

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Broad money supply (M3) marginally grew by 1% to \$3,338 million at the end of March 2015, witnessing a year-on-year growth of 5%. Growth was driven by other deposits (saving and time), which grew by 3% to \$708 million and narrow money (M1) by 1% to \$2,630 million respectively. Meanwhile, total net foreign assets (NFA) of the banking system increased by 1% to \$3,806 million in March, owed mainly to improvement in CBSI's NFA during the month.

Net credit to government (NCG) grew by 4% to net liabilities of \$1,634 million, continuing from the 7% growth in the previous month. The increase was due mainly to build-up in government deposits with CBSI and other depository corporations (ODCs) over the period. Meanwhile, private sector credit (PSC) grew marginally by 0.5% to \$1,719 million driven by slower growth in lending from ODCs. However, year-on-year growth saw PSC grew by 17% since December 2014. Mirroring the slow movement in private sector credit growth and increase in the overall NFA, total liquidity of the banking system grew by 5% to \$1,198 million. Correspondingly, the excess liquidity increased by 7% to \$858 million from the previous month.

Domestic Market Operations

The total CBSI Bokolo bills stock floated in March continued to remain unchanged at \$710 million, of which \$620 million worth of Bokolo bills was absorbed. The Bokolo bills weighted average yield (WAY) for 28 days decreased to 0.61% from 0.62% in the previous month. Meanwhile, the WAY of the Government treasury bills for 91 and 182 days maturities remained unchanged in March at 0.48% and 1.13%, respectively while WAY for 56 days increased from 0.30% a month ago to 0.32%.

II. EXTERNAL CONDITIONS

The balance on trade in goods in March recorded a provisional \$49 million deficit, a significant downturn from a surplus of \$36 million in the previous month. This negative outcome emanated from a larger increase in imports by 24% to \$317 million (f.o.b) against an 8% drop in exports to \$268 million (f.o.b).

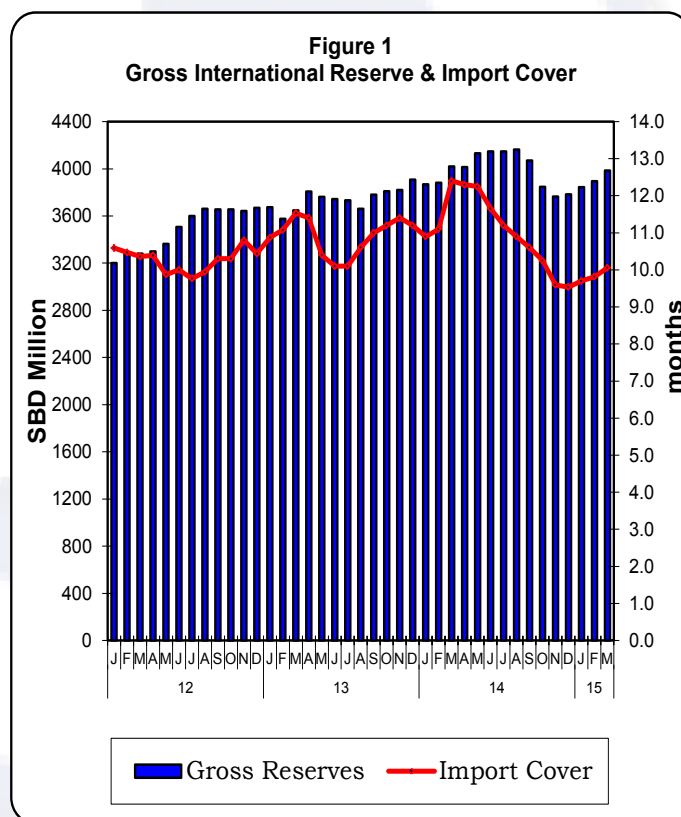
The fall in exports was driven largely by declines in agricultural commodities which dropped by 58% to \$23 million due to fall in palm oil earnings resulting from lower export volumes and weak commodity prices. Mineral exports also dropped from \$9 million to \$2 million and all other exports fell from \$10 million to \$8 million

during the period. Meanwhile, fish exports increased by 49% to \$49 million, while round log and timber exports remained unchanged at \$186 million during the month.

The significant increase in imports was driven largely by higher payments for major import categories except for food which declined by 30% to \$47 million during the month. Fuel imports more than doubled from \$29 million to \$73 million, machineries imports jumped by 24% to \$134 million, basic manufactures increased by 15% to \$45 million and all other imports grew by 32% to \$58 million.

Gross foreign reserves grew slightly by 2% to \$3,986 million, sufficient to cover 10.1 months of imports of goods and services. This came as a result of higher donor and fishing licensing inflows during the month.

The Solomon Islands dollar (SBD) on average depreciated further against the United States dollar (USD) by 0.26% to \$7.80 per USD and appreciated against the Australian dollar (AUD) by 0.38% to \$6.04 per AUD during the month. The SBD also appreciated against the British Pound, Euro and Japanese Yen but depreciated against the New Zealand dollar during the period.



III. GOVERNMENT FINANCE

The government recorded a preliminary surplus of \$36 million in March despite an 85% surge in expenditure to \$189 million and a 6% drop in revenue to \$235 million against the outcome in February.

The decline in revenue was due to no donor grants being received although tax revenue increased by 44% to \$229 million against the preceding month. Non-tax receipts remained largely unchanged at \$6 million, the same as in the previous month. In contrast, the upsurge in expenditure was driven by increases in all expenditure categories, notably payroll and goods and services payments by 94% to \$66 million and 55% to \$78 million, respectively. Significant increases against the previous month were also noted for grants and other payments. The former increased to \$26 million from \$12 million, while the latter increased to \$18 million from \$5 million. Meanwhile, there were no major development expenditures incurred during the month.

Total public debt stock at the end of March stood at \$837 million, 2% lower than it was in February. A total of \$7 million in debt servicing was made during the month. The debt-to-GDP ratio fell from 12% in the previous month to 11%. Of the outstanding debt stock, domestic debt accounted for \$169 million and external debt the remaining \$668 million.

IV. DOMESTIC PRODUCTION

The monthly production index, as a proxy to domestic production, fell by 9% in March to 76 points compared to a 21% surge in the previous month.

The fall emanated from declines in log output and fish catch by 7% and 27%, respectively with an anticipated slowdown in copra output of 5%. The fall in these three commodities outweighed increases in palm oil, kernel oil and estimated cocoa output for the month. In terms of prices, average international price for most export commodities weakened this month against the previous month with the exception of fish and cocoa prices which rebounded by 14% and 2%, respectively.

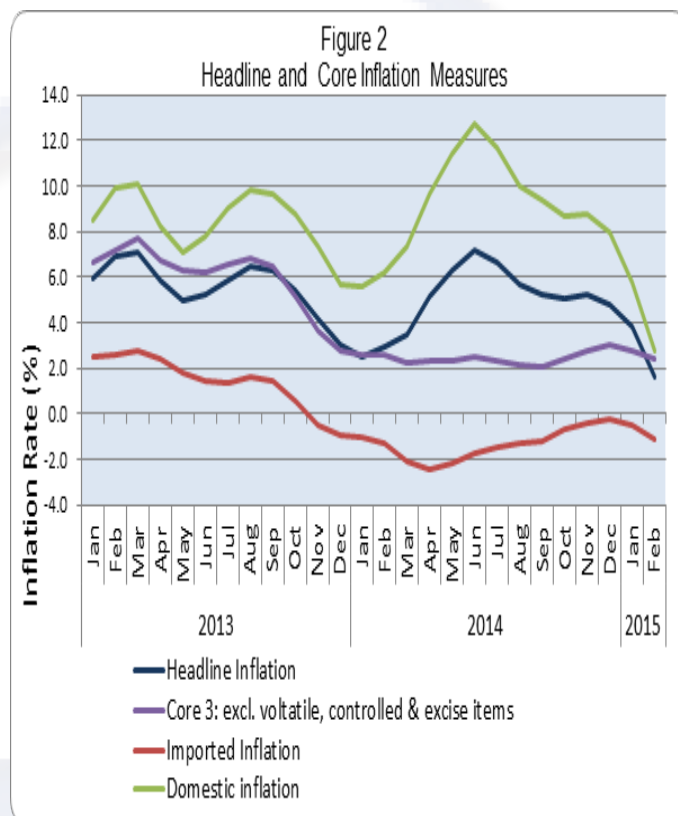
Inflation & Honiara Fuel Prices

Headline Inflation for February stood at 1.6% down from 3.8% a month prior. This was driven by a significant fall in domestic inflation from 5.8% in January to 2.8% while the imported component remained negative at minus 1.1%.

The fall in domestic inflation was driven by a significant fall in the food price index from 7.8% in January to 4.2% combined with an even greater fall in drinks and tobacco to minus 16% as a result of betel nut prices plummeting more than 50%, and housing utilities declining to 5.7% from 8.5%. These declining prices outpaced increases in clothing and footwear to 20%, household operations to 3.4%, transport and communication at 1.8%, and recreation going up to 9.4%.

In terms of contributions to overall headline inflation, food accounted for 0.6%, followed by housing & utilities with 0.4%, transport and communication at 0.2%, and drinks and tobacco, clothing and footwear, household hold operations and recreation each contributing 0.1%. Similarly, core inflation eased to 2.4% in February from 2.8% recorded in the previous month. Inflation disaggregation showed consistency in falling food and fuel inflation, while on the other hand 'non-food and non-fuel items started to exert some inflationary pressures.

The average fuel price in Honiara continued to fall in March to \$8.17 per litre from \$9.55 per litre a month ago. The decline was due to a significant fall in kerosene prices by \$2.95 to \$8.68 per litre from \$11.63 per litre. Diesel price went down by 75 cents to \$8.04 per litre and petrol price declined by 44 cents to \$7.80 per litre against the previous month.



Solomon Islands Key Economic Indicators

		Nov 14	Dec 14	Jan 15	Feb 15	Mar 15
Consumer Price Index (% change)	Headline (3mma)	5.2	4.8	3.8	1.6	-0.3
	Underlying (3mma): core 3	2.4	2.7	2.8	2.4	2.1
	Month-on month	-1.4	-0.8	1.3	-1.4	0.2
Trade¹ (eop)	Exports (\$ millions)	272	327	208	291	268
	Imports (\$ millions)	268	275	217	255	317
Exchange rates (mid-rate, monthly average)	SBD per USD	7.48	7.59	7.79	7.76	7.80
	SBD per AUD	6.47	6.30	6.08	6.08	6.04
	SBD per NZD	5.83	5.89	5.68	5.87	5.84
	SBD per GBP	11.80	11.86	11.75	11.79	11.70
	SBD per 100 JPY	6.50	6.41	6.49	6.56	6.49
	SBD per EUR	9.32	9.38	8.95	8.86	8.47
Gross Foreign Reserves (eop)	\$ millions	3,763	3,784	3,844	3,891	3,986
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,239	1,174	1,460	1,143	1,198
	Excess Liquidity (\$ millions)*	899	824	1,122	803	858
Money and Credit² (eop)	Narrow Money (\$ millions)*	2,492	2,556	2,555	2,612	2,630
	Broad Money (\$ millions)*	3,266	3,291	3,255	3,302	3,338
	Private Sector Credit (\$ millions)*	1,629	1,689	1,683	1,710	1,719
Interest rates (weighted average yield)	28-day Bokolo Bills Rate	0.61%	0.61%	0.61%	0.61%	0.61%
	56-day Treasury Bills Rate	0.28%	0.30%	0.30%	0.30%	0.32%
	91-day Treasury Bills Rate	0.49%	0.48%	0.48%	0.48%	0.48%
	128-day Treasury Bills Rate	1.30%	1.24%	1.16%	1.13%	1.13%
Commodity Prices (monthly average)	Round logs (US\$/m3)	276	249	249	249	249
	Gold - (US\$/oz)	1,175	1,201	1,251	1,227	1,179
	Palm Oil - (US\$/tonne)	731	693	688	688	674
	Fish - (US\$/tonne)	1,367	1,222	1,194	1,147	1,308
	Copra - (US\$/tonne)	795	812	764	794	721
	Cocoa - (US\$/tonne)	2,910	2,950	2,920	2,950	2,950

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

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