MONETARY POLICY STATEMENT

March 2025

CENTRAL BANK OF SOLOMON ISLANDS

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Contents

List of Figures

List of Tables

The cut-off data used to prepare the 2025 March Monetary Policy Statement was 30 January, 2025.

1. Overview

The global economy remains steady, although uncertainties remain high. According to the latest International Monetary Fund's World Economic Outlook (IMF WEO) January 2025 Update, global growth is estimated at 3.2% in 2024, and is projected at 3.3% in 2025 and 2026, supported by the expansion in Advanced Economies due to strong demand and easing monetary conditions. Economic growth amongst Solomon Islands' major trading partners, however, remained weak due to persistent challenges. Global inflation is declining underpinned by falling commodity prices and cooling labour markets. Risks to the outlook are tilted to the downside reflecting the recent global developments following the US administrative tariff policies.

Domestic economic activity showed mixed outcomes over the six months to December 2024. Key indicators for production, construction, wholesale and retail and consumption showed favorable performance, whilst manufacturing activities, energy production, and other sectors performed weakly. Labour market conditions have eased slightly over the same period.

Headline inflation rose to 4.6% in December 2024, up from 3.7% in June 2024. This was driven by the increase in domestic inflation due to a higher-than-expected hike in betel nut prices resulting from supply shortages. Headline inflation is expected to remain elevated in the first half of 2025 before easing in the second half of the year.

Core inflation declined to 1.9% at the end of 2024 from 3.2% in June, reflecting weaker domestic demand, and is projected to remain within the Central Bank's desired level throughout 2025.

The key monetary indicators showed mixed outcomes over the six months to December 2024, with reserve money (M0), narrow money (M1), private sector credit (PSC), and excess liquidity all recorded growths, whilst the interest-rate margin widened slightly over the same period.

The Solomon Islands' external position showed favorable outcomes over the same period, with an increase in the Balance of Payments (BOP) surplus. This was due to a sizeable increase in the capital and financial account surplus which outweighed the deterioration in the current account deficit. The gross foreign reserves grew in line with the increase in the overall surplus.

Finally, fiscal conditions weakened, with the fiscal balance shifting from a $17 million surplus in the first half of 2024 to a deficit of $295 million in the second semester. This resulted from a surge in total expenditure, amid weak revenue collection. The Central Government's total debt increased in line with the deficit, with the debt-to-GDP ratio rising to 22% in nominal terms.

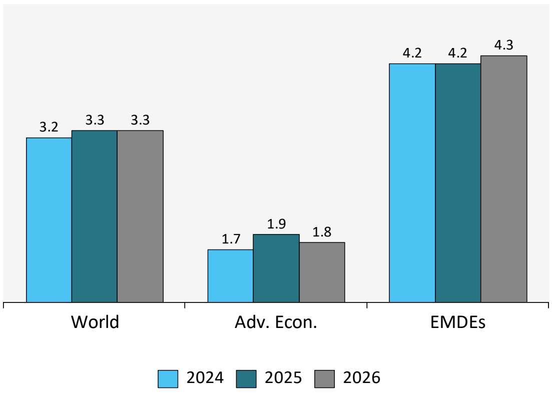
Against this backdrop, the Solomon Islands' economy slowed in 2024 following the one-off boost from the Pacific Games in 2023, with growth been downgraded by 0.2 percentage points (pp) to 2.8% relative to the 3.0% forecast in the *2024 September Monetary Policy Statement*. This weaker-than-expected performance was largely driven by lower agricultural output, while all other sectors remained broadly in line with expectations. In 2025, the economy is projected to grow moderately at 2.7%, and to stabilize at 2.5% over the medium term, reflecting the slowdown in the forestry sector, whilst activities in non-forestry sectors are expected to sustain the economy.

Downside risks to the outlook remain prominent, with La Niña weather conditions posing challenges to the agriculture sector and a slowdown in forestry weighing on growth and foreign reserves. Limited cash reserves and ongoing revenue constrains may restrict Government spending, and therefore dampening domestic demand. The US trade tariff policies and the ongoing geopolitical tensions could drive up commodity prices, increasing imported inflation and weakening external demand. On the upside, La Niña weather could benefit the fishing sector, while sustained donor support for infrastructure may bolster production, exports, and economic growth.

2. International Economic Developments

The global economy continued to demonstrate resilience, although uncertainties remain. Global growth is estimated at 3.2%[1] in 2024, and is projected at 3.3% in 2025 and 2026, though still falling below its pre-covid historical average of 3.7%. The growth projection for 2025 has been revised upward by 0.1 percentage points (pp). This reflects upgrades to the forecasts in Advanced Economies largely driven by higher-than-expected growth in the United States underpinned by robust demand and easing monetary conditions. These offsets the downward revisions in other major economies. Meanwhile, growth in Emerging Market Developing Economies (EMDEs), is projected to remain stable.

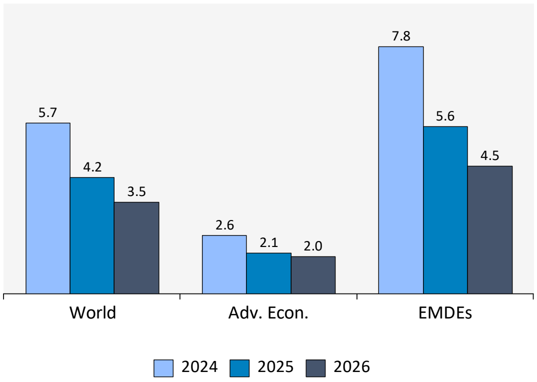
Figure 1: Global Economic Growth



Economic growth amongst Solomon Islands' key trading partners remained weak, with China and the Euro area facing persistent challenges, while Australia experienced modest recovery in 2024. Growth in China slowed to 4.8% in 2024 due to low domestic consumption and prolonged weaknesses in the property sector, with further moderation projected for 2025 and 2026 driven by underlying structural issues and the recent introduction of US Trade Tariffs. The Euro area saw low growth at 0.8% in 2024, reflecting the ongoing geopolitical tensions, weaker manufacturing and high uncertainty, though recovery is expected in 2025 and 2026 with stronger domestic demand and improved financial conditions. In Australia, growth is estimated at 1.2% in 2024, bolstered by increased government spending, and is projected to expand further in 2025, supported by fiscal stimulus and ongoing monetary policy easing.

Global inflation continued to decline, from 5.7% in 2024 to 4.2% in 2025 and to 3.5% in 2026 underpinned by falling energy prices and cooling labour markets. Inflation in China remained muted in 2024 at 0.4%[2], with gradual rise expected in 2025 and 2026 although this still remain well below its official target of 3%. Meanwhile, inflation in Australia returned to target at 2.5%[3] by end of 2024, and is forecasted to rise to 3.7% at the end of 2025 before normalizing at 2.5% in 2026.

Figure 2: Global Inflation



Global commodity prices stabilized in the latter half of 2024, with the International Monetary Fund (IMF's) primary commodity price index holding at 166 points. The energy prices declined by 1% in 2024, with a further 2.6% reduction expected in 2025, due to sluggish oil demand from China and strong supply from non-OPEC+ countries. Brent oil prices fell by 8% to an average of US$77 per barrel[4]

[1] Unless, otherwise indicated, all statistics in this section are obtained from the International Monetary Fund (IMF) World Economic Outlook (WEO), January 2025 Update

[2] OECD Economic Outlook, December 2024

[3] Reserve Bank of Australia November 2024 Monetary Policy Statement

[4] World Bank Commodity Prices Pink Sheet January 2025

in December 2024 and is expected to decline further into 2025 due to excess supply. Rice prices declined to US$557 per metric tonne[5] in December 2024, with further reductions expected in 2025 owing to strong production and ample reserves. Similarly, wheat prices fell to US$260 per metric tonne[6] with slight declines expected in 2025, before increasing in 2026 due to tightening global stocks. These favorable global commodity price movements are expected to help dampen imported inflation in 2025 and 2026.

Risks to this outlook are titled to the downside. The US tariff war, elevated policy uncertainties and headwinds from Europe's energy sector and China's real estate market could weigh on growth prospects and delay disinflation. High public debt in developing economies could heighten economic vulnerabilities. Over the medium-term, policy disruptions could slow disinflation, resulting in delayed monetary policy easing and potential financial stability risks.

3. Domestic Economic Developments

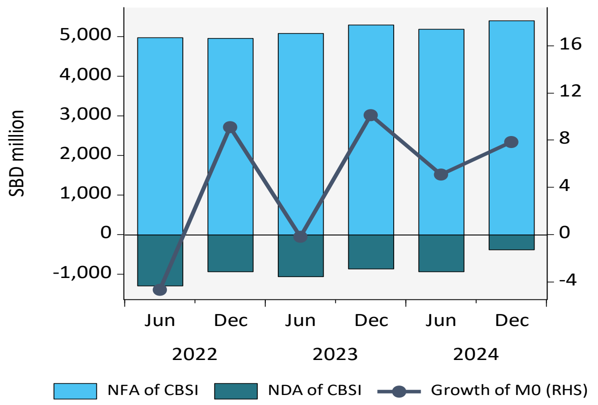
3.1. Monetary Conditions

Monetary indicators showed mixed outcomes over the six months to December 2024. Reserve money (M0), narrow money (M1), private sector credit (PSC), and excess liquidity all recorded growths. However, the interest-rate margin offered by Other Depository Corporations (ODCs) widened over the same period.

3.1.1. Reserve Money

Reserve money grew by 8% to $5,030 million in the second half of 2024, a firmer growth compared to the 5% increase in first half of the year. The growth was driven by increases in currency in circulation and ODCs' call balances. Growth in reserve money reflected the expansion in Net Foreign Assets (NFA) of the Central Bank combined with a reduction in Net Domestic Assets (NDA).

Figure 3: Drivers of Reserve Money (M0)



Source: CBSI

3.1.2. Money Supply

Money supply (M3) grew by 2% to $6,407 million in the latter half of 2024. This was driven by the growth in M1 and other deposits, increasing by 2% to $5,313 million and 7% to $1,094 million, respectively. On the sources side, the growth reflected a combined expansion in the NFA of the banking system, growing by 2% to $5,700 million and a 9% increase in NDA to $755 million during the period.

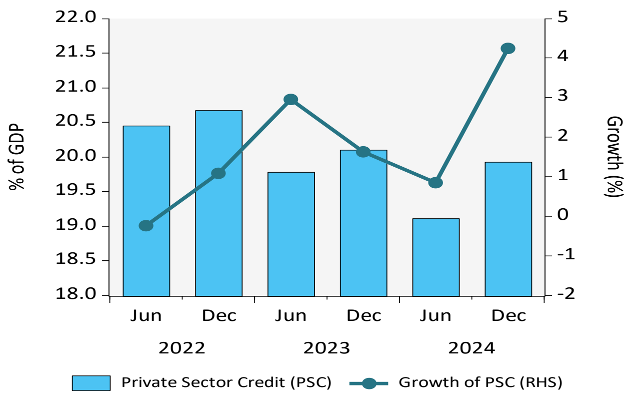
3.1.3. Credit Conditions

Lending to the private sector grew by 4% in the second half of the year to $2,905 million (20% of GDP) against the first semester despite the increase in lending rates over the period. The growth in lending to the private sector was largely driven by ODC lending to the distribution, construction, transport and household sectors in line with the increased activities in these sectors. These outweighed the reduction in lending to the manufacturing, fisheries, tourism and other sectors.

[5] World Bank Commodity Prices Pink Sheet January 2025

[6] World Bank Commodity Prices Pink Sheet January 2025

Figure 4: Credit to Private Sector

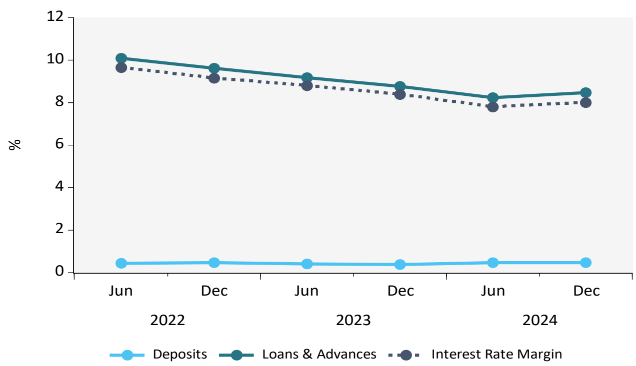


Source: CBSI

3.1.4. Interest Rates

ODCs' interest-rate margin widened marginally to 7.99% on average over the six months to December, up from 7.77% in June 2024. This came from an uptick in the indicative weighted average (IWA) rates for lending, particularly during the fourth quarter of 2024 despite a slower increase in IWA for deposits. The increase in lending rates was driven by upticks across all sectors, except for professional and forestry sectors. Meanwhile, the increase in IWA for deposit stemmed from interest-bearing demand and saving deposits.

Figure 5: Interest Rates



Source: CBSI

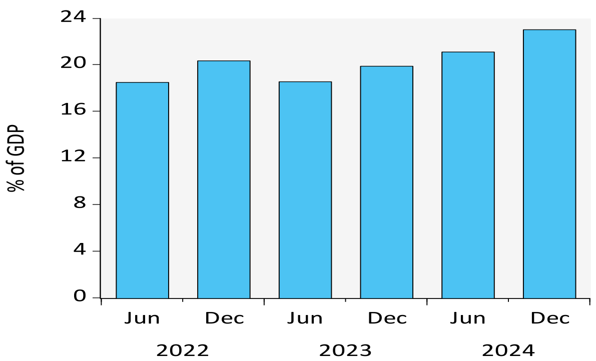
3.1.5. Open Market Operations

The weighted average interest rate (WAIR) for the Bokolo Bills increased to 0.35% at the end of 2024 from 0.24% in June 2024. The stock of Bokolo Bills issued during the second half of 2024 reduced to $227 million from $428 million in the preceding half year. Meanwhile, the accumulated stock of Treasury Bills issued over the six months to December declined to $172 million, down from $209 million during the first six months of 2024. The weighted average interest rates for 91 and 182 days increased from 1.12% to 1.15% and 2.40% to 2.41%, respectively. The WAIR for 365 days, however, narrowed from 2.63% to 2.61% during the review period.

3.1.6. Liquidity Levels

Free liquidity in the banking system grew by 9% to $3,359 million (23% of GDP) in the latter half of 2024, compared to $3,081 million (21% of GDP) in the first semester. The growth was underpinned mainly by the increase in the Central Bank's NFA driven by inflow receipts and an increase in call account deposits at the Central Bank.

Figure 6: Liquidity



Source: CBSI

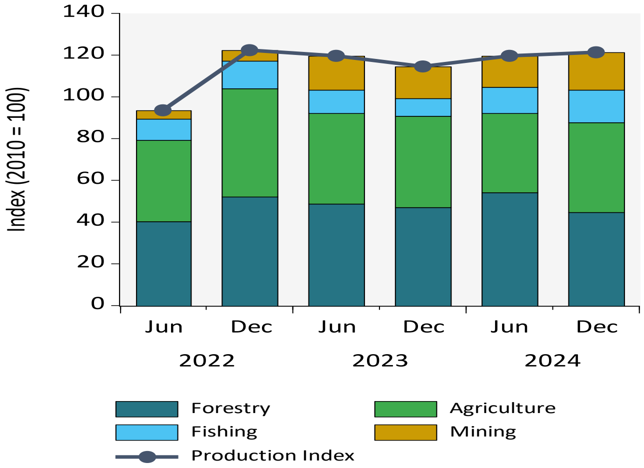
3.2. Domestic Conditions

Domestic economic activity showed mixed outcomes over the six months to December 2024. Key indicators for production, construction, wholesale and retail, and consumption showed favorable performances, whilst manufacturing activities, energy production, and other sectors performed weakly. Labour market conditions have weakened over the same period.

3.2.1. Production Index

The CBSI's production index increased in the second half of 2024 by 2% to an index value of 120. This positive outcome was mainly driven by higher output in agriculture, reflecting higher cocoa and copra production, fishing and mining sectors, supported by favorable fishing conditions and higher mineral prices, respectively. These outweighed the decline in the forestry sector owing to lower production volumes.

Figure 7: Production Index

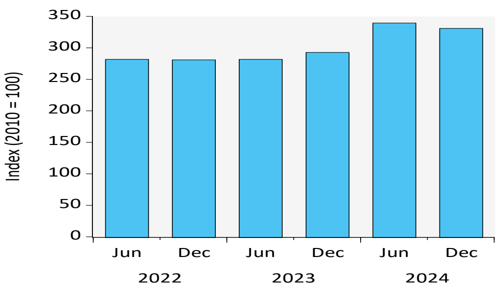


Source: CBSI

3.2.2. Manufacturing

The CBSI's manufacturing index fell by 2% to 331 points over the six months to December 2024 from 339 points in the first half of the year. This weaker outcome was mainly driven by the decline in manufactured canned tuna and tuna loins for exports during the fourth quarter due to the reduced production days in December.

Figure 8: Manufacturing Index



Source: CBSI

3.2.3. Other Sectors

Indicators of activity in other sectors and consumption demand showed mixed outcomes during the latter half of 2024. Electricity production fell slightly whilst electricity sales increased moderately compared to the prior six months. However, in year-on-year terms, energy production and consumption across all consumer categories have seen an increase, reflecting higher demand and business activities in Honiara. Imports of food and beverage surged during the period underpinned by higher domestic consumption.

Cement imports, an indicator for construction and investment activities, grew slightly over the six months to December, but declined sharply against the corresponding period in 2023 due to the base effects related to the 2023 Pacific Games. The ongoing donor-funded infrastructure projects including the Tina Hydro project continued to support activities in the construction sector throughout the year.

3.2.4. Employment

Labour market conditions have weakened during the second half of 2024, with the total number of contributors (active and slow active) to the Solomon Islands Provident Fund (SINPF) declining by 0.6% to 59,494 contributors. The number of job vacancies also dropped from 866 vacancies in the first six months to 744 vacancies in the latter half of the year, suggesting a slowdown in recruitment as business conditions gradually stabilized.

3.3. External Conditions

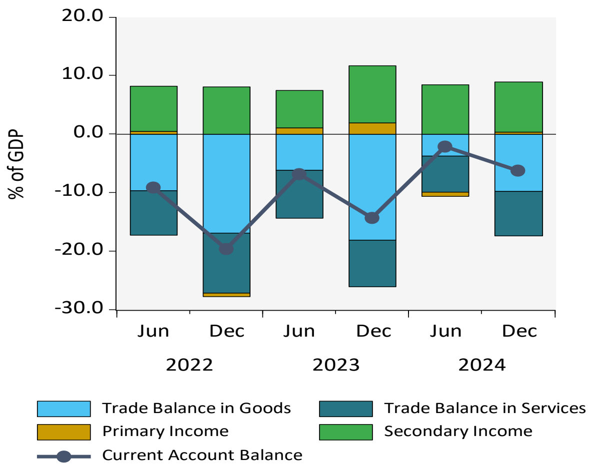
The BOP position improved significantly in the second half of 2024, with the overall surplus increasing to $330 million (2.8% of GDP) from a revised $20 million surplus (0.2% of GDP) in the prior semester. This favorable outcome stemmed from a sizeable increase in the capital and financial account surplus outweighing the wider current account deficit over the review period.

Consequently, gross foreign reserves grew by 3% to $5,805 million, reversing the 3% decline recorded in the prior semester.

3.3.1. Current Account

The current account deficit widened to $460 million in the second half of 2024 from $156 million deficit in the first half of the year. This is due to a worsening in the trade balance in goods as a result of higher import payments for food, mineral fuels, chemicals, basic manufactures, and machinery and transport equipment. This outweighed the increase in exports, particularly, fish, cocoa, minerals, and palm oil and kernels exports.

Figure 9: Trade and Current Account



Source: CBSI

The deficit in trade in services widened to $559 million in the second half of 2024, up from $448 million in the previous six months. This reflected higher net outflows in transport services, particularly sea and air freight, and business and personal travel. Meanwhile, secondary income edged up by 1% to $625 million, mainly sustained by an increase in remittances, while donor grants declined against the prior six months. Primary income also improved, shifting from a $51 million deficit to a $29 million surplus, supported by higher compensation of employees, direct investment, and revaluation gains on reserve assets.

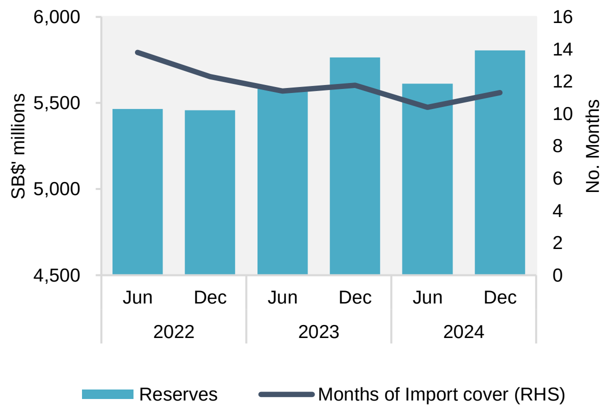
3.3.2. Capital and Financial Accounts

The surplus in capital and financial account more than tripled to $932 million over the six months to December 2024. This outcome reflects higher donor capital grants, direct inward investment and other investments, particularly loan disbursements to the central government.

3.3.3. Foreign Reserves

The country's gross foreign reserves grew by 3% to $5,805 million (US$690 million) at the end of December 2024. This was driven by the sizable increase in the capital and financial account surplus during the review period. This level of reserves is sufficient to cover 11.3 months of imports of goods and services.

Figure 10: Gross Foreign Reserves

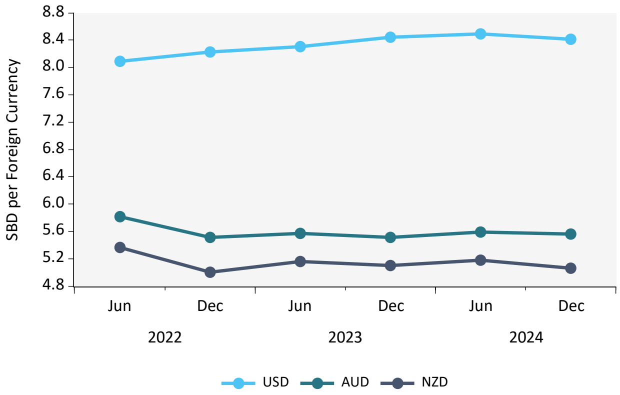


Source: CBSI

3.3.4. Exchange Rates

The Trade Weighted Index fell to 114.1 in the six months to December 2024, 0.9% lower than in the previous period, reflecting a weaker US dollar. As a result, the Solomon Islands dollar appreciated by 1% against the US dollar to $8.41 per USD and against both the Australian dollar and the New Zealand dollar, by 0.5% to $5.56 per AUD and 2.2% to $5.06 per NZD, respectively.

Figure 11: Nominal Bilateral Exchange Rates



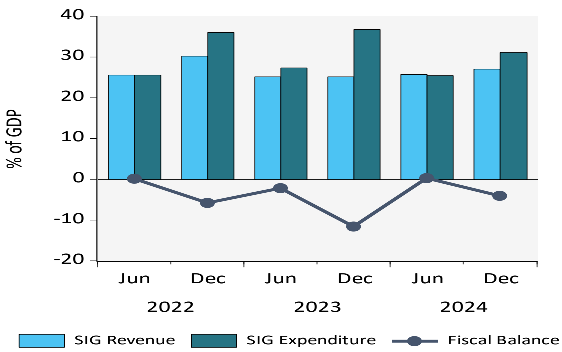
Source: CBSI

The country's nominal effective exchange rate (NEER) and real effective exchange rate (REER) appreciated in the second half of 2024. The NEER rose by 1.36% to an index value of 122 whilst the REER increased by 0.39% to 140.1. This suggests that domestic inflation in the Solomon Islands was higher than in its trading partners, leading to a loss in trade competitiveness.

3.4. Fiscal Conditions

Fiscal conditions deteriorated in the second half of 2024, with the fiscal balance shifting from a surplus equivalent to 0.1% of GDP ($17 million) in the first six months to a deficit corresponding to 2% of GDP ($295 million). This outcome was primarily driven by a surge in total expenditure. In line with the deficit, the Central Government's debt stock increased, reflecting additional external borrowing and higher issuances of domestic bonds and auction treasury bills.

Figure 12: Fiscal Balance

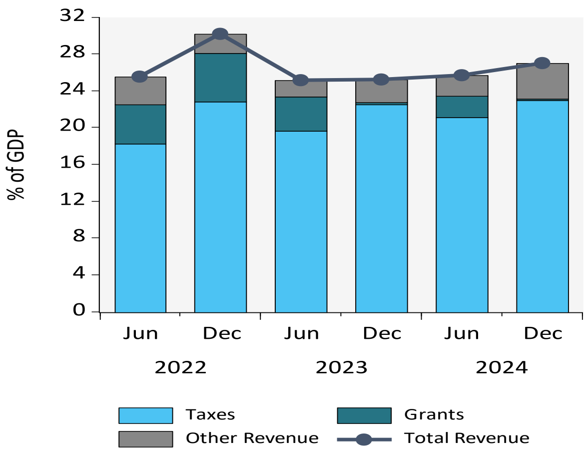


Source: MoFT, CBSI

3.4.1. Revenue

Total Government revenue declined marginally by 0.1% to $1,871 million in the six months to December 2024, compared to the 8% growth recorded in the first half of the year. This weaker performance was largely due to a reduction in appropriated grants from bilateral and multilateral partners, as donors shifted towards funding and managing donor-funded projects directly through line ministries. Meanwhile, tax and non-tax revenues increased, supported by stronger compliance, and higher fishing license revenues.

Figure 13: Government Revenue

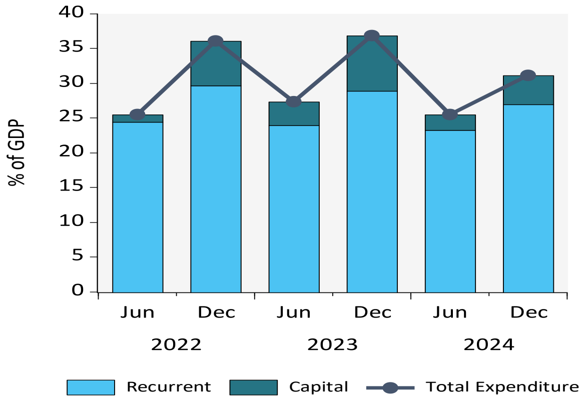


Source: MoFT, CBSI

3.4.2. Expenditure

Total Government expenditure increased by 12% to $2,077 million in the second half of 2024. This was primarily due to a significant rise in development spending, which nearly doubled to $303 million, as the Government advanced its infrastructure investments under the Government for National Unity and Transformation (GNUT) policies.

Figure 14: Government Expenditure



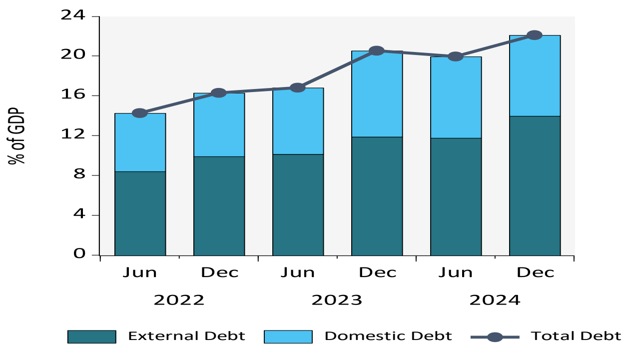
Source: MoFT, CBSI

Recurrent expenditure rose by 5% to $1,774 million, driven by higher payroll costs following staff recruitment and increased grants to extra-budgetary[7] units. Additionally, interest payments increased due to advance repayments on development bonds.

3.4.3. Central Government Debt Stock

The Government's total debt stock increased by 11% to $3,225 million (22% of GDP) over the six months to December 2024, reflecting continued reliance on external and domestic borrowing to finance development projects and budget shortfalls. This outcome stemmed from the disbursements of additional external loans for major donor infrastructure projects.

Figure 15: Government Debt



Source: MoFT, CBSI

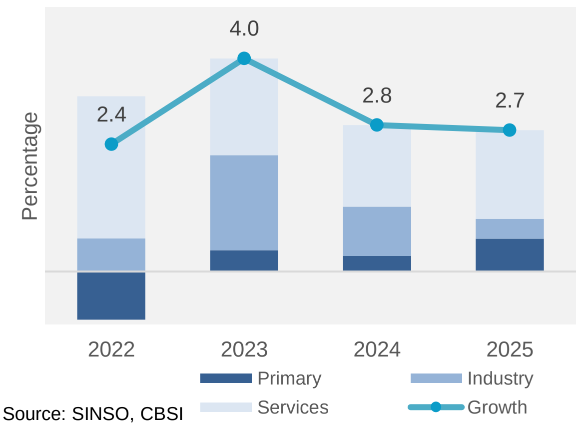
The stock of domestic debt remained broadly stable with advance repayments to domestic creditors being offset by the increase in issuances of auction treasury bills and a rise in SINPF development bond subscriptions.

4. Domestic Economic Outlook

4.1. Real Economy Outlook

Economic growth in Solomon Islands slowed in 2024 following the one-off boost from the Pacific Games in 2023. Growth has been revised downward to 2.8%, 0.2 percentage points lower than the 3.0% projected in the September 2024 Monetary Policy Statement. This weaker-than-expected performance reflected lower agricultural output, particularly in palm oil and copra, while other key sectors, including fishing, forestry, mining, construction, manufacturing, and electricity, remained broadly in line with expectations.

Figure 16: Economic Growth



Source: SINSO, CBSI

The Solomon Islands' economy is projected to grow moderately at 2.7% in 2025, supported by a recovery in agriculture, robust fishing activity, and steady performance in manufacturing, construction, mining, wholesale and retail, and hospitality. Growth will benefit from favorable

[7] Entities classified as Extra-Budgetary Units include Solomon Islands National University, Solomon Islands Institute of Sports, and Tourism Solomons.

market conditions, rising demand, and the ongoing public infrastructure projects.

Over the medium term, economic growth is projected to stabilize at 2.5%, returning to pre-pandemic levels, and assuming no new sources of growth. Sustaining medium-to-long-term growth requires targeted policy adjustments. Key priorities include diversifying growth drivers, rebuilding fiscal buffers to enhance resilience against natural disasters and economic shocks, and strategic allocation of resources to improve social and economic well-being.

Table 1: Selected Economic Indicators, 2019-2026

	2019	2020	2021	2022	2023	2024	2025	2026
Global Economy 1/							Projections	
Economic Growth	Annual % change unless otherwise indicated							
World	2.8	-3.2	6.3	3.5	3.3	3.2	3.3	3.3
China	6.0	2.3	8.4	3.0	5.2	4.8	4.6	4.5
Australia 2/	1.9	-2.9	5.2	3.9	2.0	1.2	2.1	2.2
Inflation								
World	3.5	3.2	4.7	8.7	6.7	5.7	4.2	3.5
Australia 2/	1.8	0.9	3.5	7.8	4.1	2.6	3.7	2.5
Domestic Economy								
Economic Growth	Annual % change unless otherwise indicated							
Real GDP growth 3/	1.7	-3.4	2.6	2.4	4.0	2.8	2.7	2.5
Consumer Prices								
Headline Inflation (y-o-y, 3mma, eop)	2.8	-1.8	2.8	9.5	3.5	4.6	1.9	3.0
Core Inflation (y-o-y, 3mma, eop)	2.6	-1.4	1.5	8.1	3.5	1.9	2.5	2.6
Monetary Indicators	In percent of GDP							
Net foreign assets (NFA)	34.6	39.9	41.9	38.9	37.8	37.1	35.9	33.3
Private sector credit	19.8	20.8	21.4	20.7	20.1	19.9	19.3	18.7
Narrow Money (M1)	29.1	34.3	36.2	37.2	37.5	34.5	36.2	35.6
Excess Liquidity	12.0	17.2	19.4	19.5	16.2	21.6	18.3	17.7
Balance of payments	In percent of GDP unless otherwise indicated							
Current account balance	-9.5	-1.6	-5.1	-14.4	-10.6	-4.2	-7.4	-10.4
Trade balance in goods	-2.3	-1.7	-6.4	-13.2	-12.2	-5.7	-8.6	-10.1
Gross foreign reserves (in US$ m, eop)	576	661	695	660	688	686	692	672
Import cover (in months)	11.9	13.3	14.2	12.3	11.7	11.8	11.1	10.7
Exchange rate (SI$/US$, period avg)	8.17	8.21	8.03	8.16	8.38	8.38	...	...
Fiscal Indicators	In percent of GDP							
Fiscal balance (+ = surplus)	-2.6	0.8	-1.7	-2.9	-7.0	-2.0	...	...
Government Revenue	28.0	33.9	30.3	27.8	25.0	26.3	...	...
Government Expenditure	30.6	33.1	32.0	30.8	31.1	28.3	...	...
Gross Government Debt	8.1	11.5	15.4	16.3	20.4	22.1	...	...

1/ IMF WEO January 2025 Update
2/ 2024 to 2026 GDP growth figures and inflation forecasts are sourced from the Reserve Bank of Australia's (RBA) Statement on Monetary Policy, November 2024.
3/ 2021 and 2022 figures are provisional estimates produced by the Solomon Islands National Statistics Office. 2023 and 2024 figures are the CBSI's estimates. 2025 and 2026 figures are CBSI's forecasts.

Risks to this outlook are tilted to the downside. The impact of the La Nina (wet weather conditions) could pose challenges to the agriculture sector and a slowdown in the forestry sector could weigh on growth and the country's foreign reserves. Additionally, limited cash reserves and ongoing revenue constrains may restrict Government spending, and therefore dampening domestic demand. Furthermore, the US trade tariff policies and the ongoing geopolitical tensions could drive commodity prices higher, spur imported inflation, weaken external demand and weigh on growth prospects. On the upside, the La Niña weather could benefit the fishing sector, while sustained donor support for infrastructure and favorable commodity prices may bolster production, exports, and economic growth.

4.2. Fiscal Outlook

The 2025 National Budget projects a larger deficit of $1,464 million[8] (10.1% of GDP), up from a revised budget deficit of $773 million (5.3% of GDP) in 2024. This reflects the government's commitment to accelerating investment in key economic infrastructure to diversify the economy and strengthen service delivery. The widening deficit is driven by a 20% increase in expenditure, while revenue growth is projected to remain modest at 8%. Financing the 2025 budget will be challenging due to limited cash reserves, a narrow revenue base, and weaker economic growth outlook.

Under an alternative scenario where government spending grows in line with revenue and assuming a lower budget execution rate, the CBSI projects a smaller fiscal deficit of 2.1% of GDP in 2025. Additionally, the ongoing cashflow constraints is expected to hinder the execution of the budget, leading to overall lower spending, even as population growth and demand for public services increase. Revenue-enhancing measures, including reinstating the mineral tax and increasing excise duty on alcohol and tobacco products, could boost revenue collection and support fiscal sustainability. Over the medium term (2026–2028), the fiscal deficit is projected to average at 2% of GDP.

Government debt is projected to increase to 26–31% of GDP in 2025, driven by the wider fiscal deficit and the $879 million annual borrowing plan to fund major infrastructure projects. However, the under-developed domestic securities market and

[8] Figures are sourced from Solomon Islands Government 2025 National Budget

limited investors' appetite may restrict the Government's ability to expand domestic borrowing.

Given the narrow domestic revenue base and persistent expenditure pressure, risks to the fiscal outlook remain tilted to the downside. Limited cash reserves and ongoing revenue constrains could limit the Government's ability to meet key spending priorities. This necessitates greater reliance on external financing, which could lead to a faster rise in the debt levels to reach the 35% of GDP sustainable threshold.

4.3. External Outlook

The external sector outlook remains cautiously optimistic in the near term, with the wider current account deficit projected to be outweighed by higher capital and financial account surpluses, supported by the accelerated infrastructure projects, including the Tina Hydro Dam, and increase in FDI and donor inflows. As a result, gross foreign reserves are projected to rise slightly in 2025.

Over the medium term, the external outlook remains challenging, as imports for capital project are expected to peak in 2026, putting pressure on the external position. However, a moderation in capital spending as major projects near completion, rising remittance inflows from seasonal workers, and stable growth prospects are expected to support gradual improvement. The current account deficit is projected to average at 5.7% of GDP, reflecting high food and fuel import dependency, a decline in logging activity, and a narrow export base. Consequently, the country's foreign reserves are expected to gradually decline over the medium term.

4.4. Monetary Outlook

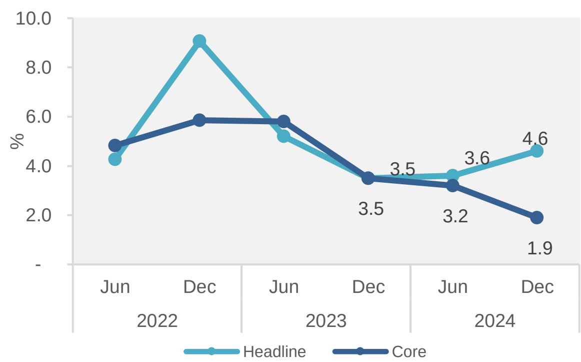
The key monetary aggregates, including reserve money, broad money, and private-sector credit are all projected to expand in 2025, driven by easing monetary conditions and an expansionary fiscal stance. The interest rate margin is projected to narrow slightly. Over the medium term, reserve money, broad money, private sector credit, and excess liquidity are expected to grow at a moderate pace, reflecting a soft economic outlook.

5. Inflation Developments and Outlook

5.1. Inflation Developments

Headline inflation rose sharply to 4.6% in December 2024 from 3.4% in June, higher than the earlier forecast of 2.4% reported in the *Monetary Policy Statement for September 2024*. The increase reflects diverging developments in domestic and imported inflation. Domestic inflation surged to 6.1% in December 2024 from 3.6% in June driven mainly by a larger-than expected spike in betelnut price – a highly volatile item - toward year-end as a result of supply shortages. Meanwhile, imported inflation remained contained, falling from 3.3% in June 2024 to 1.2% in December 2024 reflecting easing global energy prices and stable food prices.

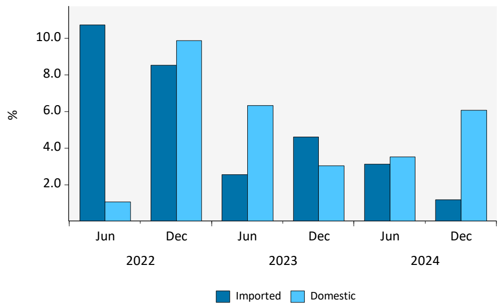
Figure 17: Headline and Core Inflation



Source: SINSO, CBSI

Core inflation, which reflects the underlying price momentum, has come down to 1.9% in December 2024 from 3.2% in June 2024. This is broadly in line with the September forecast of 2.4%. The decline in core inflation is consistent with weaker domestic demand, reflecting soft economic conditions in the second half of the year. This outcome suggests that the price increases in the fourth quarter last year are supply-driven and likely temporary.

Figure 18: Imported and Domestic Inflation



Source: SINSO, CBSI

5.2. Inflation Outlook

Headline inflation is expected to remain elevated in the first half of 2025 before easing in the second half, whilst core inflation is projected to stabilize. This baseline forecasts reflects the prolonged La Nina effects into the second quarter of 2025, and the initial impacts of the current US-China tariff war which are assumed to be felt starting in the June quarter through to the September quarter.

Headline inflation is expected to ease to an average of 3.7% in the first quarter of 2025, before rising to 4.7% in the June quarter. This persistence is expected from the domestic food inflation, due to the lingering effects of the current La Niña (wet weather conditions), which may reduce crop yields, disrupt domestic food supply chains, and push domestic food prices higher.

Food inflation is projected to remain high in the first half of 2025, building on from the domestic price pressures observed since November 2024. This mirrored the lagged effect of the current wet weather conditions which has already seen the price of the more volatile items, particularly betel nut, remain stubbornly high throughout November and December 2024 and January 2025. The projected decline in global rice price due to strong production and ample reserves along with improved weather conditions are expected to bring food inflation down in the second half of the year.

Energy inflation is expected to remain relatively stable over 2025 due to easing global energy prices. This is reflective of the declining global oil prices driven by weak Chinese demand and strong oil supply from non-OPEC countries. With Solomon Islands importing nearly 90% of its energy, domestic energy prices are influenced largely by global oil price dynamics. In light of the easing global oil prices, imported fuel prices is expected to remain low, and may push down inflation.

Core inflation, which measures the underlying price pressures and domestic demand, is forecasted to rise to 2.4% in the June quarter, before slightly picking up to 2.5% at the end of 2025. This reflects the underlying cost pressures from ongoing logistical challenges due to the current road constructions and traffic congestions in the capital city. However, it is projected to remain within the Central Bank's desired level below 3% throughout 2025, reflecting weaker domestic demand.

Inflation outlook in Solomon Islands' major trading partners is projected to remain low. Weaker economic growth in China, due to a softening property market and the U.S. administration's tariff policies, will keep China's inflation below its 3% target. Similarly, Australia's inflation is expected to remain within its 2–3% target range. Given these trends, the lower imported inflation is projected to persist over 2025 and help reduce price pressures.

In a scenario where the current tariff war escalates and its effects persist for at least two quarters, global trade could slow further, weighing on economic growth and exacerbating supply disruptions, leading to higher prices. This may prompt tighter monetary conditions, increasing the risk of a global recession. Under this scenario, headline and core inflation are projected to exceed baseline forecasts, driven by higher imported inflation, particularly from food and energy prices.

Inflation risks remain skewed to the downside, reflecting high global uncertainties and domestic supply constraints. Ongoing US-China tariff war could disrupt fuel supply chains, increase transportation and production costs, and delay the easing of global inflation. Domestically, unpredictable weather conditions may drive up food prices, while market inefficiencies and logistics challenges could sustain price pressures despite favorable imported fuel and food prices. Additionally, reinstating government excise tax measures on alcohol and tobacco may lead to higher prices.

On the upside, stable global crude oil and rice prices could help contain inflationary pressures, while improved market facilities and better road infrastructure in Honiara may enhance food supply stability. However, these mitigating factors are unlikely to fully offset persistent downside risks, warranting close monitoring of global and domestic developments.

6. Monetary Policy Stance

In light of the weak global conditions, slower domestic growth, and the expectation for inflation to remain within the desired range, the CBSI will maintain its accommodative monetary policy stance over the next six months. However, the Bank will closely monitor external and domestic developments and stands ready to adjust its policy as needed in response to any significant macroeconomic shocks.