

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Total money supply contracted by 3% to \$4,514 million at the end of November 2016, although this was 24% higher than a year prior. The decline was driven by a 5% reduction in narrow money (M1) to \$3,556 million despite a 7% increase in other deposits (saving and time) to \$957 million. The reduction in M1 came from a 7% fall in demand deposits to \$2,862 million which negated a 4% upturn in currency in active circulation to \$695 million. Other deposits benefited from increases in both time and savings deposits by 5% and 16% to \$789 million and \$169 million respectively.

Total net foreign assets (NFA) of the banking system rose slightly by 0.4% to \$3,959 million in November following a 2% growth recorded in the previous month. The marginal increase resulted from a 1% increase in CBSI's NFA to \$3,930 million which more than offset the 30% drop in Other Depository Corporations' (ODCs) NFA to \$29 million. Year-on-year movements showed NFA improved by 0.1% against the corresponding period in 2015.

Net credit to government (NCG) grew by 2% to net liabilities of \$1,016 million in November compared to the 7% fall recorded in the previous month. This was mainly driven by a 34% surge in ODCs' net liabilities to \$220 million, whilst CBSI's net liabilities shrank by 4% to \$796 million. Private sector credit (PSC) also increased marginally by 1% to \$2,200 million and was 16% higher than the previous year. Meanwhile, total liquidity in the banking system declined by 1% to \$1,685 million, following a 9% rise in the previous month. This saw both free liquidity and required reserves declining by 1% and 0.3% to \$1,381 million and \$305 million respectively. Excess liquidity also contracted by 1% to \$1,221 million in November 2016.

### Domestic Market Operations

The total value of the stock of CBSI Bokolo bills floated in November was capped at \$750 million, same as in October 2016. This outcome mirrored two auctions conducted in November with full 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 unchanged at 0.34%, 0.46% and 1.12% respectively, as in October.

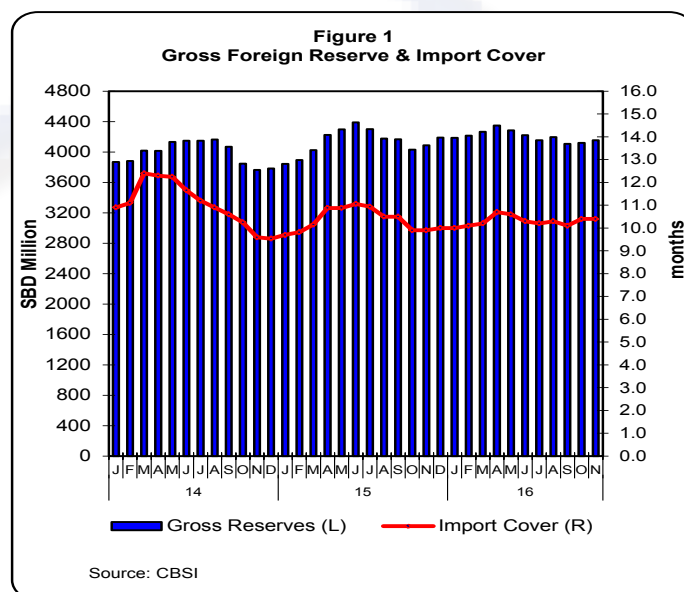
### II. EXTERNAL CONDITIONS

The balance on trade in goods for November 2016 widened to a provisional \$79 million deficit following a revised \$3

million deficit witnessed in the previous month. This was driven by a 20% slowdown in exports to \$294 million while imports grew by 1% to \$373 million. The fall in exports reflected the sizable decline in exports of round logs and agricultural commodities, outweighing the increase in fish exports, minerals and other commodities during the month. The increase in imports came from a surge in payments for mineral fuel that negated falls in imports of food, basic manufactures, chemicals and other imports. Machineries import also recorded a slight increase.

### Gross Foreign reserves

Gross foreign reserves grew marginally by 1% to \$4,154 million due to high donor inflows exceeding outflows during the month. This level of reserves was sufficient to cover 10.4 months of imports of goods and services.



### Exchange rates

In November, the Solomon Islands dollar (SBD) depreciated by 0.83% against the United States dollar (USD) to an average of \$7.94 per USD and 0.66% against the New Zealand dollar to \$5.67 per NZD. Similarly, the SBD depreciated against the British Pound Sterling by 1.26% to \$9.86 per GBP. On the other hand, it appreciated against the Australian dollar by 0.29% to \$5.98 per AUD and strengthened against the Japanese Yen and the EUR. As a result of these mixed movements, the trade weighted exchange rate basket index weakened by 0.52% to 107.4 during the month.

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

### III GOVERNMENT FINANCE

The Government finances ended this month with a slightly smaller fiscal deficit of \$75 million compared to the deficit of \$80 million in the previous month. The outcome came about following a decline in total expenditure which outweighed the fall in revenue during the month. Meanwhile, the Government's debt trended downward this month as a result of a large one off advanced repayment.

The 2% fall in total revenue against October to \$214 million was driven by a 3% decrease in tax receipts to \$202 million. The fall in tax revenue was attributed to the decline in 'goods and services tax', and 'tax on income, profit and capital gains'. In contrast, nontax revenue from other ministries rose by 10% to \$13 million during the month. The upturn in nontax revenue was owed to an increase in overseas fishing licenses and premium fees on real estate. Meanwhile, the 3% drop in total government outlays to \$290 million emanated from a 9% drop in recurrent spending to \$221 million. Development expenditure, on the other hand, rose by 21% to \$69 million over the previous month. The decline in recurrent spending relative to the prior month was related to the decline in payroll costs, transfers and other payments whilst the upsurge in capital spending was owed to higher spending on machineries and equipment, and buildings and structures.

The Government's debt stock edged down by 1% at the end of this month to \$665 million on the back of the debt repayment of \$11 million, most of which went towards the servicing of foreign loans. Of the total debt stock, external debt accounted for 93% despite dropping to \$621 million from \$631 million in October, while domestic debt remained at \$45 million, as in the previous month.

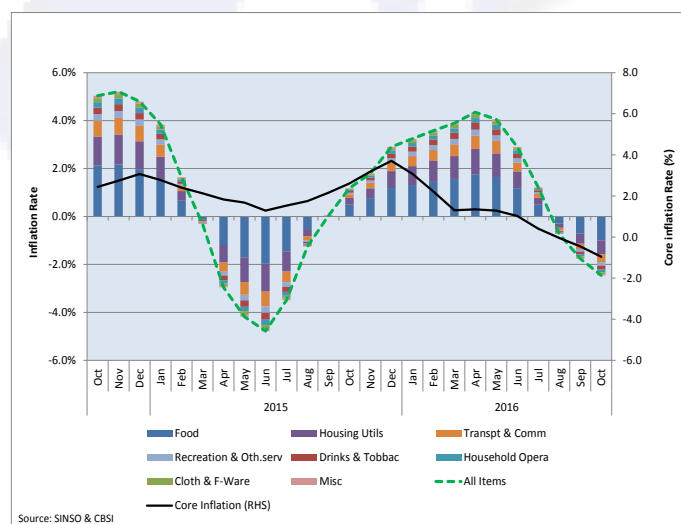
### IV DOMESTIC PRODUCTION

Based on preliminary estimates, the CBSI production index fell by 14% to 101 points in November, following a revised 30% increase in the previous month. This was driven mainly by the decline in log production which contracted by 18% during the month. To a lesser extent, the 10% drop in copra production also contributed to the fall. On the other hand, cocoa and palm oil production grew by 15% and 5% respectively during the month while fish catch went up slightly by 0.3%. In terms of international prices, palm kernel oil price rebounded by 13% reaching record high, fish price grew by 8% while copra and crude palm oil prices increased by 6% each during the month. Meanwhile, cocoa and log prices fell by 8% and 4% respectively.

### Headline Inflation

Headline inflation eased further to minus 2.5% in October from minus 1.8% in the previous month reflecting declines in both imported and domestic inflation during the month. Imported inflation declined further to minus 3.4% from minus 2.5% whilst domestic inflation eased to minus 1.9% from minus 1.3%.

Figure 2  
Inflation Contributions by Components



The reduction in imported inflation was driven mainly by falls in most categories in the imported CPI basket offsetting the slight increases in 'housing and utilities' and 'recreation' categories.

Similarly, the fall in domestic inflation reflected the declines in the food price index falling from minus 4.6% a month ago to minus 5.7% together with the declines in 'housing and utilities' and 'household operations' indices. All these combined to outweigh the increases in the other categories during the month. Of the overall headline inflation of minus 2.5%, food still accounted for the largest share with minus 1%, followed by 'housing and utilities' with minus 0.6%, 'transport and communications' contributed minus 0.3% while all the other categories accounted for the remaining minus 0.6%.

### Honiara Fuel Prices

The average fuel price in Honiara fell by 23 cents in November to \$7.63 per litre from \$7.87 per litre a month ago. This was largely driven by the decline in kerosene price which dropped by \$1.17 to \$7.63 per litre from \$8.80 per litre in the previous month. This offsets the increase in diesel and petrol prices rising by 23 cents and 25 cents to \$7.58 per litre and \$7.70 per litre respectively during the month.

Solomon Islands Key Economic Indicators						
		Jul 16	Aug 16	Sep 16	Oct 16	Nov 16
<b>Consumer Price Index</b> (% change)	Headline (3mma)	1.2	-0.7	-1.7	-2.5	na
	Underlying (3mma): core 3	0.4	0.0	-0.5	-1.0	na
	Month-on month	-0.3	-0.7	-0.4	0.1	na
<b>Trade<sup>1</sup></b> (eop)	Exports (\$ millions)	234	229	263	350	294
	Imports (\$ millions)	232	286	281	368	373
<b>Exchange Rates</b> (mid-rate, monthly average)	SBD per USD	7.89	7.84	7.86	7.87	7.94
	SBD per AUD	5.94	5.98	5.96	5.99	5.98
	SBD per NZD	5.65	5.67	5.75	5.64	5.67
	SBD per GBP	10.47	10.38	10.34	9.74	9.86
	SBD per 100 JPY	7.57	7.75	7.71	7.60	7.35
	SBD per EUR	8.73	8.78	8.87	8.69	8.58
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,156	4,197	4,107	4,121	4,154
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$)	1,592	1,629	1,687	1,699	1,685
	Excess Liquidity (\$)	1,148	1,170	1,245	1,230	1,221
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$)	3,552	3,595	3,567	3,740	3,556
	Broad Money (\$)	4,369	4,473	4,448	4,637	4,514
	Private Sector Credit (\$)	2,048	2,137	2,187	2,171	2,200
<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	1.12%	1.12%	1.12%	1.12%	1.12%
<b>Commodity Prices</b> (monthly average)	Round logs - (US\$/m3)	286	294	292	287	275
	Gold - (US\$/oz)	1,337	1,340	1,327	1,266	1,238
	Palm Oil - (US\$/tonne)	651	736	756	712	755
	Fish - (US\$/tonne)	1,838	1,774	1,867	1,619	1,743
	Copra - (US\$/tonne)	1,008	1,041	1,025	964	1,021
	Cocoa - (US\$/tonne)	3,050	3,040	2,890	2,710	2,500

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

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