

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) rebounded by 1% to \$5,004 million in May following a 1% decline in the previous month. This was driven by a 2% increase in narrow money (M1) to \$4,053 million along with an uptick in other deposits (savings and time) by 0.5% to \$951 million. The upswing in M1 stemmed from a 2% expansion in demand deposits to \$3,302 million coupled with a 1% growth in currency in active circulation to \$751 million. Similarly, the marginal increase in other deposits reflected increases in both savings and time deposits from \$80 million to \$82 million and \$867 million to \$869 million respectively.

Net foreign assets (NFA) dwindled by 1% to \$4,721 million in May reversing the 1% growth observed in April. This outcome was underpinned by a 0.4% downturn in CBSI's NFA position to \$4,731 million along with the fall in Other Depository Corporations' (ODC's) NFA from \$3 million to minus \$10 million.

Net domestic assets (NDA) of Depository corporations (DC) rebounded from the previous month by 57% to \$283 million. This outcome mirrored a notable upsurge in Net Domestic Credit (NDC) by 10% to \$1,143 million supported by a 10% fall in capital account to \$878 million. The growth in NDC was attributed to a 1% increase in Private sector credit (PSC) to \$2,349 million while Net credit to government (NCG) reduced by 7% to net liabilities of \$1,207 million. The growth in PSC was aided by a 1% increase in ODC lending to \$2,207 million whilst the fall in NCG was driven by the 11% decline in CBSI's net liability to \$928 million despite an increase in ODC's net liabilities to \$278 million from net liabilities of \$243 million in the previous month.

Total liquidity in the banking system rose by 3% to \$2,144 million reflecting decreases in government deposits and a slight reduction in currency in circulation during the month. Consequently, both free liquidity and excess liquidity surged by 4% each to \$1,810 million and \$1,639 million respectively against the previous month. Meanwhile, required reserves expanded by 3% to \$335 million over the month.

Domestic Market Operations

Consistent with the current accommodative monetary stance, the stock of CBSI Bokolo bills issued remained at \$750 million at the end of May with the weighted

average yield (WAY) for 28 days maintained at 0.62%. The WAY for Government treasury bills for 56 days increased from 0.40% to 0.46% whilst 91 and 182 days remained at 0.46% and 1.12% respectively.

II. EXTERNAL CONDITIONS

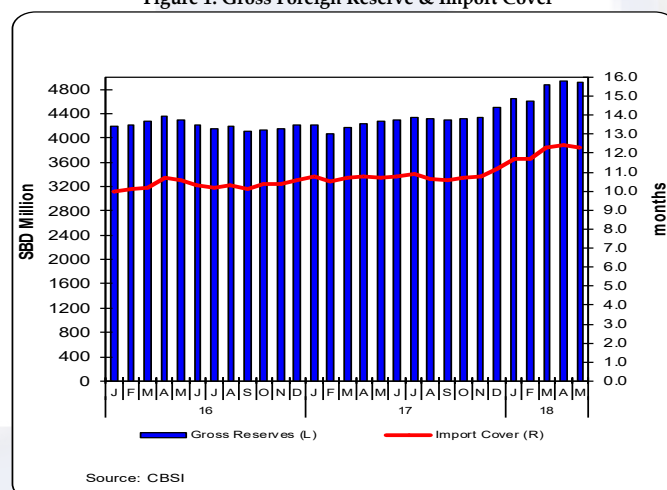
Trade in goods

The balance of trade in goods for May 2018 deteriorated to a \$12 million deficit from a revised \$72 million surplus witnessed in the previous month. This negative outcome resulted from a surge in imports by 31% to \$366 million surpassing the 0.7% growth in exports to \$354 million. The rise in imports was attributed to the rise in all import categories including food, mineral fuels, machineries and basic manufactures. Whilst, the increase in exports was largely driven by an increase in agriculture and minerals, outweighing falls in round logs, fish and other exports.

Reserves

Gross foreign reserves fell marginally by 0.4% to \$4,913 million due to higher outflows exceeding inflows during the month. This level of reserves is sufficient to cover 12.3 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Source: CBSI

Exchange rates

In May, the Solomon Islands dollar (SBD) depreciated against the United States dollar (USD) for the third consecutive month, weakened further by 1.23% to an average of \$7.92 per USD. However, apart from that,

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

it appreciated against the Australian dollar (AUD) and the New Zealand dollar (NZD) by 0.97% to \$5.96 per AUD and by 3.04% to \$5.51 per NZD respectively. Furthermore, it went up against the Euro, Japanese yen and British Pound. Consequently, as a result of the dominance of the USD movement against the SBD, the trade weighted exchange rate basket index weakened further by 1.2% to 107.4 during the month.

III. GOVERNMENT FINANCE

The Government’s fiscal position deteriorated in May to a preliminary deficit of \$103 million compared to a revised \$55 million surplus in April. This outcome stemmed from an expected increase in total expenditure, substantially rising by 67% to \$345 million after the passage of the 2018 national budget in April. The 7% fall in revenue collected during the month from \$261 million to \$242 million also contributed to this outcome.

The decrease in total revenue was attributed to the drastic fall in non-tax revenue to \$16 million from \$32 million posted a month ago. This mainly reflected the decline in collections from fishing licenses during the month. Similarly, tax revenue slid by 1% to \$226 million from \$230 million. The fall in tax revenue was driven by lower collection on income and profit tax, and tax on goods and services which outweighed the increase in tax on international trade and properties. Meanwhile, no grants were received during the month.

The increase in Government’s expenditure emanated from the upsurge in both recurrent and capital spending during the month. Recurrent expenditure surged by 52% to \$297 million. This reflected the growth in spending across all the expense items during the period except for compensation of employees. Likewise, the development expenditure grew significantly to \$48 million compared to \$10 million posted a month ago on the back of increased payments relating to non-residential buildings, machinery and equipment and other fixed assets.

Government’s debt stock fell by 1% at the end of May to \$955 million. The decline in the overall debt stock was attributed to debt service repayments and the exchange rate movements during the month. Total debt repayment made amounted to \$3.2 million, of which \$3 million was on principle repayment and \$0.4 million was on interest payment. Of the total outstanding debt stock, external debt stood at \$762 million while domestic debt stood at \$193 million at the end of May.

IV. DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index grew by 3% in May to 113 points from a revised 110 points in April. The outcome reflected the increases in fish catch volumes, copra and crude palm oil output during the month. Fish catch

volumes and copra production rebounded by 23% and 8% respectively while crude palm oil output increased by 2% against the previous month. In contrast, round log production declined by 7% in May reversing the 8% growth posted a month ago while palm kernel oil output fell by 3% during the month. Production data for cocoa output were unavailable for reporting. However, based on recent trends cocoa output is expected to increase sizeably during the month.

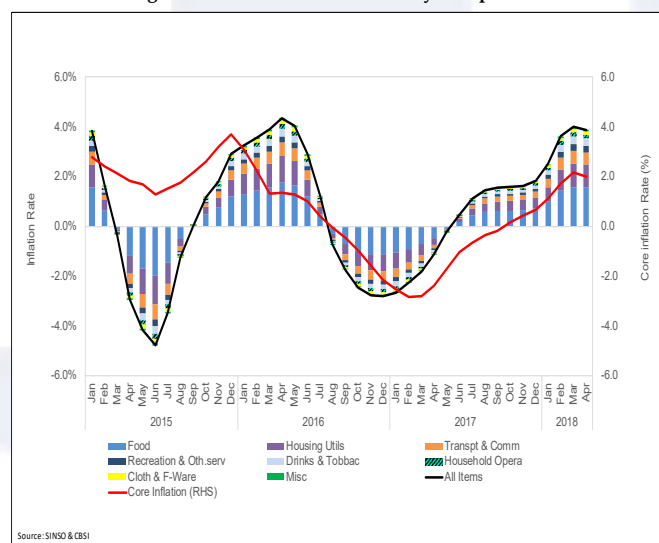
In terms of prices, the average international price for cocoa and fish grew by 2% each in May. Meanwhile, prices for copra and palm kernel oil fell by 8% and 7% respectively during the month. Similarly, log price dropped by 2% while crude palm oil price fell by 1% against the previous month.

Headline Inflation

Headline inflation moderated to 3.9% in April from 4% in March following four consecutive months of growth in prices. The outcome reflected mixed movements in imported and domestic inflation during the month. Imported inflation slowed down to 0.9% from 1.2% a month ago driven by the price falls in the food, housing and utilities, clothing and footwear categories which outweighed the price increases in transport and communications, household operations and miscellaneous components during the month. Meanwhile, domestic inflation remained at 5.5% for the second consecutive month. The outcome emanated from price increases in food, housing and utilities and household operations, which offset the price falls in transport and communications and drinks and tobacco during the month.

Core inflation slid to 2% in April from 2.2% in March reflecting the slow-down in non-food and non-fuel items during the month.

Figure 2: Inflation Contributions by Components



Of the overall headline inflation, food accounted for 1.6%, housing and utilities represented, 0.9%, transport and communications contributed 0.5%,

drinks and tobacco with 0.3%, household operations and recreation accounted for 0.2% each whilst all other categories accounted for the remaining 0.2%.

Honiara Fuel Prices

The average fuel price in Honiara increased by 51 cents in May to \$9.03 per litre from \$8.52 per litre in

the preceding month. This was driven by the price increases across all fuel categories during the month. Kerosene rose by 81 cents to \$9.50 per litre from \$8.68 per litre, diesel grew by 40 cents to \$8.95 per litre from \$8.55 per litre while petrol picked up by 31 cents to \$8.65 per litre from \$8.34 per litre in the previous month.

Solomon Islands Key Economic Indicators

		Jan 18	Feb 18	Mar 18	Apr 18	May 18
Consumer price index (% change)	Headline (3mma)	2.5	3.6	4.0	3.9	na
	Underlying (3mma): core 3	1.0	1.7	2.2	2.0	na
	Month -on -Month	1.8	2.1	-0.3	0.1	na
Trade¹ (eop)	Exports (\$ millions)	445	317	406	356	354
	Imports (\$ millions)	357	302	268	279	366
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.78	7.76	7.78	7.82	7.92
	SBD per AUD	6.18	6.13	6.06	6.02	5.96
	SBD per NZD	5.64	5.68	5.66	5.68	5.51
	SBD per GBP	10.72	10.86	10.88	11.03	10.69
	SBD per 100 JPY	7.01	7.19	7.35	7.28	7.22
	SBD per EUR	9.47	9.59	9.61	9.62	9.38
Gross Foreign Reserves (eop)	\$ millions	4,648	4,666	4,919	4,935	4,913
Liquidity² (eop)	Total Liquidity (\$)	1,915	2,005	2,162	2,072	2,144
	Excess Liquidity (\$)	1,432	1,523	1,661	1,578	1,639
Money and credit² (eop)	Narrow Money (\$)	3,752	3,945	4,047	3,987	4,053
	Broad Money (\$)	4,791	4,880	4,991	4,934	5,004
	private Sector credit (\$)	2,312	2,341	2,308	2,330	2,349
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%	0.46%
	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)	268	276	281	277	271
	Gold - (US\$/oz)	1,331	1,331	1,325	1,335	1,303
	Palm Oil - (US\$/tonne)	679	663	681	666	660
	Fish -(US\$/tonne)	1,701	1,695	1,615	1,580	1,618
	Copra -(US\$/tonne)	943	835	745	756	692
	Cocoa - (US\$/tonne)	1,950	2,120	2,500	2,620	2,660

¹ Value in terms of free on Board (FOB)

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