



CENTRAL BANK of SOLOMON ISLANDS

P.O. BOX 634, Honiara, Solomon Islands

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Press Release: 15/2020

Tuesday 15<sup>th</sup> September, 2020

## FOR IMMEDIATE RELEASE

### Monetary Policy Stance for September 2020

In light of the extension of the State of Public Emergency and the significant impact of the coronavirus (Covid-19) pandemic on the Solomon Islands economy, the Central Bank of Solomon Islands (CBSI) has resolved to maintain its expansionary monetary policy for the next six months. This decision was reached at the Bank's Board meeting on 15<sup>th</sup> September 2020 based on the prevailing situation, year to date data, and a largely bleak outlook.

With the world economy going into a recession, the Solomon Islands economy contracted in the year to June 2020 with broad falls in commodity production, tourism, construction and employment. Weak global demand and restrained domestic economic activities are expected to persist into the remaining part of the year and the country's real GDP growth is projected to fall by -3.9% for 2020. The outlook for 2021 in line with the global trend, is more sanguine with growth picking up by 2.0% on the back of key pipeline construction projects and the recovery in other sectors such as agriculture, fisheries and services. It should be emphasized however that the 2021 forecast very much depends on the Covid-19 situation to stabilize. Alternatively, in the unfortunate situation where Covid-19 has spread in the country and lockdowns are implemented, growth could severely fall to -10.3% in 2020 and if extending into next year, a further drop by -5% in 2021. It is therefore imperative that the country maintain its status as *Covid19-free*.

Despite expectations for muted prices, headline inflation for the period accelerated to 5.7% in June due to a temporary surge in the betel nut index, along with supply-side shocks. On the other hand, transport, energy and food prices eased during the period, and core inflation, reflecting consumer demand, slowed to 1.2%. Meanwhile, the Bank expects consumer prices to ease towards the end of 2020 and generally a more measured inflation environment.

In view of the unprecedented situation, CBSI has taken and plans to undertake a variety of expansionary policy actions. This has included cutting the Cash Reserve Requirement by 2.5 percentage points to 5% in June,

providing the banking sector with additional liquidity with the expectation for commercial banks to appropriately pass it on in the financial market. In July, it launched *The Solomon Islands Digital Marketplace Project* with the United Nations, the Bulk Shop and participating youths to provide avenues for a Covid-19 response and recovery in the local market. Moreover, the Bank has implemented a new repurchase (repo) facility for participating commercial banks, is on standby to purchase government bonds in the secondary market, and is progressively developing guidelines for an Export Finance Facility to assist exporters in the country.

Nonetheless, there are considerable downside risks associated with the uncertainty and the extent of the pandemic on the horizon. CBSI will therefore continue to closely monitor global and domestic macroeconomic developments, and shall take appropriate actions accordingly.

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For more information, please contact:

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