

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Money supply (M3) improved by 2% to \$4,594 million in August, following the 0.1% growth in July. The month-on-month growth stemmed from the 3% increase in narrow money (M1) to \$3,611 million and a 1% rebound in other deposits (savings and time) to \$984 million. Growth in M1 was supported by a 3% rise in demand deposits to \$2,927 along with a 1% growth in currency in active circulation to \$684 million. On other deposits, the improvement reflected a 1% rise in time deposits to \$807 million which outweighed a 1% fall in savings deposits to \$177 million during the month.

Net foreign assets (NFA) grew by a further 1% to \$4,175 million in August, maintaining the slow but steady pace observed since March this year. The slight increase against the previous month was sustained mainly by a rise in Other Depository Corporations' (ODCs') NFA despite a slight dip in CBSI's NFA by 0.3% to \$4,129 million. Meanwhile, NFA improved by 7% year-on-year.

Net credit to government (NCG) contracted by 3% to net liabilities of \$1,212 million in August, after recording a 3% decline in July and a 6% growth in June. The outcome was underpinned by a persistent fall in ODC's net liability by 10% to \$197 million along with a 2% downturn in CBSI's net liabilities to \$1,015 million during the month. Private sector credit (PSC) continued with a growth of 1% to \$2,236 million following the 1% rise in the preceding month. The increase against July was driven mainly by a 1% rise in ODC lending to \$2,097 million. Total liquidity in the banking system increased slightly by 2% to \$1,682 million reflecting the improvement in NFAs. Both free and excess liquidity improved by 2% each to \$1,373 million and \$1,212 million respectively during the month. Required reserves rebounded by 4% to \$310 million in August. Meanwhile, PSC, NCG and total liquidity grew on an annual basis by 5%, 15% and 3% respectively.

### Domestic Market Operations

The stock of CBSI Bokolo bills remained at \$750 at the end of August with the weighted average yield (WAY) for 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

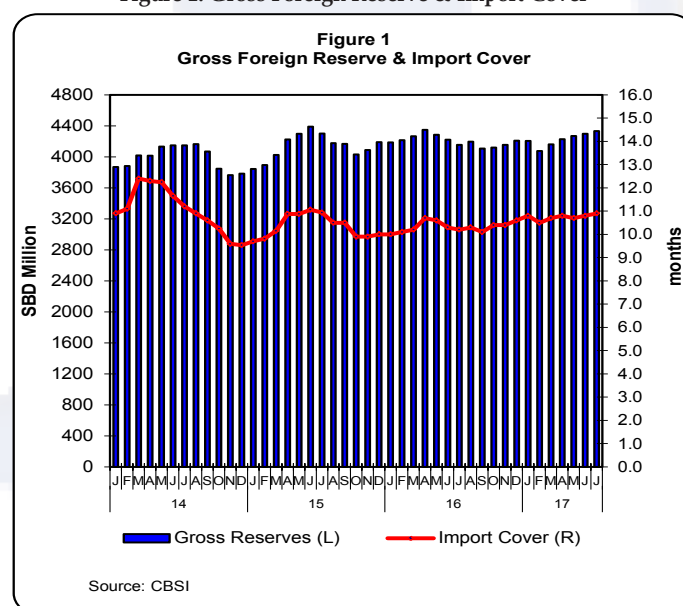
#### Trade in goods

The balance on trade in goods for August 2017 improved to a provisional \$43 million deficit from a revised \$55 million deficit recorded in the previous month. This outcome stemmed from a marginal increase in exports by 1% to \$290 million while imports declined by 2% to \$333 million. The growth in exports was driven by an increase in round logs, fish and mineral exports despite the fall in agricultural and other exports. Meanwhile the fall in imports emanated from the decline in imports for mineral fuel and machineries, outweighing the increases in food, basic manufacture and other imported goods.

#### Gross Reserves

Gross foreign reserves fell marginally by 0.3% to \$4,320 million driven by the fall in inflows associated with donor grants and fishing licenses. This level of reserves was sufficient to cover 10.6 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



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

### Exchange Rates

In August, the Solomon Islands dollar (SBD) appreciated by 0.84% against the United States dollar (USD) to an average of \$7.80 per USD and 1.16% against the New Zealand dollar to \$5.72 per NZD. Similarly, the SBD also appreciated against the British pound. However, the SBD depreciated against the Australian dollar by 0.90% to \$6.18 per AUD. The SBD also, weakened against the Japanese Yen and the EUR. As a result of the movement against the USD, the trade weighted exchange rate basket index strengthened by 0.63% to 105.3 during the month.

### III. GOVERNMENT FINANCE

The government recorded a preliminary deficit of \$14 million in August compared to a deficit of \$88 million posted in July. The outcome stemmed from a 25% fall in expenditure to \$269 million and a 7% decline in revenue to \$255 million during the month. Meanwhile, both revenue and expenditure fell short of their pro rata budget by 22% each.

The decrease in total revenue against the preceding month was driven by a substantial fall in nontax revenue from \$64 million to \$15 million despite an overall increase in tax revenue by 15% to \$240 million in August. The increase in tax revenue emanated from increases in tax on international trade by 11% to \$105 million, income, profit, and capital gains tax by 10% to \$70 million, and goods and services tax by 45% to \$62 million. Meanwhile, no grant receipts was recorded during the month.

The month-on-month fall in total expenditure reflected the slow-down in both recurrent and development-related spending by 29% to \$215 million and 10% to \$54 million respectively. All major recurrent spending items declined against the previous month except for other payments which remained at \$25 million for the second consecutive month. Goods and services declined by 25% to \$106 million, payroll dropped by 35% to \$71 million, whilst grants fell by almost half the amount recorded in July to \$12 million in August. Meanwhile the fall in development spending, reflected decreased spending on machineries and equipment from \$27 million to \$15 million in August. Conversely, building and other structures increased by 25% to \$38 million, which relates primarily to outlays on road infrastructures and residential buildings funded under the SIG constituency development projects.

Total outstanding debt stock at the end of August increased slightly by 0.6% to \$888 million. The outcome was mainly driven by the depreciation of the SBD against the SDR, USD and EUR despite the \$2 million in debt servicing made during the month. Of the total outstanding debt stock, external debt accounted for \$693 million while domestic debt constituted the remaining \$195 million. Meanwhile, debt stock as a share of GDP remained at 10% as in the previous month.

### IV. DOMESTIC PRODUCTION

#### Production and Prices

Based on preliminary estimates, the CBSI monthly production index rose by 3% in August to 81 points from 79 points in the previous month. This outcome reflected the 16% increase in copra production during the month, following the strong rebound in the previous month. In contrast, round log output slipped by 1%, reversing the 5% increase in July. Production data for other key commodities were currently unavailable for reporting. However, monthly output projections based on recent trends showed that cocoa production is expected to rebound by 60%, reversing the sharp decline in the previous month. Crude palm oil and palm kernel oil are projected to increase by 17% and 15% respectively, while fish catch is expected to increase by 6% during the month. In terms of prices, the average international prices for all the key commodities rebounded in August. Palm kernel oil price surged by 17%, fish price increased by 8%, round log and crude palm oil prices grew by 2% each, copra price rose negligibly by 0.3% while cocoa levelled off over the period.

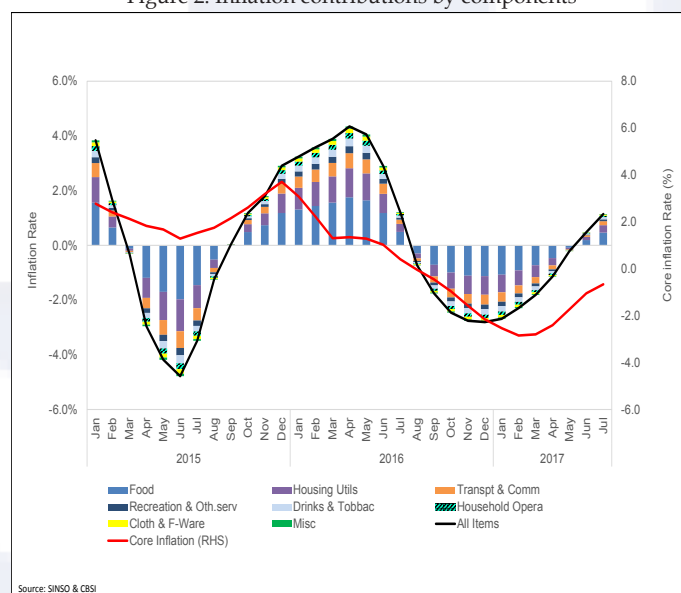
#### Headline inflation

Headline inflation increased further in July to 1.1% from 0.5% in the previous month. This was driven by the increases in both domestic and imported inflation during the month. Domestic inflation rose to 3.1% from 2.2% while imported inflation eased to minus 2.4% from minus 2.6% a month ago.

The increase in domestic inflation came mainly from price pickups in food, housing and utilities, and household operations categories. Similarly, the increase in imported inflation reflected price improvements in food, household operations, and miscellaneous categories during the month.

Of the overall headline inflation, food accounted for 0.5%, housing and utilities represented 0.3% while all other categories accounted for the remaining 0.3%.

Figure 2: Inflation contributions by components



Core inflation improved further to minus 0.7% in July, from minus 1.0% in June. This implies that prices of non-food and non-energy categories also picked up during the month.

**Honiara Fuel Prices**

The average fuel price in Honiara dropped further in August to \$7.64 per litre from \$7.75 per litre in

the previous month. This reflected the price falls across all fuel categories during the month. Petrol price fell by 20 cents to \$7.64 per litre from \$7.84 per litre; kerosene price dropped by 9 cents to \$7.68 per litre from \$7.77 per litre while diesel price fell by 6 cents to \$7.60 per litre from \$7.66 per litre.

## Solomon Islands Key Economic Indicators

		Apr 17	May 17	June 17	July 17	Aug 17
<b>Consumer Price Index</b> (% change)	Headline (3mma)	-1.1	-0.2	0.5	1.1	na
	Underlying (3mma): core 3	-2.4	-1.7	-1.0	-0.7	na
	Month-on month	0.1	0.3	-0.4	-0.1	na
<b>Trade<sup>1</sup></b> (eop)	Exports (\$ millions)	185	290	272	262	290
	Imports (\$ millions)	247	370	314	341	333
<b>Exchange Rates</b> (mid-rate, monthly average)	SBD per USD	7.92	7.95	7.93	7.87	7.80
	SBD per AUD	5.97	5.92	5.99	6.13	6.18
	SBD per NZD	5.53	5.52	5.73	5.78	5.72
	SBD per GBP	9.99	10.28	10.20	10.22	10.12
	SBD per 100 JPY	7.18	7.09	7.16	7.00	7.10
	SBD per EUR	8.49	8.78	8.91	9.05	9.22
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,229	4,269	4,297	4,334	4,320
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$)	1,710	1,701	1,637	1,647	1,682
	Excess Liquidity (\$)	1,253	1,247	1,181	1,191	1,212
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$)	3,567	3,561	3,512	3,519	3,611
	Broad Money (\$)	4,560	4,547	4,494	4,496	4,594
	Private Sector Credit (\$)	2,185	2,231	2,190	2,218	2,236
<b>Interest Rates</b> (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%
<b>Commodity Prices</b> (monthly average)	Round logs - (US\$/m3)	270	265	268	265	271
	Gold - (US\$/oz)	1,267	1,246	1,260	1,237	1,283
	Palm Oil - (US\$/tonne)	685	724	677	663	674
	Fish - (US\$/tonne)	2,119	2,119	2,136	2,010	2,172
	Copra - (US\$/tonne)	1,044	1,113	1,119	1,059	1,062
	Cocoa - (US\$/tonne)	1,970	1,980	2,000	1,990	1,990

<sup>1</sup>. Value in terms of free on board (FOB)

<sup>2</sup>. Based on weekly statistics provided by other depository corporations (ODCs)