

Monthly Economic Bulletin

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I. MONETARY DEVELOPMENTS

Monetary developments showed an improvement in December 2019 compared to November 2019. Money supply (M3) grew by 2% to \$5,113 million in December. This was driven by growths in both narrow money (M1) and other deposits (time and savings) by 2% each to \$4,044 million and \$1,069 million respectively. The increase in M1 was largely underpinned by a 12% rise in currency in active circulation to \$849 million during the festive season. In addition, demand deposits rose marginally by 0.2% to \$3,195 million. Growth in other deposits came from a 2% increase in time deposits to \$969 million whilst savings deposits declined by 1% to \$100 million.

Net foreign assets (NFA) of the banking system increased by 2% to \$4,435 million in December following a 3% decline in November. This was driven by a 1% rise in CBSI's NFA to \$4,424 million along with an expansion in the NFA of other depository corporations (ODCs) from minus \$12 million to \$10 million during the month. On a year-on-year basis, NFA contracted by 5%.

Net domestic assets expanded by 24% to \$803 million, reflecting increases in net domestic credit by 1% to \$1,596 million and other items net from \$159 million to \$317 million. The growth in net domestic credit was driven by a 2% fall in net credit to government (NCG) to minus \$957 million despite a slight fall in private sector credit (PSC) by 0.2% to \$2,553 million. Annually, PSC grew by 6% while NCG declined by 23%.

Liquidity in the banking system fell by 0.2% to \$1,921 million in December. Free liquidity fell by 0.2% to \$1,571 million while excess liquidity grew by 1% to \$1,402 million after falling 2% in November. Required reserves also narrowed by 1% to \$350 million during the month.

Domestic Market Operations

The stock of CBSI Boloko bills issued in December 2019 remained at \$750 million as in November. The weighted average yield (WAY) for 28 days remained at 0.55% relative to the previous month. Of the \$24 million in treasury bills tendered, only \$10 million was absorbed. The WAY for 91, 182 and 365 days remained unchanged at 0.49%, 1.12%, and 1.98%, respectively.

II. EXTERNAL CONDITIONS

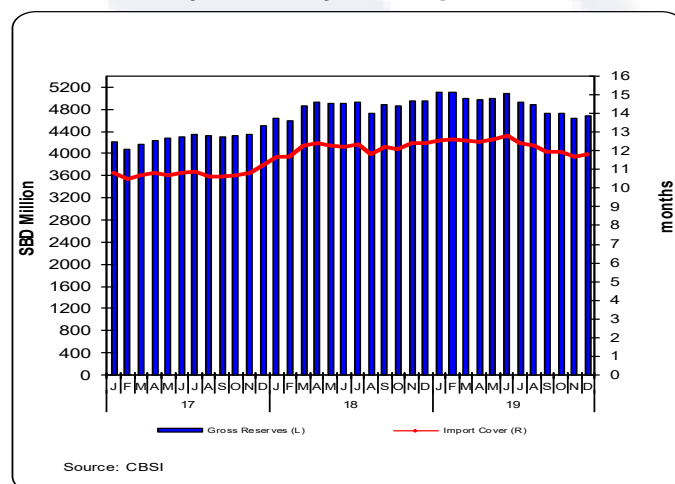
Trade in goods

In the month of December the balance on trade in goods deteriorated to a \$127 million deficit following the \$73 million deficit witnessed in the previous month. This negative outcome was largely driven by a decline in exports to \$234 million against a jump in imports to \$361 million. The fall in exports was resulted from decreases in minerals, fish and agricultural commodities which outweighed an upturn in round logs during the month. Meanwhile, the rise on imports was attributed to increases in food, mineral fuel, and manufactures that more than offset falls in basic manufactures and all other imports.

Gross Foreign Reserves

Gross foreign reserve grew marginally by 1% to \$4,686 million and is due to higher inflows than outflows during the month. This level of reserve is sufficient to cover 11.8 months of imports of goods and services.

Figure 1: Gross Foreign Reserve & Import Cover.



Honiara Fuel Price

The average fuel price in Honiara rebounded in December to \$9.22 per litre from \$9.19 per litre in November attributable to the increase in both kerosene and petrol prices during the month. Kerosene price rose by 10 cents to \$9.70 per litre and petrol price grew by 2 cents to \$8.86 per litre. On the other hand, diesel price decreased by 4 cents to \$9.10 per litre.

III GOVERNMENT FINANCE

The Government's fiscal position narrowed to a deficit of \$74 million in December 2019, from a revised deficit of \$89 million recorded in November. This outcome mirrored a surge in total expenditure by 27% to \$411 million, which outpaced an increase in revenue by 43% to \$337 million during the period. Meanwhile, the central government's outstanding debt stock edged lower by 1% to \$1,070 million at the end of December.

The growth in revenue stemmed from increases in tax, non-tax and grant receipts during the month. Tax revenue grew by 24% to \$262 million, reflecting strong collection on taxes on income, profits and capital gains. Likewise, non-tax revenue rose from \$13 million in November to \$20 million, attributing to higher proceeds from fishing licenses. Meanwhile, grants received in December was estimated at \$55 million compared to \$10 million in November.

The sizeable increase in total expenditure was mainly driven by increased spending on both recurrent and development spending in December. Recurrent expenses picked up by 19% to \$338 million, mirroring higher spending on interest, grants and other payments during the month. Similarly, capital outlays expanded from \$40 million to \$73 million, underpinned by increased spending on buildings and structures, and machinery and equipment.

The slight reduction in government's debt stock reflected declines in both the external and domestic debt balance, owing to debt repayments made in December. Of the outstanding debt balance, external debt accounted for \$797 million while domestic debt stock made up \$273 million. Meanwhile, a total of \$9 million in debt repayments was made in December 2019, of which \$7 million was on principal repayment and \$2 million on interest payments.

IV DOMESTIC ECONOMY

Domestic Production

The CBSI preliminary monthly production index declined by 9% to 79 points in December from 86 points recorded in November. This outcome was attributed to the lower output in cocoa, palm oil, round logs and fish offsetting the increase in copra during the month. Cocoa declined by 55% to 169 tonnes, palm oil fell by 13% to 2,411 tonnes, round logs decreased by 8% to 163,927 cubic meters while fish catch dropped by 6% to 3,434 tonnes. On the other hand, copra increased by 11% to 880 tonnes.

The average international price for coconut oil, palm oil and fish grew during the month. Coconut oil went up by 22% to US\$1,016 per ton, palm oil by 13% to US\$770 per ton and fish price by 9% to US\$1,538 per ton. Meanwhile, cocoa price declined by 3% to US\$2,440 per ton whilst round logs remained the same at US\$273 per cubic meters.

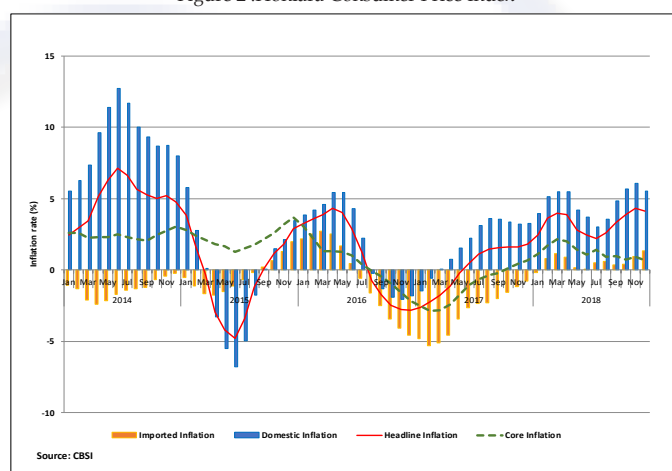
Headline Inflation

The latest national headline inflation rose in October to 2.1% from 1.8% in September. This outcome was driven by the pick-up in domestic and imported inflation during the month. Domestic inflation rose to 3.5% from 3.3% in September, mainly driven by the price increases in transport, alcohol and tobacco and utilities.

Similarly, imported inflation grew to minus 0.8% in October from minus 1.4% in September. This outcome was driven by the price increase in imported food and 'furnishings and household equipments', outweighing the price fall in transport and utilities during the month.

Meanwhile, core inflation (exclude volatile, price control, and excise) edged up to 2.2% from 1.8% in September. This implies a relative rise in prices of non-food and non-fuel categories throughout the review period.

Figure 2 :Honiara Consumer Price Index



Honiara Fuel Prices

The average fuel price in Honiara rebounded in December to \$9.22 per litre from \$9.19 per litre in November attributable to the increase in both kerosene and petrol prices during the month. Kerosene price rose by 10 cents to \$9.70 per litre and petrol price grew by 2 cents to \$8.86 per litre. On the other hand, diesel price decreased by 4 cents to \$9.10 per litre.

Solomon Islands Key Economic Indicators

		Jul 19	Aug 19	Sept 19	Oct 19	Nov 19	Dec 19
Consumer price index (% change)	Headline (3mma)	1.5	1.7	1.8	2.1	na	na
	Underlying (3mma): core 3	1.4	1.8	1.8	2.2	na	na
	Month -on -Month	0.7	0.1	0.4	1.0	na	na
Trade¹ (eop)	Exports (\$ millions)	323	279	306	278	243	234
	Imports (\$ millions)	348	296	289	337	340	361
Exchange Rates (Mid-rate, Monthly average)	SBD per USD	8.16	8.24	8.26	8.27	8.24	8.24
	SBD per AUD	5.70	5.58	5.62	5.61	5.63	5.65
	SBD per NZD	5.45	5.31	5.24	5.23	5.28	5.41
	SBD per GBP	10.18	10.01	10.20	10.43	10.61	10.79
	SBD per 100 JPY	7.54	7.75	7.69	7.64	7.57	7.55
	SBD per EUR	9.16	9.17	9.09	9.13	9.11	9.14
Gross Foreign Reserves (eop)	\$ millions	4,928	4,839	4,733	4,727	4,640	4,686
Liquidity² (eop)	Total Liquidity (\$ millions)	2,058	2,048	1,993	1,941	1,925	1,921
	Excess Liquidity (\$ millions)	1,507	1,508	1,466	1,416	1,391	1,402
Money and credit² (eop)	Narrow Money (\$ millions)	4,090	4,032	3,940	3,988	3,948	4,044
	Broad Money (\$ millions)	5,166	5,077	4,981	5,036	4,997	5,113
	Private Sector credit (\$ millions)	2,514	2,526	2,542	2,532	2,559	2,553
Interest Rates (weighted average yield)	28-days Bokolo Bills rate	0.56%	0.55%	0.55%	0.55%	0.55%	0.55%
	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%	1.98%	1.98%
Fiscal Balance³ Surplus(+)/Deficit(-)	\$ million	-81	-103	-55	-105	-89	-74
SIG Debt stock (eop)	\$ million	1,042	1,052	1,046	1,050	1,087	1,070
Global Commodity Prices (monthly averages)	Round logs - (US\$/m3)	275	280	277	275	273	273
	Gold - (US\$/oz)	1,413	1,500	1,511	1,495	1,471	1,479
	Palm Oil - (US\$/tonne)	544	586	580	591	683	770
	Fish -(US\$/tonne)	1,134	1,273	1,290	1,079	1,261	1,538
	Coconut oil -(US\$/tonne)	657	719	724	720	836	1,016
	Cocoa - (US\$/tonne)	2,420	2,190	2,310	2,440	2,520	2,440

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.