

## Monthly Economic Bulletin

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### I. MONEY AND BANKING

#### Money Supply

Total money supply (M3) increased by 2.3% to \$3,181 million at the end of December extending the 2% rise in the previous month. The increase in M3 was due to rise in narrow money (M1) despite the fall in other deposits (savings and time). M1 increased by 3% to \$2,541 million resulting from increases in currency in circulation and demand deposits by 11% and 1%, respectively. Other deposits fell by 1% to \$640 million due to 1% drop in time deposits.

#### Net Foreign Assets

Total net foreign asset (NFA) of the banking system dropped slightly from \$3,640 million to \$3,639 million this month. The drop in NFA was driven by commercial Banks NFA which fell from \$72 million to \$16 million due to a reduction in foreign assets. Meanwhile, CBSI NFA increased by 2% to \$3,623 million following a 0.4% rise in the previous month.

#### Domestic Credit

Net domestic credit increased significantly by 72% to \$140 million, in contrast to an 11% fall in the previous month. Driving the increase was the fall in CBSI's net credit to government (NCG) by 5% to net liabilities of \$1,211 million, reflecting the drawdown of government deposits in the banking system. Meanwhile, the commercial banks' NCG increased by 9% to net liabilities of \$88 million compared to 18% fall in the previous month. Private sector credit remained unchanged at \$1,438 million from the previous month.

#### Liquidity

Total liquidity in the banking system fell over the previous month by 1% to \$1,277 million, led by slight falls in NFA and NCG at the end of the month. Subsequently, free liquidity declined by 1% to \$1,058 million compared to 1% rise in the previous month.

#### Domestic Market Operations

CBSI continues to facilitate the auction of treasury bills on behalf of the Government. Total government treasury bills floated in December 2013 was \$6.4

million, a drop of \$1.6 million from the previous month. Total bid received was \$12.6 million of which \$6.4 million was accepted and the rest was rejected. The weighted average yield for 91 and 182 days maturity terms dropped from 0.29% and 1.22% to 0.24% and 1.03%, respectively. Furthermore, CBSI floated \$640 million worth of Bokolo bills, an unchanged amount from the previous month. Of this amount, commercial banks absorbed \$600 million compared to \$540 million a month ago. The WAY for the 28 days Bokolo bill increased from 0.55% in November to 0.56% at end of December.

### II. BALANCE OF PAYMENTS

#### Trade in Goods

The provisional balance of trade in goods further narrowed to a deficit of \$20 million from \$35 million deficit in the previous month. This came mainly from a larger fall of \$21 million in imports (f.o.b) to \$280 million compared to a lesser fall of \$5 million in exports to \$260 million (f.o.b) during the month.

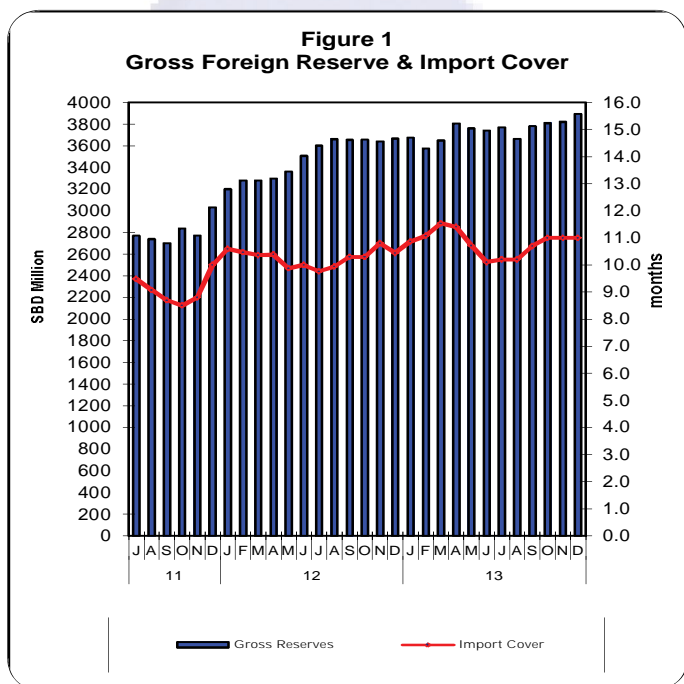
The slight drop in exports came mainly from a fall in export receipts from minerals and copra and coconut oil each fell by 28% to \$38 million and \$5 million respectively. The fall in mineral exports was driven by the decline in gold prices and lower exports volumes whilst the decline in copra and coconut oil was backed by weak international prices. To a lesser extent, the drop in re-exports to \$2 million and other exports to \$1 million also attributed to the slight fall in exports. On the other hand, log export receipts grew by 7% to \$149 million, palm oil products increased slightly by \$1 million to \$19 million and sawn timber went up by \$3 million to \$8 million during the month. These positive outcomes came despite the fall in export volumes during the month and were driven mainly by favourable international prices. Exports receipts for fish and cocoa remained unchanged at \$31 million and \$7 million, respectively, despite the increase in prices during the month.

Total imports fell by 7% to \$280 million during the month due to the decline in import payments (c.i.f)

for food, mineral fuels, basic manufactures and miscellaneous items. Food imports fell by 19% to \$44 million, the lowest since July 2013. Mineral fuel import payments dropped by 18% to \$77 million due to bulk imports in the previous month. Basic manufactures went down by 25% to \$45 million and miscellaneous items dropped by 10% to \$25 million during the month. Meanwhile, import payments for machinery and transport equipment grew by 19% to \$89 million, chemical imports increased by 33% to \$22 million and animals and vegetable oils grew marginally by \$2 million to \$3 million. Beverage and tobacco and crude materials remain unchanged at \$6 million and \$4 million, respectively, during the month.

**Gross Foreign Reserves**

The level of gross foreign reserves in December grew by 2% to \$3,893 million from \$3,820 million registered in the previous month. This was mainly due to the revaluation gains and net inflows on the back of donor inflows and fishing licensing fees that were received during the month. This level of reserves is sufficient to cover 11.0 months of import<sup>1</sup>.

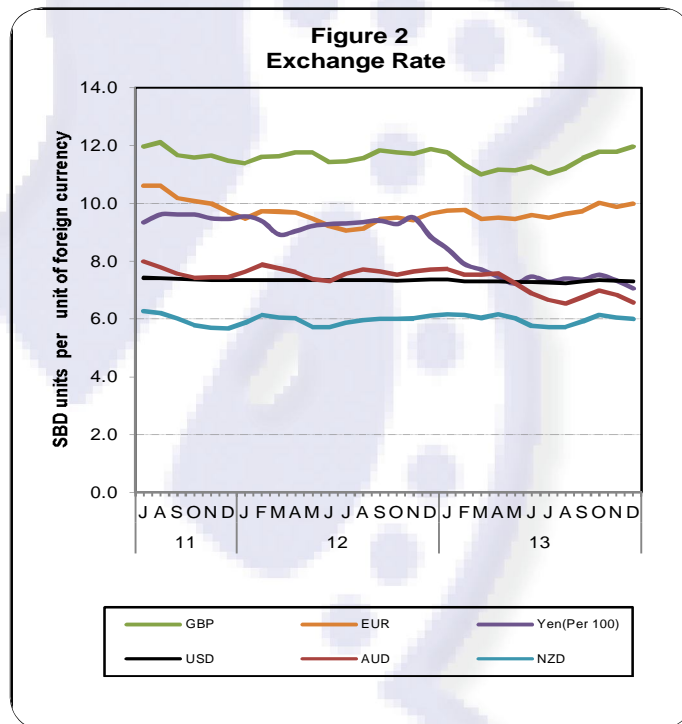


**Exchange rate**

The Solomon Islands dollar (SBD) on average strengthened against the United States dollar and the Australian dollar during the month. The SBD appreciated against the United States dollar by 0.5% to \$7.29 per USD and 4.2% against the Australian dollar to \$6.56 per AUD. It also strengthened against the Japanese Yen by 3.9% to \$7.06 per 100JPY and 1.0% against the New Zealand dollar to \$6.00 per NZD.

1. December import cover is provisional. Foreign exchange transactions from commercial banks for December are yet to be compiled at the time of this publication.

Meanwhile, the SBD depreciated against the other trading currencies during the month. It depreciated against the British pound by 1.5% to \$11.97 per GBP and 1.1% against the Euro to \$9.99 per EUR.



**III. GOVERNMENT FINANCE**

The overall<sup>2</sup> fiscal position for November deteriorated to a deficit of \$64 million. The negative outturn was driven by the revenue gap of \$59 million and an expenditure excess of \$3 million against their budgets of \$255 million and \$257 million, respectively. Meanwhile, public debt stock stood at \$949 million compared to \$938 million anticipated for the end of December.

**Revenue**

Total revenue collection in November underperformed by 23% against the month's budget projection to \$196 million. The underperformance was driven mainly by shortfalls in Non-Tax Revenue (NTR) from other government ministries and Inland Revenue Division (IRD) collections. On the other hand, Customs and Excise Division (CED) collection was broadly on target against the budget.

IRD collection in November fell 4% against the budget to \$124 million. The fall reflected subdued results across all the IRD major revenue categories. Goods tax, which accounted for a larger proportion of tax revenue, dropped against the budget of \$56 million to \$51 million, followed by personal income tax and company tax, which both fell by 3% and 81% to \$32

2. Include budget support grants

million and \$4 million, respectively. Withholding tax, on the other hand, exceeded the budget of \$13 million to \$31 million.

Revenue collected by CED in November was on target against the budget to \$67 million, although this was 13% below the previous month. The budget performance was driven primarily by the 11% increase in log duties to \$36 million, despite the fall in the international price for logs. However, import and excise duties collection weakened by 9% to \$17 million and by 3% to \$13 million against the pro-rata budgets.

NTR collection for the month fell against budget by \$14 million to \$4 million. The collected amount was also 34% lower than the \$7 million recorded in the previous month, reflecting weak collections from the Ministry of Fisheries and Marine Resources.

**Expenditure**

Total government expenditure exceeded budget by 1% to \$260 million. The slight increase was attributed to higher development spending during the month. Payroll, other charges, and budget support spending, however, slipped against their pro rata monthly budgets.

Payroll fell by 13% against the budget to \$56 million. Underpinning the fall was the reduction in spending by the Ministry of Health and Medical Services (MHMS) by 9% to \$11 million and the fall in spending by the Ministry of Police and National Security (MPNS) by 6% to \$6 million. However, spending by the Ministry of Education and Human Resources Development (MEHRD) slightly exceeded the budget by 2% to \$27 million.

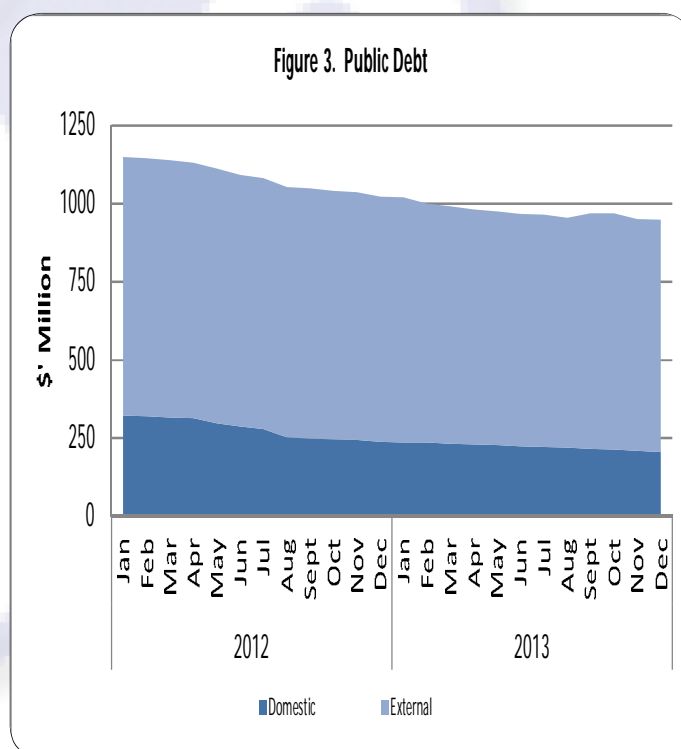
Spending on goods and services fell by 16% below budget to \$94 million and 9% lower than the previous month. The below-budget performance was attributed mainly to lower spending from MEHRD and MHMS. The Office of the Prime Minister, however, exceeded budget by \$2 million to \$9 million in the reviewed period.

Development expenditure rose by 39% to \$110 million for the first time after tracking below budget since July this year. This was an increase of \$63 million compared to the previous month and was expected as line ministries tried to utilize their unspent budgets before year end. Driving the upsurge were increased spending by the Ministry of Finance and Treasury, the Ministry of Agriculture and Livestock, and the Ministry of Environment and Conservation, which rose by \$11 million to \$20 million, by \$8 million to

\$13 million, and by \$7 million to \$10 million against their respective budgets.

**SIG Debt Stock & Servicing**

Total public debt stock at the end of December stood at \$949 million, 0.2% lower than the preceding month. The marginal fall in the overall debt stock reflected debt servicing of \$14 million. The debt-to-GDP ratio remained broadly unchanged at 15% same as November.



**IV. DOMESTIC ECONOMY**

**Logs**

Log exports as a proxy to production rebounded by 7% to 183,875 cubic meters in December, after falling by 7% in the previous month. This output was 31% above the same month a year ago. Despite the increase, total production to December slightly underperformed against the previous year by 3% to 1.84 million cubic meters owing to weak performance in the first half of the year. In terms of prices, the average international log price continued to deteriorate, 3% below previous month to USD287 per cubic meter.

**Palm Oil**

Fresh fruit bunches slightly increased by 1% to 11,964 tons from 11,842 tons in the previous month. As a result, crude palm oil rose, though marginally by 0.4% to 2,762 tons. On the flip side, palm kernel, kernel oil and meal all declined by 8% to 605 tons, 9% to 253 tons and 10% to 342 tons, respectively. Despite the fall, crude palm oil and kernel oil output

went up by 37% each against the same period a year ago. Annual production showed that crude palm oil slightly outperformed the previous year by 1% to 32,154 tons. On the other hand, total production for palm kernel and kernel oil fell below 2012 by 6% each to 7,542 tons and 3173 tons respectively, whilst total kernel meal output fell by 4% to 3,993 tons.

International prices for crude palm oil fell by 1% to USD912 per ton, following two months of positive price movements. Meanwhile international prices for kernel oil continued to improve by 2% to USD1,143 per ton, a record high for 2013. Similarly, contract prices for crude palm oil declined by 2% to USD906 per ton whilst kernel oil went up by 6% to USD1,358 per ton.

**Fish**

Following a weak outturn last month, fish catch for the month rose by 14% to 2,478 tons from 2,177 tons a month ago. Compared against the same month a year ago, fish catch was 28% higher. However, total fish catch to December stood at 24,876 tons, 15% below the previous year’s annual fish catch of 29,377 tons. The average international fish prices rebounded by 1% to USD1,783 per ton following five consecutive months of falling prices. Regardless of the uptick, this price level is 23% below the peak price of USD2,307 per ton in June 2013.

**Minerals**

Preliminary gold output for the month fell dramatically by 43% to 3,160 ounces (oz) compared to 5,569 oz in the preceding month. Against the same period in 2012, production was 14% below. As a result of the weak output, total production for the year only reached 57,668 oz, a 15% shortfall against the previous year. Similarly, silver output fell by 50% compared to the previous month, falling from 2,174 oz to 1,080 oz in December. This level is 11% lower than the same month a year ago. As a result total output for the year went down by 24% to 22,021 oz against 28,993 oz in 2012. International price for gold remained low for the fourth consecutive month, falling by 4% to USD1,224 per oz. Likewise, international prices for silver fell by 7% to USD19.60 per oz.

**Copra**

Copra production for the month rebounded slightly by 0.3% against the previous month to 1,251 tons. However, this was 3% lower against the same period a year ago. As a result, year to December production dropped by 48% against the preceding year to 13,922 tons. The average international price dropped by

2% to USD846 per ton, following a 30% surge in the previous month. Despite the fall, this price level was still higher than the prices up to October. Average contract price on the other hand, rose by 27% to USD525 per ton from USD415 per ton in November. As a result, domestic prices received by local farmers rose to \$3.07 per kilogram, the highest since September 2012.

**Cocoa**

Preliminary cocoa production for the month plunged by 60% to 153 tons against 379 tons in the preceding month. When compared against the same month a year ago, this output was 54% below. Consequently, year to December production fell by 7% to 4,519 tons as opposed to 4,838 tons in 2012. Average international price for cocoa ended the year with a record high of USD2,820 per ton, a month on month increase of 2%. However, the average contract price showed a decline by 2% to GBP1,423 per ton. Meanwhile, there was a slight uptick in the average domestic price by 1% to \$13.57 per kilogram, the highest price level in two years.

**Fuel Prices**

The average fuel price in Honiara negligibly rose by 0.5% against the previous month to \$11.28 per litre in December. Average diesel price slightly rose by 4 cents to \$11.22 per litre whilst kerosene prices went up by 17 cents to \$11.90 per litre. However, petrol price dropped by 5 cents against the previous month to \$10.72 per litre.

