

## Monthly Economic Bulletin

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### I. MONEY AND BANKING SECTOR

#### Money Supply

Broad money supply (M3) grew by 2% to \$3,016 million in August 2013, following a 0.1% fall in the previous month. The upturn was due to increase in narrow money (M1), which outweigh the 1% to \$637 million drop in other deposits (time and savings). Narrow money went up by 3% to \$2,378 million in contrast to a 1% decline witnessed in June. Driving the increase in M1 was the demand deposits held with the commercial banks, which went up by 4% to \$1,910 million. This more than offset the 2% fall to \$468 million in currency in circulation at the end of the month.

#### Net Foreign Assets

Total net foreign assets (NFA) of the banking system rose marginally by 0.3% to \$3,440 million, following a 3% fall in July. The increase was driven by commercial bank's NFA, which moved from \$0.5 million in July to \$24 million at the end of August. The rise reflected an increase in the commercial bank's foreign assets over their foreign liabilities. Meanwhile, Central Bank's NFA continued to decline since May 2013 falling by 0.4% to \$3,416 million at the end of the month.

#### Domestic Credit

Net domestic credit increased significantly by 61% to \$158 million from \$98 million in the previous month. The increase was driven by improvement in net credit to government from minus \$1,306 million in the previous month to minus \$1,236 million. This reflected a draw-down of government deposits in the banking system during the period. In contrast, private sector credit declined by 1% to \$1,395 million in contrast to 4% increase a month ago.

#### Liquidity

Total liquidity in the banking system dropped

by 2% to \$1,402 million, in contrast to a 14% growth registered in the previous month. The decline was driven by the fall in net credit to government and increasing Bokolo bills volume which reduced the call account balances of the commercial banks held with CBSI. As a result, free liquidity went down by 2% to \$1,190 million by the end of the month compared to a 17% increase in the previous month.

#### Domestic Market Operations

In August 2013, CBSI on behalf of the government continued to facilitate the auction of the treasury bills. A total of \$8 million was floated compared to \$10 million in the previous month. The total bids of \$18 million were received of which \$8 million were accepted and the rest rejected. The weighted average yield for 91 and 182 days maturity terms continue to drop slightly this month from 0.45% to 0.43% and from 1.44% to 1.37%, respectively. Meanwhile, the 56 day rate increased from 0.46% to 0.47% this period.

In the last four weeks of August CBSI floated \$610 million, an increase of \$30 million from the previous month. Meanwhile, the commercial banks absorbed \$465 million worth of Bokolo bills, an increase of \$15 million over the same period. Hence, the weighted average yield for the 28-days bill declined marginally to 0.51% from 0.52% in the previous month<sup>1</sup>.

### II. BALANCE OF PAYMENTS

#### Trade in Goods

The provisional balance on trade in goods in August 2013 improved considerably to a surplus of \$21 million from a deficit of \$73 million in the previous month. This positive outcome

1. In August 2013, three auctions took place. The weighted average yield reflects the total accepted bids across the three auctions.

resulted from an increase in exports (f.o.b) by 16% to \$288 million and assisted by imports (f.o.b) which declined by 17% to \$267<sup>2</sup> million.

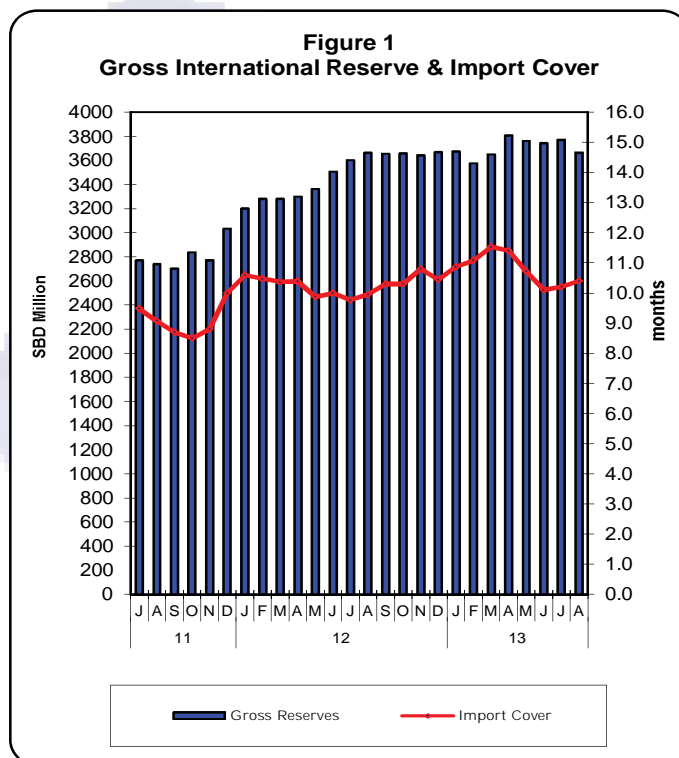
The increase in exports during the month was driven by export receipts from round logs, fish, palm oil, sawn timber, and copra. Round log exports increased by 21% to \$149 million due to higher volume shipped during the month. Fish exports jumped to \$42 million from \$23 million as a result of higher volume of fish catch during the month. 'Palm oil and kernel' rose 21% to \$26 million as a result of increasing volume and favourable prices, while 'copra and coconut oil' increased to \$4 million from \$3 million driven by higher coconut oil exports. Sawn timber also rose to \$6 million from \$5 million. Meanwhile, mineral exports remained unchanged at \$51 million whilst cocoa exports dropped by 53% to \$6 million. The fall in cocoa exports was attributed to lower export volumes despite the increase in international and contract export prices.

The drop in imports during the month was due to fall in all CIF import categories except for food imports and miscellaneous items which increased by 11% to \$76 million and 19% to \$17 million, respectively. Mineral fuel fell by 33% to \$71 million as bulk consignments were made in the previous month. Machinery and transport equipment dropped by 28% to \$67 million due to fall in industrial machinery imports. Basic manufactures also dropped by 16% to \$38 million owing to lower imports of iron and steel, and chemicals fell by 20% to \$21 million.

**Gross Foreign Reserves**

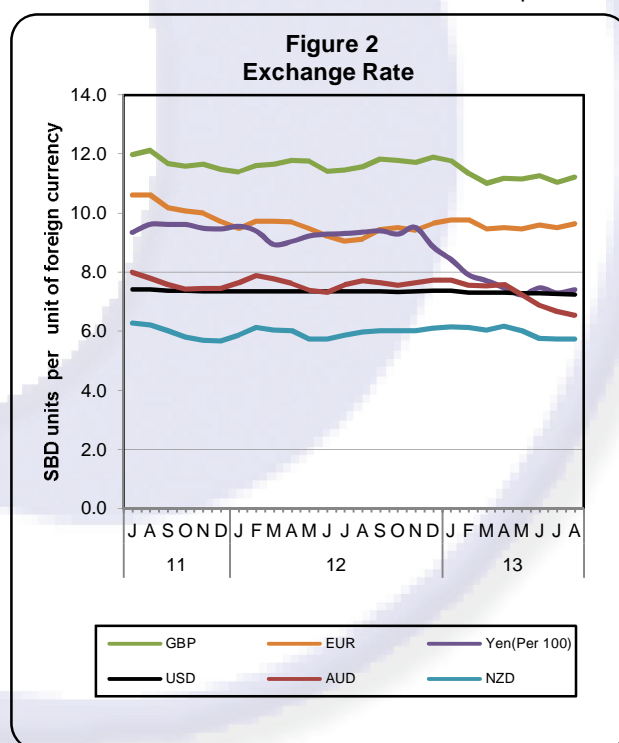
The gross foreign reserves fell to \$3,665 million from the revised \$3,771 million in the previous month. This drop was due to one off higher payments on repatriation of unused EU funds. Re-valuation losses also contributed to the fall as the Solomon Islands dollar (SBD) strengthened against the USD and AUD. This level of reserves is sufficient to cover 10.4 months of import cover.

2. The "total imports FOB" figure excludes an estimate of freight & insurance at 11% of "total Imports CIF".



**Exchange rate**

The SBD on average during the month appreciated against both the United States dollar and the Australian dollar. The SBD appreciated by 0.3% against the United States dollar to \$7.24 per USD and 1.9% against the Australian dollar to \$6.54 per AUD. On the other hand, the SBD depreciated by 1.6% against the British pound to \$11.22 per GBP, 1.4% against the EURO to \$9.64 per EUR, 1.5% against the Japanese yen to \$7.40 per 100JPY, and 0.03% against the New Zealand dollar to \$5.73 per NZD.



### III. GOVERNMENT FINANCES

The overall fiscal position (including grants) in July worsened to a deficit of \$148 million from \$1 million deficit posted in the previous month. The negative outcome was attributed to higher spending, which increased by 49% to \$328 million combined with the fall in revenue by 18% to \$180 million. Meanwhile, public debt stock at end of August stood at \$956 million compared to \$965 million registered in July.

#### Revenue

The significant fall in the overall revenue collection compared to the previous month was due to a 32% drop in revenue collected by Inland Revenue Division to \$106 million. This followed a decline of \$43 million in company tax, which is expected as this tax is normally paid on quarterly basis. The fall in PAYE by 30% to \$29 million also attributed to the decline. Customs and Excise Division revenue collection in July, however, rose to \$64 million from \$57 million. This resulted from 38% rise in collection from log duty, 30% increase in export duties and 7% increase in excise duties compared to June. Non Tax Revenue (NTR) received from “other government ministries” also went up by 8% to \$6 million. The positive outturn reflected increased collection by Ministry of Education and Human Resources Development (MEHRD) and Ministry of Commerce, Industry and Employment by \$0.8 million and \$0.5 million to \$1 million and \$2 million, respectively in July. Notably, a total of \$4 million was also received from donor partners during the period.

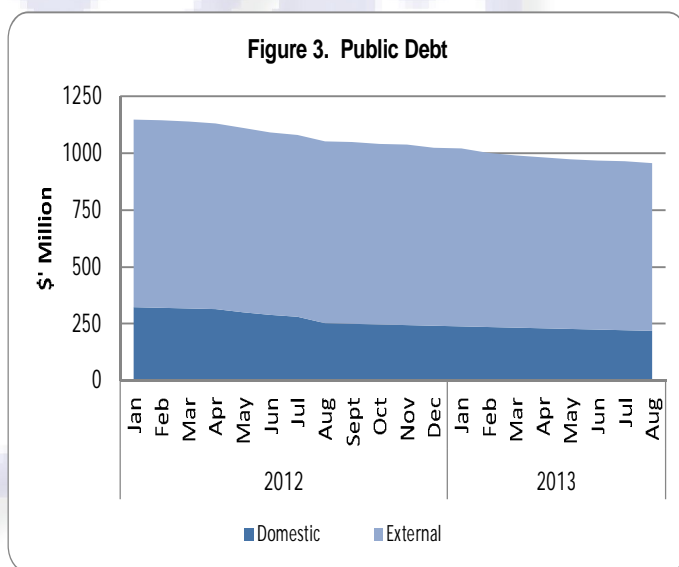
#### Expenditure

The rise in Government expenditure during the month was mainly driven by development expenditure, goods and services purchases and payroll. Development expenditure rose by 87% to \$94 million due to higher capital spending made to the Ministry of Infrastructure Development (MID), MEHRD and the Ministry of Provincial Government and Institutional Strengthening (MPGIS). Expenses on purchases of goods and services rose to \$140 million from \$97 million as a result of increased spending to the MEHRD on office rentals, scholarship and school grants, Ministry of Home Affairs on registrations of voters in preparation for the 2014 national election, Office of the Prime Minister on tours and travel, and MID on the national transport related projects. Payroll grew by 47% to \$62 million, after posting a lower spending

in the previous month. The increase was associated with higher spending on wages and salaries to MEHRD, Ministry of Police, National Security and Correctional Services and MPGIS.

#### SIG Debt Stock and Servicing

Total public debt stock fell by 0.9% in August to \$956 million. The marginal fall in the overall debt stock was driven by principle repayment of \$5 million and interest repayment of \$1 million during the reviewed period. This led the debt-to-GDP ratio to decline to 15% from 16% recorded in the previous month.



### IV. DOMESTIC OPERATIONS

#### Logs

Log production for August continued to improve to 183,334 cubic meters compared to 152,978 cubic meters a month ago. The improvement was due to favourable weather conditions particularly in the provinces during the month. Despite of the increase, this output level was 7% below the same month a year ago. Year-to-August production reached 1.2 million cubic meters, 11% below total output in the corresponding period in 2012. Meanwhile, international log prices rebounded slightly by 2% to USD304 per cubic meter compared to USD299 per cubic meter in the previous month.

#### Copra

Copra production for the month rebounded significantly to 1,274 tons, a record high in the past ten months. However, this output level fell by more than half of the production in the corresponding period a year ago. As a result, the

year-to-August total production reached 7,974 tons, 62% below total production to August a year ago. In terms of prices, contracted export prices recorded a significant turnaround from USD397 per ton in July to USD532 per ton in August. The favourable price movement resulted in a further 2% improvement in domestic prices for the month to \$2.56 per kilogram.

**Cocoa**

After a peak production of 744 tons<sup>3</sup> in the previous month, cocoa output for August plunged back to 303 tons. However, this is 4% higher in contrast to the corresponding month a year ago. Meanwhile, year-to-August production fell below similar period in 2012 by 11% to 2,916 tons. The contracted export prices rose slightly by 1% to GBP1,323 per ton to become the highest price since the beginning of the year. Similarly, prices paid to local farmers also went up by 2% to \$11.91 per kilogram compared to \$11.43 per kilogram in the previous month. This price level set the highest price since the beginning of 2013.

**Palm Oil & Palm Kernel Oil**

Palm oil productions recorded another month of low output reflecting low cropping periods. Crude palm oil dropped by 17% to 2,312 tons, compared to 2,771 tons in the previous month resulted from unfavourable weather conditions. Similarly, palm kernel oil contracted significantly by 21% to 222 tons from 280 tons in July. Against the same period a year ago, crude palm oil and kernel oil fell by 13% and 20%, respectively. Meanwhile, on a year to date basis, crude palm oil fell negligibly against the corresponding period in 2012 to 21,340 tons while palm kernel oil recorded a more pronounced fall of 10% for the same period.

Contract prices for crude palm oil continued to deteriorate in August by 2% to USD872 per ton following an 18% decline to USD887 per ton in the previous month. Contract price for palm kernel oil also slipped this month by 9% to USD1,078 per ton from a 35% increase to USD1,190 per ton in the previous month.

**Fish**

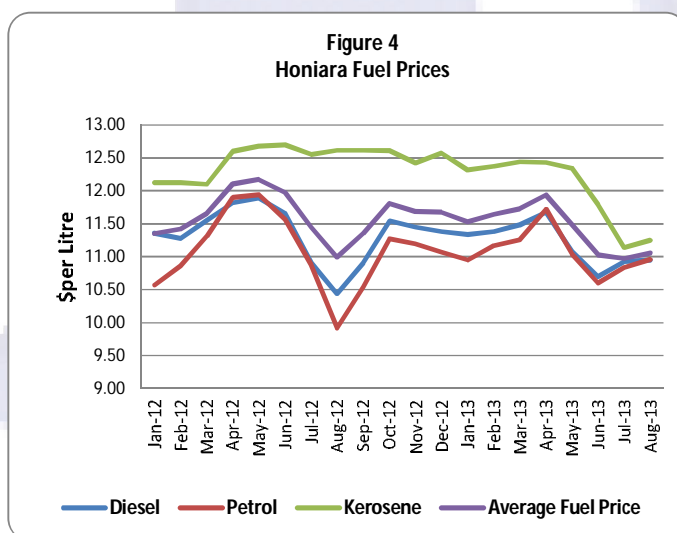
Fish catch for August reached a record high of 4,163 tons. Despite the increase, year-to-August catch totalled to 14,236 tons, 19% below similar period a year ago. The average international fish price declined again this month by 6% to USD2,124 per ton compared to USD2,261 per ton in the previous month.

**Minerals**

Following a 15% decline in the previous month, mineral output continued to fall by 7% to 5,092 ounces compared to 5,456 ounces a month ago. Similarly, silver output went down by 12% to 1,904 ounces. As a result, cumulative export volumes for gold and silver fell by 21% to 39,171 ounces and by 28% to 15,193 ounces respectively against the corresponding period in 2012. In contrast to the declining trend, international price for gold rebounded in August by 5% to USD1,352 per ounce from USD1,286 per ounce in July. Similarly, international price for silver rose by 11% to USD21.89 per ounce compared to USD19.71 per ounce in the previous month.

**Honiara Retail Fuel Prices**

The average fuel price in Honiara rose marginally by 0.8% to \$11.05 per litre from \$10.97 per litre a month ago. The slight increase came from all categories. Petrol went up by 12 cents to \$10.96 per litre, kerosene increased by 11 cents to \$11.25 per litre whilst diesel slightly rose by 2 cents to \$10.95 per litre. In spite of that, the average fuel prices for the month was 89 cents lower than the average peak price of \$11.94 per litre recorded in April 2013.



3. Revised from earlier records of 412 tons.