

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Money supply (M3) rebounded by 1% to \$5,031 million in February 2020 after falling 3% last month. This was driven by increase in narrow money (M1) by 2% to \$3,994 million despite the decline in other deposits (time and savings) by 1% to \$1,037 million. Growth in M1 coincided with a 2% increase in demand deposits to \$3,215 million, offsetting a 1% fall in the currency in active circulation to \$779 million. The decline in other deposits reflected a decreased time deposits by 1% to \$940 million despite growth in savings deposit by 2% to \$97 million.

Net foreign assets (NFA) of the banking system edged lower by 0.3% to \$4,346 million in February 2020 following a 2% decline in January 2020. This was driven by a 1% downturn in CBSI's NFA to \$4,315 million subduing the expansion in NFA of other depository corporations from \$14 million to \$31 million during the month. Annually, NFA contracted by 11%.

Net domestic assets rebounded in February 2020 by 11% to \$684 million from a 23% decline in January. This reflected growth in net domestic credit by 5% to \$1,631 million and a 7% increase in other items net to \$309 million. The increase in net domestic credit was led by a reduction in net credit to government (NCG) by 9% to minus \$903 million withstanding a slight fall in private sector credit (PSC) by 1% to \$2,534 million. On an annual basis, PSC grew by 4% while NCG declined by 33%.

Liquidity in the banking system expanded by 1% to \$1,899 million in February, resulting in a 1% uptick in both free and excess liquidity to \$1,554 million and \$1,375 million respectively. Meanwhile, required reserves edged up by 0.4% to \$345 million during the month.

Domestic Market Operations

The stock of CBSI Boloko bills issued for 28 days in February 2020 remained at \$750 million. The rate of the weighted average yield (WAY) for the 28 days remained firm at 0.53% from the previous month. Meanwhile, government treasury bills tendered during the month totalled to \$28 million, of which \$12 million was accepted. The WAY for 91, 182 and 365 days remained unchanged from the previous month at 0.49%, 1.12%, and 1.96% respectively.

II. EXTERNAL CONDITIONS

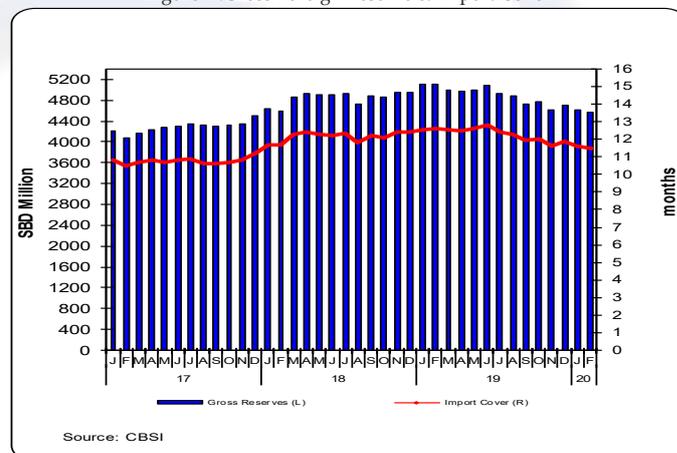
Balance on trade in goods

The balance on trade in goods improved to a \$113 million surplus in February 2020 following an \$11 million deficit witnessed in the previous month. This positive outcome reflected a jump in exports by 39% to \$354 million which complemented a drop in imports by 9% to \$242 million. The increase in exports was largely due to the rise in round logs, fish & other exports during the month. Meanwhile, the fall in imports is attributed to the decline in almost all import categories except for basic manufactures in the period.

Reserves

Gross foreign reserve fell marginally by 0.6% to \$4,577 million and was explained by revaluation losses in the month. This level of reserves is sufficient to cover 11.5 months of imports of goods and services.

Figure 1 :Gross Foreign Reserve & Import Cover



Exchange rates

In February the Solomon Islands Dollar (SBD) depreciated by 0.3% against the United States dollar (USD) to an average of \$8.23 per USD. However, it appreciated against the Australian dollar (AUD) by 2.4% to \$5.50 per AUD and against the New Zealand dollar (NZD) by 2.8% to \$5.27 per NZD. Similarly, it strengthened against all remaining tradable currencies. As a result of the strong dominance of the USD, the total weighted index weakened by 138 basis points to 112.9 in the month.

III GOVERNMENT FINANCE

The Government recorded a deficit of \$65 million in February 2020, compared to a revised deficit of

\$11 million recorded in January 2020. This negative outturn came from a decline in total revenue by 17% to \$214 million while expenditure increased by 4% to \$279 million. Meanwhile, the outstanding debt stock remained broadly the same at \$1,066 million as in the previous month.

The decline in total revenue stemmed from a decline in tax receipts, which negated gains in non-tax and grants receipts. Tax revenue fell by 27% to \$174 million driven by reductions in income, profits and capital gains tax, and goods and services tax. This offset increases in property tax, and tax on international trade and transactions. On the other hand, non-tax revenue rose to \$29 million from \$19 million in January, supported by higher proceeds from fishing licenses. Donor grants received in February totalled to \$11 million, compared to zero receipts in January.

The pick-up in expenditure mirrored an increase in development spending; from \$1 million in January to \$15 million this month, reflecting increased spending on fixed assets. In contrast, recurrent expenses slipped by 1% to \$264 million, underpinned by less spending on payroll, interest, subsidies, social benefits and other payments.

The external debt stock increased slightly, attributing to foreign exchange rate movements whilst the domestic debt stock fell marginally during the month. On the outstanding debt balance, external debt stock accounted for \$798 million and domestic debt, \$269 million. Debt servicing payments in January amounted to \$3.3 million, of which \$2.6 million was on principal repayment and \$0.7 million on interest payments.

IV DOMESTIC ECONOMY

Domestic Economy

The CBSI preliminary monthly production index increased by 30% to 98 points in February from a revised 75 points in January 2020. This outcome was attributed to the higher output in round logs, cocoa and copra outweighing the falls in fish catch and crude palm oil during the month. Round logs jumped by 46% to 259,890 cubic meters, cocoa rose by 49% to 556 tons, and copra by 3% to 822 tons. On the other hand, fish catch dropped further by 11% to 1,803 tons and crude palm oil decreased by 3% to 2,965 tons.

The average international prices for most agricultural and round log commodities weakened during the month. World prices for coconut oil declined by 15% to US\$844 per ton, crude palm oil dropped by 13% to US\$729 per ton, and round logs fell by 1% to

US\$271 per cubic meters. However, cocoa grew by 5% to US\$2,720 per ton and fish price surged by 17% to US\$1,925 per ton.

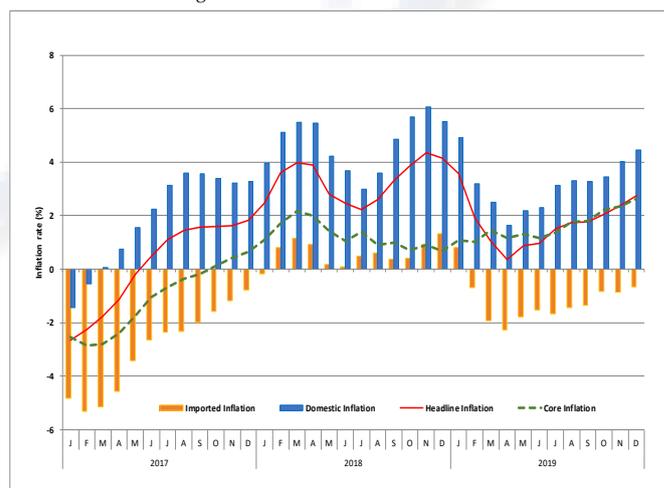
Consumer Price Index (CPI), Inflation

The latest published national headline inflation for December 2019 went up to 2.8% from 2.4% in November 2019. This outcome reflected the pick-up in both domestic and imported inflation. Domestic inflation rose to 4.5% in December 2019 from 4.0% in November 2019 mainly driven by the price increases in utilities, food and non-alcoholic beverages, and alcohol and tobacco despite the fall in the transport category.

Similarly, imported inflation shifted up to minus 0.7% in December 2019 from minus 0.9% in November 2019 reflecting price rise in imported food and 'furnishings and household equipment' offsetting the price fall in transport and utilities during the month.

Meanwhile, core inflation edged up to 2.6% in December 2019 from 2.3% in November 2019, reflecting a relative rise in prices of non-food and non-fuel categories during the review period.

Figure 2: Honiara Consumer Price Index



CBSI Monthly Price Index (MPI)¹

CBSI MPI index grew by 2.7% to 114 points in February from a revised 111 points in January 2020. This outcome was attributed to the increase in the price of betelnut, rice and all fuel categories outweighing the fall in electricity tariff during the month. On average betelnut price rose to \$3.30 per fruit due to a shortage of supply in the market, rice price grew to \$174 from \$173 per bag, and fuel price edged up by 16 cents to \$9.40 per litre. On the other hand, electricity tariff dropped from \$6.32 per kilowatt-hour in January 2020 to \$6.23 per kilowatt-hour in February.

¹ Refer to January 2020 Monthly Economic Bulletin for an explanation of the MPI. The additional item included is the electricity tariff starting from this bulletin for broader coverage.

Solomon Islands Key Economic Indicators

		Sept 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20
Consumer price index (% change)	Headline (3mma)	1.8	2.1	2.4	2.8	na	na
	Underlying (3mma): core 3	1.8	2.2	2.3	2.6	na	na
	Month -on -Month	0.4	1.0	0.3	0.0	na	na
CBSI MPI (weighted Index)	Month- on - Month	-	-	-	99	111	114
Trade¹ (eop)	Exports (\$ millions)	306	278	243	234	256	354
	Imports (\$ millions)	289	337	340	361	267	242
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.26	8.27	8.24	8.24	8.20	8.23
	SBD per AUD	5.62	5.61	5.63	5.65	5.63	5.50
	SBD per NZD	5.24	5.23	5.28	5.41	5.42	5.27
	SBD per GBP	10.20	10.43	10.61	10.79	10.73	10.68
	SBD per 100 JPY	7.69	7.64	7.57	7.55	7.51	7.48
	SBD per EUR	9.09	9.13	9.11	9.14	9.11	8.98
Gross Foreign Reserves (eop)	\$ millions	4,733	4,727	4,640	4,706	4,605	4,577
Liquidity² (eop)	Total Liquidity (\$ millions)	1,993	1,941	1,925	1,921	1,882	1,899
	Excess Liquidity (\$ millions)	1,466	1,416	1,391	1,402	1,362	1,375
Money and credit² (eop)	Narrow Money (\$ millions)	3,940	3,988	3,948	4,044	3,929	3,994
	Broad Money (\$ millions)	4,981	5,036	4,997	5,113	4,971	5,031
	Private Sector credit (\$ millions)	2,542	2,532	2,559	2,553	2,551	2,534
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.55%	0.55%	0.55%	0.55%	0.53%	0.53%
	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	1.12%	1.12%	1.12%	1.12%	1.12%	1.12%
	365-days Treasury Bills rate	1.98%	1.98%	1.98%	1.98%	1.96%	1.96%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-55	-105	-101	-84	-11	-65
SIG Debt stock (eop)	\$ million	1,046	1,050	1,087	1,070	1,066	1,066
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	277	275	273	273	272	271
	Gold - (US\$/oz)	1,511	1,495	1,471	1,479	1,561	1,597
	Palm Oil - (US\$/tonne)	580	591	683	770	835	729
	Fish -(US\$/tonne)	1,290	1,079	1,261	1,538	1,646	1,952
	Coconut oil -(US\$/tonne)	724	720	836	1,016	993	844
	Cocoa - (US\$/tonne)	2,310	2,440	2,520	2,440	2,600	2,720

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.

Note;
na : not available at time of publication.