

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) dropped further by 1% to \$4,494 million from the 0.3% decline 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 1% to \$3,512 million whilst the latter was down marginally by 0.4% to \$982 million. The fall in M1 was driven largely by a 2% reduction in demand deposit to \$2,823 million despite the marginal increase in currency in active circulation by 0.5% to \$689 million. On the other deposits, the shortfall persisted from the previous month with falls in both savings and time deposits by 1% and by 0.2% to \$176 million and \$806 million respectively. Against the same period last year, money supply recorded a growth of 3%.

Total net foreign assets (NFA) of the banking system increased by 1% to \$4,127 million in June following the 0.5% growth in May. This outcome was stirred by growth in both NFA of Depository Corporations and CBSI by 24% to \$26 million and 1% to \$4,101 million respectively. Meanwhile, NFA of the banking system improved by 9% year-on-year.

Net credit to government (NCG) further improved by 6% to net liabilities of \$1,293 million in June, a growth from the 8% recorded a month earlier. CBSI's net credit to government recorded a growth of 9% to \$1,024 million while ODC's net liabilities position shrank by 5% to \$268 million. Private sector credit (PSC) also fell by 2% to \$2,190 million driven largely by a 2% decline in ODC lending to \$2,055 million. On a year-on-year basis, PSC and NCG grew by 8% and 7% respectively. Meanwhile, total liquidity in the banking system dipped further by 4% to \$1,637 million driven by decreases in both free and excess liquidity by 5% to \$1,337 million and \$1,181 million respectively during the month. Required reserve grew by 1% to \$300 million.

Domestic Market Operations

The stock of CBSI Bokolo bills remained at \$750 million at end June 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 May 2017.

II. EXTERNAL CONDITIONS

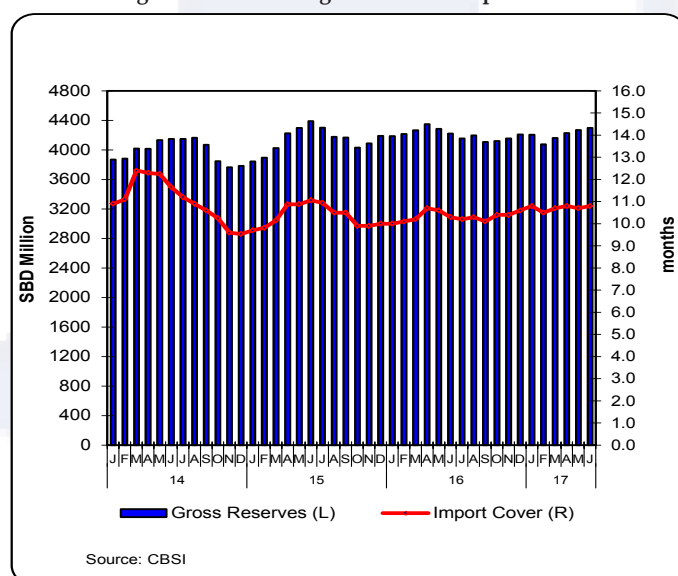
Trade in goods

The balance of trade in goods for June 2017 narrowed to a \$42 million deficit following a revised \$80 million deficit witnessed in the previous month. This reduced deficit was driven by the 15% fall in imports to \$314 million, while exports slid by 6% to \$272 million. The fall in exports came on the back of the falls in all export commodities apart from fish that remained stable during the month. Meanwhile, the decrease in imports was attributed to the decline in food, mineral fuels, basic manufactures and other imports despite the increase in chemicals and beverages.

Gross Foreign Reserves

Gross foreign reserves grew marginally by 1% to \$4,297 million, due to higher donor receipts and fishing licensing inflows during the month. This level of reserves is sufficient to cover 10.8 months of import of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



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

Exchange Rate

The Solomon Islands dollar (SBD) appreciated by 0.26% against the United States dollar (USD) to an average of \$7.93 per USD. It however depreciated against the Australian dollar (AUD) and the New Zealand dollar by 1.26% to \$5.99 per AUD and 3.65% to \$5.73 per NZD respectively during the month. The SBD also depreciated against the Japanese and Euro dollar yen but appreciated against the British pound. As a result of these mixed movements the trade weighted exchange rate basket index strengthened by 0.80% to 107.25 during the month.

III GOVERNMENT FINANCE

The government recorded a fiscal surplus of \$53 million in the month of June, following a \$120 million deficit in the previous month. This outcome was due to an 11% increase in government revenue to \$269 million whilst government expenditure decreased by 41% to \$216 million during the month.

The increase in total revenue was driven by a 21% upturn in taxes to \$259 million. This emanated from a strong collection in income and profit tax while taxes on international trade went down during the month. Meanwhile, non tax revenue declined to \$11 million from \$28 million in the previous month following a decline in proceeds from fishing licenses. In contrast, the decline in total expenditure was propelled by a 72% drop in the capital expenditure to \$37 million together with a 23% fall in the recurrent spending to \$178 million. The decline in spending on equipment, dwellings and non-residential building was the major driver behind the fall in total development outlays whilst the fall in consumption spending and compensation of employees underpinned the drop in the recurrent spending.

The government’s outstanding debt fell to \$880 million from \$883 million. The outcome was attributed to debt repayment of \$9 million coupled with the favourable exchange rate movement during the month. Of the total debt stock, external debt constituted the bulk of the debt balance at \$690 million and domestic debt with the remaining \$190 million.

IV DOMESTIC PRODUCTION

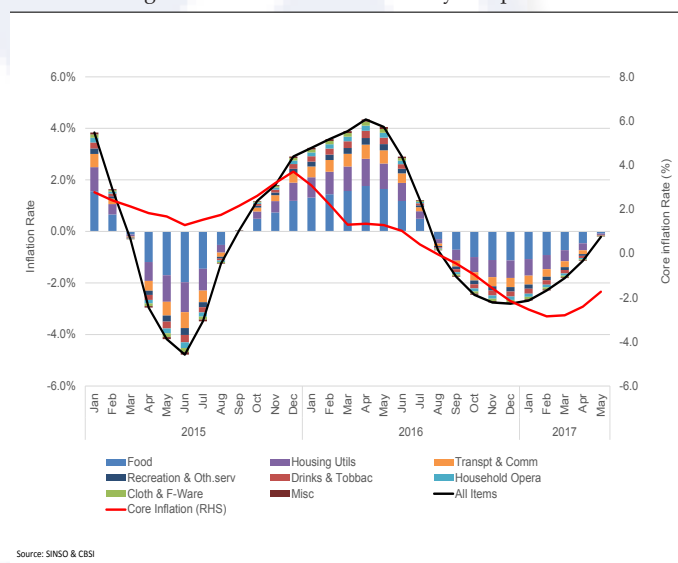
Based on preliminary estimates, the CBSI monthly production index fell by 15% in June to 78 points from a revised 5% improvement to 92 points in the previous month. This outcome reflected declines in four of the main commodities during the month, with round log volumes, fish catch falling by 18% and 8%, respectively, whilst cocoa and copra output fell by 35% and 10% respectively. Production data for palm oil were currently unavailable for reporting. However, monthly output projections based on seasonal trends showed that palm kernel oil are expected to fall by 2%. In contrast, crude palm oil is projected to increase by 6% during the month.

In terms of prices, the average international price for round log, copra and cocoa grew by 1% each during the month. Meanwhile, palm kernel oil price dropped by 7%, crude palm oil price fell by 6%, while fish price dropped by 5% during the period.

Headline Inflation

Headline inflation remained subdued in May, albeit on an upward trend to minus 0.2% from minus 1.1% in April. This reflected the improvements in both domestic and imported inflation during the month.

Figure 2: Inflation contributions by components



Domestic inflation rose to 1.6% from 0.7%, while imported inflation improved to minus 3.4% from minus 4.6%. The increase in domestic inflation was driven mainly by price pickups in drinks and tobacco, housing and utilities, and household operations categories. Similarly, the increase in imported inflation reflected price improvements in food, transport and communication, household operations, and clothing and footwear categories during the month.

Of the overall headline inflation, food accounted for minus 0.1%, whilst all other categories accounted for the remaining minus 0.1%.

Core inflation improved to minus 1.7% from minus 2.4% in the previous month. This indicates that prices of non-food and non-energy categories also picked up during the month.

Honiara Fuel Prices

The average fuel price in Honiara declined further to \$7.86 per litre in June from \$8.01 per litre a month ago. This outcome reflected price falls across all fuel categories during the month. Kerosene price fell by 15 cents to \$7.88 per litre from \$8.03 per litre while diesel and petrol prices dropped by 14 cents each to \$7.78 per litre and \$7.93 per litre respectively against the previous month.

Solomon Islands Key Economic Indicators

		Feb 17	Mar 17	Apr 17	May 17	June 17
Consumer Price Index (% change)	Headline (3mma)	-2.3	-1.8	-1.1	-0.2	na
	Underlying (3mma): core 3	-2.8	-2.8	-2.4	-1.7	na
	Month-on month	0.4	1.6	0.1	0.3	na
Trade¹ (eop)	Exports (\$ millions)	198	340	185	290	272
	Imports (\$ millions)	250	251	247	370	314
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.89	7.90	7.92	7.95	7.93
	SBD per AUD	6.04	6.02	5.97	5.92	5.99
	SBD per NZD	5.70	5.54	5.53	5.52	5.73
	SBD per GBP	9.86	9.75	9.99	10.28	10.20
	SBD per 100 JPY	6.98	7.00	7.18	7.09	7.16
	SBD per EUR	8.40	8.44	8.49	8.78	8.91
Gross Foreign Reserves (eop)	\$ millions	4,075	4,162	4,229	4,269	4,297
Liquidity² (eop)	Total Liquidity (\$)	1,759	1,627	1,710	1,701	1,637
	Excess Liquidity (\$)	1,293	1,176	1,253	1,247	1,181
Money and Credit² (eop)	Narrow Money (\$)	3,618	3,499	3,567	3,561	3,512
	Broad Money (\$)	4,605	4,487	4,560	4,547	4,494
	Private Sector Credit (\$)	2,213	2,217	2,185	2,231	2,190
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)	264	264	270	265	268
	Gold - (US\$/oz)	1,234	1,231	1,267	1,246	1,260
	Palm Oil - (US\$/tonne)	779	736	685	724	677
	Fish - (US\$/tonne)	1,713	1,807	2,119	2,119	na
	Copra - (US\$/tonne)	1,146	1,016	1,044	1,113	1,119
	Cocoa - (US\$/tonne)	2,030	2,060	1,970	1,980	2,000

¹ Value in terms of free on board (FOB)

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