

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply (M3) recovered in April by 2% to \$4,560 million following the 3% fall in March. Comparing to the same period last year, M3 was higher by 12%. The month-on-month outturn reflected increases in both narrow money (M1) and other deposits (savings and time), the former rising by 2% to \$3,567 million and the latter by 1% to \$993 million. The growth in M1 stemmed from increases in currency in active circulation and demand deposits both by 2% to \$693 million and \$2,874 million respectively. On other deposits, the increase came from a 2% upturn in savings deposits to \$170 million combined with a negligible 0.3% increase to \$824 million in time deposits.

Total net foreign assets (NFA) of the banking system expanded by 2% to \$4,066 million in April following a 1% rise in March. This outcome was driven by a 2% uptick in CBSI's NFA to \$4,025 million and a 33% increase in NFA of Other Depository Corporations (ODC) to \$41 million. NFA of the banking system improved by 5% year-on-year.

Net credit to government (NCG) shrunk by 5% to net liabilities of \$1,132 million in April, following the 17% increase recorded a month prior. Reductions in CBSI and ODC's net liabilities positions by 5% each to \$912 million and \$220 million respectively underpinned this outcome. Similarly, private sector credit (PSC) edged lower by 1% to \$2,185 million, driven by a 0.5% fall in ODC lending to \$2,051 million and a 5% decline to \$127 million in other sectors' lending. On an annual basis, PSC grew by 8% whilst NCG contracted by 17%. Meanwhile, total liquidity in the banking system rose by 5% to \$1,710 million driven largely by the increase in NFAs. This saw both free and excess liquidity rising by 6% each to \$1,410 million and \$1,253 million respectively during the month. Required reserves also increased by 1% to \$300 million.

Domestic Market Operations

Following the one-off increase to \$1,125 million in March, the stock of CBSI Bokolo bills issued dropped to \$750 million in April. This reflected two auctions conducted in April compared to three auctions in the previous month. The weighted average yield (WAY) for the 28 days remained at 0.62% as in the previous month. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days remain unchanged at 0.34%, 0.46% and 1.12% respectively as in March 2017.

II. EXTERNAL CONDITIONS

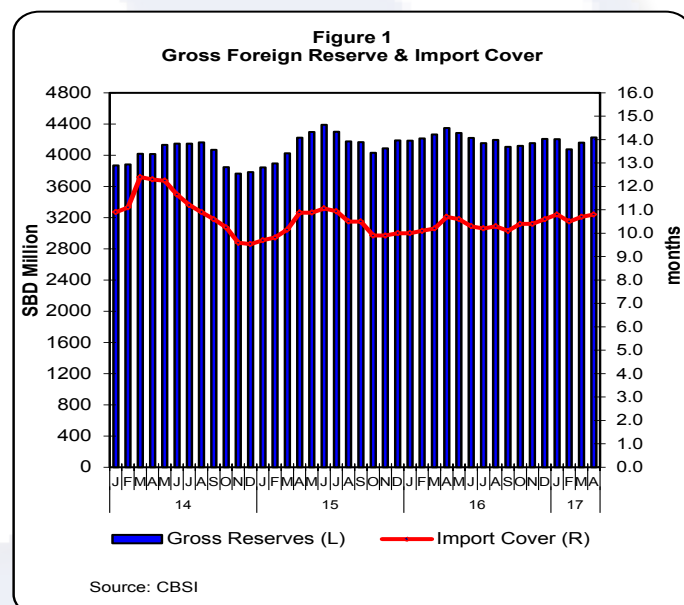
Trade in goods

The balance on trade in goods for April 2016 recorded a provisional \$62 million deficit, a significant downturn from a surplus of \$88 million in the previous month. This negative outcome emanated from a 46% drop in exports to \$185 million that outweighed a 2% marginal decline in imports to \$247 million. The fall in exports was driven mainly by logs and to a lesser extent falls in all other export commodities except for fish that recorded an increase of \$3 million during the month. Meanwhile, the slight drop in imports was attributed to the decrease in machineries and basic manufactures, despite increases in food, mineral fuels and other imports.

Gross Foreign Reserves

Gross foreign reserves grew slightly by 2% to \$4,229 million, due to higher donor and fishing licensing inflows during the month. This level of reserves is sufficient to cover 10.8 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rate

The Solomon Islands dollar (SBD) for the second consecutive month depreciated by 0.28% against the

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

United States dollar (USD) to an average of \$7.92 per USD and appreciated against the Australian dollar (AUD) by 0.92% to \$5.97 per AUD in the month. The SBD also appreciated against the New Zealand dollar and Japanese yen but depreciated against the other tradable currencies. The mixed movements resulted in a further weakening of the trade weighted exchange rate basket index by 21 basis points to 107.5 during the month.

III GOVERNMENT FINANCE

The Government recorded a substantial fiscal deficit of \$128 million in April following a \$2 million deficit a month ago. This outcome stemmed from a 28% decline in government revenue to \$201 million and an 18% rise in government expenditure to \$329 million during the month.

The fall in government revenue was driven by a 28% decline in taxes to \$193 million in April. This reflected a 53% fall in taxes on income, profits and capital gains to \$50 million from the \$91 million collected in March and a 22% slowdown in taxes on international trade and transactions to \$86 million. The falls in these tax categories outweighed the 17% increase in taxes on goods and services to \$52 million that resulted from a 16% improvement in general taxes on goods and services and a 22% growth in excise during the month. Meanwhile, proceeds from other receipts weakened by 26% to \$8 million, largely driven by lower administrative fees received on the sale of goods and services.

The increase in government expenditure was propelled by an upsurge in development spending to \$86 million, double that of the previous month; and a 3% growth in recurrent spending to \$242 million from \$236 million a month prior. The sharp increase in development spending was driven by outlays on residential buildings, construction of bridges, roads, and wharves, and purchase of office equipment and other specialised equipment. The growth in recurrent spending was due to an increase in grant payments to other government units amounting to \$28 million from \$12 million in the previous month.

The Government's outstanding debt balance rose by 4% to \$880 million at the end of April following the depreciation of the SBD against debt-denominated currencies although debt repayments were made during the month. Of the outstanding stock, external debt accounted for \$685 million whilst domestic debt accounted for \$195 million. Debt stock as a share of GDP remained at 10% for the second consecutive month.

IV DOMESTIC PRODUCTION

Based on preliminary estimates, the CBSI monthly production index fell by 19% in April to 88 points from a revised 110 points in the previous month. This outcome reflected the declines in four of the major commodities, with round log volumes and fish catch falling by 22% and 15% respectively, reversing the significant increases

in March, whilst copra and cocoa production fell by 35% and 26% respectively. Production data for palm oil are still not available, however, based on historical trends crude palm oil and palm kernel oil production are expected to increase by 10% and 7% respectively during the month.

In terms of prices, the average international price for fish surged by 17%, copra price grew by 3% and log price rose slightly by 2%. In contrast, palm kernel oil and crude palm oil prices dropped further by 16% and 7% respectively during the month, whilst cocoa price fell by 4%.

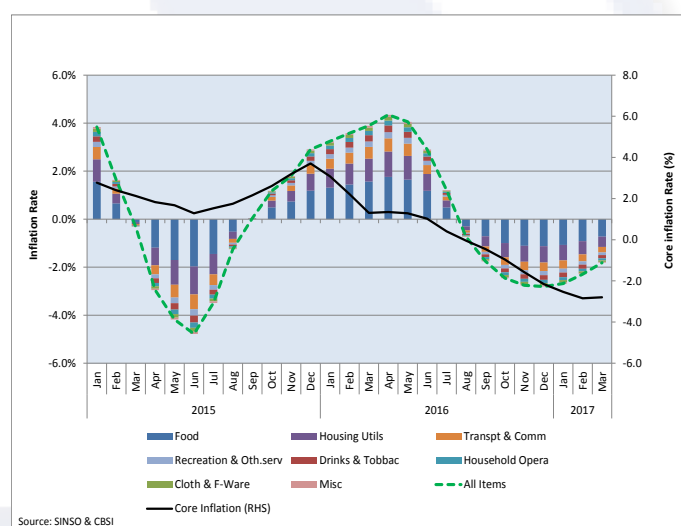
Headline Inflation

Headline inflation remained subdued at minus 1.8% in March from minus 2.3% in the previous month. This reflected the increases in both domestic and imported inflation during the month. Domestic inflation rose to 0.0% from minus 0.6%, while imported inflation improved to minus 5.1% from minus 5.3% in the previous month.

The uptick in domestic inflation was mainly driven by price increases in the food, transport and communication, and recreation categories. Likewise, the increase in imported inflation reflected price pickups in the transport and communication, housing and utilities, and recreation categories during the month.

Of the overall headline inflation, food accounted for minus 0.7%, followed by housing and utilities with minus 0.4%, transport and communication contributed minus 0.2%, whilst the remaining categories accounted for minus 0.5%. Core inflation remained negative for the seventh consecutive month at minus 2.8% in March. This implies the price of non-food and non-energy categories also fell during the month.

Figure 2: Inflation Contributions by Components



Honiara Fuel Prices

The average fuel price in Honiara further declined in April to \$8.05 per litre from \$8.19 per litre in March. This outcome reflected the price falls in all fuel categories during the month. Petrol price dropped by 27 cents to \$8.05 per litre from \$8.32 per litre, diesel price fell by 9 cents to \$7.99 per litre from \$8.08 per litre while kerosene price contracted by 5 cents to \$8.13 per litre from \$8.18 per litre.

Solomon Islands Key Economic Indicators

| | | Dec 16 | Jan 17 | Feb 17 | Mar 17 | Apr 17 |
|--|------------------------------|--------|--------|--------|--------|--------|
| Consumer Price Index (% change) | Headline (3mma) | -2.8 | -2.7 | -2.3 | -1.8 | na |
| | Underlying (3mma): core 3 | -2.2 | -2.2 | -2.8 | -2.8 | na |
| | Month-on month | 0.5 | 0.4 | 0.4 | 1.6 | na |
| Trade¹ (eop) | Exports (\$ millions) | 292 | 282 | 198 | 340 | 185 |
| | Imports (\$ millions) | 346 | 235 | 250 | 251 | 247 |
| Exchange Rates (mid-rate, monthly average) | SBD per USD | 8.01 | 7.98 | 7.89 | 7.90 | 7.92 |
| | SBD per AUD | 5.89 | 5.93 | 6.04 | 6.02 | 5.97 |
| | SBD per NZD | 5.64 | 5.66 | 5.70 | 5.54 | 5.53 |
| | SBD per GBP | 10.01 | 9.83 | 9.86 | 9.75 | 9.99 |
| | SBD per 100 JPY | 6.92 | 6.93 | 6.98 | 7.00 | 5.21 |
| | SBD per EUR | 8.46 | 8.47 | 8.40 | 8.44 | 8.49 |
| Gross Foreign Reserves (eop) | \$ millions | 4,210 | 4,205 | 4,075 | 4,162 | 4,229 |
| Liquidity² (eop) | Total Liquidity (\$) | 1,669 | 1,775 | 1,759 | 1,627 | 1,710 |
| | Excess Liquidity (\$) | 1,179 | 1,284 | 1,293 | 1,176 | 1,253 |
| Money and Credit² (eop) | Narrow Money (\$) | 3,590 | 3,612 | 3,618 | 3,499 | 3,567 |
| | Broad Money (\$) | 4,593 | 4,598 | 4,605 | 4,487 | 4,560 |
| | Private Sector Credit (\$) | 2,178 | 2,215 | 2,213 | 2,217 | 2,185 |
| 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) | 256 | 259 | 264 | 264 | 270 |
| | Gold - (US\$/oz) | 1,157 | 1,192 | 1,234 | 1,231 | 1,267 |
| | Palm Oil - (US\$/tonne) | 783 | 806 | 779 | 736 | 685 |
| | Fish - (US\$/tonne) | 1,497 | 1,420 | 1,713 | 1,807 | 2,119 |
| | Copra - (US\$/tonne) | 1,120 | 1,225 | 1,146 | 1,016 | 1,044 |
| | Cocoa - (US\$/tonne) | 2,300 | 2,200 | 2,030 | 2,060 | 1,970 |

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

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