

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) marginally increased by 0.2% to \$3,290 million at the end of July 2014 while recording a year-on-year growth of 11%. Driving this growth was a 3% increase to \$742 million in other deposits (savings and time) despite narrow money (M1) declining slightly by 1% to \$2,548 million. The fall in M1 resulted from a decline in both currency in circulation and demand deposits whilst the increase in other deposits was driven by rise in both savings and time deposits. Meanwhile, net foreign assets (NFA) increased slightly by 0.1% to \$3,908 million, attributed mainly from donor inflows and fishing licences.

The net credit to government rose for the third consecutive month to reach a net liability position of \$1,453 million mainly due to the increase in government deposits held with CBSI and Other Depository Corporations (ODCs). Credit to private sector, mainly from ODCs also increased during the month by 2% to \$1,491 million with year-on-year growth of 6%.

Mirroring the marginal increase in NFA of CBSI, total liquidity of the banking system grew by 1% to \$1,323 million, leading to a corresponding rise in excess liquidity by 1% to \$980 million in July.

Domestic Market Operations

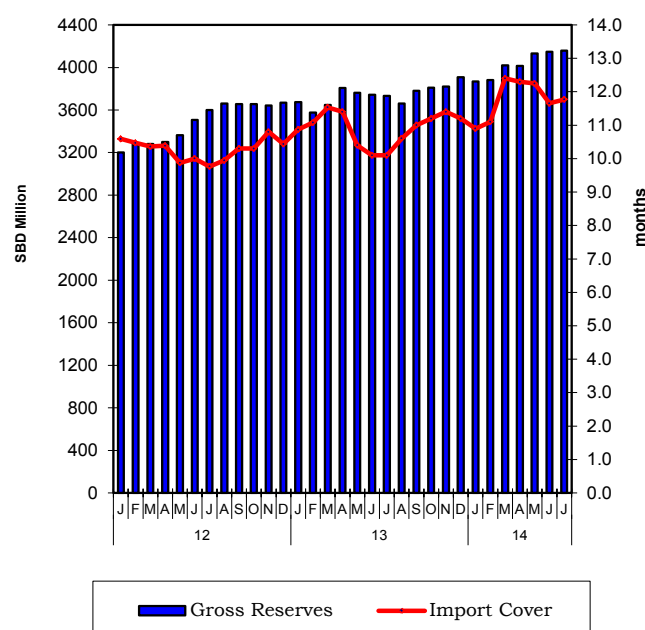
The Central Bank Bokolo bills stock absorbed by the commercial banks significantly decreased to \$500 million in July from \$710 million in June. As of July, the total stock of Bokolo bills worth \$855 million were issued of which \$355 were rejected. Meanwhile, the weighted average yield (WAY) for 28 days exhibited a slight rise from 0.60% in June to 0.61% in July. Meanwhile, weighted average yields (WAY) of government treasury bills 56, 91, and 182 days maturities continued to decline for the third consecutive month from 0.14% to 0.10%, 0.13% to 0.11%, and 1.01% to 0.86% respectively over the month.

II. EXTERNAL CONDITIONS

The balance on trade in goods worsened to a provisional \$75 million deficit in July from a revised \$21 million surplus a month ago. This was driven largely by a 34% increase in imports to \$346 million (f.o.b) and a 3% fall in exports to \$272 million (f.o.b) during the month. The significant increase in imports came from higher payments for all import categories notably food, fuel, and machineries. The decline

in exports, on the other hand, was due to falls witnessed in fish and agricultural export commodities, which offset the rise in round logs and mineral exports during the month. Gross foreign reserves grew slightly by 0.2% to \$4,158 million, sufficient to cover 11.8 months of imports of goods and services. The slight increase was attributed to receipts on fishing licences and donor inflows, which outweighed the exchange rate revaluation losses incurred as the Solomon Islands dollar (SBD) appreciated against the United States dollar by 0.1% to \$7.29 per USD during the month. However, the SBD depreciated against the Australian dollar and the New Zealand dollar by 0.2% to \$6.85 per AUD and 0.9% to \$6.35 per NZD, respectively.

Figure 1
Gross International Reserve & Import Cover



III. GOVERNMENT FINANCE

The Government recorded a preliminary fiscal surplus of \$118 million¹ in June compared to the \$14 million surplus posted in May. This was driven by higher revenue collection, which outpaced the lesser increase in spending during the month.

¹ The fiscal balance excludes debt principle repayments

Total revenue collection, including grants, rose to \$348 million from \$196 million recorded in the previous month. The outcome was a result of significant aid inflows from donor partners during the month coupled with the increase in Inland Revenue Division collection. Similarly, total expenditure (excluding debt principle repayments) increased by 26% to \$229 million but was contained within the budget by 20%. The month-on-month growth was underpinned by increases in all major spending categories except for budget support.

Total public debt stock at the end of July stood at \$898 million, 1% lower than the \$908 million posted in May. Of the total debt, domestic debt accounted for \$189 million and external debt at \$709 million. This level was equivalent to 13% of nominal gross domestic product (NGDP).

IV. DOMESTIC PRODUCTION

Domestic activities, proxied by the monthly production index, rebounded by 10% following a 5% decline in the previous month. The index increased to 84 points in July from 76 points in June, driven by improvements in log production by 21%, fish catch by 9% and gold production by 28% ²against the previous month.

On the downside, palm production contracted by 11% due to low cropping yields whilst preliminary estimates for copra and cocoa recorded substantial falls during the month. Compared against the same month a year ago, production in log, fish, and copra outperformed that of the previous year, contra to that of palm oil and cocoa production. In terms of prices, international prices for cocoa, log, and gold slightly improved this month whilst, palm oil, fish, and copra continued the downward trend.

Honiara Retail Fuel Prices

The average fuel price in Honiara rose slightly for the second month by 0.5% to \$11.76 per litre in July from \$11.70 per litre in June. The increase was driven by all categories with the exception of petrol. Prices of kerosene rose by 2 cents to \$12.36 per litre and diesel increased by 3 cents to \$11.70 per litre. As a result, the current level of fuel price narrowed the gap to only 18 cents below the average peak price of \$11.94 per litre recorded in April 2013.

2. Gold production not necessarily reflecting actual productions for the month, but more related to incomplete shipments prior to July.

Solomon Islands Key Economic Indicators

		Mar 14	Apr 14	May 14	Jun 14	Jul 14
Consumer Price Index (% change)	Headline (3mma)	3.4%	5.2%	6.3%	7.2%	N/A
	Underlying (3mma): core 3	2.3%	2.3%	2.3%	2.5%	N/A
	Month-on month	0.3%	3.9%	-0.3%	-0.4%	N/A
Trade ¹ (eop)	Exports (\$ millions)	234	188	233	230	272
	Imports (\$ millions)	270	259	284	326	346
Exchange rates (mid-rate, monthly average)	SBD per USD	7.36	7.36	7.35	7.30	7.29
	SBD per AUD	6.67	6.85	6.84	6.84	6.85
	SBD per NZD	6.26	6.35	6.38	6.29	6.35
	SBD per GBP	12.19	12.31	12.39	12.35	12.40
	SBD per JPY	7.20	7.18	7.22	7.16	7.17
	SBD per EUR	10.21	10.16	10.11	9.93	9.88
Gross Foreign Reserves (eop)	\$ millions	3,957	4,015	4,138	4,218	4,158
Liquidity ² (eop)	Total Liquidity (\$ millions)*	1,257	1,294	1,397	1,313	1,323
	Excess Liquidity (\$ millions)*	919	952	1,059	972	980
Money and Credit ² (eop)	Narrow Money (\$ millions)*	2,457	2,540	2,596	2,563	2,548
	Broad Money (\$ millions)*	3,193	3,263	3,329	3,285	3,290
	Private Sector Credit (\$ millions)*	1,468	1,467	1,463	1,456	1,491
Interest rates (weighted average yield)	28-day Bokolo Bills Rate	0.60%	0.61%	0.61%	0.60%	0.61%
	56-day Treasury Bills Rate	0.21%	0.18%	0.15%	0.14%	0.10%
	91-day Treasury Bills Rate	0.19%	0.16%	0.15%	0.13%	0.11%
	128-day Treasury Bills Rate	1.14%	1.28%	1.14%	1.01%	0.86%
Commodity Prices (monthly average)	Round logs (US\$/m3)	291	290	293	292	298
	Gold - (US\$/oz)	1,336	1,298	1,289	1,279	1,311
	Palm Oil - (US\$/tonne)	961	911	893	858	841
	Fish - (US\$/tonne)	1,411	1,405	1,213	1,571	1,327
	Copra - (US\$/tonne)	926	905	930	934	861
	Cocoa - (US\$/tonne)	3,040	3,050	3,030	3,170	3,200

¹ Value in terms of free on board (FOB)

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