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

CBSI PR 04.2017 **Monday 3rd April, 2017**

Press statement

Monetary Policy Stance – March 2017

At its meeting on March 29 2017, the Board of the Central Bank of Solomon Islands (CBSI) resolved to maintain the accommodative monetary policy stance for the next six months. CBSI Governor and Chairman, Mr. Denton Rarawa said the low inflation environment provided policy space for the Bank to continue with its accommodative monetary policy stance to allow the economy to grow.

Governor Rarawa remarked that inflationary pressures continued to ease in the second half of 2016 despite an upward spike in oil prices towards end year. It came as a result of a general decline across the different categories, with food items as the lead driver. Headline inflation decelerated further to minus 2.9% in December. The appreciation of the Solomon Islands dollar (SBD) against the USD in the second half has helped to cushion energy price increases and contributed to falls in imported prices. This was complemented by market competition that drove down prices of some major items. However recent price developments show headline inflation has bottomed out in early 2017 and rising to negative 2.3% in February. Looking ahead, the Governor said headline inflation over the medium term is expected to rise to 3% -5%.

Governor Rarawa said the Bank will continue to maintain its exchange rate policy of pegging the SBD to a basket of currencies to cushion adverse volatilities. He noted that the trade-weighted index (TWI) that measures the performance of the local currency has appreciated marginally by 1.2% in the second half of 2016. This outturn came on the back of a stronger USD.

While, the SIG Treasury Bills and cash reserve requirement remained the same throughout 2016, the Bank increased its Bokolo Bills auction to $375 million per fortnightly or $750 million per month. This increase will enhance the Bank's monetary policy framework and contribute to financial sector deepening. The Governor assured stakeholders that there are sufficient liquid funds available in the banking system to support future lending.

The Governor said the domestic economy is forecasted to grow by 3.6% in 2017. The major drivers contributing to this growth are the services sector which is forecasted to contribute 2.6%, primary sector at 0.5% and industry by 0.6%. Governor Rarawa warned though that there are risks and challenges on the horizon, however the Bank is closely monitoring the performance of the economy and will take the appropriate actions if necessary.

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