

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) grew further by 2% to \$4,991 million in March. This stemmed from a 3% increase in narrow money (M1) to \$4,047 million combined with a 1% rise in other deposits (savings and time) to \$943 million. Growth in M1 mirrored increases in both currency in active circulation and demand deposits, the former by 1% to \$744 million and the later by 3% to \$3,304 million. Other deposits benefited from a 2% rise in savings deposit to \$75 million and 1% increase in time deposits to \$869 million.

Net foreign assets (NFA) expanded by 6% to \$4,686 million in March, following a negligible 0.3% decline recorded in the preceding month. The increase relative to February was underpinned by a 6% improvement in CBSI's NFA position. On an annual basis, NFA improved by 18% compared to the same period last year.

Net credit to government (NCG) increased by 13% to net liabilities of \$1,207 million in March following a 1% decline in February. The month-on-month outturn was attributed to increases in government's net claim on both CBSI and ODCs by 12% to \$939 million and 13% to \$268 million respectively. Private sector credit (PSC) edged lower by 1% to \$2,308 million, reversing the 1% growth in the preceding month. PSC declined following a 1% decline in ODC lending to \$2,168 million. Total liquidity in the banking system continued to rise, by 8% to \$2,162 million at end March. The increase was driven mainly by the build-up in the NFA. This saw both free and excess liquidity growing by 9% each to \$1,831 million and \$1,661 million respectively during the month whilst required reserves grew by 4% to \$331 million. Meanwhile, PSC, NCG and total liquidity grew year-on-year by 5%, 1% and 33% respectively.

Domestic Market Operations

The stock of CBSI Bokolo bills remained at \$750 at the end of March 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

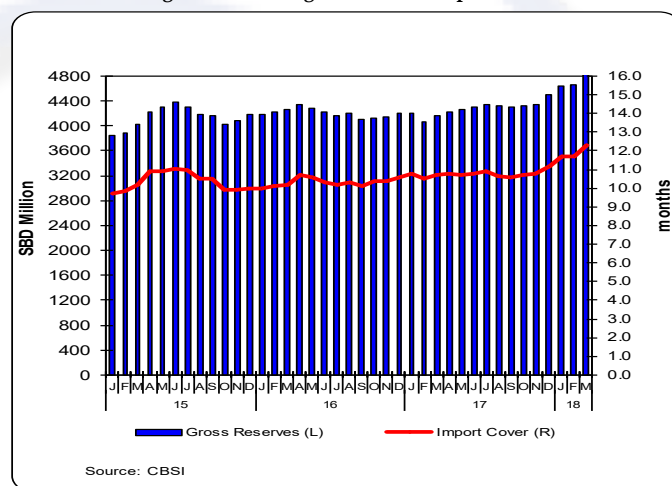
The Balance on Trade in goods for March 2018 surged

to a \$139 million surplus following a revised \$15 million surplus witnessed in the previous month. This positive outcome emanated from a significant increase in exports to \$406 million while imports dropped by 11% to \$268 million during the month. The rise in exports was driven by an upturn in log, fish, mineral exports and agricultural commodities despite a fall in other exports during the month. On the other hand, the downturn in imports came on the back of fall in food, mineral fuels and all other imports which outweighed the increase in basic manufactures and machinery imports.

Gross Foreign Reserves

Gross foreign reserves increased significantly by 4.3% to \$4,868 million due to high inflows exceeding outflows during the month. This level of reserves was sufficient to cover 12.3 months of imports of goods and services.

Fig 1 Gross Foreign Reserve & Import Cover



Exchange Rate

In March the Solomon Islands dollar (SBD) depreciated against the United States dollar (USD) by 0.23% to an average of \$7.78 per USD. Conversely, it appreciated against the Australian dollar by 1.2% to \$6.06 per AUD and against the New Zealand dollar by 0.38% to \$5.66 per NZD. Meanwhile, it weakened against the British pound, Japanese yen and the Euro dollar. As a result of these mixed movements the trade weighted exchange rate basket index depreciated by 0.6% to 105.8 during the month.

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

III. GOVERNMENT FINANCE

The Government’s fiscal position improved further to a surplus of \$171 million in March against the \$13 million surplus a month ago. The notable increase was driven by a 76% upturn in total revenue collected to \$374 million which out weighted the 1% growth in total expenditure to \$204 million.

The improvement in tax revenue to \$296 million which surged by 47% against the previous month was the major driver behind the growth in revenue. Similarly, non tax revenue from other ministries which grew to \$79 million from \$13 million also contributed. Meanwhile, there were no budget support aid funds received during the month.

The marginal increase in Government’s expenditure was attributed to a \$6 million growth in capital expenditure to \$8 million following the drawdown of the national transport fund to finance spending on roads, bridges and wharves. Recurrent spending, on the other hand, edged down slightly by 1% to \$196 million on the back of a decline in consumption spending and other payments. Whilst payroll cost surged during the month.

Government’s debt stock increased by 1% at the end of March to \$963 million. This outcome reflected the disbursement of an International Development Association (IDA) loan during the month. Meanwhile, total debt servicing made during the month amounted to \$9 million, of which \$4 million was on principal repayments and \$5 million on interest payments. Of the outstanding debt stock, external debt made up the bulk of the debt stock at \$768 million while domestic debt accounted for \$195 million. Meanwhile, the debt-to-GDP ratio remained unchanged at 11% as in the previous month.

IV. DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index grew marginally by 1% in March to 107 points from 106 points in February. This outcome reflected the increase in palm oil production, cocoa and round log output during the month. Crude palm oil and palm kernel oil output surged by 22% each, cocoa production grew by 9% while log volumes increased by 7%. In contrast, copra output plummeted by 28%, reversing the 15% growth in the previous month while fish catch volumes dropped by 15%.

In terms of prices, the average international price for

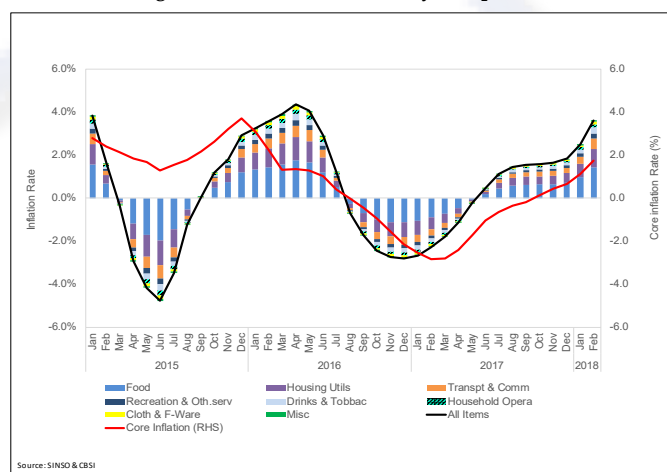
cocoa increased further by 18%, crude palm oil and round log prices grew 3% and 2% respectively during the month. Meanwhile, copra and palm kernel oil prices dropped further by 11% each while fish price fell by 5% against the previous month.

Headline Inflation

Headline inflation increased further to 3.6% in February, from 2.5% in the previous month. This reflected the price increases in both domestic and imported inflation during the month. Domestic inflation rose to 5.1% from 4.0% driven by the price pick up across all categories, except for household operations. Similarly, imported inflation emerged to 0.8% following 19 consecutive months of negative inflation. This outcome mainly reflected price increase in food, housing and utilities, transport and communication, household operations and miscellaneous categories during the month. Likewise, core inflation grew to 1.7% from 1.1% a month ago implying the price increase in non-food and non-fuel items.

Of the overall headline inflation, food accounted for 1.4%, followed by housing and utilities with 0.9%, transport and communication contributed 0.5%, drinks and tobacco with 0.3% whilst all other categories accounted for the remaining 0.5%.

Fig 2: Inflation Contributions by Components



Honiara Fuel Prices

The average fuel price in Honiara increased further in March to \$8.56 per litre from \$8.41 per litre in February. This was driven by the price pick up across all fuel categories during the month. Diesel price grew by 18 cents to \$8.71 per litre from \$8.53 per litre, petrol price rose by 14 cents to \$8.50 per litre from \$8.36 per litre while kerosene price increased by 12 cents to \$8.48 per litre from \$8.36 per litre a month ago.

Solomon Islands Key Economic Indicators

		Nov 17	Dec 17	Jan 18	Feb 18	Mar 18
Consumer price index (% change)	Headline (3mma)	1.6	1.8	2.5	3.6	na
	Underlying (3mma): core 3	0.4	0.7	1.0	1.7	na
	Month -on -Month	0.0	0.8	1.8	2.1	na
Trade¹ (eop)	Exports (\$ millions)	426	319	445	317	406
	Imports (\$ millions)	349	267	357	302	268
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.90	7.90	7.78	7.76	7.78
	SBD per AUD	6.02	6.03	6.18	6.13	6.06
	SBD per NZD	5.44	5.49	5.64	5.68	5.66
	SBD per GBP	10.43	10.58	10.72	10.86	10.90
	SBD per 100 JPY	7.00	7.00	7.01	7.19	7.35
	SBD per EUR	9.26	9.35	9.47	9.59	9.63
Gross Foreign Reserves (eop)	\$ milions	4,338	4,499	4,648	4,666	4,868
Liquidity² (eop)	Total Liquidity (\$)	1,787	1,781	1,915	2,005	2,162
	Excess Liquidity (\$)	1,306	1,317	1,432	1,523	1,661
Money and credit² (eop)	Narrow Money (\$)	3,740	3,695	3,752	3,945	4,047
	Broad Money (\$)	4,777	4,744	4,791	4,880	4,991
	private Sector credit (\$)	2,280	2,299	2,312	2,341	2,308
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 Traesury bills Rate	1.12%	1.12%	1.12%	1.12%	1.12%
Commodity Prices (monthly averages)	Round logs - (US\$/m3)	264	264	268	276	281
	Gold - (US\$/oz)	1,282	1,264	1,331	1,331	1,325
	Palm Oil - (US\$/tonne)	716	665	679	663	681
	Fish -(US\$/tonne)	1,981	1,848	1,701	1,695	1,615
	Copra -(US\$/tonne)	1,038	960	943	835	745
	Cocoa - (US\$/tonne)	2,130	1,920	1,950	2,120	2,500

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

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