

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Money supply (M3) further expanded by 0.5% to \$4,616 million in September following a 2% growth recorded in the previous month. The increase was driven by a 4% rise in other deposits (time & savings) to \$1,021 million whilst narrow money (M1) slipped by 0.4% to \$3,594 million. Other deposits benefited from a 5% rise in time deposits to \$846 million despite a fall in savings by 1% to \$175 million. Conversely, the fall in M1 stemmed from a 1% decline in demand deposit to \$2,888 million which negated a 3% increase in currency in active circulation to \$706 million. On a year-on-year basis, M3 grew by 4% against the same period last year.

Total net foreign assets (NFA) of the banking system fell by 1% to \$4,135 million in September, reversing the 1% growth recorded in August. This outcome reflected declines in both NFA of CBSI and Other Depository Corporations (ODC) by 1% to \$4,103 million and 32% to \$32 million respectively. However, compared to the corresponding period a year ago NFA of the banking system improved by 7%.

Net credit to government (NCG) dropped by 11% to net liabilities of \$1,079 million in September, following a 3% decline recorded a month earlier. Against the preceding month, the outcome reflected reductions in the government's net position with both CBSI and ODC. The former fell by 13% to net liability of \$888 million and the latter by 3% to net liability of \$191 million. Private sector credit (PSC) edged lower by 0.1% to \$2,233 million driven mainly by a 0.4% decline in ODC lending to \$2,090 million. However, both PSC and NCG grew year-on-year by 2% and 1% respectively. Meanwhile, total liquidity in the banking system rose by 4% to \$1,744 million reflecting increase in currency in circulation and a fall in government deposits. This saw both free and excess liquidity increasing by 6% to \$1,448 million and 7% to \$1,293 million respectively during the month. Required reserve fell by 5% to \$295 million.

#### Domestic Market Operations

The stock of CBSI Bokolo bills held at end September stood at \$750 million 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 August.

### II. EXTERNAL CONDITIONS

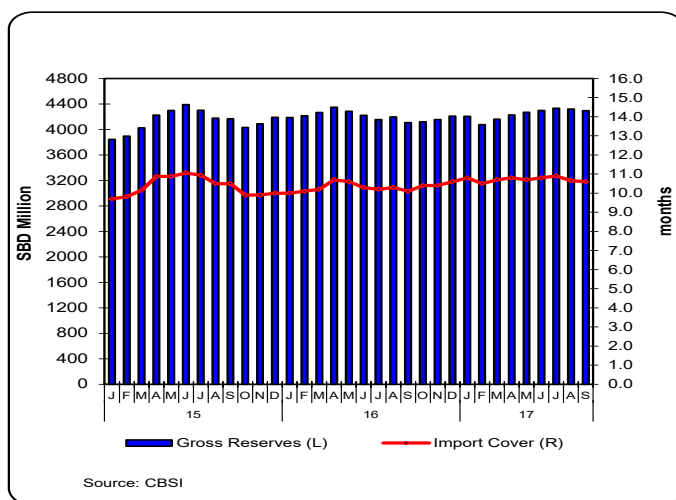
#### Trade in goods

The balance on trade in goods for September 2017 improved to a provisional \$61 million surplus following a revised \$80 million deficit recorded in the previous month. This outcome stemmed from an increase in exports by 30% to \$328 million while imports declined by 20% to \$267 million. The growth in exports was driven by the significant increase in round logs and agricultural exports, despite falls in minerals, fish and other exports.

#### Gross Reserves

Gross foreign reserves fell marginally by 0.6% to \$4,296 million driven by the increase in outflows associated with external loan repayments and other payments. This level of reserves is sufficient to cover 10.6 months of imports of goods and services.

Fig 1 Gross Foreign Reserve & Import Cover



#### Exchange Rates

In September, the Solomon Islands dollar (SBD) appreciated by 0.22% against the United States dollar (USD)

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

to an average of \$7.79 per USD and 1.17% against the New Zealand dollar to \$5.65 per NZD. However, the SBD depreciated against the Australian dollar by 0.48% to \$6.21 per AUD. The SBD also, weakened against the British pound, and the EUR but appreciated against the Japanese Yen. As a result of the movement against the USD, the trade weighted exchange rate basket index strengthened by 0.2% to 105.1 during the month.

**III. GOVERNMENT FINANCE**

The Central Government’s fiscal balance deteriorated further to a preliminary deficit of \$28 million in September compared to a \$14 million deficit posted in the previous month. The September outcome stemmed from an increase in total expenditure by 12% to \$300 million surpassing the 7% growth in total revenue to \$272 million.

The growth in total revenue was attributed mainly to a 10% increase in tax collection to \$263 million during the month. The increase in tax revenue came from higher collection on income and profit tax, and tax on international trade. However, non-tax revenue dropped by 39% to \$9 million. The fall in non-tax revenue was driven by low returns from sales of goods and services, and fishing licenses. No grants were received during the period.

The increase in total expenditure emanated from a 2% growth in recurrent spending to \$218 million, and an improvement in capital spending by 50% to \$82 million over the month. The increase in the former reflected a 134% upsurge in grants spending to \$27 million and other payments by 54% to \$39 million. While the latter was backed by a 50% growth in the acquisition of fixed assets to \$82 million. Despite the increase in recurrent spending, payroll declined by 6% to \$67 million and payment for goods and service contracted by 22% to \$83 million during the month.

Central government’s debt stock picked up marginally by 0.5% to \$892 million at the end of September despite debt repayments of \$4 million during the month. External debt rose to \$697 million, 0.6% above August whilst domestic debt remained at \$194 million. Meanwhile, the debt-to-GDP ratio remained flat at 10% of GDP as in a month prior.

**IV. DOMESTIC PRODUCTION**

**Production and Prices**

Based on preliminary estimates, the CBSI monthly production index surged by 24% to 106 points in September from 85 points in the previous month.

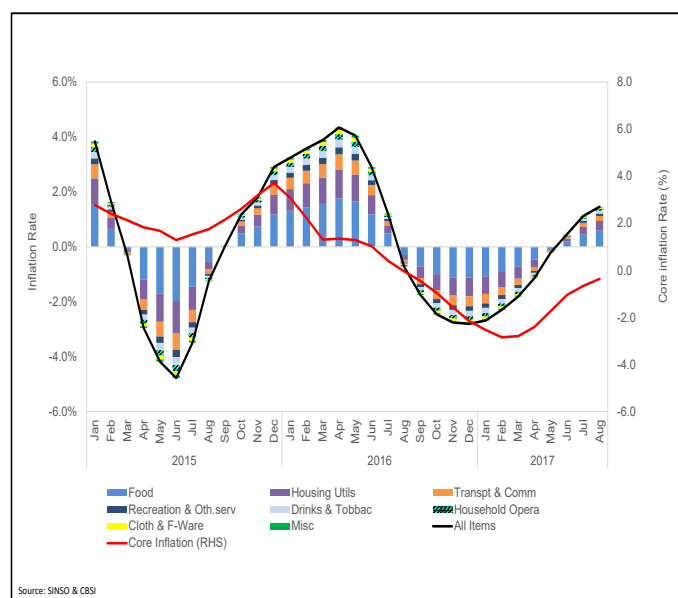
This was largely driven by the robust pick up in round log output by 50% to 276,407 cubic meters during the month. In contrast, fish catch fell by 20%, reversing the 39% increase in August. Production data for other commodities were currently unavailable for reporting. However, monthly output projections based on recent trends showed copra, palm kernel oil and crude palm oil are expected to decline by 46%, 7% and 5% respectively. Meanwhile, cocoa production is projected to increase by 41% during the month.

In terms of prices, the average international price for palm kernel oil increased by 16%, crude palm price rose by 7%, while cocoa price grew by 1%. In contrast, the international prices for fish and copra both fell by 4% during the month while round log price slipped by 1%.

**Headline inflation**

Headline inflation rose to 1.5% in August from 1.1% in the previous month. This reflected the increase in both domestic and imported inflation during the month. Domestic inflation increased to 3.6% from 3.1% reflecting price pickups in food, housing and utilities, and household operations categories. Similarly, imported inflation eased to minus 2.3% from minus 2.4% in July driven by price movements in household operations, clothing and footwear, and miscellaneous categories during the period.

Figure 2: Inflation contributions by components



Of the headline inflation, food accounted for 0.6%, housing and utilities represented 0.4%, transport and communication contributed 0.2% whilst all other categories accounted for the remaining 0.3%.

Core inflation improved to minus 0.4% in August from minus 0.7% in the previous month. This implies that prices of non-food and non-energy categories also picked up during the month.

**Honiara Fuel Prices**

The average fuel price in Honiara rebounded in September to \$7.86 per litre, reversing the falling trend

since March 2017. This outcome reflected the price increase across all fuel categories during the month. Petrol price rose by 28 cents to \$7.92 per litre from \$7.64 per litre, diesel price grew by 20 cents to \$7.80 per litre from \$7.60 per litre while kerosene price increased by 18 cents to \$7.86 per litre from \$7.68 per litre.

### Solomon Islands Key Economic Indicators

		May 17	June 17	July 17	Aug 17	Sept 17
<b>Consumer price index</b> (% change )	Headline (3mma)	-0.2	0.5	1.1	1.5	na
	Underlying (3mma): core 3	-1.7	-1.0	-0.7	-0.4	na
	Month -on -Month	0.3	-0.4	-0.1	-0.5	na
<b>Trade<sup>1</sup></b> (eop)	Exports ( \$ millions)	290	272	262	290	328
	Imports ( \$ millions)	370	314	341	333	267
<b>Exchange Rates</b> (Mid-rate, Monthly average)	SBD per USD	7.95	7.93	7.87	7.80	7.79
	SBD per AUD	5.92	5.99	6.13	6.18	6.21
	SBD per NZD	5.52	5.73	5.78	5.72	5.65
	SBD per GBP	10.28	10.20	10.22	10.12	10.35
	SBD per 100 JPY	7.09	7.16	7.00	7.10	7.04
	SBD per EUR	8.78	8.91	9.05	9.22	9.29
<b>Gross Foreign Reserves</b> (eop)	S millions	4,269	4,297	4,334	4,320	4,296
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$)	1,701	1,637	1,647	1,682	1,744
	Excess Liquidity ( \$ )	1,247	1,181	1,191	1,212	1,293
<b>Money and credit<sup>2</sup></b> (eop)	Narrow Money (\$)	3,561	3,512	3,519	3,611	3,594
	Broad Money ( \$ )	4,547	4,494	4,496	4,594	4,616
	private Sector credit (\$)	2,231	2,190	2,218	2,236	2,233
<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%	na
	91- days Treasury Bills rate	0.46%	0.46%	0.46%	0.46%	na
	182-days Traesury bills Rate	1.12%	1.12%	1.12%	1.12%	na
<b>Commodity Prices</b> ( monthly averages)	Round logs - ( US\$/m3)	265	268	265	271	269
	Gold - (US\$/oz)	1,246	1,260	1,237	1,283	1,314
	Palm Oil - (US\$/tonne)	724	677	663	674	724
	Fish -(US\$/tonne)	2,119	2,136	2,010	2,172	2,094
	Copra -(US\$/tonne)	1,113	1,119	1,059	1,062	1,015
	Cocoa - (US\$/tonne)	1,980	2,000	1,990	1,990	2,000

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

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