

Monthly Economic Bulletin

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| Content | Page |
|--------------------------|------|
| I. Monetary Developments | 1 |
| II. External Conditions | 1 |
| III. Government Finances | 2 |
| IV. Domestic Production | 2 |
| Key Economic Indicators | 3 |

I. MONETARY DEVELOPMENTS

Money supply (M3) fell marginally by 0.3% to \$4,547 million, reversing the 2% growth recorded in the previous month. The month-on-month outturn reflected decreases in both narrow money (M1) and other deposits (savings and time), the former contracting by 0.2% to \$3,561 million whilst the latter down by 1% to \$986 million. The fall in M1 stemmed from a reduction in currency in active circulation by 1% to \$686 million that more than offsets the marginal rise in demand deposits by 0.1% to \$2,875 million. On other deposits, the fall came predominantly from a 2% plunge in time deposits to \$808 million outweighing the 5% increase in savings to \$178 million. Against same period last year money supply saw 10% growth.

Total net foreign assets (NFA) of the banking system dipped by 0.1% to \$4,060 million in May following a 2% growth in April. This outcome was stirred by a 74% downfall in NFA of Depository Corporations (DC) to \$10 million although CBSI's NFA records an uptick of 1% to \$4,050 million. Meanwhile, NFA of the banking system improved by 4% year-on-year.

Net credit to government (NCG) rebounded by 8% to net liabilities of \$1,219 million in May, a swing from the 5% slow down recorded a month earlier. Growths in CBSI and ODC's net liabilities position by 3% to \$938 million and 28% to \$282 million respectively have influenced this outcome. Similarly, private sector credit (PSC) recovered by 2% to \$2,231 million, driven largely by a 2% rise in ODC lending to \$2,096 million. On a year-on-year basis, PSC grew by 11% whilst NCG contracted further by 1%. Meanwhile, total liquidity in the banking system squeezed by 1% to \$1,701 million driven largely by the decrease in NFAs. This saw free and excess liquidity falling by 0.4% and 0.5% to \$1,404 million and \$1,247 million respectively during the month. Required reserve also dwindled by 1% to \$297 million.

Domestic Market Operations

The stock of CBSI Bokolo bills remained at \$750 at end May with the weighted average yield (WAY) for the 28 days fixed at 0.62% from the previous month. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days remain unchanged at 0.34%, 0.46% and 1.12% respectively as in April 2017.

II. EXTERNAL CONDITIONS

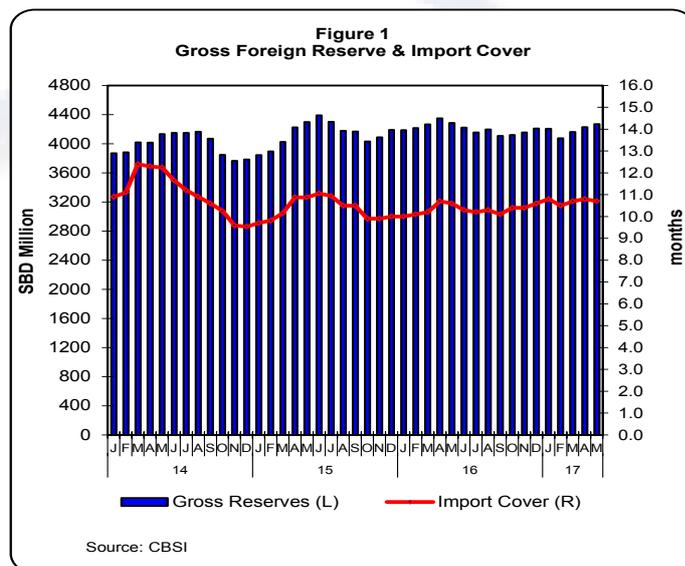
The balance on trade in goods for May 2017 recorded a provisional \$80 million deficit, from a revised \$35 million deficit in the previous month. This negative outcome

emanated from a significant increase in imports to \$370 million that outweighed a 36% increase in exports to \$290 million. The significant increase in imports was attributed to the increase in machineries, mineral fuel, foods, basic manufactures and all other imports. Meanwhile, the increase in exports was driven mainly by logs, fish, minerals and all other exports except for agricultural commodities which fell by 8% to \$54 million.

Gross Foreign Reserves

Gross foreign reserves grew marginally by 1% to \$4,269 million, due to higher donor receipts and fishing licensing inflows during the month. This level of reserves is sufficient to cover 10.7 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rate

The Solomon Islands dollar (SBD) for the third consecutive month depreciated by 0.39% against the United States dollar (USD) to an average of \$7.95 per USD and appreciated against the Australian dollar (AUD) and the New Zealand dollar by 0.92% to \$5.92 per AUD and 0.12% to \$5.52 per NZD respectively in the month. The SBD also appreciated against the Japanese yen but depreciated against the British pound and Euro dollar. As a result of these mixed movements the trade weighted exchange rate basket index further weakened by 0.50% to 108.08 during the month.

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

III GOVERNMENT FINANCE

The Government recorded a budget deficit of \$120 million in May compared to \$128 million posted in the previous month. This outcome resulted from higher spending than level of revenue collected during the month.

The 21% surge in Government revenue to \$244 million was attributed to an 11% growth in tax receipt to \$214 million as a result of robust collection in income and profit tax, and taxes on international trade and transactions. Similarly, other revenue also went up to \$28 million in May from \$8 million in April. Meanwhile, year-to-May result showed a 6% increase in total collection to \$1,128 million over the same period last year, but was 31% down against the year-to-date budget.

The Government expenditure rose by 11% to \$364 million. This reflected a 53% upsurge in development expenditure to \$132 million. Recurrent spending, on the other hand, fell by 4% to \$232 million during the month. Acquisitions of ships and other equipment were the major drivers behind the increase in capital expenditure while the fall in payroll and transfers accounted for the month-on-month outcome in recurrent spending. Accordingly, total expenditure for year-to May was 3% higher than the corresponding period a year ago but was down by 14% against the budget to \$1,493 million.

Total debt stock rose this month by 1% to \$888 million following a marginal increase in April. The increase came about following the ADB loan disbursement of \$2 million for the Transport Sector Flood Recovery Project (TSFRP) coupled with the exchange rate effect. Meanwhile, the government made a loan repayment of \$3 million during the month as in the previous month. Debt stock as a share of GDP, remained at 11%.

IV DOMESTIC PRODUCTION

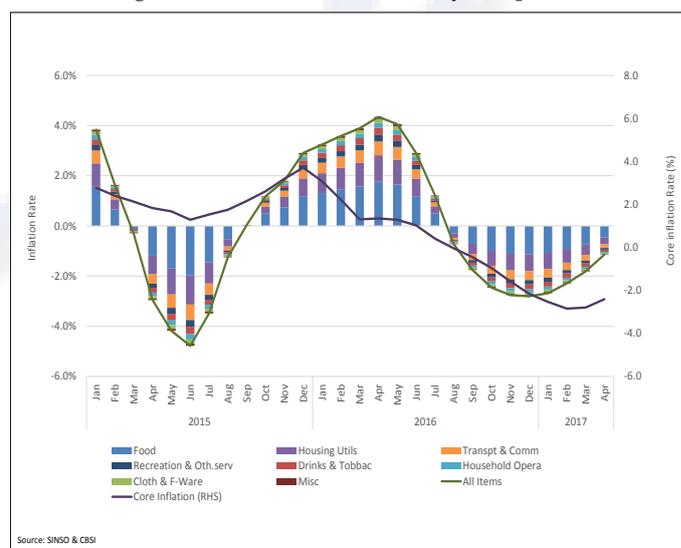
Based on preliminary estimates, the CBSI monthly production index rebounded by 1% in May to 89 points from 88 points in the previous month. This outcome reflected the 2% increase in round log output, reversing the 22% decline in April. In contrast, fish catch volumes dropped further by 6% during the month. Production data for other commodities are still not available. However, monthly output projections based on historical trends showed copra, cocoa and crude palm oil are expected to grow by 16%, 12% and 4% respectively. Meanwhile, palm kernel oil production is projected to fall by 2% during the month. In terms of prices, the average international price for copra grew by 7%, palm kernel oil and crude palm oil prices

increased by 8% and 6% respectively, while cocoa price rose slightly by 1% during the month. On the other hand, log price fell by 2% whilst fish price levelled off during the period.

Headline Inflation

Headline inflation remained below zero for the ninth consecutive month, although gaining momentum to minus 1.1% in April from minus 1.8% a month ago. This reflected the improvement in both domestic and imported inflation during the month. Domestic inflation emerged to 0.7% from 0.0% reflecting surge in drinks and tobacco to 4.4% from negative 0.5% in the previous month. Price pickups in housing and utilities, and household operations also contributed to the uptick. Similarly, imported inflation improved to minus 4.6% from minus 5.1% driven by price increases in food, housing and utilities, transport and communication, and recreation categories. Of the overall headline inflation, food accounted for minus 0.5%, followed by housing and utilities with minus 0.3%, whilst the remaining categories accounted for minus 0.3%. Core inflation rose to minus 2.4% from minus 2.8% in the previous month. This implies the prices of non-food and non-energy categories also picked up during the month.

Figure 2: Inflation Contributions by Components



Honiara Fuel Prices

The average fuel price in Honiara declined for the third consecutive month to \$8.01 per litre in May from \$8.05 per litre a month ago. This outcome reflected the price falls in diesel and kerosene during the period. Diesel price dropped by 7 cents to \$7.92 per litre from \$7.99 per litre, while kerosene price fell by 10 cents to \$8.03 per litre from \$8.13 per litre. Meanwhile, petrol price rose slightly by 2 cents to \$8.07 per litre from \$8.05 per litre in the previous month.

Solomon Islands Key Economic Indicators

| | | Jan 17 | Feb 17 | Mar 17 | Apr 17 | May 17 |
|--|-------------------------------------|--------|--------|--------|--------|--------|
| Consumer Price Index (% change) | Headline (3mma) | -2.7 | -2.3 | -1.8 | -1.1 | na |
| | Underlying (3mma): core 3 | -2.2 | -2.8 | -2.8 | -2.4 | na |
| | Month-on month | 0.4 | 0.4 | 1.6 | 0.1 | na |
| Trade¹ (eop) | Exports (\$ millions) | 282 | 198 | 340 | 185 | 290 |
| | Imports (\$ millions) | 235 | 250 | 251 | 247 | 370 |
| Exchange Rates (mid-rate, monthly average) | SBD per USD | 7.98 | 7.89 | 7.90 | 7.92 | 7.95 |
| | SBD per AUD | 5.93 | 6.04 | 6.02 | 5.97 | 5.92 |
| | SBD per NZD | 5.66 | 5.70 | 5.54 | 5.53 | 5.52 |
| | SBD per GBP | 9.83 | 9.86 | 9.75 | 9.99 | 10.28 |
| | SBD per 100 JPY | 6.93 | 6.98 | 7.00 | 7.18 | 7.09 |
| | SBD per EUR | 8.47 | 8.40 | 8.44 | 8.49 | 8.78 |
| Gross Foreign Reserves (eop) | \$ millions | 4,205 | 4,075 | 4,162 | 4,229 | 4,269 |
| Liquidity² (eop) | Total Liquidity (\$) | 1,775 | 1,759 | 1,627 | 1,710 | 1,701 |
| | Excess Liquidity (\$) | 1,284 | 1,293 | 1,176 | 1,253 | 1,247 |
| Money and Credit² (eop) | Narrow Money (\$) | 3,612 | 3,618 | 3,499 | 3,567 | 3,561 |
| | Broad Money (\$) | 4,598 | 4,605 | 4,487 | 4,560 | 4,547 |
| | Private Sector Credit (\$) | 2,215 | 2,213 | 2,217 | 2,185 | 2,231 |
| 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 | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% |
| Commodity Prices (monthly average) | Round logs - (US\$/m ³) | 259 | 264 | 264 | 270 | 265 |
| | Gold - (US\$/oz) | 1,192 | 1,234 | 1,231 | 1,267 | 1,246 |
| | Palm Oil - (US\$/tonne) | 806 | 779 | 736 | 685 | 724 |
| | Fish - (US\$/tonne) | 1,420 | 1,713 | 1,807 | 2,119 | 2,119 |
| | Copra - (US\$/tonne) | 1,225 | 1,146 | 1,016 | 1,044 | 1,113 |
| | Cocoa - (US\$/tonne) | 2,200 | 2,030 | 2,060 | 1,970 | 1,980 |

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

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