CENTRAL BANK OF SOLOMON ISLANDS

QUARTERLY REVIEW

March 2017

Vol. 29, No.4

The Quarterly Review is prepared by the Economics Research and Statistics Department of the Central Bank of Solomon Islands and published four times a year. All enquiries pertaining to the Review should be addressed to:

The Chief Manager
Economics Research and Statistics Department
Central Bank of Solomon Islands
P O Box 634
Honiara
Solomon Islands

Telephone: (677) 21791/21792/21793
Facsimile: (677) 23513
SWIFT BIC: CBSISBSB
Email: Info@cbsi.com.sb
Website: www.cbsi.com.sb

Note:

This report is available on the Bank's website on the above address.

CONTENTS

GENERAL NOTE

p	provisional
e	estimate
-	nil
n.a.	not available

(i) The sum of the components may differ from the totals in some instances due to rounding.

(ii) Data are subject to periodic revision as more updated information becomes available.

GLOSSARY

The following terminologies are defined in the context of Solomon Islands.

Balance of Payments (BoP): Records all payments and receipts relating to the movement of funds between a country and foreign countries.

Bank Liquidity: Total amount of cash held by banks and not used for investment or other transactions.

Capital account: Records international transactions relating to the flow of capital between a country and foreign countries, such as investment, loans etc.

Current account: Records international transactions relating to the flow of goods, services, income and gifts. A surplus indicates higher inflows than outflows and a deficit indicates the opposite.

Domestic credit: Value of loans and advances obtained from within the country.

Excess Liquidity: The liquidity that banks possess that is greater than the minimum prescribed by the Central Bank.

Exchange rate: The price of foreign currencies stated in terms of the local currency or the vice versa.

Exports: Goods that a country sells abroad.

External reserves: Stock of foreign currency assets of the Central Bank. These assets are earned though exports, foreign aid and loans obtained from institutions abroad.

Gross Domestic Product (GDP): Total value of all final goods and services produced in an economy during the course of a year.

Honiara Retail Price Index (HRPI): A consumer price index which shows the price level and changes in price level of goods and services in Honiara over time. This information forms the basis for calculating inflation in the economy.

Imports: Goods that a country buys from abroad.

Liquidity Asset Requirement: Usually defined as a percentage of deposit liabilities of a commercial bank that shall be hold as cash or as balance with the Central Bank.

Money Supply: The total quantity of money in a country’s economy at a particular time.

Narrow money: Notes and coins in the hands of the public plus money held on demand deposits at the Central Bank.

Net Credit to Government: Value of borrowings by Government less its deposits at the banks and the Central Bank.

Private sector credit: Value of borrowings by private companies and individuals within the country.

Quasi money: Total of time deposits and savings deposits.

Trade balance: The difference between merchandise exports (goods sold overseas) and merchandise imports (goods purchased from overseas).

Trade surplus/deficit: A trade surplus is when the value of exports is higher than the value of imports, whilst a trade deficit is when receipts from exports are less than payments for imports.

Chapter I. OVERVIEW AND ANALYSIS

According to the IMF's April 2017 World Economic Outlook, the global economy is expected to grow at 3.5% in 2017 and 3.6% in 2018. The positive outlook is backed by stronger activities both in the advanced economies, and emerging market and developing economies. Advanced economies category is projected to grow by 2.0%, both in 2017 and 2018. This benefited mainly from the expansionary fiscal policy in the United States and the cyclical recovery from the European economies. Recoveries in investment, manufacturing and trade during the quarter were some of the key drivers behind the anticipated outturn. The emerging and developing economies category is expected to grow by 4.5% and 4.8% in 2017 and 2018, respectively. This is led by commodity exporters that stand to benefit from the uptick in commodity prices.

Global inflation is expected to rise in 2017 following the rebound in commodity prices. Inflation in the advanced economies is anticipated to increase to 2.0% in 2017 from 0.8% in 2016 while inflation in the emerging market and developing economies is expected to rise to 4.7% from 4.4% a year ago. However the IMF expects these inflationary pressures to recede in 2018.

On the domestic economy, partial indicators showed the real economy weakened in the first quarter of 2017 in comparison to the December quarter. The CBSI production index fell by 19% to 86 points. This was driven largely by contractions in log output and supported by subdued activities in the other key commodities such as cocoa, fish and copra. Despite the quarter-on-quarter decline, the production index was higher than the corresponding quarter a year ago by 6%.

Visitors' arrivals in the March quarter went down by 41% to 6,198 from 10,549 arrivals a quarter ago. This reflected falls in both air arrivals and cruise visitors arrivals. Most of the air visitors were from Australia which accounted for 38%, followed by Asia with 22%, regional pacific countries including New Zealand at 20%, and US and countries from other regions at 20%.

Partial indicators on investment activities pointed to a decline. Foreign direct investment (FDI) applications dropped in the March quarter. Of all the FDI applications received, 67% were in the wholesale and retail sectors. Approved building permits within Honiara, an indicator for investment activities in the construction sector, also pointed to a slight fall of around 2%.

However, activities in the manufacturing sector pointed to an improvement in the first quarter of 2017. The CBSI manufacturing index rose by 4% to 258 points from 249 points in the December quarter. This was attributed to improved activities in the goods destined for overseas markets in particular fish exports. The domestic component of the manufacturing index however showed a decline of 12%.

Headline inflation remained negative but was trending upward over the quarter to minus 1.8% in March from minus 2.8% in December. The upward pressures stemmed from domestic sources in particular food, transport and communication, recreation, and drinks and tobacco. While local inflation rose from minus 1.8% a quarter ago to 0.0%, imported inflation dropped from minus 4.6% to 5.1%.

The country's external position deteriorated in the first quarter of 2017. The Balance of Payments (BOP) recorded a sharp turnaround from the $192 million surplus a quarter ago to $49 million deficit in the March quarter. The negative overall outcome reflected deteriorations in services and primary income accounts under the current account. While the capital and financial account declined by 38% during the quarter, it remained positive at $205 million.

Overall trade in goods and services improved in the first quarter of 2017, recording a smaller deficit of $99 million in comparison to $165 million deficit a quarter ago. The improvement was underpinned solely by gains in goods trade which outweighed the deterioration in the services account. Goods trade account turned around from the $23 million deficit in the previous quarter to a surplus of $93 million this quarter, benefiting largely from import payments that contracted by 17% quarter-on-quarter to $831 million to negate the fall in exports.

Gross foreign reserves dipped slightly by 1% over the March quarter to $4,156 million from $4,210 million a quarter ago. Despite the fall, the reserves level is equivalent to 10.7 months of imports.

On exchange rate developments, the local currency as measured by the trade weighted index strengthened by 0.2% during the quarter. Bilaterally, the local currency weakened against all major trading partners' currencies except for the Australian dollar.

Monetary indicators showed declines during the March quarter. Reserve money dropped by 7% to $2,390 million on the back of twin contractions in currency in circulation and ODCs' call account deposits at the CBSI. Overall money supply went down by 4% to $4,571 million. This reflected reductions in net foreign assets and net domestic assets. Total liquidity dipped by 7% to $1,632 million due in part to the fall in reserve money net claims of the central government. As a result, excess liquidity fell by 8% to $1,205 million.

Credit to private sector issued by other depository corporations stood at $2,204 million at the end of March 2017. This was an increase of 1% and 9% against the previous quarter and the same period a year ago, respectively. The sectors recording growths over the quarter were distribution, communication, construction, forestry and manufacturing. Meanwhile, the weighted average interest rate margin remained at 10.4%, reflecting relative stability in lending and deposit rates.

The government recorded a smaller deficit of $77 million in the March quarter compared to the $173 million deficit in December quarter last year. However, the March deficit was slightly higher than the deficit in the corresponding quarter a year ago. During the March quarter, both revenue and expenditure were performing below their corresponding pro rata budgets by 28% and 20% to $707 million and $784 million, respectively. These budget shortfalls were expected especially at the beginning of each year.

The government's debt stock rose by 19% during the March quarter to $872 million. This followed the $150 million development bond SIG issued and purchased by the Solomon Islands National Provident Fund. Of the total debt stock, external debt accounted for $682 million while domestic debt accounted for $190 million.

Chapter II. INTERNATIONAL DEVELOPMENT

Following subsequent periods of weak growth, global economic activities picked up momentum and appeared stronger in early 2017. Economic performance is expected to grow at 3.5% in 2017 and 3.7% in 2018[1]. This is 40 basis points above the 3.1% growth a year ago and 10 basis points higher than previously forecast. Supporting the strong pick up is recovery in investment, manufacturing and trade coming from the advanced economies. As anticipated in the previous update, global growth has been supported with extraordinary accommodative monetary policies, coupled with stronger activity expectations and robust global demand resulted from rebound in oil and commodity prices.

Despite the positive developments, downside risk on low productivity and income inequality is somewhat an impediment to growth in the medium term. Moreover, policies outcomes that do not support global economic integration may weigh on growth in the emerging and developing economies in the forecasted horizon.

Growth in the United States is expected to gain in 2017 to 2.3% against 1.6% in the preceding year as firms gathered confidence about future demand and expected recovery in the energy sector. This outcome was supported by fiscal expansionary policies, reforms and deregulation. However, interest rate hike in the United States and tightening financial condition elsewhere may apparently strain and exacerbate existing vulnerabilities in emerging economies such as China and the Euro area. Moreover, the impact of the strengthening US dollar resulted in our local currency depreciating against the USD towards the end of 2016, and only recently reversed to appreciate slightly by 0.2% in the first quarter of 2017.

Growth forecasts have also been revised higher to 2% for the United Kingdom and 1.7% for the euro area. The revision for the former is supported by strong domestic demand as the timing of expected negative effects associated with the Brexit has been pushed out. As for the modest recovery in the latter group, it is supported by expansionary fiscal stance, accommodative financial condition and positive spill-overs from U.S fiscal stimulus. However, on annual basis, growth is estimated to broadly trend at the same pace in 2016.

As for Japan, a comprehensive revision of the national accounts led to an upward revision of historical growth rates. Consequently, growth is now forecasted to reach 1.2%, 40 basis points higher from the initial forecast of 0.8% in the previous update. This magnitude was underpinned by strong net exports and private consumption associated with the preparation for the Tokyo Olympics. However, the pace of expansion is expected to weaken in 2018 with the likely withdrawal of fiscal support, recovery of imports and a shrinking labour force, all of which will weigh on Japanese growth prospects.

Growth in the emerging and developing economies remain unchanged at 4.8% consistent with the previous forecast and 40 basis points above the 4.1% growth recorded for 2016. The rebound stemmed relatively from sustained growth coming from China amidst the rebalancing, India and the ASEAN-5 regions. Growth in China is projected at 6.6% for 2017, 0.4 percentage points above the October WEO forecast and 0.1 percentage point above the initial forecast. This stemmed from continued policy support in strong credit growth and high reliance on public investments. However, a cloud of uncertainty exists in resource misallocations and overhang vulnerabilities relating to policy easing and credit-financed investment. As for India, a new market destination for the Solomon Islands round log exports, growth is expected to edge higher to 7.2%, an upward revision by 0.1 percentage point against the previous forecast. This is despite being trimmed by 0.4 percentage point against the previous year as a result of a temporary consumption shock due

[1] All statistics in this section obtained from IMF World Economic Outlook, April 2017 unless otherwise stated.

to cash shortages. However, the medium term growth prospects are favourably supported by the implementation of key reforms, appropriate fiscal and monetary policies and loosening of supply-side bottle necks.

On the other hand, activities in the Latin American countries such as Argentina and Brazil that faced recessions were weaker than expected with domestic fundamentals playing the key role in growth disparity.

Turning to the Solomon Islands' closest trading partners, the Australian[2] economy is projected to gradually improve compared to 2016. Year-end GDP growth is expected to pick up to 3% in 2017 as the drag from mining investment comes to an end and the ramp-up in resource exports continues. Similarly, for New Zealand[3], growth is envisaged to grow at 3.1% in 2017, from 2.4% a year ago. This out-turn reflected pickup in domestic demand emanated from low interest rates, strong population growth and high house prices which were relatively weak in previous years.

Global inflation

The uptick of commodity prices gave rise to a broad base increase in headline inflation rates projected for both the advance, and, emerging and developing economies. In almost all advanced economies, inflation rates are estimated to be around 2% in 2017, from 0.8% in 2016. With the marked upturn in oil prices due to supply-side cuts and the pickup in commodity prices, inflationary pressures are expected to further strengthen in the medium term. In the United States, consumer price inflation picked up relatively stronger to 2.7% from 1.3% in 2016 on the back of the recovery in energy prices. Likewise, in the euro area, inflation went up to about 1.7% in 2017 from 0.2% reflecting upturn in energy and food prices. As for the Japanese economy, a weakening yen together with higher energy prices and a gradual build-up of wage-price pressure will lift the inflation rate in 2017. In the United Kingdom, the pound's depreciation and the increase in energy prices are expected to push inflation to 2.5% in 2017.

Meanwhile, the inflation forecast amongst emerging and developing economies were generally diverse. Consumer price index in China is projected to pick up to 2.4% in 2017, from 2.1% in 2016 amid reductions in excess capacity and higher oil prices. In contrast, inflation forecast in others countries such as Brazil and Russia are expected to dive low driven by negative output gaps, waning effect of supply shocks and administrative price increases. In Australia, headline inflation in the March quarter was slightly above 2% and is expected to be between 2%-3% in the forecast horizon. Similarly, for New Zealand, the annual inflation lifted to 2.2% in March 2017 compared to 0.4% in 2016. The increase in inflation was driven by the recovery in global oil prices from historical low levels in 2016.

Commodity prices

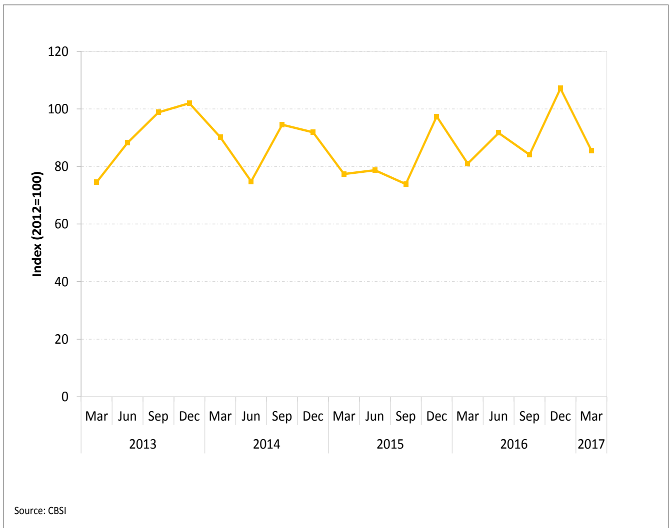
Consistent with the pickup in global economic activities, commodity prices have also strengthened. The IMF's commodity price index experienced an increase of 8% in the first quarter of 2017 following an 11% slow down in 2016. This generally reflected a strong rebound in prices during the year, as both oil and nonoil-commodity prices having reached the floor in 2016 and started to pick up towards the end of the year 2016. The fuel price index in particular increased 16% to 101 points during the year. The outcome of the decision taken to curtail supply had seen a steady rise in oil prices that is expected to push up the fuel price index further in 2018. Moreover, tapis fuel price, the key benchmark indicator for Solomon Islands' fuel imports has witnessed similar trends with an 8% increase in the first quarter of 2017 to US$56 per barrel from US$45 per barrel a year ago. Likewise, the non-fuel price index also went up by 10% to 144 in March 2017 and is projected to rise further in 2018, a likely positive prospect for local commodity exporters.

[2] http://www.rba.gov.au/publications/smp/2017/may/domestic-economic-conditions.html
[3] http://www.focus-economics.com/countries/new-zealand

Chapter III. DOMESTIC ECONOMY

Production Index
Domestic economic activities, as measured by the CBSI production index, slowed down in the first quarter of 2017 by 19% to 86 points from 107 points recorded in the previous quarter (see Figure 2.1). This outcome reflected the declines in four of the major export commodities, with round log volumes falling by 25%, cocoa production down by 18% whilst fish catch and copra output weakened by 9% and 4% respectively. The weak performance was attributed to bad weather conditions during the first three months of 2017. Despite the fall, the index was 6% above the corresponding period in 2016.

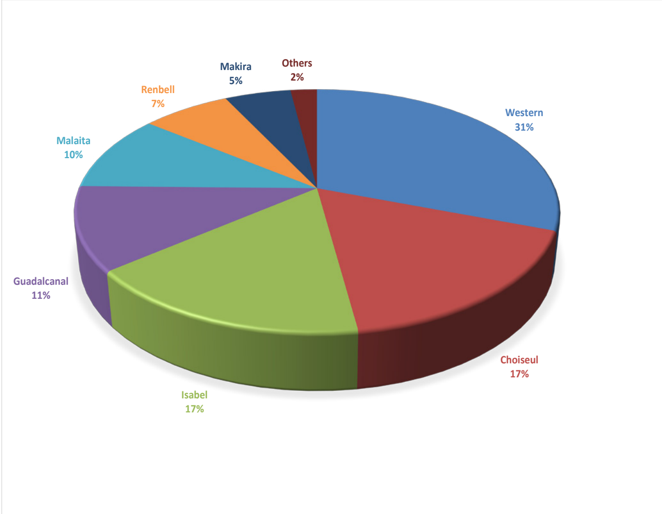
Figure 3.1: Production Index



Logs
Round log exports, as a proxy for log production, declined following a significant pick up in the December quarter. Log export volumes fell by 25% to 607,236 cubic meters from 812,954 cubic metres in the previous quarter. However, log output was 6% above the same period in 2016.

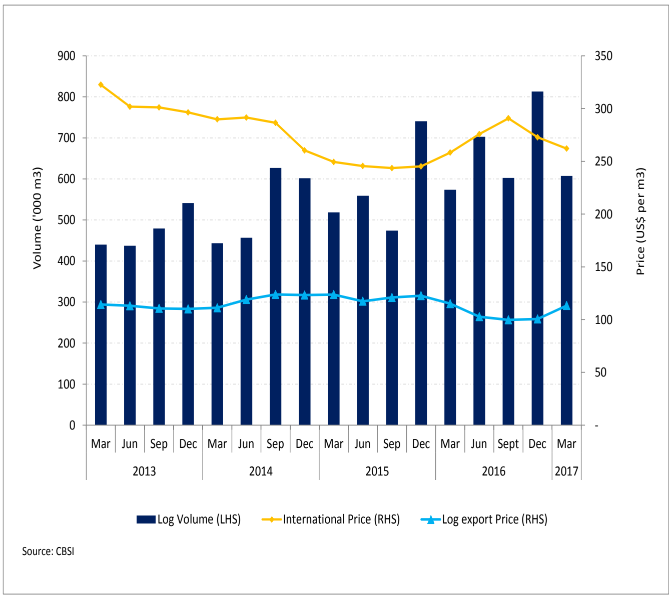
Disaggregating log export by provinces, Western province still accounted for the largest share of production with 185,462 cubic meters (31%), followed by Choiseul province with 104,416 cubic meters (17%) then Isabel province at 99,863 cubic meters (16%) and Guadalcanal produced 67,481 cubic meters (11%). Meanwhile, Malaita contributed 62,286 cubic meters (10%), Renbell accounted for 42,761 (7%), Makira produced 32,126 (5%) whilst Temotu and Central provinces accounted for the remaining 3% (12,841 m3) (see Figure 3.2).

Figure 3.2: Log Exports by Provinces



In terms of prices, the average international log price fell by 4% to US$262 per cubic metre during the quarter from US$273 per cubic metre in the previous quarter, although this was 1% higher than the same period a year ago. In contrast, the average export price received by log exporters increased by 13% to US$113 per cubic metre compared to US$101 per cubic metre in the preceding quarter. However, based on year-on-year comparisions, the average export price for log was 2% below the same period in 2016 (see Figure 3.3).

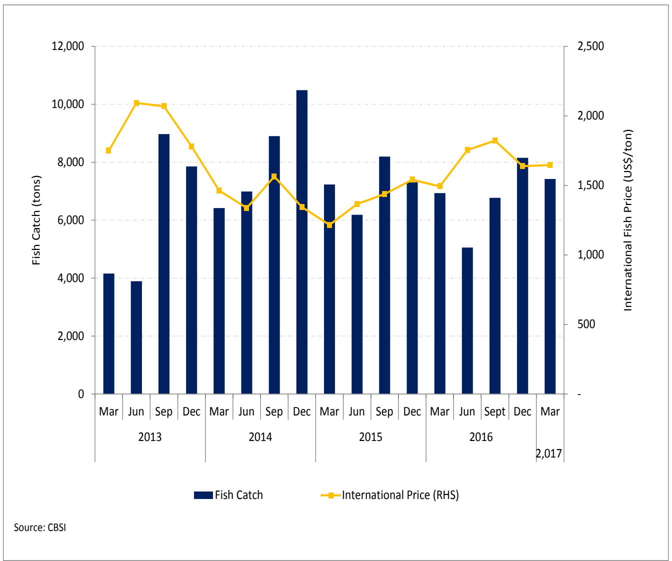
Figure 3.3: Volume and Average Price of Logs



Fish

Fish catch fell by 9% to 7,421 tons this quarter from 8,151 tons in the December quarter of 2016. This weak outcome was attributed to lower fish catch during the first quarter as a result of adverse weather conditions during the period. However, based on year-on-year comparisons, fish output for the quarter was 7% higher than the same period in 2016 (see figure 3.4).

Figure 3.4: Fish Catch and Average Price



Canned tuna production increased further by 5% to 205,126 cartons from 195,258 cartons in the previous quarter. This outturn was driven by continued improvements in the production process during the quarter. Similarly, fish loin production surged by 28% to 247,773 bags against the previous quarter reflecting strong demand from Europe and United States, the main export destinations. Likewise, fish meal increased by 15% to 18,767 bags following a 12% decline in the previous quarter.

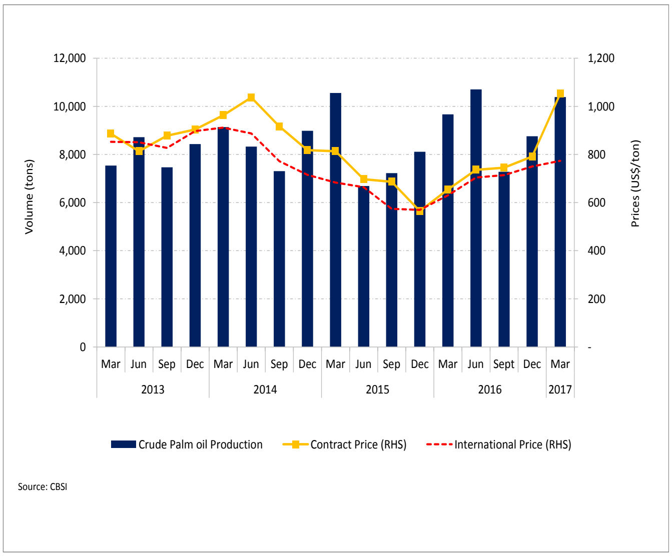
The average international fish price[1] increased slightly by 0.5% to US$1,647 per ton compared to US$1,639 per ton in the previous period (see Figure 3.4).

Palm Oil

Harvested palm oil fresh fruit bunches increased by 17% to 42,375 tons, from 36,251 tons in the previous quarter. As a result, production of crude palm oil surged by 19% to 10,386 tons compared to 8,755 tons in the preceding quarter.

Similarly, palm kernel oil performed better this quarter, recording 13% increase from 871 tons to 985 tons.

Figure 3.5: Palm Oil Production, International and Contract Prices

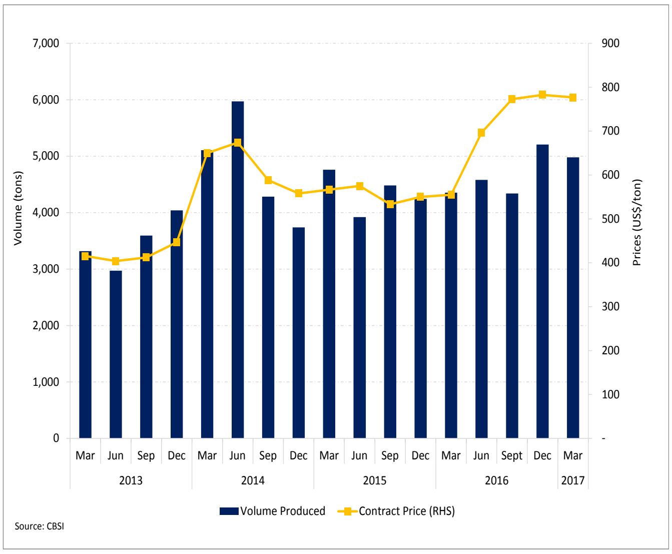


The average contract prices for palm oil products increased further this quarter. Contract price for crude palm oil surged by 33% to US$1,053 per ton, a new record high since June quarter 2014. Likewise, average contract price for palm kernel oil grew by 7% to US$1,960 per ton, from US$1,838 per ton in the December quarter (see Figure 3.5).

Copra

Copra production slid by 4% to 4,981 tons this quarter from 5,208 tons in the previous quarter. However, this was 28% above the same period a year ago.

Figure 3.6 Copra Production and Contract Prices



[1] Sourced from INFO FISH monthly publications

In terms of production by province, Central province accounted for the largest share with 29% (1,451 tons), followed by Western province with 20% (992 tons), Guadalcanal accounted for 19% (946 tons); Makira produced 12% (590 tons), Choiseul province contributed 7% (328 tons), whilst the other provinces accounted for the remaining 13% (674 tons).

In terms of prices, the average contract price received by local exporters slid by 1% this quarter to US$777 per ton compared to US$783 per ton in the preceding quarter (see Figure 3.6). Similarly, the average domestic price received by local copra farmers fell from $5.59 per kilogram to $5.23 per kilogram, but relatively higher than the $3.70 per kilogram in the same period a year ago.

Cocoa

Cocoa production declined for the third consecutive quarter by 18% to 432 tons from 529 tons, and 16% below the same period in 2016. This reflected issues on low cropping yields coupled with adverse weather conditions frequently experienced in the first quarter of the year.

Production by provinces showed that Guadalcanal accounted for the highest share during the quarter, with 58% (243 tons), followed by Malaita province with 26% (108 tons), whilst all other provinces accounted for the remaining 16% (70 tons).

In terms of prices, the average contracted price received by cocoa exporters dropped sharply by 26% to GBP 1,378 per ton from GBP 1, 856 per ton in the final quarter of 2016. As a result, the domestic price received by local cocoa farmers dropped to $10.70 per kilogram from $13.94 per kilogram in the previous quarter.

Employment

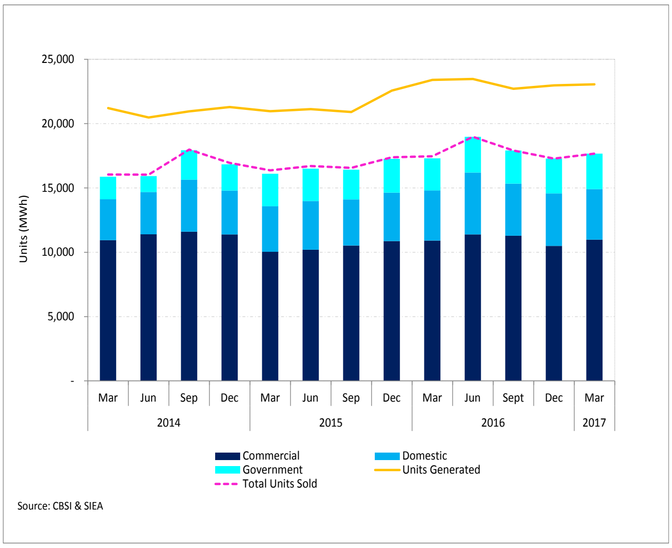
The number of Solomon Islands National Provident Fund (SINPF) contributors, as a partial indicator for labour market conditions, remained relatively stable during the quarter. The average number of contributors[2] for this period increased slightly by 0.2% to 55,956 contributors from 55,820 contributors in the previous quarter. Against the corresponding period in 2016, the average number of contributors also increased by 0.2%.

Disaggregating these figures, active contributors slid by 1% to 47,315 from 47,561 contributors in the previous quarter. In contrast, the average number of slow active contributors increased by 5% to 8,641 from 8,259 contributors, but 3% below the same period a year ago.

Energy

Total electricity generated by Solomon Islands Electricity Authority (SIEA) increased moderately by 0.4% to 23,058 Megawatt hours (MWh) in the first quarter of 2017 compared to 22,971 MWh in the preceding quarter. Total units sold during this period grew by 2% to 17,670 MWh from 17,285 MWh reflecting the increase in electricity usage by commercial and government categories. Electricity sales to industry and commercial category went up by 5% to 10,986 MWh while government usage grew by 2% to 2,746 MWh. In contrast, sales to the domestic category dropped by 4% to 3,920 MWh during the quarter (see Figure 3.7). Unsold units fell by 5% to 5,388 MWh from 5,686 MWh in the previous quarter. As a result, the ratio of unsold units to total units generated dropped from 25% to 23% during this period.

Figure 3.7: Units of Electricity Generated and Sold



Manufacturing

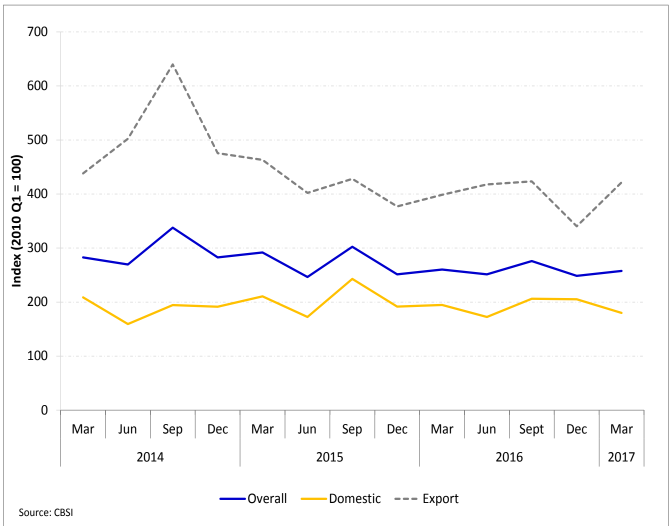
Manufacturing activities, as measured by the CBSI manufacturing index[3], rose by 4% to 258

[2]Active and Slow active categories

[3]CBSI manufacturing index represented both domestic and exported goods

points from 249 points in the previous quarter. This was driven largely by the increase in manufactured goods destined for exports. The index for exported goods surged by 24% to 422 points owing to increases in loin and canned tuna production during the quarter. In contrast, the manufacturing index for goods destined for the domestic market dropped by 12% to 180 points from 205 points in the preceding quarter. This reflected the declines in soft drinks and alcohol, biscuits and tobacco production during the quarter. The index for alcohol and soft drinks fell by 21% to 178 points; biscuits dropped by 13% to 146 points and tobacco declined by 9% to 101 points. All these combined had offsetted the 5% increase in canned tuna production destined for domestic consumption in the review period (see Figure 3.8).

Figure 3.8 CBSI Manufacturing Index



Building Permits

Approved building permits issued by the Honiara City Council (HCC) this quarter fell by 2% to 60 permits reflecting the decline in permits for commercial buildings. Of the total permits issued, 31 permits were for residential homes, 13 permits for commercial buildings and 16 approved permits for other categories. The total estimated value of the approved permits came to $54 million, 83% lower than the previous quarter. Against the same period in 2016, total approved permits issued was 5% higher while the estimated value of approved permits recorded an 87% annual growth.

Visitors Arrival

Total visitor arrivals in March quarter plunged by 41% to 6,198 arrivals compared to 10,549 arrivals in the previous quarter. This outcome reflected declines in both air and sea arrivals during the quarter. Air arrivals dropped by 28% to 4,881 visitors from 6,811 visitors in the December quarter while cruise visitors dropped 65% to 1,317 day visitors from 3,738 day visitors in the preceding quarter.

Disaggregating air arrivals by country of residence, Australian visitors still dominate with 1,867 visitors (38%), followed by Asia with 1,088 visitors (22%), of which China accounted for 4% (207 visitors), Japan represented 3% (154 visitors) and all other Asian countries accounted for 15% (727 visitors). Meanwhile, Fiji recorded 394 visitors (8%), New Zealand represented 301 visitors and Papua New Guinea (PNG) with 280 visitors, each representing 6%, and USA recorded 237 visitors (5%). The other countries accounted for the remaining 15% (714 visitors).

In terms of purpose for visit, business and conference categories accounted for the majority with 1,472 arrivals (30%), followed by holiday and vacation with 1,375 arrivals (28%) and other categories recorded 1,113 visitors (23%). The remaining 921 visitors (19%) represented stopovers and arrivals to visit friends and family relatives.

Foreign Investment

Approved foreign investment applications fell in the first quarter of 2017 by 9% to 60 applications from 66 applications in the previous quarter. In terms of application by sectors, wholesale and retail services still accounted for the largest share with 40 applications (67%), followed by other sectors with 11 applicants (18%), transport and communication sector received 4 applications, tourism received 3 applications and 2 applications were for manufacturing related activities.

Most applicants indicated more than one operational location[4]. Honiara registered the highest with 63 applications, followed by Western province with 4 applications, Malaita and Central provinces received 2 applications each while the rest of the

[4]Foreign Investors indicated in their applications that they would operate in more than one province. Therefore, the provincial distribution will be greater than the 60 foreign investment applications recorded during the quarter.

provinces received one application each.

In terms of investment value, the total value of applications dropped by 64% to $124 million compared to $348 million in the previous quarter.

Inflation

Headline inflation, as measured by the three months moving average, remained negative for the third consecutive quarter, although on a gradual pickup to minus 1.8% at the end of March from minus 2.8% at the end of December (see Figure 3.9). This was driven mainly by the increase in domestic inflation that more than offset the fall in imported inflation during the quarter. Domestic inflation rose to 0.0% from minus 1.8%, while imported inflation eased further to minus 5.1% from minus 4.6% in the previous quarter.

The increase in domestic inflation during the quarter was driven mainly by increases in the price indices for food, transport and communication, recreation, and drinks and tobacco categories. Food index increased to 1.0% from minus 4.2%, owing to price rises in some fresh fruits, cabbages and vegetables at the market. The price index for transport and communication went up to 4.1% from 3.5% driven by the uptick in fuel prices. Recreation price index also grew to 4.5% from 0.0%, while drinks and tobacco prices rose from minus 1.3% to minus 0.5%, reflecting the hike in betel-nut prices during the period.

In contrast, the fall in imported inflation mainly reflected the price declines in imported food from minus 5.3% to minus 7.7%, household operations from minus 6.3% to minus 7.3%, clothing and footwear falling by 2.3% with miscellaneous category easing further from minus 16.2% to minus 19.2% at the end of quarter.

Of the overall headline inflation of minus 1.8%, 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% (see Figure 3.10).

Core inflation[5] also remained negative for the third consecutive quarter at minus 2.8% at the end of March 2017 from minus 2.2% at the end of December. This implies the price of non-food and non-energy categories remained weak in the first quarter of 2017.

Figure 3.9: Headline and Underlying Inflation Rate (3mma)

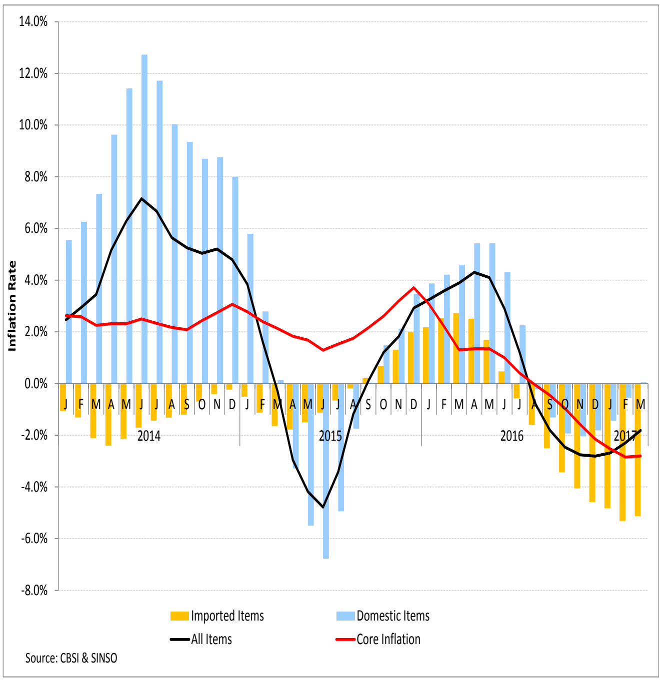
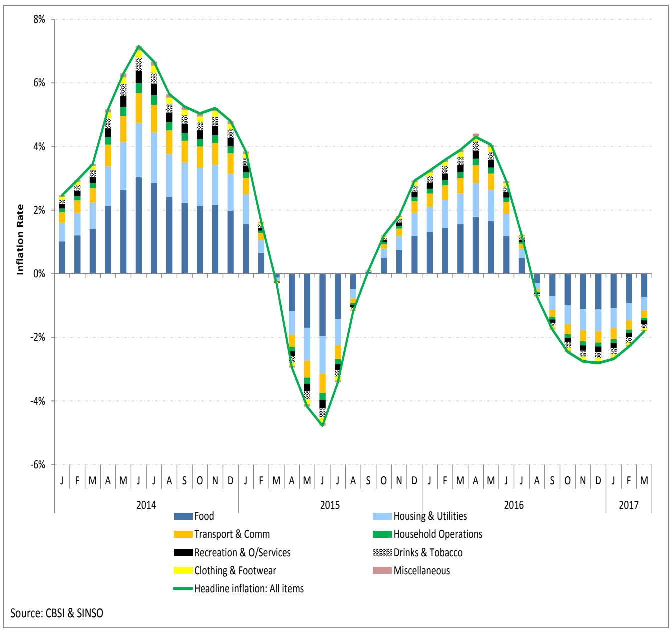


Figure 3.10 Contributions to Headline Inflation



Honiara Retail Fuel Price

The Honiara retail fuel prices increased this quarter by 5% to an average of $8.06 per litre from $7.69 per litre in the previous quarter. This reflected price increases in all fuel categories during the quarter. Petrol

[5] All CPI excluding volatile, price control and excise items (alcohol and tobacco)

price went up by 58 cents to $8.18 per litre from $7.60 per litre. Likewise, diesel price grew by 48 cents to $7.98 per litre from $7.50 per litre, while the price for kerosene increased slightly by 7 cents to $8.02 per litre.

Chapter IV. BALANCE OF PAYMENTS

The overall balance of payments position in the March quarter of 2017 deteriorated to a deficit of $49 million from a revised surplus of $192 million in the December quarter of 2016. This downturn stemmed from the deficit in the current account amidst a decline of the surplus in the 'capital and financial account'. The gross foreign reserve dropped accordingly by 1% at the end of the quarter to $4,156 million and was sufficient to cover 10.7 months of imports of goods and services.

Table 4.1 Balance of Payments Statistics

	2016			2017
	Jun Qtr	Sep Qtr	Dec Qtr	Mar Qtr
A. Current Account	**23**	**-228**	**-77**	**-87**
Goods	167	-50	-23	93
Services	-120	-189	-142	-192
Primary Income	-103	-76	-80	-109
Secondary Income	79	88	168	121
B. Capital & Financial Account	**6**	**196**	**332**	**205**
Capital	114	81	153	70
Financial Account (excl. reserve asset) 1/	-107	115	179	135
C. Net Errors and Omissions	**-77**	**-49**	**-63**	**-167**
D. Overall BOP Position (+ve=surplus)	**-47**	**-182**	**192**	**-49**
F. Financing	**47**	**182**	**-192**	**49**
Official Reserves (-ve=increase)	59	185	-181	49
IMF Program (-ve=decrease)	-12	-4	-11	-0
Position of Gross Foreign Reserves at end	**4,223**	**4,025**	**4,210**	**4,156**
Months of import cover of goods and services	10.3	10.1	10.8	10.7

1/ The financial account in BOP analytical presentation shows reserve asset separately in Item C. Under BPM6, the financial account includes reserve assets.

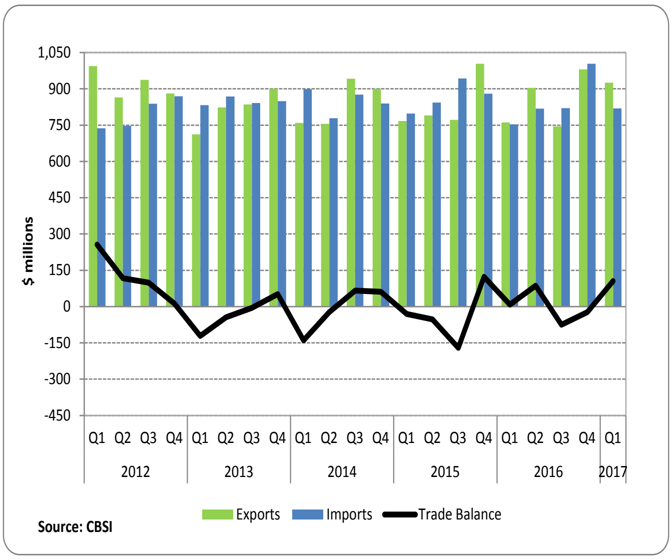
Source: CBSI

The current account deficit widened to $87 million from the revised $77 million deficit in the previous period (see Table 4.1). While there was improvement from the trade in goods, the wider current account deficit outcome was attributed to the worsening deficit in the services account, a fall in the secondary income surplus and deterioration in the primary income deficit. Additionally, the capital and financial account surplus narrowed to $205 million from $332million. This reflected the lower foreign direct investments flows and donor capital grants during the first quarter of the year.

Trade in Goods

The balance on trade in goods for the first quarter turned around to a surplus of $93 million from a $23 million deficit in the previous quarter (see Figure 4.1). This outcome reflected the 6% fall in exports to $925 million, a small decline compared to the 18% drop in imports to $819 million. The decline in exports reflected falls in receipts from most of the major export sectors. Weaker production performance primarily contributed to this outcome in spite of favourable global commodity prices during the quarter.

Fig 4.1 Trade in Goods



Agriculture exports contracted by 7% to $145 million due to low export receipts for cocoa, copra and coconut oil, which more than offsetted increases in inflows for palm oil. Likewise, forestry exports dropped by 16% to $605 million from $717 million in the previous quarter. The fall in the country's key export commodity was driven by weather and supply constraints that affected production. On the other hand, fisheries exports increased by 6% to $85 million due to a pickup in fish catch and cannery production.

Similarly, the reduction in imports was largely attributed to lower food and fuel imports. Food imports dropped by 32% to $193 million reflecting lower food prices and weak food import demand. Fuel imports fell by 27% to $170 million driven by low demand for fuel and sufficient fuel stock during the quarter. In addition, other import categories also went down during the period. Basic manufactures fell by 9% to $149 million, machinery and transport by 7% to $254 million, chemicals also dropped by 5% to $49 million and crude materials from $12 million to $10 million. Moreover, beverages and tobacco went down by 12% to $12 million and Miscellaneous items by 15% to $63 million.

Trade in Services

Trade in services widened from a deficit of $142 million in the fourth quarter of 2016 to a deficit of $192 million. The negative outcome came from the decline in travel services. Travel services slid from a surplus of $4 million to a deficit of $68 million due to the rise in payments for local tertiary students travelling overseas for studies. On the other hand, the deficits in other services and transport while remaining high, improved during the period. Other services slightly eased to a deficit of $101 million from a deficit of $102 million on the back of decreases in payments related to other business and government services. Meanwhile, the deficit in transport services narrowed to $28 million from $44 million and came from the decrease in freight payments during the period.

Primary Income Account

The primary income deficit expanded moderately to $109 million in the March quarter of 2017 from $80 million in the previous quarter. This mainly came about due to the larger deficit in investment income that widened from $110 million to $157 million. The downturn was associated with the rise in reinvested earning payments and a fall in receipts from the interest income derived from reserve assets. On the other hand, other primary income went up to $43 million from $30 million owing to the higher collection from fishing licences, and compensation of employees, which recorded a surplus of $5 million from a deficit of $0.1 million in the previous quarter.

Secondary Income

The secondary income surplus narrowed to $121 million during the quarter from $168 million in the preceding quarter. This resulted primarily from a 2% fall to $186 million in transfers to general government, particularly from technical assistance inflows. Additionally, private sector transfers recorded a deficit of $65 million from a deficit of $23 million in the previous period. This was attributed to the rise in outward remittances by foreign workers along with a marked fall in inflows to churches and Non-Governmental Organisations.

Capital

The capital account surplus plunged from $153 million in the last quarter of 2016 to $70 million in the first quarter of 2017. This came on the back of a slow start in donor-funded capital projects in the first part of the year, while other planned projects have not yet commenced. The slowdown in donor funded expenditure contrasts with the larger increase in SIG funded capital projects over the past quarters.

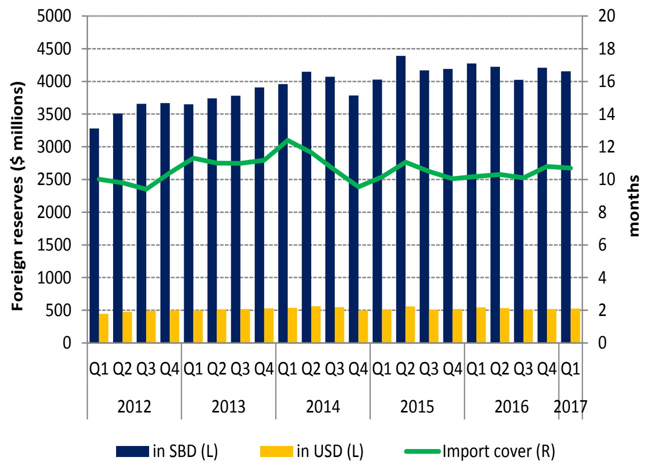
Financial Account

The surplus in the financial account went down from revised $179 million in the December quarter of 2016 to $135 million in the March quarter of 2017. This primarily resulted from the 19% decrease in direct investment inflows to $104 million, particularly from new investment funds that offset the rise in reinvestment earnings. Contributing to the outcome was the fall in other investment inflows by 29% to $39 million. This was associated with the rise in government and private sector loan repayments and the reduction in commercial banks' foreign currency deposits. Meanwhile, portfolio investments recorded an outflow of $5 million from an outflow of $2 million in the previous quarter.

Gross Foreign Reserves

Reserve asset flows deteriorated from a surplus of $192 million in the last quarter of 2016 to a deficit of $49 million in the first quarter of 2017. This negative result reflected the use of foreign reserves to finance the balance of payments deficit position during the quarter, coupled with exchange rate revaluation losses. Accordingly, the country's stock of gross foreign reserves at the end of the quarter fell by 1% to $4,156 million. This level of reserves was equivalent to 10.7 months of import cover (see Figure 4.2).

Figure 4.2 Gross Foreign Reserves



Source: CBSI

International Investment Position (IIP)

The country's net international investment position (IIP) widened in the March quarter of 2017 to a deficit of $553 million from the deficit of $364 million in the December quarter of 2016. This result emanated from the 2% rise in the stock of financial liabilities to $5,727 million along with the 1% fall in the stock of financial assets to $5,147 million. The growth in financial liabilities came from increases in both direct investment liabilities by 1% to $4,462 million and in other investments by 5% to $1,265 million. Meanwhile, the decline in financial assets stemmed from the decrease in reserves, other investments and direct investment assets by 1% to $4,156 million, by 3% to $481 million, and by 2% to $407 million respectively. On the other hand, portfolio investment assets increased by 3% to $130 million at the end of the period.

Gross External Debt

The provisional gross external debt stock increased by $64 million to $2,295 million at end March 2017 (see Table 4.2). This came on the back of a 9% rise in public external sector debt to $912 million. The widening public sector debt was attributed to the increase in general government debt and the rise in the central bank's demand deposit liabilities, which was related to donor-funded project transactions. However, private sector debt declined by 1% to $1,383 million and was associated with the reduction of commercial banks' external liabilities.

Table 4.2 Gross External Debt Position ($ million)

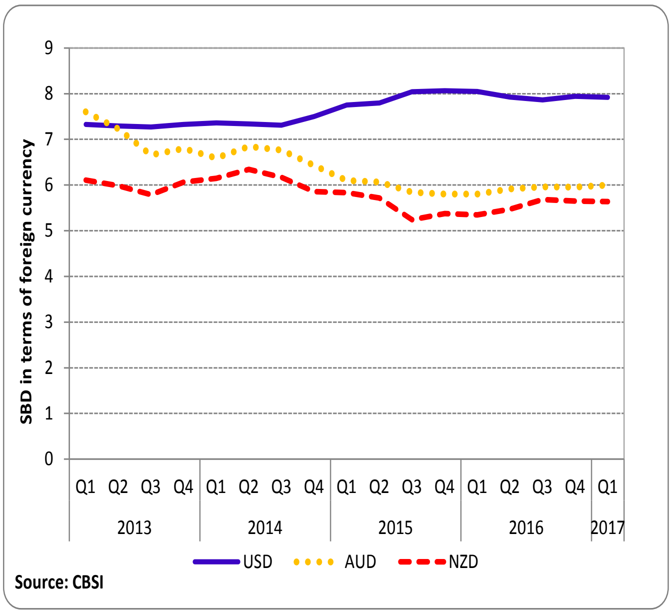
	2016			2017
	Jun Qtr	Sep Qtr	Dec Qtr	Mar Qtr
Gross External Debt Position	2,115	2,194	2,231	2,295
(i) General Government	625	643	643	682
(ii) Central Bank	220	218	196	230
(iii) Deposit- Taking Corporations	131	167	150	140
(iv) Other Sectors 1/	155	144	211	211
(v) Direct Investment: Inter-company Lending 1/	985	1,022	1,031	1,032

1/ Provincial
Source: CBSI

Exchange Rates

The Solomon Islands dollar (SBD) on a quarterly basis appreciated against the United States dollar by 0.2% to an average $7.92 per USD in the first quarter of 2017. The SBD also appreciated against all the other trading currencies during the quarter. It appreciated against the EUR by 1.6% to $8.44 per EUR, 4.6% against the Japanese Yen to $6.97 per 100JPY, 0.6% against the Great Britain pound to $9.81 per GBP, and 0.3% against the New Zealand dollar to $5.64 per NZD. On the other hand, the SBD depreciated by 0.7% against the Australian dollar to $6.00 per AUD (see Figure 4.3).

Figure 4.3. Major Bilateral Exchange Rates



In terms of the 2012-based trade weighted index (TWI), the SBD appreciated by 0.2% to a quarterly average index of 107.4. Accordingly, the nominal effective exchange rate (NEER) appreciated by 0.1% to an index of 101.9 on the back of the SBD's nominal rise against most of the bilateral currencies. Meanwhile, the real effective exchange rate (REER) strengthened by 1.3% to an index of 148.3. This reflects the upward movement in the NEER and implies the country's exports were less competitive against its trading partners during the period.

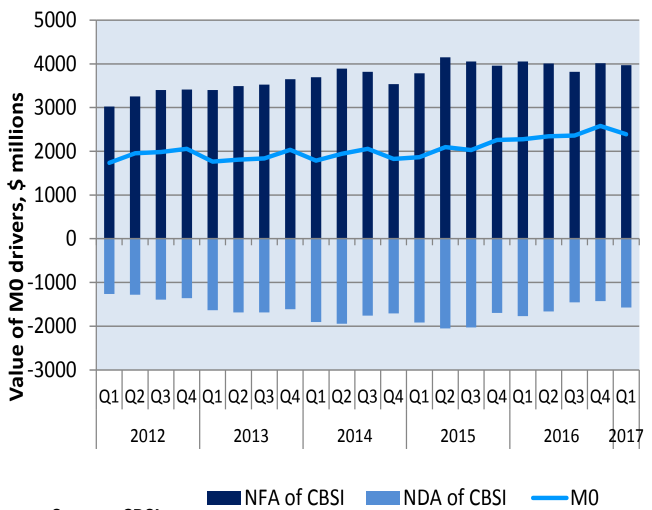
Chapter V. MONEY AND BANKING

Monetary developments in the first quarter of 2017 witnessed broad-based contractions in all key monetary aggregates, reversing the growths recorded in the December quarter. Reserve money (M0), narrow money (M1) and broad money (M3) all recorded declines over the quarter. Consequently, total liquidity in the banking system fell resulting in the decline in excess liquidity during the quarter. In contrast the weighted average interest rate margin for the other depository corporations (ODCs) rose on account of increases in the lending rates over the quarter.

Reserve Money

Reserve money (M0) declined by 7% to $2,390 million during the March quarter following the 9% increase posted in the previous quarter (see Figure 5.1). This outcome reflected combined decreases in both components of M0. Currency in circulation contracted by 9% to $757 million whilst the ODCs' call accounts deposits with CBSI dropped by 7% to $1,629 million. A similar movement was also mirrored in the sources of M0 which saw combined declines in CBSI's net foreign assets (NFA) by 1% to $3,971 million and net domestic assets (NDA) that deteriorated by 10% to a net liability of $1,575 million at the end of the quarter. The decrease was associated with the build-up of government deposits with CBSI over the quarter.

Figure 5.1 Major drivers of Reserve Money



Source: CBSI

Narrow money

Narrow money (M1), which comprises currency and deposits held by the public, contracted further by 4% to $3,369 million this quarter following the 2% decline in 2016 December quarter. This outturn was underpinned by reductions in both currency in active circulation and transferable deposits of ODCs by 5% to $704 million and 4% to $2,664 million respectively. The decline in currency in active circulation was driven by a 9% drop to $757 million in currencies held with the central bank and a 38% dip to $53 million in national currency held with ODCs. Nonetheless, M1 saw a 2% annual growth against the same period a year ago.

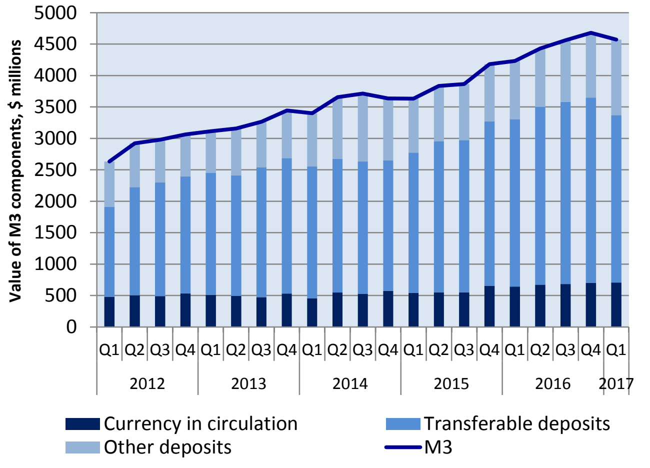
The fall in transferable deposits mainly reflected a decline in ODC deposits by 4% to $2,656 million led by a 3% decrease in national currency holding to $2,518 million and 19% drop in foreign currency to $139 million. The national currency component shrunk following decreases in the deposits of other financial corporations (OFC) by 13% to $357 million and other nonfinancial corporations by 4% to $1,379 million. Reductions in the foreign currency component, on the other hand, reflected decreases in other nonfinancial corporations and non-resident sectors holdings.

Broad money

Broad money (M3) fell by 4% to $4,571 million over the review period, following the 3% growth in preceding quarter. This resulted from the 4% decrease in M1 to $3,369 million combined with a 2% decline in other deposits (savings and time) to $1,202 million (see Figure 5.2).

On the sources of broad money, the contraction in M3 mirrored a 16% decrease in NDA to $484 million and 2% drop in NFA to $4,089 million against the previous quarter. The fall in NFA was driven by a 1% slowdown in foreign reserves to $4,155 million and a 12% decrease in other foreign liabilities to $268 million. Contributing to this outcome also was a 3% decline in foreign liabilities to $334 million. NDA shrunk on the back of an 8% decline in net domestic credit to $1,098 million despite increases in capital accounts and other items, the former rising by 2% to $904 million and the latter by 7% to $290 million.

Figure 5.2 Components of M3

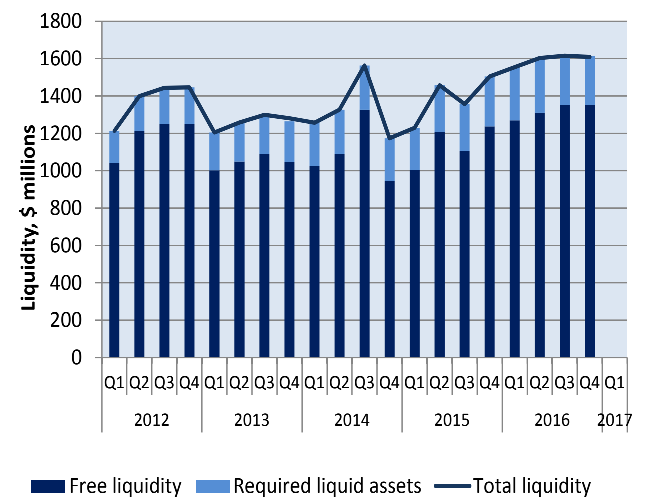


Source: CBSI

Liquidity

Total liquidity in the banking system dropped by 7% this quarter to $1,632 million, compared to a 9% expansion recorded in the final quarter of 2016 (see Figure 5.3). Driving this fall was the decline in M0 coupled with the increase in net claims of Central Government deposits with CBSI.

Figure 5.3 Commercial Banks' Liquidity



Source: CBSI

Consequently, this resulted in an 8% fall in excess liquidity[1] to $1,205 million at end-March. The decrease in M0 was attributed to high foreign outflows particularly in January and February whilst the increase in claims of Central Government reflected the SIG development bonds NPF purchased and deposited at CBSI.

Domestic credit

Reverting from the 4% quarter-on-quarter growth in the final quarter of 2016, total net domestic credit (NDC) of the banking system[2] fell by 8% to $1,098 million this quarter. This was attributed mainly to an improvement in net credit liabilities to nonfinancial public sector by 11% to $1,146 million despite a 1% growth in private sector credit (PSC) to $2,244 million.

Growth in credit to the public nonfinancial sector benefited from a 12% upsurge in net credit liabilities to the Central government to $1,169 million, driven mainly by the build-up in deposits held with CBSI following the drawdown of the domestic bond issued to Solomon Islands National Provident Fund (SINPF). Credit to nonfinancial public corporations, however, fell but at a slower pace of 5% to $30 million compared to the 11% fall in the preceding quarter. The growth in CPS stemmed from a slight increase in ODC credit by 1% to $2,236 million. An increase in loans issued to other nonfinancial public corporations by 2% to $1,429 million underlined the growth in ODC credits, outpacing a 1% decline to $802 million in loans issued to resident sectors.

Credit conditions in the first quarter remained tight when compared against the previous quarter, with credit issued by ODCs maintaining the same pace of 1% to $2,204 million as in the preceding quarter. Lending by sector saw distribution, communications, construction, forestry and manufacturing being the sectors supporting the marginal growth. Distribution increased by 3% to $357 million, communications by 5% to $186 million, construction by 2% to $322 million, forestry by 4% to $57 million and

[1] Liquidity after taking into account the 7.5% of cash reserves requirement and precautionary reserves.

[2] Banking system or Depository Corporations (DC) can be used interchangeably to mean the same thing.

manufacturing went up by 1% to $132 million (see Table 5.1). In contrast, the larger sectors recording declines this quarter were transport and statutory corporations which both fell by 7% to $126 million and $30 million respectively whilst personal edged lower by 0.4% to $708 million and agriculture by 4% to $24 million. Proportionally, personal loan maintained the largest share of loans at 32%, followed by distribution with 16%, construction at 15% while the rest contributed less than 10% each but accounted for the remaining 37%. However, credit expanded by 9% on an annual basis.

Table 5.1 Private Sector Credit by Sectors ($M)

(SBD $millions)

	2015	2016				2017	Percentage Growth	
Sectors	Q4	Q1	Q2	Q3	Q4	Q1	Q-on-Q	Year-on year
Personal	709	667	671	692	711	708	0%	6.2%
Construction	186	259	281	308	317	322	2%	24.7%
Distribution	243	260	271	331	348	357	3%	37.5%
Communications	208	189	175	189	177	186	5%	-1.6%
Tourism	120	122	129	137	142	142	0%	16.3%
Prof. & Other Serv.	118	121	120	113	108	109	1%	-10%
Transport	114	117	120	125	136	126	-7%	8.0%
Manufacturing	130	136	124	138	130	132	1%	-3.0%
Forestry	51	65	68	68	55	57	4%	11.3%
Agriculture	35	35	34	25	25	24	-4%	-34.4%
Entert. & Catering	3	3	2	2	1	1	-23%	-68.3%
Mining & Quar-rying	2	2	2	2	1	1	-13%	-32.2%
Fisheries	6	6	6	6	6	5	-6%	-10.7%
Statutory Corporn.	35	37	36	36	32	30	-7%	-18.7%
Non-Resident	60	0	0	0	0	0	-7%	-52.5%
Private Fin. Inst.	0	0	2	2	2	2	-2%	0.0%
Central Govern-ment	1	0	0	0	0	0	0%	0.0%
Provin.Asse & Local Government	1	0	0	0	0	0	-97%	0.0%
Total	2.021	2.019	2,040	2,166	2,192	2,204	1%	9%

Note: Figures include loans issued by commercial banks and credit Corporation of Solomon Islands.

Table 5.2 Private Sector Credit (ODCs) SBD

Millions

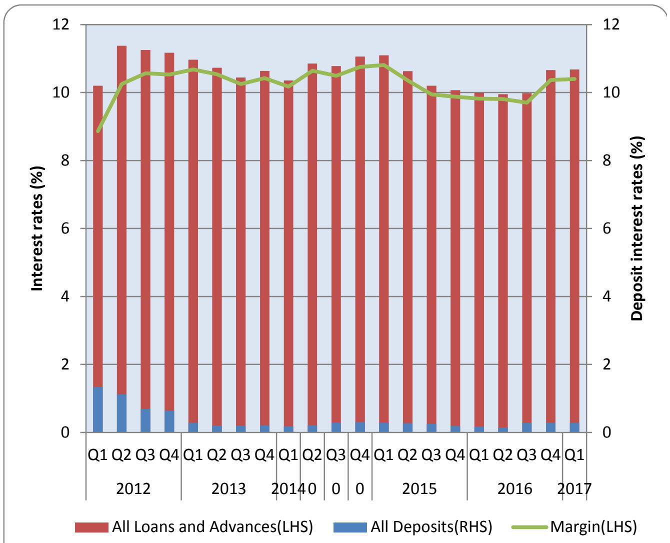
Type	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Trade Bills	0	0	0	0	0	0
Overdrafts	175	219	204	226	206	242
Loans	1,771	1,783	1,820	1,926	1,973	1,950
Lease Financing	13	16	16	15	13	12
Total	1,960	2,019	2,040	2,166	2,192	2,204
Total credit (excluding trade bills)	1,960	2,019	2,040	2,166	2,192	2,204

By credit type, the marginal growth was sustained by short-term credits in the form of overdrafts which saw a notable increase of 17% to $242 million against the 2016 December quarter. In contrast, loans edged lower by 1% to $1,950 million whilst lease financing contracted by 5% to $12 million during the review period (see Table 5.2).

Interest rates

The ODCs' indicative weighted average interest rate margin remained at 10.4% as both lending and deposit rates were relatively stable, albeit a slight 10 basis points decline in the indicative weighted average interest rates on all deposits offered by the ODCs to 0.28%. This resulted from drops in the interest rates of demand, savings and time deposits. The indicative weighted average interest rates on lending remained stable at 10.7% at the end of this quarter. This reflected mixed movements in cost of borrowing where a notable fall in forestry from 19.3% to 15.1% was offset by increases in entertainment and catering by one percentage point to 15.9% and provisional assemblies rising from 16.1% to 23.1% (see Figure 5.4).

Figure 5.4 Commercial Bank's Interest Rates



Source: CBSI

Other Financial Corporations

The NFA of other financial corporations (OFCs) recorded an increase of 7% to $288 million at the end of March 2017. This was driven by growth in the foreign assets of the OFCs by 6% to $321 million along with an increase in foreign liabilities denominated in domestic currencies by 1% to $34 million.

Meanwhile, the OFCs' NDA showed a marginal growth of 1% to $2,431 million this period. NDC of OFCs' improved by 2% to $2,675 million at the end of the quarter. The upturn is explained by the rise in net credit to non-financial public sector by 127% despite falls in net credit to financial corporation by 7% and credit to private sector by 1%.

Net credit to financial corporations faltered by 7% to $895 million, following a 2% decline witnessed in the December quarter. Driving this outcome was a 7% fall in net credit to ODCs while net credit to CBSI inched by 1% to $18 million. The fall in net credit to ODCs reflected NPF purchase of SIG development bonds during the quarter whilst other deposits (time and savings) made a modest increase to $551 million by end-March.

Private sector credit provided by the OFCs remained unchanged compared to December 2016. However, year-on-year comparisons showed an accelerated growth of 6% to $1,506 million from last year. This stemmed mainly from growths in trade credit and advances to other non-financial corporations by 48% to $7 million and loans to other non-financial corporations by 14% to $110 million.

Meanwhile, securities to other nonfinancial corporations declined by 40% to $27 million along with a decline in trade advances to other resident sectors by 28% to $0.6 million at the end of March 2017.

Monetary Policy

The board, at its meeting on March 29th 2017, resolved to maintain the accommodative monetary stance over the next six months. The decision was made considering macroeconomic projections that inflation will remain low in the near to medium term, providing enough space for monetary conditions to remain accommodative to support economic growth. The prevailing excess liquidity condition in the banking system likewise remained largely non-inflationary so far. Hence, key policy instruments were kept unchanged.

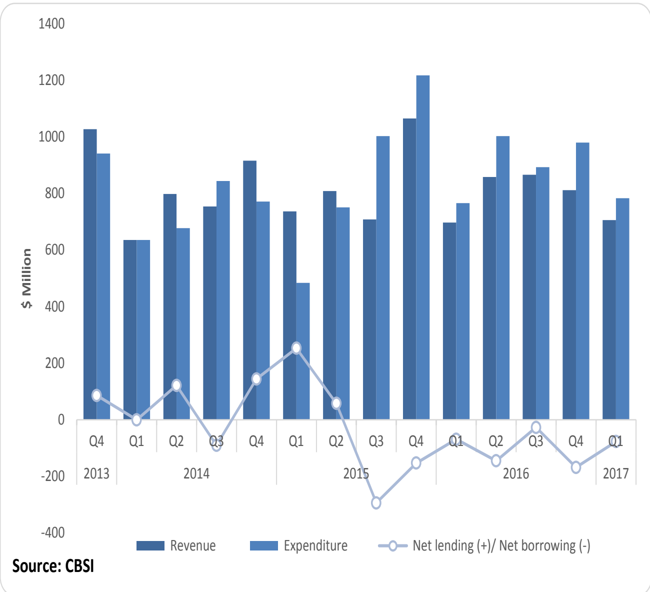
The cash reserve requirement ratio was maintained at 7.5% of total ODC deposits. The stock of CBSI Bokolo bills issued remained at $750 million with a weighted average yield of 0.62%. The SIG treasury bills was capped at $40 million in step with the WAY for 56, 91 and 181 days which remained the same at 0.34%, 0.46% and 1.12% respectively. Meanwhile the CBSI maintained the current exchange rate regime where the Solomon Islands dollar is pegged to an invoicing basket of major trading currencies.

Chapter VI. GOVERNMENT FINANCE

Overview

The Government recorded a budget deficit of $77 million in the first quarter of 2017, a notable improvement from a deficit of $173 million in the final quarter of 2016 (see Figure 6.1). The outcome reflected a contraction in government expenditure, which more than offset the fall in government revenue in the first quarter of the year. This narrowed fiscal deficit was financed from government savings in the banking system, although the monetary indicator, net credit to the government picked up by 12% during this quarter to minus $1,169 million. Meanwhile, the Government's outstanding debt balance continued to rise for the second consecutive quarter.

Fig 6.1 Fiscal Balance



Revenue

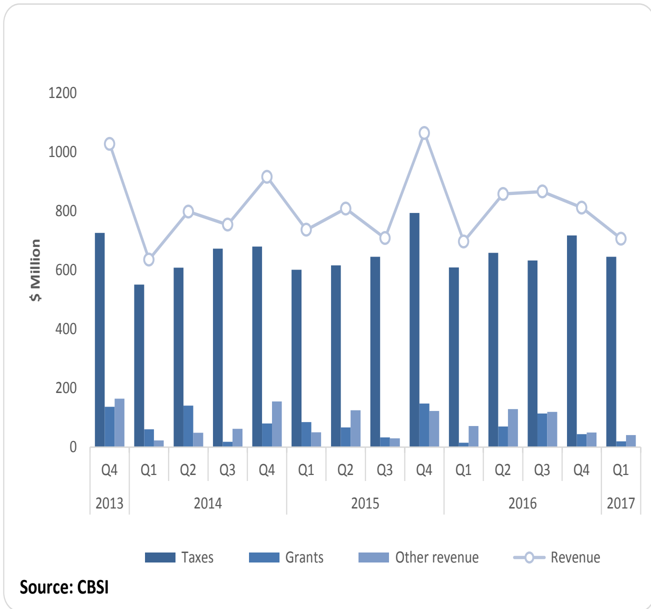
Total government revenue declined by 13% from the previous quarter to $707 million this quarter (see Figure 6.2). The revenue collection was 28% lower than the first quarter's budget for 2017, but was 1% higher against the same period in 2016. This was driven by the trend and general slowdown in economic activities during the first three months of the year. Nevertheless, collections are expected to rebound in the second quarter when economic activities gradually pick-up.

In terms of the components of government revenue, tax contributed 91% to the total government's revenue for the review period followed by 6% in non-tax revenue whilst grants accounted for the remaining 3%.

Tax revenue

Tax revenue declined by 10% in the first quarter of 2017 to $646 million, reversing the 14% growth in the final quarter of 2016. This was 14% below the current period's budget, but 6% higher than the same quarter a year ago. The negative outcome reflected lower tax revenue collections in the major tax components such as tax on income, profits and capital gains, taxes on goods and services, taxes on international trade and transactions that outweighed the increase in taxes on property this quarter.

Fig 6.2 Fiscal Revenue



Tax on income, profit and capital gains accounting for 34% of total tax revenue contracted this quarter by 9% to $223 million. This was driven by a 20% fall in income tax payable by corporations and other enterprises to $118 million outweighing the 10% growth in income tax payable by individuals. Accordingly, the outcome also led to a 19% shortfall against the budget.

Taxes collected on goods and services, which consisted of another 34% of total government tax revenue declined in the first quarter of 2017 by 6% to $217 million in contrast to the 3%

growth in the December quarter. This was 17% below budget and a 10% shortfall against the same period in 2016. The weaker collection was attributed to a 6% fall in general taxes on goods and services to $172 million and a 10% drop in excises to $39 million related to the combined reduction in goods tax and excise duty on spirits and tobacco. These falls outweighed increases on taxes on specific services and other administrative taxes by 37% and 5% respectively.

Taxes on international trade and transactions, equivalent to 31% of the tax revenue decreased by 14% from the preceding quarter to $198 million. This was largely driven by a 16% fall in export duty to $143 million as a result of a $26 million decline in log duties during the quarter. Likewise, import duties also edged down by 10% to $55 million reflecting lower imports of manufactured materials and fuel during the quarter.

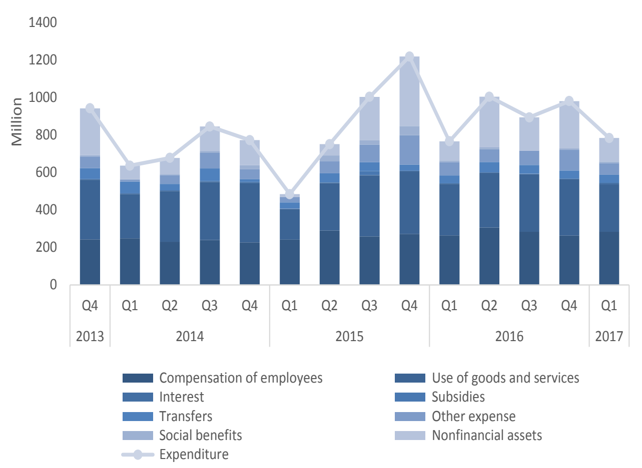
Taxes on property, which accounted for the remaining 1% of total tax revenue grew by 5%, following a pickup in revenues receipted on withholding taxes on rented properties.

Non-tax revenue
Non-tax revenue weakened further by 18% in the first quarter of 2017 to $41 million following a 58% decline in the previous quarter. This was propelled by a 41% slowdown in fishing licence fees to $15 million from foreign fishing boats for access to the country's Exclusive Economic Zone. The negative outcome outweighed the 7% increase in the sale of goods and services that grew to $25 million from $23 million in the last quarter of 2016. This increase reflected a 2% growth in administrative fees receipted from the previous quarter.

Grants
Grant assistance to the Solomon Islands Government (SIG) continued to shrink for the second consecutive quarter. The first quarter of 2017 saw a 55% decline in grants to $20 million continuing the 61% fall in the final quarter of 2016. This level marked a 75% shortfall against the March quarter budget. On the other hand, this represented a 28% increase compared to the same period last year. The grant assistance received this quarter was primarily related to the Australian DFAT bilateral budget support to fund recurrent activities in the education sector.

Expenditure
Total Central Government's expenditure fell this quarter by 20% to $784 million and was 24% lower than the budget projection but 2% higher than the corresponding quarter of 2016 (see Figure 6.3). This quarter-on-quarter outcome was attributed to a 50% fall in acquisition of nonfinancial assets to $123 million and an 11% decline in recurrent expenses to $651 million. The decline in acquisition of fixed assets contributed to the reduction in development outlays while the drop in consumption spending and other payments largely explained the outcome in the recurrent expenses.

Fig 6.3 Expenditure



Source: CBSI

Compensation of Employees
Payroll costs rose by 8% in the first three months of 2017 to $283 million, reversing two consecutive falls recorded in second half of 2016. However, this level was broadly in-line with the budget and 7% higher than the corresponding quarter a year ago. The increase in payroll cost was bolstered by the rise in all major payroll components except for housing rentals. Salaries, which made up 56% of the total payroll cost rose by 1% to $154 million, various allowances edged up by 3% to $28 million and Members of Parliament (MP) Discretionary Fund increased from $1 million in December quarter to $15 million this quarter. Housing rental, on the other hand, accounted for 10% of the total payroll cost fell by 3% to $27 million. As a proportion of the total government expenditure, payroll made up the biggest share with 36%.

Goods and Services
Consumption spending, which constituted 32% of the total expenditure, fell by 16% to $253 million against the December quarter of 2016. Similarly, this spending level was down by 29% and 8% against the budget and same quarter of 2016 respectively. The quarter-on-quarter growth reflected mixed movements across all the major consumption items with training costs specifically relating to scholarship rising to $94 million from $15 million in the previous quarter, printing and photocopying by 40% to $9 million and office rental by 16% to $7 million. However, maintenance of non-residential buildings, electricity and consultancy fees, dropped during the review quarter by 16% to $10 million, 51% to $9 million and 75% to $8 million, respectively.

Grants
Total transfers which contributed 6% to the total expenditure fell by 0.6% this quarter to $44 million. This was 7% below budget but was 4% higher than the similar period of 2016. The marginal fall was attributed to a 37% decline in health services grants to $16 million. Fixed service grants, however, rose by 11% to $19 million.

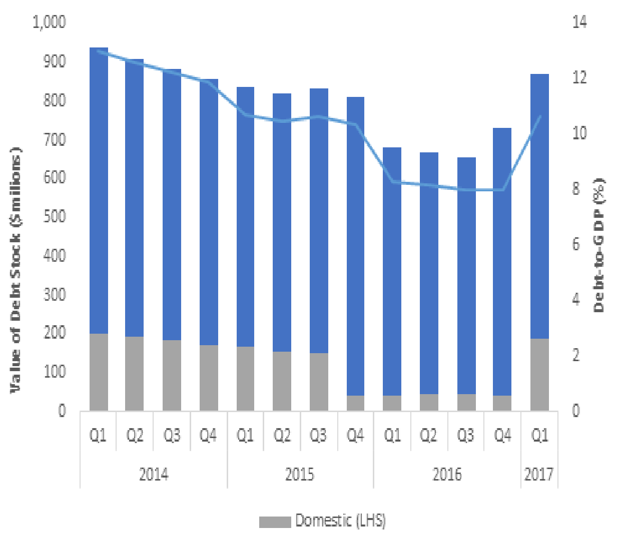
Social Benefits
Expenditure on Social benefits edged down by 4% this quarter to $8 million following a sharp increase registered in the previous quarter. Against the budget this was 34% below as well as 18% lower than the same quarter in 2016. The fall was driven by a 42% drop in payment of pensions and gratuities to $3 million and an 8% fall in workers compensation to $2 million. Meanwhile, Gratuities under agreement remained at $1 million during the month.

Other Payment
Other payments which make up 8% of the total expenditure fell to $62 million this quarter from $110 million in the previous quarter. This was 25% down against the budget and an 11% fall against similar quarter a year ago. The 82% drop in subvention grants to $16 million was the main driver behind the fall in other payments. In contrast, the basic education grants and MPs scholarship cost rose to $38 million from $7 million, church grant by 7% to $2 million and sports grants increased to $2 million from $1 million in the previous quarter, respectively.

Acquisition of Non-financial Assets
The acquisition of non-financial assets, which dominated the bulk of the development expenditure, fell by 50% against the previous quarter to $126 million. This level of spending was 23% higher than the corresponding quarter, but 47% lower than the budget. The outturn reflected a 43% decline in spending on buildings and other structures namely dwellings, non-residential buildings and roads, bridges, and wharves to $105 million. Similarly, spending on machines and equipment such as vehicles, ships and computer related costs fell to $16 million this quarter from $64 million in the prior quarter. Other fixed assets, in contrast, rose from $1 million in the previous quarter to $2 million this quarter. Meanwhile, purchase of non-produced assets waned from $9 million a quarter earlier to $3 million in the review period.

SIG Debt Stock and Servicing
The Government's outstanding debt balance continued to rise for the second consecutive quarter by 19% to $872 million (see Figure 6.4). This marked increase was driven by the development bond SIG issued to the Solomon Islands National Provident (SINPF). Accordingly, debt stock as a proportion of GDP, rose to 10% compared to 9% in the previous quarter. The debt service-to-export of goods and services and debt service-to-domestic revenue, however, both fell by 3% each in the previous quarter to 1% each this quarter.

Figure 6.4: Debt Stock



Source: CBSI

External Public Debt Stock

External debt declined by 1% against December quarter of 2016 to $682 million but was 7% higher than the same period of 2016. The marginal fall in foreign debt stock against the last quarter came on the back of a $9 million repayment made to external creditors during the quarter, of which $8 million was on principal repayments and $1 million on interest payments. By recipients of the debt repayments, the Asian Development Bank, the International Development Association and the International Food for Agriculture Development all received $3 million each. However, total debt servicing this quarter was 79% lower than the repayment schedule of $43 million.

Multilateral creditors accounted for the biggest share of external debt with 87% despite a decline in stock from $691 million in the prior quarter to $682 million. Bilateral creditors account for the remaining 13% of external debt and has been maintained at the same level of around $85 million. Disaggregating external debt by currency, 85% of total external debt was held in SDR, 13% in USD and 1% in euro.

Domestic Public Debt Stock

Domestic debt stock registered a sharp increase to $190 million from $44 million in December quarter, $147 million higher than corresponding quarter of 2016. Against the previous quarter, the increase was attributed to a $150 million issuance of development bond to SINPF, of which, $120 million was issued on the 20th March and the other $30 million on the 30th March 2017. The interest payment will start in September while the second tranche has a grace period of 5 years at an interest of 6.69% during and after the grace period.

Statistical Tables

A. Money & Banking

B. External Trade and Payments

C. Government Finance

D. Prices

E. Domestic Economy