

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Money supply (M3) contracted by 3% to \$4,971 million in January 2020. This was driven by the fall in both narrow money (M1) and other deposits (time and savings) by 3% to \$3,928 million and 2% to \$1,043 million respectively. The decrease in M1 was underpinned by a 7% drop in currency in active circulation to \$790 million along with a fall in demand deposits by 2% to \$3,139 million. The decline in other deposits stemmed from a slid in both time and saving deposits by 2% to \$948 million and 5% to \$95 million respectively.

Net foreign assets (NFA) of the banking system declined by 2% to \$4,358 million in January 2020 following a 2% increase in December 2019. This was driven by a 2% downturn in CBSI's NFA to \$4,344 million despite an expansion in the NFA of other depository corporations from \$11 million to \$14 million during the month. On a year-on-year basis, NFA contracted by 10%.

Net domestic assets declined by 24% to \$614 million, reflecting the reduction in net domestic credit by 3% to \$1,555 million that outweighed the 11% increase in the capital account to \$1,228 million. The fall in net domestic credit was attributed to a 4% increase in net credit to government (NCG) to minus \$996 million coupled with a slight fall in private sector credit (PSC) by 0.1% to \$2,551 million. Annually, PSC grew by 6% while NCG declined by 27%.

Total liquidity in the banking system declined by 2% to \$1,882 million in January, resulting in a fall in free liquidity by 2% to \$1,538 million and excess liquidity by 3% to \$1,362 million respectively. Besides, required reserves went down by 2% to \$344 million during the month.

### Domestic Market Operations

The stock of CBSI Boloko bills issued for 28 days in January 2020 remained at \$750 million same as in December 2019. The rate of the weighted average yield (WAY) for 28 days had reduced to 0.53% from 0.55% in the previous month. Meanwhile, Government treasury bills tendered during the month amounted to \$62 million, of which only \$26 million was absorbed. The WAY for 91 and 182 remained unchanged at 0.49% and 1.12% respectively. Likewise, the WAY for 365 declined from 1.98% in December 2019 to 1.96% in January 2020.

### II. EXTERNAL CONDITIONS

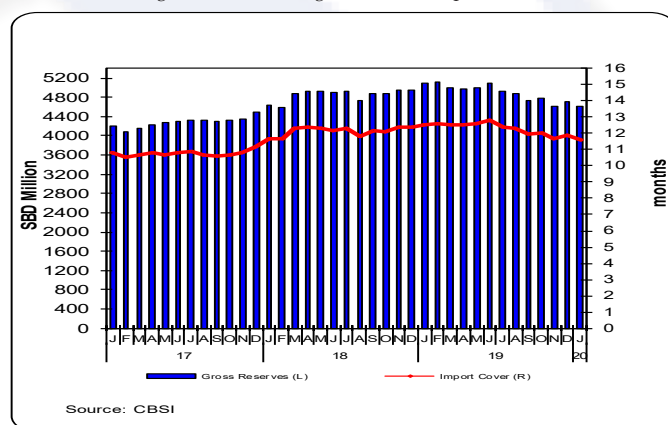
#### Balance on Trade

The balance on trade in goods for January 2020 showed a narrowed deficit of \$11 million from the \$127 million deficit witnessed in the previous month. This improved outcome resulted from an upturn in exports to \$256 million against a slowdown in imports to \$267 million. The increase in exports emanated from the slight rise in round logs, minerals and agricultural commodities during the month. Meanwhile the contraction in imports came from the general fall on all import categories which included food, mineral fuel, machineries and basic manufactures.

#### Gross Foreign Reserve

Gross foreign reserves fell by 2% to \$4,605 million due to higher outflows than inflows during the month. This level of reserves is sufficient to cover 11.6 months of imports of goods & services.

Figure 1 :Gross Foreign Reserve & Import Cover



### Exchange rates

In terms of exchange rates, the Solomon Islands dollar (SBD) appreciated by 0.4% against the United States dollar (USD) to \$8.20 per USD. Similarly, it appreciated against the Australian dollar (AUD) by 0.37% to \$5.63 per AUD but depreciated against the New Zealand dollar (NZD) by 0.07% to \$5.42 per NZD. The SBD, strengthened against all other trading currencies, particularly the Japanese yen (JPY), British pound (GBP) and Euro dollar (EUR). As a result of these movements, the total weighted basket index (TWI) strengthened by 18 basis points to 111.4 during the month.

### III GOVERNMENT FINANCE

The Government recorded a narrower deficit of \$10 million in January 2020, from a revised deficit of \$81 million registered in December 2019. Driving this result was the 36% fall in total expenditure to \$268 million, amidst a 23% decline in revenue collection to \$257 million during the period. Meanwhile, the government's debt stock slid from \$1,070 million to \$1,062 million at the end of January.

The fall in total revenue reflected declines in tax, non-tax receipts and grant receipts during the period. Tax revenue fell from \$261 million to \$238 million, mirroring weaker collections on taxes on income, profits and capital gains, and tax on property. This negated an increase in tax on goods and services. Similarly, non-tax revenue declined by 4% to \$19 million, reflecting lower earnings from sales of goods and services. No donor grants assistance was recorded in January.

The decline in expenditure came from reductions in both recurrent and capital outlays. Recurrent expenses contracted by 20% to \$267 million, attributing to lower spending on purchases of goods and services, interest, subsidies and social benefits in January. Likewise, only \$1 million in development spending was recorded in January compared to \$18 million in December 2019.

The marginal fall in central government's debt balance mirrored debt servicing made during the month. External debt stock comprised \$792 million of the outstanding total debt stock while domestic debt stock accounted for \$270 million. A total of \$4 million in debt servicing payments was made in January 2020, of which \$3.2 million was on principal repayments and \$0.8 million on interest charges.

### IV DOMESTIC ECONOMY

#### Domestic Production

The CBSI preliminary production index rebounded by 11% to 87 points in January 2020 from 79 points in December 2019. This outcome reflected higher outturns in crude palm oil, cocoa, round logs and fish outweighing the fall in copra output during the month. Crude palm oil increased by 27% to 3,058 tonnes, cocoa more than doubled to 373 tonnes, round logs increased by 9% to 178, 434 cubic meters. Fish catch was estimated at 3700 tons based on monthly historical catch as actual data was not available at

the time of this reporting. On the other hand, copra dropped by 10% to 796 tonnes.

The average international commodity prices in January 2020 showed unfavourable movements for most commodities except for crude palm oil which rose by 8% to US\$835 per ton, fish by 7% to US\$1,646 per ton and cocoa which increased by 7% to US\$2,600 per ton. On the hand, world prices for coconut oil slightly dropped by 2% to US\$993 per ton and round logs dropped to US\$272 per cubic meters from US\$273 per cubic meters.

#### Consumer Price Index (CPI), Inflation

The inflation rate for the months of November 2019 to January 2020 have not yet been published by the Solomon Islands National Statistics Office. The October headline inflation rate was 2.1% and has been analysed in the 2019 December Monthly Economic Bulletin.

#### CBSI Monthly Price Index (MPI)

##### CBSI Monthly Price Index (MPI) as an indicator for monthly price movements

CBSI commenced collecting prices of three selected consumer items at the start of each week for every month in Honiara as of October 2019. The three items are (1) fuel (petrol, diesel, kerosene) from the pump stations, (2) rice (solrice 40lb bag) collected from shops in East, Central and West Honiara, and (3) betelnut fruits at major betelnut market locations in Kukum, Whiteriver, and KGIV. These three items are considered to represent a larger share of households purchases in Honiara.

The CBSI MPI differs in method from the CPI inflation rate. The headline inflation rate is a year-on-year movement of the three months moving average for all consumer items and represents the overall change in consumer prices in the economy. In contrast, the CBSI MPI is a month-on-month price movement for only selected items as an indicator of monthly price changes in Honiara. The MPI provides a timely indicator to evaluate the likely monthly movements of overall prices in the absence of inflation data.

CBSI MPI for January 2020 jumped 15.8% to 115 points in January 2020 compared to 99 points in December 2019 and suggests a likely pick up in monthly consumer prices. This was largely attributable to the rise in the price of betelnuts in January from \$1.30 per fruit to \$3.00 per fruit amidst a supply shortage of betelnuts in the market. Rice and fuel prices also slightly increased in January. Fuel price rose by 2 cents to \$9.24 per liter and rice increased by a \$1 to \$174 per bag.

## Solomon Islands Key Economic Indicators

		Aug 19	Sept 19	Oct 19	Nov 19	Dec 19	Jan 20
<b>Consumer price index</b> (% change )	Headline (3mma)	1.7	1.8	2.1	na	na	na
	Underlying (3mma): core 3	1.8	1.8	2.2	na	na	na
	Month -on -Month	0.1	0.4	1.0	na	na	na
<b>Trade<sup>1</sup></b> (eop)	Exports ( \$ millions)	279	306	278	243	234	256
	Imports ( \$ millions)	296	289	337	340	361	267
<b>Exchange Rates</b> (Mid-rate, Monthly average)	SBD per USD	8.24	8.26	8.27	8.24	8.24	8.20
	SBD per AUD	5.58	5.62	5.61	5.63	5.65	5.63
	SBD per NZD	5.31	5.24	5.23	5.28	5.41	5.42
	SBD per GBP	10.01	10.20	10.43	10.61	10.79	10.73
	SBD per 100 JPY	7.75	7.69	7.64	7.57	7.55	7.51
	SBD per EUR	9.17	9.09	9.13	9.11	9.14	9.11
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,839	4,733	4,727	4,640	4,706	4,605
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)	2,048	1,993	1,941	1,925	1,921	1,882
	Excess Liquidity ( \$ millions)	1,508	1,466	1,416	1,391	1,402	1,362
<b>Money and credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)	4,032	3,940	3,988	3,948	4,044	3,929
	Broad Money ( \$ millions)	5,077	4,981	5,036	4,997	5,113	4,971
	Private Sector credit (\$ millions)	2,526	2,542	2,532	2,559	2,553	2,551
<b>Interest Rates</b> ( weighted average yield)	28-days Bokolo Bills rate	0.55%	0.55%	0.55%	0.55%	0.55%	0.53%
	56-days Treasury Bills rate	na	na	na	na	na	na
	91- days Treasury Bills rate	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%
	182-days Treasury Bills rate	1.12%	1.12%	1.12%	1.12%	1.12%	1.12%
	365-days Treasury Bills rate	1.98%	1.98%	1.98%	1.98%	1.98%	1.96%
<b>Fiscal Balance<sup>3</sup></b> Surplus(+)/Deficit(-)	\$ million	-103	-55	-105	-89	-74	-10
<b>SIG Debt stock</b> (eop)	\$ million	1,052	1,046	1,050	1,087	1,070	1,062
<b>Global Commodity Prices</b> ( monthly averages)	Round logs - ( US\$/m3)	280	277	275	273	273	272
	Gold - (US\$/oz)	1,500	1,511	1,495	1,471	1,479	1,561
	Palm Oil - (US\$/tonne)	586	580	591	683	770	835
	Fish -(US\$/tonne)	1,273	1,290	1,079	1,261	1,538	1,646
	Coconut oil -(US\$/tonne)	719	724	720	836	1,016	993
	Cocoa - (US\$/tonne)	2,190	2,310	2,440	2,520	2,440	2,600

<sup>1</sup> Value in terms of free on Board (FOB).

<sup>2</sup> Based on weekly statistics provided by other depository corporations ( ODCs).

<sup>3</sup> Fiscal balance based on GFSM2014 standards.

Note;  
na : not available at time of publication.