

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) in July 2020 further grew by 1% to \$5,081 million following the 3% upturn in narrow money (M1) to \$4,095 million which offset, other deposits (time and savings) that fell by 6% to \$986 million. The growth in M1 stemmed from increases in both currency in active circulation and demand deposits by 1% to \$840 million and 3% to \$3,255 million, respectively. The downturn in other deposits was spurred by an 8% fall in time deposits to \$884 million outweighing the 5% increase in savings deposits to \$102 million.

Net foreign assets (NFA) of the banking system expanded by 5% to \$5,120 million in July. This was supported by a 6% increase in NFA of the Central Bank of Solomon Islands (CBSI) to \$5,092 million. On the other hand, the NFA of other depository corporations fell from \$76 million to \$27 million during the month. Meanwhile, NFA grew by 9% on an annual basis.

Net domestic assets (NDA) dropped markedly to minus \$38 million from \$146 million in the previous month. The outcome resulted from a 9% fall in domestic credit to \$1,155 million and a 3% increase in capital account to \$1,264 million. Domestic credit declined on account of an 8% growth in net credit to government (NCG) to minus \$1,354 million. This is due to the increase in Covid19 related deposits in government accounts held with CBSI. Private sector credit (PSC), likewise, fell marginally by 0.5% to \$2,509 million during the month. Annually, PSC dipped by 0.2% while NCG grew by 4%.

Total liquidity in the banking system expanded by 8% to \$2,067 million in July 2020 from \$1,909 million in June 2020. This was attributed to expanding NFA and changes to the following components of total liquidity; minimum required reserves remained at \$235 million from the June level whilst both free liquidity and excess liquidity increased remarkably by 9% to \$1,832 million and 10% to \$1,650 million respectively during the month.

Domestic Market Operations

The stock of CBSI Boloko Bills (BB) held at the end of the month totalled to \$610 million from \$660 million in the previous month. The decline in BB stock reflected the Bank's expansionary monetary policy stance to ease the impacts of Covid-19 on the financial sector.

The weighted average yield (WAY) for the 28 days BB declined from 0.56% to 0.53% during the month. Meanwhile, government treasury bills tendered during the month reached \$21 million of which \$10 million was accepted. The WAY for 91 and 365 days remained unchanged at 0.49% and 1.96% respectively. The WAY for 182 days however declined by 2 basis points to 1.09%.

II. EXTERNAL CONDITIONS

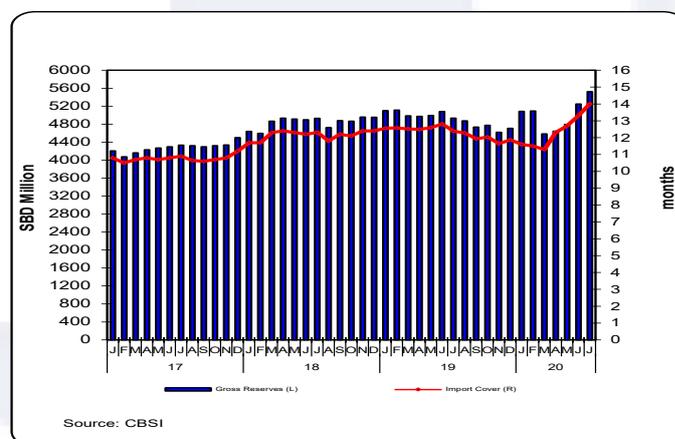
Trade in Goods

In the month of July 2020, trade in goods plummeted to a \$106 million deficit from the \$127 million surplus recorded in the previous month. This negative outcome emanated from a sizable fall in exports by 48% to \$204 million combined with an increase in imports by 18% to \$310 million. The decline in exports was driven by all the major export commodities; particularly from logs and minerals. Meanwhile, the rise in total imports was attributed to upturns in food, fuel, and basic manufactures during the period.

Gross Foreign Reserves

Gross foreign reserves continued to rise by 5% to \$5,522 million in July and was driven by higher donor inflows in support of Covid19 response efforts. This level of reserves is sufficient to cover 14 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rates

In terms of Exchange rates for the month of July 2020, the Solomon Islands dollar (SBD) appreciated against the United States dollar (USD) by 0.5% to an average of \$8.27 per USD. On the other hand, it depreciated against both the Australian dollar and New Zealand

dollar by 1.3% to \$5.81 per AUD and by 1.5% to \$5.44 per NZD, respectively. Similarly, it weakened against the British Pound (GBP), Japanese yen (JPY) and Euro (EUR). However, the trade-weighted index (TWI) strengthened by 0.8% to 110.6 points, reflecting the strong dominance of the USD during the month.

III GOVERNMENT FINANCE

The government recorded another deficit of \$21 million in July 2020, following the \$15 million deficit posted in June. This negative outcome mirrored a 2% fall in revenue to \$307 million while total expenditure remained at \$328 million as in June. Meanwhile, the government's debt stock rose by 8% to \$1,319 at the end of July, from additional borrowing to mitigate the impacts of the Covid-19 pandemic.

The fall in revenue was underpinned by declines in tax and non-tax receipts, despite an increase in grant receipts of \$82 million. Tax revenue dropped by 25% to \$200 million, driven by weaker collections across all tax categories. Similarly, non-tax revenue fell to \$26 million from \$45 million in the preceding month, attributing to fewer proceeds from fishing license fees.

Recurrent expenses increased slightly by 3% to \$280 million this month, following increases in grants and other recurrent payments. In contrast, payroll fell to \$65 million from \$124 million and purchases of goods and services slid to \$97 million from \$111 million in June. Development spending also declined by 15% to \$48 million in July, attributing to lower capital spending.

The increase in the debt stock reflected an additional loan from the Asian Development Bank (ADB) and auction treasury bills issued in July. Accordingly, external debt surged by 11% to \$932 million while domestic debt rose by 0.5% to \$387 million in July. Debt servicing in July 2020 stood at \$10 million, of which \$8 million was for principal repayments and \$2 million for interest payments.

IV DOMESTIC ECONOMY

Domestic Economy

The CBSI preliminary monthly production index fell by 35% to 66 points in July from a revised 102 points in June 2020. This negative outcome reflected a significant drop in round logs and palm oil volumes offsetting the increase in cocoa, fish, and copra output during the month. Round logs dropped by 43% to 147 thousand cubic meters, and crude palm oil declined by 11% to 3,451 tons. In contrast, cocoa rebounded by 37% to 156 tons, fish catch grew by 4% to 2,065 tons, and copra up 1% to 929 tons.

The international prices for fish, palm oil, and logs picked up in July. Fish price rebounded by 12% to US\$1,464 per ton after falling in the past two consecutive months. Palm oil further grew by 6% to US\$694 per ton, and round logs slightly increased by 1% to US\$279 per cubic meter. Meanwhile, cocoa price fell by 6% to US\$2,100 per ton and coconut oil by 3% to US\$888 per ton.

Consumer Price Index (CPI), Inflation

The June 2020 CPI is not yet available. However, the latest headline inflation was at 7.2% in May as previously reported in the June bulletin.

CBSI Monthly Price Index (MPI)

The CBSI MPI declined further in July 2020 by 3.7% to 91 points from 94 points in June 2020. This outcome reflected the continued drop in the prices of rice, betelnut and electricity tariff offsetting the rise in price fuel during the month. The prices of 40lb Solrice declined from \$168.00 per bag to \$167.50 per bag. Betelnut prices decreased by 28 cents to \$1.72 per fruit, and the domestic-user electricity tariff dropped by 56 cents to \$5.34 per kilowatt-hour. On the other hand, fuel price went up by 30 cents to \$7.43 per litre.

Solomon Islands Key Economic Indicators

		Feb 20	Mar 20	Apr 20	May 20	Jun 20	Jul 20
Consumer price index (% change)	Headline (3mma)	6.3	7.8	7.8	7.2	na	na
	Headline (3mma) CBSI adjustment ⁴	5.6	5.5	5.5	3.5	na	na
	Underlying (3mma): core 3	1.8	1.2	1.4	1.1	na	na
	Month -on -Month	0.3	0.0	-0.4	-1.0	na	na
CBSI MPI (weighted Index)	Month- on - Month	114	103	108	97	94	91
Trade¹ (eop)	Exports (\$ millions)	322	329	114	301	369	204
	Imports (\$ millions)	242	214	238	516	262	310
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.23	8.28	8.32	8.37	8.31	8.27
	SBD per AUD	5.50	5.15	5.23	5.44	5.73	5.81
	SBD per NZD	5.27	5.01	4.99	5.09	5.36	5.44
	SBD per GBP	10.68	10.24	10.31	10.30	10.41	10.47
	SBD per 100 JPY	7.48	7.69	7.72	7.81	7.72	7.75
	SBD per EUR	8.98	9.14	9.04	9.13	9.35	9.47
Gross Foreign Reserves (eop)	\$ milions	5,095	4,585	4,645	4,793	5,250	5,522
Liquidity² (eop)	Total Liquidity (\$ millions)	1,899	1,863	1,926	1,904	1,909	2,067
	Excess Liquidity (\$ millions)	1,375	1,386	1,406	1,391	1,503	1,650
Money and credit² (eop)	Narrow Money (\$ millions)	3,994	3,994	3,993	3,979	3,981	4,095
	Broad Money (\$ millions)	5,031	5,021	5,045	5,028	5,035	5,081
	Private Sector credit (\$ millions)	2,534	2,538	2,513	2,531	2,520	2,509
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.53%	0.52%	0.52%	0.54%	0.56%	0.53%
	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%	1.17%	1.27%	1.11%	1.09%
	365-days Treasury Bills rate	1.96%	1.95%	1.95%	1.97%	1.96%	1.96%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-65	-11	-176	86	-15	-21
SIG Debt stock (eop)	\$ million	1,066	1,068	1,088	1,154	1,222	1,319
Global Commodity Prices (monthly averages)	Round logs - (US\$/ m3)	271	277	276	278	277	279
	Gold - (US\$/oz)	1,597	1,592	1,683	1,716	1,732	1,847
	Palm Oil - (US\$/tonne)	729	635	609	574	652	694
	Fish -(US\$/tonne)	1,952	1,665	1,955	1,555	1,309	1,464
	Coconut oil -(US\$/tonne)	844	836	835	830	920	888
	Cocoa - (US\$/tonne)	2,720	2,340	2,270	2,320	2,240	2,100

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.

⁴ Adjustments by substituting CBSI monthly collected betel-nut prices.

Note;
na : not available at time of publication.