

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

#### Money Supply

Broad money supply (M3) increased at a slower rate of 0.2% to \$2,972 million in May 2013, following a 2% increase in the previous month. This was driven mainly by other deposits (saving and time) that rose 2% to \$626 million to outweigh the fall in narrow money (M1). M1 declined slightly by 0.3% to \$2,346 million due to the fall in currency in circulation by 2%, whilst the demand deposits held with commercial banks grew by 0.3% at the end of May 2013.

#### Net Foreign Assets

Total net foreign assets (NFA) of the banking system stood at \$3,526 million (0.1%) in May compared to \$3,524 million in the previous month. The slight increase was driven by the commercial banks' NFA that rose from \$30 million to \$37 million showing an increase in their foreign assets over their foreign liabilities during this period. Meanwhile, CBSI's NFA went down by 0.1% to \$3,489 million compared to 3% growth in the previous month.

#### Domestic Credit

Total domestic credit further declined to \$0.4 million this month from \$140 million in the previous month. The fall was driven by the continuous increase in the net credit to government (NCG) from minus \$1,226 million in April to minus \$1,360.6 million. This reflected a further build-up of government deposits in the banking system. At the same time, credit to private sector declined by 0.4% to \$1,361 million compared to the 3% rise a month ago.

#### Liquidity

Total liquidity in the banking system increased further by 16% to \$1,457 million, following a 3% rise in the previous month. The increase was driven by the continuous build-up of government deposits and also the under subscription of the Bokolo bills, which pushed up the call account balances of the commercial banks held with CBSI. As a result, free liquidity went up by 18% to \$1,247 million compared to the 3% rise in the previous month.

#### Domestic Market Operations

CBSI continued to facilitate the auction of the treasury bills on behalf of the Government. A total of \$9 million was floated in May 2013, \$2 million less than the previous month. However, total bids worth \$21 million were received, of which only \$9 million was accepted and the rest was rejected. The weighted average yields for the maturity terms for 56 and 91 days remained unchanged at 0.50% and 0.48%, respectively. The 182 days rate, on the other hand, went down slightly to 1.48% this month from 1.50% from the previous month.

The CBSI Bokolo bills floated in May remained unchanged at \$500 million. Total bids accepted from the commercial banks reached \$400 million, resulting in an under subscription of \$100 million at the end of May. As explained previously, this led to the rise in free liquidity in the banking system. However, the average yield for the 28 day bill increased negligibly to 0.48% from 0.47% in April.

### II. BALANCE OF PAYMENT

#### Trade in Goods

The provisional balance on trade in goods in May 2013 deteriorated to a deficit of \$41 million from a revised \$57 million surplus in the previous month. This resulted from a 21% decline in exports (f.o.b) to \$268 million and a 9% increase in imports (f.o.b) to \$309 million during the month.

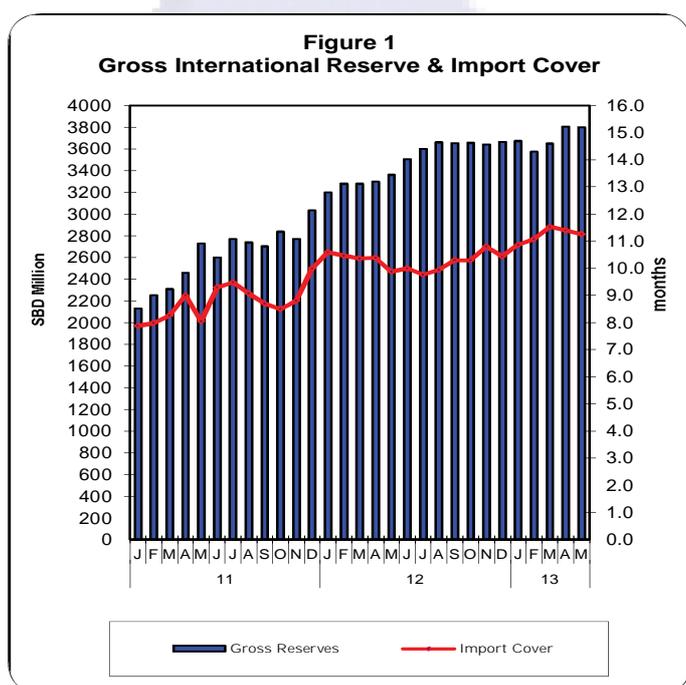
The fall in exports from a revised \$341 million in the previous month to \$268 million was due to lower exported volumes and falling international prices during the month. Round logs fell by 32% to \$122 million, minerals by 14% to \$63 million, palm oil by 48% to \$19 million, and cocoa by 54% to \$3 million. On the other hand, fish exports rose 10% to \$22 million attributed to a higher fish catch. Copra and coconut oil exports also rose by 25% to \$6 million due to higher volume of copra exported during the month. Sawn timber rose to \$8 million from \$7 million in the previous month. Other exports almost doubled to

\$21 million from \$12 million due to higher exports of marine products, particularly beche-de-mer.

The 9% growth in imports resulted from an increasing payments for mineral fuels and basic manufactures, which outweighed the fall in the other major import categories. Mineral fuels rose 42% to \$106 million due to higher volume imported and basic manufactures rose 45% to \$49 million. Meanwhile, food imports declined by 14% to \$55 million, chemicals by 23% to \$24 million, machineries and transport equipment by 3% to \$82 million, beverages and tobacco by 23% to \$5 million and miscellaneous items by 4% to \$20 million.

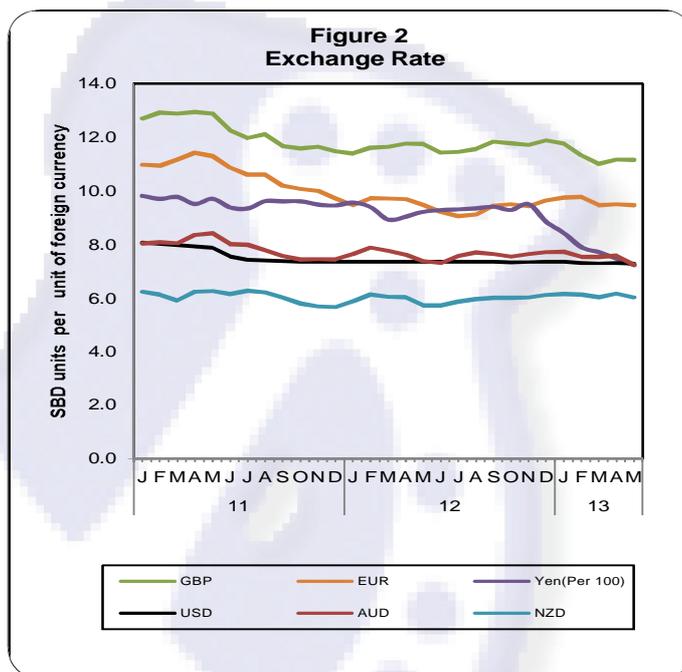
**Gross Foreign Reserves**

The gross foreign reserves at end April fell to \$3,801 million from a revised \$3,808 million in the previous month. This was mainly due to revaluation losses emanating from the strengthening of the Solomon dollar, which offset the net inflows from trade receipts and donor inflows. This level of reserves is sufficient to cover 11.3 months of imports.



**Exchange Rates**

The Solomon Islands dollar (SBD) on average appreciated against all the trading partner currencies during the month. It appreciated by 0.3% against the United States dollar to \$7.28 per USD, 4.7% against the Australian dollar to \$7.24 per AUD, 0.2% against the British pound to \$11.15 per GBP, 2.3% against the New Zealand dollar to \$6.03 per NZD, 0.4% against the Euro by \$9.47 per EUR and 3.4% against the Japanese yen to \$7.23 per 100JPY.



**III. GOVERNMENT FINANCES**

The Government’s fiscal position (including donor budget support spending) for April showed an overall deficit of \$27 million, compared to a surplus of \$39 million registered in the previous month. Excluding the donor budget support spending, the fiscal position registered a deficit of \$4 million. The public debt stock continued to decline further from \$981 million in April to \$975 million in May.

**Revenue**

Preliminary data showed local collection in April stood at \$214 million compared to budget figures of \$211 million, on the back of positive performances from Inland Revenue Division (IRD) and Customs and Excise Division (CED). Collection from other government ministries, on the other hand, was lower than expected for the month. The month’s collection was higher by \$55 million against the same period in 2012 despite the fall against the previous month.

IRD collection for April stood at \$134 million, higher than \$126 million in estimated budget. This performance was attributed to improved collection in total withholding tax and goods tax. IRD collected \$37 million in withholding tax compared to budget of \$13 million, on the back of a large one off payment. Goods tax collection was \$56 million compared to budgeted estimates of \$52 million, which in turn, reflected more effective collection at both the Wharf and at the Division. Conversely, company tax collected during April was well below budget by 85%, relating to profiling issues, which the Division is currently working on.

CED collection in April amounted to \$74 million compared to budget of \$64 million. The increase was driven by a significant rise in log duties of \$43 million compared to the budgeted amount of \$34 million, reflecting increased round log exported volumes during the month.

Non-tax revenue (NTR) collected by “other government ministries” in April was \$6 million compared to expected collection of \$18 million. This was also \$3 million below NTR collected in the month of March.

**Expenditure**

Government spending in April, although was higher than the previous month by 34%, was lower than the budget by 8% to \$241 million. Excluding budget support spending, Government spending exceeded domestic collection with higher expenditures on purchase of goods and services and capital project expenditures.

Spending on wages and salaries was below budget by 10% to \$53 million. The total amount was also 23% below the spending on wage and salaries in March. Goods and services spending, however, went up from \$93 million in March to \$106 million in April. The amount spent was also 16% above budget.

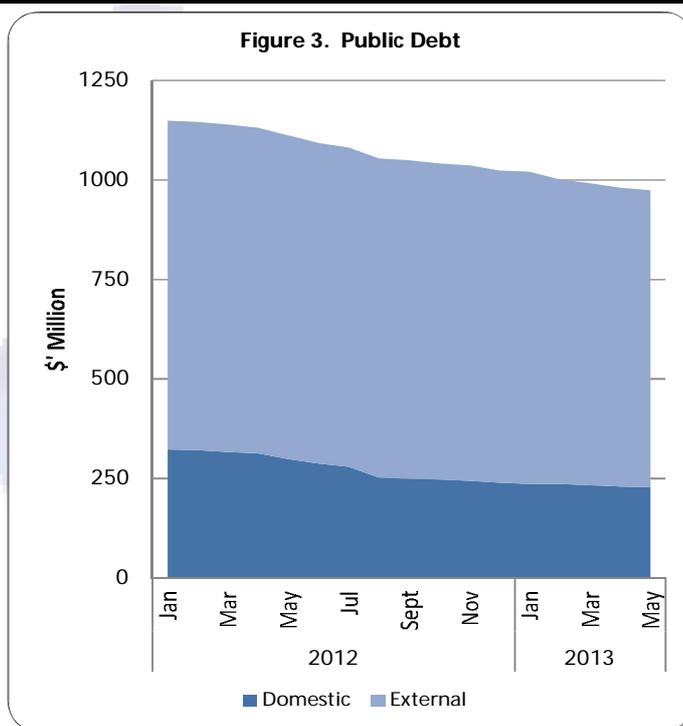
Meanwhile, budget support spending during the month was \$23 million, higher than \$11 million spent in the previous month. This total was also 50% below the pro-rata estimate for the period.

Capital spending dramatically rose between March and April, increasing from \$13 million to \$50 million. However, the amount spent was 12% below the budget.

**Government Debt**

Total stock of public debt in May declined to \$975 million from \$981 million in April. This is equivalent to 16% of nominal GDP<sup>1</sup>. The fall was related to the debt repayment of \$6 million, made towards both the external and domestic debt.

External debt fell to \$747 million from \$750 million in April due to a principle repayment of \$3 million and interest payments of \$0.3 million on the Asian Development Bank loan. The actual principle repayment was higher than the anticipated amount for the month by \$1 million.



Domestic debt was marginally down by 1% in May to \$228 million. This fall was attributed to a principle repayment of \$3 million and interest payments of \$0.4 million. In terms of the outstanding domestic debts, the CBSI holdings of domestic debt in May stood at \$79 million, compared to \$80 million in the previous month. Other Financial Corporations (OFCs) held \$62 million; Other Depository Corporations (ODCs) represented \$41 million; and “Other holders” still held \$46 million as in the previous month.

**IV. DOMESTIC OPERATIONS**

**Logs**

Following a strong growth last month, log export volumes dropped considerably by 31% in May to 148,237 cubic meters. This outcome was attributed to the low number of shipments made during the month. Year to date log volumes stood at 802,379 cubic meters, down 6% over the corresponding period in 2012. International log prices fell for the fifth consecutive month in May by 3% to USD295 per cubic meter from USD305 per cubic meter a month ago.

**Palm Oil & Palm Kernel Oil**

Palm oil output fell by 15% to 2,723 tons in May reversing the 31% growth posted in the previous month. Palm kernel oil also dropped by 11% to 282 tons, in contrast to strong growth last month. The fall reflected low fresh fruit bunch harvests coupled with a mill shut down for seven days during the

1 2012 Nominal GDP.

month. Year on year comparisons also showed a 19% contraction for palm oil output and 25% fall for palm kernel oil.

In terms of prices; the international price for palm oil improved to USD849 per ton in May from USD842 per ton, whilst the international price of palm kernel oil weakened further to USD827 per ton in May.

**Copra**

Based on preliminary figures from the Commodities, Exports & Marketing Authority (CEMA), copra output declined significantly by 38% to 717 tons in May, continuing the 2% fall in the previous month.

On the upside, the international price for copra recovered in May by 6% to USD556 per ton, following consecutive drops in the previous two months. As a result, domestic prices also improved from \$1.99 per kilo to \$2.07 per kilo.

**Cocoa**

Cocoa production fell markedly by 39% to 251 tons in May, reversing the revised 88% growth posted a month ago. International price of cocoa rose 2% to USD2,343 per ton in May. Consequently, contracted export price for local cocoa increased 4% to GBP1,295 per ton from GBP1,240 per ton in the previous month whilst domestic prices improved from \$11.05 per kilo a month ago to \$11.22 per kilo at end May.

**Fish**

Following an 8% decline a month ago, fish catch rallied 2% to 1,412 tons in May. Despite this improvement, year on year comparisons showed a 36% contraction. The average international price of fish recovered significantly by 26% to USD2,215 per ton in May from USD1,756 per ton in the previous month, driven mainly by high consumer demand for fresh tuna in the Japanese market<sup>2</sup>.

**Minerals**

Gold export volumes dropped 11% to 5,794 ounces in May. Despite the drop, year on year comparison showed a 68% growth. Silver output also contracted by 5% to 2,172 ounces.

International prices for gold declined for the sixth consecutive month to USD1,414 per ounce in May from USD1,488 per ounce a month ago. International prices for silver dropped 9% to USD23.04 per ounce from USD25.36 per ounce in the previous month.

**Honiara Fuel prices**

The average fuel prices in Honiara dropped further by 4% to \$11.49 per litre in May. The drop came on the back of marginal falls in the two main fuel categories. The average petrol price dropped by 68 cents against April to \$11.04 per litre, while the average price of diesel dropped by 59 cents to \$11.08 per litre.

