

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Broad money supply (M3) marginally fell by 1% to \$3,255 million at the end of January 2015, while year-on-year registered a growth of 2%. The fall during the month was driven by other deposits (saving and time), which declined by 5% to \$699 million, while narrow money (M1) remain relatively unchanged at \$2,555 million. Meanwhile, total net foreign assets (NFA) of the banking system increased by 4% to \$3,624 million at the end of the month but showed a marginal decline of 1% against the previous year.

Net credit to government (NCG) grew by 4% to net liabilities of \$1,467 million building on from the 11% growth in the previous month. The increase was due mainly to build-up in government deposits with both CBSI and the other depository corporations (ODCs) over the period. Meanwhile, private sector credit (PSC) fell marginally by 0.3% to \$1,683 million this month, breaking the trend of consecutive increases over the past six months. This resulted from a decline in ODCs' credit lending during the period. However, year-on-year growth saw PSC grew by 17%. Mirroring the fall in private sector credit and increase in NFA, total liquidity of the banking system grew by 24% to \$1,460 million, leading to a corresponding increase in excess liquidity by 35% to \$1,122 million in January.

#### Domestic Market Operations

The total Bokolo bills stock CBSI floated in January remained unchanged at \$710 million, of which \$620 million was absorbed, an increase of \$10 million from December 2014. The Bokolo bills weighted average yield (WAY) for 28 days remained at 0.61%. Meanwhile, the WAY of Government treasury bills for 56 and 91 days maturities also remained unchanged at 0.30% and 0.48% respectively, while WAY for 182 days bills decreased to 1.16% from 1.24%.

### II. EXTERNAL CONDITIONS

The balance on trade in goods recorded a provisional \$3 million deficit in January 2015, a significant downturn from a surplus of \$52 million in the previous month. This negative outcome emanated from a larger drop in exports by 34% to \$214 million (f.o.b) against a 21% decline in imports to \$217 million (f.o.b) during the month.

The significant fall in exports was driven largely by declines across all export commodities; except for palm oil products which increased by 36% to \$22 million as a

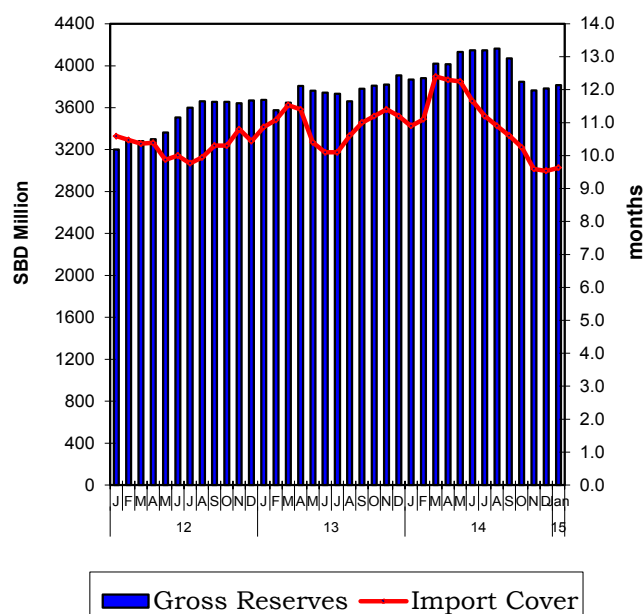
result of higher export volume and favourable prices. Round logs and timber exports plunged by 43% to \$136 million owing to lower export volume. Fish exports fell by 13% to \$38 million, while all other agricultural commodities dropped by 6% to \$31 million, primarily due to weak commodity prices. All other exports also slid from a total of \$9 million to \$7 million during the month.

The fall in imports during the month came from lower payments for major import categories. Food dropped significantly by 49% to \$42 million, mineral fuel fell 27% to \$43 million as a result of lower fuel price, while machineries dropped by 19% to \$54 million during the period.

Gross foreign reserves grew slightly by 1% to \$3,816 million, sufficient to cover 9.4 months of imports of goods and services. This came as a result of higher transaction inflows during the month.

The Solomon Islands dollar (SBD) on average depreciated against the United States dollar (USD) by 1.03% to \$7.67 per USD and appreciated against the Australian dollar (AUD) by 1.57% to \$6.20 per AUD during the month. The SBD also appreciated against the British Pound, New Zealand dollar and Euro but depreciated against the Japanese Yen during the period.

Figure 1  
Gross International Reserve & Import Cover



**III. GOVERNMENT FINANCE**

The government recorded a preliminary surplus of \$75 million in January on the back of higher revenue collections and lower expenditure during the month. However, relative to the previous month, both revenue collections and expenditure saw falls of 33% to \$220 million and 23% to \$144 million respectively.

The dip in revenue collection was attributed to a 34% decline in tax receipts to \$214 million as well as a \$1.9 million fall in non-tax revenue to \$6 million. Underlying the decline in expenditure were reductions in consumption spending by 67% to \$33 million and budget support by 19% to \$12 million. Development spending during the month also fell to \$2 million, as this is customary in the beginning of the financial year. In contrast, payroll went up by 19% to \$80 million whilst other payment increased from \$7 million in the prior month to \$18 million.

Total public debt stock at the end of January stood at \$856 million, 0.4% lower than it was in December. Of the total debt stock, domestic debt accounted for \$174 million and external debt the remaining \$682 million. Meanwhile, the total public debt stock was equivalent to 12% of nominal gross domestic product.

**IV. DOMESTIC PRODUCTION**

Based on preliminary estimates, the monthly production index which reflected domestic production declined significantly by 37% to 68 points from 108 points a month ago. The decline was driven by significant falls in log output and fish catch, and anticipated falls in output for all other commodities. In terms of prices, average international prices for most export commodities declined in January with the exception of palm kernel oil which rebounded by 7% to US\$1,023 per ton.

**Inflation & Honiara Fuel Prices**

Headline inflation continued to ease in December to 4.8% from 5.2% recorded in November. This fall was driven by domestic inflation retreating from 8.8% to 8.0%, while the imported component remained negative at 0.2%. The slowdown in domestic inflation was mainly due to a fall in food prices from 9.4% to 8.6% and drinks and tobacco from 13.4% to 8.4%. Transport also experienced a slight fall to 0.1%. These reductions outpaced minor increases in housing & utilities to 11.0% and household operations at 2.5%. Meanwhile, inflation rates for other components remained unchanged.

In terms of contributions to overall headline inflation, food contributed 2.0%, followed by housing utilities with 1.2%. Transport and communication contributed 0.6%, while recreation services and drinks and tobacco each accounted for 0.3%. Household operations and clothing and footwear each contributes 0.2%, with miscellaneous items added 0.1% to inflation.

The average fuel price in Honiara continued to fall for the fifth consecutive month to \$10.20 per litre from \$10.44 per litre. The decline was driven by slight falls in all fuel types during the month, with kerosene falling by 33 cents to \$11.17 per litre, petrol went down 28 cents to \$9.68 per litre, while diesel dropped slightly by 9 cents to \$9.77 per litre.

### Solomon Islands Key Economic Indicators

		Sep 14	Oct 14	Nov 14	Dec 14	Jan 15
<b>Consumer Price Index<sup>1</sup></b> (% change)	Headline (3mma)	5.2	5.1	5.2	4.8	N/A
	Underlying (3mma): core 3	2.1	2.4	2.4	2.7	N/A
	Month-on month	0.3	-0.7	-1.4	-0.8	N/A
<b>Trade</b> (eop)	Exports (\$ millions)	297	259	272	327	214
	Imports (\$ millions)	263	314	268	275	217
<b>Exchange rates</b> (mid-rate, monthly average)	SBD per USD	7.33	7.42	7.48	7.59	7.79
	SBD per AUD	6.66	6.51	6.47	6.30	6.08
	SBD per NZD	5.99	5.84	5.83	5.89	5.68
	SBD per GBP	11.97	11.94	11.80	11.86	11.75
	SBD per 100 JPY	6.85	6.88	6.50	6.41	6.60
	SBD per EUR	9.48	9.41	9.32	9.38	9.19
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,071	3,847	3,763	3,784	3,816
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)*	1,564	1,347	1,239	1,174	1,460
	Excess Liquidity (\$ millions)*	1,222	1,009	899.03	824.30	1,122
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)*	2,538	2,497	2,492	2,556	2,555
	Broad Money (\$ millions)*	3,359	3,290	3,266	3,291	3,255
	Private Sector Credit (\$ millions)*	1,587	1,612	1,629	1,689	1,683
<b>Interest rates</b> (weighted average yield)	28-day Bokolo Bills Rate	0.61%	0.61%	0.61%	0.61%	0.61%
	56-day Treasury Bills Rate	0.10%	0.10%	0.28%	0.30%	0.30%
	91-day Treasury Bills Rate	0.10%	0.20%	0.49%	0.48%	0.48%
	128-day Treasury Bills Rate	0.58%	0.93%	1.30%	1.24%	1.16%
<b>Commodity Prices</b> (monthly average)	Round logs (US\$/m3)	278	276	276	249	249
	Gold - (US\$/oz)	1,237	1,222	1,175	1,201	1,251
	Palm Oil - (US\$/tonne)	709	722	731	693	688
	Fish - (US\$/tonne)	1,588	1,445	1,367	1,222	1,194
	Copra - (US\$/tonne)	785	769	795	812	764
	Cocoa - (US\$/tonne)	3,220	3,110	2,910	2,950	2,920

1. Value in terms of free on board (FOB)

2. Based on weekly statistics provided by other depository corporations (ODCs)