

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) grew by 0.5% to \$5,301 million in December 2020 following a 2% growth in November. The increase was driven by narrow money (M1), growing by 0.7% to \$4,417 million. Other deposits (time and savings), however, declined by 0.6% to \$884 million. Narrow money grew as a result of a 9% increase in currency in circulation to \$999 million during the festive season, reversing a 2% fall in demand deposits to \$3,418 million. Meanwhile, the outcome in other deposits stemmed from declines in both time and saving deposits by 1% to \$775 million and \$110 million respectively.

Net foreign assets (NFA) of the banking sector dipped by 1% to \$4,885 million in December. This was driven by a 0.1% fall in NFA of the Central Bank of Solomon Islands (CBSI) to \$4,892 million along with the decline in NFA of ODCs from \$42 million to minus \$7 million. Net foreign assets grew by 10% year-on-year.

Net domestic assets (NDA) grew from \$343 million to \$416 million in December. This was underpinned by an 8% uptick in domestic credit to \$1,539 million despite a 16% drop in other items net to \$171 million and a 0.5% growth in capital account to \$1,294 million. Domestic credit expanded due to a 10% fall in net credit to government (NCG) to minus \$950 million following the decrease of government deposits in CBSI accounts. In addition, private Sector Credit (PSC) increased marginally by 0.2% to \$2,489 million. Annually, PSC fell by 3%, and NCG has declined by 0.7%.

Total liquidity in the banking system further expanded by 6% to \$2,510 million in December 2020. This was underpinned by the downturn in NCG during the month. Consequently, both the free and excess liquidity expanded by 6% to \$2,277 million and 8% to \$2,109 million, respectively. Conversely, required reserve has weakened by 1% to \$233 million.

Domestic Market Operations

The stock of CBSI Boloko Bills (BB) held at the end of December levelled off at \$430 million, similar to November's stock. The sustained level in Bokolo Bills stock reflected the Bank's expansionary monetary policy in light of Covid-19. The weighted average yield (WAY) for Bokolo Bills declined from 0.43% to 0.35% in

December. Meanwhile, Treasury Bills tendered during the month was \$13 million; \$6 million of the amount was accepted. The WAY for 91 and 365 days remained unchanged at 0.49% and 1.95%, respectively. The WAY for 182, however, edged up to 1.07% from 1.05%.

II. EXTERNAL CONDITIONS

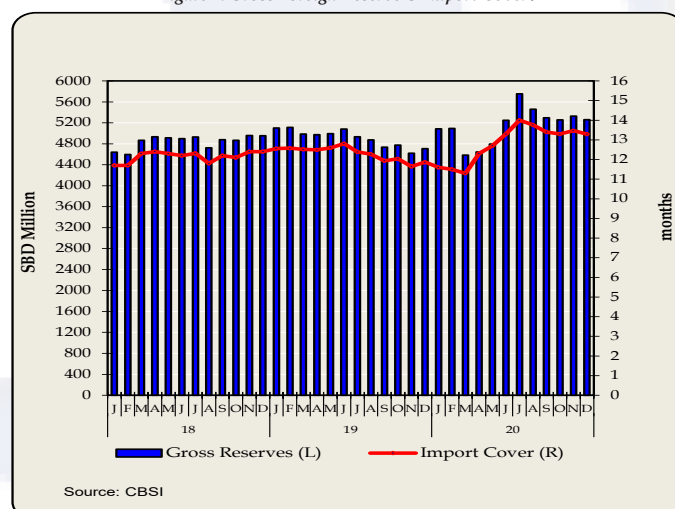
Balance on Trade in Goods

The balance of trade in goods narrowed to a deficit of \$7 million in December, following a \$41 million deficit recorded in the previous month. This outcome reflected a 47% jump in exports to \$236 million in spite of a 20% increase in imports to \$243 million. Supporting the increase in exports were upturns in round logs, fish and agriculture exports, while mineral exports fell during the month. Meanwhile, the rise in imports emanated from an increase on almost all the import categories apart from a decline in basic manufactures.

Gross Foreign Reserve

Gross foreign reserve fell by 1.3% to \$5,260 million during the reviewed month. This outcome stemmed from higher outflows than inflows during the month. However, this level of reserves is sufficient to cover 13.3 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover.



Exchange Rates

In December the Solomon Islands dollar appreciated by 0.6% against the United States dollar (USD) to an average of \$8.04 per USD. On the other hand, it

depreciated against the Australian dollar (AUD) by 2.5% to \$6.02 per AUD and against the New Zealand dollar (NZD) by 2.6% to \$5.68 per NZD. It also weakened against the British pound (GBP) and euro (EUR) but strengthened against the Japanese yen (JPY) during the month. However, due to the strong dominance of the USD within the currency basket, the total weighted index (TWI) appreciated by 136 basis points to 107.37 during the period.

III GOVERNMENT FINANCE

The government recorded a narrow deficit of \$50 million in December 2020, compared to the \$196 million deficit in November 2020. This resulted from a surge in revenue by 26% to \$291 million and a decline in expenditure by 20% to \$341 million. Meanwhile, the government's debt stock edged lower by 0.1% to \$1,364 million in December.

The growth in revenue stemmed from increases in tax and non-tax receipts. Tax revenue rose by 25% to \$246 million, mirroring strong collections on personal and company taxes, goods and services taxes and import and export duties. Similarly, non-tax revenue increased to \$44 million from \$32 million in the previous month, attributing to higher proceeds from fishing licenses and administrative fees.

The fall in expenditure reflected declines in recurrent and development spending. Recurrent expenses fell by 2% to \$286 million, largely underpinned by a 30% reduction in purchases of goods and services to \$137 million. Likewise, capital outlays contracted to \$54 million from \$133 million in November, driven by lower spending on fixed assets.

The slight fall in government debt stock was owed to debt servicing made during the period. Consequently, external debt stock remained at \$972 million as in the preceding month while domestic debt stock fell by 0.3% to \$392 million. Debt servicing totalled \$11 million in December, of which \$7 million was on principal repayments and \$4 million on interest payments. All in all, the debt-to-GDP ratio stood at 11% at the end of December 2020.

IV DOMESTIC ECONOMY

Domestic Production

The CBSI preliminary production index for December 2020 rebounded to 81 points from 65 points in November. This positive outcome came from higher output in round logs and fish catch. Round logs jumped by 42% to 195 thousand cubic meters, and fish catch rose by 2% to 2,362 tons. On the other hand,

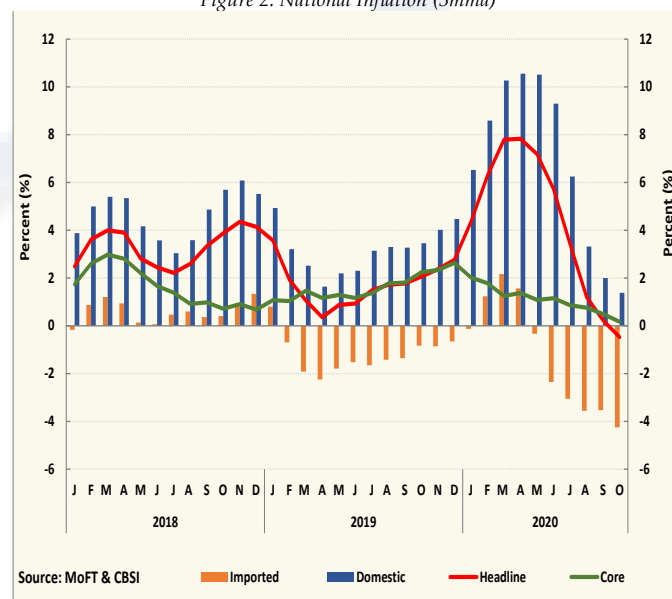
cocoa plummeted by 44% to 226 tons, palm oil and copra both declined by 2% to 2,385 tons and 1,080 tons, respectively.

The international prices for all export commodities trended upwards in December. Palm oil increased by 7% to US\$979 per ton, coconut oil by 6% to US\$1,452 per ton, fish by 5% to US\$1,339 per ton, cocoa by 3% to US\$2,410 per ton, and round logs slightly rose by 1% to US\$287 per cubic meters.

Consumer Price Index, Inflation (yoy - 3mma)

The latest national inflation for October 2020 recorded a first month of deflation to a minus 0.5% from 0.2% in September 2020. This reflected the downward movements in both domestic and imported prices during the month. Domestic inflation eased to 1.4% in October driven by lower prices in betelnut, local food, and transport. Likewise, imported inflation plunged to minus 4.3% in October attributed to the continued lower prices of crude oil in the global market. Moreover, core inflation went down to 0.2% in October from 0.5% in September indicating a persistent weaker demand in the economy.

Figure 2. National Inflation (3mma)



CBSI Monthly Price Index (MPI)

The CBSI MPI fell to 89 points in December from 90 points in the previous month mainly driven by drop in prices of betelnut, rice and fuel. Betelnut dropped to \$1.27 per fruit from \$1.56 per fruit, Solrice family rice (40lb) from \$128.75 per bag to \$127.60 per bag, and fuel went down by 2 cents to \$6.89 per litre. LP gas, on the other hand, rose by 42 cents to \$23.00 per KG, and electricity tariff went up by 30 cents to \$6.05 per KWh.

Solomon Islands Key Economic Indicators

		Jul 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20
Consumer price index (% change)	Headline (3mma)	3.4	1.2	0.2	-0.5	na	na
	Headline (3mma) CBSI adjustment ⁴	1.7	0.6	0.1	0.1	na	na
	Underlying (3mma): core 3	0.9	0.8	0.5	0.2	na	na
	Headline (MoM)	-1.9	-1.9	-0.6	-0.2	na	na
CBSI MPI (weighted Index)	Month- on - Month	92	89	95	88	90	89
Trade¹ (eop)	Exports (\$ millions)	215	192	329	169	161	236
	Imports (\$ millions)	310	286	284	231	202	246
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.27	8.21	8.14	8.11	8.09	8.04
	SBD per AUD	5.81	5.90	5.89	5.78	5.87	6.02
	SBD per NZD	5.44	5.42	5.43	5.38	5.54	5.68
	SBD per GBP	10.47	10.78	10.56	10.52	10.71	10.77
	SBD per 100 JPY	7.75	7.74	7.70	7.71	7.75	7.74
	SBD per EUR	9.47	9.71	9.60	9.55	9.56	9.76
Gross Foreign Reserves (eop)	\$ millions	5,754	5,461	5,296	5,257	5,329	5,260
Liquidity² (eop)	Total Liquidity (\$ millions)	2,067	2,200	2,051	2,299	2,378	2,510
	Excess Liquidity (\$ millions)	1,650	1,783	1,648	1,884	1,959	2,109
Money and credit² (eop)	Narrow Money (\$ millions)	4,095	4,275	4,243	4,236	4,385	4,417
	Broad Money (\$ millions)	5,081	5,161	5,139	5,158	5,274	5,301
	Private Sector credit (\$ millions)	2,509	2,514	2,504	2,455	2,483	2,489
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.53%	0.51%	0.48%	0.47%	0.43%	0.35%
	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	1.09%	1.07%	1.10%	1.09%	1.05%	1.07%
	365-days Treasury Bills rate	1.96%	1.96%	1.96%	1.96%	1.95%	1.95%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-21	-80	-121	-97	-196	-50
SIG Debt stock (eop)	\$ million	1,319	1,315	1,358	1,366	1,365	1,364
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	279	281	282	283	285	287
	Gold - (US\$/oz)	1,847	1,969	1,922	1,900	1,866	1,858
	Palm Oil - (US\$/tonne)	694	760	796	819	918	979
	Fish - (US\$/tonne)	1,312	1,360	1,233	1,268	1,269	1,339
	Coconut oil - (US\$/tonne)	888	981	1,034	1,118	1,369	1,452
	Cocoa - (US\$/tonne)	2,100	2,340	2,640	2,290	2,350	2,410

¹ Value in terms of free on Board (FOB)

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

³ Fiscal balance based on GFSM2014 standards.

⁴ Adjustments by substituting CBSI monthly collected betel-nut prices.

Note:
na : not available at time of publication.