



CENTRAL BANK of SOLOMON ISLANDS

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## **CBSI: Financial Stability Report for the First Half of 2024** **Highlights Resilience Amid Global and Domestic Challenges**

The Central Bank of Solomon Islands (CBSI) is pleased to announce the publication of its Financial Stability Report for the first half of 2024 (1H24). The report provides an in-depth analysis of the financial system resilience in the face of global economic uncertainties and domestic challenges, underscoring the strength and stability of the Solomon Islands' financial institutions.

Since the second half of 2023, there has been notable improvement in global financial conditions. This has mainly driven by easing disinflation (i.e., decrease in the rate of inflation) and falling interest rates. Despite this improvement, global vulnerabilities persisted, driven by sudden policy shifts, geopolitical tensions, declining real estate prices and the effects of climate change; disrupting supply chains and frustrating efforts to meet inflation targets. Domestic financial condition remained sturdy despite challenges by slow economic progress, inflationary pressures and tight fiscal and monetary conditions. In addition, rapid advancements in financial technologies (Fintech) are also introducing new vulnerabilities such as exposures to cyber risks.

The domestic banking sector remains resilient with high solvency and financial strength, ensuring smooth operations. However, rising non-performing loans (NPLs) are raising concerns about the sector's asset quality.

The superannuation sector is performing well, benefiting from strong liquidity and healthy earnings from its domestic equity investments. However, outdated legal frameworks pose risks to keeping up with good governance and technological advancements.

The insurance sector has shown resilience, supported by positive financial performance. Key risks include concentration risks, as the sector is dominated by single-country foreign insurers, and high reinsurance costs.

In the credit union sector, despite being faced by liquidity challenges and sluggish growth, overall performance of the sector remained stable, with variations across the credit unions.

### **Key Risks and Outlook**

The report underscores ongoing vulnerabilities in the domestic financial system, including the potential de-risking of banks leading to a loss of correspondent banking relationships. Accelerated digital transformation poses risks such as cyber threats, alongside the broader challenges posed by climate change and weak risk management and governance frameworks.

### **CBSI's Commitment to Financial Stability:**

Governor Luke Forau, emphasized CBSI's ongoing commitment to maintaining a stable and resilient financial system. "Despite the challenges presented by global economic shifts and domestic vulnerabilities, our financial system continues to show strength. CBSI remains vigilant in monitoring risks and will continue to implement necessary reforms to safeguard financial stability, including modernizing financial sector legislations to match the rapid pace of global financial developments and mitigating emerging risks. This will require government support and sustained efforts by all stakeholders." the Governor stated.

The Financial Stability Report outlines several recommendations to enhance the resilience of the financial sector, including bolstering regulatory frameworks, fostering innovation, and continuing efforts to improve financial literacy and inclusion.

The publication of the Financial Stability Report for the first half of 2024 reflects CBSI's transparent approach to financial sector oversight. CBSI will continue to work closely with financial institutions, government agencies, and other stakeholders to ensure the continued stability and growth of the Solomon Islands' financial system.

The full report is available on the CBSI website.

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*The Central Bank of Solomon Islands (CBSI) is the premier financial institution in the country and is at the center of the banking and financial system, performing a number of essential functions including formulation and implementation of the country's monetary policies. CBSI is the only authority in the country that exercises discretionary control over the country's entire monetary system.*