

Monthly Economic Bulletin

Data published in this bulletin are subject to revision and the Bank cannot guarantee the accuracy of the information obtained from outside sources.

Content	Page
I. Monetary Developments	1
II. External Conditions	1
III. Government Finances	2
IV. Domestic Production	2
Key Economic Indicators	3

I. MONETARY DEVELOPMENTS

Money supply (M3) increased by 0.1% to \$4,496 million in July, following the 1% decline in the previous month. The month-on-month outcome stemmed from a marginal increase in narrow money (M1) by 0.2% to \$3,519 million despite a 1% decline in other deposits (savings and time) to \$977 million. Growth in M1 was supported by a 1% rise in demand deposits to \$2,840 million which outweighed the 1% fall in currency in active circulation to \$679 million. On other deposits, the fall reflected a 1% drop in time deposits to \$798 million which negated a 2% upturn in savings deposits to \$178 million.

Net foreign assets (NFA) improved further by 0.4% to \$4,143 million in July, maintaining the slow but steady growth pace observed since March this year. The slight increase against the previous month was sustained mainly by a 1% rise in CBSI's NFA to \$4,142 million. Meanwhile, NFA improved by 6% year-on-year.

Net credit to government (NCG) contracted by 3% to net liabilities of \$1,255 million in July, after recording 6% growth in June and 8% in May. Reduction in ODC's net liability by 19% to \$218 million largely underpinned this outcome despite a 1% upturn in CBSI's net liabilities to \$1,038 million. Private sector credit (PSC) recovered by 1% to \$2,218 million following a 2% decline in the preceding month. The increase relative to June was driven largely by a 1% rise in ODC lending to \$2,080 million. Total liquidity in the banking system increased slightly by 1% to \$1,647 million reflecting improvement in NFAs. Both free and excess liquidity improved by 0.9% each to \$1,349 million and \$1,191 million respectively during the month. Required reserves shrunk by 0.4% to \$299 million. Meanwhile, PSC, NCG and total liquidity grew on an annual basis by 8%, 3% and 4% respectively.

Domestic Market Operations

The stock of CBSI Bokolo bills remained at \$750 at end July with the weighted average yield (WAY) for the 28 days maintained at 0.62%. Similarly, the WAY for Government treasury bills for 56, 91 and 182 days also remain unchanged at 0.34%, 0.46% and 1.12% respectively.

II. EXTERNAL CONDITIONS

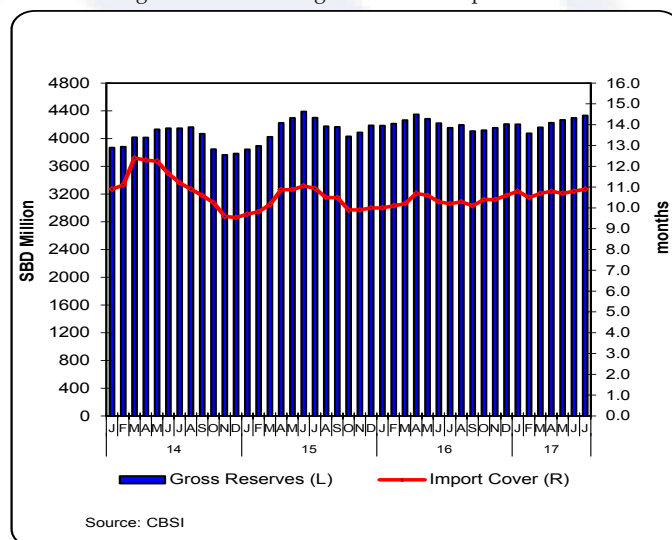
Trade in goods

The balance on trade in goods for July 2017 widened to a provisional \$79 million deficit from a revised \$66 million deficit recorded in the previous month. This outcome stemmed from a 9% increase in imports to \$341 million outweighing the 5% rise in exports to \$262 million. The upsurge in imports was driven by an increase in machineries imports whilst the rise in exports was supported by higher agricultural exports, minerals and other exports despite falls in log and fish exports.

Gross foreign reserves

Gross foreign reserves grew marginally by 1% to \$4,334 million due to large receipts from donor funds and fishing licenses. This level of reserves is sufficient to cover 10.9 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rates

The Solomon Islands dollar (SBD) appreciated for the second consecutive month by 0.84% against the United States dollar to an average of \$7.87 per USD but weakened against the Australian dollar (AUD) by 2.27% to \$6.13 per AUD over the month. Similarly, it depreciated against the New Zealand dollar by 0.96% to \$5.78 per NZD. The SBD

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

also depreciated against the British pound sterling and the EURO but appreciated against the Japanese Yen during the month. As a result of the mixed movements the trade weighted exchange rate basket index further strengthened by 1.2% to 105.98 for the month of July.

III. GOVERNMENT FINANCE

The Government recorded a preliminary deficit of \$88 million in July, reversing the \$52 million surplus in June. The July outcome stemmed from a surge in total expenditure by 66% to \$361 million which negated a 1% increase in total revenue to \$273 million. This saw total expenditure outrun the pro-rata budget by 4% whilst total revenue fell short by 16%.

The marginal growth in total revenue was attributed mainly to an increase in nontax revenue by \$54 million to \$64 million in July, driven by proceeds from fishing license fees. However, tax receipts fell by 20% to \$209 million following a 46% drop in income and profit tax to \$63 million despite a gain in tax on international trade and transactions by 11% to \$100 million. No donor receipts were recorded in July.

On expenditure, recurrent spending registered a 67% hike to a record \$301 million in July, underpinned by increases in payroll, goods and services, and grant disbursements. Development spending jumped 61% to \$60 million against June outlays reflecting increased spending on non-residential building and transport equipment.

Total Central Government debt stock fell slightly by 0.6% to \$883 million at the end of July. This reflected a total debt servicing of \$3 million made during the month. External debt accounted for \$688 million and the domestic component made up the remaining \$195 million of the outstanding debt stock. Meanwhile, the outstanding debt is equivalent to 10% of nominal GDP.

IV. DOMESTIC PRODUCTION

Production and Prices

Based on preliminary estimates, the CBSI monthly production index grew by 2% in July to 79 points from a revised 77 points in the previous month. This was largely driven by the 5% increase in round log output during the month, reversing the 18% fall in June. In contrast, crude palm oil, palm kernel oil and fish catch recorded falls during the month by 10%, 6% and 4% respectively. Recent production data for copra and cocoa were unavailable for this report. However, monthly output projections based on historical trends revealed that cocoa and copra production are expected to increase by 23% and 6% respectively.

In terms of prices, the average international prices for all the key commodities weakened during the month.

Fish price fell by 6%, copra price dropped by 5%, crude palm oil and palm kernel oil prices declined by 3% and 2% respectively, while round log and cocoa prices both fell marginally by 1% during the month.

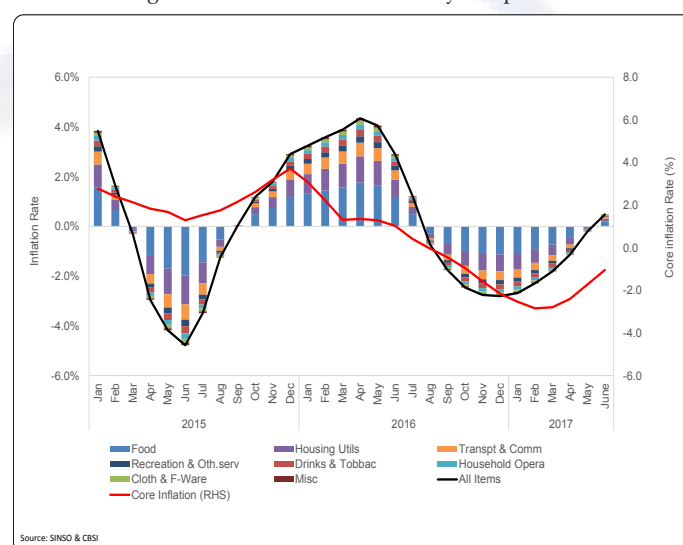
Headline inflation

Headline inflation turned positive in June to 0.5% after 10 consecutive months of deflation. This outcome reflected the increases in both domestic and imported inflation during the month. Domestic inflation grew to 2.2% from 1.6% a month ago largely driven by the price increases in food, housing and utilities, drinks and tobacco and household operations categories during the month. Similarly, imported inflation picked up to minus 2.6% from minus 3.4% in May. This reflected price increases in food, household operations, clothing and footwear, and miscellaneous categories during the month.

Of the overall headline inflation of 0.5%, food category accounted for 0.2%, followed by transport and communications, and housing and utilities each representing 0.1% whilst the remaining categories accounted for 0.1%.

Core inflation improved further to minus 1.0% in June, from minus 1.7% in May, reflecting continued price pick-ups in non-food and non-energy categories during the month.

Figure 2: Inflation contributions by components



Honiara Fuel Prices

The average fuel price in Honiara declined further to \$7.75 per litre in July from \$7.86 per litre a month ago. This outcome reflected price falls across all fuel categories during the month. Diesel and kerosene prices fell by 12 cents each to \$7.66 per litre and \$7.77 per litre, while petrol price slid by 9 cents to \$7.84 per litre from \$7.93 per litre in the previous month.

Solomon Islands Key Economic Indicators

		Mar 17	Apr 17	May 17	June 17	July 17
Consumer Price Index (% change)	Headline (3mma)	-1.8	-1.1	-0.2	0.5	na
	Underlying (3mma): core 3	-2.8	-2.4	-1.7	-1.0	na
	Month-on month	1.6	0.1	0.3	-0.4	na
Trade¹ (eop)	Exports (\$ millions)	340	185	290	272	262
	Imports (\$ millions)	251	247	370	314	341
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.90	7.92	7.95	7.93	7.87
	SBD per AUD	6.02	5.97	5.92	5.99	6.13
	SBD per NZD	5.54	5.53	5.52	5.73	5.78
	SBD per GBP	9.75	9.99	10.28	10.20	10.22
	SBD per 100 JPY	7.00	7.18	7.09	7.16	7.00
	SBD per EUR	8.44	8.49	8.78	8.91	9.05
Gross Foreign Reserves (eop)	\$ millions	4,162	4,229	4,269	4,297	4,334
Liquidity² (eop)	Total Liquidity (\$)	1,627	1,710	1,701	1,637	1,647
	Excess Liquidity (\$)	1,176	1,253	1,247	1,181	1,191
Money and Credit² (eop)	Narrow Money (\$)	3,499	3,567	3,561	3,512	3,519
	Broad Money (\$)	4,487	4,560	4,547	4,494	4,496
	Private Sector Credit (\$)	2,217	2,185	2,231	2,190	2,218
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)	264	270	265	268	265
	Gold - (US\$/oz)	1,231	1,267	1,246	1,260	1,237
	Palm Oil - (US\$/tonne)	736	685	724	677	663
	Fish - (US\$/tonne)	1,807	2,119	2,119	2,136	2,010
	Copra - (US\$/tonne)	1,016	1,044	1,113	1,119	1,059
	Cocoa - (US\$/tonne)	2,060	1,970	1,980	2,000	1,990

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

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