

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Total money supply grew by 2% to \$3,583 million at the end of July 2015 from a 1% marginal fall in the previous month. This was driven by a 2% growth in both narrow money (M1) and other deposits respectively. M1 increased to \$2,853 million resulting from a 4% increase in demand deposits to \$2,326 million despite currency in circulation falling by 3% to \$526 million. Other deposits (time and savings) increased from \$716 million to \$730 million this period. Total net foreign assets (NFA) of the banking system decreased marginally by 0.3% to \$4,134 million following growth of 1% in the previous month. The downturn in NFA was mainly driven by a 1% fall in CBSI's NFA to \$4,094 million, which outweighed an increase in other depository corporations' (ODC's) NFA from \$5 million to \$40 million in July 2015.

Net credit to government (NCG) decreased by 8% to net liabilities of \$1,677 million, following a 6% rise in the previous month. This was due to a 9% drawdown in government deposits with CBSI despite increased deposits with ODCs by 5%. Meanwhile, there was slow movement in the private sector credit (PSC), which increased marginally by 0.4% to \$1,801 million this period. However, year-on-year growth saw an increase in PSC by 21% against the same period in 2014. Despite the slow movement in PSC and the overall NFA, total liquidity inched up slightly by 0.5% to \$1,457 million following a 2% fall in June 2015. This caused excess liquidity to go up by 2% to \$1,110 million at the end of July.

#### Domestic Market Operations

The total CBSI Bokolo bills absorbed by the ODCs reached \$1,010 million following three auctions held in July 2015 with weighted average yield (WAY) for the 28 days bill remaining unchanged at 0.62%. Meanwhile, the WAY of Government treasury bills for 56, 91 and 182 days also remained unchanged for the third consecutive month at 0.34%, 0.46% and 1.15% respectively.

### II. EXTERNAL CONDITIONS

Trade in goods for July using commercial banks foreign exchange transactions<sup>1</sup> showed that both exports and imports recorded an increase during the month. Exports grew by 22% to \$228 million (f.o.b) while imports increased by 15% to \$237 million (f.o.b).

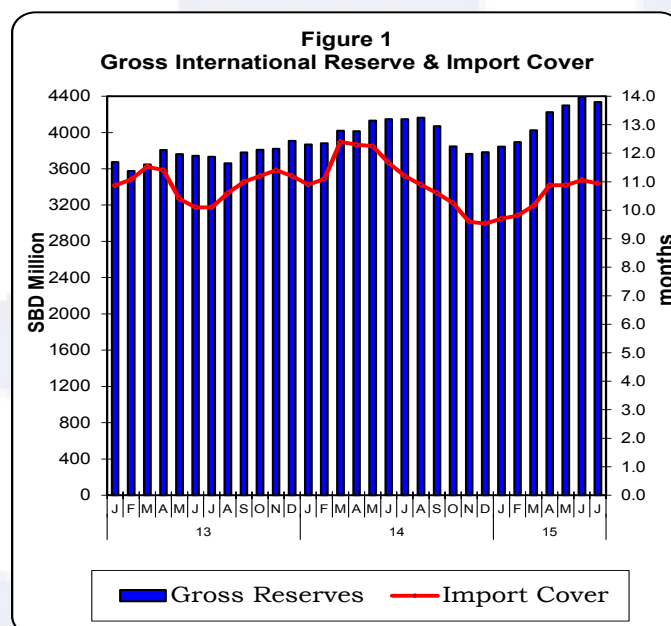
1. Export and import data from Customs Divisions is not available. Banks foreign exchange transactions are used instead which captures only cash receipts and payments.

The growth in exports was driven mainly by increases across all major export categories during the month. Round log and timber exports increased by 12% to \$154 million attributed to higher export volumes, fish exports grew significantly by 58% to \$29 million and agricultural commodities rose by 40% to \$39 million. Mineral exports doubled from \$2 million to \$4 million attributed to bauxite exports while all other exports remained unchanged at \$2 million.

The increase in imports came largely from higher import payments for fuel, basic manufactures and all other imports. Fuel imports grew by 43% to \$49 million, basic manufactures increased by 47% to \$49 million and all other imports by 40% to \$65 million during the month. Meanwhile, food imports fell by 6% to \$69 million and machineries dropped by 20% to \$35 million.

Gross foreign reserves fell by 1% to \$4,336 million at the end of July, sufficient to cover 10.9 months of imports of goods and services. This resulted from higher payments for goods and services during the month.

The Solomon Islands dollar (SBD) depreciated against the United States dollar (USD) by 1.56% to \$7.97 per USD but further appreciated against the Australian dollar (AUD) by 2.21% to \$5.92 per AUD during the month. The SBD also appreciated against the New Zealand dollar and Euro but depreciated against the British Pound and the Japanese Yen during the period.



### III. GOVERNMENT FINANCE

Government expenditure continued to gain momentum in July, rising by 11% to \$361 million, while revenue, on the other hand, declined by 24% to \$214 million. This led to a wider fiscal deficit of \$147 million from a deficit of \$42 million in last month. Meanwhile, revenue collections were below budget by 29% whilst expenditure exceeded the budget by 5%.

The fall in revenue collection against June was attributed to declines in all revenue categories. Tax receipts fell by 6% to \$198 million, reflecting notable decreases in company taxes combined with lower withholding tax and stamp duty collections which negated gains in goods tax and government and private sector PAYE tax. Non-tax revenue plunged to \$16 million from \$63 million.

Recurrent expenses, on the other hand, rose by 3% against the previous month to \$290 million driven by increases in payroll by 2% to \$91 million, purchase of goods and services up by 41% to \$132 million and grants spending more than doubled the last month to \$29 million respectively. In contrast, social benefits shrunk to \$5 million from \$26 million in June and other payments reduced from \$51 million in the preceding month to \$34 million. Meanwhile, development outlays continued to increase, from \$42 million in June to \$71 million this month on the back of increased spending on buildings and structures, and machineries and equipment.

Total outstanding central government debt stock rose slightly on the previous month by 0.4% to \$824 million at the end of July. This reflected an appreciation of the USD and SDR, the leading debt denominated currencies, against the Solomon Island dollar. Total debt serving made during the month amounted to \$5 million, of which \$4 million was on principal repayments and \$1 million on interest payments. Of the outstanding debt stock, external debt was \$674 million and domestic debt accounted for \$150 million. Meanwhile, the debt-to-GDP ratio remained broadly unchanged at 11% as in the previous month.

### IV. DOMESTIC PRODUCTION

Based on preliminary estimates, the monthly production index, as a proxy of domestic production, rebounded in July by 15% from a revised 25% contraction in the previous month. The rebound was due to improved performance in log exports, fish catch, cocoa and crude palm oil produced during the month. Log output increased by 11% while crude palm oil stood at 86 tons compared to zero output in June. Meanwhile, preliminary estimates for cocoa and fish output showed an increase of 6% and 3% respectively. Accumulated production to July showed log production surpassed year to July output in 2014 by 15% to 1.237 million cubic meters. Palm kernel oil increased by 12% to 2,221 tons. On the other hand, all other commodities performed below that of previous year.

In terms of prices, average international price for all export commodities weakened, except for cocoa and log prices which increased by 3% and 0.3% respectively.

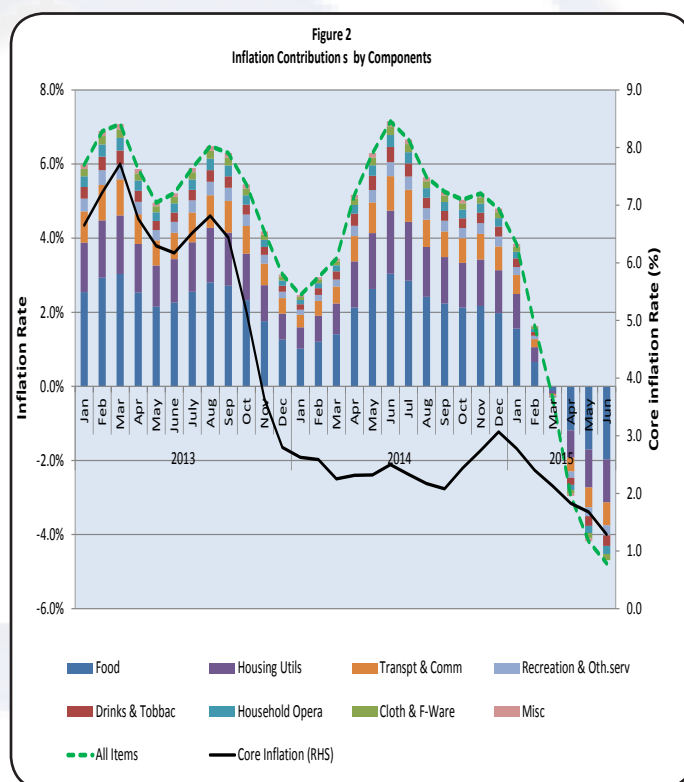
#### Inflation & Honiara Fuel Prices

Headline inflation remained below zero at minus 4.8% in June following the minus 4.2% registered in May. The fall mainly reflected a decline in domestic inflation from minus 5.5% to minus 6.8%. Imported inflation remained in the negative zone at minus 1.1% during the review period.

The decline in domestic inflation was largely driven by price decreases in the food and drinks and tobacco categories outpacing the increases in clothing and footwear, transport and communication, household operations and recreational categories.

In terms of contributions to overall headline inflation, the deflation of 4.8% was accounted for by notable falls in food, and housing and utilities indices. While the indices other components made marginal contributions. Correspondingly, the core inflation for June eased to 1.3% from 1.7% a month ago.

The average fuel price in Honiara rose further to \$9.27 per litre in July from \$8.88 per litre in June. The increase reflected price surges in all three fuel categories during the month. Diesel went up by 17 cents to \$8.75 per litre, petrol rose by 34 cents to \$9.27 per litre and kerosene increased by 67 cents to \$9.79 per litre.



### Solomon Islands Key Economic Indicators

		Mar 15	Apr 15	May 15	Jun 15	Jul 15
<b>Consumer Price Index</b> (% change)	Headline (3mma)	-0.3	-3.0	-4.2	-4.8	-3.4
	Underlying (3mma): core 3	2.1	1.8	1.7	1.3	1.5
	Month-on month	0.2	0.1	-0.2	1.4	1.8
<b>Trade<sup>1</sup></b> (eop)	Exports (\$ millions)	254	275	294	182	228
	Imports (\$ millions)	322	306	261	205	237
<b>Exchange rates</b> (mid-rate, monthly average)	SBD per USD	7.80	7.80	7.75	7.85	7.97
	SBD per AUD	6.04	6.03	6.12	6.05	5.92
	SBD per NZD	5.84	5.92	5.75	5.49	5.37
	SBD per GBP	11.70	11.65	11.97	12.20	12.40
	SBD per 100 JPY	6.49	6.53	6.45	6.34	6.47
	SBD per EUR	8.47	8.41	8.66	8.81	8.77
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,026	4,224	4,298	4,390	4,336
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)*	1,198	1,404	1,486	1,450	1,457
	Excess Liquidity (\$ millions)*	858	1,055	1,119	1,090	1,110
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)*	2,630	2,739	2,825	2,791	2,853
	Broad Money (\$ millions)*	3,338	3,450	3,536	3,507	3,583
	Private Sector Credit (\$ millions)*	1,719	1,778	1,764	1,794	1,801
<b>Interest rates</b> (weighted average yield)	28-days Bokolo Bills Rate	0.61%	0.62%	0.62%	0.62%	0.62%
	56-days Treasury Bills Rate	0.32%	0.34%	0.34%	0.34%	0.34%
	91-days Treasury Bills Rate	0.48%	0.46%	0.46%	0.46%	0.46%
	182-days Treasury Bills Rate	1.13%	1.11%	1.15%	1.15%	1.15%
<b>Commodity Prices</b> (monthly average)	Round logs (US\$/m3)	249	249	247	241	241
	Gold - (US\$/oz)	1,179	1,199	1,199	1,182	1,128
	Palm Oil - (US\$/tonne)	674	662	658	670	636
	Fish - (US\$/tonne)	1,308	1,538	1,292	1,269	1,236
	Copra - (US\$/tonne)	721	714	743	740	735
	Cocoa - (US\$/tonne)	2,950	2,870	3,100	3,240	3,330

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

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