

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) expanded by 1% to \$4,777 million in November driven by increases in both narrow money (M1) and other deposits (savings and time); the former rose by 1% to \$3,741 million and the latter by 2% to \$1,037 million. Growth in M1 stemmed from a 5% upturn in currency in active circulation to \$760 million and a 0.3% rise in demand deposits to \$2,981 million. Similarly, other deposits benefited from a 3% uptick in savings to \$193 million and a 2% rise in time deposits to \$844 million against the preceding month.

Net foreign assets (NFA) improved by 3% to \$4,297 million in November, building on from the 1% growth observed in the previous month. The increase was largely due to a 1% growth in CBSI's NFA position to \$4,149 million combined with a jump in Other Depository Corporations' (ODCs') NFA from \$42 million in October to \$148 million. Meanwhile, NFA improved by 9% year-on-year.

Net domestic asset (NDA) of Depository Corporations' shrank by 11% to \$481 million in November following a 5% growth in the capital account to \$907 million combined with reductions in Net Domestic Credit (NDC) and other items (net) by 1% to \$1,227 million and by 3% to \$162 million respectively. The decline in NDC was largely driven by a 1% increase in Net credit to government (NCG) to net liabilities of \$1,054 million which outweighed a 0.3% growth in Private sector credit (PSC) to \$2,280 million. The growth in NCG was driven by a 3% rise in CBSI's net liability to \$863 million which more than offset a 6% fall in ODC's net liabilities to \$191 million. On PSC, the growth was sustained by a 0.5% increase in ODC lending to \$2,144 million relative to the October outcome.

Total liquidity in the banking system slightly increased by 1% to \$1,787 million reflecting improvements in NFA, currency in circulation and a draw down of government deposits during the month. This saw both free liquidity and excess liquidity increasing by 1% to \$1,469 million and \$1,306 million respectively against the previous month. Required reserves increased by 2% to \$318 million.

Domestic Market Operations

The stock of CBSI Bokolo bills issued fell to \$745

at the end of November, \$5 million below the previous month, however, the weighted average yield (WAY) for 28 days was maintained at 0.62%. The WAY for Government treasury bills for 56, 91 and 182 days also remain unchanged at 0.34%, 0.46% and 1.12% respectively.

II. EXTERNAL CONDITIONS

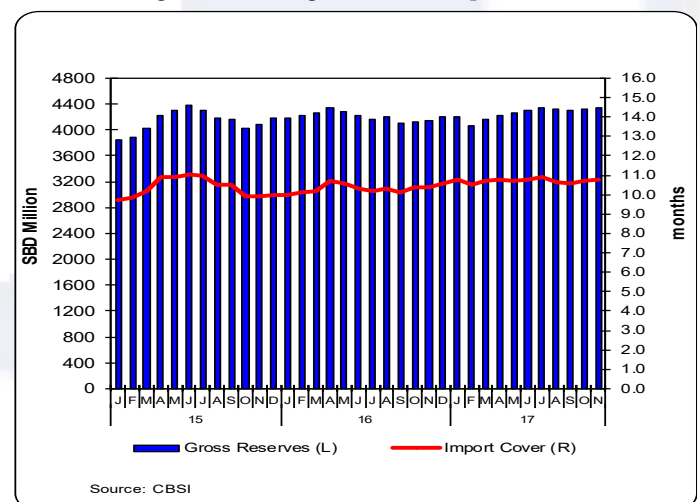
Trade in goods

The balance of trade in goods for November 2017 narrowed to a \$34 million surplus following a revised \$62 million surplus recorded in the previous month. This outcome was driven by a 5% increase in exports to \$426 million that outweighed a 14% growth in imports to \$392 million in November. The rise in exports largely emanated from an increase in round logs and agricultural exports that more than offset the fall in minerals and fish during the month. Meanwhile, the increase in imports was attributed to the rise on all import commodities which includes food, mineral fuels, machineries and basic manufactures.

Gross foreign reserves

Gross foreign reserves increased marginally by 1% to \$4,338 million due to high inflows exceeding outflows during the month. This level of reserves was sufficient to cover 10.8 months of imports of goods and services.

Fig 1 Gross Foreign Reserve & Import Cover



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

Exchange Rates

In November, the Solomon Islands Dollar (SBD) depreciated by 0.97% against the United States dollar (USD) to an average of \$7.90 per USD. On the other hand, it strengthened against the Australian dollar (AUD) by 1.2% to \$6.02 per AUD and against the New Zealand dollar (NZD) by 1.5% to \$5.44 per NZD. Meanwhile the SBD weakened against the Euro dollar, British pound and the Japanese Yen. As a result of these mixed movements, the trade weighted exchange rate basket index strengthened by 1% to 107.1 during the month.

III. GOVERNMENT FINANCE

The Central Government recorded a preliminary budget deficit of \$57 million this month compared to an \$84 million deficit posted in the previous month. The narrow deficit resulted from a downturn in total expenditure, which outweighed the fall in revenue during the month. Meanwhile, the government's debt grew relatively around its trend level in November.

Total government revenue decreased by 13 % to \$265 million against \$304 million posted in the month of October. This was 19% below budget but 24 % higher than the same period last year. The significant fall in other receipts by \$62 million to \$21 million contributed to the fall although tax revenue grew by 11% to \$244 million. The former was triggered from the fall in fishing license fees and premium estate fees. Meanwhile, the improvement in the latter stemmed from the rise in the 'tax on income and profits and capital gains', and the 'tax on international trade and transactions' observed during the month. No grants were received during the month.

Similarly, total government expenditure shrank by 17 % to \$322 million in November following high government outlays of \$388 million posted a month prior. This saw an 18% shortfall in the aggregate expenditure against the budget, but 11% higher than the same period in the previous year. The fall in government outlays stemmed from a 62 % contraction in development expenditure to \$ 43 million. However, recurrent expenditure slightly grew by 2 % to \$280 million. The growth in recurrent spending relative to the previous month reflected the increase in payroll costs and transfers. Meanwhile, the downturn in capital spending was primarily due to the reduction in spending on machineries and equipment, buildings and structures over the period.

The government debt stock grew by 1% to \$905 million at the end of November, reflecting the depreciation of the SBD against the debt denominated currencies. Of total debt stock, the external debt accounted for \$710 million whilst domestic debt constituted the remaining \$195 million of total debt. The debt-to-GDP ratio remained broadly unchanged at 10%. Meanwhile, the government repaid \$ 4 million of its outstanding debt this month, of which, \$3 million was on principle

payments and \$1 million on interest payments.

IV DOMESTIC PRODUCTION

Production and Prices

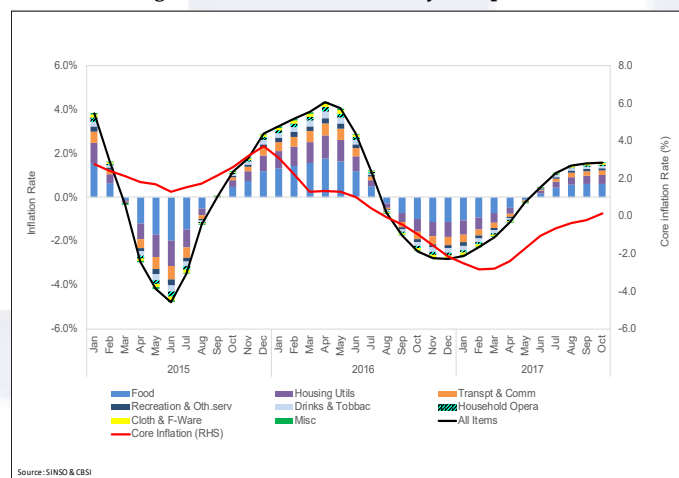
Based on preliminary estimates, the CBSI monthly production index slid by 1% to 113 points from 114 points in October. This outcome was based on the monthly output projections for all major commodities, except for round log production which increased negligibly by 0.3% during the month. Production data for cocoa, copra, fish catch and palm oil were unavailable for reporting. However, monthly output projections based on historical trends showed that cocoa is expected to fall by 17%, while copra output and fish catch volumes are projected to decline by 10% and 6% respectively. In contrast, crude palm oil is expected to increase by 6% while palm kernel output is projected to grow by 5% during the month.

In terms of prices, the average international prices for copra, palm kernel oil and cocoa grew by 5%, 3% and 1% respectively during the month. Meanwhile, the international fish price fell by 1%, crude palm oil slid by 0.3% while round log prices remain unchanged during the month.

Headline Inflation

Headline inflation for October grew to 1.6% from 1.5% in September. This was largely driven by the increase in imported inflation during the month. Imported inflation rose to minus 1.6% from minus 2.0% a month ago. This reflected the price pickups in food, housing and utilities, transport and communication, household operations, clothing and footwear and miscellaneous categories. In contrast, domestic inflation eased to 3.4% from 3.6% reflecting the price declines in food and household operations categories during the month.

Fig 2 Inflation contributions by Components



Of the overall headline inflation, food accounted for 0.6%, followed by housing and utilities with 0.4%, transport and communications represented 0.2%, while

all other categories accounted for the remaining 0.4%.

Core inflation turned positive in November to 0.1% after thirteen consecutive months of deflation. This outcome reflected the price pickups in non-food and non-fuel categories during the month.

Honiara Fuel Prices

The average fuel price in Honiara increased slightly in November to \$7.63 per litre from \$7.60 per litre in

October reflecting the movements in kerosene and diesel prices during the month. Kerosene prices grew by 9 cents to \$7.53 per litre, from \$7.44 per litre while diesel prices rose by 5 cents to \$7.64 per litre from \$7.59 per litre. Meanwhile, petrol prices slid by 5 cents to \$7.72 per litre from \$7.77 per litre in the previous month.

Solomon Islands Key Economic Indicators

| | | July 17 | Aug 17 | Sept 17 | Oct 17 | Nov 17 |
|--|------------------------------|---------|--------|---------|--------|--------|
| Consumer price index (% change) | Headline (3mma) | 1.1 | 1.4 | 1.5 | 1.6 | n.a |
| | Underlying (3mma): core 3 | -0.7 | -0.4 | -0.2 | 0.1 | n.a |
| | Month -on -Month | -0.1 | -0.5 | -0.6 | 0.1 | n.a |
| Trade¹ (eop) | Exports (\$ millions) | 262 | 290 | 328 | 407 | 426 |
| | Imports (\$ millions) | 341 | 333 | 267 | 345 | 392 |
| Exchange Rates (Mid-rate, Monthly average) | SBD per USD | 7.87 | 7.80 | 7.79 | 7.82 | 7.90 |
| | SBD per AUD | 6.13 | 6.18 | 6.21 | 6.10 | 6.02 |
| | SBD per NZD | 5.78 | 5.72 | 5.65 | 5.52 | 5.44 |
| | SBD per GBP | 10.22 | 10.12 | 10.35 | 10.30 | 10.43 |
| | SBD per 100 JPY | 7.00 | 7.10 | 7.04 | 6.93 | 7.00 |
| | SBD per EUR | 9.05 | 9.22 | 9.29 | 9.24 | 9.26 |
| Gross Foreign Reserves (eop) | \$ millions | 4,334 | 4,320 | 4,296 | 4,322 | 4,338 |
| Liquidity² (eop) | Total Liquidity (\$) | 1,647 | 1,682 | 1,744 | 1,766 | 1,787 |
| | Excess Liquidity (\$) | 1,191 | 1,212 | 1,286 | 1,290 | 1,306 |
| Money and credit² (eop) | Narrow Money (\$) | 3,519 | 3,611 | 3,594 | 3,695 | 3,741 |
| | Broad Money (\$) | 4,496 | 4,594 | 4,616 | 4,708 | 4,777 |
| | private Sector credit (\$) | 2,218 | 2,236 | 2,233 | 2,274 | 2,280 |
| 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% | 0.46% |
| | 182-days Traesury bills Rate | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% |
| Commodity Prices (monthly averages) | Round logs - (US\$/m3) | 265 | 271 | 269 | 264 | 264 |
| | Gold - (US\$/oz) | 1,237 | 1,283 | 1,314 | 1,280 | 1,282 |
| | Palm Oil - (US\$/tonne) | 663 | 674 | 724 | 718 | 716 |
| | Fish -(US\$/tonne) | 2,010 | 2,172 | 2,094 | 2,005 | 1,981 |
| | Copra -(US\$/tonne) | 1,059 | 1,062 | 1,015 | 989 | 1,038 |
| | Cocoa - (US\$/tonne) | 1,990 | 1,990 | 2,000 | 2,100 | 2,130 |

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

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