



CENTRAL BANK of SOLOMON ISLANDS

P.O. BOX 634, Honiara, Solomon Islands

Press Statement: 09/2015

Tuesday 30th June, 2015

CBSI Release 2014 Annual Report

(Honiara 30.06.15) - The Central Bank of Solomon Islands (CBSI) has formally released its 2014 annual report today.

In his official statement, Governor Denton Rarawa discusses the key developments in 2014 and the economic trends in the early months of 2015.

In the annual report, the CBSI estimated economic growth for Solomon Islands in 2014 at 2.0%. While the growth was down against the pre flood estimates of 3.7%, it was an improvement from the post flood estimate of 0.9% and was attributed to strong recoveries in the second half with the logging sector as the chief driver supported by agriculture, fisheries and the services sectors. While the continued closure of the Gold Ridge mine had dampening effects on overall growth, this was somewhat cushioned by the rapid expansion in logging activities.

The Governor reported that gross foreign reserves declined to \$3,784 million at the end of 2014 from \$3,883 million in 2013. This came as a consequence of a widening current account deficit of \$433 million in 2014, on the back of high services and primary account payments combined with a negative trade position. However, recent developments showed gross foreign reserves improved over the course of the past five months to \$4,312 million in May 2015, boosted mainly by trade receipts relating to log exports, donor inflows and to a lesser extent fishing licenses received from foreign boats.

The trade weighted index of the Solomon Islands currency basket moved by 3.9 percent against December 2013 to 104. This was influenced largely by movements in the US dollar, which appreciated against all other major currencies during the year. On a cross currency basis, the SBD weakened against the USD but appreciated against other currencies including AUD, Japanese Yen and NZD. Governor Rarawa said that these developments were also observed in the first five months of 2015.

Monetary growth slowed down in 2014 relative to the preceding year with a year-on-year growth rate of 6% to \$3634 million compared to 12% growth in 2013. The weaker growth was partly due to the 10% contraction in base money to \$1,828 million. Credit to the private sector on the other hand accelerated in the second half of the year to \$1,703 million by December, an increase of 16% against the same period in 2013. Credit to the private sector was dominated by loans to the personal category and services sectors such as communication, professional services, distribution and manufacturing. This trend continued in the first five months of 2015. As at the end of April, credit to private sector recorded a year on year growth of 18% to \$1,765 million.

On the fiscal front, the Government recorded a fiscal surplus of \$129 million in 2014 in spite of a weaker than expected revenue outturn. The surplus was achieved mainly because of under spending in the development budget. The delayed passage of the 2015 appropriation budget has constrained Government expenditures that resulted in a first quarter surplus. This trend is expected to reverse in later months as the Government ramped up expenditures. As in previous years, public debt stock trended downward by 9% to \$859 million in December 2014. The debt stock declined further to \$821 million in May 2015.

The Governor pointed out that headline inflation receded in the second half of 2014 to 4.8% in December. This came at the back end of a temporary price hike that was observed in the second quarter in the wake of the April flash floods. The subdued price pressures in the second half reflected trends in both the imported and domestic components. On the external pressures, favourable exchange rate movements against the AUD and NZD combined with falling food and energy prices drove the imported index downward. These downward pressures were quite persistent so far and have driven headline inflation down to minus 3.0% in April 2015.

On the near term economic outlook, the Solomon Islands economy is expected to accelerate in 2015 at an estimated growth rate of 3.3% on the back of strong activities in the construction, manufacturing, transportation and communication sectors supported by public expenditure and falling oil prices. Year to date indicators also showed forestry, agriculture and fisheries sectors performed above expectations and could be contributing to growth if current trend continues into the second half of 2015.

The domestic financial system remained stable in 2014 with ample liquidity to meet the country's transactional and financial commitments. Financial stability indicators continued to remain within standard benchmarks. One of the major financial sector developments in 2014 was the establishment of Pan Oceanic Bank. This brought the total number of banks operating in the Solomon Islands to four which generated competition in the industry.

On the Central Bank's 2014 financial performance, Governor Rarawa reported that CBSI made a net loss in 2014 despite an increase in revenue and a fall in expenses. Annual revenue improved from \$54.0 million in 2013 to \$65.6 million but was outpaced by annual expenses which dropped to \$94.5 million from \$219 million in 2013. As a result, the CBSI recorded a net loss of \$29 million in 2014 compared to \$165 million loss in 2013. The consecutive losses were due mainly to net unrealised foreign exchange revaluation losses the Bank incurred as a result of unfavourable exchange rate movements.

Ends//

For more information, please contact:

Central Bank of Solomon Islands | P.O. BOX 634 | Honiara | Ph: (677) 21791 | Email: info@cbsi.com.sb | Website: www.cbsi.com.sb