

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply grew marginally by 1% to \$4,142 million at the end of May 2016, with year on year growth of 17%. Growth was driven by a rise in both narrow money (M1) and other deposits (savings and time) by 2% to \$3,345 million and 0.4% to \$798 million respectively. The increase in M1 stemmed from a rise in both currency in active circulation by 5% to \$648 million and demand deposits by 1% to \$2,697 million respectively. Meanwhile, the rise in other deposits came from an upturn in both savings and time deposits by 1% to \$134 million and 0.2% to \$663 million at the end of the period. Total net foreign assets (NFA) of the banking system increased by 1% to \$3,905 million in May following a 0.3% fall in the previous month. This came from a rise in CBSI's NFA by 0.1% to \$3,863 million together with an upturn in ODC's NFA from \$11 million to \$42 million at the end of the month. Year-on-year movement saw a 5% decline in total NFA against the same period in 2015.

Net credit to government (NCG) declined by 9% to net liabilities of \$1,234 million following a 7% decline in the previous month. This was due to a drawdown in government deposits held with CBSI by 7% to reach \$1,038 million together with a fall in ODCs holdings by 19% to \$196 million. Meanwhile, private sector credit (PSC) month-on-month growth slowed further to 0.1% to \$2,018 million following a 0.3% growth in the previous month. However, year-on-year growth saw PSC increased by 14% against the same period in 2015. Total liquidity in the banking system fell by 7% months ago to \$1,574 million. This resulted in excess liquidity falling by 9% to \$1,135 million in May 2016.

Domestic Market Operations

The total value of the stock of CBSI Bokolo bills floated in May 2016 remained unchanged at \$710 million, achieving full subscription for the month. The weighted average yield (WAY) for the 28 days remained unchanged at 0.62% from previous months. Meanwhile, the WAY for Government treasury bills for 56 and 91 days also remained stable at 0.34% and 0.46% respectively, while the WAY for 182 days fell to 1.12% this month from 1.14% in the previous month.

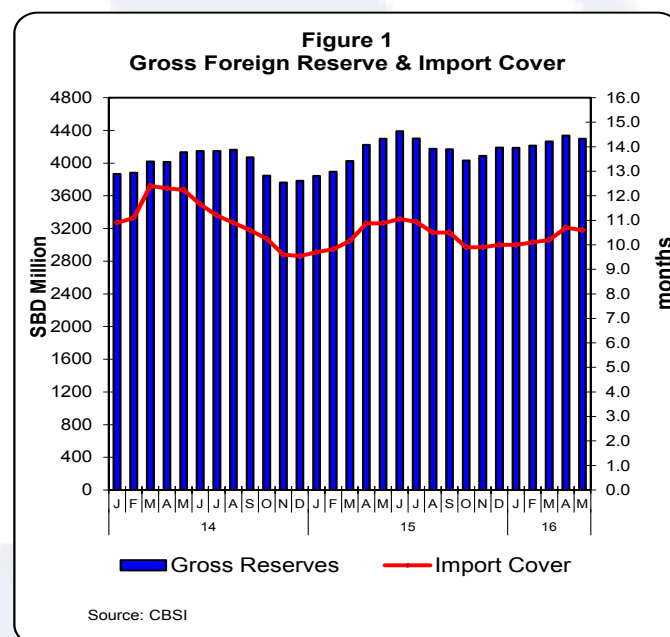
II. EXTERNAL CONDITIONS

Trade in goods

The balance on trade in goods for May 2016 improved to a provisional \$38 million surplus from a revised \$18 million surplus in the previous month. This positive outcome resulted from a 5% increase in exports to \$291 million and 3% drop in imports to \$254 million. The increase in exports was driven by all export commodities except for round logs which fell during the month. The drop in imports was largely due to the fall in fuel, machineries, and basic manufactured imports.

Gross foreign reserves

Gross foreign reserves fell by 1% to \$4,297 million, mainly due to higher service and income payments which exceeded receipts during the month. This level of reserves was sufficient to cover 10.6 months of imports of goods and services.



Exchange rate

The Solomon Islands dollar (SBD) depreciated by 1.56% in May against the United States dollar (USD) to an average \$7.98 per USD and 0.50% against the New Zealand dollar to \$5.43 per NZD. It also depreciated against the GBP, JPY, and EUR. Meanwhile, the SBD

appreciated against the Australian dollar by 2.87% to \$5.85. As a result of these movements, the exchange rate basket index weakened by 1.57% to 108.4 during the month.

III. GOVERNMENT FINANCE

The government recorded a deficit of \$135 million in May compared to \$133 million deficit in April. Compared to the outcome in April, both revenue and expenditure fell by 5% and 2% to \$196 million and \$332 million, respectively. Similarly, revenue and expenditure also fell 37% and 6% short of their respective budgets.

The fall in revenue against April was mainly driven by a 7% decline in tax revenue to \$184 million which negated a 28% increase in nontax revenue to \$13 million. The decline in tax receipts was largely attributed to lower collections on income and profit, and goods and services taxes. On nontax, the increase relates broadly to sales of goods and services. Meanwhile, the month-on-month decline in expenditure reflected an 11% drop in recurrent outlays to \$218 million which outweighed a 21% increase in development-related spending to \$114 million. Reductions in payroll, transfers and other payments largely underpinned the fall in recurrent spending. Increases in payments relating to machineries and equipment largely explained the rise in development-related spending.

Central Government debt stock increased marginally by 0.5% to \$691 million in May owing to depreciation of the SBD relative to the external debt-denominated currencies. This was despite \$3 million in debt servicing being made during the month. External debt stood at \$648 million, 2% higher than in April whilst domestic debt stood at \$43 million. Meanwhile, the debt-to-GDP ratio remained broadly unchanged at 8% of GDP as in the previous month.

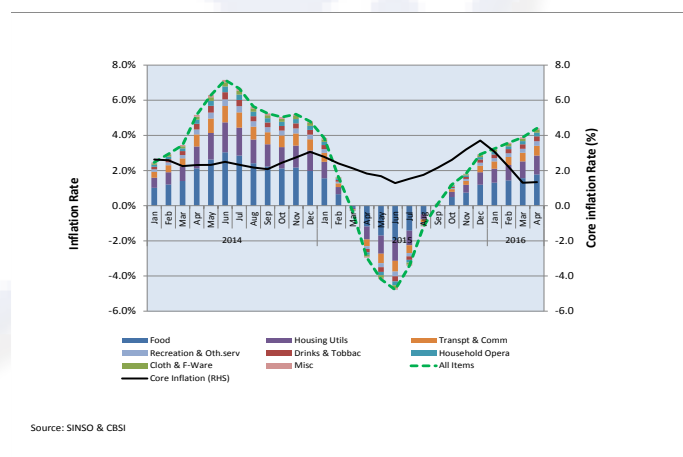
IV. DOMESTIC PRODUCTION

Based on preliminary estimates, the CBSI production index grew further by 8% to 98 points in May from a revised 90 points a month prior. The positive growth reflected the increases in round log volume and copra production, each rising by 8%, fish output

grew by 18% and cocoa production increased by 21% during the month. In contrast, palm oil production fell by 8% during the month. In terms of prices, international prices for copra and palm oil fell by 8% and 2% respectively. In contrast, fish, cocoa and log prices increased negligibly during the month.

Inflation & Honiara Fuel Prices

Headline inflation increased further to 4.4% in April from 3.9% in the previous month. This reflected an increase in domestic inflation which rose from 4.6% to 5.4% in April. The rise in domestic inflation came mainly from increases in food prices, particularly local food produced from the market during the month. Pressures from transport and communication categories also contributed to the increase in domestic inflation. On the other hand, imported inflation fell to 2.5% from 2.7% in the previous month.



In terms of contributions to the overall headline inflation of 4.4%, food accounted for 1.8%, followed by housing and utilities with 1.0%, transport and communication accounted for 0.6% whilst all other categories accounted for the remaining 1.0% during the month.

The average fuel price in Honiara fell by 26 cents in May to \$7.53 per litre from \$7.79 per litre in the previous month. The fall mainly reflected the significant decline in kerosene prices by \$1.05 to \$8.17 per litre from \$9.22 per litre. Meanwhile, diesel and petrol prices increased during the month by 13 cents and 14 cents to \$6.94 per litre and \$7.49 per litre, respectively.

Solomon Islands Key Economic Indicators

		Jan. 16	Feb. 16	Mar 16	Apr 16	May 16
Consumer Price Index (% change)	Headline (3mma)	3.3	3.6	3.9	4.4	n.a
	Underlying (3mma): core 3	3.1	2.2	1.3	1.3	n.a
	Month-on month	0.7	0.0	0.3	0.0	n.a
Trade¹ (eop)	Exports (\$ millions)	227	296	227	279	291
	Imports (\$ millions)	250	231	263	260	254
Exchange rates (mid-rate, monthly average)	SBD per USD	8.15	8.09	7.94	7.86	7.98
	SBD per AUD	5.71	5.77	5.93	6.02	5.85
	SBD per NZD	5.33	5.36	5.34	5.41	5.43
	SBD per GBP	11.75	11.59	11.30	11.23	11.58
	SBD per 100 JPY	6.90	7.03	7.03	7.17	7.34
	SBD per EUR	8.83	8.97	8.80	8.95	9.03
Gross Foreign Reserves (eop)	\$ millions	4,187	4,214	4,265	4,338	4,297
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,477	1,509	1,570	1,690	1,574
	Excess Liquidity (\$ millions)*	1,059	1,088	1,132	1,247	1,135
Money and Credit² (eop)	Narrow Money (\$ millions)*	3,105	3,153	3,216	3,292	3,345
	Broad Money (\$ millions)*	3,888	3,939	4,016	4,086	4,142
	Private Sector Credit (\$ millions)*	1,973	1,989	2,009	2,015	2,018
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	1.15%	1.15%	1.15%	1.14%	1.12%
Commodity Prices (monthly average)	Round logs (US\$/m3)	252	259	264	272	273
	Gold - (US\$/oz)	1,098	1,200	1,245	1,242	1,261
	Palm Oil - (US\$/tonne)	565	639	686	723	706
	Fish - (US\$/tonne)	1,444	1,480	1,556	1,781	1,781
	Copra - (US\$/tonne)	763	813	990	1,045	963
	Cocoa - (US\$/tonne)	2,905	2,920	3,070	3,080	3,099

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

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