was attributed to the 2% surge in net credit to Government (NCG) and 6% rise in credit to the private sector. The increase in NCG reflected the continued accumulation of government deposits in the banking system.

Liquidity

Total liquidity in the banking system dipped 12% to \$1,277 million following a 9% fall in the previous month. The fall stemmed from a decline in overall NFA combined with a fall in currency in circulation. As a consequence, free liquidity dropped by 15% to \$1,080 million.

Domestic market operations

The Government floated \$11 million worth of treasury bills in the domestic market in

January 2013, an increase of \$5 million from the previous month. This attracted total bids of \$22 million, of which \$11 million was accepted and the rest was rejected. The weighted average yields for the maturity terms of 56 days and 91 days were unchanged at 0.64% and 0.30% respectively whilst that for 182 days increased from 0.22% to 0.63%.

II. BALANCE OF PAYMENTS

Trade in goods

The provisional balance on trade in goods recorded a deficit of \$65 million in January 2013. This worsened from a \$43 million deficit in the previous month. The negative outcome stemmed from a 5% decline in total exports (f.o.b) to \$228 million amidst a 4% rise in imports (f.o.b) to \$294 million.

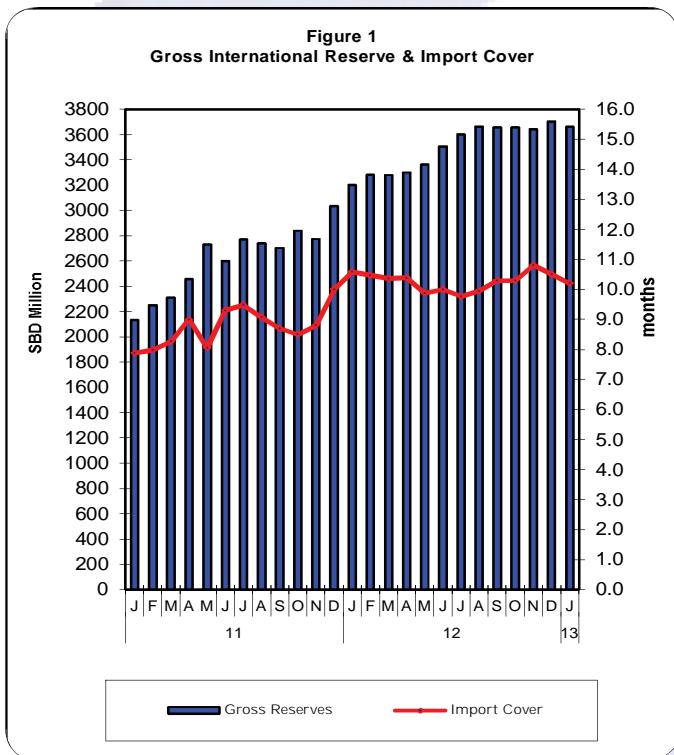
The fall in total exports was largely due to a significant drop in mineral and palm oil exports by 46% to \$26 million and 32% to \$16 million respectively. Fish exports also dropped slightly by 3% to \$23 million due to a decline in fish catch and depressed international tuna prices. Furthermore, other exports dropped from \$4 million to \$2 million due to a fall in dried seaweed exports.

On the other hand, round logs, sawn timber, copra and re-exports recorded increases. Round log exports rose 7% to \$133 million due to a rise in export volumes. Sawn timber exports increased to \$8 million from \$7 million, reversing the trend in the previous month. Copra rose 37% to \$6 million due to an increase in export volumes and to a lesser extent the turnaround in export price. Re-exports jumped to \$11 million from \$3 million. This was due to the mining company shipping out some of its used mining machineries. Cocoa exports meanwhile remained at \$3 million despite the fall in international cocoa price.

Driving the 4% increase in total imports (f.o.b) were machineries and transport equipment that rose 19% to \$112 million. Contributing also to the increasing imports were chemical imports which rose 17% to \$26 million, mineral fuels by 1% to \$78 million, crude materials by 8% to \$4 million, miscellaneous items by 6% to \$19 million, and 'animals and vegetables oils and fats' to \$3 million from \$2 million. On the other hand, food imports fell by 17% to \$47 million as rice imports fell during the month. Basic manufactures dropped by 4% to \$19 million and beverages and tobacco from \$4 million to \$3 million.

Gross foreign reserves

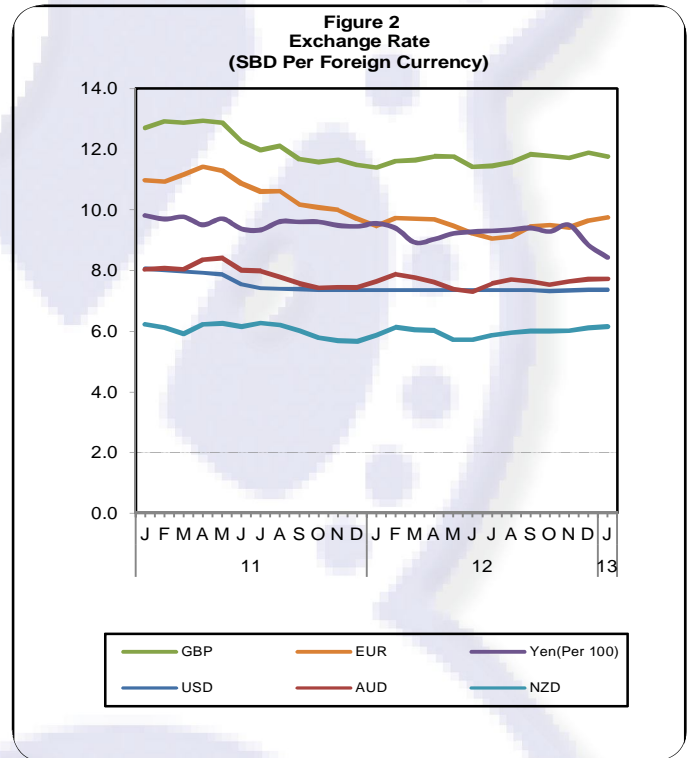
The gross foreign reserves declined by 1% to \$3,660 million at the end of January 2013. This came about due to revaluation losses and a very sluggish outcome in net receipts on transactions of only \$1million from \$20 million in the previous month. The lower net receipts emanated from the high levels of financial equity payments that offset the rise in trade inflows associated with round log exports. This level of reserves can adequately cover 10.2 months of imports.



Exchange rates

The Solomon Islands dollar (SBD) appreciated by 0.1% against the US dollar to \$7.36 per USD. The SBD also strengthened against the British pound by 1% to \$11.76 per GBP and

4.7% against the Japanese yen to \$8.43 per 100JPY. The SBD however, depreciated by 0.1% against the Australian dollar to \$7.73 per AUD, 0.7% against the New Zealand dollar to \$6.16 per NZD and 1.1% against the EURO to \$9.76 per EUR.

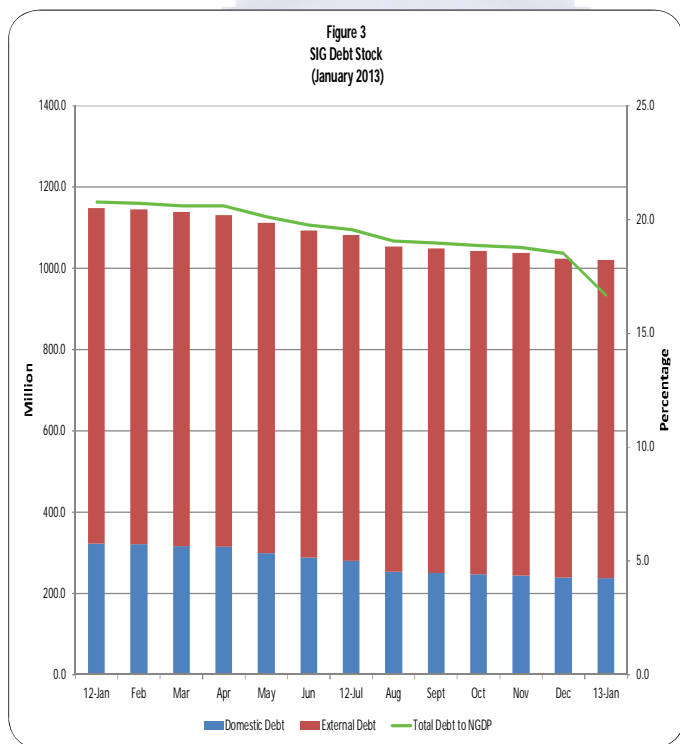


III. GOVERNMENT FINANCE

Public debt stock fell in January by 0.2% to \$1,021 million following the 1.3% drop in December 2012. The decrease was attributed mainly to a drop in domestic debt stock. External debt, on the other hand, increased marginally during the period.

Domestic debt fell from \$240 million to \$237 million as a result of debt repayments of \$3 million to matured bonds. Of this \$3 million, principle repayments represented \$2.5 million and interest payment \$0.4 million. External debt stock rose marginally by 0.04% in January to \$784 million, after a 1% fall in the previous month. The slight increase came in spite of the \$3 million repayment on external debt and was attributed to the adverse movement in SBD against debt denominated currencies. Meanwhile external repayment exceeds the amount scheduled for repayment in January by \$0.5 million. Disaggregating the repayment by creditors; multilateral creditors accounted for 52% of the total debt repayment, followed

by holders of Government securities with 36% and CBSI with 12%.



IV. DOMESTIC ECONOMY

Logs

Log export volumes rebounded by 11% to 154,901 cubic meters in January, reversing the 11% fall in the previous month. However, export volume fell 13% against the corresponding month in 2012. International log prices continued to fall to USD 334 per cubic meter as world demand for logs remained weak. The January price was the lowest since 2011.

Palm Oil

Fresh fruit bunches for the month went up 11,770 tons in contrast to 8,659 tons in the previous month. As a result, palm oil and palm kernel oil rose 32% and 37% to 2,664 tons and 252 tons respectively. Compared to the similar period in the preceding year, palm oil was 21% higher and palm kernel oil was up by 15%. International price for palm oil recovered

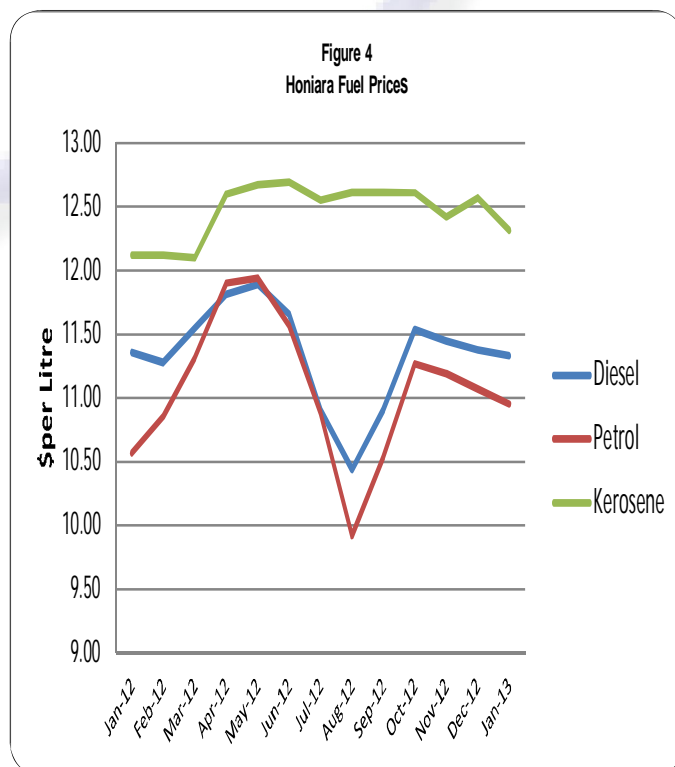
8% to USD 841 per ton from USD776 per ton in December. However, this was 21% below the average price recorded in the same period last year. Likewise, international price of palm kernel oil rose 4% to USD 759 per ton, still 42% below the price twelve months back.

Fish

Fish catch in January plummeted by 45% against the previous month and 17% against the corresponding month in 2012 to 1,053 tons. On price developments, the average international fish price continued to fall during the month, dropping by 7% to USD1,788 per ton. This was the lowest price in the past sixteen months.

Fuel Prices

Average fuel prices, in Honiara marginally fell by 1.2% to \$11.53 per litre compared to \$11.67 per litre in the previous month. The fall reflected marginal declines in the price of diesel, petrol and kerosene by 0.4%, 1.1% and 2% to per litre prices of \$11.33, \$10.95, and \$12.31 respectively.



1. CBSI monitors monthly fuel prices at various fuel pump stations in Honiara.