CENTRAL BANK of SOLOMON ISLANDS

P.O. BOX 634, Honiara, Solomon Islands

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# Macroeconomic Update for the SI economy

The Central Bank of Solomon Islands (CBSI) provides the following macroeconomic update.

Domestic economic activities remained broadly weak across all sectors since the COVID-19 pandemic took hold two years ago. CBSI estimated that the Solomon Islands economy contracted by -0.6% in 2021, reversing the positive 0.4% recovery forecasted earlier in September 2021. This downgrade mainly reflected the adverse economic impact of the November riot which pushed the economy back into recession at the close of 2021.

Growth for 2022 is projected to further decline by -7.3%, owing to sluggish economic activities due to ongoing control measures to mitigate the impact of the pandemic. Underpinning the contraction is the adverse impact of the community transmission with associated lockdowns and daily curfews.

Over the medium term (2024-2025), the recession is expected to bottom out and the economy is projected to rebound by an average growth rate of 1.5%, as vaccination rate increases, and international border restriction eases.

Headline inflation remained subdued in 2021 and is expected to be contained at 3.2% by the end of 2022. Core inflation is projected to register at the upper band of 3.5% by end of 2022, on account of more pronounced supply constraints which outweighs the current weak demand in the economy. Elevated risks to this outlook remain and is subject to revision.

Against the back drop of expected decline in economic activities in 2022/2023, fiscal position is projected to remain in deficit amid expected lower domestic revenue collection and elevated spending commitments. With higher spending pressures, the fiscal deficit is projected to widen by 6% of GDP in 2022, or 9% of GDP with a fully-fledged policy response.

On the external front, the current account deficit is projected to widen by 9% of GDP in 2022, on the back of slower exports and FDI inflows. Although, this deficit is anticipated to be partially financed by the surplus capital and financial accounts, it is insufficient to offset the anticipated deficit over the medium term when economic activity is expected to pick up. Accordingly, gross foreign reserve is projected to slow down by an average of 1% over 2023-2025 but remain adequate for trading needs.

Meanwhile, developments in the monetary sector are expected to fall in 2022/2023 in line with growth forecasts. Over the medium term, monetary aggregates are expected to grow moderately, as the economy rebounds.

**Policy response**. The country is currently facing two key impending challenges – that of health and the economy. Policy reprioritization is presently critical to mitigate the economic fallout. CBSI will continue, as part of its mandate, to support the Government to address the economic challenges. It is also expected that other stakeholders and our development partners will continue to support the Government to address both these challenges. Finally, everyone should get their vaccination.

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