

Monthly Economic Bulletin

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I. MONEY AND BANKING SECTOR

Money Supply

Total money supply (M3) grew slightly by 0.6% to \$3,200 million at the end of January 2014, following a 2.3% growth witnessed in December 2013. The increase was driven by a rise in narrow money (M1) despite the fall in other deposits (savings and time). M1 increased marginally by 1.4% to \$2,577 million resulting from the 4% increase to \$2,091 million in demand deposits. In contrast, currency in circulation fell by 9% to \$486 million compared to 11% increase in December 2013. Other deposits (time and savings) fell for the second consecutive month by 3% to \$623 million.

Net Foreign Assets

Total net foreign assets (NFA) of the banking system in January stood at \$3,672 million, an increase of 0.9% from \$3,639 million in December 2013. The increase was driven by the growth in both NFA of CBSI and the commercial banks by 1% to \$3,644 million and 73% to \$28 million, respectively. The rise in CBSI's NFA was attributed to the increase in donor inflows towards end month while the increase in commercial banks' NFA reflected a large increase in their foreign assets over their foreign liabilities.

Domestic Credit

Net domestic credit increased further by 12% to \$157 million, continuing the similar trend in the previous month. The rise was driven mainly by fall in CBSI's net credit to government (NCG) by 6% to net liabilities of \$1,135 million. In contrast, the commercial banks' NCG increased by 64% to net liabilities of \$144 million compared to net liabilities of \$88 million in the previous month. Credit to private sector remained unchanged at \$1,436 million as in the previous month.

Liquidity

Total liquidity in the banking system rose 5% to \$1,349 million following a 0.5% fall in the previous month. The increase reflected slight accumulations in CBSI NFA and other items net. As a result, excess liquidity increased by 5% to \$1,019 million.

Domestic Market Operation

The Government issued \$9 million worth of treasury bills in January, a \$3 million increase from the previous month. During the auction, bids in the tune of \$21 million were received of which \$9 million was accepted and the rest rejected. The weighted average yield (WAY) for 91 days and 182 days remained unchanged at 0.2% and 1%, respectively whilst for 56 days, the WAY was 0.3%.

Moreover, CBSI floated \$1,005 million worth of Bokolo bills in January, an increase of \$365 million from the previous month. Of this amount, commercial banks absorbed \$1,000 million compared to \$600 million a month ago. The sharp increase was a result of the three fortnightly auctions that occurred in January while December has only two auctions like any other months of the year. By end of January the total stock absorbed was \$665 million, meanwhile, the WAY for the 28 days Bokolo bill increased from 0.56% in December to 0.59% at end of January 2014.

II. BALANCE OF PAYMENTS

Trade in Goods

The provisional balance on trade in goods in January 2014 registered a surplus of \$49 million from the revised \$34 million surplus in the previous month. The improvement was due to a higher 6% increase in exports to \$316 million (f.o.b) relative to the marginal 1% increase in imports (f.o.b) to \$267 million during the month.

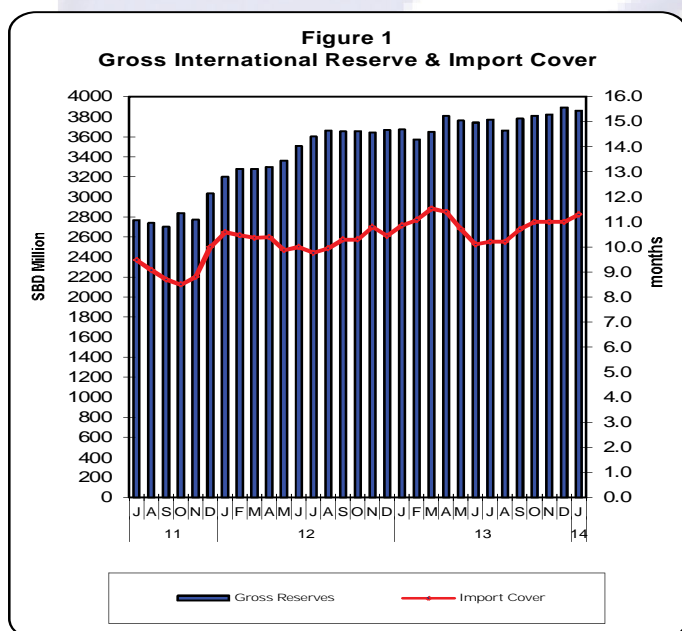
The growth in exports during the month was driven largely by the positive outcome across all major export commodities except for round logs and 'copra and coconut oil'. Fish exports receipts grew by 9% to \$65 million, mineral exports jumped by 29% to \$61 million, and palm oil exports went up by 23% to \$25 million. These came mainly from higher export volumes despite the weaker international prices. Cocoa exports receipts increased from \$4 million to \$6 million owing to favourable prices during the month. Re-exports increased slightly from \$2 million to \$3 million while other exports remained unchanged

at \$1 million. Meanwhile, round log export receipts dropped from \$149 million to \$141 million and copra and coconut oil exports fell marginally from \$7 million to \$6 million on the back of lower export volumes during the month.

The slight increase in imports during the month came mainly from increased import payments for all major import categories except for chemical imports which dropped from \$22 million to \$17 million. Compared to a month ago, mineral fuel grew by 3% to \$67 million, machinery and transport equipment went up by 2% to \$90 million and food imports grew by 6% to \$47 million. Beverages and tobacco increased slightly from \$6 million to \$7 million and miscellaneous items increased from \$20 million to \$23 million. Meanwhile, basic manufactures and crude materials remained unchanged at \$45 million and \$4 million respectively during the month.

Gross Foreign Reserves

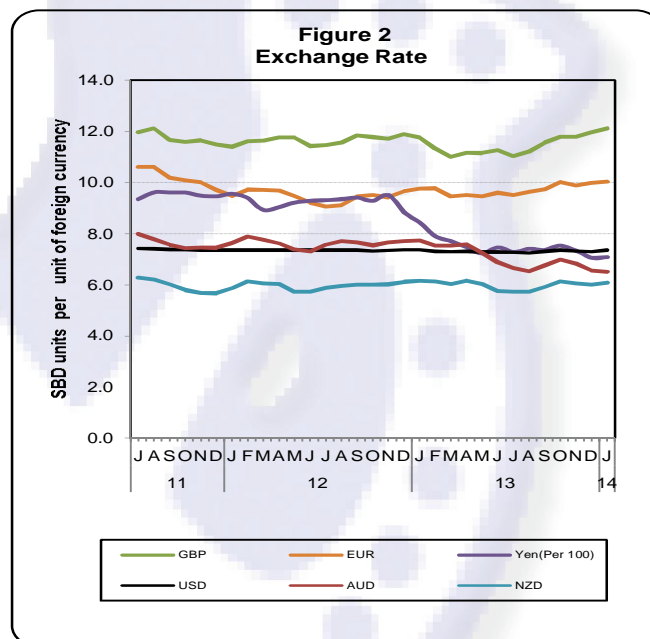
The level of gross foreign reserves fell marginally by 1% to \$3,863 million and was mainly due to exchange rate revaluation losses that outweighed the net donor transaction inflows during the month. The revaluation losses were associated with the strengthening of the Solomon Islands dollar (SBD) against the Australian dollar. Despite the fall, the current level of foreign reserves is sufficient to cover 11.3 months of imports of goods and services.



Exchange rate

The SBD on average weakened against all trading partner currencies except for the Australian dollar. The SBD depreciated against the United States dollar by 0.9% to \$7.36 per USD. Similarly, the SBD also depreciated against the British pound by 1.3% to \$12.12 per GBP, 1.5% against the New Zealand dollar

to \$6.09 per NZD, 0.4% against the Euro to \$10.03 per EUR and 0.2% against the Japanese Yen to \$7.08 per 100JPY. However, the SBD appreciated against the Australian dollar by 0.6% to \$6.52 per AUD.



III. Government Finance

Provisional estimates for December showed the Government's fiscal deficit worsened by 15% to \$74 million against the budget for the third consecutive month since October 2013. The negative outturn was driven by higher expenditure, which outpaced the gains in collected revenue. Meanwhile, public debt stock at the end of January 2014 stood at \$941 million, maintaining the downward trajectory since October 2013.

Revenue

Total revenue for December surpassed projection and the previous month by 11% and 59% to \$311 million, respectively. The positive outturn was driven mainly by improved collections from Inland Revenue Division (IRD), Customs and Excise Division (CED) and non-tax revenue.

IRD collections exceeded the budget by 20% to \$214 million in December. This was attributed to high turnovers in company tax and withholding tax with the former increasing from \$27 million to \$62 million and the latter from \$19 million to \$39 million. The surge in company tax was anticipated following gains from settlement of provisional tax obligations in the December quarter. Meanwhile, the increase in withholding tax was driven by higher receipts on dividend payments and resident tax reflecting buoyant business activities. However, private sector PAYE and goods tax fell below budget

by 19% to \$32 million and by 12% to \$67 million, respectively. Movements in the other tax categories were negligible.

Compared to budget estimates, CED receipts rose by 10% to \$74 million driven by log duties and import duties. Log duties improved by 15% to \$38 million despite the fall in international price of log. The increase in import duties by 7% to \$20 million however, came from higher receipts from machinery, transport and equipment imports during the month. In contrast, export duties waned by 27% to \$1 million during the reviewed period.

Non-tax revenue from various government ministries outperformed budget by 30% to \$24 million. The outturn was attributed to higher collections from the Ministry of Fisheries and Marine Resource on fishing licence fees paid by foreign vessels which increased by 58% to \$17 million. However, less pronounced increases were noted for the Ministry of Infrastructure Development (MID), Ministry of Commerce, Industry and Employment and Ministry of Mines and Rural Electrification, which collected a combined total of \$5 million.

Expenditure

Total government expenditure exceeded budget by 26% to \$385 million and up by 48% the previous month. This reflected higher spending on development and other charges during the month. Payroll spending, however, was contained within budget during the month.

Payroll spending expanded by 10% against the previous month although settling at 4% below the budget of \$61 million. The below budget performance was attributed to a broad-based tightening in spending across all the line ministries except for the Ministry of Education and Human Resource Development (MEHRD) whose spending increased by 6% to \$28 million.

Expenditure on goods and services overran the budget by 13% to \$127 million. Underlining this increase was the higher than budgeted expenditure incurred by MEHRD at 58% to \$49 million, followed by Ministry of Health and Medical Services at 54% to \$16 million, and Ministry of Finance and Treasury at 43% to \$11 million. On the other hand, Ministry of Provincial Government and Institutional Strengthening, Ministry of Home Affairs and Ministry of Police and National Security contained their expenditure within the budget.

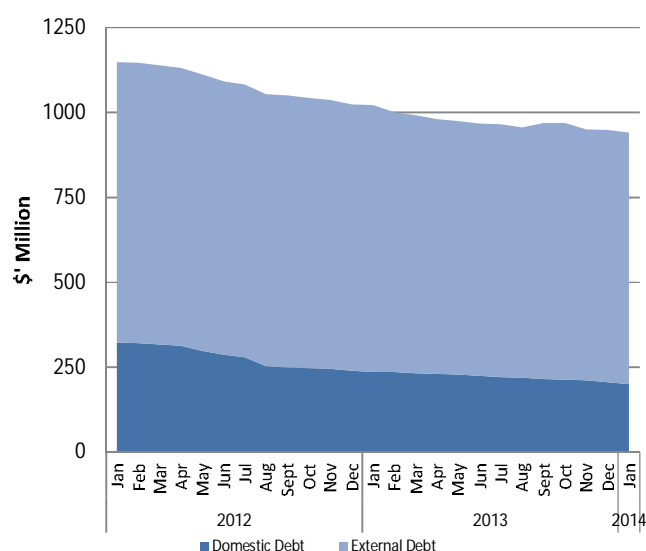
Development expenditure rose by \$93 million to \$173 million against budget projections and surged by 58% above the preceding month. The outcome

is expected as implementing ministries normally rundown their respective budgets before the year ends. Notable increases were evident in the Ministry of Communication, Aviation and Meteorology, MID, MEHRD and Ministry of Rural Development.

Debt Stock & Servicing

Total public debt stock at the end of January stood at \$941 million, 0.8% lower than the previous month. The marginal fall in the debt stock reflected debt servicing of \$6 million during the month. Meanwhile, the debt-to-GDP ratio remained largely unchanged at 15% since November 2013.

Figure 3. Public Debt



IV. Domestic Economy

Logs

Log exports for January as a proxy to production dropped by 6% to 173,515 cubic meters compared to 183,875 cubic meters in the previous month. Despite the fall, this output was 12% above the same period a year ago. In terms of prices, the average international log price remained unchanged at USD287 per cubic meter - the lowest price recorded since 2002.

Minerals

Gold output for the month rebounded by 25% to 5,216 ounces (oz), reversing the 25% fall in the previous month. Against the same period in 2013, production was more than threefold higher. Similarly, silver output increased significantly by more than double to 2,235 oz compared to 1,080 oz a month ago. Against the same month in 2013, this was four times higher. International prices for gold improved to USD1,224 per oz from USD1,222 per oz last month. Similarly, international price for silver rebounded by 2% at the end of January.

Palm Oil

Harvested fresh fruit bunches rose 15% to 13,728 tons from 11,964 tons in December. As a result, crude palm oil went up by 12% to 3,093 tons. Similarly, kernel oil increased against last month by 14% to 289 tons. Compared to the same period last year, this month's output was 15% higher. On the flipside, international price for crude palm oil fell for the second consecutive month, declining by 5% to USD865 per ton from USD912 per ton. Meanwhile, the international price for kernel oil continued to improve, though marginally by 1% to USD1,159 per ton, the highest in twenty-two months. In terms of contract prices received by local exporters, prices for both crude palm and kernel oil increased from the previous month by 7% and 2% to USD 973 per ton and USD1,386 per ton, respectively.

Cocoa

Cocoa production fell by 14% to 132 tons compared to 153 tons a month ago. This was 52% below production level in the same period in 2013. The average international price for cocoa remained unchanged at USD2,820 per ton. Similarly, contract prices rebounded by 5% to GBP1,488 per ton, the highest price in two years. Similarly, average domestic price increased further by 2% to \$13.88 per kilogram.

Copra

Preliminary estimates for copra declined significantly by 74% to 326 tons from 1,251 tons in the previous month. Against the same period in 2013, output shrunk by more than 50%. On the upside, the average international price increased marginally by 0.2% to USD848 per ton. Contract copra prices continued to trend upward, up by 19% this month to USD625 per ton, another record high since May 2012. As a result, prices received by local farmers also increased by 23% to \$3.78 per kilogram from \$3.07 per kilogram a month ago.

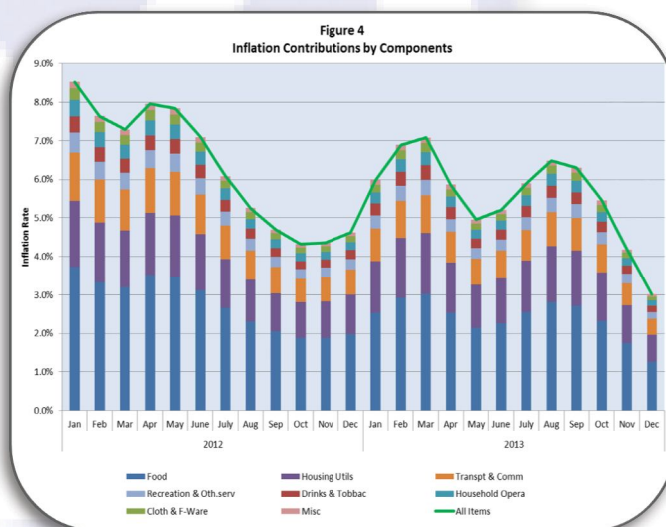
Inflation

Headline inflation for December as measured by the three months moving average (3mma) eased by 1.2 percentage points against November to 3.0%. The slowdown was driven by domestic food component which fell from 6.1% to 3.7%, housing utilities declined from 13.4% to 10% and household operations eased to 6.9% from 7.3%. Although transport and communication saw a slight uptick to 3.6% from 2.9%, the slowdown in domestic prices resulted in domestic inflation rate easing further to 5.7% from 7.4% in the previous month.

On the same note, imported inflation remained in the negative territory recording -0.9% in December compared to -0.5% a month ago, indicating falling prices over the month. This was mainly driven by

decline in imported food prices combined with declines in clothing and footwear, transport and communication categories. Housing utilities and household operations indices on the other hand recorded increases but have negligible effect on imported inflation.

In terms of contributions to the overall inflation rate of 3% for December, food accounted for 1.3% followed by housing and utilities with 0.7%, transport and communication with 0.4%, drinks and tobacco and recreation each contributed 0.2%.



Honiara Fuel Prices

The average fuel price in Honiara slightly went up to \$11.34 per litre from \$11.28 per litre in December. The increase was driven by marginal uptick in diesel and petrol prices during the month. Diesel and petrol prices rose slightly by nine cents and seven cents to \$11.31 per litre and \$10.79 per litre, respectively. Meanwhile kerosene price remained at \$11.90 per litre over the month.

