

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply declined by 3% to \$4,487 million in March, although 12% higher than the same period last year. The decrease was driven mainly by a 3% fall in narrow money (M1) to \$3,499 million. On the other hand, other deposits (saving and time) showed a slight increase of 0.1% to \$988 million. The reduction in M1 was attributed predominantly to a 4% drop in demand deposits to \$2,822 million whilst currency in active circulation rose by 2% to \$677 million. On other deposits, the minor increase stemmed from an improvement in savings by 4% to \$166 million outweighing a 1% slowdown in time deposits to \$821 million.

Total net foreign assets (NFA) of the banking system improved by 1% to \$3,974 million in March offsetting the 1% drop recorded a month ago. This outcome was mainly attributed to a notable increase in NFA of Depository Corporations' (ODCs) to \$31 million from \$26 million, whilst CBSI's NFA also grew by 1% to \$3,944 million at the end of the month. Year-on-year movement recorded a growth of 2% of NFA compared to the corresponding period in 2016.

Net credit to government (NCG) increased by 17% to net liabilities of \$1,191 million in March following a 7% contraction witnessed a month ago. The growth came largely from the 23% growth in the CBSI's net liabilities position to \$960 million whilst ODC's net position dwindled further by 3% to \$231 million from the previous month. In contrast, private sector credit (PSC) fell by 0.9% to \$2,202 million, driven by the fall in lending to ODC and other sectors during the month. Meanwhile, total liquidity in the banking system went down by 7% to \$1,627 million due mainly to a fall in the level of deposits. This saw both free liquidity and excess liquidity decreasing by 8% to \$1,331 million and by 9% to \$1,176 million. The required reserves also declined by 3% to \$296 million during the month.

Domestic Market Operations

The total value of the stock of CBSI Bokolo bills floated in March 2017 was \$1,125 million reflecting three auctions were conducted during the month. The weighted average yield (WAY) for the 28 days Bokolo bill remained unchanged at 0.62% from the previous month. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days also remained at 0.34%, 0.46% and 1.12% respectively as in February 2017.

II. EXTERNAL CONDITIONS

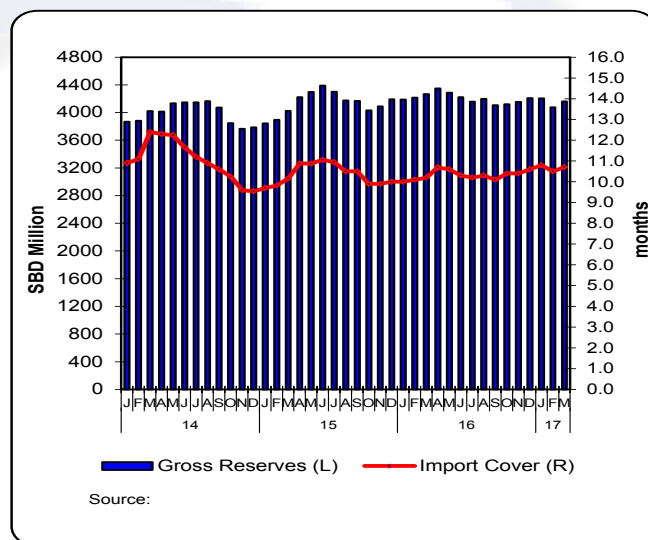
The balance on trade in goods for March markedly

improved to a provisional \$88 million surplus from a \$52 million deficit in the previous month. This positive outcome was driven by the increase in export commodities whilst imports remained stable during the month. The increase in exports was attributed to surge in inflows from round logs by 84% to \$249 million, agricultural exports by 25% to \$56 million along with fish, mineral and re-exports. The marginal movement in imports reflected the drop in food, mineral fuels and machineries despite increases in imports for basic manufacturing goods and other imports during the month.

Gross foreign reserves

Gross foreign reserves grew by 2% to \$4,162 million due to high donor inflows exceeding outflows during the month. This level of reserves is sufficient to cover 10.7 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange rates

In March, the Solomon Islands dollar depreciated against the United States dollar (USD) by 0.18% to an average of \$7.90 per USD. On the other hand, it appreciated against the Australian dollar (AUD) by 0.23% to \$6.02 per AUD and by 2.83% against the NZD to \$5.54 per NZD. Against the other tradable currencies, the SBD went down against the Euro and the Japanese yen but strengthened against the British Pound. Meanwhile, the trade weighted basket

¹The basket is trade weighted index to 100 with a base year of 2012.

index weakened by 0.46% to 107.3 and primarily reflects the prevailing movement of the USD during the month.

III GOVERNMENT FINANCE

The Government's fiscal position in March improved substantially to a smaller deficit of \$2 million compared to a deficit of \$112 million in February. The significant improvement emanated from a growth in revenue and a fall in expenditure.

Total revenue rose by 51% to \$277 million and was attributed to a 55% surge in tax revenue to \$266 million boosted by a strong collection across all the major tax categories. Meanwhile, other receipts remained flat at \$11 million during the month, following a decline in proceeds from overseas fishing licences. Government expenditure fell by 5% to \$279 million on the back of a 2% slowdown in recurrent spending to \$236 million together with a 19% drop in development expenditure to \$43 million. Lower spending on other payments and 'roads, bridges and wharves' were major drivers behind the month-on-month falls in both capital and recurrent spending.

The Government's outstanding debt balance rose by 21% at the end of March to \$877 million. The notable increase was attributed to the \$150 million development bond SIG issued to the Solomon Islands National Provident Fund (SINPF) and partly due to the weakening of the exchange rate during the month. The development bond led to an increase in the domestic debt to \$194 million from \$44 million while the external debt rose from \$679 million in February to \$682 million in March. Accordingly, the debt stock as a share of GDP rose to 10% in March from 9% in the previous month.

IV DOMESTIC PRODUCTION

Based on preliminary estimates, the CBSI monthly production index increased by 52% in March from a revised 64 points in the previous month. This was largely driven by the robust pickup in round log output by 81% during the month to 271,260 cubic meters. Production data for other commodities are still not available. However, monthly output projections based on historical trends showed cocoa, palm kernel oil and palm oil are expected to grow by 24%, 10% and 6% respectively. In contrast, fish catch and copra production are expected to contract by 16% and 3% respectively.

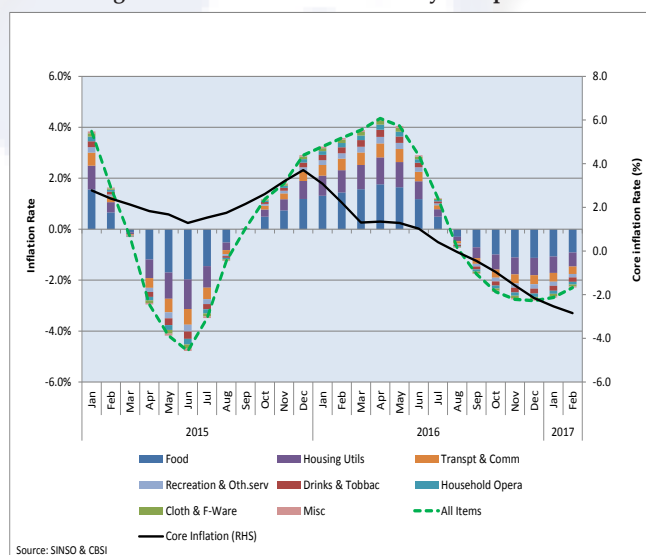
In terms of prices, the average international price for fish and cocoa grew by 6% and 1% respectively. Meanwhile, palm kernel oil prices dropped sharply by 24%, copra prices fell by 11%, crude palm oil dropped by 6%

while the price for log levelled off during the month.

Headline Inflation

Headline inflation remained negative for the seventh consecutive month, albeit on an upward trend to minus 2.3% in February from minus 2.7% a month ago. The improvement was driven mainly by the uptick in domestic inflation that more than offset the fall in imported inflation during the month.

Figure 2: Inflation Contributions by Components



Domestic inflation rose to minus 0.6% from minus 1.6% reflecting the price pickups in food, transport and communication, and recreation categories. Meanwhile, imported inflation weakened further to minus 5.3% from minus 4.8% in the previous month. The outcome reflected price falls in imported food, household operations, clothing and footwear, and miscellaneous categories which outweighed the price increases in the transport and communication, housing and utilities, and recreation categories during the month.

Of the overall headline inflation, food accounted for minus 0.9%, followed by housing and utilities with minus 0.5%, transport and communication contributed minus 0.3%, whilst the rest accounted for the remaining minus 0.6%.

Honiara Fuel Prices

The average fuel price in Honiara fell slightly in March to \$8.19 per litre from \$8.21 per litre in February. This reflected the decline in diesel and kerosene prices during the month. Diesel price fell by 3 cents to \$8.08 per litre from \$8.11 per litre while kerosene price slid by 1 cent to \$8.18 per litre from \$8.19 per litre in the previous month. Meanwhile, the average price of petrol remained at \$8.32 per litre.

Solomon Islands Key Economic Indicators

		Nov 16	Dec 16	Jan 17	Feb 17	Mar 17
Consumer Price Index (% change)	Headline (3mma)	-2.8	-2.8	-2.7	-2.3	na
	Underlying (3mma): core 3	na	-2.2	-2.2	-2.8	na
	Month-on month	-0.4	0.5	0.4	0.4	na
Trade¹ (eop)	Exports (\$ millions)	294	292	282	198	340
	Imports (\$ millions)	373	346	235	250	251
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.94	8.01	7.98	7.89	7.90
	SBD per AUD	5.98	5.89	5.93	6.04	6.02
	SBD per NZD	5.67	5.64	5.66	5.70	5.54
	SBD per GBP	9.86	10.01	9.83	9.86	9.75
	SBD per 100 JPY	7.35	6.92	6.93	6.98	7.00
	SBD per EUR	8.58	8.46	8.47	8.40	8.44
Gross Foreign Reserves (eop)	\$ millions	4,154	4,210	4,205	4,075	4,162
Liquidity² (eop)	Total Liquidity (\$)	1,685	1,669	1,775	1,759	1,627
	Excess Liquidity (\$)	1,221	1,179	1,284	1,293	1,176
Money and Credit² (eop)	Narrow Money (\$)	3,556	3,590	3,612	3,618	3,499
	Broad Money (\$)	4,514	4,593	4,598	4,605	4,487
	Private Sector Credit (\$)	2,200	2,178	2,215	2,213	2,217
Interest Rates (weighted average yield)	28-days Bokolo Bills Rate	0.62%	0.62%	0.62%	0.62%	0.62%
	56-days Treasury Bills Rate	0.34%	0.34%	0.34%	0.34%	0.34%
	91-days Treasury Bills Rate	0.46%	0.46%	0.46%	0.46%	0.46%
	182-days Treasury Bills Rate	1.12%	1.12%	1.12%	1.12%	1.12%
Commodity Prices (monthly average)	Round logs - (US\$/m3)	275	256	259	264	264
	Gold - (US\$/oz)	1,238	1,157	1,192	1,234	1,231
	Palm Oil - (US\$/tonne)	755	783	806	779	736
	Fish - (US\$/tonne)	1,800	1,497	1,420	1,713	1,807
	Copra - (US\$/tonne)	1,021	1,120	1,225	1,146	1,016
	Cocoa - (US\$/tonne)	2,500	2,300	2,200	2,030	2,060

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

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