

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Money supply (M3) in August rose by 2% to \$5,161 million driven mainly by a 4% increase in the narrow money (M1) to \$4,275 million that outweighed the fall in other deposits by 10% to 886 million. The upturn in the M1 was attributed to a 1% increase in currency in active circulation to \$846 million together with a 5% rise in the demand deposit to \$3,429 million. On the other hand, the fall in other deposits was driven by reduction in both the time and savings deposit by 11% to \$784 million and 0.3% to \$102 million, respectively. Net foreign asset (NFA) fell by 1% to \$5,021 million after posting a 4% upsurge in the previous month. The fall in NFAs of the Central Bank of Solomon Islands (CBSI) by 1% to \$5,002 million and Other Depository Corporations (ODC) by 32% to \$19 million were the main drivers to the outcome. Year-on-year, NFA expanded by 9%.

Net domestic assets (NDA) rose notably to \$116 million from minus \$13 million, following a rise in domestic credit by 12% to \$1,294 million and other items net by 13% to \$80 million. Meanwhile, capital account went up by 2% to \$1,259 million. The surge in domestic credit stemmed from a decrease in net credit to government (NCG) by 10% to minus \$1,220 million and an increase in Private Sector Credit (PSC) by 0.2% to \$2,514 million. On a yearly basis, NCG strengthened by 2% while PSC weakened by 0.5%.

Total liquidity in the banking system grew by 6% to \$2,200 million emanating from the fall in NCG. Meanwhile, both the free and excess liquidity rose by 7% to \$1,968 million and 8% to \$1,783 million, respectively. Required reserves, however, went down by 1% to \$233 million compared to the previous month.

#### Domestic Market Operations

At the end of August, the stock of Bokolo Bills (BB) dropped further to \$570 million compared to \$610 million in July. This reflected CBSI's current expansionary monetary policy stance to mitigate the continued economic shock caused by the global pandemic. The rate of weighted average yield (WAY) for 28 days fell to 0.51% in August from 0.53% in the prior month. Meanwhile, total TBills allotment and auctions reached \$28 million, of which, \$13 million was absorbed during the month. The WAY for both the

91 and 365 days were maintained at 0.49% and 1.96% respectively as in the previous month. In contrast, the WAY for 182 days declined by 2 basis points to 1.07%.

### II. EXTERNAL CONDITIONS

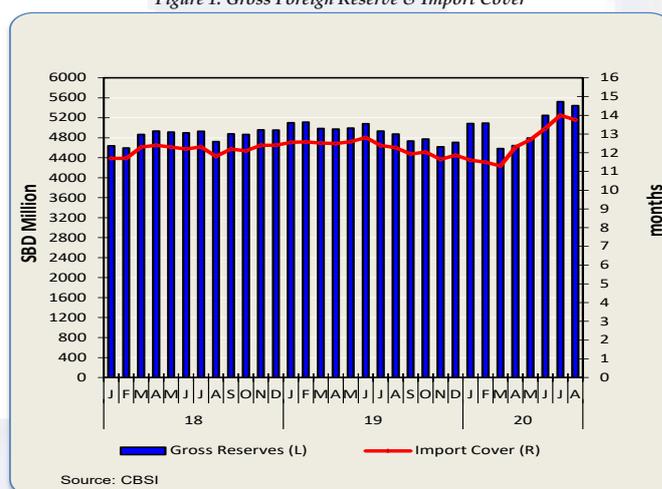
#### Trade in Goods

The balance on trade in goods for August 2020 relatively narrowed to a \$103 million deficit from a revised \$113 million deficit in the previous month. This reflected a larger fall in imports by 8% to \$286 million compared to the comparatively smaller drop in exports by 7% to \$183 million during the month. The fall in exports were driven by the decline in round logs, fish, and mineral exports, offsetting increases in agriculture and other exports. On the other hand, the decline in imports reflected downturns across all import categories, except for machinery during the month.

#### Gross Foreign reserve

Gross foreign reserve in August 2020, slipped marginally by 1% to \$5,443 million, owing to higher outflows than inflows in the month. However, this level of reserves is sufficient to cover 13.8 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



#### Exchange rates

In August 2020, the Solomon Islands dollar (SBD) continued to appreciate by 0.6% against the United States dollar to an average of \$8.21 per USD. It also appreciated against the New Zealand dollar by 0.4% to \$5.42 per NZD and the Japanese Yen. On the other hand, the SBD depreciated against the Australian

dollar by 1.7% to \$5.90 per AUD, and the British pound, and Euro currencies. However, due to the strong dominance of the USD within the currency basket, the total weighted index (TWI) strengthened by 98 basis points to 109.5.

### III GOVERNMENT FINANCE

Government finances recorded an \$80 million deficit in August 2020, compared to the \$21 million deficit in July 2020. This resulted from a decline in revenue by 19% to \$248 million and a slight increase in expenditure by 0.1% to \$329 million. Meanwhile, the central government's debt stock stood at \$1,315 million in August, 0.3% lower than in July.

The fall in total revenue reflected declines in non-tax and grants receipts, despite an increase in tax receipts. Non-tax revenue fell to \$12 million from \$26 million in the previous month, driven by lower proceeds from fishing license fees. Likewise, grants receipts in August was only \$0.3 million, compared to \$82 million recorded in July. In contrast, tax revenue grew by 18% to \$236 million, mirroring strong collections on tax on income, profits and capital gains, and taxes on goods and services during the period.

The slight increase in expenditure stemmed from an expansion in current expenses by 8% to \$303 million. This reflected increases on payroll, purchases of goods and services and interest payments. Conversely, capital outlays declined to \$26 million from \$48 million in July, underpinned by spending cuts on fixed assets. The marginal fall in government debt stock mirrored exchange rate movements. Accordingly, external debt stock slid to \$925 million from \$932 in July, while domestic debt edged up by 1% to \$390 million. Debt servicing in August 2020 totalled \$6 million, of which \$3 million was on principal repayments and \$3 million on interest payments.

### IV DOMESTIC ECONOMY

#### Domestic Economy

The CBSI preliminary monthly production index dropped in August by 15% to 57 points from a revised 67 points in the previous month. The negative outcome was attributed to the fall in cocoa and round logs offsetting the growth in fish, palm oil and copra. Cocoa declined by 30% to 406 tonnes and round logs plummeted by 24% to 111 thousand cubic meters. On the other hand, copra rebounded by 11% to 588 tonnes, palm oil is estimated to have picked up by 5% to around 3,600 tonnes and fish catch consecutively maintained at 4% (m-o-m growth) to 2,147 tonnes.

The average international prices for fish, logs and agricultural commodities recorded positive performance during the month. Round log grew by 1% to US\$281 per cubic meters and fish rose by 4% to US\$1,360 per ton. Similarly, cocoa rebounded by 11% to US\$2,340 per ton, coconut oil and crude palm oil each surged by 10% to US\$981 per ton and US\$760 per ton respectively.

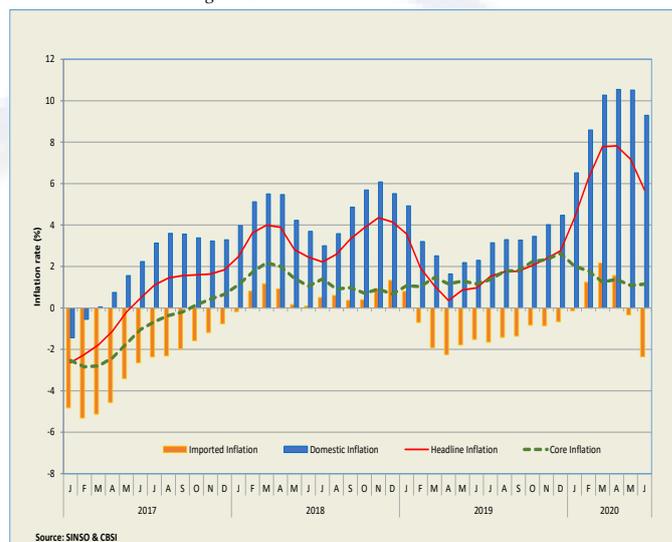
#### Consumer Price Index (CPI), Inflation

The national headline inflation for June 2020 slipped to 5.7% from 7.2% in the prior month. This was largely driven by the drop in imported and domestic inflation during the month.

Domestic inflation eased to 9.3% from 10.5% in May, attributed to the reduction in prices of betelnut and local food. Likewise, imported inflation moderated to minus 2.4% from minus 0.3% a month ago underpinned by continued lower global prices in energy products and food.

Meanwhile, core inflation slightly rose to 1.2% in June from 1.1% in the previous month. This outcome reflected the pickup in prices of non-volatile items.

Figure 2: Honiara Consumer Price Index



#### CBSI Monthly Price Index (MPI)

The CBSI MPI index plummeted by 3.6% to 88 points during the month from 91 points in July. This negative trend was attributed to the fall in prices of betelnut, rice and fuel regardless of the rise in electricity tariff. The price of betelnut further declined by 56 cents to \$1.17 per fruit, fuel price by 10 cents to \$7.33 per litre, and 40lb Solrice dropped from \$168 per bag to \$167.50 per bag. Meanwhile, the domestic-user electricity tariff picked up by 38 cents to \$5.72 per KWh.

## Solomon Islands Key Economic Indicators

		Mar 20	Apr 20	May 20	Jun 20	Jul 20	Aug 20
<b>Consumer price index</b> (% change )	Headline (3mma)	7.8	7.8	7.2	5.7	na	na
	Headline (3mma) CBSI adjustment <sup>4</sup>	5.6	5.6	3.7	3.6	na	na
	Underlying (3mma): core 3	1.2	1.4	1.1	1.2	na	na
	Month -on -Month	0.0	-0.4	-1.0	-3.5	na	na
<b>CBSI MPI</b> (weighted Index)	Month- on - Month	103	108	97	94	91	88
<b>Trade<sup>1</sup></b> (eop)	Exports ( \$ millions)	329	114	301	369	197	183
	Imports ( \$ millions)	214	238	516	262	310	286
<b>Exchange Rates</b> (Mid-rate, Monthly average)	SBD per USD	8.28	8.32	8.37	8.31	8.27	8.21
	SBD per AUD	5.15	5.23	5.44	5.73	5.81	5.90
	SBD per NZD	5.01	4.99	5.09	5.36	5.44	5.42
	SBD per GBP	10.24	10.31	10.30	10.41	10.47	10.78
	SBD per 100 JPY	7.69	7.72	7.81	7.72	7.75	7.74
	SBD per EUR	9.14	9.04	9.13	9.35	9.47	9.71
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,585	4,645	4,793	5,250	5,522	5,443
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)	1,863	1,926	1,904	1,909	2,067	2,200
	Excess Liquidity ( \$ millions)	1,386	1,406	1,391	1,503	1,650	1,783
<b>Money and credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)	3,994	3,993	3,979	3,981	4,095	4,275
	Broad Money ( \$ millions)	5,021	5,045	5,028	5,035	5,081	5,161
	Private Sector credit (\$ millions)	2,538	2,513	2,531	2,520	2,509	2,514
<b>Interest Rates</b> ( weighted average yield)	28-days Bokolo Bills rate	0.52%	0.52%	0.54%	0.56%	0.53%	0.51%
	56-days Treasury Bills rate	na	na	na	na	na	na
	91- days Treasury Bills rate	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%
	182-days Treasury Bills rate	1.12%	1.17%	1.27%	1.11%	1.09%	1.07%
	365-days Treasury Bills rate	1.95%	1.95%	1.97%	1.96%	1.96%	1.96%
<b>Fiscal Balance<sup>3</sup></b> Surplus(+)/Deficit(-)	\$ million	-11	-176	86	-15	-21	-80
<b>SIG Debt stock</b> (eop)	\$ million	1,068	1,088	1,154	1,222	1,319	1,315
<b>Global Commodity Prices</b> (monthly averages)	Round logs - ( US\$/m3)	277	276	278	277	279	281
	Gold - (US\$/oz)	1,592	1,683	1,716	1,732	1,847	1,969
	Palm Oil - (US\$/tonne)	635	609	574	652	694	760
	Fish - (US\$/tonne)	1,665	1,955	1,555	1,309	1,312	1,360
	Coconut oil - (US\$/tonne)	836	835	830	920	888	981
	Cocoa - (US\$/tonne)	2,340	2,270	2,320	2,240	2,100	2,340

<sup>1</sup> Value in terms of free on Board ( FOB)

<sup>2</sup> Based on weekly statistics provided by other depository corporations ( ODCs).

<sup>3</sup> Fiscal balance based on GFSM2014 standards.

<sup>4</sup> Adjustments by substituting CBSI monthly collected betel-nut prices.

Note;  
na : not available at time of publication.