

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) expanded further by 2% to \$4,708 million in October, following the 0.5% growth in September. The month-on-month growth stemmed from a 3% increase in narrow money (M1) to \$3,695 million despite a 1% fall in other deposits (savings and time) to \$1,013 million. The growth in M1 was supported by a 3% rise in demand deposits to \$2,971 along with a 2% growth in currency in active circulation to \$724 million. On other deposits, the decline reflected a 2% drop in time deposits to \$827 million which outweighed the 6% rise in savings deposits to \$187 million during the month.

Net foreign asset (NFA) of Depository Corporations (DC) rebounded by 1% to \$4,170 million in October from the 1% drop observed in the previous month. The slight increase was mainly due to a 33% rise to \$42 million in Other Depository Corporations' (ODCs) NFA along with a slight pickup in CBSI's NFA by 1% to \$4,128 million. Meanwhile, NFA of DC's improved by 6% year-on-year.

Likewise, the net domestic asset (NDA) of DC's increased by 12% to \$538 million in October. This rise was explained by a combined growth of 7% in Net Domestic Credit (NDC) to \$1,234 million and a 3% uptick each in the capital account and other items to \$ 863 million and \$166 million respectively at the end of the month.

Net credit to government (NCG) contracted further by 4% to net liabilities of \$1,040 million in October, after recording an 11% decline in September. The outcome was underpinned by a persistent fall in CBSI's net liability by 6% to \$836 million despite a 7% uptick in ODC's net liabilities to \$204 million during the month. Private sector credit (PSC) grew by 2% to \$2,274 million following the 0.1% dip in the preceding month. The increase against September was largely driven by a 2% rise in ODC lending to \$2,134 million.

Total liquidity in the banking system slightly increased by 1% to \$1,766 million reflecting the improvement in NFAs. Both free and excess liquidity marginally increased by 1.0% to \$1,454 million and 0.3% to \$1,290 million respectively during the month. Required reserves rebounded by 4% to \$312 million in October. Meanwhile, PSC, NCG and total liquidity grew on an annual basis by 5%, 5% and 4% respectively.

Domestic Market Operations

The stock of CBSI Bokolo bills remained at \$750 at the end of October with the weighted average yield (WAY) for 28 days maintained at 0.62%. Similarly, the WAY for Government treasury bills for 56, 91 and 182 days also remained unchanged at 0.34%, 0.46% and 1.12% respectively.

II. EXTERNAL CONDITIONS

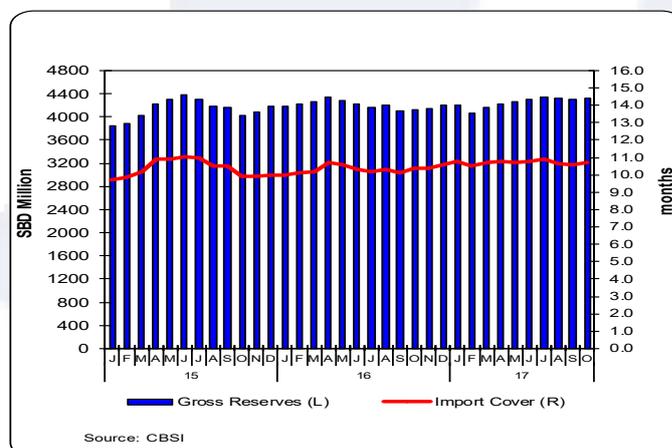
Trade in goods

The balance on trade in goods for October 2017 recorded a provisional surplus of \$62 million from a surplus of \$91 million in the previous month. This positive outcome emanated from a 14% increase in exports to \$407 million that outweighed a 29% surge in imports to \$345 million. The growth in exports was attributed to the rise in round logs and timber exports, fish and minerals despite a fall in agricultural products by 12% to \$45 million. Meanwhile, the rise in imports was driven by increases in machineries, foods and other imports despite falls in basic manufactures and mineral fuel imports observed during the month.

Reserves

Gross foreign reserves for the month of October, increased marginally by 1% to \$4,322 million, due to higher donor receipts and fishing licensing inflows during the period. This level of reserves is sufficient to cover 10.7 months of imports of goods and services.

Fig 1 Gross Foreign Reserve & Import Cover



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

Exchange Rate

In October, the Solomon Islands dollar (SBD) depreciated against the United States dollar (USD) by 0.4% to an average of \$7.82 per USD following a slight appreciation a month ago. It however strengthened against the Australian dollar (AUD) and New Zealand dollar (NZD) by 1.9% to \$6.10 per AUD and 2.3% to \$5.52 per NZD respectively. Furthermore it went up against the British pound (GBP), Euro dollar (EUR) and Japanese Yen (JPY). As a result of these co-movements the trade weighted exchange rate basket index strengthened by 1.03% to 106.1 during the month.

III. GOVERNMENT FINANCE

The Government’s fiscal deficit widened further to \$84 million this month from a deficit of \$28 million posted in September. This outcome stemmed from an increase in total expenditure by 29% to \$388 million, which was higher than the 12% rise in revenue to \$304 million.

The upturn in revenue this month was attributed to a surge in nontax revenue to \$83 million from \$9 million in September on the back of an increase in receipts collected from fees and charges. Tax revenue, on the other hand, dropped by 16% to \$220 million, following a decline in income and profit tax, and tax on international trade. Meanwhile, the government received \$2 million as aid grants this month compared to none in the previous month. However, revenue fell short of the budget by 21% this month but was 38% higher the same month a year ago.

The increase in government expenditure was driven by a 26% rise in recurrent spending to \$275 million. The growth in recurrent expenditure against the previous month was seen across all the expenses items except for other payments which declined during the month. Similarly, the development expenditure went up by 38% to \$113 million owing to an upturn in capital spending on roads, bridges, wharves and office equipment, while spending on dwelling and non-residential building fell during the month. This spending level exceeded the budget by 15% and was more than two-fold against the corresponding month of 2016.

Total debt stock edged up slightly by 0.4% to \$896 million at the end of October reflecting the appreciation of the SBD against debt denominated currencies. External debt accounted for \$701 million and domestic debt made up \$195 million of the outstanding debt stock. The debt-to-GDP ratio remained broadly unchanged at 10%. Meanwhile, the government serviced \$4 million of its outstanding debt this month, of which, \$3 million was on principle repayment and \$1 million on interest payments.

IV DOMESTIC PRODUCTION

Production and Prices

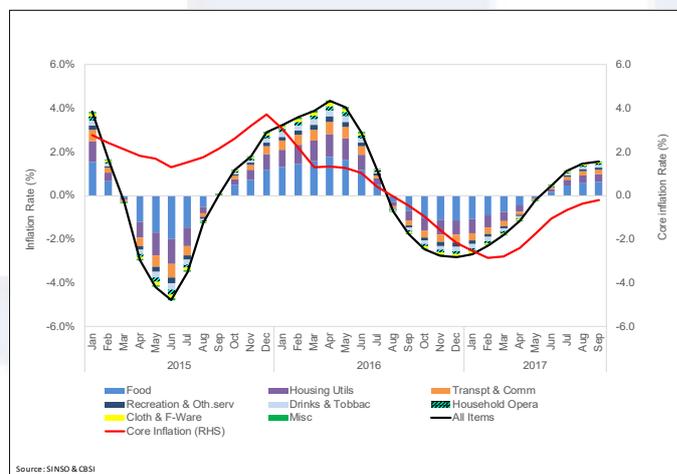
Based on preliminary estimates, the CBSI monthly production index grew by 9% to 116 points in October from 106 points in the previous month. The outcome reflected the increase in fish catch volumes, crude palm oil and round log production during the month, rising by 24%, 10% and 6% respectively. Meanwhile, palm kernel oil output declined by 12%, reversing the 24% growth in the prior month. Production data for copra and cocoa were currently unavailable for reporting. However, monthly output projections based on historical trends showed copra is expected to increase by 24% while cocoa output is projected to decline negligibly by 0.4% during the month.

In terms of prices, the average international price for cocoa and palm kernel oil grew by 5% and 3% respectively during the month. Meanwhile, international prices for fish fell by 4%, copra price decreased by 3%, round log price dropped by 2% while crude palm oil slid by 1% during the month.

Headline Inflation

Headline inflation for September grew to 1.5% from 1.4% in August. The outcome was largely driven by the uptick in imported inflation during the month. Imported inflation improved to minus 2.0% in September from minus 2.3% a month ago reflecting the price pick-ups in transport and communications, housing and utilities, household operations, clothing and footwear, and miscellaneous categories during the month. Meanwhile, domestic inflation remained at 3.6% for the second consecutive month, reflecting the price falls in food, transport and communication, drinks and tobacco categories which outweighed the price increases in housing and utilities, and household operations during the month.

Fig 2 Inflation contributions by Components



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

Core inflation eased to minus 0.2% in September from minus 0.4% in the previous month. This indicates that prices of non-food and non-energy categories continued to pick up during the month.

Honiara Fuel Prices

The average fuel price in Honiara declined in October to \$7.60 per litre from \$7.86 per litre in September. The outcome reflected the price falls in all fuel categories during the month. Kerosene price dropped by 42 cents to \$7.44 per litre from \$7.86 per litre, diesel price fell by 21 cents to \$7.59 per litre from \$7.80 per litre, while petrol price slid by 16 cents to \$7.77 per litre from \$7.92 per litre in the previous month.

Solomon Islands Key Economic Indicators

		June 17	July 17	Aug 17	Sept 17	Oct 17
Consumer price index (% change)	Headline (3mma)	0.5	1.1	1.4	1.5	na
	Underlying (3mma): core 3	-1.0	-0.7	-0.4	-0.2	na
	Month -on -Month	-0.4	-0.1	-0.5	-0.6	na
Trade¹ (eop)	Exports (\$ millions)	272	262	290	328	407
	Imports (\$ millions)	314	341	333	267	345
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.93	7.87	7.80	7.79	7.82
	SBD per AUD	5.99	6.13	6.18	6.21	6.10
	SBD per NZD	5.73	5.78	5.72	5.65	5.52
	SBD per GBP	10.20	10.22	10.12	10.35	10.30
	SBD per 100 JPY	7.16	7.00	7.10	7.04	6.93
	SBD per EUR	8.91	9.05	9.22	9.29	9.24
Gross Foreign Reserves (eop)	\$ millions	4,297	4,334	4,320	4,296	4,322
Liquidity² (eop)	Total Liquidity (\$)	1,637	1,647	1,682	1,744	1,766
	Excess Liquidity (\$)	1,181	1,191	1,212	1,286	1,290
Money and credit² (eop)	Narrow Money (\$)	3,512	3,519	3,611	3,594	3,695
	Broad Money (\$)	4,494	4,496	4,594	4,616	4,708
	private Sector credit (\$)	2,190	2,218	2,236	2,233	2,274
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 Traesury bills Rate	1.12%	1.12%	1.12%	1.12%	1.12%
Commodity Prices (monthly averages)	Round logs - (US\$/m3)	268	265	271	269	264
	Gold - (US\$/oz)	1,260	1,237	1,283	1,314	1,280
	Palm Oil - (US\$/tonne)	677	663	674	724	718
	Fish -(US\$/tonne)	2,136	2,010	2,172	2,094	2,005
	Copra -(US\$/tonne)	1,119	1,059	1,062	1,015	989
	Cocoa - (US\$/tonne)	2,000	1,990	1,990	2,000	2,100

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

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