

STATEMENT BY GOVERNOR DENTON RARAWA ON THE OCCASION OF THE LAUNCHING OF THE CBSI ANNUAL REPORT FOR 2010, MENDANA HOTEL, 13 MAY 2011

Salutations

- Hon Minister of Finance, Gordon Darcy Lilo;
- Other Ministers of the Crown;
- Leader of Opposition;
- Members of Parliament;
- Representatives of the Diplomatic Corp
- Head of the Anglican COM, His Grace, Archbishop David Vunagi;
- Senior Government officials;
- CBSI Directors;
- Commercial bank managers;
- Heads of statutory authorities;
- Managers of private sector companies;
- Representatives of non-government organizations;
- Representatives of women and youth;
- Representatives of the media;
- Ladies and Gentlemen.

Good morning and welcome to you all. Let me thank you for sparing the time to be with us this morning.

This occasion provides an opportunity for me to inform the public about the state of our economy. It is also an opportunity for me to account for the Banks actions and operations last year.

As you will see in the annual report, 2010 had been a good year for Solomon Islands. Nearly all the key economic indicators reported positive outcomes. This positive performance is expected to continue in 2011, despite looming threats from renewed inflationary pressures and potential slowdown in the global economy.

Against this positive background, I believe we have a window of opportunity in our country to consolidate and build on the gains in the economy.

I have two simple messages for us this morning. First, we should use this window of opportunity to strive towards achieving **quality and inclusive growth**. Quantitative growth alone is not enough.

Secondly, to achieve quality growth, we need to remove the constraints that hold us back. We can do this by continuing with the reform process that we have embarked on. But there are other areas that cannot be addressed by economic reforms. These areas require radical changes to our mindset and attitude. I will later touch on one area that seems to have been embedded in our society which, I believe continues to hold us back in our efforts to progress and prosper. This is what I term the “*fitim Solomon*” syndrome.

I will return to these issues later, but let me briefly highlight the main developments in the Solomon Islands economy in 2010.

Solomon Islands Economy in 2010

Solomon Islands is one of the high performing economies in the region in 2010. You can read the details in the report at your leisure time, but generally the main features and trends in our country’s economic performance in 2010 were:

- GDP growth of around 7% generated by strong output in goods & services;
- Inflation averaged 1%;
- Foreign reserves enough to cover 9 months of imports;
- Debts reduced to sustainable levels with the Debt/GDP ratio now in the green zone;
- Modest growth in money supply;
- Subdued credit growth;
- Ample liquidity in the banking system;
- Profitable and sound financial system;
- Employment opportunities generated;
- Strong and consolidating fiscal performance; and
- Continued economic reforms.

This positive picture is attributed to the developments in the global economy and within our country.

The **global economy** continued to recover from the financial and economic crisis with emerging markets leading the recovery. China, our main export market was the powerhouse behind this growth. Commodity prices have rebounded sharply in 2010.

Against the global background, the **Solomon Islands economy** recovered from the recession of 2008/2009 to record a positive **real growth of 7%** in 2010. The main driver of this growth was the forestry sector but other commodities, except copra, also contributed. As a result, Solomon Islands total trade in goods surged 45% in 2010 compared to a 16% decline in 2009.

The services sector also contributed towards GDP growth in 2010, especially in the construction and telecommunications sectors.

In the monetary sector, money supply grew by 17% in 2010. This increase was externally driven by donor funding, export receipts and investment inflows. Credit on the other hand remained subdued during the year.

Inflation has been at an all time low with overall annual inflation averaging at 1% in 2010. This was due to stable fuel and food prices for most of 2010 and increased competition in the telecommunications sector.

In recent months however, we have seen renewed pressure on inflation generated by rising international food and fuel prices. The Central Bank stands ready to use appropriate monetary and exchange rate policies to address the renewed inflationary pressures.

In terms of employment, based on anecdotal evidence, new jobs have been created in the economy in 2010.

Fiscal operations improved and consolidated in 2010. Revenue performance was strong and expenditures were controlled within the budget. In this connection, I would like to acknowledge and commend the Minister of Finance and his Permanent Secretary for their hard work and steady management of government finances in 2010. The fiscal sector became an automatic stabilizer in the economy in 2010.

Despite the positive performance in the Solomon Islands economy in 2010, inherent impediments and challenges remain. These include, but not limited to, a narrow export base, inadequate infrastructure, complex land tenure system, less-friendly business environment, and high population growth.

These issues, as you are all aware are not new. And I believe we all know what to do. Now we have the opportunity to address these impediments.

Quality & Inclusive Growth

Now let me return to my first message for this morning - that of ensuring quality and inclusive economic growth.

As seen earlier, last year the Solomon Islands economy grew by an estimated 7%. Further growth is expected this year and beyond.

More specifically, real income per capita has increased by nearly 5% in 2010. This implies that the income of each person in Solomon Islands has increased in 2010. Or in other words, the standard of living of all citizens has improved in 2010. The question is, "Is this the case"? Or "Has that *growth* benefited all Solomon Islanders"? Most will agree with me that this has not been the case.

You look around and see the majority of our people struggling to make ends meet. There are more people scavenging for empty bottles and cans along our streets than before.

While high growth rates are important, it is of equal importance that the benefits of growth are enjoyed by our people. Solomon Islands need quality and inclusive growth. We need growth that generates new jobs and improves the lives of the people. And we must share and spread out the benefits of this growth to the majority of our people not just the privileged few.

This is where good policies matter. We can do this by spreading major economic activities throughout our country. To date we have not been very successful in doing this. For example, we have talked about Bina Harbour and Aluta palm oil projects for many years. Anuha has been idle for many years. There are still no significant national projects on big islands like Choiseul, Isabel and Makira.

Now we are talking about “growth centres”. I think this is a good idea. Let us support the Government establish these centres throughout the country. But we must spend less time talking about the concept, and let’s establish the first one. And I recommend we set up the first one in Choiseul, Isabel or Makira where there is little or no significant economic projects to speak of.

Let us develop appropriate policies to empower our people in rural areas to contribute meaningfully to their communities and achieve their aspirations. We need to engage our resource owners in our national developmental efforts. At the same time our resource owners must embrace and welcome investors (genuine ones of course) or investment opportunities that use their resources especially land. In this connection, I believe the new policy by the Government to introduce land reforms especially on customary land is timely and welcomed.

Another critical issue often mentioned is access to finance to enable rural people do things for themselves. I hope the Bank’s work on financial inclusion in Solomon Islands will enable a majority of our rural people have access to financial services and products.

If we all work together for this common good, I believe we will achieve even greater **inclusive and quality growth**.

“Fitim Solomon” Syndrome

Ladies and gentlemen, let me turn to my second message. This is an issue I feel is deeply embedded in our psyche and society. I term this as the “fitim Solomon” syndrome. Offshoots of this are: the “Solomon Way”, “Melanesian Way” etc. etc.

This attitude is like a “treadmill around our neck” pulling us down and impeding our development efforts. We find examples of this everywhere: in government, in the private sector, non-government organizations, church organizations and in our villages and communities. We come across examples of it every day.

This mentality allows us to accept substandard output, entertain or condone failure and tardiness. It even becomes an excuse or even consolation for failure. It breeds apathy and perpetuates inferiority and even frustrates those trying to do the right thing.

Why do we allow substandard products to be sold in our country? We can't even read the labels on some products. Our people don't know what they are buying. Why do we allow the sale of rejected fish from fishing vessels in our markets or in fast food shops as fish and chips? When you ask these questions, people simply shrug their shoulders and say “Kan se na fitim Solomon na”

We watch holes grow into large potholes on our roads. But when we repair the potholes, we simply fill them with soil or gravel that is quickly washed away next time it rains. We have ships that continue to carry cargo and passengers without adequate safety equipment.

We come late for meetings but nobody notices: its “Solomon time”. Contractors cut corners when building roads, houses and other infrastructure and more often than not, the end product is below expected standard. Some of these are even donor funded projects. But they are still accepted and certified. Why because “fitim Solomon na”

Examples of this attitude are everywhere. It is deeply embedded in our society.

But this attitude is bad for our country. It is holding us back. We should do away with this “**fitim Solomon Islands**” mentality and replace it with “**Solomon Islands deserves better**”. Because Solomon Islands deserves better. Our people deserves better. In fact, Solomon Islands deserve world class products and services, even world class leaders of integrity, courage and vision. We should be thinking globally. Maybe the motto “**Local but Global**” should be our new way of thinking and doing things.

Our country needs a radical change in attitude and way of thinking. Only when we remove this mentality from our psyche and society, can we progress and achieve quality and inclusive growth in our country.

CBSI Operations in 2010

Let me now turn to the operations of the Central Bank in 2010. Details of the Banks operations are provided in Chapter 8 of the report. I will report on only a few of the highlights last year.

In terms of its core functions, the Bank reviewed its monetary policy framework in 2010. This has led to the adoption of new monetary policy guidelines and instruments for use in liquidity management. The Bank also issued new prudential guidelines to the commercial banks in line with international guidelines introduced after the global financial and economic crisis.

In its financial operations for 2010, the Central Bank made a net profit of \$9.8 million in accordance with the CBSI Act. But in accordance with the International Financial Reporting Standards (IFRS), the Bank made a profit of \$57.7 million. The difference between the two profit levels is the recognition of foreign exchange revaluation gains as income under the IFRS but not under the CBSI Act. The profit has been appropriated in accordance with the CBSI Act.

A Safeguards assessment was conducted by the International Monetary Fund (IMF) in 2010 on the Bank's risk prevention and mitigation framework. I am pleased to report that the assessment has found that adequate internal control systems, procedures and processes are in place. But some areas of weaknesses have been identified by the assessment are being rectified.

The Bank has started work on a new set of circulation coins that will see a change in the metal content and the type of metals used in our coins. If everything goes to plan, we expect to launch the new coins during the 34th anniversary of our independence in 2012.

The Bank also reviewed the administration of exchange rates policy and introduced changes towards the end of 2010. These changes are intended to enhance greater exchange rate flexibility in Solomon Islands.

Recently the Bank has taken on the role of promoting financial inclusion in Solomon Islands. This is a new and exciting function covering areas such as mobile phone banking, financial literacy and promoting financial services in our country. Hopefully by the end of this year, we would see progress in terms of greater access to financial services and products in our country.

Conclusion

In conclusion, ladies and gentlemen, 2010 had been a good year for Solomon Islands. Nearly all the key economic indicators showed positive outcomes. It had also been a good year for the Central Bank.

The question is: was it also a good year for the majority of Solomon Islanders? Has the growth seen last year translated into improved standards of living for the majority of our people? If not then, we should try even harder and focus our efforts to achieving quality and inclusive growth. Quantitative growth alone is not enough. This growth must benefit the people.

And in our efforts towards achieving quality and inclusive growth, we must address attitudinal factors that impede our development process. And the “fitim Solomon” syndrome in my view is one such impediment. It may take a long time to break this attitude, but we must do it.

Ladies and gentlemen, finally, let me acknowledge the many people who have contributed to the successful completion of this annual report. First, let me thank all stakeholders that have provided data and information used in the report. Many of you are here this morning. Without your continuous support it would not have been possible to complete this report. I would also like to acknowledge CBSI Board Directors and Chief Managers for their comments and guidance on earlier drafts of the report.

Let me also thank our printers for getting the report ready for today’s launch and to the management of Mendana hotel for the arrangements and use of their facilities this morning.

Finally, I would like to thank my own staff in Finance and Accounts, Human Resources and Corporate Services and particularly my staff from the Economics, Research and Statistics department for putting this report together.

Ladies and gentlemen, without boring you any further, it is my pleasure to release the Central Bank 2010 Annual Report for public consumption.

Thank you for listening and May God Bless Solomon Islands!

Central Bank of Solomon Islands
13th May 2011