

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Money supply (M3) fell by 0.4% to \$5,139 million in September 2020 after recording a 2% growth in August. This fall was owed to a 1% reduction in narrow money (M1) to \$4,243 million, offsetting the growth in other deposits (time and savings) by 1% to \$896 million. Narrow money decreased on account of a 1% decline in demand deposits to \$3,382 million despite a 2% expansion of currency in active circulation to \$861 million. Meanwhile, the rise in other deposits resulted from increases in both the time and savings deposits; the former by 1% to \$791 million and the latter by 4% to \$106 million.

Net foreign assets (NFA) of the banking system dropped by 2% to \$4,904 million in September. The fall was driven by downturns in NFA of the Central Bank of Solomon Islands (CBSI) by 2% to \$4,894 million, and the NFA of ODCs from \$19 million to \$11 million. Net foreign assets grew by 8%, year-on-year.

Net domestic assets (NDA) grew notably from \$115 million to \$235 million in September. This was fuelled by the growth in other items net despite a 4% fall in domestic credit to \$1,241 million and a 2% increase in capital account to \$1,280 million. Domestic credit dropped as a result of a 4% rise in net credit to government (NCG) to minus \$1,263 million. This is largely due to the increase in government deposits in ODCs. Meanwhile, Private Sector Credit (PSC) went down by 0.4% to \$2,504 million. On an annual basis, PSC fell by 1% while NCG surged by 19%.

Total liquidity in the banking system plunged by 18% to \$1,804 million in September 2020. This was attributed to the fall in NFA during the month. Consequently, both the free and excess liquidity reduced markedly by 20% to \$1,581 million and 21% to \$1,411 million, respectively. Similarly, required reserve, decreased by 4% to \$223 million.

#### Domestic Market Operations

The stock of CBSI Boloko Bills (BB) was reduced to \$530 million from \$570 million in August. The decline in the Bokolo Bills stock reflected the Bank's expansionary monetary policy in light of Covid-19. The weighted average yield (WAY) for Bokolo Bills declined from 0.51% to 0.48% during the month. Meanwhile, TBills tendered during the month amounted to \$15 million,

\$7 million of the total was accepted. The WAY for 91 and 365 days remained unchanged at 0.49% and 1.96% respectively. However, the WAY for 182 days increased by 3 basis points to 1.10%.

### II. EXTERNAL CONDITIONS

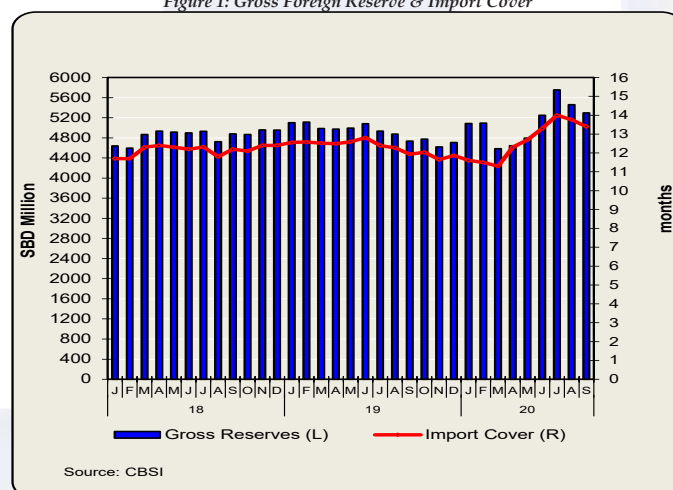
#### Trade in goods

Trade in goods improved to a \$2 million deficit in September from a \$110 million deficit recorded in the previous month. This favourable outcome stemmed from a 61% surge in exports to \$283 million together with a 0.6% slid in imports to \$284 million during the month. The marked rise in round logs and agriculture commodities were the major contributor behind the growth in exports, outweighing downturns in minerals, fish, and other exports. Meanwhile, the fall in imports was attributed to declines in mineral fuel and basic manufacture, subduing upturns in food, machineries and other imports.

#### Gross foreign Reserve

Gross foreign reserves fell by 3% in September to \$5,295 million as a result of higher outflows than inflows during the month. This level of reserves is sufficient to cover 13.4 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



#### Exchange rate

In terms of Exchange rates for September 2020, the Solomon Islands dollar (SBD) appreciated almost against all trading currencies, namely the United States dollar (USD), Australian dollar (AUD), British pound (GBP), Euro (EUR) and Japanese yen (JPY)

with the exception of the New Zealand Dollar (NZD) during the month. More specifically, it strengthened against the USD by 0.9% to an average of \$8.14 per USD and against the AUD by 0.2% to \$5.89 per AUD, nonetheless, it weakened against the NZD by 0.2% to \$5.43 per NZD. Due to the stronger performance of the SBD in the period, the total weighted index (TWI) went up by 29 basis points to 109.2 during the month.

### III GOVERNMENT FINANCE

The government deficit widened further to \$121 million in September from \$80 million deficit in August. This negative outcome mirrored a surge in total expenditure by 24% to \$408 million, negating an increase in revenue by 15% to \$286 million. Meanwhile, the government’s debt stock fell slightly by 0.8% to \$1,358 million in September.

The growth in revenue stemmed from increases in tax and non-tax receipts. Tax revenue rose by 13% to \$267 million, reflecting strong collections on taxes on income, profits and capital gains, and property tax and taxes on international trade, mainly export duties. Similarly, non-tax revenue rose to \$17 million from \$12 million in the preceding month, attributing to higher proceeds from fishing license fees. Meanwhile, \$1 million in grants was recorded in September.

The growth in expenditure mirrored increases in recurrent and capital spending. Recurrent expenses expanded by 9% to \$330 million, driven by increases on payroll, purchases of goods and services, interest payments, subsidies, grants and social benefits. Development spending rose to \$78 million from \$26 million in August, stemming from higher spending on fixed assets.

The marginal fall in the debt stock reflected exchange rate movements in September. Consequently, external debt stock slipped by 1% to \$967 million, while domestic debt stock edged up by 0.2% to \$391 million. Debt servicing this month totalled \$9 million, of which \$4 million was on principal repayments and \$5 million on interest payments.

### IV DOMESTIC ECONOMY

#### Domestic Economy

CBSI preliminary production index rebounded in September by 68% to 100 points from a revised 60 points in August. This turnaround was largely driven by the upturn in round logs, fish catch, palm oil, and copra. Round logs more than doubled to 258 thousand cubic meters, fish catch rose by 12% to 2,410 tons, palm oil by 2% to 3,141 tons, and

copra picked up by 28% to 1,200 tons. Conversely, cocoa went down to 125 tons from 527 tons.

The average international prices for logs, fish and agricultural commodities recorded mix movements during the month. Round logs slightly rose to US\$282 per cubic meters whilst, coconut oil, cocoa and crude palm oil all increased by 5%, to US\$1,032 per ton, US\$2,460 per ton, and US\$798 per ton, respectively. Fish, on the other hand, declined by 9% to US\$1,233 per ton.

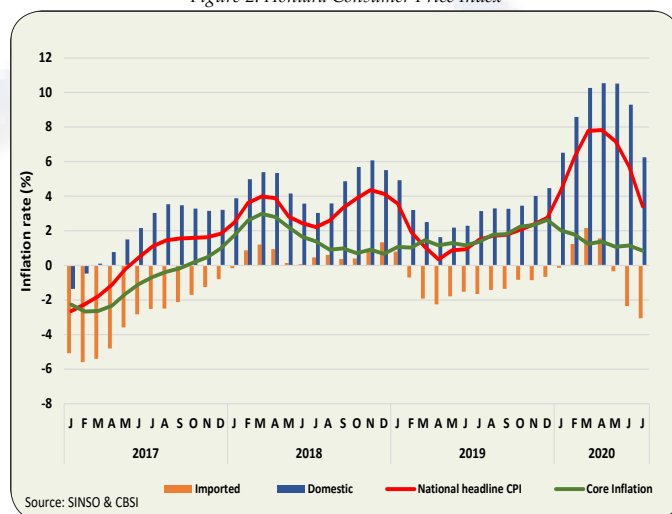
#### Consumer Price Index (CPI), Inflation

The national headline inflation for July 2020<sup>1</sup> fell to 3.4% from 5.7% in June driven by both domestic and imported inflation.

Domestic inflation eased to 6.3% from 9.3%, due to lower prices in betelnut and local food sold in the market. Likewise, imported inflation plunged to minus 3.1% from minus 2.4% in June reflecting the continued reduction in global prices in imported food and fuel products.

Meanwhile, core inflation eased to 0.9% from 1.2% attributed to the slow-down in prices of non-volatile items and reflected weaker demand in the economy.

Figure 2: Honiara Consumer Price Index



#### CBSI Monthly Price Index (MPI)

The CBSI MPI index grew by 7.1% to 94 points in September from 88 points in August. This upward movement stemmed from price increases in betelnut and rice during the month. The price of betelnut jumped by 94 cents to \$2.11 per fruit, and 40lb Solrice rose to \$168.80 per bag from \$167.50 per bag. On the other hand, fuel price decreased by 13 cents to \$7.20 per litre, whilst, the domestic-user electricity dropped by 13 cents to \$5.59 per KWh.

<sup>1</sup>Published 9th October 2020 by National Statistics Office

## Solomon Islands Key Economic Indicators

|  |  | Apr<br>20 | May<br>20 | Jun<br>20 | Jul<br>20 | Aug<br>20 | Sept<br>20 |
|--|--|-----------|-----------|-----------|-----------|-----------|------------|
| <b>Consumer price index</b><br>(% change)                  | Headline (3mma)                              | 7.8       | 7.2       | 5.7       | 3.4       | na        | na         |
|  | Headline (3mma) CBSI adjustment <sup>4</sup> | 5.5       | 3.5       | 3.4       | 1.7       | na        | na         |
|  | Underlying (3mma): core 3                    | 1.4       | 1.1       | 1.2       | 0.9       | na        | na         |
|  | Month -on -Month                             | -0.4      | -1.0      | -3.5      | -1.3      | na        | na         |
| <b>CBSI MPI</b><br>(weighted Index)                        | Month- on - Month                            | 108       | 97        | 94        | 91        | 88        | 94         |
| <b>Trade<sup>1</sup></b><br>(eop)                          | Exports ( \$ millions)                       | 114       | 301       | 369       | 215       | 192       | 320        |
|  | Imports ( \$ millions)                       | 238       | 516       | 262       | 310       | 286       | 284        |
| <b>Exchange Rates</b><br>(Mid-rate, Monthly average)       | SBD per USD                                  | 8.32      | 8.37      | 8.31      | 8.27      | 8.21      | 8.14       |
|  | SBD per AUD                                  | 5.23      | 5.44      | 5.73      | 5.81      | 5.90      | 5.89       |
|  | SBD per NZD                                  | 4.99      | 5.09      | 5.36      | 5.44      | 5.42      | 5.43       |
|  | SBD per GBP                                  | 10.31     | 10.30     | 10.41     | 10.47     | 10.78     | 10.56      |
|  | SBD per 100 JPY                              | 7.72      | 7.81      | 7.72      | 7.75      | 7.74      | 7.70       |
|  | SBD per EUR                                  | 9.04      | 9.13      | 9.35      | 9.47      | 9.71      | 9.60       |
| <b>Gross Foreign Reserves</b><br>(eop)                     | \$ millions                                  | 4,645     | 4,793     | 5,250     | 5,754     | 5,461     | 5,295      |
| <b>Liquidity<sup>2</sup></b><br>(eop)                      | Total Liquidity (\$ millions)                | 1,926     | 1,904     | 1,909     | 2,067     | 2,200     | 1,804      |
|  | Excess Liquidity ( \$ millions)              | 1,406     | 1,391     | 1,503     | 1,650     | 1,783     | 1,411      |
| <b>Money and credit<sup>2</sup></b><br>(eop)               | Narrow Money (\$ millions)                   | 3,993     | 3,979     | 3,981     | 4,095     | 4,275     | 4,243      |
|  | Broad Money ( \$ millions)                   | 5,045     | 5,028     | 5,035     | 5,081     | 5,161     | 5,139      |
|  | Private Sector credit (\$ millions)          | 2,513     | 2,531     | 2,520     | 2,509     | 2,514     | 2,504      |
| <b>Interest Rates</b><br>( weighted average yield)         | 28-days Bokolo Bills rate                    | 0.52%     | 0.54%     | 0.56%     | 0.53%     | 0.51%     | 0.48%      |
|  | 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                 | 1.17%     | 1.27%     | 1.11%     | 1.09%     | 1.07%     | 1.10%      |
|  | 365-days Treasury Bills rate                 | 1.95%     | 1.97%     | 1.96%     | 1.96%     | 1.96%     | 1.96%      |
| <b>Fiscal Balance<sup>3</sup></b><br>Surplus(+)/Deficit(-) | \$ million                                   | -176      | 86        | -15       | -21       | -80       | -121       |
| <b>SIG Debt stock</b><br>(eop)                             | \$ million                                   | 1,088     | 1,154     | 1,222     | 1,319     | 1,315     | 1,358      |
| <b>Global Commodity Prices</b><br>(monthly averages)       | Round logs - (US\$/m3)                       | 276       | 278       | 277       | 279       | 281       | 282        |
|  | Gold - (US\$/oz)                             | 1,683     | 1,716     | 1,732     | 1,847     | 1,969     | 1,922      |
|  | Palm Oil - (US\$/tonne)                      | 609       | 574       | 652       | 694       | 760       | 798        |
|  | Fish - (US\$/tonne)                          | 1,955     | 1,555     | 1,309     | 1,312     | 1,360     | 1,233      |
|  | Coconut oil - (US\$/tonne)                   | 835       | 830       | 920       | 888       | 981       | 1,032      |
|  | Cocoa - (US\$/tonne)                         | 2,270     | 2,320     | 2,240     | 2,100     | 2,340     | 2,640      |

<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.