



CENTRAL BANK OF SOLOMON ISLANDS

P.O. BOX 634, Honiara, Solomon Islands

CBSI PR: 14.2017

Tuesday 3rd September

Press statement

Monetary Policy Stance – September 2017

Following the CBSI Board meeting on 3rd October 2017, the Governor and Board Chairman Mr. Denton Rarawa advised that the CBSI will continue with an accommodative monetary policy stance over the next six months. The Governor said that the accommodative policy stance is appropriate given the slower growth in private sector credit, low inflation environment, and the need to support increased economic activities.

The inflation rate turned positive at 0.5% in June 2017 following an uptick in inflationary pressures especially from the domestic component. Imported inflation and core inflation are also rising but still below zero percent. Recent data for August showed headline inflation had risen further to 1.5% while core inflation was at minus 0.4%. With the recent uptick in price trends, the Central Bank projects headline inflation to rise to around the lower end of the 3% -5% range within the next six months.

Economic growth projection for 2017 has been marked down to 3.2% from the March projection of 3.6% as a result of the projected slowdown in the forestry sector and weak public finances. However, other sectors such as fishing, construction, wholesale and retail, transport and storage, and financial intermediation are expected to contribute positively to overall growth.

Governor Rarawa stressed that the Central Bank will maintain the 7.5% cash reserve requirement ratio. The Bank does not see any imminent threat to inflation from the excess liquidity levels in the system.

On the domestic securities market, Governor Rarawa once again welcomed the Government's initiative to issue \$150 million development bonds in March. This is a massive step forward in restoring public confidence in the securities market and is expected to lead to market deepening. Meanwhile, the CBSI Bokolo bills and the SIG Treasury bills will remain capped at \$355 million per fortnightly auction and \$40 million respectively.

The Governor further stated that the Central Bank will maintain the exchange rate policy of pegging the SBD to a basket of currencies as the basket peg had shown stable performances over recent years. The external reserves position at end August is more than sufficient to cover 10.6 months of imports of goods and services.

The CBSI projects the domestic economy to record growths that averages within the 3.0% - 4.0% range over the medium term (2018 – 2020). This is based on the assumptions that infrastructure spending would continue and supported by increased activities mainly from the agriculture, fisheries, mineral, construction, wholesale and retail, manufacturing, transport and storage, and financial intermediation sectors.

The CBSI will continue to monitor economic and financial developments and will take appropriate measures as and when it deems necessary.

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