CENTRAL BANK OF SOLOMON ISLANDS

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This report is available on the Bank's website on the above address.

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GENERAL NOTE

p	provisional
e	estimate
-	nil
n.a.	not available

(i) The sum of the components may differ from the totals in some instances due to rounding.

(ii) Data are subject to periodic revision as more updated information becomes available.

GLOSSARY

The following terminologies are defined in the context of Solomon Islands.

Balance of Payments (BoP): Records all payments and receipts relating to the movement of funds between a country and foreign countries.

Bank Liquidity: Total amount of cash held by banks and not used for investment or other transactions.

Capital account: Records international transactions relating to the flow of capital between a country and foreign countries, such as investment, loans etc.

Current account: Records international transactions relating to the flow of goods, services, income and gifts. A surplus indicates higher inflows than outflows and a deficit indicates the opposite.

Domestic credit: Value of loans and advances obtained from within the country.

Excess Liquidity: The liquidity that banks possess that is greater than the minimum prescribed by the Central Bank.

Exchange rate: The price of foreign currencies stated in terms of the local currency or the vice versa.

Exports: Goods that a country sells abroad.

External reserves: Stock of foreign currency assets of the Central Bank. These assets are earned though exports, foreign aid and loans obtained from institutions abroad.

Gross Domestic Product (GDP): Total value of all final goods and services produced in an economy during the course of a year.

Honiara Retail Price Index (HRPI): A consumer price index which shows the price level and changes in price level of goods and services in Honiara over time. This information forms the basis for calculating inflation in the economy.

Imports: Goods that a country buys from abroad.

Liquidity Asset Requirement: Usually defined as a percentage of deposit liabilities of a commercial bank that shall be hold as cash or as balance with the Central Bank.

Money Supply: The total quantity of money in a country's economy at a particular time.

Narrow money: Notes and coins in the hands of the public plus money held on demand deposits at the Central Bank.

Net Credit to Government: Value of borrowings by Government less its deposits at the banks and the Central Bank.

Private sector credit: Value of borrowings by private companies and individuals within the country.

Quasi money: Total of time deposits and savings deposits.

Trade balance: The difference between merchandise exports (goods sold overseas) and merchandise imports (goods purchased from overseas).

Trade surplus/deficit: A trade surplus is when the value of exports is higher than the value of imports, whilst a trade deficit is when receipts from exports are less than payments for imports.

Chapter I. OVERVIEW AND ANALYSIS

Based on the International Monetary Fund (IMF) World Economic Output (WEO) July[1] update , a solid global growth of 3.9% is envisaged for 2018 and 2019 and is broadly in line with the previous forecast. Sustaining the growth momentum are favourable financial conditions, firm domestic demand and investments resulted in part from the robust growth in the United States (US). Nevertheless, growth expansions have peaked in some major economies as potential downside risk is mounting. The balance of risk is more on the down side as geopolitical uncertainty, rising trade tension and uneven growth could put pressure on the growth path.

Growth in the advanced economies is expected to be above trend at 2.4% before moderating to 2.2% in 2019. The forecast for 2018 is a slight downward revision of 10 basis points, largely reflecting moderations in the euro area and Japan. Growth prospects for the US is broadly on tract with growth projected at 2.9% in 2018 and 2.7% for 2019. Supporting this growth path are the substantial fiscal stimulus, robust private final demand, stronger domestic demand and solid gains in the labour market creating above potential output and lowering of unemployment.

For the emerging market and developing economies (EMDE), growth is projected to remain unchanged as the previous update at 4.9%. Uneven growth is becoming profound in the EMDE reflecting combined influences of several fundamentals such as the effects of a stronger US dollar, growing capital movement to the US induced by higher interest rates, increasing oil prices, and persistent geopolitical and trade pressures. Emerging and Developing Asia is expected to remain firm at 6.5% supported by robust economic sentiments in the ASEAN-5[2] region.

Growth in China has softened in the second quarter ahead of the impact of a likely trade war. Nonetheless, with some elements of resilience, growth is forecasted to remain as previously forecast at 6.6% for 2018. By 2019, growth is expected to 6.4% in 2019 as the impact of the trade war unfolds. Meanwhile the Chinese authorities are taking qualitative and quantitative measures to avoid the material slowdown by easing fiscal policy and ensuring investment. As a key export destination for forestry products, any shocks to the Chinese economy would have a direct impact on the Solomon Islands economy.

Closer in the region, the Australian economy is projected to rally above potential to 3.25% in 2018. This optimistic outlook comes on the back of the firm growth in the first half of the year, rising natural resource exports and supported by an accommodative monetary policy. However, growth in New Zealand was softer at 2.7% in 2018 with a slowdown related to services and industrial outturns in the March quarter. Although it is expected to recover as fiscal and monetary expansions, along with exports drive up growth to 2.9% in 2019.

Global headline inflation has increased slightly to 3.5% since the beginning of the year driven by higher energy prices as earlier projected. Consequently, core inflation (excluding fuel and food prices) is close to the inflation target in most advanced economies including the United States. In the United States, inflation is expected to increase to 3%, an upward revision from the previous update. The pick up could be more than expected on the back of increasing domestic demand from tax cuts and fiscal stimulus.

On the regional front, inflation outcomes in Australia were consistent with previous headline inflation forecast of 2.1% with a core inflation[3] of 2%. These reflected spare capacity in the economy associated with low wage rates. In New Zealand, inflation gradually picked up to 2% as a result of the increase in tradable inflation and the pass through of high fuel prices as the dampening effect of past low inflation disappears[4].

Meanwhile, economic activity in the Solomon Islands was weaker in the second quarter. Production of the country's key commodities declined during the period by 12% to 100 points on the back of falls in logs by 14%, fish by 15% and copra by 22%. These more than offset gains in palm oil by 13% and a doubling of cocoa outturns. Visitor arrivals also declined by 11% to 7,087 visitors primarily due to the slow-down in sea arrivals that outweighed the rise in air arrivals over the period.

On the other hand, manufacturing expanded during the reference quarter by 15% on the back of favourable results for both goods manufactured for the domestic and export markets. While foreign direct investment applications recovered by 20%, although principally related to the wholesale retail sector. Proxy indicators for employment through the National Provident Fund also indicate a relative 1% increase to 56,672 contributors during the quarter.

Headline inflation eased to 2.4% in the second quarter from the peak of 4% in the first quarter. This moderation from the apparent price pressures in the early part of the year came from the slow-down in both imported and domestic inflation. The latter slid to 0.1% from 1.2% in March, while the former reached 3.7%

1 All global statistics in this section from IMF World Economic Outlook, July 2018 update, unless otherwise stated.

2 Indonesia, Malaysia, Philippines, Thailand, Vietnam

3 Reserve Bank of Australia, Statement on Monetary Policy August 2018.

4 Reserve Bank of New Zealand, Monetary Policy Stance August 2018.

in June from 5.5%. Categories driving the favourable inflationary condition was primarily food, in addition to housing utilities, and transport. Core inflation, which measures the long run trend and non-volatile prices also eased from 2.2% to 0.6% over the period.

External conditions moderated in the June quarter with a Balance of Payments surplus of $35 million from $444 million. This result stems from the weakening of the financial account that outweighed the improvements in the current and capital accounts. A deterioration of FDI flows related to falling reinvestment earnings during the quarter led to the outturn in the financial account. On the other hand, the improvement in the current account stemmed from the relative improvements in the primary, secondary and services accounts. Accordingly, the country's gross foreign reserves witnessed slower growth of 0.3% to $4,897 million at the end of the period.

Outcomes in the monetary sector was mixed during the quarter. On the upside, narrow money rose by 1% to $3,907 million on the back of expansions in both currency in circulation and transferable deposits, and correspondingly led to a 1% increase in broad money to $5,077 million. While private sector credit grew by 3% to $2,440 million due to increased lending from both commercial banks and other financial corporations. However, on the flip side, reserve money fell by 4% to $2,836 million came on the back of a reduction in commercial banks' deposits held with CBSI. Interest rate margins also widened by 10 basis points to 10.5% as lending rates increased amidst a decrease in deposit rates.

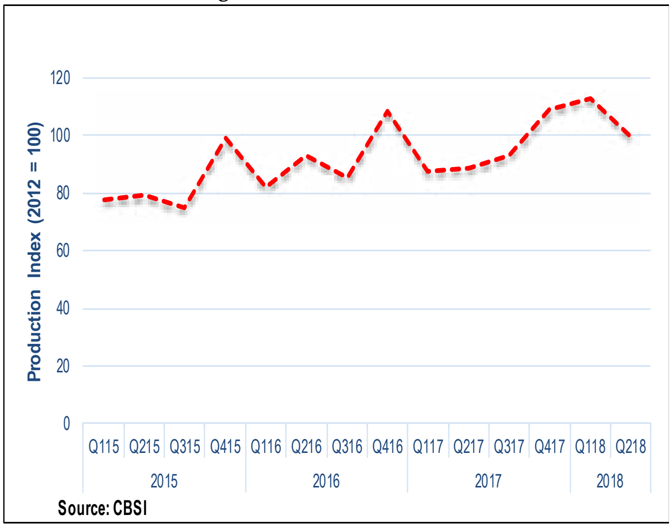
Fiscal performance in the second quarter registered a deficit of $2 million from a revised surplus of $307 million. Total expenditure surged by $373 million to $944 million during the reference period. The level of spending was anticipated after the passage of the 2018 budget and reflected increases in all categories. This expenditure outturn more than outweigh the 7% rise in total revenue to $975 million that was driven by grants from donors. Total debt stock meanwhile broadly remained the same as the previous period at 10% of GDP.

Chapter II. DOMESTIC ECONOMY

Production Index

Domestic production activities as measured by the CBSI production index declined in the second quarter of 2018 by 12% to 100 points from a 4% growth recorded in the March quarter (see Figure 2.1). The outcome reflected weaker performance in three major export commodities, with round log volumes falling by 14% whist copra output and fish catch volumes contracting by 33% and 15% respectively. In contrast, the palm oil and cocoa industry performed strongly during the quarter, with cocoa output more than doubled over the period while production of palm kernel oil and crude palm oil registered 16% and 13% growths respectively. Nonetheless, based on a year-on-year comparison, the production index was 13% above the same period in 2017.

Figure 2.1: Production Index

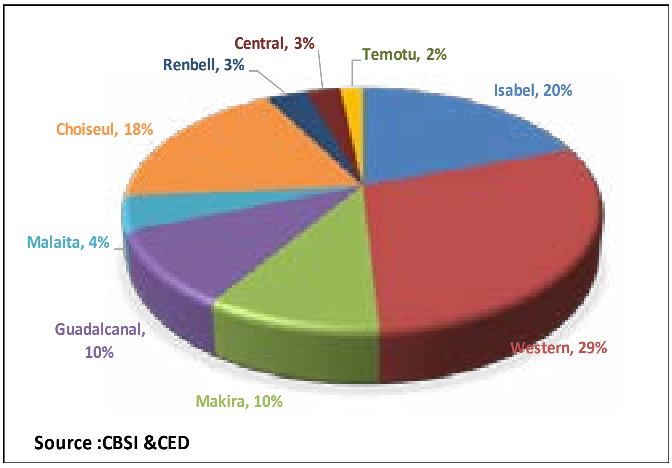


Logs

Round log export volumes as a proxy for log production deteriorated further in the June quarter. Log export volumes fell by 14% to 680, 723 cubic metres from 791,187 cubic metres in the March quarter. Despite the weaker outcome, log production was 12% above the corresponding period in 2017. Year-to-June output also showed that log production surpassed that of the corresponding period in 2017 by 21% to reach 1,472,910 cubic metres. By log type, natural logs consistently accounted for the largest share of total log exports with 635,711 cubic metres (93%) while plantation logs accounted for the remaining 45,012 cubic metres (7%).

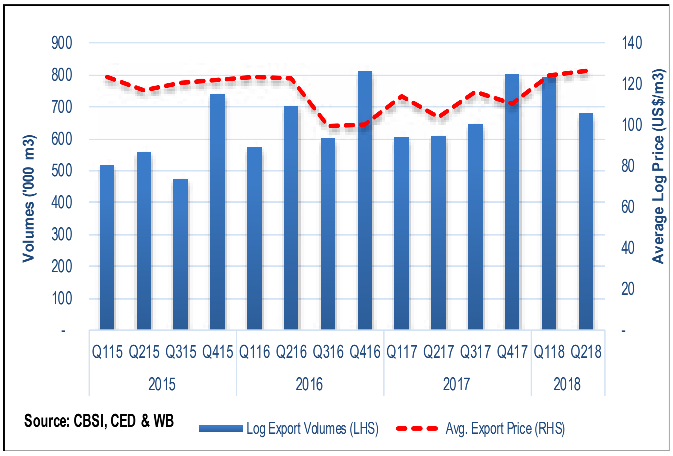
In terms of total log export volumes by province, Western province remained the largest producer with 200,466 cubic metres (29%) followed by Isabel province with 133,635 cubic metres (20%), Choiseul province contributed 125,850 cubic meters (18%). Makira province recorded 68,133 cubic meters and Guadalcanal province with 68,068 cubic meters, representing 10% each. Malaita province accounted for 30,533 cubic meters (4%) while Rennel Bellona and Central province produced 22,842 cubic meters and 18,922 cubic metres respectively, contributing 3% each. Meanwhile, Temotu province accounted for the remaining 12,274 cubic meters (2%) (See Figure 2.2).

Figure 2.2: Log Export by Provinces



Based on estimates, the average export price[1] for round log grew by 2% to US$127 per cubic meter from US$124 per cubic meter in the previous quarter. The average export price for log for this period was 21% higher compared to the same period last year (See figure 2.3).

Figure 2.3: Volume and Average Price of Logs



Fish

Fish catch contracted during the June quarter, reversing the robust pick up in catch volumes recorded in the March quarter. Fishing outturns fell by 15% to 8,729 tonnes from 10,311 tonnes in the previous quarter. Contributing to this outcome were unfavourable fishing conditions during the period. However, year-to-June fish catch exceeded that of the corresponding period in 2017 by 31% to reach 19,040 tons (See Figure 2.4).

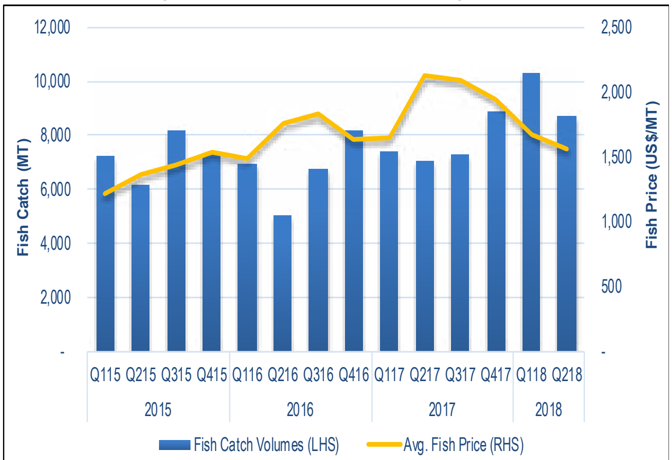
Canned tuna production declined this quarter by 14% to 169,293 cartons from 196,168 cartons in the prior quarter. Much of which reflected lower fish catch

[1] CBSI estimate based on round log export volumes and values

volumes during the quarter. In contrast, fish loin production increased further by 22% to 333,084 bags from 272,672 bags in the March quarter. The outcome reflected the sustained demand from the United States and Europe coupled with France becoming a new export destination for the country's fish loins along with Spain and Italy. Similarly, fishmeal output picked up moderately by 4% to 21,950 bags compared to the 21,044 bags recorded in the previous quarter.

In terms of prices, the average international fish price dropped further by 7% to US$1,560 per ton from US$1,670 per ton in the preceding quarter. On a year-on-year comparison, the average fish price worsened by 27% against the corresponding period in 2017.

Figure 2.4: Fish Catch and Average Price



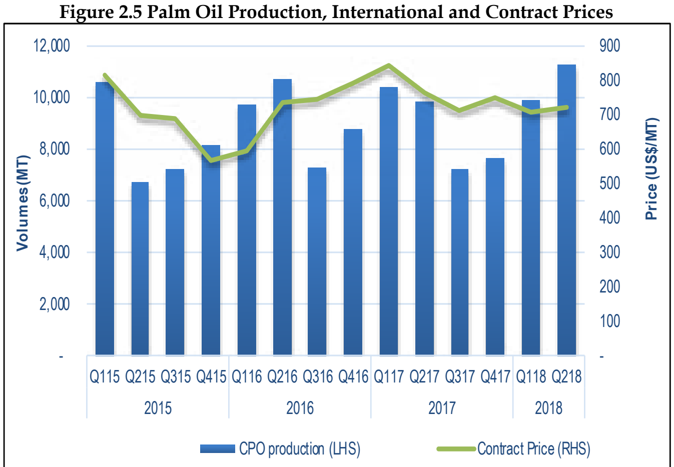
Source: CBSI, NFD & Info-Fish

Palm Oil

The palm oil industry remained resilient for the second quarter of 2018 marked by the pickup in all palm oil products during the quarter. Harvested fresh fruit branches grew by 16% to 48,063 tons from 41,591 tons in the previous quarter. Consequently, crude palm oil production increased by 13% to 11,235 tons from 9,900 tons while production of palm kernel oil surged by 16% to 1,153 tons from 994 tons in the prior quarter. Based on year-on-year comparison, crude palm oil and palm kernel output was up by 15% and 17% respectively. Similarly, year to June output showed that output for crude palm oil and palm kernel oil surpassed 2017 by 5% and 9% respectively.

The average international prices for palm oil products were unavailable for the report. However, based on estimates, average contract price for palm oil products revealed mixed movements during the quarter. The average contract price for crude palm oil improved slightly by 2% to US$719 per ton from US$705 per ton in the March quarter. As for palm kernel oil, average contract price declined for the second consecutive quarter by 8% to US$1,377 per ton from US$1,491 in the prior quarter.

Figure 2.5 Palm Oil Production, International and Contract Prices



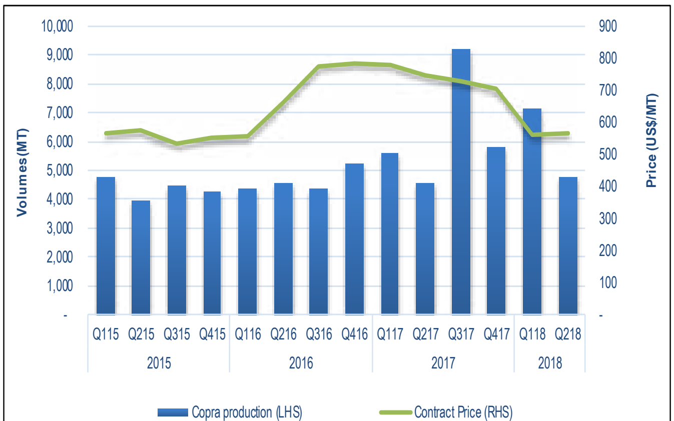
Source: CBSI, GPPOL & WB

Copra

Copra output fell sharply in the June quarter reversing the robust performance in the March quarter. Copra output plunged by 33% to 4,760 tons from 7,126 tons in the previous quarter. The weaker outcome reflected lower yields associated with seasonality effects typically experienced during the review period. However, year-to-June production was 17% higher than the corresponding half-yearly production in 2017. Meanwhile, coconut oil production rebounded by 9% to 1,307 tons from 1,204 tons in the March quarter.

Disaggregating copra production by province, Central province remained the country's largest producer with 1,510 tons (32%), followed by Western province with 828 tons (17%). Malaita province contributed 612 tons (13%); Guadalcanal province produced 583 tons and Makira province with 573 tons, representing 12% each whilst all other provinces accounted for the remaining 654 tons (14%).

Figure 2.6 Copra Production and Prices



Source: CBSI,CEMA & WB

In terms of prices, average contract price received by local copra exporters improved marginally by 0.3% to US$564 from US$563 in the previous quarter. In contrast, average domestic price received by local farmers deteriorated further to $2.75 per kilogram from $4.14 per kilogram in the preceding quarter.

Cocoa

Cocoa production rebounded sharply in the June quarter after three consecutive of quarters of weak performance, with output increasing almost three-folds to 1,282 tons from 496 tons in the March quarter. The robust outcome was attributed to high cropping yields and favourable weather conditions during the quarter.

Disaggregating cocoa production by provinces, Guadalcanal province still accounted for the largest share with 640 tons (50%) followed by Malaita province with 342 tons (27%); Makira province contributed 272 tons (21%) whilst all other provinces accounted for the remaining 28 tons (2%).

Favourable prices were registered for cocoa during the June quarter. The average contract price received by local cocoa exporters rebounded by 22% to GBP1, 421 per ton from GBP 1,163 per ton, following an 8% decline in the prior quarter. Similarly, domestic price received by local farmers surged by 23% to $11.34 per kilogram from $9.22 per kilogram in the previous quarter.

Employment

Labour market conditions showed negligible improvements during the quarter. The number of Solomon Islands National Provident Fund active and slow active contributors, a proxy for labour market conditions increased by 1% to 56,672 contributors from 56,011 contributors in the March quarter.

Disaggregating these figures into categorises, active contributors improved by 2% to 49,493 contributors from 48,596 contributors in the prior quarter. However, slow active contributors declined over the period by 3% to 7,179 contributors from 7,415 contributors in the March quarter.

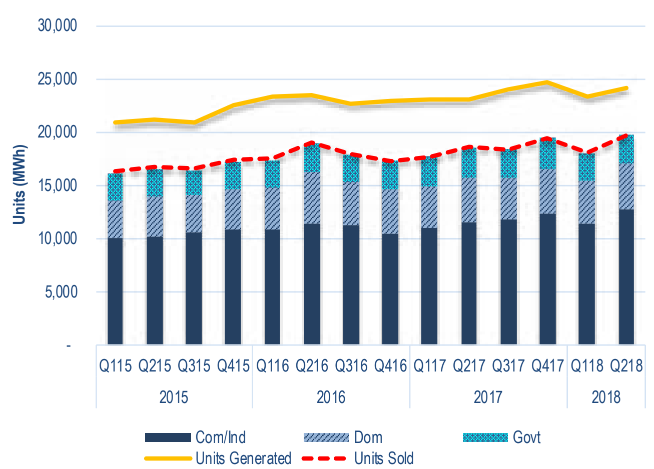
The CBSI job vacancy survey showed a fall in employment opportunities during the period. Advertised vacant positions for the June quarter totalled to 202 vacancies, a substantial fall of 48% from the 385 vacancies registered in the March quarter. A large share of the total job vacancies advertised related to administrative and support service sector registered 76 vacancies (38%), followed by public administration with 63 vacancies (31%) while professional, scientific and technical activities sector contributed 22 vacancies (11%). The education sector and construction sector recorded 16 vacancies (8%) and 8 vacancies (4%) respectively whilst all other sectors accounted for the remaining 17 vacancies (8%).

Energy

Total electricity generated and sold by Solomon Power rebounded this quarter following the slow-down in electricity production and sales in the March quarter. Total electricity generated grew by 4% to 24,135 megawatts hour (MWh) from 23,265 MWh in the previous quarter.

Similarly, total units sold increased by 9% to 19,736 MWh compared to 18,061 MWh in the prior quarter reflecting increases in electricity consumption across all categories. Electricity sales to commercial and domestic categories went up by 12% to 12,763 MWh and by 6% to 4,327 MWh respectively whilst electricity consumption by government picked up by 4% to 2,646 MWh. Meanwhile, unsold units went down by 15 % to 4,399 units during the quarter. This translated into a lower ratio of unsold to total units generated of 18% from 22% in the prior quarter implying improved administrative efforts towards reducing inefficiencies in electricity production over the period.

Figure 2.7: Units of Electricity Generated and Sold

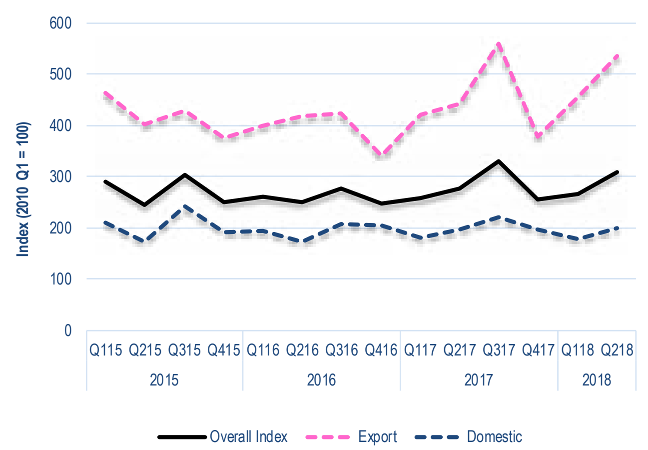


Source: CBSI &SIEA

Manufacturing

The CBSI manufacturing index, which measures the manufacturing activities, increased further during the quarter by 15% to 308 points from a 5% growth in the previous quarter. The positive outcome reflected increases in manufactured goods destined for both the export and domestic markets. The index for exported goods surged by 18% to 536 points from 455 points in the March quarter, reflecting the increased production in canned tuna and tuna loins over the period. Likewise, the manufacturing index for goods intended for domestic consumption rebounded this quarter, rising by 13% to 200 points following a 9% fall in the previous quarter. This outcome was driven by a sizeable increase in tobacco production followed by expansion in biscuits and soft drink production over the period by 15% and 11% respectively. These outweighed the 14% fall in canned tuna production destined for domestic consumption during the review period.

Figure 2.8 CBSI Manufacturing Index



source: CBSI

Building Permits

The total approved building permits issued by the Honiara City Council (HCC) in the second quarter of 2018 increased by 22% to reach a record of 89 permits from 73 permits in the previous quarter. This outcome was 39% higher than the same period in 2017. Of the total approved permits, residential accounted for 35 permits, commercial and industry with 24 permits and 'others' category recorded 30 permits during the quarter. Meanwhile, the estimated value of the approved permits more than doubled this quarter to $146 million from $58 million in the March quarter. Similarly, the estimated value of the approved permits this period also increased sizably against the corresponding period a year ago.

Visitors Arrival

Total visitor arrivals recorded for the June quarter declined by 11% to 7,087 arrivals from 7,926 arrivals recorded in the March quarter. This was driven by a substantial decline in sea arrivals during the quarter with sea arrivals falling to 66 visitors compared to 1,630 visitors recorded in the prior quarter. Meanwhile, air arrivals rebounded during the quarter, rising by 12% to 7,021 visitors following a 12% decline in the previous quarter. Against the corresponding period in 2017, air arrivals grew by 9%. The average length of stay for air visitors dropped slightly this quarter to 15 days from 16 days in the March quarter.

In terms of air arrivals by country of residence, Australia remained the key source market with 2,469 visitors (35%), followed by Asia with 1,205 visitors (17%) of which China contributed 4% (252 visitors), Japan with 3% (185 visitors) and other Asian countries accounted for 10% (736 visitors). Beyond these markets, Fiji (503 visitors), PNG (491 visitors), New Zealand (477 visitors), the USA (467 visitors) and Other Pacific Island countries[2] (460 visitors) all recorded 7% of the total share. Meanwhile, Vanuatu represented 5% (364 visitors) whilst all other countries accounted for the remaining 8% (585 visitors).

In terms of air arrivals by purpose, holiday and vacation accounted for the largest share with 2,190 visitors (31%) overtaking the 'others' category[3] with 1,993 visitors (28%), business and conference categories represented 1,755 visitors (25%). The remaining 1,083 visitors (15%) represented arrivals for the purpose of visiting friends and families (933 visitors) and transit and stop-overs (150 visitors).

Foreign Investment

The total number of Foreign Direct Investment (FDI) applications increased by 20% to 53 applications in this quarter from 44 applications in the previous quarter. As in the March quarter, wholesale and retail accounted for the largest proportion of FDI applications with 29 applications (55%), followed by other services sector representing 10 applications (19%) while all other sectors receiving less than 5 applications accounted for the remaining 26%. Meanwhile, the value of FDI applications investments remained relatively stable during the quarter registering around $111 million as in the previous quarter.

The distribution of FDI applications varied across the country. Honiara consistently accounted for the most preferred location for business operations, registering 36 new applications, followed by Guadalcanal receiving 10 new applications, Western and Makira provinces recording 2 new applications each while Isabel, Malaita and Rennel Bellona provinces with 1 new application each.

Communication

Mobile and internet usage indicators as partial indicators for performance in the communications sector picked up in the second quarter of 2018. Mobile usage indicator rebounded this quarter, expanding by 12% following a marginal 0.1% fall in the previous quarter. On a year-on-year comparison, mobile usage recorded a 32% growth against the same period in 2017. Similarly, the internet usage indicator grew further by 14%, representing an overall 48% increase against the same period a year ago.

Wholesale & Retail

Wholesale and retail activities continued to expand during this quarter. The number of FDI applications received by the Foreign Investment Division for the wholesale and retail sector increased by 21% to 29 applications from 24 applications in the previous quarter. This reflected the on-going interest in the sector by foreign investors. Similarly, commercial

.2 Other Pacific Island categories category excludes Papua New Guinea (PNG), Vanuatu and Fiji

3 Others category captures visitors whose purpose of visit to Solomon Islands falls outside the four main categories. This may include person travelling for religious activities, funerals etc)

bank's lending to the wholesale and retail sector increased by 9% to $462 million from $425 million in the previous quarter. Compared to the same period last year, lending to wholesale and retail sector have increased by 17%.

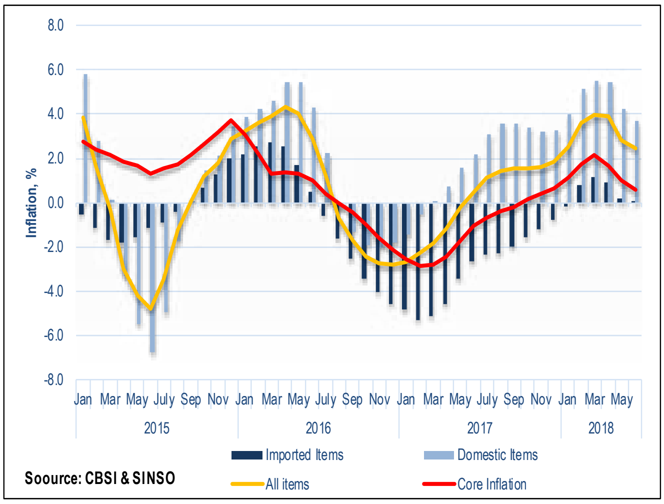
Other partial indicators for wholesale and retail sector rebounded over the quarter. Food imports grew by 2% to $222 million following the 4 % decline in the previous quarter. Likewise, imports of beverage and tobacco products picked up by 6% to $18 million reversing the sizeable fall in the first quarter of the year.

Inflation

Headline inflation dropped to 2.5% by the end of June quarter following a 4% peak in the March quarter. The fall was attributed to price falls in both imported and domestic inflation during the quarter. Domestic inflation decreased to 3.7% from 4.2% while imported inflation fell to 0.1% from 1.2% in the previous quarter.

Contributing to the slow-down in domestic inflation were price falls across the broad categories with the exception of an uptick in household operations. Food inflation eased to 2.2% from 2.7% largely reflecting price decreases in selected fruits, vegetables and other tuber vegetables sold at the market. The inflation in housing and utilities fell to 2.6% from 4.2% while transport and communications eased to 2.4% from 3.2% over the review period. Drinks and tobacco category, registering the largest price change during the quarter decreased to 6.8% from 16.1% driven by the decline in betel nut prices. Meanwhile, recreation and clothing and footwear levelled off at 16.8% and 0.0% respectively during the quarter.

Figure 2.9 Headline and underlying inflation rate (3mma)

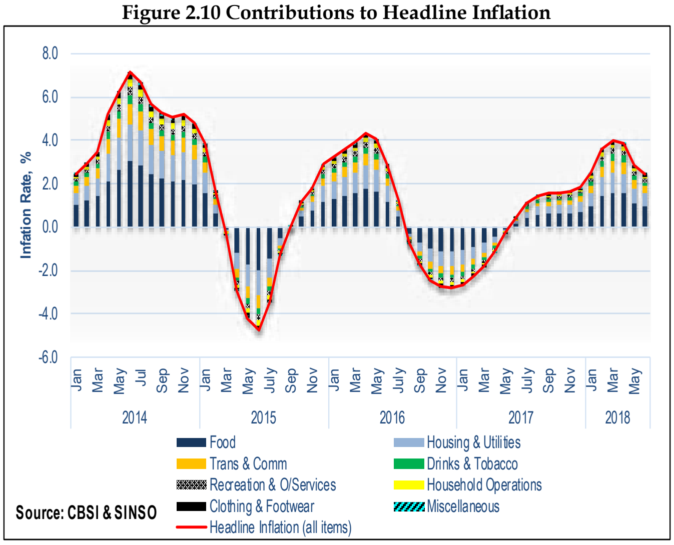


Similarly, the decline in imported inflation stemmed mainly from price decreases in food, housing and utilities and clothing and footwear during the quarter. The price movement for food fell to minus 1.4% from 1.7% reflecting the fall in imported food prices. Meanwhile, housing and utilities moderated to 2% from 2.4% while clothing and footwear eased to 0.1% from 0.7% over the review period. In contrast, price increases were recorded for transport and communications, household operations and the miscellaneous component during the quarter.

In terms of contribution to overall headline inflation, food accounted for 1%, followed by housing and utilities with 0.6%, housing and utilities contributed 0.3%, drinks and tobacco and recreation and health represented 0.2% each whilst all other categories accounted for the remaining 0.3%.

Similarly, core inflation fell to 0.6% from 2.2% at the end of the March quarter reflecting price falls in non-food and non-fuel items during the quarter.

Figure 2.10 Contributions to Headline Inflation



Honiara Retail Fuel Price

The average fuel price in Honiara increased further for the second consecutive quarter to $9.04 per litre in June from $8.40 per litre in the March quarter. The outcome reflected the price increases across all fuel categories. Kerosene price recorded the largest price increase, rising by 96 cents to $9.35 per litre from $8.39 per litre in the prior quarter, followed by diesel price, increasing by 54 cents to $9.00 per litre from $8.46 per litre. Similarly, petrol price went up by 43 cents to $8.77 per litre from $8.34 per litre in the previous quarter.

Chapter III. BALANCE OF PAYMENTS

Overall

The overall balance of payments position in the June quarter fell to a surplus of $35 million from a $444 million surplus in the first quarter of the year. This outcome emanated from the contraction in the 'capital and financial account' surplus and a fall in the current account surplus. Meanwhile, the gross foreign reserve grew by $14 million at the end of the quarter to $4,897 million and was sufficient to cover 12.2 months of imports of goods and services.

Table 3.1 Balance of Payments Statistics

	2017		2018	
	Sept Qtr	Dec Qtr	Mar Qtr	Jun Qtr
A. Current Account	**-234**	**46**	**222**	**147**
Goods	1	-163	281	99
Services	-182	-150	-129	-92
Primary Income	-118	-25	-39	18
Secondary Income	63	59	110	123
B. Capital & Financial Account	**234**	**171**	**264**	**80**
Capital	91	121	102	141
Financial Account (excl. reserve asset) 1/	143	50	162	-60
C. Net Errors and Omissions	**1**	**-61**	**-42**	**-192**
D. Overall BOP Position (+ve=surplus)	**0**	**156**	**444**	**35**
F. Financing	**-0**	**-156**	**-443.8**	**-35.2**
Official Reserves (-ve=increase)	0	-157	-444	-36
IMF Program (-ve=decrease)	-0	1	0.3	0.7
Position of Gross Foreign Reserves at end	**4,305**	**4,535**	**4,883**	**4,897**
Months of import cover of goods and services	10.6	11.3	12.3	12.2

1/ The financial account in BOP analytical presentation shows reserve asset separately in Item C. Under BPM6, the financial account includes reserve assets.

Source: CBSI

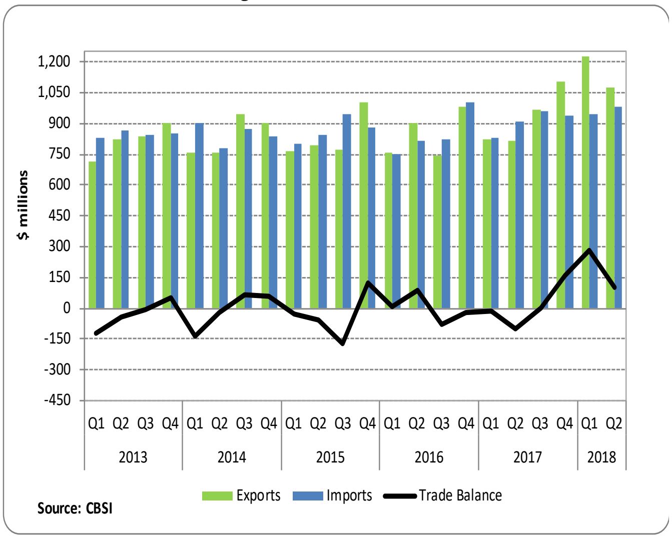
The current account surplus fall to $147 million from the revised $222 million surplus in the previous period (see Table 3.1). This was driven by decline in the trade in goods surplus despite improvement in the primary and secondary income with a much smaller deficit in services receipts against the previous quarter. Meanwhile, the capital and financial account surplus plummeted to an $80 million surplus in the second quarter from a strong record of $264 million seen in March quarter. This reflected weaker foreign direct investments flows associated with more dividend payments and negative return earnings in the second quarter of the year.

Trade in goods

The balance on trade in goods recorded a narrowed surplus of $99 million from a revised $281 million surplus in the previous quarter. The reduced surplus resulted from a 12% slowdown in exports to $1,078 million in contrast to a 4% growth in total imports to $979 million during the quarter.

The decline in exports is explained by a relatively low out turn in most of the major export commodities against the previous period. Round logs being the largest export commodity contracted by 17% to $766 million, minerals dropped by 28% to $34 million, palm oil and kernel went down by 26% to $56 million with copra and coconut oil slipped to $22 million from $38 million. Sawn timber remained unchanged at $21 million while other exports dropped by $24 million to reach $10 million in the current update. The low output came on the back of weak contract prices and lower export volumes during the quarter. On the upside, fish exports rose by more than twofold to $114 million over the quarter aided by favourable weather conditions. Similarly, cocoa exports surged significantly by $27 million this quarter to $33 million, supported by higher export volumes and favourable international prices.

Figure 3.1. Trade in Goods



In contrast, the rise in imports reflected increases in most of the import categories. Food and mineral imports each rose by 2% to $222 million and to $229 million respectively. Similarly, basic manufactures grew by 13% to $167 million, chemicals by 5% to $57 million and miscellaneous goods by 7% to $72 million. On the other hand, imports for machinery and transport fell by 4% to $289 million reflecting a slight fall in payments for heavy machineries in the review period.

Trade in services

Trade in services posted a deficit of $92 million in the June quarter from a deficit of $129 million in the previous quarter, marking an improved performance over the past periods. This resulted from the relative improvement in the transport services deficit, which eased from a $54 million deficit to a deficit of $17 million. The rise in receipts associated with stevedoring and other port services aided this outcome. Likewise, all other services deficit improved to $114 million compared to $143 million due to the decrease in business services payments and an increase in receipts related to government services. Meanwhile, travel fell from a $67 million surplus to a surplus of $39 million, owing to the increase in payments associated with residents travelling on foreign carriers.

Primary Income

The primary income balance for the June quarter recorded a surplus of $18 million, a positive turnaround from the $39 million deficit in the previous quarter. Supporting this outcome was the reduced deficits in investment income and increased compensation of employees, offsetting a slight fall in other primary income. Investment income improved to a deficit of $33 million against the $101 million deficit in the first quarter of 2018. This was triggered by the fall in outflows of reinvested earnings by foreign direct investment companies. Compensation of employees increased by $5 million to $10 million. Meanwhile, other primary income went down to $41 million from $56 million owing to the fall in collection from fishing licenses.

Secondary income

The surplus in the secondary income balance improved to $123 million from the $110 million recorded in the previous quarter. This resulted primarily from the narrowed deficit in the private sector transfers to $3 million from $31 million in the previous quarter. Moreover, this is in spite of an 11% reduction in the government's current transfers from donors to a surplus of $125 million. The improved outcome in the private sector transfer was attributed to higher inflow transfers received by Non-governmental Organisations and Churches.

Capital

The Capital account surplus increased to $141 million from a revised $102 million in the previous quarter. This came entirely from capital transfer receipts by donors to the general government for major capital projects including the ones currently taking place in the country.

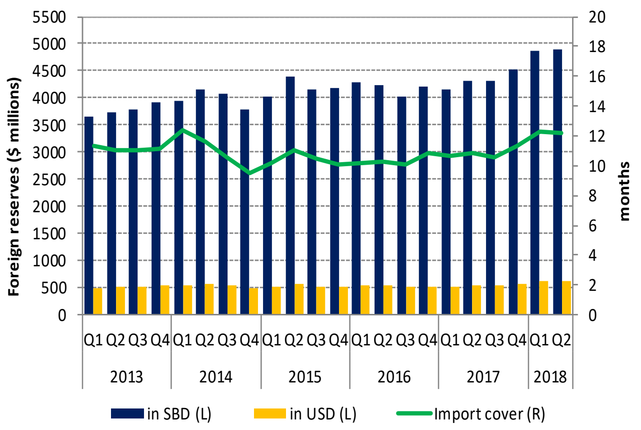
Financial

The financial account deteriorated to a $60 million deficit from a revised $162 million surplus in the previous quarter. Driving the negative outcome was the significant fall in FDI inflows to $8 million deficit from a $68 million surplus in the March quarter. The decline in FDI stemmed from reductions in reinvestment earnings, which offsets the rise in new investment funds from both private companies and financial institutions, along with an improved deficit in FDI-related debt instruments. Furthermore, contributing to the outcome was the fall in other investment inflows from a surplus of $95 million to a deficit of $45 million. This was associated with decline in other accounts payable and commercial bank's foreign currency holding with CBSI.

Gross Foreign Reserves

Reserve asset flows recorded a $36 million surplus in June following a $444 million surplus recorded a quarter prior. This result reflected the build-up in donor receipts amidst the use of the foreign reserves to finance the balance of payments position. Accordingly, the country's stock of gross foreign reserves at the end of June grew marginally by 0.3% to $4,897 million. This level of reserves was equivalent to 12.2 months of import cover.

Figure 3.2. Gross Forign Reserves



Source: CBSI

International Investment Position (IIP)

The international investment position narrowed from a $293 million deficit in the first quarter to a deficit of $131 million in the second quarter. This was due to the marginal increase of 1% to $6,082 million in the stock of financial assets and a 2% fall to $6,212 million in the stock of financial liabilities. The growth in financial assets came from the rise in direct investment assets by 1% to $512 million, portfolio investment by 4% $142 million, other investment assets by 7% to $530 million with reserve assets growing by $14 million to $4,897 million. As for the financial liabilities, the 2% slow down stemmed from a marginal fall in direct investment liabilities by 1% to $4,741 million together with a contraction in other investment liabilities by 5% to $1,472 million.

Gross External Debt

The gross external debt stock declined by 3% to $2,565 million at end of June 2018. This outcome came on the back of a 7% fall in general government debt to $762 million associated with government's debt servicing on its long term loans. Debt by deposit-taking corporations also declined by $35 million to $120 million. Meanwhile external liabilities held by the Central Bank and debt by other sectors (including non-financial corporations and other financial corporations) have increased by 7% and 2% to $198 million and $392 million respectively during the period. Meanwhile, foreign direct enterprises' liabilities held with their parent companies abroad declined marginally by 1% to $1,094 million and was related to the settlement of intercompany trade credits.

Table 3.2 Gross External Debt Position ($ million)

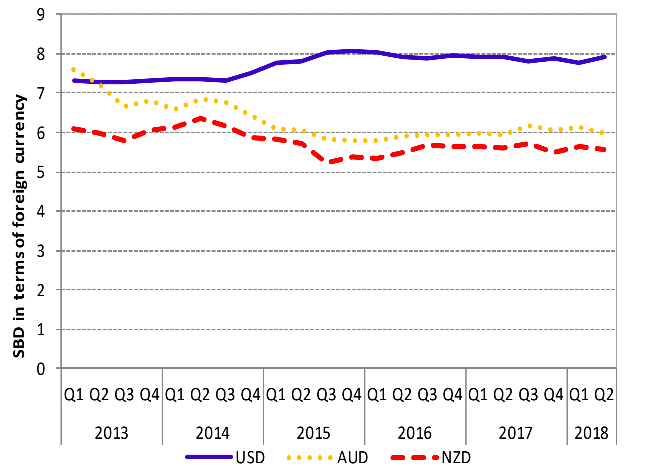
	2017		2018	
	Sept Qtr	Dec Qtr	Mar Qtr	Jun Qtr
Gross External Debt Position	**2,587**	**2,593**	**2,642**	**2,565**
(i) General Government	776	812	820	762
(ii) Central Bank	180	179	185	198
(iii) Deposit- Taking Corporations	152	106	155	120
(iv) Other Sectors 1/	370	375	382	392
(v) Direct Investment: Inter-company Lending 1/	1,110	1,123	1,100	1,094

1/ Provincial
Source: CBSI

Exchange rate

The Solomon Islands dollar (SBD) weakened against the United States dollar (USD) in the second quarter by 1.6% to an average of $7.90 per USD. Aside from a 0.9% depreciation against the Japanese Yen to $7.25 per 100 JPY, it strengthened against other major tradable currencies. The SBD appreciated by 2.3% against the Australian dollar to $5.98 per AUD, and by 1.6% against the New Zealand dollar to $5.57 per NZD. It also went up by 0.5% against the British pound to $10.76 per GBP and by 1.4% against the EURO to $9.43 per EUR.

Figure 3.3: Exchange Rates



Source: CBSI

In terms of the 2012-based trade weighted index (TWI), the SBD depreciated by 1.58% to a quarterly average index of 107.1 in the June quarter. However, the nominal effective exchange rate (NEER) appreciated by 1.4% to an index of 100.5 on the back of the SBD's nominal improvement against most of the bilateral currencies. Consequently, the real effective exchange rate (REER) strengthened by 2.1% to 152.7 index point, associated with the relatively higher inflation in the Solomon Islands compared to its trading partners.

Chapter IV. MONEY AND BANKING

Monetary Development

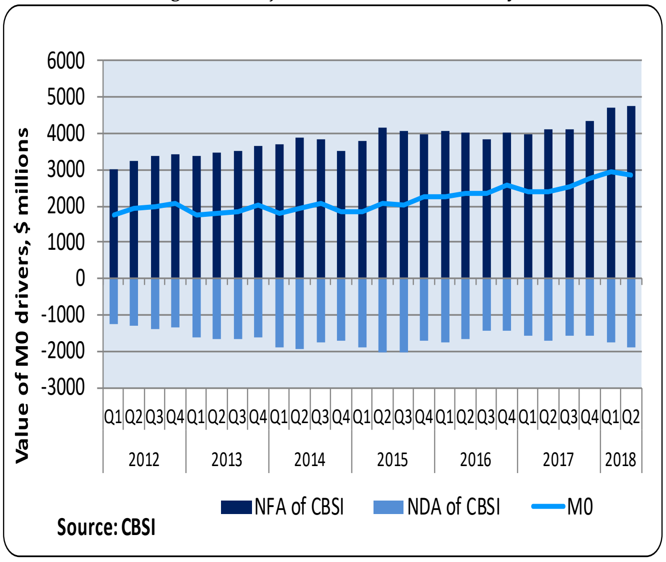
Key monetary aggregates recorded mixed movements in the second quarter of 2018. Reserve money (M0) decreased, whilst narrow money (M1) and broad money (M3) grew relative to the previous quarter. Private sector credit (PSC) firmed up, whereas total liquidity growth receded. The weighted interest rate margin widened, as lending rates increased and deposit rates declined. Meanwhile, Monetary Policy remained accommodative throughout the second quarter.

Reserve Money

Reserve money (M0) contracted by 4% to $2,836 million in the June quarter, following a 7% growth in the previous quarter. The contraction in M0, quarter on quarter, stemmed from a 7% decrease to $1,984 million in commercial banks' deposits held with CBSI, despite a 2% growth in currency in circulation to $848 million, and a $2 million expansion in transferrable deposits to $5 million.

On the asset side, the decline mirrored an expansion in CBSI's NDA by 10% to minus $1,918 million which negated a 1% increase in Net Foreign Assets (NFA) to $4,760 million. The growth in NDA was due primarily to increases in net domestic credit and capital accounts. The former increased by 8% to minus $1,975 million; the latter expanded from $50 million to $84 million. The rise in NDC was driven by a 14% increase in net credit to Central Government to minus $1,225 million and 0.4% upturn in net credit to financial corporations to minus $746 million. Meanwhile, other items (net) edged 1% lower to $141 million relative to the previous quarter.
The increase in NFA was underpinned by growth in foreign assets, mainly gross reserves which increased by 1% to $4,922 million. Additionally, the decline in foreign liabilities by 8% to $162 million against the preceding quarter also supported the growth in NFA.

Figure 4.1 Major drivers of Reserve Money



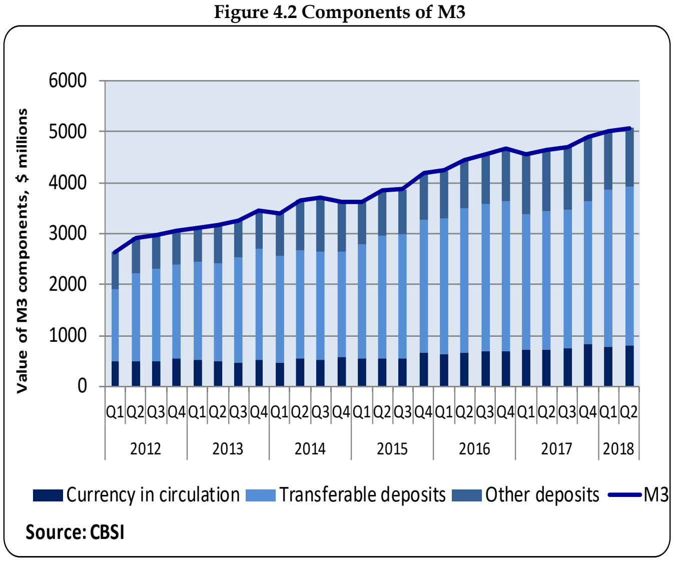
Narrow money

Narrow Money (M1) increased marginally, quarter on quarter, by 1% to $3,907 million, aided by a 3% rise in currency in active circulation to $788 million and a 1% uptick in transferrable deposits to $3,119 million. Transferable deposits benefited from a 1% growth in ODCs deposits to $3,110 million owing to increases in both domestic and foreign currency deposits. The domestic currency component rose negligibly by 0.3% to $2,924 million, largely sustained by increases in transferrable deposits of other nonfinancial corporations (ONC), public nonfinancial corporations and state and local government. Likewise, the foreign currency component grew by 5% to $185 million buoyed by increases in the ONC, Other financial corporations (OFC) and other resident sectors' transferrable deposits.

Broad money

Broad money (M3) increased by 1% to $5,077 million relative to the previous quarter, supported by increases in both M1 and other deposits (savings and time) by 1% to $3,907 million and $1,169 million respectively. On the sources of broad money growth, the expansion was due to an increase in NFA by 2% to $4,955 million and a decrease in NDA by 29% to $165 million. NFA growth was underpinned by a 1% upturn in gross reserves to $4,922 million and a 10% rebound in other foreign assets to $316 million. The reduction in foreign liabilities from $332 million in the prior quarter to $283 million also contributed to the NFA outcome. The decline in NDA, on the other hand, was attributed to reductions in Net Domestic Credit (NDC) and other items net by 6% to $1,011 million and 7% to $226 million respectively. Meanwhile, capital accounts decreased by 1% to $1,072 million. This was due mainly to a 5% downturn in ODC's capital positions to $988 million despite an expansion in the CBSI capital account from $50 million in the previous quarter to $84 million.

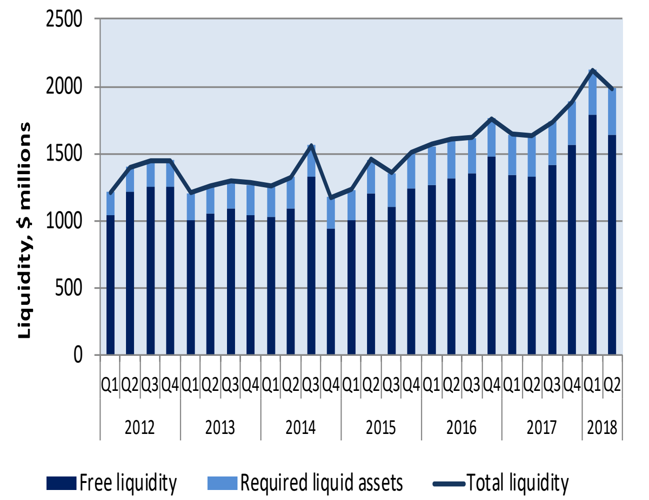
Figure 4.2 Components of M3



Liquidity

Liquidity growth receded for the first time after recording four consecutive quarter on quarter increases since the second quarter of 2017. Total liquidity dropped by 7% this quarter to $1,983 million. The decline in liquidity was attributed largely to reductions in ODC's call accounts and an increase in government deposits during the review period. This saw excess liquidity receding by 9% to $1,467 million at the end of June. Meanwhile, total liquidity was 21% higher compared to the same period in 2017. At this level, the banking system remained highly liquid, both at the institutional and system-wide level.

Figure 4.3 Commercial Banks' Liquidity



Source: CBSI

Domestic credit

Total net domestic credit (NDC)of the banking system[2] dropped further this quarter by 6% to $1,011 million subsequent to a 7% decline in the previous quarter. The decline relative to the prior quarter was due primarily to a 10% increase in net credit liabilities to nonfinancial public sector to $1,430 million, which eclipsed a 3% growth in private sector credit (PSC) to $2,440 million.

The growth in net credit to public nonfinancial sector was attributed to a rise in net credit liabilities to the central government by 10% to minus $1,441 million, buoyed by a rise in SIG deposits held with depository corporations. Meanwhile, credit to nonfinancial public corporations remained largely unchanged at $24 million, as in the previous quarter. On PSC, the growth was driven by a 3% upturn in ODC credit to $2,432 million. This was particularly related to the increase in other nonfinancial Corporations credit by 3% to $1,637 million and other residents which increased by 1% to $787 million respectively.

Commercial bank lending firmed up, increasing by 2% to $2,390 million this quarter compared to a negligible 0.3% growth recorded in the first quarter. Major sectors sustaining the growth were distribution, manufacturing, transport and construction. Conversely, personal loans, tourism, communication and declined relative to the previous quarter while professional & other services remained unchanged (see table). By share, lending during the period was dominated by three sectors. Personal, the largest, accounted for 26% of the total credit issued, followed by construction and distribution both with 19% each. The rest contributed **le**ss than 10% each. On an annual basis, commercial bank lending grew by 9% against the same period in 2017.

Table 4.1 Private Sector Credit by sectors: (SBD $millions)

Sectors	2017				2018		percentage Growth	
	Q1	Q2	Q3	Q4	Q1	Q2	Q-on-Q	Year-on year
Personal	687	668	648	642	625	614	-2%	-8%
Construction	322	338	362	387	439	445	1%	32%
Distribution	372	396	394	425	425	462	9%	17%
Communica-tions	186	170	163	164	158	149	-6%	-12%
Tourism	142	145	149	187	181	178	-2%	23%
Prof & other Service	109	110	109	95	100	100	0%	-9%
Transport	128	116	135	145	148	164	11%	41%
Manufacturing	136	134	130	140	143	163	14%	21%
Forestry	57	48	70	75	50	51	1%	5%
Agriculture	24	24	23	21	19	22	15%	-10%
Enter & Catering	1	3	12	12	12	12	-6%	355%
Mining & Quar-rying	1	1	1	0	0	0	0%	-100%
Fisheries	5	12	8	2	3	3	21%	-73%
Statutory Corpo-rations	30	32	29	27	26	26	-2%	-20%
Non- Resident	0	0	0	0	0	0	0%	-100%
Private Fin Institution	2	2	2	2	2	2	-3%	-16%
Central Govern-ment	0	0	0	0	0	0	0%	-100%
Provincial Asse & Local Gov't	0	0	0	0	0	0	0%	-92%
Total	**2204**	**2200**	**2235**	**2325**	**2332**	**2390**	**2%**	**9%**

Note: Figures include loans issued by commercial banks and credit corporation of Solomon Islands.

Table 4.2 Private Sector Credit (ODCs)

SBDMillions

Type	Mar-17	Jun-17	Sept-17	Dec-17	Mar-18	Jun -18
Trade Bills	0	0	0	0	0	0
Overdrafts	242	242	210	239	196	247
Loans	1,950	1,948	2015	2082	2124	2,130
Lease Financing	12	11	10	4	12	23
Total	**2,204**	**2,200**	**2235**	**2325**	**2332**	**2,390**
Total credit (excluding trade bills)	**2,204**	**2,200**	**2235**	**2325**	**2332**	**2,390**

Source: CBSI

[1] **Liquidity after taking into account the 7.5% of cash reserves requirement and precaution ary reserves.**

[2] **Banking system and Depository Corporations (DC) are used interchangeably.**

All credit types recorded increases against the March quarter. Overdrafts surged by 26% to $247 million, loans by 0.3% to $2,130 million and lease financing by 8% to $13 million.

Other Financial Corporations

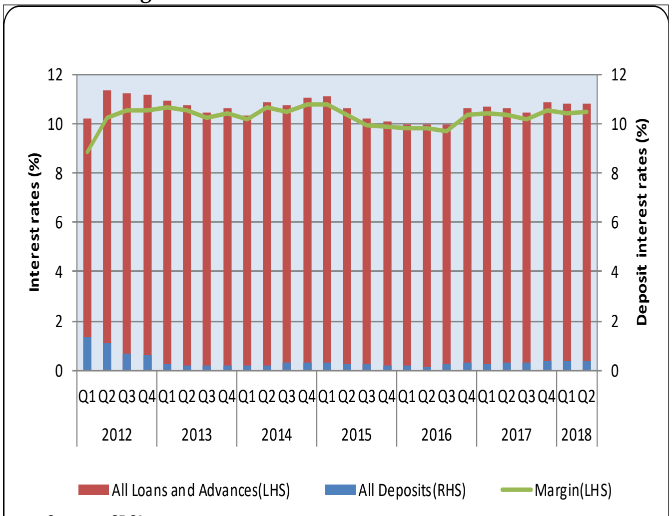
NFA of other financial corporations (OFCs) continued to expand although at a slower pace, growing by 1% to $316 million this quarter compared to a 2% increase in the March quarter. A growth of 1% in foreign assets to $339 million combined with foreign liabilities, which remained broadly unchanged at $23 million, contributed to this outcome.

OFCs' net domestic asset (NDA) recorded a negligible 0.6% growth to $2,571 million. This was driven mainly by a 3% decline in capital accounts to $537 million, which more than compensated for twin reductions in NDC and other items. NDC decreased by 0.1% to $2,737 million, stemming from a 0.3% decline in PSC to $1,449 million whilst credit to nonfinancial public corporations remained broadly unchanged at $295 million

Interest rates

The ODCs' indicative weighted average interest rate margin widened this quarter to 10.5% from 10.4% in the previous quarter. This mirrored the average lending rates which rose from 10.79% to 10.84% whilst average deposit rate declined from 0.38% to 0.35% against the previous quarter.

Figure 4.4 Commercial Bank's Interest Rates



Source: CBSI

On lending rates, sectors with prevailing higher rates driving the increase were forestry, private financial institutions, distribution, transportation and agriculture. The decline in deposits rates came from reductions in savings and time deposits.

Monetary Policy

At its meeting on March 29th 2018, the CBSI Board resolved to keep monetary policy accommodative for the next six months. The policy decision was made considering a comfortable level of gross foreign reserves and expected inflation hovering within the accepted range in the near term. Key policy instruments were, in turn, kept unchanged in line with the policy stance. The cash reserve requirement ratio remained at 7.5% of total ODC deposits. The Bokolo bills issued was capped at $750 million with a weighted average yield (WAY) of 0.62%. The SIG treasury bills threshold stood at $40 million. However, the WAY for 56 days has increased to 0.46% whilst that for 91 days and 181 days remained at 0.46% and 1.12% respectively. The current exchange rate regime, pegging the national currency (SBD) to an invoiced basket of major trading currencies[3] , remained in place.

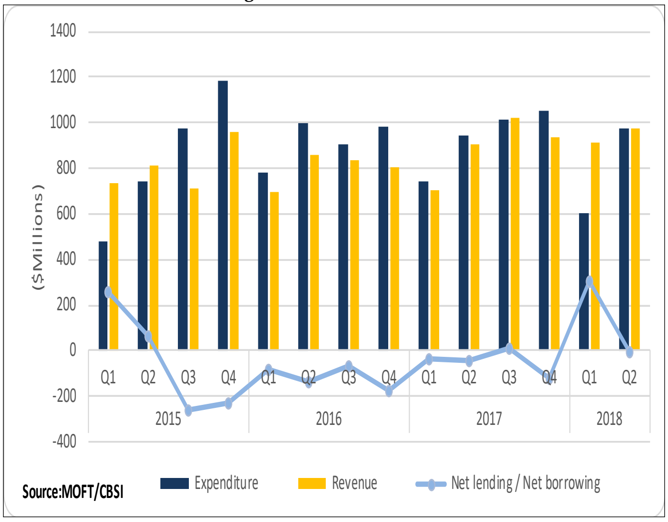
[3] The invoiced basket comprises five major trading currencies; USD, AUD, NZD, Japanese Yen and EUR.

Chapter V. GOVERNMENT FINANCE

Overview

The Government recorded a deficit of $2 million in the June quarter compared to a revised surplus of $307 million in the March quarter of 2018. This resulted from a substantial increase in expenditure, which surpassed the rise in revenue collection during the review period. The outcome was expected due to the delay in passage of the 2018 national budget over the first four months of the year. Meanwhile, the Government's debt position stood at $956 million this quarter, equivalent to 10% of GDP.

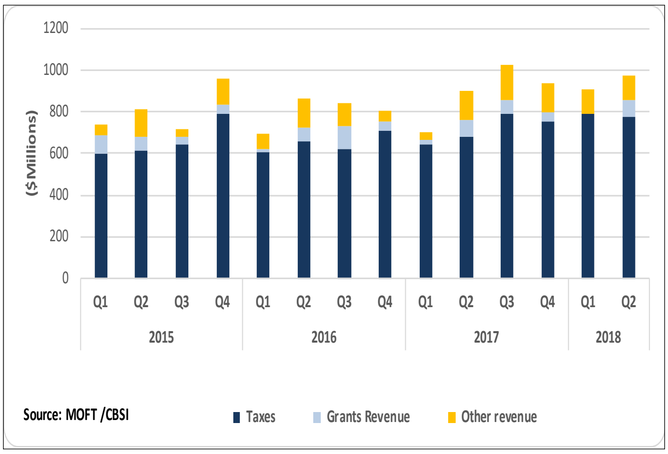
Figure 5.1: Fiscal Balance



Revenue

Total revenue collected during the quarter rose by 7% to $975 million from $911 million in the previous quarter. This was mainly driven by an increase in grants, which outweighed decreases in taxes and non-tax collections during the period. On a year on year basis, revenue collection was higher by 8% and slightly above the pro-rata budget by 0.3%.

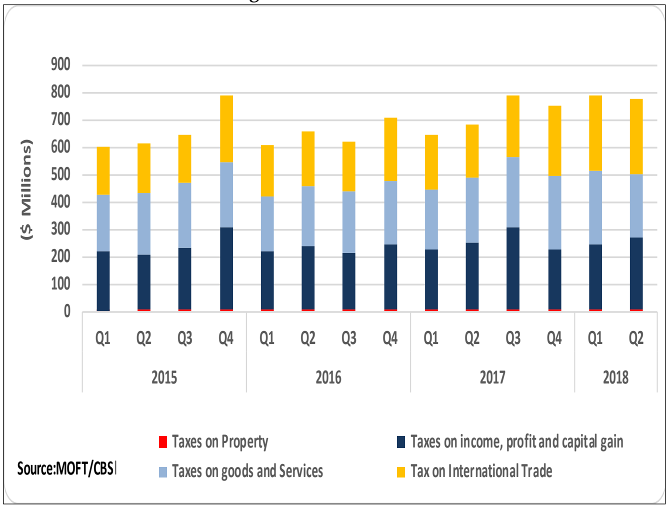
Figure 5.2: Revenue



Tax Revenue

Tax revenue, which accounted for 80% of total revenue, slid by 2% to $775 million against $788 million in the previous quarter. This outcome reflected declines in taxes on goods and services, and international trade and transactions, which negated increases in tax on income, profits and capital gains, and taxes on properties. However, tax revenue grew by 14%, year on year.

Figure 5.3. Tax Revenue



Taxes on international trade and transactions, which accounted for 35% of total tax revenue, edged lower by 0.4% to $271 million. This resulted from a 6% fall in taxes on exports, driven largely by log receipts which fell to $197 million from $210 million in the previous quarter, despite an increase in import duty collection by 19% to $74 million. Compared to the same period a year ago, taxes on international trade was 43% higher. Tax on goods and services, which represented 30% of tax revenue, dropped by 12% to $235 million this quarter from $268 million in the March quarter. This stemmed from a 13% decline in general taxes on goods and services to $177 million and a 10% fall in excise tax to $52 million. Compared to the same quarter in 2017, tax on goods and services was 2% lower.

In contrast, tax on income, profits and capital gains, which contributed 33% of total tax revenue, grew by 7% to $257 million from $241 million in the previous quarter. This outcome reflected an increase personal income tax (PAYE) by 11% to $127 million, along with a 2% rise in tax payable by corporations and other enterprises to $130 million.

Similarly, tax on properties, which accounted for 2% of tax revenue, increased to $12 million from $10 million in the March quarter.

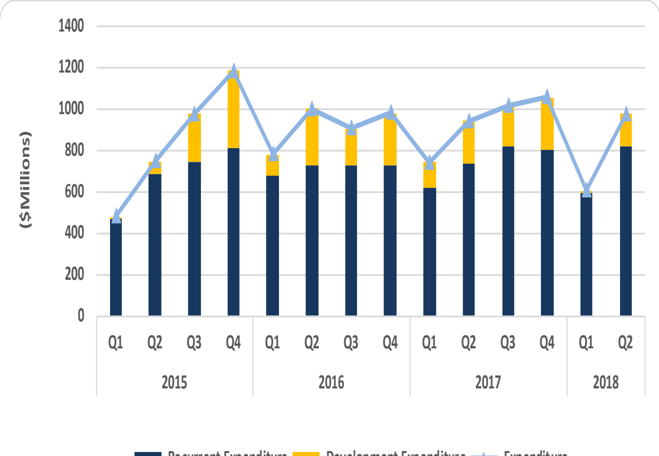
Non- tax revenue

Non-tax revenue fell by 4% to $118 million against the previous quarter. This stemmed from a 16% decline in property income to $79 million, reflecting low proceeds from fishing licences during the quarter. On the other hand, revenue collection from the sales of goods and services firmed up from $28 million to $38 million on the back of increased collections on administrative fees. Against the corresponding period a year ago, non-tax revenue collections was down by 15%.

Grants
Total donor grant receipts increased markedly this quarter to $82 million from $0.04 million in the March quarter. Australia and New Zealand remained the two largest donors; the former contributed $70 million (85%) and the latter, $11 million (24%) of the total grant receipts. Other donors together, accounted for the remaining $1 million. By ministry, the three main recipients are the Ministry of Health and Medical Services (MHMS), Ministry of Education and Human Resource Development (MEHRD) and the Ministry of Finance and Treasury (MOFT), each receiving $32 million, $28 million and $22 million respectively during the second quarter.

Expenditure
Total government expenditure increased markedly in the three months to June as expected, from a revised $604 million in the March quarter to $977 million this period. Spending pressures came from both recurrent and development outlays during the quarter. Recurrent spending surged by 38% to $822 million against the previous quarter, driven by increased spending across all major categories including compensation of employees, use of goods and services, interest payments, social benefits and other charges. Likewise, development spending surged from $9 million in the preceding quarter to $155 million, attributing to increases in development-related spending. On a year-on-year basis, total government expenditure was 3% higher.

Figure 5.4: Expenditure



Source:MOFT/CBSI

Compensation of Employees
Compensation of employees, which accounted for 45% of total recurrent outlays, increased by 34% to $366 million this quarter. This was largely driven by a strong pick up in wages and salaries, and employers' contribution to the national provident fund, which increased by 35% and 28% to $347 million and $19 million respectively. Compared to the corresponding quarter in 2017, compensation of employees was up by 19%.

Purchase of Goods and Services
Government's consumption spending on goods and services expanded by 58% this quarter to $328 million, and up 5% above the same period a year ago. This outcome reflected a general increase across all major consumption categories. Government spending on training increased by 14% to $106 million, driven by increased spending on overseas scholarships and other trainings. Maintenance of non-residential structures including roads, bridges and wharves firmed up from $13 million to $24 million whilst maintenance of residential structures doubled from the previous quarter to $8 million. Similarly, electricity and water charges, and office rental more than doubled to $20 million and $11 million respectively, while consultancy fees grew from $5 million to $9 million. Likewise, conferences, seminars and workshops tripled from $3 million to $9 million, subscription and membership fees surged to $12 million this quarter. Government's purchase of all other items also increased from $72 million to $127 million this quarter. In terms of expenditure share, consumption of goods and services represented 40% of recurrent spending for the quarter.

Grants
Total grants transferred to other government units dropped by 19% to $44 million from $54 million registered in the first quarter of 2018. This was driven by declines in fixed asset grants from $29 million to $10 million, health grants went down slightly from $21 million to $20 million, while provincial grants dropped from $4 million in the previous quarter to $1 million. Of the remaining $12 million, $11 million was transferred to the Solomon Islands National University (SINU), while the Solomon Islands Visitors Bureau (SIVB) received $1 million during the quarter. Compared to the corresponding period a year ago, grant transfers by the government was higher by 9%.

Social Benefits
Social benefits payments expanded from $8 million in the previous quarter to $12 million in the June quarter. A $6 million payment on long service benefit combined with a $5 million in gratuities contributed to this outcome. However, against the same period last year, social benefit cost was 2% below.

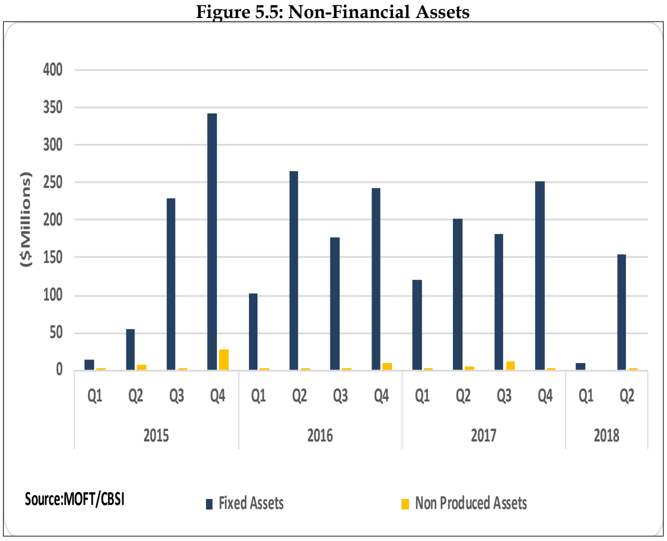
Other Payments
Other payments, rose by 42% to $68 million against the previous quarter, and was 10% above the corresponding quarter in 2017. The increase in other payments was largely driven by increases in subvention grants, from $3 million in the previous quarter to $57 million; and other payments from $7 million to $10

million this quarter. As a share of expenditures, other payments represented 8% of total recurrent expenditure for the reference quarter.

Acquisition of Nonfinancial Assets

Acquisition of non-financial assets (NFA) increased to $155 million in the three months to June from a revised $9 million recorded in the March quarter. This outcome mainly reflected the expansion in acquisition of fixed assets to $154 million from $9 million. However, acquisition of NFA was 25% lower relative to the same quarter in 2017, and was 49% lower than the budget. In terms of expenditure share, the development spending on nonfinancial assets accounted for 16% of total government expenditures.

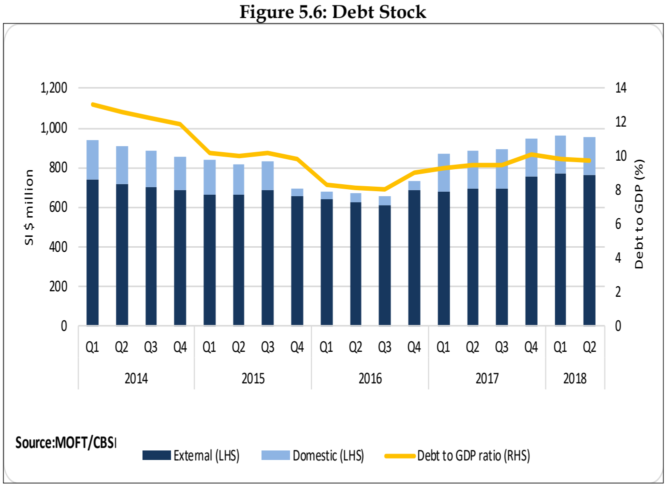
Figure 5.5: Non-Financial Assets



Debt Stock and Servicing

The Government's outstanding debt balance decreased by 1% to $956 million at the end of the previous quarter due primarily to scheduled debt repayments which offset foreign exchange rate movements during the period. The government paid $16 million in debt servicing compared to $15 million in the previous quarter. Debt indicators remained broadly the same as in the previous quarter. Debt to GDP ratio remained at 10%, debt service-to-domestic revenue at 2% and debt service-to-export of goods and services at 1%.

Figure 5.6: Debt Stock



External and Domestic debt Stock and Servicing

Foreign debt stock slipped by 1% against the March quarter to $762 million. The marginal fall was attributed to debt servicing made to external creditors during the quarter, $12 million on principle repayments and $3 million on interest payments. By financiers, repayment to the Asian Development Bank (ADB) totalled $7 million, followed by the Taiwan EXIM Bank with $6 million, whilst the International Development Association (IDA) and the European Union received around $1 million each.

By holders of external debt, multilateral creditors still accounted for the largest share with 90%, despite a slight decline in debt stock by 1% to $689 million. Bilateral creditors although declined by 3% to $73 million, accounted for the remaining 10% of foreign debt. Government's domestic debt balance remained flat at $195 million. This reflected the debt balance on development bonds, the auction treasury bills and the special security bonds, which were relatively stable at $150 million, $40 million and $5 million respectively. The government serviced $1 million of domestic debt in the three months to June 2018 compared to $4 million repaid in the previous quarter.

Statistical Tables