

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Broad money supply (M3) declined by 2% to \$3,290 million at the end of October 2014, with year-on-year comparison also recorded a fall of 7%. The fall in M3 was driven by decline in both narrow money (M1) and other deposits (savings and time deposits) by 2% to \$2,497 million and 3% to \$793 million, respectively. The fall in M1 came mainly from the 3% drop to \$1,960 million in demand deposits that outweighed the 5% rise to \$537 million in currency in active circulation. Decline in other deposits merely came from a 4% fall to \$679 million in time deposits despite saving deposits remaining stable at the end of the month. Meanwhile, net foreign assets (NFA) of the banking system decreased by 5% to \$3,610 million this month, with a year-on-year fall of 1%.

Net domestic credit increased significantly by 86% to \$292 million, following a decline of 16% in the previous month. The rise was driven mainly by the fall in net credit to government (NCG) by 8% to net liabilities of \$1,320 million and increase in private sector credit (PSC) by 2% to \$1612 million. The fall in NCG was driven by the draw-down in government deposits held with CBSI while the rise in PSC mainly came from other depository corporations (ODCs). Reflecting the rise in private sector, total liquidity fell by 14% to \$1,347 million leading to a fall in excess liquidity by 18% to \$1,009 million by the end of October.

Domestic Market Operations

The total Bokolo bills stock floated in October 2014 remained unchanged at \$710 million, of which \$600 million worth of Bokolo bills were absorbed, same level as in the previous month. The Bokolo bills weighted average yield (WAY) for the 28 days continued to remain stable at 0.61% as for the last three consecutive months. Meanwhile, the WAY for government treasury bills for 56 days remained unchanged at 0.10% while the rates for 91 and 182 days maturities increased from 0.10% to 0.20% and 0.58% to 0.93%, respectively.

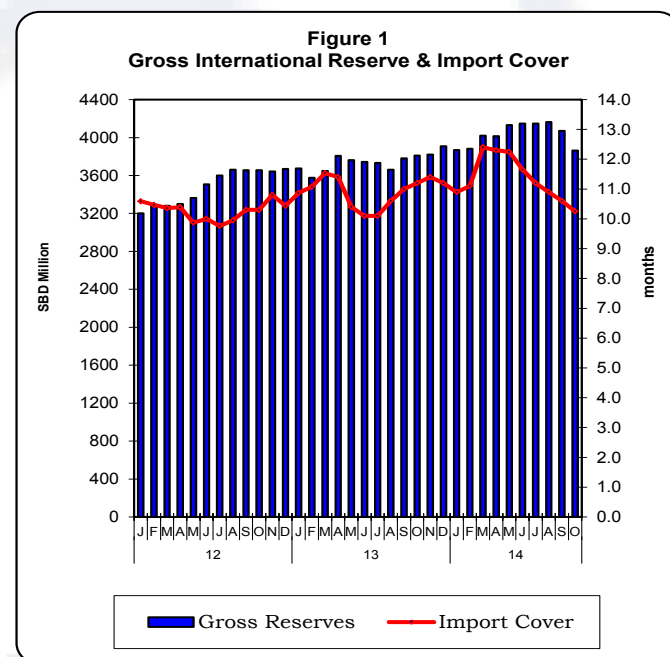
II. EXTERNAL CONDITIONS

The balance on trade in goods in October recorded a provisional deficit of \$87 million, a down turn from the revised \$34 million surplus in the previous month. This outcome was driven by 20% increase in imports to \$314 million (f.o.b) surpassing the 23% fall in exports to \$228 million (f.o.b) during the month. The drop in exports came largely from the decline in round logs and

timber exports, falling by 35% to \$139 million owing to lower export volumes. The surge in imports attributed to the increase across all import categories with the largest increase coming from food and machineries.

Gross foreign reserves declined further by 5% to \$3,863 million. This is sufficient to cover 10.2 months of imports of goods and services. This was attributed to large overseas payments during the month.

The Solomon Islands dollar (SBD) on average depreciated against the United States dollar (USD) by 1.19% to \$7.42 per USD and appreciated against the Australian dollar (AUD) by 2.27% to \$6.57 per AUD during the month. The SBD also appreciated against the New Zealand dollar, Euro and British Pound but depreciated against the Japanese Yen during the period.



III. GOVERNMENT FINANCE

Total expenditure remained higher than revenue collection, albeit both were lower than the previous month. This resulted in a fiscal deficit of \$82 million in October, the fourth consecutive monthly deficit since July.

Total revenue collection fell short against budget by 30% to \$191 million and down by 28% against the month of September. The shortfall against the previous month

was attributed to a 30% decline in tax receipts to \$184 million, following a 46% drop in tax on income, profit and capital gains. This outpaced an increase of 8% in non-tax revenue to \$7 million. Meanwhile, total expenditure fell by 9% to \$273 million against the preceding month and was 11% below budget. Compared to September, the fall was driven by large cuts to other payments by 70% to \$21 million and grants by 64% to \$8 million combined with a 7% decline in development spending to \$38 million. These more than outweighed the spending on payroll and consumption which increased by 42% to \$96 million and 13% to \$109 million, respectively during the month.

Total public debt stock at the end of October stood at \$872 million, 1% lower than September and equivalent to 13% of nominal gross domestic product. Of the total debt stock, \$181 million was in domestic debt and \$691 million in external debt.

IV. DOMESTIC PRODUCTION

The monthly production index as a proxy to domestic production retreated by 23% to 77 points in October, following three months of positive movements. The fall was driven mainly by the drastic fall in log output by 36%, outweighing increases in palm oil, kernel oil, cocoa and fish catch. Compared against the same month a year ago, outputs in log, palm oil, copra and cocoa were below except for fish catch which increased during the period.

On the upside, year-to-October for all commodities already outperformed the same level in 2013. In terms of prices, international prices for October showed negative movements for most export commodities with the exception of palm oil and kernel oil.

Inflation & Honiara Fuel Prices

Headline inflation rate continued to ease to 5.2% in September from 5.6% in August. This was driven by domestic inflation, retreating from 10% to 9.2%, whilst the imported component remained negative at -0.2%. The slowdown in domestic inflation was attributed to marginal declines in the prices of food, drinks and tobacco and the housing and utilities categories, which fell to 12%, 7.3% and 10% respectively during the month. Meanwhile, prices for the household operations category increased slightly by 2.4% whilst other categories remained unchanged.

Month-on-month inflation for September stood at 0.3%, up from negative 2.1%, indicating rising price pressures against the previous month.

In terms of contributions to the overall headline inflation rate of 5.2%, food accounted for 2.2%, followed by housing and utilities with 1.2%, transport and communications 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 fell for the third consecutive month by 2.7% to \$11.16 per litre from \$11.47 per litre. The decline was driven by slight falls in all fuel types during the month, with diesel falling by 32 cents to \$10.84 per litre, whilst petrol and kerosene went down by 27 cents and 34 cents to \$10.63 per litre and \$12.02 per litre, respectively.

Solomon Islands Key Economic Indicators

		Jun 14	Jul 14	Aug 14	Sep 14	Oct 14
Consumer Price Index¹ (% change)	Headline (3mma)	7.2%	6.7	5.6	5.2	N/A
	Underlying (3mma): core 3	2.5%	2.3	2.2	2.1	N/A
	Month-on month	-0.4%	-0.6	-2.1	0.3	N/A
Trade (eop)	Exports (\$ millions)	276	289	313	297	288
	Imports (\$ millions)	258	335	236	263	314
Exchange rates (mid-rate, monthly average)	SBD per USD	7.30	7.29	7.30	7.33	7.42
	SBD per AUD	6.84	6.85	6.79	6.66	6.51
	SBD per NZD	6.29	6.35	6.16	5.99	5.84
	SBD per GBP	12.35	12.40	12.18	11.97	11.94
	SBD per 100 JPY	7.16	7.17	7.09	6.85	6.88
	SBD per EUR	9.93	9.88	9.72	9.48	941
Gross Foreign Reserves (eop)	\$ millions	4,148	4,148	4,164	4,071	3,863
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,313	1,323	1,615	1,564	1,347
	Excess Liquidity (\$ millions)*	972	980	1,206	1,222	1,009
Money and Credit² (eop)	Narrow Money (\$ millions)*	2,563	2,548	2,568	2,538	2,497
	Broad Money (\$ millions)*	3,285	3,290	3,368	3,359	3,290
	Private Sector Credit (\$ millions)*	1,456	1,491	1,538	1,587	1,612
Interest rates (weighted average yield)	28-day Bokolo Bills Rate	0.60%	0.61%	0.61%	0.61%	0.61%
	56-day Treasury Bills Rate	0.14%	0.10%	0.10%	0.10%	0.10%
	91-day Treasury Bills Rate	0.13%	0.11%	0.10%	0.10%	0.20%
	128-day Treasury Bills Rate	1.01%	0.86%	0.69%	0.58%	0.93%
Commodity Prices (monthly average)	Round logs (US\$/m3)	292	293	289	278	276
	Gold - (US\$/oz)	1,279	1,311	1,295	1,237	1,222
	Palm Oil - (US\$/tonne)	858	841	766	709	722
	Fish - (US\$/tonne)	1,571	1,327	1,775	1,588	1,445
	Copra - (US\$/tonne)	934	861	770	785	769
	Cocoa - (US\$/tonne)	3,170	3,200	3,270	3,220	3,110

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

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