CENTRAL BANK of SOLOMON ISLANDS

Article: 02/2017 **Sunday April 30th 2017**

CBSI Role in the Cash Cycle

By Daniel K Haridi, Chief Manager, Currency and Banking Department, CBSI

Many people still do not understand how cash circulates within our economy and often express their interest in knowing more about the role of Central Bank of Solomon Islands (CBSI) in this area. This article describes the role of the Central Bank in the cash cycle and aims to inform the public of how the cycle works in general, in order for people to understand and appreciate the role CBSI plays in maintaining smooth circulation.

The cash cycle

The cash cycle facilitates trading in the economy. Without cash as the medium of payment there is no exchange of goods and services. Central bank must ensure that there is sufficient cash flowing into the economy. CBSI does not get the cash for free, CBSI pays for the cash. The notes and coins are ordered from suppliers overseas. Generally, CBSI is the point at which the cash cycle starts and finishes. The cycle normally begins when CBSI issues notes and coins to commercial banks. Commercial banks then circulate the cash to meet the public demand.

Activities involved in the cash cycle

The two main operational components of the supply of cash are the ***wholesale activities and retail activities.***

Wholesale activities are done in partnership between the Central Bank and the Commercial Banks. Wholesaling basically concentrates in the capital city Honiara, where the main branches of the commercial banks are located. It is the process when CBSI issues money to commercial banks.

Retail cash distribution is the commercial banks responsibility. They decide on where they want to locate their ATMs *and* the pricing of cash services they offer at a particular location. In the end, customers of the entire cash cycle which is the public, purchase their retail services from the commercial banks and not the CBSI. The public does not purchase these services directly from the CBSI.

What happens at the end of the cycle?

After the complete cash cycle, CBSI determines whether a note is fit for recirculation. Notes and coins that are considered 'fit' for re-circulation are referred to as're-issuable' currencies because they are still in good quality. A 'fit' note must have the thread and head of an eagle on the watermark area visible to naked eye so one can authenticate the note easily. The 'unfit' or 'soiled' currencies are withdrawn by the Central Bank and destroyed. Soiled currencies are notes that are torn, defaced, stapled, discolored and written on. Security features on soiled currency notes are difficult to recognize so they are also difficult to authenticate and differentiate from counterfeits, leaving CBSI no choice but to terminate. Only CBSI has the authority and is given the responsibility to ensure that sufficient genuine, good quality cash is circulating in the Solomon Islands to meet public demand. This core function of the CBSI is described in Part 5 of the CBSI Act 2012.

The cost of buying new cash to replace the stock of currency at CBSI is drawn from the country's reserves. This constitutes a huge capital cost to the CBSI and the government of Solomon Islands. In the year 2015 alone, for instance, currency cost was around $10 million. Given the cost of buying notes, the public is encouraged to take good care of their dollar notes as well as understand the features that differentiate real notes from fake notes to always be alert on counterfeit activities. Below is a chart that portrays the cash cycle.

End//