

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money Supply (M3) edged lower by 1% to \$5,152 million in May from a 0.2% growth in April. The downturn was aided by a 1% decline in both narrow money (M1) and other deposits (time and savings) to \$4,140 million and \$1,012 million respectively. The fall in M1 was underpinned by a 2% decrease in demand deposits to \$3,374 million despite growth in currency in active circulation by 3% to \$766 million. Meanwhile, the decrease in other deposits came from reductions in both savings and time deposits; the former by 0.1% to \$93 million and the latter by 1% to \$919 million.

Net foreign assets (NFA) slipped by 0.04% to \$4,746 million during the month. This mirrored a fall in ODC's NFA from \$24 million to \$2 million, outweighing a 0.4% increase in CBSI's NFA to \$4,744 million. On a year on year basis, NFA grew by 1%.

Net domestic assets (NDA) of depository corporations (DC) declined by 13% to \$406 million against April. The decline reflected a 2% growth in capital accounts to \$1,114 million coupled with a drop in other items net by 15% to \$340 million. On the other hand, net domestic credit (NDC) grew by 1% to \$1,180 million. This was supported by a 0.3% rise in private sector credit (PSC) to \$2,480 million together with a 1% dip in net credit to government (NCG) to minus \$1,300 million. Meanwhile, both PSC and NCG grew, year-on-year, by 6% and 8% respectively.

Liquidity in the banking system contracted by 16% to \$2,104 million following an 18% increase in April. This outturn mirrored expansions in NCG and Bokolo Bills auctions¹ which saw free liquidity decreasing by 19% to \$1,748 million and excess liquidity by 20% to \$1,567 million. Conversely, required reserves edged 0.1% higher to \$355 million during the month.

Domestic Market Operations

Bids received for CBSI Bokolo Bills in May totalled \$1,243 million with only \$750 million absorbed. Bokolo Bills weighted average yield (WAY) for 28 days edged lower from 0.58% in the prior month to 0.57%. On Treasury Bills, \$29.3 million was tendered on behalf of the government but only \$12.9 million was accepted. The WAY for 91 and 182 days Treasury Bills

remained unchanged at 0.49% and 1.12% respectively. Conversely, the WAY for 365 days fell slightly to 1.99% from 2.00% in the previous month.

II. EXTERNAL CONDITIONS

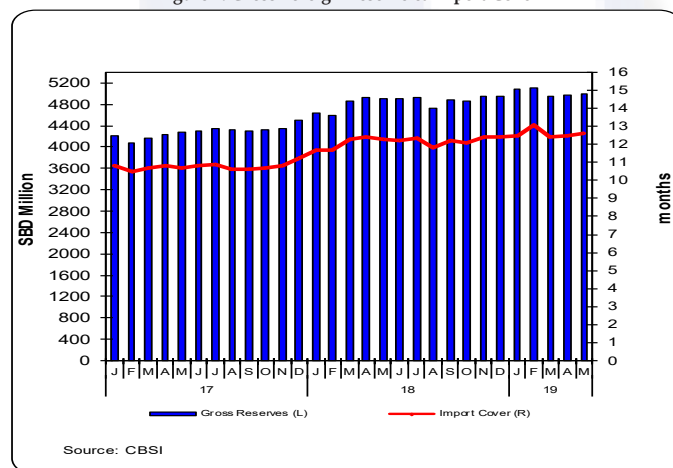
Balance on Trade

The balance of trade for the month of May 2019 have improved markedly to a \$9 million surplus following an \$89 million deficit witnessed in the previous month. This positive outcome reflected a significant surge in exports to \$394 million that more than offset a 32% jump in imports to \$385 million. The increase in exports came on the back of stronger outturns in all export commodities apart from fish that slid during the month. Meanwhile, the rise in imports was attributed to increases in food, machineries, basic manufactures and all other imports despite declines in mineral fuel.

Gross Foreign Reserve

Gross foreign reserves increased marginally by 0.4% to \$4,994 million, due to higher inflows than outflows during the month. This level of reserves is sufficient to cover 12.6 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rate

In May, the Solomon Islands dollar (SBD) depreciated by 0.61% against the United States dollar (USD) to an average of \$8.15 per USD. On the other hand, it appreciated against both the Australian dollar (AUD) and New Zealand dollar (NZD) by 1.69% to \$5.66 per AUD and 1.83% to \$5.35 per NZD respectively. Furthermore, it strengthened against the British pound but weakened against the Euro dollar and Japanese yen. As a result of the stronger effect of the USD, the

¹ The increase in Bokolo Bills was due mainly to timing differences between the maturity and rollover dates.

trade weighted index exchange rate basket depreciated by 98 basis points to 111.10 during the month.

III GOVERNMENT FINANCE

The government recorded another \$60 million fiscal deficit in May following a revised deficit of \$53 million registered in April. This outcome mirrored a surge in government expenditure by 30% to \$343 million, offsetting the 35% increase in total revenue to \$283 million during the month. Meanwhile, total debt stock edged up by 0.7% to \$1,035 million at the end of May. The increase in total revenue reflected an increase in tax receipts by 45% to \$272 million during the month. The major tax categories contributing to this outcome are; income, profits and capital gain taxes, goods and services taxes and taxes on international trade and transactions. In contrast, non-tax revenue shrunk to \$11 million from \$23 million recorded in the preceding month. Meanwhile, no donor grants receipts was recorded during the period.

Meanwhile, the surge in total expenditure was driven by recurrent expenses, which expanded by 39% to \$342 million. Notable increases in goods and services outlays and pay roll by 60% to \$141 million and 41% to \$135 million respectively underlined this outcome. On the other hand, development spending dropped by 37% to \$19 million, reflecting lower investments in buildings and structures, and other fixed assets in May.

The marginal growth in government's debt stock mirrored the additional treasury bills issued and foreign exchange rate movements during the month. Of the total outstanding debt balance, external debt accounted for \$772 million while the domestic component made up the other \$263 million. Meanwhile, total debt servicing payments in May amounted to \$3 million, of which \$2.6 million was on principal repayments and \$0.4 million on interest payments.

IV DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index surged by 75% to 128 points in May from a revised 73 points in April. This outcome was driven by the strong rebound in round log production and fish catch during the month. Log output more than doubled to 297,216 cubic meters while fish catch grew by 33% to 4,707 metric tons, the highest in recent months. Similarly, crude palm oil and palm kernel oil outputs increased by 29% and 26% respectively over the period. Production figures for copra and cocoa were currently unavailable at the time of reporting. However, based on historical trends, both copra and cocoa outputs are projected to pick up modestly during the month.

In terms of prices, the average international price for most export commodities weakened during the month. Fish price fell by 13%, palm kernel oil and crude palm oil prices declined by 10% and 4% respectively while

cocoa price dropped marginally against the prior month. In contrast, round log price, rebounded by 1% during the month.

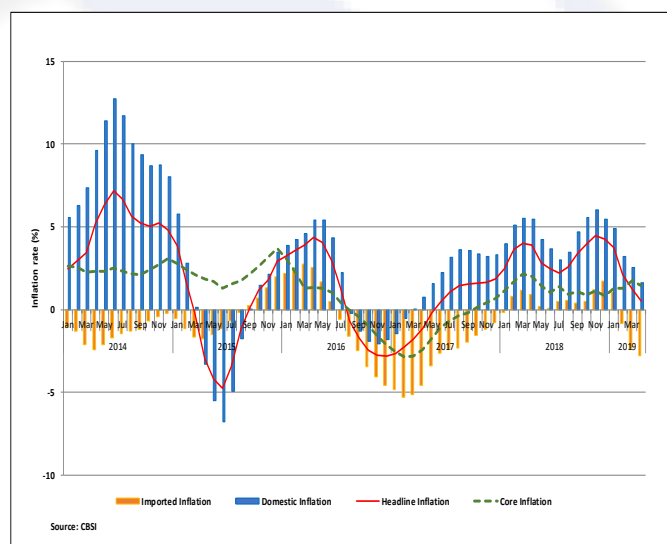
Headline Inflation

Headline inflation decreased further to 0.5% in April from 1.3% in the previous month. This outcome reflected the continued slowdown in domestic and imported inflation during the month. Domestic inflation eased to 1.6% from 2.5% in March, driven by the slow-down in prices of food and non-alcoholic beverages, housing utilities and furnishings and household equipment. These outweighed the price rises in alcoholic beverages, tobacco and narcotics, and transport while other categories levelled off during the month.

Likewise, imported inflation declined for the fourth consecutive month to minus 2.8% in April from minus 2.4% in March. Supporting this outcome was the sustained price declines in food and non-alcoholic beverages, housing utilities and transport over the period. However, these offset the price pick-ups in clothing and footwear, furnishings and household equipment, and miscellaneous goods and services during the month.

Meanwhile, core inflation moderated to 1.4% from 1.7% in March, implying a slowdown in the prices of non-food and non-fuel categories during the month.

Figure 2: Honiara Consumer Price Index



Honiara Fuel Prices

The average fuel price in Honiara increased for the third consecutive month to \$9.28 per litre in May from \$9.17 per litre in April. Supporting this outcome were price increases in both petrol and diesel during the month. Petrol price rose by 44 cents to \$9.05 per litre from \$8.61 per litre, while diesel price picked up by 6 cents to \$9.30 per litre from \$9.24 per litre. In contrast, kerosene price fell by 15 cents to \$9.50 per litre from \$9.65 per litre in the previous month.

Solomon Islands Key Economic Indicators

		Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19
Consumer price index (% change)	Headline (3mma)	4.2	3.7	2.1	1.3	0.5	na
	Underlying (3mma): core 3	0.8	1.3	1.3	1.7	1.4	na
	Month -on -Month	0.1	0.6	-0.9	1.3	-0.9	na
Trade¹ (eop)	Exports (\$ millions)	195	389	324	324	204	394
	Imports (\$ millions)	590	278	585	285	293	385
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.07	8.10	8.08	8.10	8.10	8.15
	SBD per AUD	5.81	5.78	5.77	5.74	5.76	5.66
	SBD per NZD	5.52	5.48	5.52	5.54	5.45	5.35
	SBD per GBP	10.22	10.41	10.49	10.68	10.56	10.48
	SBD per 100 JPY	7.17	7.43	7.32	7.29	7.26	7.40
	SBD per EUR	9.17	9.25	9.17	9.16	9.10	9.11
Gross Foreign Reserves (eop)	\$ millions	4,952	5,073	5,099	4,948	4,974	4,994
Liquidity² (eop)	Total Liquidity (\$)	2,126	2,122	2,189	2,123	2,502	2,104
	Excess Liquidity (\$)	1,595	1,588	1,646	1,583	1,961	1,567
Money and credit² (eop)	Narrow Money (\$)	4,218	4,167	4,277	4,180	4,187	4,140
	Broad Money (\$)	5,203	5,153	5,260	5,203	5,213	5,152
	Private Sector credit (\$)	2,409	2,410	2,430	2,458	2,471	2,480
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.59%	0.59%	0.59%	0.59%	0.58%	0.57%
	56-days Treasury Bills rate	0.50%	na	na	na	na	na
	91- days Treasury Bills rate	0.48%	0.49%	0.49%	0.49%	0.49%	0.49%
	182-days Treasury Bills rate	1.12%	1.12%	1.12%	1.12%	1.12%	1.12%
	365-days Treasury Bills rate	2.00%	2.00%	2.00%	2.00%	2.00%	1.99%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-59.9	66.2	-37.9	-61.0	-71.2	-60.0
SIG Debt stock (eop)	\$ million	1,016.3	1,021.0	1,027.0	1,031.3	1,027.8	1,035.0
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	265	273	270	268	267	271
	Gold - (US\$/oz)	1,250	1,292	1,320	1,301	1,286	1,284
	Palm Oil - (US\$/tonne)	535	585	603	573	588	563
	Fish -(US\$/tonne)	1,401	1,366	1,434	1,404	1,354	1,180
	Copra -(US\$/tonne)	NA	NA	NA	NA	N/A	N/A
	Cocoa - (US\$/tonne)	2,210	2,260	2,260	2,200	2,330	2,320

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

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

³ Fiscal balance based on GFSM2014 standards.

Note;
na : not available at time of publication.