

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) grew by 2% to \$4,880 million in February following a 1% growth in January. This was driven by a 5% uptick in narrow money (M1) to \$3,945 million while other deposits (savings and time) declined further by 10% to \$935 million. The rise in M1 emanated from an 8% increase in demand deposits¹ to \$3,205 million, which outweighed a 6% fall in currency in active circulation to \$740 million. The decline in other deposits reflected the fall in savings deposits² from \$185 million to \$73 million, offsetting the marginal rise in time deposits by 1% to \$862 million against the preceding month.

Net foreign assets (NFA) contracted by 0.3% to \$4,435 million in February reversing the 3% growth observed in the previous month. The decline was underpinned by a 1% downturn in CBSI's NFA position to \$4,420 million despite a sizeable improvement in Other Depository Corporations' (ODC) NFA to \$15 million from minus \$16 million in January.

Net domestic asset (NDA) of Depository corporations (DC) improved by 30% to \$445 million in February. The outcome was driven by a 4% rise in Net Domestic Credit (NDC) to \$1,270 million and a substantial growth in Other Items Net (OIN) to \$112 million from \$41 million a month ago. This is realized despite an increase in the capital account by 1% to \$936 million. The upsurge in NDC was attributed to a 1% increase in Private sector credit (PSC) to \$2,341 million outweighing a 1% decrease in Net credit to government (NCG) to net liabilities of \$1,071 million. The growth in PSC was sustained by a 1% increase in ODC lending to \$2,201 million against the previous month. The drop in NCG was driven by a 7% fall in CBSI's net liability to \$835 million despite a 25% rise in ODC's net liabilities to \$236 million. Total liquidity in the banking system rose by 5% to \$2,005 million reflecting drawdown of government deposits, a decline in currency in circulation and a growth in OIN during the month. This saw both free liquidity and excess liquidity increase by 6% each to \$1,687 million and \$1,523 million respectively against the previous month whilst required reserves decreased by 1% to \$318 million.

Domestic Market Operations

The stock of CBSI Bokolo bills issued remained at \$750 million at the end of February with the weighted average yield (WAY) for 28 days maintained at 0.62%. The WAY for Government treasury bills for 56, 91 and 182 days levelled off at 0.34%, 0.46% and 1.12% respectively.

II. EXTERNAL CONDITIONS

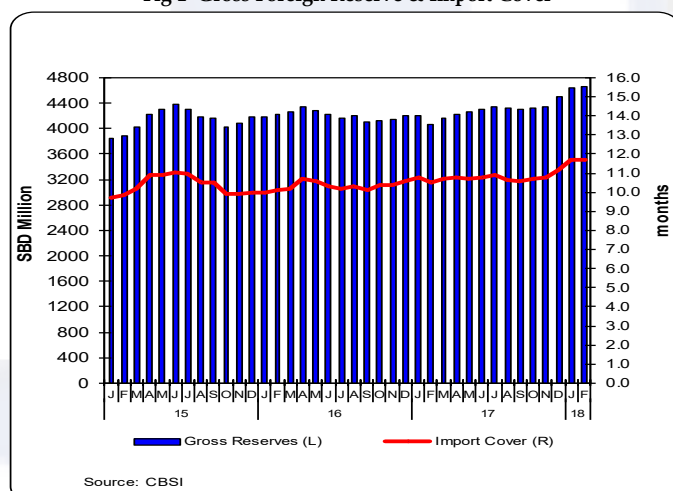
Trade in goods

The balance of trade in goods for February 2018 narrowed to a \$15 million surplus from an \$88 million surplus in the previous month. This outcome was driven by the falls in both exports and imports during the month by 29% to \$317 million and by 16% to \$302 million respectively. The decline in exports emanated from the contractions in all export commodities apart from all other exports which rebounded sizably during the month. Meanwhile, the decrease in imports reflected the decline in all import categories besides an increase in miscellaneous goods.

Reserves

Gross foreign reserves increased marginally by 0.4% to \$4,666 million due to higher inflows exceeding outflows during the month. This level of reserves is sufficient to cover 11.7 months of imports of goods and services.

Fig 1 Gross Foreign Reserve & Import Cover



Exchange Rates

In February, the Solomon Islands Dollar (SBD) appreciated against the United States dollar (USD) for

¹The increase was due largely to reclassification of savings deposits under transferable deposits.

² Due to Reclassification.

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

the second consecutive month by 0.24% to an average of \$7.76 per USD and against the Australian dollar (AUD) by 0.73% to \$6.13 per AUD. On the other hand, it depreciated against the New Zealand dollar (NZD) by 0.74% to \$5.68 per NZD and weakened against the British pound, Euro dollar and the Japanese Yen. As a result of these mixed movements, the trade weighted exchange rate basket index remained at 105.2 as in the prior the month.

III. GOVERNMENT FINANCE

The government fiscal position narrowed to a \$13 million surplus in February, from a \$100 million surplus registered in January. The outcome was expected given the government has been operating on an interim budget for the second month and this is expected to continue into March. Meanwhile, the government's debt increased for the fifth consecutive month.

Total revenue dropped by 26% to \$213 million following a 24% decline in tax revenue to \$200 million and a 47% fall in non-tax revenue to \$13 million. The fall in tax receipts resulted from lower collections on income and profit taxes, taxes on international trade and, goods and services taxes. Likewise, the reduction in nontax revenue stemmed from the fall in property income and sales of goods and services. There were no grants received during the month.

Similarly, a 7% decrease in total expenditure to \$201 million reflected a 6% fall in recurrent spending to \$198 million despite a 41% increase in acquisition of non-financial asset to \$2 million from \$1 million a month ago. The fall in recurrent spending was attributed to decreases in compensation of employees, grants and social benefits. Meanwhile, consumption spending and other payments rose during the month. Development expenditure, on the other hand, slightly increased in February on the back of increased payments relating to machineries and equipment, and non-residential building.

Central government debt stock rose by 0.2% to \$954 million following the appreciation of the USD against the SBD. Of the total debt, external debt stood at \$761 million while domestic debt remained at \$193 million. Total debt stock represented 11% of GDP, as in the previous month.

IV. DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index fell by 13% in February to 105 points from a revised 121 points in the previous month. This outcome mainly reflected an 18% fall in round log production during the month reversing the 36% growth in the previous month. Meanwhile, copra production rebounded by 17% while fish catch volumes levelled off during the month. Production data for cocoa and palm oil products were currently

unavailable for reporting. However, monthly output projections based on historical trends revealed that cocoa output is expected to decline by 19%, while crude palm oil and palm kernel oil production are projected to fall by 14% and 11% respectively.

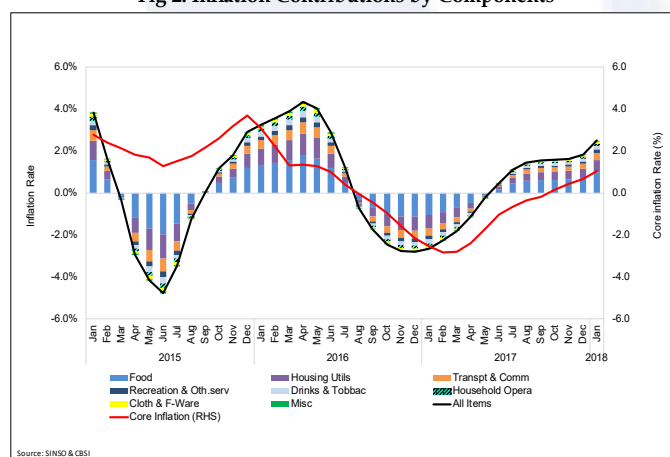
In terms of prices, average international prices for cocoa and log grew by 9% and 3% respectively. Meanwhile, copra price dropped by 11%, palm kernel oil price fell by 9%, crude palm oil price declined by 2% while fish price fell marginally by 0.4% against the previous month.

Headline Inflation

Headline inflation rose to 2.5% in January 2018 from 1.8% in the previous month. This outcome reflected increases in both domestic and imported inflation during the month. Domestic inflation grew to 4% from 3.3% driven by the price pick up in housing and utilities, transport and communications, recreation, drinks and tobacco, and clothing and footwear categories. This outweighed the negligible price falls in food and household operations during the month. Similarly, imported inflation, further improved to minus 0.2% from minus 0.8% in the previous month reflecting price increases in food, housing and utilities, transport and communications, household operations and miscellaneous categories. Core inflation rose to 1% in January from 0.7% a month ago.

Of the overall headline inflation, food accounted for 1% its biggest jump since June 2016, housing and utilities represented 0.6%, transport and communication contributed 0.3%, whilst all other categories accounted for the remaining 0.6%.

Fig 2: Inflation Contributions by Components



Honiara Fuel Prices

The average fuel price in Honiara increased further for the fourth consecutive month to \$8.41 per litre in February from \$8.21 per litre a month ago. Supporting this were the increase in the price of all fuel categories during the month. Diesel price went up by 38 cents to \$8.53 per litre from \$8.15 per litre; petrol price grew by 18 cents to \$8.36 per litre, from \$8.18 per litre, while kerosene price increased by a cent to \$8.36 per litre from \$8.35 per litre in the previous month.

Solomon Islands Key Economic Indicators

		Oct 17	Nov 17	Dec 17	Jan 18	Feb 18
Consumer price index (% change)	Headline (3mma)	1.6	1.6	1.8	2.5	na
	Underlying (3mma): core 3	0.1	0.4	0.7	1.0	na
	Month -on -Month	0.1	0.0	0.8	1.8	na
Trade¹ (eop)	Exports (\$ millions)	407	426	319	445	317
	Imports (\$ millions)	307	349	267	357	302
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	7.82	7.90	7.90	7.78	7.76
	SBD per AUD	6.10	6.02	6.03	6.18	6.13
	SBD per NZD	5.52	5.44	5.49	5.64	5.68
	SBD per GBP	10.30	10.43	10.58	10.72	10.86
	SBD per 100 JPY	6.93	7.00	7.00	7.01	7.19
	SBD per EUR	9.24	9.26	9.35	9.47	9.59
Gross Foreign Reserves (eop)	\$ milions	4,322	4,338	4,499	4,648	4,666
Liquidity² (eop)	Total Liquidity (\$)	1,766	1,787	1,781	1,915	2,005
	Excess Liquidity (\$)	1,290	1,306	1,317	1,432	1,523
Money and credit² (eop)	Narrow Money (\$)	3,695	3,740	3,695	3,752	3,945
	Broad Money (\$)	4,708	4,777	4,744	4,791	4,880
	private Sector credit (\$)	2,274	2,280	2,299	2,312	2,341
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)	264	264	264	268	276
	Gold - (US\$/oz)	1,280	1,282	1,264	1,331	1331
	Palm Oil - (US\$/tonne)	718	716	665	679	663
	Fish -(US\$/tonne)	2,005	1,981	1,848	1,701	1,695
	Copra -(US\$/tonne)	989	1,038	960	943	835
	Cocoa - (US\$/tonne)	2,100	2,130	1,920	1,950	2,120

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

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