

Monthly Economic Bulletin

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Content	Page
I. Monetary Developments	1
II. External Conditions	1
III. Government Finances	2
IV. Domestic Production	2
V. Key Economic Indicators	3

I. MONETARY DEVELOPMENTS

Money supply (M3) fell by 1% to \$5,203 million in December compared to a 2% growth in the previous month. The decline was underpinned by a 5% fall in other deposits (savings and time) to \$985 million, despite a slight increase in narrow money (M1) by 0.1% to \$4,218 million. The decrease in other deposits reflected falls in both savings and time deposits by 10% to \$89 million and 4% to \$896 million respectively. The rise in M1 stemmed from a 5% expansion in currency in active circulation to \$845 million related to consumer spending during the festive season that offset a 1% decline in demand deposits to \$3,374 million during the month.

Net foreign assets (NFA) recorded a negligible 0.05% growth to \$4,685 million in December from a 2% growth observed in November. This outcome was supported by an improvement in ODC's NFA position from minus \$14 million to \$0.2 million despite a fall in CBSI's NFA by 0.26% to \$4,684 million. On an annual basis, NFA expanded by 8%.

Net domestic assets (NDA) of Depository corporations (DC) narrowed by 7% to \$519 million against the previous month. This outcome reflected a 17% decline in Net Domestic Credit (NDC) to \$1,165 million along with an increase in Capital account by 2% to \$1,014 million. The weakened NDC mirrored a 25% growth in net credit to government (NCG) to minus \$1,243 million, driven by growths in both CBSI and ODC's net liability positions by 33% to minus \$940 million and 6% to minus \$304 million respectively. Meanwhile, private sector credit (PSC) slightly improved by 1% to \$2,409 million supported by a 1% increase in ODC lending to \$2,270 million. Annually, PSC and NCG grew by 5% and 16% respectively.

Total liquidity in the banking system contracted by 10% to \$2,126 million following a 3% growth in the previous month. The outcome reflected increases in both government deposits and currency in circulation along with a slight decrease in NFA during the month. Consequently, both free liquidity and excess liquidity went down by 12% to \$1,773 million and 13% to \$1,595 million respectively. Similarly, required reserves narrowed by 0.2% to \$353 million over the month.

Domestic Market Operations

CBSI Bokolo bills stock issued at the end of December remain capped at \$750 million. However, the Bokolo

Bills weighted average yield (WAY) for 28 days fell from 0.60% to 0.59% during the month. The WAY for government treasury bills for the maturity term of 56 days increased from 0.48% to 0.50% whilst that for 91 days reduced from 0.49% to 0.48%. Meanwhile, WAY for 182 and 365 days remained unchanged from the previous month at 1.12% and 2.00% respectively.

II. EXTERNAL CONDITIONS

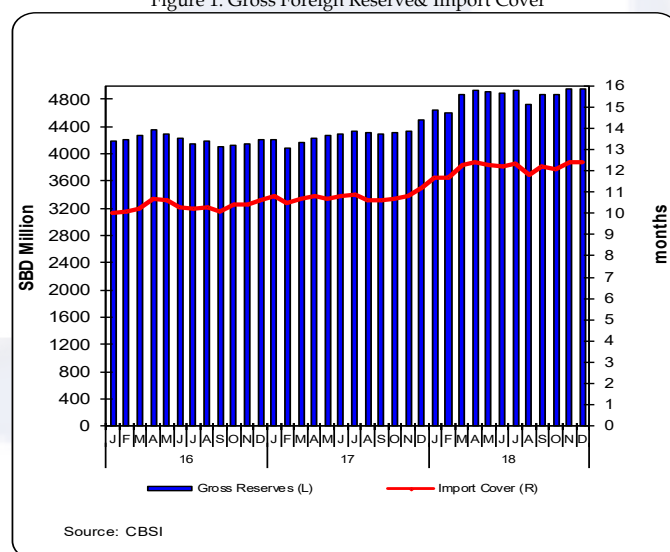
Trade in goods

Balance of trade in goods for the month of December 2018 deteriorated to a \$395 million deficit following a revised \$30 million surplus witnessed in the previous month. The negative outcome resulted from a sharp drop of 51% in exports to \$195 million, while imports rose by 60% to \$590 million. The fall in exports was largely driven by declines in round logs and minerals despite increase in fish, agricultural commodities and other exports during the month. Meanwhile, the surge in imports was attributed to the increase in machineries, food and basic manufactures.

Gross Foreign Reserves

Gross foreign reserves declined marginally by 0.1% to \$4,952 million, due to higher outflows than inflows during the month. This level of reserves is sufficient to cover 12.4 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



The Solomon Islands dollar (SBD) for the second consecutive month appreciated by 0.36% against the United States dollar (USD) at an average of \$8.07 per

USD. It strengthened against the Australian dollar (AUD) by 0.94% to \$5.81 per AUD but weakened against the New Zealand dollar (NZD) by 0.77% to \$5.52 per NZD during the month. In terms of other trading currencies the SBD went up against the British pound and Euro dollar, but depreciated against the Japanese Yen. As a result of the mixed currency movements the total trade weighted basket index weakened by 0.2% to 109.6 points during the month.

III GOVERNMENT FINANCE

The Government recorded a fiscal deficit of \$60 million in December 2018, compared to a surplus of \$20 million posted in November. This outcome mirrored a 10% fall in revenue collections to \$309 million with an increase in expenditure by 14% to \$369 million. Meanwhile, total outstanding debt stock further increased by 2% to \$1,012 million at end of December.

The fall in total revenue resulted mainly from lower tax collections and zero donor grant receipts compared to the previous month. Tax revenue declined by 8% to \$259 million, following a 45% drop in tax on international trade and transactions to \$90 million despite increases in income, profit and capital gains, and goods and services taxes. On the other hand, non-tax revenue increased to \$50 million from \$18 million in November, due to increases in both property income and sales of goods and services.

The increase in total expenditure stemmed from increases in both recurrent expenses and development-related spending. Recurrent expenses rose by 16% to \$293 million against the preceding month. The main drivers were purchase of goods and services which surged by 74% to \$149 million and social benefits, mainly members' allowances and entitlements, which increased to \$21 million in December from \$2 million in November. Subsidies, relating to franchise shipping also expanded from \$1 million in November to \$10 million contributing to the higher recurrent spending. In contrast, compensation of employees contracted by 32% to \$77 million against the previous month. Meanwhile, development spending increased by 5% to \$76 million against November, largely driven by spending on fixed assets, particularly buildings and

structures, and machineries and equipment.

The government's debt stock slightly increased in December, reflecting further loan disbursement together with the issuance of a new development bond and a gradual increase in the allotment of Treasury bills¹. The total outstanding debt stock stood at \$1,012 million in December, of which external debt accounted for \$766 million and domestic debt \$245 million. Meanwhile, total debt servicing in December amounted to \$8 million, \$7 million on principle repayments, and \$1 million on interest charges.

IV DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index fell by 32% in December to 80 points from a revised 117 points in the previous month. The outcome was driven by a significant decline in round log production by 44% to 153,091 cubic meters during the month. Similarly, fish catch fell by 3% while crude palm oil and palm kernel oil production decreased by 22% and 20% respectively. Production data for cocoa and copra were currently unavailable for reporting. However, based on historical trends, cocoa output is projected to pick up sizably while copra output is expected to fall by 8% against the previous month.

In terms of prices, the average international price for palm kernel oil rebounded by 4% while cocoa and round log prices grew by 1% each. In contrast, fish price and crude palm oil price fell by 2% and 1% respectively during the month.

Headline Inflation

Inflation data is not available at the time of reporting.

Honiara Fuel Prices

The average fuel price in Honiara fell by 58 cents in December to \$9.44 per litre. The outcome reflected a general slowdown in prices of all fuel categories during the month. Petrol price fell by 87 cents to \$8.83 per litre from \$9.70 per litre, kerosene price went down by 45 cents to \$9.73 per litre from \$10.19 per litre, while diesel price dropped by 41 cents to \$9.76 per litre from \$10.17 per litre in November.

¹ Loan disbursement was from ADB. A new development bond worth \$30 million was issued to Solomon Power. The treasury bills has a new cap of \$100 million with an additional maturity term of 365 days. The stock of T Bills issued will be raised gradually throughout the year until the new limit is reached.

Solomon Islands Key Economic Indicators

		Aug 18	Sep 18	Oct 18	Nov 18	Dec 18
Consumer price index (% change)	Headline (3mma)	2.6	3.4	3.9	na	
	Underlying (3mma): core 3	0.9	1.1	0.9	na	
	Month -on -Month	0.2	0.8	-0.2	na	
Trade¹ (eop)	Exports (\$ millions)	305	429	458	397	195
	Imports (\$ millions)	340	299	340	367	590
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.02	8.08	8.12	8.10	8.07
	SBD per AUD	5.89	5.82	5.77	5.86	5.81
	SBD per NZD	5.36	5.33	5.30	5.47	5.52
	SBD per GBP	10.34	10.54	10.58	10.45	10.22
	SBD per 100 JPY	7.23	7.23	7.20	7.15	7.17
	SBD per EUR	9.27	9.42	9.34	9.20	9.17
Gross Foreign Reserves (eop)	\$ millions	4,724	4,877	4,864	4,957	4,952
Liquidity² (eop)	Total Liquidity (\$)	2,049	2,314	2,307	2,375	2,126
	Excess Liquidity (\$)	1,543	1,797	1,784	1,841	1,595
Money and credit² (eop)	Narrow Money (\$)	4,023	4,139	4,121	4,212	4,218
	Broad Money (\$)	4,998	5,140	5,150	5,244	5,203
	private Sector credit (\$)	2,402	2,388	2,384	2,393	2,409
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.61%	0.61%	0.61%	0.60%	0.59%
	56-days Treasury Bills rate	0.46%	0.47%	0.48%	0.48%	0.50%
	91- days Treasury Bills rate	0.46%	0.49%	0.49%	0.49%	0.48%
	182-days Treasury Bills rate	1.12%	1.12%	1.12%	1.12%	1.12%
	365-days Treasury Bills rate	0.00%	2.02%	2.00%	2.00%	2.00%
Commodity Prices (monthly averages)	Round logs - (US\$/m3)	268	266	264	263	265
	Gold - (US\$/oz)	1,202	1,198,	1,215	1,221	1,250
	Palm Oil - (US\$/tonne)	534	524	499	540	535
	Fish -(US\$/tonne)	1,310	1,321	1,383	1,423	1,401
	Copra -(US\$/tonne)	NA	NA	NA	NA	NA
	Cocoa - (US\$/tonne)	2,170	2,190	2,130	2,190	2,210

¹ Value in terms of free on Board (FOB)

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

Note;
na : not available at time of publication.