

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply increased marginally by 1% to \$3,883 million at the end of January 2016, following a 6% rise in the previous month. This was driven by a rise in narrow money (M1) by 2% to \$3,105 million which outweighed a marginal fall in other deposits (time and savings) by 1% to \$778 million. The increase in M1 was owed to a rise in demand deposits by 3% to \$2,481 million while currency in circulation falls marginally by 1% to \$623 million. The fall in other deposits stemmed from a 4% and 1% decrease in savings and time deposits respectively. Total net foreign assets (NFA) of the banking system remained stable at \$4,008 million following a slight increase in Other Depository Corporations' (ODCs') NFA from \$73 million to \$85 million. However, year-on-year movement showed NFA had increased by 11% against the same period in 2015.

Net credit to government (NCG) grew by 5% to net liabilities of \$1,396 million after a 9% drop in the previous month. The growth was a result of build-up in government deposits held with CBSI by 9% to \$1,200 million despite a 13% decrease in deposits held with ODCs to \$196 million. Meanwhile, private sector credit (PSC) also increased marginally by 1% to \$1,973 million following a 3% growth in the previous month. Comparing to the same period in 2015, PSC increased by 17%. Mirroring the level movement in NFA and the growth in PSC, total liquidity decreased by 2% to \$1,477 million. This resulted in excess liquidity falling by 4% to \$1,059 million at the end of January 2016.

Domestic Market Operations

The total value of CBSI Bokolo bills absorbed by ODCs in January 2016 remained unchanged at \$710 million, achieving full subscription for the month. The weighted average yield (WAY) for 28 days still remained 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

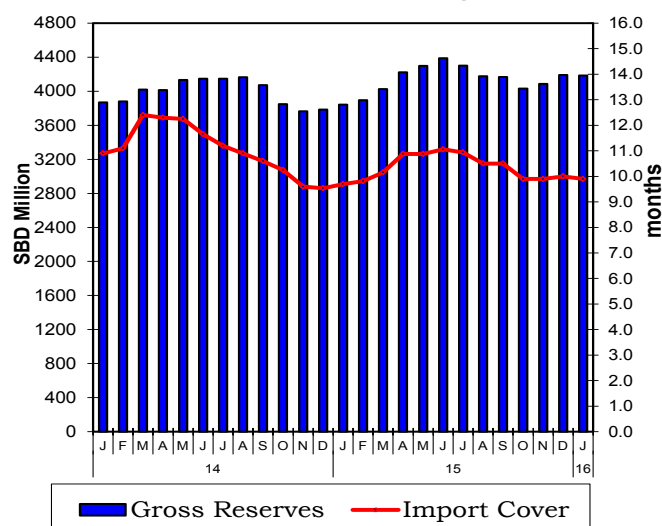
The balance on trade in goods for January 2016 recorded a provisional \$6 million surplus, narrowed from \$50 million surplus in the previous month. This was driven by a large fall in exports by 30% to \$241 million compared to a 21% fall in imports (f.o.b) to \$235 million. All key commodity

exports declined during the month while the decrease in imports was due to falls in fuel, machineries and transport equipment, and basic manufactures imports.

Gross foreign reserves

Gross foreign reserves fell slightly to \$4,187 million from the revised \$4,190 million in December as inflows were offset by outflows during the month. This was sufficient to cover 9.9 months of imports of goods and services.

Figure 1
Gross International Reserve & Import Cover



Exchange rate

The Solomon Islands dollar (SBD) depreciated by 1.23% against the United States dollar (USD) in January to an average of \$8.15 per USD, a reversal from the appreciation in the previous month. The SBD also depreciated against the Japanese Yen and the EUR. Meanwhile, the SBD appreciated against the Australian dollar by 2.05% to \$5.71 per AUD and the New Zealand dollar by 1.60% to \$5.33 per NZD. The SBD also strengthened against the British pound. As a result of these movements, the exchange rate basket index weakened during the month by 91 basis points to 110.3.

¹The basket is trade weighted index to 100 with a base of 2012

III. GOVERNMENT FINANCE

The government recorded a surplus of \$43 million in January on the back of higher revenue collections relative to expenditure. However, compared to the December outcome, both revenue and expenditure shrunk by 36% to \$228 million and 65% to \$185 million respectively. Revenue and expenditure also fell short of their respective budgeted amounts by 27% and 47%.

The fall in revenue against December was largely driven by a 37% drop in tax revenue to \$201 million mainly attributable to lower collections on income and profit, and international trade taxes. This decline, combined with zero record for grant receipts in January, outweighed a 4% increase in nontax revenue to \$27 million. Meanwhile, the month-on-month reduction in expenditure reflected a 46% decline in recurrent outlays to \$178 million and the slowdown in development-related spending to \$6 million compared to \$203 million in December. Notable reductions in payroll and other charges largely underpinned the drop in recurrent spending. However, transfers increased to \$12 million from \$4 million in December.

Total central government debt stock increased slightly by 0.7% to \$702 million at the end of January. Depreciation of the SBD relative to debt-denominated currencies largely explained this outcome. This was despite a \$3 million payment in debt servicing being made, \$2 million of which went towards principal repayment and \$1 million in interest charges. External debt accounted for \$658 million of outstanding debt stock whilst the domestic component accounted for the remaining \$45 million. Meanwhile, the debt-to-GDP ratio remained broadly unchanged at 11% of GDP as in the previous month.

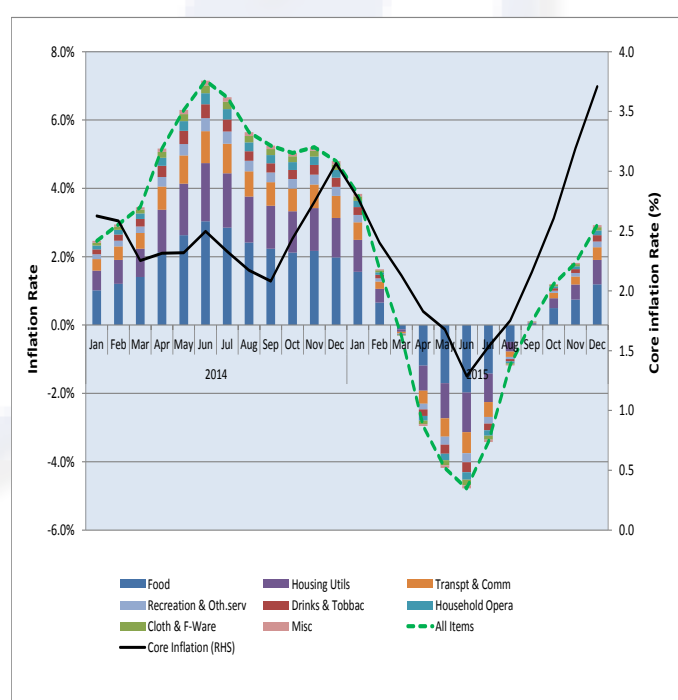
IV. DOMESTIC PRODUCTION

Based on preliminary estimates; the CBSI monthly production index contracted sharply by 24% to 79 points in January from a revised 103 points last month. The fall mainly reflected the decline in log production during the month which fell by a third. To a lesser extent, the decline in cocoa output also contributed to the contraction. In contrast, copra, fish catch and all palm oil products registered growths. In terms of prices, international commodity prices for copra, palm kernel oil and logs increased by 0.5%, 5.5% and 2.9% respectively this month while international prices for palm oil, fish and cocoa dropped 0.5%, 6.9% and 13.3% respectively in January.

Inflation & Honiara Fuel Prices

Headline inflation rose further to 2.9% in December from 1.8% in November reflecting increases in both domestic and imported inflation during the month. Domestic inflation increased from 2.1% to 3.5% while imported inflation went up from 1.3% to 2.0%. The upturn in domestic and imported inflation rates were mainly driven by the increase in food prices in December. In terms of contributions to the headline inflation, the inflation of 2.9% was mainly accounted for by increases in food, housing and utilities, and transport and communication prices during the month.

Figure 2
Inflation Contributions by Components



The average fuel price in Honiara increased slightly in January to \$8.10 per litre from \$8.09 per litre in the previous month. The pick-up was attributed mainly to a 2% surge in kerosene price during the month. Meanwhile, diesel and petrol prices continued to fall with diesel price dropping from \$7.84 per litre to \$7.76 per litre and petrol price falling from \$8.14 per litre to \$8.06 per litre.

Solomon Islands Key Economic Indicators

		Sept. 15	Oct. 15	Nov. 15	Dec. 15	Jan. 16
Consumer Price Index (% change)	Headline (3mma)	0.1	1.2	1.8	2.9	n.a
	Underlying (3mma): core 3	2.2	2.6	3.2	3.7	n.a
	Month-on month	0.2	1.0	-0.1	-0.6	n.a
Trade¹ (eop)	Exports (\$ millions)	231	299	343	347	241
	Imports (\$ millions)	289	242	280	297	235
Exchange rates (mid-rate, monthly average)	SBD per USD	8.14	8.05	8.09	8.05	8.15
	SBD per AUD	5.74	5.80	5.78	5.83	5.71
	SBD per NZD	5.16	5.37	5.34	5.42	5.33
	SBD per GBP	12.49	12.24	12.25	12.02	11.75
	SBD per 100 JPY	6.75	6.69	6.61	6.61	6.90
	SBD per EUR	9.18	9.05	8.70	8.75	8.83
Gross Foreign Reserves (eop)	\$ millions	4,171	4,059	4,088	4,190	4,187
Liquidity² (eop)	Total Liquidity (\$ millions)*	1356	1,279	1,340	1,504	1,477
	Excess Liquidity (\$ millions)*	991	907	944	1,100	1,059
Money and Credit² (eop)	Narrow Money (\$ millions)*	2,811	2,838	2,877	3,050	3,105
	Broad Money (\$ millions)*	3,565	3,587	3,636	3,838	2,187
	Private Sector Credit (\$ millions)*	1,887	1,915	1,901	1,959	1,973
Interest rates (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%	1.15%	1.14%	1.15%	1.15%
Commodity Prices (monthly average)	Round logs (US\$/m3)	248	248	243	245	252
	Gold - (US\$/oz)	1,125	1,159	1,086	1,068	1,098
	Palm Oil - (US\$/tonne)	538	583	558	568	565
	Fish - (US\$/tonne)	1,563	1,595	1,476	1,552	1,444
	Copra - (US\$/tonne)	699	736	716	759	763
	Cocoa - (US\$/tonne)	3,280	3,200	3,360	3,350	2,905

1. Value in terms of free on board (FOB)

2. Based on weekly statistics provided by other depository corporations (ODCs)