Statement by CBSI Governor, Dr. Luke Forau at the launch of the 2022 CBSI Annual Report, on 27th April 2023 at the Honiara Hotel

Salutations

- The Honourable Minister of Finance & Treasury,
- Other Honourable Ministers of the Crown and Members of Parliament,
- Heads of Financial Institutions,
- Representatives of the Diplomatic Corps,
- Senior Government officials,
- Central Bank Directors,
- Heads of Statutory Authorities,
- Representatives of Non-Government Organizations,
- Representatives of the Private Sector,
- Distinguished invited guests,
- Representatives of the Media,
- Ladies and gentlemen,

1. Introduction

It is my pleasure to welcome you all to the launch of the Central Bank's 2022 Annual Report. Thank you for responding to our invitation and taking the time out from your busy schedule.
As this is one of our annual events, it's good to be back to launch this report, in person, after three years of doing it virtually.

As I speak, the economy is facing two extreme challenging immediate developmental issues: (i) low growth/high unemployment, and (ii) high inflation. These are caused by recent successive external and domestic shocks that hit the economy over the last three years.

From pandemic-induced supply chain disruptions, rising food and fuel prices that is depleting the country's foreign reserves, lingering impacts of the November 2021 riot, spill-over effects from the war in Ukraine to the local COVID-19 outbreak earlier in 2022, we are facing shocks after shocks with further risks of future disruptions and policy uncertainty.

Consequential impacts from these shocks placed the economy in a very weaker position in 2022, with broad-based reductions evident across all sectors of the economy and a resultant 3.6% contraction in GDP at the end of the year.

For 2023, the economy is expected to recover, but this recovery is fragile, owing mainly to increasing risks from high global food and fuel prices from the on-going war in Ukraine and associated intensifying risks of future commodity price shocks and financial stability risks that threaten to further complicate any policy responses and their implementations.

Ladies and gentlemen, the converging risks confronting our economy today, have only further exacerbated an already anemic economy, with associated divergent forces at play well before the pandemic.

Adding to this now are increased uncertainties from spillover effects from the war and more recently, inflation, which may further complicate any policy- trade-offs, thereby engendering a perfect storm of critical issues at the crossroads.

Put it differently, the economy is at the crossroads. What should be done?

Ladies and Gentlemen, this question brings me to my theme for this morning: **"Re-prioritize for economic recovery and sustainable growth"**. The theme calls for us to **"Adjust Our course and Bring MV Solomons to a Safe Harbor".**

Three areas, at least, need to be addressed:

(i) We must re-prioritize our policies (do things differently) and focus on sectors that will support Recovery, Drive and Sustain (RDS) the economy.

(ii) We must accelerate reforms and put in place policies that would provide the impetus for the private sector and new investors to thrive and overcome barriers to doing business in the country.

(iii) We must recognize and collectively respond to opportunities that are present in today's changing economic landscape.

I will return to the theme later.

First, let me provide you a brief update of where we are in terms of our economy's performance in 2022.

2. State of the economy in 2022

Ladies and gentlemen, the economy in 2022 was adversely affected by a confluence of external and domestic shocks that led to a 3.6% contraction in GDP. This came at the back of a broad-based reduction seen across all sectors of the economy, except for some mining activities.

By sectoral contributions, activity in the primary sector fell by 3.4 percentage points, this is owed mainly to decreased productions in logs, palm oil, copra, cocoa and fish outturns.

Similarly, the services sector fell by 0.4 percentage points, which stemmed from the decline in overall business services in the economy.

The secondary sector, on the other hand, grew marginally by 0.2 percentage points, underpinned by construction of public infrastructures and increase in mining output.

This weak economic activity resulted in the worsening of the country's external position which deteriorated to an overall balance of payments deficit of $192 million, owing mainly to a widening trade deficit of 14% of GDP. This was due largely to a 19% surge in imports in contrast to a 7% fall in exports receipts. As a result, gross foreign reserves plunged by 3% to $5,458 million, although this is still sufficient to cover 13.8 months of imports of goods and services.

Government finances resultantly deteriorated to a fiscal deficit of 3% of GDP as high expenditure outpaced low revenue. Total revenue fell by 4% while expenditure remained high, reflecting the pandemic related expenses in the first half of the year, as well as the Pacific Games and National General Elections preparations related expenses.

Government debt level rose to 16% of GDP, as a result of increased borrowing by government to finance its priority commitments in 2022. With low revenue and increased spending pressures envisaged ahead, fiscal consolidation is necessary to avoid risks of slippages and allow room for absorption of future shocks.

Despite these subdued conditions, monetary aggregates were sustained, driven mainly by on-going monetary and fiscal support throughout 2022. Money supply grew by 5% to $5,814 million, owing to the surge in net domestic assets of the banking system from improved lending activities to the private sector in 2022.
Similarly, total liquidity increased by 5% to $2,755 million which led to corresponding rise in excess liquidity over this period.

Interest rate margins declined from 9.6% to 9.1% in 2022, induced by the falls in both lending and deposit rates. However, interest rates in the country are still high by regional standards. The Central Bank is concern and will continue to liaise with relevant Government ministries and the financial institutions to address risk concerns to help drive lending rates down further.

Moreover, recovery in the labor market remained weak last year, with employment still lower than pre-pandemic levels. And we all know that, as long as recovery in the labor market is weak, recovery in the economy will remain incomplete and fragile.

Proxy employment data from SINPF showed the number of contributors dropped by 349 contributors to 55,224 contributors in 2022; before the pandemic the level was 60,643 contributors.
On the other hand, recruitment in the public sector continued, especially in the education sector which saw an increase to 20,191 filled positions last year. Short-term employment with the World Bank CAUSE project and seasonal worker schemes to Australia and New Zealand also grew, registering a total of 4,785 workers at end 2022.

On Inflation, inflation developments in 2022 mirrored global shocks throughout the year, with the impact more pronounced in the country's trade and commodity channels. As a result, headline inflation rose sharply to 9.1% in December 2022 from 2.1% in 2021, driven mainly by high food and fuel prices in the second half of the year. High pass-through effects significantly pushed up domestic inflation to 8.8% from 1.9% in 2021. As a result, core inflation rose to 5.9% from 1.2% a year ago, indicating that inflation is becoming broad-based and if left to persist we face a risk of inflation entrenching in the economy.

It is important to understand that the current high inflation levels are supply driven, attributable to food and energy supply disruptions associated with the pandemic and the war in Ukraine therefore, have implications for fiscal policy. What is concerning is; supply side inflation raises the risk of persistent and elevated inflation at the cost of low growth if fiscal policy is weak.

3. Economic Outlook

Looking ahead, growth prospects for the economy in 2023 is a positive outlook, with GDP projected to recover by 2.7%, on account of anticipated spin-offs from the Pacific Games across most sectors in the economy and positive outlooks for mining, agriculture and the fisheries sectors.

However, this recovery is fragile mainly due to high global food and fuel prices and their pass-through into domestic inflation as briefly mentioned earlier.

Over the medium term, annual growth is projected at an average growth of 2.1% with growth prospects expected from most sectors in the economy.

4. CBSI Operations

I would like to now briefly highlight CBSI's key operations last year.
In line with weak real and global conditions, the Central Bank acted decisively to manage the course of the economy by pursuing policies that minimized a potential hard landing, but at the same time impacted negatively on CBSI's operations.

As a result, the Bank posted a net operating loss of $8.85 million for the FY 2022. Unrealized foreign exchange revaluation loss was recorded at $23 million. Net Assets rose by 8% to $332.6 million from the previous year.

On Governance, the Board comprised nine directors in 2022, with one ex-officio and six non-executive members.
In terms of staffing, the total number of staff reduced to 148 at end of 2022 from 157. Nonetheless, the Bank continued to maintain a gender composition of 58.1 % male to 41.9% female in 2022.

Furthermore, most training opportunities for staff were deferred until the second half of the year due to COVID. On-going trainings and other continuous learning opportunities including online trainings were supported towards the second half of the year.
On the financial stability front, the overall financial system remained robust and stable during the year despite some build-up in vulnerabilities in the banking sector. The good news is that, these risks have been contained so far, thanks to the strong regulatory and robust supervisory frameworks that are in place which are essential policy tools to contain risks.
A new entrant in the market in 2022 is the Solomon Finance Limited (SFL), a subsidiary of SINPF, that was granted full license to operate banking business as a credit institution.

Moreover, activities in the financial inclusion landscape slowed in 2022. Nevertheless, some progress had been made in terms of advancing the two NFIS3 objectives of increasing active users and increasing the number of access points under the strategy. Active users declined by 10% to 249,921 users in 2022, attributing to difficulty in accessing financial services during the pandemic. Access on the other hand, grew by 118 new access points supported by the expansion in the number of EFTPOS terminals and merchants during the year. Advancing work on this front is a key driver to economic growth and development.

5. "Re-prioritize economic recovery and sustainable growth".

Now, returning to the theme of my talk this morning on "**Re-prioritize for economic recovery and sustainable growth"**. Akin to the analogy to **"Adjust Our course and Bring MV Solomons to a Safe Harbor"**; the need to refocus policy priorities and urgently embark on reforms has never been more critical than ever.
In light of today's economic landscape and the considerable risks and uncertainties surrounding it, it is critical that we act now to avoid putting the economy at an even greater risk further down the road.
Having said that ladies and gentlemen, the current estimated average growth rate of 2.1% is not enough to support our growing population, which is currently estimated to grow at 2.4%. The economy needs to grow at, at least, a minimum average rate of around 5% in order to support the country's growing population.
To address that, I see three key areas for immediate action:
First, we need to respond to the near-term challenges of **securing economic recovery**. We need to re-prioritize our policies and focus on promoting sectors that will not only recover the economy but improve and sustain conditions for economic growth. A key aspect in this regard is agriculture.

Agriculture is seen as the sustenance of this economy and will remain so, as 85% of the population is dependent on it for their daily lives. More broadly, it represents 18% of GDP and 18% of exports in 2022. It is therefore not unreasonable to consider redoubling our efforts to expand support in this sector. To this end, implementing a more explicit and meaningful recovery package that finances volume production for example is the right direction forward.

In this way, we ensure we have a resilient population that can cope with current and future economic shocks through increased economic productivity whilst at the macroeconomic level, strong export receipts that contribute towards our foreign reserves, which at the moment is mostly donor driven and is highly susceptible to risk.

Simply put, ladies and gentlemen, we need to work on the supply-side of the economy, which is currently weak and needs to be strengthened.

There are other key sectors such as mining, fisheries and others that also contribute to growth.

Second, given the significant impacts of the shocks and its persistent challenges on our people and businesses, it is critical we accelerate reforms and policies that would support the private sector and new investors to invest and do business in the country.

Importantly, improving the efficiency of our administration system and procurement practices through automation will not only increase investment, but also advance innovation and increase job creation in the economy. As a simple example, promoting policies that facilitate ease of access to land registration for businesses, can increase investment, increase revenue and promote higher growth rates in the long run.

Thirdly, recognizing the opportunities available to address the many challenges that the country face. Here, I am looking at the opportunities that are provided by the digital platforms. With technology now at the tip of our finger, we need to take advantage and digitalize our economy.

That said, I would encourage to fast track the implementation of the digital economy strategy, which the Government is currently working on. I am sure once this is implemented, it would improve a lot of efficiencies, and we should be able to provide things like e-commerce, e-education, e-health, e-money, etc., etc, …

Additionally, an aspect that has taken on greater relevance and that showed signs of resilience in the recent times of our economy's downturn are our citizens. Specifically, I would like to draw on the voluntary collective actions of our people. For example, filling of potholes by some group of young men or keeping the city clean by others are rational choices that get work done through collective voluntary actions.

Addressing some of the societal problems we are faced with today will not always work through city or government authorities because of our young and growing population. It's time to re-think the approach that all things have to be done by the government. It's time we recognize and get the buy-ins of our citizens and civil society to collectively address our societal problems. Besides, history has it that a lot of problems are solved through voluntary actions. This is a great opportunity we should tap!

6. Conclusion

I would like to conclude with the words of Franklin D. Roosevelt *"The point in history at which we stand is full of promise and of danger. The world will either move toward unity and widely shared prosperity or it will move apart into necessarily competing economic blocs. We have a chance, as citizens to use our influence in favor of a more united and cooperating world. Whether we do so will determine, as far as it is in our power, the kind of lives our grandchildren can live*" end of quote.

The challenges ahead are complex but with the will power, I believe we can progress to shape the future we want.

Finally, I take the opportunity to thank the various institutions, ministries, SOEs, financial institutions, NGOs and companies who contributed to this report and our work in 2022.

I would also like to thank our external auditors and the Office of the Auditor General for finalizing our accounts. Thanks to Provincial Press, our printer and Honiara hotel for the venue and other services provided this morning.

A special acknowledgement to the CBSI Board of Directors, Management and staff for their steadfast commitment in achieving the Bank's mandate in 2022.
Ladies and Gentlemen, with these remarks, it is my pleasure to commend the 2022 CBSI Annual Report for your reading.

Thank you for listening and May God Bless Solomon Islands.

End//