MONETARY POLICY STATEMENT

March 2024

CENTRAL BANK OF SOLOMON ISLANDS

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1. Overview

The world's economy proved resilient to tighter global monetary conditions in 2023, recording an expansion of 3.1% even as inflation declined faster than expected from its peak the previous year. Commodity prices fell markedly, with food prices down by 6% year-on-year and energy prices plummeting by as much as 37% globally. While both remain elevated, especially following a rebound in the latter half of 2023, they are projected to moderate further in 2024 and 2025. Overall, although the global growth outlook remains largely favourable, with similar expansion projected over the next few years, important challenges, both macroeconomic and geopolitical, remain ahead.

On the domestic front, economic activities in the latter half of 2023 showed mixed outcomes, with weaker-than-expected performance in the fishing, mining, and forestry sectors being offset by strong recovery in the transport, accommodation, and communication sectors. The latter sectors, in particular, were boosted by higher visitor arrivals and preparations ahead of the country's hosting of the 17th Pacific Games (PGs). Labour market conditions improved, too, following a surge in both Solomon Islands National Provident Fund (SINPF) contributions and advertised vacancies.

Meanwhile, headline inflation in Solomon Islands decelerated to 3.5% in December from the 5.2% recorded in June 2023, following a moderation in domestic energy and food prices in spite of a temporary spike in global oil price in the fourth quarter. Similarly, core inflation eased to 3.5% over the same period from June's 5.8%, remaining however elevated due to a host of both supply and demand factors. In spite of these improvements, headline inflation is forecast to rise to 5.1% by June 2024, before moderating to 3.5% by year's end. Core inflation, on the other hand, is expected to ease slightly to 3.2% by mid-year and then further decline to 2.5% by December 2024. Additionally, time lags in the pass-through of international prices into the local economy, such as the sudden rise in fuel prices between August and October last year, as well as supply disruptions caused by heavy rains at the beginning of the year could also result in persistently high inflation over the next six months. Finally, commodity price spikes arising from ongoing geopolitical tension or possible weather shocks could translate into greater domestic price fluctuations.

In line with economic expansion, monetary conditions remained buoyant in the second half of 2023, with most key monetary indicators registering growth. Moreover, the average interest-rate margin between loans and deposits declined during the last six months of the year.

On the other hand, Solomon Islands' overall external position exhibited a reduced surplus in the latter half of 2023 relative to the prior six months, on the heels of a wider current account deficit which outweighed an increased surplus in the capital and financial accounts. Gross foreign reserves increased over the period in line with the overall surplus.

Fiscal conditions, too, worsened in the six months to December 2023, primarily due to a substantial rise in Government spending aimed towards the country's hosting of the PGs paired with lower revenue collection. As a result, the fiscal deficit widened to $695 million, financed through a considerable increase in Central Government debt.

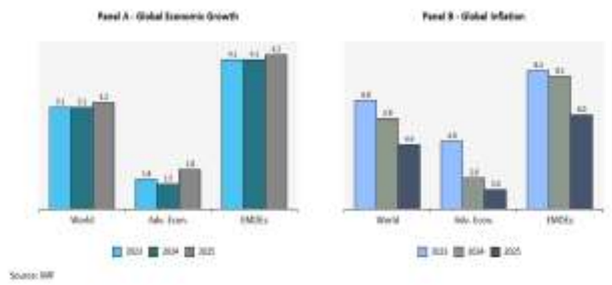
In line with these recent economic developments, growth in Solomon Islands is projected to soften from 4.0% in 2023 to 2.9% in 2024. The forecast relies on expected growth in the mining, fishing, and agricultural sectors, with modest pick-up anticipated in construction and manufacturing activities. These sectors are projected to collectively offset the anticipated decline in forestry. Over the medium term (2025-2028), growth is expected to remain positive at 2.5%, buoyed by post-pandemic recovery and the planned development projects as well as encouraging prospects for global growth.

Overall, risks to the growth outlook just outlined are tilted downwards due to a variety of factors, such as political uncertainty stemming from the 2024 National General Election (NGE); Solomon Islands' vulnerability to natural disasters and climate fluctuations; a declining forestry sector; poor infrastructure, an inefficient transport system and limited fiscal cushions. Externally, ongoing geopolitical tensions in Europe and the Middle East might conspire to weaken the outlook further. On the upside, stronger-than-anticipated global economic growth as inflation retreats globally, greater donor support for infrastructure development, the expansion of the regional labour mobility scheme and plausible opportunities to host major regional sports events in 2024 and beyond could contribute positively to growth over the medium term.

2. International Economic Developments

The global economy is estimated to have expanded by 3.1%[1] in 2023, with projections indicating sustained growth at similar levels in 2024 before a slight rise to 3.2% in 2025 (refer to Figure 1 – Panel A). Notably, the 2024 forecast marks a 0.2 percentage-point (pp) increase from the previous projection in the October 2023 World Economic Outlook (WEO); this adjustment is attributed to increased growth resilience in advanced economies, paired with upgrades in growth forecasts for China and several major Emerging Market and Developing Economies (EMDEs).

Figure 1: Global Economic Growth and Inflation



For advanced economies, growth is expected to soften from 1.6% in 2023 to 1.5% in 2024, primarily due to subdued growth in the United States as the lagged effects of earlier monetary policy tightening, gradual fiscal contraction, and labour-market easing all contribute to a slowing in aggregate demand. However, a rebound to 1.8% is projected for 2025, driven by economic recovery in the Euro area and moderate growth in the United States. Conversely, growth is projected to remain stable in EMDEs at 4.1% in 2023 and 2024, with a slight uptick to 4.2% in 2025 supported by galloping domestic demand.

In the Pacific region, Australia registered weak economic growth in 2023, with projections of further subdued growth into 2024 due to lingering inflationary pressures and earlier interest rate hikes weighing on aggregate demand. However, growth is expected to pick up gradually thereafter, as inflation subsides and pressures on household incomes ease. In New Zealand, the slow growth of 2023 is forecast to persist into 2024, as increased consumer spending from high net immigration and a modest housing-market recovery are counteracted by tight domestic monetary conditions and reduced export demand.

In terms of commodity prices, the latter semester of 2023 saw a partial reversal of the price declines registered during the first half of the year. In particular, the International Monetary Fund (IMF)'s primary commodity price index increased by 4% between June and December 2023, while the energy index registered a 6% increase over the same period. Conversely, the food index experienced a slight 2% decline.

Global headline inflation is forecast to fall from 6.8% in 2023 to 5.8% in 2024 and further to 4.4% in 2025, on the back of favourable global supply developments and restrictive monetary policies (refer to Figure 1 – Panel B). This downward trend in inflation can be identified across both advanced economies and EMDEs, thanks to prolonged monetary-policy tightening, relative softening in labour markets, and pass-through effects from earlier declines in energy prices. Regionally, inflation in Australia and New Zealand is expected to gradually ease from the elevated levels registered in 2022 and 2023 and to eventually return to their Central Banks' target ranges of 2-3% and 1-3%, respectively, by 2025.

Risks to this outlook are broadly balanced. Potential growth upsides include faster disinflation, which might lead to an easing of financial conditions, loose fiscal policy causing temporary growth spikes, and an acceleration in Chinese economic recovery benefitting global growth. On the other hand, a prolonged tightening of monetary conditions and ongoing conflict in the Middle East present downside risks to the outlook, with continued attacks on key global shipping routes in the Red Sea potentially deepening supply-chain disruptions and causing new commodity price hikes.

3. Domestic Economic Developments

3.1. Monetary Conditions

Most key monetary indicators exhibited an upward trend in the latter half of 2023. Notably, Reserve money (M0), broad money (M3), narrow money (M1), private sector credit (PSC), and excess liquidity all experienced growth during this period. Meanwhile, interest-rate margins from Other Depository Corporations (ODCs), such as

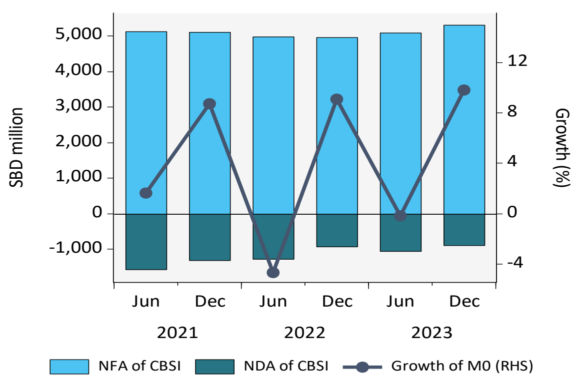
[1] Unless otherwise indicated, all statistics in this section are obtained from the International Monetary Fund (IMF) World Economic Outlook (WEO), January 2024 Update.

commercial banks and credit unions, decreased further in the six months to December 2023.

3.1.1. Reserve Money

Reserve money (M0) saw a surge of 10% to $4,425 million in the latter half of 2023, reversing the 0.2% decline observed in the first six months of the year. This outcome was driven by increases in both currency in circulation and the call account balances of ODCs, which grew by 13% to $1,404 million and by 6% to $2,956 million, respectively. The growth in M0 is reflective of a 4% rise in the Net Foreign Assets (NFA) to $5,314 million and a 16% decline in Net Domestic Assets (NDA) to minus $882 million.

Figure 2: Drivers of Reserve Money (M0)



Source: CBSI

3.1.2. Money Supply

The money supply (M3) expanded by 8% to $6,158 million in the latter half of 2023, undoing a 2% decline in the first six months of the year. This growth was underpinned by an 11% increase in M1 to $5,143 million, while other deposits contracted by 2% to $1,015 million. On the sources' side, both NFA and NDA of the banking system contributed to this growth, with NFA increasing by 4% to $5,569 million and NDA registering a significant surge of 60% to $638 million during the review period.

3.1.3. Credit Conditions

Total bank lending to the private sector grew by 1.6% to $2,763 million (21% of GDP) in the latter half of 2023, compared to $2,719 million (20.6% of GDP) in the preceding six months. This growth was triggered primarily by lending by ODCs, which increased by 2% to $2,741 million over the period.

Figure 3: Credit to Private Sector

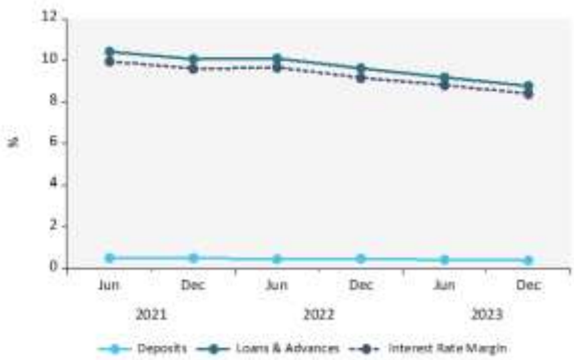
Source: CBSI

Key sectors supporting this growth included personal loans, construction, distribution, transport, and communication, while lending to manufacturing, forestry, tourism, and professional and other services declined.

3.1.4. Interest Rates

The interest-rate margin from ODCs declined further to 8.36% in December from 8.78% in June 2023. The decline is attributable primarily from a continued reduction in indicative weighted average (IWA) rates for both lending and deposits, though with greater declines for the former.

Figure 4: Interest Rates



Source: CBSI

In particular, lending rates dropped from 9.17% to 8.74%, while deposit rates dipped from 0.39% in June to 0.38% in December 2023. This outcome was broad-based, reflected in sectors such as manufacturing, agriculture, fisheries, distribution, construction, and entertainment and catering.

3.1.5. Open Market Operations

The weighted average interest rate for Bokolo bills remained unchanged at 0.24% throughout the latter half of 2023. Although the issuance of Bokolo bills was capped at $430 million, slight under-subscription resulted in a stock of $414 million being held by participating banks as of December 2023. Similarly, the stock of Treasury bills issued grew to $95 million by year's end, up from $86 million six months prior. The weighted average yield (WAY) for the 91-day T-bills remained at 0.50%, while the WAYs for the 182-day and 365-day bills rose from 1.77% to 2.39% and from 2.10% to 2.60% during the review period, respectively.

3.1.6. Liquidity Levels

Free liquidity in the banking system increased by 6% to $2,629 million (19.9% of GDP) during the latter half of 2023 from $2,474 million (18.8% of GDP) in the first half. This growth is attributable to a rise in the Central Bank's NFA, reflecting higher inflows and export receipts as well as the drawdown of government deposits from the banking system. Consequently, excess liquidity edged higher by 6% to $2,420 million (18.4% of GDP) during the review period.

Figure 5: Liquidity

Source: CBSI

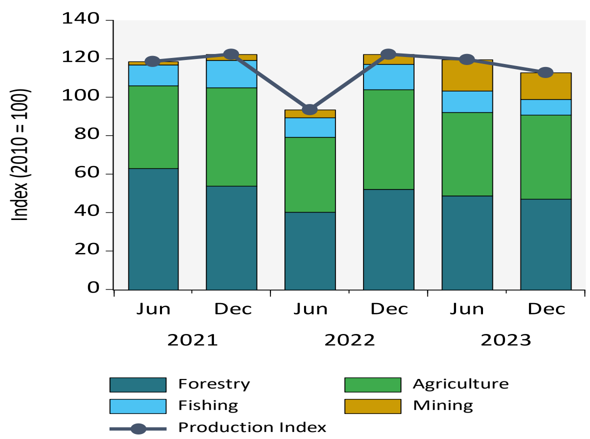
3.2. Domestic Conditions

In the latter half of 2023, domestic economic activities displayed a mixed performance, characterised by weaker outcomes in forestry, fishing and mining with a robust recovery in the services sector. The downturn in these sectors is partly attributable to the Government's reallocation of funds and resources away from line Ministries and towards the hosting of the 2023 PGs in November. Additionally, the prolonged period of power disruptions and load-shedding which resulted from mechanical issues experienced by Solomon Power's generators and lasted over four months between May and August 2023, led to decreased productivity and revenue losses, imposing additional costs on businesses and offices in Honiara. On the other hand, the successful hosting of the 2023 PGs had beneficial spill-over effects, contributing to growth in transport, accommodation, communication, wholesale and retail, and other business services.

3.2.1. Production Index

CBSI's production index experienced a decline of more than six points in the latter half of 2023, reaching an index value of 113. This negative outcome was driven by weaker performances in the fishing (3-point reduction), forestry (2 points), and mining (2 points) sectors. By contrast, the agriculture sector saw slight growth (1-point increase), attributed to greater crude palm oil production during the period. In year-on-year terms, the production index dropped by nine points, indicating weaker performances overall in the primary sector in 2023.

Figure 6: Production Index

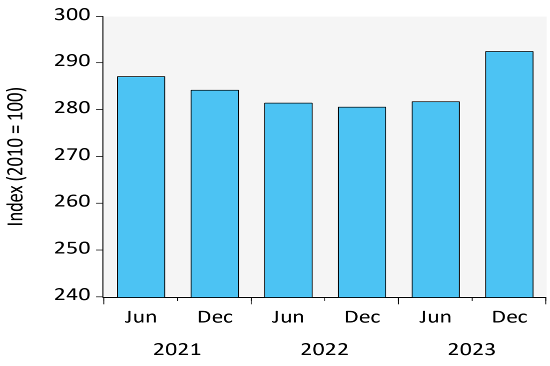


Source: CBSI

3.2.2. Manufacturing

The manufacturing index rose by 11 points to a value of 293 in the latter half of 2023. This increase reflected heightened production of manufacturing goods for both domestic consumption and exports, driven by increased demand in the latter six months of the year.

Figure 7: Manufacturing Index



Source: CBSI

3.2.3. Other Sectors

Provisional figures for visitor arrivals surged to 17,041, compared to 8,955 arrivals in the preceding six months. Air arrivals dominated this increase, reflecting a large number of PGs-related visitors, as well as visitors travelling for holiday as well as businesses or conferences. Cement imports, a proxy indicator for investment, decreased significantly as construction of major sports facilities for the PGs was completed in the first half of the year. Meanwhile, various public infrastructure projects continued both in Honiara and throughout the Provinces, including the East Honiara Road upgrade funded by the Japan International Cooperation Agency (JICA), the West Honiara Road rehabilitation financed by the Asian Development Bank (ADB), the new National Referral Hospital (NRH) Comprehensive Medical Centre funded by the People's Republic of China, ongoing developments to the water treatment plant supported by ADB and the World Bank, and other infrastructure projects funded under the Solomon Islands Road and Aviation Project initiative.

The Business Perception Survey conducted by CBSI in January 2024 reveals improvements in business conditions, profitability and revenue turnovers over the second half of 2023. The outlook for business profitability and firms' perception of the overall economy is positive, indicating growing business confidence for the next six months.

3.2.4. Employment

Labour market conditions improved over the second half of 2023, as indicated by a 3% increase in the number of SINPF contributors (active and slow active), up to 57,151. This was driven by rises in the mining sector as well as construction, transportation and storage, wholesale and retail, utilities, and hotels and restaurants. Moreover, the number of job vacancy advertisements surged by 56% to 1,498 vacancies during the six months to December.

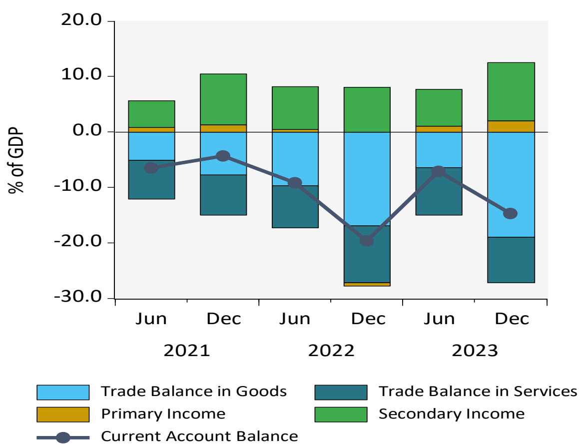
3.3. External Conditions

The country's Balance of Payments (BOP) position exhibited a reduced surplus of $92 million in the latter half of 2023, down from a $126 million surplus in the preceding six months. This outcome is primarily due to a widening current account deficit which outweighed an increased surplus in the capital and financial accounts. In line with the surplus, gross foreign reserves rose by 3% relative to June 2023, reaching $5,775 million at the end of December 2023.

3.3.1. Current Account

The current account deficit widened to $996 million (14.7% of GDP) in the second half of 2023 from a revised $472 million deficit (7.2% of GDP) in the first six months. This is reflective of a weaker balance of trade for goods and services, which outweighed the increase in primary and secondary income surpluses.

Figure 8: Trade and Current Account



Source: CBSI

In particular, the deficit in the trade in goods widened significantly to $1,248 million, up from $423 million in the first half of the year, primarily following a notable 36% surge in imports to $3,039 million. The increase was driven by higher imports across major categories, including food, fuel, machinery and equipment, basic manufactures, crude materials, beverages and tobacco, all bolstered by the country's hosting of the PGs in November 2023. On the other hand, exports receipts remained virtually unchanged at $1,814 million, due to a lacklustre export performance from major commodities over the period.

Meanwhile, the trade in services deficit deteriorated to $544 million during the six months to December 2023 from $561 million in the previous six months. This is reflective of higher payments for transport, travel and other services, boosted by increased economic activity and spill-overs from the 2023 PGs.

In addition, the primary income surplus almost doubled to $136 million in the latter half of 2023, elevated by increased fishing licence receipts and compensation of employees. Similarly, the secondary income surplus surged by 58% to $689 million during the same period due to higher donor grants, both in cash and in-kind, and rising inward remittances.

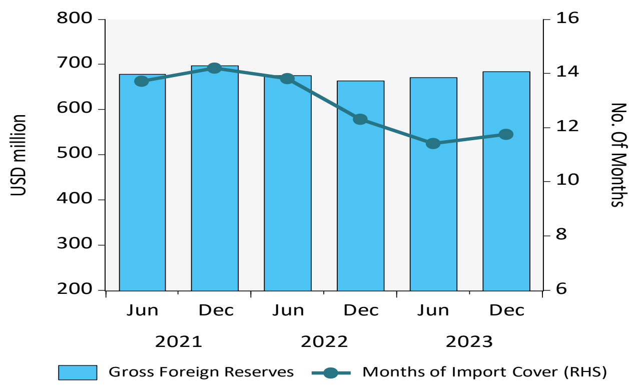
3.3.2. Capital and Financial Accounts

The surplus in the capital and financial account expanded to $925 million in the latter half of 2023, up from $727 million in the preceding six months. This positive outcome was driven by a significant rise in net foreign direct investment, particularly in the mining sector, which counteracted the reduction in donor capital inflows resulting from the completion of PGs-related construction projects.

3.3.3. *Foreign Reserves*

The country's gross foreign reserves grew by 3% to $5,775 million at the end of December 2023, supported by net inflows of $52 million and loan repayments to the IMF. This level of reserves remains sufficient to cover 11.8 months of imports of goods and services.

Figure 9: Gross Foreign Reserves

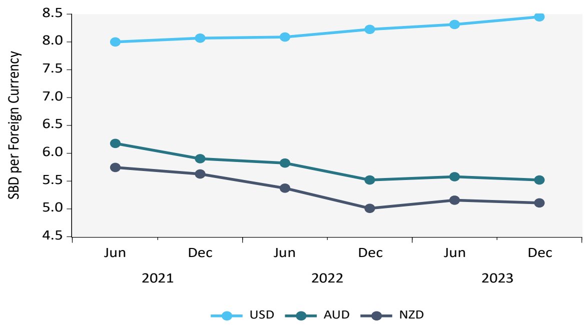


Source: CBSI

3.3.4. Exchange Rate

Global currency movements, particularly the strengthening of the US Dollar (USD), led to a 1.8% depreciation of the Solomon Islands dollar (SBD) against the country's Trade-Weighted Index (TWI) to 115.5 points. Bilaterally, the SBD depreciated against the USD by 1.6% to $8.44 per USD, while it appreciated against both the Australian Dollar (AUD) and the New Zealand Dollar (NZD) by 1.1% to $5.51 per AUD $5.10 per NZD, respectively.

Figure 10: Nominal Bilateral Exchange Rates



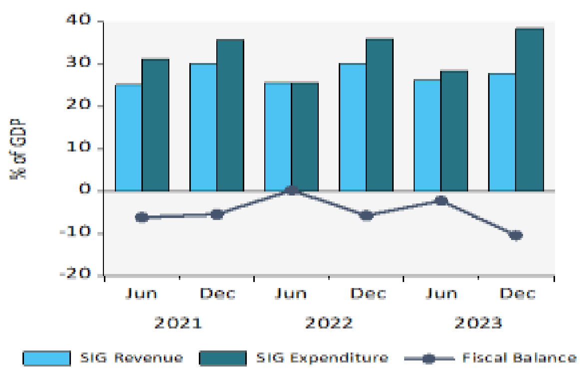
Source: CBSI

The country's Nominal Effective Exchange Rate (NEER) appreciated by 1.7 % to 121.9. Similarly, the Real Effective Exchange Rate (REER) on average appreciated by 1.7% to 135.6, reflecting only marginal inflation differentials between Solomon Islands and its trading partners over the period.

3.4. Fiscal Conditions

Fiscal conditions deteriorated markedly in the latter half of 2023, with the fiscal deficit widening to $696 million (10.6% of GDP) from the revised $154 million deficit (2.3% of GDP) recorded in the first half of the year. This outcome was attributable to a substantial rise in Government spending in the second half of the year, primarily geared towards the country's hosting of the 17th Pacific Games, against weak revenue collection during the same period.

Figure 11: Fiscal Balance



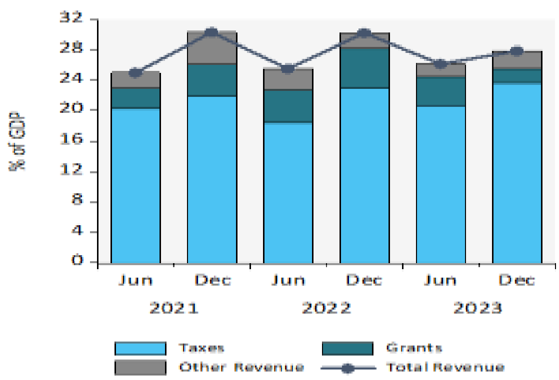
Source: MoFT, CBSI

In line with the larger deficit, the Central Government's debt balance worsened during the latter half of 2023 as the funding shortfall was financed through increased domestic borrowing by way of development bonds.

3.4.1. Revenue

Total Government revenue grew by 6% in the second half of 2023, reaching $1,833 million (27.8% of GDP) and thus exceeding the Government's pro-rata budget by 3%. Revenue levels were supported by more rigorous efforts to elicit tax-payer compliance, while grant receipts from donor partners slowed down over the period due to the phasing-out of PGs-related construction support.

Figure 12: Government Revenue



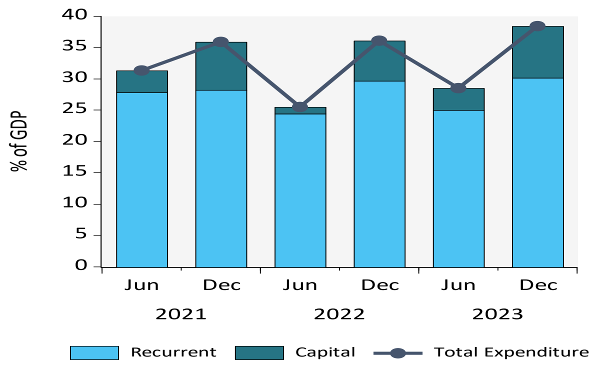
Source: MoFT, CBSI

Tax revenue, which accounted for 85% of total revenue, rebounded by 15% to $1,557 million in the six months to December, exceeding the half-yearly budget by 12%. This increase was broad-based, with income tax in particular rising by 19% to $571 million due to improved tax compliance. Similarly, taxes on goods and services surged by 21% to $393 million, mainly from greater excise duty, whereas trade-related taxes increased by 7% to $593 million, reflecting higher imports. On the other hand, grants receipts, which contributed 6% of the total revenue, declined to $119 million from the $254 million recorded in the first six months of 2023. Finally, non-tax revenue jumped by 39% to $157 million, driven by higher fishing licence fees.

3.4.2. Expenditure

Total expenditure grew significantly by 35% in the latter half of 2023, reaching $2,529 million (38.4% of GDP) relative to the previous six months. This was driven by increases in both recurrent and development spending. Overall, expenditure exceeded the bi-annual budget by 4% and spending for the same period in 2022 by 10%.

Figure 13: Government Expenditure



Source: MoFT, CBSI

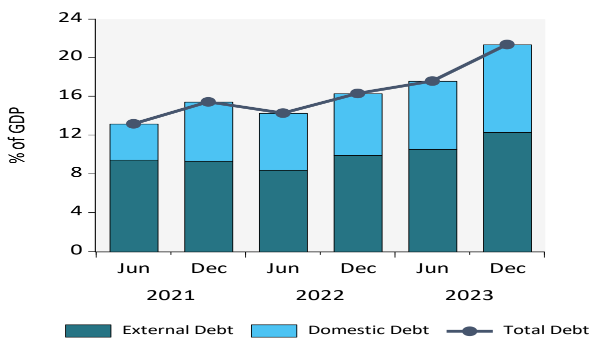
Recurrent spending, which comprised 78% of total expenditure, increased by 21% to $1,984 million in the six months to December 2023. The rise was driven primarily by a notable 57% surge in the purchase of goods and services to $824 million and a 7% increase in payroll costs to $912 million. On the other hand, benefits and grants as well as interest payments both declined over the period, by 7% to $227 million and by 3% to $20 million, respectively

Total capital expenditure, accounting for the remaining 22% of the total spending, more than doubled in the latter half of the year to $545 million, up from the $233 million spent in the prior semester. This outcome reflected higher capital spending during the PGs period. However, this was 7% lower than the semi-annual budget for the period.

3.4.3. Central Government Debt Stock

The total outstanding Central Government debt stock surged by 21% in the latter half of 2023 to $2,811 million, fuelled by both external and domestic debt accumulation. This value is equivalent to 21.3% of GDP, up from 17.6% in the earlier half of the year.

Figure 14: Government Debt



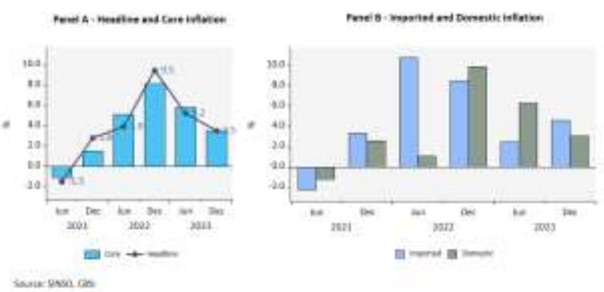
Source: MoFT, CBSI

In particular, the external debt stock rose by 16% to \$1,619 million due to the incurrence of additional debt worth \$233 million for infrastructural upgrades in the transport, water and sanitation, and communication sectors. Meanwhile, the domestic debt balance increased by 29% to \$1,192 million as a result of the issuance of development bonds, Treasury Bills and the facilitation on a temporary advance by the CBSI to the Government during this period.

3.5. Inflation Developments

Solomon Islands' headline inflation[2] decelerated to 3.5% in December, down from 5.2% in June 2023. This was driven by a decline in domestic inflation, reflecting a fall in domestic food prices. Meanwhile, imported inflation rose to 4.6% in December 2023 from 2.5% in June. This outcome is attributable to historically high rice prices and a temporary spike in the global oil price following the outbreak of the Israel-Hamas conflict in October 2023.

Figure 15: Inflation



Core inflation (which excludes items subject to price control, excise taxes and volatile items) declined to 3.5% in December 2023 from 5.8% in June. Despite this reduction, it remains elevated due to both demand and supply factors. On the supply side, it is bolstered by persistent downward-rigidity in price-setting within the domestic economy, as well as logistical bottlenecks caused by the poor state of infrastructure, raising input costs for a broad spectrum of productive activities. On the demand side, core inflation is being fuelled by the recent pick-up in economic activity and consumer spending as the economy continues its recovery from the COVID-19 pandemic.

The CBSI Price Monitor, which tracks developments in the prices of selected items in Honiara, increased to an index value of 130 in December 2023 from 105 in June 2023. The rise was driven by higher prices for diesel, rice, electricity, and betelnut. In light of the persistent inflationary pressures experienced in Solomon Islands during the second half of 2023, CBSI maintained a tight monetary policy stance up to the end of the year, as outlined in the September 2023 MPS.

4. Domestic Economic Outlook

4.1. Real Economy Outlook

The economic outlook for 2024 and into the medium term is positive but fragile. Growth is projected to stand at 2.9% in 2024, up from previous forecasts of 2.6%. The upward adjustment is consistent with the anticipated growth in the economy. Mining, fishing and agriculture are expected to be the key drivers of growth, with moderate expansion also in construction, manufacturing, and wholesale and retail activities. These sectors are projected to collectively offset the anticipated contraction in the forestry sector in the near-to-medium term. Downside risks to this outlook remain, however, including the impact of climate change on productive sectors, political uncertainties stemming from the 2024 NGE, delays in implementation of growth-stimulating policy priorities by the Government, and the domestic repercussions of ongoing geopolitical tension.

Looking ahead, growth is projected to abate to 2.5% in the medium term. This is because while buoyed by continued post-pandemic recovery, the staggered implementation of planned development projects and encouraging prospects for global growth, this outlook also considers domestic challenges, such as rising costs of doing business, and potential risks to the outlook.

Such risks are overall tilted to the downside due to the country's vulnerability to natural disasters, climate fluctuations, a declining forestry sector, an inefficient domestic transportation system, inadequate infrastructure and limited fiscal space. Externally, a potential escalation of conflicts in Europe and the Middle East might weaken the outlook further. Nevertheless, there exist plausible opportunities for upside growth including stronger-than-anticipated global economic growth as inflation abates globally, greater donor support for infrastructure development, and the expansion of the Pacific Australia Labour Mobility (PALM) scheme. Additionally, the hosting of regional sports events in 2024 and beyond could contribute positively to growth over the medium term.

[2] Computed as the year-on-year growth rate of the three-month moving average (3MMA) Consumer Price Index (CPI)

However, ensuring sustained medium-to-long-term growth necessitates the redirecting of policy. This involves identifying new avenues for economic expansion, replenishing fiscal reserves to address the aftermath of any natural disasters and unforeseen shocks, and mobilising resources to achieve the United Nations' Sustainable Development Goals. It further entails meeting the objectives outlined in the 2035 National Development Strategy to enhance the social and economic well-being of all residents of Solomon Islands.

Table 1: Selected Economic Indicators, 2019-2025

Economic Indicators	2019	2020	2021	2022	2023	2024	2025
Global Economy 1/			Prel.	Prel.	Est.	Proj.	Proj.
Economic Growth	Annual % change unless otherwise indicated						
World	2.8	-3.2	6.3	3.5	3.1	3.1	3.2
China	6.0	2.3	8.4	3.0	5.2	4.6	4.1
Australia	1.9	-2.9	5.2	3.8	1.8	1.4	2.1
Inflation							
World	3.5	3.2	4.7	8.7	6.8	5.8	4.4
Australia 2/	1.8	0.9	3.5	7.8	4.1	3.2	2.8
Domestic Economy							
Economic Growth	Annual % change unless otherwise indicated						
Real GDP growth	1.7	-3.4	2.6	2.4	4.0	2.9	2.5
Consumer Prices (y-o-y)							
Headline Inflation (eop, 3mma)	2.8	-1.8	2.8	9.5	3.5	3.5	...
Core Inflation (eop, 3mma)	2.6	-1.4	1.5	8.1	3.5	2.7	...
Monetary Indicators	In percent of GDP						
Net foreign assets (NFA)	34.6	39.9	41.9	38.9	39.2	37.6	34.2
Private sector credit	19.8	20.8	21.4	20.7	20.4	19.9	19.2
Narrow Money (M1)	29.1	34.3	36.2	37.2	38.0	37.0	35.6
Free Liquidity	12.0	17.2	19.4	19.5	19.4	18.9	18.2
Balance of payments	In percent of GDP unless otherwise indicated						
Current account balance	-9.5	-1.6	-5.1	-14.4	-11.0	-3.5	-6.1
Trade balance in goods	-2.3	-1.7	-6.4	-13.2	-12.2	-8.6	-10.5
Gross foreign reserves (in US$ m, eop)	576	661	695	660	688	686	663
Import cover (in months)	11.9	13.3	14.2	12.3	11.8	11.8	11.4
Exchange rate (SI$/US$, period avg)	8.2	8.2	8.0	8.2	8.4	...	...
Fiscal Indicators	In percent of GDP						
Fiscal balance (+ = surplus)	-2.6	0.8	-1.7	-2.9	-7.0	...	...
Government Revenue	28.0	33.9	30.3	27.8	23.5	...	...
Government Expenditure	30.6	33.1	32.0	30.8	32.6	...	...
Gross Government Debt	8.1	11.5	15.4	16.3	20.8	...	...

1/ IMF WEO January 2024 Update
2/ 2024 to 2025 forecasts were sourced from RBA Statement on Monetary Policy, Febraury 2024.
The actual inflation figures for 2019 to 2022 were sourced from Australian Bureau of Statistics website

4.2. Fiscal Outlook

Despite encountering fiscal challenges in 2023 due to the reallocation of public funds towards the hosting of the PGs and the 2024 NGE, the Government managed to finance its deficit through a combination of budgetary support from bilateral partners, domestic borrowing, and greater tax-payer compliance efforts. Consequently, a narrowed fiscal deficit is projected for 2024, amounting to 2.3% of GDP, and thus lower than the 7% recorded in 2023. This expected improvement is primarily attributed to anticipated lower spending on the part of the care-taker Government ahead of the NGE in April 2024; thereafter, expenditure is expected to rise, as a new Government is sworn in and roll outs its new policies.

This forecast is consistent with the key policy priorities outlined in the 2024 budget, such as the boosting of resilience in order to achieve sustainable economic growth and the enhancement of service delivery to the population. Nonetheless, financing the deficit will remain a significant challenge in 2024, given the limited cash reserves available to the Government and the fact that many institutions are nearing the ceiling for participation in the domestic bond market.

In order to alleviate fiscal burdens, the government may wish to intensify efforts to elicit greater tax compliance, reduce tax credits, and keep expenditure in check by adhering to stricter efficiency control measures, as well as reallocate its expenditure towards productive sectors that can generate greater revenue for the country. Over the medium term (2025 to 2028), the fiscal balance is expected to shift towards a surplus, estimated to stand at 2% of GDP on account of the increase in revenue generated by economic growth over the same period.

4.3. External Outlook

The outlook for the external sector for 2024 is weak, with a projected narrowing in the current account deficit being largely offset by a declining surplus in the capital and financial accounts. This outcome is reflective of lower expected capital imports and donor grants compared to previous years, when both had been bolstered by PGs-related construction projects. The projected decline in logging activity, the country's high dependency on imported consumption goods, particularly food and fuel, and the significant increase in imports related to proposed donor-funded projects are also anticipated to weaken the overall BOP position further in 2024 and into the medium term. This scenario additionally foresees weak export growth in the absence of new avenues for export growth, primarily due to a decline in the forestry sector and slower mining growth as the sector reaches full capacity. Hence, gross foreign reserves, while ample at present, are likely to come under increasing strain over the medium term.

4.4. Monetary Outlook

Most key monetary indicators, such as broad and reserve money, total liquidity and private-sector credit, are projected to grow in 2024 in line with increased economic activity and an expected expansionary fiscal policy in the year ahead. Moderate growth in money aggregates is then expected to continue over the medium term, reflecting a positive growth outlook for the economy as a whole. Nevertheless, downward external-sector projections, notably a gradual decline in both NFA and GFRs, could weigh on growth expectations for these monetary indicators over the medium term.

4.5. Inflation Outlook

Solomon Islands' headline inflation stood at 3.5% in December 2023, surpassing projections made for the same period in the September 2023 MPS by 2.2 percentage points (pp). The deviation is attributable to revisions made by the Solomon Islands National Statistics Office (SINSO) to CPI data for the first half of 2023, accounting for 0.9 pp of the upward adjustment, as well as unforeseen geopolitical developments causing fuel prices to diverge from forecast trends, which can explain the remaining 1.3 pp increase. Contrary to forecasts in the September 2023 MPS, global oil prices experienced a temporary upsurge from August to October due to crude oil production cuts by OPEC+ members and spill-over effects from the Israel-Hamas conflict. This, in turn, resulted in higher domestic prices for fuel and electricity in the final quarter of 2023. Given the dependence on fuel imports for energy generation, transportation and key inputs to production, short-term volatility in global crude oil prices can significantly impact inflation projections in Solomon Islands.

Considering the lags in the transmission of international prices to the local economy and the pass-through effect into domestic prices, the sudden rise in fuel prices in October 2023, coupled with higher import prices for food, is forecast to substantially raise inflation in the first quarter and, to a lesser extent, in the second quarter of 2024. Additionally, the typical four-month rainy season at the beginning of the year, paired with possible extreme weather events, may result in supply disruptions for garden root crops, vegetables, fruits, and betelnut, further pushing up prices.

Against this backdrop, headline inflation is forecast to rise from 3.5% in December 2023 to 5.1% in June 2024. Headline inflation is then projected to moderate to around 3.5% in the second half of 2024, in line with easing global commodity prices; however, uncertainties remain, especially on the upside.

Meanwhile, core inflation was recorded at 3.5% in December 2023, easing from 5.8% in June and reflecting price declines in non-food and non-energy items during the period. It is expected to ease further to 3.2% in June 2024, and then decline to 2.5% in December 2024. The forecast for core inflation accounts for trends in key input costs to production, including shipping freights, port charges and electricity, as well as non-production costs, such as the heightened repairs and maintenance expenditure that result from the poor conditions of the roads and possible increased waiting times from ports congestions or logistical glitches, all of which are embedded into the final selling price of consumer goods.

Whilst headline and core inflation are both projected to decline, the risks to inflation are tilted to the upside. First, while global inflation and international oil prices have eased and are expected to stabilise, geopolitical tensions and trade disruptions, such as those affecting the Red Sea, could lead to unexpected short-term volatility in international commodity prices, and thus in turn translate into domestic price fluctuations, especially in the presence of downward price-rigidity. Secondly, prolonged delays in fixing the roads and bridges on the outskirts of Honiara that were damaged by heavy rains in January 2024 may result in supply disruptions for some market products in Honiara, and thus lead to persistently higher prices. Finally, inefficiencies in operations as well as logistical challenges, from port congestions to the poor road conditions, may increase waiting times and generate additional costs for the Solomon Islands consumers.

5. Monetary Policy Stance

In spite of the significant progress made over the course of 2023 in bringing inflation in Solomon Islands back down to appropriate levels, underlying inflationary pressures have not fully dissipated yet. In particular, supply and demand factors, both domestic and international, may lead to a resurgence in inflation in the months to come. The CBSI has thus resolved to maintain a tight monetary policy stance for the coming six months, in order to ensure that inflation stabilises within the desired range while also supporting growth. Nevertheless, the CBSI retains the flexibility required to take appropriate actions should any large shocks to the domestic economy occur.