

## Monthly Economic Bulletin

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### I. MONEY AND BANKING SECTOR

#### Money Supply

Total money supply (M3) declined marginally by 0.3% to \$3,192 million at the end of March 2014, following a slight growth of 0.1% in the previous month. The fall was primarily due to a decline in narrow money (M1) despite an increase in other deposits (savings and time). M1 decreased by 5% to \$2,457 million. This came as a result of the 7% fall in demand deposits to \$1,950 million, which outweighed the 4% increase in currency in circulation to \$507 million. Other deposits picked up by 19% to \$735 million after declining for three consecutive months.

#### Net Foreign Assets

Total net foreign assets (NFA) of the banking system increased in March by 2% to \$3,739 million, following a slight increase of 0.2% witnessed in the previous month. The increase was driven largely by the NFA of CBSI, which grew by 3% to \$3,733 million. In contrast, the NFA of other depository corporations (ODCs) declined significantly to \$6 million from \$47 million in February. The fall reflects a large increase in ODCs' net foreign liabilities over its net foreign assets at the end of the month.

#### Domestic Credit

Net domestic credit declined notably by 41% to \$97 million, following a 5% rise in the previous month. The fall was driven by the increase in net credit to government (NCG) by 8% to net liabilities of \$1,371 million. The increase stemmed from movements in both the NCG of CBSI and ODCs by 8% and 6% to net liabilities of \$1,228 million and \$143 million respectively, reflecting continuous accumulation of government deposits in the banking system. Credit to private sector also went up by 2% month on month to \$1,468 million compared to zero growth in the previous month.

#### Liquidity

Total liquidity in the banking system decreased by 3% to \$1,257 million, continuing from a 4% fall witnessed in the previous month. The fall reflected a continuous increase in the accumulation of

government deposits with CBSI together with an increase in the CBSI's NFA and other items, respectively. As a result, excess liquidity declined further by 5% to \$924 million at the end of March.

#### Domestic Market Operations

Government treasury bills that were auctioned in March remained unchanged at \$9 million for three consecutive months. Total bids received were \$18 million of which \$9 million was accepted and the rest rejected. The weighted average yield (WAY) for 56 and 91 days fell to 0.21% and 0.19% from 0.22% and 0.46%, respectively. Conversely, the WAY for 182 days increased from 1.08% to 1.14% in March 2014.

Furthermore, CBSI floated \$710 million worth of Bokolo bills in March, same as in the previous month. Of this total, commercial banks absorbed the full amount compared to \$705 million in the previous month. The WAY for the 28 days Bokolo bills declined slightly from 0.61% to 0.60% at the end of March 2014.

### II. BALANCE OF PAYMENTS

#### Trade in Goods

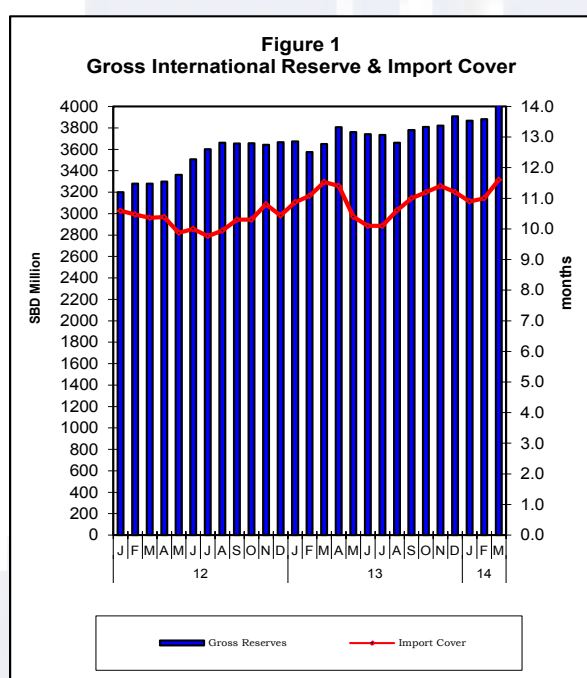
The provisional balance on trade in goods slightly widened to a deficit of \$35 million in March from the \$34 million deficit in the previous month. This was due to a higher increase of \$13 million in imports to \$253 million (f.o.b) compared to a smaller increase of \$11 million in exports to \$218 million (f.o.b) during the month. The growth in exports was driven mainly by round logs and timber exports, which rose significantly by 35% to \$136 million, owing to higher export volumes during the month. Meanwhile, all other major export commodities fell during the period on the back of lower export volumes and weak commodity prices. Mineral exports dropped by 29% to \$36 million, fish exports by 23% to \$18 million and all agricultural crops namely copra, cocoa and palm oil exports fell by 12% to \$25 million.

The increase in imports during the month came mainly from food and machineries import payments. Food imports increased significantly by 30% to \$57 million

attributing to increased import payments for rice and meat. Machineries imports grew marginally by 2% to \$69 million while mineral fuel imports remained constant at \$75 million during the month. Meanwhile, basic manufactures fell by 2% to \$38 million and all other import categories dropped by 3% to \$45 million.

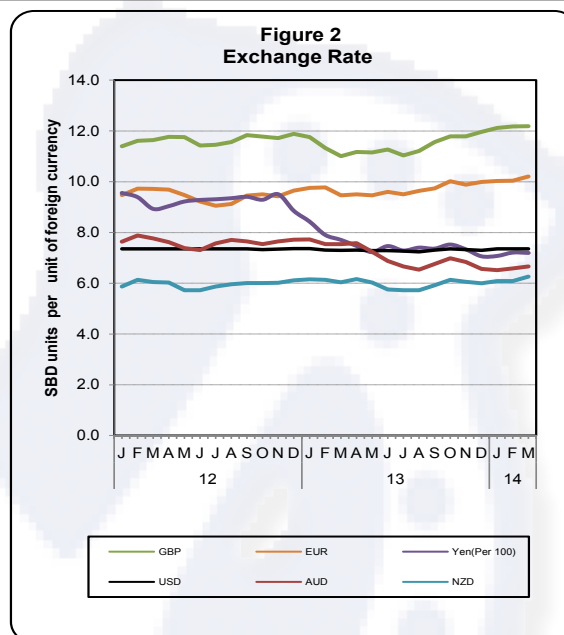
### Gross Foreign Reserves

The level of gross foreign reserves in March grew by 4% to \$4,020 million from \$3,881 million in the previous month. This resulted from donor inflows and exchange rate revaluation gains as the Solomon Islands dollar weakened against the Australian dollar during the month. This level of foreign reserves sufficiently covers 11.6 months of imports of goods and services.



### Exchange rate

The Solomon Islands dollar (SBD) stabilised in March against the United States dollar at \$7.36 per USD but weakened against the Australian dollar by 1.2% to \$6.67 per AUD during the same period. During the same period, the SBD also depreciated against the British pound by 0.1% to \$12.19 per GBP, 2.8% against the New Zealand dollar to \$6.26 per NZD and 1.6% against the Euro to \$10.21 per EUR. Meanwhile, the SBD appreciated against the Japanese Yen by 0.2% to \$7.20 per 100JPY during the month.



### III. GOVERNMENT FINANCE

The Government recorded a fiscal deficit<sup>1</sup> of \$20 million in February compared to \$7 million deficit in the previous month. The widening deficit was driven by revenue collections that fell by 7% to \$181 million compared to total expenditure which was maintained at \$201 million. Meanwhile, total public debt stock at the end of March stood at \$938 million.

#### Revenue

Total revenue collection in February fell by 7% to \$181 million against the previous month and below the budget by 27%. This outcome was attributed to subdued collections in tax revenue by the Inland Revenue Division (IRD) and non-tax revenue (NTR) by various line ministries.

Driven by shortfalls in goods tax and withholding tax, IRD collections fell by 11% to \$106 million and down by 6% against the budget. Goods tax went down by 10% to \$53 million and withholding tax by 29% to \$10 million. Private sector PAYE also decreased by 3% to \$23 million together with declines in Government PAYE by 20% to \$8 million and sales tax by 4% to \$6 million. In contrast, company tax rose by 13% month on month to \$5 million.

Customs and Excise Division (CED) collected \$68 million same as in January and broadly in line with budget estimates. The outcome against the prior month was underpinned by higher collections on import duties and excise duties which increased by 30% to \$21 million and by 87% to \$20 million respectively. Offsetting these gains were log duties which dropped by 31% to \$26 million. Receipts on export duties and other duties also remained subdued. NTR receipts weakened by 13% to \$7 million

1. This figure excludes donor support grant.



against January and fell short of the pro rata budget by 62%. This reflected below budget collections in fishing licences by the Ministry of Fisheries and Marine Resources (MFMR).

### Expenditure

Government expenditure<sup>2</sup> fell slightly by 0.3% to \$201 million against January and within the budget estimates at 29%. The outcome against the previous month reflected spending cuts on payroll by 19% to \$60 million and budget support by 62% to \$11 million. However, spending on goods and services increased by 10% to \$108 million while development expenditure stood at \$22 million.

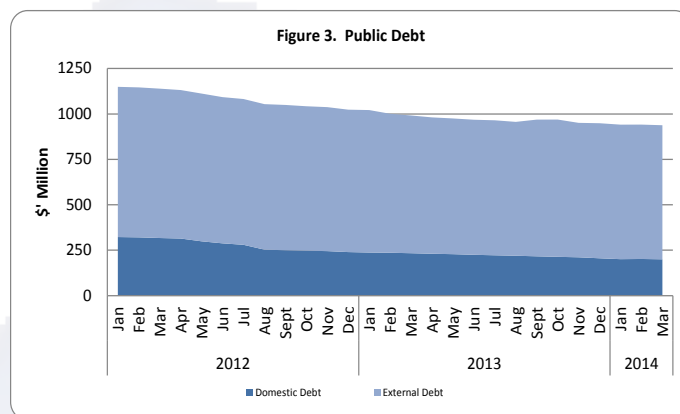
On payroll, the decline came mainly from a fall of 3% to \$26 million in spending by the Ministry of Education and Human Resource development (MEHRD), which accounted for the bulk of payroll expenditure. The fall in the Ministry of Health and Medical Services (MHMS) spending by 26% to \$12 million also attributed to the decline. Meanwhile, the decrease in the budget support spending was mainly attributed to the fall in MHMS expenditure to \$4 million compared to \$27 million in January. In contrast, MEHRD expenditure increased from less than half a million to \$5 million.

In terms of goods and services, the increase was underpinned by higher spending by MEHRD and the Ministry of Police and National Security (MPNS), which rose from \$16 million to \$34 million and from \$3 million to \$16 million, respectively. Conversely, the Ministry of Provincial Government and Institutional Strengthening and Ministry of Home Affairs expenditures reduced notably, with the former plummeting from \$16 million to just half a million and the latter from \$19 million to \$2 million.

Of the total development expenditure, \$12 million was spent on non-residential building and other capital equipment by the Ministry of Rural Development (MRD), \$4 million on roads and bridges by the Ministry of Infrastructure Development (MID) and the rest was accounted for by the other line ministries.

### Debt Stock and Servicing

Total public debt stock at the end of March stood at \$938 million. A total of \$6 million in debt servicing was made during the month, of which \$4 million was on external and \$2 million on domestic debt repayment. Meanwhile, the debt-to-GDP ratio remained at 15% since November 2013.



## IV. DOMESTIC ECONOMY

### Logs

Following a decline in the previous month by 33%, log production, proxied by exports, recovered by 33% this month to 154,046 cubic meters compared to 115,707 cubic meters a month ago. This production level was 20% above the same period in 2013. Year-to-date production reached 443,268 cubic meters, slightly above the previous year by 1%. Meanwhile, log prices had been on a declining trend since it peaked in September 2011 reflecting weakened Chinese demand. As a result, the average international log price slipped this month by 0.3% to US\$291 from US\$292 per cubic meter.

### Cocoa

Based on preliminary estimates, cocoa output continued to decline this month, falling by 6% to 150 tons from 159 tons in February. This production is exceptionally low, 40% below same month a year ago. As a result, year-to-March total production recorded a shortfall of 21% to 597 tons in contrast to 750 tons in 2013.

On the up side, the average cocoa international price continued its positive trajectory and further increased by 2% to US\$3,040 per ton, a record high since August 2011. As expected, average contract export price remained elevated, though a marginal increase of 0.3% this month to GBP1,545 per ton against GBP1,541 per ton in the previous month. Domestic prices strengthened further in March by 6% to \$15.24 per kilogram from \$14.44 per kilogram a month ago.

### Copra

Copra production in March dropped compared to a significant increase posted in the previous month. Production for March fell by 23% to 1,623 tons from 2,095 tons in February. Despite the fall, March production is 37% above corresponding month last year while year-to-date output outperformed previous year by 38% at 4,562 tons. International prices slumped by 41% to US\$536 per

2. This excludes debt principal repayment

ton compared to 8% uptick in the previous month. However, contract and domestic prices continued to improve despite a sharp decline in the international price for the month. Average monthly export contract price for March went up by 12% to US\$700 per ton, highest peak since April 2012. Similarly, average domestic prices for March received by local farmers rose by 4% to \$4.40 per kilogram compared to \$4.24 per kilogram in the previous month.

### Minerals

Gold output fell considerably by 42% to 3,676 ounces (oz) following a 22% increase in the previous month. When compared against the same period a year ago, this was 9% above whilst total output to date recorded 15,245oz, more than 50% above the same period in 2013. Similar to gold, silver output fell dramatically by 40% to 2,156 oz from 3,588 oz. Despite the decline, this output was 31% higher against same month in 2013. On the same note, silver output to date stood at 7,978 oz to almost double the out turn in the same period of 2013.

Average international prices for gold rose 3% to US\$1,336 per oz from US\$1,300 per oz in February. Meanwhile, the average international price for silver remained at US\$21 per oz.

### Palm Oil

Extraction of crude palm oil fell by 3% to 2,970 tons compared to 3,076 tons in the previous month due to weather related factors. Despite the fall, this was 22% higher than output in the same period a year ago. Similarly, palm kernel oil went down by 12% to 278 tons compared to February but outperformed the same period a year ago by 17%. On the positive side, total output for the first three months of 2014 showed crude oil and kernel oil outperformed the corresponding period in the previous year by 21% to 9,139 tons and 25% to 883 tons, respectively. International prices for both crude palm oil and palm kernel oil fell this month by 6% to US\$854 per ton and by 35% to US\$833 per ton. On the flipside, contract price for crude oil rebounded in March by 7% to US\$991 per ton, after having fallen by 5% in the previous month. Similarly, contract price for kernel oil rose markedly by 24% to US\$1,740 per ton reflecting premium international prices received by the local exporter.

### Fish

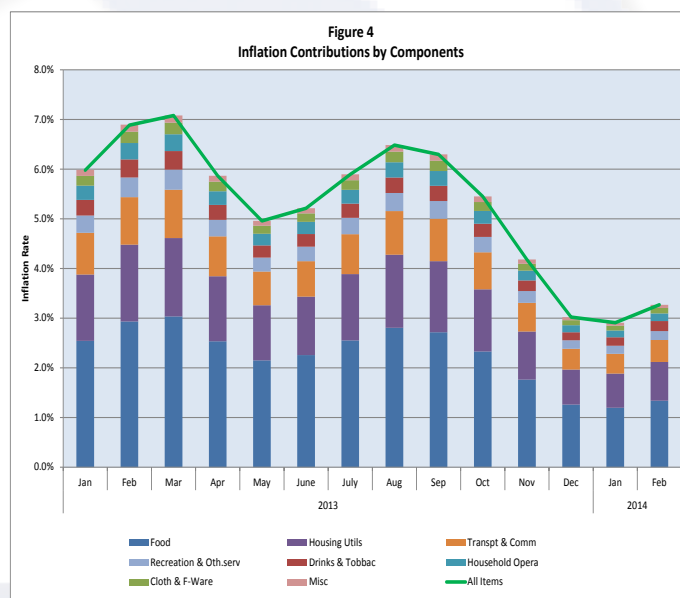
Fish catch rebounded by 5% in March at 1,828 tons, following a significant dip in catch by 39% in February. Against the same month in 2013, this was 22% higher. Total catch to date stood at 6,416 tons, 54% above its corresponding period in 2013. During the period, average international fish price remained at very subdued levels, a declining trend since the second half of 2013 with prices falling again this month by 0.4% to US\$1,411 per ton.

### Inflation

Headline Inflation, as measured by the three months moving average (3mma), seemed to bottom out from 2.9% in January to 3.3% for February<sup>3</sup>. The turnaround was fuelled by sizeable increases in domestic drinks and tobacco from 20.9% to 30.4%, clothing and footwear rising from 6.9% to 9.2%, housing utilities going up from 10.3% to 11% and recreation increasing from minus 2.1% to 0.9%. The price uptick outweighed slight falls in domestic food, which eased from 0.7% to minus 0.9%, household operations slowing down from 3.8% to 0.9% whilst transport and communication remained unchanged at 3.7%. As a result, domestic inflation for February reverted to 6.3% in contrast to an easing of 5.6% in the previous month.

On the contrary, imported inflation remained negative at minus 1.3% from minus 1.1% in January driven by the broad based falls in all imported categories.

In terms of contributions to the overall inflation rate of 3.3%, food accounted for 1.3%, a slight increase from 1.2% in January, housing utilities went up marginally from 0.7% to 0.8% and household operation with 0.2% from 0.1% in the previous month. Contributions by other categories remained unchanged as the January levels with transport and communication at 0.4%, drinks and tobacco and recreation each contributing 0.2%, whilst clothing and footwear and miscellaneous contributed 0.1% each (see Figure 4).

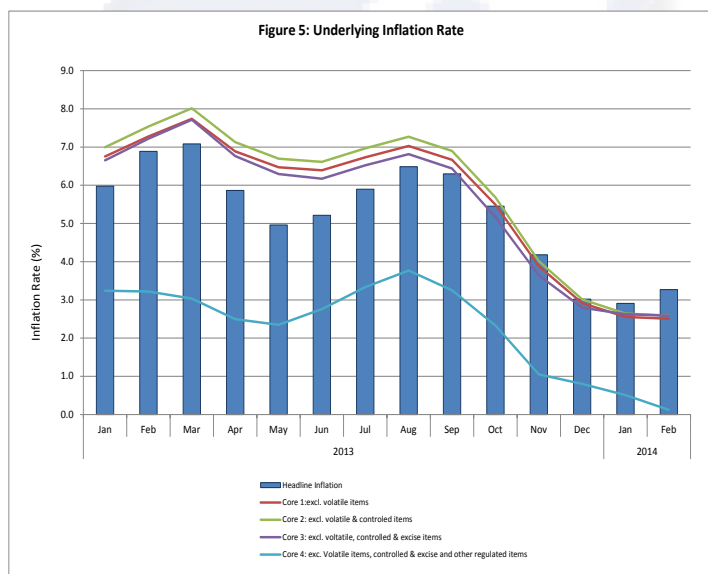


Despite the increase in inflation rate for February, recent inflation movements<sup>4</sup> showed that month-on-month inflation for February slowed down to 1.1% compared to 4.3% in the previous month, due to easing in domestic month-on-month inflation of 1.6% from 7.1%, whilst imported inflation settled at 0.2%.

3. Report 1 month lag as March CPI is not available during reporting.

4. Using month-on-month price changes

Underlying inflation<sup>5</sup>, as indicated by the use of various exclusion based measures, hovered around 2.6% for February. CPI excluding volatile items showed 2.5%, whilst both CPI excluding volatile items, control and excise showed 2.6% (see Figure 5).



### Honiara Fuel Prices

The average fuel price in Honiara went up again to \$11.71 per litre from \$11.42 per litre in February, representing a pronounced fuel price movement compared to past five months. The increase was driven by two fuel categories, with kerosene surged by 69 cents to \$12.73 per litre and a sizeable price increase for petrol going up by 24 cents to \$11.08 per litre. Meanwhile, diesel price contracted marginally by 4 cents to \$11.33 per litre from \$11.37 per litre in the previous month.

5. 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