

Monthly Economic Bulletin

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Content	Page
I. Monetary Developments	1
II. External Conditions	1
III. Government Finances	2
IV. Domestic Production	2-3
V. Key Economic Indicators	4

I. MONETARY DEVELOPMENTS

Money supply (M3) fell by 2% to \$4,998 million in August, following a 3% increase in the previous month. The month on month outcome was driven by a decline in narrow money (M1) by 3% to \$4,023 million despite an increase in deposits (savings and time) by 1% to \$975 million. The decline in M1 stemmed from reductions in both currency in active circulation and demand deposits; the former by 2% to \$763 million and the latter by 3% to \$3,260 million. Meanwhile, M3 grew by 9% year on year.

Total net foreign assets (NFA)¹ contracted by 4% to \$4,567 million in August subsequent to a 1% growth in July. The decline relative to July was mainly attributed to a 4% fall in CBSI's NFA to \$4,554 million. On a year on year basis, NFA expanded by 9%.

Net credit to government (NCG) decreased further by 2% to minus \$1,085 million in August, from a larger decline of 18% in the preceding month. A fall in ODC's net liability position by 13% to minus \$211 million relative to July explained this outcome, despite a marginal 1% increase in CBSI's net liability. Private sector credit (PSC) strengthened by 1% to \$2,402 million underpinned by a 1% increase in ODC lending to \$2,260 million. On a year-on-year basis, PSC grew by 7% whilst NCG contracted by 11%.

Meanwhile, total liquidity growth receded, falling by 8% to \$ 2,049 million in August. Both free and excess liquidity, in turn, declined by 9% to \$1,715 million and 10% to \$1,543 million respectively. This saw a decline in required reserve by 1% to \$334 million.

Domestic Market Operations

The stock of CBSI Bokolo bills held remain capped at \$750 million at end August, with the weighted average yield (WAY) for the 28 days fixed at 0.62%. The WAY for Government treasury bills for both 56 and 91 days remained at 0.46% and 1.12% for 182 days

II. EXTERNAL CONDITIONS

Trade in goods

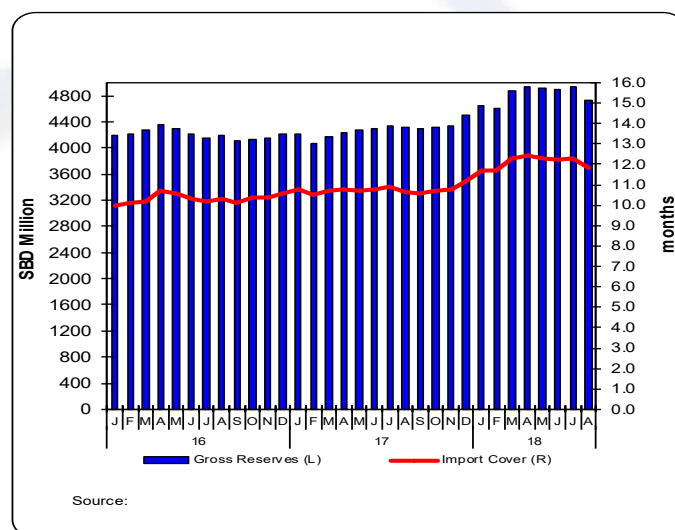
The balance on trade in goods for August 2018 widened further to a \$76 million deficit following the

\$24 million deficit witnessed in the previous month. The deterioration was largely driven by the 23% fall in exports to \$265 million, while imports slid by 7% to \$340 million. The decline in exports came on the back of weaker outturns in all export commodities apart from fish that had improved during the month. Meanwhile, the decrease in imports was attributed to declines in machineries, basic manufactures and all other imports despite increases in food and mineral fuels.

Gross Foreign Reserve

Gross foreign reserves fell by 4% to \$4,724 million, due to higher outflows than inflows during the month. This level of reserves is sufficient to cover 11.8 months of import of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rate

In August, the Solomon Islands dollar (SBD) depreciated by 0.33% against the United States dollar (USD) to an average of \$8.02 per USD. However, it appreciated against both the Australian dollar and New Zealand dollar by 0.56% to \$5.89 per AUD and by 1.16% to \$5.36 per NZD respectively. It also strengthened against the British pound and the Euro, but weakened against the Japanese yen. As a result of these mixed movements, the trade weighted exchange rate basket index continued to deteriorate by 0.41% to 108.8 index points during the month.

¹NFA of the banking system, same for total liquidity, which is total liquidity of the banking system.

III. GOVERNMENT FINANCE

The Government’s fiscal position improved significantly to a narrow deficit of \$52 million in August compared to a revised deficit of \$215 million in July. This outcome reflected the increase in revenue collection combined with a notable decline in government expenditure during the month. Total revenue collection grew by 12% to \$283 million in August while total government expenditure plummeted by 28% to \$335 million during the period. Meanwhile, the government’s debt stock grew slightly by 0.3% to \$954 million at the end of August.

The increase in government revenue was attributed to the pickup in tax collection and non-tax revenue during the month. Total tax revenue grew by 10% to \$268 million driven by the significant increase in tax on income and profits, rising by 47% to \$83 million, and an 11% growth in taxes on goods and services to \$63 million. These outweighed the 6% fall in tax on international trade and transactions from \$127 million to \$119 million during the period. Similarly, non-tax revenue rose from \$9 million in the previous month to \$15 million on the back of increases in sales of goods and services and revenue from fishing licences during the month. Meanwhile, no grants were received in August.

The fall in total government outlays in August was driven mainly by the 37% decline in recurrent spending from \$413 million to \$259 million. It notably reflected declines across all recurrent expense categories during the month. This surpassed the notable pickup in capital expenditure to \$76 million from a revised \$55 million recorded in July reflecting increased spending on buildings and structures, and machinery and equipment during the month.

The slight increase in government’s debt was attributed to the additional loan disbursed by the Asian Development Bank (ADB) during the month combined with the unfavourable movements in the exchange rate. Of the total debt stock of \$954 million, external debt comprised \$760 million while domestic debt was maintained at \$194 million. Meanwhile, total debt repayment totalled \$2.2 million, of which \$2.19 million was on principle repayments and only \$0.01 million was on interest repayments.

IV. DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index fell by 21% in August to 74 points from 94 points in July. The outcome was driven by the substantial decline in round log volumes and weaker performance in palm oil output during the month. Log production plummeted by 36% to 149 million cubic metres, the lowest in recent years while palm kernel oil and crude palm oil output declined by 18% and 14% respectively. In contrast, fish catch rebounded during the month, rising by 31% to 3,091 tons. Production

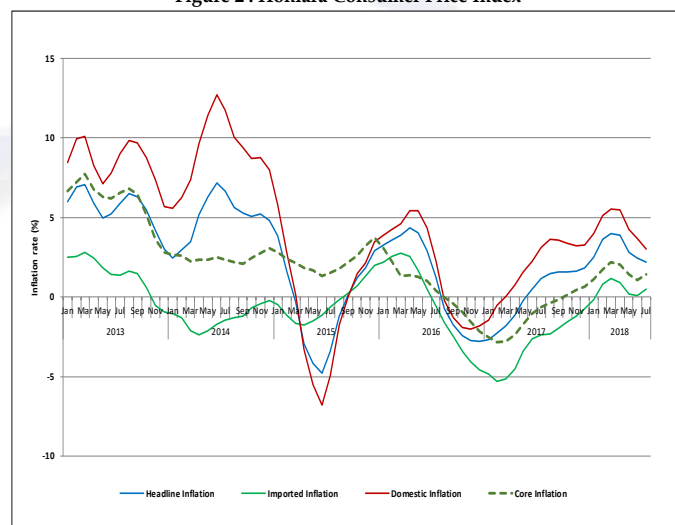
data for copra and cocoa were currently unavailable for reporting. However, monthly output projections based on historical trends reveal that copra and cocoa output are expected to surge by 31% and 18% respectively during the month.

In terms of prices, the average international price for cocoa dropped by 8%, crude palm oil fell by 2% and fish decreased by 1% against the previous month. On the other hand, palm kernel oil grew by 3% while log price levelled off during the month.

Headline Inflation

The introduction of the third series of the Honiara Consumer Price Index (HCPI) in July led to changes to the HCPI series². With these changes, headline inflation fell further to 2.2% in July from 2.5% in June. The outcome reflected the slow-down in the food and non-alcoholic beverages category and the housing, water, electricity, gas and other fuels category during the month. These outweighed the price increases in the transport category and the alcoholic beverages, tobacco and narcotics category reflecting the price hike in betel nut. Meanwhile, the other categories showed negligible price movements over the period.

Figure 2 : Honiara Consumer Price Index



Domestic inflation moderated to 3% from 3.7% in the previous month. Supporting this outcome was the decline in food and non-alcoholic beverages category following the price falls in selected market produce. In contrast, imported inflation picked up marginally to 0.5% from 0.1% in June reflecting price increases in the transport category and the housing water, electricity, gas and other fuels category.

Meanwhile, core inflation picked up to 1.4% in July from 1.1% a month ago implying increases in the prices

² The key changes in the Honiara Consumer Price Index by the NSO included: a new index reference period of 2017=100, new weighting pattern assigned to food, alcohol and tobacco, transport and communication, updated basket of goods and services to reflect current household spending and replacement of the current 8 groups with 12 categories. These new categories are food and non-alcoholic beverages; alcoholic beverages, tobacco and narcotics; clothing and footwear; housing water, electricity, gas and other fuels; furnishings, household equipment and routine household maintenance; health; transport; communication; recreation and culture; education; restaurants and hotels and miscellaneous goods and services.

of non-food and non-fuel items during the month.

Honiara Fuel Prices

The average fuel price in Honiara fell for the second consecutive month to \$9.35 per litre in August from \$9.52 per litre in July. Supporting this were the decrease

in the price of all fuel categories against previous month. Petrol price fell by 23 cents to \$8.96 per litre from \$9.19 per litre, diesel price declined by 20 cents to \$ 9.28 per litre from \$9.48 per litre, while kerosene price slid by 7 cents to \$9.81 per litre from \$9.88 per litre a month prior.

Solomon Islands Key Economic Indicators

		Apr 18	May 18	Jun 18	Jul 18	Aug 18
Consumer price index (% change)	Headline (3mma)	3.9	2.8	2.5	2.2	na
	Underlying (3mma): core 3	2.0	1.4	1.1	1.4	na
	Month -on -Month	0.1	-0.9	-0.2	0.2	na
Trade¹ (eop)	Exports (\$ millions)	356	354	287	342	265
	Imports (\$ millions)	279	366	312	366	340
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.82	7.92	7.97	8.00	8.02
	SBD per AUD	6.02	5.96	5.96	5.92	5.89
	SBD per NZD	5.68	5.51	5.53	5.42	5.36
	SBD per GBP	11.03	10.69	10.57	10.48	10.34
	SBD per 100 JPY	7.28	7.22	7.24	7.16	7.23
	SBD per EUR	9.62	9.38	9.28	9.34	9.27
Gross Foreign Reserves (eop)	\$ millions	4,935	4,913	4,897	4,930	4,724
Liquidity² (eop)	Total Liquidity (\$)	2,072	2,144	1,990	2,226	2,049
	Excess Liquidity (\$)	1,578	1,639	1,491	1,715	1,543
Money and credit² (eop)	Narrow Money (\$)	3,987	4,053	4,008	4,136	4,023
	Broad Money (\$)	4,934	5,004	4,969	5,105	4,998
	private Sector credit (\$)	2,330	2,349	2,360	2,375	2,402
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%	0.46%	0.46%	0.46%	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)	277	271	271	267	268
	Gold - (US\$/oz)	1,335	1,303	1,282	1,238	1,202
	Palm Oil - (US\$/tonne)	666	660	580	545	534
	Fish -(US\$/tonne)	1,580	1,618	1,482	1,324	1,310
	Copra -(US\$/tonne)	756	692	623	NA	N/A
	Cocoa - (US\$/tonne)	2,620	2,660	2,410	2,360	2,170

¹ Value in terms of free on Board (FOB)

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