

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Total money supply increased by 2% to \$4,593 million in December 2016, 20% higher than the same period last year. The expansion mirrored increases in both narrow money (M1) and other deposits (saving and time) by 1% to \$3,590 million and by 5% to \$1,003 million respectively. The increase in M1 was driven by a 4% rise in currency in active circulation to \$723 million combined with a marginal 0.2% increase in demand deposits to \$2,867 million. Other deposits benefited from a 7% increase in time deposits to \$842 million despite a 4% fall in savings deposits to \$161 million.

Total net foreign assets (NFA) of the banking system further increased by 2% to \$4,021 million in December following a 0.4% growth recorded in the previous month. This outcome was mainly attributed to a 2% increase in CBSI's NFA to \$4,000 million, outweighing the 28% decline in Other Depository Corporations' (ODCs) NFA to \$21 million. Year-on-year movements showed NFA remained broadly unchanged against the corresponding period in 2015.

Net credit to government (NCG) recorded a marginal growth of 0.1% to net liabilities of \$1,017 million in December following a 2% growth witnessed a month ago. The slight increase came from a 1% rise in CBSI's net liabilities position to \$805 million, which offset a 4% decline in ODC's net position to \$212 million. On the downside, private sector credit (PSC) contracted by 1% to \$2,178 million, albeit 11% above the previous year. Meanwhile, total liquidity in the banking system fell by 1% to \$1,669 million driven mainly by a drop in the level of deposits. This saw both free liquidity and required reserves declining by 1% to \$1,365 million and 0.1% to \$304 million respectively. Excess liquidity shrunk by 3% to \$1,179 million during the month.

#### Domestic Market Operations

The total value of the stock of CBSI Bokolo bills floated in December was capped at \$750 million. The weighted average yield (WAY) for the 28 days bill 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 November 2016.

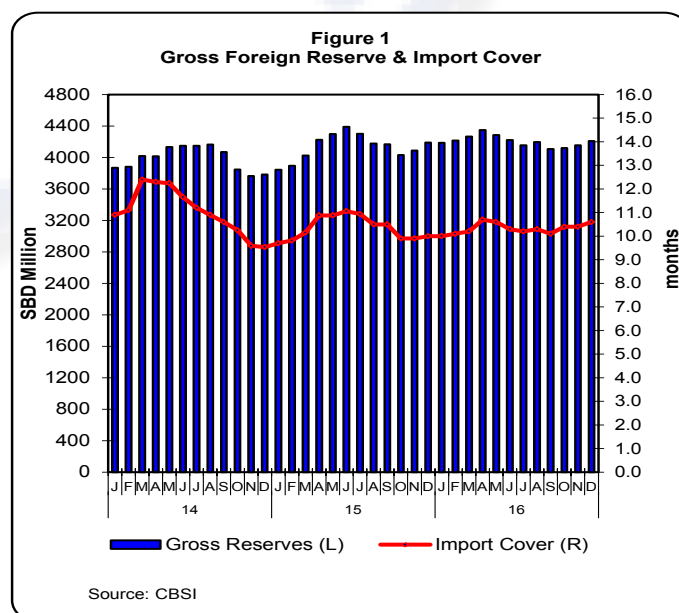
### II. EXTERNAL CONDITIONS

The balance on trade in goods for December 2016 fell to a provisional \$55 million deficit from a revised \$15 million surplus in November. This was driven by a 9% slowdown

in exports to \$292 million while imports grew by 14% to \$346 million. The fall in exports reflected declines in exports of round logs and fish which outweighed the increase in agricultural commodities during the month. The increase in imports came from higher payments for mineral fuel, food, and machineries.

#### Gross Foreign reserves

Gross foreign reserves grew marginally by 1% to \$4,210 million and resulted from high donor inflows that exceeded outflows during the month. This level of reserves was sufficient to cover 10.6 months of imports of goods and services.



#### Exchange rates

In December, the Solomon Islands dollar (SBD) depreciated for the second consecutive month by 0.94% against the United States dollar (USD) to an average of \$8.01 per USD. The SBD also weakened against the British Pound. The SBD however, appreciated against the Australian dollar by 1.44% to \$5.89 per AUD and by 0.52% against the New Zealand dollar to \$5.64 per NZD. Similarly, the SBD strengthened against the Japanese Yen and the Euro. Consequently, the mixed movements led to a weakening of the trade weighted exchange rate basket index by 1.14% to 108.6. This continued the downward trend since Sept 2016.

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



### III GOVERNMENT FINANCE

The Government registered a budget deficit of \$94 million this month following a \$75 million deficit in the previous month. The widening deficit was attributed to a 35% increase in government expenditure to \$390 million despite a 38% growth in revenue collection to \$296 million. On government debt, the outstanding stock edged down in December after rising in the two previous months.

The improvement in revenue against November was driven by a 44% upturn in tax revenue that emanated from the rise in income and profit taxes, and taxes on goods and services. Non-tax revenue, on the other hand, fell to \$5 million reflecting the dip in property income and the sales of goods and services over the period. Meanwhile, the increase in expenditure against the month prior was due in part to a jump in development spending from \$69 million to \$128 million and recurrent spending rising by 19% to \$262 million. The growth in spending on machinery and equipment, and roads and bridges explained the surge in the former, while the rise in the latter was owed to an increase in consumption and grant spending.

At the end of December, Government's outstanding debt fell by 1% to \$678 million due to debt repayments of \$9 million. Of the outstanding stock, external debt made up 94% (\$635 million) while the domestic debt accounted for the remainder. Meanwhile, the debt-to-GDP ratio remained at 8% as in the previous month.

### IV DOMESTIC PRODUCTION

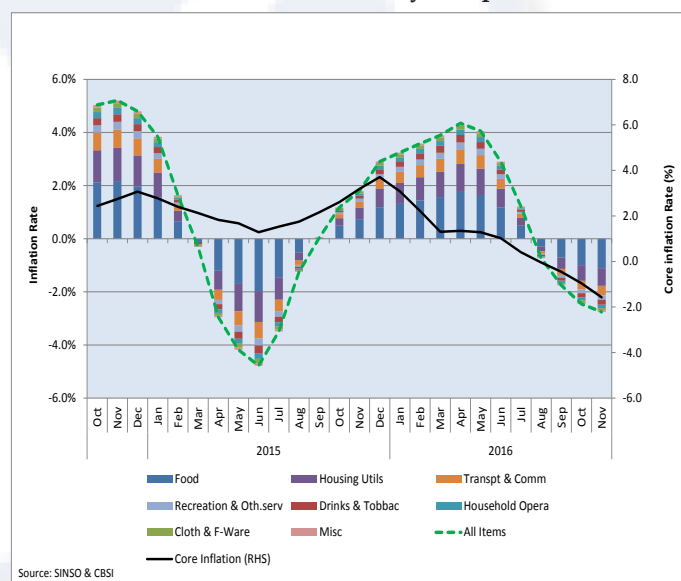
Based on preliminary estimates, the CBSI monthly production index contracted further by 8% to 93 points in December from 101 points in the previous month. This was largely driven by declines in copra, fish catch and round log production during the month. Copra production plummeted by 25%, fish catch fell by 18% while log output dropped further by 8% following an 18% fall in the previous month. On the other hand, cocoa production improved substantially with 88% growth after the revised 27% fall in the previous month. Similarly, palm kernel oil increased by 20% while crude palm oil registered 18% growth during the month. In terms of international prices, palm kernel oil increased further by 13%, copra price grew by 10% while crude palm oil price rose by 4%. Meanwhile, the average prices for cocoa and round log declined by 8% and 7% respectively, whilst fish price remained stable over the month.

#### Headline Inflation

Headline inflation eased further to minus 2.8% in

November from minus 2.5% in the previous month. This reflected the declines in both imported and domestic inflation during the month. Imported inflation further decelerated to minus 4.1% from minus 3.4% whilst domestic inflation declined to minus 2.0% from minus 1.9%. The fall in imported inflation rate mainly reflected the price decreases in most of the categories of the CPI basket which more than offset the slight increases in 'housing and utilities' and recreation categories during the month.

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



Similarly, the decline in domestic inflation reflected large falls in the food category with price declines in 'drinks and tobacco', housing utilities and 'household operations' categories also contributing to the outcome. These outweighed the price increase in the transport and communication category during the month. Of the overall headline inflation of minus 2.8%, food contributed the largest share with minus 1.1%, followed by housing and utilities with minus 0.7%, transport and communication with minus 0.4% whilst all the other categories contributed to the remaining 0.7%.

#### Honiara Fuel Prices

The average fuel price in Honiara fell slightly by 8 cents to \$7.56 per litre in December from \$7.63 per litre a month ago. This was driven by declines in all fuel prices during the month. Petrol price dropped by 2 cents to \$7.67 per litre from \$7.70 per litre, diesel price slightly decreased by 1 cent to \$7.57 per litre from \$7.58 per litre whilst kerosene price declined further by 19 cents to \$7.43 per litre from \$7.63 per litre during the month.



### Solomon Islands Key Economic Indicators

		Aug 16	Sep 16	Oct 16	Nov 16	Dec 16
<b>Consumer Price Index</b> (% change)	Headline (3mma)	-0.7	-1.7	-2.5	-2.8	na
	Underlying (3mma): core 3	0.0	-0.5	-1.0	na	na
	Month-on month	-0.7	-0.4	0.1	-0.4	na
<b>Trade<sup>1</sup></b> (eop)	Exports (\$ millions)	229	263	350	294	292
	Imports (\$ millions)	286	281	368	373	346
<b>Exchange Rates</b> (mid-rate, monthly average)	SBD per USD	7.84	7.86	7.87	7.94	8.01
	SBD per AUD	5.98	5.96	5.99	5.98	5.89
	SBD per NZD	5.67	5.75	5.64	5.67	5.64
	SBD per GBP	10.38	10.34	9.74	9.86	10.01
	SBD per 100 JPY	7.75	7.71	7.60	7.35	6.92
	SBD per EUR	8.78	8.87	8.69	8.58	8.46
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,197	4,107	4,121	4,154	4,210
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$)	1,629	1,687	1,699	1,685	1,669
	Excess Liquidity (\$)	1,170	1,245	1,230	1,221	1,179
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$)	3,595	3,567	3,740	3,556	3,590
	Broad Money (\$)	4,473	4,448	4,637	4,514	4,593
	Private Sector Credit (\$)	2,137	2,187	2,171	2,200	2,178
<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)	294	292	287	275	256
	Gold - (US\$/oz)	1,340	1,327	1,266	1,238	1,157
	Palm Oil - (US\$/tonne)	736	756	712	755	783
	Fish - (US\$/tonne)	1,774	1,867	1,619	1,743	na
	Copra - (US\$/tonne)	1,041	1,025	964	1,021	1,120
	Cocoa - (US\$/tonne)	3,040	2,890	2,710	2,500	2,300

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

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