

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) increased slightly by 0.2% to \$5,150 million compared to 3% growth in September. The growth came from a 3% rise in other deposits (savings and time) to \$1,029 million, outweighing a 0.4% decline in M1 to \$4,121 million. The rise in other deposits was attributed to increases in savings and time deposits by 21% to \$97 million and 1% to \$932 million respectively. The decline in M1, on the other hand, stemmed from a decrease in demand deposits by 1% to \$3,339 million despite a 2% rise in currency in circulation to \$782 million.

Following a 3% growth a month prior, net foreign assets (NFA) decreased by 2% to \$4,598 million in October driven by a 2% reduction in CBSI's NFA position to \$4,603 million. Compared to the same period last year, NFA recorded a 10% growth. Net domestic assets (NDA) expanded by 27% to \$552 million against the previous month. This outcome mirrored a notable increase in other items net to \$247 million from \$16 million in September despite a decline in net domestic credit (NDC) by 6% to \$1,281 million. Capital account also recorded a 3% growth to \$976 million. The decline in (NDC) was attributed mainly to net credit to government (NCG) which expanded by 8% to minus \$1,103 million whilst private sector credit (PSC) posted a negligible growth of 0.2% to \$2,384 million. On a year-on-year basis, both PSC and NCG grew by 5% and 6% respectively.

Total liquidity fell slightly by 0.3% to \$2,307 million following a 13% growth a month prior. Increases in government deposits and currency in circulation along with other items net during the month underlined this outcome. This saw free liquidity and excess liquidity both edged lower by 1% to \$1,961 million and \$1,784 million respectively whilst required reserve rose by 1% to \$346 million. On a year on year basis, total liquidity was 31% higher than the same period last year.

Domestic Market Operations

The stock of CBSI Bokolo bills issued in October remained at \$750 million with an average weighted average yield (WAY) of 0.61% for 28 days. Meanwhile, treasury bills has a new cap of \$100 million with an additional maturity term of 365 days. The WAYs for 56 days has increased to 0.48% from 0.47% in September whilst that for 91, 181 and 365 days remained at 0.49%,

1.12% and 2% respectively.

II. EXTERNAL CONDITIONS

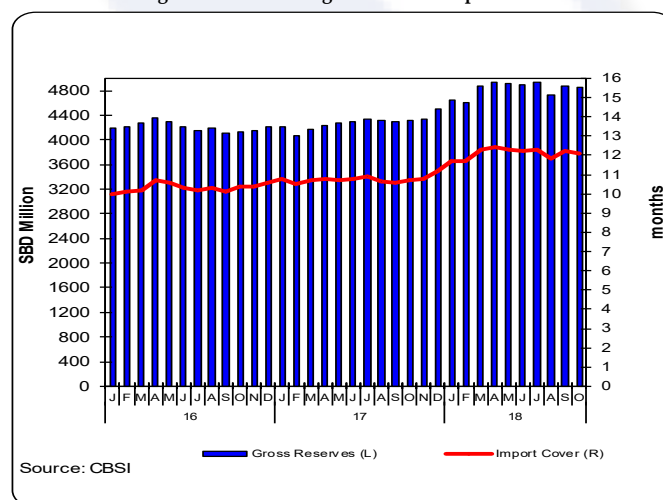
Trade in goods

The balance of trade in goods for October 2018 narrowed to a \$118 million surplus following a revised \$131 million surplus in the previous month. This reduced surplus reflected a 14% increase in imports to \$340 million, which outweighed a 7% growth in exports to \$458 million during the month. The rise in exports was driven mainly by a significant increase in round logs, surpassing the fall in other major commodities in October. Similarly, the upturn in imports was attributed to the increase in all import categories during the month.

Reserves

Gross foreign reserves fell by 0.5% to \$4,864 million due to high outflows exceeding inflows during the month. This level of reserves is sufficient cover to 12.1 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rates

In October, the Solomon Island dollar (SBD) depreciated against the United States dollar by 0.47% to an average of \$8.12 per USD. On the other hand, it appreciated against both the Australian dollar (AUD) and New Zealand dollar (NZD) by 0.78% to \$5.77 per AUD and 0.47% to \$5.30 per NZD respectively. Against the other tradeable currencies, the SBD strengthened against the Euro dollar and Japanese yen but weakened against the British pound. Meanwhile, the trade weighted basket

index weakened by 0.55% to 110.23 and primarily reflects the prevailing movement of the USD during the month.

III GOVERNMENT FINANCE

The Government’s fiscal position slid to \$32 million deficit in October against the \$31 million deficit recorded in the previous month. This was driven mainly by a 5% fall in revenue collection to \$294 million during the month. Likewise, total government expenditure dropped by 8% to \$326 during the period. Meanwhile, government’s debt balance went up slightly to \$967 million from \$965 million in September.

The fall in government revenue in October was attributed to lower tax revenue collection surpassing the increase in non-tax revenue during the month. Total tax revenue fell by 10% to \$266 million, reversing the 10% growth in the previous month. This was mainly driven by weaker outturn in taxes on income, profits and capital gains, which fell drastically by 46% to \$59 million during the month. This was due to weaker collection on income taxes payable by corporations and other enterprises in October. Meanwhile, taxes on goods and services grew by 12% to \$66 million while taxes on international trade and transactions rose by 9% growth to \$135 million during the period. The increase in taxes on property also contributed to this outcome. Non-tax revenue almost doubled, rising from \$15 million to \$28 million on the back of higher revenue on fishing licenses collected during the month. Meanwhile, no grants were received in October.

The decline in total government’s outlay reflected the fall in capital spending during the month. Government’s capital expenditures dropped further by 24% to \$46 million from \$61 million in September owing to lower spending on buildings and structures, and machinery and equipment during the period. Meanwhile, total recurrent spending remained unchanged at \$280 million resulting from offsetting movements across the major spending categories in October.

The marginal increase in the government’s debt stock at the end of October reflected the additional treasury bills issued combined with foreign exchange movements during the month. Of the total outstanding debt, external debt accounted for \$756 million while domestic debt comprised \$210 million. Meanwhile, total debt servicing made during the month amounted to \$2.8 million, of which \$2.2 million was on principal repayment and \$0.6 million on interest payment.

IV DOMESTIC PRODUCTION

Domestic Economy

Based on actual data collected, CBSI monthly production index grew by 13% to 102 points in October from a revised 90 points in September. This positive outcome was driven by production gains across all major commodities during the month. Fish

catch volumes, copra and cocoa production increased markedly by 40%, 36% and 35% respectively. Similarly, crude palm oil output rose by 13%, round log production grew by 4% while palm kernel oil output went up by 2% against the previous month.

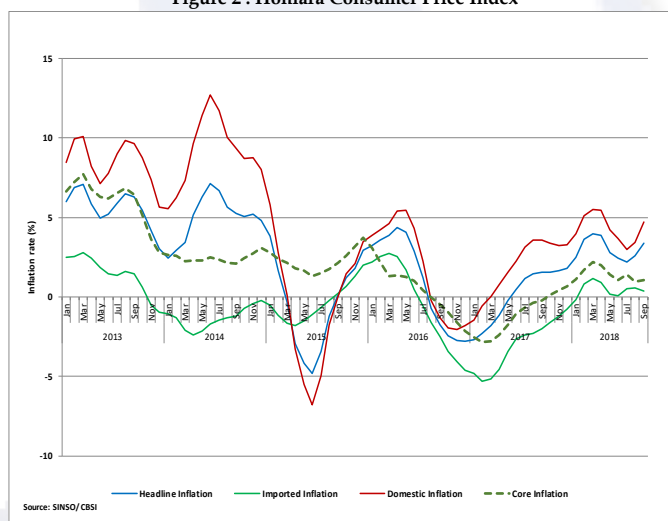
In terms of prices, the average international prices for all export commodities recorded declines except for fish prices, which grew by 5% during the month. Meanwhile, palm kernel oil and crude palm oil prices dropped further by 8% and 5% respectively, cocoa prices fell by 3% while log prices slid by 1% in October. International copra prices was not available for reporting during the month.

Headline Inflation

Headline inflation rose to 3.4% in September from 2.6% in August. This outcome was mainly driven by the increase in domestic inflation whilst imported inflation moderated during the month. Domestic inflation grew to 4.7% from 3.4% in the previous month owing to price pickup in food and non-alcoholic beverages, alcoholic beverages and tobacco, and housing, water, electricity, gas and other fuels categories during the month. These outweighed the price movements in all other categories over the period.

In contrast, imported inflation eased to 0.4% in September from 0.6% a month ago reflecting price falls in housing, water, electricity, gas and other fuels category, transport category, furnishings, household equipment and routine household maintenance, and miscellaneous goods and services categories during the month.

Figure 2 : Honiara Consumer Price Index



Meanwhile, core inflation edged up to 1.1% in September from 0.9% in August. This implies a relative rise in prices of food and non-alcoholic items against previous month.

Honiara Fuel Prices

The average fuel price in Honiara further increased to \$9.77 per litre in October from \$9.39 per litre in September. This outcome reflected price increases

across all fuel categories during the month. Diesel and petrol prices both increased by 45 cents to \$9.76 per litre and \$9.48 per litre from \$9.32 per litre and \$9.03

per litre respectively, while kerosene price grew by 25 cents to \$10.08 per litre from \$9.83 per litre in the previous month.

Solomon Islands Key Economic Indicators

		Jun 18	Jul 18	Aug 18	Sep 18	Oct 18
Consumer price index (% change)	Headline (3mma)	2.5	2.2	2.6	3.4	na
	Underlying (3mma): core 3	1.1	1.4	0.9	1.1	na
	Month -on -Month	-0.2	0.2	0.2	0.8	na
Trade¹ (eop)	Exports (\$ millions)	287	342	305	429	458
	Imports (\$ millions)	312	366	340	299	340
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.97	8.00	8.02	8.08	8.12
	SBD per AUD	5.96	5.92	5.89	5.82	5.77
	SBD per NZD	5.53	5.42	5.36	5.33	5.30
	SBD per GBP	10.57	10.48	10.34	10.54	10.58
	SBD per 100 JPY	7.24	7.16	7.23	7.23	7.20
	SBD per EUR	9.28	9.34	9.27	9.42	9.34
Gross Foreign Reserves (eop)	\$ millions	4,897	4,930	4,724	4,877	4,864
Liquidity² (eop)	Total Liquidity (\$)	1,990	2,226	2,049	2,314	2,307
	Excess Liquidity (\$)	1,491	1,715	1,543	1,797	1,784
Money and credit² (eop)	Narrow Money (\$)	4,008	4,136	4,023	4,139	4,121
	Broad Money (\$)	4,969	5,105	4,998	5,140	5,150
	private Sector credit (\$)	2,360	2,375	2,402	2,388	2,384
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.62%	0.62%	0.61%	0.61%	0.61%
	56-days Treasury Bills rate	0.46%	0.46%	0.46%	0.47%	0.48%
	91- days Treasury Bills rate	0.46%	0.46%	0.46%	0.49%	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%	2.02%	2.00%
Commodity Prices (monthly averages)	Round logs - (US\$/m3)	271	267	268	266	264
	Gold - (US\$/oz)	1,282	1,238	1,202	1,198,	1,215
	Palm Oil - (US\$/tonne)	580	545	534	524	499
	Fish -(US\$/tonne)	1,482	1,324	1,310	1,321	1,383
	Copra -(US\$/tonne)	623	NA	NA	NA	NA
	Cocoa - (US\$/tonne)	2,410	2,360	2,170	2,190	2,130

¹ Value in terms of free on Board (FOB)

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