

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Total money supply grew by 2% to \$3,939 million at the end of February 2016 following a 1% increase in the previous month. The increase was due to rise in both narrow money (M1) and other deposits (savings and time) by 2% to \$3,153 million and 1% to \$786 million respectively. The increase in M1 stemmed mainly from 3% growth in demand deposits. The rise in other deposits came from a 2% and 1% increase in savings and time deposits respectively. Meanwhile, total net foreign assets (NFA) of the banking system dropped by 3% to \$3,894 million following a stable growth since December 2015. This resulted from a decline in CBSI's NFA from \$3,923 million to \$3,783 million at the end of February 2016. However, year-on-year growth saw NFA increase by 3% against the same period in 2015.

Net credit to government (NCG) fell by 0.4% to net liabilities of \$1,391 million after a 5% increase in the previous month. The fall was due to drawdown in government deposits held with other depository corporations (ODCs) by 6% to \$184 million despite a 1% increase in deposits held with CBSI to \$1,207 million. Meanwhile, private sector credit (PSC) remained stable at 1% to \$1,989 million from the previous month. Year-on-year growth showed PSC increased by 16%. Moreover, total liquidity in the banking system increased by 2% to \$1,509 million following a 2% drop witnessed in the previous month. This was driven by an increase in ODCs' call deposit balances held with CBSI at the end of month. This resulted in an increase in excess liquidity by 3% to \$1,088 million.

#### Domestic Market Operations

The total value of CBSI Bokolo bills floated in February 2016 remained unchanged at \$710 million, achieving full subscription for the month. The weighted average yield (WAY) for the 28 days stood at 0.62%. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days also remained unchanged at 0.34%, 0.46% and 1.15% respectively.

### II. EXTERNAL CONDITIONS

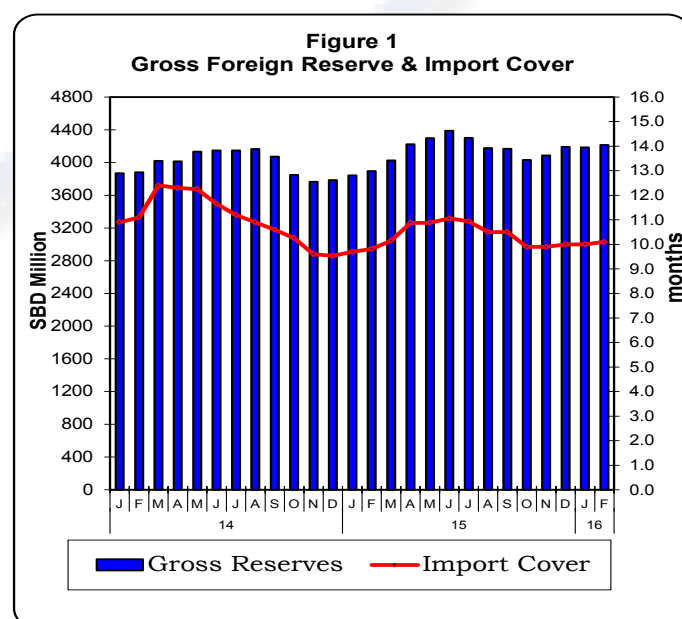
#### Trade in goods

The balance on trade in goods for February 2016 recorded a provisional \$97 million surplus, reversing a revised \$5 million deficit in the previous month. This was driven by a 30% rise in exports to \$306 million and 13% fall in imports

to \$209 million. The increase in exports was driven by higher round log and agricultural exports during the month while the decrease in imports was due to falls in mineral fuels, machineries and transport equipment, and basic manufactures imports.

#### Gross foreign reserves

Gross foreign reserves rose by 1% to \$4,214 million from the \$4,187 million a month ago due to the merchandise trade surplus posted during the month and to a lesser extent by donor inflows. The reserve level was sufficient to cover 10.1 months of imports of goods and services.



#### Exchange rate

The Solomon Islands dollar (SBD) appreciated by 1.30% against the United States dollar (USD) in February to an average of \$8.05 per USD, a reversal from the depreciation in the previous month. The SBD also appreciated against the British pound. Meanwhile, the SBD depreciated against the Australian dollar by 0.89% to \$5.77 per AUD and the New Zealand dollar by 0.42% to \$5.36 per NZD. The SBD also weakened against the Japanese yen and EUR over the review period. As a result of these movements, the exchange rate basket index strengthened during the month by 30 basis points to 109.9.

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

### III. GOVERNMENT FINANCE

The Government posted a preliminary fiscal deficit of \$78 million in February compared to \$43 million surplus recorded a month earlier. This followed a 13% decline in revenue to \$198 million and 49% increase in expenditure to \$276 million against their respective outcomes in January. However, both revenue and expenditure fell 37% and 21% against their respective budgets for the month.

The fall in revenue against January attributed mainly to a 7% decline in tax revenue to \$187 million and a 57% reduction in nontax revenue to \$11 million. Meanwhile, no grant receipts were recorded in February. On expenditure, the month-on-month outturn was driven by a 38% upsurge in recurrent outlays to \$245 million and an increase in development spending from \$6 million to \$24 million. The increase in recurrent spending was largely due to increased spending on payroll, goods and services, and other payments, while development outlays went towards increased spending on roads and bridges, buildings and equipment.

Total central government debt stock stood at \$695 million at the end of February, 1% lower than it was in January. This reflected total debt servicing of \$2 million made during the month. Of the outstanding debt stock, external debt accounted for \$650 million whilst the domestic component accounted for the remaining \$45 million. Meanwhile, the debt-to-GDP ratio remained at 10%, broadly the same as in January.

### IV. DOMESTIC PRODUCTION

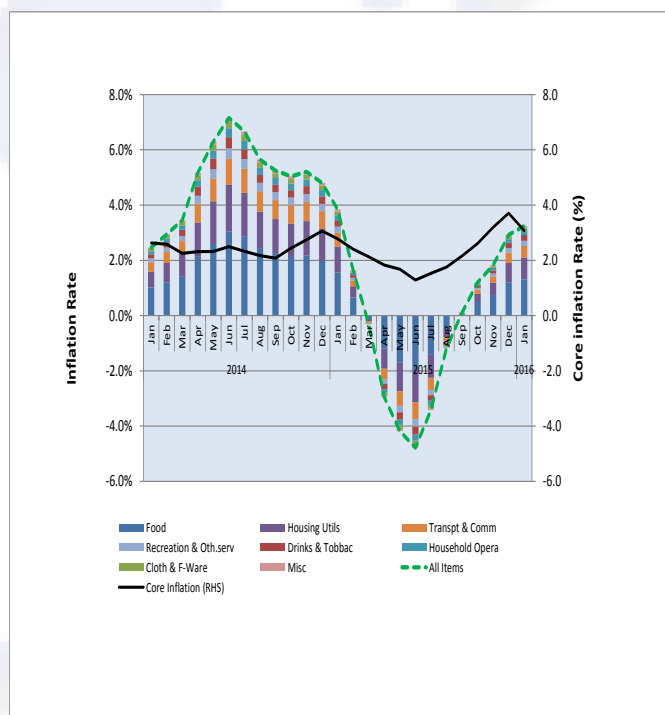
Based on preliminary estimates; the CBSI monthly production index bounced back by 12% to 88 points in February from 79 points in the previous month. The pickup was attributed mainly to the strong recovery in log and cocoa productions during the month by 23% and 10% respectively. Minimal increases in copra output and fish catch by 3% each also contributed to the improvement in the index. On the other hand, production of all palm oil products fell in February. In terms of prices, all international commodity prices rose during the month.

#### Inflation & Honiara Fuel Prices

Headline inflation increased to 3.3% in January from 2.9% in December. The uptick reflected increases in both domestic and imported inflation during the month. Domestic inflation rose 0.4 percentage points to 3.9% whilst imported inflation went up 0.2 percentage points to 2.2% at the end of January.

Inflationary pressures during the month came mainly from food, and drinks and tobacco price increases particularly, fresh produce from the market. In terms of contributions to the headline inflation, the inflation of 3.3% was mainly accounted for by increases in the food, and housing and utilities categories especially kerosene prices.

**Figure 2**  
**Inflation Contributions by Components**



The average fuel price in Honiara fell in February to \$7.86 per litre from \$8.10 per litre in the previous month. The decline came on the back of the general fall across all fuel categories except kerosene prices which rose by a cent to \$8.48 per litre. Diesel prices dropped 50 cents to \$7.26 per litre while petrol prices decreased 21 cents to \$7.85 per litre.

### Solomon Islands Key Economic Indicators

		Oct. 15	Nov. 15	Dec. 15	Jan. 16	Feb. 16
<b>Consumer Price Index</b> (% change)	Headline (3mma)	1.2	1.8	2.9	3.3	n.a
	Underlying (3mma): core 3	2.6	3.2	3.7	3.1	n.a
	Month-on month	1.0	-0.1	-0.6	0.7	n.a
<b>Trade<sup>1</sup></b> (eop)	Exports (\$ millions)	299	343	347	241	306
	Imports (\$ millions)	242	280	297	240	209
<b>Exchange rates</b> (mid-rate, monthly average)	SBD per USD	8.05	8.09	8.05	8.15	8.05
	SBD per AUD	5.80	5.78	5.83	5.71	5.77
	SBD per NZD	5.37	5.34	5.42	5.33	5.36
	SBD per GBP	12.24	12.25	12.02	11.75	11.59
	SBD per 100 JPY	6.69	6.61	6.61	6.90	7.03
	SBD per EUR	9.05	8.70	8.75	8.83	8.97
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,059	4,088	4,190	4,187	4,214
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)*	1,279	1,340	1,504	1,477	1,1509
	Excess Liquidity (\$ millions)*	907	944	1,100	1,059	1,088
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)*	2,838	2,877	3,050	3,105	3,153
	Broad Money (\$ millions)*	3,587	3,636	3,838	3,888	3,939
	Private Sector Credit (\$ millions)*	1,915	1,901	1,959	1,973	1,989
<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%	0.34%	0.34%
	91-days Treasury Bills Rate	0.46%	0.46%	0.46%	0.46%	0.46%
	182-days Treasury Bills Rate	1.15%	1.14%	1.15%	1.15%	1.15%
<b>Commodity Prices</b> (monthly average)	Round logs (US\$/m3)	248	243	245	252	259
	Gold - (US\$/oz)	1,159	1,086	1,068	1,098	1,200
	Palm Oil - (US\$/tonne)	583	558	568	565	639
	Fish - (US\$/tonne)	1,595	1,476	1,552	1,444	1,498
	Copra - (US\$/tonne)	736	716	759	763	813
	Cocoa - (US\$/tonne)	3,200	3,360	3,350	2,905	2,920

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

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