

## Monthly Economic Bulletin

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### I. MONETARY DEVELOPMENTS

Total money supply increased by 6% to \$3,838 million at the end of December 2015, following a 1% rise in the previous month. This was due to a rise in both narrow money (M1) by 6% to \$3050 million and other deposits (time and savings) by 4% to \$787 million. The increase in M1 was driven by rise in both currency in circulation and demand deposits by 13% to \$632 million and 4% to \$2,418 million respectively. The rise in other deposits stemmed from 7% and 3% increase in savings and time deposits at the end of December. Total net foreign assets (NFA) of the banking system increased by 1% to \$4,005 million following a 4% rise in the previous month. This was driven by 3% rise in CBSI's NFA to \$3,933 million though there was a \$49 million drop in other depository corporations (ODCs) NFA. Year-on-year movement saw NFA increased by 15% against the same period in 2014.

Net credit to government (NCG) fell by 9% to net liabilities of \$1,327 million following a marginal drop of 1% in the previous month. The fall was a result of drawdown in government deposits held with CBSI by 12% to \$1,102 million despite a 9% increase in deposits held with ODCs to \$225 million. Meanwhile, private sector credit (PSC) increased by 3% to \$1,959 million reversing the 1% fall in the previous month. Comparing to the same period in 2014, PSC increased by 16%. Mirroring the rise in NFA, total liquidity increased by 12% to \$1,504 million. This resulted in excess liquidity rising by 16% to \$1,100 million at the end of December 2015.

#### Domestic Market Operations

The total value of CBSI Bokolo bills absorbed by ODCs remained unchanged at \$710 million, achieving full subscription for the month. The weighted average yield (WAY) for 28 days remained at 0.62%. Meanwhile, the WAY for Government treasury bills for 56 and 91 days remained unchanged at 0.34% and 0.46% respectively, while the WAY for 182 days increased slightly to 1.15% from 1.14% in the previous month.

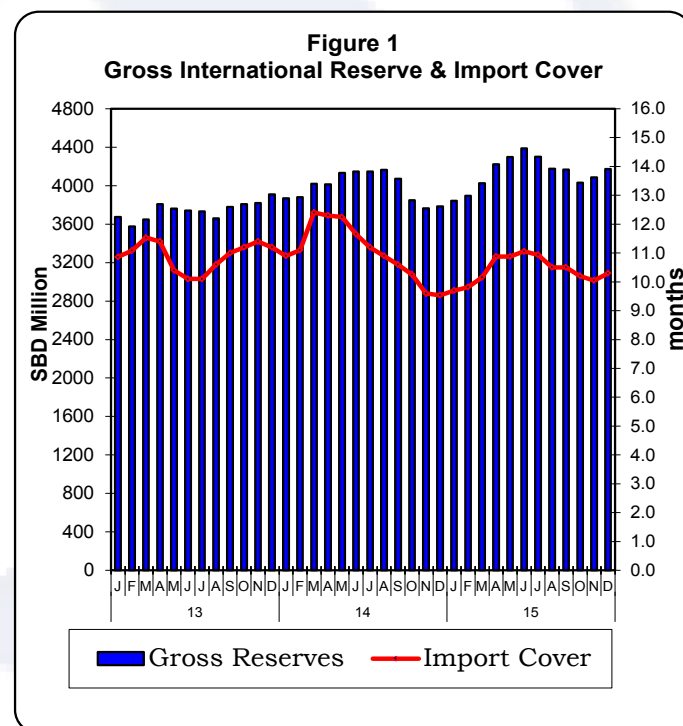
### II. EXTERNAL CONDITIONS

#### Trade in goods

Trade activity in December, using banks' foreign exchange transactions as proxy, showed a reduced trade surplus of \$35 million from \$44 million in the previous month. This result was driven by an 8% fall to \$309 million in exports that offset a 6% drop in imports to \$274 million. There was a decline in all commodity exports across the board during the month while the decrease in imports was due to falls in food and fuel imports.

#### Gross foreign reserves

Gross foreign reserves increased by 2.1% to \$4,175 million in December and was sufficient to cover 10.3 months of imports of goods and services. The positive outcome at the end of the year resulted from a rise in transaction inflows related to donor and fishing licences, and foreign exchange revaluation gains.



<sup>1</sup>The basket is trade weighted index to 100 with a base of 2012

**Exchange rate**

The Solomon Islands dollar (SBD) appreciated by 0.52% against the United States dollar (USD) in December to an average \$8.05 per USD, a reversal from the depreciation in the previous month. The SBD also appreciated against the British pound. Meanwhile, the SBD depreciated against the Australian dollar by 0.88% to \$5.83 per AUD and the New Zealand dollar by 1.48% to \$5.42 per NZD. The SBD also weakened against the Japanese Yen and the Euro. As a result of these movements, the exchange rate basket index strengthened during the month by 66 basis points to 109.3.

**III. GOVERNMENT FINANCE**

Government ended the fiscal month of December with a deficit of \$176 million, worsening from \$9 million deficit registered in November. The negative outcome came following a marked increase in total expenditure by 71% to \$531 million which negated a 23% to \$355 million surge in revenue collections.

The increase in revenue against November was expected as most taxes are collected at the end of the quarter. Tax receipts rose by 30% to \$318 million due mainly to an upsurge in payroll and company tax collection. Similarly nontax revenue rose significantly to \$26 million from \$7 million posted in November. Grants from donor partners, however, fell to \$11 million from \$35 million.

Recurrent expenses were 35% higher than November at \$328 million. The increase was seen across all the major recurrent expense components with payroll increasing by 55% to \$109 million, social benefits from \$12 million to \$34 million and other payments by 73% to \$56 million respectively. Development expenditure, increased to \$202 million in December from \$69 million recorded in November, following drawdown of the capital budget before the year ends.

The central government’s debt dropped substantially by 13% against November to \$698 million. The significant fall was attributed mainly to a large one off \$101 million advance debt repayment made during the month to clear off domestic debt. This was in addition to external debt repayments of \$10 million.

**IV. DOMESTIC PRODUCTION**

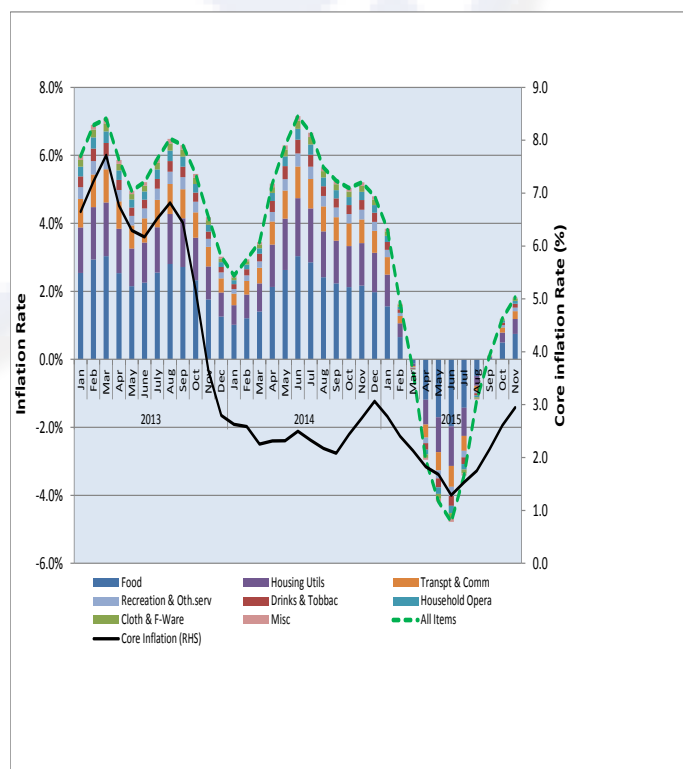
Based on preliminary estimates, the CBSI monthly production index increased slightly to 100 points in December from 99 points in November. This outcome reflected the increase in fish catch, palm oil products and

copra output during the month. Meanwhile, log production and cocoa output registered a fall. In terms of prices, all international commodity prices improved this month with the exception of cocoa prices which fell slightly by 0.3% and palm oil prices which remained level in December.

**Inflation & Honiara Fuel Prices**

Headline inflation rose to 1.8% in November from 1.2% in October. This was driven by the domestic and imported inflation both registering increases during the month, from 1.5% to 2.1% and 0.7% to 1.3% respectively. The increases in domestic and imported inflation rates were mainly driven by the increase in food prices in November. In terms of contributions to the headline inflation, the inflation of 1.8% was mainly accounted for by increases in food and, housing and utilities prices during the month.

**Figure 2  
Inflation Contributions by Components**



The average fuel price in Honiara fell to \$8.09 per litre in December from \$8.26 per litre in the previous month. This came from the decline in prices across all fuel categories. Diesel price dropped from \$7.98 per litre to \$7.84 per litre, petrol price fell from \$8.49 per litre to \$8.14 per litre and kerosene price fell marginally from \$8.31 per litre to \$8.29 per litre.

### Solomon Islands Key Economic Indicators

		Aug 15	Sept. 15	Oct. 15	Nov. 15	Dec. 15
<b>Consumer Price Index</b> (% change)	Headline (3mma)	-1.2	0.1	1.2	1.8	n.a
	Underlying (3mma): core 3	1.8	2.2	2.6	3.2	n.a
	Month-on month	0.7	0.2	1.0	-0.1	n.a
<b>Trade<sup>1</sup></b> (eop)	Exports (\$ millions)	29.7	228	258	336	309
	Imports (\$ millions)	312	336	296	292	274
<b>Exchange rates</b> (mid-rate, monthly average)	SBD per USD	8.03	8.14	8.05	8.09	8.05
	SBD per AUD	5.86	5.74	5.80	5.78	5.83
	SBD per NZD	5.26	5.16	5.37	5.34	5.42
	SBD per GBP	12.58	12.49	12.24	12.25	12.02
	SBD per 100 JPY	6.51	6.75	6.69	6.61	6.61
	SBD per EUR	8.93	9.18	9.05	8.70	8.75
<b>Gross Foreign Reserves</b> (eop)	\$ millions	4,176	4,171	4,059	4,088	4,175
<b>Liquidity<sup>2</sup></b> (eop)	Total Liquidity (\$ millions)*	1,380	1356	1,279	1,340	1,504
	Excess Liquidity (\$ millions)*	1,011	991	907	944	1,100
<b>Money and Credit<sup>2</sup></b> (eop)	Narrow Money (\$ millions)*	2,756	2,811	2,838	2,877	3,050
	Broad Money (\$ millions)*	3,498	3,565	3,587	3,636	3,838
	Private Sector Credit (\$ millions)*	1,834	1,887	1,915	1,901	1,959
<b>Interest rates</b> (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 Treasury Bills Rate	1.15%	1.15%	1.15%	1.14%	1.15%
<b>Commodity Prices</b> (monthly average)	Round logs (US\$/m3)	242	248	248	243	245
	Gold - (US\$/oz)	1,118	1,125	1,159	1,086	1,068
	Palm Oil - (US\$/tonne)	549	538	584	565	565
	Fish - (US\$/tonne)	1,514	1,563	1,595	1,476	1,552
	Copra - (US\$/tonne)	689	699	736	735	763
	Cocoa - (US\$/tonne)	3,150	3,280	3,200	3,360	3,350

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

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