

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) grew by 1% to \$4,791 million in January 2018 reversing a 1% decline recorded in December 2017. This outcome stemmed mainly from a 2% increase in Narrow Money (M1) to \$3,752 million, driven by a 3% rise in demand deposits to \$2,968 million whilst currency in active circulation contracted by 3% to \$784 million. Conversely, other deposits (savings and time) declined by 1% to \$1,039 million, underpinned by a 5% decrease in savings deposits to \$185 million despite a 0.1% rise to \$854 million in time deposits. On a year-on-year basis, M3 grew by 4% against the same period last year.

Total net foreign assets (NFA) of the banking system expanded further by 3% to \$4,449 million in January, following a 1% growth in the previous month. A 3% growth in CBSI NFA position to \$4,465 million supported this outcome. Compared to the corresponding period a year ago, NFA of the banking system improved by 11%.

Net credit to government (NCG) increased by 1% to net liabilities of \$1,085 million in January, building on from a 2% growth recorded a month earlier. The month-on-month outturn was attributed to a 3% growth to \$896 million in government's net liability position held with CBSI. On the other hand, government's deposits held with other depository corporations (ODCs) declined by 6% to \$190 million. Private sector credit (PSC) edged higher by 0.5% to \$2,312 million mainly due to an increase in ODC lending by 0.4% to \$2,172 million. Credit issued by CBSI and other financials corporations also recorded marginal increases in January. On an annual comparison, PSC recorded a 4% growth whilst NCG declined by 1% against the corresponding period last year. Meanwhile, total liquidity in the banking system expanded by 8% to \$1,915 million, largely driven by improvements in the NFAs. This saw both free and excess liquidity increasing by 8% and 9% to \$1,594 million and \$1,432 million respectively during the month. Required reserve grew by 5% to \$321 million in line with the growth in liquidity.

Domestic Market Operations

The stock of CBSI Bokolo bills held at end January 2018 stood at \$750 million. The weighted average yield

(WAY) for the 28 days remained at 0.62% from the previous month. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days remained unchanged at 0.34%, 0.46% and 1.12% respectively.

II. EXTERNAL CONDITIONS

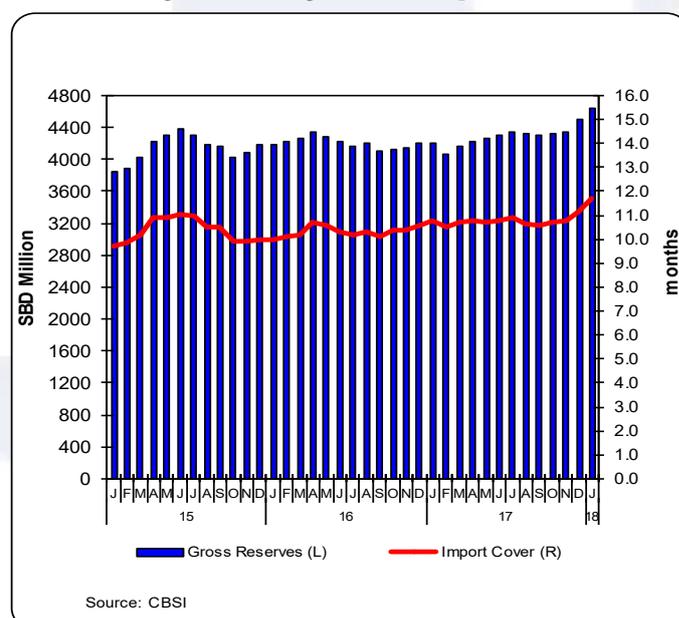
Trade in goods

The balance of trade in goods for January 2018 grew to an \$88 million surplus from a revised \$28 million surplus witnessed in December 2017. This was driven by a significant increase in exports to \$445 million, despite a 34% growth in imports to \$357 million. The growth in exports was largely driven by the increase in log, agriculture and minerals exports, outweighing the down-turn in fish and other export commodities during the month. Meanwhile, the pick-up in imports was attributed to the increase in all import categories which includes food, mineral fuel, machineries, basic manufactures and all other imports.

Gross Foreign Reserves

Gross foreign reserves grew significantly by 3% to \$4,648 million, due to higher round log receipts during the month. This level was sufficient to cover 11.7 months of import of goods and services.

Fig 1 Gross Foreign Reserve & Import Cover



Source: CBSI

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

Exchange Rate

In January, the Solomon Islands dollar (SBD) appreciated against the United States dollar (USD) by 1.54% to an average of \$7.78 per USD. On the other hand, it depreciated against the Australian dollar by 2.33% to \$6.18 per AUD and against the New Zealand dollar by 2.65% to \$5.64 per NZD. It also weakened against the Japanese Yen, Euro dollar and the British pound. Meanwhile, the prevailing movement of the SBD against the USD resulted in an increase in the trade weighted exchange rate basket index by 2% to 105.1 during the month.

III. GOVERNMENT FINANCE

Government Finance

The government recorded a surplus of \$100 million in January, a significant improvement from the deficit of \$91 million posted in December 2017. This outcome is anticipated as the government is operating an interim budget while awaiting passage of the 2018 national budget. The fiscal surplus reflected the decline in total expenditure in spite of the fall in total revenue for the month. Meanwhile, the government's debt stock slightly increased compared to a month ago.

Total revenue fell by 8% this month to \$289 million following a 19% growth in the previous month. The month-on-month outcome mirrored a 53% fall in other revenue to \$24 million during the month. Tax revenue, on the other hand, remained broadly the same as the previous month at \$265 million. Similarly, total expenditure shrank to \$189 million this month from \$406 million a month ago. A 37% fall in recurrent spending to \$187 million coupled with no development spending during the month were the main drivers behind the outcome. The decline in consumption expenditure largely backed the fall in recurrent spending while the yet to be passed 2018 national budget explained the zero spending in the development expenditure.

The government's debt stock increased negligibly by 0.3% to \$952 million due to the appreciation of the EUR and AUD against the SBD. External debt stood at \$759 million, 0.3% higher than the previous month, whilst domestic debt remained flat at \$193 million. Meanwhile, the debt stock as a percentage of GDP remained unchanged as in the previous month at 10% of GDP.

IV DOMESTIC PRODUCTION

Production and Prices

Based on preliminary estimates, the CBSI monthly production index rebounded significantly by 51% to 113 points from a revised 75 points in December 2017. This outcome reflected the significant pick up in round log production following the large decline seen a month ago. Improvements in palm oil production and an

expected strong pickup in fish catch further supports the rise in the production index. Meanwhile copra production is anticipated to fall during the month.

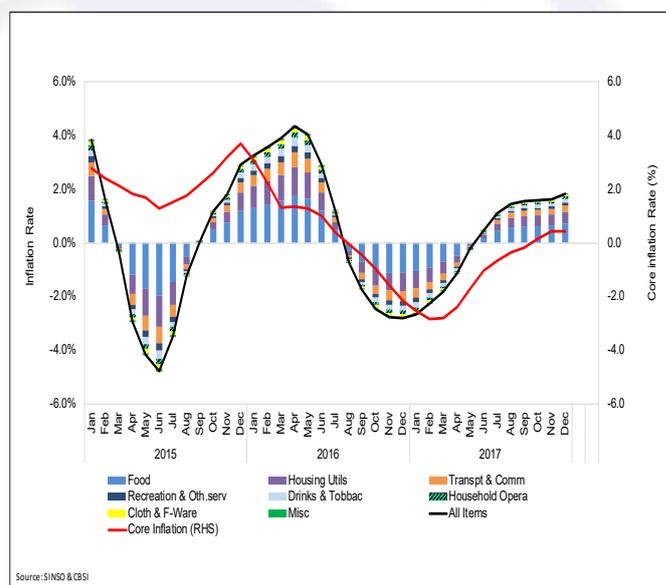
In terms of prices, the average international price for all major commodities showed mixed movements in January. Log, cocoa and palm oil prices each grew by 2%, while prices for copra and palm kernel oil contracted further by 2% and fish by 8% against the previous month.

Headline Inflation

Headline inflation continued to gain pace at 1.8% in the month of December from 1.6% in November. This outcome reflected increases in both the imported and domestic inflation. Imported inflation albeit still below zero at minus 0.8%, improved by 0.4 percentage points from minus 1.2% a month prior. Reflecting this is the price increase in food, housing & utilities and household operations against the previous month. Similarly, domestic inflation rose to 3.3% compared to 3.2% largely driven by the price rise in housing & utilities, transport & communication and household operations categories during the month.

Of the overall headline inflation, food accounted for 0.7%, housing & utilities represented 0.4%, transport & communications contributed 0.2%, while all other categories accounted for the remaining 0.4%. Core inflation is expected to remain at 0.4% in December.

Fig 2: Inflation Contributions by Components



Honiara Fuel Prices

The average fuel price in Honiara rose for the third month to \$8.23 per litre from \$7.92 per litre in December. This outcome was driven by an increase across all fuel categories during the month. Petrol prices rose by 14 cents to \$8.18 per litre from \$8.04 per litre, diesel prices grew by 22 cents to \$8.15 per litre from \$7.93 per litre, while kerosene prices surged by 55 cents to \$8.35 per litre from \$7.80 per litre in the previous month.

Solomon Islands Key Economic Indicators

		Sept 17	Oct 17	Nov 17	Dec 17	Jan 18
Consumer price index (% change)	Headline (3mma)	1.5	1.6	1.6	1.8	na
	Underlying (3mma): core 3	-0.2	0.1	0.4	0.7	na
	Month -on -Month	-0.6	0.1	0.0	0.8	na
Trade¹ (eop)	Exports (\$ millions)	358	407	426	319	445
	Imports (\$ millions)	267	307	349	267	357
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.79	7.82	7.90	7.90	7.78
	SBD per AUD	6.21	6.10	6.02	6.03	6.18
	SBD per NZD	5.65	5.52	5.44	5.49	5.64
	SBD per GBP	10.35	10.30	10.43	10.58	10.72
	SBD per 100 JPY	7.04	6.93	7.00	7.00	7.01
	SBD per EUR	9.29	9.24	9.26	9.35	9.47
Gross Foreign Reserves (eop)	\$ milions	4,296	4,322	4,338	4,499	4,648
Liquidity² (eop)	Total Liquidity (\$)	1,744	1,766	1,787	1,781	1,915
	Excess Liquidity (\$)	1,286	1,290	1,306	1,317	1,432
Money and credit² (eop)	Narrow Money (\$)	3,594	3,695	3,740	3,695	3,752
	Broad Money (\$)	4,616	4,708	4,777	4,744	4,791
	private Sector credit (\$)	2,233	2,274	2,280	2,299	2,312
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)	269	264	264	264	268
	Gold - (US\$/oz)	1,314	1,280	1,282	1,264	1,331
	Palm Oil - (US\$/tonne)	724	718	716	665	679
	Fish -(US\$/tonne)	2,094	2,005	1,981	1,848	1,701
	Copra -(US\$/tonne)	1,015	989	1,038	960	943
	Cocoa - (US\$/tonne)	2,000	2,100	2,130	1,920	1,950

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

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