

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) recorded a slight fall by 0.2% to \$5,021 million in March 2020 driven mainly by a decline in other deposits (savings and time) by 1% to \$1,027 million. Whilst, narrow money (M1) remained unchanged at \$3,993 million during the period. The decline in other deposits reflected a downturn in time and saving deposits both by 1% to \$95 million and \$931 million respectively. Year on year, M3 declined by 4%.

Net foreign assets (NFA) of the banking system declined by 1% to \$4,291 million in March 2020 following a 0.3% fall recorded in the previous month. The fall mirrored a 2% decline in CBSI's NFA to \$4,237 million offsetting the increase in other depository corporation's NFA to \$54 million from \$31 million in February 2020. Year on year, NFA fell by 9%.

Net domestic assets increased by 7% to \$730 million in March 2020 following an 11% rise reported in the previous month. This mirrored growth in other items net by 32% to \$408 million that offset the decline in the net domestic credit by 3% to \$1,590 million. The reduction in net domestic credit reflected an increase in net credit to the government (NCG) by 5% to minus \$948 million withstanding the 0.1% rise in private sector credit (PSC) to \$2,538 million. The increase in NCG reflected a build-up of government deposits in the banking system during the period. Year on year, PSC grew by 3% while NCG declined by 26%.

In March 2020, total liquidity in the banking system declined by 2% to \$1,863 million after a 1% fall in the last month. This fall resulted in free liquidity to edge lower by 0.1% to \$1,551 million, whilst excess liquidity picked up by 1% to \$1,386 million. Meanwhile, required reserve also declined by 10% to \$312 million during the review period.

Domestic Market Operations

The issuance of the stock of CBSI Bokolo Bills for 28 days in March 2020 continued to remain at \$750 million as of the previous month. The rate of the weighted average yield (WAY) for 28 days drop to 0.52% from 0.53% in February 2020. Further to that, the Government treasury bills tendered during the month totaled to \$20 million, of which \$11 million was accepted with the maturity of 91, 182 and 365 days.

The WAY for 91 and 182 days remained unchanged as of the previous period at 0.49% and 1.12% respectively. Meanwhile, the WAY for 365 days slightly drops to 1.95% from 1.96% in the previous month.

II. EXTERNAL CONDITIONS

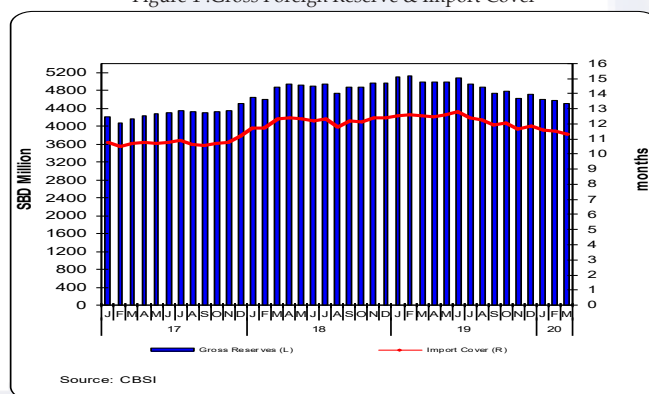
Balance on Trade in goods

The balance on Trade in goods for March 2020, reflected a reduced surplus of \$112 million, following a \$113 million surplus witnessed in the previous month. This outcome resulted from a continued decline in both exports and imports during the month by 8% to \$327 million and by 11% to \$214 million respectively. The fall in exports was largely driven by a drop in round log exports that more than offset increases in fish, minerals, agriculture and all other exports. Meanwhile, the decrease in imports was attributed to declines on all import categories which include, food, mineral fuel, machines, basic manufactures & all other imports.

Gross Foreign Reserve

Gross Foreign Reserve declined marginally by 2% to \$4,499 million as a result of revaluation losses incurred during the month. The level of reserves is sufficient to cover 11.3 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange rates

In March 2020, the Solomon Islands Dollar (SBD) depreciated by 0.56% against the United States dollar (USD) to an average of \$8.28 per USD. In contrast, it appreciated against the Australian dollar (AUD) by 7% to \$5.15 per AUD and against the New Zealand dollar (NZD) by 5% to \$5.01 per NZD. However, it weakened against the Euro dollar (EUR) and Japanese Yen (JPY) but strengthened against the British pound (GBP). As a result of these currency movements

within the basket, the trade-weighted index (TWI) weakened by 328 basis points to 116.6.

III GOVERNMENT FINANCE

The government recorded a fiscal deficit of \$11 million in March 2020 compared to the \$65 million deficit recorded in the previous month. This outcome reflected increases in total revenue by 30% to \$277 million and expenditure by 3% to \$288 million. Meanwhile, the government's debt stock slightly increased by 0.2% to \$1,068 million at the end of March 2020.

The positive revenue outturn in March stemmed from increases in tax and nontax revenues; the former by 40% to \$245 million and the latter by 10% to \$31 million. The growth in tax receipts was attributed to a surge in tax on income, profits and capital gains from \$37 million in the preceding month to \$101 million. An increase in goods and services tax by 7% to \$66 million also contributed to the increase in tax receipts whilst tax on international trade and transactions remained at \$72 million, broadly the same as in February. On nontax revenue, the growth came mainly from sales of goods and services. Meanwhile, grants fell to \$1 million from \$11 million recorded in February.

The increase in expenditure was driven by development spending which more than doubled to \$40 million against the prior month. This was attributed to spending on buildings and other structures, and machinery and equipment. In contrast, recurrent expenses fell by 6% to \$249 million underpinned by reductions in other charges, grants, and other payments.

On the outstanding debt stock, the increase mirrored depreciation of the SBD and additional disbursements during the month. The outstanding debt stock comprised of \$800 million in external debt and \$268 million in domestic debt. A total of \$4 million debt servicing was made in March 2020, of which over 90% was on external debt servicing.

IV DOMESTIC ECONOMY

Domestic Economy

The CBSI preliminary monthly production index grew by 10% to 108 points in March 2020 from 98 points in February 2020. This outcome was driven by the higher output across all major commodities during the month. Palm oil rebounded by 15% to 3,424 tonnes, copra increased three-folds to 3,021 tonnes, fish catch increased by 3% to 1,865 tons whilst cocoa more than doubled to 1,367 tonnes. On the other hand, round logs decreased by 3% to 253 cubic meters.

The average international prices for all agricultural commodities weakened during the month except for round logs which rebounded by 2% to US\$277 per cubic meters. Cocoa contracted by 14% to US\$2,340 per ton, world fish price declined by 13% to US\$1,665 per ton whilst crude palm oil, and coconut oil both

dropped further by 13% and 1% to US\$635 per ton and US\$836 per ton respectively.

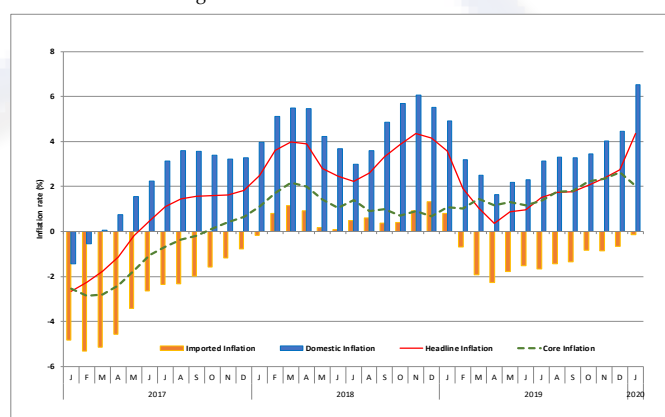
Consumer Price Index (CPI), Inflation

The national headline inflation for January 2020 rose to 4.4% from 2.8% posted in December 2019. This outcome was driven by the increase in both domestic and imported inflation during the month. Domestic inflation edged up to 6.5% in January 2020 from 4.5% in December 2019 attributed to the price increase in alcohol and tobacco, health, food, and non-alcoholic beverages, and furnishings and household equipment outweighing the price fall in transport, clothing, and footwear, education, and utilities.

Similarly, imported inflation grew in January 2020 to minus 0.1% from minus 0.7% in December 2019 mainly driven by price pick-up in transport, utilities, and health despite the price drop in food and non-alcoholic beverages, recreation and culture, furnishings and household equipment, and miscellaneous goods and service.

Meanwhile, core inflation moderated to 2.0% in January 2020 from 2.6% recorded in December 2019, implying a slow-down in the prices of non-food and non-fuel categories during the month.

Figure 2: Honiara Consumer Price Index



CBSI Monthly Price Index (MPI)

CBSI MPI index declined by 9.7% to 103 points in March from 114 points in February 2020. This outcome reflected the fall in the price of betelnut and all fuel categories offsetting the rise in electricity tariff during the month. On average, betelnut price dropped to \$2.00 per fruit due to excess supply in the market. Fuel price went down by 63 cents to \$8.77 per litre, while rice price remained stable at \$174 per bag. In contrast, electricity tariff rebounded in March 2020 to \$6.55 per kilowatt hour from \$6.23 per kilowatt hour in February 2020.

Solomon Islands Key Economic Indicators

		Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20
Consumer price index (% change)	Headline (3mma)	2.1	2.4	2.8	4.4	na	na
	Underlying (3mma): core 3	2.2	2.3	2.6	2.0	na	na
	Month -on -Month	1.0	0.3	0.0	5.1	na	na
CBSI MPI (weighted Index)	Month- on - Month	-	-	99	111	114	103
Trade¹ (eop)	Exports (\$ millions)	278	243	234	256	354	327
	Imports (\$ millions)	337	340	361	267	242	214
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.27	8.24	8.24	8.20	8.23	8.28
	SBD per AUD	5.61	5.63	5.65	5.63	5.50	5.15
	SBD per NZD	5.23	5.28	5.41	5.42	5.27	5.01
	SBD per GBP	10.43	10.61	10.79	10.73	10.68	10.24
	SBD per 100 JPY	7.64	7.57	7.55	7.51	7.48	7.69
	SBD per EUR	9.13	9.11	9.14	9.11	8.98	9.14
Gross Foreign Reserves (eop)	\$ millions	4,727	4,640	4,706	4,605	4,577	4,499
Liquidity² (eop)	Total Liquidity (\$ millions)	1,941	1,925	1,921	1,882	1,899	1,863
	Excess Liquidity (\$ millions)	1,416	1,391	1,402	1,362	1,375	1,386
Money and credit² (eop)	Narrow Money (\$ millions)	3,988	3,948	4,044	3,929	3,994	3,994
	Broad Money (\$ millions)	5,036	4,997	5,113	4,971	5,031	5,021
	Private Sector credit (\$ millions)	2,532	2,559	2,553	2,551	2,534	2,538
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.55%	0.55%	0.55%	0.53%	0.53%	0.52%
	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%	1.12%	1.12%
	365-days Treasury Bills rate	1.98%	1.98%	1.98%	1.96%	1.96%	1.95%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-105	-101	-84	-11	-65	-11
SIG Debt stock (eop)	\$ million	1,050	1,087	1,070	1,066	1,066	1,068
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	275	273	273	272	271	277
	Gold - (US\$/oz)	1,495	1,471	1,479	1,561	1,597	1,592
	Palm Oil - (US\$/tonne)	591	683	770	835	729	635
	Fish -(US\$/tonne)	1,079	1,261	1,538	1,646	1,952	1,665
	Coconut oil -(US\$/tonne)	720	836	1,016	993	844	836
	Cocoa - (US\$/tonne)	2,440	2,520	2,440	2,600	2,720	2,340

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.