



Monthly Economic Bulletin

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I. MONEY AND BANKING

Reserve money

Reserve money (M0) recorded an increase of 9.4% to \$924.6 million in June, following a 4.1% increase in the previous month. The expansion in M0 was driven by an increase in both the net foreign assets (NFA) and net domestic assets (NDA) of the Central Bank during the period. NFA increased further by 9.8% to \$1313.8 million, reversing a 2.8% decline in the previous month. This resulted from large inflows from donors which increased by \$70 million during the month.

Increase in the level of currency in circulation and demand deposits of the other depository corporations (ODCs) held at the Central Bank also contributed to the expansion in the M0. Currency in circulation increased further by 3.3% to \$358.5 million, continuing on the increase seen in the previous month. Meanwhile, demand deposits of the ODCs stood at \$562.6 million at the end of June compared to \$494.2 million in May.

NDA also rose by 10.7% to \$386.3 million, compared to a fall by 16.2% to \$349.1 million in the previous month. This was due to the increase in the net credit to the central government to minus \$175.8 million, attributed to a large movement in the liabilities to the central government from \$210.5 million to \$296.6 million at the end of June 2010.

Liquidity

Total liquidity in the banking system increased further by 13.8% to \$562.6 million, following a 5.7% rise in the previous month. This was driven by a large increase in the total NFA of the Central Bank by \$118 million during the period. Of this large increase in NFA, the Central Bank has not been able to sterilize the liquidity in the banking system. As a result, free liquidity continued to increase significantly by 17.1% to \$436.0 million at the end of June 2010, reflecting the expansionary monetary policy stance adopted by the Bank.

II. BALANCE OF PAYMENTS

Export receipts in June increased by 7.5% to \$139.7 million from the previous month. This outcome resulted from the huge jump in palm oil and kernel exports which more than offset the decline in log exports. Palm oil receipts increased to \$31.0 million from \$0.1 million due to shipment lags. Receipts on cocoa and sawn timber also went up during the month. Cocoa increased by 35.0% to \$18.4 million and timber by 20.4% to \$5.9 million. However, logs declined by 17.2% to \$76.9 million due to drops in export volumes. Fish receipts declined to \$1.4 million from \$4.6 million and mineral exports, which mostly comprise alluvial gold, dropped 41.8% to \$2.0 million. There were no copra exports recorded during the month.

Services receipts increased to \$23.6 million from \$6.0 million reflecting increases in inflows from insurance, travel, construction and logistics services during the month. Foreign direct investment (FDI) inflows increased from \$12.3 million to \$17.9 million.

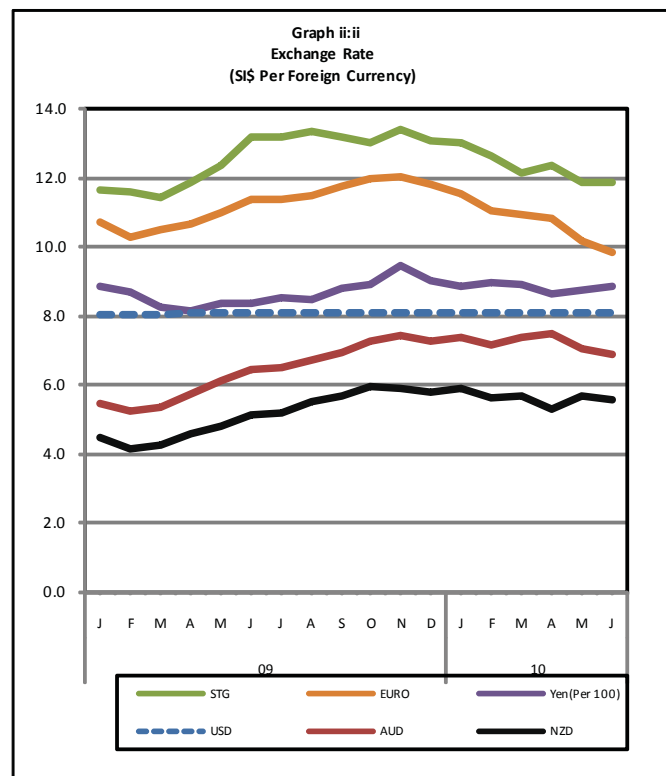
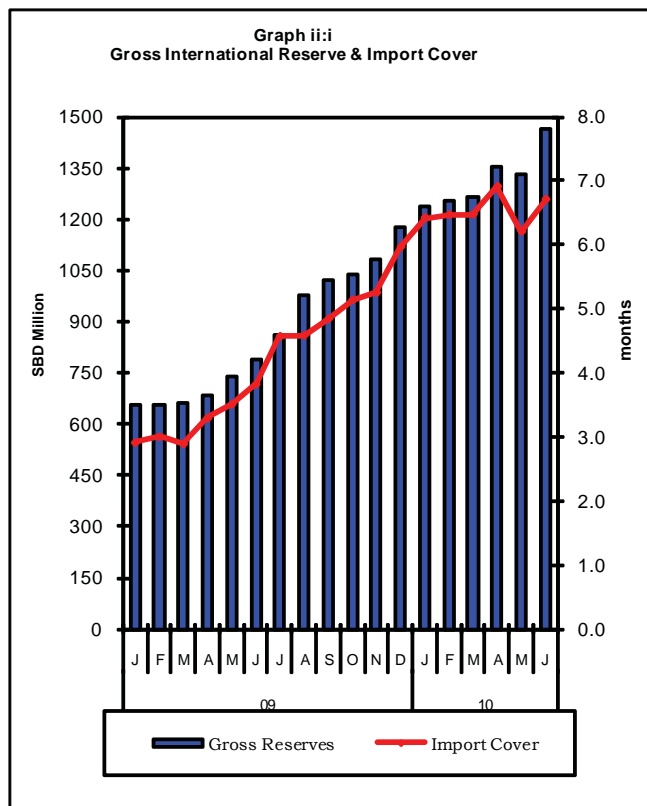
Transfers receipts more than doubled to \$171.1 million from \$61.7 million during the month. The increase was seen in all sectors. Huge inflows came from SIG and funding agencies. SIG transfer receipts increased to \$23.6 million from \$1.4 million and funding agencies increased from \$16.1 million to \$74.4 million to support donor activities in the country.

Import payments fell 31.7% to \$254.5 million in June 2010. This was expected as there were significant one-off imports of machinery and equipment for the Gold Ridge mine in May. All import categories recorded falls during the month except for basic manufactures and 'animals, vegetables and oil fats' which increased respectively from \$38.6 million to \$49.4 million and \$0.3 million to \$2.0 million. Machinery and transport equipments dropped 53.3% to \$99.5 million although

remained the largest import category during the month. A large proportion of the machine and equipment imports were related to the telecommunications sector. 'Food and live animals' dropped by 14.8% to \$44.3 million, mineral fuels down by 31.8% to \$20.4 million, chemicals fell by 11.8% to \$13.5 million, beverage and tobacco down by 22.5% to \$3.4 million and crude materials declined by 14.4% to \$2.0 million.

Services payments went up by 25.2% to \$42.0 million during the month. SIG payments increased more than three folds from \$14.3 million to \$47.9 million. This was due to the return of unused project funds and increased loan repayments during the month.

Gross external reserves surged by 10.3% to \$1,466.7 million in June 2010. This was mainly due to inflows from donors for the health sector and the first tranche of the IMF Standby Credit Facility (SCF)¹ to the Solomon Islands. This level of reserves was equivalent to 6.7 months of imports of goods and non-factor services.



¹The SCF (loan) is a component of an IMF program with the country that provides for the Central Bank to offer non-obligatory short-term emergency liquidity assistance to commercial banks as part of a comprehensive strategy to deal with the adverse effects of the global economic crisis and the downturn in the domestic economy.

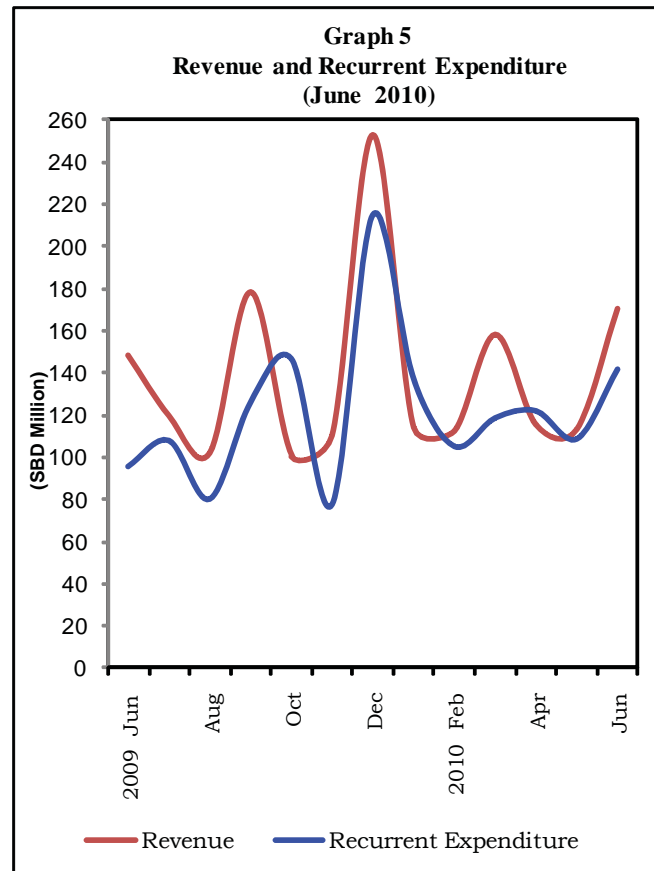
Exchange rates

The Solomon Islands dollar (SBD) remained stable against the US dollar at \$8.06 per USD in June. The SBD appreciated 2.7% against the Australian dollar to \$6.88 per AUD, 1.4% against the New Zealand dollar to \$5.57 per NZD, and 2.9% against the EURO to \$9.86 per EURO. It however depreciated by 0.2% against the British Pound to \$11.89 per GBP and 1.4% against the Japanese Yen to \$8.87 per 100JPY.

III. GOVERNMENT FINANCE

June overall preliminary fiscal position showed a deficit of \$1.8 million, an improvement from \$13.8 million deficit in the previous month. This resulted from higher increase in both the domestic collection and grant received during the period, which exceeded the rise in expenditure. Total revenue and grant received in June totalled \$175.6 million. This included \$5.0 million received in grant and domestic collection of \$170.6 million. The une YTD domestic collection stood at \$725.9 million. The June domestic collection however, exceeded budget by 54.5%. This resulted from strong revenue collection from Inland Revenue Division (IRD) and Customs and Excise Division (CED) which exceeded the monthly expectation.

The June IRD collection was \$124 million against the budget of \$115 million. It is 7.8% above budget for the month and YTD it is 6% above. Over the same six month period in 2009 it is 14.5% above. The over collection during the month compared to budget was due to a significant prepayment of company tax due in September and substantial payments of PAYE tax arrears by some large companies. Goods tax collection also exceeded budget by 3.4%, but lower than the previous month due to late payment by a large registrant. Total withholding tax collection was lower than budget due to a change in the tax status of a resident company. On average IRD has been collecting \$79.8 million per month during 2010, which exceeded expected average collection of \$67.3 million per month. IRD has tightened up the exemption process which is more transparent. IRD



report total exemptions granted for the month of June was \$2.2 million. YTD exemptions granted by IRD were \$31.4 million. Exemptions declined for the month of June totaled \$0.75 million and YTD \$53.8 million was declined.

The CED collection for June totaled \$42.2 million, as collection from most of its revenue categories exceeds budget, except for import and export duties, which under collected by 27% and 35.1%. Log duty collection, in particular was well above budget by 57.7% in June. Revenue collected from excise duties also exceeded budget by 97.7%, resulting from increase collection from Tobacco duties. The CED revenue forgone through exemption totaled \$9.8 million, with June YTD revenue forgone reaching \$71.0 million. On average, government has lost \$11.8 million per month through exemption since January. Revenue collection from all other ministries totaled \$4.4 million for June, 75% lower than budget and 72.2% lower than same period in 2009. This was, how-

ever, above the previous month by 25.3%, underpinned by rise in revenue received from overseas fishing license.

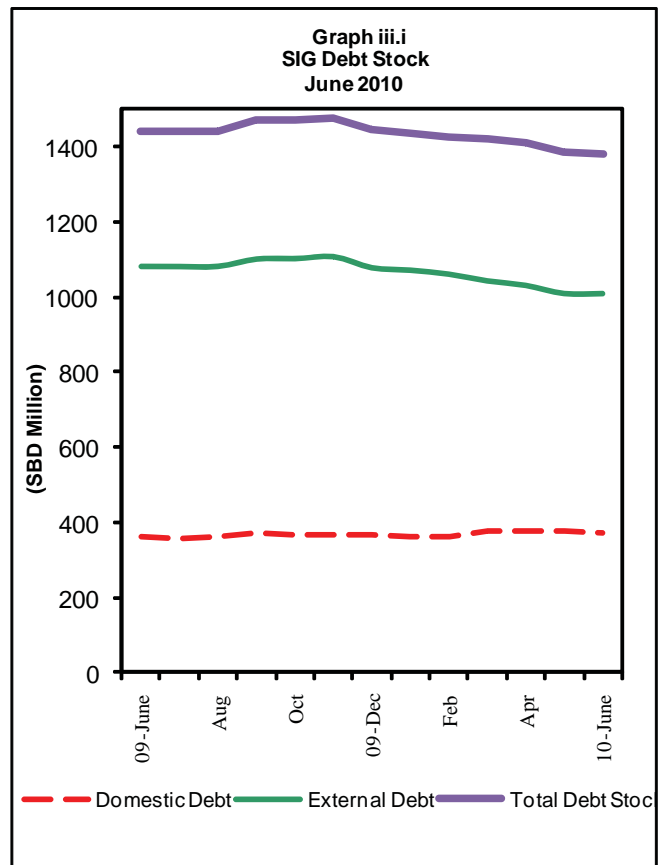
Total government expenditure for June was \$177.4 million during the month compared to \$128.4 million in May. The total money spent exceeded expenditure during the previous month by 38.1%, above budget by 14.7%, and 62.6% above the same period in 2009. In percentage share, non payroll (other charges) spending accounted for 35.0% of total spending, while payroll made up 23.9%. Meanwhile, spending on infrastructure accounted for 19.9%.

Payroll spending, although exceeded budget by 3.9%, was 3.8% lower than the previous month, due to increase payment on allowances during May period. Government has again made a 35% reservation on its non payroll (other charges) spending. Despite this, non payroll spending rose above the previous month by 19.8%, and 55.9% above the same period in 2009. Budget support spending totaled \$8.2 million, where 48.6% was for education sector, 35.8% on infrastructure, while 15.6% was spent towards health. Donor funded development expenditure was \$6.2 million in June, with \$5.0 million spent on scholarship, \$0.8 million went towards rural constituency development fund, and \$0.3 million being spent on national adaptation plan and National population and housing census.

SIG Debt

Official Government debt as at the end of June stood at \$1,381.9 million, 0.2% lower than the end May balance. For the 6 months to end June, the stock of Government debt has now fallen by a total of \$61.6 million or 4.3%. Compared to the same period in 2009, Government debt is now down \$59.5 million or 4.1%. As a proportion of GDP, Government debt has fallen to 30.4% of GDP compared to 31.7% as at end December 2009. The current debt stock is comprised of \$1,010.3 million in external debt, and \$371.6 million in domestic debt. The external debt stock was largely unchanged compared to the previous month reflecting the

impact of unfavorable exchange rate movements that largely offset reductions in debt from scheduled repayments. The domestic debt stock decreased by \$2.9 million or around 0.8% compared to end May due to the redemption of government bonds and the continuation of pay-



ments to domestic creditors. Government continued to maintain its commitment towards repaying its debt, having made \$17.5 million in repayments during the month of June. This included external repayments of \$13.9 million, where \$9.4 million was paid to bilateral creditors, \$3.7 million to multilateral creditors and \$0.8 million paid to trade creditors. Domestic repayment during the month totaled \$3.6 million. Government debt arrears increased marginally over the month from \$17.5 million to \$17.9 million at end June.

IV. DOMESTIC ECONOMY

Logs

Log applications for the month of June² soared to 190,530 cubic meters, indicative of a 43% growth.

² Sourced from Forestry Division

Despite this, log exports³ during the month dropped by 17% to 82,354 cubic metres to reverse the 32% growth observed last month. This discrepancy was due to delays in shipping during the period and cutbacks in logging activities caused by bad weather. On a more positive note, the year to date comparison saw a slight improvement in 2010 by 3%. The determined price for logs in the country remained the same at an average of US\$76.50 per cubic meter and is expected to be reviewed in September 2010. World Bank prices quoted for the month improved by 2.8% from last month to US\$261 per cubic meter to continue the 3.1% increase reported in the last month.

Copra

Preliminary copra export data in June fell by 30% to 1,225 tons to continue the downward movement that began in the previous month. Year to June output totalled to 9,120 tons, a decline by 21% from the same period in 2009. The underlying reason for the fall in exported copra is the poor coordination of boats servicing the producing provinces.

Average international copra price, quoted by the World Bank in June rose by 3.3% to US\$651 per ton and was 35.6% higher than the same period a year ago. Average contracted price in the month increased by 6% to US\$380 per ton. Domestic prices remained unchanged at \$2.40 per kilo.

Fish

Total fish catch during the month dropped by 18% to 805 tons, owing to poor fishing by 3 vessels while the other 2 were docked for maintenance during the period. Compared to a year ago, the month's outturn is 58% lower. However, in the six months up to June total catch went up by 651 tons (8%) from the corresponding period a year ago to 8,670 tons. Historical data indicate that the first six months of a year is usually low for fishing and production is expected to pick up in the subsequent months. The cannery operations in Noro,

Western province have remained closed. INFO Fish prices quoted in June dropped by 10% to US\$1,500 per ton, accredited to large supply in the market.

Palm Products

Production of fresh fruit bunches (FFB) grew by 7% to 12,983 tons from 12,054 tons. Year to date harvest for FFB stood at 70,393 tons, an 18% increase from the same period in 2009. Crude palm oil (CPO) processing improved by 5% to 2,744 tons to continue the upward movement observed last month. As compared to a year ago, this month's output is 25% higher than June 2009. Year to date CPO is up by 25% from the same period last year. Palm kernel oil (PKO) processed in June rose by 8% to move from 303 tons to 327 tons. This was an increase by 17% from June last year. Year to June PKO output recorded a total of 1,713 tons, indicating a 9% increase from the same period in 2009. Palm kernel expeller (meal) rose by 10% to 398 tons. This brings the first 6 months' production level at 1,943 tons, an increase by 5% from the same period in 2009. The average price for CPO in June dropped by 1.8% to US\$798 per ton; while the PKO price on the other hand improved by 1.6% to US\$1,051 per ton.

Cocoa

Cocoa exports in June dipped 7% to 429 tons to reverse the two consecutive increases in April and May 2010. Compared to the same period a year ago, this outturn is down by 43%, although year to date output for 2010 is far better than 2009 by 40%. The subdued output in June is a result of low season and worsened by producers engaging in other fast cash generating activities.

The average world price for cocoa grew slightly by 1.4% to US\$3,231 per ton to reverse the dip reported last month. Compared to June 2009, this month's price is 19% better. Contracted price for cocoa at the end of June averaged at GBP£1,867 per kilogram; this reflected a drop by 1.9%. Domestic prices on the other hand increased slightly by 0.42 cents to move to \$19.42 per kilogram from \$19 in the previous month.

³Sourced from Customs & Excise Division

Inflation

Inflation for the month of June is not available, however, May inflation as measured by the three months moving average fell to 1.0% from 1.1 %

recorded in April and 1.6% in March. The downward trend which began since September 2008 was driven mainly by falls in both domestic and imported inflation.