

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Total money supply (M3) grew further by 3% for the second consecutive month to \$3,536 million at the end of May 2015, with year-on-year growth of 6%. The increase was driven by narrow money (M1), which went up by 3% to \$2,825 million whilst other deposits (time and savings) remained at \$711 million. The total net foreign assets (NFA) of the banking system increased by 3% to \$4,118 million in May 2015 driven by growth in the Central Bank of Solomon Island (CBSI) and Other Depository Corporations' (ODCs) NFA during the month.

Net credit to government (NCG) increased by 3% to net liabilities of \$1,714 million, following a 2% rise in the previous month. Driving this increase was the build-up in government deposits with ODCs while deposits with CBSI over the period remained the same. Private sector credit (PSC) in contrast declined marginally by 1% to \$1,764 million driven by fall in lending by ODCs during the period. Year-on-year saw PSC recorded a growth of 21% against May 2014. Mirroring the increase in the overall NFA and fall in private sector credit, total liquidity of the banking system increased by 6% to \$1,486 million, resulting in excess liquidity rising by 6% to \$1,119 million from the previous month.

#### Domestic Market Operations

The total CBSI Bokolo bills stock floated in May 2015 continued to remain unchanged at \$710 million, of which \$620 million worth of Bokolo bills was absorbed. The Bokolo bills weighted average yield (WAY) for 28 days remained at 0.62%. Meanwhile, the WAY of the Government treasury bills for 56 and 91 days maturities continued to remain at 0.34% and 0.46% respectively. In contrast, the WAY for 182 days increased from 1.11% in April to 1.15% this month.

### II. EXTERNAL CONDITIONS

The balance on trade in goods recorded a provisional \$3 million deficit in May, narrowing from a revised deficit of \$10 million in the previous month. This outcome emanated from a lesser fall in exports by 7% to \$277 million (f.o.b) combined with a faster 9% decline in imports to \$280 million (f.o.b).

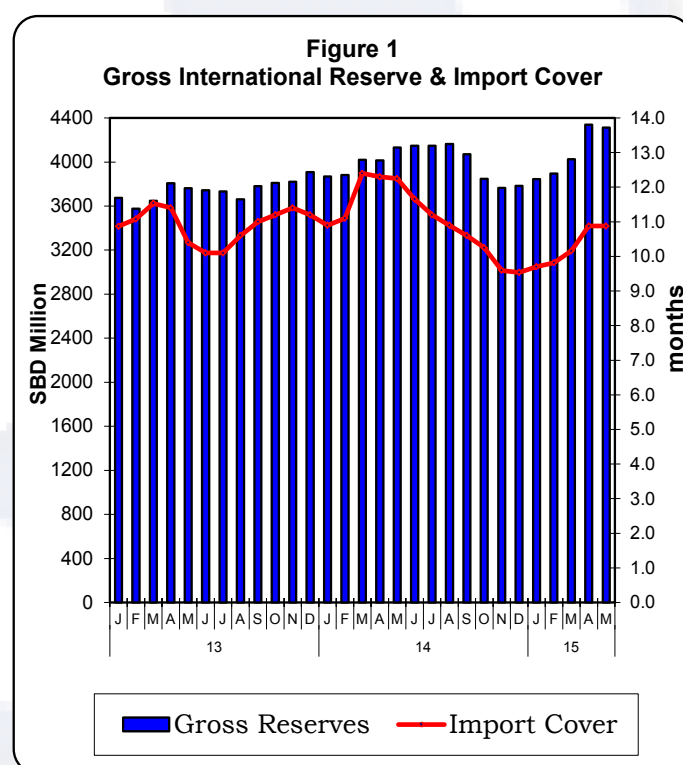
The fall in exports during the month was largely driven by round log and timber exports which dropped by 17% to \$183 million on the back of lower export volumes. Fish exports dropped slightly from \$29 million to \$28 million while all other exports slid from \$9 million to

\$8 million during the month. Meanwhile, agricultural commodities grew significantly by 49% to \$51 million resulting from higher export volumes during the month. Mineral exports more than doubled from \$3 million to \$7 million attributing to bauxite ore exports.

The fall in imports came mainly from lower import payments for fuel and machineries, dropping by 53% to \$29 million and down by 22% to \$86 million, respectively. This outweighed the increase in food by 18% to \$90 million and all other imports by 37% to \$57 million during the month. Meanwhile, basic manufactures remained constant at \$52 million during the month.

Gross foreign reserves slid by 1% to \$4,312 million, sufficient to cover 10.9 months of imports of goods and services. This was driven by higher transaction outflow during the month.

The Solomon Islands dollar (SBD) appreciated against the United States dollar (USD) by 0.71 % to \$7.75 per USD but depreciated against the Australian dollar (AUD) by 1.49% to \$6.12 per AUD during the month. The SBD also depreciated against the British Pound and Euro but appreciated against the Japanese Yen and the New Zealand dollar during the period.



### III. GOVERNMENT FINANCE

The government recorded a preliminary deficit of \$40 million in May driven by a 24% increase in total expenditure to \$240 million against the previous month. Meanwhile, total revenue collection remained broadly unchanged at \$200 million. The outcome was sustained by a \$3 million increase in non-tax revenue to \$6 million, underpinned by increased collection on fees and charges. This offsets a marginal 2% decline in tax revenue to \$194 million relative to the outcome in April.

The upsurge in expenditure, in contrast, reflected increased spending on goods and services from \$51 million in the preceding month to \$107 million. Key expenditure items recording notable increases were overseas training, electricity bills and subscriptions to overseas bodies. Grant expenses also increased by 57% month-on-month to \$23 million on the back of increases in health services grants payments to provincial health centres. Payroll spending, on the other hand, fell by 22% to \$83 million compared to April whilst development spending increased by \$6 million on the prior month to \$11 million.

Meanwhile, total public debt stock at the end of May stood at \$818 million compared to \$817 million in April. The marginal increase reflected depreciation of SBD against SDR which dominates the majority of external debt portfolios. Debt servicing made during the month totalled \$5 million. The debt-to-GDP ratio remained at 11% as in the previous month. Of the outstanding debt stock, external debt accounted for \$663 million and domestic debt with the remaining \$155 million.

### IV. DOMESTIC PRODUCTION

Based on preliminary estimates; the monthly production index, as a proxy of domestic production, declined by 12% in May to 81 points following an 18% rebound in the previous month. The fall was due to a 15% contraction in log output and low performance in cocoa and palm products, which more than offset slight increases in copra production and fish catch. In terms of prices, average international price for cocoa, copra and coconut oil rebounded, while price of fish and palm oil dropped. Meanwhile log price remained unchanged at US\$249 per cubic meter.

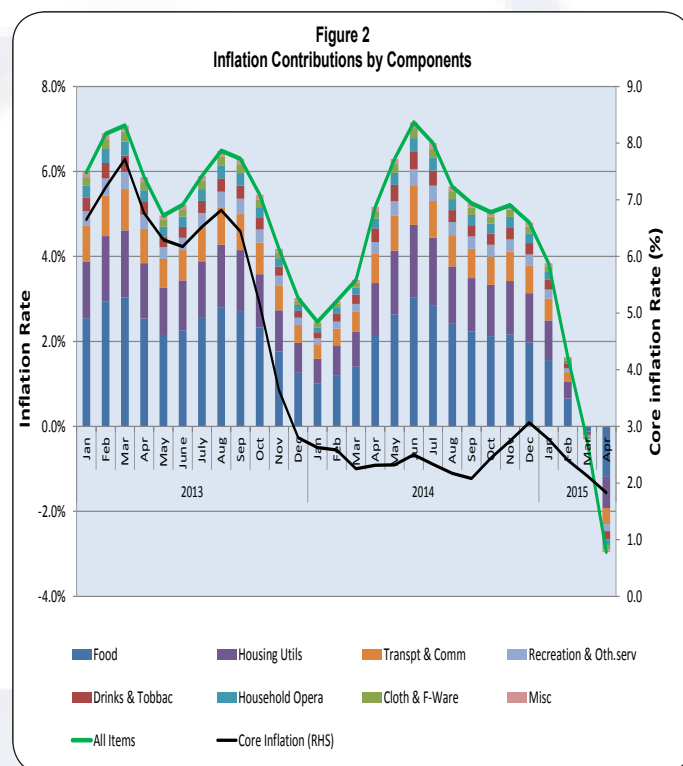
#### Inflation & Honiara Fuel Prices

Headline inflation for the month of April further decelerated to negative 3% from minus 0.3% in the previous month, continuing the downward trend since it peaked in June 2014 at 7.2%.

This was driven largely by domestic inflation falling below zero to minus 3.3% from 0.1% a month prior, while the imported component remained negative at minus 1.8%. The substantial decline in domestic inflation was largely driven by the food prices falling from 1.4% to minus 6.6%. A significant fall in drinks and tobacco to minus 24% as a result of betel nut prices plunging more than 60% also contributed to the fall. Similarly, housing and utilities further eased from 3.2% to 1.3%. The declining prices in these components outpaced the increase to 4.1% in household operations and sustained prices in clothing and footwear at 23%, transport and communication with 2.7%, and recreation rising at 9.8%.

In terms of contributions to overall headline inflation, the deflation of 3.0% was primarily accounted for by steeper falls in food prices, housing utilities and the transport & communication categories to minus 1.2%, minus 0.7% and minus 0.4%, respectively. The remaining components made marginal contributions to the overall deflation for the month. Similarly, the core inflation for April further contracted to 1.8% from 2.1% a month prior.

The average fuel price in Honiara eased in May to \$8.50 per litre, following an increase in the previous month. The fall was due to slight declines in all three fuel categories with diesel down by 12 cents to \$8.36 per litre, petrol slipping by 2 cents to \$8.55 per litre and kerosene falling by 5 cents to \$8.58 per litre from the previous month.



### Solomon Islands Key Economic Indicators

		Jan 15	Feb 15	Mar 15	Apr 15	May 15
<b>Consumer Price Index</b> (% change)	Headline (3mma)	3.8	1.6	-0.3	-3.0	N/A
	Underlying (3mma): core 3	2.8	2.4	2.1	1.8	N/A
	Month-on month	1.3	-1.4	0.2	0.1	N/A
<b>Trade<sup>1</sup></b> (eop)	Exports (\$ millions)	208	300	254	296	277
	Imports (\$ millions)	217	255	322	306	280
<b>Exchange rates</b> (mid-rate, monthly average)	SBD per USD	7.67	7.78	7.80	7.80	7.75
	SBD per AUD	6.20	6.06	6.04	6.03	6.12
	SBD per NZD	5.87	5.79	5.84	5.92	5.75
	SBD per GBP	11.63	11.91	11.70	11.65	11.97
	SBD per 100 JPY	6.49	6.56	6.49	6.53	6.45
	SBD per EUR	8.95	8.86	8.47	8.41	8.66
<b>Gross Foreign Reserves</b> (eop)	\$ millions	3,844	3,895	4,026	4,339	4,312
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)*	1,460	1,143	1,198	1,404	1,486
	Excess Liquidity (\$ millions)*	1,122	803	858	1,055	1,119
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)*	2,555	2,612	2,630	2,739	2,825
	Broad Money (\$ millions)*	3,255	3,302	3,338	3,450	3,536
	Private Sector Credit (\$ millions)*	1,683	1,710	1,719	1,778	1,764
<b>Interest rates</b> (weighted average yield)	28-day Bokolo Bills Rate	0.61%	0.61%	0.61%	0.62%	0.62%
	56-day Treasury Bills Rate	0.30%	0.30%	0.32%	0.34%	0.34%
	91-day Treasury Bills Rate	0.48%	0.48%	0.48%	0.46%	0.46%
	128-day Treasury Bills Rate	1.16%	1.13%	1.13%	1.11%	1.15%
<b>Commodity Prices</b> (monthly average)	Round logs (US\$/m3)	249	249	249	249	249
	Gold - (US\$/oz)	1,251	1,227	1,179	1,199	1,199
	Palm Oil - (US\$/tonne)	688	688	674	662	658
	Fish - (US\$/tonne)	1,194	1,147	1,308	1,538	1,292
	Copra - (US\$/tonne)	764	794	721	714	743
	Cocoa - (US\$/tonne)	2,920	2,950	2,950	2,870	3,100

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

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