Monetary Policy Statement

September 2013

Central Bank of Solomon Islands

P. O. Box 634, Honiara, Solomon Islands Tel: (677) 21791 Fax: (677) 23513 www.cbsi.com.sb

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1. Overview of 2013

The global economy performed below expectation causing further delays to the anticipated recovery in the world economy. The International Monetary Fund (IMF) projection for global growth was slashed by 0.25 percentage points from the April forecast to 3.1% on the back of ongoing growth disappointments in major emerging economies, deeper recession in the euro area, and a slower expansion in the U.S. economy. Growth in the emerging and developing economies is expected to slow to 5% in 2013 due to various reasons including; capacity constraints; lower export growth; weak commodity prices; and in some cases weaker policy support. Growth in China, a major export market for Solomon Islands round logs, is also expected to drop by 0.25 percentage points to 7.75% this year.

Advanced economies continued to show mixed performances. The IMF expects the US economy to grow by 1.75% in 2013, slightly lower than previous forecast in April. The recession in the euro area is forecast to continue in 2013 as the region continues to suffer from low demand, depressed confidence, financial market fragmentation, weak balance sheets, and fiscal consolidation. Japan on the other hand is expected to grow by 2%, up 0.5 percentage point from April forecasts. Australia and New Zealand, two of Solomon Islands closest trade partners, also anticipated positive growths this year, albeit more moderate growth.

Global inflation eased in 2013. This followed the softening in food and energy prices. Crude oil prices are anticipated to dip 4% against the previous year. Food prices also fell during the period but remain elevated.

Key monetary indicators showed slower growth this period than in previous periods. The slowdown was associated with the monetary base that contracted by 12% to $1,807 million. As a result, overall money supply expanded by 3% to $3,156 million compared to the 5% growth in the second half of 2012. The slower monetary expansion came on the backdrop of accumulating government deposits and weaker growth in CBSI net foreign assets that helped contain upward pressures from private sector credit. Excess liquidity remained pervasive although it started to come down during the period.

The capital and current account surplus achieved in the first six months of 2013 benefited from continued donor flows, foreign investment, and improvements in other flows. The trade balance worsened during the period to $197 million deficit from the $30 million surplus in the latter half of 2012. The negative turnaround was attributed to weaker commodity prices that drove export receipts downward. Of the commodities recording declines during the period, fish and logs led the charge with a combined fall of $260 million, representing 82% of the downward movement in exports. Imports, on the other hand, reversed increases posted in the preceding period to fall by $92 million to $1,699 million.

Notwithstanding negative developments in the goods account, the current account deficit narrowed by $98 million to $169 million in year to June 2013. This improvement was due to significant donor flows particularly in the second quarter coupled with slight improvements to deficit positions in the primary income and trade in services accounts. The capital account maintained another surplus in the first six months of 2013 despite a significant fall against the second half of 2012.

While most non-tradeable sectors showed some resilience, external downside risks came to fruition in the first half, affecting growth projections for the local economy. Growth forecasts for 2013 were slashed by less than one percentage point to 3.1%, owing to underperformances in key commodities that were adversely affected by lower commodity prices and unfavourable weather conditions in the first quarter this year. Forestry, agriculture, fisheries were the leading sectors recording disappointing growth contributions during the period. Although mineral output is expected to fall against 2012, strong recovery in the second quarter, which is expected to be maintained in the second half of 2013, helps to cushion the fall in overall growth.

Most key commodities showed dismal performances in line with unfavourable commodity price trends in the first half of 2013. The CBSI production index contracted 7.4 points against December 2012 to 87.7 in June 2013. Except for minerals and palm oil, all commodities weakened during the period. In terms of volumes, logs dropped against the second half of 2012 by 11% to 877,747 cubic meters while fish catch shrunk 55% to 8,050 tons. Gold and palm oil bounced back by 4% each against the preceding half year to 28,623 ounces and 16,257 tons respectively.

The Government posted a fiscal surplus of $176 million in the first half of 2013H, a fall from the surplus in the second half of 2012 and the prorata budget surplus expected for this period. The smaller surplus against budget was due to a larger fall in revenue collection than expenditure. Revenue fell 16% against budget to $1,418 million in June 2013 while expenditure fell by 12% against the preceding period's expenditure to $1242 million. Public debt stock dropped to $968 million by June 2013 from $1,023 million in December due to consistent scheduled debt repayments.

Headline inflation, as measured by the three months moving average, rose from 4.6% in December 2012 to peak at 7.1% in March before descending to 5.2% in June 2013. The rising inflation in the first quarter resembled increases in food and fuel components of the index. Food, housing & utilities, and transport & communication, which were the main drivers of upward pressure in the first quarter, contributed 3.7% of the growth in December 2012 and rose to 5.6% by March 2013. However, price indices for these same three categories receded in the second quarter leading to the downward movement in headline inflation to 5.2%. Imported inflation remained stable in the first quarter and posed no immediate threat to inflation. This is partly due to falling import prices as well as the appreciating value of the Solomon Islands Dollar (SBD). To a large degree, the rise and fall in overall inflation during the first half mimicked movements in the domestic index.

2. International Economic Developments

2.1 Global economic activity

Since the March 2013 Monetary Policy Statement (MPS), international economic conditions remained subdued during the first half of 2013. In July 2013, global growth forecasts by the IMF were once again revised downwards to 3.1% in 2013, from its April forecast of 3.3% and from 3.5% as quoted in our earlier MPS publication. Revised figures reflected new global risks in the emerging market economies, a deeper than expected recession in the euro area, and weaker growth outcomes in the US economy and other advanced economies[1].

The emerging and developing economies continued to be the engines of global growth but softer domestic demand together with lower commodity prices, financial stability concerns, and weaker policy support, has contributed to softer growth forecasts. As such, growth forecasts for the region have been revised to 5.0% in 2013 from an earlier forecast of 5.3% in April. Moreover, China, the region's fastest growing economy and a major trading partner of Solomon Islands, slowed to a 7.5% growth in the second quarter from 7.7% growth estimates in the previous quarter. The perceived slowdown in China's growth was attributed, in the main, to weak export growth, a significant downslide of investment growth, and an anticipated decline in the construction sector during the second half of the year[2].

[1] Source: The IMF, World Economic Outlook, July 2013. All other figures in this section are also sourced from the July 2013 WEO unless otherwise stated.
[2] Source: The Times, July 2013

Performance in the euro area remained disappointing as latest growth figures revealed a deeper than expected recession and a realisation of a more prolonged journey back to recovery for the region. The euro area is expected to remain in recession throughout 2013 as low demand, depressed confidence, weak balance sheets, and tight fiscal and financial conditions. Under these conditions, economic activity is projected to contract by 0.6% in 2013 with a return to growth of 0.9% in 2014.

With the publication of second quarter growth estimates, the US economy is anticipated to expand by an annualised pace of 2.5% in 2013[3]. Compared to revised 2012 growth figures of 2.8%[4], the slightly slower growth rate was expected as the consequences of federal spending cuts became realised in the second quarter under a backdrop of continuing weakness in the global economy. Despite the slowdown in the second quarter, the US economy is expected to grow to 2.7% in 2014 on solid private demand and supportive financial conditions[5]. In contrast, the Japanese economy, despite the falling industrial output and household spending, recorded a stronger growth than expected by an average of 2% in 2013 from high consumption and net exports[6].

Turning to other major trading partners of the Solomon Islands, notably Australia and New Zealand, recent economic indicators also pointed to a revised, softer growth outlook for the year. In the Australian economy, GDP forecasts for 2013 are slightly up as a result of new Q2 GDP data, which puts growth at 2.6% for the year. However, economic growth is still slower than last year as the non-mining sector continues to be constrained by soft domestic demand in resulting in less favourable employment outcomes with the unemployment rate rising to a four year high of 5.7% in June. In New Zealand, activities indicated a moderate economic growth over the June quarter supported by strong performance in the construction industry and stronger than expected retail spending figures. Forecasts remain optimistic on positive expectations in business activities and investment as well as robust growth in the construction industry during the second half of 2013. However, growth prospects could be dampened negative impacts of drought on the agriculture sector. In addition, the unemployment rate also rose to 6.4% in the second quarter from 6.2% in the first quarter.

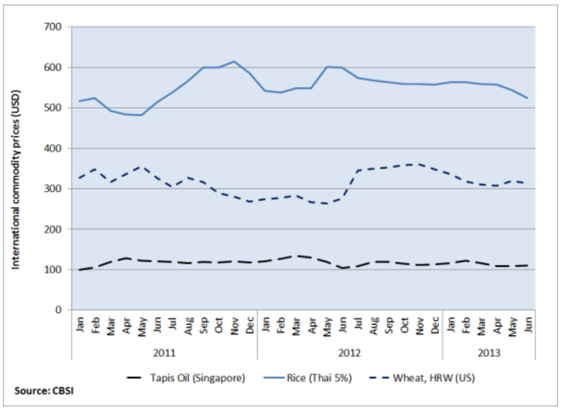
2.2 International commodity prices and global inflation

International food prices, as measured by the Food and Agriculture Organisation's (FAO) Food Price Index, have shown some signs of retreat but still remain elevated. Since December 2012, food prices have fallen by 1% by June 2013 with July also witnessing a further fall. However, the downward trend in recent months is still above the pre-historic high levels seen in 2011. More specifically for Solomon Islands, prices of major imported food types, namely wheat and rice, have also exhibited falls in the ric**e** and wheat prices declining by 6% and 10% respectively to reach US$524 per tonne of rice and US$305 per tonne of wheat, over the same period (see Figure 2.2.1). Revised forecasts from World Bank's Commodity Markets Outlook published in July 2013 anticipate a 3% fall in rice prices, while wheat is expected to increase slightly by 1% on the 2012 average price level.

International oil prices, as estimated by the World Bank's average crude oil price, are projected to fall around 4% in 2013 compared to 2012 levels. Closer to home, Singapore Tapis oil, the country's main imported oil, displayed a fall of 1% in June 2013 compared to December 2012 with some fluctuation in the early part of the year. Various forecasts for global oil prices are anticipated to fall by around 2% over the year.

[3] Source: BBC News, August 2013
[4] Source: Reuters, July 2013
[5] Source: The IMF, World Economic Outlook, July 2013
[6] Source: BBC News, July 2013

Figure 2.2.1: International commodity prices



Inflation rates of major trading partners remained low and within target bands. New Zealand witnessed the lowest inflation rate since 1999 with a 0.7% annual rise on the June quarter, slower than the Reserve Bank of New Zealand's target of 2% and within a 1%-3% band. Similarly for Australia, annual inflation rate slowed to 2.4% in the second quarter of 2013, also within the Reserve Bank of Australia's expected range. Inflation in China remained at 2.7% as at July 2013, still below the Chinese government's target of 3.5%. Favourable outcomes in imported food prices and Tapis oil prices as well as low inflation in its trading partners are likely to aid in keeping imported inflation lower in the Solomon Islands.

3. Domestic Economic Developments

3.1 Monetary Conditions

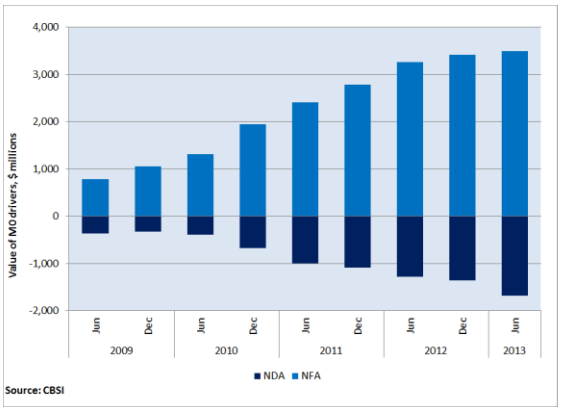
Monetary aggregates continued to show a slowdown in growth with M0 demonstrating a contraction over the first half of 2013. Slower growth in monetary aggregates reflected an increase in the accumulation of government deposits, a contraction in capital accounts, and a deceleration in the growth of gross foreign reserves. This was only partially offset by the accelerated growth in private sector credit. Free liquidity continued to slow between December and June as the float and issue of Central Bank-backed Bokolo bills continued to increase.

<u>Reserve money and monetary aggregates</u>

Reserve money (M0) registered a significant contraction over the first six months of 2013, the first time since 2009. By June 2013, M0 stood at $1,807 million, a 12% decrease compared to December 2012. The decline in M0 was attributed to the negative position of net domestic assets (NDA) of the Central Bank amidst a slowdown in the accumulation of net foreign assets (NFA) of the Central Bank.

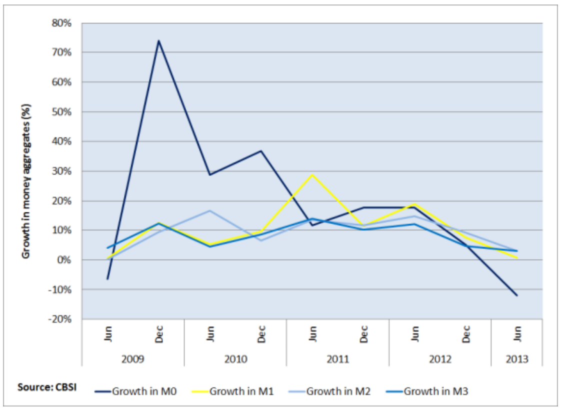
NFA of the Central Bank grew by 2% over the first half of 2013 and reached $3,494 million compared to 5% growth witnessed in the second half of 2012. The slower expansion in NFA was driven by more sluggish growth in gross foreign reserves over the period. NDA, on the other hand, grew more rapidly over the same period as a result of a 34% increase in government deposits and a substantial decrease of $184 million in capital accounts over the period. As of June 2013, NDA of the Central Bank reached minus $1,684 million (see Figure 3.1.1).

Figure 3.1.1: Drivers of Reserve Money



Money aggregates also experienced a slowdown in growth but avoided contraction. By June 2013, both M1 and M2 expanded albeit at slower rates than in the second half of 2012, growing by just 1% and 3% to reach $2,413 million and $2,558 million, respectively (see Figure 3.1.2).

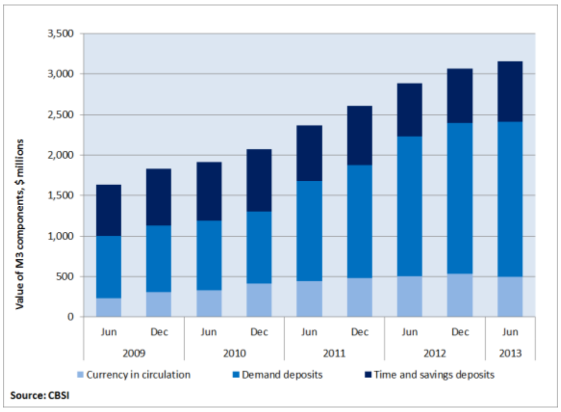
Figure 3.1.2: Growth in Reserve Money and Monetary Aggregates



Broad money supply (M3), which measures the total supply of money in the economy, followed a similar path to that of other monetary aggregates. M3 increased by a slower pace of 3% to $3,156 million as of June 2013, from the 5% growth rate exhibited in the second half of 2012. The more subdued rise in M3 was mainly attributed to 7% expansion to $3,650 million in NFA of the banking system, which was partly offset by increasing claims from central government over the same period. Similar to changes in M0, the drivers of growth for M3 originated from an increase of government deposits and a decline in capital accounts of the banking system, which only partially counteracted the accelerated private sector credit growth.

The growth in M3 varied by component; currency in circulation contracted by 7% to $493 million as of June 2013 compared to December 2012, while the increase in demand deposits eased further to just 3% to reach $1,920 million. Making up the final component of M3, time and savings deposits grew at an accelerated pace of 11% to $743 million over the same period, significantly faster than the 1% growth demonstrated in the second half of 2012 (see Figure 3.1.3).

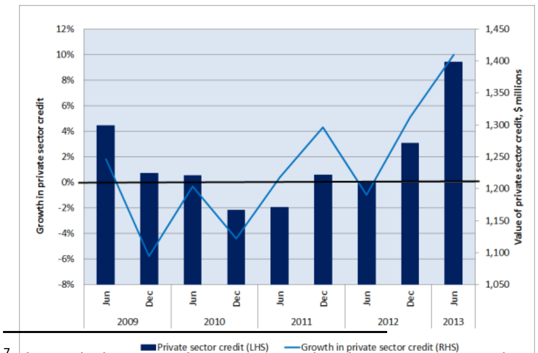
Figure 3.1.3: Components of Broad Money



Credit conditions

The state of net domestic credit (NDC) reduced from $257 million in December 2012 to $12 million in June 2013. This was a direct outcome of faster growth in net credit to the non-financial public sector[7] (NFPS) outstripping the increase in private sector credit. At the end of the first half of 2013, net credit to NFPS widened from minus $1,015 million in December 2012 to minus $1,386 million by June 2013. As explained earlier, the net credit to NFPS reflected the large accumulation of government deposits, which dwarfed the small amounts of credit issued to them. The other major component of NDC is private sector credit (PSC), which expanded at a significantly faster pace of 10% to reach $1,398 million in June 2013[8] from $1,271 million as of December 2012, a trend observed during most of the months within the period (see Figure 3.1.4).

Figure 3.1.4: Private Sector Credit Growth



[7] This includes central government, local government, and public non-financial corporations.

[8] PSC refers to the total credit to private sector from ODCs and CBSI.

Growth in credit from ODCs continued to be bolstered by the increase in loans, which grew by 11% from $1,094 million in December 2012 to reach $1,215 million by June 2013. This was also supported by increases in trade bill credit and overdrafts to $22 million and $141 million, respectively. Lease financing, on the other hand, declined by $3 million to reach $8 million over the same period. The composition of credit remained very similar; as of June 2013, loans and overdrafts accounted for 88% and 10% of total PSC from ODCs respectively, while lease finance and trade finance accounted for the remainder.

Compared to December 2012, the sectoral profile of private sector credit from ODCs remained the same for the largest recipients; the personal, distribution, construction and communications sectors continued to dominate, accounting for 70% of total credit from ODCs in June 2013 (see Table 3.1).

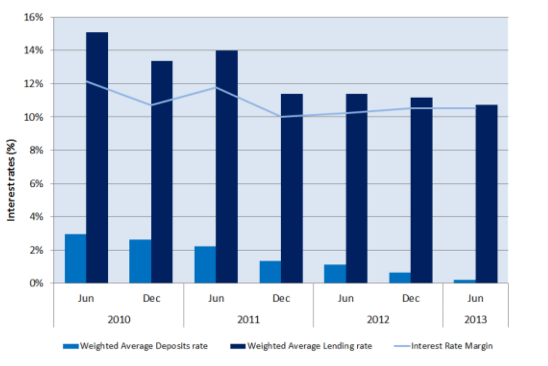
Table 3.1: Credit from ODCs by sector

	Jun 2012 $ Millions	Dec 2012 $ Millions	Jun 2013 $ Millions
Personal	332.4	374.7	416.1
Distribution	181.1	165.6	199.8
Construction	173.8	189.7	191.8
Communications	89.7	107.4	158.8
Tourism	72.9	80.1	73.7
Professional and Other Services	67.6	68.8	67.9
Transport	64.2	62.5	67.8
Manufacturing	58.0	57.1	55.5
Statutory Corporations	0.4	35.8	38.1
Agriculture	19.9	27.2	33.0
Forestry	47.0	48.0	25.9
Bills Receivable	25.0	7.0	21.9
Fisheries	1.6	3.8	19.4
Entertainment and Catering	16.6	16.1	16.1
Non-Resident	0.2	0.2	0.3
Mining and Quarrying	6.5	5.1	0.2
Private Financial Institutions	0.2	0.1	0.1
Provincial Assemblies and Local Governments	0.0	0.4	0.0
Central Government	0.0	0.0	0.0
Souce: CBSI			

Interest rates

Since December 2012, the weighted average lending rate declined from 11.17% in December 2012 to 10.73% in June 2013 with some variation across the months (see Figure 3.1.5). This downward movement helps to partly explain the increase in private sector credit growth. The decrease over the period was accredited to a reduction in lending rates to construction, professional and other services, and provincial assemblies and local government. Meanwhile, the weighted average deposit rate continued to decline to 0.20% by June 2013 from the revised 0.64% in December 2012. The fall mainly reflected a significant decline in deposit rates offered on all time deposits with the exception of time deposits of 3-6 months. Overall, the interest rate margin saw no change over the period and remained at 10.53% at the end of June 2013.

Figure 3.1.5: Weighted Average Deposit and Lending rates



Source: CBSI

Liquidity

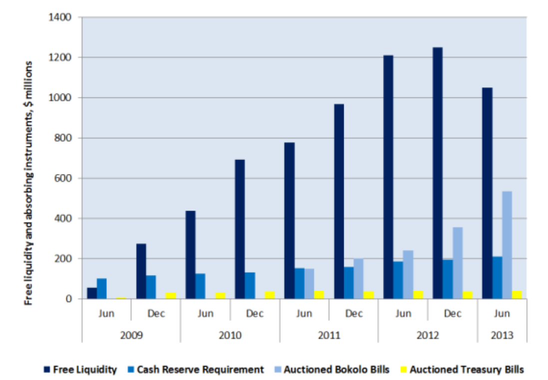
Total liquidity in the banking system increased by 5% to $1,259 million at the end of June 2013, compared to a 17% fall recorded in the previous quarter. Meanwhile, growth in free liquidity[9], continued its downward trajectory to register a contraction of 16%. This is confirmed by the negative growth observed in reserve money. With cash reserve requirements maintained at 7.5% of total deposit liabilities, the slowdown from the 3% growth observed over the same period to December 2012 continued to be driven by the increase in the issued stock of auctioned Bokolo bills, accumulating government deposits, and slower growth in net foreign assets. By June 2013, free liquidity stood at $1,049 million (see Figure 3.1.6). With the increased availability of stock floated on the market, the total absorbed by commercial banks as of June 2013 reached $535 million, up from $356 million six months prior. The rise in stock invested in Bokolo bills went

[9] Free liquidity is the Central Bank's measure of excess of cash reserve holdings needed to meet depositors' requirements of withdrawals on demand,

hand in hand with an increase in the weighted average yield (WAY) from 0.47% in December 2012 to 0.51% in June 2013.

CBSI continued to facilitate the auctioning of government Treasury bills on behalf of the Government throughout the year. However, the cap on Treasury bills remained unchanged at $40 million despite the robust demand. Over the review period, Treasury bill rates reversed their previous trend; WAYs for 56 day, 91 day, and 182 day bills rose from 0.36%, 0.34%, and 0.32% in December 2012 to 0.47%, 0.46%, and 1.47% in June 2013, respectively.

Figure 3.1.6: Free Liquidity and Liquidity Absorbing Instruments



Source: CBSI

3.2 External Conditions

The balance of payments position of the country improved in the first six months of 2013 as a result of ongoing donor support and foreign investment inflows particularly in the second quarter. The current account deficit narrowed to $169 million, driven mainly by a growing secondary income surplus combined with narrowing deficits in the trade in services and primary income accounts. The capital account balance, in spite of a 43% fall against the preceding six months, remained positive at $257 million.

Current and Capital Account Balances

The overall current and capital account balance as of June 2013 was $88 million compared to $183 million in December 2012. The improvement mainly came from the current account.

The current account deficit narrowed by 37% against the preceding half year to $169 million by June 2013. The significant improvement benefited largely from the secondary income surplus that stemmed from strong donor inflows. This was in addition to improved positions in the trade in services and primary income accounts. Donor inflows rose by 52% to $473 million, reversing the 38% drop in the preceding six months to $312 million. In the primary income account, investment income from net direct investment shrunk by 26% against the second half of 2012 to $269 million to explain the lower primary account deficit this period. Similarly, the smaller deficit in the services account was aided by the large falls in net payments for financial and transport services.

Trade developments deteriorated in the first six months of 2013, reversing the half yearly trade surpluses recorded since December 2011. The $197 million trade deficit recorded by June 2013 was driven by falling commodity prices that consequently dampened outputs for key commodities. The inability of the country to raise output levels and diversify the export base limits the capacity of the country to shield the economy from such adverse price shocks.

The worsening trade deficit was due to the sharp contraction in export receipts by 18% ($319 million) against the second half of 2012 to $1,502 million while import payments only fell by 5% ($92 million) to $1,699 million. During the period, the top four export earners namely logs, mineral, fish, and palm oil which represents 88% of total exports, shrunk against the preceding period to explain bulk of the net fall in overall exports. Fish exports recorded the largest fall of 49% ($145 million) to $154 million and logs by 14% ($116 million) to $730 million. Minerals and palm oil recorded smaller contractions of 7% ($26 million) and 17% ($22 million) to $326 million and $105 million respectively. Comparing to the second half of 2012, all commodities contracted except for fish, sawn timber and other exports. However, exports bounced back strongly in the second quarter to $817 million from $684 million in March quarter. Rebounding commodity prices and higher than expected increase in gold volumes, particularly in the second quarter, were major factors behind the positive turnaround.

Imports in the first half of this year contracted 5% to $1,699 million, reversing the 20% growth in the preceding half year. Comparing to a year ago, current imports were higher by 14%. Major import categories leading the fall against the preceding half year were machineries, which fell by 8% ($40 million) to $489 million; basic manufactures by 13% ($35 million) to $243 million; and food by 5% ($20 million) to $369 million. The food import bill reflects downward movements in overseas food prices. The CBSI price index, a composite of major imported food items, dropped to 171 points from 179 in December 2012, tracking closely the international price of rice which represents 52% of the index.

Mineral fuels, on the other hand, led the few import categories that registered increases with a $25 million (6%) expansion to $469 million. This is in line with surges in fuel prices in the first quarter and rising import volumes across the six months of this year. Singapore Tapis oil prices, after reaching a peak in February 2013 at US$122 per barrel, dropped by 3% against December 2012 to US$110 per barrel. However, upward pressures mounted in June and could be attributed to the socio-political tensions in oil producing countries.

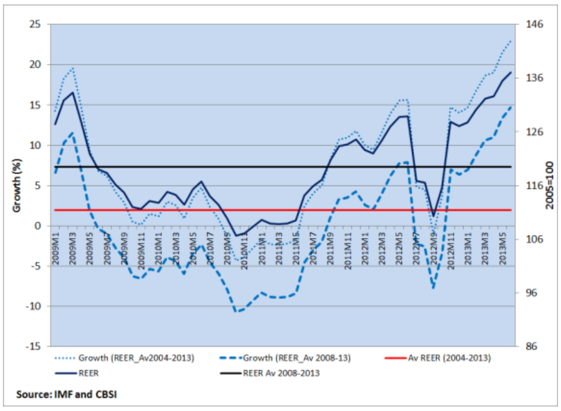
With regards the capital account, capital receipts contracted substantially by 43% against the preceding half year to $257 million following abnormally high receipts from donors in the second half of 2012 However, the capital receipts received in the first half of this year was still within the vicinity of the average half yearly receipts in the periods between 2010 and June 2012.

Exchange Rates

The CBSI maintains the pegging of the SBD against a basket of key trading currencies with some allowances for the SBD to move within a narrow band. In the first six months of 2013, the SBD, on average, appreciated against all major trading currencies except for Euro and NZD. The SBD strengthened against the USD by 0.6% to $7.31; 2.9% against the AUD to $7.42; 16.4% against the Japanese Yen to $7.70 per ¥100; and 3.6% against Pound Sterling to $11.28. On the other hand, the SBD depreciated against NZD and Euro by 0.8% and 2.4% to $6.05 and $9.60, respectively.

According to the real effective exchange rate (REER) index, the SBD appreciated by 7.8% over the six months to June 2013 to unprecedented level at 137 points. Comparing to the short term and long term averages of the REER index, the SBD overshot the average five year (2008-2013) REER index by 15% and the longer term average (2004-2013) by 23% (see Figure 3.2.1). While the magnitude of the overshooting differs, both benchmarks showed the SBD has been overvalued since November 2012. The current trend implies local exports were becoming less competitive relative to our country's major trading partners. However, on a positive note though, the growth in the real effective exchange rate was partly due to the weakening of AUD and NZD vis-a-vis the USD as a result of weak global demand for exports. A turnaround in these two currencies in the near future could see the index retreating to traditional levels.

Figure 3.2.1: REER Movements



Reserves

The gross foreign reserves (GFR) accumulated further during this half year of 2013 to $3,742 million (US$514 million) from $3,668 million (US$498 million) in December 2012. The build-up resulted from donor, trade, and investment inflows, particularly in the second quarter, outstripped outward government payments and foreign exchange losses, which emanated from the appreciating SBD. The stock of reserves is adequate to cover more than 10.1 months of imports. Despite the increase, GFR is expected to come under pressure in the second half since the bulk of the expected donor flows has been received in the first half of 2013, and in anticipation of dwindling export receipts across the face of rising imports.

3.3 Domestic Conditions

The downward revision of real GDP forecasts for 2013 reflects weaker than expected performance in some sectors, namely in agriculture, forestry and mining, which more than offset growth in other sectors such as fisheries, manufacturing, utilities, and retail and wholesale activities. Meanwhile, inflation increased somewhat as a result of domestic price conditions despite more subdued international food and fuel prices.

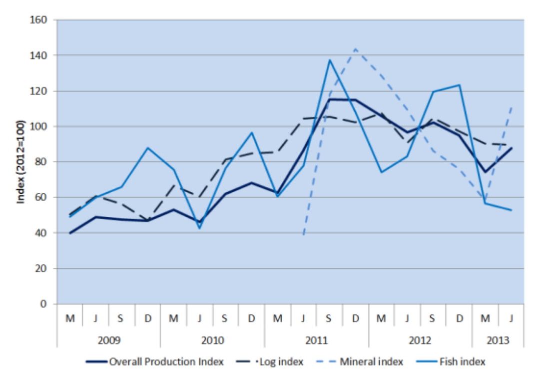
Economic Growth

Real GDP growth forecasts for the domestic economy have been revised downward to 3.1% from the initial 4.2% estimated in March 2013. The lower growth projection was driven by subdued performances across key export sectors whose growths were impeded by unfavourable commodity prices and adverse weather conditions in the first quarter. The downward revision was influenced largely by contractions in forestry and agriculture. On the other hand, the mineral sector is forecast to fall against 2012 but at a more modest rate than previously anticipated in March 2013. This benefited from the quick turnaround in output capacity at the mine site, with monthly average output expected to improve during the rest of 2013. All other sectors continued to show resilience, supported by donor supported programs and private sector activities. The growth in private sector credit is anticipated to provide stimulus to domestic demand conditions. This is evident in the non-forestry and non-mining sectors, which are expected to grow by more than 3% in 2013 despite the fall in the agriculture sector.

Production of Major Commodities

Key commodities subdued in the first half of 2013 were largely influenced by weak global commodity prices in the first quarter. The CBSI production index, a composite measure of the six main exportable commodities, trended downward in the first three months of 2013 before rebounding slightly in the second quarter to 87.7 points (see Figure 3.3.1). Despite the bounce back in the second quarter, the recovery was still lower than the levels seen since September 2011. Commodities that drove the index downward were logs, fish, copra and cocoa. Logs, which accounted for 47% of the total weight, dropped 11% against the second half of 2012 and 9% against the same period a year ago. On a positive note, palm oil and mineral recovered in the second quarter to negate falls in the first quarter and were major boost to the slight uptick in the overall production index in June quarter.

Figure 3.3.1: Production Indices



Source: CBSI

Weaker commodity prices were a major disincentive to rural copra and cocoa production. This subsequently led to the steady deterioration in income levels for copra and cocoa producers over the years. Combined half yearly income for copra and cocoa cutters shrunk 65% to $33 million in the first half of 2013 from $95 million in the first half of 2011. Copra was the hardest hit with a fall of 83% to $12 million this period from $69 million in the first half of 2011.

Employment

Partial employment indicators showed labour market conditions were robust in the first half of the year. According to the Solomon Islands National Provident Fund (SINPF), the number of active and slow active contributors rose to 49,133 members as of June 2013 from 47,740 members as of December 2012. The increase can be attributed to growing employment numbers as well as improved compliance at SINPF. Similar sentiments were revealed by other partial indicators such as the CBSI job advertisements survey, which showed an improvement over the preceding half in 2012 with education sector and public sector recording the highest number of advertised vacancies.

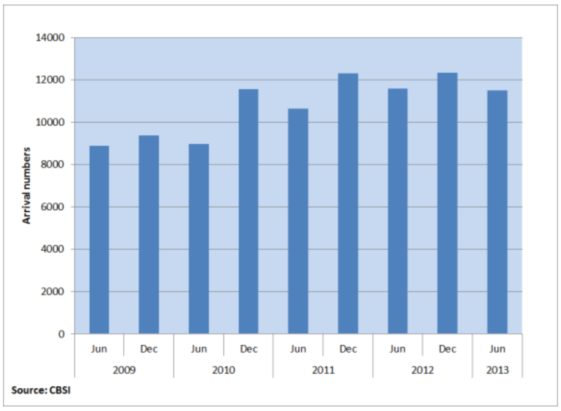
However, protracted and unresolved industrial disputes such as the teachers strike in 2013 marred the strong performance in the labour market. Prolonged strikes have often resulted in unintended adverse effects on the economy in the form of reduced productivity so measures must be taken by all parties to quickly resolve industrial disputes.

Tourism

Visitor arrivals in the six months up to June 2013 contracted against the previous six months as is usually the case in previous years and partly due to the one off jump in 2012 arrivals relating to the Festival of Pacific Arts (see Figure 3.3.2). Total visitors during the first six months fell to 11,513 visitors' arrival, drops of 7% and less than 1% against the preceding six months and the same period in 2012. Australia continues to be major market, accounting for 45% of total visitors so far this year followed by New Zealand, Fiji, and Papua New Guinea.

Of the total visitors, 23% (2,648 people) were classified as tourists and they spent up to 14 days in the country. This numbers does not include visitors that came by boats. As often the case in previous years, Australia is the primary market for tourists visiting the Solomon Islands, representing more than 50% of tourist arrivals.

Figure 3.3.2: Visitors Arrivals

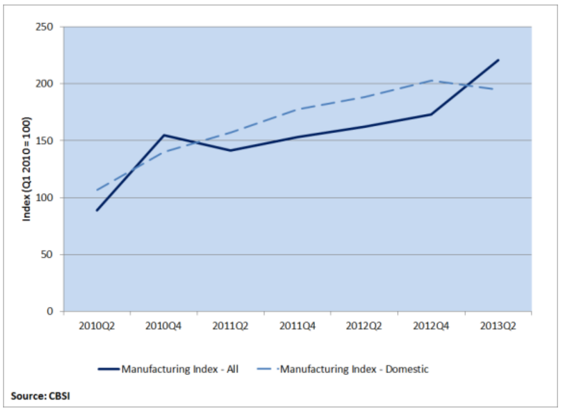


Work on Munda International Airport was progressing well after landowning related hiccups were resolved, indicating prospects for tourism in years ahead. In the near term, prevailing concerns over poor transport networks, capacity constraints within the industry, and high costs remain some of the issues that will continue to impede any substantial progress in this sector.

Manufacturing

The manufacturing sector, as measured by the CBSI manufacturing index, continues to show some buoyancy in the first half of 2013, increasing by 27% (see Figure 3.3.3), driven by production for exports. However, over the same period, the domestic component of the index fell by 4% but signs of improvement were witnessed in the in the second quarter with growth of 1% compared to the 7% contraction in the first quarter.

Figure 3.3.3: Manufacturing Indices

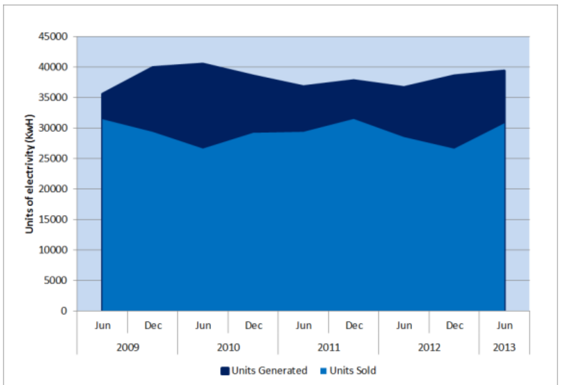


Furthermore, loans issued to the manufacturing sector grew strongly by 17% in the first quarter before falling to $56 million by June 2013. The sentiments shown by these various indicators imply domestic demand conditions in the first half of the year generally improved against the previous years.

Electricity

Energy demand rose during the first half of the year in line with expected growth in the domestic economy (see Figure 3.3.4). The level of electricity generated and sold together with the volume of fuel imported in first half of 2013 bore testament to the growing energy demand. Electricity generation from the Solomon Islands Electricity Authority (SIEA) trended upward by 2% to 39,414 megawatt hours (MwH). Of this generated volume, units of electricity sold accounted for 78% or 30,812 MwH, an increase of 16% against the second half of 2012. Electricity for domestic consumers expanded from 3,393 MwH in 2012H2 to 7,557 MwH by June, implying improved efficiency in sales and households income.

Figure 3.3.4: Electricity generation and consumption



Source: CBSI

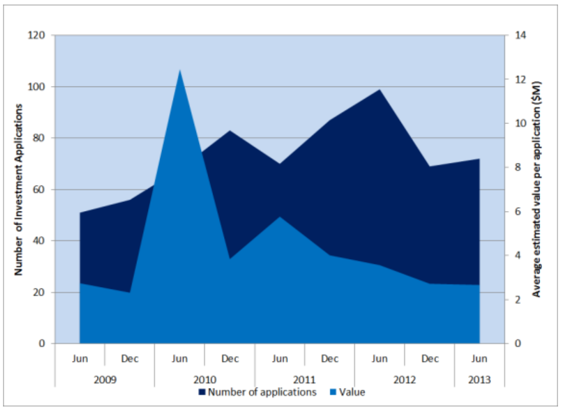
Retail and Wholesale

Retail and wholesale activities buoyed in the first six months of 2013 as shown by partial indicators for this sector. Credit issued by commercial banks to distribution expanded by 21% to $200 million, a massive turnaround from the 9% decline in latter half of 2012. This was driven mainly by loans that were issued specifically to the retailers category, which increased by 32% ($23 million) over the six months period to $96 million by June 2013.

Foreign Direct Investment

Foreign direct investment (FDI) remained above the $200 million mark as in previous periods. As recorded under the financial accounts of the Balance of Payments, $256 million in FDI were received in the first half of 2013 compared to $231 million and $271 million in the first and second halves of 2012 respectively. This is consistent with other indicators such as the FDI applications the Foreign Investment Division (FID) received. According to the FID, 72 FDI applications were received during this period against 69 applications in the preceding half year and 99 applications in the same period of 2012. The sectors recording higher interest from intending investors were wholesale, other services, construction, transport, agriculture and forestry. Noteworthy movements were recorded in agriculture with five applications this half year as opposed to no applications in 2012, while forestry applications dropped to single digit for the first time since 2010.

Figure 3.3.5: Foreign Direct Investment Trends



Construction

Building permit data for Honiara, which the CBSI often use to measure construction activities, is still not available at the time of publication. Another partial indicator, credit issued by the commercial banks to construction sector mostly for commercial projects, grew slightly by 2% to $193 million in the first quarter before descending to $192 million in June 2013. This was a massive slowdown compared to the half yearly growth of 9% in December 2012, and was understandably because most commercial projects that occurred in 2013 were carried over projects from 2012. On a more affirmative note, personal housing loans issued by commercial banks in the first half of 2013 jumped 11% against December 2012 to $183 million, boosted by intensive activities across the first three months this year.

However, the basic manufactures import category, a partial indicator for imported construction materials, dropped 13% against the second half in 2012 but was comparatively higher than the same period in 2012 by 5%.

3.4 Fiscal conditions

Over the first half of 2013, the Government recorded a fiscal surplus of $176 million and a corresponding recurrent surplus of $351 million. This compares to a revised fiscal surplus of $278 million and a recurrent surplus of $654 million over the second half of the 2012. The small surpluses reflected lower Government and donor spending under a backdrop of even larger falls in revenue collection and grant allocations. In the meantime, public debt stock at the end of June 2013 fell to $968 million, equivalent to 15.6% of nominal GDP, now significantly below 20% target set under the 2005 Honiara Club Agreement[10].

Total revenue including grants, witnessed a fall from a revised $1,696 million in the last half of 2012 to reach $1,418 million in the first half of 2013, a magnitude of 16%. This was a direct result of declines across all major revenue categories, including recurrent grants and grants for capital projects.

Recurrent revenue, comprised of local revenue and recurrent grants, observed a decline of 13% to $1,410 million. Local revenue fell from $1,335 million in the second half of 2012 to $1,212 million in the first half of 2013. Some positive revenue increases over the review period was observed by marginal gains in Inland Revenue Division (IRD) collections, which grew by 0.4%. IRD revenue stood at $782 million on the back of all revenue streams witnessing a rise, with the exception of private sector PAYE and sales tax, which both fell. This growth was dwarfed by declines in collections from Customs and Excise Division (CED) by 4% to $382 million and non-tax revenues from other ministries (NTR) by 70% to $48 million. The lower customs revenue level reflected falls in all revenue categories across the division apart from import duties while the lower NTR performance was ascribed to lower collections from ministries, namely the Ministry of Fisheries and Marine Resources and the Ministry of Infrastructure Development. Completing the recurrent revenue position was the reduction of recurrent grants by 31% to $199 million.

Total expenditure during the first six months of the year declined by 12% to reach $1,242 million compared to a revised $1,428 million in the last six months of last year. This was attributed to the fall in development expenditure more than offsetting the rise in recurrent expenditure.

Recurrent expenditure spent in the first half of 2013, including budgetary support, rose by 10% to $1,060 million from the revised $967 million expended in the second half of 2012. The upturn reflected an increase in goods and services spending that outweighed falls in payroll and debt servicing. Spending on goods and services witnessed an increase of 17%, rising from a revised $595 million during the second half of 2012 to $695 million over the first half of 2013. On the contra, payroll spending, over the same period, fell by 2% to $357 million from the revised $364 million. This reflected the Government's efforts, from the second quarter onwards, to control spending amidst cash flow concerns and in anticipation of lower than expected revenue collection. Similarly, over the same period,

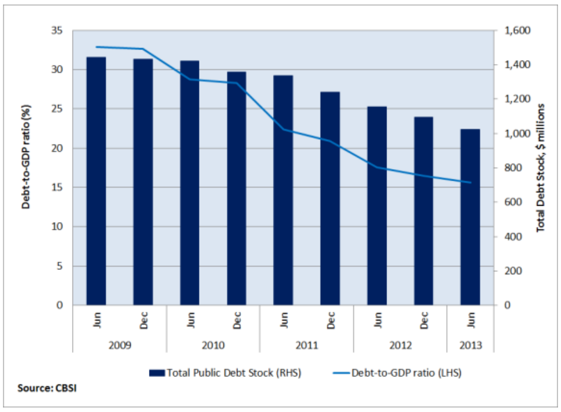
[10] Based on 2012 nominal GDP.

debt servicing fell by 10% to $8 million from $9 million in the last six months of 2012[11].

Development expenditure fell by 60% during the same period. Spending dropped significantly from a revised $451 million in the second half of 2012 to $182 million in the first half of 2013. The fall was linked to lower than budgeted disbursements of funds from capital projects in the first quarter of the year. By component, SIG funded development expenditure explained much of the contraction having decreased by nearly $200 million from $374 million to $175 million over the same period[12].

In addition, total public debt stock fell from $1,023 million as of December 2012 to $968 million as of June 2013 (see Figure 3.4.1). This was attributed to debt payments to both domestic and external debt stock over the period. Domestic debt stock fell from $240 million to $225 million while foreign debt stock decreased from $784 million to $743 million. As a result of these developments, the debt to GDP ratio declined from 16.5% as at December 2012 to 15.6% as at June 2013.

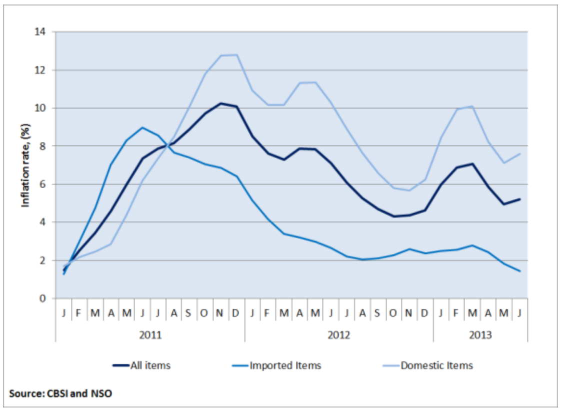
Figure 3.4.1: Total Public Debt Stock



3.5 Inflation

The headline inflation rate[13], which detects current price pressures, stood at 5.2% for the month of June 2013, up from 4.6% as of December 2012. Since the publication of the last MPS, headline inflation witnessed a steadily faster pace over the first quarter 2013. The rate peaked at 7.1% in March 2013 before slowing to around 5% during the second quarter, to reach its latest position as of June (see Figure 3.5.1).

Figure 3.5.1: Headline Inflation (3mma)



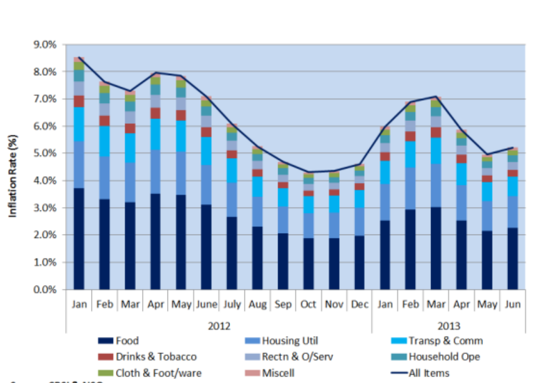
Once again, headline inflation remained elevated by movements in the domestic inflation component, which reflects domestic price movements and currently stands at 7.6%, up from 6.3%. Imported inflation, on the other hand, has been subdued throughout the period and slowed further in June of this year to 1.4% from 2.4% witnessed in December of last year. Over this period, headline inflation, remained within the Central Bank's forecasted range of 5%-6% that was outlined in the March 2013 MPS statement.

The faster headline inflation rate between December 2012 and June 2013 reflected faster rate of growth in indices in food, drinks and tobacco, clothing and footwear, housing and utilities and housing operations. This was partially offset by slower growth rates in the indices of transport and communications as well as miscellaneous items, and a fall in the recreational and other services index. Adjusted for the weights of the indices, the 5.2% growth in the Honiara Retail Price Index (HRPI) continued to be driven mainly by upward pressures in the food and housing & utilities components. In detail, it comprised of

[11] In line with government finance accounting standards, debt servicing figures quoted in this CBSI publication now presents debt servicing as interest payments only and excludes the principal amount, as previous MPS publications set out.
[12] SIG development expenditure also includes donor funds from the consolidated account but does not capture other development expenditure in the form of unappropriated funds.
[13] Measured by a three months moving average (3mma)

food accounting for 2.3% of the overall growth, followed by housing utilities with 1.2%, transport and communications with 0.7%, recreation and health services as well as drinks and tobacco each contributing 0.3%. Clothing and footwear and household operations each explained 0.2% of the growth rate and miscellaneous explaining 0.1%. This compares with the 4.6% growth in the HRPI in December 2012, which was explained by food with 2.0%, followed by housing utilities with 1%, transport and communications with 0.7%, recreation and health services contributing 0.3%, whilst drinks and tobacco, clothing and footwear as well as household operations all contributed 0.2%. Miscellaneous items explained the remaining 0.1% (see Figure 3.5.2).

Figure 3.5.2: Headline inflation contributions by component



Source: CBSI & NSO

In terms of sources of inflation, the domestic inflation rate continues to be dominant driver, quickening in pace to 7.6% in June 2013 from 6.3% in December 2012. This was caused by increases across all categories with the exception of recreation, health, and other services. Adjusted for the weights of the indices, the 7.6% growth in the Domestic HRPI was attributed to food, which accounted for 3.0%, followed by housing utilities at 2.2%, transport and communications, which explained 1.1%, drinks and tobacco at 0.6%, recreational, health, and other services at 0.5%, household operations at 0.2% whilst clothing and footwear contributed 0.1%. The additional upward pressures in the Domestic HRPI over the period have been mainly driven by movements in the food and housing and utilities components.

On the contra, the imported headline inflation rate for June 2013 declined to 1.4% from 2.4% as of December 2012. This was driven by falls in housing utilities, transport and communications, while recreation, health and other services and miscellaneous items witnessed a slowdown, and the drinks and tobacco index remained at the same growth rate. This was partially offset by rises in food, household operations, and clothing and footwear. Adjusted for the weights of the indices, the 1.4% growth in the Imported HRPI was driven by food, which explained 0.7%, followed by housing utilities and transport and communication each accounting for 0.2%. The remaining categories each accounted for 0.1% with the exception of drinks and tobacco, which did not contribute to inflation over the period. The softening in the Imported HRPI over the period has been mainly driven by downward movements in the food component and, to a lesser extent, housing and utilities, transport and communications, and household operations.

4. Outlook

Global economic outlook is less favourable than initially forecasted in April with the IMF revise growth projections downward in the current to near term. Nevertheless, global growth is expected to expand from 3.1% in 2013 to 3.8% in 2014. Emerging and developing economies are forecast to augment the 5% growth this year with a 5.4% growth in 2014. China and India, the major drivers of world growth, are expected to grow by 7.8% and 6.3% respectively. The euro area is projected to recover from negative growths up to 2013, posting 0.9% growth in 2014 on the back of solid growth from Germany and recoveries from France, Italy, and Spain. The US economy, benefiting from robust private sector demand, may grow 2% in 2014, further consolidating the 1.2% growth this year. With the foregoing, advanced economies is expected to expand by 2.1% next year.

Moreover, with better than expected second quarter GDP growth figures in the US and more upbeat messages from the European Central Bank in recent weeks, this forecast for the advanced economies may be higher than current IMF forecasts.

However, the IMF anticipated the downside risks to dominate the outlook. While tail risks in advanced economies continue to diminish, measures need to be taken to keep the risks at bay. These measures include timely increases to the US debt ceiling and comprehensive actions by euro economies to mitigate and reverse financial fragmentation. Potential risks of prolonged growth slowdowns are also expected from the emerging and developing economies if domestic capacity constraints, slower credit growth, and weak external conditions fail to improve.

In terms of the Solomon Islands' major trading partners, China is forecast to maintain the 7.8% growth into 2014. With weak external demand, the Chinese economy is looking at stimulating domestic consumption to rebalance its sources of growth. Australia and New Zealand are expected to bounce back in 2014 after more moderate growth forecasts for this year.

Inflation may vary across the different economic regions in 2014. The IMF estimates inflation in advanced economies to increase from 1.5% in 2013 to 1.9% in 2014. Emerging market and developing economies on the other hand will see inflation tapering further to 5.5% next year from 6.0% in 2013, consistent with trends in previous years. This development concurs with the expected fall in both fuel and food prices in the world market. According to the IMF, inflation in China is within manageable level of around 3%. The Reserve Bank of Australia expects inflation in Australia to be contained within the range of 2%-3%. Similarly, Reserve Bank of New Zealand maintains a band of 1%-3% for inflation.

Turning to the domestic economy, GDP growth forecasts are now anticipating a revised growth rate of 3.1% for 2013, down from the initial 4.2% estimated in March 2013. The lower growth projection is due mainly to contractions in forestry and agriculture, and to a lesser extent, in the mineral sector than previously estimated in the last MPS. Growth will be attributed to the non-forestry and non-mining sectors, which are expected to grow by more than 3% in 2013. Furthermore, the domestic economy is expected to grow in 2014 on the back of robust growth in most sectors with the exception of forestry.

Monetary aggregates are expected to expand further in the remaining half of 2013 in line with growth levels in the first half. Growth in the CBSI net foreign assets and private sector credit may boost monetary growth but this should to some extent be countered by open market operations conducted by CBSI. With excess liquidity remaining pervasive and the availability of budgetary space, the CBSI may continue to incrementally raise the volume of auctioned Bokolo bills in the remaining months which could put a lid on monetary growth. With the general improvement in non-performing loans, there is scope for private sector credit to build on the momentum gained over the first half of the year and expand further in the next six months. Robust activities in the housing sector may continue in the remainder of this year.

The overall balance of payments position in 2013 is expected to improve though there are some components that may see some deterioration in the remaining months. Gross foreign reserves should accumulate moderately in the second half to around $3,738 million on the back of rising outward payments that may strip off some gains from donor, investment, and other inflows. The current account deficit is expected to worsen in the coming months from the $12 million deficit in 2012 but the projected deficit still remains manageably within 1% of nominal GDP. However, it is worth noting that donor flows is a major factor behind the low and manageable current account deficit. Year-to-date trade data showed exports will continue to lag behind imports as a result of the weak commodity prices. Though positive developments in mineral output provide a soft landing for falling exports, this is somewhat counteracted by the revised projection for a 4% fall in log output.

In response to the weak revenue collections in the first half of 2013, the Government imposed fiscal measures to contain expenditures; thus, achieving a recurrent surplus in mid-year. Pro rata estimates using the year-to-June data showed the Government could possibly record a recurrent surplus by the end of 2013, assuming expenditure patterns remain the same and revenue flows remain consistent in the remaining months. Government deposits may accumulate further as in the first half as some donor funded projects are pushed to next year.

Based on a range of CBSI inflation models, the inflation outlook in Solomon Islands is estimated to remain stable. All models suggest that the inflation rate will average within the range of 5% to 7%. Furthermore, given historical trends and forecasts of energy and food prices, the outlook for inflation in December is likely to pick up from its position of 5.2% in June to around the upper limit of this 5%-7% forecast. Recent data for July already showed some upward movement reaching 5.9%.

Imported inflation is forecast to average within 1%-2% for the year although the outlook for December is one of downward trajectory toward the lower end of this forecast. This reflects the continued falls in international food and fuel prices and historical price movements in the latter months of the year. More specifically to Solomon Islands, the CBSI imported food price index is projected to fall slightly by an annual average of 2% over the year with annual average Tapis oil prices also following a similar softening in price by around 2%-3%.

On the other hand, domestic inflation is anticipated to average at a stubbornly higher range between 9%-10% for the year. Unlike imported inflation, the outlook for the months to December is expected increase to the upper bound of this range, a reversal of the movements witnessed earlier in 2013. Domestic inflation remains the key driver for inflation and will continue to push the HRPI upwards if the expected trend for the coming months persists. Risks to inflation could originate from a reversal in food and fuel prices, a more rapid than expected growth in private sector credit, and exchange rate depreciation.

For 2014, inflation in Solomon Islands is forecast to remain, on average, around the same range as in 2013, that is, between 5%-7%.

5. Monetary Policy Stance

Economic developments in the first half of 2013 showed mixed impulses. The productive sector, dominated mainly by key export commodities, contracted following weakening export prices and unfavourable domestic supply conditions in the earlier part of the year. All these subsequently led to the deterioration in the trade balance to a deficit position by June 2013 and into the near term. However, inflows mainly from donors and foreign investments mitigated these downside risks that ensured the overall balance of payments remained in surplus by June 2013. Money supply grew between December 2012 and June 2013 though at a decelerating rate. The deceleration was facilitated by the open market operations CBSI undertook during the reviewed period and partly due to the growth in private sector credit that helped to drive free liquidity downward. As of June 2013, free liquidity stood at $1,049 million.

The headline inflation trend in the first half was driven mainly by domestic pressures that mounted in the early part of the year as a result of tight local supply conditions. However, the recent uptick in June has more to do with the fall in the domestic index a year ago than a reflection of current pressures. The imported index, on the other hand, fell below 2% by mid-year, benefiting from the stronger SBD and falling world market prices for key imported items such as food and fuel. Inflationary pressures are not expected to come from the rebounding private sector credit as growth in the personal loans was dominated by housing loans. Future expansion in fiscal and donor expenditure could only be considered as timely stimulus to boost domestic demand that may wane further as a result of the shrinking export sector.

In line with the recent trends and the outlook for the domestic economy (see summary Tables 5.1a and 5.1b), inflation is therefore expected to move within the 5%-7% range as indicated earlier in the year with end of year inflation anticipated at the upper end of this range. Therefore, unless conditions alter, CBSI will continue to pursue a moderate contractionary monetary policy stance in the next six months through existing open market operations in an effort to curb free liquidity while the cash reserve requirement is expected to remain the same. The exchange rate regime is anticipated to remain unchanged (see Table 5.2).

Table 5.1a: Inflation and other macroeconomic indicators

INDICATOR*	2009		2010		2011		2012		2013
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Consumer Price Index									
Headline inflation (3mma)	9.4%	1.3%	1.0%	0.6%	7.3%	10.1%	7.1%	4.6%	5.2%
- domestic component	*9.8%*	*2.1%*	*2.3%*	*0.7%*	*6.2%*	*12.8%*	*10.3%*	*6.3%*	*7.6%*
- imported omponent	*8.5%*	*1.2%*	*-0.5%*	*0.4%*	*9.0%*	*6.4%*	*2.7%*	*2.4%*	*1.4%*
Annual inflation (12mma)	17.1%	7.1%	1.5%	1.0%	3.0%	7.4%	8.3%	5.9%	5.4%
Balance of Payments ($millions)									
Gross Foreign Reserves	798	1177	1471	2144	2600	3034	3507	3668	3742
% change	12%	47%	25%	46%	21%	17%	16%	5%	2%
Current Account Balance	-529	-502	-782	-912	-436	-27	284	-267	-169
- Trade in goods balance	*-308*	*-289*	*-575*	*-527*	*-133*	*87*	*313*	*30*	*-197*
Capital Account Balance	91	125	243	159	225	314	260	450	257
Exports ($millions)									
Total exports	648	681	781	1023	1373	1801	1804	1821	1502
% change	-26%	5%	15%	31%	34%	31%	0%	1%	-18%
Imports ($millions)									
Total imports	955	970	1356	1550	1506	1714	1491	1791	1699
% change	-17%	2%	40%	14%	-3%	14%	-13%	20%	-5%
Of which are food imports	*226*	*260*	*254*	*379*	*230*	*413*	*295*	*389*	*369*
Of which are fuel imports	*229*	*188*	*257*	*200*	*383*	*398*	*398*	*445*	*469*
Import Cover (months)									
GFR minus govt ext. loan arrears	3.8	6.0	6.2	9.3	8.3	10.0	10.0	10.5	11.0
Prices									
Tapis Oil (daily average, USD per barrel)	56	75	80	85	116	119	123	115	114
CBSI Imported Food Price Index	578	578	506	632	629	659	665	659	655
Rice (Thai 5%, USD per mt)	575	591	440	532	514	586	600	557	524
Wheat (US HRW, USD per mt)	257	206	158	307	326	269	276	348	313
Fiscal Operations ($millions)									
Fiscal Deficit/Surplus	N/A	N/A	N/A	N/A	242	127	-87	278	176
- Actual Government expenditure (inc. donor expenditure)	N/A	N/A	N/A	N/A	870	1426	1330	1418	1242
Total Debt Stock	1430	1422	1356	1334	1240	1153	1092	1023	968
Debt to GDP ratio (%)	32.8%	32.7%	28.7%	28.3%	22.4%	20.9%	17.6%	16.5%	15.6%
Global Economic Activity (annual growth) (WB estimates)									
Economic growth - Australia	1.6%		2.1%		2.4%		3.4%		2.6%**
Economic growth - New Zealand	0.9%		0.2%		1.1%		3.0%		2.4%**
Economic growth - China	9.2%		10.4%		9.3%		7.8%		7.5%**
Annual Inflation - Australia	1.8%		2.8%		3.4%		1.8%		2.4%***
Annual Inflation - New Zealand	2.1%		2.3%		4.4%		0.9%		7.5%***
Annual Inflation - China	-0.7%		3.3%		5.4%		2.7%		2.6%***
Domestic Economic Activity									
Employment (NPF contributors, end period)	37011	38533	39282	41096	43367	43014	46342	47740	49133
Production Index (overall)	48.9	46.9	46.3	68.1	86.3	114.8	96.7	95.1	87.7
Manufacturing Index (overall)	N/A	N/A	77.3	151.6	143.5	150.4	171.9	150.2	224.8
Exchange rate movement									
SBD units per USD (period average)	8.05	8.06	8.06	8.06	7.90	7.38	7.36	7.35	7.31
SBD units per AUD (period average)	5.72	7.02	7.21	7.62	8.16	7.61	7.60	7.64	7.42
NEER (2005=100) (IMF estimates, end period)	88.0	83.0	87.2	81.1	82.2	87.6	89.1	86.7	91.6
REER (2005=100) (IMF estimates, end period)	119.0	113.1	116.7	108.4	114.1	124.6	128.9	127.1	137.1

* Some data has been revised as a result of the availability of new or updated information.
** Australia and China GDP growth reflect second quarter results while New Zealand GDP growth reflect first quarter results.
*** Australia - June data, China - August data, New Zealand - June data

Table 5.1b: Monetary and Credit Aggregates

INDICATOR*	2009		2010		2011		2012		2013
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Monetary Base (M0), $millions	412	717	924	1263	1410	1659	1953	2054	1807
% change	-6%	74%	29%	37%	12%	18%	18%	5%	-12%
Narrow Money Supply (M1), $millions	1002	1128	1189	1304	1679	1873	2226	2396	2413
% change	1%	13%	5%	10%	29%	12%	19%	8%	1%
M2 Measure , $millions	1152	1260	1470	1565	1776	1983	2275	2484	2558
% change	0%	9%	17%	6%	14%	12%	15%	9%	3%
Broad Money Supply (M3), $millions	1631	1831	1912	2075	2365	2610	2924	3064	3156
% change	4%	12%	4%	9%	14%	10%	12%	5%	3%
Free liquidity, $millions	56	274	436	692	776	967	1212	1251	1049
% change	-18%	392%	59%	59%	12%	25%	25%	3%	-16%
Private Sector Credit, $millions	1299	1224	1220	1166	1171	1221	1209	1271	1398
% change	2%	-6%	0%	-4%	0%	4%	-1%	5%	10%
Interest rate margin	N/A	N/A	12.1%	10.7%	11.8%	10.0%	10.3%	10.5%	10.5%

* Some data has been revised as a result of the availability of new or updated information.

Table 5.2: Developments in Monetary Policy and Exchange Rate Policy Instruments

Instrument	Description	Status in Mar MPS 2013	Status in Sep MPS 2013
Exchange rate	The Solomon Bokolo Dollar is pegged to a invoice-basket of trading currencies that is free to fluctuate within a ±1% margin of the base rate.	A managed float (within a ±1% margin of the base rate)	A managed float (within a ±1% margin of the base rate)
Open market operations - Bokolo bills	Bokolo bills are Central Bank backed securities denominated in Solomon Island Dollars with a 28 day maturity.	As of December 2012, $500 million stock was floated by CBSI and $356 million worth of successful bids were issued.	As of June 2013, $550 million stock was floated by CBSI of which $535 million worth of successful bids were issued.
Cash Reserve Requirement	The Cash Reserve Requirement is the minimum fraction of customer deposit liabilities and notes that each commercial bank must hold as reserves, as set by the Central Bank.	The Cash Reserve Requirement remained at 7.5%	The Cash Reserve Requirement remained at 7.5%