

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply increased marginally by 1% to \$3,587 million at the end of October 2015, following a 2% rise in the previous month. This was due to rise in narrow money (M1) by 1% to \$2,838 million, which outweighed the 1% fall in other deposits (time and savings). The increase in M1 was driven by rise in currency in circulation and demand deposits both increasing by 1% to \$541 million and \$2,297 million respectively. The fall in other deposits stemmed from the 1% drop in time deposits despite a 2% rise in savings deposits. Total net foreign assets (NFA) of the banking system fell for the fourth consecutive month by 3% to \$3,808 million, following a 1% drop in the previous month. This was due to a decline in CBSI's NFA by 3% to \$3,807 million together with a downturn in other depository corporations' (ODCs) NFA from minus \$4 million to \$1 million. Year-on-year movement saw NFA increased by 5% against the same period in 2014.

The banking system's net credit to government (NCG) fell by 6% to net liabilities of \$1,480 million reversing the 1% increase in the previous month. The fall was due to drawdowns in government deposits held with both CBSI and ODCs by 2% to \$1,312 million and 27% to \$168 million respectively. Meanwhile, private sector credit (PSC) increased by 1% to \$1,915 million, following a 3% rise in the previous month. Comparing to the same period in 2014, PSC rose by 18%. Following the fall in NFA and PSC growth, total liquidity declined by 6% to \$1,279 million. This resulted in excess liquidity falling by 9% to \$907 million at the end of October.

Domestic Market Operations

The total value of CBSI Bokolo bills absorbed by ODCs in October 2015 was \$710 million, achieving the full subscription for the month. The weighted average yield (WAY) for 28 days remained unchanged at 0.62%. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days also remained unchanged for the sixth consecutive month at 0.34%, 0.46% and 1.15% respectively.

II. EXTERNAL CONDITIONS

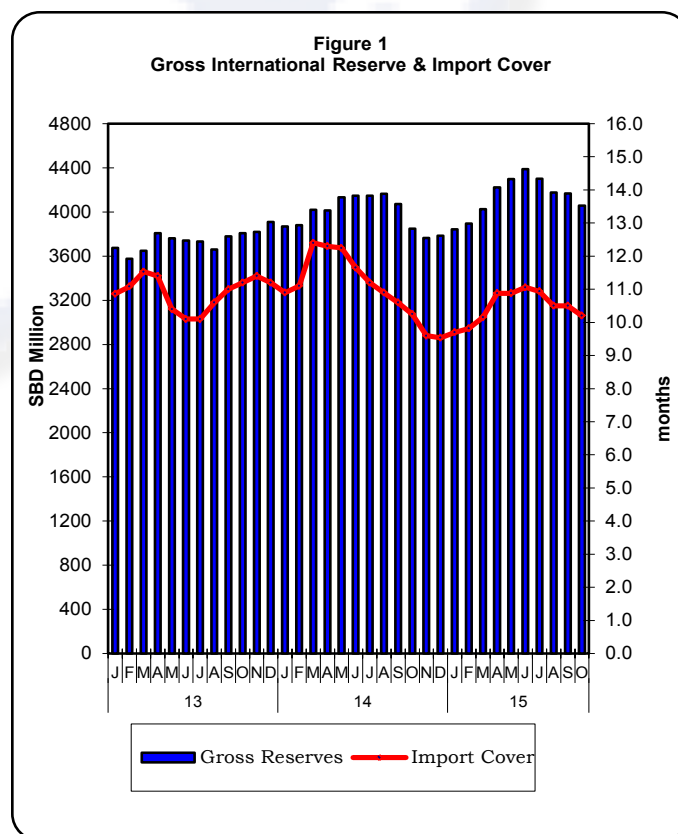
Trade in Goods

Trade activity in October, using banks' foreign exchange transactions as proxy, showed exports increased by 9% to \$250 million while imports dropped by 17% to \$278 million. The increase in exports was mainly driven by the 45% increase in forestry exports to \$196

million due to higher round log production during the month. On the other hand, the larger fall in imports was driven by food and machineries imports which fell 24% to \$63 million and 48% to \$36 million respectively.

Gross foreign reserves

Gross foreign reserves fell by 2.7% to \$4,059 million at end October as a result of higher overseas payments during the month. This level is sufficient to cover 10.5 months of imports



Exchange rate

The Solomon Islands dollar (SBD) on average in October appreciated by 1.04% against the United States dollar to \$8.05 per USD, reversing the depreciating trend observed over the previous four consecutive months. The SBD also appreciated against the Japanese Yen, British pound, and Euro during the month. Meanwhile, the SBD depreciated against the Australian dollars by 0.99% to \$5.84 per AUD and New Zealand dollar by 3.95% to \$5.37 per NZD. As a result of these movements, the exchange rate basket index strengthened during the month by 97 basis points to 109.5.

III. GOVERNMENT FINANCE

The Government recorded a deficit of \$107 million in October, its sixth consecutive deficit financing since May this year. This outcome came with both revenue and expenditure falling by 12% to \$220 million and 5% to \$328 million respectively against September. Meanwhile, expenditure came in 5% below budget while revenue collection saw a 29% underperformance.

The month-on-month fall in revenue was driven by a 12% decline to \$215 million in tax revenue. This was attributed to lower Inland Revenue Division collections which negated gains from Customs and Excise Duty collections. Non tax revenue fell from \$7 million to \$6 million while no grant receipts were recorded for October. Meanwhile, recurrent expense fell by 7% against September to \$224 million and was 16% below budget. Compared to the previous month, this outcome was largely driven by goods and services, social benefits and other payments that fell by 7% to \$94 million, from \$13 million to \$3 million and to \$11 million from \$26 million respectively. In contrast, payroll increased by 7% to \$92 million and transfers rose by 10% to \$15 million against the preceding month. Development spending also saw an increase by 1% on the prior month to \$104 million, reflecting the usual fast-tracking of development-related spending towards year end.

Central government debt stock fell by 2% to \$819 million in October, following the increases resulting from exchange rate movements observed in the last three months. The decline this month reflected total debt servicing of \$7 million and appreciation of the SBD against debt denominated currencies. Of the debt servicing amount, \$6.5 million was on principal repayments and \$0.5 million in interest charges. Meanwhile, external debt fell by 2% to \$671 million and domestic debt by 1% to \$148 million compared to September. The debt-to-GDP ratio also fell slightly to 11% from 12% a month prior.

IV. DOMESTIC PRODUCTION

Based on preliminary estimates, the CBSI monthly production index bounced back in October by 33% to 86 points after falling by 15 points last month. The increase was mainly due to the strong recovery in log production during the month. To a lesser extent, the pick-up in cocoa output also contributed to the increase. Cocoa output almost doubled while log production went up significantly by 56%. Palm oil and palm kernel oil production showed a 4% and 3% increase each respectively whilst fish catch saw a minimal growth of 1%. Copra output on the other hand, declined during the month. In terms of prices, all international prices except for cocoa price increased in the month of October.

Inflation & Honiara Fuel Prices

Headline inflation rose by one percentage point to 1.2% in October. The pick-up largely reflected the increase in the domestic inflation during the month but was also due to the consistent marginal rises in imported inflation since last month. Domestic inflation surged from 0% to 1.5% whilst imported inflation rose from 0.2% to 0.7%. The increase in inflation mainly reflected food price increases in October.

The average fuel price in Honiara rose to \$8.55 per litre in October from \$8.53 per litre in the previous month. The pick-up came from both diesel and petrol prices which increased by 9 cents and 6 cents respectively to \$8.17 per litre and \$9.00 per litre. In contrast, kerosene price dropped 8 cents to \$8.48 per litre.

Solomon Islands Key Economic Indicators

		Jun 15	Jul 15	Aug 15	Sep 15	Oct 15
Consumer Price Index (% change)	Headline (3mma)	-4.8	-3.4	-1.2	0.1	1.2
	Underlying (3mma): core 3	1.3	1.5	1.8	2.2	2.6
	Month-on month	1.4	1.8	0.7	-0.7	1.0
Trade¹ (eop)	Exports (\$ millions)	182	202	297	228	250
	Imports (\$ millions)	231	300	312	336	278
Exchange rates (mid-rate, monthly average)	SBD per USD	7.85	7.97	8.03	8.14	8.05
	SBD per AUD	6.05	5.92	5.86	5.74	5.80
	SBD per NZD	5.49	5.30	5.26	5.16	5.37
	SBD per GBP	12.20	12.40	12.58	12.49	12.24
	SBD per 100 JPY	6.34	6.47	6.51	6.75	6.69
Gross Foreign Reserves (eop)	\$ millions	4,390	4,300	4,176	4,169	4,059
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,450	1,457	1,380	1,356	1,279
	Excess Liquidity (\$ millions)*	1,090	1,110	1,011	991	907
Money and Credit² (eop)	Narrow Money (\$ millions)*	2,791	2,853	2,756	2,811	2,838
	Broad Money (\$ millions)*	3,507	3,583	3,498	3,565	3,587
	Private Sector Credit (\$ millions)*	1,794	1,801	1,834	1,887	1,915
Interest rates (weighted average yield)	28-days Bokolo Bills Rate	0.62%	0.62%	0.62%	0.62%	0.62%
	56-days Treasury Bills Rate	0.34%	0.34%	0.34%	0.34%	0.34%
	91-days Treasury Bills Rate	0.46%	0.46%	0.46%	0.46%	0.46%
	182-days Treasury Bills Rate	1.15%	1.15%	1.15%	1.15%	1.15%
Commodity Prices (monthly average)	Round logs (US\$/m3)	241	241	242	248	248
	Gold - (US\$/oz)	1,182	1,182	1,118	1,125	1,159
	Palm Oil - (US\$/tonne)	670	636	549	538	584
	Fish - (US\$/tonne)	1,269	1,236	1,514	1,340	1,563
	Copra - (US\$/tonne)	740	735	689	699	736
	Cocoa - (US\$/tonne)	3,240	3,330	3,150	3,280	3,200

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

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