



MONETARY POLICY STATEMENT

March 2026



CENTRAL BANK OF SOLOMON ISLANDS



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The cut-off date for data used to prepare this statement was 31 December 2025

1. Overview

Global growth is projected to remain stable at 3.3% in 2026, supported by Artificial Intelligence (AI)-driven investment and generally accommodative policy settings, although risks to the outlook remain tilted to the downside. Growth among key trading partners is expected to be moderate but uneven. Global inflation is anticipated to ease further, supported by continued softness in key commodity prices such as oil, rice, and wheat. These developments are expected to help contain imported inflationary pressures in the Solomon Islands economy.

Domestically, economic conditions improved in the second half of 2025, with stronger activity recorded across most major sectors. Real sector performance was supported by higher production, manufacturing output, tourism arrivals, construction activity, and continued FDI inflows, although forestry output remained weak. Employment conditions were broadly stable, reflected in a modest increase in the number of SINPF contributors.

External conditions strengthened, reflected in a larger balance of payments surplus benefiting from increased export receipts and higher donor inflows. Gross foreign reserves increased to a level sufficient to cover around 12 months of imports, further strengthening external resilience.

Fiscal performance improved over the same period, reflecting improvements in revenue collection despite increase in expenditure. Meanwhile, total public debt increased, largely reflecting additional borrowing to finance development and budgetary requirements.

Monetary and financial conditions firmed up in the second half of 2025, supported by an expansion in the money supply, driven largely by higher net foreign assets arising from the balance of payments

surplus. Private Sector Credit showed a slight increase, although interest rate margins widened.

Against this backdrop, the Solomon Islands economy is estimated to have grown by 3.6% in 2025, exceeding the projection in the September 2025 Monetary Policy Statement, reflecting current momentum and stronger-than-expected performance across sectors. Growth is projected at 3.8% in 2026 and is expected to stabilize at 4.2% over the medium term, supported by strong mining output.

In line with CBSI's price stability mandate, headline inflation eased to 1.6% in December from 3.7% in June, although inflation was somewhat volatile between August and October. The lower inflation at year-end reflects easing global energy and food prices and an appreciation of the domestic currency. Inflation is expected to remain elevated in early 2026 due to weather-related food supply pressures, before moderating later in the year as conditions stabilize and imported inflation remains contained. Upside risks persist, particularly from potential oil price shocks and adverse weather events. Core inflation, which captures underlying demand-driven price pressures, remained low at 0.9% in December 2025, and is expected to rise slightly in 2026 to around 1% and remain within CBSI's desired range.

2. International Economic Developments

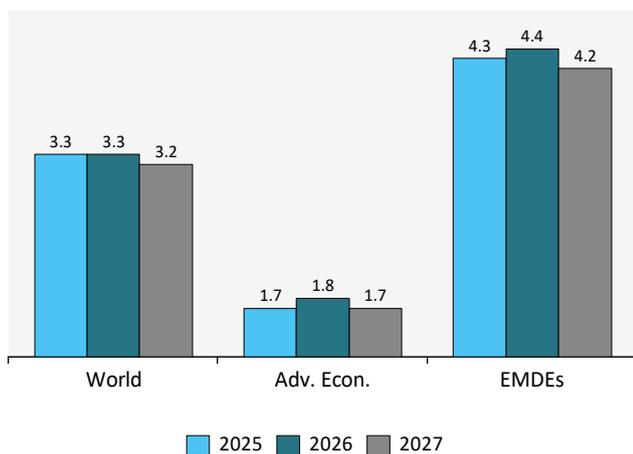
2.1. Global Growth

Global economic activity remained resilient in the second half of 2025 despite shifting trade policies and geopolitical uncertainties. According to the International Monetary Fund (IMF)'s World Economic Outlook (WEO) January 2026 Update, global growth is estimated at 3.3% in 2025 and is projected to remain at 3.3% in 2026, before easing slightly to 3.2% in 2027¹. The 2026 growth forecast

¹ Unless, otherwise indicated, all statistics in this section are obtained from the International Monetary Fund (IMF) World Economic Outlook (WEO), January 2026 Update.

has been revised upward by 20 basis points(bp) relative to the previous October WEO 2025 forecast, reflecting a balance of opposing forces. These include trade policy headwinds being offset by strong AI-driven investment, accommodative fiscal and monetary policies, favourable financial conditions and adaptable private sectors, notably in North America and Asia. In advanced economies, growth is projected at 1.8% in 2026 and 1.7% in 2027, largely reflecting continued expansion in the United States, supported by fiscal policy and easing monetary policy as the effects of elevated trade barriers gradually fade. Meanwhile, in Emerging Market and Developing Economies (EMDEs) growth is projected to hover above 4% in 2026 and 2027 (see Figure 1).

Figure 1: Global Economic Growth



Source: IMF

Economic growth in Solomon Islands key trading partner, China, remained robust in 2025, supported by fiscal stimulus and increased shipments to non-U.S. markets. However, the Chinese economy is projected to moderate from 5.0% in 2025 to 4.5% in 2026 and further to 4.0% in 2027, reflecting persistently weak domestic demand, particularly in the housing sector—partly offset by resilient exports and continued investment in manufacturing, technology, and infrastructure. In the Euro area, growth is projected to remain steady at 1.3% in 2026 before edging up to 1.4% in 2027 as exports and investment recover and

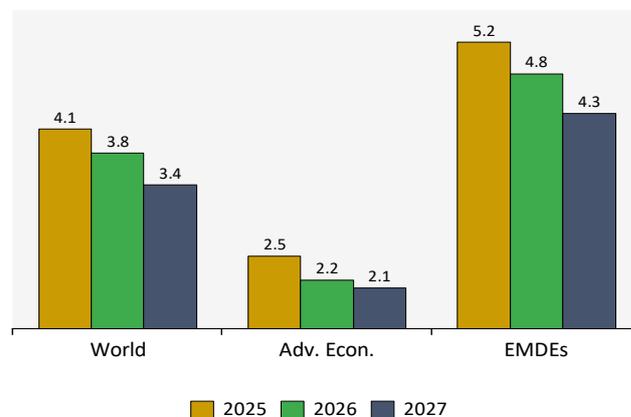
² Reserve Bank of Australia Monetary Policy Statement February 2026

consumption strengthens amid easing uncertainty. In Australia, growth is estimated to increase from 1.9% in 2025 to 2.1% in 2026 supported by robust private demand amid stronger housing prices, rising household incomes and favourable domestic and global financial conditions, before easing to 1.6% in 2027 as restrictive monetary policy weighs on economic activity.²

2.2. Global Inflation

Global inflation is projected to continue its gradual disinflationary path from 4.1% in 2025 to 3.8% in 2026 and further to 3.4% in 2027 as price pressures ease and inflation converges toward central bank targets. Inflation in Advanced Economies is expected to ease from 2.5% in 2025 to 2.2% in 2026 and further to 2.1% in 2027 while, inflation in EMDEs is expected to fall from 5.2% in 2025 to 4.8% in 2026 and 4.3% in 2027 (see Figure 2).

Figure 2: Global Inflation



Source: IMF

Among the Solomon Islands’ key trading partners, inflation developments remain mixed. In Australia, inflation exceeded the Reserve Bank of Australia’s 2–3% target in late 2025, reaching 3.3%, and is projected to return to target by 2027 as restrictive monetary conditions take effect³. In China, inflation remained subdued in 2025 amid weak domestic

³ Reserve Bank of Australia Monetary Policy Statement February 2026

demand and is expected to rise only gradually, from 0.7% in 2026 and reaching 1% by 2027.⁴

2.3. Commodity prices

Key global commodity prices most relevant for Solomon Islands showed notable moderation in 2025. Crude oil prices declined by 15% in 2025 and are expected to ease further in 2026, reflecting weak demand and ample global supply, before averaging around US\$60 per barrel in 2026 and gradually increasing to about US\$65 per barrel in 2027. Consistent with the global oil price, tapis crude, the main imported fuel for Solomon Islands, declined by 10% to US \$66 per barrel in 2025 and is expected to remain under downward pressure in 2026. Food prices also eased in 2025. Rice prices (year-on-year (YoY)) declined by 20% at the end of 2025 to US \$424 per ton due to surplus supplies and are expected to remain under pressure in 2026 as major exporters compete to clear inventories, before stabilizing in 2027. Wheat prices (YoY) fell by 4% in 2025 to US \$242 per ton amid abundant supply, while a moderate recovery is projected over 2026–27, as tightening stocks reflect consumption growth outpacing production. Overall, lower global oil and food prices are expected to help contain imported inflationary pressures in Solomon Islands in 2026.

2.4. Risks

Risks to the global outlook remains tilted to the downside. A reassessment of AI-driven productivity gains could weaken investment and trigger a sharp financial market correction, with spill-overs beyond AI-related firms and adverse effects on household wealth. Renewed geopolitical tensions and trade policy uncertainty could further disrupt global activity through their impact on financial markets, supply chains, and commodity prices. Elevated fiscal deficits and public debt may also tighten

financial conditions by putting upward pressure on long-term interest rates.

3. Domestic Economic Developments

3.1. Monetary Conditions

Monetary indicators remained buoyant in the second half of 2025. Reserve money (M0), money supply (M3), private sector credit (PSC) and free liquidity all recorded growth during the period. Meanwhile, the weighted average interest rate (WAIR) margin offered by Other Depository Corporations (ODCs) increased marginally in the second half of the year.

3.1.1. Reserve Money

Reserve money grew by 5% to \$5,124 million in the second half of 2025, following a 3% decline in the first half of 2025. The growth came from a 6% uptick in ODCs’ liabilities and a 4% increase in currency in circulation to \$1,601 million. On the assets side of reserve money, the outcome reflected a 6% increase in NFA of CBSI to \$6,095 million. Meanwhile, the NDA of the Central Bank increased from minus \$897 million to minus \$964 million.

Figure 3: Drivers of Reserve Money (M0)



Source: CBSI

⁴Asia Pacific Consensus January 2026

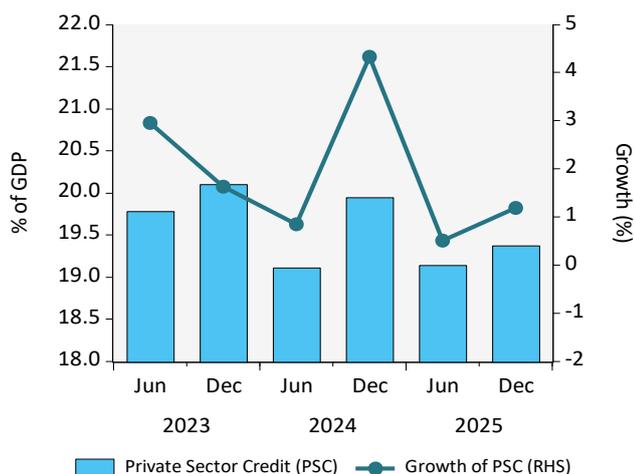
3.1.2. Money Supply

Money Supply (M3) increased by 12% to \$7,662 million, up from a 7% growth in the first half of 2025. The upturn in M3 was driven by an expansion in narrow money (M1), growing by 13% to \$6,600 million, reflecting the increase in both transferrable deposits and currency in circulation. In addition, the growth in money supply mirrored a 12% expansion in NFA of the banking system to \$6,907 million, mainly from external inflows, coupled with a 7% increase in NDA to \$789 million, from domestic credit.

3.1.3. Credit Conditions

Lending to private sector rose marginally by 1% in the second half of 2025 to \$2,957 million (19% of GDP), up from \$2,922 million (19.3% of GDP) in June 2025. The increase in private sector lending was largely from ODCs lending, which grew by 1% to \$2,925 million. Key Sectors that contributed to the growth in PSC include personal loans, construction, professional and other services and forestry. Conversely, lending declined in the distribution, transport, tourism and manufacturing sectors.

Figure 4: Credit to Private Sector

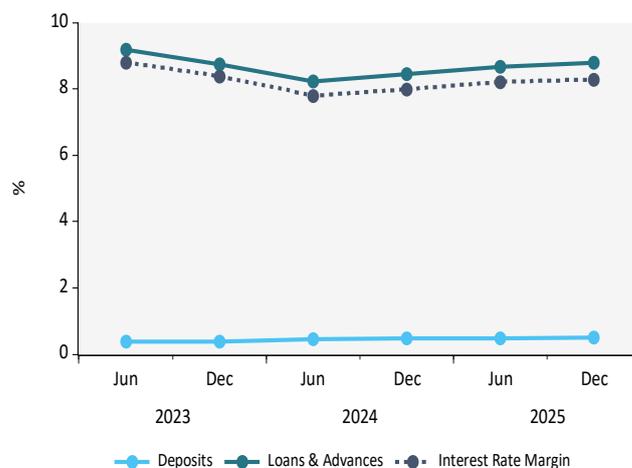


Source: CBSI

3.1.4. Interest Rates

The weighted average interest rate margin widened to 8.28% over the last six months of 2025, up from 8.20% in June 2025. The marginal increase came largely from the indicative weighted average (IWA) lending rate, which rose from 8.67% to 8.78%. Similarly, indicative weighted average deposit rate increased, at a slower rate, from 0.47% in June to 0.50% in December 2025.

Figure 5: Interest Rates



Source: CBSI

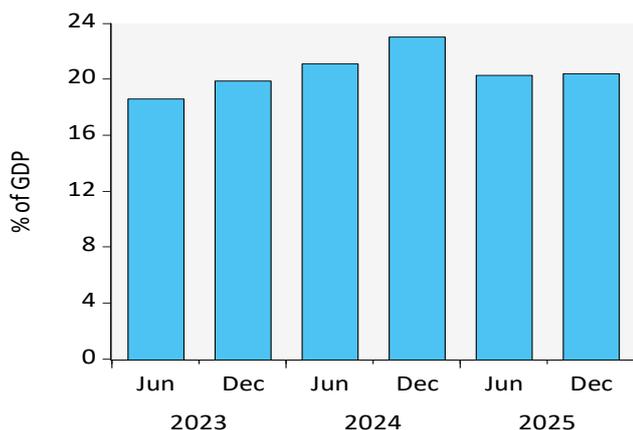
3.1.5. Open Market Operations

The weighted average interest rate (WAIR) for Bokolo bills rose to 0.40% in December, up from 0.38% in June 2025. The total issuance of the CBSI Bokolo bills in the second half of 2025 remained capped at \$430 million. Meanwhile, the total stock of the Treasury bills issued during the review period increased to \$219 million, well below the mandatory ceiling of \$500 million. In October 2025, the government reinstated the 56-day T-bills tenor while ceasing the 365 days maturity. The weighted average interest rate for 56 days was 0.75%, WAIR for 91 days increased to 1.16% from 1.15% in June, while WAIR for 182 days remained unchanged at 2.39% from the first half of 2025.

3.1.6. Liquidity Levels

Free liquidity in the banking system picked up by 0.4% to \$3,115 million (20% of GDP) in the latter half of 2025, compared to \$3,103 million (20% of GDP) in the first half. The growth stemmed from the expansion of call account deposits held at CBSI.

Figure 6: Liquidity



Source: CBSI

3.2. Domestic Conditions

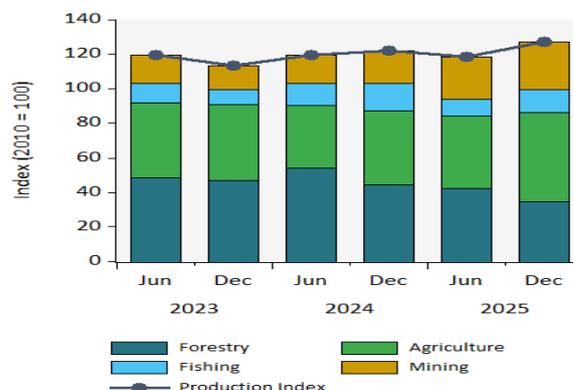
Domestic economic activity strengthened significantly in the second half of 2025. Key indicators of production, manufacturing, and investment recorded improvements over the period, supported by increased activity in agriculture, fisheries, and mining, together with a rise in approved foreign direct investment projects. Activity in the construction, wholesale and retail trade, utilities, and tourism sectors also improved, reflecting generally supportive domestic demand conditions. Labour market conditions remained broadly stable during the period.

3.2.1. Production Index

The CBSI Production Index rose to 126 in the second half from 118 in the first half of 2025, indicating a strengthening in overall economic activity during the period. Agriculture output increased particularly in copra and coconut oil, supported by improved supply conditions. Activity in the fisheries and mining sector also

strengthened. In contrast, forestry output declined, consistent with reduced logging activity, softer external demand and ongoing regulatory measures.

Figure 7: Production Index

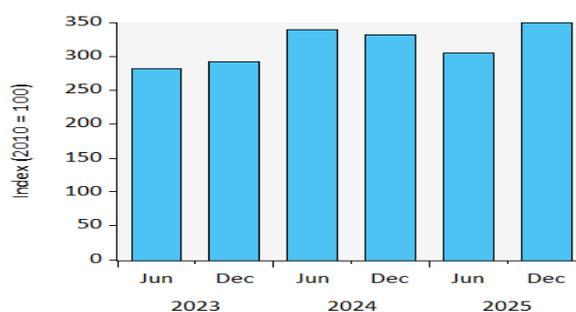


Source: CBSI

3.2.2. Manufacturing

Manufacturing activity strengthened in the second half of 2025. The CBSI Manufacturing Index rose to 351 points from 305 points in the first half of 2025 on the back of increased production for both domestic and external markets. Export-oriented manufacturing recorded notable improvements, with the export index rising by 37 points to 194 points, driven by higher production of canned tuna and tuna loins for export markets. Domestic-oriented manufacturing activity expanded, with the domestic index increasing by 65 points to 680 points reflecting increased production of tobacco, canned tuna, alcohol and soft drinks and biscuits for local consumption.

Figure 8: Manufacturing Index



Source: CBSI

3.2.3. Other Sectors

Activity in the tourism sector strengthened in the second half of 2025. Tourist arrivals increased by 6,505 to 18,798, reflecting improved travel conditions and stronger visitor inflows. Investment activity also strengthened markedly over the period. The number of newly approved foreign direct investment (FDI) applications increased by 19 to 76, while estimated investment values rose substantially by \$1,017 million to \$1,240 million, largely reflecting approvals for several large-scale projects. Activity in the wholesale and retail trade sector improved, supported by stronger consumption demand. Imports of food and beverages increased to an index level of 175 from 155, indicating higher merchandise inflows. Energy sector performance remained firm in the second half of 2025. Total energy production edged up by 1% to 57,710 megawatt-hours (MWh) while energy sales increased by 5% to 48,318 MWh, reflecting broad increases across all user categories. Activity in the water sector strengthened during the period. Water consumption increased by 4.4% to 2,686.49 kilolitres, while the value of unit sales rose by 5.3% to \$79.48 million. Water tariffs for both domestic and commercial users remained unchanged. Construction activity improved in the second half of 2025. The cement and paint import usage index increased by 20.1 points to 125.91, indicating higher construction-related imports. Employment conditions strengthened, with the number of SINPF contributors rising by 356 to 4,613 contributors, while lending to the construction sector increased by 11.1% to \$515 million, reflecting firmer construction activity.

3.2.4. Employment

Labour market conditions were broadly stable in the second half of 2025. The total number of SINPF slow and active contributors increased modestly to 61,829 in the second half of 2025 from 61,387 in the first half, indicating an expansion in formal employment during the period. In contrast, labour demand indicators softened. Vacancy advertisements declined to 523 positions in the second half of 2025 from 709 in the first half of the year.

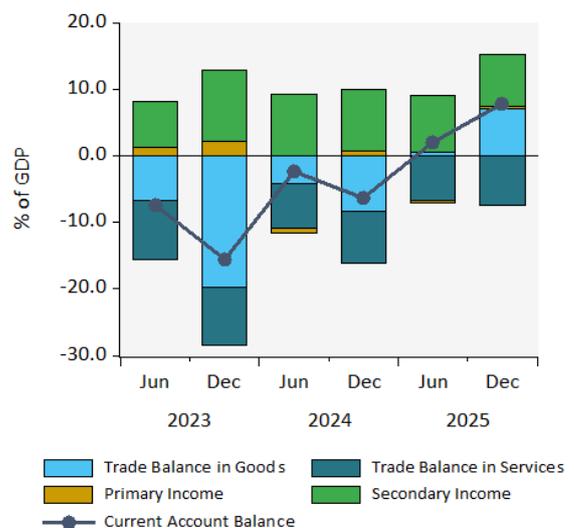
3.3. External Conditions

The Balance of Payment (BOP) position improved significantly in the second half of 2025, with the overall surplus increasing to \$554 million (8% of GDP) from a revised \$383 million surplus (5% of GDP) in the first half of 2025. This favourable outcome stemmed from a sizeable improvement in the current account balance. Consequently, gross foreign reserves grew by 8% to \$6,620 million at end-December 2025.

3.3.1. Current Account

The provisional current account balance recorded a robust surplus of \$562 million in the second half of 2025, rising from a revised \$140 million surplus in the first half of the year. This strong outcome was driven by a significant surplus in trade in goods, which reversed the deficits recorded in previous semi-annual periods. The improved trade position reflected stronger exports from the mining, agriculture, and fisheries sectors. In addition, continued donor inflows in the secondary income account provided further support to the current account. Overall, the solid surpluses in trade in goods and secondary income more than offset the persistent deficit in services, underpinning a strengthening current account position.

Figure 9: Trade and Current Account



Source: CBSI

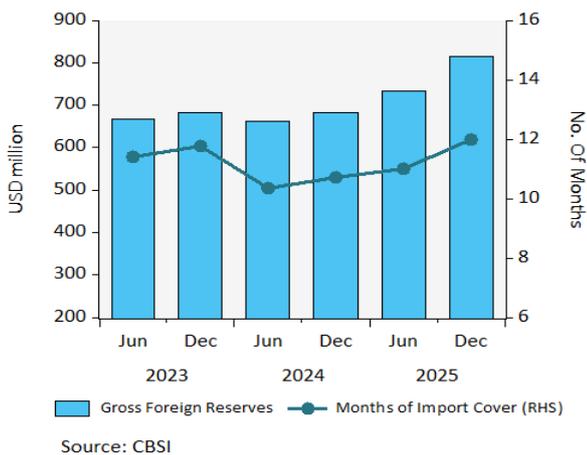
3.3.2. Capital and Financial Accounts

The provisional capital and financial account surplus grew by 31% to \$394 million over the six months to December 2025. This outcome reflected higher donor capital grants, FDI and other investments, particularly central government loan disbursements.

3.3.3. Foreign Reserves

The country’s gross foreign reserves increased by 8% to \$6,620 million (US\$803 million) at the end-December 2025, reflecting the favourable overall balance of payments outcome during the review period. This level of reserves is sufficient to cover 12.0 months of imports of goods and services.

Figure 10: Gross Foreign Reserves

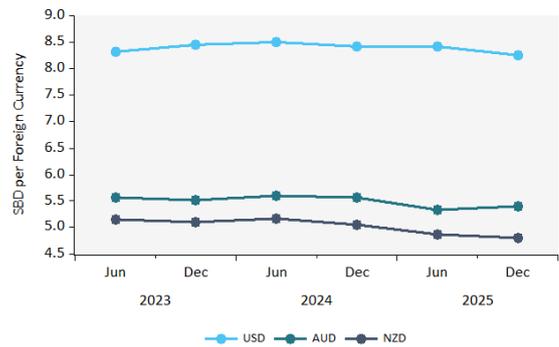


Source: CBSI

3.3.4. Exchange Rates

The Solomon Islands dollar (SBD) Trade-Weighted Index (TWI) basket strengthened by 0.7% to 113.3 points in the six months to December 2025. In terms of bilateral trading currencies, the SBD appreciated by 2% on average in the second half of 2025 against the US dollar to \$8.24 per USD and 1.4% against the New Zealand dollar to \$4.81 per NZD but depreciated by 1.3% against the Australian dollar to \$5.40 per AUD.

Figure 11: Nominal Bilateral Exchange Rates



Source: CBSI

The country’s nominal effective exchange rate (NEER) depreciated by 0.4% to an index value of 122.1 in the second half of 2025. Meanwhile, the real effective exchange rate (REER) appreciated by 2.2% to 145.6, reflecting inflation differentials between Solomon Islands and its trading partners.

3.4. Fiscal Conditions

The fiscal deficit narrowed to \$262 million (4% of GDP) in the second half of 2025, compared with a deficit of \$359 million (5% of GDP) in the first half. The reduced deficit was driven by increased revenues particularly tax and non-tax revenues which more than offset the rise in expenditure. Meanwhile, the total debt stock increased during the second half of 2025, reflecting increases in both the external and domestic debt.

Figure 12: Fiscal Balance

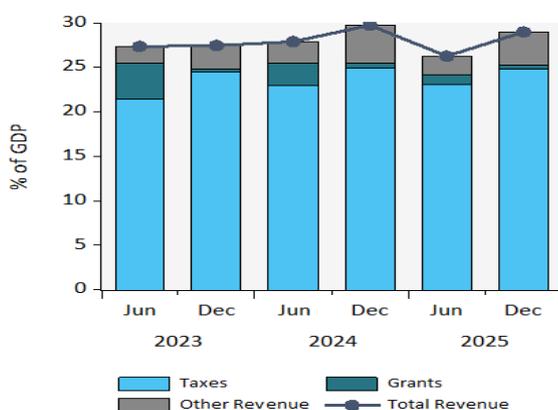


Source: MoFT, CBSI

3.4.1. Revenue

Total government revenue rose by 11% in the second half of 2025 to \$2,084 million (29% of GDP), following a 5% increase in the first half of the year. This improvement was driven by higher tax and non-tax revenues, despite a decline in donor grants. The growth in tax revenue reflected stronger performance in income tax, goods and services tax, and trade-related taxes. Meanwhile, non-tax revenue gains were supported by increased fishing license fees and administrative charges. Overall, total government revenue exceeded the budget by 7% and was 5% higher than in the same period last year.

Figure 13: Government Revenue



Source: MoFT, CBSI

3.4.2. Expenditure

Total government expenditure increased by 5% to \$2,346 million (33% of GDP) in the second half of 2025, driven by increases in both recurrent and development spending. Recurrent expenditure grew by 3% to \$2,176 million, reflecting higher outlays on payroll, particularly following the recent teachers' pay rise as well as increased spending on goods and services and transfers (subvention grants). Meanwhile, development expenditure surged by 46% to \$188 million, largely due to higher investment in fixed assets such as machinery and equipment. Despite this increase, total expenditure was 18% below the pro rata budget but 4% higher than the level recorded in the second half of 2024.

Figure 14: Government Expenditure

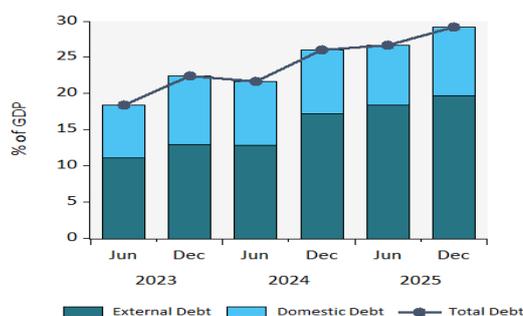


Source: MoFT, CBSI

3.4.3. Central Government Debt Stock

Total government debt stock increased by 9% at the end of December 2025 to \$4,204 million. The increase was driven mainly by a 7% rise in external debt to \$2,833 million, reflecting loan drawdown from the World Bank, Asian Development Bank (ADB) and Export-Import Bank of China (EXIM) to finance major government projects including land and maritime connectivity, renewable energy and environment, urban water and sanitation, telecommunication towers and economic and fiscal policy reforms. Similarly, domestic debt increased by 15% to \$1,372 million, largely due to the issuance of development bonds to the Solomon Islands Ports Authority (SIPA) and the Solomon Islands National Provident Fund (SINPF). As a result, total public debt as a share of GDP rose to 28%, up from 25% in the first half of 2025.

Figure 15: Government Debt



Source: MoFT, CBSI

4. Domestic Economic Outlook

4.1. Economic Outlook

Economic activity is expected to strengthen in 2025, with real GDP growth revised upward to 3.6% from 2.7%, reflecting stronger-than-anticipated domestic conditions. The upward revision is supported by stronger-than-expected outcomes in the mining and agriculture sectors alongside firmer construction activity driven by ongoing public infrastructure projects and increased private sector investment. The services sector is also expected to continue providing solid support to growth, led by wholesale and retail trade, transport and storage, communication, and real estate services.

Building on this momentum, the Solomon Island’s economy is projected to grow by 3.8% in 2026, an upward revision from the forecast in 2025 September Monetary Policy Statement, supported by expansion in primary sector, particularly mining and agriculture and recovery in fishing activity. Growth in the industry sector will be driven by construction activities from ongoing public and private infrastructures. The services sector, including wholesale and retail, transport and storage, communication, and real estate and rent services are projected to expand performance over the year.

Over the medium term, economic growth is projected to average at 4.2%, underpinned by continued activity in mining, agriculture, fisheries, construction, wholesale and retail trade, communication, and transport and storage. Sustaining growth momentum over the medium to longer term will require the implementation of targeted policy measures, including efforts to strengthen productive capacity in key sectors and rebuild fiscal buffers to enhance resilience to natural disasters and external economic shocks.

The balance of risks to the economic outlook is tilted to the upside, although downside risks remain. Upside risks are largely driven by continued government policy support and ongoing donor-funded infrastructure projects, which are expected to underpin domestic demand and support economic growth. Favourable international fuel prices may help contain cost pressures and support inflation outcomes, while strong global commodity prices for key exports, particularly minerals and cocoa, could strengthen export earnings and improve the external position. In addition, improvements in digital services and the expansion of communication coverage are expected to enhance productivity and support activity in the services sector.

Downside risks stem from climate-related shocks, including adverse weather conditions, which could disrupt agricultural production, fisheries activity, and infrastructure, with flow-on effects to growth and inflation. Global economic uncertainty, including weaker external demand and tighter global financial conditions, poses risks to export performance, foreign inflows, and the balance of payments. Domestically, inter-island shipping constraints may continue to affect supply chains and prices, while political uncertainty could dampen business confidence and delay investment.

Figure 16: Economic Growth

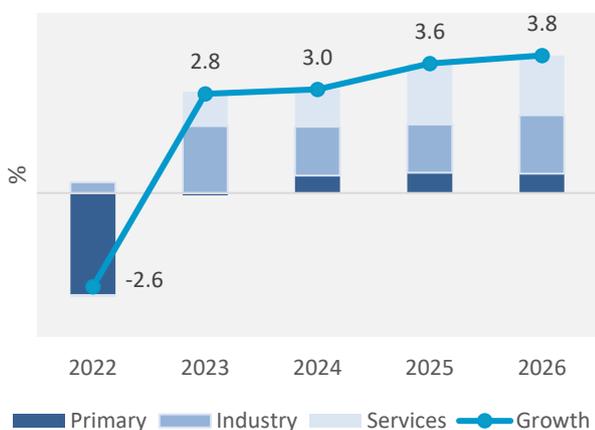


Table 1: Selected Economic Indicators, 2024-2027

Economic Indicators	2024	2025	2026	2027
Global Economy 1/			Projections	
Economic Growth	Annual % change, unless otherwise indicated			
World	3.3	3.3	3.3	3.2
China	5.0	5.0	4.5	4.0
Australia 2/	1.0	1.9	2.1	1.6
Inflation				
World	5.8	4.1	3.8	3.4
Australia 2/	2.4	3.6	3.6	2.7
Domestic Economy				
Economic Growth	Annual % change, unless otherwise indicated			
Real GDP growth 3/	3.0	3.6	3.8	4.2
Consumer Prices				
Headline Inflation (y-o-y, 3mma)	4.6	1.6	3.4	
Core Inflation (y-o-y, 3mma)	1.9	0.9	1.0	
Monetary Indicators	In percent of GDP			
Net foreign assets (NFA)	38.9	42.3	42.1	42.1
Private sector credit	20.8	20.5	20.0	19.7
Narrow Money (M1)	38.1	45.8	45.1	44.3
Excess Liquidity	16.8	19.9	19.6	19.3
Balance of payments	In percent of GDP unless otherwise indicated			
Current account balance	- 4.2	4.9	-0.5	1.4
Trade balance in goods	- 6.0	3.8	0.3	1.4
Gross foreign reserves (in US\$ m, ec)	686	662.5	813.3	831.4
Import cover (in months)	11.8	11.4	12.0	12.0
Exchange rate (SI\$/US\$, period avg)	8.38	8.25
Fiscal Indicators	In percent of GDP			
Fiscal balance (+ = surplus)	- 2.0	- 4.3	-1.0	...
Government Revenue	28	27.6	26.2	...
Government Expenditure	29.5	32.0	27.6	...
Gross Government Debt	24.95	29.2	31.5	...

1/ IMF WEO Jan 2026 Update
2/ 2026 to 2027 GDP growth and inflation forecasts were sourced from Reserve Bank of Australia (RBA) Statement on February 2026
3/ 2024 provisional figure is published by the Solomon Islands National Statistics Office.

4.2. Fiscal Outlook

While the government has not explicitly announced its fiscal stance; an assessment of the 2026 National Budget indicates a shift towards fiscal consolidation. This represents a change from a more expansionary stance in 2025, characterized by a large deficit and rising debt. In 2026, the government aims to reduce the deficit and build cash reserves up to \$170 million.

The 2026 National Budget projects a smaller deficit of \$133 million (1% of GDP), down from the much larger \$621 million deficit (4.3% of GDP) in the provisional 2025 actual. This improvement is expected to come from higher donor disbursements, better revenue compliance, and stricter controls on statutory exemptions – actions classified as short-term policy measures.

Based on its assessment of the 2026 revenue outlook and budget execution capacity, the CBSI estimates a higher deficit of \$219 million (1.4% of GDP), instead of the government’s projected \$133 million (1% of GDP). Although this is a wider deficit, it remains below the deficit recorded in 2025. Over the medium term, the fiscal deficit is likely to stay around \$200 million, assuming current revenue trends and spending patterns continue. This also aligns with the Ministry of Finance’s three-year rolling projections.

On the debt front, total public debt is expected to reach \$4,572 million (33% of GDP), taking into account current borrowing plans. While this level remains manageable, the upward trend underscores the importance of careful management of contingent liabilities and government guarantees, as they become real government debt during a shock or crisis when SOEs or government agencies fail to meet their obligations. Without caution, public debt could rise towards the 35% of GDP debt-sustainability threshold, which would pose risks to medium-term fiscal stability, especially since deficits are expected to continue.

Given these challenges, revenue-related reforms are urgently needed in addition to the short-term policy measures. Passing the Value Added Tax (VAT) Bill and undertaking income tax reforms can help simplify the tax system, broaden the revenue base to support government’s development priorities, and contain the fiscal deficit, thereby safeguarding medium term fiscal sustainability.

4.3. External Outlook

The overall BOP position recorded a robust outcome in 2025. The outlook for 2026 is for a smaller surplus, which is expected to lead to a modest 1% increase in gross foreign reserves, with import cover remaining above 12 months. The current account is forecast to record a smaller deficit of 0.5% of GDP, reflecting an expected lower decline in round-log exports and higher

capital imports for public infrastructure construction projects. Donor inflows and mineral exports are expected to continue supporting the current account throughout 2026.

Over the medium term, the external outlook is projected to be more positive than in 2026. The current account is expected to move into a surplus of around 2% of GDP, supported by higher mineral export volumes as production increases following the planned expansion of the Gold Ridge Mining facility – the country’s largest gold mine – and by continued favourable gold prices. FDI and donor inflows are also expected to continue supporting the external sector over the medium term, helping to finance large capital imports for infrastructure projects, contributing to a gradual increase in the country’s gross foreign reserves at 3% per year on average over the medium term.

Risks to the external outlook in 2026 are tilted to the upside, compared to the downside risks identified in the September 2025 Monetary Policy Statement. The mining sector is expected to help offset the decline in the forestry sector. Conditions in the global economy and in major trading partners appear stronger than previously anticipated. Fuel and food prices are expected to ease, helping to reduce import costs, and export commodity prices are expected to remain high. These favourable factors are expected to more than offset the contraction in forestry and the ongoing inter-island shipping constraints affecting agricultural exports.

4.4. Monetary Outlook

Growth prospects for monetary indicators remain positive in 2026 and in the medium term. Broad money, reserve money and private-sector credit are forecast to grow at an average rate of 2% in 2026. This is largely underpinned by the easing of inflation in the economy combined with a firm economic growth projected for the year. Over the medium term, forecast exhibits moderate growths for broad money, reserve money, private sector credit, and excess liquidity as inflation is expected

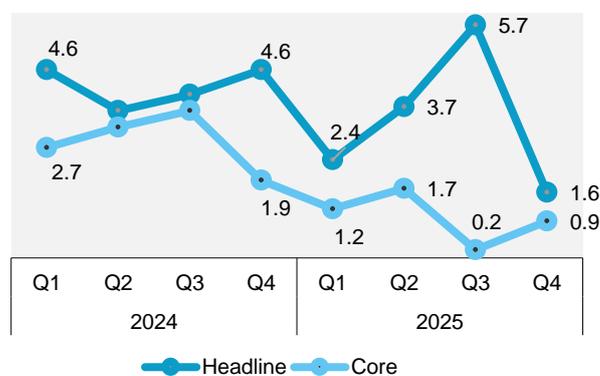
to remain moderate with an elevated economic growth path. Nonetheless, risks and uncertainty in both the external and domestic fronts may undermine the baseline projections in the medium-term.

5. Inflation Developments and Outlook

5.1. Inflation Developments

Headline inflation rose from 2.4% in Q1 2025 to 3.7% in Q2 and further to 5.7% in Q3, before declining sharply to 1.6% in Q4 2025. The mid-year increase reflected rising domestic prices, although inflation remained below the earlier forecast of 4.7% published in the March 2025 Monetary Policy Statement through the first half of the year. Despite forecast deviations in our forecasts in the March and September forecasts in 2025, the inflation outcome is broadly consistent with forecasted trend, except for the period in Q3 where food price shock occurred.

Figure 17: Headline and Core Inflation (%)

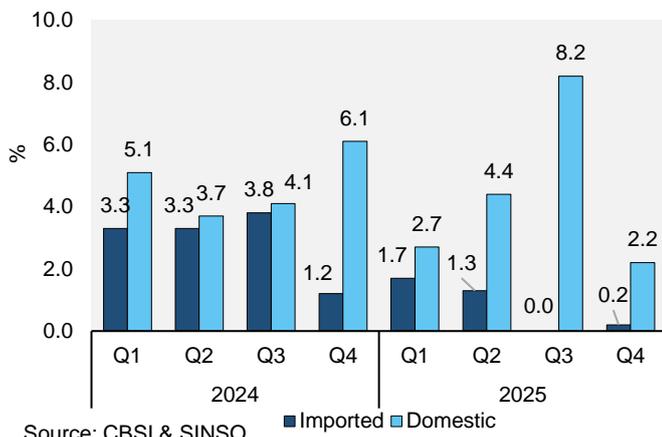


Source: SINSO, CBSI

Domestic inflation increased from 2.7% in Q1 to 4.4% in Q2 and peaked at 8.2 % in Q3, driven primarily by higher food prices, particularly betel nut, fruits and vegetables. These pressures eased markedly toward year-end, with domestic inflation moderating to 2.2 % in Q4. By contrast, imported inflation continued to decline throughout 2025, falling from 1.7% in Q1 to 0% in Q3 before edging up slightly to 0.2% in Q4. This trend reflects ongoing global disinflation, weak external demand,

and the pass-through effects of earlier exchange rate appreciation aimed at shielding the domestic economy from external shocks amid heightened global uncertainty and tariff-related tensions.

Figure 18: Imported and Domestic Inflation (%)



Source: CBSI & SINSO

Core inflation, which captures underlying demand-driven price pressures, rose modestly from 1.2% in Q1 to 1.7% in Q2 2025 but declined sharply thereafter, falling to 0.2 % in Q3 before recovering slightly to 0.9% in Q4. Throughout the year, core inflation remained well below the 2.4 % forecast in the March 2025 Monetary Policy Statement, reflecting limited foreign price pass-through, particularly during the first half of the year. The divergence between headline and core inflation during mid-2025 suggests that the temporary rise in headline inflation was largely driven by domestic, supply-side factors rather than sustained demand pressures.

5.2. Inflation Outlook

Headline inflation is expected to stay elevated in the first half of 2026, close to 5% in Q1, reflecting the impacts of the heavy rainfall experienced in late January and early February, before easing in the second half to 3.5% as weather conditions improve and reflecting the base effect of higher inflation in the second half of 2025. It is expected to decline to 2.6% in Q3 before rising slightly to 3.4% by year-end. On the external front, imported inflation is

expected to remain contained reflecting stable global growth and continued disinflation amid easing global energy prices as well as lower food prices particularly for rice and wheat.

Meanwhile, core inflation is expected to pick up slightly in the first of 2026 to 1.4% in line with higher economic growth projections this year but still remain within the Bank’s desirable range of 1% - 3%. Following the pick-up in Q1, core is expected to continue its declining trajectory, largely reflecting lower pressures from imported prices on domestic inflation.

On the domestic front, the baseline forecasts largely mirrored the dominance of domestic supply-side factors related to adverse weather conditions and their impact on domestic food prices. On the external front, stable and resilient global growth means less-demand driven inflationary pressure on domestic inflation. Similarly, the lingering global disinflation, reflecting lower global oil and food prices, means limited pass-through of foreign prices on domestic inflation.

Inflation in the Solomon Islands’ major trading partners is projected to rise marginally in the first 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 and weaker domestic consumer demand. In Australia, inflation is forecast to stay above the Reserve Bank’s 2%–3% target range until mid-2026, with prospect for monetary policy tightening in 2027. However, the stronger domestic currency and the limited pass-through from imported prices observed since 2025 to date, suggests minimal imminent pressures on domestic prices.

5.3. Risk Assessment: Alternative Scenarios Around the Baseline

The baseline forecast is subject to several upside and downside risks stemming from both external and domestic sources. To assess the robustness of the outlook and guide appropriate monetary policy

stances, the following alternative scenarios are considered, each outlining a clear transmission channel to inflation and economic activity: oil price shocks, more pronounced weather-related shocks, reduced gold output due to unresolved landowner grievances and the Government's commitment to implementing Value-Added tax (VAT) and income tax reforms.

5.4. Upside Risks

5.4.1. Oil Price Shock

This scenario assumes a persistent rise in global oil prices in 2026 Q2 driven by heightened geopolitical tensions, particularly from potential US military actions involving Iran and Venezuela. Under this assumption, international fuel prices remain above current commodity price forecasts due to an added geopolitical risk premium. As a result, this alternative scenario would exert upward pressure on inflation, raising it to 4.4% from 3.5% (baseline) in June and to 4% from 3.4% (baseline) in December.

5.4.2. More pronounced Weather-Related Shock

This scenario captures the effects of a more pronounced weather effect than in the baseline, which would put additional pressure on garden root crops/vegetable production and food supply. Given the significant weight of food in the consumption basket, these pressures translate quickly into higher domestic and headline inflation.

The impact is assumed to materialise early, beginning in Q1 and extending through April, with inflation remaining above the baseline through Q2 and Q3. Inflation is projected at 4.5% in June and 3.9% in December compared to baseline of 3.5% and 3.4%.

5.5. Downside Risks

5.5.1. Potential Reduction in Gold Output

This downside scenario simulates a decline in gold production arising from unresolved landowner grievances and related operational disruptions. Gold exports are a key driver of external earnings and GDP in 2026 and beyond; therefore, a sustained reduction in output directly weakens export performance and economic activity.

The decline in exports is assumed to begin in Q2, with output remaining persistently below baseline thereafter. This could push the output gap below the baseline, exerting downward pressure on inflation. Consequently, inflation falls below the baseline, representing a downside risk to the inflation outlook.

5.6. Neutral Risks

5.6.1. VAT and Income Tax Reforms

This scenario assesses the government's commitment to implementing VAT and income tax reforms, with potential effects beginning in Q4 2026. The reforms are expected to improve revenue mobilisation, reduce the fiscal deficit, and increase public saving. However, the transmission to the real economy is assumed to be weak in the short run due to administrative rigidities, behavioural adjustment lags, and delayed pass-through to consumption and investment decisions.

As a result, there is no immediate impact on inflation or the output gap in 2026. Any disinflationary or demand-side effects are more likely to materialise from 2027 onward, once the reforms are fully absorbed into the economy. This scenario is therefore assessed as broadly neutral for the 2026 inflation outlook.

6. Monetary Policy Stance

In light of the current environment of low inflation, robust growth, and improving employment conditions, and with headline inflation expected to remain within the Bank's desired range, CBSI has decided to maintain an accommodative monetary policy stance over the next six months, with a newly introduced policy rate of 1.5% (see Box A). The Bank will continue to monitor domestic and external developments and stands ready to adjust its policies in response to any significant macroeconomic shocks.

Box A: Introduction of CBSI Policy Rate

The introduction of a CBSI policy rate marks an important step in modernizing the Bank's monetary policy framework and strengthening its policy toolkit. The policy rate will serve as a key signalling instrument, guiding monetary conditions and enhancing the transmission of policy decisions to the broader economy. Consistent with international central banking practice, the policy rate is designed to support the Bank's primary objective of price stability.