

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply grew by 2% to \$3,565 million at the end of September 2015 reversing a 2% fall in the previous month. This was driven by growth in both narrow money (M1) and other deposits (time and savings) by 2% each. M1 increased to \$2,811 million resulting from a 2% growth in demand deposits to \$2,273 million and 1% growth in currency in active circulation to \$538 million. Other deposits increased to \$753 million driven by increases of 1% and 5% in time deposit and saving deposits respectively. Total net foreign assets (NFA) of the banking system fell for the third consecutive month, falling by 1% to \$3,922 million. This was driven by falls in both CBSI's and other depository corporations (ODC's) NFA.

Net credit to government (NCG) increased marginally by 1% to net liabilities of \$1,570 million following a 7% fall in the previous month. This was driven by increase in government's claims with ODCs by 30% to \$229 million. Meanwhile, private sector credit (PSC) increased by 3% to \$1,887 million, due mainly to increase in lending by the ODCs. Mirroring the increase in PSC and fall in NFA, total liquidity fell by 2% to \$1,356 million this month. This caused excess liquidity to also fall by 2% to \$991 million.

Domestic Market Operations

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

II. EXTERNAL CONDITIONS

Trade in Goods

Trade activities for September using banks' foreign exchange transactions as proxy¹ indicated that exports dropped by 28% to \$217 million and imports went up by 7% to \$300 million. The fall in exports was driven by round logs and fish exports which declined by 26% to \$135 million and 46% to \$46 million respectively. On the other hand, the rise in imports was driven by higher payments on all import categories except fuel which fell 20% to \$38 million.

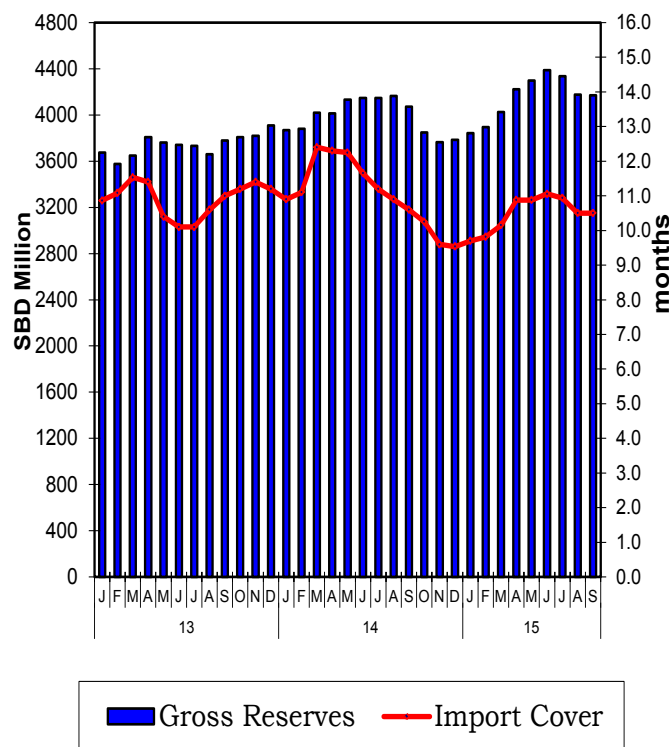
Gross Foreign Reserves

Gross foreign reserves fell marginally by 0.1% to \$4,171 million at end September as a result of higher imports during the month. This level is sufficient to cover 10.5 months of imports.

Exchange Rate

The Solomon Islands dollar (SBD) on average in September depreciated by 1.3% to \$8.14 per USD but appreciated against the Australian and New Zealand dollars by 2.0% to \$5.74 per AUD and \$5.16 per NZD, respectively. The SBD also depreciated against the Japanese Yen and Euro during the month but rose against the British pound. As a result of these movements, the exchange rate basket index weakened further during the month by 133 basis points to 110.5².

Figure 1
Gross International Reserve & Import Cover



1. Export and import data from Customs Division was not available. Banks foreign exchange transactions are used instead which capture only cash receipts and payments.

2. The basket is trade weighted index to 100 with a base year of 2012.

III. GOVERNMENT FINANCE

The government recorded a deficit of \$93 million in September compared to \$103 million deficit in August. This resulted from a 13% increase in expenditure to \$345 million which offset a 25% increase in revenue to \$251 million against the previous month. However, revenue fell short of the budget by 19% whilst expenditure inched by 1% above the budget.

The increase in revenue against August was anticipated as most quarterly taxes were collected in September. Tax receipts surged by 26% to \$244 million driven largely by increases in company tax and goods tax. Nontax revenue remained broadly unchanged at \$7 million whilst there were no records of budget support received in September.

Recurrent expenses fell slightly from \$242 million in August to \$241 million. This was mainly attributed to a drop from \$41 million to \$26 million in other payments and zero subsidy payment this month compared to the one-off subsidy payment of \$20 million made in the previous month. These reductions offset the increase in payroll by 16% to \$86 million and other charges up by 5% to \$101 million. Meanwhile, development spending surged as expected to \$103 million from \$62 million in the previous month driven by increased spending on infrastructures and constituency related projects.

Total public debt stock increased by 0.2% to \$833 million at the end of September reflecting the depreciation of the SBD against debt denominated currencies. Total debt servicing including interest payments made during the month amounted to \$6 million. Meanwhile, external debt accounted for \$684 million and domestic debt made up \$150 million of the outstanding debt stock. The debt-to-GDP ratio remained broadly unchanged at 12%.

IV. DOMESTIC PRODUCTION

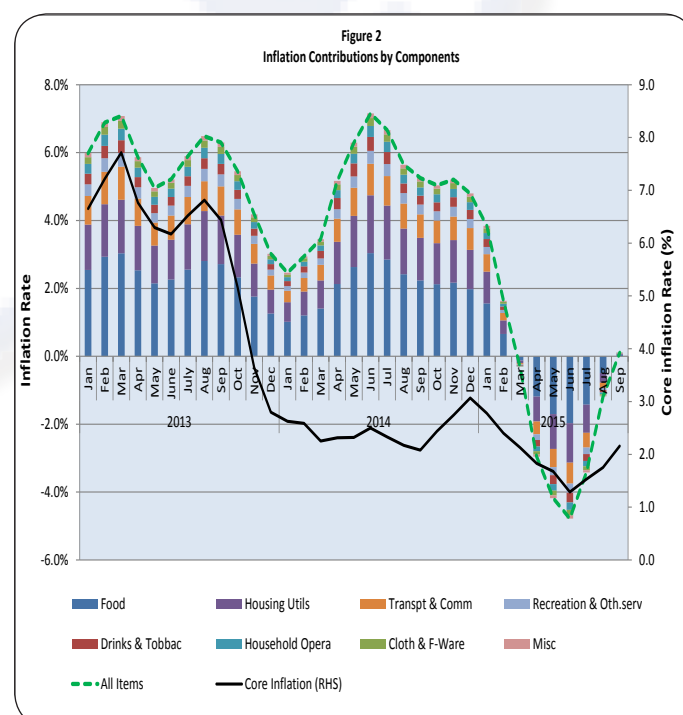
Based on preliminary estimates, the CBSI monthly production index fell in September by 21% to 65 points reversing the 9% growth posted in the previous month. The fall reflected the decline in production of all commodities during the month. In particular, log output fell significantly by 30% to 129,857 cubic meters.

In terms of prices, average international prices for all export commodities improved this month with the exception of fish and palm oil prices which dropped by 12% and 2%, respectively.

Inflation & Honiara Fuel Prices

After six consecutive months of recording negative rates, headline inflation in September was finally positive at 0.1%. This resulted from the domestic and imported inflation both registering positive rates in the month, from minus 1.7% and minus 0.2% to 0% and 0.2% respectively. The positive inflation rates were mainly driven by the pick-up in food and drinks & tobacco prices during the month.

The average fuel price in Honiara fell to \$8.53 per litre in September from \$8.68 per litre in the previous month. The decrease came from falls in both diesel and petrol prices during the month by 67 cents and 42 cents respectively to \$8.08 per litre and \$8.94 per litres respectively. In contrast, kerosene price rose 62 cents to \$8.56 per litre.



Solomon Islands Key Economic Indicators

		May 15	Jun 15	Jul 15	Aug 15	Sep 15
Consumer Price Index (% change)	Headline (3mma)	-4.2	-4.8	-3.4	-1.2	0.1
	Underlying (3mma): core 3	1.7	1.3	1.5	1.8	2.2
	Month-on month	-0.2	1.4	1.8	0.7	-0.7
Trade¹ (eop)	Exports (\$ millions)	294	182	202	300	217
	Imports (\$ millions)	261	231	267	280	300
Exchange rates (mid-rate, monthly average)	SBD per USD	7.75	7.85	7.97	8.03	8.14
	SBD per AUD	6.12	6.05	5.92	5.86	5.74
	SBD per NZD	5.75	5.49	5.30	5.26	5.16
	SBD per GBP	11.97	12.20	12.40	12.58	12.49
	SBD per 100 JPY	6.45	6.34	6.47	6.51	6.75
	SBD per EUR	8.66	8.81	8.77	8.93	9.18
Gross Foreign Reserves (eop)	\$ millions	4,298	4,390	4,336	4,176	4,171
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,486	1,450	1,457	1,380	1356
	Excess Liquidity (\$ millions)*	1,119	1,090	1,110	1,011	991
Money and Credit² (eop)	Narrow Money (\$ millions)*	2,825	2,791	2,853	2,756	2,811
	Broad Money (\$ millions)*	3,536	3,507	3,583	3,498	3,565
	Private Sector Credit (\$ millions)*	1,764	1,794	1,801	1,834	1,887
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)	247	241	241	242	248
	Gold - (US\$/oz)	1,199	1,182	1,128	1,118	1,125
	Palm Oil - (US\$/tonne)	658	670	636	549	538
	Fish - (US\$/tonne)	1,292	1,269	1,236	1,514	1,340
	Copra - (US\$/tonne)	743	740	735	689	699
	Cocoa - (US\$/tonne)	3,100	3,240	3,330	3,150	3,280

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

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