

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Money supply (M3) declined by 1% to \$4,969 million, reversing the 1% increase recorded in the previous month. The month-on-month outturn reflected a decrease in narrow money (M1) by 1% to \$4,008 million, whilst other deposits (savings and time) increased by 1% to \$961 million. The decline in M1 stemmed from a 2% reduction in demand deposits to \$3,246 million despite an increase in currency in active circulation by 1% to \$762 million. The growth in other deposits, on the other hand, was driven by a 2% rise in time deposits to \$884 million, negating a 5% increase in savings deposit to \$78 million. On a year-on-year basis, M3 posted a growth of 11%.

Total net foreign assets (NFA) of the banking system recorded a negligible increase of 0.1% to \$4,725 million in June following the 1% decline in May. The marginal increase in NFA relative to May was supported by an improvement in NFA of Depository Corporations which more than offsets the slight fall in CBSI's NFA position. Meanwhile, NFA of the banking system grew by 14% year-on-year.

Net credit to government (NCG) increased by 12% to net liabilities of \$1,355 million in June, improving from a 7% decline recorded a month earlier. Attributing to the month-on-month increase was a 19% surge to \$1,105 million in CBSI's net credit to government whilst ODC's net liabilities position contracted by 10% to \$250 million. Private sector credit (PSC) barely grew by 0.5% to \$2,360 million largely sustained by a 1% increase in ODC lending to \$2,219 million. On a year-on-year basis, both PSC and NCG grew by 8% and 5% respectively. Meanwhile, total liquidity in the banking system dropped in June by 7% to \$1,990 million. This saw a decline in both free and excess liquidity by 8% to \$1,661 million and 9% to \$1,491 million respectively during the month. Required reserves also declined by 2% to \$300 million from a 3% growth a month ago.

### Domestic Market Operations

Consistent with current monetary stance, the stock of CBSI Bokolo bills remained at \$750 million at end of June with the weighted average yield (WAY) for the 28 days fixed at 0.62% from the previous month. Meanwhile, the WAY for Government treasury bills

for 56 days has increased to 0.46% since May whilst the WAY for 91 and 182 days remained unchanged at 0.46% and 1.12% respectively.

### II. EXTERNAL CONDITIONS

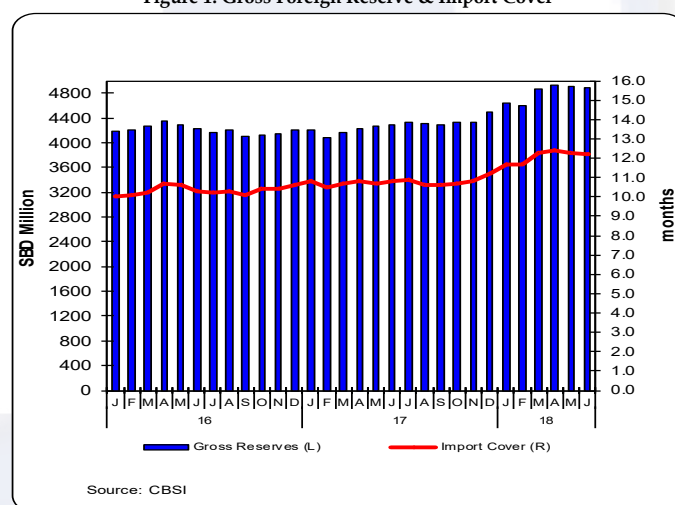
#### Trade in goods

The balance of trade in goods for June 2018 deteriorated further to \$39 million deficit from a \$12 million deficit in the previous month. This outcome was driven by contractions in both exports and imports during the month by 23% to \$273 million and by 15% to \$312 million respectively. The decline in exports was largely driven by the fall in round logs and agricultural commodities outweighing the up-turn in minerals, fish and other exports relative to previous month. Meanwhile, the decline in imports was attributed to the slowdown in food, machineries and basic manufactures, besides increases in mineral fuels and other imports.

#### Gross Foreign Reserves

Gross foreign reserves fell by 0.3% to \$4,897 million, due to higher inflows than outflows during the month. This level was sufficient to cover 12.2 months of import of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



#### Exchange Rate

In June, the Solomon Islands dollar (SBD) further depreciated against the United States dollar (USD) by 0.56% to an average of \$7.97 per USD. Moreover,

<sup>1</sup>The basket is trade weighted index to 100 with a base year of 2012.

it depreciated against the Australian dollar by 0.04% to \$5.96 per AUD and against the New Zealand dollar by 0.30% to \$5.53 per NZD. It also weakened against the Japanese Yen, but strengthened against the British pound and the Euro dollar. Meanwhile, the prevailing movement of the SBD against the USD resulted in a decline in the trade weighted exchange rate basket index by 0.2% to 107.6 during the month.

### III. GOVERNMENT FINANCE

The Central Government's fiscal position narrowed to a deficit of \$65 million in June compared to \$103 million deficit recorded in May. This outcome resulted from a significant upturn in total revenue collection during the month, rising by 27% to \$307 million. This outweighed the 8% growth in total expenditure to \$372 million over the period. Meanwhile, the government's debt position stood at \$956.4 million, a slight increase from \$955.4 million at the end of previous month.

The increase in government revenue was mainly driven by the 32% upsurge in tax revenue to \$299 million against \$226 million a month ago. This reflected the strong collection in income and profit tax, and good and services tax during the month, which surpassed the decline in tax on international trade, properties and other taxes over the period. In contrast, non-tax revenue further dropped from \$16 million to \$8 million on the back of lower fishing revenue collections during the month. Meanwhile, no grants were received in June.

The pickup in government expenditures was attributed to the significant increase in capital expenditure to \$103 million compared to \$48 million in May. This outcome emanated from the increase in payments relating to buildings and structures, and machinery and equipment during the month. Meanwhile, recurrent expenditure dropped by 9% to \$269 million reflecting lower spending on compensation of employees, social benefits, grant related payments and other payments.

Government's debt stock grew slightly by 0.1% at the end of June to \$956 million. This was mainly driven by movements in exchange rate during the month. Of the total debt stock, external debt totalled to \$762 million while domestic stood at \$195 million. Total debt repayment made amounted to \$9 million, of which \$7 million was on principle repayment and \$2 million was on interest payment.

### IV. DOMESTIC PRODUCTION

#### Domestic Economy

Based on preliminary estimates, the CBSI monthly production index fell by 27% in June to 78 points from a revised 107 points in May. The weaker outcome was driven by a 32% decline in round log production to 162,857 cubic metres and a 16% fall in fish catch volumes to 2,772 metric tons at end June. Production data for all

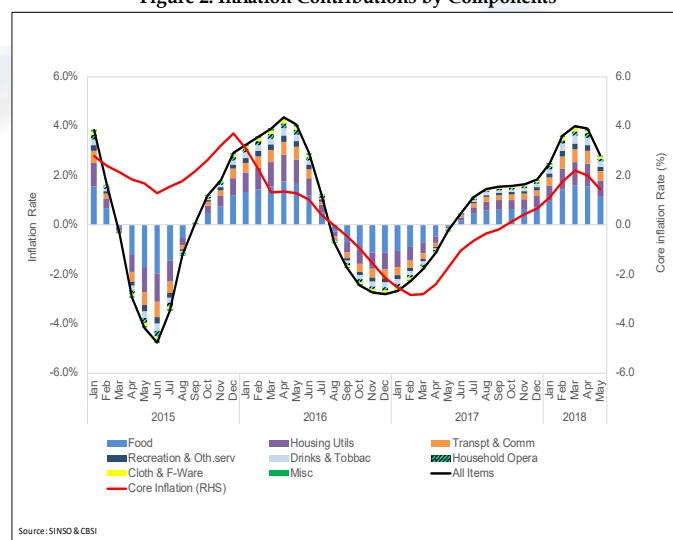
other key commodities were unavailable for reporting. However, monthly projections based on historical trends showed that crude palm oil and palm kernel oil are expected to decrease by 21% and 24% respectively during the month. Similarly, copra production is projected to fall by 18% while cocoa production is expected to decline by 11% during the period

In terms of prices, the average international price for fish fell by 8% during in June. Meanwhile, international prices for other key commodities were unavailable at the time of reporting.

#### Headline Inflation

Headline inflation dropped to 2.8% in May from 3.9% a month ago. The outcome reflected the slow-down in both imported and domestic inflation during the month. Imported inflation fell to 0.2% from 0.9% a month ago driven by the price falls in the food, housing and utilities, and clothing and footwear categories. These outweighed the price increases in transport and communication and miscellaneous components during the month. Meanwhile, domestic inflation dropped to 4.2% from 5.5% a month ago following the price decreases in food, drinks and tobacco, housing and utilities, transport and communications which offsets the slight increase in household operations.

Figure 2: Inflation Contributions by Components



Of the overall headline inflation, food accounted for 1.1%, housing and utilities represented, 0.7%, transport and communications contributed 0.4%, drinks and tobacco and recreation accounted for 0.2% each whilst all other categories accounted for the remaining 0.2%.

Core inflation slid further to 1.4% in May from 2.0% in April reflecting the continued slow-down in non-food and non-fuel items during the month.

#### Honiara Fuel Prices

The average fuel price in Honiara increased further by 54 cents in June to \$9.57 per litre from \$9.03 per litre in May. This was driven by the price increase across

all fuel categories during the month. Petrol price rose by 68 cents to \$9.33 per litre from \$8.65 per litre, diesel grew by 56 cents to \$9.51 per litre from \$8.95 per litre

while kerosene price picked up by 38 cents to \$9.87 per litre from \$9.50 per litre against the prior month.

### Solomon Islands Key Economic Indicators

		Feb 18	Mar 18	Apr 18	May 18	Jun 18
<b>Consumer price index</b> (% change)	Headline (3mma)	3.6	4.0	3.9	2.8	na
	Underlying (3mma): core 3	1.7	2.2	2.0	1.4	na
	Month -on -Month	2.1	-0.3	0.1	-0.9	na
<b>Trade<sup>1</sup></b> (eop)	Exports ( \$ millions)	317	406	356	354	273
	Imports ( \$ millions)	302	268	279	366	312
<b>Exchange Rates</b> (Mid-rate, Monthly average)	SBD per USD	7.76	7.78	7.82	7.92	7.97
	SBD per AUD	6.13	6.06	6.02	5.96	5.96
	SBD per NZD	5.68	5.66	5.68	5.51	5.53
	SBD per GBP	10.86	10.88	11.03	10.69	10.57
	SBD per 100 JPY	7.19	7.35	7.28	7.22	7.24
	SBD per EUR	9.59	9.61	9.62	9.38	9.28
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,666	4,919	4,935	4,913	4,897
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$)	2,005	2,162	2,072	2,144	1,990
	Excess Liquidity ( \$)	1,523	1,661	1,578	1,639	1,491
<b>Money and credit<sup>2</sup></b> (eop)	Narrow Money (\$)	3,945	4,047	3,987	4,053	4,008
	Broad Money ( \$)	4,880	4,991	4,934	5,004	4,969
	private Sector credit (\$)	2,341	2,308	2,330	2,349	2,360
<b>Interest Rates</b> ( 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%	0.34%	0.34%	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%
<b>Commodity Prices</b> ( monthly averages)	Round logs - ( US\$/m3)	276	281	277	271	na
	Gold - (US\$/oz)	1,331	1,325	1,335	1,303	na
	Palm Oil - (US\$/tonne)	663	681	666	660	na
	Fish -(US\$/tonne)	1,695	1,615	1,580	1,618	1,482
	Copra -(US\$/tonne)	835	745	756	692	na
	Cocoa - (US\$/tonne)	2,120	2,500	2,620	2,660	na

<sup>1</sup> Value in terms of free on Board (FOB)

<sup>2</sup> Based on weekly statistics provided by other depository corporations ( ODCs)