

Monthly Economic Bulletin

Data published in this bulletin are subject to revision and the Bank cannot guarantee the accuracy of the information obtained from outside sources.

Content	Page
I. Monetary Developments	1
II. External Conditions	
III. Government Finances	
IV. Domestic Production	2

I. MONETARY DEVELOPMENTS

Broad money supply (M3) decreased by 1% to \$3,285 million in June 2014 despite recording a year-on-year growth of 11%. Driving the decrease in M3 was a 1% drop to \$2,563 million in narrow money (M1) combined with the 1% fall to \$722 million in other deposits (savings and time). The fall in M1 resulted from a decline in demand deposits whilst the decrease in other deposits was driven by a fall in time deposits. Meanwhile, net foreign assets (NFA) increased by 2% to \$3,903 million attributed mainly to donor inflows and export earnings. Over the month, net credit to government rose significantly by 14% to record a net liability position of \$1,389 million owing mainly to the increase in government deposits held with CBSI. Conversely, credit to private sector, predominantly from the Other Depository Corporations fell slightly by 0.5% to reach \$1,456 million albeit recording a year-on-year growth of 7%.

Mirroring the larger build-up of government deposits, total liquidity of the banking system fell by 6% to \$1,313 million, causing excess liquidity to decline by 8% to \$972 million in June.

Domestic Market Operations

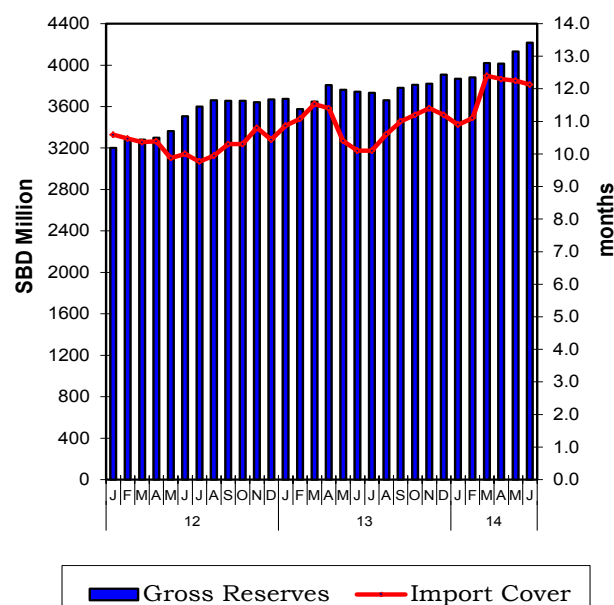
The Bokolo bills stock Central Bank issued and absorbed by commercial banks remained flat at \$710 million in June with weighted average yield for 28 days falling slightly from 0.61% in May to 0.60% in June. Meanwhile, government treasury bill weighted average yields for 56, 91, and 182 days declined for the second consecutive month from 0.15% to 0.14%, 0.15% to 0.13%, and 1.14% to 1.01%, respectively over the month.

II. EXTERNAL CONDITIONS

The trade position in June worsened to a provisional deficit of \$116 million from a deficit of \$52 million (revised) in the previous month. This was largely driven by the 10% fall in exports to \$210 million (f.o.b) and the increase in imports by 15% to \$326 million (f.o.b) during the period. The decline in exports was mainly due to a decline in round logs and timber exports, fish, and agricultural commodities on the back of lower exports volumes. The growth in imports was driven mainly by higher import payments for mineral fuel and machineries, which more than offset the declines in food, basic manufactures, and all other imports.

Gross foreign reserves grew by 2% to \$4,218 million in June, sufficient to cover 12.1 months of imports of goods and services. This was due mainly to higher donor and fishing licensing inflows, which outweighed the exchange rate revaluation losses incurred as the Solomon Islands dollar (SBD) appreciated against all major currencies except the Australian dollar. During the month, the SBD appreciated against the USD by 0.71% to \$7.30 per USD but remained stable against the Australian dollar at \$6.84 per AUD.

Figure 1
Gross International Reserve & Import Cover



III. GOVERNMENT FINANCE

The Government recorded a preliminary fiscal surplus of \$14 million in May following the \$72 million deficit posted in April. The positive outcome was driven by higher revenue collection combined with lower spending against the previous month.

Total revenue increased by 17% against the previous month to \$196 million but underperformed against the budget by 27%. The month-on-month increase was attributed to increases in Inland Revenue Division and Customs and Excise Division collections, whilst Non-Tax Revenue receipts remained broadly unchanged.

Meanwhile, total expenditure declined by 24% against the previous month to \$182 million and down by 36% against the budget. Underlining the decline were notable drops in 'other charges' and payroll spending that outstripped the increase in development expenditure.

Total public debt stock at the end of June stood at \$908 million, equivalent to 13% of nominal gross domestic product. Of the total debt, domestic debt accounted for \$192 million and external debt at \$716 million.

IV. DOMESTIC PRODUCTION

Domestic production, proxied by the monthly production index, witnessed a fall in June by 16% from a revised 22% increase in the previous month. The fall was due to a decline across all commodities over the month. Production in all palm oil products plunged by more than 25%, owing to low cropping season. Log production underperformed by 15% as opposed to increases in the previous month. On the upside, with the exception of round log, palm oil and gold prices, prices for all other major Solomon Islands exports remained favourable. International fish prices rebounded significantly by 30% after recording consecutive falls since January this year.

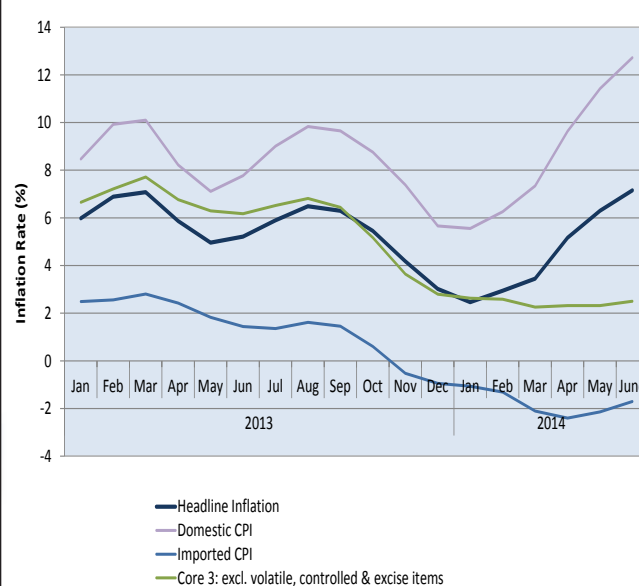
Inflation

The headline inflation rate for June, as measured by the three months moving average (3mma), rose further to 7.2% from 6.3% in the previous month. This was driven mainly by domestic inflation, rising from 11.4% to 12.7%, whilst the imported component further declined from -2.1% to -1.7%, albeit at a slower rate. The surge in domestic inflation was attributed to significant price hikes in drinks and tobacco by almost 35%, a substantial pick-up in food prices of 16%, clothing and footwear and housing utilities rising by more than 10%, transport and recreation each increasing by 2% and 5%, respectively.

Despite this, the underlying inflation rate¹ only marginally increased from 2.3% in May to 2.5% in June. Meanwhile, month-on-month inflation for June slightly fell from -0.4% to -0.3% indicating easing price pressures during the month.

In terms of contributions to the overall headline inflation rate of 7.2%, food accounted for 3%, followed by housing utilities with 1.7%, transport and communication with 0.9%, and drinks and tobacco, and recreation services accounting for 0.4% each. Household operations contributed 0.3% while clothing and footwear and miscellaneous items accounted for the remainder.

Figure 2
Headline and Underlying Inflation Rate



1. All CPI excluding Volatile items, price control and excise items

Solomon Islands Key Economic Indicators

		Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14
Consumer Price Index (% change)	Headline (3mma)	2.5%	2.9%	3.4%	5.2%	6.3%	7.2%
	Underlying (3mma): core 3	2.6%	2.6%	2.3%	2.3%	2.3%	2.5%
	Month-on month	3.0%	2.7%	0.3%	3.9%	-0.3%	-0.4%
Trade ¹ (eop)	Exports (\$ millions)	315	206	234	188	233	230
	Imports (\$ millions)	326	241	270	259	284	326
Exchange rates (mid-rate, monthly average)	SBD per USD	7.36	7.36	7.36	7.36	7.35	7.30
	SBD per AUD	6.52	6.59	6.67	6.85	6.84	6.84
	SBD per NZD	6.09	6.09	6.26	6.35	6.38	6.29
	SBD per GBP	12.12	12.17	12.19	12.31	12.39	12.35
	SBD per JPY	7.08	7.21	7.20	7.18	7.22	7.16
	SBD per EUR	10.03	10.04	10.21	10.16	10.11	9.93
Gross Foreign Reserves (eop)	\$ millions	3,875	3,881	3,957	4,015	4,138	4,218
Liquidity ² (eop)	Total Liquidity (\$ millions)*	1,349	1,299	1,257	1,294	1,397	1,313
	Excess Liquidity (\$ millions)*	1,021	970	919	952	1,059	972
Money and Credit ² (eop)	Narrow Money (\$ millions)*	2,577	2,587	2,457	2,540	2,596	2,563
	Broad Money (\$ millions)*	3,200	3,203	3,193	3,263	3,329	3,285
	Private Sector Credit (\$ millions)*	1,436	1,436	1,468	1,467	1,463	1,456
Interest rates (weighted average yield)	28-day Bokolo Bills Rate	0.59%	0.61%	0.60%	0.61%	0.61%	0.60%
	56-day Treasury Bills Rate	0.25%	0.22%	0.21%	0.18%	0.15%	0.14%
	91-day Treasury Bills Rate	0.18%	0.46%	0.19%	0.16%	0.15%	0.13%
	128-day Treasury Bills Rate	1.04%	1.08%	1.14%	1.28%	1.14%	1.01%
Commodity Prices (monthly average)	Round logs (US\$/m3)	287	292	291	290	293	292
	Gold - (US\$/oz)	1,224	1,300	1,336	1,298	1,289	1,279
	Palm Oil - (US\$/tonne)	865	908	961	911	893	858
	Fish - (US\$/tonne)	1,560	1,417	1,411	1,405	1,213	1,571
	Copra - (US\$/tonne)	848	915	926	905	930	934
	Cocoa - (US\$/tonne)	2,820	2,990	3,040	3,050	3,030	3,170

¹ Value in terms of free on board (FOB)

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