

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply increased by 4% to \$4,637 million in October 2016, 29% higher than a year prior. The expansion mirrored increases in both narrow money (M1) and other deposits (saving and time) by 5% to \$3,740 million and by 2% to \$897 million respectively. The increase in M1 stemmed from a 5% rise in demand deposits to \$3,071 million combined with a 3% upturn in currency in active circulation to \$669 million. Other deposits benefited from a 2% rise in both time and savings deposits to \$752 million and \$145 million respectively.

Total net foreign assets (NFA) of the banking system increased by 2% to \$3,943 million in October following a 2% decline recorded in September. Underlying this outcome was a 3% increase in CBSI's NFA to \$3,902 million which more than offset a 7% decline in Other Depository Corporations' (ODCs) NFA to \$41 million. Year-on-year movements showed NFA improved by 4% against the corresponding period in 2015.

Net credit to government (NCG) fell by 7% to net liabilities of \$995 million in October, maintaining the downward trend observed since April this year. The fall was driven by reductions in ODCs and CBSI's net liabilities positions both by 7% to \$164 million and \$831 million respectively. Private sector credit (PSC) also declined by 1% to \$2,171 million, albeit 13% above the previous year. Meanwhile, total liquidity in the banking system increased by 9% to \$1,699 million resulting from increases in both free liquidity by 10% to \$1,393 million and 3% in required reserves to \$306 million. This saw excess liquidity increasing by 10% to \$1,230 million during the month.

Domestic Market Operations

The total value of the stock of CBSI Bokolo bills floated fell from \$1,125 million in September to \$750 million in October 2016. This reflected two auctions against three in September. 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 September.

II. EXTERNAL CONDITIONS

Trade in goods

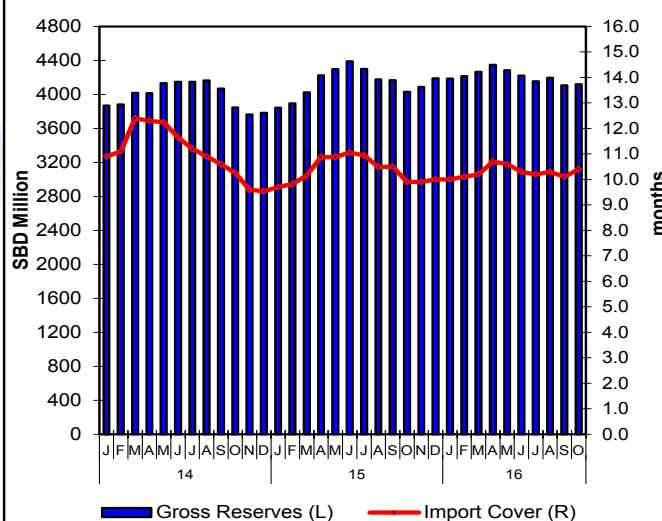
The balance on trade in goods for October 2016 widened to a provisional \$19 million deficit from a revised \$16

million deficit in the previous month. This outcome stemmed from an \$87 million increase in imports to \$368 million that outweighed an \$85 million increase in exports to \$350 million. The rise in exports was supported by higher round logs and agricultural exports whilst the upturn in imports was driven by the increase in payments for food, mineral fuels, and basic manufactures.

Gross foreign reserves

Gross foreign reserves grew slightly by 0.3% to \$4,121 million due to the rise in round log export receipts. This level of reserves is sufficient to cover 10.4 months of imports of goods and services.

Figure 1
Gross Foreign Reserve & Import Cover



Source: CBSI

Exchange rate

The Solomon Islands dollar (SBD) depreciated by 0.12% for the second month against the United States dollar (USD) to an average of \$7.87 per USD in October, and by 0.59% against the Australian dollar (AUD) to \$5.99 per AUD. On the other hand, it appreciated against the New Zealand dollar (NZD) by 1.95% to \$5.64 per NZD. It also strengthened against the EUR, Japanese Yen and GBP during the period. The mixed movements resulted in the further weakening of the trade weighted exchange rate basket index by 10 basis points to 106.8 during the month.

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

III GOVERNMENT FINANCE

The Government's fiscal deficit position widened to \$80 million this month from \$36 million in September, following two straight months of improvements. This outcome reflected the fall in revenue coupled with the lifting of the reservation that was earlier imposed on expenditures. Total Government revenue dropped by 10% in October to \$219 million, reversing the growth of 6% a month ago. The fall mirrored the 12% slowdown in tax revenue to \$208 million that outweighed the 39% increase in nontax revenue to \$12 million. Lower collections from income, profits and capital gains explained the decline in tax revenue compared to the previous month. On the upside, the increase in nontax revenue reflected the rise in fishing license fees. Total Government expenditure increased by 7% in October to \$299 million, triggered by the loosening of the temporary reservation policy on both recurrent and development expenditure. As a result, recurrent expenditure edged up slightly by 8% to \$242 million, driven by the increase in transfers and other payments. Likewise, development expenditure rose by 2% to \$57 million due to higher spending on non-residential buildings and other structures compared to September. At the end of October, central government debt stock dropped by 2% to \$648 million largely due to debt repayments during the month. External debt stood at \$603 million, \$10 million lower than the \$613 million recorded in September, whilst domestic debt remained flat at \$45 million at end of the current period. The debt-to-GDP ratio remained at 8% of GDP, the same proportion as in the previous month.

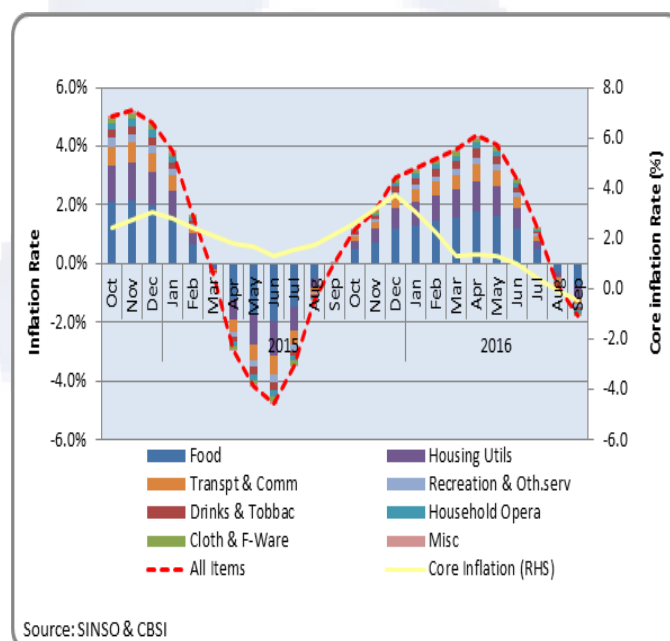
IV DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index increased further by 24% to 115 points in October from the revised 92 points in the previous month. This was largely driven by increases in round log, palm oil and copra production, each rising by 43%, 4% and 1% respectively. In contrast, fish catch declined by 17% following a 43% increase in the previous month, while cocoa production plummeted by 62% during the month. In terms of prices, the average international price for all commodities fell during the month. Fish prices dropped by 13%, palm kernel oil down by 10%, crude palm oil, copra and cocoa prices each fell by 6% while log prices slid by 2% during the month.

Headline Inflation

Headline inflation continued to ease further to minus 1.8% in September from minus 0.7% last month. This outcome reflected declines in both imported and domestic inflation during the month. Imported inflation fell to minus 2.5% from minus 1.6% while domestic inflation dropped to minus 1.3% from minus 0.2%.



The decline in imported inflation was driven by price falls in most categories which outweighed the slight increase in the recreation and 'housing and utilities' categories. Meanwhile, the drop in domestic inflation came mainly from the food price index declining from minus 2.7% to minus 4.6%. The decrease in the 'household operations' and the 'housing and utilities' components of the domestic inflation also contributed to the outcome. This offsets the rise in 'transport and communications' and recreation categories during the month.

Contributing to the overall headline inflation of minus 1.8% were food which continued to account for the largest share with minus 0.7%, followed by 'housing and utilities' with 0.4%, 'transport and communication' with minus 0.2%, while the other categories accounted for the remaining minus 0.4%.

Honiara Fuel Prices

The average fuel price in Honiara increased by 34 cents in October to \$7.87 per litre compared to \$7.53 per litre in the previous month. This reflected the increase across all fuel categories during the month. Diesel prices increased by 11 cents to \$7.35 per litre from \$7.24 per litre, petrol prices rose by 25 cents to \$7.45 per litre from \$7.20 per litre, while kerosene prices increased by 65 cents to \$8.80 per litre from \$8.16 per litre.

Solomon Islands Key Economic Indicators

		June 16	Jul 16	Aug 16	Sep 16	Oct 16
Consumer Price Index (% change)	Headline (3mma)	2.9	1.2	-0.7	-1.7	na
	Underlying (3mma): core 3	1.0	0.4	0.0	-0.5	na
	Month-on month	-1.0	-0.3	-0.7	-0.4	na
Trade¹ (eop)	Exports (\$ millions)	273	234	229	263	350
	Imports (\$ millions)	294	232	286	281	368
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.94	7.89	7.84	7.86	7.87
	SBD per AUD	5.87	5.94	5.98	5.96	5.99
	SBD per NZD	5.59	5.65	5.67	5.75	5.64
	SBD per GBP	11.28	10.47	10.38	10.34	9.74
	SBD per 100 JPY	7.51	7.57	7.75	7.71	7.60
	SBD per EUR	8.93	8.73	8.78	8.87	8.69
Gross Foreign Reserves (eop)	\$ millions	4,223	4,156	4,197	4,107	4,121
Liquidity² (eop)	Total Liquidity (\$ millions)*	1,603	1,592	1,629	1,687	1,699
	Excess Liquidity (\$ millions)*	1,308	1,148	1,170	1,245	1,230
Money and Credit² (eop)	Narrow Money (\$ millions)*	3,536	3,552	3,595	3,567	3,740
	Broad Money (\$ millions)*	4,344	4,369	4,473	4,448	4,637
	Private Sector Credit (\$ millions)*	2,035	2,048	2,137	2,187	2,171
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)	282	286	294	292	287
	Gold - (US\$/oz)	1,276	1,337	1,340	1,327	1,266
	Palm Oil - (US\$/tonne)	683	651	736	756	712
	Fish - (US\$/tonne)	1,710	1,838	1,774	1,867	1,619
	Copra - (US\$/tonne)	1,048	1,008	1,041	1,025	964
	Cocoa - (US\$/tonne)	3,130	3,050	3,040	2,890	2,710

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

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