

Monthly Economic Bulletin

Data published in this bulletin are subject to revision and the Bank cannot guarantee the accuracy of the information obtained from outside sources.

<u>Content</u>	<u>Page</u>
1. Monetary Developments	1
11. Balance of Payments	
111. Government Finance	2
IV. Domestic Economy	3

I. MONETARY DEVELOPMENTS

Money Supply

Money supply (M3) grew slightly by 0.2% to \$2,914 million at the end of March 2013, following a 1.4% increase in the previous month. The rise was driven by both narrow money (M1) and other deposits (time and savings deposits), which increased by 0.1% to \$2,300 million and 1% to \$615 million respectively. Meanwhile, the increase in M1 came from a 5% rise in currency in circulation outweighing the 1% drop in demand deposits of the commercial banks at the end of March.

Net Foreign Assets

Net foreign assets (NFA) of the banking system rose 4% to \$3,454 million in contrast to a 2% fall in the previous month. The upturn was due to a 2% rise in CBSI's NFA that was driven by donor inflows and fishing licensing fees. Commercial banks' NFA also went up from a deficit of \$11 million¹ in the previous month to \$56 million by the end of March.

Domestic Credit

Total domestic credit went down by 36% to \$188 million reversing the 4% increase witnessed in February. The fall was due to an increase in net credit to government (NCG) from minus \$1,025 million a month ago to minus \$1,138 million. This reflects a continuous build-up of government deposits in the banking system. Meanwhile, credit to the private sector continued to increase at a subdued rate of 1% to \$1,327 million from the previous month.

Liquidity

Total liquidity in the banking system dropped 7% to \$1,218 million, following a 3% increase in the previous month. Driving the fall was the drop in commercial bank's call balances with CBSI, which resulted in free liquidity declining by 9% to \$1,011 million at end month.

Domestic market operations

The CBSI on behalf of the Government floated \$9 million worth of treasury bills in the domestic market in March, an unchanged figure from the previous month. This attracted total bids of \$21 million, of which \$9 million was accepted and the rest was rejected. The weighted average yields for the maturity terms of 56, 91 and 182 days went up from 0.37%, 0.39% and 0.85% in the last month to 0.49%, 0.48% and 1.49% respectively at the end of the month.

The monthly stock of Bokolo bills floated by CBSI also remained unchanged in March and stood at \$500 million. Total bids from the commercial banks for these Central Bank bills reached \$500 million and generated a weighted average yield of 0.44% for the maturity term of 28 days.

II. BALANCE OF PAYMENTS

Trade in goods

The provisional balance on trade in goods for March 2013 deteriorated further to a deficit of \$114 million from the \$36 million deficit in the previous month. This resulted from a 24% decline in exports (f.o.b) to \$173 million and a 9% increase in imports (f.o.b) to \$286 million.

The fall in exports was largely driven by the decline in exports from round logs, minerals, and palm oil due to lower volumes shipped and

1. The deficit in the balance of commercial banks' net foreign assets represents a position where liabilities are greater than assets.

falling international prices during the month. Round logs fell 19% to \$105 million, minerals by 63% to \$14 million and palm oil by 92% to \$1 million. On the other hand, fish exports rose 35% to \$36 million attributed to a rise in tuna fish prices. Copra and coconut oil exports also rose from \$2 million to \$3 million as more processed coconut oil was exported during the month. Meanwhile, exports from cocoa, sawn timber and other exports remained the same as in the previous month. Cocoa exports remained at \$3 million, sawn timber exports at \$6 million, and other exports at \$2 million.

The 9% growth in imports was driven by all the major import categories except for mineral fuel and miscellaneous items which dropped by 14% to \$77 million and 9% to \$12 million, respectively. Food imports rose 38% to \$76 million due to higher payments of rice and other cereal products. Machineries and transport equipment rose 21% to \$81 million mainly due to increasing vehicle imports and industrial machinery parts. Basic manufactures rose 3% to \$41 million and chemicals by 8% to \$25 million.

Gross Foreign Reserves

The gross foreign reserves at end March rose by 2% to \$3,647 million. This was mainly due to increase in donor inflows and fishing licencing fees. This level of reserves is sufficient to cover 11.3 months of imports.

Exchange rates

The Solomon Islands dollar (SBD) on average during the month appreciated against all the trading partner currencies. It appreciated by 0.1% against the United States dollar to \$7.30 per USD, 2.9% against the British pound to \$11.00 per GBP, 0.1% against the Australian dollar to \$7.54 per AUD, 1.5% against the New Zealand dollar to \$6.04 per NZD, 3.1% against the EURO to \$9.47 per EUR and 2.5% against the Japanese yen to \$7.71 per 100JPY.

III. GOVERNMENT FINANCE

Revenue

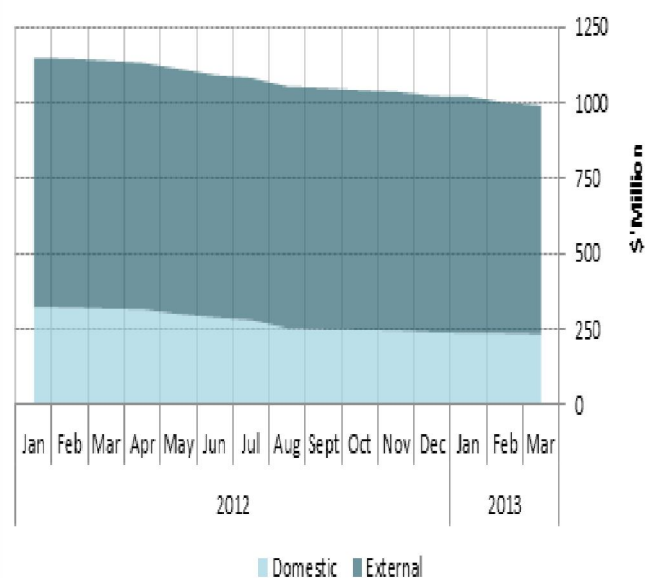
According to the preliminary data, government revenue in February fell from \$199 million in January to \$174 million. This included tax revenue collection from both Inland Revenue Division (IRD) and Customs & Excise Division (CED) of \$149 million and non-tax revenue from

other government ministries of \$24 million. Tax revenue fell slightly below the budget of \$150 million, due to under collection of 20% by CED. This reflected slight falls in collections from various Customs revenue categories. Meanwhile, IRD collection exceeded budget by 15% to \$95 million, and is expected to be even higher with revenue arrears for the month yet to be collected at the time of reporting. The positive outcome in IRD collection reflected higher than expected receipts from goods tax and withholding tax, which rose above budget by 71% and 52%, respectively. On a year-to-date basis, CED collection is tracking below budget by \$6 million, whilst IRD collection was above expected budget by \$49 million, a net collection of \$43 million above budget.

SIG Debt

Total public debt stock continued its downward trajectory since November 2011, decreasing from \$1,001 million at end February to \$991 million at the end of March 2013. The decline was evident in net repayments made during the month to both external debt stock as well as the domestic debt stock.

Figure 1 Public Debt



The stock of public external debt stood at \$758 million at end of March, a marginal decline of 1% from \$765 million from February. The decline reflected debt servicing of \$3.2 million compared to \$2.5 million made in February. Payments in the review period comprises of principle repayment of \$2.6 million and interest payment of \$0.6 million. This included repayment to the International Fund for Agriculture Development,

Asian Development Bank, World Bank, and Exim Bank. By creditors: multilateral creditors hold the largest proportion of \$639 million, which accounted for 84% of the total external debt portfolio of the country, while the bilateral creditors held \$119 million (16%).

Domestic debt fell to \$233 million compared to \$236 million in February. The favourable outcome was explained by a net domestic repayment of \$2.9 million of which \$2.5 million was for principle repayment and \$0.4 million to interest repayment. In terms of holders of government domestic debt, the CBSI held \$80 million (34%), Other Financial Corporations (OFC) \$64 million (27%), Other Depository Corporations (ODC) \$43 million (18%), Public \$39 million (17%), while Other holders held \$7 million.

IV. DOMESTIC ECONOMY

Logs

Log export volumes, as a proxy for production, declined 17% to 128,877 cubic meters after remaining unchanged in the previous month. This brings total output for the first three months of 2013 to 439,813 cubic meters, 16% below the year to March production in 2012. Compared to the same month in the previous year, production is 33% lower. The number of log shipments for the month was almost half the number of shipments in the previous month.

International log prices continued to remain low and further declined by 2% to USD314 per cubic meter as the demand for logs remained weak. The current price of logs in March was the lowest recorded in two consecutive years.

Palm Oil

Fresh fruit bunches for the month rebounded by 10% to 11,418 tons following a decline of 12% in the preceding month. As a result, palm kernel, kernel oil and kernel meal production increased by 11%, to 567 tons, 238 tons, and 295 tons respectively, with palm oil marginally

rising by 0.7% to 2,444 tons. Against the same month in 2012, palm oil was 10% lower with palm kernel, kernel oil and meal all recording a 24% fall. Year to March production for palm oil was 4% above preceding year to 7,536 tons, whilst palm kernel and meal recorded falls by 8% to 1,679 tons, and 874 tons, respectively.

International prices for both palm oil and kernel oil slightly dropped by 1% from USD863 per ton to USD854 per ton and USD845 per ton to USD833 per ton, respectively. Despite the decline in international prices, average contract prices for palm kernel oil continued to improve from USD1,313 per ton to USD1,441 per ton.

Fish

Fish catch declined by 7% to 1,493 tons compared to 1,611 tons in the previous month. The low catch was mainly due to bad weather conditions and fish migration during the month. Yearly fish catch to March totalled 4,157 tons, 24% below corresponding period in 2012. The average international fish price rose 10% to USD1,813 per ton reversing the 8% fall observed in the previous month.

Minerals

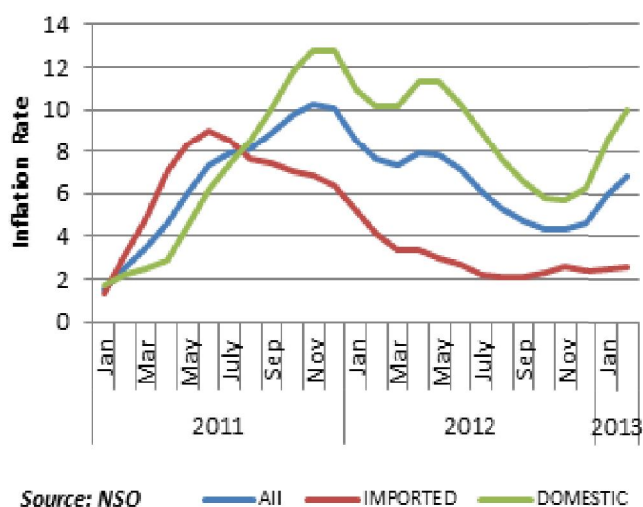
Gold export volumes, as a proxy for production, stood at 3,369 ounces (oz) in March compared to 4,932 oz in the previous month. This was 32% below production in the previous month and 10% lower than the same month a year ago. Total production to date was 9,905 oz, just half the production recorded for corresponding period in 2012. International prices for gold continued to weaken to USD1,593 per oz compared to USD1,628 per oz a month ago.

Silver production for the month of March was 1,649 ounces, 17% below February output. Total production for the first three months of 2013 stood at 4,174 oz; however, this level was 67% below the first quarter production in 2012. International prices continued to decline to USD28.79 per oz from USD30.33 per oz, a fall of 5% against the previous month.

Inflation

The Honiara Consumers Price Index for the month of February 2013 rose by 1% from 175.6 in January 2013 to 177.3. Headline inflation² witnessed a rise from 6% in January to 6.9% in February. The upward inflationary pressure was mainly attributed to the domestic inflation component that went up from 8.5% to 9.9%. Price increases in local food items at the market, drinks & tobacco, betel-nut and utilities explain the increase in inflation for February. Imported inflation marginally increased from 2.5% to 2.6% over the same period.

Figure 2
Headline Inflation



2. Measured by three months moving average (3mma)