

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply increased by 2% to \$4,473 million in August 2016 and was up by 28% year on year. This was driven by increases in both other deposits (savings and time) by 7% to \$877 million and narrow money (M1) that rose marginally by 1% to \$3,595 million. The rise in other deposits stemmed from the 8% growth in time deposits to \$728 million from \$675 million and savings deposits by 6% to \$150 million from \$141 million. The slight growth in M1 was driven primarily by the 2% rise in demand deposits to \$2,936 million, which more than outweighed the 1% fall in currency in active circulation to \$660 million.

Meanwhile, total net foreign assets (NFA) of the banking system declined by 0.2% to \$3,915 million in August compared to the 3% growth witnessed in the previous month. Driving this was a slight fall in CBSI's NFA by 0.2% to \$3,892 million at the end of the month. Likewise, on a year-on-year basis, total NFA of the banking system saw a 1% slowdown against the same period a year ago.

Net credit to government (NCG) continued to ease by 5% to net liabilities of \$1,058 million, following an 8% drop in the previous month. This was driven by a further drawdown in Government deposits¹ held with CBSI by 6% to \$909 million. This more than offsets the 2% growth that was equivalent to \$150 million holdings with ODC during the month. On the upside, private sector credit (PSC) rose by 5% to reach \$2,137 million. This is 17% above the previous year. Total liquidity grew by 2% to \$1,629 million, giving rise to excess liquidity rising by 2% during the month to \$1,170 million.

Domestic Market Operations

The total value of the stock of CBSI Bokolo bills increased from \$710 million in July to \$750 million floated in August 2016, with full subscription achieved for the month. The weighted average yield (WAY) for the 28 days remained unchanged at 0.62% from the previous month. 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.

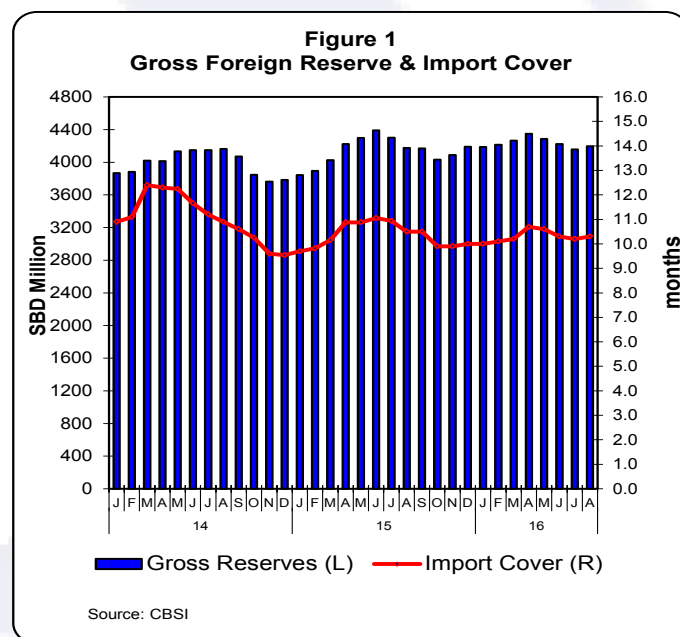
II. EXTERNAL CONDITIONS

Trade in goods

The balance on trade in goods for August 2016 reverted to a provisional \$58 million deficit from a revised \$1million surplus in the previous month. The deterioration came about from a sizable increase in imports by 23% to \$286 million while exports fell by 2% to \$229 million. The decline in exports stemmed from falls in agricultural exports offsetting the marginal increase in round log exports for the month. Higher imports came from increased payments for food and mineral fuels during the month.

Gross foreign reserves

Gross foreign reserves went up by 1% to \$4,197 million mainly due to higher inflows particularly the SDR 7.8 million increase in the country's quota subscription with the International Monetary Fund. This level of reserves was sufficient to cover 10.3 months of imports of goods and services.



Exchange rate

In August, the Solomon Islands dollar (SBD) appreciated by 0.66% against the United States dollar

¹The basket is trade weighted index to 100 with a base year of 2012.

(USD) to an average of \$7.84 per USD. Likewise, it also appreciated against the GBP during the period. Meanwhile, the SBD depreciated against the Australian dollar by 0.73% to \$5.98 per AUD and New Zealand dollar by 0.43% to \$5.67 per NZD. It also depreciated against the Japanese Yen and the EUR. As a result of these mixed movements, the trade weighted exchange rate basket index¹ strengthened by 0.65% to 106.5 during the month.

III GOVERNMENT FINANCE

The Central Government recorded a deficit of \$49 million in August compared to a \$139 million deficit in July 2016. The improvement came about as a result of a 30% increase in revenue collection to \$231 million while expenditure fell by 12% against previous month to \$280 million. Compared against budget, both revenue and expenditure performed below by 26% and 23% respectively.

The month-on-month growth in revenue was driven by a 16% increase in tax revenue that emanated from the rise in income and profit taxes and international trade taxes. Similarly, non-tax revenue increased to \$32 million and resulted from a rise in property income and the sales of goods and services over the month. On the other hand, the fall in expenditure against the previous month was driven by the 20% drop in recurrent outlays amounting to \$211 million outweighing a 31% increase in development related spending to \$70 million. Lower spending on payroll, and goods and services largely explained the fall in recurrent spending. Meanwhile, the upturn in development related spending came from the increase in payments for machineries and transport equipment over the month.

The central government debt stock declined by 0.5% to \$660 million due to debt servicing of \$3 million made in August, coupled with the depreciation of debt-denominated currencies against the SBD. Of the outstanding stock, external debt accounted for \$616 million, 1% lower than the previous month, whilst the domestic component accounted for \$45 million. Meanwhile, the debt-to-GDP ratio remained unchanged at 8% as in the previous month.

IV. DOMESTIC PRODUCTION

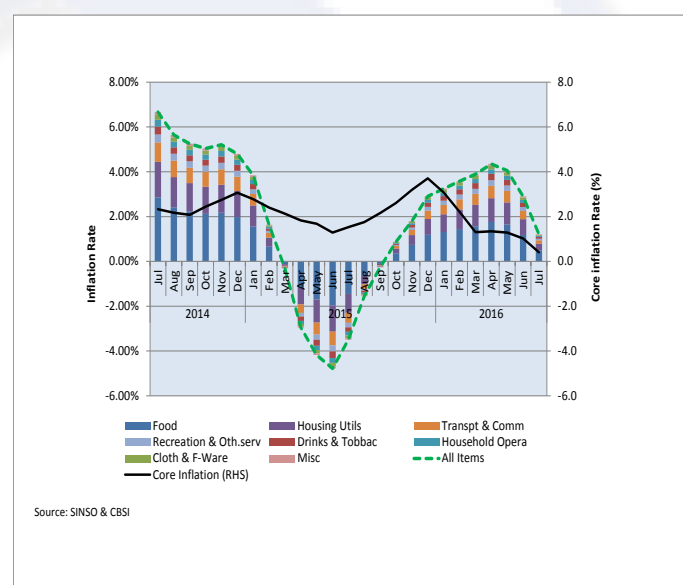
Based on preliminary estimates, the CBSI monthly production index dropped further by 7% to 77 points in August from 83 points in the previous month; the lowest since the beginning of the year. This was largely driven by declines in fish catch and round log output during the month, each falling by 17% and 6% respectively. In contrast, copra and

cocoa production registered growths of 9% and 34% respectively during the month while crude palm oil and palm kernel oil output remained flat. In terms of prices, average international prices for log and copra each grew by 3%, crude palm oil and palm kernel oil both recorded growth of 13% and 10% respectively. Meanwhile, fish price dropped by 3% and cocoa prices fell negligibly during the month.

Inflation

Headline inflation eased further to 1.2% in July from 2.9% in June. This reflects moderate movements in both imported and domestic inflation rates during the month. Imported inflation eased from 0.5% to minus 0.6% and was attributed to the slowdown in the food, housing and utilities, and transport and communications categories. Domestic inflation fell from 4.3% to 2.3% driven mainly by declines in domestic food prices and price falls in the housing and utilities, and drinks and tobacco categories. Intermsofcontributions to the overall headline inflation of 1.2%, food contributed the largest share with 0.5%, followed by housing and utilities with 0.3%, transport and communications contributing 0.2% while the rest of the other categories made up the remaining 0.3%.

Figure 2
Inflation Contributions y Components



Honiara Fuel Prices

The average fuel price in Honiara fell marginally by 5 cents in August to \$7.80 per litre from \$7.85 per litre in July. This reflected the decline in petrol and kerosene prices during the month. Petrol price dropped by 10 cents to \$7.64 per litre from \$7.74 per litre and kerosene price fell by 15 cents to \$8.19 per litre from \$8.35 per litre. In contrast, diesel price increased by 10 cents to \$7.57 per litre from \$7.48 per litre during the month.

Solomon Islands Key Economic Indicators

		Apr 16	May 16	June 16	Jul 16	Aug 16
Consumer Price Index (% change)	Headline (3mma)	4.4	4.1	2.9	1.2	na
	Underlying (3mma): core 3	1.3	1.3	1.0	0.4	na
	Month-on month	-0.2	-0.9	-1.0	-0.3	na
Trade¹ (eop)	Exports (\$ millions)	281	300	273	234	229
	Imports (\$ millions)	260	254	294	232	286
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.86	7.98	7.94	7.89	7.84
	SBD per AUD	6.02	5.85	5.87	5.94	5.98
	SBD per NZD	5.41	5.43	5.59	5.65	5.67
	SBD per GBP	11.23	11.58	11.28	10.47	10.38
	SBD per 100 JPY	7.17	7.34	7.51	7.57	7.75
	SBD per EUR	8.95	9.03	8.93	8.73	8.78
Gross Foreign Reserves (eop)	\$ millions	4,349	4,286	4,223	4,156	4,197
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,690	1,574	1,603	1,592	1,629
	Excess Liquidity (\$ millions)*	1,247	1,135	1,308	1,148	1,170
Money and Credit² (eop)	Narrow Money (\$ millions)*	3,292	3,345	3,536	3,552	3,595
	Broad Money (\$ millions)*	4,086	4,142	4,344	4,369	4,473
	Private Sector Credit (\$ millions)*	2,015	2,018	2,035	2,048	2,137
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	1.14%	1.12%	1.12%	1.12%	1.12
Commodity Prices (monthly average)	Round logs (US\$/m3)	272	273	282	286	294
	Gold - (US\$/oz)	1,242	1,261	1,276	1,337	1,340
	Palm Oil - (US\$/tonne)	723	706	683	651	736
	Fish - (US\$/tonne)	1,781	1,774	1,710	1,838	1,774
	Copra - (US\$/tonne)	1,045	963	1,048	1,008	1,041
	Cocoa - (US\$/tonne)	3,080	3,099	3,130	3,050	3,040

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

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