

## Monthly Economic Bulletin

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Content	Page
1. Monetary Developments	1
11. External Conditions	
111. Government Finances	
IV. Domestic Production	2

### I. MONETARY DEVELOPMENTS

Broad money supply (M3) increased by 2.4% to \$3,368 million at the end of August 2014, with a year-on-year growth of 12%. Growth was driven by a rise in narrow money (M1) which grew by 1% to \$2,568 million, combined with an 8% increase in other deposits to \$800 million. The rise in M1 came from a 2% increase to \$2,059 million in demand deposits and contrasted a fall in currency in circulation by 2% to \$509 million. Other deposits rose during the month in line with increases in both the savings and time deposits. Meanwhile, net foreign assets (NFA) remained essentially unchanged from July at \$3,908 million, whilst year-on-year comparison showed an increase of 14%.

The net credit to government (NCG) declined by 7% to reach the net liability position of \$1,351 million compared to an increase witnessed in the last four consecutive months. The fall was due to a decline in the government deposits held with CBSI and other depository corporations (ODCs), which fell by 5% and 29% respectively. Meanwhile, private sector credit experienced a 3% increase to \$1,538 million, mainly from ODCs, with year-on-year growth reaching 10%. By the end of August, total liquidity of the banking system increased by 22% to \$1,615 million, leading to a rise in excess liquidity by 30% to \$1,275 million.

#### Domestic Market Operations

The total Bokolo Bills stock CBSI floated in August remained unchanged at \$710 million, but \$400 million went unabsorbed during the month. As a result, the Bokolo Bills stock issued fell by 38% to \$310 million compared to \$500 million stock in July. The Bokolo Bills weighted average yield (WAY) for 28 days remained stable at 0.61%. Meanwhile, the WAY of government treasury bills for 56 days was also unchanged at 0.10%, while 91 and 182 days maturities continued to decline from 0.11% and 0.86% to 0.10% and 0.69%, respectively.

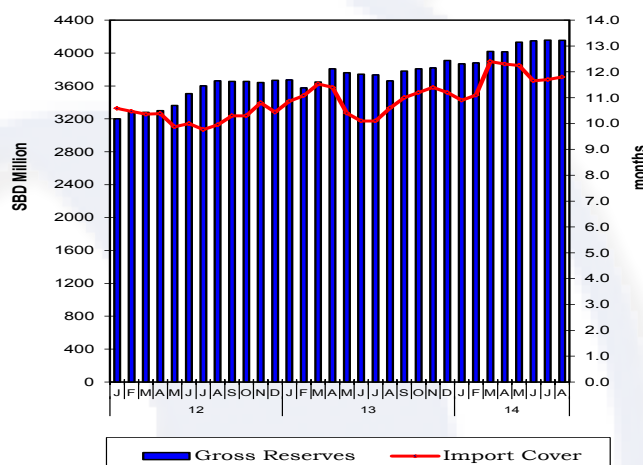
### II. EXTERNAL CONDITIONS

The balance on trade in goods rebounded to a provisional \$88 million surplus in August from a revised \$105 million deficit a month ago. This positive outcome resulted from a surge in exports (f.o.b) rising by 29% to \$320 million exceeding imports (f.o.b) which fell by 34% to \$232 million.

The strong fall in imports stemmed from a drop in payments for all import categories during the month. Meanwhile, growth in exports was largely driven by higher export volumes from round logs, fish and palm oil products.

Gross foreign reserves grew marginally by 0.2% to \$4,155 million, sufficient to cover 11.8 months of imports of goods and services. This came from higher receipts on fishing licences and donor inflows.

Figure 1  
Gross International Reserve & Import Cover



Source: CBSI

The Solomon Islands dollar (SBD) on average depreciated marginally against the United States dollar by 0.04% to \$7.30 per USD and appreciated against the Australian dollar by 0.91% to \$6.79 per AUD during the month. Meanwhile, the SBD also appreciated against the New Zealand dollar, Euro, Japanese Yen, and the British pound during the period.

### III. GOVERNMENT FINANCE <sup>1</sup>

The Government recorded a preliminary deficit of \$130 million in July compared to the \$114 million surplus posted in June. This was due to lower revenue collections combined with higher expenditure during the month.

1. The Government Finance sector has migrated from the Government Finance Statistics (GFS) Manual of 1998 to the GFS Manual of 2001. From July 2014 on, all Monthly Economics Bulletin reports on government finance will now be based on the 2001 Manual.

Total revenue fell by 45% to \$191 million against June and was 33% below the budget. The month-on-month downturn was primarily driven by a 20% decline in tax receipts to \$186 million. Non-tax revenue, however, remained unchanged at \$5 million, the same as in June. Conversely, total expenditure surged by 37% to \$321 million and overran the budget by 9%. The upsurge against June reflected increases in both the recurrent<sup>2</sup> and development expenditure by 38% and 30% to \$276 million and \$45 million respectively. The rise in recurrent spending was driven by increases in all expenditure categories, notably payroll and grants, except for interest payments.

Total public debt stock at the end of August stood at \$888 million, 1% down on the \$898 million posted in July. This was equivalent to 13% of nominal gross domestic product. Of the total debt stock, domestic debt accounted for \$187 million and external debt the remaining \$701 million.

#### IV. DOMESTIC PRODUCTION

The CBSI monthly production index showed a general improvement in key commodities in August by 3% to 90 points following a 13% improvement in the previous month. The increase was primarily driven by improvements in fish catch by 27%, log production by 24% and minor growths by crude palm oil and palm kernel oil. Compared to the same month a year ago, productions in log and palm products were higher this year, while fish catch showed a decline. Meanwhile year-to-August for all commodities except for cocoa outperformed 2013 levels. International prices for cocoa and fish improved this month with fish prices rebounding significantly by 34%. However, international prices of copra, palm oil and log registered declines in August.

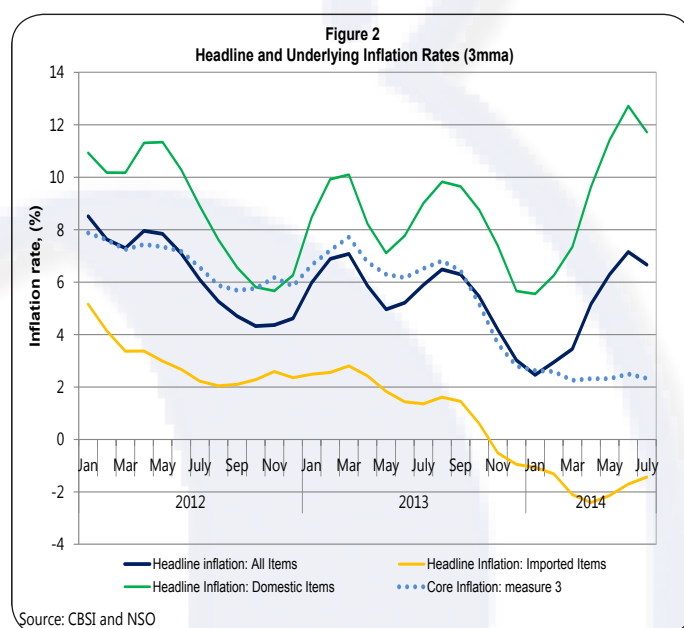
#### Inflation & Honiara Fuel Prices

Headline inflation rate for July fell to 6.7% from 7.2% in June following five consecutive months of increases. This was driven by domestic inflation, which retreated from 12.7% to 11.7% whilst the imported component recorded another decline of -1.4%.

The marginal fall in domestic inflation was attributed to sizable declines in prices of drinks and tobacco which fell from 34.8% to 19.2% and housing and utilities which slowed from 12.6% to 11.9%, outpacing increases in the food, recreation and health and the household and operations categories during the month.

Food and 'housing and utilities' accounted for the greatest contribution to headline inflation at 2.9% and 1.6% respectively. In line with headline inflation, the underlying inflation rate eased to 2.3% from 2.5% in June. Month-on-month movements in the overall index for July indicated price pressures have eased for the third consecutive month.

During the month of August, the average fuel price in Honiara rose slightly for the third month in a row by 0.5% to \$11.81 per litre from \$11.76 per litre. The upward movement was driven mainly by the increase in petrol price, which surpassed declines in diesel and kerosene prices. Price of petrol rose by 21 cents to peak at \$11.42 per litre. Meanwhile kerosene price dropped by 3 cents to \$12.33 per litre and diesel price fell by 2 cents to \$11.68 per litre.



2. Only the interest component of loan repayment is included in the total recurrent expenditure.

### Solomon Islands Key Economic Indicators

		Apr 14	May 14	Jun 14	Jul 14	Aug 14
<b>Consumer Price Index<sup>1</sup></b> (% change)	Headline (3mma)	5.2%	6.3%	7.2%	6.7	N/A
	Underlying (3mma): core 3	2.3%	2.3%	2.5%	2.3	N/A
	Month-on month	3.9%	-0.3%	-0.4%	-0.6	N/A
<b>Trade</b> (eop)	Exports (\$ millions)	211	238	279	248	320
	Imports (\$ millions)	262	283	290	397	260
<b>Exchange rates</b> (mid-rate, monthly average)	SBD per USD	7.36	7.35	7.30	7.29	7.30
	SBD per AUD	6.85	6.84	6.84	6.85	6.79
	SBD per NZD	6.35	6.38	6.29	6.35	6.16
	SBD per GBP	12.31	12.39	12.35	12.40	12.18
	SBD per 100 JPY	7.18	7.22	7.16	7.17	7.09
	SBD per EUR	10.16	10.11	9.93	9.88	9.72
<b>Gross Foreign Reserves</b> (eop)	\$ millions	3,920	4,024	4,148	4,148	4,155
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)*	1,294	1,397	1,313	1,323	1,615
	Excess Liquidity (\$ millions)*	952	1,059	972	980	1,206
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)*	2,540	2,596	2,563	2,548	2,568
	Broad Money (\$ millions)*	3,263	3,329	3,285	3,290	3,368
	Private Sector Credit (\$ millions)*	1,467	1,463	1,456	1,491	1,538
<b>Interest rates</b> (weighted average yield)	28-day Bokolo Bills Rate	0.61%	0.61%	0.60%	0.61%	0.61%
	56-day Treasury Bills Rate	0.18%	0.15%	0.14%	0.10%	0.10%
	91-day Treasury Bills Rate	0.16%	0.15%	0.13%	0.11%	0.10%
	128-day Treasury Bills Rate	1.28%	1.14%	1.01%	0.86%	0.69%
<b>Commodity Prices</b> (monthly average)	Round logs (US\$/m3)	290	293	292	293	289
	Gold - (US\$/oz)	1,298	1,289	1,279	1,311	1,295
	Palm Oil - (US\$/tonne)	911	893	858	841	766
	Fish - (US\$/tonne)	1,405	1,213	1,571	1,327	1,775
	Copra - (US\$/tonne)	905	930	934	861	770
	Cocoa - (US\$/tonne)	3,050	3,030	3,170	3,200	3,270

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

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