

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Broad Money (M3) contracted by 1% to \$5,153 million in January 2019, driven by a 1% decline in narrow money (M1) to \$4,167 million despite a marginal increase in other deposits (time and savings) by 0.1% to \$986 million. The decline in M1 stemmed from an 8% fall in currency in active circulation to \$774 million, which negated a 1% increase in demand deposits to \$3,393 million. The increase in other deposits, on the other hand, was due to an increase in savings deposits by 3% to \$92 million notwithstanding a 0.1% dip in time deposits to \$895 million.

Net foreign assets (NFA) expanded by 3% to \$4,839 million in January underpinned by an increase in CBSI's NFA by 3% to \$4,809 million and an improvement in ODC's NFA, from \$0.2 million in December to \$31 million. On an annual basis, NFA expanded by 9%.

Net domestic assets (NDA) of Depository corporations (DC) dropped by 40% to \$313 million against the previous month. This outcome mirrored an 11% decline in Net Domestic Credit (NDC) to \$1,040 million together with an increase in Capital account by 6% to \$1,079 million. The decline in NDC was attributed to a 10% growth in net credit to government (NCG) to minus \$1,370 million, driven by increases in both CBSI and ODC's net liability positions, the former by 13% to minus \$1,061 million and the latter by 2% to minus \$309 million. Private sector credit (PSC) slightly improved by 0.04% to \$2,410 million supported by ODC lending which increased by 0.05% to \$2,271 million. Meanwhile, both PSC and NCG grew by 4% and 26% respectively on an annual basis.

Total liquidity in the banking system edged 0.2% lower to \$2,122 million following a 10% decrease in the previous month. The outcome reflected build-up in government deposits and a fall in other items net, which saw both free liquidity and excess liquidity decreasing by 0.3% to \$1,767 million and by 0.5% to \$1,588 million respectively. Nevertheless, required reserves rose marginally by 0.3% to \$354 million over the month.

Domestic Market Operations

CBSI Bokolo bills stock issued at the end of January is maintained at \$750 million. Bokolo Bills weighted average yield (WAY) for 28 days remained at 0.59% during the month. The WAY for government treasury bills for the maturity term of 91 days increased slightly

from 0.48% to 0.49% whilst WAY for 182 and 365 days remained unchanged from the previous month at 1.12% and 2.00% respectively.

II. EXTERNAL CONDITIONS

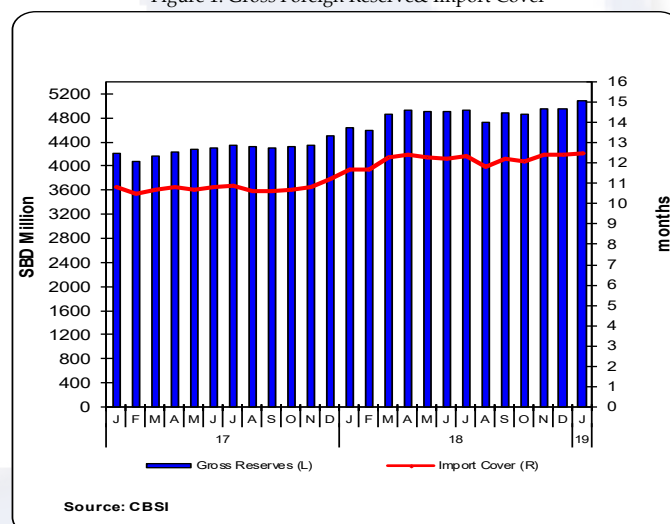
Trade in goods

The balance on trade in goods for January 2019 improved markedly to a \$111 million surplus from a revised \$395 million deficit recorded in the previous month. This positive outcome came from the two-fold increase in exports to \$389 million, along with a decline in imports to \$278 million from \$590 million in the previous month. The rise in exports reflected the surge in log shipments and general increases across all export commodities during the month, while the decline in imports was attributed to falls in machineries, food and basic manufactures.

Gross Foreign Reserves

Gross foreign reserves improved by 2.4% to \$5,073 million, due to higher inflows surpassing outflows during the month. This level of reserves is sufficient to cover 12.5 months of import of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Source: CBSI

Exchange Rate

In January, the Solomon Islands dollar (SBD) depreciated by 0.30% against the United States dollar (USD) to an average of \$8.10 per USD. On the other hand, it appreciated against both the Australian dollar (AUD) and the New Zealand dollar by 0.43% to \$5.78 per AUD and 0.58% to \$5.48 per NZD respectively. Meanwhile it weakened against the Japanese yen, Euro dollar and

British pound. As a result of the stronger effect of the USD, the trade weighted exchange rate basket index depreciated further by 0.2% to 109.80 during the month.

III GOVERNMENT FINANCE

Government's fiscal position significantly improved in January 2019 to a \$66 million surplus, compared to a \$60 million deficit observed in December 2018. This positive result reflected a 45% fall in government's total expenditure to \$204 million; from \$369 million a month ago. Similarly, government revenue collections went down by 13% to \$270 million from \$309 million recorded in December 2018. Meanwhile, the total government's debt balance grew slightly by 0.5% to \$1,020 million at the end of January 2019.

The fall in government's revenue was driven by declines in collections from both tax and non-tax revenue during the month. Total tax revenue fell by 4% to \$249 million, compared to \$259 million posted in the previous month. This outcome came mainly from lower collection in taxes on income and profits, and tax on property during the month. This outweighs the increases in taxes on goods and services, and international trade and transactions during the month. Besides, non-tax revenue also fell sharply by 57% to \$22 million, reflecting the fall in revenue collection on property income and sales of goods and services. Meanwhile, no donor grants was received in January 2019.

The fall in government's total outlay was largely driven by weaker spending on recurrent and development expenditures during the month. Recurrent expenses plunged by 31% to \$201 million; from \$293 million witnessed in the previous month. This outcome resulted from reduced spending on all expense categories during the month, except for compensation of employees and grant transfers. Similarly, capital expenditure fell sharply from \$76 million in December to \$3 million as a result of lower spending on fix assets during the period.

The increase in total government's debt position reflected the additional loan disbursement by the World Bank combined with slight a increase in treasury bills issued during the month. Of the total outstanding debt, external debt comprised of \$774 million while domestic debt accounted for \$246 million. Meanwhile, total debt servicing paid in January amounted to \$4.3 million, of which \$3.6 million was on principle repayments and \$0.7 million on interest payments.

IV DOMESTIC PRODUCTION

Domestic Economy

Based on preliminary estimates, the CBSI monthly production index rebounded by 13% to 89 points in January 2019 from a 33% fall in December 2018. The outcome reflected the 20% increase in round log production, reversing the 44% decline posted a month ago. Similarly, crude palm oil and palm kernel oil output both grew by 31% each. On the other hand, fish catch

dropped by 4% during the month. Production data for copra and cocoa were not available for reporting. However, based on historical trends, copra and cocoa output is projected to pick up during the month.

The average international price for most commodities continued to improve during the month. Prices for crude palm oil and palm kernel oil grew by 9% and 4% respectively while prices for log and cocoa picked up by 3% and 2% respectively. In contrast, fish price declined for the second month by 2%.

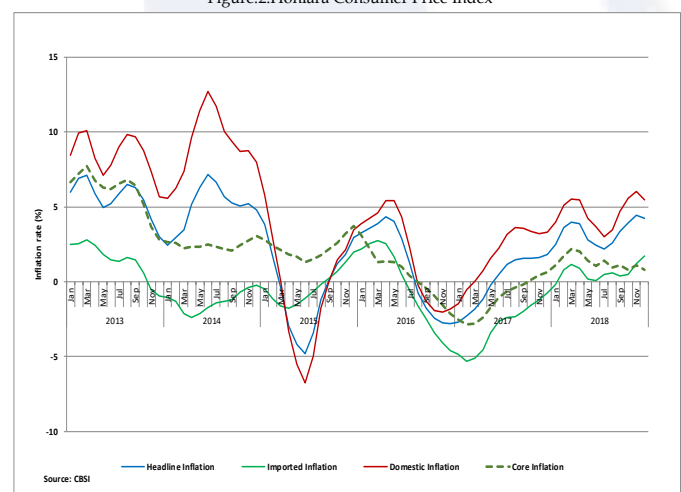
Headline Inflation

Headline inflation eased to 4.2% in December 2018 from the record high of 4.5% posted in November. This outcome was mainly driven by the decline in domestic inflation, falling to 5.4% from 6% in November, despite an increase in imported inflation to 1.7%. The slow-down in domestic inflation reflected moderate movements in food and non-alcoholic beverages category, housing, water, electricity, gas and other fuels category, alcoholic beverages, tobacco and narcotics category, furnishings, household routine and household maintenance items and restaurants and hotels category during the month.

In contrast, imported inflation rose to 1.7% in December from 1.2% in the previous month reflecting the price increases in transport, housing, water, electricity, gas and other fuels category and food and non-alcoholic beverages category during the month.

Meanwhile, core inflation eased to 0.8% from 1.1% in November implying a slow-down in the prices of non-food and non-fuels items against the prior month

Figure 2: Honiara Consumer Price Index



Honiara Fuel Prices

The average fuel price in Honiara fell for the second consecutive month to \$8.68 per litre in January from \$9.44 per litre in the previous month. This reflected the slowdown in prices across all fuel categories during the month. Diesel price dropped markedly by \$1.07 to \$8.69 per litre from \$9.76 per litre, petrol price fell by 92 cents to \$7.91 per litre from \$8.83 per litre, while kerosene price decreased by 30 cents to \$9.44 per litre from \$9.73 per litre in the previous month.

Solomon Islands Key Economic Indicators

		Sep 18	Oct 18	Nov 18	Dec 18	Jan 19
Consumer price index (% change)	Headline (3mma)	3.4	3.9	4.5	4.2	na
	Underlying (3mma): core 3	1.1	0.9	1.1	0.8	na
	Month -on -Month	0.8	-0.2	0.3	0.1	na
Trade¹ (eop)	Exports (\$ millions)	429	458	397	195	389
	Imports (\$ millions)	299	340	367	590	278
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.08	8.12	8.10	8.07	8.10
	SBD per AUD	5.82	5.77	5.86	5.81	5.78
	SBD per NZD	5.33	5.30	5.47	5.52	5.48
	SBD per GBP	10.54	10.58	10.45	10.22	10.41
	SBD per 100 JPY	7.23	7.20	7.15	7.17	7.43
	SBD per EUR	9.42	9.34	9.20	9.17	9.25
Gross Foreign Reserves (eop)	\$ millions	4,877	4,864	4,957	4,952	5,073
Liquidity² (eop)	Total Liquidity (\$)	2,314	2,307	2,375	2,126	2,122
	Excess Liquidity (\$)	1,797	1,784	1,841	1,595	1,588
Money and credit² (eop)	Narrow Money (\$)	4,139	4,121	4,212	4,218	4,167
	Broad Money (\$)	5,140	5,150	5,244	5,203	5,153
	Private Sector credit (\$)	2,388	2,384	2,393	2,409	2,410
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.61%	0.61%	0.60%	0.59%	0.59%
	56-days Treasury Bills rate	0.47%	0.48%	0.48%	0.50%	na
	91- days Treasury Bills rate	0.49%	0.49%	0.49%	0.48%	0.49%
	182-days Treasury Bills rate	1.12%	1.12%	1.12%	1.12%	1.12%
	365-days Treasury Bills rate	2.02%	2.00%	2.00%	2.00%	2.00%
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	266	264	263	265	273
	Gold - (US\$/oz)	1,198,	1,215	1,221	1,250	1,292
	Palm Oil - (US\$/tonne)	524	499	540	535	585
	Fish -(US\$/tonne)	1,321	1,383	1,423	1,401	1,366
	Copra -(US\$/tonne)	NA	NA	NA	NA	NA
	Cocoa - (US\$/tonne)	2,190	2,130	2,190	2,210	2,260

¹ Value in terms of free on Board (FOB)

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

Note;
na : not available at time of publication.