

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply increased marginally by 1% to \$4,369 million at the end of July 2016, with year on year growth of 22%. This was driven by a marginal rise in both other deposits (savings and time) by 1% to \$816 million and narrow money (M1) by 0.5% to \$3,552 million. The rise in other deposits stemmed mainly from a 3% growth in savings deposits to \$141 million and time deposits by 0.5% to \$675 million. On the other hand, the slight growth in M1 resulted from a 2% rise in demand deposits to \$2,887 million that outweighed the 4% fall in currency in active circulation to \$666 million.

Meanwhile, total net foreign assets (NFA) of the banking system grew by 3% to \$3,924 million in July compared to a 3% fall witnessed in the previous month. This stemmed from a considerable turnaround in Other Depository Corporations' (ODCs) NFA from minus \$144 million to \$24 million despite a marginal drop in CBSI's NFA by 1% to \$3,900 million at the end of the month. The significant movement in ODCs' NFA implies a rise in its foreign assets over its foreign liabilities. Year-on-year movement in total NFA of the banking system saw a decline of 5% against the same period in 2015.

Net credit to government (NCG) continued to decrease by 8% to net liabilities of \$1,111 million, following a 2% drop in the previous month. This was due to continued drawdown in Government' deposits' held with both CBSI and ODCs, which fell by 7% to \$964 million and 13% to \$147 million respectively. Meanwhile, private sector credit (PSC) went up marginally by 1% for the second consecutive month to \$2,048 million. Year-on-year, PSC increased by 14% against the same period in 2015. Meanwhile, total liquidity marginally decreased by 1% to \$1,592 million. This resulted in excess liquidity falling by 12% during the month to \$1,148 million.

Domestic Market Operations

The total value of the stock of CBSI Bokolo bills floated in July 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%. 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

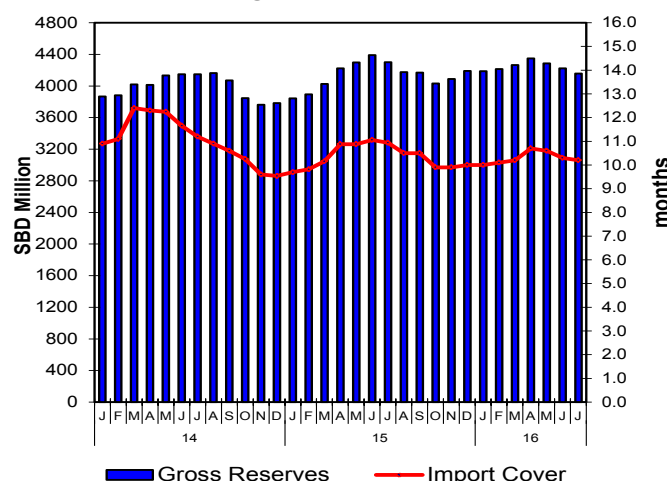
Trade in goods

The balance on trade in goods for July 2016 registered a provisional \$6 million surplus from a revised \$21 million deficit in the previous month. The positive outcome resulted from a sizeable drop in imports by 21% to \$232 million relative to a lesser 13% drop in exports to \$238 million. Both exports and imports declined during the month mainly due to falls in all key export commodities and major import categories.

Gross foreign reserves

Gross foreign reserves fell by 2% to \$4,156 million mainly due to outflows exceeding inflows during the month. This level of reserves was sufficient to cover 10.2 months of imports of goods and services.

Figure 1
Gross Foreign Reserve & Import Cover



Source: CBSI

Exchange rate

In July, the Solomon Islands dollar (SBD) appreciated by 0.58% against the United States dollar (USD) to an average \$7.89 per USD. It also appreciated against the GBP and EUR as both currencies weakened due to the continued impact

of the Brexit referendum where Britain voted to leave the European Union in June. Meanwhile, the SBD depreciated against the Australian dollar by 1.09% to \$5.94 per AUD and New Zealand dollar by 0.99% to \$5.65 per NZD. It also depreciated against the Japanese Yen. As a result of these movements, the trade weighted exchange rate basket index strengthened by 0.49% to 107.2 during the month.

III GOVERNMENT FINANCE

The government recorded a deficit of \$139 million in July compared to \$51 million deficit in June. This followed from a 32% fall in revenue to \$178 million and 2% increase in expenditure to \$317 million. Meanwhile, both revenue and expenditure fell 43% and 14% short of their respective budgets.

The fall in revenue against June was attributed mainly to a 30% decline in tax revenue to \$172 million and a drop in nontax revenue to \$6 million from \$12 million. Lower collections on income and profit tax and, international trade tax underlined the fall in tax revenue. Meanwhile, the fall in nontax revenue stemmed from lower collections on fishing licence receipts and goods and services sales tax. On the other hand, the month-on-month increase in expenditure was driven mainly by a 7% rise in recurrent outlays to \$264 million and a 19% decline in development-related spending to \$53 million. Higher spending on goods and services payments largely explained the increase in recurrent spending. On development-related spending, the decline stemmed from a fall in payments relating to machineries and equipment, and infrastructures like roads and bridges.

Central government debt stock fell slightly by 0.8% to \$664 million in July primarily owing to a depreciation of debt-denominated currencies against the SBD combined with \$3 million in debt servicing made during the month. External debt stood at \$620 million, 1% lower than in June whilst domestic debt remained broadly unchanged at \$44 million. Meanwhile, the debt-to-GDP ratio remained stable at 8% of GDP as in the previous month.

IV. DOMESTIC PRODUCTION

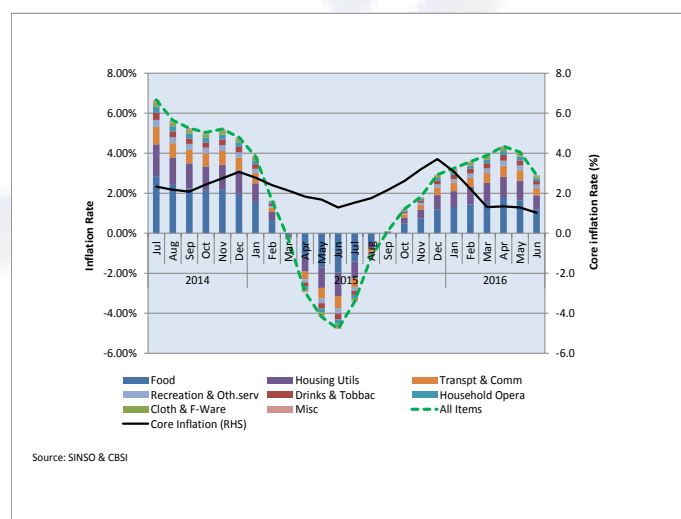
Preliminary estimates suggest that the CBSI monthly production index remained weak in the month of July, falling by 9% to 82 points from 90 points in the previous month. This outcome mainly reflected a 14% decline in log output during the month. To a lesser extent, a 6% fall in crude palm oil production and an 8% drop in palm kernel oil output also contributed to the fall.

On the other hand, copra and qw cocoa productions both recorded marked growths following declines in the previous month. In terms of prices, average international price for logs grew marginally by 1% whilst crude palm oil and palm kernel oil prices both recorded falls of 5% and 3% respectively. Copra and coconut oil prices also each experienced a drop of 4%.

Inflation

Headline inflation eased further to 2.9% in June from 4.1% in May. The fall was underpinned by the declines in both imported and domestic inflation rates. Imported inflation fell from 1.7% to 0.5% while domestic inflation dropped from 5.4% to 4.3%. The reduction in imported inflation mainly reflected price decreases in the food, housing & utilities, transport and communications and the recreation categories whilst the easing in domestic inflation came from price falls in domestic food and drinks & tobacco.

Figure 2
Inflation Contributions y Components



In terms of contributions to the overall headline inflation of 2.9%, food accounted for the largest share with 1.2%, followed by housing and utilities with 0.7%, transport and communications representing 0.4% and all the other categories contributed the remaining 0.6%.

Honiara Fuel Prices

The average fuel price in Honiara rose further by 14 cents in July to \$7.85 per litre from \$7.71 per litre in the previous month. This reflected the increase across all fuel categories during the month. Diesel price rose by 23 cents to \$7.48 per litre from \$7.25 per litre, petrol price increased by 8 cents to \$7.74 per litre from \$7.66 per litre and kerosene price surged by 13 cents to \$8.35 per litre from \$8.22 per litre.

Solomon Islands Key Economic Indicators

		Mar 16	Apr 16	May 16	June 16	Jul 16
Consumer Price Index (% change)	Headline (3mma)	3.9	4.4	4.1	2.9	na
	Underlying (3mma): core 3	1.3	1.3	1.3	1.0	na
	Month-on month	0.3	-0.2	-0.9	-1.0	na
Trade¹ (eop)	Exports (\$ millions)	227	281	300	274	238
	Imports (\$ millions)	263	260	254	294	232
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.94	7.86	7.98	7.94	7.89
	SBD per AUD	5.93	6.02	5.85	5.87	5.94
	SBD per NZD	5.34	5.41	5.43	5.59	5.65
	SBD per GBP	11.30	11.23	11.58	11.28	10.47
	SBD per 100 JPY	7.03	7.17	7.34	7.51	7.57
	SBD per EUR	8.80	8.95	9.03	8.93	8.73
Gross Foreign Reserves (eop)	\$ millions	4,275	4,349	4,286	4,223	4,156,
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,570	1,690	1,574	1,603	1,592
	Excess Liquidity (\$ millions)*	1,132	1,247	1,135	1,308	1,148
Money and Credit² (eop)	Narrow Money (\$ millions)*	3,216	3,292	3,345	3,536	3,552
	Broad Money (\$ millions)*	4,016	4,086	4,142	4,344	4,369
	Private Sector Credit (\$ millions)*	2,009	2,015	2,018	2,035	2,048
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%	1.14%	1.12%	1.12%	1.12%
Commodity Prices (monthly average)	Round logs (US\$/m3)	264	272	273	282	286
	Gold - (US\$/oz)	1,245	1,242	1,261	1,276	1,337
	Palm Oil - (US\$/tonne)	686	723	706	683	651
	Fish - (US\$/tonne)	1,556	1,781	1,774	1,710	1,838
	Copra - (US\$/tonne)	990	1,045	963	1,048	1,008
	Cocoa - (US\$/tonne)	3,070	3,080	3,099	3,130	3,050

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

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