CENTRAL BANK OF SOLOMON ISLANDS

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GENERAL NOTE

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(i) The sum of the components may differ from the totals in some instances due to rounding.

(ii) Data are subject to periodic revision as more updated information becomes available.

GLOSSARY

The following terminologies are defined in the context of Solomon Islands.

Balance of Payments (BoP): Records all payments and receipts relating to the movement of funds between a country and foreign countries.

Bank Liquidity: Total amount of cash held by banks and not used for investment or other transactions.

Capital account: Records international transactions relating to the flow of capital between a country and foreign countries, such as investment, loans etc.

Current account: Records international transactions relating to the flow of goods, services, income and gifts. A surplus indicates higher inflows than outflows and a deficit indicates the opposite.

Domestic credit: Value of loans and advances obtained from within the country.

Excess Liquidity: The liquidity that banks possess that is greater than the minimum prescribed by the Central Bank.

Exchange rate: The price of foreign currencies stated in terms of the local currency or vice versa.

Exports: Goods that a country sells abroad.

External reserves: Stock of foreign currency assets of the Central Bank. These assets are earned through exports, foreign aid and loans obtained from institutions abroad.

Gross Domestic Product (GDP): Total value of all final goods and services produced in an economy during the course of a year.

Honiara Retail Price Index (HRPI): A consumer price index which shows the price level and changes in price level of goods and services in Honiara over time. This information forms the basis for calculating inflation in the economy.

Imports: Goods that a country buys from abroad.

Liquidity Asset Requirement: Usually defined as a percentage of deposit liabilities of a commercial bank that shall be held as cash or as balance with the Central Bank.

Money Supply: The total quantity of money in a country’s economy at a particular time.

Narrow money: Notes and coins in the hands of the public plus money held on demand deposits at the Central Bank.

Net Credit to Government: Value of borrowings by Government less its deposits at the banks and the Central Bank.

Private sector credit: Value of borrowings by private companies and individuals within the country.

Quasi money: Total of time deposits and savings deposits.

Trade balance: The difference between merchandise exports (goods sold overseas) and merchandise imports (goods purchased from overseas).

Trade surplus/deficit: A trade surplus is when the value of exports is higher than the value of imports, whilst a trade deficit is when receipts from exports are less than payments for imports.

Chapter I. OVERVIEW AND ANALYSIS

The prolonged trade war and weaker economic conditions has seen further downgrades in global growth to 3.0%, the lowest growth since the 2008-09 global financial crisis. This is evident in slower growth in both advanced and emerging economies. Nonetheless, there is some optimism, although also fraught by some uncertainties that growth will pickup to 3.4% in 2020 on the back of a recovery in the emerging markets.

Given the sluggish growth in the world economy, global inflation has remained muted and below target across advanced and emerging market economies. Consumer prices in advanced countries eased in 2019 and are expected to pick up in 2020, while inflation projections in emerging markets expect slight increases. Within this environment, global central banks have been pursing accommodative policies.

As a small open economy, the Solomon Islands has also experienced the impacts of the global slowdown. This is evident in the fall in commodity production index by 13% due to lower outturns from forestry and fisheries. On the other hand, manufacturing and foreign investment approvals rebounded during the period, while, indicators for tourism, construction, communication and wholesale retail continued to grow.

Headline inflation in the country trended upward, although still at moderate levels during the period. Consumer prices picked up to 1.7% in August (the available reporting month) from the low point of 0.4% in April that emanated from rising imported and domestic inflation. By component, the key drivers were the increase in food and utility prices.

Reflecting the weaker economic activity, monetary conditions tightened with reserve money declining by 5%, narrow money by 6% and broad money by 4%. This contraction reflected the fall in net foreign assets, although private sector credit continued to rise and average interest rate margins narrowed by 19 basis points at the end of the quarter.

The external sector also declined with the turnaround of the Balance of Payments outcome to a deficit of $285 million. A significant deterioration of the current account, particularly from weaker exports of goods, and as services payment for the submarine cable project drove the result. As such, the country's Gross Foreign Reserves fell by 7% to $4,733 million, although still with sufficient levels of import cover.

Government's fiscal position deteriorated to a deficit of $85 million in the September quarter. The fall in revenue by 6% amidst a 16% surge in expenditure drove the outcome. Weaker revenue stemmed from lower collection of tax, forestry and fisheries income, while the rise in expenditure reflected rise in both recurrent and development expenditure.

With the slower economic activity experienced in the country, counter cyclical polices would help promote growth. As such, the increase in the non-taxable income threshold slated for 1st January 2020 would act as a tax cut and would invariably contribute to stimulating activities. Moreover, it is also important that fiscal and macroeconomic buffers are rebuilt to cushion any further shocks amidst an uncertain global environment and prospects for tighter fiscal conditions.

Chapter II. INTERNATIONAL DEVELOPMENTS

Global Output

According to the International Monetary Fund (IMF) World Economic Outlook (WEO)[1] update, global growth for 2019 has been downgraded to 3.0%, the lowest growth level since the global financial crisis in 2008-09. This 20 basis points downward revision compared to the July 2019 update reflected a further weakening of global economic conditions due to the ongoing US-China trade and technological tensions translating into subdued industrial production, weaker investment and trade activities. Global growth for 2020 is expected to pick up to 3.4%, albeit a 10 basis points downward revision against the previous update. This projected uptick in growth is supported by the recovery in several macroeconomic stressed emerging market economies in Latin America, the Middle East and emerging and developing Europe.

Growth in advanced economies is forecasted to soften to 1.7% in 2019, a 20 basis points downward revision from prior forecasts. This outcome reflected the slowdown in economic activities across major advanced economies on the back of weak industrial production and trade amid ongoing policy uncertainty. Consistent with previous projections, growth in advanced economies for 2020 is forecasted to remain at 1.7%.

In the United States (US), growth prospects for 2019 have revised downward to 2.4%, a 20 basis points downward revision from July forecasts. This is largely due to sluggish performance in business investment attributing to the ongoing trade dispute and wanning effects of the 2018 tax cuts. On the other hand, employment and consumption growth in the US have remained buoyant. In 2020, growth for the US is expected to moderate to 2.1%, an upward growth revision from 1.9% in July 2019. This follows the shift in the fiscal stance from expansionary in 2019 to broadly neutral in 2020 as the stimulus from the recently adopted two-year budget deal offsets the fading effects of the 2017 Tax Cuts and Jobs Acts. Moreover, in the United Kingdom (UK), growth for 2019 has eased to 1.2% this quarter from 1.3% in the July update due to weaker economic activities, particularly investment. However, in 2020, UK's growth is expected to pick up to 1.4%, which is broadly in-line with earlier April and July 2019 forecasts. This outlook is buoyed by a combination of a negative impact from weaker global growth and on-going Brexit uncertainty and a positive impact from increased public spending.

Similarly, growth in the Euro area, a key export market for the country's fish, palm oil and coconut products, are projected to ease to 1.2% in 2019, a 10 basis points downward revision from earlier forecasts. The slower growth is driven by weaker expansion in foreign demand as well as the drawdown of inventories, reflecting weak industrial production. Notwithstanding these, economic activities are expected to rebound modestly over the rest of 2019 and into 2020.

Growth in Japan for 2019 remained at 0.9%, consistent with the July 2019 forecast and is expected to slow down to 0.5% in 2020, albeit a 10 basis upward revision from prior forecasts. Japan's growth in the first half of the year, was supported by private consumption and public spending despite a weaker performance in the external sector. As for 2020, growth in Japan is projected to be backed by the temporary fiscal measures expected to cushion the decline in private consumption following the increase in the consumption tax rate.

Moreover, in emerging markets and developing economies, growth is expected at 3.9% in 2019 before rising to 4.6% in 2020. The forecasts for 2019 and 2020 are lower by 20 basis points and 10 basis points respectively reflecting downward revisions to growth in nearly all major regions. Growth in China is projected at 6.1% in 2019, a 10 basis points downward revision from July 2019 underpinned by slower growth in domestic demand. Meanwhile, China's growth in 2020 is expected to moderate further to 5.8%, a 20 basis points downward revision compared to the previous update. This outlook reflects in part the escalating effects of the tariff war and weakening external demand.

As for India, growth is expected to expand to 6.1% in 2019 and pick up to 7% in 2020. These projections have been revised downwards by 90 basis points and 20 basis points respectively reflecting weaker than expected outlook for domestic demand. However, growth will be supported by the lagged effects of monetary policy easing and fiscal policies relating to the reduction in corporate income tax rates, recent measures to address corporate and environmental regulatory uncertainty and government programs to support rural consumption.

Growth in our neighbouring trading countries, New Zealand and Australia have also slowed down partly mirroring weakening global growth. In the New Zealand economy, growth continued to slow to 2.1% in the June 2019 quarter from 2.5% in the March quarter and is projected to bottom out at 2.0% in the December 2019 quarter[2]. The slower growth reflected weak business investments, soft household spending coupled with the prolonged weak global economic conditions that continue to suppress domestic demand.

Similarly, growth in the Australian economy has

[1] All statistics in this section were obtained from the International Monetary Fund (IMF) World Economic Outlook, October 2019, unless otherwise stated.

[2] Reserve Bank of New Zealand Monetary Policy Statement October 2019.

softened since the past year and is estimated at 1.4% in the June 2019 quarter. Subsequently, growth is projected to pick up to 2.25% at the end of 2019 and reach 2.75% and 3% over 2020 and 2021 respectively.[3] The weaker outcome in the first half of the year reflected soft consumption growth and housing activities as well as weak business investment. Meanwhile, over the medium term, domestic growth is expected to strengthen, supported by the low level of interest rates, recent tax cuts, ongoing infrastructure spending and an upswing in housing prices in some markets coupled with an optimistic outlook for the resources sector.

Global inflation

Global inflation remained muted and below target across advanced and emerging market economies. Similarly, core inflation slid further below target in advanced economies and below historical averages in many emerging markets and developing economies. In advanced economies, inflation is forecasted to moderate to 1.5% in 2019 from 2% in 2018 before rebounding to 1.8% in 2020. Meanwhile, inflation in emerging markets and developing economies is projected at 4.7% in 2019 and will pick up to 4.8% in 2020. Given this low inflation, central banks in many countries are pursuing accommodative policies to support their economies.

On the regional front, inflation outcomes in Australia remained low and steady and well below its average inflation target range of 2%-3%. Australia's headline inflation[4] declined to 0.3% during the quarter compared to 0.8% in the June quarter on the back of price falls in fruits, vegetables, and automotive fuels. Moreover, core inflation[5] remained low at 0.5% at the end of September quarter as in the prior quarter. [6] Similarly, inflationary measures for New Zealand remained below the 2% target but within its target range of 1%-3% over the medium term. The latest annual headline inflation fell to 1.5% in the September quarter from 1.7% in the prior quarter due to lower annual fuel price. Meanwhile, core inflation remained close to but below the 2% target.

Global commodity prices

Based on the latest available data, the IMF's commodity price index rebounded slightly by 1% during the September quarter reversing the revised 3% decline in the June quarter. This outcome reflected slight increases across major commodities during the quarter. Petroleum and energy index grew by 2% and 1% respectively although both commodities recorded a substantial decline of 18% and 27% correspondingly against the same period a year ago. The slight increase in energy prices reflected the disruption in oil supply following the September attacks on key oil refining facilities in Saudi Arabia which affected around 5% of global oil supply. However, oil prices have retracted this fall as oil production restored immediately faster than anticipated. Meanwhile, the non-fuel index increased marginally by 0.1% against the prior quarter and rose by 7% against the same period a year ago. On the other hand, food price index declined further by 3% against the previous quarter.

In contrast, tapis fuel price, the main imported fuel for the Solomon Islands fell marginally by 2% to an average of US $67.2 per barrel at the end of September compared to an average of US $68.5 per barrel in the previous quarter.[7]

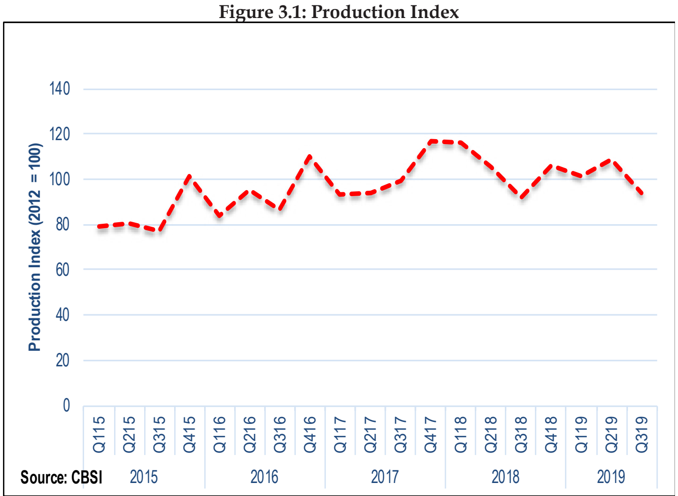
[3] Reserve Bank of Australia Monetary Policy Statement October 2019.
[4] Headline inflation reported here is seasonally adjusted.
[5] Core inflation reported here is seasonally adjusted.
[6] Reserve Bank of Australia Monetary Policy Statement August 2019.
[7] Bloomberg

Chapter III. DOMESTIC ECONOMY

Production Index

The domestic economic activities measured by the CBSI production index weakened by 13% to 94 points during the September quarter from a revised 109 points in the second quarter. The weaker performance resulted from lower outputs in the forestry and fishing sector. Round logs and fish catch dropped by 17% and 18% respectively. Meanwhile, the agriculture sector improved during the quarter except for crude palm oil output which fell by 8%. Cocoa production more than doubled, copra went up by 56%, and coconut oil increased by 37%.

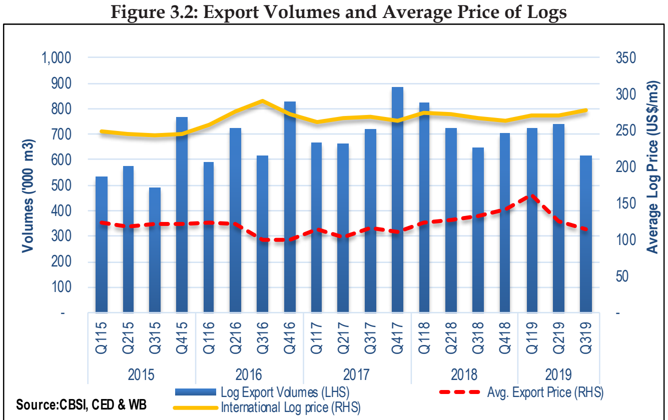
Figure 3.1: Production Index



Logs

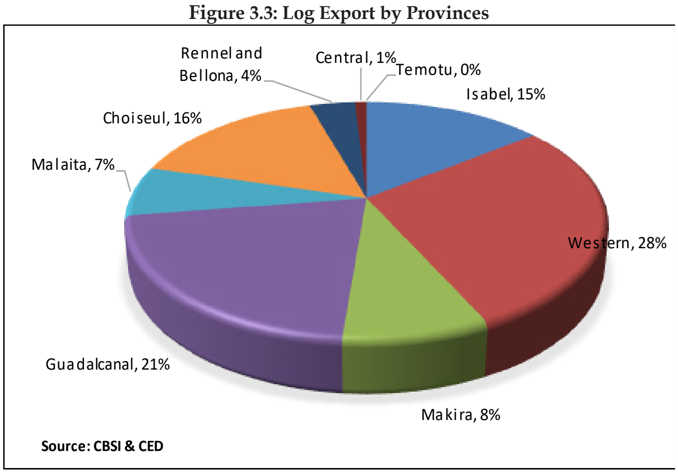
Round log production dropped by 17% to 615,541 cubic meters (m^3) during the quarter. This reflected lower production volumes of both natural forest logs and plantation logs during the quarter which fell by 14% to 571,399 m^3 and 42% to 44,143 m^3 respectively. The slowdown was also recorded across all the provinces except for Isabel and Makira. As a share of total volumes, Western Province accounted for the largest share with 28%, followed by Guadalcanal with 21%, Choiseul contributed 16%, and Isabel represented 15%. The remaining provinces produced less than 10% each. Based on year-to-date comparison, year-to September output was 5% lower than the same period in 2018 reaching 2.08 million m^3 at the end of September.

Figure 3.2: Export Volumes and Average Price of Logs



The average international log price indicator (World Bank Malaysian log prices) increased by 2% to US$277 per m^3 this quarter from US$271 per m^3 in the previous quarter. In contrast, the average FOB log export price contracted by 8% to US$115 per m^3, indicating higher exports of lower-valued species or smaller log sizes at lower prices.

Figure 3.3: Log Export by Provinces



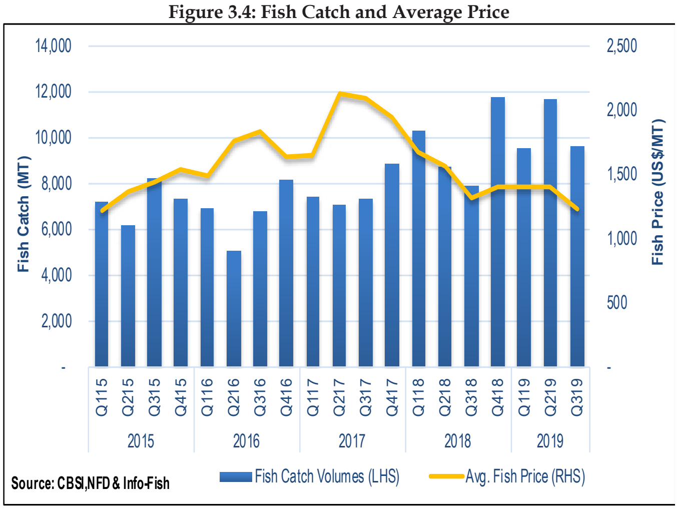
Fish

Fish catch dropped by 18% to 9,577 tons during the quarter, reversing the 22% increase in the June quarter. This negative outcome was due to unfavourable fishing conditions over the period. Despite the weaker outurn, year-on-year comparisons and year to September fish catch volumes outperformed 2018 levels, with an annual growth of 22% while total catch to September grew by 14% to 30,772 tons.

In terms of production, canned tuna production surged by 23% to 2,258 tons, loins by 29% to 9,321 tons, and fishmeal by 16% to 626 tons.

The average international fish price declined for the third consecutive quarter, contracting by 12% to US$1,232 during the quarter. Against the same period last year, the average fish price weakened by 7%.

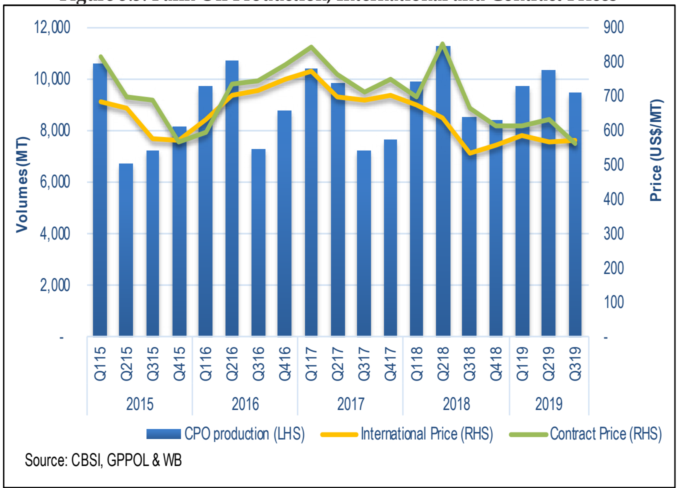
Figure 3.4: Fish Catch and Average Price



Palm Oil

The palm oil industry showed slower outcomes over the three months to September. Palm oil production dropped during the quarter on the back of a 10% decline in harvested fresh fruit bunches to 39,434 tons. Both crude palm oil and palm kernel oil fell by 8% to 9,457 tons and 951 tons respectively. Year to September output also underperformed compared to the corresponding period in 2018; crude palm oil fell below by 1% to 29,446 tons whilst palm kernel oil was 4% lower.

Figure 3.5: Palm Oil Production, International and Contract Prices



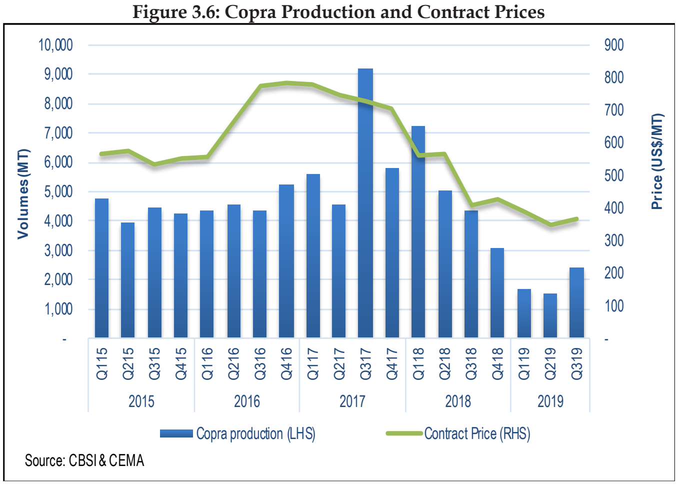
The average international prices for palm oil products remained positive this quarter. Crude palm oil price increased slightly to US$570 per ton from US$568 per ton and palm kernel oil price grew by 4% to US$596 per ton from US$584 per ton in the June quarter. In contrast, the contract prices for both crude palm oil and palm kernel oil dropped during the quarter by 11% to US$564 per ton and 15% to US$1,026 per ton respectively. The reduction in contract prices were mainly due to the decline in export premium prices under the contract price agreements particularly for the month of September.

Copra and coconut oil

Copra production picked up during the September quarter after persistently subdued for the past quarters. Production surged by 56% to 2,422 tons. The higher production was partly driven by the pick up in commodity prices during the review period. However, year to September output fell significantly below the same period in 2018 by 66% to 5,640 tons. The average contract prices for copra grew by 5% to US$367 per ton. Consequently,the average domestic price received by local farmers rose 7% to $2.51 per kilogram from $2.34 per kilogram in the previous quarter .

The four provinces that dominated copra production also performed positively during the quarter. Central province accounted for the largest share with 34%, followed by Choiseul province with 21%, whilst Western and Guadalcanal provinces contributed 17% each this period. All other provinces accounted for the remaining 11%.

Figure 3.6: Copra Production and Contract Prices



Coconut oil production also improved during the quarter, increasing by 40% to 1,260 tons. Despite the quarter-on-quarter increase, year to September output underperformed by 20% compared to the corresponding period in 2018. In terms of prices, the average international price for coconut oil improved by 7% to US$700 per ton reversing the declining trend since the December quarter of 2017.

Cocoa

Cocoa production more than doubled to 1,827 tons this quarter from 735 tons in the June quarter. The higher turnover is somewhat expected reflecting seasonal factors. Meanwhile, year to September production was at 2,924 tons, 16% below the same period a year ago. Cocoa production remained dominated by three provinces, particularly Guadalcanal province with 50%, Makira accounted for 33%, and Malaita represented 15%. All other provinces accounted for the remaining 2%.

In terms of prices, the average international price for cocoa slightly fell by 2% to US$2,303 per ton. On the other hand, cocoa contract prices went up to GBP1,520 per ton from GBP1,515 per ton in the previous quarter. As a result, the domestic price received by local cocoa farmers improved to $11.41 per kilogram from $10.75 per kilogram in the June quarter.

Employment

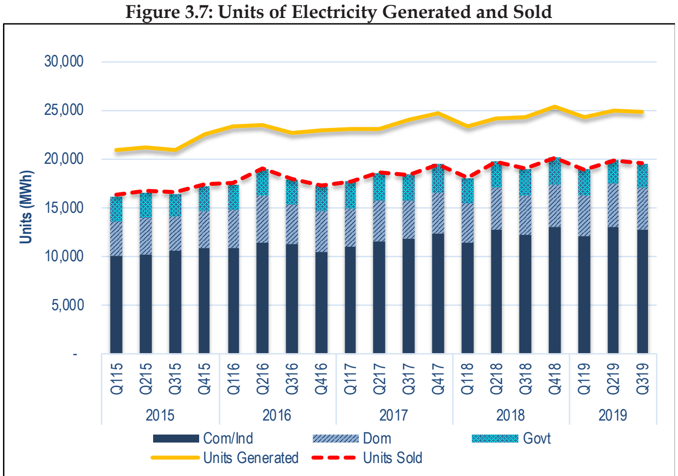
Labour market conditions revealed favourable outcomes this quarter. The number of Solomon Islands National Provident Fund's active and slow active contributors, as a partial indicator for the labour market conditions, improved by 2% to reach a record of 60,904 contributors, the highest in recent years. This represented an additional 1,194 contributors.

Moreover, the CBSI job vacancy survey increased by 18% to 144 advertisements from 122 vacancies in the previous quarter. The main growth areas were scientific and technical activities, education sector, financial and insurance, electricity, constructions, and other service sectors.

Energy

Total electricity generated by Solomon Power dropped slightly by 1% to 24,749 megawatts hour (MWh) compared to the previous quarter. Correspondingly, electricity consumption fell by 2% to 19,501 MWh reflecting lower units[1] purchased by commercial and domestic categories over the review period. Electricity sales for commercial consumption dropped by 2% to 12,689 MWh and sales to domestic users slid by 1% to 4,374 MWh. Meanwhile, units sold to the government increased by 1% to 2,437 MWh. Unsold units (wasted) rose 3% to 5,248 MWh from 5,078 MWh in the previous quarter. As a result, the ratio of unsold units to total electricity generated went up from 20% to 21% this quarter.

Figure 3.7: Units of Electricity Generated and Sold



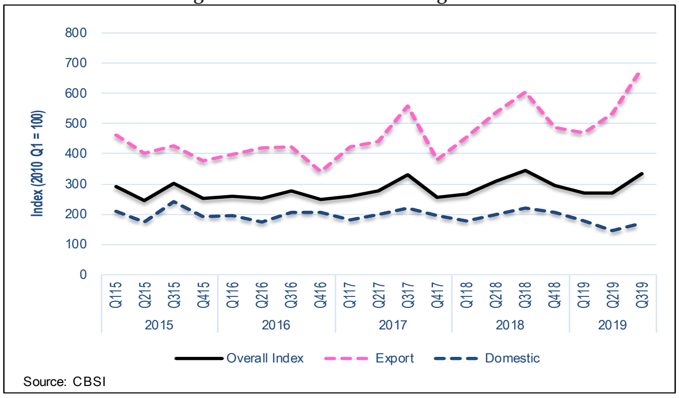
Source: CBSI & SIEA

The electricity tariff dropped by $0.104 per KWh across all categories against the second quarter. Domestic users were charged at $6.31 per unit, commercial users paid $6.23 per unit, and industrial users paid $6.28 per unit.

Manufacturing

The CBSI manufacturing index, a proxy for manufacturing activities, surged by 24% to 334 points. This reflected an overall increase in the goods manufactured for both export and domestic consumption. The index for domestic consumption rose 17% to 170 points driven by higher production of canned tuna, biscuits and beverages. Similarly, the index for goods destined for exports strengthened by 28% to 681 points on the back of increased production of canned tuna and fish loin during the quarter.

Figure 3.8: CBSI Manufacturing Index



Source: CBSI

Visitors Arrival

Provisional data for visitors' arrival showed positive outcomes over the three months to September. Total visitors arrivals grew by 18% to 8,730 visitors from 7,412 arrivals in the June quarter. This reflected the sharp increase in sea arrivals from 349 passengers to 1,175 passengers combined with a 7% growth in air arrivals to 7,555 arrivals. Despite the quarter-on-quarter growth, year to September arrivals fell 18% below the same period in 2018 to 22,525 visitors.

Disaggregating air arrivals by regions, the Oceania region represented the highest share with 65% (4,935 visitors), of which Australia remained the largest single source market with 41% (3,080 visitors), followed by New Zealand with 7% (497 visitors), and Papua New Guinea and Fiji each representing 6% of visitors from the Oceania region. The Asian region accounted for the second largest source market with 17%, Europe with 9%, and America accounted for 8%. The average length of stay declined to 13 days compared to 14 days in the previous quarter.

In terms of visitor airarrival by purpose,'holiday and vacation' and 'business and conference' comprised the largest shares at 36% and 25% respectively. Visiting 'friends and relatives' represented 14%, and 'transit and stopovers' with 3%. Visitors for other purposes accounted for 22% of the total air arrivals.

Wholesale and retail

Indicators for wholesale and retail activities showed mixed outcomes during the September quarter. Lending by commercial banks to the wholesale and retail sector expaned by $23 million, a 4% increase to $560 million over the period. Likewise, employment indicators based on the number of SINPF contributors increased by 488 contributors, a 5% growth to 11,035 contributors during the quarter. Meanwhile, imports of food, tobacco, and beverages dropped 5% to $259 million from $274 million in the June quarter.

[1] A unit referred here is equal to 1 Kilowatts hour (KWh)

Foreign Investment

The total number of new foreign investment applications approved during the quarter increased to 30 applications from 20 applications in the last quarter. In terms of value, the total indicative investment values was estimated at $117 million. The wholesale and retail sector accounted for the largest share with 11 applicants, the service sectors recieved 10 applications mainly for consultancy, electrical and professional services. The remaining 9 applications were for agriculture, mining, tourism, manufacturing, and construction sectors.

Construction

The number of approved building permits issued by the Honiara City Council for the September quarter, as a proxy for construction activities were not available at the time of this report. However, based on other partial indicators, construction activities remained buoyant. Commercial banks' lending to the construction sector increased by $8 million during the quarter, a 2% growth to $498 million from $490 million in preceding period. Employment in the construction industry proxied from the SINPF member's contribution also increased 2% from 2,136 contributors to 2,180 contributors.

In terms of major national projects, the Undersea Cable is progressing as planned. The laying of submarine cables between Honiara and Sydney was completed during the quarter. In the meantime, the laying of submarine cables for the domestic network (Honiara to Noro, Auki, and Taro) is currently progressing and is expected to complete in the fourth quarter of 2019. Upon completion, the commissioning of the new Coral Sea Cable System is expected in early 2020. This project is mostly funded by the Australian government with more than AUD$136 million whilst the governments of Solomon Islands and Papua New Guinea jointly contributing up to an additional one-third of the project cost. This system will support both countries with significant economic and development benefits.

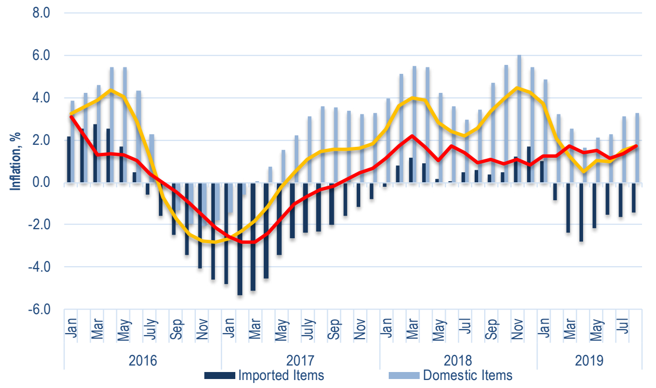
Communication

The communication industry remained bouyant during the September quarter. The communication index rose 11% to 220 points on the back of higher mobile phone and internet usage over the review period. Mobile usage increased by 4% to 156 index points and internet usage surged by 15% to 283 index points. Fixed lines usage, however, dropped by 2% to 97 index points this quarter. It is expected the undersea cable will provide a reliable, faster and affortable internet access and boost the communication industry in the years ahead.

Inflation

Following the introduction of the National Consumer Price Index (NCPI)[2] in July 2019, the latest headline inflation rose to 1.7% in August 2019[3] after reaching the lowest point of 0.4% in April.

Figure: 3.9: Consumer Price



Source: CBSI & SINSO

The increase in headline inflation was driven by the price pick-ups in both domestic and imported inflation during the two months to August. Domestic inflation grew from 2.3% in the June quarter to 3.3% whilst imported inflation rose slightly from minus 1.5% to minus 1.4% this period. The increase in domestic inflation was attributed to price pick-ups across all major categories except for alcoholic beverages and tobacco category and education category. Food and non-alcoholic beverages recorded the largest increase from minus 3.9% to minus 2.0%, followed by housing and utilities from 6.9% to 8.4%. The positive movements in the remaining categories also contributed to this outcome.

Info Box 1. Introduction of the National Consumer Price Index (NCPI) as basis for measuring inflation in the Solomon Islands.

The Solomon Islands National Statistics Office (SINSO) began publishing a new statistical series, the National Consumer Price Index (NCPI) starting in August 2019 for the month of May 2019. The series represents a break from the previous Honiara Consumer Price Index (HCPI) to a more national measure of consumer prices.

The NCPI covers consumer prices in four main townships in the country, namely Honiara, Auki, Noro, and Gizo. Previously, the Consumer Price Index (CPI) for the country only covered Honiara, that is the HCPI. Earlier quarterly reports on inflation published by the Central Bank of Solomon Islands (CBSI) were based on HCPI.

In terms of weights for the four townships, Honiara as a centralized capital city has a larger weight of 88% and therefore heavily drives the outcome of the NCPI. As such, fluctuations (or movements) of the overall headline inflation under the NCPI remained broadly the same as that of HCPI. The size (or magnitude) of the difference between NCPI and HCPI currently ranges from 0.1% to 0.2%. For example, the headline inflation in August 2019 was 1.7% for the NCPI compared to 1.8% for the HCPI. The difference is, therefore, minimal.

For quarterly reporting, CBSI will report headline inflation based on NCPI commencing from the September 2019 Quarterly Economic Review to ensure consistency with the SINSO inflation publications. Meanwhile, CBSI will continue to monitor the movements of the NCPI and HCPI for policy purposes.

[2] NCPI covers four townships (Honiara, Auki, Noro, and Gizo) for broader coverage. See information on Box for detail explanation.

[3] The inflation data for September was not yet released by the Solomon Islands National Statistics Office at the time of this reporting.

Similarly, the moderate increase in imported inflation emanated from the price rise in food and non-alcoholic beverages, housing and utilities, furnishing, household equipment and maintenance, clothing and footwear, and recreation and culture categories. These outweighed the sharp decline in transport prices from minus 0.3% to minus 2.2% over the period.

Core inflation (excluding volatile, price control & excise items) stood at 1.7%, rising from 1.2% at the end of the June quarter. This outcome reflected the increase in prices for non-food and non-fuel categories during the quarter.

Honiara Retail Fuel Prices

The Honiara retail fuel price declined to an average of $9.14 per litre during the quarter from $9.26 per litre in the previous quarter. This was driven by the reduction in petrol, and diesel prices falling by 32 cents to $8.61 per litre and 28 cents to $9.05 per litre respectively. Meanwhile, kerosene price increased by 24 cents to $9.78 per litre during the quarter. The fall in petrol and diesel prices reflected the 9% reduction in tapis oil prices to US$66 per barrel in the September quarter.

Chapter IV. BALANCE OF PAYMENTS

The balance of payments (BoP) position for the September quarter showed an overall deficit of $285 million in contrast to a $106 million surplus in the June quarter. This outcome mainly resulted from a current account deficit of $527 million which more than offset the $153 million surplus in the capital and financial accounts. Against this backdrop, the gross foreign reserves dropped by 7% to $4,733 million. This level of reserves was equivalent to 11.9 months of imports of goods and services compared to 12.8 months in the last quarter.

Table 4.1 Balance of Payments Statistics

	2018		2019		
	Sept Qtr	Dec Qtr	Mar Qtr	Jun Qtr	Sept Qtr
A. Current Account	**- 153**	**- 414**	**- 318**	**8**	**- 527**
Goods	9	- 184	- 57	26	- 61
Services	- 134	- 200	- 231	- 146	- 472
Primary Income	- 73	- 144	- 18	52	- 44
Secondary Income	46	114	- 13	76	50
B. Capital & Financial Account	**146**	**208**	**146**	**116**	**153**
Capital	103	159	103	126	109
Financial account 1/	43	49	43	- 9	45
C. Net errors and omissions	- 39	300	144	- 18	89
D. Overall BOP position (+ve = Surplus)	**- 46**	**94**	**- 27**	**106**	**- 285**
F. Financing	**46**	**- 94**	**27.3**	**- 105.8**	**284.5**
Official reserves (-ve = increase)	46	- 93	27	- 106	284
IMF program (-ve = decrease)	0	- 1	0.4	0.4	0.4
Position of gross foreign reserves at end	**4,887**	**4,984**	**4,985**	**5,082**	**4,733**
Months of import cover of goods and services	12.2	12.4	12.5	12.8	11.9

Source: CBSI

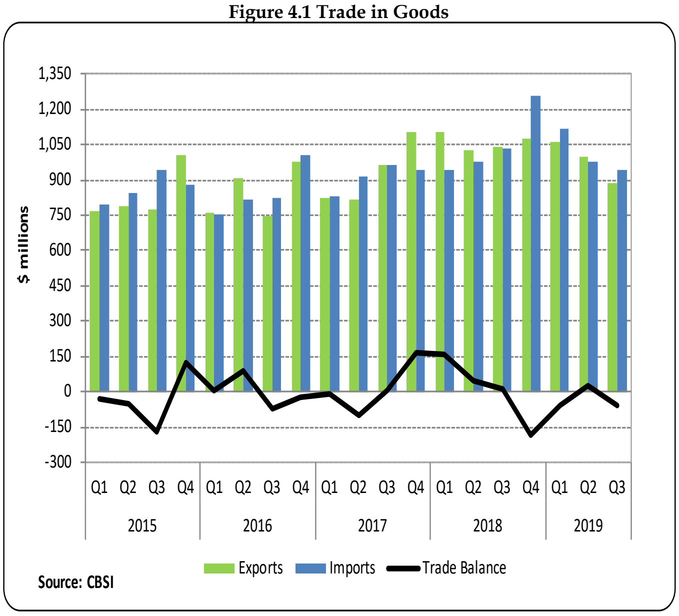
The deficit in the current account widened to $527 million from a revised $8 million surplus in the previous quarter (see Table 4.1) resulting in the deterioration of all the sub-account components during the quarter. Meanwhile, the capital and financial accounts registered a larger surplus of $153 million, compared to a revised $116 million surplus recorded in the previous quarter. This reflected mainly the increase in financial inflows during the quarter.

Trade in goods

The balance on trade in goods for the September quarter plunged to a provisional $61 million deficit from a revised $26 million Surplus in the previous quarter. This deficit reflected a larger drop in exports by 12% to $884 million while imports slid by 3% to $945 million.

The drop in exports was mainly driven by declines in export receipts from round logs and other exports. Round logs fell by 23% to $564 million due to the lower volume exported during the quarter. Similarly, other exports slipped by more than half from $24 million to $9 million in the review period.

Figure 4.1 Trade in Goods



Agriculture commodity exports grew by 18% to $91 million. Palm oil exports grew by 8% to $52 million owing to favourable international prices. Cocoa exports increased by 31% to $26 million while Copra & Coconut oil grew by 43% to $13 million driven mainly by coconut oil exports. Similarly, fish export receipts rose by 2% to $105 million while mineral exports nearly doubled from $29 million to $55 million on the back of an increase in shipments of alluvial gold and bauxite minerals.

The contraction in imports during the quarter was attributed to lower payments for food, chemicals, basic manufactures, beverages & tobacco, and machinery and transport equipment. Food import payments fell by 5% to $247 million. Chemical and basic manufactures imports also dropped by 16% and 23% to $59 million and $114 million respectively whilst beverages and tobacco fell by 8% to $12 million, crude materials by 2% to $10 million and machinery and transport equipment by 23% to $221 million.

However, mineral fuel imports increased by 16% to $192 million and miscellaneous imports grew by more than half from $80 million to $155 million during the quarter. Animal and oil fat imports also picked up by 4% to $8 million.

Trade in Service

Trade in services plunged to a deficit of $472 million in the September quarter from a revised $146 million deficit in the previous quarter. This outcome stemmed from the increased deficit in the other services category. Other services deficit widened to $474 million from $133 million deficit in the June quarter on the back of increases in construction and telecommunication service payments related to the undersea cable. On the other hand, the deficit in transport services narrowed to $27 million from $33 million deficit in the previous quarter due to increases in receipts related to higher demand for both sea and air transport services during the quarter. Similarly, travel services surplus improved from $20 million to $29 million. An increased number of private holiday travellers supported this improvement during the period.

Primary Income

The primary income balance widened to a provisional $44 million deficit this quarter from a revised $52 million surplus in the previous quarter. This outcome came mainly from higher payments in compensation of employees and payment for investment income combined with a net fall in other primary income. Compensation of employees declined from $12 million surplus to $4 million surplus due to an increase in wages and salaries paid to non-residents. The investment income deficit widened from a revised $38 million to $71 million and represented an increase in reinvestment earnings and dividend payouts during the quarter. Other primary income associated with fishing rights also dropped significantly by 71% to $22 million.

Secondary income

In the September quarter, the secondary income account fell to a $50 million surplus from the $76 million surplus in the previous quarter. This stemmed from a decline in net inflows for general government reflecting low donor grants and technical assistance received during the quarter despite an increase in aid in kind. However, private sector transfers narrowed by 36% to $50 million deficit from $78 million deficit in the previous quarter. This reflected higher outward remittance from foreign workers and lower funding inflows to churches and Non-governmental organizations during the third quarter.

Capital Income

The capital account surplus shrank to $109 million this quarter compared to $126 million in the previous period. This was attributed to the decline in donor inflows reflecting lower donor-funded capital projects initiated during the quarter while some projects were near to completion. Donor funded expenditures were mainly for improvements to infrastructure and support to rural development programs.

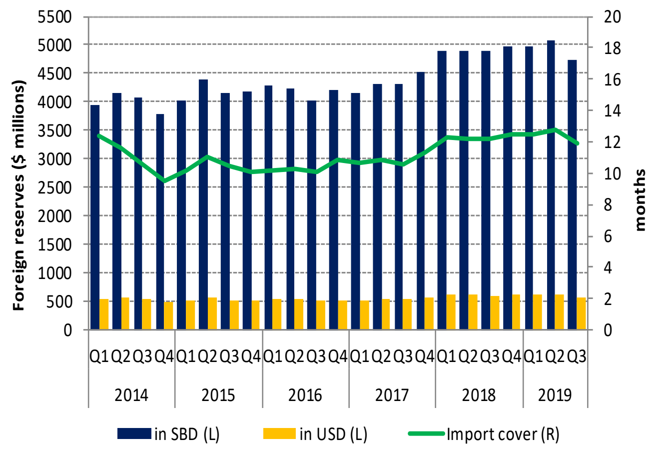
Financial Account

The financial account improved from a net borrowing of $9 million last quarter to a net lending of $45 million this quarter. The result stemmed mainly from a surplus of $85 million for direct investment that came on the back of high FDI inflows[1] during the quarter. Meanwhile, portfolio investment recorded a narrower deficit of $5 million at the end of the quarter. In contrast, the deficit in other investments widened to $35 million during the quarter reflecting the draw-down in 'currency and deposits' held with banks abroad during the quarter.

Gross Foreign Reserves

Gross foreign reserves fell by 7% to $4,733 million compared to a 2% growth recorded in the previous quarter. This decline came on the back of high trade and government payments during the period. This level of reserves was sufficient to cover 11.9 months of imports of goods and services compared to 12.8 months in the previous quarter.

Figure 4.2 Gross Foreign Reserves



Source: CBSI

International Investment Position (IIP)

The net IIP turned around by more than two-folds to a deficit of $206 million at the end of the September quarter from $168 million surplus in the second quarter. This reflected a 5% decrease in the stock of financial assets to $6,092 million and a marginal increase of 1% in the stock of financial liabilities to $6,297 million. The fall in financial assets came from the reduction in foreign reserve assets by 7% to $4,733 million offsetting the rise in direct investment and other investments by 1% and 3% to $554 million and $642 million respectively. Portfolio investment assets also increased by 4% to $162 million. The slight pick-up in financial liabilities, on the other hand, emanated from a 2% increase in direct investment liabilities stock to $4,831 million despite the fall in other investment liabilities stocks by 3% to $1,466 million at the end of the quarter.

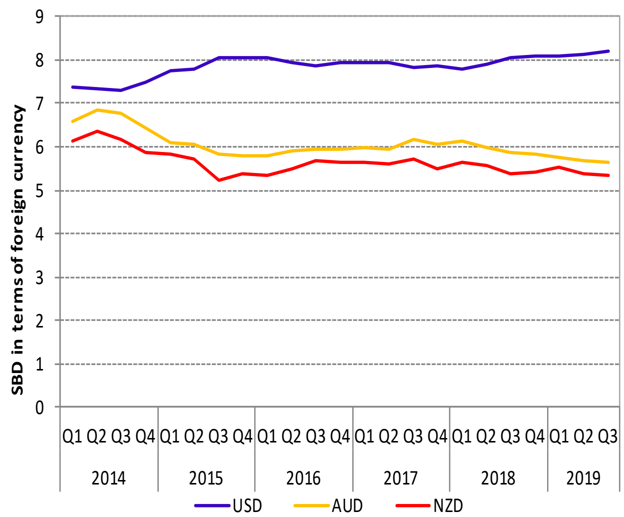
Exchange Rate

The Solomon Islands dollar (SBD) weakened against

[1] FDI flows in BOP Statistics includes transactions by both new FDI and existing FDI entities in the country.

the United States dollar (USD) in the third quarter by 0.9% to $8.22 per USD. Aside from a 3.3% depreciation against the Japanese Yen (JPY) to $7.66 per 100 JPY and a stable Euro dollar at $9.14 per Euro, the SBD strengthened against other major tradable currencies in the quarter. It appreciated by 1.1% against the Australian dollar (AUD) and the New Zealand dollar (NZD) to $5.63 per AUD and $5.33 per NZD respectively and strengthened against the British pound (GBP) by 3.3% to $10.13 per GBP.

Figure 4.3 Exchange Rates



Source: CBSI

In terms of the trade- weighted index (TWI), the SBD weakened by 0.9% to a quarterly average index of 111.8 in the September quarter. This was associated mainly with the depreciation of the SBD against the USD. However, for the nominal effective exchange rate (NEER), it appreciated by 0.1% to an index of 116.4, while the real effective exchange rate (REER) strengthened by 1.6% to an index of 141.0 in the quarter

Chapter V. MONEY AND BANKING

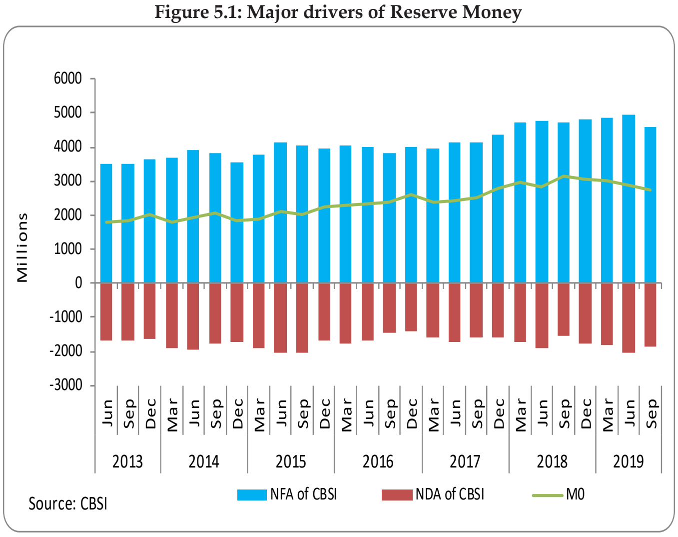
Monetary Developments.

Monetary conditions weakened amidst the subdued economic performance observed since the first quarter of 2019 with reserve money (M0), broad money (M3) and liquidity contracting for the third consecutive quarter this year. Meanwhile, private sector credit (PSC) growth in the banking system firmed up whilst the weighted average interest rate margin narrowed. On the policy front, the Central Bank of Solomon Islands (CBSI) adopted an accommodative monetary stance in September, easing the moderate tightening stance pursued in March.

Reserve Money

Reserve money (M0) contracted further by 5% to $2,734 million against the June quarter. This outturn stemmed from a decline in other depository corporations' (ODCs) deposits by 8% to $1,882 million despite an uptick in the currency in circulation by 0.4% to $847 million. On a year on year basis, M0 fell by 13%. On the asset side, the decline reflected the deterioration in both the CBSI's net domestic assets (NDA) and net foreign assets (NFA); the former by 9% to minus $1,865 million and the latter by 7% to $4,604 million. The reduction in the NDA was attributed to declines in both the CBSI's net domestic credit (NDC) and other items net (OIN). Moreover, the fall in the NFA was due to a 7% decline in foreign assets to $4,733 million reflecting a decrease in gross reserves. This outweighed the fall in foreign liabilities by 9% to $129 million. Meanwhile, on a year on year basis, NDA increased by 19% whilst NFA declined by 3%.

Figure 5.1: Major drivers of Reserve Money



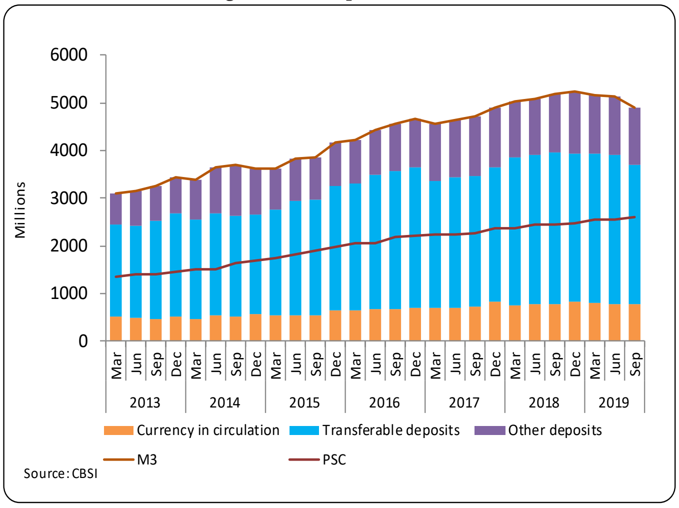
Narrow Money

Narrow money (M1) fell by 6% to $3,691 million this quarter following a 1% decrease posted in the second quarter of 2019. Underlying this outcome were reductions in both the currency in circulation by 0.1% to $769 million and transferable deposits by 7% to $2,921 million. The decline in transferrable deposits was attributed to a decrease in ODC's deposits by 7% to $2,913 million, underpinned by both the domestic and foreign currency components, which fell by 6% to $2,719 million and 17% to $194 million respectively.

Broad Money

Broad money supply (M3) declined by 4% to $4,913 million in the third quarter driven by the fall in M1 and other deposits which edged lower by 0.4% to $1,223 million. On the sources of M3 growth, the outturn mirrored a decrease in the NFA of depository corporations by 7% to $4,824 million despite a gain in NDA from $27 million in the previous quarter to $162 million this quarter. The decline in the NFA stemmed from reductions in the NFA positions of both the CBSI and ODCs. The improvement in the NDA position came largely from a 21% rise in the NDC to $1,296 million, despite a fall in OIN by 21% to $152 million.

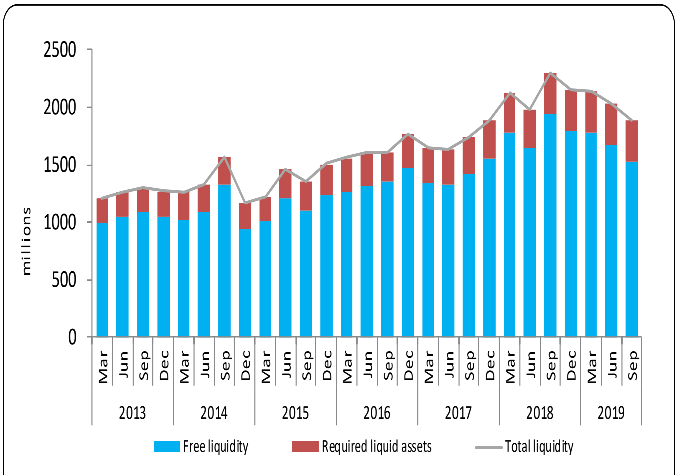
Figure 5.2 : Components of M3



Liquidity

Liquidity in the banking system decreased further by 8% to $1,884 million in the September quarter, following a 5% decline in the previous quarter. This outcome mirrored the decline in the NFA and improvements in private sector credit. Consequently, both excess and free liquidity contracted by 9% to $1,351 million and $1,533 million respectively, relative to the second quarter of the year. Nevertheless, liquidity conditions remained sufficient, both at the institution and at the system-wide levels, with banks continuing to maintain surplus liquidity positions with the CBSI.

Figure 5.3 Commercial Banks' liquidity



Source: CBSI

Domestic credit

Net domestic credit of the banking system increased by 21% to $1,296 million in the third quarter of 2019. This outcome reflected a 12% decline in net credit to the nonfinancial public sector (NFPS) to minus $1,315 million combined with a 2% growth in private sector credit to $2,611 million. A decline in net credit to central government by 14% to minus $1,316 million underlined the fall in credit to the NFPS. Meanwhile, the growth in credit to private sector was driven by a 2% increase in ODCs' lending to $2,598 million. This reflected loans extended to other nonfinancial corporations and other resident sectors which increased by 1% to $1,812 million and 6% to $779 million respectively.

Table 5.1: Private Credit by sectors: (SBD$millions)

Sectors	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Percentage Growth Q-on-Q	Percentage Growth Year-on-Year
Personal	607	420	629	636	678	7%	12%
Constsruction	448	444	466	490	499	2%	11%
Distribution	487	496	528	537	560	4%	15%
Communication	131	433	99	99	84	-15%	-36%
Tourism	169	179	175	166	162	-2%	-4%
Prof& other Services	126	125	123	129	106	-17%	-16%
Transport	168	149	181	186	187	1%	11%
Manufacturing	146	149	146	134	130	-3%	-11%
Forestry	44	60	61	53	63	19%	42%
Agriculture	22	13	13	15	17	12%	-23%
Enterrt & catering	3	3	4	3	3	-3%	24%
Mining & Quaring	0	0	0	0	0	0%	0%
Fisheries	5	7	28	24	13	-45%	149%
Statutory Corporatrion	46	45	41	41	44	7%	-3%
Non- Resident	0	0	0	0	0	0%	0%
Private Fin. Institute	2	1	1	1	10	828%	489%
Central Government	0	0	0	0	0	0%	0%
Provincial Asse. & Local Gov't	0	0	0	0	1	13%	9,183%
Total	**2,404**	**2,425**	**2,496**	**2,513**	**2,557**	**2%**	**5%**

Note: Figure include loans issued by Commercial banks and Credit Corpoaration of Solomon Islands.

Credit issued by commercial banks and credit institutions grew by 2% to $2,557 million this quarter following a 1% increase in the previous quarter. The major sectors driving credit growth were personal loan, distribution, construction, and transport (see table 5.1 for details). Conversely, tourism, manufacturing, communication, and professional and other services sector contracted during the quarter. Proportionally, personal loan accounted for 27% of total credit, followed by distribution with 22%, construction with 20%, and the rest with less than 10% each.

Credit issued in the form of overdrafts and loans increased while lease financing decreased during the quarter. Overdrafts edged up by 0.2% to $269 million, loans firmed up by 2% to $2,261 million whilst lease financing declined by 5% to $27 million.

Table 5.2: Private Sector Credit (ODCs) SBD Millions

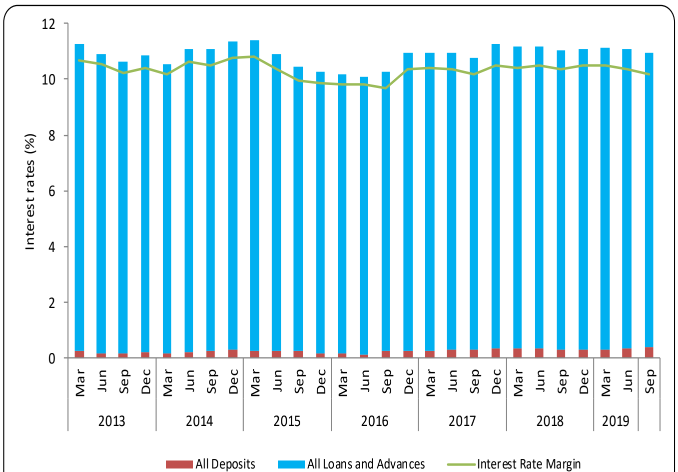
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Trade Bills	0	0	0	0	0	0	0
Over drafts	196	247	235	248	268	269	269
Loans	2,124	2,130	2,150	2,155	2,205	2,216	2,261
Lease Financing	12	13	19	22	24	28	27
Total	2,332	2,390	2,404	2,425	2,496	2,513	2,557
Total credit (excluding trade bills)	**2,332**	**2,390**	**2,404**	**2,425**	**2,496**	**2,513**	**2,557**

Source: CBSI

Interest rates

The ODCs' indicative weighted average interest rate margin narrowed to 10.18% in September from 10.37% in the June quarter. This outcome reflected a fall in the indicative weighted average lending rate from 10.72% in the previous quarter to 10.57% although the deposit rates increased from 0.35% to 0.39% this period. The following sectors underpinned the fall in lending rates; agriculture, which declined from 11.05% to 11.03%; fisheries from 17.94% to 16.88%; distribution from 11.67% to 11.07%; and transportation from 12.17% to 10.62%.

Figure 5.4 Commercial Banks' Interest rates



Source: CBSI

Other Financial Corporations

The NFA of other financial corporations (OFCs) expanded by 2% to $323 million in the September quarter, slightly lower than the 4% growth posted in the preceding quarter. This outcome was attributed to an increase in foreign assets by 1% to $356 million driven by a 3% rise in foreign currency shares held by non-residents to $192 million. Meanwhile, foreign liabilities remained flat at $33 million as in the previous quarter. OFC's net domestic asset increased by 9% to $2,986 million, an improvement from the 1% fall in the previous quarter. Backing this increase was a fall in capital accounts by almost half to $295 million and a decline in NDC by 1% to $2,714 million. The decrease in capital accounts stemmed from a notable drop in current year results from $344 million to $6 million coupled with a fall in general and special reserves from $22 million to $21 million. Meanwhile, OIN increased by 6% to $568 million. OFC's credit to the private sector edged lower by 0.4% to $1,451 million following a decline in loans issued to other nonfinancial corporations by 6% to $112 million.

Monetary Policy

Amidst weaker economic conditions, a muted outlook and a low inflation environment, the CBSI adopted an accommodative monetary policy stance in September 2019, easing the moderately tightened stance pursued in March. The current policy stance was intended to spur growth in the economy.

Meanwhile, the cash reserve requirement ratio was maintained at 7.5% of total ODC's deposits. The stock of Bokolo bills issued remained at $750 million with the weighted average yield (WAY) fixed at 0.59% as in the June quarter. The stock of treasury bills issued has increased to $89 million by the end of September, with less space left before hitting the new borrowing threshold of $100 million. Meanwhile, the WAY for 91,181 and 365 days remained unchanged at 0.49%, 1.12% and 1.98% respectively as in the June quarter. While, there were no changes to the current exchange rate regime[1], the Solomon Islands dollar depreciated during the period.

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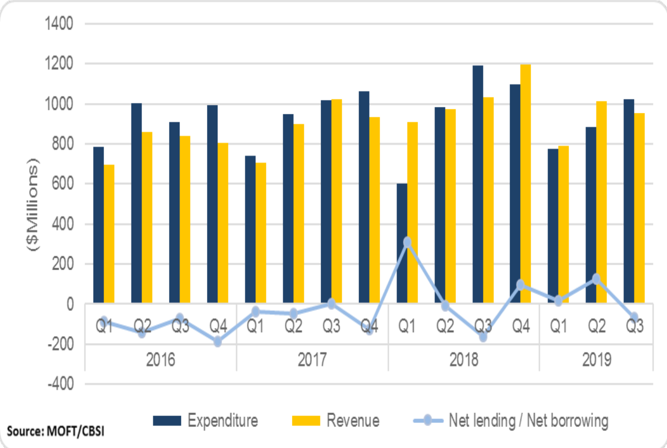
[1] The Solomon Islands dollar is pegged to an invoicing basket of major trading currencies, namely the USD, AUD, NZD, Japanese yen and EUR.

Chapter VI. GOVERNMENT FINANCE

Overview

The Government recorded a deficit of $85 million in the September quarter of 2019, compared to a surplus of $112 million registered in the preceding quarter. This negative outturn mirrored lower revenue collection and increased spending during the quarter. In comparison to the pro-rata budget, both revenue and expenditure fell short by 8% and 7% respectively. Meanwhile, the Central government's debt balance edged up by 0.3% to $1,046 million and remained at 10% of GDP.

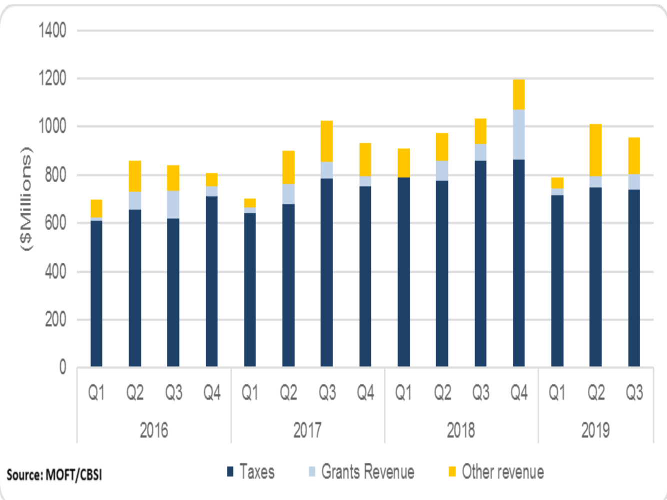
Figure 6.1: Fiscal Balance



Revenue

Total revenue declined by 6% to $956 million this quarter from $1,012 million recorded in the previous quarter. This was driven by weaker outturns in tax and non-tax revenue collections despite an increase in donor grants receipts during the review period. On a year on year basis, total revenue was lower by 4%.

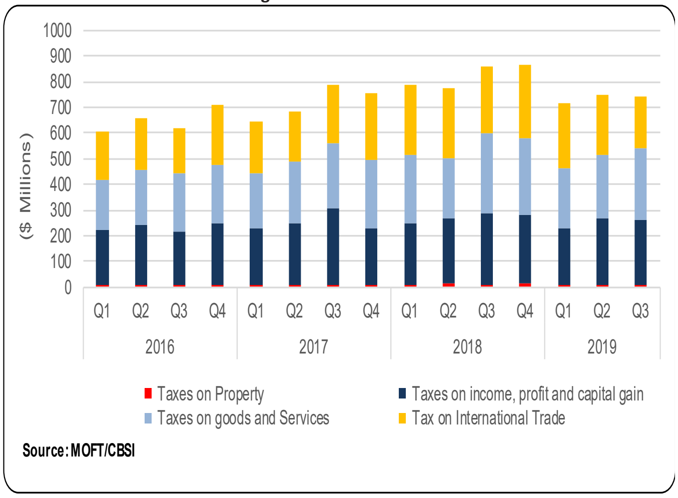
Figure 6.2: Revenue



Tax Revenue

Tax revenue, which contributed 77% of total revenue edged lower by 1% to $740 million against the June quarter. This mirrored a decline in taxes on income, profits, and capital gains and tax on international trade and transactions despite gains in taxes on goods and services during the review period. Against the same quarter in 2018, total tax revenue was 14% lower and fell below the budget by 6%.

Figure 6.3: Tax Revenue



Tax on income, profits, and capital gains fell by 2% to $253 million this quarter. This was driven by an 11% decline in personal income tax (PAYE) to $120 million, outweighing the 9% increase in tax payable by corporations and other enterprises to $133 million during the quarter. Compared to the same period last year, tax on income and profit was 8% lower and performed below the pro-rata budget by 9%. Proportionally, tax on income, profits, and capital gains contributed 34% of total tax revenue.

Tax on international trade and transactions, which represented 27% of total tax revenue, contracted by 15% to $200 million in the September quarter. This outcome reflected the 20% decline in taxes on exports to $134 million and a 2% fall in import duties to $66 million. The fall in tax on exports was attributed to fewer proceeds from round logs during the review period. On a year-on-year basis, tax on international trade and transactions was 23% lower and 7% below the pro-rata budget.

In contrast, tax on goods and services, which accounted for 37% of total tax revenue, firmed up by 13% to $276 million relative to the June quarter. This positive outcome reflected a notable increase in taxes on the use of goods and permission to use goods from $7 million to $36 million combined with gains in excise tax by 19% to $49 million. These outweighed the 2% decline in general taxes on goods and services to $189 million. Nevertheless, tax on goods and services was 11% lower than the same quarter in 2018.

Tax on property remained at $11 million during the quarter. This level was 18% above the same period last year, but lower than the budget by 3%. In terms of share, taxes on properties accounted for only 2% of total tax revenue.

Grants

Total donor grants received during the three months to September surged by 31% to $63 million against the June quarter. This surpassed the corresponding quarter in 2018 by 79%, but fell below the pro- rata budget by 51%. Disaggregating by donors, Australia remained the largest donor contributing $32 million (51%); the Republic of Taiwan accounted for $19 million (30%); New Zealand contributed $5 million (7%), the World Health Organisation (WHO) accounted for $3 million (5%) whilst all other donors contributed the remaining $4 million (7%). By recipients, the Ministry of Health and Medical Services (MHMS) received $39 million (62%), followed by the Ministry of Rural Development (MRD) with $15 million (24%). The Ministry of Fisheries and Marine Resources (MFMR) received $5 million whilst the Ministry of Finance and Treasury (MOFT) received $4 million, each representing 7%. As a share of total revenue, grant assistance represented 7% of government revenue during the quarter.

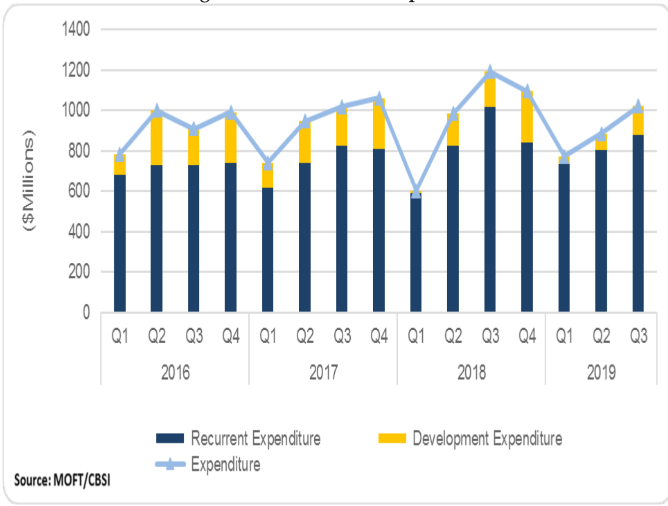
Non-Tax Revenue

Non-tax revenue, which contributed 16% of total revenue, plunged by 30% this quarter to $153 million. The decline in non-tax receipts was largely driven by weak collections on property income and sales of goods and services. Property income contracted by 28% to $111 million, attributing to lower receipts from fishing license whilst revenue on sales of goods and services dropped by 33% to $41 million on the back of lower collection on administrative fees during the quarter. Compared to the same period last year, non-tax revenue was 44% higher and above the pro- rata budget by 23%.

Expenditure

Total government expenditure increased further by 16% to $1,041 million during the three months to September 2019. The pickup in government outlays reflected higher spending on both recurrent and capital expenditure during the quarter. Recurrent expenses, which represented 86% of total expenditure, rose by 12% to $895 million driven by increased spending on all expense categories during the quarter. Likewise, development spending, which accounted for the remaining 14% of total expenditure, surged by 42% to $146 million reflecting an increase in the acquisition of fixed assets. Against the corresponding period last year, total expenditure was 13% lower and below the pro- rata budget by 7%.

Figure 6.4: Government Expenditure



Compensation of Employees

Compensation of employees, which comprised 43% of total recurrent outlays, rose by 2% to $389 million against the preceding quarter, and exceeded the budget by 10%. This stemmed from an increase in wages and salaries by 4% to $374 million, which outweighed the decline in employer's social contribution to the Solomon Island National Provident Fund (SINPF) from $20 million to $15 million. On a year on year basis, spending on compensation of employees was 9% higher.

Purchase of Goods and Services

Government's consumption outlays, which contributed 45% of total recurrent spending, firmed up by 13% to $402 million against the June quarter. This outcome mirrored a general increase across all major consumption categories during the quarter. Training-related costs grew from $116 million to $142 million; conferences, seminars, and workshops from $6 million to $10 million, utilities charges increased from $24 million to $26 million, whilst consultation fees rose from $14 million to $19 million. Likewise, office rental, and other expense categories grew by 3% and 12% to $12 million and $163 million respectively. In contrast, maintenance cost on non-residential buildings dropped from $31 million to $24 million this quarter whilst maintenance cost on residential buildings shrank from $8 million to $4 million. Compared to the same period in 2018, purchases of goods and services was 25% lower and below the budget by 10%.

Grants

Total grants transferred to other government units grew by 17% to $41 million during the quarter. This reflected increases in health grants from $8 million to $13 million, provincial grants from $1 million to $6 million and fixed service grants from $15 million to $16 million. Meanwhile, grant transfers to Solomon Islands

National University remained at $5.5 million. Total grant transfers this quarter was 8% below the pro- rata budget. In terms of share, total transfers accounted for 5% of the recurrent expenses.

Social Benefits

Social benefits payments, which contributed 1% of recurrent outlays, remained at $11 million this quarter. Of the total, $7 million was paid on long service benefits and $4 million on pensions and gratuities. Based on year-on-year comparison, social benefit payments was higher by 69%, however, this fell short by 17% against the pro-rata budget.

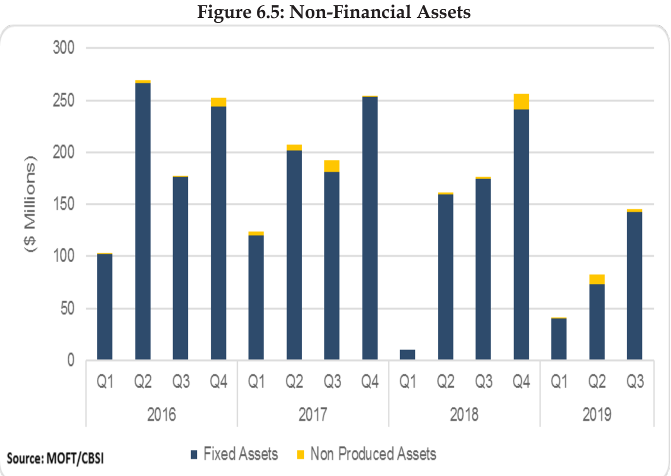
Other Payments

Other payments rose from $1 million to $34 million during the review period. This reflected the increase across all categories. Of the total, $11 million was spent on basic education, $7 million on overseas mission, $6 million on subventions and grants, $5 million on MP's scholarships, and the remaining $4 million on other payments category. Nevertheless, other payments declined by 26% against the same period last year, and 62% below the budget.

Acquisition of Nonfinancial Assets

Acquisition of nonfinancial assets, which accounted for the remaining 14% of total expenditure, surged by 42% to $146 million against the June quarter of 2019. This reflected the expansion in the acquisition of fixed assets during the period from $93 million to $142 million. The increase in acquisition of fixed assets was attributed to higher spending on buildings and structures from $8 million to $23 million outweighing the reduction in machinery and equipment. In contrast, spending on non-produced assets dropped from $9 million to $3 million driven by a decline in land purchases during the quarter. On annual basis, the acquisition of nonfinancial assets was 26% lower, and fell below the pro-rata budget by 12%.

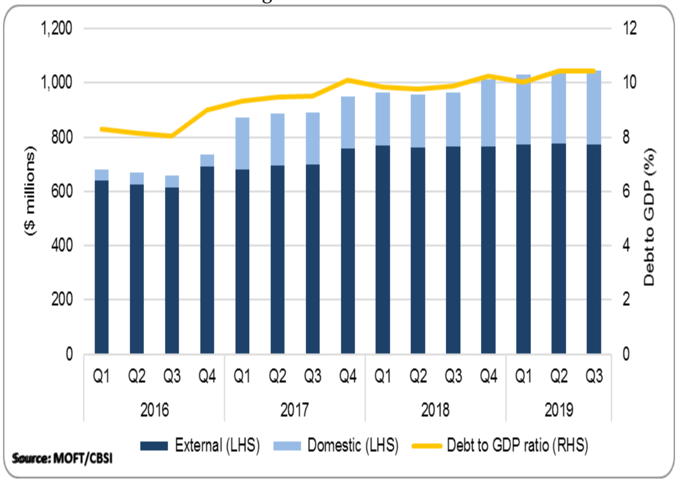
Figure 6.5: Non-Financial Assets



Debt Stock and Servicing

The government's outstanding debt balance edged up by 0.3% to $1,046 million at the end of the September quarter driven largely by an increase in the domestic debt stock. Total debt service payments rose from $15 million to $16 million. Meanwhile, debt indicators remained broadly the same as in the preceding quarter. Debt-to-GDP ratio and debt service-to-exports of goods and services remained at 10% and 1% respectively, while debt service-to-domestic revenue increased slightly from 1% in the previous quarter to 2%.

Figure 6.6: Debt Stock



External and Domestic Debt Stock

The external debt stock slid to $772 million this quarter from $777 million at the end of the June quarter reflecting debt repayments and foreign exchange rate movements during the review period. Debt service repayments made to external creditors totalled $11 million, of which $9 million was paid on principal and $2 million on interest payments. By financiers, repayment to the International Development Association (IDA) totalled $7 million while $4 million was repaid to the Asian Development Bank (ADB). By composition, foreign debt represented 74% of total government's outstanding debt stock during the quarter.

On the other hand, domestic debt balance rose by 3% to $274 million at the end of the September quarter. This was driven by an increase in treasury bills auctioned during the quarter by 9% to $89 million. Meanwhile, the debt balance on the development bonds remained at $180 million. Total domestic debt servicing made during the quarter totalled $4 million, and was mainly on interest payments. Total domestic debt stock accounted for 26% of the total central government's outstanding debt balance at the end of the September quarter.

Statistical Tables