CENTRAL BANK OF SOLOMON ISLANDS

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Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money Supply

Money supply (M3) increased marginally by 1.4% to $2,908 million, following a 2% fall in the previous month. Driving the increase in M3 was narrow money (M1) which went up by 2% to $2,298 million outweighing the fall in other deposits (time and savings) by 0.3% to $611 million at the end of month. The increase in M1 came from demand deposit rising by 4% to $1,832 million despite a 5% fall in currency in circulation.

Net Foreign Assets

Total net foreign assets (NFA) of the banking system went down by 2% to $3,311 million following a 1% fall in the previous month. The fall was due to decline in both NFA of CBSI and commercial banks by 3% to $3,322 million and 63% to minus $11 million, respectively. The fall in CBSI's NFA stemmed from the decline in export receipt inflows at the end of month. Meanwhile, the fall in commercial banks NFA reflected the increase in their foreign liabilities over their foreign assets.

Domestic Credit

Total domestic credit increased by 4% to $296 million continuing the 25% increase registered in the previous month. The rise was driven by a slight increase in credit to the private sector by 1% to $1,320 million despite the slight 0.1% fall in net credit to government. The fall in net credit to government indicates a drawdown of Government deposit from the banking system.

Liquidity

Liquidity in the banking system grew by 3% to $1,316 million at the end of February 2012, following an 11% decline a month ago. Driving the increase was the surge in commercial banks balances with CBSI resulting in free liquidity rising by 3.2% to $1,115 million.

Domestic market operations

The Government floated $9 million worth of treasury bills in the domestic market in February 2013, a decrease of $2 million from the previous month. This attracted total bids of $20 million, of which $9 million was accepted and the rest was rejected. The weighted average yields for the maturity terms of 56, 91 and182 days showed increases over the previous month to 0.37%, 0.39% and 0.85%.

II. BALANCE OF PAYMENTS

Trade in goods

The provisional trade in goods data showed a deficit of $70 million in February 2013, following the $68 million deficit recorded in the previous month. This outcome was driven by exports which fell more than imports during the month.

Exports slid by 16% to $193 million in February. The fall resulted from a significant 86% drop in mineral exports to $3 million as gold export data, a major component of export receipts was not available for the reporting month. The decline in round logs, timber, copra and cocoa exports stemmed from falling international prices during the month. Round log exports fell by 2% to $131 million, sawn timber by 17% to $27 million, copra and coconut oil by 5% to $3 million, and cocoa by 59% to $3 million. On the other hand, palm oil & kernels remained at $16 million. This was due to a rise in volume exported but was offset by the fall in prices. Other exports also remained the same at $2 million while re-exports dropped from $11 million to $3 million as there was a one-off repatriation of used mining machineries in the previous month. Despite the falling international prices, fish exports rose 17% to $27 million due to higher exported fish volumes.

Imports (f.o.b) went down by 12% to $263 million during the month. The fall was largely attributed to the decline in machineries imports by 40% to $67 million. This drop was expected as new mining machineries were imported in the previous month. Chemicals also dropped 13% to $23 million and miscellaneous items by 30% to $13 million. The fall in these import categories outweighed increases in food, fuel and basic manufactures imports. Food imports rose 16% to $55 million due to higher importation of cereal products. Mineral fuel imports shot up by 9% to $90 million, and basic manufactures went up by 7% to $40 million.

Gross Foreign Reserves

The gross foreign reserves declined by 3% to a provisional $3,566 million. This was due to high food and fuel imports which offset the rise in donor inflows recorded during the month. The level of reserves is sufficient to cover 10.2 months of imports of goods and services.

Exchange rate

The Solomon Islands dollar (SBD) on average during the month appreciated against most of its trading partners currencies. The SBD appreciated by 0.7% against the United States dollar to $7.31 per USD, 2.4% against the Australian dollar to $7.55 per AUD, 3.7% against the British pound to $11.33 per GBP, 6.2% against the Japanese yen to $7.91 per 100JPY, and 0.4% against the New Zealand dollar to $6.13 per NZD. However, the SBD depreciated against the EURO by 0.2% to $9.77 per EUR during the month.

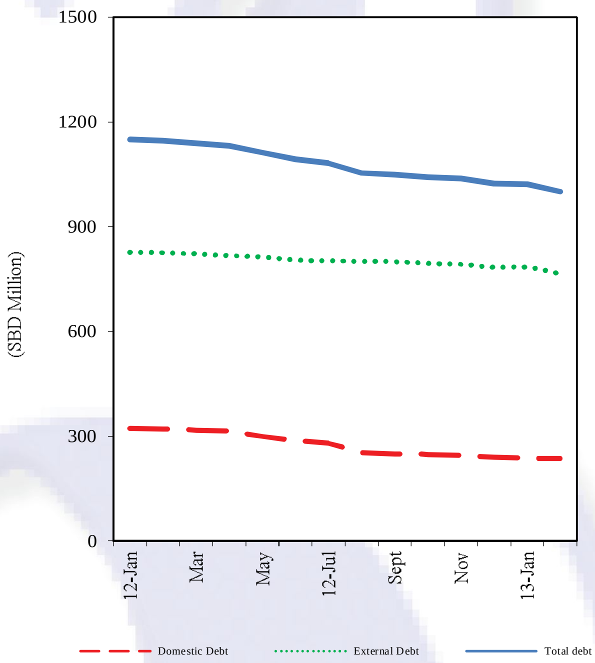
III. GOVERNMENT FINANCE

SIG Debt stock and servicing

Total outstanding debt stock fell to $1,001 million at end-February from $1,021 million at end-January 2013. The fall reflected drops in both external and domestic debt stocks, attributing to exchange rate movements and debt servicing during the month. The current debt stock represented 16% of the gross domestic product (GDP).

The decline in domestic debt stock to $236 million from $237 million in the previous month can be explained by the redemption of government securities worth $2 million, with bond redemption accounting for 99%. Loan and advance repayment of $1 million was also made to the Central Bank. In terms of holders of government domestic debt, the Central Bank held $81 million (34%), Other Financial Corporations (OFC) $65 million (27%), Other Depository Corporations (ODC) $44 million (19%), Public $39 million (17%), while Other holders held $7.4 million.

Figure 2
SIG Debt Stock



Source : CBSI

Meanwhile, the marginal decline in external debt by 2% to $765 million reflected net repayment of $2 million and the effect of exchange rate movements during the month. By creditors; multilateral creditors held the largest proportion of $646 million, which represented 85% of the total external debt portfolio of the Government, while bilateral creditors held $119 million (15%). Disaggregating the external debt stock by major currencies, the Special Drawing Rights continued to account for bulk of the external debt stock. The SDR stock fell by $17 million against the previous month to $595 million. USD constituted the second largest component with a debt stock of $133 million while Euro was the third largest at $30 million, down from $31 million recorded in the previous month. The remaining portion was represented by other currencies.

IV DOMESTIC ECONOMY

Logs
Log exports as a proxy for production marginally rose by 0.7% to 156,036 cubic meters in February, following an increase of 11% in the preceding month. This month's production is 2% above similar period in 2012 taking the year to February output to 310,936 cubic meters. However, this level is 6% below total output in the corresponding period in 2012. International log prices remained subdued on continued weak global demand for logs. Log prices for February recorded the lowest since 2011 at USD320 per cubic meter, 4% below the price in the previous month.

Palm Oil
Harvested fresh fruit bunches for the month dropped 12% to 10,416 tons. As a result, palm oil fell 9% to 2,428 tons. Palm kernel, kernel oil and meal also went down by 15% each to 512 tons, 215 tons and 267 tons respectively. Comparing against the corresponding period in 2012, palm oil increased slightly by 5% whilst all other bi-products fell by 9%. The contract prices for palm oil fell steadily by an average of 0.3% over the past three months to USD883 per ton. On the other hand, kernel oil price reversed the 22% contraction in January to increase by 26% to USD1,313 per ton.

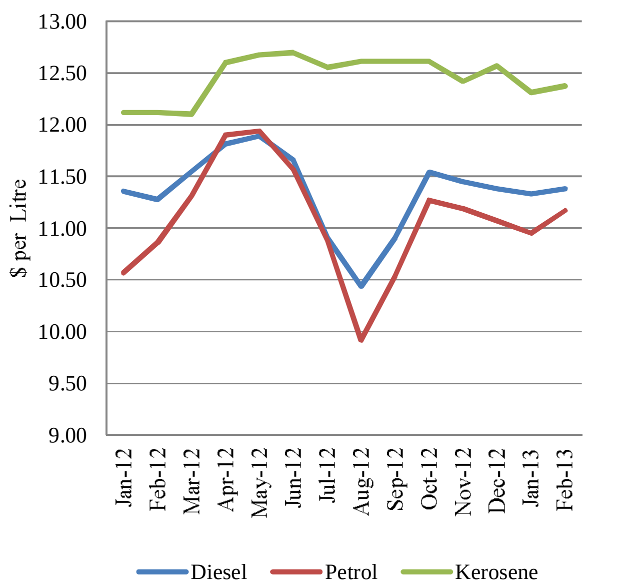
Fish
Fish catch went up 53% against the previous month to 1,611 tons, reverting the 45% fall recorded in January 2013. Despite the pickup, February catch is lower in comparison to 2012 monthly catches reflecting twin problems of bad weather conditions together with fishing time lags resulting from boat maintenance and repairs. Cumulative catch to February totalled to 2,664 tons, 13% below the corresponding period in 2012. The average international fish price continued to decline, falling by 8% to USD1,650 per ton from USD1,788 per ton in the previous month.

Minerals
Gold exports, as a proxy for production, declined to 1,749 ounces (oz) in February. This was 67% lower than the gold output in February 2012. International prices for gold weakened further by 3% against the preceding month to USD1,628 per ounce. This was after it peaked at USD1,747 per ounce in October. Similar to gold production, silver output contracted to 604 ounces, the lowest since May 2011. International price for silver trended further downward to USD30 per ounce in January, a fall of 2% against the previous month.

Inflation
Headline inflation for January went up to 6% from 4.6% in December 2012 . The inflationary pressure stemmed from the domestic component that increased from 6.3% to 8.5%. Price increase in local food items at the market, betel-nut, clothing and utility costs were some of the key contributors to the surging inflation. The imported inflation increased very marginally to 2.5% from 2.4% in December 2012.

Fuel Prices
The average fuel prices in Honiara rose slightly by 1% to \$11.64 per litre, reverting the marginal fall of 1% to \$11.53 per litre in the previous month. The rebound reflected increase in prices of all fuel categories with premix and petrol accounting for most of the increase by 4% and 2% to \$12.59 per litre and \$11.17 per litre respectively.

Figure 1
Honiara Fuel Prices



Source: CBSI