

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) declined by 1% to \$4,744 million in December following a 1% growth recorded a month prior. This was driven by a 1% drop in narrow money (M1) to \$3,695 million while other deposits (savings and time) increased by 1% to \$1,049 million. The decrease in M1 stemmed from a 3% drop in demand deposits to \$2,885 million despite a 7% growth in currency in active circulation to \$809 million. Other deposits benefited from 1% increases in both savings to \$195 million and time deposits to \$854 million against the preceding month.

Net foreign assets (NFA) further improved by 1% to \$4,328 million in December from the 3% growth observed in the previous month. The increase was largely due to a 4% growth in CBSI's NFA position to \$4,318 million despite a notable fall in Other Depository Corporations' (ODC) NFA from \$148 million in November to \$11 million. Meanwhile, NFA improved by 8% year-on-year.

Net domestic asset (NDA) of Depository corporations (DC) shrank by 13% to \$415 million in December following a 4% growth in the capital account to \$939 million combined with reductions in Net Domestic Credit (NDC) and other items (net) by 0.02% to \$1,226 million and by 20% to \$128 million respectively. The decline in NDC was driven by a 2% increase in Net credit to government (NCG) to net liabilities of \$1,073 million outweighing the 1% growth in Private sector credit (PSC) to \$2,299 million. The growth in NCG was driven by a 1% rise in CBSI's net liability to \$872 million along with a 5% rise in ODC's net liabilities to \$201 million. On PSC, the growth was sustained by a 1% increase in ODC lending to \$2,163 million relative to November's outcome.

Total liquidity in the banking system slightly decreased by 0.3% to \$1,781 million reflecting the decline in NFA despite improvement in currency in circulation and the drawdown of government deposits during the month. This saw both free liquidity and excess liquidity growing by 0.4% to \$1,475 million and 1% to \$1,317 million respectively against the previous month. Required reserves decreased by 4% to \$306 million.

Domestic Market Operations

The stock of CBSI Bokolo bills issued reverted to \$750

million at the end of December, a \$5 million increase from the previous month, however, the weighted average yield (WAY) for 28 days was maintained at 0.62%. The WAY for Government treasury bills for 56, 91 and 182 days also remain unchanged at 0.34%, 0.46% and 1.12% respectively.

II. EXTERNAL CONDITIONS

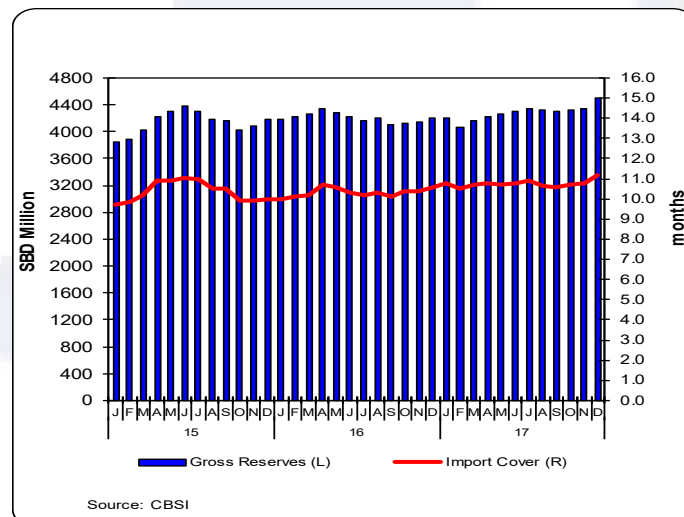
Trade in goods

The balance of trade in goods for December 2017 narrowed to a \$53 million surplus from a revised \$77 million surplus witnessed in the previous month. The reduced surplus was driven by a 25% fall in exports to \$319 million, whilst imports weakened by 24% to \$267 million. The decline in exports was largely driven by contractions in log and fish exports, outweighing pick-ups in exports of minerals, agricultural products and other export commodities during the month. Meanwhile, the slowdown in imports was attributed to the decline in all import commodities which includes food, mineral fuels, basic manufactures and all other imports.

Gross Foreign Reserves

Gross foreign reserves grew by 3.7% to a record high of \$4,499 million, due to higher donor receipts and fishing licensing inflows during the month. This level of reserves is sufficient to cover 11.2 months of import of goods and services.

Fig 1 Gross Foreign Reserve & Import Cover



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

Exchange Rate

The Solomon Islands dollar (SBD) weakened further against the United States dollar (USD) by 0.06% this month to an average of \$7.90 per USD. It also depreciated against the Australian dollar (AUD) by 0.13% to \$6.03 per AUD and against the New Zealand dollar (NZD) by 0.94% to \$5.49 per NZD. Furthermore, the SBD waned against the Japanese yen, Euro dollar and the British pound. As a result of these currency movements the trade weighted exchange rate basket index fell marginally by 0.01% to 107.10 relative to previous month.

III. GOVERNMENT FINANCE

The Government’s fiscal position widened further to a deficit of \$91 million in December compared to a \$57 million deficit a month prior. The outcome was attributed to a 26% increase in government expenditure to \$406 million which outweighed the 19% growth in revenue to \$315 million. On the debt side, the government’s outstanding debt rose markedly against the previous month.

The improvement in revenue was driven by an 8% upturn in tax revenue to \$265 million, following a rise in tax on income, profit and capital gains and goods and services tax. Similarly, non-tax revenue rose to \$51 million this month from \$21 million, reflecting the increase in property income.

Meanwhile, the upsurge in total expenditure against the month prior was due in part to a jump in the development expenditure from \$43 million to \$109 million, coupled with a 6% increase in the recurrent spending to \$297 million. Growth in spending on machinery and equipment, and road and bridges explained the surge in the capital spending, while the rise in the latter was due to an increase in consumption spending and other payments.

At the end of December, Government’s outstanding debt balance grew by 5% to \$950 million due to the disbursement of new loans. Of the outstanding stock, external debt made up 80% (\$757 million) of the total debt stock, while the domestic debt accounted for the remaining 20% (\$193 million). Meanwhile, the debt-to-GDP ratio remained at 10% as in the previous month.

IV DOMESTIC PRODUCTION

Production and Prices

Based on preliminary estimates, the CBSI monthly production index dropped by 33% to 83 points from a revised 124 points in November. This outcome reflected the significant fall in fish catch and round log production during the month, falling by 56% and 31% respectively. Production data for other commodities were unavailable

for reporting. However, monthly output projections based on historical trends showed that palm kernel oil and palm oil productions are expected to increase by 20% and 18% respectively; copra output is expected to grow by 12%, while cocoa production is projected to increase slightly by 0.3% during the month.

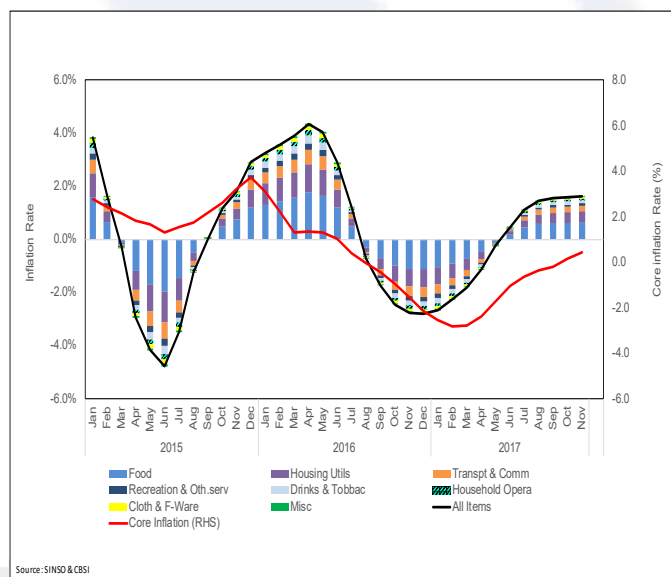
In terms of prices, the average international price for all major commodities softened against the previous month. Cocoa price dropped by 10%, palm kernel oil dipped by 9%, copra price contracted by 8%, crude palm oil and fish prices both fell by 7%, while international log price slid by 0.1% over the month.

Headline Inflation

Headline inflation remained at 1.6% in November. This outcome reflected the offsetting movements in imported and domestic inflation during the month. Imported inflation rose to minus 1.2% from minus 1.6% a month ago, reflecting the price pickups in food, housing and utilities, transport and communications, household operations and miscellaneous categories during the month. In contrast, domestic inflation moderated to 3.2% from 3.4% largely driven by the price declines in food and household operations categories during the month.

Of the overall headline inflation, food accounted for 0.6%, housing and utilities represented 0.4%, transport and communications contributed 0.2%, while all other categories accounted for the remaining 0.4%.

Fig 2 Inflation contributions by Components



Core inflation rose to 0.4% in November from 0.1% in the previous month. This reflected the price pickups in non-food and non-fuel categories against previous month.

Honiara Fuel Prices

The average fuel price in Honiara saw another increase in December to \$7.92 per litre from \$7.63 per litre a month

ago. This outcome was largely driven by the increase across all fuel categories during the month. Petrol price rose by 32 cents to \$8.04 per litre from \$7.72 per litre,

diesel price grew by 29 cents to \$7.93 per litre from \$7.64 per litre, while kerosene price increased by 27 cents to \$7.80 per litre from \$7.53 per litre in the previous month.

Solomon Islands Key Economic Indicators

| | | Aug 17 | Sept 17 | Oct 17 | Nov 17 | Dec 17 |
|--|------------------------------|--------|---------|--------|--------|--------|
| Consumer price index (% change) | Headline (3mma) | 1.4 | 1.5 | 1.6 | 1.6 | na |
| | Underlying (3mma): core 3 | -0.4 | -0.2 | 0.1 | 0.4 | na |
| | Month -on -Month | -0.5 | -0.6 | 0.1 | 0.0 | na |
| Trade¹ (eop) | Exports (\$ millions) | 278 | 358 | 407 | 426 | 319 |
| | Imports (\$ millions) | 333 | 267 | 307 | 349 | 267 |
| Exchange Rates (Mid-rate, Monthly average) | SBD per USD | 7.80 | 7.79 | 7.82 | 7.90 | 7.90 |
| | SBD per AUD | 6.18 | 6.21 | 6.10 | 6.02 | 6.03 |
| | SBD per NZD | 5.72 | 5.65 | 5.52 | 5.44 | 5.49 |
| | SBD per GBP | 10.12 | 10.35 | 10.30 | 10.43 | 10.58 |
| | SBD per 100 JPY | 7.10 | 7.04 | 6.93 | 7.00 | 7.00 |
| | SBD per EUR | 9.22 | 9.29 | 9.24 | 9.26 | 9.35 |
| Gross Foreign Reserves (eop) | \$ milions | 4,320 | 4,296 | 4,322 | 4,338 | 4,499 |
| Liquidity² (eop) | Total Liquidity (\$) | 1,682 | 1,744 | 1,766 | 1,787 | 1,781 |
| | Excess Liquidity (\$) | 1,212 | 1,286 | 1,290 | 1,306 | 1,317 |
| Money and credit² (eop) | Narrow Money (\$) | 3,611 | 3,594 | 3,695 | 3,740 | 3,695 |
| | Broad Money (\$) | 4,594 | 4,616 | 4,708 | 4,777 | 4,744 |
| | private Sector credit (\$) | 2,236 | 2,233 | 2,274 | 2,280 | 2,299 |
| 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 Traesury bills Rate | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% |
| Commodity Prices (monthly averages) | Round logs - (US\$/m3) | 271 | 269 | 264 | 264 | 264 |
| | Gold - (US\$/oz) | 1,283 | 1,314 | 1,280 | 1,282 | 1,264 |
| | Palm Oil - (US\$/tonne) | 674 | 724 | 718 | 716 | 665 |
| | Fish -(US\$/tonne) | 2,172 | 2,094 | 2,005 | 1,981 | 1,848 |
| | Copra -(US\$/tonne) | 1,062 | 1,015 | 989 | 1,038 | 960 |
| | Cocoa - (US\$/tonne) | 1,990 | 2,000 | 2,100 | 2,130 | 1,920 |

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

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