

**“REBALANCING GROWTH TO OPEN UP NEW OPPORTUNITIES”, STATEMENT BY
CBSI GOVERNOR, DENTON RARAWA ON THE OCCASION OF THE LAUNCHING OF
THE CBSI ANNUAL REPORT FOR 2015, KITANO MENDANA HOTEL, 18 MAY 2016**

1. Salutation

Minister of Finance, Hon Snyder Rini; other Government Ministers; Permanent Secretaries; Members of the Diplomatic Corp; Chief Executive Officers of State Owned Enterprises, financial institutions and other private sector companies; members of NGOs, Women’s groups, the media, Ladies and gentlemen.

2. Introduction

Good morning everyone. Thank you for taking time off to be with us at the launch of the Central Bank of Solomon Islands (CBSI) 2015 Annual Report. This occasion gives me the opportunity to:

- firstly, report on how we saw the Solomon Islands economy perform last year,
- secondly, provide an account of CBSI operations in 2015, and
- thirdly, assess a few policy issues and challenges facing our country.

2015 had been a good year for the Solomon Islands economy and the Central Bank. Most key economic and financial indicators recorded positive outcomes despite the challenges posed by the global economy. One major challenge, for example, is the depressed demand from China for our exports particularly logs exports and this saw log exports decline substantially. The fall was partly cushioned by high demand from India.

The theme of my presentation this morning is **“Rebalancing Growth to Open up New Opportunities”**. Growth in the country so far has been so lopsided and dominated by a few industries. This is holding us back from unlocking other economic potentials.

This morning I would like us to focus on potential opportunities that we are slow to grasp or let them slip by. This doesn’t mean that we are ignorant of the possible challenges that could impede our plans for the future. Instead let us to look beyond those challenges to see the many opportunities that lies ahead. In that way I hope we can refocus and reinvigorate ourselves to strive for a better Solomon Islands that can at least offer opportunities for all citizens to make a decent living.

The other point I want to highlight this morning is what can we do to reduce rural poverty in Solomon Islands. Who is responsible for the eradication of poverty in our country? Is it the Government, Central Bank, investors or resource owners?

I shall return to these issues later, but for now, let me briefly survey the performance of the domestic economy in 2015.

3. Economic Developments

To set the scene, the world economy recorded positive growth of 3.1% in 2015. While the recovery in advanced economies supported economic activities in 2015, emerging and developing economies including China slowed down. This dampened global demand and depressed commodity prices. As Solomon Islands is part of the global economy, events happening in the outside world, also affected us.

Now let me give a brief account of how we saw the Solomon Islands economy perform in 2015. Preliminary estimates from the CBSI showed that the Solomon Islands economy grew by 2.9% in 2015, up from 2.0% in 2014. The improvement was driven mainly by increased activities in forestry, manufacturing, wholesale and retail, and construction. Fisheries and agriculture were hit hard by low commodity prices while the mineral sector remained subdued. Public expenditure both from the government and donor partners also contributed to the overall growth.

So the economy grew last year, but I think more importantly, the question is, what can we show for this positive growth in terms of new job opportunities; quality of services delivery in health, education and transport; or even just improved better living standards for the general population?

Labour market conditions improved in 2015. Data from SINPF showed the number of active contributors to the Fund increased by 4% to 55,438. This is consistent with the feedback CBSI received from industry consultations conducted earlier this year where most companies reported increases in their employment numbers though a handful maintained the same level or recorded declines.

The balance of payments position of the country improved markedly in 2015 to an overall surplus of \$395 million. This buoyant outcome was attributed to higher donor inflows and direct investments. Despite the positive BOP position, the trade position deteriorated during the year as a result of weak exports, attributed largely to low commodity prices. The depreciation of the Solomon Islands dollar against the US dollar in 2015 had somewhat cushioned the negative shock emanating from low commodity prices.

Private sector credit grew by 17% in 2015. The bulk of the credit went to personal, distribution, communication, construction, manufacturing, tourism, professional services and transport sectors.

Had these financial resources been channelled towards the development of productive sectors like agriculture, fisheries, tourism, more would have been achieved.

Of course we need to protect the stability of our financial system and it is encouraging to note the low non-performing loan ratio for Solomon Islands in recent times. Our NPL rate is among the lowest in the region.

On the fiscal front, a deficit of \$172 million was recorded for 2015. The deficit resulted from an increase in government expenditure in the second half of the year as the Government spent its capital budget before year end. The fiscal deficit is equivalent to 2% of GDP, and while this is still manageable, the policy space for the Government to continuously run deficits in the medium term is limited.

Our public debt stock now stands at \$811 million, down from \$1.0 billion at the end of 2014. As a result of prepayment of its domestic debt by the government, the country's public debt is one of the lowest in the region.

The Central Bank maintained the exchange rate policy of pegging the SBD against a basket of currencies. This ensured the stability of the SBD against the basket despite volatilities in the global exchange rate market. Global exchange rate developments in 2015 were such that commodity exporters gained from the weak SBD against the USD while importers trading in AUD and NZD benefited from the appreciation of the SBD against both currencies.

In our effort to keep market participants informed, the Central Bank began publishing the exchange rate basket index on its website on a daily basis. While we expect importers and exporters to behave rationally we also expect the benefits derived from favourable exchange rate movements to be passed on to consumers through affordable prices for consumables or to farmers through better copra and cocoa prices.

Price stability is the primary objective of the Central Bank of Solomon Islands. Overall inflation crept up in the second half of 2015 to 2.9% in December after a deflationary period in the second and third quarters. The 2.9% level however, was lower than the inflation rate in December 2014.

We have observed a glaring disconnect between the calculated inflation rate and movements in the prices of goods in the shops. Most often, prices of imported goods are rigid downwards even when the exchange rate movement is favourable. While I am not an advocator of market intervention policies, I however believe that the Price Control Unit needs to be strengthened to come up with well thought

out regulations to discourage anti competition behaviours that push up retail prices in Honiara and in the provinces beyond the budgets of ordinary Solomon Islanders.

4. Growth Prospects

In terms of growth prospects for the ‘short to medium term’, the CBSI projects growth in 2016 to be around 2.9%, the same level as in 2015. For the medium term, growth is expected to remain positive. The key drivers for growth in 2016 are expected to come from the services sector in particular construction, manufacturing, wholesale and retail trade, and public expenditure. These activities are expected to be boosted by low energy prices.

However there are risks and challenges in the road ahead just like the Honiara roads that are littered with potholes. Potential risks (potholes) include low commodity prices, limited fiscal space in the medium term, and security uncertainties.

5. CBSI Operations

On CBSI’s 2015 operations, I am pleased to announce a major turnaround in CBSI financials from a net loss of \$28.9 million in 2014 to a net profit of \$44.3 million, owing to increases in fees and commission, other income, and net unrealised foreign exchange revaluation gains. Total income increased from \$65.6 million a year ago to \$115.1 million in 2015. Expenses on the other hand fell from \$94.5 million in 2014 to \$70.8 million in 2015.

I am fully aware that the Bank is still not out of the woods. The Bank’s balance sheet position had improved to a net asset position of \$13.2 million from a net liability position of \$18.8 million in 2014. But the Bank’s balance sheet still requires further consolidation in 2016. The Bank will take corrective measures by requesting Government to provide a promissory note of \$32 million to ensure that the provisions of the CBSI Act 2012 are complied with. This depends on the Government but on our part, the CBSI Board will continue to institute measures that will strengthen our profitability and balance sheet in 2016.

One of the major roles of the Central Bank is to regulate the financial system. In 2015, the domestic financial system showed resilience. The financial soundness indicators showed the banks complied fully with regulatory benchmarks and have strong capital and domestic liquidity positions. One of the major developments in the banking system in 2015 was the acquisition of Westpac Banking Corporation (WBC) Solomon Islands branch in October 2015 by Bank South Pacific. This has changed the banking landscape of the country with BSP becoming the dominant player in the market.

In response to and in anticipation of dynamic changes in the financial sector space, the Bank collaborated with the Ministry of Finance and Treasury on a number of legislative reforms. These include a review of the Credit Union Act, SINPF Act, Financial Institutions Act, and the Insurance Act. Work on these legislations is expected to continue in 2016.

In 2015, the CBSI continued to work alongside other stakeholders that share the common goal of ensuring a good proportion of the population access basic financial services. I am proud to say that Solomon Islands along with Fiji are the lead champions in the financial inclusion space in our region.

Now let me return to the theme of my presentation this morning of ‘**rebalancing growth to open up new opportunities**’.

6. Theme: “Rebalancing Growth: Future Opportunities”

When benchmarked against similar sized countries in the region, our economic performance was mixed in 2015. On a positive note, we are a resource rich economy with the lowest debt to GDP ratio, adequate external reserves, and strong import cover. On the downside however, we have low investment to GDP ratio, poor infrastructures, high cost of living, high lending rates, and low income per capita.

What is it that our neighbours are doing well that we are not? Why are our neighbours, some with very limited resources, performing better than us? To answer these questions, let us return to the theme “**Rebalancing Growth to Open up New Opportunities**”. The Solomon Islands economy still heavily depends on primary commodities (round logs, fish, palm oil, copra and cocoa). In fact, we are leaning more heavily towards round logs now more than before. We need to transition the economy away from unsustainable primary commodities. There are opportunities offered by technological innovation and non-commodity sectors.

5.1 Modern Technology and opportunities

The benefits of modern technology are immense. It can raise national productivity and reduce cost structures. Solomon Islands needs to fast track the fibre optic submarine cable project to open up new opportunities in communication, education, research, business, etc. Energy plants like the Tina Hydro project can push down utility costs in the future. We already lag our regional neighbours and we will remain so if these projects are further delayed.

5.2 Sporting Tourism

Ladies and gentlemen, just last week, the Solomon Islands delegation led by the Honourable Prime Minister convinced the Pacific Games Council for Solomon Islands to host the 2023 Pacific Games.

Congratulations Team Solomon Islands and all those people that worked tirelessly behind the scene to make our bid a successful one. Sports is a growing industry and good sporting infrastructure can open up new opportunities.

As a sports fan, I am already looking forward to the 2023 Pacific Games in Honiara. The opportunities this event will bring are huge. It could potentially generate a lot of economic activities in the medium term. In order to achieve maximum benefits from the Games, we need to properly plan for it. As the event is only in seven (7) years, we need to start immediately. Not only do we need to start building the necessary infrastructures now but we also need to start training the many people, especially volunteers to man the events now. By starting early, we would avoid ‘last minute’ preparations. I hope we have learnt lessons from the 2012 Festival of Pacific Arts.

5.3 Rural Poverty – who should eradicate it?

Let me briefly remark on eradicating poverty in our country. Early last month, I attended the launch of the Solomon Islands Poverty Profile/Results that was based on the 2012-2013 Household Income and Expenditure Survey (HIES). The report (SIG, et al. 2015) asserted that headcount poverty rate in Solomon Islands declined from 22% in 2005-2006 to 14% in 2012-2013. It is comforting to know that growth in those years contributed to the reduction of poverty.

However I noted one conclusion of the report and that is, “Poverty in Solomon Islands is overwhelmingly rural” and that this phenomenon reflects “longstanding and difficult to change factors, such as unfavourable geography and weak infrastructures which limited markets and the opportunities for diversification of livelihoods through enhanced cash earning opportunities.”

A lot of public funds have been channelled into rural Solomon Islands that one may ask if it is the right approach or the most effective channel to get the best possible outcome. I think we need to ‘take stock’ and consider the purpose and processes of spending public funds in the rural areas. Is this approach generating the best possible outcomes for the country or not? Is it enabling resource owners to play a role in addressing poverty in rural areas? Is it attracting potential investors to set up rural based industries that create jobs, incomes, and markets that will eventually lead to a reduction of poverty in rural areas?

6. Conclusion

In conclusion, ladies and gentlemen, the Solomon Islands economy recorded positive growth in 2015 and is expected to grow further in the near to medium term. We need to move to the inner lane and quickly implement projects that can open up new opportunities. I hope the 2023 Pacific Games, we have just won the rights to host, can become rallying cause and an inspiration for all of us in the

country. Even without good infrastructures, we have been awarded the games and all we must do all we can to prove our worth. To some extent the same can also be said for our rural areas where infrastructures are lacking. Let us look beyond the challenges and enable our people to unlock their land and resources to develop our country and reduce rural poverty.

Ladies and Gentlemen, the report would not be possible without the cooperation of certain institutions and individuals. Let me first acknowledge the many companies, government ministries, SOEs and other agencies that provided us with the data that enabled us to make the economic and financial analysis.

In particular, I acknowledge our external auditor KPMG, for their patience and thoroughness in ensuring our accounts are properly audited. I also thank the Office of the Auditor General for certifying our financial accounts for 2015, and our printers, Pacific Printers and EN Printers, thank you for printing and binding the report.

Finally I extend my appreciation to my fellow CBSI Board members for their wisdom and guidance throughout the year, my hardworking Deputy Governor for seeing the 2015 annual report to the end, and those CBSI staff that contributed to the report in one way or the other.

Ladies and gentlemen, I now have the honour in submitting to you the 2015 CBSI annual report and the 2015 December Quarterly Economic Review for your reading.

God Bless Solomon Islands and thank you very much.

18 May 2016