

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) grew slightly by 0.1% to \$5,035 million in June 2020 after a 0.3% decline in May 2020. The growth emanated from increases in both narrow money (M1) and other deposits (time and savings) by 0.1% to \$3,981 million and 0.4% to \$1,054 million respectively. The uptick in M1 came from a 0.5% increase in currency in active circulation to \$829 million despite a 0.1% fall in demand deposits to \$3,152 million. The upturn in other deposits stemmed from the 0.5% growth in time deposits to \$956 million offsetting the 0.2% decrease in savings deposits to \$97.6 million.

Net foreign assets (NFA) of the banking system expanded further by 6% to \$4,889 million in June. This was driven mainly by the 7% increase of NFA of the Central Bank of Solomon Islands (CBSI) to \$4,813 million. NFA of other depository corporations, however, fell from \$88 million to \$76 million during the month. On an annual basis, NFA grew by 2%.

Net domestic assets (NDA) in June dropped significantly by 65% to \$146 million attributed to a 14% fall in domestic credit to \$1,268 million and a 54% decline in other items net to \$103 million. The drop in domestic credit was driven by a 19% surge in net credit to government (NCG) to minus \$1,252 million due to increased Covid-19 related deposits into government accounts with CBSI. Private sector credit (PSC) also fell minimally by 0.4% to \$2,520 million during the month. Annually, PSC grew by 1% while NCG declined by 9%.

Total liquidity in the banking system slightly increased by 0.2% to \$1,909 million in June as a result of a surge in free liquidity by 7% to \$1,673 million. Meanwhile, required reserves fell notably by 31% to \$235 million reflecting a change in the cash reserve requirement (CRR) ratio from 7.5% to 5% effective 15th June 2020 as part of the CBSI's accommodative responses to the Covid-19 pandemic.

Domestic Market Operations

The stock of CBSI Boloko Bills (BB) issued in June 2020 went down to \$660 million. The continual decrease in BB stock reflects the Bank's expansionary monetary policy stance in the face of the impacts of Covid-19. The weighted average yield (WAY) for the 28 days BB declined from 0.57% to 0.56% during the month. Meanwhile, government treasury bills tendered during the month reached \$36 million of which \$15 million was accepted.

The WAY for 91 days remained at 0.49%. However, the WAY for 182 days and 365 days decreased from 1.27% to 1.11% and 1.97% to 1.96% respectively.

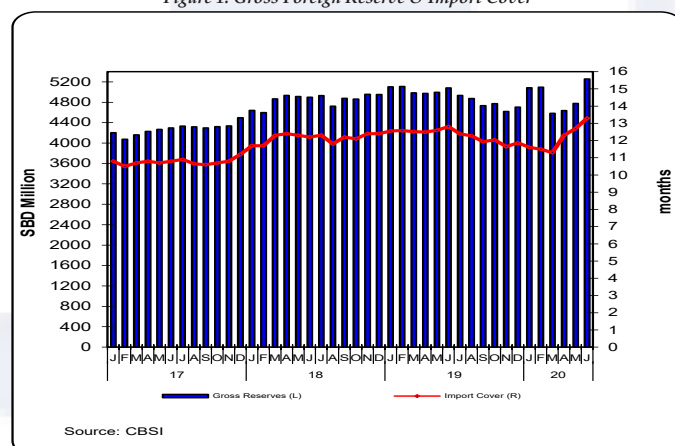
II. EXTERNAL CONDITIONS

The balance of trade in goods for June 2020 rebounded remarkably from a deficit of \$216 million in May to a \$106 million surplus. This positive turn around reflected a surge in exports by 23% to \$369 million, while imports fell by 49% to \$262 million. The significant drop in imports was recorded across all import categories. While, the trade inflows during the month was driven predominantly by round logs, fish and minerals proceeds which thus outweighed the fall in agricultural exports.

Gross Foreign Reserves

Gross foreign reserves in June 2020, went up significantly by 10% to \$5,255 million from \$4,775 in May. The surge in the reserves was sufficient to cover a comfortable 13.3 months of imports of goods and services. The notable growth in the GFR was triggered mainly by improved exports, proceeds from fishing licences and donor support from both the IMF and the World Bank. The IMF injected USD28.5 million through the Rapid Credit Facility and Rapid Financing Instruments whilst the World Bank injected USD15 million to help cover for urgent balance of payments and fiscal financing needed to stem the impact of the Covid-19 pandemic on the country.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rates

The Solomon Islands Dollar (SBD) appreciated against the United States dollar (USD) by 0.7% to an average of \$8.31 per USD in June. Meanwhile, the SBD depreciated against the Australian dollar (AUD) by 5.1% to \$5.73 per

AUD and the New Zealand dollar (NZD) by 4.9% to \$5.36 per NZD. The SBD also depreciated against the other major currencies except for the Japanese Yen. As a result of this mix movements, the trade-weighted index (TWI) strengthened by 2.6% to an index of 111.5.

III GOVERNMENT FINANCE

The Government recorded a deficit of \$15 million in June 2020 reversing the \$86 million surplus posted in May. This outcome stemmed from an increase in expenditure by 32% to \$328 million and a decline in revenue by 6% to \$313 million. Meanwhile, the central government’s debt stock increased further by 6% to \$1,222 million in June.

The fall in total revenue reflected zero grant receipts in June following a large one-off donor budget support received in May. Meanwhile, tax and non-tax revenue increased during the month. Tax revenue rose to \$267 million from \$190 million in the previous month, driven by strong collections across all tax categories. Similarly, non-tax revenue surged to \$45 million from \$31 million in May, underpinned by higher receipts from fishing licenses and administrative fees.

The increase in expenditure was driven by an expansion in recurrent expenses to \$271 million from \$184 million in May. This reflected increases in payroll, purchases of goods and services and other recurrent payments. In contrast, capital spending fell by 11% to \$57 million, driven by lower spending on infrastructure.

The increase in the debt stock was driven by additional loan from the World Bank and a \$60 million Covid-19 Domestic Development Bond issued to the Solomon Islands National Provident Fund (SINPF). Accordingly, the external debt stock edged up by 1% to \$838 million while the domestic debt stock rose to \$385 million from \$323 million in May. Debt servicing in June totalled \$4 million, of which \$3 million was on principal repayments and \$1 million on interest payments.

IV DOMESTIC ECONOMY

Domestic Economy

The CBSI preliminary monthly production index grew by 8% to 95 points in June from a revised 88 points recorded in May 2020. This outcome reflected higher outturns in copra, round logs and crude palm oil offsetting the fall in fish and cocoa output during the month. Copra rebounded by 25% to 922 tons, round logs by 13 % to 259 thousand cubic meters, and crude palm oil by 10% to 3,867 tons. On the other hand, cocoa declined further by 30% to 114 tons, and fish catch fell by 15% to an estimate of 1,616 tons.

The international prices for logs, cocoa, and fish dropped during the month. World fish prices fell by 16% to US\$1,309 per ton, cocoa by 3% to US\$2,240 per ton and round logs fell from US\$278 per cubic meter to US\$277 per cubic meter. Conversely, crude palm oil went up by 14% to US\$652 per ton and coconut oil by 11% to US\$920 per ton

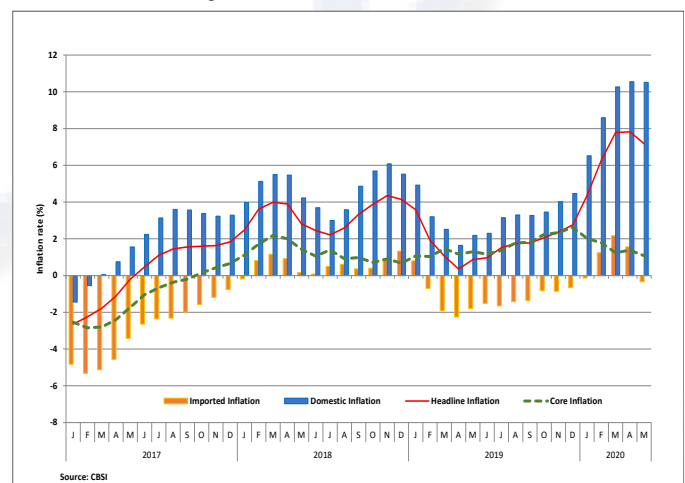
Consumer Price Index (CPI), Inflation

The national headline inflation for May 2020 eased to 7.2% from a peak of 7.8% in April 2020. This was driven by the decline in imported inflation to minus 0.3% from 1.6%, and domestic inflation remained stable at a high rate of 10.5%.

The continued high rate of domestic inflation was attributed to sustained high prices of local food and betel nuts. On the contrary, the fall in imported inflation reflected the continued lower prices in fuel and gas.

Core inflation reduced to 1.1% in May from 1.4% recorded in April 2020, implying a slow-down in prices of non-volatile items during the month.

Figure 2. Honiara Consumer Price Index



CBSI Monthly Price Index (MPI)

The CBSI MPI declined in June 2020 by 3% to 94 points from 97 points in May 2020. This outcome was attributed to the continued drop in the prices of rice and fuel categories following the decline in the world price of rice and crude oil. The prices of 401b Solrice dropped from \$176 per bag to \$171.60 per bag and fuel price fell by 63 cents to \$7.13 per litre. Betelnut prices remained relatively stable at \$2.00 per fruit. On the other hand, the domestic-user electricity tariff rebounded to \$5.94 per kilowatt-hour (KWh) from \$5.82 per KWh driven by the non-fuel charge of the tariff component.

Solomon Islands Key Economic Indicators

		Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20
Consumer price index (% change)	Headline (3mma)	4.4	6.3	7.8	7.8	7.2	na
	Underlying (3mma): core 3	2.0	1.8	1.2	1.4	1.1	na
	Month -on -Month	5.1	0.3	0.0	-0.4	-1.0	na
CBSI MPI (weighted Index)	Month- on - Month	111	114	103	108	97	94
Trade¹ (eop)	Exports (\$ millions)	261	322	329	114	301	369
	Imports (\$ millions)	267	242	214	238	516	262
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.20	8.23	8.28	8.32	8.37	8.31
	SBD per AUD	5.63	5.50	5.15	5.23	5.44	5.73
	SBD per NZD	5.42	5.27	5.01	4.99	5.09	5.36
	SBD per GBP	10.73	10.68	10.24	10.31	10.30	10.41
	SBD per 100 JPY	7.51	7.48	7.69	7.72	7.81	7.72
	SBD per EUR	9.11	8.98	9.14	9.04	9.13	9.35
Gross Foreign Reserves (eop)	\$ millions	5,086	5,095	4,585	4,636	4,775	5,255
Liquidity² (eop)	Total Liquidity (\$ millions)	1,882	1,899	1,863	1,926	1,904	1,909
	Excess Liquidity (\$ millions)	1,362	1,375	1,386	1,406	1,391	1,503
Money and credit² (eop)	Narrow Money (\$ millions)	3,929	3,994	3,994	3,993	3,979	3,981
	Broad Money (\$ millions)	4,971	5,031	5,021	5,045	5,028	5,035
	Private Sector credit (\$ millions)	2,551	2,534	2,538	2,513	2,531	2,520
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.53%	0.53%	0.52%	0.52%	0.54%	0.56%
	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%	1.17%	1.27%	1.11%
	365-days Treasury Bills rate	1.96%	1.96%	1.95%	1.95%	1.97%	1.96%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-11	-65	-11	-176	86	-15
SIG Debt stock (eop)	\$ million	1,066	1,066	1,068	1,088	1,154	1,222
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	272	271	277	276	278	277
	Gold - (US\$/oz)	1,561	1,597	1,592	1,683	1,716	1,732
	Palm Oil - (US\$/tonne)	835	729	635	609	574	652
	Fish -(US\$/tonne)	1,646	1,952	1,665	1,955	1,555	1,309
	Coconut oil -(US\$/tonne)	993	844	836	835	830	920
	Cocoa - (US\$/tonne)	2,600	2,720	2,340	2,270	2,320	2,240

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.