

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Broad money supply (M3) increased by 2% to \$3,329 million at the end of May, resulting in year-on-year growth of 4%. Driving the increase in M3 was a 2% increase to \$2,596 million in narrow money (M1) combined with the 1% to \$732 million rise in other deposits (savings and time). Growth in M1 resulted from an acceleration in currency in circulation and demand deposits whilst growth in other deposits was driven by a rise in time deposits. Increase in net foreign assets (NFA), mainly from donor inflows and export earnings, also attributed to growth in M3.

Over the month, net credit to government rose modestly to net liabilities of \$1,238 million owed mainly to an increase in government deposits held with both CBSI and the commercial banks. Conversely, credit to private sector, mainly from the Other Depository Corporations (ODC's) fell slightly by 0.3% to reach \$1,463 million but year-on-year, grew by 6%. Mirroring the increase in the NFA of the Central Bank and falling private sector credit, total liquidity of the banking system rose 8% to \$1397 million, triggering excess liquidity to increase by 10% to \$1,059 million in May.

#### Domestic Market Operations

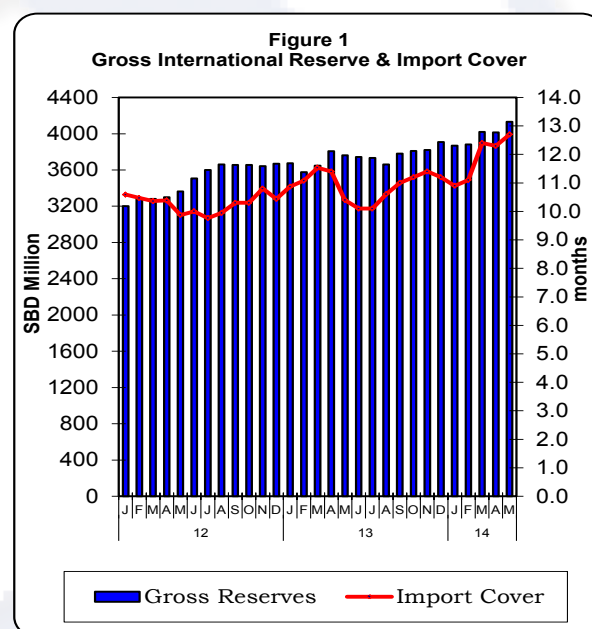
Central Bank Bokolo bills stock issued and absorbed by commercial banks remained flat at \$710 million in May with weighted average interest (WAY) for 28 days at 0.61%, stable to that of April. Meanwhile, government treasury bill weighted average yields (WAY) for 56, 91, and 182 days all declined from 0.18% to 0.15%, 0.16% to 0.15%, and 1.28% to 1.14%, respectively over the month of May.

### II. EXTERNAL CONDITIONS

The provisional trade position narrowed to a deficit of \$43 million in May from a higher deficit of \$71 million in the previous month. This resulted from a larger increase in exports (f.o.b) by 29% to \$242 million relative to a smaller 10% rise to \$284 million (f.o.b) in imports. The rebound in exports was driven by increases in all the traditional export

commodities, particularly log, fish, and palm oil on an account of higher export volumes and prices. There were no gold exports during the month following the on-going halt in mining operations. The rise in imports, on the other hand, came from all import categories except for fuel imports.

Gross foreign reserves increased by 3% to \$4,138 million in May, sufficient to cover 12.7 months of imports of goods and services. Growth was largely driven by donor inflows although reduced by exchange rate revaluation losses as the Solomon Islands dollar appreciated against the USD by 0.1% to \$7.35 per USD and AUD by 0.2% to \$6.84 per AUD. The Solomon Islands dollar also appreciated against the euro but depreciated against the Pound Sterling, Japanese Yen, and the New Zealand dollar.



### III. GOVERNMENT FINANCE

Preliminary figures for April showed the Government registered a large fiscal deficit of \$72 million, compared to the \$18 million surplus recorded a month earlier. The negative outcome reflected higher expenditure over revenue collection, albeit both lower than the previous month.

Total revenue declined by 39% to \$169 million on the previous month and down by 36% against the budget of \$265 million. The underperformance was largely attributed to a 30% fall in Inland Revenue Division receipts at \$105 million driven by notable decline in company tax and private sector PAYE. Customs and Excise Division collections remained relatively flat at \$59 million prior to March. Meanwhile, total expenditure fell by 7% to \$240 million but remained contained within the budget by 16%. The reduction in government spending against March mirrored sizable reductions in payroll, budget support, and development spending despite a large increase in other charges. Total public debt stock at the end of May stood at \$920 million, equivalent to 14% of nominal gross domestic product. Of the total debt, domestic debt accounted for \$195 million and external debt at \$725 million.

#### IV. DOMESTIC ECONOMY

Domestic activities, proxied by the CBSI monthly production index, witnessed a slight increase to 40 points from 38 points in April, explained by improved production in major commodities over the month.

Palm oil production surged by more than 140% owing to good yielding season, whilst log production and fish catch outpaced previous month by 21% and 8%, respectively.

Copra output remained steady due to continued improvement in both contracted and domestic prices. On the flipside, cocoa production fell by 15% in May as the sector struggled to recover from the adverse weather conditions as well as no gold output since the closure of Goldridge mining company last month.

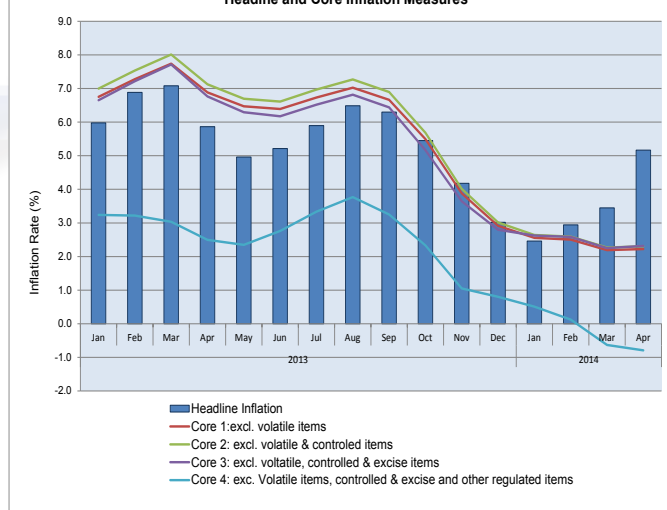
With the exception of fish and palm oil prices, prices for all other major commodities, particularly international price for log, contract prices received by local cocoa and copra farmers and palm kernel oil remained favourable during the month.

#### Inflation

The headline inflation rate for April, as measured by the three months moving average (3mma), rose further to 5.2% from 3.4% in the previous month. This was driven mainly by domestic inflation, rising from 7.3% to 9.6%, whilst the imported component further declined to minus 2.4%. The surge in domestic inflation was attributed to significant price hike in drinks and tobacco by almost 50%, clothing and footwear, and housing utilities rising by more than 10%, food and recreation each increasing by 4%, and transport with 3%.

Conversely, the underlying inflation rate, which excludes the volatile, controlled and excise items remained low at 2.3%. Of the overall 5.2% inflation, food and housing utilities accounted for the majority shares with 2.1% and 1.2%, respectively whilst other remaining item categories accounted for the remainder. Meanwhile, month-on-month inflation for April rose to 3.9% from 0.3% indicating more pronounced price pressures during the month.

Figure 2  
Headline and Core Inflation Measures



### Solomon Islands Key Economic Indicators

		Jan 14	Feb 14	Mar 14	Apr 14	May 14
<b>Consumer Price Index</b> (% change)	Headline (3mma)	2.5%	2.9%	3.4%	5.2%	-
	Underlying (3mma): core 3	2.6%	2.6%	2.3%	2.3%	-
	Month-on month	3.0%	2.7%	0.3%	3.9%	-
<b>Trade</b> <sup>1</sup> (eop)	Exports (SBD\$ millions)	315	206	234	188	242
	Imports (SBD\$ millions)	326	241	270	259	284
<b>Exchange rates</b> (mid-rate, monthly average)	SBD per USD	7.36	7.36	7.36	7.36	7.35
	SBD per AUD	6.52	6.59	6.67	6.85	6.84
	SBD per NZD	6.09	6.09	6.26	6.35	6.38
	SBD per GBP	12.12	12.17	12.19	12.31	12.39
	SBD per JPY	7.08	7.21	7.20	7.18	7.22
	SBD per EUR	10.03	10.04	10.21	10.16	10.11
<b>Gross Foreign Reserves</b> (eop)	SBD\$ millions	3,875	3,881	3,957	4,015	4,138
<b>Liquidity</b> <sup>2</sup> (eop)	Total Liquidity (SBD\$ millions)*	1,349	1,299	1,257	1,294	1,397
	Excess Liquidity (SBD\$ millions)*	1,021	970	919	952	1,059
<b>Money and Credit</b> <sup>2</sup> (eop)	Narrow Money (SBD\$ millions)*	2,577	2,587	2,457	2,540	2,596
	Broad Money (SBD\$ millions)*	3,200	3,203	3,193	3,263	3,329
	Private Sector Credit (SBD\$ millions)*	1,436	1,436	1,468	1,467	1,463
<b>Interest rates</b> (weighted average yield)	28-day Bokolo Bills Rate	0.59%	0.61%	0.60%	0.61%	0.61%
	56-day Treasury Bills Rate	0.25%	0.22%	0.21%	0.18%	0.15%
	91-day Treasury Bills Rate	0.18%	0.46%	0.19%	0.16%	0.15%
	128-day Treasury Bills Rate	1.04%	1.08%	1.14%	1.28%	1.14%
<b>Commodity Prices</b> (monthly average)	Round logs (US\$/m3)	287	292	291	290	293
	Gold - (US\$/tonne)	1,224	1,300	1,336	1,298	1,289
	Palm Oil	865	908	961	911	893
	Fish	1,560	1,417	1,411	1,405	1,213
	Copra (US\$/tonne)	848	915	926	905	930
	Cocoa	2,820	2,990	3,040	3,050	3,030

1 Value in terms of free on board (FOB)

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