Central Bank of Solomon Islands

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Press Release

December 2016 Quarterly Economic Review

The Central Bank of Solomon Islands (CBSI) has published the Bank's 2016 December Quarterly Economic Review on the CBSI website (www.cbsi.com.sb) on April 10th, 2017. The December Economic Review provides an assessment of how the domestic economy performed in 2016 and it's near term macroeconomic outlook.

Preliminary estimates from the Bank pointed to a 3.5% growth in 2016. This was supported mainly by the primary sector that grew by 3.3% and services sector which rose by 4.2%. The primary sector benefited largely from substantial gains in the logging and agricultural sectors while the services sector gained from investments in public infrastructures, commercial and residential buildings, and general trading activities.

Activities in the commodity sector were more buoyant in 2016, reversing the weak trend seen in the previous year. The production index, which measures the performance of major export commodities of the country, rose by nine percentage points to 91.0. This came of the back of higher round logs and agricultural outputs coupled with favourable commodity prices. Fishing activities however remain subdued during the year.

Partial economic indicators showed investment continued in 2016 with much of the public investment happening in the infrastructure sector. The successful completion of the second international wharf in Honiara has not only improved berthing capacity but is expected to lead to improved efficiencies in the long term. Credit to the business sector, a proxy for private sector investments, rose by 11% to $1,481 million. Proxy indicators from the construction sector showed increased investments in both residential and commercial buildings.

Labour market indicators pointed to slight improvements in 2016. The public sector workforce expanded by 3% against the previous year. The number of superannuation contributors also increased by 1% to 55,820 contributors.

The external sector recorded another balance of payments surplus in 2016, though smaller than a year earlier. The positive outturn came in spite of a widening current account deficit and was largely attributed to the surplus in the capital and financial account. Net exports turned positive in 2016, owing to considerable gains in round logs and agricultural exports combined with falling import payments from the oil and machineries categories. The level of gross foreign reserves at the end of the year was sufficient to cover more than ten months of imports, higher than the three months threshold.

The value of the domestic currency weakened slightly in 2016 in line with the movement of the currency basket. The trade weighted index, which measures the performance of the currency basket, depreciated by

0.3% during the year as a result of the stronger US dollar. Meanwhile, the real effective exchange rate recorded a smaller appreciation than the previous year, indicating a slight deterioration in export competitiveness.

Monetary aggregates recorded further growths during the year, though at slower momentums. Money supply expanded by 13% year-on-year to $4,742 million. The monetary expansion was due in part to increased drawdown of government deposits from the banking system to finance recurrent expenditure and growth in credit to private sector.

Credit conditions continued to improve in 2016, though at a slower pace than the previous year. Credit to private sector expanded by 12% year on year to $2,192 million, following a 16% growth a year ago. The key driving sectors behind the credit growth were construction, distribution, tourism, forestry, and personal. Despite the growths in credit and Bokolo bills auctioned volume, liquidity levels of the banking system remained high with excess liquidity rising by 18% against the previous year to $1,330 million.

Inflationary pressures started decelerating in the second quarter and remained below zero percent since the third quarter. At the end of the year, inflation rate fell to minus 2.8% compared to 2.9% in December 2015. The deceleration was triggered mainly by low energy and food prices and to some extent the depreciation of the local currency against AUD and NZD during the year. The overall decline in headline inflation were driven both by the imported and domestic components. Even the core inflation which excludes volatile items such as food and energy items showed persistent decline since June 2016, indicating a general price decline across the non-food and non-energy items in the consumption basket.

The central government recorded a fiscal deficit of $457 million in 2016, equivalent to 5% of GDP. The negative outturn came as a result of weaker performances across all major revenue categories. Total revenue declined by 11% and 27% against budget and a year ago respectively to $3,238 million. While expenditure remained below budget, it increased by 4% year-on-year to $3,695 million with recurrent operations accounting for 78% and development expenditure at 22%. Fiscal debt declined further in 2016.

The CBSI projects the domestic economy to grow at an average annual growth rate of 3.4% over 2017 - 2019. This hinges on the assumptions that the fiscal expansion plans of the government continue over the medium term, pipeline infrastructure projects progress on schedule, donor support continues, and non-logging sectors expands to cushion any surprise declines from the logging sector. There are however downside risks on the horizon such as any unanticipated sharp increases in energy prices, commodity price volatilities, and significant decline in logging output.

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