

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Broad Money (M3) rebounded by 2% to \$5,260 million in February from a 1% fall in the previous month. This outcome was driven by a 3% growth in narrow money (M1) to \$4,277 million whilst other deposits (time and savings) declined by 0.4% to \$983 million. The growth in M1 emanated from increases in both currency in active circulation and demand deposits by 0.2% to \$775 million and 3% to \$3,502 million respectively. Meanwhile, the fall in other deposits stemmed from contraction in both savings and time deposits, the former by 2% to \$90 million and the latter by 0.2% to \$893 million.

Net foreign assets (NFA) edged higher by 0.4% to \$4,859 million in February. The uptick was underpinned by a 1% expansion in CBSI's NFA to \$4,837 million notwithstanding the fall in ODC's NFA from \$31 million to \$23 million. On an annual basis, NFA grew by 10%.

Net domestic assets (NDA) of Depository corporations (DC) widened by 28% to \$400 million against the previous month. This outcome reflected a 5% rise in Net Domestic Credit (NDC) to \$1,088 million together with an increase in other items net (OIN) by 13% to \$399 million despite a 1% increase in capital account. The expansion in NDC was underpinned by a 1% growth in private sector credit (PSC) to \$2,430 million together with a 2% decline in net credit to government (NCG) to minus \$1,342 million. Meanwhile, both PSC and NCG grew by 4% and 25% respectively on an annual basis.

Liquidity in the banking system rose by 3% to \$2,189 million following a 0.2% decline in the previous month. The outcome reflected a fall in government deposits and an increase in NFA, which saw both free liquidity and excess liquidity growing by 4% to \$1,831 million and \$1,646 million respectively. Required reserves edged up by 1% to \$359 million over the month.

Domestic Market Operations

CBSI Bokolo bills stock issued at the end of February was maintained at \$750 million. Bokolo Bills weighted average yield (WAY) for 28 days remained at 0.59% during the month. The WAY for government treasury bills for the maturity terms of 91, 182 and 365 days remained unchanged from the previous month at 0.49%, 1.12% and 2.00% respectively.

II. EXTERNAL CONDITIONS

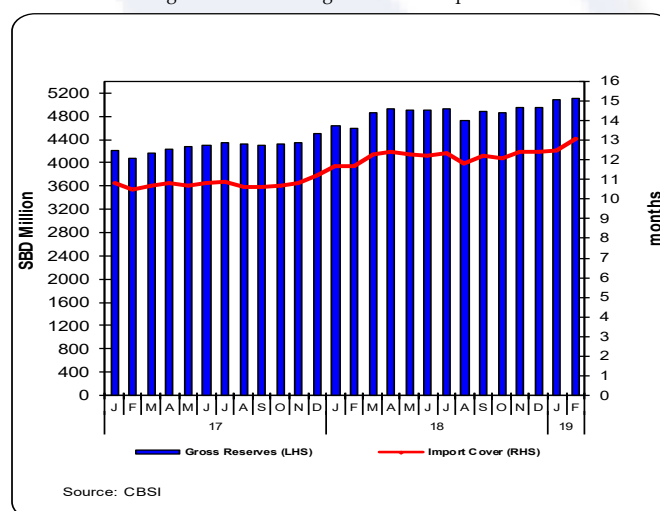
Balance on Trade

The balance on trade in goods for February 2019 deteriorated to a \$260 million deficit from a \$111 million surplus witnessed in the previous month. The outcome came from the surge in imports that more than doubled to \$585 million, amidst a contraction in exports by 17% to \$324 million. The jump in imports was attributed to a general increase in all import categories which included food, mineral fuel, machineries, basic manufactures and all other imports during the month. Meanwhile, the fall in exports reflected a relatively weaker outturn in all export commodities which comprised round logs, fish, agricultural and all other exports.

Gross Foreign Reserve

Gross foreign reserve improved marginally by 0.5% to \$5,099 million by month end. This reflected foreign exchange proceeds and other valuation changes during the month. This level was sufficient to cover 13.1 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange rate

In February, the Solomon Islands dollar (SBD) appreciated against the United States dollar (USD) by 0.24% to an average of \$8.08 per USD. It also strengthened against the Australian dollar (AUD) by 0.12% to \$5.77 per AUD but weakened against the New Zealand dollar (NZD) by 0.67% to \$5.52 per NZD. Similarly, it depreciated against the British pound (GBP) but appreciated against the EUR and Japanese

yen (JPY). As a result of the mixed movements and the dominance of USD in the currency basket, the total weighted basket index (TWI) strengthened by 10 basis points to 109.69 for the month.

III GOVERNMENT FINANCE

The government recorded a fiscal deficit of \$38 million this month, reversing the \$66 million surplus in January 2019. This outcome stemmed from a notable increase in government expenditure and weak revenue collection during the month. Total government spending surged by 31% to \$267 million while government revenue dropped by 15% to \$229 million this period. Meanwhile, government’s debt position increased further during the month.

The fall in government revenue was driven by the reduction in tax revenue and non-tax receipts against the preceding month. Tax revenue dropped by 11% to \$221 million from \$249 million in the previous month. This reflected weak collection on tax on income and profits, falling by 14% to \$54 million and a 32% contraction in tax on goods and services to \$67 million.

Non-tax revenue fell drastically to \$9 million from \$22 million a month ago. Meanwhile, there was no grant assistance received during the month.

The sizeable increase in government’s total outlays emanated from both recurrent and capital spending during the month. Recurrent expenditures surged by 21% to \$244 million as a result of higher spending on goods and services, grants, social benefits and other payments in February. Similarly, development expenditures increased to \$23 million from \$3 million recorded a month ago reflecting government’s investments in buildings and structures, machinery and equipment and other fixed assets during the month.

The government’s total debt balance increased further by 0.6% to \$1,027 million at the end of February 2019. The outcome reflected the additional treasury bills issued combined with movements in foreign exchange rate during the month. Of the total debt balance, external debt accounted for \$775 million while domestic debt comprised the remaining \$252 million. Meanwhile, total debt servicing payments made during the month amounted to \$2.6 million, of which \$2 million was on principle repayments and \$0.6 million on interest payments.

IV DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index fell by 7% to 81 points in February from a revised 87 points in the previous month. The outcome reflected weaker performances across major commodities despite the rebound in log output and copra production during the month. Fish catch

declined by 34%, crude palm oil fell slightly by 1% while palm kernel oil levelled off during the month. Similarly, preliminary data received for cocoa output recorded a substantial decline of 49% against the prior month. In contrast, round log output picked up further by 6% to 194,634 cubic meters following the 20% growth recorded a month ago while copra output increased sizably during the month.

In terms of prices, the average international price for palm kernel oil declined by 9%, round log fell by 1% while cocoa price levelled off during the month. In contrast, fish price rebounded by 5% while crude palm oil price grew by 3% against the preceding month.

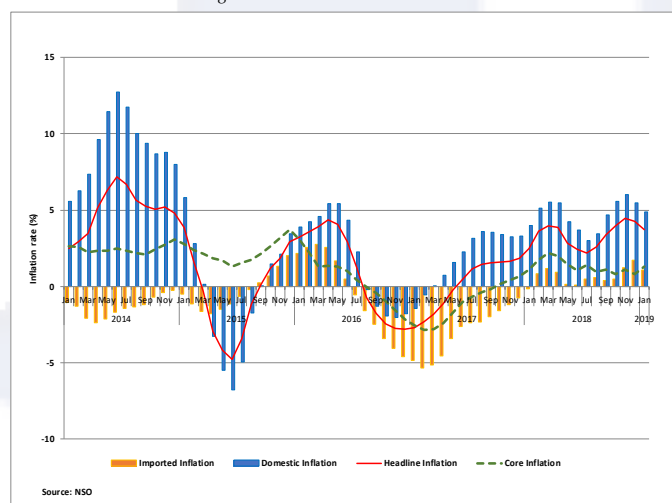
Headline Inflation

Headline inflation moderated for the second consecutive month to 3.7% in January from 4.2% in the previous month. This outcome reflected price falls in both domestic and imported inflation during the month. Domestic inflation slowed down to 4.9% from 5.4% in December, owing to price falls across major categories including food and non-alcoholic beverages, alcoholic beverages, tobacco and narcotics, transport and other categories namely, education and restaurants and hotels. In contrast, housing utilities and household and maintenance picked up while other categories levelled off against the previous month.

Similarly, imported inflation eased to 1.1 % from 1.7% in December. The outcome was driven mainly by slow down in transport, housing and utilities and clothing and footwear categories against the previous month. These outweighed the price increases in the food and non-alcoholic beverages, furnishings and maintenance and miscellaneous categories against the prior month.

In contrast, core inflation picked up to 1.3% from 0.8% in December reflecting a general increase in the prices of non-food and non-fuels items during the month.

Figure 2: Honiara Consumer Price Index



Honiara Fuel Prices

The average fuel price in Honiara declined further to \$8.57 per litre in February from \$8.68 per litre in

January. This outcome reflected price declines across all fuel categories during the month. Diesel price fell markedly by 17 cents to \$8.52 per litre from \$8.69 per litre, kerosene price decreased by 9 cents to \$9.35

per litre from \$9.44 per litre, while petrol price went down by 6 cents to \$7.85 per litre from \$7.91 per litre a month ago.

Solomon Islands Key Economic Indicators

		Oct 18	Nov 18	Dec 18	Jan 19	Feb 19
Consumer price index (% change)	Headline (3mma)	3.9	4.5	4.2	3.7	na
	Underlying (3mma): core 3	0.9	1.1	0.8	1.3	na
	Month -on -Month	-0.2	0.3	0.1	0.6	na
Trade¹ (eop)	Exports (\$ millions)	458	397	195	389	324
	Imports (\$ millions)	340	367	590	278	585
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.12	8.10	8.07	8.10	8.08
	SBD per AUD	5.77	5.86	5.81	5.78	5.77
	SBD per NZD	5.30	5.47	5.52	5.48	5.52
	SBD per GBP	10.58	10.45	10.22	10.41	10.49
	SBD per 100 JPY	7.20	7.15	7.17	7.43	7.32
	SBD per EUR	9.34	9.20	9.17	9.25	9.17
Gross Foreign Reserves (eop)	\$ millions	4,864	4,957	4,952	5,073	5,099
Liquidity² (eop)	Total Liquidity (\$)	2,307	2,375	2,126	2,122	2,189
	Excess Liquidity (\$)	1,784	1,841	1,595	1,588	1,646
Money and credit² (eop)	Narrow Money (\$)	4,121	4,212	4,218	4,167	4,277
	Broad Money (\$)	5,150	5,244	5,203	5,153	5,260
	Private Sector credit (\$)	2,384	2,393	2,409	2,410	2,430
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.61%	0.60%	0.59%	0.59%	0.59%
	56-days Treasury Bills rate	0.48%	0.48%	0.50%	na	na
	91- days Treasury Bills rate	0.49%	0.49%	0.48%	0.49%	0.49%
	182-days Treasury Bills rate	1.12%	1.12%	1.12%	1.12%	1.12%
	365-days Treasury Bills rate	2.00%	2.00%	2.00%	2.00%	2.00%
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	264	263	265	273	270
	Gold - (US\$/oz)	1,215	1,221	1,250	1,292	1,320
	Palm Oil - (US\$/tonne)	499	540	535	585	603
	Fish -(US\$/tonne)	1,383	1,423	1,401	1,366	1,434
	Copra -(US\$/tonne)	NA	NA	NA	NA	NA
	Cocoa - (US\$/tonne)	2,130	2,190	2,210	2,260	2,260

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.