

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) fell by 0.3% to \$5,028 million in May 2020 reversing the growth of 0.5% in April. The outcome resulted from declines in both narrow money (M1) and other deposits (time and savings) by 0.4% to \$3,979 million and 0.2% to \$1,049 million respectively. The decline in M1 was due mainly from a 1% fall in demand deposits to \$3,153 million despite a 2% increase in currency in active circulation to \$825 million. Meanwhile, the fall in other deposits stemmed from the 0.1% fall in time deposits to \$952 million and a 0.6% decrease in savings to \$98 million.

Net foreign assets (NFA) of the banking system grew by 4% to \$4,603 million in May. This was driven by the 3% increase in CBSI's NFA to \$4,515 million coupled with the rise in NFA of other depository corporations from \$54.2 million to \$88 million during the month. Annually, NFA contracted by 3%.

Net domestic assets continued to dropped in May by 31% to \$425 million. The outcome reflected a 4% fall in domestic credit to \$1,599 million, a 2% increase in the capital account to \$1,282 million, and a 47% decline in other items net to \$108 million. The weaker net domestic credit was driven by an 11% increase in net credit to government (NCG) to minus \$932 million. Private sector credit (PSC), however, grew by 1% to \$2,531 million during the month. On an annual basis, PSC grew by 2% and NCG declined by 28%.

Liquidity in the banking system dropped by 1% to \$1,904 million in May. This resulted in a 1% fall in both the free liquidity to \$1,564 million and excess liquidity to \$1,391 million respectively. Required reserves fell by 1% to \$341 million reflecting the easing in the required reserves during the month.

Domestic Market Operations

The stock of CBSI Boloko Bills (BB) issued for 28 days in May 2020 was reduced to \$690 million. This reduction reflected the change in BB stock in light of the bank's measures to mitigate the negative impacts of covid-19. The rate of the weighted average yield (WAY) for the 28 days increased to 0.54% from 0.52% in the previous month. Meanwhile, government treasury bills tendered during the month totalled to \$22 million, of which \$10 million was accepted. The WAY for 91 days remains unchanged at 0.49%. However, the WAYs for

182 days and 365 days increased to 1.27% and 1.97% respectively.

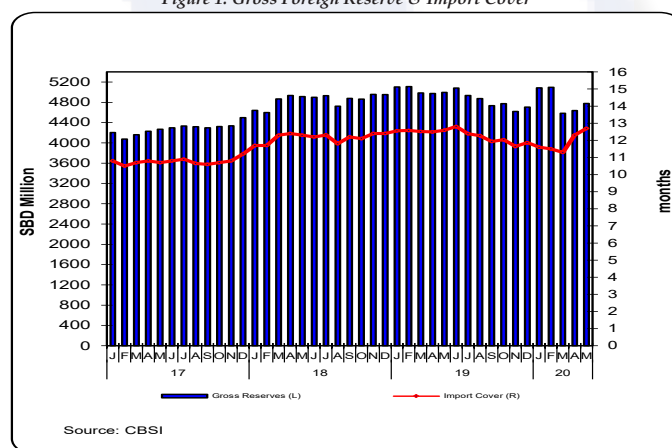
II. EXTERNAL CONDITIONS

The balance of trade in goods for May 2020 widened to a deficit of \$216 million from a revised \$124 million deficit in the previous month. This outcome reflected a sizeable surge in imports to \$516 million from \$238 million due to bulk shipments of all import categories. Exports also rebounded strongly to \$301 million from \$114 million. This was largely driven by round logs and agricultural exports. The pickup in trading activities indicated easing of the covid-19 shipment restrictions and relatively better overseas market conditions compared to the previous month.

Gross Foreign Reserves

Gross foreign reserves in May 2020, improved further by 3% to \$4,775 million, owing to higher inflows particularly with donor grants. This level of reserves is sufficient to cover 12.7 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rates

In May 2020, the Solomon Islands Dollar (SBD) depreciated against the United States dollar (USD) by 0.64% to an average of \$8.37 per USD. The SBD also depreciated against most of the other trading currencies except the British pound (GBP). Against the Australian dollar (AUD), the SBD depreciated by 4% to \$5.44 per AUD and the New Zealand dollar (NZD) by 2% to \$5.09 per NZD. The trade-weighted index (TWI) strengthened by 1.5% to 114.5 index during the month due to the larger depreciation of the AUD.

III GOVERNMENT FINANCE

The government recorded a surplus of \$86 million in May following months of deficit financing since January 2020. This outcome mirrored notable cuts to total expenditure by 32% to \$248 million as the government cut back on spending and reallocated resources towards Covid-19 containment measures. Meanwhile, total revenue improved to \$334 million from \$186 million in the previous month. The central government's debt stock rose by 6% to \$1,154 million at the end of May 2020 driven largely by additional Covid-19 related borrowing.

The growth in revenue stemmed from increases in tax, non-tax and grant receipts during the period. Tax revenue firmed up by 14% to \$190 million, driven by export duties, and goods and services taxes. Similarly, non-tax revenue rose to \$31 million from \$19 million in the preceding month, attributed to higher proceeds from fishing licenses. Donor receipts in May totalled \$112 million compared to zero receipts in April. This increase was attributed to additional support, mainly from Australia and New Zealand, towards Covid-19.

The fall in total expenditure reflected spending cuts on recurrent expenses relating to the Covid-19 pandemic. Recurrent expense dropped to \$184 million from \$335 million in the previous month, driven by notable reductions in salary and goods and services. Conversely, development-related spending surged to \$64 million from \$28 million in the previous month, mainly attributing to purchase of machineries and equipment.

The increase in government debt stock mirrored additional loan disbursements from the World Bank and Covid-19 Domestic Development Bonds. Of the domestic bond, an additional \$40 million was issued to Solomon Power, and a new \$20 million to Solomon Ports. Consequently, external debt stock rose from \$823 million to \$831 million while domestic debt stock surged from \$265 million to \$323 million. On debt servicing, a total of \$3 million was repaid in May, of which \$2 million was on principal repayments and \$1 million on interest payments. With these new borrowing, the debt-to-GDP ratio had increased to 12% in May from 11% in the previous month.

IV DOMESTIC ECONOMY

Domestic Economy

The CBSI preliminary monthly production index rose to 89 points in May from a record low of 41 points posted in April 2020. Except for cocoa output, this turnaround largely reflected the pickup in all export commodities, underpinned mainly by strong log performance in May. Round logs more than doubled to 228,669 cubic meters, fish catch increased by 47% to 1,583 tons, palm oil rose by 11% to 3,513 tons, and copra rebounded by 3% to 1,001 tons.

The average international prices for fish, round logs and agricultural commodities recorded mix movements during the month. Cocoa rebounded by 2% to US\$2,320 per ton, and round logs grew by 1% to US\$278 per cubic meter. On the other hand, world fish prices fell by 20% to US\$1,555 per ton, palm oil dropped by 6% to US\$574 per ton, and coconut oil decreased by 1% to US\$830 per ton.

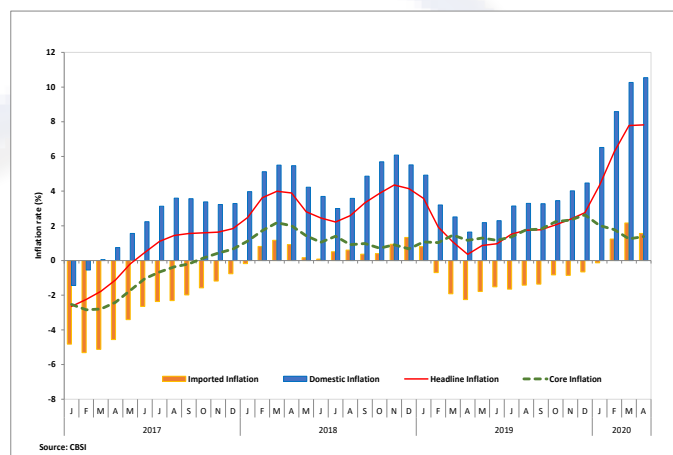
Consumer Price Index (CPI), Inflation

The latest national headline inflation for April 2020 remained stable at the peak point of 7.8%. This outcome was largely driven by the continued increase in domestic inflation whilst imported inflation moderated during the month.

Domestic inflation increased from 10.3% in March 2020 to 10.5% in April 2020 attributed to the higher prices of local food sold in the market such as fruits, local vegetables, fish and betelnut. In contrast, imported inflation eased in April to 1.6% from 2.2% a month ago reflecting lower prices in imported food, gas and fuel.

Meanwhile, core inflation edged up to 1.4% in April from 1.2% recorded in March 2020, reflecting the rise in prices of non-volatile items during the month.

Figure 2. Honiara Consumer Price Index



CBSI Monthly Price Index (MPI)

CBSI MPI declined in May 2020 by 10.3 % to 97 points from 108 points in April 2020. This outcome was attributed to the drop in the prices of betelnut, electricity, and all fuel categories offsetting the increase in the price of rice during the month. Betelnut price per fruit dropped to \$2.00 from \$3.00 owing to excess supply in the market. Electricity tariff fell from \$6.41 per kilowatt-hour to \$5.82 per kilowatt-hour as part of the government's immediate relief measures to ease energy costs during the Covid-19 crisis. Fuel price went down further by 60 cents to \$7.76 per litre reflected the fall in global oil prices as demand plummeted in the transport sector due to covid-19 travel restrictions. On the other hand, the price of 40lb Solrice increased to \$176 per bag from \$174 per bag.

Solomon Islands Key Economic Indicators

		Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20
Consumer price index (% change)	Headline (3mma)	2.8	4.4	6.3	7.8	7.8	na
	Underlying (3mma): core 3	2.6	2.0	1.8	1.2	1.4	na
	Month -on -Month	0.0	5.1	0.3	0.0	-0.4	na
CBSI MPI (weighted Index)	Month- on - Month	99	111	114	103	108	97
Trade¹ (eop)	Exports (\$ millions)	234	261	322	329	114	301
	Imports (\$ millions)	361	267	242	214	238	516
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.24	8.20	8.23	8.28	8.32	8.37
	SBD per AUD	5.65	5.63	5.50	5.15	5.23	5.44
	SBD per NZD	5.41	5.42	5.27	5.01	4.99	5.09
	SBD per GBP	10.79	10.73	10.68	10.24	10.31	10.30
	SBD per 100 JPY	7.55	7.51	7.48	7.69	7.72	7.81
	SBD per EUR	9.14	9.11	8.98	9.14	9.04	9.13
Gross Foreign Reserves (eop)	\$ millions	4,706	5,086	5,095	4,585	4,636	4,775
Liquidity² (eop)	Total Liquidity (\$ millions)	1,921	1,882	1,899	1,863	1,926	1,904
	Excess Liquidity (\$ millions)	1,402	1,362	1,375	1,386	1,406	1,391
Money and credit² (eop)	Narrow Money (\$ millions)	4,044	3,929	3,994	3,994	3,993	3,979
	Broad Money (\$ millions)	5,113	4,971	5,031	5,021	5,045	5,028
	Private Sector credit (\$ millions)	2,553	2,551	2,534	2,538	2,513	2,531
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.55%	0.53%	0.53%	0.52%	0.52%	0.54%
	56-days Treasury Bills rate	na	na	na	na	na	na
	91- days Treasury Bills rate	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%
	182-days Treasury Bills rate	1.12%	1.12%	1.12%	1.12%	1.17%	1.27%
	365-days Treasury Bills rate	1.98%	1.96%	1.96%	1.95%	1.95%	1.97%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-84	-11	-65	-11	-176	86
SIG Debt stock (eop)	\$ million	1,070	1,066	1,066	1,068	1,088	1,154
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	273	272	271	277	276	278
	Gold - (US\$/oz)	1,479	1,561	1,597	1,592	1,683	1,716
	Palm Oil - (US\$/tonne)	770	835	729	635	609	574
	Fish -(US\$/tonne)	1,538	1,646	1,952	1,665	1,955	1,555
	Coconut oil -(US\$/tonne)	1,016	993	844	836	835	830
	Cocoa - (US\$/tonne)	2,440	2,600	2,720	2,340	2,270	2,320

¹ Value in terms of free on Board (FOB)

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

³ Fiscal balance based on GFSM2014 standards.

Note;
na : not available at time of publication.