

Remarks by Central Bank of Solomon Islands (CBSI) Governor, Denton Rarawa at the launching of the CBSI 2017 Annual Report, Mendana Hotel, May 10th 2018

[Salutation]

Deputy Prime Minister & Minister of Finance, Hon Manasseh Sogavare

Minister for Forestry & Research, Hon Samuel Manetoali

Permanent Secretaries & other Senior Government Officials

Representatives of Diplomatic missions & international organisations

CBSI Board Directors

Heads of banks and other financial institutions

Representatives of SOE's and private sector companies

Representatives of NGO's, CSO's, women's groups

Representatives of the media

Ladies and gentlemen

Introduction

Let me welcome you all, and thank you for accepting our invitation to be with us at this morning's launching of the CBSI's 2017 annual report. This is one of the important annual events for the Bank where we provide an assessment of the country's economic conditions, comment on topical policy issues and account for the Bank's operations in the prior year.

As we all know, 2018 is a special year for our country. We will be celebrating 40 years of independence in July. Hindsight enables us to reflect on our journey, our successes and failures. I would like to look ahead and pose these questions; what do we want to achieve in the next 40 years? What kind of country do we want Solomon Islands to be in 40-50 years from now? What type of living standards do we want our people to enjoy in the future?

This year is also unique because it is the final year for the current Parliament and the Government before the national general elections. We are at an important crossroad in the history of our country. Our people will soon have the opportunity to choose our new leaders that will take our country forward into the future

Ladies and gentlemen, I believe we have a window of opportunity for us to change how we do things in our country. In saying this, the theme of my talk this morning is: **“Reform to Transform”**.

Why do we need reforms? Our economy is chugging along like a vehicle being slowed down trying to navigate through multiple deep potholes. Some of these potholes we dig ourselves. We need to do something about these potholes. We need deliberate actions to bring in much-needed reforms to transform our country, to achieve the national vision of our National Development Strategy 2016-2035, which prioritises, “Improving the social and economic livelihoods of all Solomon Islanders”. *Let me emphasise that national vision again: “improving the social and economic livelihood of all Solomon Islanders”. The word “all” to me means, an inclusive vision of social and economic living standard for all. No one should be left behind.*

So what sort of reforms do we need to implement to transform our country and achieve our national vision?

But before delving further into these questions, I would like to briefly highlight our country’s economic performance during 2017.

Macroeconomic update

Buoyed by a resurgent global economy, the Solomon Islands economy grew by 3.7% in 2017 up from a revised 3.4% in 2016. This outturn came about in spite of fiscal policy pressures and challenges. This is a testament of the diligence and resilience of our private sector and our people especially our rural farmers and fishermen. By sector, this growth was principally driven by forestry, fisheries, manufacturing, financial services and wholesale & retail.

Production of our commodities continued to rise compared to the previous year. This was mainly due to the high volume of output for copra and fish that offset falls in cocoa and palm oil. Log volumes despite a marginal fall remained at elevated levels compared to the record output witnessed in 2016.

Meanwhile, employment conditions were mixed. Proxy indicators from SINPF contributions showed a marginal fall by 0.1% to 55,788 members. On the other hand, public service staffing levels increased over the period. Additionally, employment initiatives such as the locally based Rapid Employment Project and the seasonal worker schemes in Australia and New Zealand continued to gain traction.

Headline inflation rose during the year to 1.8% in December 2017, compared to minus 2.8% in December 2016. This reflected the rise in both imported and domestic inflation. By category, this increase came from food, drinks and tobacco, housing and utilities, fuel and transportation. The inflationary pressures have continued into 2018 on the back of the surge in energy and food prices.

The external sector remained vibrant in 2017. Aided by a positive net exports position and a reduced current account deficit, the country’s gross foreign assets rose to \$4,535 million. This is a growth of 8% from the previous year and is equivalent to more than 11 months of import cover.

In terms of the monetary sector, money supply grew by 3% to \$4,908 million over the period. This reflected the increases in private sector credit, the growth in net foreign assets and the improvement in the equity position of

financial institutions. Of interest, credit to the private sector rose by 5% to \$2,372 million with the construction, distribution, tourism, transportation and manufacturing sectors the leading users of bank credit.

Due to the favourable movement of the monetary sector indicators, total liquidity in the banking system grew by 7% to \$1,887 million in 2017. Moreover, excess liquidity has continued to rise, although the Central Bank does not believe this to be a key contributor to inflationary pressures.

On the fiscal front, the government's cash flow pressures resulted in a preliminary fiscal deficit of \$282 million over the period. Despite improvements in actual revenue collections, expenditure pressures strained government finances. Some expenditure commitments were reallocated as arrears in the 2018 budget.

Outlook

In the near to medium term, the growth prospects for the Solomon Islands economy remain positive. In 2018, the economy is forecasted to grow by 3.4%. This is expected to come from fishing, construction, wholesale & retail, tourism, transportation and agriculture sectors. Over the medium term (2018 – 2021), GDP growth is projected at around 4% as major development projects roll out, along with contributions from agriculture, fisheries, mining and construction.

However, there are also risks to these forecasts. These include tighter monetary policy in advanced economies, geopolitical tensions, rising oil and imported food prices, and adverse weather conditions driven by climate change.

CBSI operations

Let me briefly turn to the operations of CBSI in 2017.

Ladies and gentlemen, last year was a positive year for the Central Bank. I am pleased to report a major turnaround in the Bank's financial results for the year with a profit of \$30.6 million compared to the loss of \$46 million in 2016. This stemmed from the appropriate management of our overseas investments and favourable foreign exchange rate movements. Accordingly, CBSI's net assets improved considerably to \$45.1 million from negative \$11.4 million in 2016.

In terms of governance, the board comprised seven directors with one resigning in August. This resulted in three vacancies at the end of the year. These vacancies have since been filled following the appointment of three new Directors by the Minister of Finance during the first quarter of 2018.

Staffing levels increased in 2017 to 143, of which 60% were male and 40% female. The Bank values its staff as part of its core assets and continues to ensure they are aptly rewarded commensurate to their responsibilities, as well as provide avenues for training aligned with the Bank's priorities.

In terms of currency developments, the Bank began preparations for the issue of a new \$40 note and a coloured \$2 coin to commemorate our country's 40th anniversary of independence. I am pleased to announce that production of the note and coin are in progress and should be received ahead of their release in July this year.

CBSI has continued to supervise financial institutions in the country as part of its financial stability objective. Our banks have remained profitable and are adequately capitalized.

Due to the global issue of 'de-risking', small banks in the region, including the Solomon Islands, are facing challenges in maintaining their correspondent banking relationships. CBSI has been working with stakeholders to address this issue over the past months. We are confident that we will resolve this matter because, if not resolved, it has the potential to destabilise the financial system and economy as a whole.

Within the financial inclusion space, the Bank has continued to progress its National Financial Inclusion Strategy 2016 – 2020. One success story was SINPF's 'youSave' pilot scheme for "self-employed and informal members" to join the Fund. Since its inception in April 2017, the scheme has registered over a thousand members, of which, over half are women. The scheme is expected to be scaled up and rolled out to cover the entire country in 2018. Work has also progressed on digitizing the Government Inland Revenue system, supported by the "Better than Cash Alliance".

Theme: Reform to Transform

Now let me return to the theme for my address this morning on 'Reform to Transform'

Reform

Solomon Islands will mark its 40th Anniversary of Independence in July this year. What have we achieved as a nation? Could we have done more?

Ladies and gentlemen, over the past 40 years, the country grew on average, by 3.5% per annum. At the same time, our population has been growing by 2.3% - 2.8%. This means that as a country, the growth in our economy over the last 40 years was barely sufficient to feed, educate and look after our growing population. There was less left over to develop our country.

Could we have done more in the last 40 years? It is also widely known that growth and development in the country have been far from inclusive. Let me give you some examples. After harvesting and exporting 37 million cubic metres of our logs, 1.2 million tons of our tuna, 1 million tons of copra and 1.1 million tons of palm oil that earned us \$32 billion in the last 40 years; many of our villages and communities are yet to enjoy the "social and economic livelihood for all" articulated in our national strategic vision statement. Many of our people still do not have access to safe drinking water, access to affordable energy supplies, proper sanitation, proper schools and well-stocked clinics, all weather roads, airports and regular shipping services.

Let me put this another way. According to the National Statistics Office (NSO), **Solomon Islands 2012/2013 Household Income and Expenditure Survey**¹, the average household income gap between the bottom 25% and the top 25% is 11 times. In dollar terms, our bottom 25% of households received an average income of \$12,700 per year against \$147,200 income per household for the top 25%, mainly those of us who live in the urban centres. Even combining the average incomes of 50% of our households which total \$39,000, is nowhere close to the average income of the top 25%. Indeed, we have faced a variety of challenges that has slowed our quest for higher growth and development. This is akin to a vehicle trying to make its way through our many “pot holed” roads under a torrential downpour.

In order for the country to develop and progress, build buffers and resilience for disasters, the economy needs to grow, on average between 5-7% annually. This is the challenge facing our country going forward. To prepare our country for the next 40 years, we must reform the structure of our economy.

One priority area that will have a direct impact on the lives of our people in the rural areas is SME reform. We must redefine the general statement that “the private sector is the engine of growth” to include a focus on SME’s, including micro-enterprises in the remaining 17 years of our NDS 2016-2035. This focus will also support the work that we in CBSI along with our National Financial Inclusion Taskforce members want to achieve as part of our national financial inclusion strategy.

Additionally, there are other reform areas that could also be considered. The Government is commended for embarking on the reform of its tax system. This is a very important reform, to ensure our tax system is fair, effective, efficient, and simple to administer. Secondly, strengthening and improving the governance and sustainability of the exploitation of our natural resources particularly logging and mining is critical. This will ensure we minimize negative externalities and maximize the benefits for the country and the resource owners. Moreover, progressing important legislations, setting the enabling regulations and enforcing compliance requirements are some of the measures we need to undertake.

Ladies and gentlemen, the United Nations thinks we should now be able to graduate from Least Developing Country (LDC) to Developing Country status by 2021. Once our country graduates from being an LDC there is no turning back. While we stand to lose certain benefits such as duty free access for our fish and palm oil to premium markets like in the EU, and concessional interest rates on sovereign loans, reform in our mindset and attitude are critical. Our country is no longer a high school kid, or teenager. We are now an adult, past 40 years.

I believe this is a good opportunity for our people to change our attitude to work and stop the dependency mentality. Our leaders too must have the vision to actively drive change because there is no short cut to developing our nation. Yes, we can continue harnessing foreign investments and assistance from our development partners

¹ SINSO. (October 2015). *Solomon Islands 2012/13 Household Income and Expenditure Survey Provincial Analytical Report* (p. 66). Honiara, Solomon Islands Government.

(and these are most welcome) but we must always be in the driving seat of our decision making to ensure our country benefits and develops.

This is where effective leadership plays a critical role. We need leaders that have the interest of our country as their priority and at the centre of their decisions and actions. This includes leaders at all levels of our society; politicians, public servants, private sector leaders, community and church leaders, non-government organizations (NGO's) and civil society organizations (CSO). We all need to perform our responsibilities to ensure our country derives maximum benefits from its resources and so that the country will develop in the next 40 years.

Transform

Now all these reforms and call for effective leadership are all geared towards transforming our economy to improve the lives of all our people. This is the ultimate goal. At this juncture, I would like to acknowledge the Governments' efforts and priority to ensure that transformative projects like the TRHP and submarine cable are completed. Our development partners are ready to assist us but we must take the lead in the transformation process. It is also heartening to note that Government is already seeking advice on how to quickly maximise the benefits from these transformative projects when they come on stream.

That said, any economic growth must be broad based and inclusive. Broad based means there are more growth sources that helps the economy remain resilient in the face of shocks. Any new government needs to come up with policies that broaden the economic base through either or both 'export-led growth' or 'investment growth'. Inclusive growth means the benefits are also fairly shared with the majority of our people, particularly those in the rural areas. Moreover, it could be further strengthened through policies such as financial inclusion, MSME development, quality education and health services.

Conclusion

To conclude, our economy has made some headway in the last 40 years despite the many challenges faced. In 2017 we recorded another positive year and the economy will remain buoyant over the medium term. However, it is clear that we can do more to reform and transform our country to achieve more in the next 40 years. To do this we need effective leaders to lead us in this process of nation building.

Our country is at a crossroad. In less than a year, we will be required to choose our new leaders. Those leaders will take us forward on our development pathway. It is up to all of us Solomon Islanders to choose the best leaders to lead our country forward into the future.

All these things are not new. We already have the NDS 2016-2035 platform as our national vision and roadmap. The new government formed next year must continue to implement the NDS to ensure that our people benefit socially and economically, and that no one is "left behind".

Ladies and gentlemen, in closing, I would like to, once again, sincerely thank you all for joining us this morning. I would also like to thank the government institutions, private sector companies, financial institutions, development partners and individuals who have worked collaboratively with us over the past year.

I also extend my appreciation to our Auditor General and particularly the contracted external auditor, KPMG of Fiji whose service will now end after five years. Thank you too to Skrinhaus printers for preparing the reports for this morning.

I wish to extend my profound gratitude to my colleague CBSI board members for their continued commitment to the effective governance of the institution. Last but not the least, I would like to thank the Bank's management and staff, particularly, Deputy Governor Gane Simbe who led the preparation of this report. Deputy Governor will officially retire from the Bank in September this year and this will be the last annual report he will be involved in and may I take this opportunity to thank him for his contribution during his 32 years of service with the Bank and to wish him and his family, all the best in his future endeavours.

Without further ado, ladies and gentlemen, I now have the pleasure to launch the 2017 CBSI annual report for your reading.

Thank you and May God Bless Solomon Islands

10th May 2018