

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Broad money supply (M3) marginally fell by 1% to \$3,266 million at the end of November 2014, while year-on-year comparison registered a growth of 5%. The fall during the month was driven by narrow money (M1), which declined marginally by 0.2% to \$2,492 million and other deposits by 3% to \$773 million. The latter reflected movements in both savings and time deposits. The fall in M1, however, came from a 1% decrease in demand deposits to \$1,946 million, despite a rise in currency in circulation by 2% to \$547 million. Meanwhile, total net foreign assets (NFA) of the banking system fell this month by 3% to \$3,491 million.

Net credit to government (NCG) fell by 4% to reach the net liability position of \$1,272 million from the decline witnessed in the previous month. The fall was due mainly to drawdowns on government deposits held with CBSI. Private sector credit (PSC) increased for the fourth consecutive month to \$1,629 million, mainly from ODCs, with year-on-year growth reaching 13%. Mirroring the increase in private sector credit, total liquidity of the banking system fell by 8% to \$1,239 million, leading to a corresponding fall in excess liquidity by 11% to \$899 million in November.

Domestic Market Operations

The total Bokolo Bills stock CBSI floated in November remained unchanged at \$710 million, of which \$600 million was absorbed, the same amount as in the previous month. The Bokolo Bills weighted average yield (WAY) for 28 days remained at 0.61%. Meanwhile, the WAY of Government treasury bills for both 56, 91 and 182 days maturities increased from 0.10% to 0.28%, 0.20% to 0.49% and from 0.93% to 1.30% respectively.

II. EXTERNAL CONDITIONS

The balance on trade in goods narrowed to a provisional \$7 million deficit from the \$87 million deficit in the previous month. This resulted from a 14% increase in exports to \$260 million, while imports dropped 15% to \$268 million.

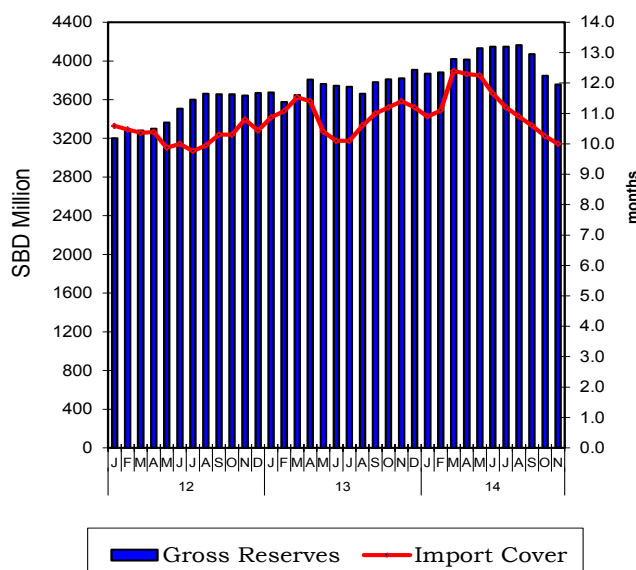
The pickup in exports was driven mainly by round logs and timber which rose 38% to \$191 million due to a higher volume shipped during the month. In contrast, fish exports fell by 7% to \$37 million and agricultural commodities by 23% to \$26 million, which was attributed to the fall in production despite the favourable movements in their world prices. Alluvial gold exports fell from \$2 million to \$1 million and all other exports slid from \$13 million to \$5 million.

The fall in imports stemmed from the decline in machineries imports by 35% to \$63 million, basic manufactures by 32% to \$35 million, and food imports by 3% to \$81 million. Meanwhile, mineral fuels payments rose by 40% to \$83 million following the lower payments seen in the previous two months and benefiting from the drop in international oil prices to below USD100 per barrel in these three consecutive months.

Gross foreign reserves fell by 2% to \$3,757 million as payments for goods and services far exceeded receipts from goods, services, and donor transfers. This level of reserves is sufficient to cover 10.0 months of imports of goods and services.

The Solomon Islands dollar (SBD) on average for the month depreciated by 0.74% against the United States dollar to \$7.48 per USD while appreciating by 0.62% against the Australian dollar to \$6.47 per AUD. The SBD also appreciated against the New Zealand dollar, Euro, Japanese yen, and the British pound during the month.

Figure 1
Gross International Reserve & Import Cover



III. GOVERNMENT FINANCE

Fiscal operation recorded a deficit of \$84 million this month compared to a deficit of \$82 million in October. The negative outturn was attributed to a

higher government spending and lower revenue collection, although, both dwindled during the month.

Total revenue received from operating activities waned by 11% to \$170 million and was 38% within the monthly projection. The fall against previous month was driven by a 10% drop in tax revenue to \$165 million coupled with a \$2 million decline in nontax revenue to \$5 million. Similarly, total expenditure was 7% down against the previous month to \$254 million. This outcome over the previous month was due to a 16% fall in recurrent spending to \$197 million, owing to declines in wages and salaries by 29% to \$68 million and purchase of goods and services by 2% to \$107 million. Development expenditure, however, rose by 47% in November to \$56 million and was 2% above the monthly budget.

Total stock of debt outstanding fell marginally to \$868 million in November from \$872 million a month ago. The fall was related to debt repayment of \$5 million to both the external and domestic creditors. Meanwhile, this debt position remained unchanged at 13% of GDP.

IV. DOMESTIC PRODUCTION

The monthly production index rebounded by 15% to 88 points in October reflecting mainly a 37% surge in log production and sustained growth in palm oil and kernel oil by 6% and 5% respectively. These increases more than offset the 8% slowdown in fish catch over the month. Meanwhile, copra and cocoa productions were not available for reporting.

Year-to-November output for all commodities already outperformed the corresponding period in 2013. In terms of prices, international prices for November showed positive movements for most export commodities with the exception of fish and cocoa prices.

Inflation & Honiara Fuel Prices

Headline inflation rate for October further eased to 5.1% compared to 5.3% in September. This was driven by domestic inflation, retreating from 9.4% to 8.7% whilst the imported component remained at negative 0.7%. The slowdown in domestic inflation was attributed to prices of food, and transport and communication categories that fell to 9.4% and 1.7% from 11.9% and 2.4% respectively. These downward movements outpaced slight increases in drinks and tobacco, housing utilities, and household operations. Meanwhile inflation rates for the other components remained unchanged.

Month-on-month inflation for October fell to negative 0.7% from 0.5%, reflecting low price pressures during the month compared to the previous month.

In terms of contribution to the overall headline inflation rate of 5.1%, food accounted for 2.1%, followed by housing utilities with 1.2%, "transport and communication" contributing 0.7%, recreation services and "drinks and tobacco" each accounting for 0.3%. Household operations and "clothing and footwear" each contributing 0.2% whilst miscellaneous items added 0.1% to inflation.

The average fuel price in Honiara continued to fall for the fourth month by 3.6% to \$10.75 per litre from \$11.16 per litre in October. The decline was driven by slight falls in all fuel types during the month, with kerosene price falling by 56 cents to \$11.46 per litre, diesel price went down by 43 cents to \$10.40 per litre and that of petrol declined by 23 cents to \$10.40 per litre.

Solomon Islands Key Economic Indicators

		Jul 14	Aug 14	Sep 14	Oct 14	Nov 14
Consumer Price Index¹ (% change)	Headline (3mma)	6.7	5.6	5.2	5.1	N/A
	Underlying (3mma): core 3	2.3	2.2	2.1	2.4	N/A
	Month-on month	-0.6	-2.1	0.3	-0.7	N/A
Trade (eop)	Exports (\$ millions)	289	313	297	288	260
	Imports (\$ millions)	335	236	263	314	268
Exchange rates (mid-rate, monthly average)	SBD per USD	7.29	7.30	7.33	7.42	7.48
	SBD per AUD	6.85	6.79	6.66	6.51	6.47
	SBD per NZD	6.35	6.16	5.99	5.84	5.83
	SBD per GBP	12.40	12.18	11.97	11.94	11.80
	SBD per 100 JPY	7.17	7.09	6.85	6.88	6.50
	SBD per EUR	9.88	9.72	9.48	9.41	9.32
Gross Foreign Reserves (eop)	\$ millions	4,148	4,164	4,071	3,847	3,757
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,323	1,615	1,564	1,347	1238.95
	Excess Liquidity (\$ millions)*	980	1,206	1,222	1,009	899.03
Money and Credit² (eop)	Narrow Money (\$ millions)*	2,548	2,568	2,538	2,497	2492
	Broad Money (\$ millions)*	3,290	3,368	3,359	3,290	3266
	Private Sector Credit (\$ millions)*	1,491	1,538	1,587	1,612	1629
Interest rates (weighted average yield)	28-day Bokolo Bills Rate	0.61%	0.61%	0.61%	0.61%	0.61%
	56-day Treasury Bills Rate	0.10%	0.10%	0.10%	0.10%	0.28%
	91-day Treasury Bills Rate	0.11%	0.10%	0.10%	0.20%	0.49%
	128-day Treasury Bills Rate	0.86%	0.69%	0.58%	0.93%	1.30%
Commodity Prices (monthly average)	Round logs (US\$/m3)	293	289	278	276	276
	Gold - (US\$/oz)	1,311	1,295	1,237	1,222	1175
	Palm Oil - (US\$/tonne)	841	766	709	722	728
	Fish - (US\$/tonne)	1,327	1,775	1,588	1,445	1367
	Copra - (US\$/tonne)	861	770	785	769	795
	Cocoa - (US\$/tonne)	3,200	3,270	3,220	3,110	2910

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

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