

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Broad money supply (M3) increased slightly by 1% to \$3,302 million by end February 2015, following a 1% fall a month prior, while year-on-year comparison saw a growth of 3%. The rise was driven by narrow money (M1), which increased by 2% to \$2,612 million outweighing the 1% drop in other deposits (savings and time) to \$690 million. The increase in M1 resulted from a 3% growth in transferable (demand) deposits to \$2089 million counteracting the 2% fall in currency in circulation. Meanwhile, the decline in other deposits was due to a fall in both savings and time deposits by 6% and 1% to \$101 million and \$590 million, respectively. Total net foreign assets (NFA) of the banking system continued to grow by 4% to \$3,764 million in February, the same growth rate posted in the previous month.

Net credit to government (NCG) grew further by 7% to net liabilities of \$1,564 million, following a 4% rise in the previous month. The growth was driven mainly by build-up of government deposits held with CBSI during the period. Private sector credit (PSC) also increased by 2% to \$1,710 million, following a 0.3% decline a month prior. This was driven by rise in lending from both CBSI and the other depository corporations (ODCs), which increased by 2% and 1.3% to \$6 million and \$1,574 million respectively. Year-on-year growth saw PSC increased by 19%. Moreover, total liquidity in the banking system decreased significantly by 22% to \$1,143 million, following a 24% upturn in the previous month. The fall was due to decline in ODCs' call deposits balances held with CBSI, leading to excess liquidity falling notably by 28% to \$803 million at the end of February 2015.

### Domestic Market Operations

The total CBSI Bokolo bills stock floated in February remained unchanged at \$710 million, of which \$620 million was absorbed, the same amount as the previous month. The weighted average yield (WAY) for the 28 days Bokolo bills increased slightly to 0.62% from the 0.61% observed over the previous six months. Meanwhile, the WAY of Government Treasury bills for 56 and 91 days maturities remained unchanged at 0.30% and 0.48% respectively, while the WAY for 182 days fell from 1.16% to 1.13% at the end of February 2015.

### II. EXTERNAL CONDITIONS

The trade position rebounded to a provisional \$37 million surplus in February from a revised deficit of \$9 million in the previous month. This positive outcome resulted from a larger increase in exports (f.o.b) by 40% to \$291 million relative to a 17% rise in imports (f.o.b) to \$254 million during the month.

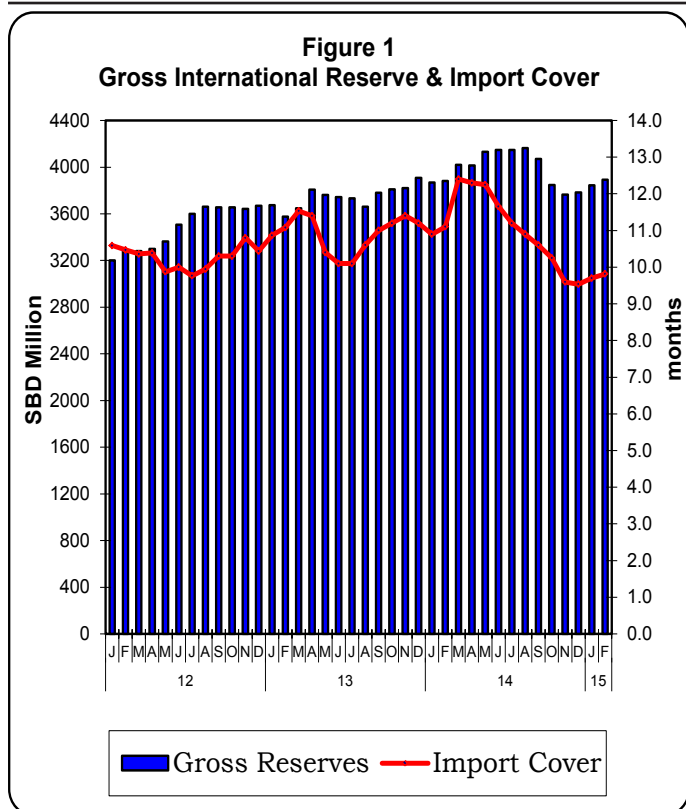
The growth in exports came mainly from the increase across all major export commodities except for fish which dropped by 14% to \$33 million owing to weak commodity prices. Round logs and timber exports grew significantly by 37% to \$186 million as a result of higher export volumes during the month, all agricultural commodities export more than doubled to \$54 million owing to higher exports of crude palm oil products, mineral exports increased to \$9 million from \$1 million attributing to bauxite ore exports, and all other exports rose to \$10 million from \$7 million due to additional exports of beche-de-mer during the month.

The increase in imports<sup>1</sup> was driven largely by higher payments for machinery and transport equipment which doubled to \$108 million due to higher imports of power generating machineries, and food imports which surged by 59% to \$67 million during the month. Meanwhile, payment for fuel imports dropped by 35% to \$28 million as a result of lower fuel prices, basic manufactures fell by 22% to \$39 million and all other imports dropped by 20% to \$44 million during the period.

Gross foreign reserves grew slightly by 1% to \$3,891 million from \$3,844 million during the previous month. This resulted from higher donor inflows during the month. This level of reserves is sufficient to cover 9.8 months of imports of goods and services.

On average, the Solomon Islands dollar depreciated against the USD by 1.45% to \$7.78 per USD but strengthened against the Australian dollar (AUD) by 2.35% to \$6.06 per AUD. The SBD also appreciated against the New Zealand dollar and Euro but depreciated against the British Pound and the Japanese Yen during the period.

1. Values of import by categories are reported in C.I.F.



**III. GOVERNMENT FINANCE**

The fiscal sector recorded a preliminary surplus of \$142 million in February compared to a surplus of \$75 million recorded a month prior. The month-on-month upturn was driven by higher revenue collections relative to lower expenditure incurred during the month.

Revenue increased by 14% to \$250 million against the previous month, buoyed by a total of \$85 million received in grants. However, tax receipts fell by 25% to \$160 million whilst nontax revenue remained relatively constant at \$6 million as it was in January. On the other hand, expenditure declined by 26% against the previous month to \$108 million on the back of notable reductions in payroll and other payments by 57% and 73% to \$34 million and \$5 million respectively. In contrast, goods and services payments increased by 54% to \$50 million whilst grants payments remained broadly unchanged at \$12 million.

Meanwhile, total public debt stock declined by 0.6% to \$851 million at the end of February, reflecting a total of \$5 million in debt servicing made during the month. The debt-to-gross domestic product remained at 12% as in the previous month. Of the outstanding debt stock, domestic debt accounted for \$172 million and external debt the other \$679 million.

**IV. DOMESTIC PRODUCTION**

Domestic production, as measured by the monthly production index, rebounded by 12% to 78 points in February 2014 against a revised fall of 36% in January. The increase was solely due to a surge in log output by 38% and a 24% increase in copra production during the month. These increases outweighed falls

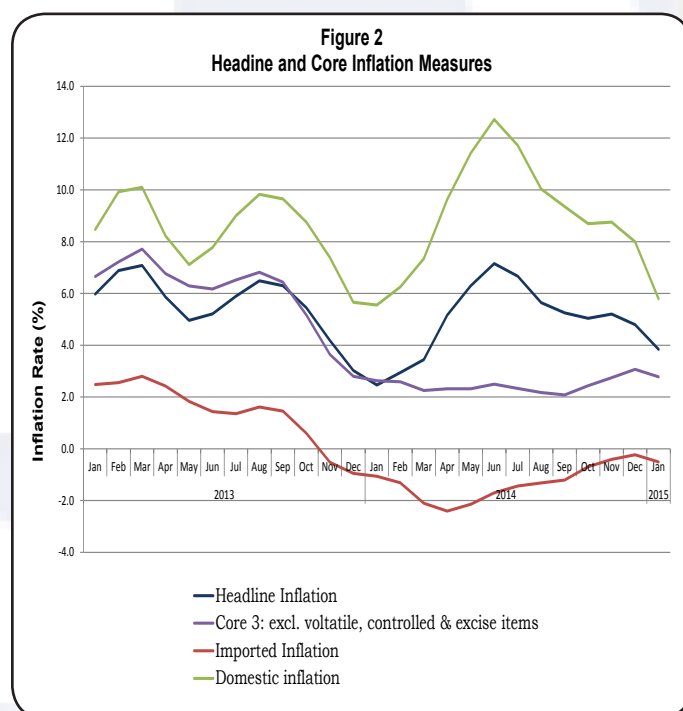
in palm oil, kernel oil and cocoa and estimated fish production for the month. In terms of prices, average international prices for most export commodities rebounded in February, with the exception of fish price which worsened further.

**Inflation & Honiara Fuel Prices**

Headline inflation continued to ease with January registering another fall in general prices to 3.8% compared to 4.8% in December 2014. This was driven by a significant fall in domestic inflation from 8.0% to 5.8% while the imported component remained negative at minus 0.5%. The slowdown in domestic inflation was dictated by falls in food prices from 8.6% to 7.8%, housing utilities declining to 8.5% from 11% and drinks and tobacco plummeting to a negative 6.1% from 8.4% resulting from a significant fall in betel-nut prices. The declining prices outpaced increases in clothing and footwear to 16%, household operations with 3%, transport and communication at 0.9%, and recreation going up to 8.9%.

In terms of contributions to overall headline inflation, food contributed 1.6%, followed by housing & utilities with a reduced contribution of 0.9%, transport and communication accounted for 0.5%, drinks and tobacco, household hold operations and recreation each contributed 0.2% while clothing and footwear and miscellaneous each accounted for 0.1% to inflation. Similarly, core inflation eased to 2.8% in January from 3.1% last month.

The average fuel price in Honiara continued to fall in February to \$9.55 per litre from \$10.44 per litre last month. The decline was due to large fall in petrol prices by \$1.44 to \$8.23 per litre and diesel dived further by 98 cents to \$8.79 per litre against the previous month. Meanwhile, kerosene went up by 46 cents \$11.63 per litre, reversing the slight fall noted in January.



### Solomon Islands Key Economic Indicators

|                                                      |                                      | Oct 14 | Nov 14 | Dec 14 | Jan 15 | Feb 15 |
|------------------------------------------------------|--------------------------------------|--------|--------|--------|--------|--------|
| <b>Consumer Price Index</b><br>(% change)            | Headline (3mma)                      | 5.1    | 5.2    | 4.8    | 3.8    | N/A    |
|                                                      | Underlying (3mma): core 3            | 2.4    | 2.4    | 2.7    | 2.8    | N/A    |
|                                                      | Month-on month                       | -0.7   | -1.4   | -0.8   | 1.3    | N/A    |
| <b>Trade<sup>1</sup></b><br>(eop)                    | Exports (\$ millions)                | 259    | 272    | 327    | 208    | 291    |
|                                                      | Imports (\$ millions)                | 314    | 268    | 275    | 217    | 254    |
| <b>Exchange rates</b><br>(mid-rate, monthly average) | SBD per USD                          | 7.42   | 7.48   | 7.59   | 7.79   | 7.76   |
|                                                      | SBD per AUD                          | 6.51   | 6.47   | 6.30   | 6.08   | 6.08   |
|                                                      | SBD per NZD                          | 5.84   | 5.83   | 5.89   | 5.68   | 5.87   |
|                                                      | SBD per GBP                          | 11.94  | 11.80  | 11.86  | 11.75  | 11.79  |
|                                                      | SBD per 100 JPY                      | 6.88   | 6.50   | 6.41   | 6.60   | 6.51   |
|                                                      | SBD per EUR                          | 941    | 9.32   | 9.38   | 9.19   | 8.74   |
| <b>Gross Foreign Reserves</b><br>(eop)               | \$ millions                          | 3,847  | 3,763  | 3,784  | 3,844  | 3,891  |
| <b>Liquidity<sup>2</sup></b><br>(eop)                | Total Liquidity (\$ millions)*       | 1,347  | 1,239  | 1,174  | 1,460  | 1,143  |
|                                                      | Excess Liquidity (\$ millions)*      | 1,009  | 899    | 824    | 1,122  | 803    |
| <b>Money and Credit<sup>2</sup></b><br>(eop)         | Narrow Money (\$ millions)*          | 2,497  | 2,492  | 2,556  | 2,555  | 2,612  |
|                                                      | Broad Money (\$ millions)*           | 3,290  | 3,266  | 3,291  | 3,255  | 3,302  |
|                                                      | Private Sector Credit (\$ millions)* | 1,612  | 1,629  | 1,689  | 1,683  | 1,710  |
| <b>Interest rates</b><br>(weighted average yield)    | 28-day Bokolo Bills Rate             | 0.61%  | 0.61%  | 0.61%  | 0.61%  | 0.61%  |
|                                                      | 56-day Treasury Bills Rate           | 0.10%  | 0.28%  | 0.30%  | 0.30%  | 0.30%  |
|                                                      | 91-day Treasury Bills Rate           | 0.20%  | 0.49%  | 0.48%  | 0.48%  | 0.48%  |
|                                                      | 128-day Treasury Bills Rate          | 0.93%  | 1.30%  | 1.24%  | 1.16%  | 1.13%  |
| <b>Commodity Prices</b><br>(monthly average)         | Round logs (US\$/m3)                 | 276    | 276    | 249    | 249    | 249    |
|                                                      | Gold - (US\$/oz)                     | 1,222  | 1,175  | 1,201  | 1,251  | 1,227  |
|                                                      | Palm Oil - (US\$/tonne)              | 722    | 731    | 693    | 688    | 688    |
|                                                      | Fish - (US\$/tonne)                  | 1,445  | 1,367  | 1,222  | 1,194  | 1,147  |
|                                                      | Copra - (US\$/tonne)                 | 769    | 795    | 812    | 764    | 794    |
|                                                      | Cocoa - (US\$/tonne)                 | 3,110  | 2,910  | 2,950  | 2,920  | 2,950  |

1. Value in terms of free on board (FOB)

2. Based on weekly statistics provided by other depository corporations (ODCs)