

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money Supply (M3) declined by 1% to \$5,203 million in March from a 2% growth in the previous month. This outcome was driven by a 2% fall in narrow money (M1) to \$4,180 million despite an increase in other deposits (time and savings) by 4% to \$1,023 million. The fall in M1 stemmed from decreases in both currency in active circulation and demand deposits by 1% to \$766 million and 3% to \$3,414 million respectively. Meanwhile, the growth in other deposits came from an expansion in both savings and time deposits, the former by 2% to \$92 million and the latter by 4% to \$931 million.

Net Foreign Assets (NFA) narrowed by 3% to \$4,710 million in March. The downturn was underpinned by a 3% decline in CBSI's NFA to \$4,684 million despite the increase in ODC's NFA from \$23 million to \$26 million. On an annual basis, NFA grew by 1%.

Net Domestic Assets (NDA) of Depository Corporations (DC) broadened by 23% to \$494 million against the previous month. This outcome reflected an 8% upsurge in Net Domestic Credit (NDC) to \$1,170 million together with an increase in other items net (OIN) by 3% to \$410 million. The expansion in NDC was supported by a 1% growth in private sector credit (PSC) to \$2,458 million along with a 4% decline in net credit to government (NCG) to minus \$1,288 million. Meanwhile, both PSC and NCG grew by 6% and 7% respectively on an annual basis.

Liquidity in the banking system fell by 3% to \$2,123 million following a 3% growth in the previous month. The outcome reflected a fall in NFA which saw a decline in both free liquidity and excess liquidity by 3% to \$1,768 million and 4% to \$1,583 million respectively. Meanwhile, required reserves edged lower by 1% to \$355 million during the month.

Domestic Market Operations

CBSI Bokolo bills stock issued in March was maintained at \$750 million. Bokolo Bills weighted average yield (WAY) for 28 days remained at 0.59% during the month. Meanwhile, the government treasury bills remain capped at \$100 million. The WAY for treasury bills with maturity terms of 91, 182 and 365 days remained unchanged from the previous month at 0.49%, 1.12% and 2.00% respectively.

II. EXTERNAL CONDITIONS

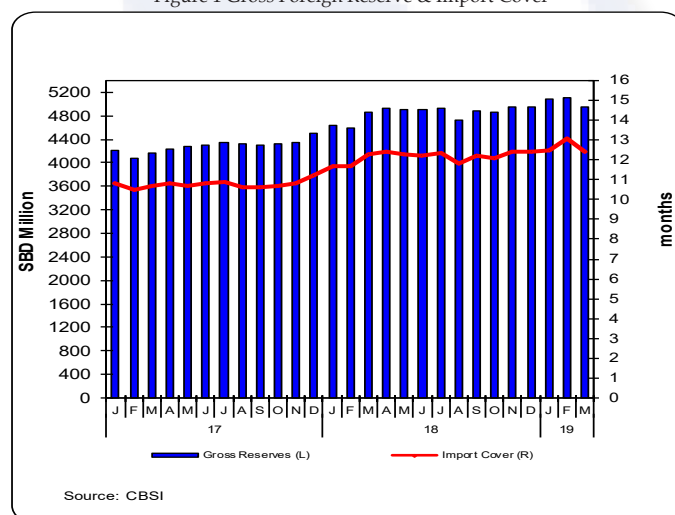
Trade in Goods

The Balance of Trade in Goods for March 2019 improved markedly to \$38 million surplus following a \$239 million deficit witnessed in the previous month. This positive turnaround emanated from a sharp fall in imports during the month by almost half to \$285 million from \$563 million a month ago. Exports on the other hand remained at \$324 million, the same level as in the previous month despite falls in round log and fish, which were outweighed by increases in minerals, agriculture and other exports. Meanwhile, the decline in imports was attributed to the slowdown in food, machineries and basic manufactures, while mineral fuels picked up against the prior month.

Reserves

Gross Foreign Reserve fell by 3% to \$4,948 million, driven by higher outflows than inflows during the month. This level of reserves is sufficient to cover 12.4 months of imports of goods and services

Figure 1 Gross Foreign Reserve & Import Cover



Exchange Rates

In terms of the exchange rates for March, the Solomon Islands dollar (SBD) depreciated against the United States dollar (USD) by 0.25% to an average of \$8.10 per USD, following a slight appreciation a month ago. It also weakened against the New Zealand dollar by 0.27% to \$5.54 per NZD but strengthened against the Australian dollar by 0.62% to \$5.74 per AUD. Similarly, it went up against the Euro dollar (EUR) and

the Japanese yen (JPY) but weakened against British pound (GBP). As a result of these mixed movements the trade weighted index of the basket of currencies weakened by 32 basis points to 110.03.

III GOVERNMENT FINANCE

The government's fiscal deficit widened to \$61 million in March compared to a deficit of \$38 million in the previous month. This outcome reflected the 20% surge in government expenditures to \$320 million, surpassing the 13% increase in revenue collection to \$259 million during the month. Meanwhile, government's debt stock grew further this period.

The growth in total government revenue reflected the increase across all categories during the month. Tax revenue grew by 11% to \$245 million driven by higher collection in taxes on income and profits and taxes on properties. This outweighed the decline in taxes on international trade and taxes on goods and services. Non-tax revenue almost doubled from \$9 million to \$15 million, whilst grant receipts amounted to \$0.04 million during the month.

The notable increase in total government's expenditures was driven by higher recurrent spending, rising by 25% to \$306 million. This came mainly from higher spending on goods and services, compensation of employees, interest payments and social benefits. On the other hand, spending on grants, consumption of fixed capital and other payments declined during the month. Development expenditures reduced by 37% to \$15 million owing to spending cuts on buildings and structures.

Total government's debt stock grew slightly by 0.4% to \$1,031 million at the end of March 2019. This outcome mainly reflected the issuance of additional treasury bills and foreign exchange rate movements during the month. Of the total outstanding debt balance, external debt comprised of \$774 million while domestic debt accounted for \$257 million. Meanwhile, total debt servicing amounted to \$9 million, of which \$3.6 million was on principal repayments and \$5.4 million was on interest payments.

IV DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index fell by 14% to 88 points in March from a revised 103 points in the prior month. The outcome was driven by the substantial decline in log production, falling by an estimated 26% during the month. In contrast, copra production surged by 46%, fish catch and crude palm oil picked up strongly over the period, rising by 27% and 10% respectively while palm kernel oil grew by 7% over the period. Production data for cocoa was unavailable at the time of reporting. However, based on historical trends,

cocoa production is expected to pick up modestly against the previous month.

The average international price for all commodities weakened during the month. Palm kernel oil and crude palm oil prices declined by 6% and 5% respectively. Similarly, cocoa price fell by 3%, fish price dropped by 2% while round log price decreased by 1% during the month.

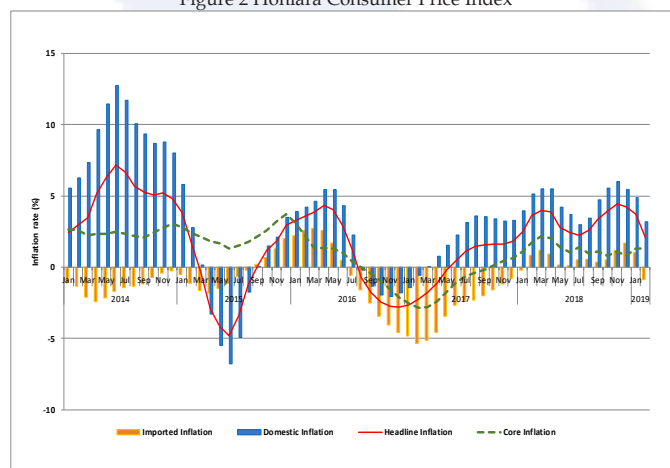
Headline Inflation

Headline inflation eased for the third consecutive month to 2.1% in February from 3.7% recorded in the previous month. This outcome was driven by the sustained decline in domestic and imported inflation during the month. Domestic inflation moderated to 3.2% from 4.9% in January, reflecting the slowdown in domestic prices across major categories of food and non-alcoholic beverages, alcoholic beverages, tobacco and narcotics, furnishing and household equipment, education, transport and restaurants and hotels. These outweighed the price increase in housing utilities, while other categories levelled off during the month.

Similarly, imported inflation eased to minus 0.9% from 1% in January. This reflected price declines in transport and housing utilities, which more than offset the price pick up in food and non-alcoholic beverages category against the preceding month.

Meanwhile, core inflation, which excludes food and fuel items levelled off at 1.3% in February as in the prior month.

Figure 2 Honiara Consumer Price Index



Honiara Fuel Prices

The average fuel price in Honiara picked up to \$8.83 per litre in March from \$8.57 per litre in the previous month. This outcome was driven by the price increases across all fuel categories during the month. Diesel price increased markedly by 40 cents to \$8.92 per litre from \$8.52 per litre, petrol price rose by 21 cents to \$8.06 per litre from \$7.85 per litre, while kerosene price grew by 16 cents to \$9.51 per litre from \$9.35 per litre in the prior month.

Solomon Islands Key Economic Indicators

		Nov 18	Dec 18	Jan 19	Feb 19	Mar 19
Consumer price index (% change)	Headline (3mma)	4.5	4.2	3.7	2.1	na
	Underlying (3mma): core 3	1.1	0.8	1.3	1.3	na
	Month -on -Month	0.3	0.1	0.6	-0.9	na
Trade¹ (eop)	Exports (\$ millions)	397	195	389	324	324
	Imports (\$ millions)	367	590	278	585	285
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.10	8.07	8.10	8.08	8.10
	SBD per AUD	5.86	5.81	5.78	5.77	5.74
	SBD per NZD	5.47	5.52	5.48	5.52	5.54
	SBD per GBP	10.45	10.22	10.41	10.49	10.68
	SBD per 100 JPY	7.15	7.17	7.43	7.32	7.29
	SBD per EUR	9.20	9.17	9.25	9.17	9.16
Gross Foreign Reserves (eop)	\$ millions	4,957	4,952	5,073	5,099	4,948
Liquidity² (eop)	Total Liquidity (\$)	2,375	2,126	2,122	2,189	2,123
	Excess Liquidity (\$)	1,841	1,595	1,588	1,646	1,583
Money and credit² (eop)	Narrow Money (\$)	4,212	4,218	4,167	4,277	4,180
	Broad Money (\$)	5,244	5,203	5,153	5,260	5,203
	Private Sector credit (\$)	2,393	2,409	2,410	2,430	2,458
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.60%	0.59%	0.59%	0.59%	0.59%
	56-days Treasury Bills rate	0.48%	0.50%	na	na	na
	91- days Treasury Bills rate	0.49%	0.48%	0.49%	0.49%	0.49%
	182-days Treasury Bills rate	1.12%	1.12%	1.12%	1.12%	1.12%
	365-days Treasury Bills rate	2.00%	2.00%	2.00%	2.00%	2.00%
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	263	265	273	270	268
	Gold - (US\$/oz)	1,221	1,250	1,292	1,320	1,301
	Palm Oil - (US\$/tonne)	540	535	585	603	573
	Fish -(US\$/tonne)	1,423	1,401	1,366	1,434	1,404
	Copra -(US\$/tonne)	NA	NA	NA	NA	NA
	Cocoa - (US\$/tonne)	2,190	2,210	2,260	2,260	2,200

¹ Value in terms of free on Board (FOB)

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

Note;
na : not available at time of publication.