

Monthly Economic Bulletin

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

I. MONETARY DEVELOPMENTS

Broad money (M3) grew by 2% to \$5,274 million in November 2020, a further expansion from the 0.4% growth observed in October. The upsurge in narrow money (M1) by 4% to \$4,385 million drove the growth in broad money. Other deposits (time and savings), on the other hand, declined by 3% to \$890 million. Narrow money expanded due to a 5% increase in currency in circulation to \$916 million coupled with a 3% upturn in demand deposits to \$3,469 million. Meanwhile, the decline in other deposits emanated from a 4% fall in time deposits to \$779 million, negating the 2% increase in saving deposits to \$111 million.

Net foreign assets (NFA) of the banking system increased by 1% to \$4,936 million in November. This was driven by a 1% upturn in NFA of the Central Bank of Solomon Islands (CBSI) to \$4,895 million, along with the NFA of ODCs from \$30 million to \$42 million. Net foreign assets grew by 14% on an annual basis.

Net domestic assets (NDA) markedly grew from \$289 million to \$338 million in November. This was supported by a 10% growth in domestic credit to \$1,427 million despite a 24% drop in other items net to \$199 million and an uptick in capital account. Domestic credit surged as a result of a 9% fall in net credit to government (NCG) to minus \$1,056 million following the withdrawal of government deposits from CBSI and ODC accounts. Private Sector Credit (PSC), likewise, increased by 1% to \$2,483 million. Annually, PSC fell by 3% while NCG surged by 8%.

Total liquidity in the banking system rose by 3% to \$2,378 million in November 2020. This was underpinned by the growth in NFA and the downturn in NCG during the month. Consequently, both the free and excess liquidity expanded by 4% to \$2,143 million and \$1,959 million, respectively. Required reserve also strengthened by 2% to \$235 million.

Domestic Market Operations

The stock of CBSI Boloko Bills (BB) held at the end November was \$430 million. This was a reduction of \$40 million from the stock of \$470 million held in October. The continuous cut in Bokolo Bills stock reflected the Bank's expansionary monetary policy in light of Covid-19. The weighted average yield (WAY)

for Bokolo Bills also declined from 0.47% to 0.43% during November. Treasury Bills tendered during the month was \$28 million; \$14 million of that was accepted. The WAY for 91 days remained unchanged at 0.49%; however, the WAY for 182 and 365 days narrowed to 1.05% and 1.95%, respectively.

II. EXTERNAL CONDITIONS

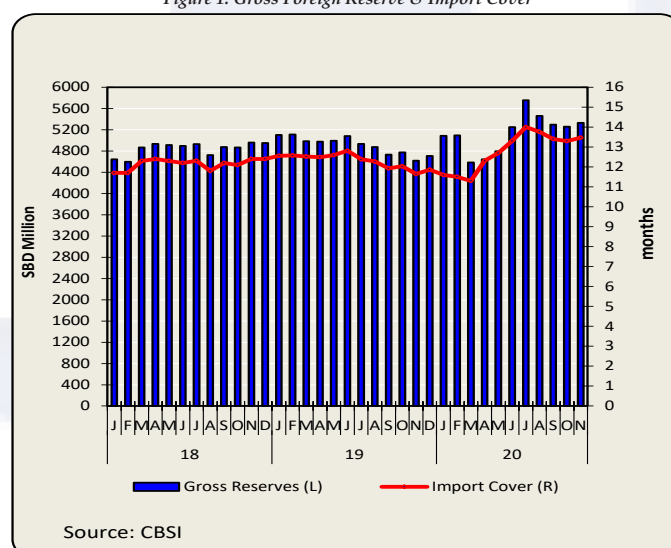
Trade in Goods

The balance on trade in goods for the month of November 2020, posted a narrowed deficit of \$34 million from a \$48 million deficit in the previous month. This outcome reflected a larger fall in imports by 12% to \$202 million against a fairly slight decline in exports by 8% to \$168 million. The downturn in exports attributed to declines in round logs, fish and agricultural commodities albeit increases in minerals and other exports. Meanwhile, the fall in imports reflected reductions in mineral fuel, machineries and basic manufactures despite an uptick in food imports.

Gross Foreign Reserves

Gross foreign reserves improved by 1.4% to \$5,329 million during the month. This is due to an increase in net inflows coupled with revaluation gains in the period. The level of reserves is sufficient to cover 13.5 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover



Exchange Rates

In November 2020, the Solomon Islands dollar (SBD) appreciated against the United States dollar (USD) but depreciated against the other tradable currencies. In particular it strengthened against the US by 0.2% to an average of \$8.09 per USD, but weakened against the Australian dollar (AUD) by 1.5% to \$5.87 per AUD, and against the New Zealand dollar (NZD) by 2.9% to \$5.54 per NZD. Furthermore, it weakened against, British pound, Euro and Japanese Yen during the period. As a result of the strong performance of the SBD against the USD, the total weighted index strengthened by 87 basis points to 108.85 index during the month.

III GOVERNMENT FINANCE

The government recorded a deficit of \$196 million in November following the \$97 million deficit posted in the preceding month. This outcome mirrored an upsurge in expenditure by 32% to \$426 million and a 2% increase in total revenue to \$230 million. Meanwhile, the central government’s outstanding debt stock fell slightly by 0.04% to \$1,365 million in November.

An increase in tax revenue by 4% to \$ \$198 million underlined the increase total revenue. This mainly reflected increases in company and personal taxes, and goods and services taxes. On the other hand, tax receipts on international trade and transactions weakened this quarter. Meanwhile, non-tax revenue collections eased to \$32 million from \$35 million in October. On donor receipts, only \$0.38 million was recorded in November.

The surge in total expenditure came from a 2% growth in recurrent expense to \$293 million and a 32% expansion in capital spending to \$133 million. The higher recurrent expense was mainly driven by goods and services which expanded from \$101 million to \$196 million in October. Conversely, payroll, the second largest recurrent expense item, contracted to \$81 million in November from \$127 million in the preceding month. On capital spending, the increase was related to fixed assets, which surged to \$124 million from \$35 million in October.

The marginal decline in the outstanding debt stock was attributed to a fall in the external debt stock from \$973 million in October to \$972 million. This was due largely to exchange rate movements. Meanwhile, the domestic debt stock remained at \$393 million, broadly the same as in October. Around \$5 million in debt servicing was made in November, of which \$2 million was on interest charges and the rest on principal repayment.

IV DOMESTIC ECONOMY

Domestic Production

The CBSI preliminary monthly production index in November dropped to 65 points from the revised 66

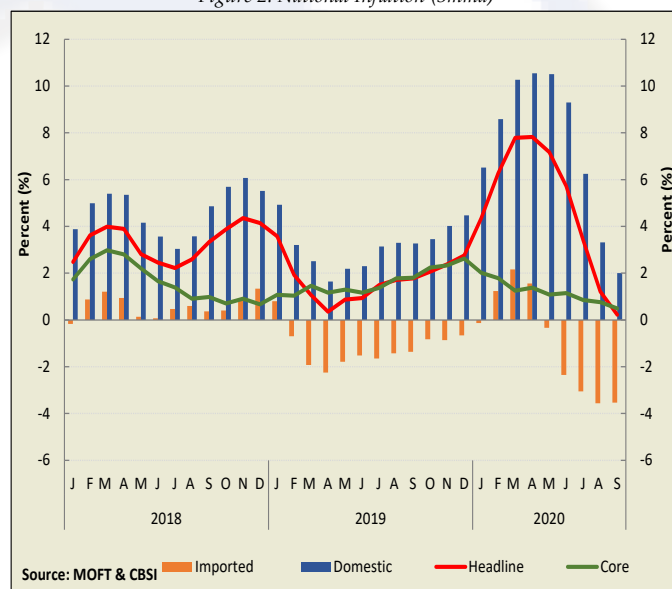
points in October. The continued weak performance was driven by declining production in round logs, fish catch, and palm oil. Round logs dropped further by 2% to 137 thousand cubic meters, palm oil by 11% to 2,422 tons, and fish catch by 1% to 2,325 tons. On the other hand, copra production went up slightly by less than 1% to 1,103 tons, and cocoa by 11% to 406 tons.

The international prices for all export commodities trended up in November following the pickup in crude oil prices. Coconut oil rose by 22% to US\$1,369 per ton, palm oil by 12% to US\$918 per ton, cocoa by 3% to US\$2,350 per ton, round logs by 1% to US\$285 per cubic meter, and fish by 0.1% to US\$1,269 per ton.

Consumer Price Index (CPI), Inflation

The latest national inflation for September continued to descend to 0.2% from a peak of 7.8% in March 2020 (see figure 2). The easing inflation was driven by both domestic and imported items. Domestic inflation receded to 2.0% in September from 10.5% in April benefited from the easing prices for betel nut, root crops, utilities, and transport. Similarly, imported items deflated to a minus 3.5% from 2.2% in March attributable to the lower crude oil prices in the world market. Core inflation also went down from 2.0% at the beginning of the year to 0.5% in September. This reflected the weaker demand in the local economy amid the Covid-19 pandemic.

Figure 2. National Inflation (3mma)



CBSI Monthly Price Index (MPI)

The CBSI MPI picked up in November from 88 points to 90 points driven largely by the higher price of betelnut which rose to \$1.56 per fruit from \$1.17 per fruit. LPG gas also went up by 12 cents to \$22.58 per KG. Meanwhile, fuel price dropped by 8 cents to \$6.91 per litre, electricity tariff by 9 cents to \$5.76 per KWh, and Island Sun (40lb) rice fell from \$136 per bag to \$134 per bag.

Solomon Islands Key Economic Indicators

		Jun 20	Jul 20	Aug 20	Sept 20	Oct 20	Nov 20
Consumer price index (% change)	Headline (3mma)	5.7	3.4	1.2	0.2	na	na
	Headline (3mma) CBSI adjustment ⁴	3.4	1.7	0.6	0.1	na	na
	Underlying (3mma): core 3	1.2	0.9	0.8	0.5	na	na
	Headline (MoM)	-1.6	-1.9	-1.9	-0.6	na	na
CBSI MPI (weighted Index)	Month- on - Month	95	92	89	95	88	90
Trade¹ (eop)	Exports (\$ millions)	369	215	192	329	169	161
	Imports (\$ millions)	262	310	286	284	231	202
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.31	8.27	8.21	8.14	8.11	8.09
	SBD per AUD	5.73	5.81	5.90	5.89	5.78	5.87
	SBD per NZD	5.36	5.44	5.42	5.43	5.38	5.54
	SBD per GBP	10.41	10.47	10.78	10.56	10.52	10.71
	SBD per 100 JPY	7.72	7.75	7.74	7.70	7.71	7.75
	SBD per EUR	9.35	9.47	9.71	9.60	9.55	9.56
Gross Foreign Reserves (eop)	\$ millions	5,250	5,754	5,461	5,296	5,257	5,329
Liquidity² (eop)	Total Liquidity (\$ millions)	1,909	2,067	2,200	2,051	2,299	2,378
	Excess Liquidity (\$ millions)	1,503	1,650	1,783	1,648	1,884	1,959
Money and credit² (eop)	Narrow Money (\$ millions)	3,981	4,095	4,275	4,243	4,236	4,385
	Broad Money (\$ millions)	5,035	5,081	5,161	5,139	5,158	5,274
	Private Sector credit (\$ millions)	2,520	2,509	2,514	2,504	2,455	2,483
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.56%	0.53%	0.51%	0.48%	0.47%	0.43%
	56-days Treasury Bills rate	na	na	na	na	na	na
	91- days Treasury Bills rate	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%
	182-days Treasury Bills rate	1.11%	1.09%	1.07%	1.10%	1.09%	1.05%
	365-days Treasury Bills rate	1.96%	1.96%	1.96%	1.96%	1.96%	1.95%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-15	-21	-80	-121	-97	-196
SIG Debt stock (eop)	\$ million	1,222	1,319	1,315	1,358	1,366	1,365
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	277	279	281	282	283	285
	Gold - (US\$/oz)	1,732	1,847	1,969	1,922	1,900	1,866
	Palm Oil - (US\$/tonne)	652	694	760	796	819	918
	Fish - (US\$/tonne)	1,309	1,312	1,360	1,233	1,268	1,269
	Coconut oil - (US\$/tonne)	920	888	981	1,034	1,118	1,369
	Cocoa - (US\$/tonne)	2,240	2,100	2,340	2,640	2,290	2,350

¹ Value in terms of free on Board (FOB)

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

³ Fiscal balance based on GFSM2014 standards.

⁴ Adjustments by substituting CBSI monthly collected betel-nut prices.

Note:
na : not available at time of publication.