

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply fell by 2% to \$3,498 million at the end of August 2015, compared to a 2% rise witnessed in the previous month. This was due to a drop in narrow money (M1) by 3% to \$2,756 million, which outweighed the 2% rise in other deposits (time and savings). The fall in M1 was driven by 4% decline in demand deposits despite a 1% increase in currency in circulation at the end of month. The rise in other deposits stemmed from increases in both savings and time deposits by 7% to \$117 million and 1% to \$625 million respectively. Total net foreign assets (NFA) of the banking system decreased further by 4% to \$3,953 million following a 0.3% drop in the previous month. The fall was due to decline in CBSI's NFA by 3% to \$3,976 million coupled with a down turn in other depository corporations' (ODCs) NFA from \$40 million to minus \$23 million. Year-on-year movement saw NFA increased by 1% against the same period in 2014.

Net credit to government (NCG) decreased further by 7% to net liabilities of \$1,555 million, following an 8% fall in the previous month. This was due to drawdown in deposits held with both CBSI and ODCs by 6% to \$1,379 million and 14% to \$177 million respectively. Meanwhile, private sector credit (PSC) increased by 2% to \$1,834 million this period compared to a 0.4% growth in the previous month. However, growth against the same period in 2014 saw PSC increased by 19%. Following the fall of the overall NFA and the growth in PSC, total liquidity fell by 5% to \$1,380 million compared to a slight increase of 0.5% in July 2015. This resulted in excess liquidity falling by 9% to \$1,011 million at the end of period.

Domestic Market Operations

The total CBSI Bokolo bills absorbed by ODCs in August 2015 were \$710 million, thus achieving full subscription for the month. Nonetheless, the weighted average yield (WAY) for 28 days bill remained unchanged at 0.62%. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days also remained the same for the fourth consecutive month at 0.34%, 0.46% and 1.15% respectively.

II. EXTERNAL CONDITIONS

Trade in goods

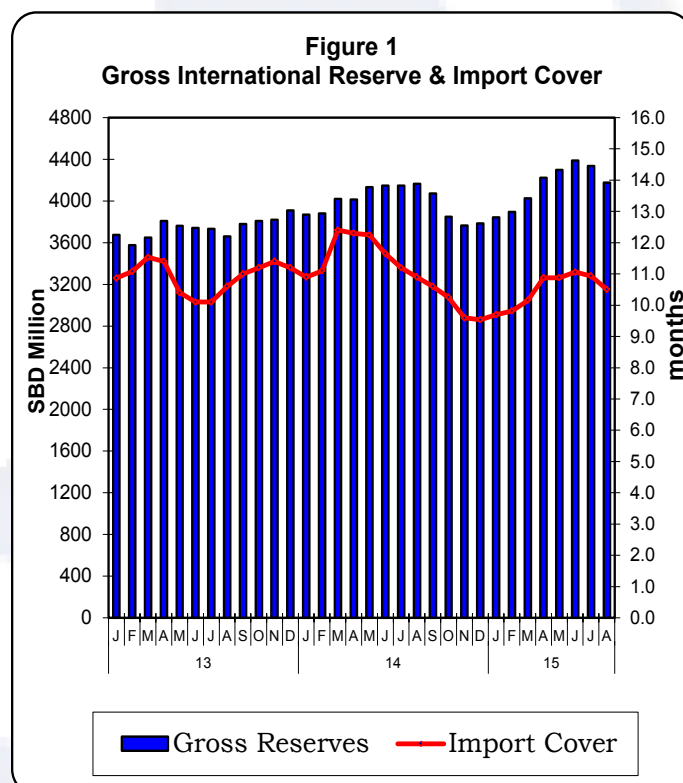
Export and import activities for August using commercial banks foreign exchange transactions¹ went up from the previous month. While exports grew slightly by 1% to \$230 million, imports increased by 5% to \$280 million.

The growth in exports was driven mainly by round logs and timber exports which increased by 19% to \$183 million with an export share of 80%. This was attributed to higher export volumes and favourable movement in the local currency against the US dollar. Mineral exports also went up from \$4 million to \$5 million. On the other hand, fish exports dropped from \$29 million to \$15 million as fish catch fell during the month. Agricultural exports also fell from \$39 million to \$26 million due to declining agricultural international commodity prices. Other exports fell from \$2 million to \$1 million.

The increase in imports came largely from higher import payments for food, basic manufactures and other import items. Food imports rose by 4% to \$72 million, basic manufactures by 6% to \$51 million and other import items by 21% to \$78 million. Meanwhile, fuel and machineries import categories dropped by 3% and 9% to \$47 million and \$32 million respectively.

Gross Foreign Reserves

Gross foreign reserves fell by 4% to \$4,176 million at the end of August as a result of higher imports and other overseas payments during the month. This level is sufficient to cover 10.5 months of imports.



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

Exchange Rate

The Solomon Islands dollar (SBD) on average for August depreciated by 0.72% to \$8.03 per USD but appreciated against the Australian dollar by 0.97% to \$5.86 per AUD and New Zealand dollar by 0.82% to \$5.26 per NZD. The SBD also depreciated against the British Pound, Japanese Yen, and Euro during the month. As a result of these movements, the basket during the month weakened by 69 basis points to 109.1²

III. GOVERNMENT FINANCE

The fiscal position narrowed to a deficit of \$103 million in August from \$147 million deficit recorded in July. This result came as a result of a 16% reduction in expenditure to \$304 million which contracted more than the 6% fall in revenue to \$201 million. Similarly, against the budget, both the revenue and expenditure fell short by 35% and 11%, respectively.

The month-on-month reduction in revenue mirrored declines in all revenue categories. Tax receipts fell by 2% to \$193 million. The major tax item driving the fall was tax on goods and services mainly goods tax and excise duties despite gains in tax on international trade driven by log receipts. Meanwhile, nontax revenue fell from \$16 million in July to \$7 million whilst budget support recorded only \$0.2 million in August.

Recurrent expenses fell by 16% against July to \$242 million. This outcome was largely driven by reductions in payroll expenses by 19% to \$74 million, other charges by 27% to \$96 million and grants by \$23 million to \$6 million. In contrast, other payments increased by 21% to \$41 million driven largely by subvention and school grant payments whilst a subsidy payment of \$20 million relating to shipping franchise was recorded in August. Development expenditure also fell by 13% to \$62 million due mainly to declines in spending on building and other structures like roads, bridges and so forth.

Central government debt stock stood at \$832 million, having increased by 1% in August following a 0.4% increase in July. This increase was due to depreciation of the SBD against the leading debt denominated currencies. Debt serving during the month came to \$5 million, of which \$4 million was on principal repayments and \$1 million in interest charges. Meanwhile, external debt accounted for \$682 million and domestic debt made up \$150 million of the outstanding debt stock. The debt-to-GDP ratio rose slightly to 12% against the previous month.

IV. DOMESTIC PRODUCTION

Based on preliminary estimates, the CBSI monthly production index improved further by 10% to 82 points from 75 points in the previous month. This came mainly from an increase in log production, and anticipated increase in copra, palm oil and cocoa output. These outweighed the decline in fish catch during the month. In terms of prices, average international prices for all export commodities further weakened this month with the exception of fish and log prices which increased by 23% and 0.2%, respectively.

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

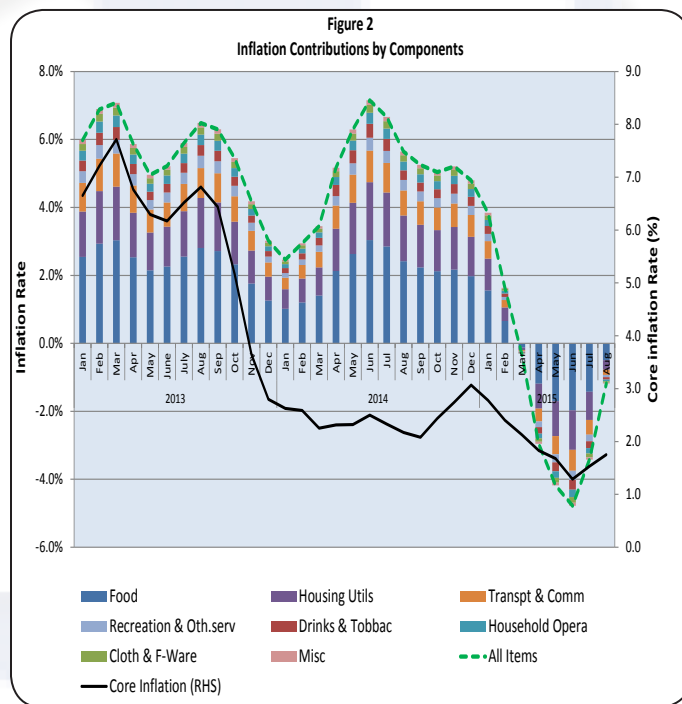
Inflation & Honiara Fuel Prices

Headline inflation in July remained below zero at minus 3.4% narrowing from minus 4.8% posted in June. This was attributed to a pickup in domestic inflation from minus 6.8% to minus 4.9%. Imported inflation also remained negative at minus 0.7%. The pickup in domestic inflation was largely driven by increases in food, and housing and utilities categories during the month.

In terms of contributions to overall headline inflation, the deflation of 3.4% was primarily accounted for by food prices with minus 1.42%, followed by housing and utilities with a reduced contribution of minus 0.83%, and transport and communications which accounted for minus 0.44%. The remaining categories contributed to the deflation for the reviewed period. Core inflation for July increased from 1.3% to 1.5% in the previous month.

Recent August inflation data had increased further to a minus 1.2% reflecting mainly a rebound in both imported and domestic inflation, particularly, in the price indices of food, and housing and utilities. Imported inflation moved from minus 0.7% to minus 0.2% whilst domestic inflation moved from minus 4.9% to minus 1.7%. Core inflation stood at 1.8% in August from 1.5% last month.

In terms of contributions to overall headline inflation in August, food contributed the largest portion with minus 0.49%, followed by housing and utilities with minus 0.29%, and transport and communications accounting for a minus 0.15%. The rest of the categories make up the remaining contributions.



The average fuel price in Honiara fell by 6% to \$8.68 per litre in August from \$9.27 per litre in the previous month. The decline was primarily due to a significant fall in kerosene by \$1.85 to \$7.94 per litre this month from \$9.79 per litre in July. Meanwhile, price of petrol increased by 10 cents to \$9.36 per litre while the price of diesel remained constant at \$8.75 per litre during the month.

Solomon Islands Key Economic Indicators

		Apr 15	May 15	Jun 15	Jul 15	Aug 15
Consumer Price Index (% change)	Headline (3mma)	-3.0	-4.2	-4.8	-3.4	-1.2
	Underlying (3mma): core 3	1.8	1.7	1.3	1.5	1.8
	Month-on month	0.1	-0.2	1.4	1.8	0.7
Trade¹ (eop)	Exports (\$ millions)	275	294	182	228	230
	Imports (\$ millions)	306	261	231	267	280
Exchange rates (mid-rate, monthly average)	SBD per USD	7.80	7.75	7.85	7.97	8.03
	SBD per AUD	6.03	6.12	6.05	5.92	5.86
	SBD per NZD	5.92	5.75	5.49	5.30	5.26
	SBD per GBP	11.65	11.97	12.20	12.40	12.58
	SBD per 100 JPY	6.53	6.45	6.34	6.47	6.51
	SBD per EUR	8.41	8.66	8.81	8.77	8.93
Gross Foreign Reserves (eop)	\$ millions	4,224	4,298	4,390	4,336	4,176
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,404	1,486	1,450	1,457	1,380
	Excess Liquidity (\$ millions)*	1,055	1,119	1,090	1,110	1,011
Money and Credit² (eop)	Narrow Money (\$ millions)*	2,739	2,825	2,791	2,853	2,756
	Broad Money (\$ millions)*	3,450	3,536	3,507	3,583	3,498
	Private Sector Credit (\$ millions)*	1,778	1,764	1,794	1,801	1,834
Interest rates (weighted average yield)	28-days Bokolo Bills Rate	0.62%	0.62%	0.62%	0.62%	0.62%
	56-days Treasury Bills Rate	0.34%	0.34%	0.34%	0.34%	0.34%
	91-days Treasury Bills Rate	0.46%	0.46%	0.46%	0.46%	0.46%
	182-days Treasury Bills Rate	1.11%	1.15%	1.15%	1.15%	1.15%
Commodity Prices (monthly average)	Round logs (US\$/m3)	249	247	241	241	242
	Gold - (US\$/oz)	1,199	1,199	1,182	1,128	1,118
	Palm Oil - (US\$/tonne)	662	658	670	636	551
	Fish - (US\$/tonne)	1,538	1,292	1,269	1,236	1,514
	Copra - (US\$/tonne)	714	743	740	735	689
	Cocoa - (US\$/tonne)	2,870	3,100	3,240	3,330	3,150

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

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