

Monthly Economic Bulletin

Data published in this bulletin are subject to revision and the Bank cannot guarantee the accuracy of the information obtained from outside sources.

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

I. MONETARY DEVELOPMENTS

Total money supply slightly increased by 0.1% to \$4,598 million in January 2017, 18% higher than the same period last year. The increase was driven mainly by a 1% rise in narrow money (M1) to \$3,612 million. In contrast, other deposits (savings and time) contracted by 2% to \$986 million. The increase in M1 was attributed to a 3% upturn in demand deposits to \$2,949 million whilst currency in active circulation shrunk by 8% to \$664 million. On other deposits, the decline stemmed from reductions in both savings and time deposits by 4% to \$155 million and by 1% to \$831 million respectively.

Total net foreign assets (NFA) of the banking system fell marginally by 0.4% to \$4,003 million in January following a 2% growth recorded in December 2016. This outcome was mainly attributed to a notable decline in the NFA of Other Depository Corporations' (ODCs) to \$3 million from \$21 million in December whilst CBSI's NFA remained relatively unchanged at \$4,000 million as in the previous month. Year-on-year movements showed NFA remained broadly the same as in the corresponding period in 2016.

Net credit to government (NCG) rose by 7% to net liabilities of \$1,092 million in January following a marginal growth of 0.1% growth witnessed a month ago. The growth came from respective increases in both the CBSI's net liabilities position and ODC's net position by 2% to \$818 million and by 29% to \$274 million. Similarly, private sector credit (PSC) also expanded by 2% to \$2,215 million, driven by a 2% growth to \$2,079 million in ODC lending. Meanwhile, total liquidity in the banking system increased by 6% to \$1,775 million due mainly to an increase in the level of deposits. This saw both free liquidity and excess liquidity increasing by 8% to \$1,471 million and by 9% to \$1,284 million respectively during the month.

Domestic Market Operations

Two CBSI Bokolo bills auctions were conducted in January 2017 with the stock floated remained at \$750 million. Bid received totalled \$1,020 million of which \$270 million was rejected. The weighted average yield (WAY) for the 28 days remained at 0.62% from the previous month. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days also was maintained at 0.34%, 0.46% and 1.12% respectively as in December 2016.

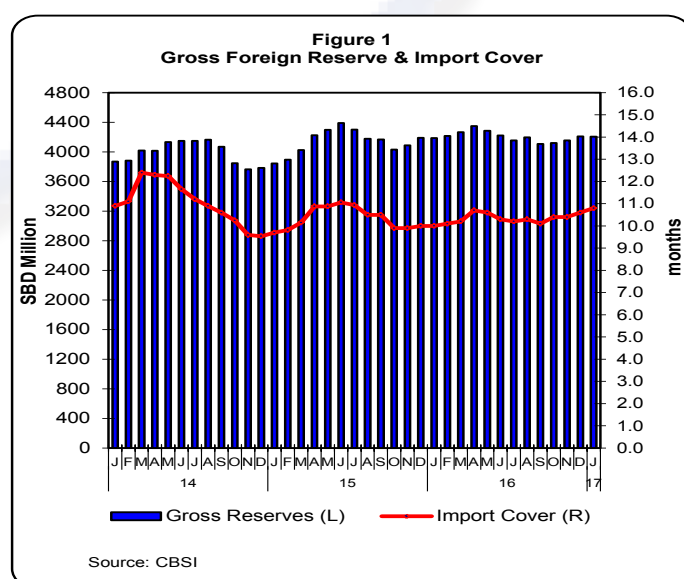
II. EXTERNAL CONDITIONS

The balance on trade in goods for January 2017 improved

to a provisional \$46 million surplus from a revised \$56 million deficit in December 2016. This positive outcome was due to a significant fall in imports by 32% to \$235 million that surpassed a 3% fall in exports to \$282 million during the month. The slight drop in exports was attributed to the fall in round logs exports while the large decline in imports reflected contractions in all the major import categories especially in food, fuel and machinery imports.

Gross Foreign reserves

The country's gross foreign reserves fell marginally by 0.1% to \$4,205 million due to outflows exceeding inflows during the period. This level of reserves was sufficient to cover 10.8 months of imports of goods and services.



Exchange rates

The Solomon Islands dollar (SBD) appreciated against the United States dollar (USD) by 0.41% to an average of \$7.98 per USD in January. This reverses the depreciation trend witnessed in the last three consecutive months. The SBD however, depreciated against the Australian dollar by 0.70% to \$5.93 per AUD and by 0.35% against the New Zealand dollar to \$5.66 per NZD. It also weakened against the Japanese Yen and the Euro, although it strengthened against the British Pound during the month. Consequently, the mixed movements led to a minor strengthening of the trade weighted exchange rate basket index by 40 basis points to 108.2.

¹The basket is trade weighted index to 100 with a base year of 2012.

III GOVERNMENT FINANCE

The Government recorded a \$26 million surplus in January, a marked improvement from the deficit of \$94 million posted a month ago. This outcome is consistent with seasonal patterns where government spending was slow in the first few months of the year. The fiscal surplus reflected the decline in expenditure despite weaker revenue collection. Meanwhile, the Government's debt stock fell for the second consecutive month after registering an increase in November last year.

Total revenue fell by 24% to \$226 million and was driven by a 28% decline in tax revenue to \$208 million which negated a \$12 million increase in nontax revenue to \$18 million. The drop in tax receipts resulted from lower collections on income and profit taxes, taxes on international trade, and goods and services taxes. However the increase in nontax revenue stemmed from the rise in property income, and sales of goods and services. Meanwhile, the month-on-month decrease in total expenditure to \$200 million reflected a 27% decline in recurrent expenses to \$192 million together with a \$120 million plunge in development related spending to \$8 million. Decreases in consumption spending, and other payments largely underscored the fall in recurrent spending while the decline in payments relating to non-residential building contributed to the fall in development-related spending.

Central Government debt stock fell by 0.2% to \$677 million, following a \$3 million debt repayment made during the month. External debt stood at \$633 million, 0.3% below the previous month whilst the domestic debt rose by 2% to \$43 million. Meanwhile, the debt stock as a percentage of GDP remained unchanged as in the previous month at 8% of GDP.

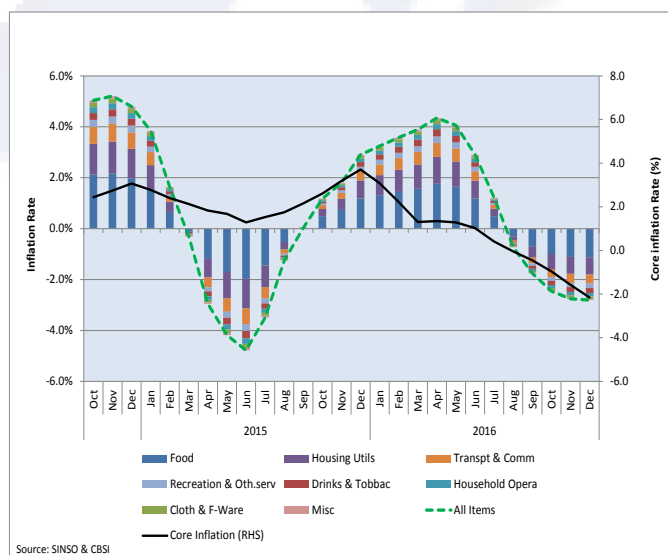
IV DOMESTIC PRODUCTION

Based on preliminary estimates, the CBSI monthly production index fell by 15% in January to 87 points from a revised 102 points in the previous month. This was driven by falls in round logs, fish catch and copra production during the month. Round log output contracted by 22% following two consecutive months of weak performance. Likewise, copra dropped 16% while fish catch fell marginally by 0.6% against the previous month. Meanwhile, cocoa output increased significantly by 54%, reversing the 56% fall in the previous month while palm oil and palm kernel oil production grew by 10% and 8% respectively. In terms of international commodity prices, copra prices grew by 9%, palm kernel oil rose by 7%, crude palm oil increased by 3%, while log price improved slightly by 1%. On the other hand, fish and cocoa prices fell by 5% and 4% respectively during the month.

Headline Inflation

Headline inflation remained at minus 2.8% in December resulting from offsetting movements in domestic and imported inflation. Domestic inflation increased slightly from minus 2% to minus 1.8% while imported inflation eased further to minus 4.6% from minus 4.1% in the previous month.

Figure 2
Inflation Contributions by Components



The increase in domestic inflation came mainly from the pickup in the food component as well as 'transport and communication' which outweighed the slowdown in the housing utilities, household operations and 'drinks and tobacco' categories. In contrast, the decline in imported inflation reflected the continued price falls mainly in food, and household operations categories. This more than offset the price improvements in transport and communication, housing and utilities, clothing and footwear, and recreation categories during the month.

Of the overall headline inflation of minus 2.8%, food accounted for minus 1.1%, housing and utilities contributed minus 0.7% and transport and communication represented minus 0.4%. All the other categories accounted for the remaining minus 0.6% during the month.

Honiara Fuel Prices

The average fuel price in Honiara rose in January by 23 cents to \$7.79 per litre from \$7.56 per litre a month ago and reflected increases in all fuel categories. Kerosene price increased by 26 cents to \$7.70 per litre from \$7.43 per litre, petrol price grew by 23 cents to \$7.90 per litre from \$7.67 per litre while diesel price rose by 19 cents to \$7.76 per litre from \$7.57 per litre.

Solomon Islands Key Economic Indicators

		Sep 16	Oct 16	Nov 16	Dec 16	Jan 17
Consumer Price Index (% change)	Headline (3mma)	-1.7	-2.5	-2.8	-2.8	na
	Underlying (3mma): core 3	-0.5	-1.0	na	-2.2	na
	Month-on month	-0.4	0.1	-0.4	0.5	na
Trade¹ (eop)	Exports (\$ millions)	263	350	294	292	282
	Imports (\$ millions)	281	368	373	346	235
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.86	7.87	7.94	8.01	7.98
	SBD per AUD	5.96	5.99	5.98	5.89	5.93
	SBD per NZD	5.75	5.64	5.67	5.64	5.66
	SBD per GBP	10.34	9.74	9.86	10.01	9.83
	SBD per 100 JPY	7.71	7.60	7.35	6.92	6.93
	SBD per EUR	8.87	8.69	8.58	8.46	8.47
Gross Foreign Reserves (eop)	\$ millions	4,107	4,121	4,154	4,210	4,205
Liquidity² (eop)	Total Liquidity (\$)	1,687	1,699	1,685	1,669	1,775
	Excess Liquidity (\$)	1,245	1,230	1,221	1,179	1,284
Money and Credit² (eop)	Narrow Money (\$)	3,567	3,740	3,556	3,590	3,612
	Broad Money (\$)	4,448	4,637	4,514	4,593	4,598
	Private Sector Credit (\$)	2,187	2,171	2,200	2,178	2,215
Interest Rates (weighted average yield)	28-days Bokolo Bills Rate	0.62%	0.62%	0.62%	0.62%	0.62%
	56-days Treasury Bills Rate	0.34%	0.34%	0.34%	0.34%	0.34%
	91-days Treasury Bills Rate	0.46%	0.46%	0.46%	0.46%	0.36%
	182-days Treasury Bills Rate	1.12%	1.12%	1.12%	1.12%	1.12%
Commodity Prices (monthly average)	Round logs - (US\$/m3)	292	287	275	256	259
	Gold - (US\$/oz)	1,327	1,266	1,238	1,157	1,192
	Palm Oil - (US\$/tonne)	756	712	755	783	806
	Fish - (US\$/tonne)	1,867	1,619	1,800	1,497	1,420
	Copra - (US\$/tonne)	1,025	964	1,021	1,120	1,225
	Cocoa - (US\$/tonne)	2,890	2,710	2,500	2,300	2,200

¹. Value in terms of free on board (FOB)

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