

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Broad money supply (M3) marginally fell by 0.3% to \$3,359 million at the end of September 2014, but year-on-year comparison registered a growth of 12%. The fall during the month was driven by narrow money (M1), which declined by 1% to \$2,538 million to outweigh the 3% rise in other deposit to \$821 million. The latter reflected movements in both savings and time deposits. The deceleration in M1 came from a 2% decrease to \$2,026 million in demand deposits and contrasted a rise in currency in circulation by 1% to \$513 million. Meanwhile, total net foreign assets (NFA) of the banking system fell this month by 3% to \$3,809 million whilst year-on-year comparison showed a growth of 7%.

The net credit to government (NCG) rose by 6% to reach the net liability position of \$1,430 million against the decline witnessed in the previous month. The rise was due mainly to the build ups in the government deposits held with CBSI and other depository corporations (ODCs). Private sector credit (PSC) also increased for the third consecutive month to \$1,587 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 3% to \$1,564 million, leading to a corresponding fall in excess liquidity by 4% to \$1,222 million in September.

Domestic Market Operations

The total Bokolo Bills stock CBSI floated in September remained unchanged at \$710 million. Although the floated amount was not fully absorbed, the stock of Bokolo Bills issued picked up notably by 94% to \$600 million compared to \$310 million in August. The Bokolo Bills weighted average yield (WAY) for 28 days remained at 0.61%. Meanwhile, the WAY of Government treasury bills for both 56 days and 91 days remain unchanged at 0.10%, while 182 days maturities continued to decline from 0.69% a month ago to 0.58%.

II. EXTERNAL CONDITIONS

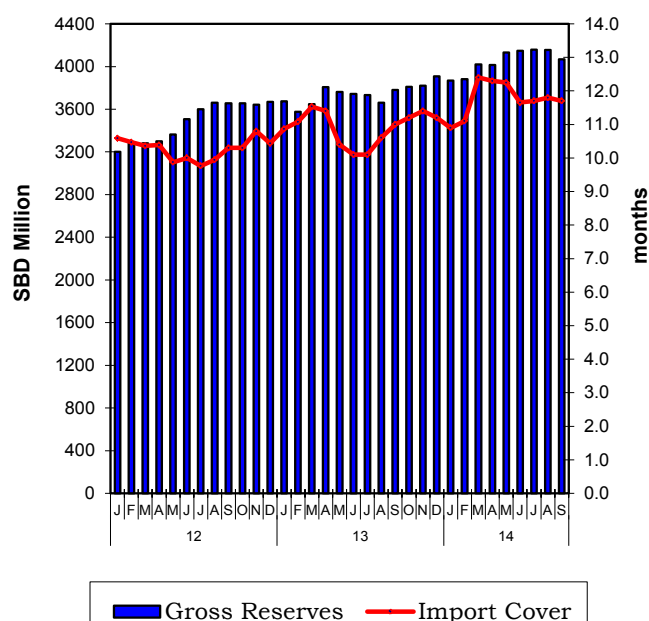
The balance on trade in goods contracted to a provisional \$1 million surplus in September from the revised \$53 million surplus in the previous month. This resulted from a 20% increase in imports (f.o.b) to \$311 million and 2% drop in exports (f.o.b) to \$312 million during the month. The surge in imports was driven mostly by fuel imports rising by 32% to \$93 million over the previous month. The fall in export

receipts was largely due to agricultural commodities owing to lower exports volumes and weak commodity prices.

Gross foreign reserves fell by 2% to \$4,068 million during the month, sufficient to cover 10.7 months of imports of goods and services. The fall was due to increased payments for goods and services during the month.

The Solomon Islands dollar (SBD) depreciated against the United States dollar by 0.53% to \$7.33 per USD and appreciated against the Australian dollar by 1.98% to \$6.66 per AUD during the month. Meanwhile, the SBD also appreciated against the New Zealand dollar, Euro, Japanese Yen, and the British pound during the period.

Figure 1
Gross International Reserve & Import Cover



III. GOVERNMENT FINANCE

The Government recorded a smaller deficit of \$31 million in September compared to a deficit of \$73 million in August. This deficit was driven by higher total expenditure which negated gains from revenue collection during the month.

Total revenue increased by 29% against August to \$268 million, but fell short by 2% against the budget. The month-on-month upturn was attributed mainly to a 30% increase in tax receipts to \$261 million supported

by a 13% increase in non-tax revenue to \$6 million. Meanwhile, total expenditure increased by 7% to \$299 million compared to August and was slightly below budget by 1%. The outturn against August was driven by an 11% increase in recurrent expenditure to \$258 million on the back of a significant increase in other payments, notably on school grants, from \$22 million to \$70 million. Negligible increases were noted for payroll and social benefits, whilst goods and services and grant payments declined during the month. Development spending, on the other hand, fell by 13% to \$41 million against the previous month and by 20% against the budget.

Total public debt stock at the end of September stood at \$883 million, 0.5% lower than the \$888 million posted in August. This is equivalent to 13% of nominal gross domestic product. Domestic debt accounted for \$185 million and external debt \$699 million of the total debt stock.

IV. DOMESTIC PRODUCTION

The CBSI monthly production index improved further in September by 4% to 98 points from 94 points last month. The rise mainly reflected increases in fish catch and log production by 13% and 7% respectively during the month. In contrast, palm oil, copra and cocoa productions all showed declines during the month. Despite this drop, year to September numbers showed expansion in all commodities compared to the same period last year.

International price for copra improved by 2% this month following an 11% fall in August. Conversely, international prices for palm oil, palm kernel oil, fish, cocoa and logs recorded declines during the month.

Inflation & Honiara Fuel Prices

Headline inflation rate eased further to 5.6% in August from 6.7% a month ago. The easing mainly reflected a fall in domestic inflation to 10% from 12%. Imported inflation remained negative at -1.3% at the end of August. The fall in domestic inflation resulted from declines in food, drinks & tobacco and housing & utilities by 14%, 9% and 11% respectively. Similarly, underlying inflation dropped from 2.3% to 2.2% at the end of August.

The average fuel price in Honiara fell in September to \$11.47 per litre from \$11.81 per litre. The drop came on the back of noticeable falls in the prices of diesel and petrol by 50 cents each to \$11.16 per litre and \$10.90 per litre respectively during the month.

Solomon Islands Key Economic Indicators

		May 14	Jun 14	Jul 14	Aug 14	Sep 14
Consumer Price Index¹ (% change)	Headline (3mma)	6.3%	7.2%	6.7	5.6	5.2
	Underlying (3mma): core 3	2.3%	2.5%	2.3	2.2	2.1
	Month-on month	-0.3%	-0.4%	-0.6	-2.1	0.3
Trade (eop)	Exports (\$ millions)	238	279	289	313	312
	Imports (\$ millions)	283	290	397	260	311
Exchange rates (mid-rate, monthly average)	SBD per USD	7.35	7.30	7.29	7.30	7.33
	SBD per AUD	6.84	6.84	6.85	6.79	6.66
	SBD per NZD	6.38	6.29	6.35	6.16	5.99
	SBD per GBP	12.39	12.35	12.40	12.18	11.97
	SBD per 100 JPY	7.22	7.16	7.17	7.09	6.85
	SBD per EUR	10.11	9.93	9.88	9.72	9.48
Gross Foreign Reserves (eop)	\$ millions	4,024	4,148	4,148	4,155	4,068
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,397	1,313	1,323	1,615	1,564
	Excess Liquidity (\$ millions)*	1,059	972	980	1,206	1,222
Money and Credit² (eop)	Narrow Money (\$ millions)*	2,596	2,563	2,548	2,568	2,538
	Broad Money (\$ millions)*	3,329	3,285	3,290	3,368	3,359
	Private Sector Credit (\$ millions)*	1,463	1,456	1,491	1,538	1,587
Interest rates (weighted average yield)	28-day Bokolo Bills Rate	0.61%	0.60%	0.61%	0.61%	0.61%
	56-day Treasury Bills Rate	0.15%	0.14%	0.10%	0.10%	0.10%
	91-day Treasury Bills Rate	0.15%	0.13%	0.11%	0.10%	0.10%
	128-day Treasury Bills Rate	1.14%	1.01%	0.86%	0.69%	0.58%
Commodity Prices (monthly average)	Round logs (US\$/m3)	293	292	293	289	278
	Gold - (US\$/oz)	1,289	1,279	1,311	1,295	1,237
	Palm Oil - (US\$/tonne)	893	858	841	766	709
	Fish - (US\$/tonne)	1,213	1,571	1,327	1,775	1,588
	Copra - (US\$/tonne)	930	934	861	770	785
	Cocoa - (US\$/tonne)	3,030	3,170	3,200	3,270	3,220

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

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