

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) increased by 2% to \$5,624 million in May 2021, supported by an increase in narrow money (M1) despite a downturn in other deposits. M1 expanded by 2% to \$4,649 million fostered by growth in currency in circulation and demand deposits. On the other hand, other deposits narrowed by 1% to \$975 million driven by downturns in both savings and time deposits respectively.

Net foreign assets (NFA) of the banking system grew by 1% to \$5,502 million in May. This was supported by Central Bank's NFA which increased by 1% to \$5,430 million along with the NFA of Other Depository Corporations moving up from \$47 million to \$72 million. NFA grew by 13% on an annual basis¹.

Net domestic assets (NDA) of the banking system notably grew to \$123 million in May from \$70 million in the previous month. This was due to the increase in other items net from \$20 million to \$93 million. Domestic credit, however, declined by 0.3% to \$1,427 million due to a 0.4% fall in private sector credit to \$2,567 million. Meanwhile, net credit to government (NCG) declined by 1% to minus \$1,140 million, reflecting the drop in government deposits held with the Central Bank. Annually, both PSC and NCG increased by 3% and 20% respectively.

Total Liquidity edged higher by 0.4% to \$2,410 million. This was underpinned by the growth in NFA during the month. As a result, free and excess liquidity increased by 0.2% to \$2,172 million and 0.1% to \$1,986 million respectively. Required reserves also increased by 2% to \$238 million during the month due to growth in demand deposits in the banking system.

Domestic Market Operations

CBSI Boloko Bills stock in May remained at \$430 million in light of the ongoing expansionary monetary policy stance. The weighted average yield (WAY) for Bokolo Bills declined to 0.18% from 0.19% in the previous month. Treasury Bills accepted during the month was \$16 million from a tender of \$29 million. The WAY for 91 and 182 days remain unchanged while the WAY for 365 days declined to 1.80% from 1.92% in April.

¹ The percentage change on annual basis refers to growth comparison against end of 2020

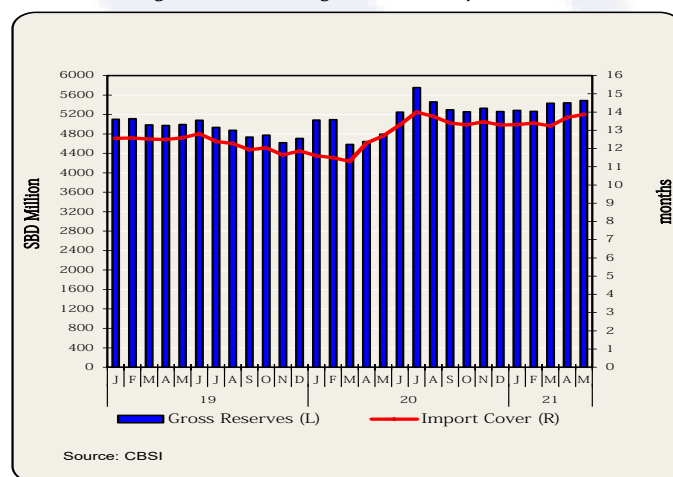
II. EXTERNAL CONDITIONS

Balance on trade in goods for the month of May 2021, recorded a slightly narrower deficit of \$72 million following a \$74 million deficit witnessed in the previous month. This outcome stemmed from a sizable increase in exports by 17% to \$220 million, while imports rose by 11% to \$292 million during the month. Contributing to the rise in exports were increases in fish and agricultural commodities, outweighing falls in round logs and mineral exports. Meanwhile, the increase in imports was attributed to the upturns in machinery and basic manufactures.

Gross Foreign Reserves

Gross foreign reserves rose marginally by 1% to \$5,488 million due to higher inflows from donor's support for education and COVID-19 response during the month. This level of reserves is sufficient to cover 13.9 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover.



Exchange rates

In the month of May, the Solomon Islands dollar, appreciated against the United States dollar by 0.1% to an average of \$7.98 per USD. On the other hand, it depreciated against the Australian dollar (AUD) by 0.7% to \$6.20 per AUD and the New Zealand dollar (NZD) by 1.3% to \$5.77 per NZD. Similarly, it weakened against the British pound and Euro but strengthened against the Japanese Yen. As a result of the strong dominance of the USD within the basket of trade currencies. The trade-weighted index strengthened by 39 basis points to 105.9 during the period.

III GOVERNMENT FINANCE

The government has commenced implementing the 2021 national budget in May 2021¹. Following this, the government recorded a deficit of \$110 million in May, reversing a surplus of \$11 million registered in April. This stemmed from a surge in total expenditure by 31% to \$302 million and a fall in revenue by 21% to \$191 million. Meanwhile, the central government’s debt stock grew slightly by 0.2% to \$1,621 million in May.

Declines in both tax and non-tax receipts against April underlined the fall in revenue collections. Tax revenue dropped by 3% to \$183 million, attributing to weaker collections on income taxes and GST. Likewise, non-tax revenue fell notably to \$8 million from \$51 million in the previous month, driven by lower proceeds from fishing licenses and administrative fees.

The growth in expenditure mirrored increases in recurrent and capital spending. Recurrent expenses expanded by 23% to \$282 million, largely driven by increases in payments for goods and services and ‘benefits and transfers’. Meanwhile, a total of \$20 million was spent on capital, mainly on fixed assets in May.

The slight increase in government’s debt stock resulted from exchange rate movements during the month. The external debt grew by 0.3% to \$1,168 million whilst the domestic debt stock remained at \$453 million as in the preceding month. Debt servicing amounted to \$6 million in May 2021; \$3 million in principal repayments and the remaining \$3 million on interest payments.

IV DOMESTIC ECONOMY

Domestic Production

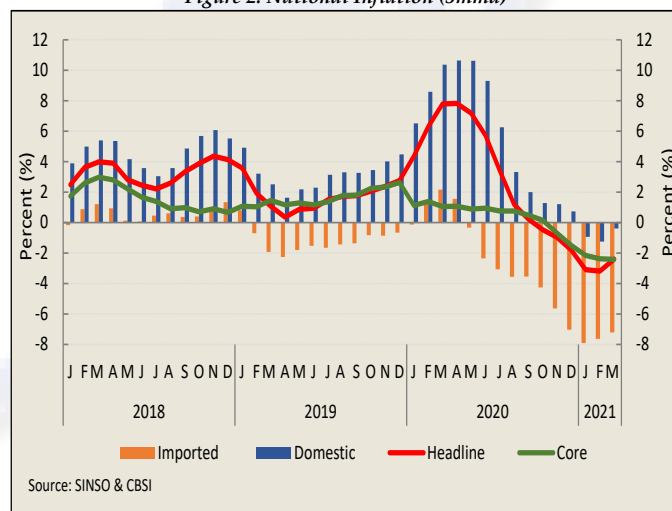
The CBSI preliminary production index registered a growth of 16% to 72 points in May 2021 following the turnaround in fish catch, round logs, and crude palm oil. Fish catch shot up markedly by 46% to 2,324 tons, round logs by 11% to 164 thousand cubic meters, and palm oil grew by 8% to 2,941 tons. Cocoa and copra, however, dropped by 28% to 142 tons, and by 8% to 995 tons, respectively.

The international commodity prices trended up in May with crude palm oil increasing by 8% to US\$1,163 per ton, coconut oil by 7% to US\$1,614 per ton, and cocoa by 2% to US\$2,410 per ton. Prices for round logs and fish were relatively stable around US\$273 per cubic meter and US\$1,402 per ton, respectively.

Consumer Price Index, Inflation (yoy - 3mma)

The consumer price index (CPI) in March 2021 eased to negative 2.4% against minus 3.2% in February. The price falls in both domestic and imported components drove this deflation. Domestic items fell to minus 0.4% from minus 1.2% whilst imported inflation dwindled to negative 7.2% from negative 7.6%. Core inflation for March 2021 remained at minus 2.4% against the preceding month reflecting weak demand in the economy.

Figure 2: National Inflation (3mma)



CBSI Monthly Price Index (MPI)

The CBSI MPI for the selected consumer prices edged down in May to 96 points from 103 points in April. The fall in prices for betelnut, electricity tariff and fuel were the main drivers to this outcome. Betelnut reduced by a dollar to \$2.00 per fruit, domestic user electricity dropped by 11 cents to \$5.86 per KWh, and fuel went down 4 cents to \$8.55 per litre. The price of solrice family rice (40lb), on the other hand, grew by 2 cents to \$115.40 per bag. Meanwhile, LP gas remained at \$24.77 per KG.

¹ 2021 Government Budget was passed by Parliament in April 2021

Solomon Islands Key Economic Indicators

		Dec 20	Jan 21	Feb 21	Mar 21	April 21	May 21
Consumer price index (% change)	Headline (3mma)	-1.8	-3.1	-3.2	-2.4	na	na
	Underlying (3mma): core 3	-1.5	-2.2	-2.4	-2.4	na	na
	Headline (MoM)	-0.4	0.5	1.7	2.6	na	na
CBSI MPI (weighted Index)	Month- on - Month	89	100	104	105	103	96
Trade¹ (eop)	Exports (\$ millions)	288	162	217	342	189	220
	Imports (\$ millions)	243	252	272	260	263	292
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.04	8.03	8.01	7.99	7.99	7.98
	SBD per AUD	6.04	6.20	6.20	6.16	6.15	6.20
	SBD per NZD	5.69	5.77	5.80	5.71	5.69	5.77
	SBD per GBP	10.79	10.94	11.09	11.07	11.05	11.23
	SBD per 100 JPY	7.74	7.74	7.61	7.36	7.33	7.31
	SBD per EUR	9.77	9.77	9.69	9.52	9.56	9.69
Gross Foreign Reserves (eop)	\$ millions	5,315	5,283	5,266	5,433	5,440	5,488
Liquidity² (eop)	Total Liquidity (\$ millions)	2,444	2,363	2,445	2,340	2,400	2,410
	Excess Liquidity (\$ millions)	2,030	1,949	2,028	1,930	1,984	1,986
Money and credit² (eop)	Narrow Money (\$ millions)	4,417	4,429	4,503	4,432	4,537	4,649
	Broad Money (\$ millions)	5,301	5,308	5,380	5,314	5,520	5,624
	Private Sector credit (\$ millions)	2,489	2,512	2,544	2,537	2,578	2,567
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.35%	0.29%	0.23%	0.20%	0.19%	0.18%
	91- days Treasury Bills rate	0.49	0.49%	0.49%	0.49%	0.49%	0.49%
	182-days Treasury Bills rate	1.07%	1.05%	1.05%	1.05%	1.05%	1.05%
	365-days Treasury Bills rate	1.95%	1.95%	1.93%	1.92%	1.92%	1.80%
Government Finance³	Revenue (\$ millions)	291	236	171	276	241	191
	Expenditure (\$ millions)	341	198	258	234	229	302
	Fiscal Balance (\$ millions)	-50	39	-87	42	11	-110
	SIG Debt stock (eop) (\$ millions)	1,450	1,442	1,440	1,427	1,617	1,621
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	287	287	283	274	273	273
	Gold - (US\$/oz)	1,858	1,867	1,808	1,718	1,760	1,850
	Palm Oil - (US\$/tonne)	979	990	1,020	1,031	1,078	1,163
	Fish - (US\$/tonne)	1,339	1,454	1,282	1,370	1,403	1,402
	Coconut oil - (US\$/tonne)	1,452	1,455	1,438	1,578	1,514	1,614
	Cocoa - (US\$/tonne)	2,410	2,390	2,410	2,460	2,370	2,410

¹ Value in terms of free on Board (FOB)

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

³ Based on GFSM2014 standards.

Note;
na : not available at time of publication.