

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Total money supply (M3) barely increased by 0.2% to \$4,605 million in February, although 17% higher than the same period last year. The month-on-month outcome was sustained by marginal increases in narrow money (M1) and other deposits (savings and time), the former by 0.2% to \$3,618 million and the latter by 0.1% to \$987 million. The growth in M1 was attributed to slight increases in currency in active circulation and demand deposits to \$665 million and \$2,953 million respectively. Other deposits benefited from a 4% rise in savings to \$160 million outweighing a 1% fall in time deposits to \$826 million.

Total net foreign assets (NFA) of the banking system fell further by 1% to \$3,945 million in February following a 0.4% decline in January. This mirrored a 2% decline in CBSI's NFA to \$3,920 million which negated an increase from \$3 million to \$26 million in the NFA of Depository Corporations (DC). On a year-on-year basis, the NFA of the banking system improved by 1% against the same period in 2016.

Net credit to government (NCG) declined by 7% to net liabilities of \$1,021 million in February, offsetting the 7% increase witnessed a month ago. The decline stemmed from reductions in both the CBSI's net liabilities position and ODC's net position by 4% to \$784 million and by 14% to \$237 million respectively. Similarly, private sector credit (PSC) edged lower by 0.1% to \$2,213 million, driven by the fall in lending to other sectors from \$136 million to \$134 million whilst ODC lending grew negligibly from \$2,079 million to \$2,080 million. However, year-on-year growth saw PSC grew by 11% while NCG contracted by 27% against the same period in 2016. The fall in NCG reflected consistent drawdown of government deposits held with CBSI over the last 12 months. Meanwhile, total liquidity in the banking system fell by 1% to \$1,759 million largely attributed to falls in NFAs and the level of deposits. This saw a decline in free liquidity by 1% to \$1,454 million while excess liquidity and required reserve inched up by 0.7% to \$1,293 million and by 0.3% to \$305 million respectively during the month.

Domestic Market Operations

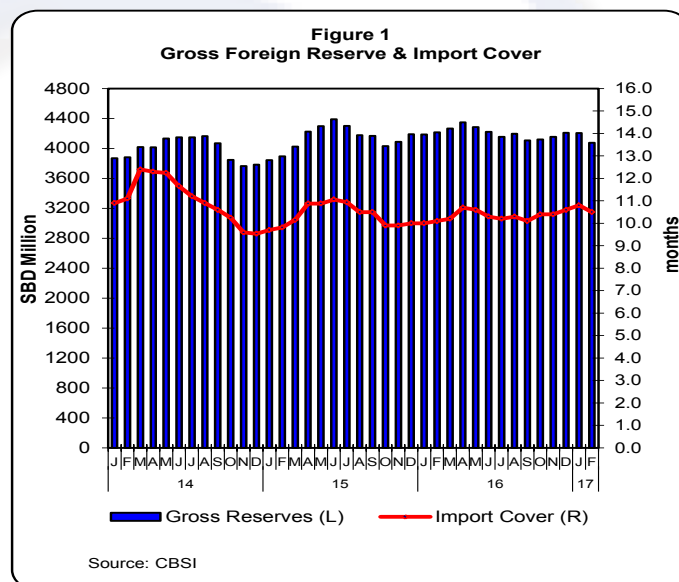
The stock of CBSI Bokolo bills remained at \$750 million at end February. The weighted average yield (WAY) for the 28 days remained at 0.62% from the previous month. Meanwhile, the WAY for Government treasury bills for 56, 91 and 182 days remain unchanged at 0.34%, 0.46% and 1.12% respectively as in January 2017

II. EXTERNAL CONDITIONS

The balance on trade in goods for February 2017 recorded a provisional \$52 million deficit from a \$46 million surplus in the previous month. This negative outcome emanated from the significant fall in exports by 30% to \$198 million and a 6% increase in imports to \$250 million during the month. The drop in exports was attributed to falls in exports of round log and fish, despite increases in mineral and agricultural exports. The rise in imports reflected increases in food, machineries and other import during the month while imports for mineral fuel and basic manufactures recorded a fall.

Gross Foreign reserves

The country's gross foreign reserves fell by 3% to \$4,075 million due to higher import payments over the month. This level of reserves was sufficient to cover 10.5 months of imports of goods and services.



III. GOVERNMENT FINANCE

The Central Government recorded a large fiscal deficit of \$112 million this month in contrast to a surplus of \$26 million in the previous month. The fiscal deficit came from a 48% upsurge in total expenditure to \$295 million while total revenue dropped by 19% to \$183 million. Meanwhile, total debt stock continued with the downward trajectory seen since December 2016.

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

The fall in Government revenue against the previous month was driven by a 17% decline in tax receipts to \$172 million. This stemmed from falls in income and profit taxes, taxes on good and services, and international trade tax. Similarly, non-tax revenue went down to \$11 million this month from \$18 million in the previous month, following lower returns from fishing licenses. Meanwhile, the sharp increase in government expenditure against the month prior was due to a 26% increase in recurrent spending to \$242 million and a \$46 million increase in development expenditure to \$53 million. Higher spending on consumption and other spending largely explained the growth in the recurrent spending. Whilst the rise in the development expenditure was due to increased spending on roads, bridges and residential dwellings.

Government debt stock fell by 0.4% to \$675 million, following a \$2 million debt repayment during the month. Of the total debt, external debt which made up a bulk of total debt fell marginally by 0.5% to \$631 million whilst domestic debt, went up by a percent against the previous month to \$44 million.

IV DOMESTIC PRODUCTION

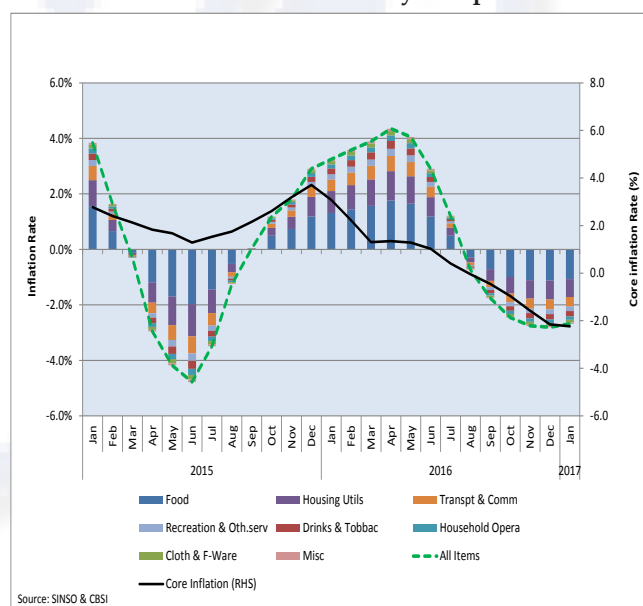
Based on preliminary estimates, the CBSI monthly production index fell by 9% in February to 80 points from 87 points in the previous month. This was largely driven by the declines in round log and palm oil productions during the month. Round log volumes dropped by 19% following a 22% decline in January. Likewise, crude palm oil and palm kernel oil fell by 6% and 5% respectively. These outweighed the increases in cocoa, copra and fish catch during the month. Preliminary cocoa production indicators increased significantly by 22%, continuing the growth recorded in January, copra surged by 22% while fish catch went up notably by 11% during the month. In terms of prices, average international prices for log and fish each grew by 2%. Meanwhile, cocoa and palm kernel oil prices fell by 8% each, copra prices dropped 6% while the price for crude palm oil declined by 3%.

Headline Inflation

Headline inflation remain subdued for the sixth consecutive month at minus 2.7% in January 2017 from minus 2.8% in the previous month reflecting offsetting

movements in domestic and imported inflation during the month. Domestic inflation rose from minus 1.8% to minus 1.4%, while imported inflation dampened to minus 4.8% from minus 4.6% in the previous month. The turnaround in domestic inflation was supported by price pickups in the food category, drinks and tobacco, transport and communication, and recreation. However, the decline in imported inflation reflects the continued fall in prices attributed to food, 'housing and utilities', household operations and miscellaneous items. Of the overall headline inflation, food accounted for minus 1.1%, housing and utilities with minus 0.6%, transport and communication at minus 0.3% and recreation for the remaining 0.2%.

Figure 2
Inflation Contributions by Components



Honiara Fuel Prices

The average fuel price in Honiara increased further in February by 42 cents to \$8.21 per litre, reverting to 2015 trends. This reflected increases in all fuel categories during the month. Kerosene prices increased by 49 cents to \$8.19 per litre from \$7.70 per litre, petrol prices grew by 42 cents to \$8.32 per litre from \$7.90 per litre while diesel prices went up by 35 cents to \$8.11 per litre from \$7.76 per litre.

Solomon Islands Key Economic Indicators

		Oct 16	Nov 16	Dec 16	Jan 17	Feb 17
Consumer Price Index (% change)	Headline (3mma)	-2.5	-2.8	-2.8	-2.7	na
	Underlying (3mma): core 3	-1.0	na	-2.2	-2.2	na
	Month-on month	0.1	-0.4	0.5	0.4	na
Trade¹ (eop)	Exports (\$ millions)	350	294	292	282	198
	Imports (\$ millions)	368	373	346	235	250
Exchange Rates (mid-rate, monthly average)	SBD per USD	7.87	7.94	8.01	7.98	7.89
	SBD per AUD	5.99	5.98	5.89	5.93	6.04
	SBD per NZD	5.64	5.67	5.64	5.66	5.70
	SBD per GBP	9.74	9.86	10.01	9.83	9.86
	SBD per 100 JPY	7.60	7.35	6.92	6.93	6.98
	SBD per EUR	8.69	8.58	8.46	8.47	8.40
Gross Foreign Reserves (eop)	\$ millions	4,121	4,154	4,210	4,205	4,075
Liquidity² (eop)	Total Liquidity (\$)	1,699	1,685	1,669	1,775	1,759
	Excess Liquidity (\$)	1,230	1,221	1,179	1,284	1,293
Money and Credit² (eop)	Narrow Money (\$)	3,740	3,556	3,590	3,612	3,618
	Broad Money (\$)	4,637	4,514	4,593	4,598	4,605
	Private Sector Credit (\$)	2,171	2,200	2,178	2,215	2,213
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%	0.36%	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)	287	275	256	259	264
	Gold - (US\$/oz)	1,266	1,238	1,157	1,192	1,234
	Palm Oil - (US\$/tonne)	712	755	783	806	779
	Fish - (US\$/tonne)	1,619	1,800	1,497	1,420	na
	Copra - (US\$/tonne)	964	1,021	1,120	1,225	1,146
	Cocoa - (US\$/tonne)	2,710	2,500	2,300	2,200	2,030

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

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