

Monthly Economic Bulletin

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I. MONEY AND BANKING SECTOR

Money Supply

Broad money supply (M3) decreased marginally by 1% to \$ 2,992 million in September 2013, following a 2% growth in the previous month. The fall was due to decline in narrow money (M1) and other deposits (time and savings), both falling by 1% to \$2,363 million and \$629 million, respectively. The fall in M1 over the month came from a 3% fall in currency in circulation while demand deposits held at the commercial banks remained relatively flat.

Net Foreign Assets

Total net foreign assets (NFA) of the banking system grew by 3% to \$3,548 million this month compared to a 0.3% growth witnessed in August. Driving the growth was the upturn in CBSI's NFA from \$3,416 million in August to \$3,529 million at the end of September. The increase was driven by a rise in donor inflows and other receipts. However, commercial banks' NFA, which stood at \$24 million in August, dropped marginally to \$19 million this month, as a result of a rise in their foreign liabilities over their foreign assets.

Domestic Credit

Total net domestic credit fell by 33% to \$105 million from \$158 million in the previous month. The decline was due to an increase in net credit to government of both CBSI and Other Depository Corporations (ODCs) moving from liabilities of \$1,236 million in August to liabilities of \$1, 299 million in September. This reflected a buildup of government deposits in the banking system during the period. At the same time, private sector credit increased by 1% to \$1,405 million, following a 1% drop in the previous month.

Liquidity

Total liquidity in the banking system continued to fall by 7% to \$1,310 million, following a 2% drop in the previous month. The decline was mainly attributed to an increase in government claims on CBSI and ODCs as indicated in the net credit to

government with some contribution associated with the increasing Bokolo bills volume, which lessened the call account balances of commercial banks held with CBSI. Hence, free liquidity went down further by 8% to \$1,095 million at the end of September.

Domestic Market Operations

CBSI, on behalf of the Government, continues to facilitate the auction of treasury bills. In September 2013, a total of \$8 million was floated, no change from the previous month. The total bids of around \$18 million were received, of which \$8 million were accepted and the rest rejected. The weighted average yield for the maturity terms of 56, 91 and 182 days continued to drop slightly this month from 0.47%, 0.43%, and 1.37% to 0.42%, 0.39%, and 1.30%, respectively. In September 2013, CBSI floated \$610 million worth of Bokolo bills same as from the previous month. Of this amount, commercial banks absorbed \$525 million worth of Bokolo bills, an increase of \$60 million from the previous period. Over the same period, the weighted average yield for the 28-day bill increased to 0.54% from 0.51% in the previous month.

II. BALANCE OF PAYMENTS

Trade in Goods

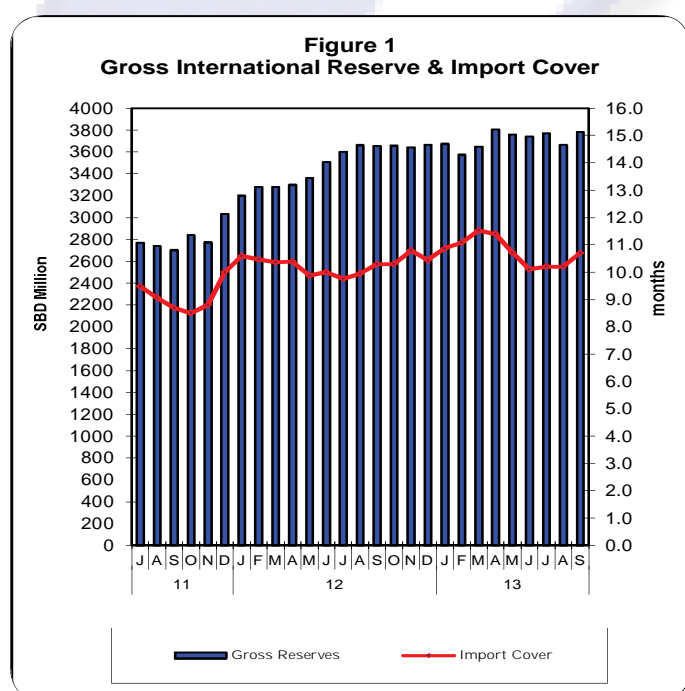
The provisional balance of trade in goods in September 2013 deteriorated to a deficit of \$86 million from a revised surplus of \$38 million registered in the previous month. This resulted from the 17% increase in imports (f.o.b) to \$313¹ million combined with the fall in exports (f.o.b) by 25% to \$228 million during the month.

The fall in exports from \$305 million in the previous month to \$228 million was driven largely by a decline in exports receipts from round logs, fish, minerals and palm oil. Round logs fell by 24% to \$114 million due to lower export volume during the month. Fish

1. The "total imports FOB" figure excludes an estimate of freight and insurance at 11% of "total imports CIF".

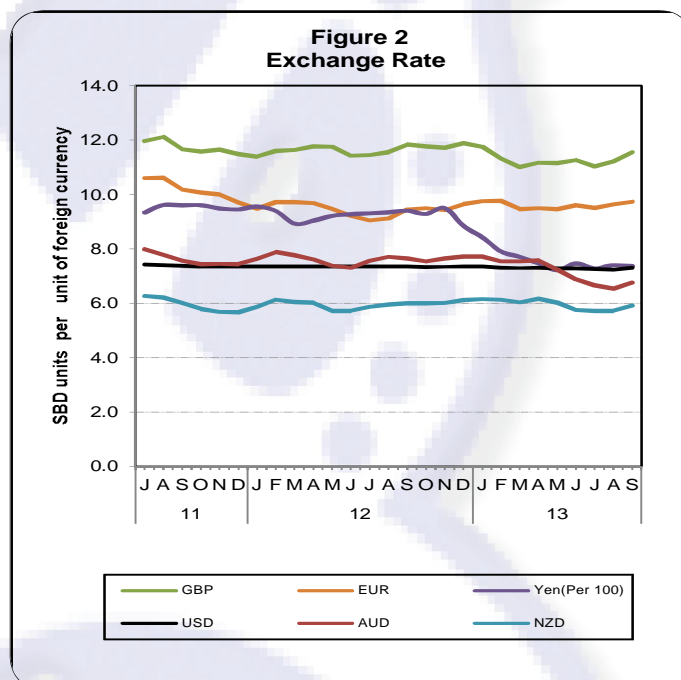
exports fell significantly by 50% to \$30 million whilst mineral exports slide by 12% to \$44 million on the back of lower export volumes and prices during the month. Palm oil and kernel oil fell by 38% to \$16 million mainly due to lower export volume despite the slight increase in international prices during the month. Sawn timber also fell from \$6 million to \$4 million due to lower prices, and re-exports dropped from \$2 million to \$1 million. On the other hand, copra and coconut oil exports increased from \$4 million to \$10 million. This was driven mainly by higher export volumes associated with higher production in August and favourable prices during the month of September. Meanwhile, export receipts from cocoa and other exports remained constant at \$6 million and \$2 million, respectively during the month.

The growth in imports was driven by the increase in import payments (c.i.f) for the major import categories. Mineral fuel rose by 66% to \$118 million due to higher volume imported, machineries and transport equipment grew by 16% to \$77 million, basic manufactures rose by 14% to \$44 million, and crude materials increased to \$6 million from \$3 million during the month. Meanwhile, food imports fell by 17% from \$76 million to \$63 million, chemicals decreased by 11% to \$19 million, and miscellaneous items dropped by 13% to \$15 million. Beverage and tobacco also fell from \$6 million to \$5 million during the month.



Gross Foreign Reserves

The gross foreign reserves rose by 3% to \$3,784 million from a revised \$3,661 million recorded in the previous month. This positive outturn was largely due to the revaluation gains stemming from the depreciation of Solomon Islands dollar against the United States and Australian dollars. This level of reserves is sufficient to cover 10.7 months of import cover.



Exchange rate

The Solomon Islands dollar (SBD) on average during the month depreciated against the United States dollar and Australian dollar by 0.9% to \$7.30 per USD and 3.3% to \$6.76 per AUD, respectively. The SBD also depreciated against the other trading partner currencies except against the Japanese yen, which appreciated by 0.5% to \$7.37 per 100JPY. The SBD depreciated against the British pound by 3.0% to \$11.56 per GBP, against the Euro by 1.0% to \$9.74 per EUR, and against the New Zealand dollar by 3.3% to \$5.92 per NZD.

III. GOVERNMENT FINANCES

The overall fiscal position (including grants) for the month of August narrowed to a deficit of \$51 million from a deficit of \$148 million in the previous month. The improvement was largely driven by higher revenue collection, which increased by 8% to \$195 million combined with the fall in spending by 25% to \$247 million. Meanwhile, public debt stock at the end of September stood at \$969 million, reversing the downward trajectory for the first time since October 2011.

Revenue

The increase in the overall revenue collection was attributed to higher revenue collection by the Inland Revenue Division (IRD), Customs and Excise Division (CED), and Non Tax Revenue (NTR) during the month. Total revenue collected by IRD increased by 7% to \$114 million, following a \$6 million increase in company tax associated with the clean-up of IRD debt books. CED collection in August also rose to \$69 million from \$64 million in the previous month. This resulted from a 20% rise in log duties coupled with the 13% increase in import duties. Excise and export duties, however, fell by 64% and 2% respectively. NTR received from other Government ministries also rose from \$6 million to \$11 million. The increase came on the back of an increase in receipts from overseas fishing licenses in August..

Expenditure

Total government expenditure dropped by 25% in August to \$247 million compared to \$329 million registered in July. The fall was reflected in other charges, development, and budget support expenditure as the Government continued to contain its cash flow problem. Purchase of goods and services fell by 39% to \$85 million. Development expenditure dropped from \$94 million to \$72 million and budget support spending to \$23 million from \$32 million. Payroll, however, rose by 6% in August to \$66 million due to continued re-levelling payments of the remaining teachers.

SIG Debt Stock & Servicing

Total public debt stock increased by 1% at the end of September to \$969 million. The marginal increase in overall debt stock was attributed to the depreciation of SBD against debt denominated currencies. The debt-to-GDP ratio rose to 16% relative to the 15% recorded in the previous month. Meanwhile, government total debt serviced during the month stood at \$9 million, 4% higher than the debt repayment scheduled.

IV. DOMESTIC OPERATIONS

Logs

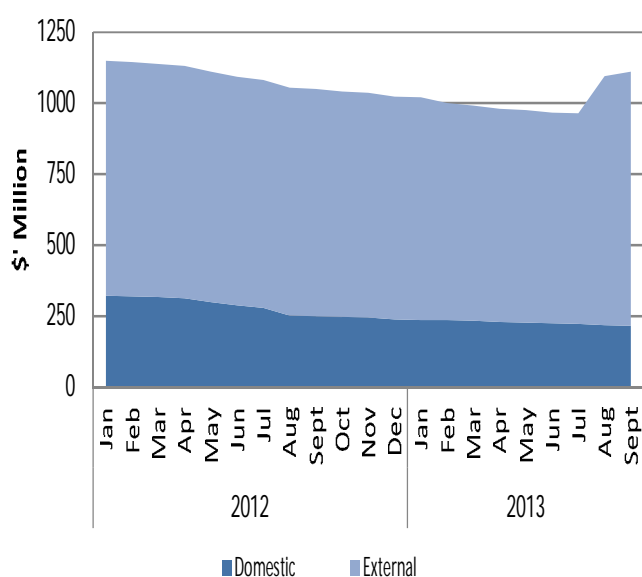
Following a 20% rebound in the previous month, log output for September dropped by 22% to 143,035 cubic meters. However, this was 25% above the same month a year ago. Historically, output for September has always been high with the exception of 2013 and the previous year, which have been significantly affected by changing weather patterns, leading to lower log output. As a result, total production for the first nine months stood at 1.36 million cubic meters, a shortfall of 8% against year-to-September a year ago. In price terms, the average international price remained subdued, slipping by 1% to USD300 per cubic meter compared to a 2% increase to USD304 per cubic meter a month ago.

Copra

Copra production for the month recorded one of the poorest outturns, plunging by 39% to 916 tons from the year's record high of 1497 tons in the previous month. Against similar period, this output is almost 60% lower, reflecting subdued levels of production in 2013. As a result, the accumulated production also fell by 59% below its corresponding periods in the previous year to 9,672 tons.

The average international price for copra continued to improve by 11% to USD654 per ton against USD587 per ton in the previous month. In contrast, contract prices declined by 9% from USD439 per ton to USD400 per ton due to an anticipated slowdown in international prices for the month. Despite the decline in contract prices, domestic prices received by local farmers continued to improve by 2% to \$2.62 per kilogram from \$2.56 per kilogram in August. This price level was the highest price recorded within the past 12 months since the declining trend started in September a year ago.

Figure 3. Public Debt



Cocoa

From historical trend, September is known for being a low cropping period for cocoa, and so this month's lowest recorded output was somewhat anticipated when coupled with changes in the weather patterns. Cocoa output for the month was 193 tons, 50% below the revised production of 389 tons in the previous month. Against the same month in 2012, this month's production was 20% lower. Despite this, total revised production to September stood at 3,805 tons, 8% above the same period in 2012, driven mainly by exceptionally high production in the months of May and July.

International prices for cocoa continued to increase by 5% to USD2,616 per ton, another record high for the past 12 months. As expected, the average contract prices continued to improve by 3% to GBP1,357 per ton, the highest price since the beginning of the year. Similarly, prices paid to local farmers also rose by 6% to \$12.61 per kilogram compared to \$11.91 per kilogram in the previous month.

Palm Oil & Palm Kernel Oil

Palm production for September rebounded compared to the previous month. Following a 17% decline in the previous month, crude palm oil rose by 3% from 2,312 tons to 2,381 tons. Similarly, palm kernel oil increased by 6% from a 21% fall in the previous month to record 233 tons in September. Despite the increase, against the same period a year ago, crude palm oil and kernel oil fell by 6% and 11%, respectively. Meanwhile, year-to-September production figures revealed that each of crude palm oil and palm kernel oil output were 10% lower against the corresponding period last year.

Contract prices for crude palm oil slightly rebounded by 0.3% to USD875 per ton compared to USD872 per ton a month ago. Unlike contract prices, the international prices for crude palm oil continued to decline by 1% from USD829 per ton to USD820 per ton following a contraction of 1% in the previous month. On the upside, the international price for palm kernel oil remained favourable, moved up by 5% to USD913 per ton following a 4% increase a month ago.

Fish

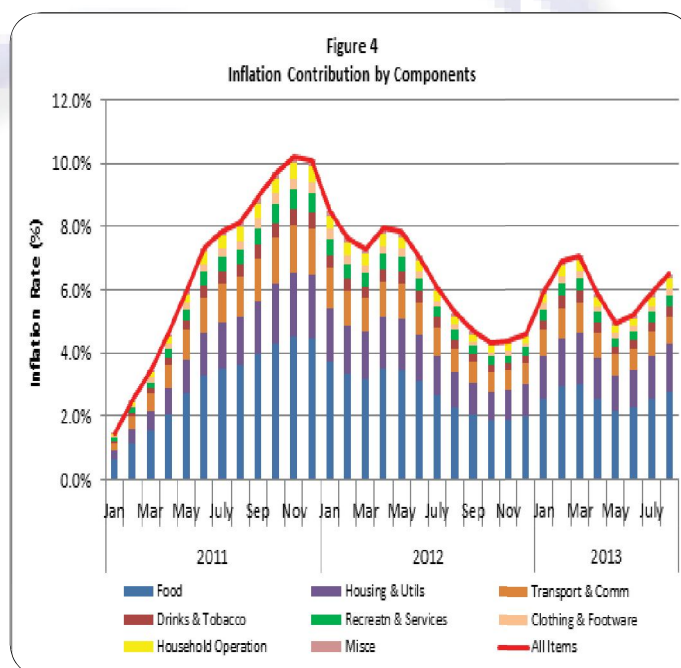
Based on preliminary data, fish catch for the month fell by 26% to 3,093 tons against the record high of 4,163 tons last month. In spite of this, fish catch for the month was 9% higher than the same month a year ago. However, total fish catch to date reached 17,329 tons, 15% below the corresponding period of 2012.

The average international fish price continued to fall for the third consecutive month, dropping in September by 14% to USD1,822 per ton compared to USD2,124 per ton the month before.

Minerals

Following the two consecutive months of low production, gold output continued to shrink by 13% to 4,433 ounces in contrast to 5,092 ounces produced in the preceding month. Against the same period in 2012, production was 19% below. This has resulted in the year-to-date to only total up to 43,604 ounces, a 21% shortfall in achieving same levels of the previous year.

Similarly, silver output fell for the third month in a row, further retreating by 16% to 1,599 ounces against 1,904 ounces in August. This caused the total production volumes for silver to fall by 29% to 16,793 ounces against the corresponding period in 2012. International prices for gold remained stable at USD1,349 per ounces, though a slight fall of 0.2% over the month. Meanwhile, the international price for silver increased by 3% to USD22.56 per ounce, following an 11% rebound in the previous month.



Inflation and Honiara Retail Fuel Prices

Headline Inflation for August as measured by the three months moving average (3mma) further increased by 0.6% to 6.5% compared to 5.9% in July. The bulk of the uptick in the prices came from domestic component which resulted in the domestic inflation rising to 9.8% from 9%. Similarly, the imported

inflation rate slightly rose to 1.6% compared to 1.4% in the previous month. Looking at the contributions to the overall inflation rate, the main driver was food inflation which accounted for 2.8%. The second main contributor was housing and utilities with 1.5%, followed by transport and communication with 0.9%. 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 second month by 3% to \$11.38 per litre from \$11.05 per litre. The increase was attributed to two categories of fuel, namely diesel and kerosene. Diesel rose by 19 cents to \$11.14 per litre, kerosene increased by 80 cents to \$12.05 per litre whilst petrol slightly dropped by 2 cents to \$10.94 per litre. Despite the overall increase, the average fuel prices for the month was 56 cents lower than the average peak price of \$11.94 per litre recorded in April 2013.

Figure 5
Honiara Fuel Prices

