MONETARY POLICY REPORT

September 2026

CENTRAL BANK OF SOLOMON ISLANDS

(+677) 21791
Fax: (+677) 23513
info@cbsi.com.sb
www.cbsi.com.sb

P. O. Box 634. Mud Alley, Honiara, Solomon Islands.

Contents

List of Figures

List of Tables

The cut-off date for data used to prepare this report was 10th August 2026

1. Monetary Policy Statement

1.1. Monetary Policy Stance

The Central Bank of Solomon Islands (CBSI) Board has decided to maintain the policy rate at 1.5%. The Bank will also continue to maintain its other monetary policy tools. The exchange rate has appreciated slightly in recent months and remained relatively stable; therefore, the Bank will continue to support exchange rate stability to help contain the pass-through of higher global energy prices to domestic prices.

The decision reflects the Bank's assessment on the macroeconomy and inflation outlook. Headline inflation is expected to remain elevated towards the end of 2026, projected at around 5-6%, above the Bank's 5% upper threshold and persisting into the first quarter of 2027, mainly reflecting supply-side factors other than demand. Core inflation is expected to remain relatively low over the forecast horizon, indicating underlying domestic demand pressures remain subdued.

The inflation outlook remains subject to significant uncertainty from the conflict in the Middle East and the El-Niño effect. CBSI will continue to closely monitor external and domestic developments and stands ready to adjust its monetary policy stance as necessary to maintain financial and price stability.

1.2. Monetary Policy at the Central Bank of Solomon Islands

The CBSI is mandated under Section 9 of the CBSI Act 2012 to formulate and implement monetary policy, with domestic price stability as its primary objective under Section 8(1). The Bank's mandate further extends to fostering financial system stability and supporting the Government's broader economic policies. In conducting monetary policy, the CBSI prioritises price stability while giving due consideration to other objectives such as adequate external reserves and economic growth.

To fulfill the Bank's primary mandate of maintaining price stability, the Monetary Policy Committee (MPC) was established as a Board-approved committee. Its responsibilities include deliberating on monetary and exchange rate policy matters and making recommendations to the CBSI Board for consideration and decision. The Board meets biannually, in Q1 and Q3, to determine the Bank's monetary policy stance for the next six months. While the monetary policy stance is determined biannually, the Bank monitors, reviews, and publishes monetary policy developments on a quarterly basis through its Quarterly Review.

The Monetary Policy Report communicates the Bank's monetary policy stance and provides an assessment of the macroeconomic conditions and forecasts underpinning that stance. It provides the public with a detailed understanding of the economic developments and considerations informing the Bank's monetary policy stance[1].

Solomon Islands operates monetary policy within a fixed exchange rate regime, supported by liquidity management operations and other monetary policy instruments. In February 2026, the Bank introduced a policy rate, currently set at 1.5%, as part of its monetary policy toolkit and as an indicator of its monetary policy stance. The policy rate complements existing monetary policy instruments. As part of its ongoing institutional reform and development, CBSI will continue to strengthen money market infrastructure and assess opportunities to enhance the effectiveness of monetary policy transmission over time.

[1] The analysis in this report pertains to the period ending 10th August 2026, unless stated otherwise.

2. Overview

Inflation remains elevated in the first half of 2026, driven by both external cost pressures and domestic supply factors. Higher global oil prices following the escalation of the Middle East conflict have raised domestic fuel and energy costs, increasing the risk of even higher imported inflation. Headline inflation is projected to rise to 5-6%, remaining above the Bank's 5% upper threshold through the end of 2026 and into the first quarter of 2027.

At the same time, the economic outlook has weakened, with the economy now assessed to be operating below potential. The output gap is estimated to have turned negative in the second quarter of 2026, reaching -2.2% of potential output, indicating significant spare capacity. This reflects weaker developments in the real sector, balance of payments, and government finance. Accordingly, the 2026 economic growth forecast has been revised down to 3.0%, from 3.8% in the March 2026 Monetary Policy assessment, reflecting weaker-than-expected domestic activity and the effects of recent external shocks.

The balance of risks to the inflation outlook remains tilted to the upside. Further increases in global energy prices, higher inflation among major trading partners, and exchange-rate and cost pass-through could place additional pressure on domestic prices. In contrast, the negative output gap and subdued domestic demand should help contain underlying demand-driven inflation. The outlook therefore presents a challenging policy trade-off between the need to contain persistent inflationary pressures and the need to support economic activity in the face of significant spare capacity.

3. Economic Developments Abroad

Global economic activity remained resilient in the first half of 2026, although higher energy prices have weakened the growth outlook and slowed global disinflation. Among Solomon Islands' major trading partners, growth is expected to moderate in 2026 as higher energy prices pose risks to domestic growth and inflation.

3.1. Global Growth

Global growth is estimated at 3.4% in 2025, before slowing to 3.0% in 2026 and recovering to 3.4% in 2027[2] (Figure 1). The 2026 forecast was revised down by 0.1 percentage point (pp) from the April 2026 WEO, mainly reflecting higher energy prices stemming from the Middle East conflict and its broader economic implications. The slowdown reflects the effects of the Middle East conflict, partly offset by resilient domestic demand and continued AI-related investment.

Growth in advanced economies is projected at 1.7% in 2026 and 1.8% in 2027, supported mainly by resilient economic activity in the United States. Meanwhile, growth in Emerging Market and Developing Economies (EMDEs) is expected to continue growing faster than in advanced economies, although growth prospects remain uneven across countries.

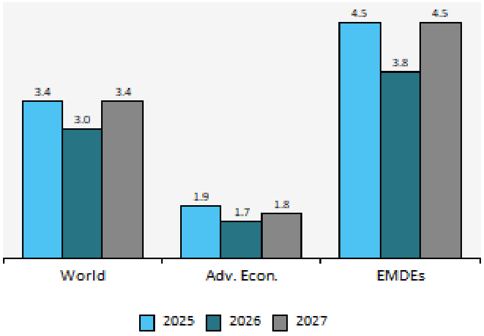
Growth prospects in Solomon Islands' key trading partners remain muted in 2026. China's economy is projected to slow from 5.0% in 2025 to 4.6% in 2026 and 4.1% in 2027, reflecting higher energy prices, persistent uncertainty and structural headwinds. In the Euro area, growth is expected to remain subdued at 0.9% in 2026 before improving to 1.2% in 2027. The 2026 forecast was revised down by 0.2pp due to weaker than-expected-first-quarter momentum, higher energy prices, and subdued consumer confidence.

In Australia, growth is expected to moderate over 2026 as the effects of tighter financial conditions and higher energy prices weigh on household

[2] All statistics in this section are obtained from the International Monetary Fund (IMF) World Economic Outlook (WEO), July 2026 Update, unless otherwise indicated.

consumption and private demand. Growth is projected to slow from 2.0% in 2025 to around 1.9% in 2026 before moderating to 1.3% in 2027, as earlier restrictive monetary policy continues to weigh on activity.

Figure 1: Global Economic Growth (%)



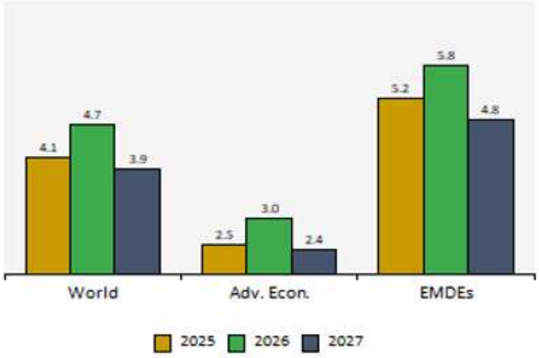
3.2. Global Inflation

Global disinflation is expected to slow in 2026 as higher energy prices associated with the Middle East conflict add to price pressures. Global inflation is projected to rise from 4.1% in 2025 to 4.7% in 2026, before easing to 3.9% in 2027 as energy and commodity price pressures moderate (Figure 2). Inflation in advanced economies is expected to increase from 2.5% in 2025 to 3.0% in 2026. Similarly, inflation in EMDEs is projected to rise from 5.2% in 2025 to 5.8% in 2026, before moderating in 2027.

Inflation developments among Solomon Islands' key trading partners, points to persistent external price pressures. China's inflation is expected to gradually increase from 1.2% in 2026 to 1.5% in 2027 amid higher import prices. Meanwhile inflation in Australia has remained above the Reserve Bank of Australia's 2 – 3% target in 2026, peaking at 4.8% in mid-2026 due to higher energy prices and domestic capacity pressures. However, it is anticipated to soften as fuel-related cost pressures decline and tighter monetary conditions reduce capacity pressures, with headline inflation projected to decline to around 2.25% in mid-to-late 2027.[3]

[3] Statistics for Australia's growth and inflation forecast are obtained from the Reserve Bank of Australia Monetary Policy Statement May 2026.

Figure 2: Global Inflation (%)



3.3. Commodity prices

Commodity prices relevant to Solomon Islands have shifted markedly in 2026, driven mainly by disruptions to global oil supplies and shipping routes. Brent crude prices rose 39% in the first half of the year and are projected to average around US$86 per barrel in 2026, up from US$69 per barrel in 2025, before easing to around US$70 per barrel in 2027.

Global food prices have been more stable, supported by adequate grain supplies, although tighter global wheat inventories are expected to place some upward pressure on prices. Rice prices are projected to average US$401 per tonne in 2026, down from US$408 per tonne in 2025, while wheat prices are expected to increase to US$253 per tonne from US$243 per tonne. Overall, higher energy prices are expected to outweigh the moderating effect of food prices, adding to imported inflationary pressures in Solomon Islands.

Meanwhile, export commodity prices are expected to remain mixed. Log, cocoa and coconut oil prices are projected to decline in 2026 as global supply conditions improve and demand weakens. In contrast, crude palm oil prices are expected to remain firm, supported by stronger biofuel demand, while gold and nickel prices are projected to increase on stronger global demand and favourable market conditions. These divergent price developments are expected to result in varied effects on export earnings and incomes across Solomon Islands' major export sectors.

3.4. Outlook and Risks

The global outlook remains subject to significant uncertainty, with risks tilted to the downside for growth and to the upside for inflation. Further escalation of the Middle East conflict could prolong commodity price volatility, disrupt supply chains, and increase inflationary pressures. Greater trade fragmentation and a correction in technology-driven market expectations could also weaken global growth. Conversely, stronger technology investment, lower trade barriers, and a faster normalisation of energy markets could provide additional support to global activity.

4. Inflation Developments, Outlook and Risks

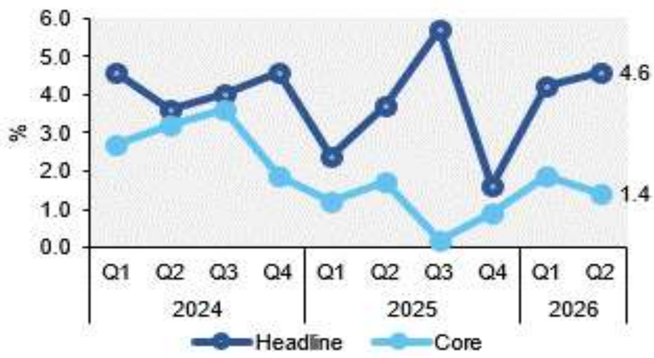
4.1. Inflation Developments

Inflationary pressures strengthened in the second quarter of 2026, with headline inflation increasing to 4.6% year-on-year, from 4.2% in the first quarter. While inflation remained within the Bank's desirable range of 2–5%, it moved towards the upper bound and was above the 3.5% projected in the initial forecast in the March 2026 Monetary Policy Stance (MPS). The increase was driven by a marked rebound in imported inflation, from -0.4% in Q1 to 3.6%, while domestic inflation moderated from 6.0% to 5.0% but remained elevated. Overall, the increase in headline inflation reflected both domestic supply and external price pressures, rather than stronger domestic demand, with the domestic output gap estimated to remain negative.

The increase in imported inflation in June was primarily associated with transport-related prices and housing and utilities. However, the pass-through of higher global fuel prices was partly contained by early policy measures. In May, the Solomon Islands Government introduced fuel-related tax exemptions and strengthened its fuel price-smoothing measures through regulated Honiara pump prices. These measures, together with favourable exchange rate movements, helped limit the transmission of higher international fuel prices to domestic prices. In their absence, the pass-through to transport and other fuel-sensitive prices could have been stronger.

Domestic inflation remained the largest contributor to price pressures. June contribution data indicate that domestic price pressures were concentrated in Alcohol Beverages, Tobacco and Narcotics (ABTN) and housing and utilities, with other categories making comparatively smaller contributions.

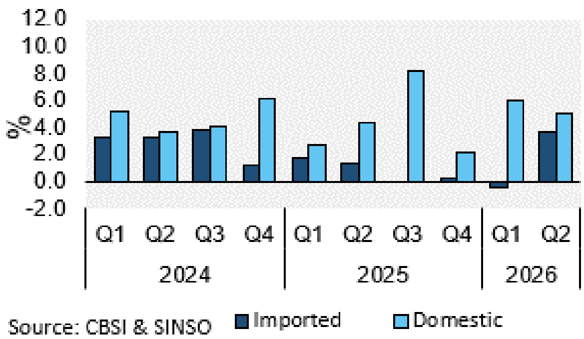
Figure 3: Headline and Core Inflation (%)



Source: CBSI & SINSO

Meanwhile, core[4] inflation declined from 1.9% in Q1 to 1.4% in Q2. This outcome suggests that the current price increase has not yet become entrenched.

Figure 4: Imported and Domestic Inflation (%)



Source: CBSI & SINSO

[4] Core measure excludes volatile items and items subject to price control and excise tax items.

4.2. Inflation Outlook

Headline inflation is expected to ease to 2.8% in Q3 2026 before rising to around 5.7% by year-end, reflecting base effects from lower inflation in Q4 2025 and weather-related price shocks that are expected to increase domestic food prices in addition to the pass-through of higher energy prices. On the external front, the lagged effects of the US–Middle East conflict are expected to keep oil prices relatively high through Q3 and Q4 2026 before easing in 2027. Foreign food prices are expected to decline more rapidly than oil prices, largely reflecting ample rice stocks.

While imported inflation has increased sharply in recent months, reflecting the pass-through of higher energy and transport costs, domestic inflation is expected to remain the dominant driver of headline inflation. The concentration of recent imported price pressures in transport suggests that the initial shock is largely an external cost or relative-price shock rather than a broad-based increase in underlying imported inflation. However, given Solomon Islands' high dependence on imported goods and fuel, sustained increases in transport and energy costs could pass through to domestic prices through higher distribution, production and operating costs.

The outlook therefore points to strengthening price pressures, but not yet a broad-based increase in underlying inflation. The relatively low rate of core inflation suggests that the recent increase in headline inflation has not yet become entrenched. However, persistently elevated domestic inflation remains a concern, particularly if price pressures broaden from ABTN and housing-related components into services and other domestically determined prices.

Core inflation is expected to rise slightly in Q4 2026, consistent with an anticipated pickup in domestic activity, but remain within the Bank's desirable range of 1–3% into 2027. The evolution of core inflation and the breadth of price increases will therefore be important in assessing whether the expected year-end increase represents a temporary adjustment or a more persistent shift in the inflation trajectory.

4.3. Risk Assessment

The balance of risks to inflation is tilted to the upside. Upside risks stem from three main sources. First, a resurgence of the Middle East conflict could push global oil prices above the baseline, raising transport, energy and distribution costs and increasing imported inflation given Solomon Islands' high dependence on imported fuel and goods. Second, a stronger-than-expected El Niño could reduce domestic production of root crops, fruits and vegetables, creating food shortages and higher market prices from Q4 2026 through the first half of 2027. Third, faster execution of the supplementary budget, particularly if supported by stronger donor inflows, could provide a larger-than-assumed boost to domestic demand in 2H 2026. If demand outpaces the economy's supply capacity, inflation could rise above the baseline, particularly for domestic goods and services.

Downside risks arise mainly from weaker domestic activity. Funding and cash-flow constraints could limit government spending, while weaker investment, exports, commodity prices and mining production could further weaken aggregate demand. Under such conditions, inflation would fall below the baseline forecast.

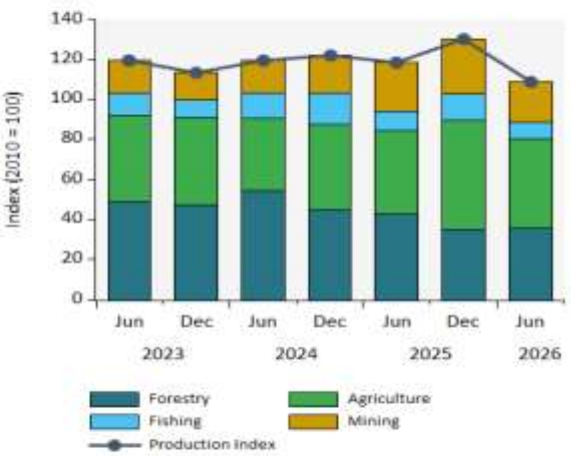
5. The Real Economy

Economic growth is projected to slow to 3.0% in 2026, below the 3.8% forecast in the March 2026 MPS, reflecting weaker primary and manufacturing activity following adverse supply shocks. Resilient services and construction have partly offset these weaknesses. Growth is expected to recover gradually, but the outlook remains subject to downside risks from elevated energy prices, weaker commodity prices, lower domestic production, and El Niño.

5.1. Domestic Conditions

Primary sector activity weakened significantly in the first half of 2026, reflecting broad-based declines in agriculture, fisheries and mining, while palm oil and forestry remained resilient. The CBSI Production Index fell by 16% from December 2025 to 109 points and 9% lower in year-on-year (y-o-y) terms, as lower copra and cocoa prices reduced production incentives and farmer incomes, while fishing output declined following the non-operation of a fishing vessel. Mining activity also moderated from its strong end-2025 performance despite higher gold prices. In the second half of 2026, activity is expected to recover modestly, supported by a pick-up in mining, but the outlook remains vulnerable to adverse weather conditions, prolonged lower commodity prices and a slower recovery in fishing output.

Figure 5: Production Index

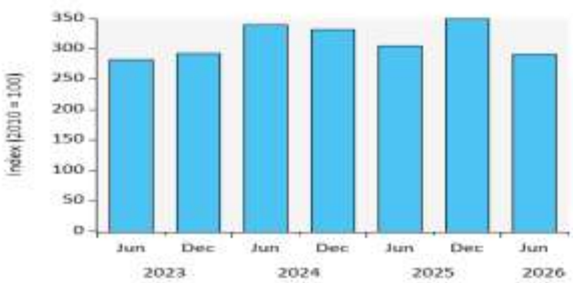


Source: CBSI

Manufacturing activity weakened significantly in the first half of 2026, reflecting declines in both export-oriented and domestic production. The CBSI Manufacturing Index fell by 57 points to 292 points, mainly due to lower fish catches, which constrained canned tuna and tuna loin production for export. Domestic manufacturing also eased, as lower canned tuna and alcoholic beverage production more than offset higher tobacco and biscuit output. Activity is expected to grow modestly in the second half of the year, with recovery dependent on improved fish supply and domestic demand. Elevated fuel prices are expected to continue weighing on production costs.

The demand for utilities softened in line with overall weaker economic activity. Electricity sales declined by 3% to 46,857 megawatt hours, reflecting lower industrial demand. Water consumption also fell by 10% to 2,406 kilolitres from end-December 2025. According to the CBSI Business Confidence Perception Survey, 89% of the surveyed businesses indicated business operations in the first half of 2026 were impacted by higher fuel prices associated with the Middle East Conflict. With El Niño conditions expected to weigh on water supply and fuel prices expected to remain elevated, activity in the utilities sector is likely to remain subdued in the second half of 2026.

Figure 6: Manufacturing Index



Source: CBSI

Construction activity remained broadly stable in the first half of 2026. The cement and paint imports index, a proxy for the construction sector remained stable indicating that building activity was largely unchanged. Credit to the construction sector, however, declined by 3% to $517 million, indicating a modest easing in construction-related financing. Construction activity is expected to pick-up in the second half of 2026, supported by higher government capital spending and donor-funded budget support (SBD $75 million) for Tropical Cyclone Maila recovery, including reconstruction of homes, schools and health infrastructure.

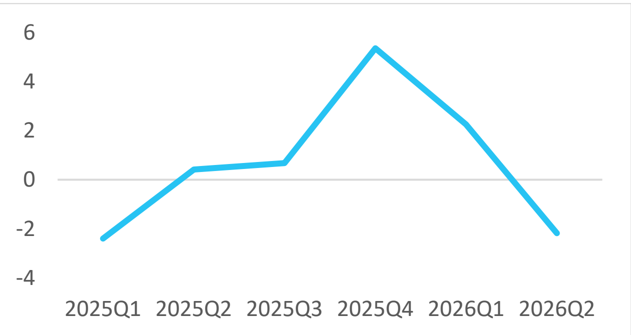
Services sector activity showed mixed developments in the first half of 2026. Tourism arrivals in the first half of 2026 fell by 14% to an estimated 12,954 visitors, although this represented a 4% increase on the same period a year earlier. Higher lending to the tourism sector also suggests continued investment and confidence in the industry's outlook.

Similarly, wholesale and retail trade softened, with the food and beverage import index declining to 133 from 175 at end-December 2025, indicating lower merchandise imports and weaker consumer demand. Despite this, lending to the wholesale and retail trade sector remained robust and continued to support business activity. Wholesale and retail trade is expected to expand in the second half of the year, supported by higher government spending and the implementation of donor-funded disaster relief assistance for communities affected by Tropical cyclone Maila.

Labour market conditions remained broadly stable in the first half of 2026. Total active and inactive SINPF contributors declined slightly to 61,694 from 61,829 at end-December 2025, suggesting a modest softening in employment conditions. In contrast, advertised job vacancies increased by 50% during the period, indicating an improvement in labour demand.

The output gap turned negative in the second quarter of 2026, estimated at -2.2% as domestic demand weakened relative to potential output. The widening spare capacity reflected weaker economic activity as higher energy costs reduced household purchasing power and weaker remittance inflows constrained consumption. Net exports also deteriorated as lower commodity prices reduced export earnings while higher fuel costs increased the import bill. Lower government capital spending also further weakened domestic demand.

Figure 7: Output gap estimates 2025Q1-2026Q2

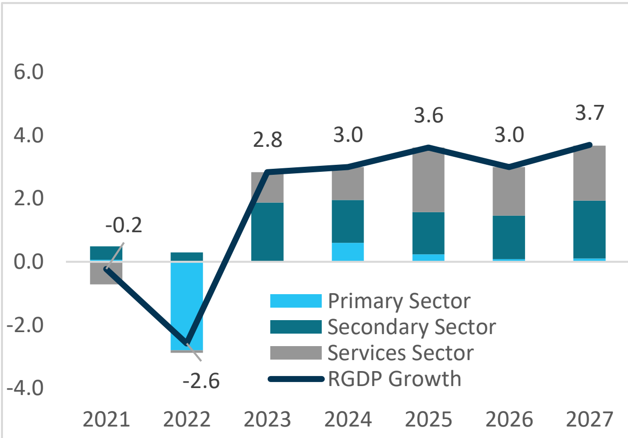


5.2. Growth outlook

The economic growth outlook for 2026 has been revised down to 3.0%, from 3.8% in the March 2026 MPS forecast. This downward revision reflects weaker-than-expected output in the primary and industrial sectors, including lower fisheries production and reduced mining activity, alongside softer domestic demand and higher energy costs.

Growth in 2027 has also been revised down to 3.7% from 4.2%, reflecting weaker agricultural and fisheries output amid less favourable weather conditions associated with El Niño. The effects are expected to emerge over the 6-12 months following the declaration of El Niño in June 2026.

Figure 8: Economic Growth Outlook 2026-2027



The services sector is expected to remain the main contributor to growth in 2026 and 2027, supported by higher government expenditure, continued donor support, improved domestic activity, and increased demand for trade, transport, communication, and other business-related services.

Growth is expected to strengthen gradually over the medium term, averaging around 4.5%, supported by a recovery in mining activity, continued infrastructure investment, donor-funded projects, and expansion in the services sector.

From the expenditure side, consumption is expected to remain resilient in the second half of 2026 and into 2027, supported by donor funded reconstruction activity following Tropical Cyclone Maila and higher recurrent and capital spending. These developments are expected to support household incomes and domestic demand through increased economic activity. However, elevated fuel prices are expected to weigh on household purchasing power and moderate consumption growth relative to the previous forecast.

5.3. Risks and Policies

Risks to the growth outlook remain tilted to the downside. Downside risks stem from adverse climate-related events, including El Niño[5], higher global oil prices, weaker prices for key export commodities, particularly copra and cocoa, persistent inter-island shipping constraints, and changes in government spending priorities. These factors could weigh on production, export earnings and domestic demand.

On the upside, stronger donor-funded infrastructure investment, continued governance reforms, and sustained expansion in the agriculture, tourism and mining sectors could boost economic activity. Continued investment in digital services and communications infrastructure would also enhance productivity and support growth.

Priority should be given to improving domestic shipping connectivity and expanding market access to enhance production and export competitiveness.

[5] The active El Niño event declared in June, with associated dry conditions and potential drought, poses a downside risk to agricultural and fishing output and domestic food supply.

6. Fiscal

Fiscal conditions weakened in the first half of 2026 as revenue declined and the fiscal deficit widened. However, stronger revenue collection and expenditure execution in the second half of the year are expected to support economic activity and growth. The temporary fuel tax exemptions introduced in response to higher global oil prices have also helped contain domestic price pressures, at some cost to government revenue. From a monetary policy perspective, higher donor support may increase liquidity, and stronger government spending may raise import demand.

6.1. Fiscal Conditions

Political developments during the first half of 2026 resulted in changes to government and fiscal policy priorities. The new administration has indicated a stronger focus on improving tax compliance, reducing tax exemptions, and strengthening resource taxation. At the same time, temporary fuel tax exemptions were introduced to limit the pass-through of higher global oil prices to domestic fuel costs. While the direct fiscal impact is expected to be limited, the measure has helped ease cost pressures on households and businesses.

The fiscal position weakened in the first half of 2026 as revenue fell faster than expenditure. Preliminary estimates indicate that the fiscal deficit could widen to $262 million (3.3% of GDP), from $187 million (2.5% of GDP) in the second half of 2025. Fiscal activity is expected to strengthen in the second half of the year, supported by stronger revenue collections and government expenditure.

Figure 9: Fiscal Balance

Source: MoFT, CBSI

Revenue performance softened against the second half of 2025 but remained broadly consistent with historical trends. Total government revenue fell by 11% to $2,044 million (25.9% of GDP), mainly due to lower tax and non-tax collections, but remained 5% above the corresponding period of 2025.

Lower capital spending was the main factor behind the decline in government expenditure. Total expenditure declined by 7% to $2,306 million (29.2% of GDP), largely reflecting lower capital spending, while recurrent expenditure increased by 1% amid continued operational and public service needs.

6.2. Fiscal Operations Outlook

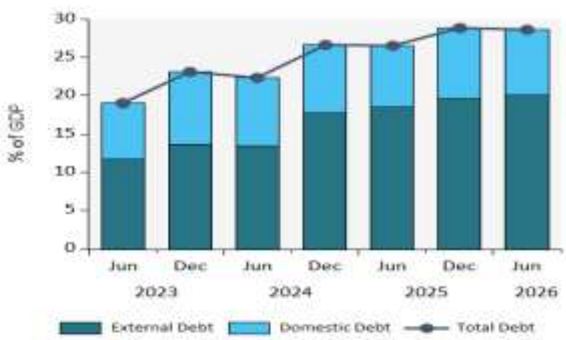
Fiscal activity is expected to firm up in the second half of 2026. The original 2026 Budget envisaged a deficit of $548.2 million (3.5% of GDP) supported by higher revenue collection, tighter expenditure control and higher donor inflow. However, a proposed supplementary budget[6] is expected to add $758.4 million, raising the projected fiscal deficit to $914.6 million (5.8% of GDP). The additional spending is largely directed towards Tropical Cyclone Maila, recovery and reconstruction, scholarships, infrastructure and rural development, and is expected to provide further support to domestic demand.

Government revenue is expected to strengthen in the second half of 2026 but remains subject to downside risks, particularly in fisheries-related non-tax revenue from potential El Niño-related shifts in tuna stocks. Government expenditure is projected to accelerate as budget execution improves and given the proposed supplementary budget.

6.3. Central Government Debt and Outlook

The total public debt stock continued to increase but remained within the Government's debt sustainability threshold. Total debt rose by 6% to $4,520.7 million (29% of GDP) in June 2026, from $4,274 million (29% of GDP) at the end of 2025, driven mainly by external loan disbursements. As a result, the share of external debt increased, resulting in a higher debt level than the Bank had initially projected for end-2026. Despite the higher debt stock, the Government continued to meet its debt servicing obligations.

Figure 10: Government Debt



Source: MoFT, CBSI

Public debt is expected to increase further in the second half of 2026, reaching around 32% of GDP, which remains below the Government's debt sustainability threshold of 35% of GDP. Continued borrowing and fiscal deficits could reduce fiscal space and increase risks to medium-term fiscal sustainability and macroeconomic stability.

[6] At the time of this report, the Supplementary Budget has not yet been passed by Parliament.

6.4. Fiscal Risks and Policies

Fiscal risks are tilted to the downside. The fiscal outlook faces both opportunities and challenges that could affect revenue performance and budget sustainability. On the upside, stronger enforcement of government compliance on tax exemptions is expected to improve revenue collection, while continued donor support for government programs under the new coalition government will help sustain public spending. However, downside risks remain significant, including declining government revenue from the logging and fishing sectors.

Strengthening domestic revenue mobilization and fiscal resilience is essential to addressing the current fiscal risks. In the long run, promoting private sector growth and employment can reduce pressure on the public wage bill and support more sustainable economic growth.

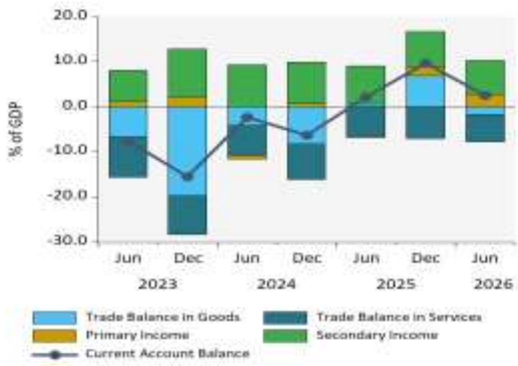
7. Balance of Payments (BOP)

The current account is projected to record a moderate deficit of around 2% of GDP in 2026, compared with 0.5% of GDP projected at the beginning of the year. The outlook initially deteriorated following the Middle East conflict, reflecting higher fuel import and freight costs. However, stronger donor inflows, including support for Tropical Cyclone Maila recovery and the government budget, have partially offset the wider trade deficit. Consequently, the overall balance of payments is expected to remain in surplus, with gross foreign reserves remaining at an adequate level in 2026.

7.1. BOP Outcomes

The current account balance narrowed to a surplus of $193 million (2.4% of GDP) in the first half of 2026, compared to a surplus of $717 million (10% of GDP) at the end of December 2025.

Figure 11: Current Account Balance



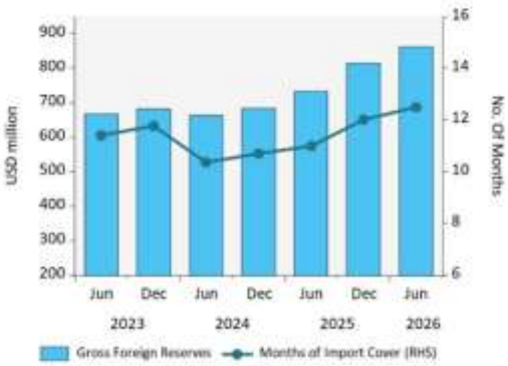
Source: CBSI

The narrower current account balance was driven primarily by a deterioration in the trade in goods balance to a deficit of $138 million. This reflected higher fuel prices amid the conflict in the Middle East, alongside lower export earnings associated with lower volumes and weaker commodity prices, particularly for copra and cocoa. This was compounded by a wider deficit in trade in services reflecting an increase in transportation outflows stemming from rising freight costs amid the conflict in the Middle East. However, higher donor inflows in support of Tropical Cyclone Maila recovery efforts and budget support helped to partially offset these pressures.

The capital and financial account recorded a surplus of $44 million in the first half of the year compared to end of December 2025, reflecting higher donor inflows. Overall, the balance of payments (BOP) recorded a surplus of $388 million (4.9% of GDP) in the first half of 2026. This outturn points to continued external support, with donor inflows in the current account remaining the key driver of the external surplus into 2026 and 2027.

Gross foreign reserves grew by 5% to $6.951 billion (USD 861.64 million) at end-June 2026, supported by the favourable BOP position. This level of reserves is sufficient to cover 12.5 months of imports, well above the Bank's minimum policy threshold of six months. Gross Foreign Reserves are projected to ease slightly to $6.850 billion by end-2026 as higher fuel import costs associated with the Middle East conflict increase import payments.

Figure 12: Gross Foreign Reserves



Source: CBSI

7.2. BOP Outlook

The current account is expected to remain in moderate deficit in 2026. The current account outlook for 2026 has been revised downward from the March 2026 MPS forecast. The initial forecast envisaged a small current account deficit of around 0.5% of GDP in 2026, reflecting lower logging exports, higher capital imports on public infrastructure projects. The external position was expected to be partly supported by ongoing donor inflows and mineral exports.

The escalation of tensions in the Middle East has since resulted in a substantial increase in global fuel prices and shipping costs. These developments are expected to increase the cost of imports and weaken the trade balance. The current account forecast was therefore revised to a deficit of around 5.5% of GDP at the end of the March quarter.

However, the latest assessment points to a more moderate current account deficit of around 2% of GDP in 2026, reflecting stronger-than-previously-expected donor-funded grants and concessional loans. These inflows are expected to support development projects and reconstruction and recovery efforts following Tropical Cyclone Maila.

The current account is expected to improve gradually over the forecast horizon as export activity recovers and global energy prices ease. Exports, particularly mining exports, are expected to strengthen from 2027, supported by ongoing projects and increased capital investment. At the same time, imports are expected to remain elevated, reflecting continued donor-funded development activity and investment-related demand.

The overall BOP is projected to remain in surplus in 2026, although the surplus has been revised down to around 0.6% of GDP. It is then expected to hover at around 1% of GDP over the medium term.

7.3. BOP Risks and Policies

Risks to the BOP outlook in 2026 have shifted to the downside, compared with the upside risks identified at the beginning of the year. The main downside risks include a further escalation of tensions in the Middle East, which could increase global fuel prices, raise import costs and place additional pressure on the trade balance. Additionally, weaker global prices for key agricultural exports, particularly copra and cocoa, could reduce export earnings. Ongoing inter-island shipping disruptions and adverse weather events, including tropical cyclones and El Niño conditions, could further constrain agricultural production and exports.

Conversely, upside risks stem from continued donor support and concessional financing, stronger mineral export earnings supported by favourable gold prices, a sustained recovery in tourism receipts, and higher infrastructure-related investment, which could improve external inflows and support the overall BOP position.

Policies relating to the BOP include strengthening the external position by accelerating investment in renewable energy to reduce reliance on fuel imports, promoting value-added exports, such as cassava, coffee, kava, and seaweed, and supporting export diversification more broadly. Increasing domestic food production to substitute for imports would also help ease pressure on the BOP.

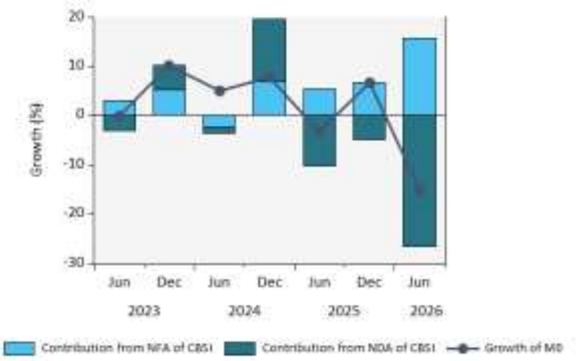
8. Monetary Sector

Monetary conditions moderated in the first half of 2026 following the strong expansion in monetary aggregates recorded at the end of 2025. Reserve money (M0) and broad money (M3) declined during the period, reflecting slower liquidity accumulation and changes in the composition of CBSI's balance sheet. Despite the decline in monetary aggregates, liquidity conditions in the banking system remained adequate. Private sector credit continued to expand at a moderate pace.

8.1. Monetary Outcomes

Reserve money contracted by 15% to $4,445 million in the first half of 2026, down from a 7% growth at end December 2025. The contraction was primarily driven by a rise in CBSI's net domestic assets (NDA) position to minus $2,121 million, reflecting the build-up of Government deposits held at the Central Bank. In contrast, CBSI's net foreign assets (NFA) increased by 4% to $6,563 million in June, supported by an increase in BOP (see Figure 13).

Figure 13: Drivers of Reserve Money (M0)



Source: CBSI

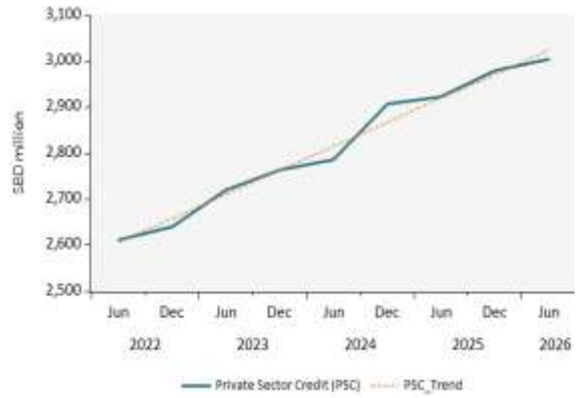
Broad money also fell marginally by 0.5% in the first half of 2026 to $7,308 million, following a 7% growth at end of December 2025. The decline reflected slower monetary expansion during the period, driven mainly by declines in narrow money (M1) and NFA of deposit-taking corporations (ODC). M1 declined by 10% to $6,222 million (35% of GDP), reflecting reductions in both currency in circulation and transferable deposits.

Banking system liquidity remained ample in the first half of 2026, although free liquidity moderated, falling below its trend from the elevated levels recorded in recent years (see Figure 14). Free liquidity declined by 19% to $2,605 million in June, from $3,231 million at end-December 2025, mainly reflecting a shift of funds from commercial banks' call accounts to government and donor accounts held at CBSI. The decline reflected a temporary redistribution of liquidity within the banking system rather than a tightening of overall liquidity conditions. As government and donor funds are disbursed into the economy, free liquidity is expected to increase in the second half of 2026.

Figure 14: Free Liquidity

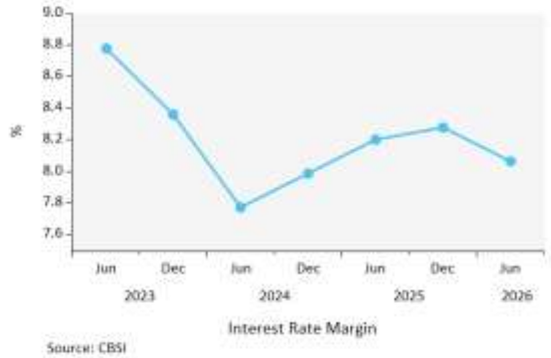
Private sector credit grew by 2% to $3.03 billion (19.1% of GDP) in the first half of 2026, although remaining slightly below its long-term trend (see Figure 15). The slight expansion was supported by higher lending to the distribution sector, particularly retail trade, alongside continued growth in personal loans and agriculture. Credit to the tourism sector especially hotels and related businesses recorded the largest increase, indicating improved business activity and investment in the industry. Private sector credit is forecast to expand moderately at 2% in line with the recovery in economic activity, while lending conditions are expected to remain accommodative.

Figure 15: Credit to Private Sector



The Weighted Average Interest Rate Margin (WAIR) narrowed to 7.98% over the six-months to June 2026 from 8.28% at end of December 2025 (see Figure 16).

Figure 16: Weighted Average Interest Rate Margin

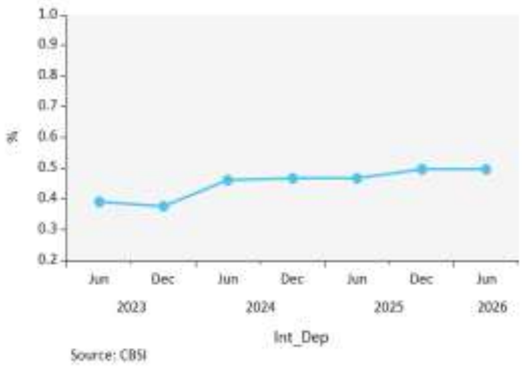


The marginal decrease came from the indicative weighted average (IWA) lending rate, which declined from 8.78% to 8.47% reflecting easing of loan rates for construction, distribution, tourism, transport & communication sectors (see Figure 17).

Figure 17: Weighted Average Lending Rate

Similarly, the indicative weighted average deposit rate eased to 0.48% from 0.50% in December 2025 (see Figure 18).

Figure 18: Weighted Average Deposit Rate



8.2. Open Market Operations and Exchange Rate

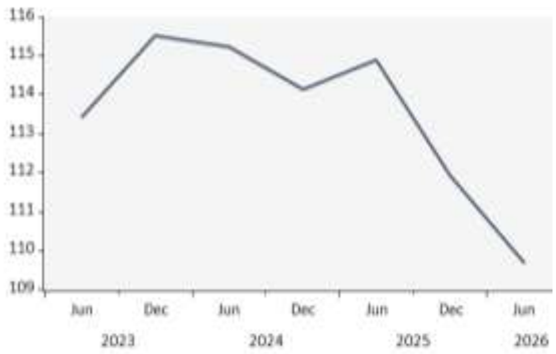
8.2.1. Open Market Operations - Bokolo Bills

In the domestic market operations, the total issuance of Bokolo Bills by CBSI during the first half of 2026 reached the subscription cap of $430 million. In terms of the interest rates, the weighted average interest rates (WAIR) for the Bokolo Bills remained at 0.40% at the end of June, unchanged from end-December 2025.

8.2.2. Exchange Rate

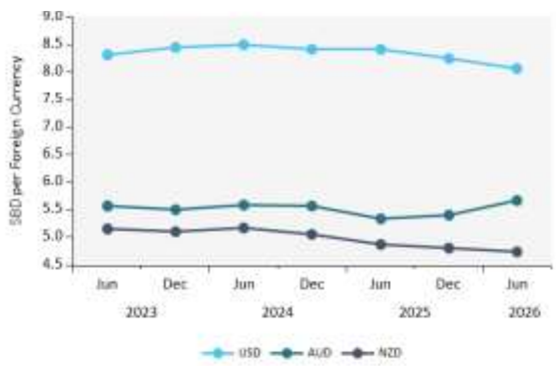
The Solomon Islands dollar (SBD) Trade-Weighted Index (TWI) basket strengthened by an average of 2% to 109.7 points in the first half of the year (see Figure 19).

Figure 19:Trade Weighted Index (TWI)



Against the major bilateral trading currencies, the SBD appreciated slightly by 0.2% against the USD to $8.12 per USD, providing some cushioning effect to contain the higher imported fuel prices in the second quarter of the year. The SBD also strengthened by 1% against the NZD to $4.81 per NZD. In contrast, the SBD depreciated by 5% against the Australian dollar (AUD) to $5.67 per AUD.

Figure 20: Exchange Rate



Source: CBSI

8.3. Monetary Outlook

Monetary conditions are expected to remain supportive, although monetary aggregates are projected to ease in 2026 relative to initial projections, reflecting the softer economic outlook. Growth in NFA, supported by mining-related foreign exchange inflows and continued donor budget support, is expected to underpin liquidity conditions, while M3 is projected to recover gradually over the medium term. M0 is expected to remain subdued in the near term, reflecting higher government deposits held at CBSI.

8.4. Monetary Sector Risks

Risks to the monetary sector are assessed as broadly balanced. On the upside, stronger fiscal performance and more favourable financing conditions could support domestic demand through higher investment and credit growth. On the downside, higher global oil prices could weaken private sector activity through rising production costs and slower credit expansion, while larger-than-expected donor inflows could further increase excess liquidity, reducing the effectiveness of monetary policy operations.

Table 1: Selected Economic Indicators, 2024-2027

Economic Indicators	2024	2025	2026	2027
Global Economy 1/			Projections	
Economic Growth				
World	3.3	3.4	3.0	3.4
China	5.0	5.0	4.6	4.1
Australia 2/	1.0	2.0	1.9	1.3
Inflation				
World	5.8	4.1	4.7	3.9
Australia 2/	2.4	3.6	4.0	2.4
Domestic Economy				
Economic Growth				
Real GDP growth 3/	3.0	3.6	3.0	3.7
Consumer Prices				
**Headline Inflation (y-o-y, 3mma)	4.6	0.4	5.7	...
**Core Inflation (y-o-y, 3mma)	1.9	1.2	0.2	...
Monetary Indicators	In percent of GDP			
Net foreign assets (NFA)	38.9	42.8	41.8	
Private sector credit	20.8	20.0	19.1	
Narrow Money (M1)	38.1	42.1	35.0	
Free liquidity	39.0	41.0	33.0	
Balance of payments				
Current account balance	-4.2	6.1	-2.1	-0.5
Trade balance in goods	-6.0	3.8	-1.5	-0.5
Gross foreign reserves (in US$ m, eop)	693	819.0	842	850
Import cover (in months)	10.7	12.4	12.5	12.7
Exchange rate (SI$/US$, period avg)	8.38	8.25	...	...
Fiscal Indicators	In percent of GDP			
Fiscal balance (+ = surplus)	-2.0	-4.3	-5.8	...
Government Revenue	28	27.6	25.9	...
Government Expenditure	29.5	32.0	29.2	...
Gross Government Debt	24.95	29.2	32.0	...

1/ IMF WEO July 2026 Update

2/ 2026 to 2027 GDP growth and inflation forecasts were sourced from Reserve Bank of Australia (RBA) Statement on May 2026

3/ 2024 provisional figure is published by the Solomon Islands National Statistics Office.

4/** Actuals are 3-months-moving average, yoy from SINSO, forecasts are from CBSI and Seasonally adjusted for monetary policy.