

Monthly Economic Bulletin

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Content	Page
I. Monetary Developments	1
II. External Conditions	1
III. Government Finances	2
IV. Domestic Production	2
Key Economic Indicators	3

I. MONETARY DEVELOPMENTS

Total money supply fell by 1% to \$4,448 million in September 2016 albeit this was 25% higher than a year prior. The marginal decline reflected the offsetting effect of a 1% fall in narrow money (M1) to \$3,567 million against a 0.5% growth in other deposits (saving and time) to \$881 million. The fall in M1 came from reductions in both demand deposits and currency in active circulation by 1% to \$2,921 million and 2% to \$646 million respectively. Other deposits, on the other hand, went up by 0.5% to \$142 million, driven by the 2% rise in time deposits to \$739 million despite a 5% decline in savings deposit.

Total net foreign assets (NFA) of the banking system contracted further by 2% to \$3,848 million at the end of September compared to the 0.2% decline in the previous month. This was mainly driven by a 2% fall in CBSI's NFA to \$3,802 million which negated an 87% surge to \$44 million in Other Depository Corporations' (ODCs) NFA from \$24 million. Year-on-year movements showed a 2% fall in NFA against the corresponding period in 2015.

Net credit to government (NCG) rose by 1% to net liabilities of \$1,067 million in September, bucking the downward trend observed since April this year. The marginal increase was attributed to a 17% increase to \$175 million in government deposits held with ODCs. Meanwhile, CBSI's NCG continued to shrink with a further 2% decrease to \$891 million recorded in September compared to larger falls of 6% and 7% in the last two consecutive months. On the upside, private sector credit (PSC) rose by 2% to \$2,187 million, 16% above the previous year. Total liquidity grew by 4% to \$1,687 million underpinned by a 5% increase in free liquidity to \$1,389 million. Excess liquidity also went up by 6% to \$1,245 million during the month.

Domestic Market Operations

The total value of the stock of CBSI Bokolo bills increased from \$750 million in August to \$1,125 million floated in September 2016, reflecting three auctions during the month, with partial subscription achieved for the month. The weighted average yield (WAY) for the 28 days remained unchanged at 0.62% from the previous month. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days also remained at 0.34%, 0.46% and 1.12% respectively as in August.

II. EXTERNAL CONDITIONS

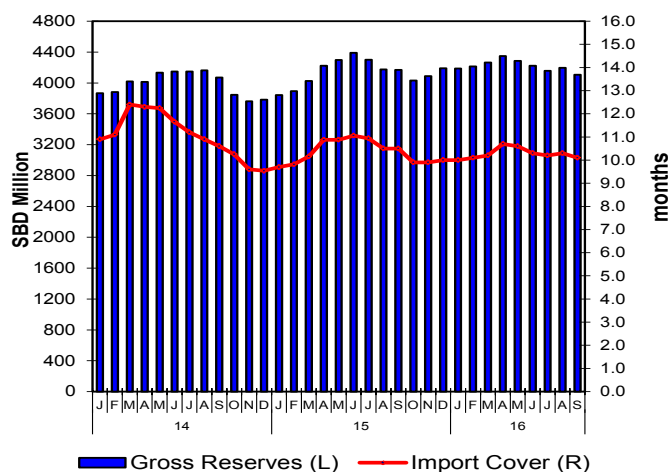
Trade in goods

The balance on trade in goods for September 2016 narrowed to a provisional \$19 million deficit from \$58 million deficit in the previous month. This was driven by upturn in exports by 15% to \$263 million while imports fell marginally by 2% to \$281 million. The increase in exports was mainly due to higher round logs and fish exports that more than offset the fall in agricultural exports during the month. The drop in imports came from lower payments for food, mineral fuels, and basic manufactures which outweighed the increase in import payments for machineries.

Gross foreign reserves

Gross foreign reserves fell by 2% to \$4,107 million due to high outflows exceeding inflows during the month. This level of reserves was sufficient to cover 10.1 months of imports of goods and services.

Figure 1
Gross Foreign Reserve & Import Cover



Source: CBSI

Exchange rate

In September, the Solomon Islands dollar (SBD) depreciated by 0.25% against the United States dollar (USD) to an average of \$7.86 per USD and 1.34% against the New Zealand dollar to \$5.75 per NZD. Similarly, the

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

SBD also depreciated against the EUR. Meanwhile, the SBD appreciated against the Australian dollar by 0.38% to \$5.96 per AUD. The SBD also strengthened against the Japanese Yen and the GBP. As a result of these mixed movements, the trade weighted exchange rate basket index weakened by 0.18% to 106.7 during the month.

III GOVERNMENT FINANCE

The Central Government recorded a smaller fiscal deficit of \$49 million this month compared to the \$69 million deficit posted in the previous month. The improvement came on the back of expenditure control measures the government imposed across all ministries as well as an uptick in revenue collections.

Compared to August, revenue went up by 10% to \$232 million, driven by a 24% increase in tax collection which recorded \$224 million in September 2016. On the other hand, nontax revenue dropped to \$8 million from \$32 million in August. The increase in tax revenue came from higher collection on income and profit tax, and tax on international trade. The fall in nontax revenue was driven by low returns from sales of goods and services, and fishing licenses. Meanwhile, government expenditure remained broadly unchanged at \$281 million this month following the implementation of expenditure control measures such as the 20% and 15% reservations SIG imposed on the development and recurrent budgets respectively since August. This resulted in a sharp contraction in development expenditure to \$56 million from \$70 million the month earlier. The outcome was largely related to the slowdown in payments of machineries and equipment over the month. Recurrent spending, on the other hand, rose by 7% to \$225 million, driven by higher spending on wages and salaries relative to previous month.

Central government debt stock fell marginally by 0.3% to \$658 million at the end of September owing primarily to a \$4 million debt repayment made during the month. External debt stood at \$613 million, 0.3% lower than August whilst domestic debt is contained at \$45 million. Meanwhile, the debt-to-GDP ratio remained stable at 8% of GDP as in the month prior.

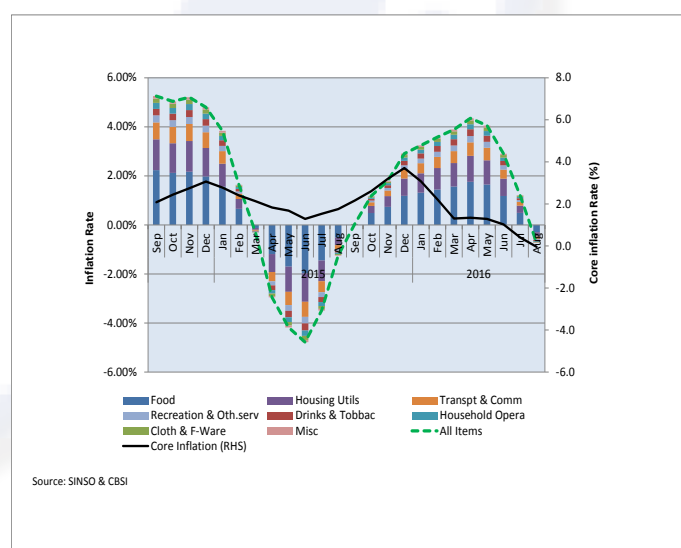
IV. DOMESTIC PRODUCTION

Preliminary estimates showed that the CBSI monthly production index recovered in September, rising markedly by 23% to 91 points from 74 points in the previous month. The positive outcome was mainly attributed to the rebound in fish catch, log, and palm and kernel oil outputs during the month. Fish catch reverted substantially with a 43% growth from a 17% fall in the previous month whilst log registered a 19% growth

after falling by 6% last month. Palm and kernel oil grew considerably by 28% and 36% respectively. On the other hand, copra and cocoa productions contracted by 12% and 9% respectively during the month. In terms of prices, average international price for fish, log, palm oil and kernel oil all increased whilst copra and cocoa prices fell.

Inflation

Headline inflation continued to ease to minus 0.7% in August from 1.2% in July reflecting declines in both imported and domestic inflation rates during the month. Imported inflation fell from minus 0.6% to minus 1.6% while domestic inflation dropped from 2.3% to minus 0.2%. The reduction in imported inflation mainly reflected price decreases in all categories of the CPI basket which more than offset a slight increase in the recreation category.



Similarly, the fall in domestic inflation was driven mainly by the food price index falling from 2.7% to minus 2.7% with price declines in drinks & tobacco, and the household operations categories also contributing to the drop. These outweighed the slight pickup in the transport and communications category during the month.

Of the overall headline inflation of minus 0.7%, food contributed the largest share with minus 0.3%, followed by housing and utilities with minus 0.2% whilst all the other categories contributed the remaining minus 0.2%.

Honiara Fuel Prices

The average fuel price in Honiara fell further by 27 cents in September to \$7.53 per litre from \$7.80 per litre in the previous month. This reflected declines across all fuel categories during the month. Diesel price dropped by 33 cents to \$7.24 per litre from \$7.57 per litre, petrol price fell by 44 cents to \$7.20 per litre from \$7.64 per litre whilst kerosene price declined by 3 cents to \$8.16 per litre from \$8.19 per litre.

Solomon Islands Key Economic Indicators

		May 16	June 16	Jul 16	Aug 16	Sep 16
Consumer Price Index (% change)	Headline (3mma)	4.1	2.9	1.2	-0.7	na
	Underlying (3mma): core 3	1.3	1.0	0.4	0.0	na
	Month-on month	-0.9	-1.0	-0.3	-0.7	na
Trade¹ (eop)	Exports (\$ millions)	300	273	234	229	263
	Imports (\$ millions)	254	294	232	286	281
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.98	7.94	7.89	7.84	7.86
	SBD per AUD	5.85	5.87	5.94	5.98	5.96
	SBD per NZD	5.43	5.59	5.65	5.67	5.75
	SBD per GBP	11.58	11.28	10.47	10.38	10.34
	SBD per 100 JPY	7.34	7.51	7.57	7.75	7.71
	SBD per EUR	9.03	8.93	8.73	8.78	8.87
Gross Foreign Reserves (eop)	\$ millions	4,286	4,223	4,156	4,197	4,107
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,574	1,603	1,592	1,629	1,687
	Excess Liquidity (\$ millions)*	1,135	1,308	1,148	1,170	1,245
Money and Credit² (eop)	Narrow Money (\$ millions)*	3,345	3,536	3,552	3,595	3,567
	Broad Money (\$ millions)*	4,142	4,344	4,369	4,473	4,448
	Private Sector Credit (\$ millions)*	2,018	2,035	2,048	2,137	2,187
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	1.12%	1.12%	1.12%	1.12%	1.12%
Commodity Prices (monthly average)	Round logs - (US\$/m3)	273	282	286	294	292
	Gold - (US\$/oz)	1,261	1,276	1,337	1,340	1,327
	Palm Oil - (US\$/tonne)	706	683	651	736	756
	Fish - (US\$/tonne)	1,774	1,710	1,838	1,774	1,867
	Copra - (US\$/tonne)	963	1,048	1,008	1,041	1,025
	Cocoa - (US\$/tonne)	3,099	3,130	3,050	3,040	2,890

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

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