

Monthly Economic Bulletin

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I. MONEY AND BANKING

Money Supply

Total money supply (M3) increased by 2% to \$3,053 million at the end of October 2013, following a 1% fall in the previous month. The rise was driven by both narrow money (M1) and other deposits (savings and time), which increased by 2% to \$2,410 million and 2% to \$643 million, respectively. The increase in M1 came from the 1% acceleration in currency in circulation and 2% increase in demand deposits held at the commercial banks at the end of the month.

Net Foreign Assets

Total net foreign assets (NFA) of the banking system rose by 3.2% to \$3,659 million this month, following a 3% growth in September. The increase in NFA was mainly driven by commercial banks' NFA that jumped from \$19 million over the month to \$106 million, reflecting increases in their foreign assets over their foreign liabilities. Meanwhile, CBSI's NFA went up marginally by 0.7% to \$3,553 million this period compared to the 3% rise in the previous month.

Domestic Credit

Net domestic credit declined by 13% to reach \$91 million from \$105 million in the previous month. The fall was influenced largely by CBSI's net credit to government (NCG) which moved from net liabilities of \$1,201 million in September to net liabilities of \$1,214 million this month. This resulted from a continuous build-up of government deposits in the banking system during the period. Meanwhile, private sector credit remains relatively unchanged at \$1,404 million in October.

Liquidity

Total liquidity in the banking system fell by 3% to \$1,275 million, continuing the trend that started since July 2013. The decline was mainly attributed to an increase in the net credit to government, resulting from an increase in government claims held with CBSI. In addition to that, the increasing Bokolo bills volume CBSI issued also lessened the call account balances of commercial banks held with CBSI. Hence, free liquidity went down further by 3% to \$1,059 million in October.

Domestic Market Operations

CBSI, on behalf of the Government, continues to facilitate the auction of treasury bills. In October 2013, a total of \$11 million worth of treasury bills were floated in the domestic market, an increase of \$3 million from the previous month. Total bids of around \$25 million were received, of which \$11 million were accepted and the rest rejected. The weighted average yield for the maturity terms of 56, 91 and 182 days continued to drop further this month from 0.42%, 0.39%, and 1.30% to 0.29%, 0.34%, and 1.21%, respectively.

Also during this month, CBSI floated \$610 million worth of the 28 days Bokolo bills. Of this amount, commercial banks absorbed \$525 million with a weighted average yield of 0.55% from 0.54% a month ago.

II. BALANCE OF PAYMENTS

Trade in Goods

The provisional balance of trade in goods narrowed to a deficit of \$36 million from a deficit of \$88 million in the previous month. The improvement was largely driven by a 22% rise in

exports (f.o.b) to \$278 million and a 1% decline in imports (f.o.b) to \$315 million during the month.

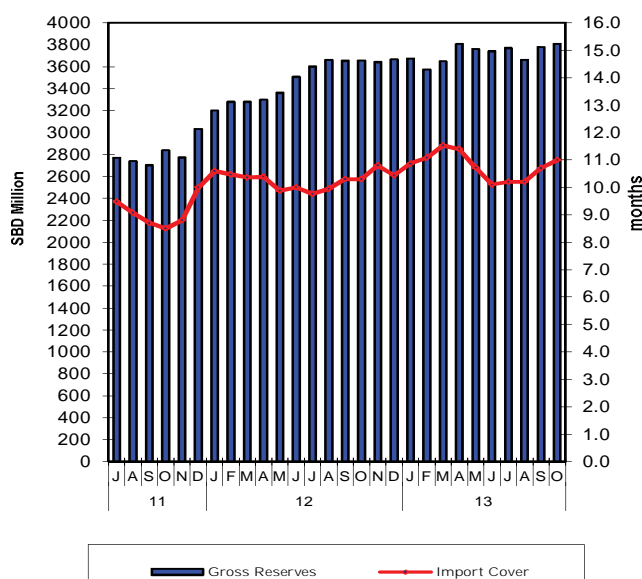
The growth in exports represented positive developments across all major export commodities except for copra and cocoa. Exports of round logs grew significantly by 30% to \$148 million and mineral export receipts went up by 18% to \$52 million on the back of higher exports volume during the quarter. Fish exports rose by \$2 million to \$32 million due to higher fish catch despite the fall in international fish prices. Palm oil and kernel oil exports receipts accelerated to \$19 million from \$16 million resulting from the increase in volume exported and favourable international prices. Sawn timber more than doubled from \$4 million to \$9 million due to higher export volumes. Other exports and re-exports also increased to \$5 million and \$4 million, respectively. Meanwhile, copra and coconut oil exports dropped sharply from \$10 million to \$3 million, whilst cocoa exports dipped marginally from \$6 million to \$5 million, both driven by the decline in export volumes during the month.

The fall in imports during the month was primarily due to the decline in import payments (c.i.f) for mineral fuels and crude materials. Mineral fuel import payments dropped significantly by 36% to \$77 million as bulk imports were made in the previous month. Crude materials also fell from \$6 million to \$3 million during the period. On the other hand, food imports grew by 25% to \$79 million, machineries and transport equipment went up by 17% to \$90 million, and basic manufactures rose by 10% to \$48 million during the month. Miscellaneous items also increased by \$12 million to \$27 million whilst chemicals grew marginally by \$1 million to \$20 million during the month.

Gross Foreign Reserves

Gross foreign reserves grew marginally by 1% to \$3,809 million in October. This was mainly due to the revaluation gains emanating from the depreciation of the Solomon Islands dollar against its two main invoicing currencies, the USD and AUD during the month. This level of reserves is sufficient to cover 11.0 months of import cover.

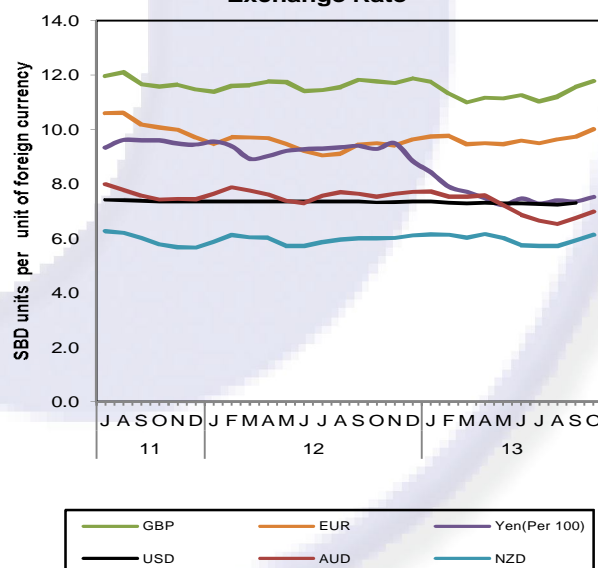
Figure 1
Gross International Reserve & Import Cover



Exchange rate

The Solomon Islands dollar (SBD) weakened against the United States dollar and Australian dollar during the month. The SBD depreciated against the United States dollar by 0.7% to \$7.36 per USD and against the Australian dollar by 3.2% to \$6.76 per AUD. The SBD also depreciated against all other trading partners' currencies. It depreciated against the New Zealand dollar by 3.4% to \$6.13 per NZD, 2.7% against the Euro dollar to \$10.02 per EUR, against the British pound by 1.9% to \$11.79 per GBP and 2.1% against the Japanese Yen to \$7.52 per 100JPY.

Figure 2
Exchange Rate



III. GOVERNMENT FINANCE

Preliminary figure for September showed the overall fiscal position (including grants) rebounded to a surplus of \$26 million following three consecutive months of deficit since June this year. The positive outturn was largely driven by higher tax collection, which increased total revenue by 27% to \$248 million. Total expenditure, however, fell by 10% to \$222 million. Meanwhile, public debt stock at the end of October remained broadly unchanged at \$969 million.

Revenue

The strong revenue collection in September was attributed to the usual higher end of quarter collection by the Inland Revenue Division (IRD). IRD collection increased by 62% to \$185 million, following a \$49 million surge in company tax to \$58 million, \$13 million increase in Government PAYE tax to \$23 million and a \$9 million rise in private sector PAYE tax to \$30 million. The surge in company tax was expected given all quarterly provisional tax obligations and income tax arrears for the month were due for settlement. Driving the increase in Government PAYE was a one-off lump sum payment of \$19 million of which around \$18 million relates to back-dated payments. However, total withholding tax was down by 15% to \$13 million.

Customs and Excise Division (CED) collection in September, on the other hand, slipped from \$69 million in the preceding month to \$58 million. This resulted mainly from the 13% fall in log duties to \$31 million and the 17% decline in import duties to \$15 million. Excise duties and export duties fell insignificantly during the period to \$11 million and \$0.5 million respectively.

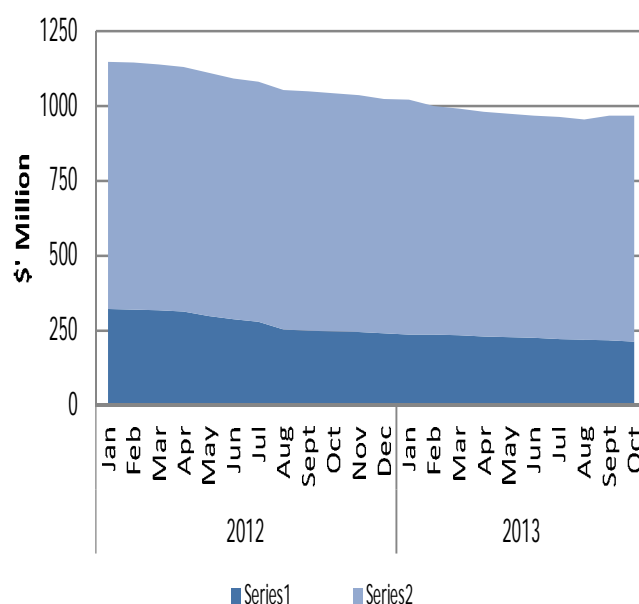
Non tax revenue (NTR) received from other Government ministries also fell from \$11 million in the previous month to \$6 million. The drop mainly reflected subdued collections from the Ministry of Fisheries and Marine Resources.

Expenditure

Total government expenditure dropped by 10% in September to \$222 million, following the 25% drop in the previous month. The fall reflected measures the Government undertook to contain expenditures particularly other charges within manageable levels. Although total spending continued to show a decline since last month, current month's expenditure was 2% above the \$217 million expected for the month.

Payroll fell by 5% against the previous month to \$62 million. This brings the year to date (YTD) payroll cost to \$540 million as opposed to the YTD budget of \$547 million. Spending on purchases of goods and services declined by 4% to \$81 million and development expenditure by 12% to \$63 million.

Figure 3. Public Debt



SIG Debt

Total public debt stock at the end of October remained largely unchanged at \$969 million. This reflected the depreciation of SBD against debt denominated currencies portfolios. The debt-to-GDP ratio remained unchanged at 16% same as the previous month. Meanwhile, debt repayments during the month also remained at \$9 million, 4% higher than the debt repayment schedule.

IV. DOMESTIC ECONOMY

Logs

Log exports as a proxy to production increased markedly by 30% to 185,419 cubic meters in October following a 22% fall in the previous month. The current output was the second highest for the year behind the peak volume in April. Comparing year-on-year basis, this output was 5% above the same month a year ago. Despite the increase, year-to-October log output underperformed against the same period last year by 7% to 1.54 million cubic meters.

In terms of prices, the average international price for logs rebounded slightly by 1% to USD304 per cubic meter from USD300 per cubic meter a month ago. However, this price level was 9% below the highest price of USD334 per cubic meter recorded earlier this year.

Copra

Following the lowest production of 916 tons in the previous month, copra production in October significantly improved by 33% to hit the second highest recorded output for the year at 1,216 tons. This output level was driven by relatively stronger copra prices over this month as copra is highly sensitive to price changes. On the flipside, total production to October fell significantly by 56% below the previous year to reach 10,888 tons owing to very low production in the first half of the year.

The average international price for copra continued to rise in October, albeit slowly 1% to USD663 per ton after an 11% increase in the preceding month. Meanwhile contracted export price remained unchanged at USD400 per ton. Domestic prices received by local farmers continued to improve for the sixth consecutive month, rising further by 2% to \$2.67 per kilogram to become the highest in fourteen months. This was a massive improvement from the lower prices at the beginning of this year.

Cocoa

Cocoa output for the month went down by 7% to 238 tons from a revised 256 tons in the previous month. Against the same month in 2012, this

month's production was below by almost half. Despite this, the total revised production to October stood at 4,106 tons, slightly above the same period in 2012 by 3%.

Average international prices for cocoa now reached the peak level in two years, recording another 4% improvement to USD2,731 per ton from USD2,616 per ton in September. As expected, the average contracted export prices also went up by 8% to GBP1,459 per ton, a remarkable positive swing in almost 3 years. As a result of a strong reversal in contract prices, local farmers also received a share of the positive price movement with domestic prices for the month rising by 6% to \$13.41 per kilogram compared to \$12.61 per kilogram a month ago.

Palm Oil

Palm production for October outperformed the previous month's output. Fresh fruit bunches increased by 21% to 12,904 tons. As a result, crude palm oil rose 23% to 2,922 tons. Kernel oil and meal also went up by 34% each to 312 tons and 401 tons, respectively. Despite the increase, against the same period a year ago, crude palm oil saw no change whilst kernel oil fell by 1%. Meanwhile, year-to-October production figures revealed that crude palm oil and kernel oil output were down against the corresponding period last year by 1% and 9% to 26,642 tons and 2,643 tons, respectively.

Contracted export prices for crude palm oil and kernel oil showed mixed movements this month. Export price for the latter went up by 12% to USD1,203 per ton while the former remained flat at USD875 per ton.

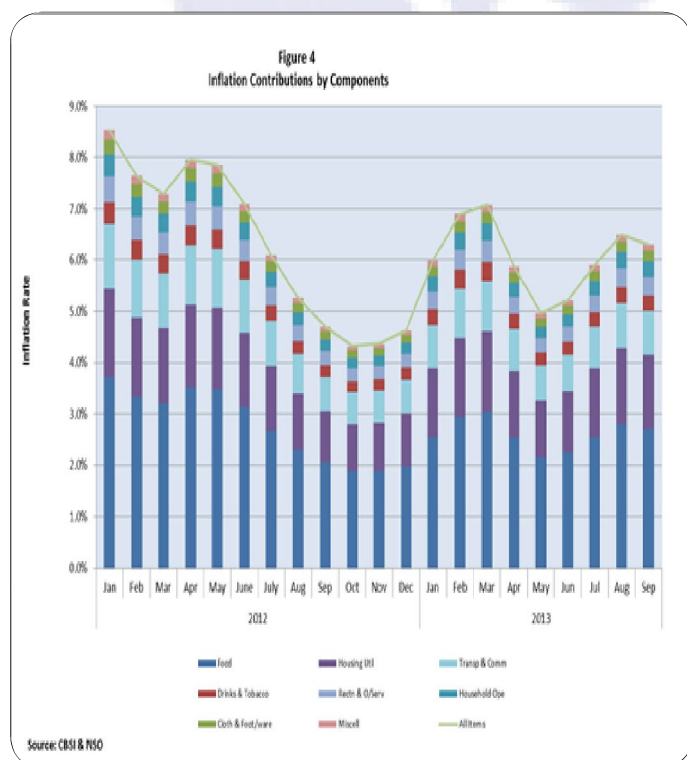
Fish

Fish catch for the month rose by 15% to 3,199 tons, reversing the 33% fall recorded last month. The strong catch outturn was due to a quick turnaround in unloading port days and increasing number of boats fishing during the month. Comparing against the same month a year ago, fish catch was below by 31% while year to date catch of 20,221 tons was 19% below the corresponding period in 2012. The average international fish price continued to deteriorate

for the fourth consecutive month, though marginally by 1% to USD1,799 per ton compared to USD1,822 per ton the month before.

Minerals

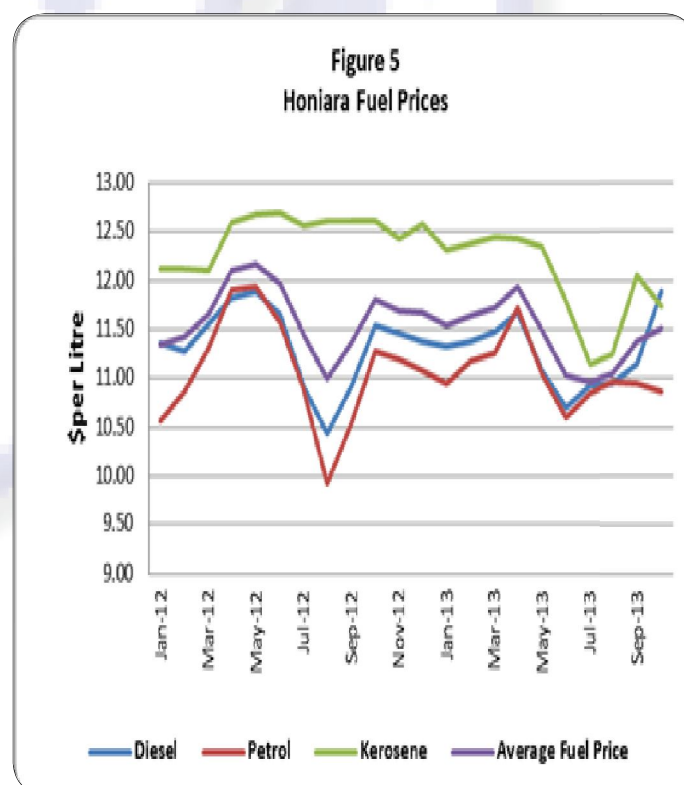
Gold output rose 20% to 5,336 ounces (oz) in October after three consecutive months of declining output. Against the same period in 2012, gold output was above by 32%. Similarly, silver output rebounded by 23% to 1,974 oz from 1,599 oz in September. However, on a year-to-date basis, gold and silver outputs fell by 17% and 27% against the same period last year to 48,939 oz and 18,767 oz, respectively. International prices for gold continued to dip this month by 2% to USD1,317 per oz. Similarly, the international price for silver fell by 3% to USD21.92 per oz, reversing the 3% uptick in the preceding month.



Inflation and Honiara Retail Fuel Prices

Headline Inflation for September as measured by the three months moving average (3mma) eased by 2 basis points to 6.3% compared to 6.5% in

August. The slowdown came from the imported food component which drove imported inflation rate downward from 1.6% to 1.5% combined with transport and communication in the domestic category which drove the domestic inflation downward from 9.8% to 9.6%. In terms of contributions to the overall inflation rate, the main driver was food inflation which accounted for 2.7%, followed by housing and utilities with 1.4%, transport and communication with 0.9%. Meanwhile the remaining components accounted for less than 0.5% each to the overall inflation for the month.



The average fuel price in Honiara rose for the third consecutive month by 1% to \$11.50 per litre from \$11.38 per litre. This was attributed to an increase in diesel price which outweighed falls in petrol and kerosene prices. Diesel price rose by 74 cents to \$11.88 per litre from \$11.14 per litre in September. Conversely, kerosene price dropped by 31 cents to \$11.74 per litre while petrol price dropped marginally by 7 cents to \$10.87 per litre.