

Monthly Economic Bulletin

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Content	Page
I. Monetary Developments	1
II. External Conditions	1
III. Government Finances	2
IV. Domestic Production	2-3
V. Key Economic Indicators	4

I. MONETARY DEVELOPMENTS

Money supply (M3) rebounded by 3% to \$5,140 million in September following a 2% decline in the previous month. The growth was underpinned by a 3% rise in both narrow money (M1) and other deposits (savings and time) to \$4,139 million and \$1,002 million respectively. The increase in M1 stemmed from a 3% expansion in demand deposits to \$3,371 million and a 1% growth in currency in active circulation to \$767 million. On other deposits, the growth reflected increases in both savings and time deposits; the former by 2% to \$80 million and the latter by 3% to \$921 million.

Net foreign assets (NFA) grew by 3% to \$4,705 million in September reversing the 4% decline observed in August. This outcome was supported by a 3% upturn in CBSI's NFA position to \$4,702 million. Meanwhile, NFA expanded by 14% on an annual basis.

Net domestic assets (NDA) of Depository corporations (DC) expanded by 4% to \$435 million against the previous month. This outcome mainly reflected a 4% expansion in Net Domestic Credit (NDC) to \$1,366 million. The expansion in NDC mirrored a 6% drop in net credit to government (NCG) to minus \$1,022 million, driven by a decline in CBSI's net liability positions by 17% to minus \$729 million. Meanwhile, private sector credit (PSC) declined by 1% to \$2,388 million underpinned by a 1% decrease in ODC lending to \$2,246 million. On a year-on-year basis, PSC grew by 7% whilst NCG showed a decline of 5%.

Total liquidity in the banking system rose by 13% to \$2,314 million following an 8% decline 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 15% to \$1,972 million and by 16% to \$1,797 million respectively against the previous month. Meanwhile, required reserves expanded by 2% to \$341 million over the month.

Domestic Market Operations

The stock of CBSI Bokolo bills issued is capped at \$750 million at the end of September. The Bokolo Bills weighted average yield (WAY) for 28 days remained at 0.61%. Meanwhile, the government has increased the issue of Treasury bills from \$40 million to a new cap of \$100 million. A maturity term of 365 days at a WAY

of 2.02% has also been added to the existing maturity terms. These changes saw an increase in the WAYs on treasury bills with 56 and 91 days to 0.47% and 0.49% respectively whilst that for 182 days remained at 1.12%.

II. EXTERNAL CONDITIONS

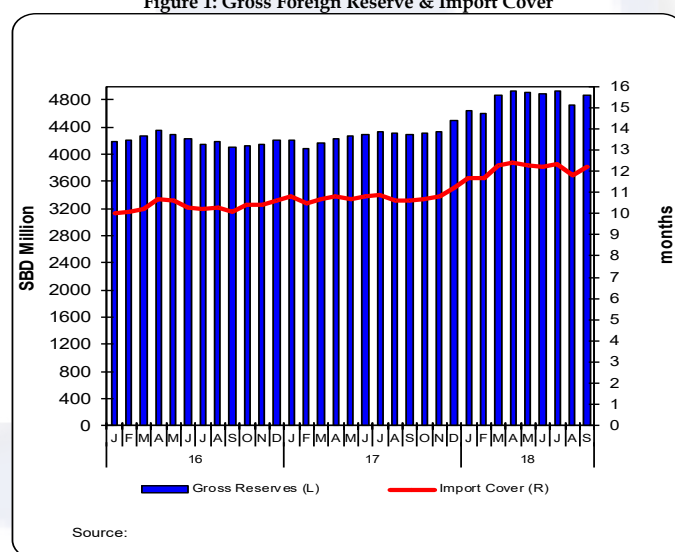
Trade in goods

The balance on trade in goods for September 2018 improved to \$131 million surplus from a revised \$36 million deficit recorded in the previous month. This positive outcome emanated from a notable pickup in exports, increasing by 41% to \$429 million, coupled with a 12% decline in imports to \$299 million. The rise in exports was driven by general increase across all export commodities with the exception for fish exports which contracted during the month. In contrast, the decline in imports reflected falls in food, mineral fuel, machineries and other imports.

Gross Foreign Reserves

Gross foreign reserves rose by 3% to \$4,877 million. This was attributed to higher donor inflows exceeding outflows during the month. This level of reserves is sufficient to cover 12.2 months of import of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rate

The Solomon Islands dollar (SBD) depreciated by 0.70% against the United States dollar (USD) to an average of \$8.08 per USD. On the other hand, it appreciated against the Australian dollar (AUD) and the New Zealand

dollar by 1.15% to \$5.82 per AUD and 0.56% to \$5.33 per NZD respectively. Meanwhile, the SBD weakened against the Japanese yen, Euro and British Pound. As a result of the mixed movements, the trade weighted exchange rate basket index depreciated further by 0.08% to 109.6 index points during the month.

III. GOVERNMENT FINANCE

The Government’s fiscal position improved further to a narrow deficit of \$31 million in September against \$52 million deficit in August. This was driven by strong fiscal revenue collection, which surpassed the increase in government expenditure during the month. Total revenue collection grew by 10% to \$310 million while total government expenditures rose by 6% to \$354 million in the period. Meanwhile, the government’s debt stock stood at \$965 million at the end of the month, a 1% pick up from \$954 million recorded at the end of August.

The increase in total revenue reflected higher tax collection and non-tax revenue during the month. Total tax revenue grew by 10% to \$295 million driven by the significant increase in taxes on income and profits, rising by 31% to \$110 million coupled with a 4% growth in taxes on international trade and transactions increasing from \$119 million to \$124 million. Similarly, non-tax revenue grew by 4% to \$15 million reflecting the sizeable increase in revenue from fishing licences. Meanwhile, a negligible amount of donor grants was received during the month.

The increase in total government expenditure reflected growth in recurrent spending whist capital expenditure showed a notable decline against the previous month. Total recurrent spending grew by 8% from \$259 million to \$280 million. This was attributed to an increase in spending on compensation of employees, interest payments, subsidies, social benefits and other payments during the period. In contrast, capital spending fell by 19% to \$61 million from \$76 million in August reflecting the slowdown in spending on buildings and structures, machinery and equipment and other fixed assets during the month.

The slight increase in government’s debt position was attributed to the additional loan disbursed by the Asian Development Bank (ADB) and World Bank during the month combined with the increase in treasury bills issued during the period. The unfavourable movements in exchange rate also contributed to this outcome. Of the total outstanding debt stock, external debt comprised \$764 million while domestic debt accounted for \$201 million. Total debt repayment made amounted to \$4 million, of which \$3.5 million was on principle repayments and \$0.5 million was on interest repayments.

IV DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly

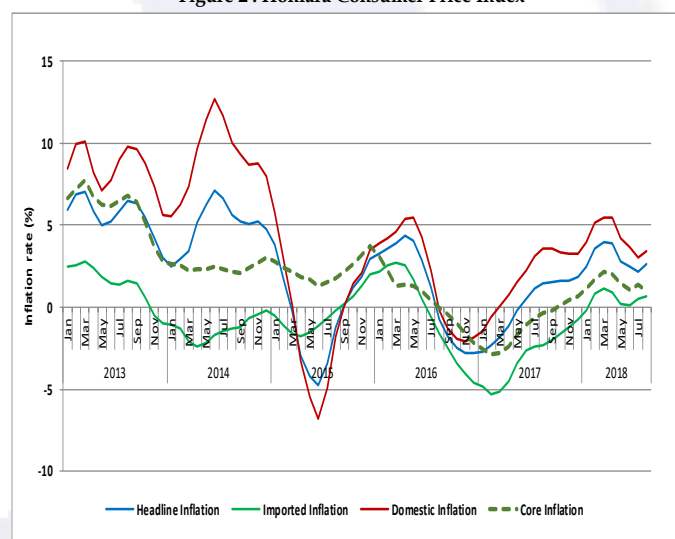
production index surged by 26% to 92 points in September from a revised 73 points a month prior. This outcome was largely driven by the strong pick up in round log output by 49% to 222,000 cubic metres following the large decline seen a month ago. In contrast, crude palm oil and palm kernel oil production declined by 7% each. Production for other commodities were currently unavailable for reporting, however, monthly output projections based on recent trends indicated a sizeable increase in cocoa output while copra production is expected to grow by 8% over the period. Meanwhile, fish catch is expected to fall by 11% during the month.

In terms of prices, the average international price for cocoa and fish rebounded during the month rising by 1% each. Meanwhile, crude palm oil and palm kernel oil prices fell by 2% and 3% respectively while log price slid by 1% against the previous month.

Headline Inflation

Headline inflation rose to 2.6% in August from 2.2% in July. This outcome reflected price increases in both domestic and imported inflation during the month. Domestic inflation rose to 3.4% from 3.0% driven by the price pickup in food and non-alcoholic beverages category combined with price increases in alcoholic beverages, tobacco and narcotics category reflecting price rise in betel nut during the period. In contrast, the housing, water, electricity, gas and other fuels category, and furnishings, household equipment and routine household maintenance category recorded price falls during the month.

Figure 2 : Honiara Consumer Price Index



Imported inflation grew to 0.7% in August from 0.5% a month ago reflecting firm prices coming from transport category, housing, water, electricity, gas and other fuels category and the miscellaneous goods and services category. These outweighed the price falls in the food and non-alcoholic beverages category, furnishings, households, equipment and routine, household maintenance category and the

clothing and footwear category during the month.

Meanwhile, core inflation eased further to 0.9% in August from 1.4% a month ago implying the slowdown in prices of non-food and non-fuel items during the month.

Honiara Fuel Prices

The average fuel price in Honiara increased to \$9.39 per litre in September from \$9.35 per litre in August.

The outcome reflected increases in all fuel categories during the month. Petrol price grew by 7 cents to \$9.03 per litre, diesel price increased by 4 cents to \$9.32 per litre while kerosene price picked up by 2 cents to \$9.83 per litre compared to August.

Solomon Islands Key Economic Indicators

		May 18	Jun 18	Jul 18	Aug 18	Sep 18
Consumer price index (% change)	Headline (3mma)	2.8	2.5	2.2	2.6	na
	Underlying (3mma): core 3	1.4	1.1	1.4	0.9	na
	Month -on -Month	-0.9	-0.2	0.2	0.3	na
Trade¹ (eop)	Exports (\$ millions)	354	287	342	305	429
	Imports (\$ millions)	366	312	366	340	299
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.92	7.97	8.00	8.02	8.08
	SBD per AUD	5.96	5.96	5.92	5.89	5.82
	SBD per NZD	5.51	5.53	5.42	5.36	5.33
	SBD per GBP	10.69	10.57	10.48	10.34	10.54
	SBD per 100 JPY	7.22	7.24	7.16	7.23	7.23
	SBD per EUR	9.38	9.28	9.34	9.27	9.42
Gross Foreign Reserves (eop)	\$ millions	4,913	4,897	4,930	4,724	4,877
Liquidity² (eop)	Total Liquidity (\$)	2,144	1,990	2,226	2,049	2,314
	Excess Liquidity (\$)	1,639	1,491	1,715	1,543	1,797
Money and credit² (eop)	Narrow Money (\$)	4,053	4,008	4,136	4,023	4,139
	Broad Money (\$)	5,004	4,969	5,105	4,998	5,140
	private Sector credit (\$)	2,349	2,360	2,375	2,402	2,388
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.62%	0.62%	0.62%	0.61%	0.61%
	56-days Treasury Bills rate	0.46%	0.46%	0.46%	0.46%	0.47%
	91- days Treasury Bills rate	0.46%	0.46%	0.46%	0.46%	0.49%
	182-days Treasury Bills rate	1.12%	1.12%	1.12%	1.12%	1.12%
	365-days Treasury Bills rate	0.00%	0.00%	0.00%	0.00%	2.02%
Commodity Prices (monthly averages)	Round logs - (US\$/m3)	271	271	267	268	266
	Gold - (US\$/oz)	1,303	1,282	1,238	1,202	1,198,
	Palm Oil - (US\$/tonne)	660	580	545	534	524
	Fish -(US\$/tonne)	1,618	1,482	1,324	1,310	1,321
	Copra -(US\$/tonne)	692	623	NA	NA	NA
	Cocoa - (US\$/tonne)	2,660	2,410	2,360	2,170	2,190

¹ Value in terms of free on Board (FOB)

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