



CENTRAL BANK OF SOLOMON ISLANDS

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FOR IMMEDIATE RELEASE

December 2015 Quarterly Economic Review

The Central Bank of the Solomon Islands (CBSI) has published the December 2015 Quarterly Economic Review on the CBSI website (www.cbsi.com.sb) today. The December Economic Review contains an assessment of how the domestic economy performed in 2015 as well as the near term macroeconomic outlook.

Preliminary estimates from the Bank showed the domestic economy grew by 2.9% in 2015. While most sectors contributed positively to the overall growth, the key drivers were forestry, wholesale and retail trade, transport and storage, construction, manufacturing and public investments. The economy also benefited from the persistently low oil prices. On a downside though, commodity sectors such as agriculture, fisheries, and mineral industries declined during the year.

Partial economic indicators pointed to upbeats in investment activities and domestic demand conditions. Likewise, labour market conditions also improved in 2015 with the number of active contributors to the Solomon Islands National Provident Fund (SINPF) rising by 4% to 55,438 contributors.

Lending to the private sector strengthened further by 17% to \$1,988 million in 2015 following the 16% growth in 2014. The sectors recording increased borrowings in 2015 were personal, communication, construction, transportation, manufacturing, forestry and tourism. Meanwhile excess liquidity in the banking system remained high.

On external conditions, the overall balance of payments improved significantly to a surplus position of \$395 million in 2015 from a weaker \$9 million surplus in 2014. The outcome reflected improvements in the capital and financial accounts, and assisted by the reduction in the current account deficit. Gross foreign reserves rose during the year and can adequately cover ten months of imports. However, the annual trade balance worsened to a deficit of \$43 million from the \$35 million deficit in the preceding year despite the strong performance in the fourth quarter of 2015. The deterioration reflected lower exports relative to imports, notably in the first three quarters of the year.

Preliminary figures showed the Government recorded a deficit of \$172 million in 2015, reversing the surplus recorded in 2014. Driving this negative outturn was the high expenditure particularly in the second half of 2015. Central government debt stock maintained its downward trajectory with the largest drop of 19% to \$697 million in 2015 following a large one-off advance repayment of \$136 million on domestic debt in the final quarter.

Inflation in December 2015 was 2.9% compared to 4.8% in the same period in 2014. This was driven mainly by the domestic component combined with low energy prices and the stronger USD. While the strong USD led to rising inflationary pressures, this was countered by the strengthening of the SBD against the AUD and NZD.

The near term macroeconomic projection remains positive though with risks tilted to the downside. The CBSI projects the Solomon Islands economy to expand by 2.9% in 2016 as in 2015. The sustained growth is expected to be supported by activities in wholesale and retail, manufacturing, construction, hotels and restaurants, and planned public investments. The Balance of payments position of the country is expected to remain positive in 2016. Credit to private sector is also expected to trend upward as the economy continues to expand. Inflationary pressures in early 2016 are projected to subside during the course of year to within the 3% - 5% range. On the fiscal front, the government projects a fiscal deficit in 2016 and this is expected to be financed from domestic savings.

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