



CENTRAL BANK of SOLOMON ISLANDS
P.O. BOX 634, Honiara, Solomon Islands

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FOR IMMEDIATE RELEASE

Monetary Policy Stance – September 2015

Following a Central Bank of Solomon Islands (CBSI) Board of Directors meeting on October 1st 2015, the Governor and Chairman of the Board, Mr. Denton Rarawa announced that the CBSI monetary policy stance for the next 6 months will remain accommodative as recent economic developments and near term macro projections remain favourable for supporting growth.

Acknowledging that economic growth was off to a slow start in the first half of the year, the Governor gave reassurance that projections still point to growth being higher than last year at 3.2%. This will be supported by strong growth from transport and communication, construction and the utilities sectors, as well as the fisheries sector. The anticipated increase in public expenditure in the second half of the year is also expected to contribute to the overall growth.

Governor Rarawa noted that inflationary pressures remained subdued over the first six months of the year, owing in part to low global fuel and food prices. This was coupled with movements in the domestic component of inflation which fell sharply in contrast to the peak reached following the flash floods last year. Nevertheless, headline inflation has begun to rebound from the deflationary trough of minus 4.8% reached in June, with latest data showing inflation of minus 1.2% in August. Importantly, however, core inflation remained positive over the first half of the year, falling to a minimum of 1.3% in June. Given that this trend is sustained, headline inflation is expected to return to within the lower end of the March MPS forecasted range of 3-5% within the next 6 months.

The Governor reiterated that exchange rate policy remains an important policy tool for the Central Bank, particularly following the move to a currency basket peg late last year. Taking into account recent movements in some of the world's major currencies, including a general strengthening of the United States dollar against all major currencies, CBSI would nonetheless continue to endeavour to ensure that the trade weighted index is stable. Economic stakeholders can monitor the performance of the currency basket from the trade weighted index that is published on the CBSI website.

Furthermore, the Governor advised that the cash reserve requirement (CRR), which currently obligates each commercial bank to maintain the equivalent of 7.5% of their respective deposit liabilities with CBSI, remains unchanged. Moreover, the Central Bank would be exploring the option of engaging in repo transactions with commercial banks in order to further address structural liquidity.

The Central Bank will also work with the Government on key financial sector reforms to encourage financial deepening and financial inclusion. The CBSI will also continue to monitor global and domestic economic developments and take appropriate action as and when necessary.

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