MONETARY POLICY STATEMENT

September 2025

CENTRAL BANK OF SOLOMON ISLANDS

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Unless otherwise indicated, the cut-off data used to prepare the 2025 September Monetary Policy Statement was 31 July 2025.

1. Overview

The global economy faces renewed headwinds from rising trade tensions and policy uncertainty. The International Monetary Fund's (IMF) July 2025 World Economic Outlook (WEO) Report projected growth to slow from 3.3% in 2024 to 3.0% in 2025, before edging up to 3.1% in 2026. Growth in advanced economies is expected to moderate, while activity in emerging markets and developing economies (EMDEs) is projected to ease. In China, growth has been revised upward, supported by stronger-than-expected activity, while in Australia, growth has been downgraded with recovery expected to be gradual amid higher uncertainty. Global inflation is set to decline at a slower pace. Risks to this outlook are tilted to the downside.

Domestic activity in the first half of 2025 was mixed, with weaker outcomes in production, manufacturing, and investment, but favourable performances in the construction, wholesale and retail trade, utilities, and tourism sectors. Labour market conditions remained supportive.

External conditions strengthened, with the balance of payments recording a higher surplus. This reflected improvements in the current account, leading to a 5% increase in gross foreign reserves.

Headline inflation increased to 3.7% in June 2025 from 2.4% in March, driven by higher domestic prices for food, alcoholic beverages and tobacco and housing and utilities. Headline inflation is expected to ease in the second half of 2025, remaining within the CBSI's desired range.

Core inflation rose to 1.7% in June 2025, from 1.2% in March. While broadly consistent with earlier projections, the outcome was lower than the 2.3% forecast in March, reflecting softer underlying demand. Core inflation is expected to remain near the lower bound of the Bank's desired range of 1% - 3% by the end of 2025.

Monetary developments were mixed, with money supply (M3) and private sector credit rising, whilst reserve money and liquidity declined, and the interest rate margins widened.

Fiscal conditions weakened during the first half of 2025 as higher expenditure outweighed revenue gains. The central government debt continued to rise, driven by additional external loan disbursements and increased issuance of treasury bills and development bonds.

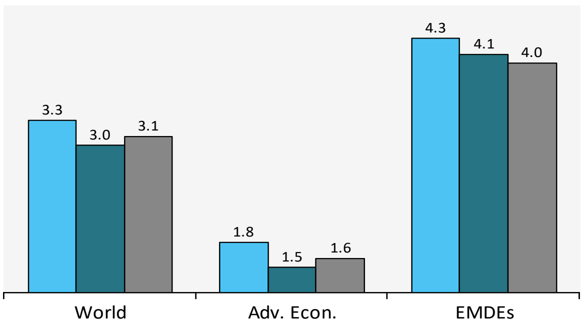
Against this backdrop, the Solomon Islands' economy is projected to grow by 2.7% in 2025, in line with the March forecasts. This is supported by recoveries in agriculture and fisheries, expansions in mining, construction, and manufacturing sectors, and steady performances across the services sectors. Over the medium term, economic growth is expected to stabilize around 2.6% - 3%, assuming no new sources of growth emerge.

Risks to the domestic outlook are broadly balanced. On the upside, favourable commodity prices for key exports, government initiatives and support towards the agriculture sector, ongoing bilateral donor support for infrastructure, and stable growth in trading partners' economies could spur growth. Downside risks include potential adverse weather impacts on agriculture and fisheries, continued weakness in the forestry sector, and ongoing inefficiency in inter-island shipping services. Furthermore, uncertainty on global outlook and geopolitical tensions could disrupt trade, raise global commodity prices, weaken external demand, and have negative spill-over effects on domestic growth and inflation.

2. International Economic Developments

Following a resilient performance in 2024, the global economy is now dealing with another substantial headwind—rising trade tensions and heightened policy uncertainty. With these forces in place, economic prospects across most of the world's economies remain precarious. Global growth is projected to slow from 3.3% in 2024 to 3.0% in 2025. A tepid recovery of 3.1% is expected in 2026[1], still below the pre-covid historical average of 3.7%. Advanced economies are expected to experience lacklustre growth, declining from 1.8% in 2024 to 1.5% in 2025 before picking up slightly to 1.6% in 2026. Meanwhile, growth in EMDEs is expected to fall from 4.3% in 2024 to 4.1% in 2025 and further to 4.0% in 2026.

Figure 1: Global Economic Growth

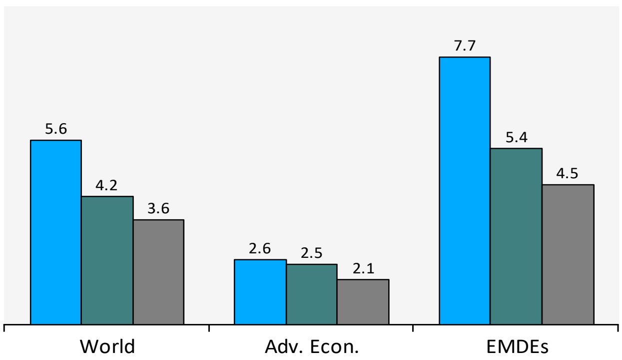


Source: IMF

Growth among Solomon Islands' key trading partners showed mixed trends. China's economy expanded by 5.0% in 2024, supported by strong exports and targeted stimulus measures. Despite continued external pressures on exports and a prolonged property market slump, quarterly growth in 2025 improved to 5.4% in the March quarter and 5.2% in the June quarter. This mirrored ongoing fiscal support and accommodative monetary policy. Consequently, China's 2025 growth forecast has been revised upward to 4.8%, a 0.2 percentage point (pp) increase from the January 2025 WEO. In Australia[2], a gradual economic recovery is expected in 2025, with growth estimated at 1.6% in the June quarter. This was 0.2pp lower than the May forecast, reflecting weaker-than-expected growth in public demand. Growth is projected to edge up to 1.7% by December and 2.1% in 2026, supported by a pick-up in private demand and easing monetary conditions.

As anticipated in January, global inflation continued to decline, though trends vary across countries. Global inflation stood at 5.6% in 2024 and is expected to decline to 4.2% in 2025 and 3.6% in 2026, supported by cooling demand and falling energy prices. Excluding the United States, inflation in advanced economies is expected to reach target earlier than in EMDEs (except China), reflecting falling energy prices and tariff-induced negative demand shocks. This represents upward revisions of 0.4pp and 0.1pp from the January 2025 WEO, to 2.5% in 2025 and 2.1% in 2026, respectively. This suggests a slower disinflation path than previously anticipated.

Figure 2: Global Inflation



Source: IMF

Inflation in Solomon Islands' key trading partners, China and Australia showed mixed results. In China, inflation remained muted at 0.2% in 2024 and is projected to bottom out at 0.0% in 2025 before expanding to 0.6% in 2026. Meanwhile, in

[1] Unless, otherwise indicated, all statistics in this section are obtained from the International Monetary Fund (IMF) World Economic Outlook (WEO), July 2025.

[2] Growth estimates and projections for Australia are sourced from the Reserve Bank of Australia, Statement on the Monetary Policy, August 2025

Australia[3], underlying inflation returned to the 2-3% target range in the March quarter and is expected to remain around the midpoint by year end. Headline inflation is expected to increase to 3% over the second half of 2025 as electricity rebates expire, before easing to 2.9% in late 2026 and returning to the midpoint over the forecast horizon.

Global commodity prices have fallen since April, with the IMF's primary commodity price index declining from 172 points in February to 166 points in June. The fall was driven by lower energy prices, reflecting weaker global demand following the April announcement of new US tariffs and increased oil production by OPEC+. Brent crude oil prices declined from US$79.21 per barrel (bbl.) in January to US$71.45 bbl. in June and are expected to fall further into 2025, amid weaker demand, rising trade tensions, policy uncertainty and larger-than-expected supply by OPEC+.

In terms of key imported food items for Solomon Islands, rice prices continued to decline, with quarterly rice prices falling to an average of US$378 per metric ton (mt) in the June quarter of 2025 from an average of US$409/mt in March. It is expected to fall further in the second half of 2025, owing to ample global production and India's export relaxation. Similarly, wheat prices have also declined to an average of US$242/mt and is expected to decrease slightly in 2025, before edging up in 2026 as stocks tighten. These favourable global commodity price movements are expected to help contain imported inflation in 2025 and 2026.

Overall, risks to the global economic outlook remain tilted to the downside. Ongoing trade policy tensions, fiscal policy adjustments in China, and potential tariff escalations—particularly among the U.S. and major economies—could weaken global demand and reduce market efficiency. Over the medium term, continued policy uncertainty, rising fiscal deficits, and growing investor risk aversion could raise long-term interest rates and tighten global financial conditions, with implications for fiscal sustainability and financial stability.

3. Domestic Economic Developments

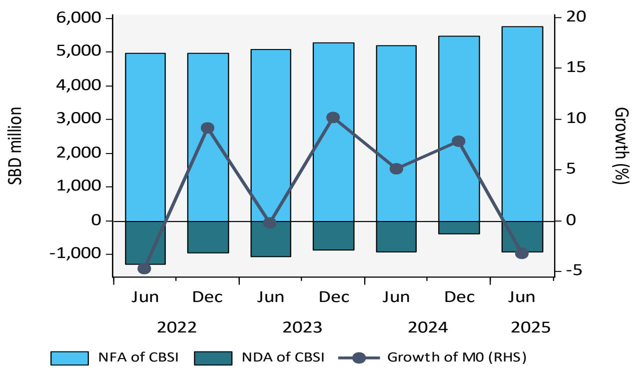
3.1. Monetary Conditions

Monetary indicators showed varied outcomes in the first half of 2025. Money supply (M3), net foreign asset (NFA), and private sector credit (PSC) all firmed up. In contrast, reserve money and liquidity declined, while the weighted average interest rate (WAIR) margin offered by Other Depository Corporations (ODCs) increased during the review period.

3.1.1. Reserve Money

Reserve money declined by 3% to $4,868 million in the first half of 2025, down from an 8% growth in the latter half of 2024. The decline reflected a 7% reduction in ODCs' liabilities while currency in circulation grew by 6% to $1,547 million. The fall in reserve money was driven by the increase in the NDA of the Central Bank from minus $394 million to minus $897 million despite a 6% increase in NFA of CBSI to $5,772 million.

Figure 3: Drivers of Reserve Money (M0)



Source: CBSI

[3] Inflation outcomes and projections for Australia are sourced from the Reserve Bank of Australia, Statement on the Monetary Policy, August 2025

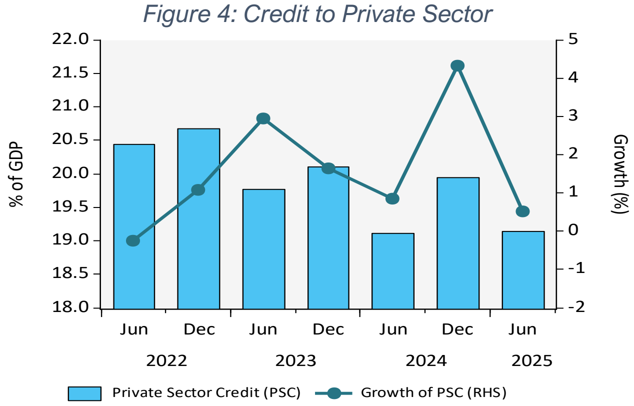
3.1.2. Money Supply

Money supply (M3) firmed up by 7% to $6,866 million, from a 2% increase in the second half of 2024. The growth in M3 was driven by M1, expanding by 9% to $5,815 million notwithstanding a 4% decline in other deposits to $1,051 million. The increase in money supply stemmed mainly from an 8% surge in NFA of the banking system to $6,176 million during the period.

3.1.3. Credit Conditions

Lending to the private sector edged up by 0.5% in the first half of 2025 to $2,922 million (19% of GDP), following a 4% increase in the second half of 2024. Growth was driven primarily by lending from ODCs, which rose by 0.3% to $2,891 million. Increases were recorded in household (personal) loans, and in lending to the construction, transport, fisheries, and professional services sectors. Offsetting these gains, lending to the distribution, communication, manufacturing, and tourism sectors declined over the period.

Figure 4: Credit to Private Sector

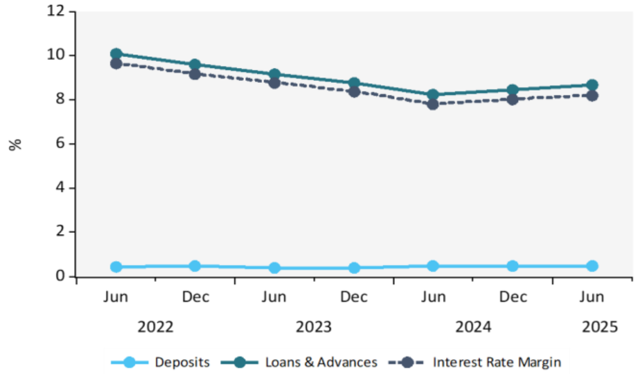


Source: CBSI

3.1.4. Interest Rates

The ODC's interest rate margin widened slightly to 8.20% in June 2025, from 8.19% in December 2024. This reflected a marginal increase in the indicative weighted average (IWA) lending rate from 8.66% to 8.67%, while the average deposit rate remained at 0.47%. The rise in lending rates was largely attributable to higher rates in the forestry, construction, distribution, and tourism and communication sectors.

Figure 5: Interest Rates



Source: CBSI

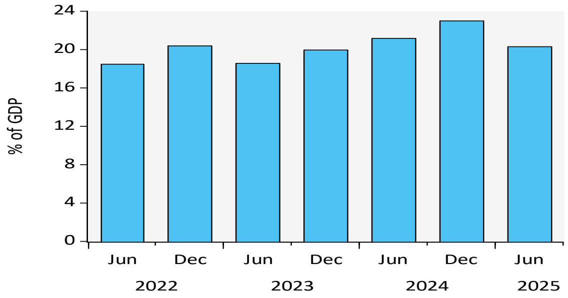
3.1.5. Open Market Operations

The total issuance of Bokolo Bills by CBSI during the first half of 2025 reached the subscription cap of $430 million, up from $227 million at the end of the preceding half-year. Meanwhile, the outstanding stock of the Treasury Bills (T-Bills) issued during the same period increased to $194 million, compared to $176 million in the second half of 2024, and remain within the statutory ceiling of $200 million. In terms of the interest rates, the weighted average interest rates (WAIR) for the Bokolo Bills edged up to 0.38% in June 2025, from 0.35% in December 2024. Meanwhile, the weighted average rates for 182 days and 365 days T-Bills decreased from 2.41% to 2.39% and 2.61% to 2.60%, respectively. Meanwhile the WAIR for 91 days remained unchanged at 1.15%, as in the preceding six months.

3.1.6. Liquidity Levels

Free liquidity in the banking system contracted by 8% to $3,103 million (20% of GDP) in the first half of 2025, compared to $3,359 million (22% of GDP) recorded in the second half of 2024. The decline was underpinned by the reduction in deposits held in call accounts at CBSI.

Figure 6: Liquidity



Source: CBSI

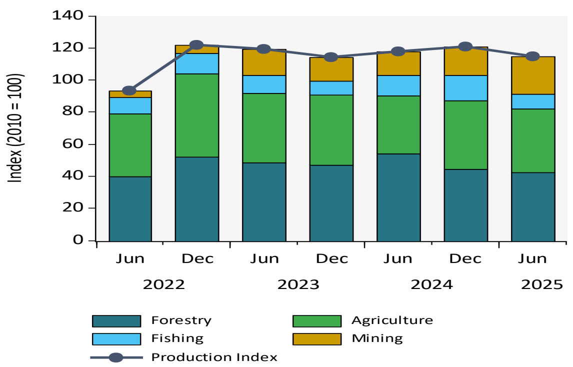
3.2. Domestic Conditions

Domestic economic activity in the first half of 2025 exhibited mixed outcomes. Key indicators for production, manufacturing, and investment weakened. In contrast, consumption indicators and activity in the construction, wholesale and retail trade, utilities, and tourism sectors showed favourable outcomes. Labour market conditions remained supportive throughout the period.

3.2.1. Production Index

The CBSI's production index declined to 115 points in the first half of 2025, from 121 points in the second half of 2024. This negative outturn was primarily driven by weaker performance in agriculture, reflecting lower copra, cocoa and coconut oil output, forestry, and fisheries sectors, due to unfavourable weather conditions. These outweighed robust performance in mining supported by higher production and export prices.

Figure 7: Production Index

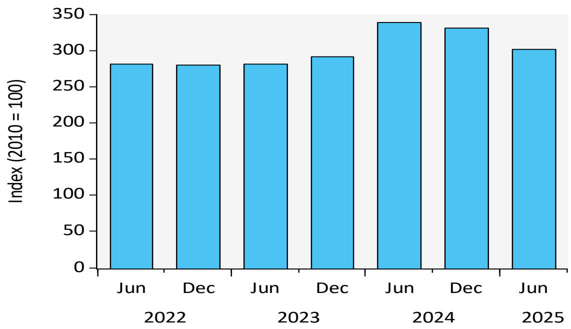


Source: CBSI

3.2.2. Manufacturing

The CBSI manufacturing index fell to 303 points in the first half of 2025, from 331 points in the second half of 2024. The decline was driven by lower output in both domestic and export-oriented manufacturing. The manufacturing index for export declined by 10% to 615 points, reflecting lower canned tuna and tuna loin productions, likely attributable to lower fish catch. The domestic index fell by 5% to 154 points, owing to lower manufacturing of alcoholic and non-alcoholic beverages.

Figure 8: Manufacturing Index



Source: CBSI

3.2.3. Other Sectors

Other indicators showed mixed outcomes in the first half of 2025. Electricity generation rose by 3% to 56,924 MWh, and sales grew by 2% to 45,811 MWh compared to the second half of 2024. Year-on-year comparisons reflected similar trends, underscoring moderate growth in demand and business activity in Honiara. In contrast, water consumption declined by 7% to 2,572 ML on both a half-yearly and annual basis, driven by higher water tariffs and service disruptions. Despite the lower overall consumption, water sales rose by 2% during the half-year, supported by demand from high-usage consumers, particularly in the commercial and industrial sectors.

Food and beverages import index dropped by 22% compared to the second half of 2024, indicating seasonal patterns in consumption and import behaviour. Nonetheless, on a year-on-year basis, imports rose by 12% reflecting higher imports related to the construction, and wholesale and retail sector.

Cement and paint imports index, used as a proxy for construction activity, increased by 7% over the half-year and 12% compared to the same period in the previous year. This growth is primarily driven by ongoing donor-funded infrastructure projects, such as the Tina Hydro project, road construction, and various other public sector developments, which continued to sustain construction activity.

3.2.4. Employment

Labour market developments were mixed in the first half of 2025. Total contributors to the Solomon Islands National Provident Fund rose by 3% to 61,387 contributors, indicating a gradual improvement in formal employment and participation. In contrast, advertised job vacancies fell by 5% over the half-year and by 18% year-on-year to 709, reflecting, in part, the subdued economic activity observed in the first half of this year.

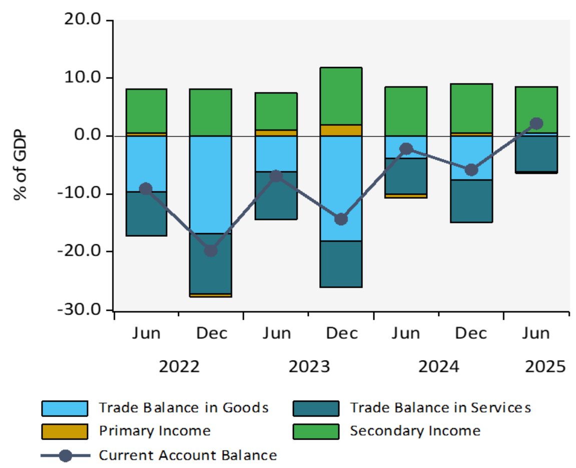
3.3. External Conditions

The Balance of payment (BOP) overall position surged by 16% to $383 million surplus (5% of GDP) in the first half of 2025 from a revised $329 million surplus (4% of GDP) in the second half of 2024. This outcome stemmed from the improvement in the current account balance, outweighing the reduction in the capital and financial accounts surplus. Gross foreign reserves increased by 5% to $6 billion over the period.

3.3.1. Current Account

The current account balance recorded a surplus of $167 million in the first half of 2025, from a deficit of $422 million recorded in the preceding six months. This outcome was primarily attributable to $47 million surplus in goods trade balance posted at the end of June 2025 compared to $556 million deficit in the second semester of 2024. This was driven by favourable export prices in the agriculture and mining sector. In contrast, imports fell by 13% following declines in food, mineral fuels and machinery and transport equipment.

Figure 9: Trade and Current Account



Source: CBSI

Meanwhile, the deficit in the trade in services narrowed to $468 million, following a pick-up in receipts for services such as telecommunications, construction, and other business services despite the increase in Government payments on goods and services. At the same time, the primary income recorded a deficit of $11 million, attributed to higher dividend payments in the first half of 2025. The secondary income surplus reduced to $599 million due to increase in outward remittances during the period.

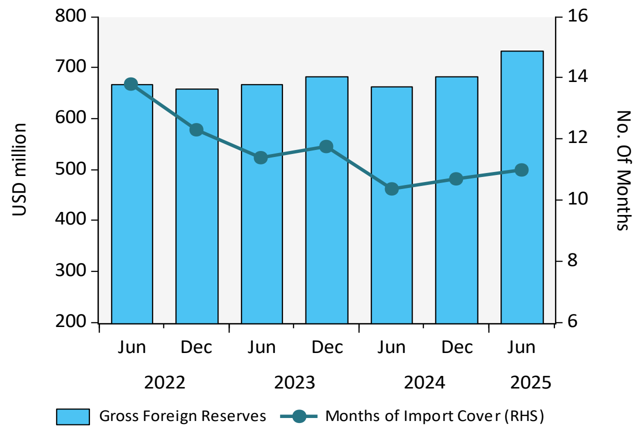
3.3.2. Capital and Financial Accounts

The Solomon Islands' capital and financial account surplus declined substantially to $262 million from $659 million posted in the latter half of 2024. This outcome reflected slower inflows of donor capital grants and higher outflows in the financial account due to an increase in currency and deposits held by depository institutions abroad.

3.3.3. Foreign Reserves

The country's gross foreign reserves grew by 5% to $6,118 million (USD727.4 million) in June 2025, underpinned by BOP inflows. This level of reserves is sufficient to cover 11 months of imports of goods and services.

Figure 10: Gross Foreign Reserves

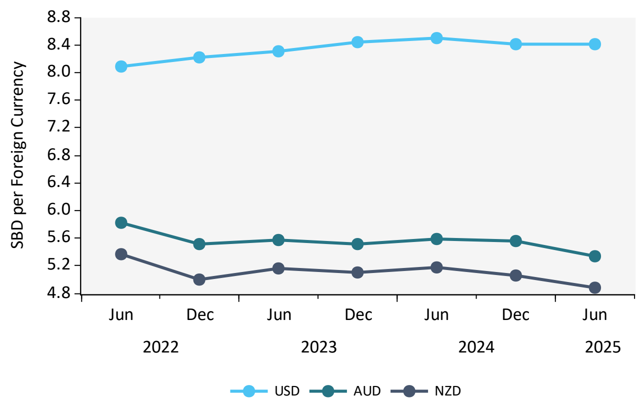


Source: CBSI

3.3.4. Exchange Rates

The Solomon Islands dollar (SBD) depreciated by 0.7% on average against the Trade Weighted basket to 114.9 points during the first six months to June. In terms of the bilateral trading currencies, the SBD remained at $8.41 per USD as in the same period last year. It strengthened against the Australian dollar (AUD) by 4.2% to $5.33 per AUD and 3.7% against the New Zealand dollar (NZD) to $4.88 per NZD.

Figure 11: Nominal Bilateral Exchange Rates



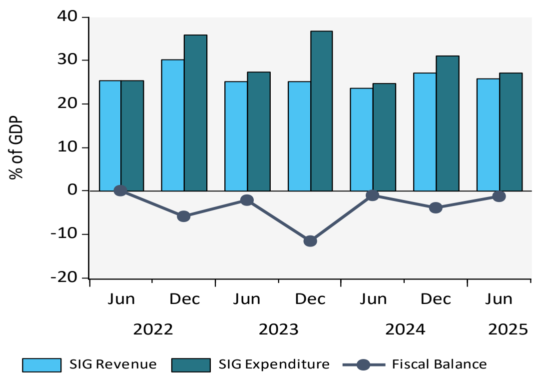
Source: CBSI

The country's Nominal Effective Exchange Rate (NEER) appreciated by 0.3% to an index value of 122.4, while the Real Effective Exchange Rate (REER) appreciated by 1.3% to 141.9 during the period, reflecting inflation differentials between Solomon Islands and its trading partners.

3.4. Fiscal Conditions

Fiscal conditions weakened during the first half of 2025. The central government posted a deficit of $98 million (0.6% of GDP) in the first half of 2025, compared to a surplus of $12 million in the same period of 2024. This weaker fiscal outturn was attributed to higher expenditure, primarily from increased recurrent spending, which outweighed the gains in revenue collection. The central government debt continued to rise, driven by additional external loan disbursements and increased issuance of treasury bills and development bonds.

Figure 12: Fiscal Balance

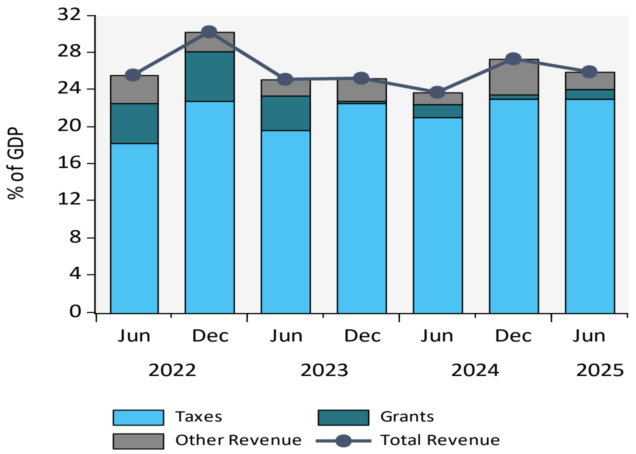


Source: MoFT, CBSI

3.4.1. Revenue

Total government revenue totalled $1,979 million in the first half of 2025, an increase of 6% year-on-year and 2% above the half-yearly budget. This favourable performance was underpinned by strong tax collections, particularly from taxes on income and profit, and goods and services. In contrast, non-tax and external grants declined, reflecting lower proceeds from fishing licenses and reduced grants disbursements during the period.

Figure 13: Government Revenue

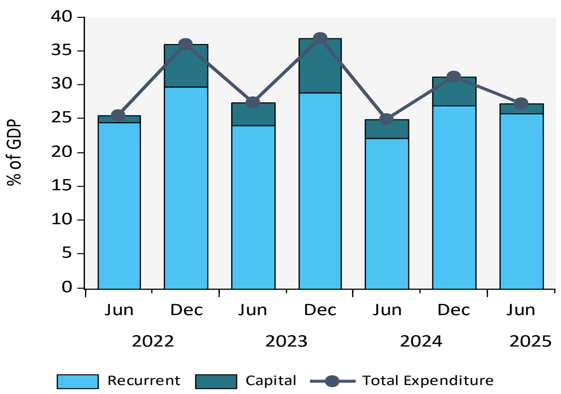


Source: MoFT, CBSI

3.4.2. Expenditure

Total government expenditure rose by 12% year-on-year to $2,077 million in the first half of 2025, although this was 14% below the half-yearly budget. The increase was driven by higher recurrent spending, which rose by 16% to $1,970 million, mainly due to elevated spending on goods and services, interest payments and subvention grants. Meanwhile, development expenditure fell by 34% to $107 million, reflecting slower implementation of capital projects over the first six months of 2025.

Figure 14: Government Expenditure



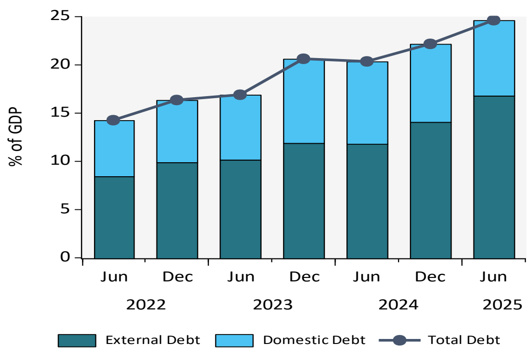
Source: MoFT, CBSI

3.4.3. Central Government Debt Stock

Total government debt stock grew further by 8% to $3,757 million at the end of June 2025, equivalent to 25% of nominal GDP. Total external debt rose by 11% in the first half of 2025 to $2,560 million, whilst the total domestic debt edged up by 9% to $1,93 million.

The overall growth was mainly driven by drawdowns of outstanding disbursements for key national infrastructure projects, including the Tina River Hydro project, telecommunications towers, airport and road upgrades, and wharf developments. Additionally, the issuance of treasury bills and other development-related instruments contributed to the increase.

Figure 15: Government Debt



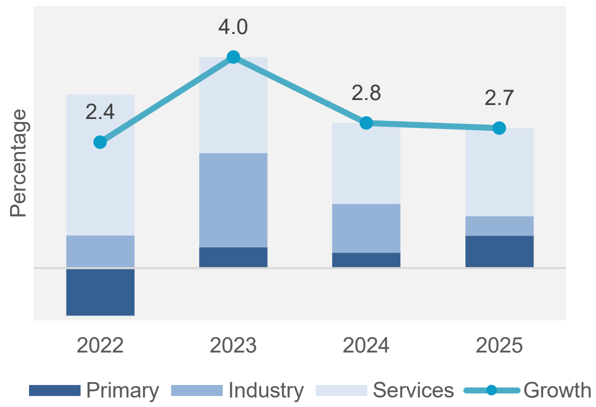
Source: MoFT, CBSI

4. Domestic Economic Outlook

4.1. Economic Outlook

The Solomon Islands' economy is expected to grow moderately by 2.7% in 2025, consistent with the earlier forecasts in the *2025 March Monetary Policy Statement*, supported by a recovery in the primary sector, particularly agriculture, fisheries, and an expansion in mining activity. Growth in the industry sector will be driven by construction activities from ongoing public infrastructure projects, as well as manufacturing. The services sector, including wholesale and retail trade, accommodation and food services, transport and storage, real estate and rental services, public administration, education, health, and other business services, are projected to maintain a steady performance throughout the year.

Figure 16: Economic Growth



Source: SINSO, CBSI

Over the medium term, economic growth is expected to stabilize at 2.6% – 3.0%, driven by agriculture, fisheries, mining, construction, and services sectors, assuming no new sources of growth emerge. To sustain higher growth momentum into the medium to long term, targeted policy measures will be essential. Prioritized areas include diversifying the economy, rebuilding fiscal buffers to enhance resilience to natural disasters and economic shocks, and strategically allocating resources to improve both social and economic outcomes.

Risks to the domestic economic outlook are broadly balanced. Upside risks include continued donor support for infrastructure development and government's support to agriculture and favourable global commodity prices. Furthermore, stable growth among the country's major trading partners provides an encouraging prospect for external demand. Downside risks stemmed from potential adverse weather conditions affecting agriculture and fisheries sectors, and continued slowdown in the forestry sector could weigh on growth and reduce foreign reserve. Additionally, persistent issues with inter-island shipping services may continue to hinder the transportation of commodities, exacerbating supply chain constraints. Moreover, uncertainty on global outlook and geopolitical tensions could disrupt trade, raise global commodity prices and imported inflation, weaken external demand, and constrain domestic growth.

Table 1: Selected Economic Indicators, 2022-2026

Economic Indicators	2022	2023	2024	2025	2026
Global Economy 1/				Projections	
Economic Growth	Annual % change unless otherwise indicated				
World	3.5	3.3	3.3	3.0	3.1
China	3.0	5.2	5.0	4.8	4.2
Australia 2/	3.9	2.0	1.0	1.7	2.1
Inflation					
World	8.7	6.7	5.6	4.2	3.6
Australia 2/	7.8	4.1	2.4	3.0	2.9
Domestic Economy					
Economic Growth	Annual % change, unless otherwise indicated				
Real GDP growth 3/	2.4	4.0	2.8	2.7	2.6
Consumer Prices					
Headline Inflation (y-o-y, 3mma)	9.5	3.5	4.6	2.0	2.5
Core Inflation (y-o-y, 3mma)	8.1	3.5	1.9	1.5	2.0
Monetary Indicators	In percent of GDP				
Net foreign assets (NFA)	38.9	38.6	37.3	37.2	34.5
Private sector credit	20.7	20.1	19.9	19.4	19.0
Narrow Money (M1)	37.2	37.5	36.5	36.2	34.6
Excess Liquidity	19.5	16.2	16.0	15.8	15.6
Balance of payments	In percent of GDP unless otherwise indicated				
Current account balance	-14.4	-10.6	-4.0	0.1	-7.0
Trade balance in goods	-13.2	-12.2	-5.7	-1.3	-6.9
Gross foreign reserves (in US$ m, eop)	660	688	686	663	663
Import cover (in months)	12.3	11.7	11.8	11.4	11.4
Exchange rate (SI$/US$, period avg)	8.2	8.4	8.4	8.25	...
Fiscal Indicators	In percent of GDP				
Fiscal balance (+ = surplus)	-2.9	-6.2	-1.9	...	...
Government Revenue	27.8	25.0	26.3	...	...
Government Expenditure	30.8	31.1	28.3	...	...
Gross Government Debt	16.3	20.4	23.9	...	...

1/ IMF WEO July 2025 Update
2/ 2024 to 2025 GDP growth and inflation forecasts were sourced from Reserve Bank of Australia (RBA) Statement on
3/ 2022 provisional figure is published by the Solomon Islands National Statistics Office. The 2023 and 2024 figures are CBSI estimates. 2025 and 2026 figures are CBSI's projections.

4.2. Fiscal Outlook

The 2025 National Budget projects a fiscal deficit of around $1.0 billion (7% of GDP), a substantial widening from the revised provisional deficit of $282 million (2% of GDP) in 2024, and slightly up from $954 million deficit expected in the original budget. The larger deficit reflects the incorporation of the supplementary budget of $913 million, largely donor-funded, aligning with the Government for National Unity and Transformation's priorities to scale up infrastructure investment and strengthen service delivery. The widening deficit is driven by higher expenditure under the supplementary budget, while revenues are projected to rise moderately. The fiscal gap is expected to be financed through a combination of external and domestic borrowing.

Based on CBSI's independent assessment, the 2025 fiscal deficit could remain low at around $300 million (close to 2% of GDP) as revenue constraints and limited implementation capacity are expected to restrain full execution of the budget. Despite the planned scale-up in spending, actual outturns are likely to fall below projections.

Over the medium term (2026–2029), the fiscal deficit is projected to average around 2% of GDP, reflecting persistent revenue weaknesses and ongoing expenditure pressures. Government debt is expected to rise by 17% to $4,078 million (27% of GDP) by the end of 2025, driven by external and domestic borrowing to finance priority development projects.

Fiscal risks remain tilted to the downside. Persistently low cash reserves and a narrow revenue base could constrain the government's ability to meet core obligations, heightening reliance on external borrowing to finance development spending. Without measures to strengthen revenue collection and improve budget execution, the debt-to-GDP ratio could approach the 35% threshold over the medium term.

4.3. External Outlook

The external position is projected to record a smaller deficit equivalent to 0.1% of GDP in 2025, reflecting a narrower current account deficit and gains in the capital and financial accounts with ongoing capital projects-related imports and grants. The current account deficit is expected to improve to 1.1% of GDP (from 3.2% in 2024), supported by higher export receipts from agriculture and mineral commodities.

The current account deficit is projected to widen in 2026 and 2027, on the back of higher capital imports and Government service payments in line with the acceleration of key pipeline projects, including the Tina Hydro and CBSI Headquarter projects. Similarly, the capital and financial account is also expected to broaden, supported by sustained donor funding and higher FDI inflows in support of the roll-out of these key national projects.

However, over the medium term, a combination of high capital project imports, declining logging activity, and structural import dependence will put downward pressure on the overall BOP position, leading to a projected 2% fall in reserves in 2026 and an average of 7% annual decline over the medium term.

Risks in the external sector remain uncertain. While high FDI inflows are expected to continue, the country's graduation from LDC status may result in a gradual shift from grant-based donor assistance to loan financing. Improved commodity prices for primary exports and favourable market conditions could boost export earnings, partly offsetting the anticipated adverse impacts on the BOP position.

4.4. Monetary Outlook

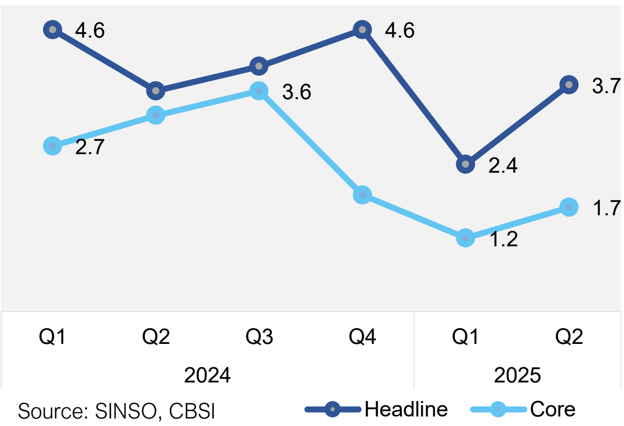
Monetary indicators are expected to remain positive in 2025, with broad money, reserve money, and private-sector credit projected to grow at an average rate of 2%. This is in line with the easing inflationary pressures and moderate economic growth projected for the year. Over the medium term, broad money, reserve money, private sector credit, and excess liquidity are projected to grow moderately in line with the slower economic growth outlook. Nevertheless, uncertainties and risks in both the external and domestic front may alter the baseline forecast for the medium-term.

5. Inflation Developments and Outlook

5.1. Inflation Developments

Headline inflation increased to 3.7% in June 2025 from 2.4% in March but remained below the earlier forecast of 4.7% published in the *March 2025 Monetary Policy Statement*. The outturn reflected rising domestic prices, though the increase was less pronounced than initially expected. Domestic inflation rose to 4.4% in June from 2.7% in March 2025, driven primarily by higher prices for food (particularly fruits and vegetables), alcoholic beverages and tobacco (notably spirits and wine), and housing and utilities (solid fuels). In contrast, imported inflation continued to decline, falling from 1.7% in March to 1.3% in June 2025, reflecting the ongoing global disinflation and decline in imported oil and food prices. The Central Bank's recent action to strengthen the domestic currency has helped contain imported inflation, while also providing a buffer for the domestic economy amid tariff tensions and heightened global uncertainty.

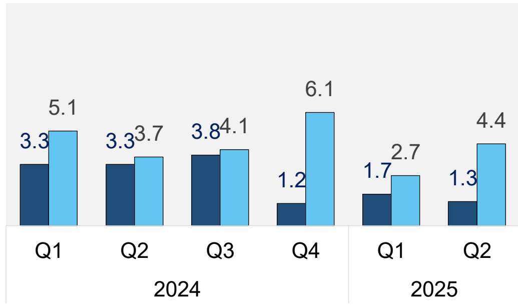
Figure 17: Headline and Core Inflation



Source: SINSO, CBSI

Core inflation, which reflects underlying price pressures, edged up to 1.7% in June 2025 from 1.2% in March. While the overall trend is consistent with earlier projections, the actual outturn was well below the 2.4% forecast in the *March 2025 Monetary Policy Statement*, reflecting a slowdown in economic activity observed mainly in the first quarter. Given that core inflation has declined more rapidly than expected, this suggests that the rise in headline inflation during the first half of the year was largely driven by domestic supply-side factors than from demand pressure.

Figure 18: Imported and Domestic Inflation



Source: SINSO, CBSI

5.2. Inflation Outlook

Headline inflation is expected to ease in the second half of 2025 consistent with the CBSI's initial assumption in the *2025 March Monetary Policy Statement*, whilst core inflation is expected to pick up marginally but remain within the Bank's desirable range of 1% - 3%. On the domestic front, the baseline forecasts reflect prominence of domestic supply-side factors largely influenced by extreme weather conditions and their impact on prices. On the external side, global disinflation continues although the pace is slowing reflecting the lagged effects of the tariff tensions earlier this year and the heightened global policy uncertainty on investment sentiments.

Headline inflation is expected to ease to 3.4% in the third quarter of 2025 and decline further to 2.0% by December. This reflects easing domestic food inflation, driven by base-effect and improved weather conditions expected in the second half of the year, which may boost crop yields, increase domestic food supply, and keep prices moderate. Similarly, relative stability in global rice prices—supported by strong global production and large inventories in major exporting countries—are expected to keep imported food prices lower. Meanwhile, energy inflation is projected to remain relatively stable over the next six months in line with easing global energy prices, supported by strong oil supply from OPEC+ countries. Moreover, the global economy continues to operate below the pre-COVID-19 average growth of 3.7%, which is expected to keep imported oil prices low, with minimal pass-through effects on domestic inflation.

Core inflation is forecasted to hover around 1.3% in the third quarter of 2025 and 1.5% in December 2025. This reflects the drag on domestic economic activities from limited fiscal stimulus, logistic challenges from ongoing road upgrades in Honiara and infrequent shipping schedules to bring commodities quickly to markets.

Inflation in the Solomon Islands' major trading partners is projected to rise marginally in the second half of this year but remain contained. In China, inflation is expected to increase slightly but remain well below its 3% target, reflecting ongoing global disinflationary pressures, the Sino–US trade war, and weaker consumer confidence. In Australia, inflation is forecast to pick up but stay within the Reserve Bank's 2%–3% target range, reflecting the likely impact of the July minimum wage increase and other measures to address the cost of living. Given these trends, and that recent inflation in the Solomon Islands has been largely domestically driven, risks from imported inflation from the country's trading partners remain contained under the baseline scenario.

With the current global growth slowdown and easing global inflation, risks for domestic inflation remain tilted to the downside, although several factors could push inflation in either direction. On the downside, a rebound in effective tariff rates globally could dampen growth and lower external demand, reducing imported inflationary pressures. Stable global crude oil and rice prices continue to help contain imported fuel and food costs. Completion of road upgrades in Honiara could reduce transport time and costs, ease supply bottlenecks and support lower domestic prices. In this scenario, both headline and core inflation would likely remain close or below our baseline forecast.

On the upside, however, geopolitical tensions—particularly the Iran–Israel conflict—could disrupt global supply chains, raising shipping costs and increasing the prices of imported goods and commodities. Domestically, changing weather patterns could quickly disrupt food supply, causing sporadic price hikes on local food. Inefficiencies in domestic markets and transport systems, especially shipping, could push up local prices, even when global prices are favourable. Under this scenario, headline inflation could exceed the baseline projections but is expected to remain within the desired range, closing the year at around 2–3%. Given that these risks primarily reflect potential supply-side shocks, the CBSI stands ready to take policy actions should such pressures prove persistent.

Overall, while the global backdrop points toward easing inflation, domestic supply constraints and climate-related risks could still trigger bouts of price increases. The balance of these forces will determine whether inflation in the Solomon Islands trends lower or experiences renewed upward pressures in the near term.

6. Monetary Policy Stance

Considering the expectation for inflation to remain within the desired range, alongside slower domestic growth, weak external demand and higher global uncertainty, the CBSI has resolved to adopt an expansionary monetary policy stance over the next six months. The Bank will be attentive to external and domestic developments and stands ready to adjust its policy as needed in response to any significant macroeconomic shocks.