CENTRAL BANK OF SOLOMON ISLANDS

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I. MONETARY DEVELOPMENTS

Money Supply

Total money supply (M3) fell by 0.5% to $2,956 million in June 2013, compared to 0.2% growth in the previous month. This was caused by narrow money (M1) which dropped by 0.7% to $2,329 million following the 0.3% fall in May. Driving the fall in M1 was currency in circulation and demand deposits held with commercial banks which declined by 0.1% and 0.8% respectively. Meanwhile, other deposits (time and savings) remain unchanged at $627 million at the end of June.

Net Foreign Assets

Total net foreign assets (NFA) of the banking system in June 2013 stood at $3,535 million, an increase of 0.3% compared to $3,526 million in May. The increase was driven by commercial banks' NFA that rose further to $71 million from $37 million, reflecting an increase in their foreign assets over their foreign liabilities at the end of the month. Meanwhile, CBSI's NFA continued to decline by 0.7% from $3,489 million in May to $3,464 million in June 2013.

Domestic Credit

Net domestic credit further declined from $0.4 million to minus $65 million this month. The fall was driven by an increase in net credit to government (NCG) of 6% to $1,421 million, following an 11% rise a month ago. The increase in NCG reflected a continuous build-up of government deposits in the banking system. However, private sector credit went down from $1,361 million to $1,357 million, aiding the marginal fall in the net domestic credit.

Domestic Market Operation

CBSI on behalf of the Government continued to facilitate the auction of the treasury bills. A total of $9 million was floated in June, an unchanged amount from the previous month. However, total bids worth $21 million were received, of which only $9 million was accepted and the rest was rejected. The weighted average yields for all the maturity terms dropped this period. The 56 days rate went down from 0.50% to 0.47%, 91 days from 0.48% to 0.46% and 182 days from 1.48% to 1.47%.

CBSI floated Bokolo bills went up from $500 million in May to $535 million. The commercial banks responded positively resulting in a full subscription of $535 million in contrast to the $100 million under subscription a month ago. The average yield for the 28-day bill increased to 0.53% from 0.48% in the previous month.

II. BALANCE OF PAYMENTS

Trade in goods

The provisional balance on trade in goods in June 2013 recorded a deficit of $39 million. This worsened from a revised deficit of $21 million in the previous month. The negative result came from a massive fall in exports by 25% to $216 million (f.o.b) compared to a 17% decline in imports (f.o.b) to $255 million during the month.

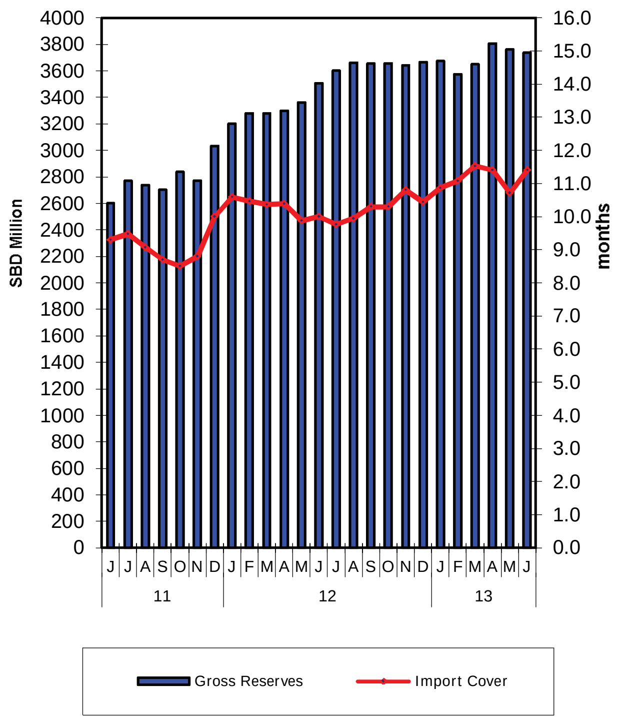
The sizeable decline in total exports was largely driven by a significant 50% drop in round log exports to $61 million due to subdued production during the month. In addition, fish exports also dropped slightly by 3% to $41 million. This was mainly attributed to lower volume of fish catch although fish international prices increased during the month. Palm oil exports fell by 4% to $18 million due to lower receipts for palm kernel oil products that offsetted the rise in export receipts for crude palm oil. Timber fell by 3% to $7 million and other exports considerably dropped as expected from $21 million to $4 mil lion due to one-off shipments of beech-de-mer in the previous month. Meanwhile, mineral receipt increased by 6% to $66 million despite the drop in gold prices and was attributed to higher volume of gold exported. Copra and coconut oil exports jumped by 59% to $10 million and cocoa exports more than doubled to $7 million from $3 million. The rebound in the two agricultural cash crops stemmed from higher export volumes and aided by favourable export prices.

The 17% fall in total imports resulted from a decline in all the major import categories except for food imports which rose 34% to $73 million due to higher imports of cereal food products. Mineral fuels dropped by 42% to $61 million following a bulk consignment in the previous month. 'Machinery and transport equipment' dropped by 24% to $62 million, basic manufactures by 18% to $41 million, and chemicals by 7% to $22 million. On the other hand, miscellaneous items remained at $20 million.

Gross Foreign Reserves

The gross foreign reserves fell marginally at the end of June by 1% to $3,736 million from a revised $3,762 million registered in the previous month. This was due to lower receipts from exports and contributed by exchange revaluation losses. This level of reserves is sufficient to cover 11.4 months of imports.

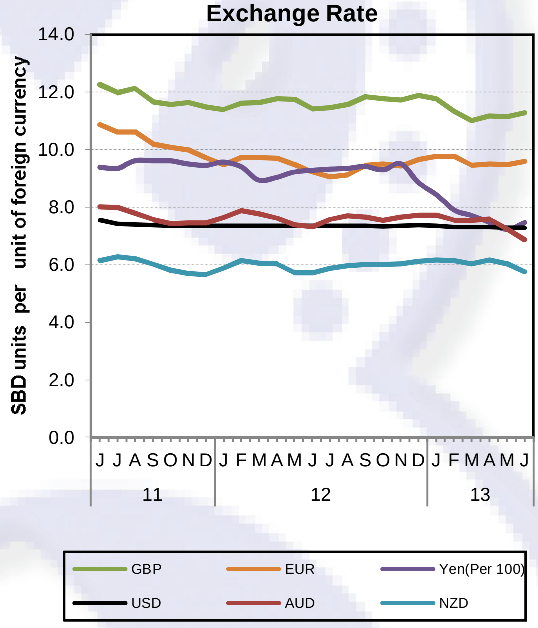
Figure 1
Gross Foreign Reserves



Exchange rates

The Solomon Islands dollar (SBD) on average during the month against the United States dollar remained at $7.28 per USD. The SBD however appreciated by 5.3% against the Australian dollar to $6.87 per AUD, and 4.8% against the New Zealand dollar to $5.75 per NZD. On the other hand, the SBD depreciated by 1.1% against the British pound to $11.27 per GBP, 3.2% against the Japanese yen to $7.45 per 100JPY, and 1.3% against the EURO to $9.60 per EUR.

Figure 2
Exchange Rate



III. GOVERNMENT FINANCE

Preliminary figures showed the Government recorded another fiscal deficit of $24 million in May following the $9 million deficit in the previous month. This outcome was driven by Government spending that rose 3% to $240 million combined with the 4% fall in total revenue (including grants) to $216 million.

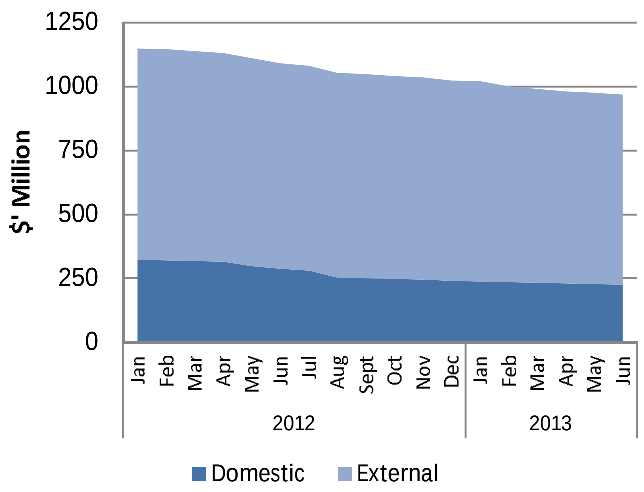
The fall in total revenue reflected weak revenue collections across all major revenue agencies except for nontax revenue, which rose by 17% to $7 million. Customs and Excise Division (CED) collection fell by 10% to $67 million on the back of falls in log export duties and import duties. Collection from Inland Revenue Division (IRD) also slipped from $134 million in April to $132 million due to the 25% fall in private sector PAYE and 16% decline in total withholding tax. Donor inflows went down by 20% to $10 million during the period.

The rise in Government expenditure was mainly driven by payroll, development expenditure and budget support spending. Payroll rose by 28% to $67 million, owing in large part to the re-leveling exercise conducted since February 2013. Development expenditure went up to $80 million from $50 million in the previous month. This marked increase was seen in the Ministry of Communication, Aviation and Meteorology; Ministry of Development Planning and Aid Coordination; and the Ministry of Infrastructure Development. Budget support spending also grew by 2% to $23 million in May. Meanwhile purchase of goods and services, declined by 35% to $69 million as a result of the general decline in spending by all the ministries.

SIG Debt

Total public debt stock fell by $7 million to $968 million as the Government continued to service its principle and interest obligations for June. The external debt stock fell to $743 million from $747 million and domestic debt stock decreased to $225 million from $228 million in May.

Figure 3. Public Debt



IV. REAL ECONOMY

Logs

Log production severely declined by half to 74,368 cubic meters from 148,237 cubic meters in the previous month. The exceptionally low output this month was due to heavy rainfall in the major logging provinces. In addition, a few logging companies were not able to export because of difficulties in satisfying some log export requirements. The accumulated volume produced for the first half of the year was recorded at 876,747 cubic meters, 9% below the similar period in 2012. Meanwhile, international log prices slightly rebounded by 4% to USD306 per cubic meter.

Palm Oil & Palm Kernel Oil

Fresh fruit bunches increased by 8% to 12,879 tons from 11,958 tons in the preceding month. As a result, palm oil increased to 2,804 tons while palm kernel oil recorded 291 tons. However, year-on-year comparisons showed palm oil and palm kernel oil went down by 8% and 15% respectively. Comparing against the first six months a year ago, year to June palm oil output remained around the same level at 16,257 tons, while palm kernel oil went down by 10% at 1,597 tons. Contract prices for palm oil jumped significantly from USD698 per ton to USD1,082 per ton, the highest since July 2012. However, kernel oil price dropped to USD878 per ton from USD881 per ton.

Copra

Preliminary figures from CEMA showed that copra production for June rose marginally by 3% against the previous month to 735 tons. Despite the slight uptick, year to June production remained low at 5,925 tons as opposed to 15,568 ton recorded in the first half of 2012. The contracted price for copra weakened to US$397 per ton from US$415 in the previous month and US$532 twelve months ago. Despite the fall, average domestic price registered a second consecutive growth from $2.07 per kilo to $2.19 per kilo, the highest since October 2012.

Cocoa

Based on preliminary data from CEMA, cocoa production for the month shrank by 39% from a revised 449 tons in May to 279 tons. Year-to-date output reached 1,869 tons, 28% below the corresponding output to June in 2012. Contracted export price for local cocoa improved by 1% to GBP1,311 per ton from GBP1,295 per ton in the previous month. This saw domestic prices moving favourably by 5% from $11.22 per kilo in May, to $11.72 per kilo.

Fish

Fish catch in June went down by 22% to 1,102 tons compared to 1,412 tons in the previous month taking the year to date catch to 8,050 tons. This led the year-to-June catch to fall by 30% against the similar period a year ago. However, the average international fish price continued to rebound by 4% to USD2,307 per ton in June from USD2,215 per ton in the preceding month.

Minerals

Mineral output recovered strongly this month after gold export declined 11% a month ago. Gold export volumes bounced back by 11% to 6,405 ounces. Similarly, silver output improved by 15% to 2,496 ounces. However, cumulative export volumes for gold and silver fell 29% and 40% against total output for the corresponding six months in the previous year. International prices for gold deteriorated again in June by 5% to USD1,343 per ounce compared to USD1,414 per ounce a month ago. Similarly, international price for silver contracted by 8% to USD21.11 per ounce from USD23.04 per ounce in the previous month.

Inflation

Inflation rate for June was recorded at 5.2%, a slight uptick from 5% in the previous month. The main drivers were mainly food which have contributed 2.3%, followed by housing utilities with 1.2%, transport and communication 0.7% whilst the rest of the other categories accounted for the remaining 1.1% of the overall inflation rate.

In terms of domestic price movements, the domestic Consumer Price Index (CPI) has increased in June by 7.6% from 7.1% in May, also explaining most of the movement in the overall consumer price index. The main driver in the domestic CPI was food which has gone up by 3%, followed by housing utilities with 2.2% increase and 1.1% increase in transport and communication whilst the rest rose by less than 1%. On the other hand, imported CPI retreated in June to 1.4% from 1.8% in the previous month with food contribution slowing down from 0.9% to 0.7% while housing utilities, transport & communication and drinks & tobacco categories showed no price changes during the month.

Figure 4.
Honiara Inflation Rate