

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) rebounded by 3% to \$5,105 million in July following a 1% decline in the previous month. The growth was underpinned by a 3% rise in narrow money (M1) to \$4,136 million along with a 1% uptick in other deposits (savings and time) to \$969 million. The increase in M1 stemmed from a 3% expansion in demand deposits to \$3,359 million coupled with a 2% growth in currency in active circulation to \$776 million. On other deposits, the growth reflected increases in both savings and time deposits; the former by 0.1% to \$78 million and the latter by 1% to \$891 million.

Net foreign assets (NFA) inched up by 1% to \$4,753 million in July from the negligible 0.1% growth observed in June. This outcome was supported by a 1% upturn in CBSI's NFA position to \$4,760 million despite a fall in Other Depository Corporations' (ODC's) NFA from \$1 million to minus \$7 million.

Net domestic assets (NDA) of Depository corporations (DC) expanded by 44% to \$351 million against the previous month. This outcome reflected a 26% upsurge in Net Domestic Credit (NDC) to \$1,268 million, which outweighed the 0.5% growth in capital account to \$925 million. The growth in NDC was attributed to a 1% increase in Private sector credit (PSC) to \$2,375 million while Net credit to government (NCG) fell by 18% to minus \$1,106 million. PSC growth was largely aided by a 1% increase in ODC lending to \$2,233 million whilst the fall in NCG was driven by declines in CBSI and ODC's net liability positions by 22% to \$864 million and by 3% to \$242 million respectively.

Total liquidity in the banking system rose by 12% to \$2,226 million following a 7% decline in a month prior. This outcome reflected decreases in government deposits along with an increase in NFA during the month. Consequently, free liquidity and excess liquidity surged by 14% to \$1,888 million and by 15% to \$1,715 million respectively against the previous month. Meanwhile, required reserves expanded by 3% to \$338 million over the month.

Domestic Market Operations

The stock of CBSI Bokolo bills issued is capped at \$750 million at the end of July, in line with the current monetary policy stance. Meanwhile, the Bokolo Bills weighted average yield (WAY) for 28 days remained

at 0.62%, same for the WAYs on Government treasury bills with 56 and 91 days both remained at 0.46% whilst the 182 days stood at 1.12%.

II. EXTERNAL CONDITIONS

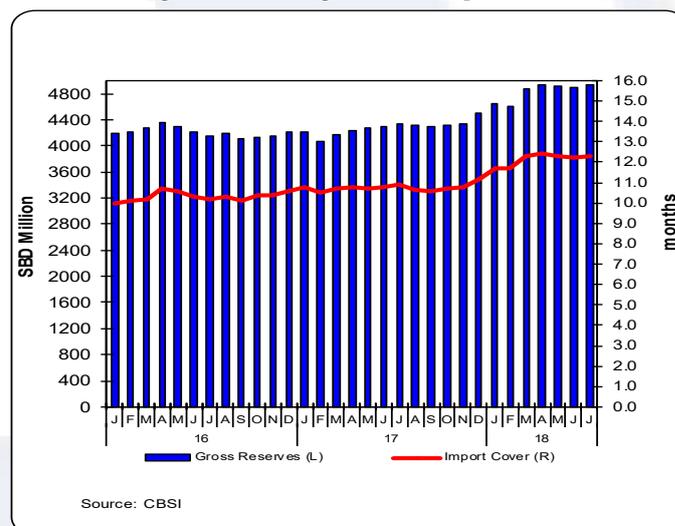
Trade in goods

The balance of trade in goods for July narrowed to a \$24 million deficit from a revised \$25 million deficit in the previous month. This improved outcome was driven by higher growth in exports relative to imports with exports increasing by 19% to \$342 million while imports grew by 17% to \$366 million. The growth in exports was attributed to higher outturn in round logs and all other exports offsetting the decline in fish, agriculture and mineral exports. The upturn in imports was mainly driven by food, machineries and basic manufactures, outweighing falls in mineral fuel.

Reserves

Gross foreign reserves increased marginally by 0.2% to \$4,930 million due to higher inflows exceeding outflows during the month. This level of reserves is sufficient to cover 12.3 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rates

In July, the Solomon Islands Dollar (SBD) depreciated against the United States dollar (USD) by 0.38% to an average of \$8.00 per USD. In contrast, it appreciated against the Australian dollar (AUD) by 0.76% to \$5.92

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

per AUD and against the New Zealand dollar (NZD) by 1.96% to \$5.42 per NZD. It further strengthened against the British pound and Japanese Yen but weakened against the Euro dollar. Consequently, the trade weighted index basket further weakened by 0.7% to 108.4 during the month reflecting strong performance of the USD against the SBD and its dominance in the currency basket.

III. GOVERNMENT FINANCE

The Government's fiscal position deteriorated to a deficit of \$160 million in July against a deficit of \$65 million in June. This was attributed to a decline in revenue collections combined with an increase in total expenditure during the month. Government revenue fell by 18% to \$253 million while total government expenditures surged by 11% to \$413 million. Meanwhile, the government's debt stock dropped 0.5% from \$956 million to \$952 million at the end of July.

The fall in government revenue during the month was mainly driven by the decline in tax revenue to \$245 million from \$299 million in the previous month. This outcome emanated from the significant drop in taxes on income and profits, falling by 58% to \$57 million from \$134 million in June and a slight fall in taxes on goods and services. These outweighed the 22% increase in tax on international trade from \$104 million to \$127 million. Non-tax revenue, on the other hand, went up slightly from \$8 million to \$9 million driven by the increase in sales of goods and services, which surpassed the fall in fishing revenue during the month. Meanwhile, no grants were received during the period.

The growth in government expenditures in July came mainly from the notable pickup in recurrent expenditure to \$413 million from \$270 million a month ago. This outcome reflected increases across all major expense categories such as compensation of employees, use of goods and services, grant transfers, social benefits and other payments during the month. Meanwhile, no capital spending was expended in July.

The minor decline in government's debt was attributed to debt repayments of \$3 million made during the month, of which \$2 million was on principle repayment and \$1 million was on interest payment. Of the total debt stock, external debt stood at \$757 million while domestic debt was maintained at \$195 million.

IV DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index increased by 22% in July to 94 points from a revised 77 points in June. The outcome was driven by a 43% upsurge in round log output to 232, 427 cubic meters, reversing the 32% decline posted in June. In contrast, fish catch volumes declined by

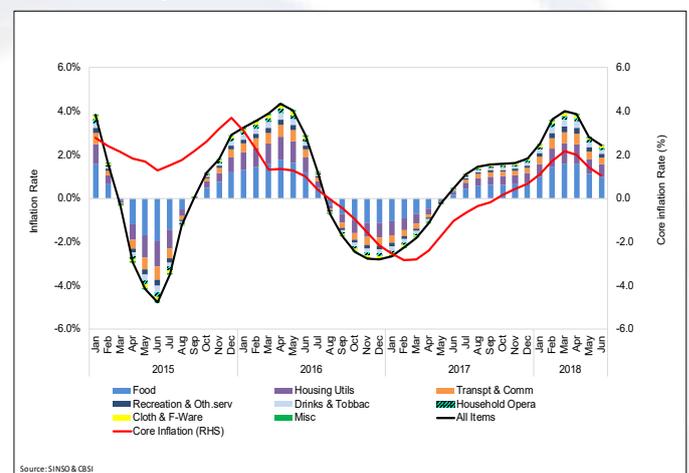
15% while crude palm oil and palm kernel oil output fell by 14% and 6% respectively during the month. Production data for copra and cocoa were unavailable for reporting. However, monthly projections based on historical trends revealed that copra and cocoa production are projected to increase by 31% and 27% respectively during the month.

In terms for prices, the average international prices for fish fell by 11% in July. Meanwhile, international prices for other key commodities were unavailable for reporting.

Headline Inflation

Headline inflation dropped further to 2.5% in June from 2.8% in May. The outcome reflected the continued fall in both imported and domestic inflation during the month. Imported inflation eased to 0.1% in June from 0.2% a month ago driven by the price falls in food and clothing and footwear components. These more than offset the price increases in transport and communications, housing and utilities, household operations and miscellaneous items. Similarly, domestic inflation fell to 3.7% in June from 4.2% in May reflecting the price decreases in housing and utilities, drinks and tobacco, housing utilities and household operations. These outweighed the marginal price increase in food whilst the other remaining categories levelled off during the month.

Figure 2: Inflation Contributions by Components



Core inflation declined for the fourth consecutive month to 1% in June from 1.4% in May. This implies that the p rices of non-food and non-fuel items also slowed down during the month.

Honiara Fuel Prices

The average fuel price in Honiara fell marginally in July to \$9.52 per litre from \$9.57 per litre in June. This outcome reflected the fall in petrol and diesel prices during the month. Petrol price dropped by 14 cents to \$9.19 per litre from \$9.33 per litre while diesel price fell by 3 cents to \$9.48 per litre from \$9.51 per litre. Meanwhile, kerosene price rose by a cent to \$9.88 per litre from \$9.87 per litre in the previous month.

Solomon Islands Key Economic Indicators

		Mar 18	Apr 18	May 18	Jun 18	Jul 18
Consumer price index (% change)	Headline (3mma)	4.0	3.9	2.8	2.5	na
	Underlying (3mma): core 3	2.2	2.0	1.4	1.0	na
	Month -on -Month	-0.3	0.1	-0.9	-0.2	na
Trade¹ (eop)	Exports (\$ millions)	406	356	354	287	342
	Imports (\$ millions)	268	279	366	312	366
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.78	7.82	7.92	7.97	8.00
	SBD per AUD	6.06	6.02	5.96	5.96	5.92
	SBD per NZD	5.66	5.68	5.51	5.53	5.42
	SBD per GBP	10.88	11.03	10.69	10.57	10.48
	SBD per 100 JPY	7.35	7.28	7.22	7.24	7.16
	SBD per EUR	9.61	9.62	9.38	9.28	9.34
Gross Foreign Reserves (eop)	\$ millions	4,919	4,935	4,913	4,897	4,930
Liquidity² (eop)	Total Liquidity (\$)	2,162	2,072	2,144	1,990	2,226
	Excess Liquidity (\$)	1,661	1,578	1,639	1,491	1,715
Money and credit² (eop)	Narrow Money (\$)	4,047	3,987	4,053	4,008	4,136
	Broad Money (\$)	4,991	4,934	5,004	4,969	5,105
	private Sector credit (\$)	2,308	2,330	2,349	2,360	2,375
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%	0.46%	0.46%	0.46%
	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)	281	277	271	NA	NA
	Gold - (US\$/oz)	1,325	1,335	1,303	NA	NA
	Palm Oil - (US\$/tonne)	681	666	660	NA	NA
	Fish -(US\$/tonne)	1,615	1,580	1,618	1,482	1,324
	Copra -(US\$/tonne)	745	756	692	NA	NA
	Cocoa - (US\$/tonne)	2,500	2,620	2,660	NA	NA

¹ Value in terms of free on Board (FOB)

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