

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Total money supply increased by 5% to \$4,344 million at the end of June 2016, with year on year growth of 24%. Growth was driven by a rise in both narrow money (M1) and other deposits (savings and time) by 6% to \$3,536 million and 1% to \$808 million, respectively. The increase in M1 was due to a rise in both currency in active circulation by 7% to \$694 million and demand deposits by 5% to \$2,842 million respectively. Meanwhile, the rise in other deposits came from an upturn in both savings and time deposits by 2% to \$137 million and 1% to \$672 million respectively at the end of the period. Total net foreign assets (NFA) of the banking system fell by 3% to \$3,795 million in June compared to a 1% growth in the previous month. This stemmed from a drop in Other Depository Corporations (ODCs) NFA from \$42 million to minus \$144 million despite an upturn in CBSI's NFA by 2% to \$3,939 million at month end. The significant drop in ODCs NFA implies rise in its foreign liabilities over its foreign assets. Year-on-year movement saw a decline by 8% against the same period in 2015.

Net credit to government (NCG) declined by 2% to net liabilities of \$1,206 million following a 9% drop in the previous month. This was due to drawdown in government deposits held with CBSI by 0.1% to \$1,037 million together with a fall in ODCs holdings by 14% to \$169 million. Meanwhile, private sector credit (PSC) went up by 1% to \$2,035 million following a 0.1% rise in the previous month. Year-on-year growth, saw PSC increase by 13% against the same period in 2015. Meanwhile, total liquidity in the banking system increased by 2% to \$1,603 million. This resulted in excess liquidity to rise by 15% to \$1,308 million at the end of June 2016.

### Domestic Market Operations

The total value of the stock of CBSI Bokolo bills floated in June 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 the previous months. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days also remained stable at 0.34%, 0.46% and 1.12% respectively.

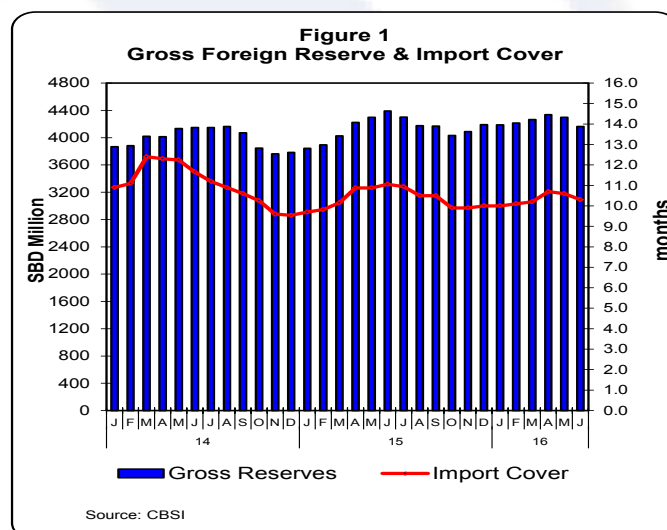
### II. EXTERNAL CONDITIONS

#### Trade in goods

The balance on trade in goods for June 2016 reverted to a provisional \$5 million deficit from a revised \$46 million surplus in the previous month. This resulted from a 9% drop in exports to \$274 million relative to a 10% increase in imports to \$279 million. The fall in exports was driven by contractions in forestry and agricultural commodity exports while the increase in imports was largely due to the increase in fuel, machineries, and basic manufactured imports during the month.

#### Gross foreign reserves

Gross foreign reserves fell by 3% to \$4,163 million, mainly due to higher goods and service payments which exceeded receipts and combined with a revaluation loss during the month. This level of reserves was sufficient to cover 10.3 months of imports of goods and services.



#### Exchange rate

The Solomon Islands dollar (SBD) appreciated by 0.52% in June against the United States dollar (USD) to an average \$7.94 per USD. It also appreciated against the GBP and EUR. Meanwhile, the SBD depreciated against the Australian dollar by 0.42% to \$5.87 per AUD and New Zealand dollar by 2.78% to \$5.59 per NZD. It also depreciated against the Japanese Yen. As a result of these movements, the exchange rate basket index strengthened

by 0.57% to 107.8 during the month.

### III. GOVERNMENT FINANCE

The Government recorded a preliminary deficit of \$51 million in June compared to a deficit of \$135 million in May. The June outcome stemmed from a 33% surge in revenue to \$261 million although this was still below expenditure which fell 6% against the previous month to \$312 million. Meanwhile both revenue and expenditure fell short of their budgets by 17% and 14% respectively.

The month-on-month growth in revenue was driven mainly by a 34% increase in tax revenue to \$247 million largely attributed to higher collections on income and profit taxes. This increase in income and profit taxes category was expected following the quarterly settlement of tax dues in June. Records show donors provided \$1 million in grants in June whilst nontax revenue receipts remained broadly around the same levels as in May at \$13 million. The overall decline in expenditure, on the other hand, reflected a 42% reduction in development spending to \$66 million which negated a 13% increase in recurrent spending to \$246 million. Reductions on fixed assets outlays, particularly machineries and equipment, and building and structures, largely explained the decline in development spending. In contrast, the increase in recurrent spending was attributed mainly to increases in payroll, transfers and other payments.

Total Central Government debt stock fell by 3% to \$671 million at the end of June. This reflected an appreciation of the SBD against external debt-denominated currencies coupled with the total debt servicing of \$9 million, of which \$7 million was on principal repayment and \$2 million on interest charges. Of the outstanding debt stock, external debt accounted for \$627 million whilst the domestic component accounted for the remaining \$44 million. Meanwhile, the debt-to-GDP ratio remained at 8%, broadly the same as in May.

### IV. DOMESTIC PRODUCTION

Based on preliminary estimates, the CBSI monthly production index fell by 6% to 91 points in June from a revised 96 points last month. This was largely driven by declines in round log production, fish catch and cocoa output during the month, each falling by 9%, 5% and 1% respectively. In contrast, palm kernel oil, crude palm oil and copra output registered growths of 21%, 15% and 10% respectively in June. In terms of international prices, copra

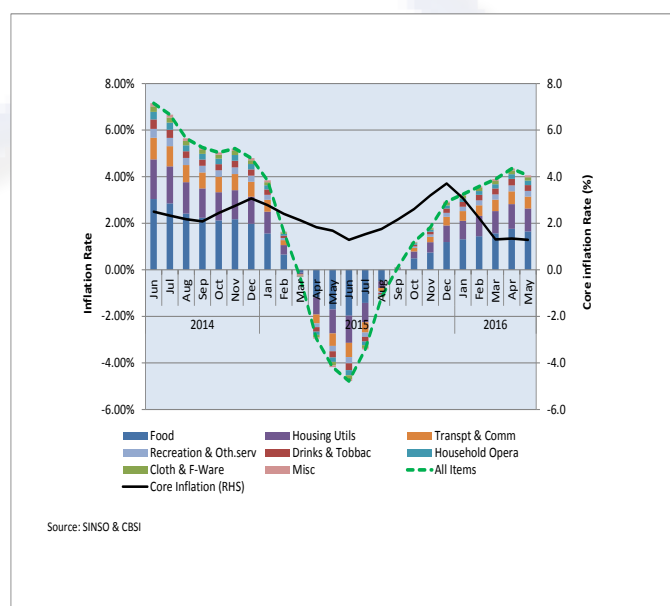
prices grew by 9%, round log price went up by 3% while cocoa prices grew slightly by 1% during the month. In contrast, fish and palm oil prices declined by 4% and 3% each during the period.

### Inflation

Headline inflation fell to 4.1% in May from 4.3% in the previous month. This outcome reflected the decline in imported inflation from 2.5% to 1.7% during the month. The fall in imported inflation came mainly from declines in imported food prices combined with easing prices in housing and utilities and transport and communication categories during the month. Meanwhile, domestic inflation levelled off at 5.4% during the period.

In terms of contribution to the overall headline inflation of 4.1%, food still contributed the largest share with 1.6%, followed by housing and utilities with 1.0%, transport and communication contributed 0.5%, whilst all the other categories accounted for the remaining 1.0% during the month.

**Figure 2**  
**Inflation Contributions by Components**



### Honiara Fuel Prices

The average fuel price in Honiara rose by 18 cents in June to \$7.71 per litre from \$7.53 per litre in the previous month. This reflected the increase across all fuel categories during the month. Diesel price increased by 31 cents to \$7.25 per litre from \$6.94 per litre, petrol price rose by 17 cents to \$7.66 per litre from \$7.49 per litre and kerosene price increased by 5 cents to \$8.22 per litre from \$8.17 per litre.

### Solomon Islands Key Economic Indicators

		Feb. 16	Mar 16	Apr 16	May 16	June 16
<b>Consumer Price Index</b> (% change)	Headline (3mma)	3.6	3.9	4.4	4.1	
	Underlying (3mma): core 3	2.2	1.3	1.3	1.3	
	Month-on month	0.0	0.3	-0.2	-0.9	
<b>Trade<sup>1</sup></b> (eop)	Exports (\$ millions)	296	227	281	300	274
	Imports (\$ millions)	231	263	260	254	279
<b>Exchange rates</b> (mid-rate, monthly average)	SBD per USD	8.09	7.94	7.86	7.98	7.94
	SBD per AUD	5.77	5.93	6.02	5.85	5.87
	SBD per NZD	5.36	5.34	5.41	5.43	5.59
	SBD per GBP	11.59	11.30	11.23	11.58	11.28
	SBD per 100 JPY	7.03	7.03	7.17	7.34	7.51
	SBD per EUR	8.97	8.80	8.95	9.03	8.93
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,214	4,265	4,338	4,297	4,163
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)*	1,509	1,570	1,690	1,574	1,603
	Excess Liquidity (\$ millions)*	1,088	1,132	1,247	1,135	1,308
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)*	3,153	3,216	3,292	3,345	3,536
	Broad Money (\$ millions)*	3,939	4,016	4,086	4,142	4,344
	Private Sector Credit (\$ millions)*	1,989	2,009	2,015	2,018	2,035
<b>Interest rates</b> (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%	1.14%	1.12%	1.12%
<b>Commodity Prices</b> (monthly average)	Round logs (US\$/m3)	259	264	272	273	282
	Gold - (US\$/oz)	1,200	1,245	1,242	1,261	1,276
	Palm Oil - (US\$/tonne)	639	686	723	706	683
	Fish - (US\$/tonne)	1,480	1,556	1,781	1,774	1,710
	Copra - (US\$/tonne)	813	990	1,045	963	1,048
	Cocoa - (US\$/tonne)	2,920	3,070	3,080	3,099	3,130

<sup>1</sup>. Value in terms of free on board (FOB)

<sup>2</sup>. Based on weekly statistics provided by other depository corporations (ODCs)