

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply strengthened by 0.4% in October to \$5,158 million, reversing the fall registered in the previous month. The upsurge in other deposits (savings and time) by 3% to \$921 million was the main contributor behind the growth in the broad money. Narrow money, on the other hand, dwindled marginally by 0.2% to \$4,236 million. The decline was attributed to a 0.6% fall in demand deposits to \$3,360 million, outweighing the 2% rise in currency in active circulation to \$876 million.

Net foreign assets (NFA) in the banking system contracted by 0.4% this month to \$4,885 million. This was due to a 0.8% drop in the NFAs held by the CBSI to \$4,856 million. While the NFAs of the Other Depository Corporations (ODCs) went up to \$29 million from \$19 million. On a yearly basis, NFA grew by 9%.

Net domestic assets (NDA) remained robust this month, growing by 23% to \$289 million. This outcome reflected a 5% upturn in the domestic credit to \$1,299 million together with a 0.6% slipped in the capital account to \$1,272 million. While the other items net, also fell by 4% to \$262 million. The 7% reduction in net credit to government (NCG) to \$1,173 million, drove the rise in the overall domestic credit. Similarly, private sector credit (PSC) dropped by 2% to \$2,455 million. However, NCG was 11% higher compared to same period last year, whilst the PSC weakened by 3% on an annual basis.

Total liquidity in the depository corporations rose by 12% in October to \$2,299 million, stemming from declines in NCG. This caused the free liquidity to rise by 13% to \$2,068 million, excess liquidity by 14% to \$1,884 million and reserve requirement by 3% to \$231 million, respectively.

Domestic Market Operations

Following the persistent and negative economic impact of the Covid-19 on the domestic economy, the Bank has resolved to maintain the accommodative monetary policy. As a result, the stock of Bokolo Bills (BB) dwindled further to \$470 million in October from \$530 million in the previous month. Meanwhile, the Bokolo Bills average weighted yield for October sliced to 0.47% from 0.48% in the previous month. Whilst the total TBills auctioned stood at \$21 million, of which \$13

million of the total was accepted. The WAY for both the 91 and 365 days continued with the same rate as in September, sitting at 0.49% and 1.96%, respectively. The WAY for 182 days, however, fell by 1 basis point to 1.09%.

II. EXTERNAL CONDITIONS

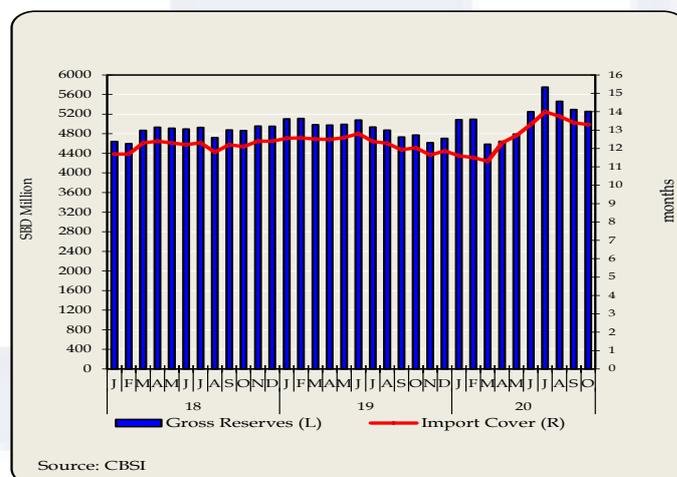
Trade in goods

The balance on trade in goods widened to a deficit of \$48 million in October from a \$45 million surplus recorded in the previous month. This negative outturn stemmed from a sizable decline in exports by 45% to \$182 million which outweighed a 19% contraction in imports to \$231 million. The fall in exports was pronounced in almost all the major export commodities including, round logs, fish and agriculture commodities apart from an uptick in mineral exports during the period. Meanwhile, the decline in imports was primarily driven by food, mineral fuel and machineries, despite an increase in basic manufactures in the review period..

Reserves

Gross foreign reserves slipped by 0.8% to \$5,257 million due to higher outflows than inflows during the month. This level of reserve is sufficient to cover 13.3 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange rate

In terms of exchange rates, the Solomon Islands dollars (SBD) appreciated against almost all tradable currencies except for the Japanese yen. In particular the SBD strengthened against the United States dollar (USD) by

0.4% to an average of \$8.11 per USD, the Australian dollar by 1.8% to \$5.78 per AUD and the New Zealand dollar by 0.9% to \$5.38 per NZD. Other currencies that strengthened during the period included the British pound and the Euro. Due to the currency movements within the basket, the total weighted index weakened by 56 basis points to 109.80.

III GOVERNMENT FINANCE

The Government recorded a deficit of \$97 million in October 2020, compared to \$121 million deficit in the previous month. This mirrored a decline in revenue by 21% to \$225 million and a fall in total expenditure to \$323 million from \$408 million in September. Meanwhile, the central government's debt stock increased slightly by 0.6% to \$1,366 million in October.

The fall in revenue was associated with declines in tax and grant receipts, despite an increase in non-tax revenue. Tax revenue contracted by 29% to \$190 million, attributing to weak collections on personal and company taxes and, import and export duties. Conversely, non-tax revenue surged to \$35 million from \$17 million in September, driven by higher proceeds from fishing license fees and sales of goods and services.

The fall in expenditure was driven by reductions in recurrent and development spending during the month. Recurrent expenses fell by 13% to \$288 million, largely underpinned by fall in payroll and purchases of goods and services. Similarly, capital outlays decreased to \$35 million in October from \$78 million in the preceding month, driven by lower spending on fixed assets.

The slight increase in government debt stock reflected additional loan disbursements from the World Bank (WB) and domestic treasury bills issued in October. Accordingly, external debt grew marginally by 1% to \$973 million while domestic debt edged up by 0.6% to \$393 million. Debt servicing totalled to \$3 million

in October 2020, of which \$2 million was on principal repayments and \$1 million on interest payments.

IV DOMESTIC ECONOMY

Domestic Economy

The CBSI preliminary monthly production index contracted by 34% to 65 points in October from a revised 99 points in September. This lower outcome was mainly driven by the downturn in round logs, copra, and fish catch outweighing the pickup in palm oil and cocoa. Round logs dropped significantly by 46% to 140 thousand cubic meters, copra fell by 9% to 1,098 tons, and fish catch went down by 8% to 2,207 tons. On the other hand, crude palm oil increased by 5% to 2,731 tons, and cocoa tripled to 365 tons after a 76% fall posted in the previous month.

The international prices for most commodities trended up during the month except for cocoa prices that fell by 7% to US\$2,290 per ton. Round logs marginally rose to US\$283 per cubic meters, fish picked up by 3% to US\$1,268 per ton, coconut oil surged by 8% to US\$1,118 per ton, and crude palm oil grew by 3% to US\$819 per ton.

Consumer Price Index (CPI), Inflation

August 2020 CPI is not yet available from the National Statistics Office. However, the latest headline inflation was recorded at 3.4% in July as previously reported in the September Monthly Economic Bulletin.

CBSI Monthly Price Index (MPI)

The CBSI MPI index fell by 7.8% to 86 points in October from 94 points in the preceding month. The downward movement came from price drop in rice and betelnut offsetting the price rise in fuel and electricity during the month. The price of 401b Solrice fell by \$8.30 to \$160.50 per bag, and the price of betelnut dropped by 94 cents to \$1.17 per fruit. Conversely, fuel price went up by 11 cents to \$7.32 per litre, while, the domestic-user electricity tariff increased by 25 cents to \$5.84 per KWh.

Solomon Islands Key Economic Indicators

		May 20	Jun 20	Jul 20	Aug 20	Sept 20	Oct 20
Consumer price index (% change)	Headline (3mma)	7.2	5.7	3.4	na	na	na
	Headline (3mma) CBSI adjustment ⁴	3.5	3.4	1.7	na	na	na
	Underlying (3mma): core 3	1.1	1.2	0.9	na	na	na
	Month -on -Month	-1.0	-3.5	-1.3	na	na	na
CBSI MPI (weighted Index)	Month- on - Month	97	94	91	88	94	86
Trade¹ (eop)	Exports (\$ millions)	301	369	215	192	329	182
	Imports (\$ millions)	516	262	310	286	284	231
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.37	8.31	8.27	8.21	8.14	8.11
	SBD per AUD	5.44	5.73	5.81	5.90	5.89	5.78
	SBD per NZD	5.09	5.36	5.44	5.42	5.43	5.38
	SBD per GBP	10.30	10.41	10.47	10.78	10.56	10.52
	SBD per 100 JPY	7.81	7.72	7.75	7.74	7.70	7.71
	SBD per EUR	9.13	9.35	9.47	9.71	9.60	9.55
Gross Foreign Reserves (eop)	\$ millions	4,793	5,250	5,754	5,461	5,296	5,257
Liquidity² (eop)	Total Liquidity (\$ millions)	1,904	1,909	2,067	2,200	2,051	2,299
	Excess Liquidity (\$ millions)	1,391	1,503	1,650	1,783	1,648	1,884
Money and credit² (eop)	Narrow Money (\$ millions)	3,979	3,981	4,095	4,275	4,243	4,236
	Broad Money (\$ millions)	5,028	5,035	5,081	5,161	5,139	5,158
	Private Sector credit (\$ millions)	2,531	2,520	2,509	2,514	2,504	2,455
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.54%	0.56%	0.53%	0.51%	0.48%	0.47%
	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	1.27%	1.11%	1.09%	1.07%	1.10%	1.09%
	365-days Treasury Bills rate	1.97%	1.96%	1.96%	1.96%	1.96%	1.96%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	86	-15	-21	-80	-121	-97
SIG Debt stock (eop)	\$ million	1,154	1,222	1,319	1,315	1,358	1,366
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	278	277	279	281	282	283
	Gold - (US\$/oz)	1,716	1,732	1,847	1,969	1,922	1,900
	Palm Oil - (US\$/tonne)	574	652	694	760	796	819
	Fish - (US\$/tonne)	1,555	1,309	1,312	1,360	1,233	1,268
	Coconut oil - (US\$/tonne)	830	920	888	981	1,034	1,118
	Cocoa - (US\$/tonne)	2,320	2,240	2,100	2,340	2,640	2,290

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.

⁴ Adjustments by substituting CBSI monthly collected betel-nut prices.

Note:
na : not available at time of publication.