

A Speech by Deputy Governor Gane Simbe during the launch of the CBSI 2011 Annual Report at Kitano Mendana Hotel on May 11 2012

Salutations

Minister of Finance, Hon Rick Hou
Other Ministers of the Crown
Leader of Opposition
Members of Parliament
Representatives of the Diplomatic Corps
Senior Government Officials
Central Bank Directors
Heads of Statutory Authorities
Commercial Bank Managers
Managers of Private Sector Companies
Representatives of Non-Governmental Organisations
Representatives of Women and Youth
Representatives of the Media
Ladies and Gentlemen

Introduction

Let me welcome everyone to the launching of the Central Bank's 2011 Annual Report. This occasion is one of the events in the CBSI's Calender in which the Bank takes the opportunity to share its analysis of how the Solomon Islands economy performed in the past year, expressed its opinion on the outlook for the coming year (2012) and accounts for its actions for the year to its stakeholders.

I also want to warn you however that due to the sudden absence of the Governor who has gone on compassionate leave, the usual commentary by the governor on selected theme highlighted during this occasion will not be included in the presentation this morning. I will concentrate my comment on the outcome for 2011 year, as presented in our Annual Report.

Further, the presentation of 2011 Annual Report will be divided between two presenters. I will begin with some overall introductory remarks, highlighting the economic outcomes of 2011. I will then ask our Chief Manager, Economic, Research and Statistic Department Mr Michael Kikiolo to present in graphical representations the details of what drove the outcome for the year. That way, you will appreciate the contents of the Report better, when you read it yourself. After Mr Kikiolo has made his presentation, I will return with some concluding remarks.

Key Performance Indicators for 2011

Despite of the uncertainties and subdued growth experienced by the global economy, the Solomon Islands economy performed reasonable well in 2011. The following indicators support the observation:

- Measured in terms of Gross domestic product (GDP) the economy grew 10.7 per cent in 2011 up from 7 per cent in 2010;
- Gross international reserves was sufficient to cover 10 months of import, a month above previous year;
- Inflation however rose, ended the year at 7 per cent, from 1 per cent in 2010;
- Government continued to achieve better outcome in its fiscal performance and
- The financial system has excess liquidity available for potential lending.

In sum, 2011 was another exceptional positive growth year for the country's economy.

But what drives these results? Which sectors of the economy were responsible for the outcome? Were the contributions to the growth fairly distributed? May I now invite the Chief Manager, Economic, Research and Statistics Department, Mr Kikiolo to present the backgrounds on what drove these key indicators and may be answer some of the questions.

[Michael – PowerPoint presentation]

Outlook for 2012

Looking ahead to 2012, and based on Bank's projection, we expect the economy to grow but at a slower rate of around 5 to 6% by the end of the year. Mineral production which is expected to double will be the lead driver, complemented by growth from construction, telecommunication, transport and fisheries. Log output is

anticipated to remain around the same level as last year so we are expecting a zero contribution from this sector in our projection model.

On our international trade, the Bank anticipated favourable Balance of Payments position in 2012. Net exports are expected to turn positive after numerous years of negative trade balance.

Inflation is anticipated to fall this year around 5 to 7% range, influenced mainly by international food prices which we expect to remain subdued. But rising oil prices caused by the geopolitical tensions in the Middle East and rising demand from China and India poses an upside risk to inflation and growth expectations.

We also expect new investments to continue into 2012. Foreign investments are expected to flow in particularly in logging, wholesale, and tourism sectors. Some public infrastructure projects that commenced in previous years will continue for instance road, airports and wharves that were built throughout the country under the National Transport Fund.

It is noted that SIG's contribution to the development budget for 2012 increased to 23% of budget expenditure, an improvement from 11% in 2009. It is encouraging to note that the Government has allocated more funds to development budget but of course quality projects to facilitate inclusive growth would be commendable.

CBSI Operations 2011

May I now turn to the operations of the Central Bank in 2011 to account for some of the policy decisions the Board took and its outcome in terms of CBSI operations.

One of the key policy decisions taken earlier in the year was to appreciate the local currency. The aim of this policy initiative was to help to contain annual inflation within single digit. As a result of the decision, the Bank stabilised the dollar at \$7.36 per unit of US dollar throughout the year but realized a net loss in terms of Solomon dollar totalling \$245 million.

The Bank's Balance sheet position ended the year with total asset increasing from \$2.3 billion at end of 2010 to \$3.3 billion at the end of the year. Total foreign assets made almost 92% of total asset.

On the liabilities side of the balance sheet, similar increases were recorded increasing from \$2 billion at end of 2010 to \$3.1 billion at end of 2011. About 74 per cent of the total liabilities represent deposits of clients held with the Bank. And as the result of the unrealized foreign exchange losses, the Bank's equity fell from \$371 million at end of 2010 to \$141 million at end of 2011.

On the statement of income for the year, the bank made a profit of \$21 million under the income recognition provisions of the CBSI Act. However, under the International Financial Reporting Standard, we made a net loss of \$224 million.

Bank's most important resource is its employees. In 2011, the Bank employed a total 91 officers. In terms of gender balance we employ 41 females and 50 males.

Finally, the new sets of circulation coins which the Bank worked on during 2011 will be launched in 4th July, 2012, and be available for circulation from 5th July 2012. Minting of the new coins is very expensive exercise. Our estimated total cost to enable these coins to be produced is estimated at \$44 million. About 40% of total cost has been spent in 2011. Please circulate the new coins and don't put them in your jars when you receive them.

Conclusion

To conclude, the indicators as presented in the 2011 Annual Report, shows once again that Solomon Islands economy achieved positive outcomes.

But let me repeat the questions that were said in the launch of 2010 Annual Report:

"Was the positive outcome in 2011 translated into the improved standard of living among the majority of our people – those living in rural villages and urban centres?"

Were new jobs created for our young and unemployed youth population? If not, what can be done to ensure that quality and inclusive growth for all is realized?

As you think over these questions, may I take this opportunity to sincerely thank various institutions and individuals that contributed to the production of the CBSI 2011 Annual Report. Government ministries, state owned enterprises, financial institutions, donors, non- governmental organisations and private sector companies – thank you very much for the useful and timely data/information.

Our external auditors Deloitte of PNG and the Office of the Auditor General for finalising our accounts. Thanks to EN Digital Printing Technology Ltd our printer and Kitano Mendana for the venue and other services provided. Special acknowledgement to my Board of directors for their steadfastness and my staff who worked tirelessly to produce this report.

And as usual the views expressed in this Report are of course entirely the responsibility of the Central Bank of Solomon Islands.

Ladies and Gentlemen I have the pleasure to formally launch the CBSI 2011 Annual Report. Thank you for listening and May God Bless Solomon Islands.