

30th April 2002

Hon. Laurie Chan (MP)  
Minister for Dept. of Finance  
Department of Finance  
Honiara

Dear Honourable Minister,

In accordance with the provisions of section 47(1) of the Central Bank of Solomon Islands Act, CAP 49, I have the honour to submit to you the 2001 Annual Report and the Accounts of the Central Bank of Solomon Islands.

Yours sincerely,

**R N Houenipwela**  
Governor

**The principal objects of the Central Bank shall be:**

- (a) to regulate the issue, supply, availability and international exchange of money;
- (b) to advise the Government on banking and monetary matters;
- (c) to promote monetary stability;
- (d) to supervise and regulate banking business;
- (e) to promote a sound financial structure; and
- (f) to foster financial conditions conducive to the orderly and balanced economic development of the Solomon Islands.

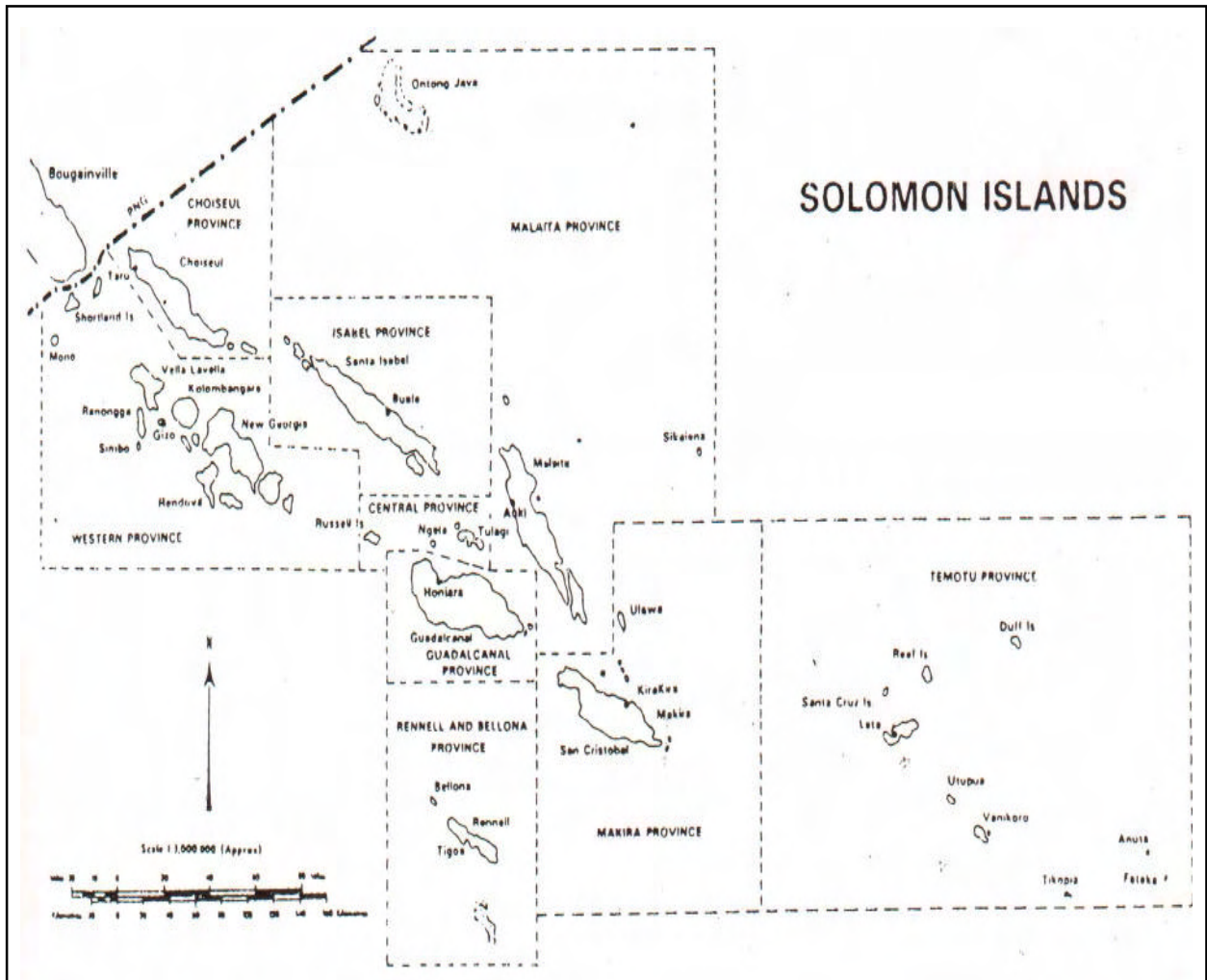
### Foreword

This is the twentieth Annual Report issued by the Central Bank of Solomon Islands and the twenty fifth in the series begun by the Solomon Islands Monetary Authority in 1977.

In this report, data was provided by the various government departments, statutory corporations, financial institutions, resident diplomatic missions, country representatives of international institutions, non-government organisations and firms in the private sector. The Central Bank is very grateful for the ready cooperation and assistance it received.

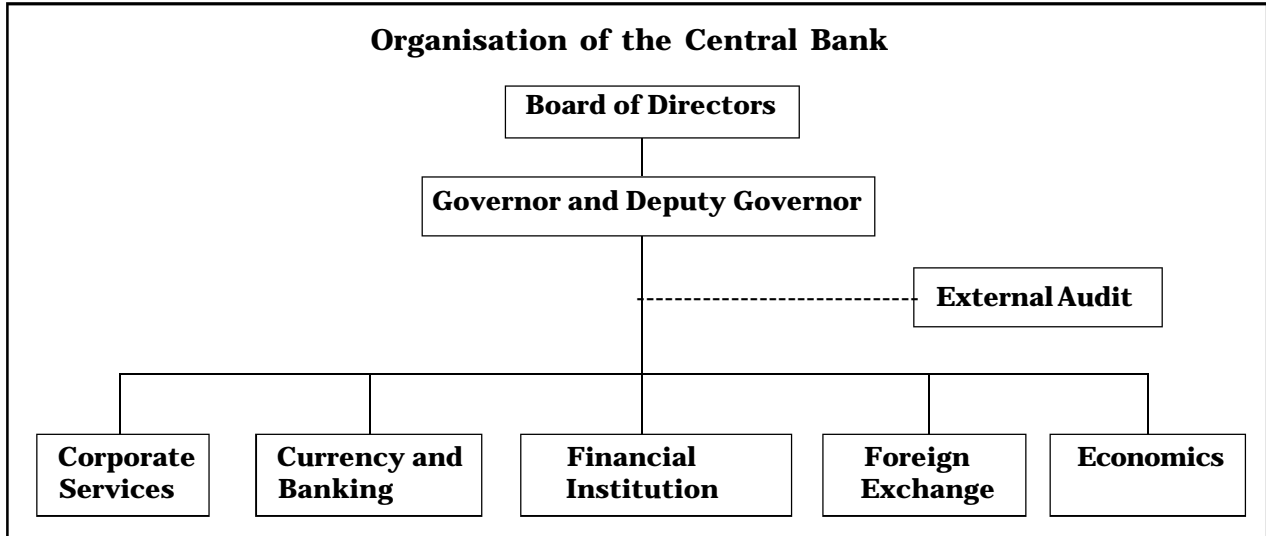
Data on the monetary system are derived from Central Bank records. The interpretations and conclusions in this report are entirely the responsibility of the Central Bank.

Central Bank of Solomon Islands  
June 2002



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**Board of the Central Bank, at end 2001****Management of the Central Bank, at end 2001**

R N Houenipwela	Chairman, ex officio	Governor	R N Houenipwela
D H Rarawa	Director, ex officio	Deputy Governor	D H Rarawa
S. Fanega	Permanent Secretary, DoF Director, ex officio	General Advisor	M. Brown
A Talasasa	Director	Manager, Corporate Services	E Ronia
S Ilala	Director	Manager, Financial Institutions	G Simbe
W Pita	Director	Manager, Currency & Banking Operations	F Afu
		Manager, Foreign Exchange	R P Aquillah
		Manager, Economics (Ag) (up to December)	V. Nomae
E Ronia	Secretary to the Board		

## I. POLICY ISSUES, PERFORMANCE, AND OUTLOOK

The Solomon Islands economy operated under very unfavorable and uncertain conditions in 2001. Following the signing of the Townsville Peace Agreement (TPA), which paved the way for the cessation of the armed conflict in October 2000, there was great optimism for a change of direction and speedy recovery in the economy. But as the year progressed, it became evident that the government could not take the difficult decisions to address the law and order issue and weak economic fundamentals. As a result, most companies remained closed or drastically scaled down operations. Consequently unemployment increased and government revenue drastically declined. The absence of a clear policy direction and will to address mounting pressures on the economy, effectively led to a rise in despair across the nation as the government defaulted on payroll obligations and provincial grants causing general deterioration in service delivery particularly in both health and education sectors.

The situation in the country affected the direction and focus of economic policy in two respects. The first was the cessation of the Policy & Structural Reform Programs instituted since 1999. These programs, among other things aimed at tightening both fiscal and monetary policies while strengthening the financial sector and allowing for moderate expansion in private sector credit, stabilizing the exchange rate, freezing wages and privatizing certain government entities. In early 2000, there were indications that these were showing positive outcomes. However, after June 2000 conditions for reforms were almost non-existent. By early 2001, it became clear that there was lack of political will for the continuation of the reforms, and the prevailing law and order situation effectively derailed the implementation

of macroeconomic policy framework.

The second policy issue relates to the framing of fiscal policy during the year. As if the revenue base of the economy was intact, the then government went ahead and pursued the most expansionary budget ever, that was extremely difficult to finance without having to breach the Central Bank Act. Government actions and inactions during the year only exacerbated an already worsening situation. For instance the granting of duty remissions and exemptions have not only drastically reduced government revenues, but cost forfeited government significant donor assistance. Consequently the government could not meet its domestic and external obligations, resulting in a general rise in debt arrears leaving the country's social services in a poor state as revenues were only enough to meet payroll and the overwhelming number of compensation claims during the year. This contributed towards the significant decline in donor assistance from development partners other than Exim Bank loan funds, and the suspension of all externally funded projects during the year.

Internationally, the global slowdown that begun since late 2000 continued throughout 2001 causing growth to decline sharply in major regions around the globe. World trade of goods and services declined by 0.2% compared to a growth of 12.4% in the previous year. This in turn resulted in a significant fall in the country's major export commodities. Although there was prospect for recovery later in the year, this optimism was later shattered following the terrorist attacks on USA on September 11. In many respects, the September 11 attack only exacerbated an already- global slowdown as the situation before the attack was

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weaker than had earlier been projected. This had negatively affected the Asian economies, where Solomon Islands major export markets are located.

Consequently, real domestic product (GDP), an indicator of Solomon Islands general welfare, was estimated to have declined further by 9% in 2001, following similar movements in the previous two years. Overall, the Solomon Islands economy has contracted by 22.3% since the ethnic tension started in late 1999. With a population growth rate of 2.8%, this contraction in economic activity in the last three years means Solomon Islanders' per capita income has worsened by 31.7% at the end of 2001. This puts Solomon Islands, by international standard and comparison, as one of the poorest countries in the world.

Inflation at the end of 2000 was estimated to be about 6.4%. The Statistics Division continued compiling the inflation data for 2001 throughout the year. The final figures are available, but are significantly lower than CBSI estimates and therefore may be questioned. Given the importance of inflation statistics, it is pertinent that every effort is put into the Statistics Division in order to enable it to produce timely and reliable data.

The balance of payments recorded a deficit of \$57.2 million in 2001 following a \$96 million deficit in 2000. As in the previous year, the outcome was due mainly to adverse developments in the trade account, which registered a deficit of \$182.7 million, 55.7% more than the deficit in 2000. Although the trade deficit widened, the current account improved to a \$172.3 million deficit compared to a \$223.8 million deficit in the previous year. The reduction in the current account deficits, despite the widening of the trade account deficit was due to relative improvements in other components of the current account. The services account

deficit narrowed to \$56.1 million deficit from \$175.2 million, and there was a rise in current transfer receipts during the year. The capital account recorded a surplus of \$108.2 million in 2001, mostly on account of increased government borrowings. Indeed this would have been lower had \$39 million in principal arrears been repaid during the year. Inevitably, external reserves declined to \$102.6 million at year-end, equivalent to one month of import cover.

The policy of stabilizing the exchange rate was maintained in the first eight months of 2001. But after the terrorist attack on September 11, which forced the weakening of the US dollar against other major currencies, this policy was abandoned and switched to a policy of gradual depreciation of the Solomon Islands dollar. The change in policy direction was also on account of severe pressures on the external reserves. While using the exchange rate to defend the external reserves may be inconsistent with other policy objectives such as price stability, it became clear that the objective of protecting the external reserves should take priority given the deteriorating trend in external reserves.

Although the government had budgeted for \$70 million of debt servicing, it only managed to repay \$3.4 million towards external debts in 2001. This came on account of severe cash flow problems arising from indiscriminate granting of duty remissions and the weak revenue collection. As a result total arrears in 2001 increased to \$39.0 million, from \$23.5 million in 2000. This comprised of \$25.9 million in principal arrears and \$13.1 million in interest arrears. Inclusive of trade credits, and domestic arrears total government debt arrears are estimated to be more than \$100 million at the end of the year.

The potential risk from government

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defaulting on its debt obligations to generate adverse impact on other parts of the economy should not be underestimated. There is a real risk to the financial system and the rest of the real economy if the government fails to service its debts and payment obligations. The commercial banks and NPF are heavily exposed to government debts. This also applies to many Solomon Islands companies and individuals who supply goods and services to the Solomon Islands government. These companies make up the backbone of SI industry and have the potential to contribute to the economic recovery that the country desperately needs. By incurring trade credit arrears of nearly \$100 million to these companies, the government is slowing down the economic recovery process. In the same vein, by building up arrears of nearly \$40 million to external creditors, the government cannot unlock the much-needed external assistance from external creditors such as the ADB and World Bank.

The securities market continued to function despite the withdrawal by the major players – the commercial banks and NPF early in the year. The market remained operational mainly as a result of the Bank's continued efforts to strengthen confidence despite the precarious state of government finances. The volume of auction treasury bills declined from \$29 million in the first quarter to \$24 million in the second quarter. This trend, however, was reversed after June following payments for lost properties so that by end September, auctioned Treasury Bills were \$46 million. This increased further to \$53 million at the year-end.

Monetary policy remained relatively inoperative in 2001, mainly on account of loose fiscal policy. Although the Treasury Bill auction was relatively active during the year, that did not have any effect on commercial banks' interest

rates. Average commercial bank deposit rates declined to 0.52%, causing a rise in interest margins to 15.13% from 12.14% in 2000. With private sector credit remaining flat, the withdrawal of commercial banks from the auction market inevitably triggered a general rise in liquidity in the system. But this did not result in increased lending given the law and order situation, which forced the cancellation of investment plans and the banks took a wait-and-see attitude during the year. Net lending to the government increased, but the fall in private sector lending outweighed this increase, which resulted in a 7.1% decline in total domestic credit. The broad money supply declined by 13.3% mainly on account of the drastic decline in net foreign assets during the year. The 32.6% decline in net foreign assets reflects the fall in domestic deposits, which were converted into import payments during the year.

The 2001 Peace Budget introduced in March 2001 was supposed to balance total revenues (inclusive of grants) with total expenditures at \$704.4 million. While relative peace was achieved, the prevailing law and order situation made budget implementation extremely difficult. This was further compounded by a general inability of government to institute effective corrective measures to curtail expenditures, particularly unbudgeted items. On the revenue side Total revenue collections were \$223.4 million, which comprised of \$133.4 million in tax revenues and \$89.5 million in duties and other charges. Revenue collections for the year, could have been higher had the government not granted duty remissions and exemptions estimated at \$70 million in 2001. As a result, the year ended with a provisional overall deficit of more than \$100 million. In addition, most budgeted projects could not be implemented due to lack of external funding.

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Over the years, the Bank has repeatedly warned against laxity in fiscal policy and the need to strictly adhere to budget guidelines and operate within the legal requirements. This is very important given the size of the public sector relative to other sections of the economy. The new government has the opportunity to improve policy formulation and implementation in Solomon Islands. It is crucial that this is done soon as using monetary policy alone is ineffective in tackling the mounting economic problems the country is currently facing.

### **Outlook for 2002**

The country has the resources to generate increased economic benefits if current structural issues and weaknesses in the economy are effectively addressed. Since 1999, the country has experienced a downward spiral of falling national income, declining export receipts, and reduced government revenues. These combined with dwindling donor assistance inevitably had severely affected the human and economic development of the country. To rebuild the economy after years of self-destruction will not be easy given the current economic circumstances, especially the state of the country's economic infrastructure. But it is crucial that decisive actions are taken now to reverse the damage done and put the economy on a strong growth path again.

There is good prospect for recovery in the global economy in 2002 as a result of macroeconomic policy easing in advanced economies. Leading indicators have turned up in the first quarter of 2002; consumer and business confidence have strengthened and industrial production has increased. Though this will positively impact on demand and commodity prices, the effect on Solomon Islands economy is expected to be minimal. Consequently economic growth is projected to remain negative in 2002. If this is to be reversed,

it is important that major exporting companies such as SIPL and Gold Ridge are restarted. Such efforts should also include revitalising both the copra and cocoa industries and ensuring a conducive investment environment so as not to further postpone investment applications (worth \$844.5 million) that were approved in 2001. This effectively requires taking decisive actions at resolving the law and order situation that has sent foreign investors away in the last three years. There is an important opportunity to develop a nickel mine on Ysabel that merits vigorous pursuit. This should reverse the downward trend in economic activities seen in the last three years.

The first four months of 2002 witnessed continued weakness in the balance of payments driven primarily by depressed export receipts. Import payments were also down, but were still relatively higher than exports. As a result, the external reserves continued to fall despite the inflow of Exim Bank loan funds totaling \$42 million early in the year. To mitigate the decline in the country's external reserves position, the exchange rate was adjusted downwards by 25% in late March, but was reversed shortly thereafter as a result of severe political pressures. This demonstrates a lack of cohesion in policy formulation and the management of the country's economic and financial affairs.

There is an urgent need to streamline economic and financial policy making in Solomon Islands. Such policy U-turns create unnecessary confusion over important policy decisions and issues which reflect a dis-jointed policy making machinery in government. There appears to be an absence of clear policy direction and inconsistent signals on critical policy issues to the community and the rest of the world. Rather than taking the appropriate hard policy actions and measures as it has promised, the

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Government has been turning to short cuts such as printing money and balancing the fiscal deficit with financial assistance from sympathizing donors. This has led to a general perception that the government has lost control over the situation, following recent actions that may result in subjecting the country to scandalous schemes such as the sale of Solomon Islands passports, importation of industrial waste, and shady multi-million financial and commercial deals.

The external reserves have been kept at around one month of imports cover during the first quarter of this year. However, their underlying position would be much lower if government repaid its external debt arrears of \$42 million at the end of March 2002, and if the Bank had not instituted effective exchange control mechanisms. Commodity prices remain low but are forecast to increase later during the year as confidence improves further and demand increase in the global economy. The rise in commodity prices, however, may not benefit the country unless drastic efforts are made to increase production this year.

Money supply has continued the downward trend in the last four months reflecting the similar trend in foreign exchange receipts. Total domestic credit increased in the first four months of 2002 as a result of increases in credit to the private sector. While this indicates increased activity, it is important however, that this growth is monitored to ensure it does not become a drain on the external reserves.

The 2002 budget is very important in the process of rehabilitating and rebuilding the economy after the damaging events in the last few years. It aims at consolidating the peace process, changing the management of public finances, repairing the economic and social infrastructure, revitalising the social sector, particularly the health and

education sectors, and strengthening the financial sector. The government envisages addressing these issues through various structural reform programs within a sound macroeconomic policy framework. Despite these noble intentions, the crucial issue remains as to how to fund these programs as well as the political resolve and will to follow through with the reform agenda. Given the government's track record in spending revenue in recent years, it is paramount that cost cutting measures and revenue enhancing policies announced in the budget be instituted as a matter of urgency. Although the government has started in the right direction by revoking the minister's power of granting duty remissions, more decisive actions are still needed. These include right sizing of the public service, improving revenue collection, curtailing unbudgeted expenditures and drastically reducing payroll to a smaller and manageable level as outlined in the 2002 budget.

The involvement of development partners and multilateral financial institutions remains the crucial part in rebuilding Solomon Islands economy. Most have expressed their willingness to assist in this process, but subject to three major interrelated issues. The first related to the need for government to execute a 'credible' budget. The 2002 Budget answers this need and government must demonstrate the political will to strictly adhere to its policy intentions and vigorously implement them. This has been a general weakness in the past and it is vitally important that the credibility of fiscal policy is sorted out once and for all if new funding from the international donor community is to flow back into the country. Secondly, the government needs to tackle external debt servicing problem. At December 2001, external government arrears were \$39 million. With the cancellation of several important funded projects, it is pertinent that debt servicing

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allows continued funding for these projects and those identified in the 2002 development budget. Thus it is important that the proposed donors meeting be facilitated as a matter of urgency so that external assistance can be solicited in clearing at least some of the arrears. The longer this is delayed, the more painful later adjustment processes will become. Finally the process of rebuilding the economy will only work within an environment where the law is strictly upheld and investors are at liberty to take risks. This calls for addressing the law and order situation as a matter of urgency. Efforts in this direction have started but more needs to be done. If these are to bear fruit, then the process of disarmament must both be physical and psychological, as removing arms from ones hands without the 'arms' in the head will only risk the peace process and jeopardize efforts taken so far in reviving the economy.

The benefits of sound macroeconomic policies and structural reforms cannot be overstated. It is on this framework that the process of rebuilding the Solomon Islands economy must be based. The Bank has raised important measures along these lines in the 2001 Annual Report, and these remain relevant for today. The government has taken some of these on board but more is still to be done in order to effectively reverse the current economic situation. As a dependent economy and net importer of financial resources, it is also pertinent that issues raised by development partners and multilateral donor institutions are taken seriously for action. The economy has suffered long enough and must be given the opportunity to be assisted, rehabilitate and grow. Only then will the people of Solomon Islands realize their future and that of our future generations.

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## II. INTERNATIONAL ECONOMIC DEVELOPMENTS

The growth momentum seen in 2000 was not maintained in 2001 with all major regions in the world registering lower growth rates during the year. As a result there was a marked decline in the growth of international trade combined with a significant fall in commodity prices and deteriorating financial conditions in emerging economies and most developing countries.

Economic forecasts earlier in the year, however, suggest a reasonable prospect for growth in the second half. But as the year unfolded, indicators showed that this optimism was over-estimated. This greater-than-expected weakness in the global economy weakened further following the terrorist attack of September 11 on the US. In fact the attack was a shock to the global economy, given its worldwide impacts on business confidence, financial markets and growth prospects around the globe. The attack affected the global economy in four respects.

First, it caused destruction to lives and properties. This also includes the destruction of activities after the attack, notably the travel industry and its related industries. Secondly, it significantly reduced business confidence about future activities. As a result large investment projects had to be postponed as consumer spending and prospect for growth dwindles in many parts of the world. Third it adversely affected the financial markets. Finally, for commodity exporting economies, the attack further weakened growth prospects following the significant decline in commodity prices as economic activity falls globally. Individual countries were affected at varying degrees depending on the structure of the economy and its strategic position in the world economy.

In the US, the attack not only cost lives and properties, but also had serious adverse impacts on demand and economic activities, especially in the travel and entertainment industries, which faced severe financial difficulties after the attack. The losses to property were estimated at US\$16 billion. Although this was relatively smaller than the earthquake in Northridge, California in 1994, the impact on the US economy was severe. As a result the economy grew only 1.2% compared to 4.1% in 2000. Consequently overall demand significantly declined across the globe given the importance of the US economy in the world economy. For example, the sharp decline in Canada was directly on account of adverse developments in the US with real GDP registering 1.4%. This is expected to decline further in 2002.

For Japan, the terrorist attack and its aftermath only exacerbated its ongoing economic problems. As a result the economy contracted by 0.4% compared to growth rates of 0.7% and 2.2% in 1999 and 2000 respectively. The downturn of the Japanese economy looks set to continue if recovery in US is delayed and the global economy remains weak. Other Asian economies have also done poorly during the year with average growth rates of just 0.4%. This compared to 8.2% in 2000 and 7.9% in the preceding year.

Within Europe, economic growth slowed down in the United Kingdom to 2.3% from 2.9%. Lower growth rates were also registered in the euro area reflecting significant declines in business confidence, economic activity and the rise in global uncertainty during the year. Growth prospects for the larger economies such as Germany, France and Italy remain weak. This will adversely affect growth in the region given the strong economic linkages within Europe.

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Closer at home, the Australian and to some extent the New Zealand economies appeared robust despite the confidence weakening in the global economy. Both registered relatively higher growth rates than other OECD countries due to better export performance helped by relatively weaker currencies during the year. This contributed to the sharp reduction in their current account deficits. It is expected, however, that growth prospects for 2002 could come under pressure if the current slump in commodity prices continued.

For many emerging and developing countries, the impact of the global slowdown comes mainly through developments in commodity prices. The weakening in the global economy has led to a significant fall in both oil and nonfuel commodity prices. The impact on each country varies depending on the structure of the economy and previous policy settings. But in general, the significant decline in nonfuel prices has worsened poverty in many developing countries. This will only worsen if global growth and commodity prices remain weak in 2002.

<b>Table 1</b>			
<b>World Economy: Selected Indicators</b>			
<b>(Annual % Change)</b>			
	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>World Output:</b>	3.6	4.7	2.4
Advanced economies	3.3	3.9	1.1
Developing countries	3.9	5.7	4.0
of which: Asia	6.2	6.7	5.6
World Trade Volume	5.4	12.4	-0.2
Imports of goods & services			
Advanced economies	7.7	11.6	-1.5
Developing countries	1.7	16.0	2.9
Exports of goods & services			
Advanced economies	5.2	11.7	-1.3
Developing countries	4.7	15.0	3.0
World Inflation			
Advanced economies	1.4	2.3	2.2
Developing countries	6.8	6.1	5.7
Source: IMF World Economic Outlook & OECD Economic Outlook No.68			

## Prospects for 2002

There are indications that the general global slowdown seen in the last two years has now bottomed out. Although the overall outlook for 2002 remains relatively uncertain, it is envisaged that there would be economic recovery this year given the combined efforts taken so far around the globe. These include policy decisions to support activity; positive global impacts on the current low oil prices, and the strengthening of economic fundamentals in many countries recently. These should see an overall global growth of 2.8% in 2002, higher than earlier expected.

Based on IMF forecasts, the expected upturn in 2002 will be felt strongly in the industrial countries especially in the US with a growth of 2.3%. This reflects the expected pickup in demand, underpinned by macroeconomic easing taken during the year and effects of the fall in oil prices. Given the size and importance of the US economy, this improved outlook should also benefit other regions around the globe. Recovery is also expected in the euro area, though slightly at a slower pace reflecting limited policy easing earlier. In the short to medium term, this rebound could be dampened if external demand remains weak and given the labor market rigidities.

Although there are signs of increased activity in Japan, the overall outlook looks bleak. This is of great concern to other countries in the region, as Japan remains an important trading partner and source of capital for these countries. While Japan needs active monetary policy to combat deflation, only structural reforms will bring it out from recession as seen in recent years. This requires measures to tackle the root causes of problems in its corporate and banking sectors. The outlook for growth in other Asian countries, especially in China and

India also looks positive. Activity is expected to gain momentum later in the year. However, this may not be as strong as seen in the pre-crisis periods since growth in investment and exports associated with information technology is not expected to repeat again.

In Australia and New Zealand, growth held up relatively well despite the global slowdown. Indicators in the last three months showed that consumer and business confidence have recovered quickly and strongly in Australia. This should result in continued robust growth in 2002 and 2003 as exports pick up and investment rebounds. In New Zealand, growth is expected to strengthen further to 3% in 2002 as a result of increased activity underpinned by a rebound in consumer and business confidence, supportive macroeconomic policies.

World inflation declined in 2001 and is forecasted to relatively decline in 2002 in both advanced and developing countries. This, however, could change during the year if major oil producers drastically reduce production following developments in the Middle East. Another threat would be the increases in demand for oil, given the expected rise in activity in major economies.

Despite an expected global recovery in 2002, there still remain major concerns and interrelated areas of risks. The first relates to the level of confidence and the pace of activity in the US and other major economies. A low level of confidence combined with a slow resumption of activity around the globe would reduce prospects for growth in 2002. With the already synchronized downturn, such a development will have negative consequences if there is a reduced desire for risk taking. Secondly, the outlook for many countries, especially in emerging market economies depends on developments in the global risk aversion.

Although recent developments are encouraging, many countries continued to have limited access to world capital markets. Thirdly, the continuing imbalances in the global economy still remain a risk. In the expansion phase of the 1990s, the sustainability and rising current account imbalances have been a major concern around the globe. While recovery in the global economy is important, the worrying concern is that strong growth in the US may only worsen these imbalances for most countries, especially in the emerging and developing world as more capital flows to the US economy.

Given the above, the primary challenge for policy makers is how to support the recovery and reduce risks. In this regard it is important that policies in both advanced and developing countries are set with a global perspective to support demand. While both monetary and fiscal policy would play an important role, structural reforms remain an important part in many countries. This is not only to boost demand and reduce vulnerability to shocks but also to ensure future access to financial markets in the long run.

### **Implications for Solomon Islands.**

The implications of a positive outlook in the global economy for Solomon Islands are that with a better external environment, the external sector should also benefit. This is especially true for both fish and log markets as the economy currently relies on these two commodities. This should boost exports and hence economic growth in 2002.

The problem, however, is that the country does not have the capacity to respond fully to a better environment. This reflects the inflexibility of production, underpinned by the size of operations, inefficient facilities and the current land

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tenure system. These problems have been further compounded in the last two to three years by the recent ethnic unrest that forced the virtual closure of the country's export sector.

On the domestic front, two issues remain important for economic recovery in 2002 and years ahead. The first is the law and order situation especially around Guadalcanal, certain parts of Malaita and in Honiara. Although there is relative peace, the non-return of high-powered weapons poses a great threat to any hope of renewed economic activities in the country. The second relates to how

effective the government can attract development partners to contribute towards the country's rehabilitation process. As a sunken dependent economy, the country desperately needs increased external assistance. The sooner they come, the better. To unlock these needed funds, government must be credible with its policy implementation. The fact, however, is that recent decisions on certain important issues suggest indecisiveness and lack of foresight by government to address mounting economic difficulties the country is now facing.

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### III. DOMESTIC ECONOMIC ACTIVITY

The welfare of all Solomon Islands people is primarily determined by the amount of real resources available to them and how these are distributed and used. These resources consist of the country's domestic production plus imports, minus the goods and services the economy exports to earn foreign exchange in order to buy for imports. How these resources are used also depends on the intertemporal choices each economic agent makes, given the prevailing economic environment, and how he foresees the future. These together form the national income or GDP, which is an estimate for the value of all domestic production. It follows therefore that to increase investment, current consumption must fall, or production must increase, or imports must rise, or exports must decline or a combination of these alternatives. On the other hand, if current consumption is to increase then either exports or investment must fall, or production and imports must rise.

Like other developing countries, Solomon Islands needs more foreign investments. Though these constitute claims on the country's future foreign exchange earnings, for financing imports, increased foreign investments raise domestic production and have the potential to raise consumption and investment by making goods and services available for domestic use and exports, thus earning more foreign exchange for imports. The problem, however, is that even a rise in domestic production may not result in a rise in welfare if the country's exports face declining prices abroad as seen in the past.

To fill this constraint, the country can obtain additional foreign exchange either through foreign loans, more aid or increased direct foreign investment. The difficulty, however, is that these are not

always available when the country needs them. Foreign borrowings, for one thing can only be given when the lender believes the use of funds can create activities sufficient to finance the loan. Likewise, foreign investment only flows to where there is strong chance of making a return on the investment later. In the last decade, the provision of foreign aid has changed significantly. While there is still goodwill for development partners to assist Solomon Islands, it should be noted however, that these would only come if certain conditions were met.

The situation in Solomon Islands in the last couple of years was very different from the above considerations. The unrest that broke out in late 1998 and culminated in the events of 5<sup>th</sup> June 2000 drastically reduced production, development assistance and sent away foreign investors.

#### **Gross Domestic Product**

Provisional estimates compiled by the Central Bank for 2001 as shown in the table below and graph 1, suggest real GDP declined by 9% following a fall of 14.2% in 2000. The lower decline was attributable to relative improvements in all sectors. Agriculture fell by 14.6% compared to 19.8% drop in 2000; forestry marginally declined by 0.4% against a 13.6% decrease in 2000 while fishing recorded a 15.2% decrease compared to a 50.1% drop in the previous year. Other services marginally fell by 0.2% during the year, compared to 1.8% in the previous year.

Economic activities in all sectors shrunk in 2001. The significant ones are mining (106.2%), construction (45.6%), electricity and water (20.6%), transport and communication (20.0%), manufacturing (19.8%) and fishing and agriculture as

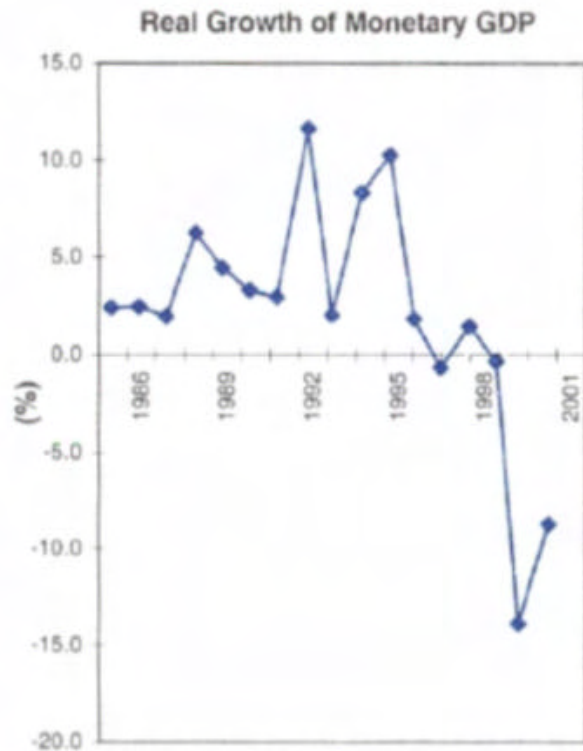
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mentioned above.

Industry	1998	1999	2000	2001
Agriculture	54.3	42.3	31.9	29.0
Forestry	20.8	23.6	20.4	20.3
Fishing	28.6	27.7	13.8	11.7
Mining & Exporation	6.8	19.2	9.3	-0.6
Manufacturing	17.4	17.4	13.9	11.2
Electricity and Water	5.7	6.0	5.0	4.0
Construction	6.2	4.5	2.4	1.3
Retail and Wsale Trade etc.	33.1	31.0	27.8	24.8
Transport & Comm.	14.6	15.3	12.3	9.8
Finance	16.2	16.4	15.9	15.4
Other Services	80.6	77.8	76.4	76.2
<b>GDP at 1985 Prices (Min.)</b>	284.2	281.1	231.1	203.1
Index (1985 = 100)	170.9	169.1	139.0	122.1
Annual % movement	1.0	-1.1	-17.7	-12.1
Omitting Mining Explo.	277.3	261.9	221.8	203.6
Index (1985 = 100)	165.3	156.1	132.2	121.4
Annual % movement	-2.1	-5.6	-15.3	-8.2
<b>Primary Prodn (Mntry)</b>				
- 1985 Prices	103.6	93.6	68.1	61.0
Annual % movement	-7.4	-9.7	-27.2	-10.4
Non-Monetary : Food	52.7	54.1	55.5	57.2
Non-Monetary : Constr.	4.5	4.6	4.7	4.9
<b>GDP at 1985 Prices</b>				
<b>(all Prodn) in SIS)</b>	341.3	339.7	291.1	265.2
Annual % movement (Real)	1.3	(0.5)	-14.2	-9.0

Source: Central Bank of Solomon Islands



The relative improvements in the fishing sector reflects the commencement of Soltai Fishing and Processing Limited (SFPL) during the year while the lower declines in the agriculture and forestry sectors was attributable to consistent production during the year.

## Investment

Economic growth requires new investments and replacement of the country's old productive assets. For this to happen, one needs to properly assess the sources of finance and the viability of making such an investment decision. As a developing country, the management of this process is very important. Not only because investment funds are scarce, but also because wrong policy guidelines can easily cause economic havoc later on.

In 2001, there were virtually no new activities as the law and order situation continued to deny investment opportunities in the country or efforts to replace existing productive assets. Though there is relative peace in the community, the situation remains fragile. This poses great uncertainty about future investments and must be addressed as a matter of urgency if the current economic situation is to be reversed. The cause of the unrest has shown that there is an urgent need for more investment diversification not only by sector but also in the provinces. Quick normalization of the law and order situation is required so that investment, being the engine of economic growth could be revitalized. This is also important so that a stable environment conducive to economic development could also be framed. In the medium to long term, current consumption must decline so that savings can increase. In addition, better incentives must also be provided to reactivate both domestic and foreign investments. Only then will the economy grow and provide increased employment

opportunities for the country's rising population.

The Foreign Investment Board (FIB), the authority responsible for screening and approving foreign investment applications in Solomon Islands, received 34 applications (worth \$862.3 million) in 2001 as compared to 49 in 2000. Of these, the Board approved 25 applications worth \$844.6 million, rejected 5 (worth \$14.5 million) and deferred 4 (worth \$3.1 million). Of the applications received, 30.5% were from Forum Island countries, 20.6% from Asia and the rest from Europe and the USA. About 96% of the applications were for investments in energy/mine and the forestry sectors. Total applications for the former were worth \$703.5 million whilst the latter was worth \$125 million.

Of the total approved applications 13.2% (\$111.5 million) were for the forestry sector, 0.6% (\$5.3 million) for fisheries, 0.1% (\$1.2 million) for tourism, 85.7% (\$724.0 million) for energy and mining and 0.3% (\$2.6 million) for the transport sector.

### Employment and Industrial Relations

Employment data for 2001 is not available. However, employment is expected to remain very low following mass redundancies in 2000 and 2001. With re-instatement of some workers during year and recruitment such as that by Soltai Fishing and Processing Company, employment, however, may have risen slightly above the level in 2000. The impact may not have been so significant as there were also companies that continued to send some of their workers home during the year as part of their cost cutting measures.

The wage freeze undertaken in 1999 continued in 2001 for the third consecutive year. This was, however

adhered to more strongly by the Public Sector as the private sector did so only to a certain degree. Nevertheless, due to the fragile situation and uncertainty about the future, private companies sternly adopted policies and strategies of staff-trimming as a cost cutting exercise. It is expected that this will continue in 2002.

### Production

#### Forest

The performance of the forest sector was relatively moderate compared to other sectors in 2001. Log production as proxied by log exports dropped mildly by 0.5% to 533,585 cubic meters.

**Table 3**  
**Log Species Prices, 1998-2001 (US\$m3)**

Species	1999	2000	2001
Amoora	82	75	-
Burkela	74	77	66
Calophyllum	86	88	81
Camposperma	65	61	56
Canarium (Ngali)	78	71	61
Celtis	70	52	50
Dillenia	70	68	69
Dysoxylum	71	-	-
Endospermum	-	55	-
Eucalyptus deglupta	-	77	77
Eugenia (Water Gum)	69	64	52
Falcata	-	60	50
Garcinia	-	83	-
Gmelina	-	56	53
Gonostylus	-	51	51
Maranthes	59	56	57
Mixed Red	57	60	59
Mixed White	55	59	51
Neonauclea	-	50	55
Octomeles Sumatrana	-	86	-
Others Species (mix)	70	63	52
Palaguim	77	80	71
Paraserianthes Falcateria	-	82	-
Parinari	59	55	55
Planchonella	73	81	-
Pometia (Taun, Akwa)	90	83	70
Schizomeriaq (Beabea)	71	68	61
Teak (Tectona grandis)	-	150	156
Terminalia	83	76	55
Terminalia (others)	72	71	50
Terminalia brassii	91	76	67
Vitex (Vasa)	101	-	111

1/Jan-Mar period

Source: Central Bank of Solomon Islands

It contrasted the government's intention to boost log production through indiscriminate issuance of numerous log remissions and log exporting licenses. The fall was a consequence of weak demand for domestic logs in the Asian markets, the slump in prices of domestic logs and cessation of logging operations on Guadalcanal and Makira provinces during the year. Of total log production, Western province accounted for 61.6%, Isabel province 26.4%, whilst Malaita, Central and Choiseul provinces accounted for 6.4%, 3.0% and 2.6% respectively. Similar to previous years, Western and Isabel province were dominant as they hosted most of the major logging companies.

By December 2001, a total of thirty-three (33) different log species were exported as against 26 species in 2000. Of the total species exported, the five (5) local species (pometia, dillenia, camptosperma, terminalia brassi and callophyllum) that attract better prices represented 67% of total log exports. Table 3 shows the log species exported and their respective average unit values.

Average log prices plummeted to an unprecedented low of US\$159 per cubic meter in 2001, 16.3% below the average price in 2000. This was due to the prolonged downturn in Asian economies, particularly in Japan and Korea, which induced a weak demand for various commodities including logs. On the domestic front, natural logs were exported at an average value of US\$64 per cubic meter, US\$8 less than that of the previous year. Notwithstanding the fall, it was higher than that of plantation logs, which lost US\$4 to register US\$60 per cubic meter. Unlike other countries, the price of Solomon Islands plantation logs was slightly lower than that of natural logs due to poor quality, which emanated largely from improper planting techniques. However, the Forestry

Division foresees a turnaround in the quality and price of plantation logs as plantation companies were beginning to adopt improved planting techniques.

During the year, the Forestry Division managed to inspect and monitor logs that were exported from various log ponds throughout the country under the assistance of an AusAID funded project – Forest Management Unit Project (FMUP). The assistance rendered was in recognition of the national government's precarious cash flow situation that seriously compromised the important functions of the division. FMUP was first inceptioned in 1999 and lapses in June 2002. A review to determine the future of the project was scheduled for early 2002.

Although the price of logs took another tumble this year, future logging activities in the country are expected to remain at the current level. This was because the country was becoming more dependent on this sector more than ever especially in budgetary terms, as other sectors were performing at substandard levels. Such a trend is not sustainable but impels the country to become more susceptible to adverse developments such as environmental degradation, unsustainable rate of harvesting, poor log prices and "transfer pricing" system that flourishes in the logging sector.

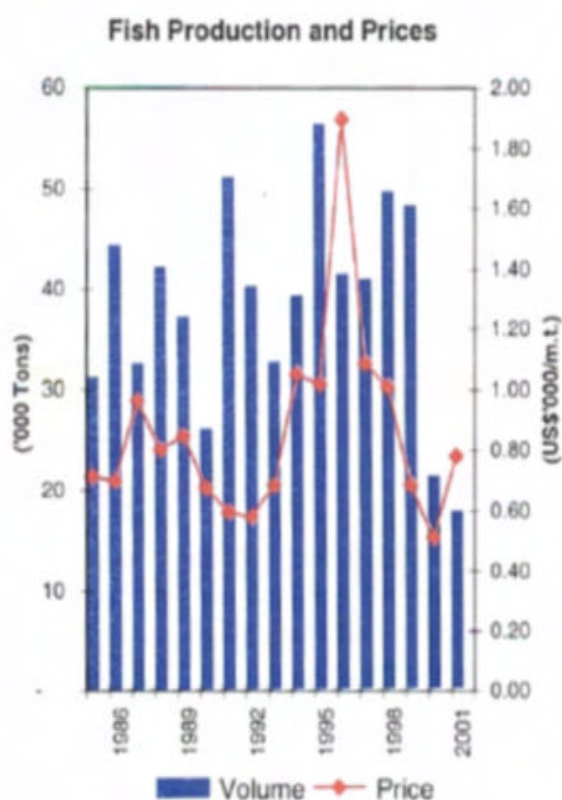
However, these problems could be addressed by government in two fronts: firstly, to encourage other sectors of the economy to perform actively so as to lessen the economy's high dependency on the logging sector, and secondly to provide adequate resources (both manpower and financial) to the Forestry Division to effectively carry out its responsibilities. The timing of the latter is very important in light of the possible discontinuance of the AusAID funded FMUP.

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## Fish

Fishing activities continued to shrink as indicated by drops in total fish catch from 21,163 tons to 17,699 tons during the year. Of this, Solomon Fishing and Processing Ltd (SFPL) accounted for 4,956 tons (28%) while National Fisheries Development (NFD), which dominated fishing activities since the cessation of Solomon Taiyo Ltd in 2000 accounted for 12,743 tons (72%).

The subdued output level contrasted favourable fish prices and high demand for tuna following the mad cow disease scare in Asia. The fall emanated from Solomon Taiyo Ltd's (STL) inactivity in the first two quarters, SFPL's incapacity to fully utilise the inherited facilities, and lack of marketing opportunities for SFPL's products.



In spite of the aggregate decline, the fishing companies showed remarkable

growth in the latter half of the year whereby 75% of the annual fish catch were caught. As such, there was contentment among fishing companies that this upturn would continue in the following year. The optimism was demonstrated in the first quarter of 2002 when NFD and SFPL caught a total of 4,190 tons, three times higher than catches in the corresponding period in 2001.

The successful incorporation of "Solomon Fishing and Processing Ltd" (SFPL) to succeed Solomon Taiyo Ltd (STL) in August 2001 was a major sectoral achievement.

Shareholding arrangements of SFPL were such that Investment Corporation of Solomon Islands (ICSI) holds 51% on behalf of the national government with the remaining 49% offered to the Western provincial government who agreed in principle to buy the shares. In a strategic move to consolidate its functions and cutback administration outlays, the company relocated its administration from Honiara to Noro except for the marketing division that remains in the capital. During the year, SFPL was operating at a reduced capacity as evident in the recruitment of about 740 employees only with a fleet size of 12 pole and line boats as compared to the former STL's 1,900 employees and 25 pole and line boats in 2000.

By year-end, SFPL's Noro cannery converted throughputs of 1,470 tons and 3,191 tons of raw tuna, and 211 tons of tuna wastes into 146,994 cases of canned tuna, 584 tons of smoked fish (arabushi) and 335 tons of fishmeal respectively. Compared to the previous year, canned tuna remarkably shrunk by 46% whilst fishmeal fell by 17.1%. The cannery's output level dampened as a result of the fall back in fish catches, downscaling of cannery operations and cessation of European markets. Of the cannery

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output, the fishing company exported 185 tons of fishmeal and 585 tons of smoked fish to Japan, and a combined total of 7,037 cases of canned tuna to Fiji (51%) and Vanuatu (49%) under the Melanesian Spearhead Group Trade Agreement (MSGTA). On the domestic front, SFPL sold a total of 88,992 cases. However, the influx of imported canned tuna such as Diana tuna of PNG under the MSGTA stiffens competition for local products owing to significant price differentials. Consequently, SFPL penetrated the local market in March 2002 with a smaller sized (100 grams) canned product that was sold from Noro at a wholesale price of \$80 per carton.

NFD performed astoundingly in 2001 with total catches at year-end standing at 12,743 tons, 3,108 tons above last year. The performance contrasted with reduction in fleet size from three to two purse seiners and was exemplary particularly in the second half whereby 70% of total NFD catches were caught. The rise was due to good fishing conditions in local waters and favourable fish prices. NFD shifted its onshore base from Tulagi (Central province) to Noro (Western province) in a bid to restrain overall expenditure. Expense restraints were reflected in the reduction of the size of onshore infrastructures and onshore staff, a sizable cutback in fuel outlays, and proximity of fishing grounds. In 2002, NFD expects to finalise the purchase of a third purse seiner (Solomon Chieftain) from SIG in the first quarter. This positive development, once realized, would definitely give a strong boost to fish output in the latter half of 2002.

Solgreen Enterprises Ltd, a locally established fishing company, saw a reduction in its fishing fleet to 11 long line boats from 15 boats in 2000. Contrastingly, the workforce rose notably by 45.8% to 175 workers in 2001, and was attributed largely to increases in

onshore staffing. Of the total labor force, expatriates of Asian origin constitute about 71.4% with locals accounted for the remaining 28.6%. By year-end, Solgreen catches plunged 47.4% to 704 tons, reflective of the shrinking fleet. In 2002, the company is contemplating increasing the fleet to 15 boats, depending on price movements and catch trends.

The fishing industry had long been preoccupied with high fiscal taxes (import and export duties, company taxes, etc) and inequitable administration of these tax policies for years. These longstanding concerns were gaining momentum lately as the industry staggered again this year as indicative of falling output. In light of the current unfavorable investment climate, it is very crucial that the government restore investors' confidence by reviewing the current tax system and instill improved tax administration guidelines as soon as possible.

A total of five foreign companies fished in the local waters (200 miles EEZ) during the year under bilateral and multilateral arrangements, 2 companies more than the preceding year. Hence total fishing licensing fees collected by the Fisheries Division from these foreign companies rose to SI\$3.5m from SI\$2.4m in 2000. The five companies originated from USA, Japan, Korea, Taiwan and Fiji.

Major aquaculture projects (pearl oyster development, seaweed farming, live fish, and hatchery) and other research studies that the Fisheries Division planned to embark on during the year were seriously undermined by financial and structural constraints. The impediments include: lack of funding due to SIG's failure to provide budgetary allocations in its 2001 development budget; deteriorating condition of the research boat (MV Daula) since 2000; debilitating state of rural fishing centers; and shortage of technical manpower in the division due to

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cumbersome employment procedures within the Public Sector. Research in the fisheries sector maybe costly in terms of financial resources but it constitutes an integral component in the advancement of the sector as well as the overall development of the economy in the long term, notably in the processes of sectoral diversification and decentralisation of economic activities.

### Copra and Coconut Oil

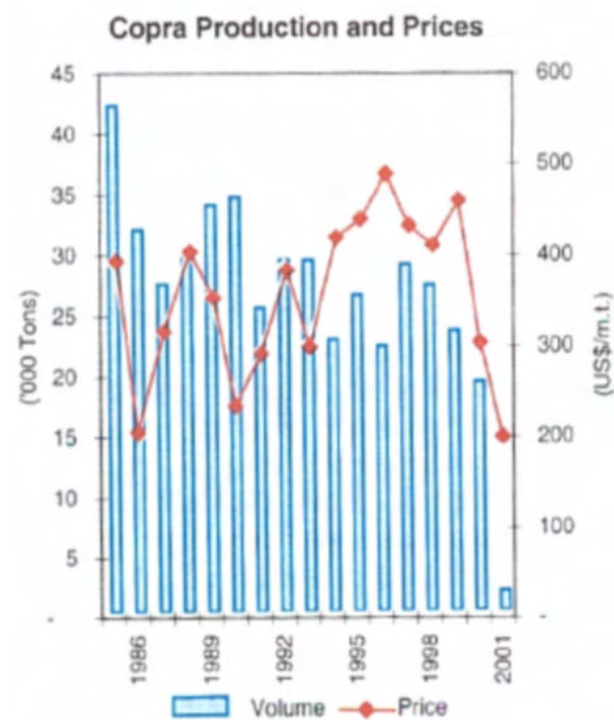
The copra industry experienced slight falls since 1998 but the trend worsened in 2001 when copra production plunged considerably to only 1,701 tons from 19,004 tons in 2000. Of total copra production, 1,500 tons were exported whilst the rest were crushed at Commodity Export and Marketing Authority's (CEMA) small copra mill at Ranadi. The trend showed no recovery in early 2002 as exemplified by copra production in the first two months whose total stood at 145 tons, 177 tons less than the corresponding quarter in 2001.

The dramatic slowdown was related to CEMA's persistent illiquidity position, dwindling copra prices both on the international and domestic fronts, rural farmer's acute response to the price crash, farmer's high operating outlays, problems at Russell Islands Plantation Estate Limited (RIPEL), and severe financial repercussions (loss of assets and business activities incurred by CEMA and RIPEL) emanating from the social unrest.

The average world market price CEMA received for exported copra, as extracted from FOSFA sources was US\$193 per ton. This was US\$268 and US\$175 below the average copra prices in 1999 and 2000 respectively. The fall was reflective of the sharp increase in aggregate world copra output and the slump in major economies. On the domestic front, copra

prices fell in correlation to the world price as evident in March when CEMA pushed down prices for first and second grade copra to \$400 per ton and \$350 per ton respectively. However, poor copra outturn induced the authority to revise prices upward in October to \$500 per ton and \$480 per ton respectively.

CEMA through SIG successfully negotiated a \$10.2m grant from ROC Taiwan that was scheduled for disbursement in 2001 and 2002. By December, CEMA received \$6m of which only a minimal part was used to purchase copra from farmers, as the authority had other financial obligations such as servicing of domestic loans, financing operational costs, as well as assisting the ailing RIPEL. The grant enabled the authority and the copra industry as a whole to remain afloat for another two years, but was inadequate to ensure their long-term viability.



In the medium term, CEMA planned to embark on two approaches. First, is to seek financial assistance from SIG or



European Union to subsidize local prices of copra, and secondly to request European Union to assist in the restructuring of major copra establishments such as CEMA and RIPEL. The noble intentions of both approaches are; not only to reward the most productive rural populaces (beneficiaries), but the benefits derived from such funding are also immediate and obvious. However, the successful achievements of these two approaches are very remote given CEMA's precarious state of finances, the abolishment of CEMA's stabilization fund, SIG's poor finances, and donor partners' reluctance to subsidize copra prices.

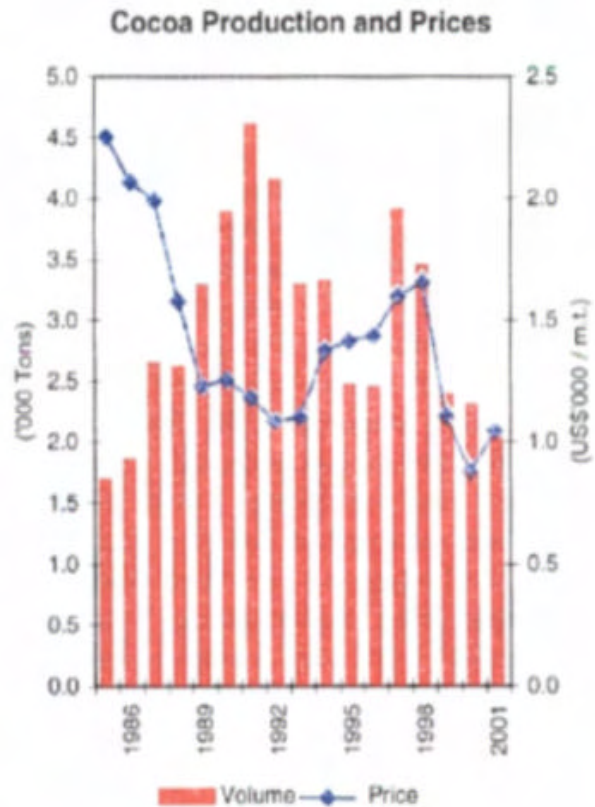
The intention of successive governments to liberalise the functions of the authority remain unrealised to date. This was underlined by the authority's poor financial position, lack of political will, and the need to repeal the CEMA Act. Following recommendations from the 1998 CEMA review, a technical assistant with financial specialties will be sought possibly in 2002 to do another review, which could finally determine the future status and size of the institution.

Coconut oil production in 2002 reached rock bottom at 117 tons, 73 times lower than that of the previous year. The contraction was reflective of RIPEL's precarious cash flow situation that was exacerbated by the social unrest, and sporadic operations by small copra mills in the provinces. Since September, RIPEL was entangled in a provisional liquidation process that threatens its existence in the long run. Probable repercussions of a possible wind up are; loss of employment opportunities, loss of foreign exchange, rundown of copra mills in provinces, loss of government revenue, a setback to the development of the industry, and termination of other economic spin off benefits. The average world price for local coconut oil was hovering at US\$318 per

ton, US\$132 below that of last year. However, it bounced back in the first quarter of 2002 to US\$368 per ton, a rise of 19% as against the same quarter last year.

### Cocoa

Cocoa production dipped 12% to 2,038 tons, following consecutive drops in the previous three years. The negative movement contrasted pick-ups in the price of cocoa and positive effects of copra's price dilemma. The drop was primarily caused by RIPEL's low performance throughout the year and depressed cocoa activities on Guadalcanal.



During the year, RIPEL (the only cocoa plantation in the country) produced an average of 24 tons per month as opposed to 83 tons per month in normal years. As such, a wind up of the plantation would have great negative effects on future

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cocoa output.

Unlike copra prices, cocoa prices showed strong growth during the year. The international average price of cocoa rose 18.7% to US\$1,069 per ton as opposed to last year's 20% decline. The local price CEMA paid to farmers in 2001 was \$243 per ton for dry beans. A total of 10 active cocoa buyers beside CEMA were sanctioned to export cocoa in 2001. In another development, CEMA plans to make necessary arrangements in 2002 to amend exporting licenses that were far outdated.

### **Rice and Paddy**

Aggregate rice production throughout the country dropped substantially to 2,083 tons from 4,524 tons in 2000. Of this, unpolished rice accounted for 1,344 tons and the rest was polished rice. The drop was explained by the amount of land acreage used for rice farming, which contracted notably during the year to 448 hectares from 973 hectares in 2000 and depressed activities in the last six months of 2000. Of the 325.2 hectares that was accounted for by provinces since October, Malaita represented 37%, Makira 20%, Western 13%, Temotu 11%, whilst Isabel, Guadalcanal, Choiseul, Rennell and Bellona, and Central provinces accounted for the remaining 19%. The Metapona rice farm was one of the largest rice undertakings under the ROC project but non-accessibility to the site was a major setback to the ministry's expansionary plans.

The Ministry of Agriculture, under the "rice development project" funded by ROC, aimed at ensuring the country is self-sufficient in rice production, as rice is now becoming a major staple food and costs the country a lot of foreign exchange. The ministry estimated that the country currently has an annual rice requirement of 24,000 metric tons, which

was absorbed by imported rice. For the country to be self-sufficient in rice, it needs a total of 6,000 hectares of planted rice each year.

The rice project's expansionary plan was addressed in four ways. First, rice mills were set up at various locations in different provinces to facilitate rice polishing in rural areas. Secondly, marketing funds were established in urban centers with the purpose of availing locally milled rice in retail outlets. Thirdly, the project encourages large-scale rice farms such as semi commercial farming through the provision of attractive incentives. Finally a revolving fund of about US\$90,000 sourced from ROC will be used in 2002 to stock farming equipment that farmers could purchase at relatively cheaper prices.

### **Minerals**

Mineral activities remained relatively dormant through out the year, following Gold Ridge Mining Ltd's (GRML) closure in June 2000 as a result of the unrest. The unrest caused the mining company to incur losses of more than \$100 million both in damaged and stolen properties. The company has maintained a satellite office in Honiara and continues to service its debts during the year. These together had cost the company about AUD12 million in 2001.

Despite its huge losses, the company has expressed great interest in resuming operations. For this to occur it is crucial that its stolen properties are returned. Besides, the Ngalibiu Bridge and roads leading to the mine site also need to be repaired. Recommencement of mining activities at Gold Ridge was also hampered by various factors including the law and order problem in the country and landowners request for a new agreement, which the company refuted. The

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landowners' demand for a new agreement was underpinned by new findings that the reserve was approximately 33,000 million tonnes and contained 1.9 million ounces of gold, 52% above the volume stipulated in the agreement. GRML also highlighted the need for the national government to fix the damaged bridge at Ngalimbiu as well as providing some form of tax assistance if it resumes operation. The company estimates that actual gold production would start about twelve months after the mine reopens.

In late 2001, the new government established a "Gold Ridge reopening committee" to replace the previous one that was dormant throughout the year. The major thrust of the committee was to facilitate and mediate dialogues between the stakeholders. It comprises of technocrats from relevant government divisions like Mines and Geology, Lands, Finance, Attorney Generals Chamber, Prime Minister's office, and the Police department.

Alluvial gold panning was on the rise in 2001 with the number of licenses given to gold dealers soaring to 14 from 5 in 2000. By December 2001, total gold panned reported was 9,063.16 grams, a marked downturn of 25.7% from the preceding year. Nevertheless, the provided figure was an understatement of the actual volume of alluvial gold panned during the year as most dealers deliberately concealed production information from the Mines Division, who lacks both the manpower and financial resources to monitor such activities effectively. The average prices gold dealers offered for alluvial gold varies between SI\$19 per gram and SI\$27 per gram during the year.

On other mining projects, the Mines Division (SIG) granted a license in September 2001 to Solomon Islands Resources Management (SIRM) to explore

and do prospecting works on Bugotu Nickel Project. The new establishment uses BNI exploration reporting data and was still pursuing an access agreement. The division's major task for 2002 is the pursuance of a service agreement for Bugotu Nickel project. However this was hampered by its exclusion from the national government's 2002-development budget.

The Malaita Diamond prospecting and Vangunu copper/gold mining projects were also abandoned during the year. Prospectors were found but there was no activities taken during the year. The law and order situation and unresolved land disputes were the main contributing factors to this development. There is an urgent need therefore for government to more emphasis on improving and revitalizing the Ministry of Mines and Energy, as it has the potential to generate more income for the government and country.

### **Honey**

Solomon Islands Honey Producers Co-operative Association Ltd (SIHPCAL) reported that honey production in 2001 remained sluggish and was estimated at 10 tons, similar to that in 2000. Of the total production, SIHPCAL purchased 2,607kg, of which Malaita produced 1,179kg (45%), Guadalcanal 650kg (25%), Central 346.5kg (13%), Makira 173kg (7%), whilst Western and Temotu accounted for 148kg (6%) and 111kg (4%) respectively. The persisting low output level was factored largely by the social unrest and the cooperative's unfavorable price regime of \$4.50 per kilo. Nevertheless, the cooperative was optimistic of a gradual recovery in 2002 should the numerous honey proposals farmers submitted for funding under European Union's Micro Project programme proved successful.

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## **Energy**

The problem of power supply in Honiara has worsened in 2001. This was due to rationing of fuel by SIEA as a result of severe financial difficulties during the year. Of the 11 installed generators, only four were operating during the year. The financial crisis also crippled the Authority from carrying out repairs. As a result generators were not operating at full capacity. To alleviate the situation, a 4-megawatts generator was purchased but could not be installed due to lack of funds, despite its repeated calls for assistance. The Authority's financial problems were reflective of lower income from sales of electricity. This emanated from two key factors. First, there was a marked decline for demand for electricity throughout the year as a result of reduced economic activities. The second was inability of the Authority to effectively collect revenues as a result of continued threats on staff. In many instances meter readers could not do their work as they were harassed and threatened. Consequently many programs earmarked for the year had either been abandoned or postponed because there were no funds to implement them. Although the Authority had not contemplated privatization, it was seriously considering the possibility of tendering out certain parts of its functions to be taken by private companies during the year. This would continue in 2002.

The government approved the Authority's request for a 20% upward revision of tariff charges, to be applied across the board in late 2001 but was not gazetted until early 2002. This should help alleviate its current financial difficulties and implement postponed programs in 2002.

Major programs planned by the Department of Energy were also halted in 2001 due to government's financial difficulties and repatriation of foreign

investors arising from the of law and order situation in the country. This includes the suspension of the long-awaited Lungga hydro and all rural electrification projects. The only positive development, however, relates to the Taiwanese company, Sino America who was given the task to upgrade the hydro site, review the report done by Snow Mountains and to finalise the actual program for implementation. It is estimated that the actual project would cost \$280 million. The same company was also approached to undertake feasibility studies, worth \$50,000, on the proposed Honiara fuel depot relocation project.

Mobil Oil Australia Limited, one of the two main fuel and oil distributors in the country was also contemplating leaving in 2001. The company, which was established in 1940, has decided to wind up following severe financial difficulties it had experienced in the last three years. The company launched tenders and has already short-listed two local applicants. These were sent for further assessment to the company's Head office in Australia. It is expected that the winning bidder would be announced in early 2002. Mobil confirmed, however, that despite its departure it is certain that its successor would continue with the normal services it currently provides. The company further confirmed that the two short-listed applicants are capable of providing the service to the country, as both are professionals in the field of fuel distribution and related activities.

## **Tourism**

Developments in the tourist industry in Solomon Islands continue to decelerate in 2001. The social unrest had severe repercussions on the industry, besides its traditional problems of lack of funds, insufficient infrastructure, inadequate facilities and poor promotion. Both the

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law and order problem and uncertainties about normalising the economic plight of the country exert pressures on this small and staggering sector in 2001.

During 2001, total visitors to Solomon Islands were 4,276 compared to 9,432 in 2000. The 55.7% drop was due to no calls by tourist cruise ships in Honiara during the year. Of the total last year, 42% were on business missions, 31% on vacation, 15% were visiting friends and the rest on other purposes. Most of these tourists came during the first half of the year, particularly in February, March and April. There were certain practical problems, which the Solomon Islands Visitors Bureau (SIVB) encountered during 2001. It experienced low marketing due to tough advertisement against Solomon Islands from overseas. Lack of funds also hampered their activities and programs during the year. The Bureau was unable to collect all its quarterly grants from the government, due to financial difficulties of the latter; only \$67,000 grant for the first quarter was collected. Annual fees from most local tourism operators were not paid.

On a positive note, despite the fragile situation, there were some activities hosted during the year. These included the yacht competition from Australia to Solomon Islands, National Tourist Conference (NTC) in September, and celebration of the World Tourism Day (WTD) in October. The three events had separate and unique reasons. The yacht competition was aimed at sustaining relationship between Australia and Solomon Islands; the NTC aimed at boosting growth in the industry by way of full cooperation and participation by both government and the private sector and the WTD, was aimed at creating and maintaining peace and dialogue amongst all people. These are crucial events and similar ones should be encouraged in the future for the local industry.

Tourism is an important industry as it plays an important role in the development of the country. It has the potential to generate more income for rural communities. Hence serious actions should be taken to address all factors that impede advancement of this industry.

### **Telecommunications**

Communication activities in Solomon Islands remained sluggish in 2001. The development continued to be plagued by elements of the recent social unrest. The country's only operator of telecommunication services, Solomon Telekom, recorded \$43.7 million in revenue, 3% down on the previous year. This reflects the loss of customers during the year and financial difficulties by those who decided to remain. The government has incurred significant arrears to Telekom.

Its financial problem had adversely impacted on some of its major programs during the year. For example, the 'Unity Blong Community', which aimed to deliver multiple services to all provincial areas throughout the country, had to be postponed. As a result the company concentrated only on restoring services to Auki following the disruption of this service link in 2000. The Auki project was completed in September. The recent 10% tariff increase is a relief to the company. It should raise more revenues and enables the company to complete its postponed projects in 2002.

Solomon Telekom is planning to replace the current phone system with a digital system. The proposed new system is expected to have higher capacity of enabling additional services such as emailing. This system if completed would add a new chapter in telecommunication services in the economy as it enables people to communicate virtually from any

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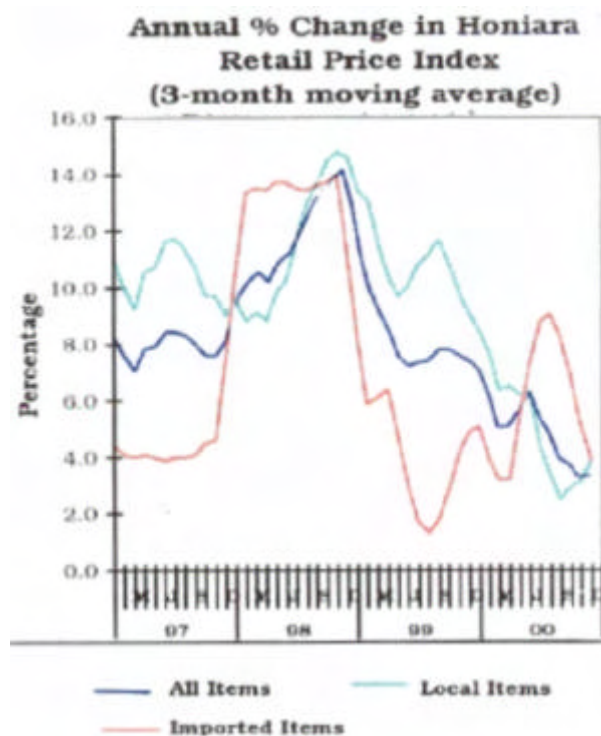
location in the country.

Solomon Telekom was also granted a television operating licence in October by the Television Board. The licence, which will expire on October 2006, gives Telekom the right to televise news, current affairs, sports, finance, law, and children's programs from BBC (British Broadcasting Corporation) in England. There are also plans to include Australian Broadcasting Corporation (ABC) as well as other programs such as movies, and educational materials. These are all pending the Television Board's approval.

### **Inflation**

Inflation in 2000 was estimated to be 6.4%. The Statistics Division continued to compile data for the 2001 throughout the year with the help of Staff from the Central Bank. Although the inflation figures are available, they are significantly lower and therefore may be questioned. As inflation is a very

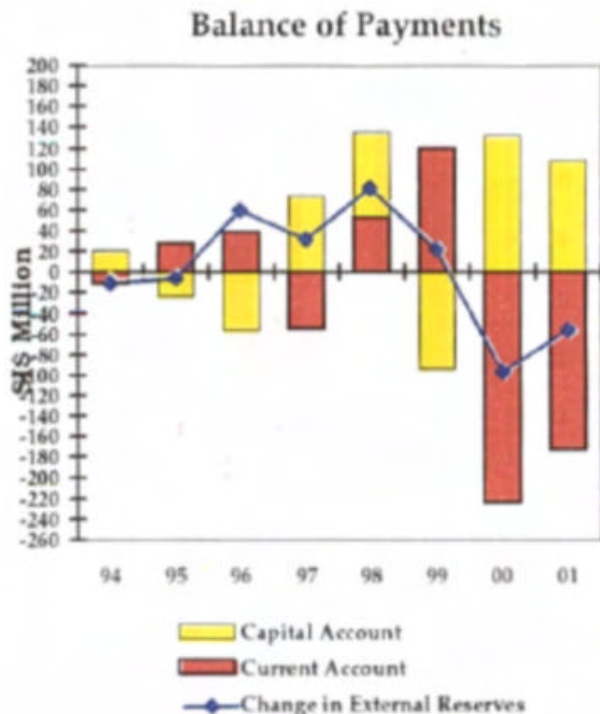
important indicator for policy purposes, it is important that more resources are put into the Statistics Division to enable it produce more timely and reliable data.



## IV. BALANCE OF PAYMENTS

### Overall Balance

The balance of payments registered an overall deficit of \$57.1 million in 2001, compared to a deficit of \$96.1 million in 2000. Consequently gross external reserves shrunk further by 35.8% to \$102.6 million. The current account posted a net deficit of 64.9% of real GDP in 2001.



This adverse outcome was primarily driven by the mismatch between imports and exports, persistent fiscal deficits, decline in private sector savings, a drastic decline in foreign assistance and the general global economic downturn during the year. The intensity of these adverse developments had overwhelmed net factor income from abroad and increased financial inflows in the capital and financial account during the year. The capital and financial account registered a net surplus equivalent to 40.8% of real GDP but this was more than outweighed

by the current account deficit. The reserves at the year-end was equivalent to 1.3 months worth of imports, down from 2.0 months at the end of 2000.

### Trade Account

The trade account weakened further in 2001 with imports outstripping exports throughout the year. Consequently, the trade deficit worsened from \$117.3 million or 40.3% of real GDP in 2000 to \$182.7 million or 69.1% of real GDP in 2001, the highest to date since independence.

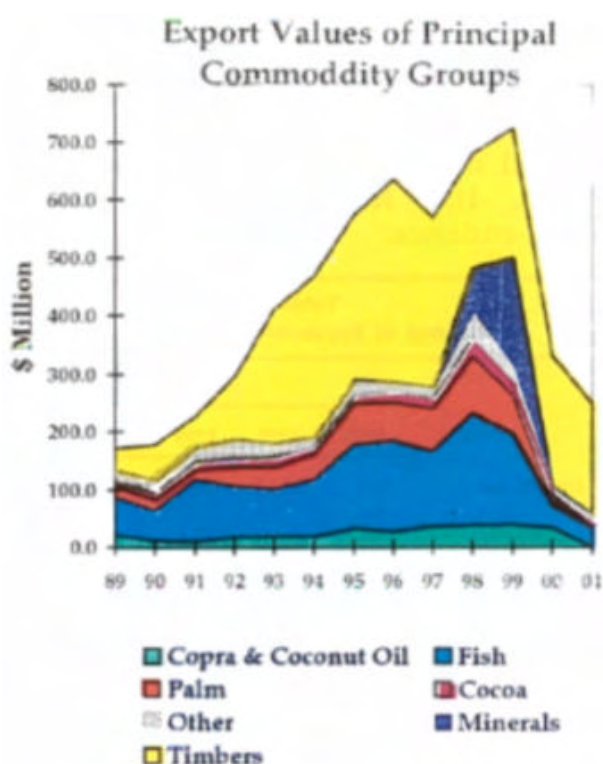
**Table 4**  
**Balance of Payments Trade Account**

	(\$Millions)				
	1997	1998	1999	2000	2001
Exports fob	581.5	683.0	724.0	352.6	248.7
Imports fob	548.7	616.0	532.4	469.9	431.4
Trade Balance	32.8	67.0	193.4	-117.4	-182.7
Trade Balance as % of total trade	2.9	5.2	15.2	-14.3	-26.9

Source: Central Bank of Solomon Islands

Total exports receded for the third straight year by 29.5% to \$248.7 million in 2001, the lowest in the last 11 years. This outcome, which continued the trend witnessed in the last 6 years, was led primarily by depressed export volumes resulting from decreases in domestic production, and unfavorable external conditions. On the domestic side, real exports remained negligible throughout the year as the socio-political conditions, poor investment returns, and weak investor confidence led to slow recoveries and continuing closure of some leading export industries countrywide. On the external side, the slowdown in the global economy, which precipitated the decline

in the volume of world trade, had severely impacted on international prices for the country's major export commodities. This coupled with some domestic inflation, caused the country's terms of trade to deteriorate further by around 2.8%. Reflecting these developments, export earnings of all principal commodities declined in 2001.



Total export receipts from forest products, the traditional bloodline of the economy, declined by 15.1% to \$190.5 million from \$224.2 million in 2000. The amount was not only the lowest since 1991, but was also triggered by downturns in both international log prices and export volumes during the year. The latter reflects the suspension of many logging activities in Isabel and Western Provinces arising from corrupt logging practices, unprecedented land disputes, and unfavorable weather conditions that hampered logging activities in the first and fourth quarters. On account of prolonged economic difficulties in Japan and demand for tropical hardwood in the

overseas markets, log prices fell by 18.7% to an annual average of US\$54 a cubic meter in 2001. As a result, export earnings of round logs declined by 15.1% to \$180.1 million. The export prices of sawn timber fell by 19.1% to \$481.4 a cubic meter, thus causing sawn timber export receipts to fall by 15.4% to \$10.3 million from \$12.2 million in 2000.



The volume of round logs exported in 2001 moderately declined to 533,585 cubic meters in 2001 from 536,057 cubic meters in the previous year. This development was against the backdrop of governments desire to see increased activities in this sector during the year. In terms of export destinations, China and South Korea were the key export destination of Solomon Islands logs in 2001 with both accounting for 25.5% of total volume exported. These markets contributed more than 50% of total log export receipts. Other important market destinations included Philippines (25.1%), India (10.2%), Thailand (8.1%) and Japan (5.6%). Forest products now



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constitute 76.6% of total exports. This domination is expected to remain unchanged in the next 3-4 years unless drastic efforts are taken to boost production in both the mining and fisheries sectors. This poses a potential threat to the economy as the expected eventual depletion in this sector would easily impact on government finances and the country as a whole.

Export earnings from fish products declined by 9.3% to \$37.3 million in 2001. The drop was caused primarily by lower export volumes reflecting reduced production during the year. This was further compounded by SFPL's marketing strategy to expand non-tradable output at the expense of trade output has also contributed to this development. The decline contrasts the improvement in international fish prices that rallied to US\$776 a ton in 2001 from US\$506 a ton in 2000. Fish product contributed 15% of total exports in 2001, up by 3% from the previous year. For 2002, the contribution of this sector will depend to a large extent on efficient utilizations of existing resources, the socio-political conditions in the country, and external market conditions.

Sluggish agricultural activities throughout the year had severely affected both cocoa and copra export receipts. Cocoa receipts nose-dived for the third straight year by 51.1% to an 18-year low of \$4.5 million in 2001. This was caused by minimal activity on Guadalcanal, the main cocoa-producing province in the country, along with CEMA's liquidity problems, which made it difficult to buy cocoa at buying centers during the year. About 15,000 tons of cocoa were exported during the year, 16% lower than in the previous year and 63.1% less against the corresponding period a year earlier. Cocoa accounted for 1.8% of total export revenues in 2001, compared to 2.8% in the previous year. For 2002, the export

contribution of this sector will depend, inter alia, on supply-side responses to local cocoa buying prices, the recovery of agriculture activity on Guadalcanal, and developments in international cocoa prices.

Total export receipts from coconut products sharply declined to a minimal of \$0.4 million in 2001. The drop was led almost entirely by depressed export volumes in the face of unprecedented supply-side disruptions arising from severe financial difficulties that made both CEMA and RIPEL virtually inactive during the year. Despite CEMA's efforts to encourage copra production, farmers remain unwilling to respond because of very low prices. As a result, only about 2,000 tons of coconut products were exported in 2001, drastically less than export volumes in the preceding two years. The international price of copra fell by 33.6% to US\$202 a metric ton, whilst coconut oil prices dropped by 29.4% to US\$318.1 a metric ton. Coconut products accounted for 0.17% of total export earnings in 2001, down from 10.5% in the previous year. Despite this downward trend, the copra industry remains the key sector through which development benefits more than 70% of the population. Thus, more efforts should be put into the copra industry if development is to trickle down to the masses of the population.

The closure of Gold Ridge mining resulted in a significant decline in mineral export receipts in 2001. Mineral exports of \$0.3 million were mainly from private individual engaged in alluvial activities during the year. The international price of both gold and silver declined during the year, by 2.9% to US\$271 an ounce and 12.3% to US\$4.4 an ounce respectively. The mining sector has great potentials to boost the overall export receipts and government revenues. It is imperative, therefore, that the current

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impasse surrounding re-opening of the Gold Ridge mine are settled so that the economy can benefit from this sector again. There were no exports of palm oil in 2001 following the cessation of SIPL in June 1999. "Other exports" registered an increase of 11.0% to \$15.3 million.

Imports constitute an important variable in the overall macroeconomic management of a developing and highly open economy like Solomon Islands. This is not only because the country's high reliance on imported item to foster growth and development, but also because imports tend to respond almost instantaneously to demand pressures emanating from expansionary macroeconomic policies and slack structural policies. Hence, periodic assessments of imports and its composition and their implications on the current account and the underlying levels of external reserves are imperative. Unfortunately, the trade data on imports, which are usually compiled by the Statistics Division, are not available. The data used in this report should therefore be seen as provisional.

Total imports fell by 13.4% to \$431.9 million in 2001. This continued the downward trend witnessed since 1999 and was lowest in the last ten years. The fall was due to depressed economic activities, tight foreign exchange payments controls and weak aggregate domestic demand. Fuel imports ebbed by 19.0% to \$75.8 million, reversing the 24.3% rise in the preceding year. The slow down was underpinned by subdued activity in the fisheries and mineral sectors, reinforced by easing spot prices of crude oil, which fell by 13.7% to US\$24.3 million a barrel during the year.

Import payments of non-fuel items continued the downward trend seen

since 1998 and declined by 12.2% to \$356.2 million. The fall was due largely to offsetting effects in the imports of consumption and intermediate and capital goods. Imports of consumption goods, driven partially by discretionary tax remissions, registered increases in 2001 with imported food items soaring by 36.6% to \$108.4 million, beverages and tobacco, by 82.2% to \$9.3 million, and chemical and pharmaceutical products, by 52.4% to \$13.7 million. Imports of intermediate and capital goods, by contrast, declined during the year. Plant and heavy transport equipment imports fell by almost 40.0% to \$53.3 million, building and construction materials, by 11.4% to \$22.6 million, and all "others" by 25.0% to \$148.8 million.

### **Services Account**

The services account deficit narrowed to \$48.3 million in 2001 from \$118.9 million in 2000. This improvement reflected the slow down in non-factor services import payments during the year arising from the contraction in national income, subdued business activity and the fragile law and order situation. The greatest impact came from the law and order situation as it affected the number of tourist arrivals, reduced the magnitude of financial services, willingness of local importers to procure large volumes of imports, and adversely affected personal and business travel during the year. As a result, net transportation payments substantially contracted by 68.0% to \$56.1 million, net travel payments, by 75.5% to \$7.2 million, whilst "other" services net receipts, consisting of transactions in communications, construction, insurance, financial, computer and information services, royalties and license fees, and other business services declined significantly by 82.5% to \$15.0 million.

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	(\$Millions)		
	1999	2000	2001
<b>1. Transportation</b>	<b>-240.8</b>	<b>-175.1</b>	<b>-56.1</b>
1.1 air transport	-43.1	-54.9	-38.4
receipts	20.1	3.3	20.1
payments	63.2	58.2	-58.5
1.2 sea transport	-197.7	-120.2	-17.7
receipts	3.2	2.5	3.2
payments	200.9	122.7	-20.9
<b>2. Travel</b>	<b>-7.2</b>	<b>-29.4</b>	<b>-7.2</b>
2.1 business	-11.5	-1.5	-11.5
receipts	1.7	15.7	1.7
payments	13.2	17.2	-13.2
2.2 personal	4.3	-27.9	4.3
receipts	25.8	3.9	25.8
payments	21.5	31.8	-21.5
<b>3. Other services</b>	<b>15.2</b>	<b>85.7</b>	<b>15.0</b>
receipts	221.7	225.7	221.6
payments	206.5	140.0	-206.6
<b>Overall net</b>	<b>-232.8</b>	<b>-118.8</b>	<b>-48.3</b>

Source : Central Bank of Solomon Islands.

### Income Account

The income account reversed the series of deficits up to 2000 and registered a surplus of \$0.6 million in 2001. The turnaround was caused by relatively higher decreases in factor payments during the year, although receipts also fell. On the receipts side, total interest income inclusive of interest earned from the investment of foreign reserves declined significantly by 46.7% to \$7.9 million from \$14.9 million in 2000. The fall reflects the drastic fall in reserves during the year and depressed interest rates in major financial markets during the year. Income from wages and other labor charges marginally declined by 3.8% to \$20.9 million from \$21.8 million.

The economic situation in the country had severely affected most private companies during the year. As a result, many found it difficult to service their external debt obligations. Consequently

private sector interest payments significantly shrunk by more than 50% to \$7.5 million in 2001. Data on private sector interest arrears is not available but it is believed that many had accumulated millions of interest arrears during the year.

	(\$Millions)		
	1999	2000	2001
1. Employee Compensation	-16.3	6.0	33.0
credits	11.4	22.0	23.9
debits	-27.7	-16.0	-9.1
2. Investment Income	-65.6	-27.3	41.5
2.1 Direct Investment	-49.7	-27.3	18.8
2.1.2 Income on equity	-39.5	-15.0	9.4
credits	-	0.4	2.1
debits	39.5	-15.4	-7.3
2.1.3 Income on debt (interest)	-10.2	-12.3	9.4
credits	1.6	14.5	1.9
debits	-11.8	-26.8	-7.5
2.2 Portfolio Investment	-	-	-
credits	-	-	-
debits	-	-	-
2.3 Other investment	-15.9	-	-22.7
credits	-	-	9.6
debits	-15.9	-	-13.1

Source: Central Bank of Solomon Islands

The government's chronic financial position had also severely affected its debt services during the year. Of the \$15.9 million in interest payments due, it only managed to pay \$2.8 million, significantly less than \$11.7 million in 2000. As a result, government interest arrears rose to \$13.8 million from \$8.7 million in 2000. The interest arrears were equivalent to almost 5.0% of real GDP by year-end.

Reducing the current level of external arrears and keeping pace with debt-service obligations is critical because of its implications on country's international credibility and need for new external financing in the future. In the short to medium term, Solomon Islands must continuously record primary balance surpluses greater than the accumulated interest payments. This is critical for

meeting both current and future debt-service obligations of the economy and minimizing chances of cultivating moral hazard practices. Current government policy, however, suggest that this may not occur in the next 4-6 years.

### Current Transfers

Like many other developing countries, Solomon Islands normally runs surplus balances in the transfer's account. This reflects the country's stage of economic development that renders it highly dependent on foreign savings to finance its domestic deficit.

	(\$Millions)		
	1999	2000	2001
1. General Government	266.5	115.5	54.5
cash	85.8	108.7	48.8
credits	103.1	110.7	52.9
debits	-17.3	-2.0	-4.1
1.2 Non-cash-net	180.7	6.8	5.69
2. Other Sectors	-24.3	-81.7	3.7
2.1 Workers remittances	-11.4	-16.9	-2.8
credits	1.9	-	-
debits	-13.3	-16.9	-2.8
2.2 Other transfers	-12.9	-64.8	6.4
credits	97.9	61.9	110.1
debits	-110.8	-126.7	103.6
Current transfers-net	242.2	33.8	58.2

Source: Central Bank of Solomon Islands.

These foreign savings have significantly raised consumption levels of both public and private sectors over the past several decades and assisted somewhat in easing pressures on foreign exchange gap, skills gap, and savings-investments gap. In the short term, it is vital that the country use these foreign resources more efficiently. Transparent and efficient utilization of these foreign resources must be vigorously pursued to ensure maximum and equitable use towards enhancing rural development and quality of life in all sectors of society. In the

medium to long term, it is critical for these external resources are channeled into the enhancement of productive sectors of the economy rather than using them entirely for current consumption.

The transfers' account registered a surplus of \$41.8 million in 2001 [15.8% of real GDP] from a \$33.8 million surplus in 2000 [11.6% of real GDP]. The improvement reflects the growth in both official and private sector transfers.

Official transfers amounted to \$52.9 million or 26.7% of real GDP, the highest since 1996. About 90% of these injections were for priority sectors—national defense, health and education—and the financing of national general elections in December. Transfer inflows of non-monetary assistance to the public sector improved slightly over the previous year by 11.8% to \$7.6 million or 4.4% of real GDP from 2.3% of real GDP in 2000. The improvement was due to increased assistance by various Commonwealth countries and the United States of America towards the national general election at the end of third quarter. Official transfer payments totaled \$4.1 million, up from \$2.0 million in the previous year, reflecting the partial settlement of SI government membership contributions to international organizations as well as SI government embassies and consulate offices abroad.

Transfers to the private sectors were \$91.8 million [34.6% of real GDP], 48.3% higher than that of 2000 but 8.0% lower than that of 1999. Transfer payments, on the other hand, declined by almost 26.0% to \$106.4 million, reversing the 15.7% increase in 2000.

For 2002, the surplus on the transfer's account is expected to improve further reflecting development partners commitments to the rehabilitation and reconstruction process of Solomon Islands

economy especially in the law enforcement sectors. However, it is crucial that Solomon Islands government also performs its part of the bargain if the much-needed financial inflows are to occur in 2002.

### Capital and Financial Account

There were regular surpluses registered in the country's capital and financial account since independence. This development which is typical of most developing countries, further demonstrate the country's stage of economic development which makes it a net borrower and recipient of foreign direct investment.

	(\$Millions)		
	1999	2000	2001
1. Capital Transfers	40.6	65.7	22.9
1.1 General government	36.9	64.0	23.6
1.1.1 Debt Forgiveness	-	-	-
credit	-	-	-
debit	36.9	44.7	-
1.1.2 Other capital transfers	-	-	-
of general govt.	36.9	64.0	23.6
credit	36.9	64.0	23.6
monetary	36.9	44.7	23.6
non-monetary	-	19.3	-
debits	-	-	-
monetary	-	-	-
non-monetary	-	-	-
1.2 Other Sectors	3.7	1.7	-0.6
1.2.1 Migrant transfers-net	-	-	-0.6
1.2.2 Debt forgiveness-net	-	-	-
1.2.3 Other transfers-net	3.7	1.7	-
2. Non produced nonfinancial assets, net	-	0.5	0.1

Source: Central Bank of Solomon Islands.

These surpluses, along with those in the current transfers account constitute the key in defining deficits in the goods and services account. The only difference, however, is that unlike net transfer inflows which are freely given, net capital inflows constitute foreign claims on the

country's future resources. Over time these have to be transferred abroad as debt service, dividends and risk capital as witnessed in recent years.

	(\$Millions)		
	1999	2000	2001
1. Direct Investment in SI	-89.9	6.9	61.3
1.1 Equity capital-net	-	10.4	-0.6
1.2 Reinvested earnings-net	-	0.1	-47.0
1.3 Other capital-net	-89.9	6.9	-8.3
2.0 Other Investment	-46.8	75.9	82.5
2.1 Assets	2.9	5.0	10.0
2.2 Liabilities	-49.7	70.9	72.5
2.2.1 Trade credits	106.5	49.8	15.0
2.2.2 Loans	-156.2	21.1	57.5
(a) General government	67.2	32.7	63.7
(i) Long term	53.3	-29.9	48.2
Drawings	74.4	22.6	88.6
Repayments	-21.1	52.5	-40.4
(ii) Short term-net	13.9	62.6	15.5
(b) Other sectors	-223.4	-11.6	-6.2
(i) Long term	-191.5	-9.1	-6.2
Drawings	10.1	3.4	0.2
Repayments	-201.6	-12.5	-6.4
(ii) Short term-net	-31.9	-2.5	-

Source: Central Bank of Solomon Islands.

In 2001, the capital and financial account surplus was \$108.2 million, (40.5% of real GDP), lower than \$131.8 million surplus in 2000. These along with the widening of the trade deficit have been the main features of the balance of payments in 2001. The decline was driven entirely by exceptionally low capital transfer receipts that more than outweighed robust financial account performances during the year.

Capital transfers to the public sector fell to a net surplus of \$23.6 million in 2001 [8.9% of real GDP] from a \$65.8 million in 2000 [22.6% of real GDP] whilst those to the private sector fell net inflows of \$0.5 million in 2001 from net inflows of \$1.7 million in 2000. As a result, the surplus in the capital account balance of

the capital and financial account fell to \$23 million in 2001 from a \$67.5 million in 2000. The suspension and delayed implementation of many externally funded projects in the face of poor law and order conditions has been the main driving force behind the decline.

On the financial side, there was a sharp contrast in private sector capital flows seen during the year, with total net capital repatriation amounting to \$61.3 million, compared to a net inflow of \$6.9 million in 2000. The turnaround reflects private investors' concerns over the state of the security situation, declining corporate revenues, unhedged currency exposure, and the general and the deterioration in the economy. Although this development reduced net liabilities of domestic residents, it prompted the urgent need to arrest the tempo as foreign investments play an important role in the country's economic development. Further, foreign investment act as a conduit along which transfer of foreign resources and management skills flow into the country. These together play the important catalytic role in the structural transformation of the economy from a traditional to a relatively high-monetized economy. It is in this regard that attracting and retaining foreign investments by promoting an environment conducive to business and investment activities, is critical and a necessary condition for economic growth.

Official long-term net capital inflows quadrupled to \$88.6 million in 2001, most of which were Exim Bank loans for lost and damaged properties. Private sector borrowings totaled \$0.2 million in 2001 compared to \$3.4 million in 2000. On the payments side, total amortization of both the public and private sectors fell respectively by 72.4% to \$14.5 million [6.4% of exports of goods and services] and by 75.4% to \$3.1 million [0.3% of goods and services exports]. The decline

in public sector amortization reflects the chronic government revenue shortfalls, thus causing a rise in external debt arrears amounting to \$25.8 million during the year.

### External Debt

The stock of external debt rose by 15.2% to \$980.6 million in 2001. The rise was due to increases in both official and private sector external debts with the former rising by 20.1% to \$739.5 million and the latter by 5.6% to \$228.3 million. When measured against the net foreign assets of the banking system, Solomon Islands is indebted by \$883.4 million. The increase in official debts was primarily due to drawdowns in the first and second tranches of the Exim Bank loan. Total debt service was \$12.8 million in 2001 compared to \$15.3 million in 2000. This comprised of \$6.2 million in official debt service (of which \$2.8million represented interest payments) and \$6.6 million in private sector debt service, including \$0.2 million in interest payments.

**Table 10**  
**External Debt**

	(\$millions)				
	1997	1998	1999	2000	2001
Private Sector	248.5	253.7	236.9	234.5	241.3
Government Sector	507.5	574.0	596.9	617.2	739.5
of which: arrears	52.3	40.5	54.4	23.5	39.0
Total	756.0	827.7	833.8	851.7	980.8
Debt Service	91.4	186.9	271.7	21.9	54.3
Principal	79.6	138.7	222.7	11.1	46.8
Interest	11.8	48.2	49.0	10.8	7.5

Source: Central Bank of Solomon Islands

In relative terms, the stock of external debt was 365.6% of real GDP at end-2001, compared to 292.4% in 2000. Although the debt burden is relatively lower than many African countries, it nevertheless undermines the debt-servicing ability of the country given the weak export

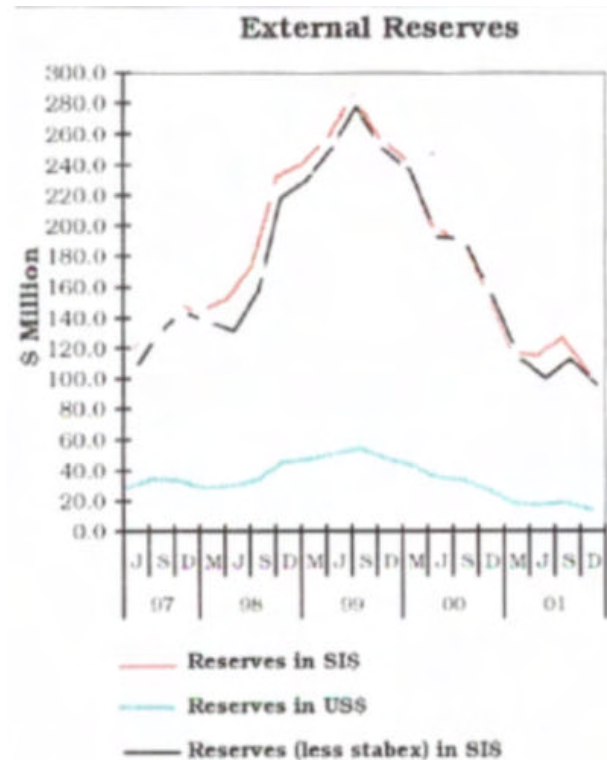
earning capacity of the economy seen since 2000; and falling external reserves witnessed since the fourth quarter of 1999. It is, therefore, critical to ensure future external financing is used for productive purposes. Moreover, since the public sector debt remains the principal component of the country's external debts, it is vital that government limits nonconcessional borrowings and remain current with external debt servicing.

### External Reserves

The downturn in the level of external reserves that started in the fourth quarter of 1999 and worsened throughout 2000 showed no signs of abatement in 2001. The reserves were declining at an average rate of 2.6% a month throughout the year. Moreover, although receipts of \$85.7 million of the EXIM BANK loan and \$49.2 million of external assistance boosted external reserves in the later part of the year, strong demand for foreign exchange saw external reserves plummeting by 35.8% to \$102.6 million by year-end, the lowest level in 7 years. The decline could have been dramatic with far-reaching socio-economic consequences but the relatively tight monetary policy stance, and the stiff exchange control measures enforced throughout the year, eased the decline. Without the controls, the external reserves could have been substantially reduced by year-end.

The level of external reserves was equivalent to 1.3 months of import cover, less compared to an average of 1.6 months cover in preceding ten years. This reserve level is unsustainable given that international trade account for nearly 70-85% of GDP. Rebuilding the reserves level to a comfortable level representing 4-6 months worth of import cover remains an important aim of policy. To achieve this, it is pertinent that government effectively tackles the law and order issue and

address the management of government finances. More efforts should also be directed towards reopening of all closed exporting industries, expanding the export base, diversifying the geographic locations of national projects and instituting a conducive foreign investment climate. These long term objectives can be further enhanced with a reliable and efficient transportation system, a transparent regulatory and taxation environment, a reliable land tenure system, and reliable utility services.



### Exchange Rates

The CBSI sets exchange rate based on a trade-weighted basket of currencies important to Solomon Islands trade and policy guidelines agreed between the Bank and government. The administration of the exchange rate policy during 2001 was set in tandem with the need to restore investor confidence during the reconstruction process by minimizing inflationary pressures from a depreciating currency and lessening

asset deterioration and balance sheet vulnerabilities of the banking system and the corporate sector from a currency mismatch. These objectives, nevertheless, were overshadowed by adverse developments in the external reserves level during the year. Consequently, the need to protect the external reserves took priority in the management of the exchange rate during the year.

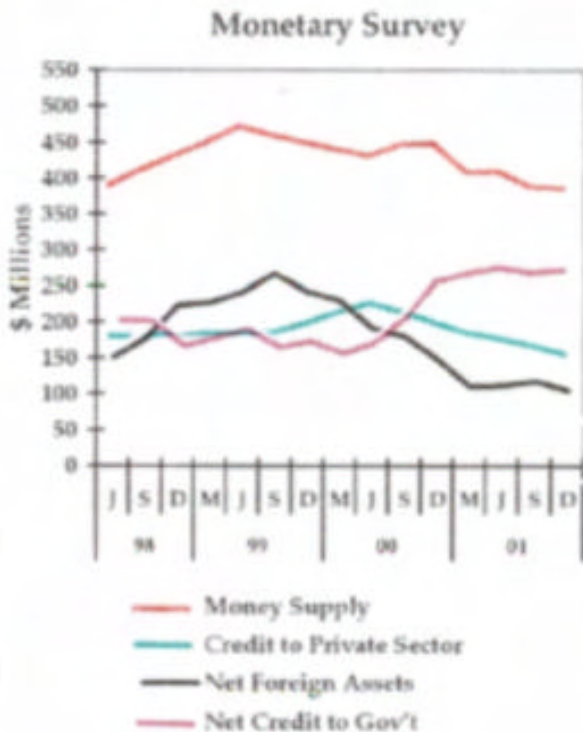
The Solomon Islands dollar [SBD] moderately depreciated by an average of

4.8% in the first half of 2001 and by 0.8% in the second half in nominal effective terms. For the year as a whole, the SBD depreciated by 4.9% in nominal effective terms but strengthened by around 2.0% in real effective terms. Against individual currencies, the SBD depreciated against the US dollar by 3.7% but rallied against the Australian dollar and New Zealand dollar by 7.4% and 4.0% respectively. The SBD gained ground against the British pound and Japanese yen by 0.3% and 7.0% but weakened against the Euro by 1.5% during 2001.

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## V. MONEY AND BANKING

The macroeconomic environment in the last 2-3 years has rendered the conduct of monetary policy complex and subject to conflicting influences. Although output consideration warranted monetary easing, it has also been necessary to guard against monetary expansion when there is a decline in output growth as this would only result in inflationary pressures.



Another factor that further complicated the conduct of monetary policy in the past is the difficulty of an appropriate assessment of the potential for inflationary pressures. While in the medium-to-long-run inflation has been acknowledged as a monetary phenomenon, in the short-run inflation could also be caused by non-monetary and supply-side factors. Given these conditions, monetary policy in the past has been very much deployed in support of the overall macroeconomic policy objectives, with a flexible approach under

which tightening or easing of monetary policy can be taken.

Monetary growth declined sharply in 2001 driven mainly by the contraction in the domestic activity, depressed demand for credit and an unfavorable performance in the external sector. Net foreign assets fell sharply notwithstanding the considerable capital inflows during the year. Total domestic credit decreased with a sharp decline in credit extended to the private sector. Liquidity levels in the banking system remained high over 2001 as banks continued to refrain from participating in the securities market.

### Monetary policy 2001

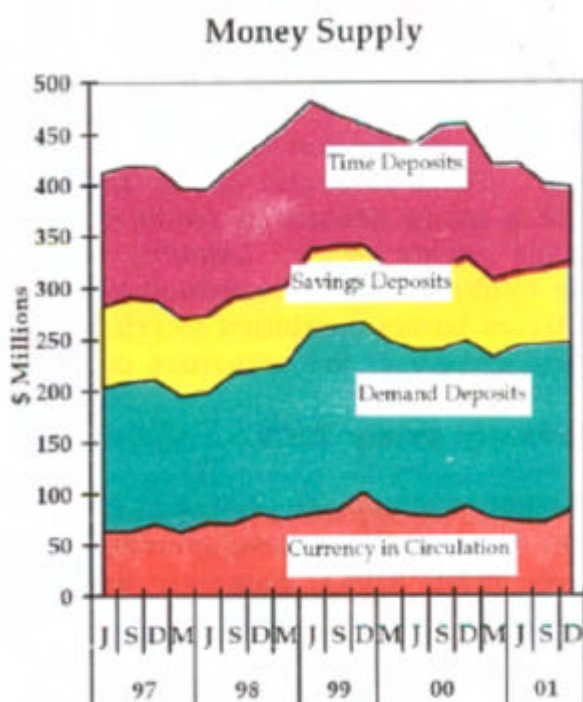
The course of monetary policy during 2001 was determined by developments in the three main areas, domestic debt, the balance of payments and the fiscal operations of the government. This has set a mixed performance in the conduct of monetary policy. Commercial banks lending to the productive sector fell sharply whilst banks kept a high level of excess reserves at the Central Bank. External reserves declined further and the government's fiscal position deteriorated. To attract investors to take part in the Treasury Bills (TB) market, the Bank started to operate a daily auction in August 2001, which proved successful.

### Money Supply

Broad Money Supply (M3) fell by 13.3% reversing the rising trend seen in the previous years. The main factors underlining the fall were sharp declines in net foreign assets and credits to the private sector. Net foreign assets and credit to the private sector declined by 32.5% and 21.8%, respectively. Movements in M3 over the years show a



declining trend. In the first quarters of 2001, M3 was \$420.8 million and remained unchanged until the end of the second quarter. M3 then dropped by 4.9% to stabilized at \$400 million in the remaining months of the year.



Narrow Money (M1), which consists of currency in circulation and demand deposits, slightly fell by 0.8%, following a decline of 6.2% in 2000. The marginal fall was mainly in response to a 4.0% drop in the currency in circulation during the year. The drop in currency in circulation was in response to the marked rise in government auction treasury Bills during the year.

Saving deposits marginally declined by 3.2% in contrast to a growth of 8.5% in 2000 and 1.3% in 1999. The decrease reflects the fall in both “private individuals” and “others” saving category deposits by 3.7% and 17.3%, respectively. Time deposits significantly fell by 43.6% as compared with the growth of 9.9% in 2000. The reduction was largely driven

by 91.4% decline in “public financial institutions”, 36.4% in “business firms”, 64.2% in “private individuals” and 72.0% in “statutory corporation” time deposits.

### Net Foreign Assets

Net Foreign Assets (NFA) declined substantially over the year. In the first three quarters of 2001, NFA hovered around \$104 million. At the end of the year they fell by 32.5% to \$91.0 million as compared with the same period in 2000. NFA decreased by 40.8% in 2000. The rapid decline in NFA reflected the weak performance of the trade account and a sharp decline in earnings in all official foreign exchange investments due to the fall in interest rates in the international financial markets..

The economic effect of the substantial capital inflows from the 1<sup>st</sup> and 2<sup>nd</sup> Tranches of EXIM bank loan in terms of stabilizing the level of the external reserves was temporary and only proved to widen the trade deficit as a significant portion of the displaced money slipped out of the country through the balance of payment in the form of imports- mostly of which were luxury items- and capital repatriation. There were some modest inflows from the forestry sector, but failed to match the rising outflows, so that by the end of January 2002, NFA further dropped to an unsustainable level of \$62.0 million. In March 2002, however, the NFA rose to \$114 million as result of the inflows of the 3<sup>rd</sup> Tranche of the EXIM bank.

### Net Domestic Credit

Total net domestic credit from the banking system declined by 7.1% in contrast to a growth of 22.7% in 2000 and 4.7% in 1999. This was led by a sharp fall in credit to the private sector during the year.

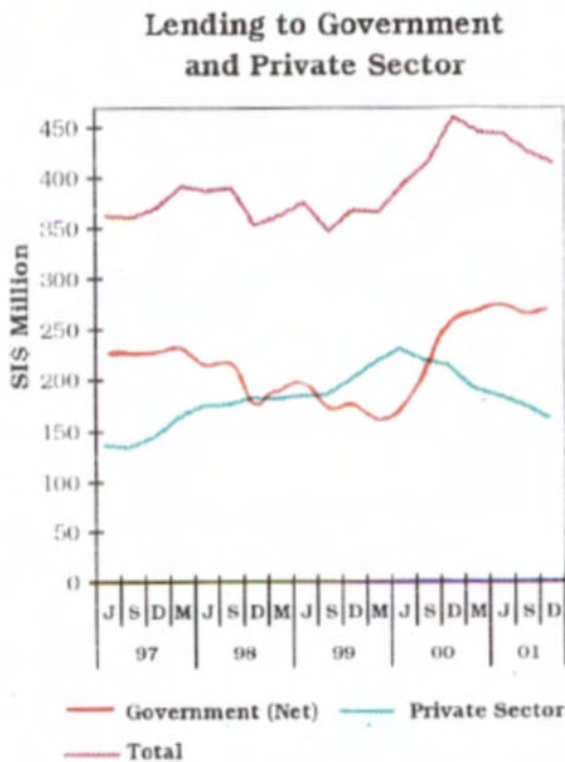


Government net domestic credit from the banking system grew by 4.5%, following a growth of 44.8% in 2000. This presentation, however, conceals heavy borrowings from the Central Bank during the year. And it is influenced by a reduction in Treasury Bill holdings of the commercial banks and an increase in auction treasury bill holdings by non-bank financial institutions and members of the public. The stock of government debts to the Bank was \$185.2 million at year-end more than double the 2000 figure. The stock of net government domestic debt averaged around \$266 million in the first three quarters of the year, peaked at \$282 million in November and declined to \$269.8 million at the end of the year.

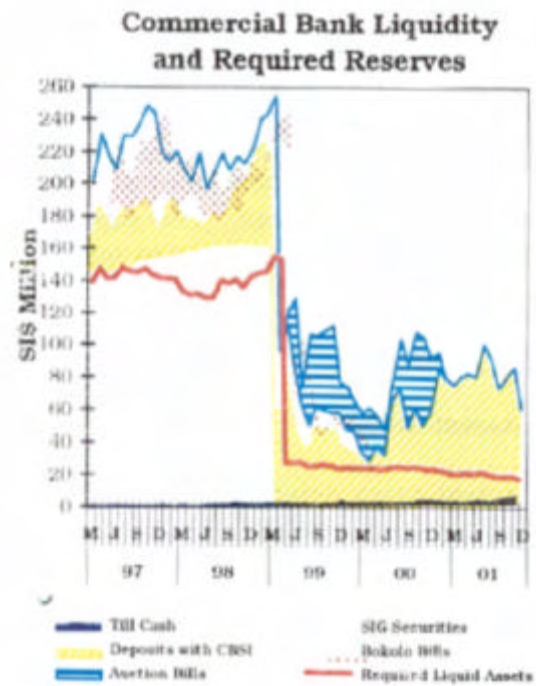
conductive in 2001. Analysis of credit movements demonstrated a declining trend during the year. In February private sector credit peaked at \$196.3 million, but declined to \$154.6 million by the end of the year.

**Liquidity**

The government securities market operations played a significant role in the conduct of monetary policy in 2001. They are used for the purposes of steering the interest rates, managing the liquidity situation in the banking system and signaling the stance of monetary policy.



Total domestic credit to the private sector declined by 22.2% in contrast to growths of 2.3% in 2000 and 9.3% in 1999. The fall in credit to the private sector was due to lack of new investments in the economy arising from the prevailing law and order situation that has made the economic environment for investment not



The Central Bank of Solomon Islands in line with its objective of using a market-oriented approach to monetary policy has adopted the trade in the government securities as a tool of monetary management. The government securities market is still at its infancy stage thus the bearing on interest rates movement is quite minimal. Therefore the Bank has put greater emphasis in ensuring

that operation continued to grow and expand.

The volume of subscriptions and number of participants increased relatively to the amounts in 2000 albeit the non-participation of the commercial banks. This development was driven largely by the injections of compensation related funds into the system.

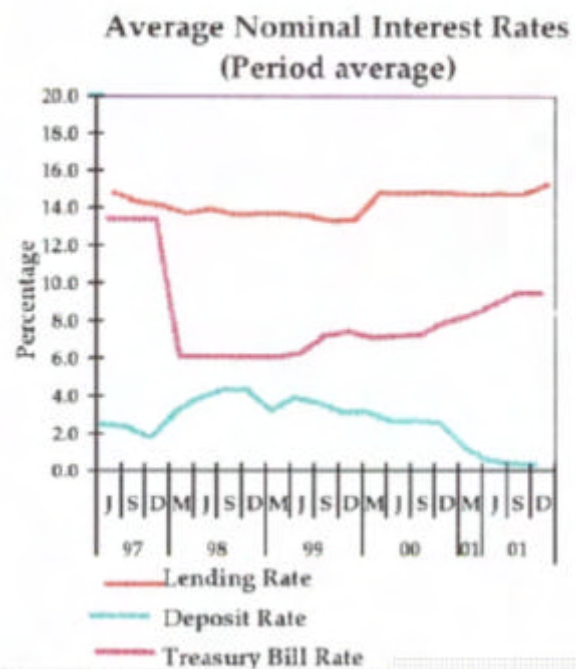
The commercial banks' total liquidity (consist of till cash and deposits with the Central Bank) in the banking system varied considerably but remained at a very high level during the year. For instance, in January the liquidity stood at \$87.7 million, then it declined to \$78.7 million in March and peaked at \$103.9 million at the end of July. It then declined to \$76.6 million in September and rose to \$90.1 million in November. By the end of the year total liquidity fell to \$64.5 million, 6.0% higher than in the same period last year. The significant fluctuation in the liquidity was mainly in response to inflows of the EXIM bank proceeds and increased imports during the year.

### Interest Rates

Interest rates determination hinges on the maturity structure and the risk in the project. The commercial banks' deposit rates continued to fall during the year influenced by the build up of liquidity in the banking system over the year. Movements in the interest rate on deposits showed a very sharp declining trend in the first seven months and subsequently evenly out in the last five months of the year. In the beginning of the year average deposit rates peaked at 1.97%, but decreased at an average of 23 basis points and it reached 0.62% in July. The rate then stabilized at 0.54%-0.52% in the last five months. Developments in the average interest rates on lending depicted a flat trend over

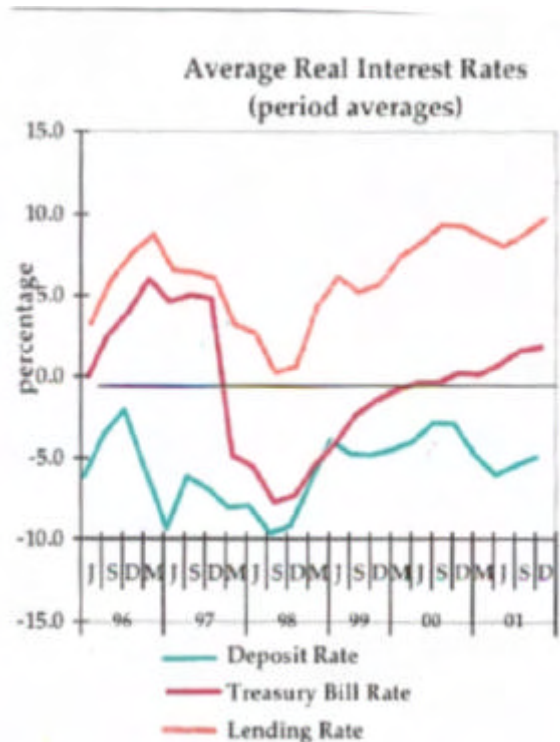
the first ten months and moderate increases in the last remaining two months of the year. Interest rate on lending averaged around 15.2% until October and subsequently rose to 15.6% and 15.7% in November and December, respectively.

The real interest rate, or the rate net of inflation is a proxy for the annual rate of inflation, as the ideal measure of expected inflation over the lifetime of the loan is not readily available. While the nominal interest represents compensation for expected general rise in the price level, real interest rate indicates the economic cost of borrowing and earnings on lending. Real interest rates show the difference between nominal interest rates and annual rates of inflation.



The average real interest rate on lending at the end of the year was estimated to be 5.6% compared to an estimate of 8.7% in 2000. The average real interest on deposits, on the other hand, worsened to

minus 9.5% compared to minus 3.4% in 2000.

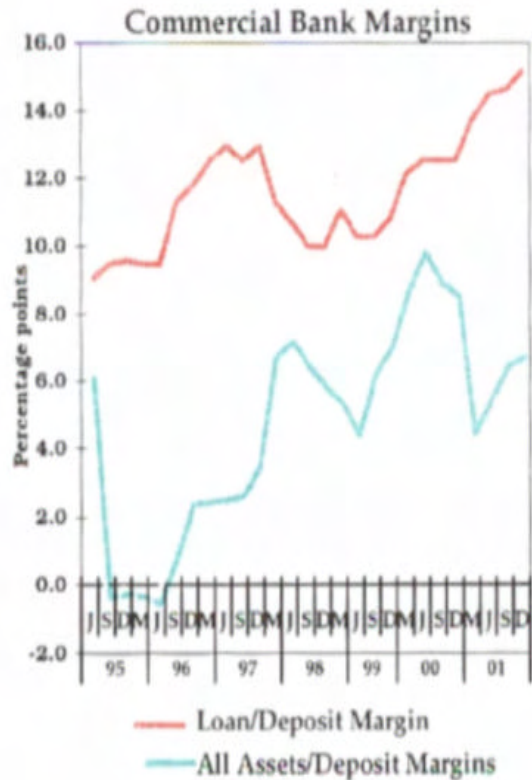


The yield on auctioned treasury bills provides an alternative investment avenue for potential investors. The yield on the 91-day Auction bill in 2001 averaged 8.7%, as against the inflation rate of 1.3%. The rate was 150 basis points higher than in 2000. The development on the yield on the 91-day Auction bill depicted a steady upward trend during the year. In January the rate was 8.0%, but steadily rose thereafter and stabilized at 9.5% at the end of the year.

### Commercial Banks Margins

Commercial banks margins defined as the difference between the average lending rate and deposit rate measure the level of risk, competitiveness and the costs of doing banking businesses. Commercial bank margins in the Solomon Islands continued to remain high compared with regional and international norms. The

high margin was due to a small market resulting in low competition, high transaction costs, and the relatively high risk of doing business in Solomon Islands.



Graph 16 shows two definitions of commercial bank margins. The first (the upper line) is the difference between average interest rate on all commercial bank assets and liabilities. Assets include lending to the private sector and government, call account deposits with the Central Banks. A much wider and complete indication of the contribution of lending and deposit interest differentials to commercial banks profitability is shown in the "all assets-deposit margin," as it includes a range of interest earning assets.

Interest rate spreads continued to increase by 196 basis points to 14.10% in 2001 from 12.14% in 2000. This expansion came as result of the decline in average interest rates on deposits and

increase lending average interest rate. The growth in interest rate spread is an indication of the buildup of excess liquidity or loanable funds in the banking system and the reluctance of the commercial banks to lend.

### **Monetary Policy and Outlook for 2002**

The main objectives of monetary policy are to promote a sound monetary and other financial conditions in pursuit of the broader objectives of sustainable growth of real output, high employment and price stability. Monetary policy can be most effective if it is incorporated with sound fiscal policy and other economic policies.

Monetary developments in 2002, as was the case in 2001, will critically depend on the following factors:

- ❑ The government commitment to the balanced budget and the conditions set forth to achieve it as well as the means by which the budget is financed.
- ❑ The progress made in resolving the problem in the government securities market.
- ❑ Developments in the external sector
- ❑ Private sector demand for credit
- ❑ The commercial banks and other financial institutions reactions on the above
- ❑ The level of confidence in the law and order situation in Solomon Islands.

Monetary conditions in Solomon Islands are sensitive to the developments in the

external sector. Thus the large current account deficit balance forecasted for 2002, should be countered with a tight monetary policy and an accommodative exchange rate policy.

The problems in government finances are expected to persist unless drastic efforts are taken now. It is envisaged that the government will fully fund the recurrent budget from domestic revenue and the capital budget from donor assistance. It is important; therefore that the government maintains its budget credibility if the desired foreign funding is to materialize.

Private sector demand for credit on the other hand is expected to be sluggish during 2002. There is still negative sentiment among investors to scale down their business operation amid perceived law and order problems in the country.

Early this year the government announced that it is considering lowering the minimum investment amount, which currently stands at \$10,000.00 to \$1000.00 in an effort to broaden participation in the treasury bill auction market. This is a positive step and in the right direction insofar as encouraging individuals to make financial decisions in terms of choosing investment opportunities. However, the success and long-term development of the securities market rests squarely on the government's ability to normalize its relation with all major players to return to the market.

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## VI. GOVERNMENT FINANCE

### **Broad Developments and Out-turn in 2001**

The fiscal developments in 2001 were marred by the continued effect of the social unrest, which saw the closure of major exporting companies such as Gold Ridge, SIPL and Solomon Taiyo.

Consequently, the 2001 fiscal budget was drawn on a framework primarily based on the restoration of law and order and reviving the economy after the downward trend for the last two consecutive years. This platform includes (in order of priority) the following:

- Restoration of law and order throughout the country by facilitating the peace process in accordance with the Downsville and Marau Peace Agreements.
- Provide and maintain government's basic and essential services for the people particularly health and education
- Facilitate economic recovery and private sector recovery, development and growth
- Provide equitable service delivery and development throughout the country.

These policy targets however, were not fully implemented due to resource constrains, and the general breakdown in law and order especially in the capital where most economic activities are based. As a result, most investors have adopted a 'wait and see' approach. As increased investment is a condition for economic growth, it is crucial therefore that the government takes more serious measures to reverse the situation. If possible, a more conducive investment package should be used to attract more

investments.

In the 2001 budget, total revenues, excluding grants were estimated, initially, at \$263.9 million. However, due to continuous deteriorating government finances, revenues were later revised to \$244.3 million. Recurrent expenditures on the other hand remained at \$448.9 million, of which \$155 million were for payroll, \$223.9 million for other charges, and \$70 million for debt servicing.

Revenue collections were below the revised budget by 8.6% (15.3% against the initial budget). This follows the declining trends posted in the major sources, particularly, the Customs and Inland Revenue divisions, which have showed low collections due to prolonged closure of the major companies. Revenues, however, could have been higher, even higher than the initial budget, had there been no duty and tax remissions in 2001. Consequently, the realized revenues were only 19.8% of GDP, lower than the 25% benchmark recommended by the IMF.

Recurrent expenditures (up to July) amounted to \$196.9 million. However, considering the behavior of excessive government spending, actual expenditures is estimated to be higher than the budget. Given the pressures on government finances, it was obvious therefore that revenues collected during the year could not cater for all government obligations. Furthermore, government borrowings from all possible sources remained closed, except ROC (Taiwan) whom the government borrowed from to pay for lost properties. Due to non-availability of figures, the actual government deficit (likely result) could not be derived. However, provisional estimates suggest that the recurrent deficit could be in the order of \$90 million.

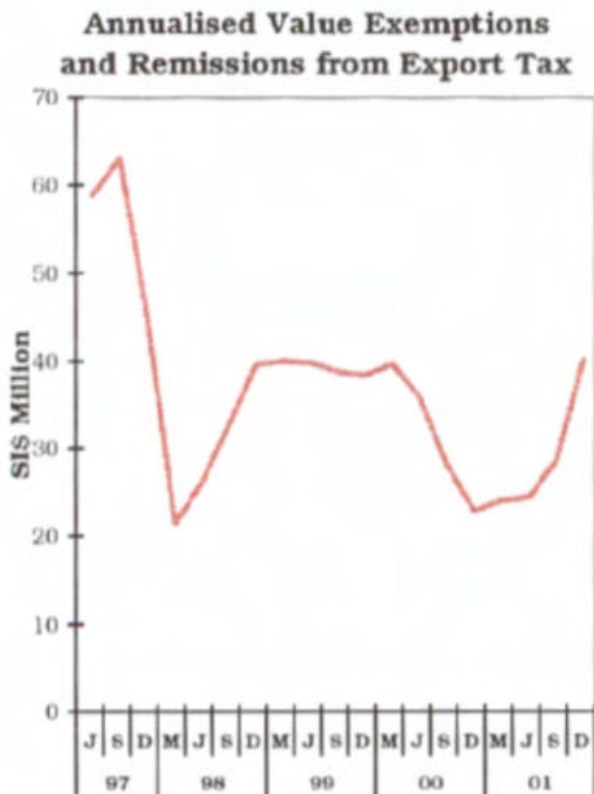
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While the government struggles to meet its obligations, it is also very important that the statistical recording of government operations be updated to current dates. This therefore, calls for proper, accurate and timely recording of government data so that accurate and proper analysis on government operations can be made.

## Revenues

Total domestic revenues collected during 2001 amounted to \$223.4 million. This consists of \$206.4 million in tax revenues and \$17.0 million in non-tax revenues. The revenue receipts, however, were met only below the budget by \$20.9 million and the previous year by \$53.9 million. Other forms of revenue, which consists mainly of cash grants, amounted to \$49.2 million during the year.



Collections from the Inland Revenue division continued the downward trend

seen earlier and receded by 15.8% to \$133.9 million during the year. This however, was above the budget by 14.8%. This amount comprised of \$61.7 million in income tax and \$72.2 million were from taxes on goods and services. The continuous closure of major companies in the country has been the main contributing factor to this outcome. This was further exacerbated by inadequate training of staff in the division to follow up tax dues during the year. Other categories such as company, personal, withholding, and goods taxes declined by 27.7%, 42.0%, 27.5%, and 2.3% respectively.

Total revenue collection from international trade dropped by 27.3% to \$72.5 million from the preceding year. The negative impact of the unrest is still persisting therefore contributed a lot to the fall. The granting of duty and tax remissions on imports and exports, have also contributed to this development. The possible under-valuation of imports and exports may have also contributed.

Log tax receipts continued the declining trend seen in the last three years and fell by 40.5% to \$21.9 million. This stemmed from the combined effects of low export volumes and the deterioration in log export prices, which reversed the trend seen in the past years. The current log tax regime is such that an export tax of 25% is levied on logs valued up to SBD\$450/m<sup>3</sup>, while 40% for values between SBD\$450 to SBD\$700 per cubic meter. Beyond that, the official tax rate is 60% plus \$212.50 per cubic meter.

Import duties declined by 19% to \$41.9 million from \$51.7 million in the previous year. These, however, could have been higher had there not been remissions on imported goods, during the year. The ineffectiveness of the customs staff to collect revenues has also contributed in this development. As such the effective

rate of import taxation (as indicated by a six months moving average) at the end of 2001 was 9.1%, two percentage points below the preceding year (See graph 14).



Total revenues from other ministries were only available up to September, and thus, amounted to \$10.9 million. It is, however, estimated that at the year-end revenue from this source reached \$17.0 million, \$1.6 million lower than the previous year. In retrospect, this source continues to perform poorly despite the impact of many advisors to improve revenue collections. The problem of under collection was raised before, but it now appears that nothing positive has been done about it. If there was, these efforts must have been very ineffective. This points to the need for urgency actions in these areas, as it would only jeopardize efforts to improve government finances.

## Expenditures

The recurrent budget was \$448.9 million in 2001. This consists of \$155 million in

payroll and \$293.9 million for other expenditures including debt services. Actual recurrent expenditures for the year were not available. But data up to July, however, showed a total of \$196.9 million of which 55.6% was for payroll expenditures. It is believed that actual payroll and other charges exceeded budget estimates given the lax in government controls on expenditures during the year.

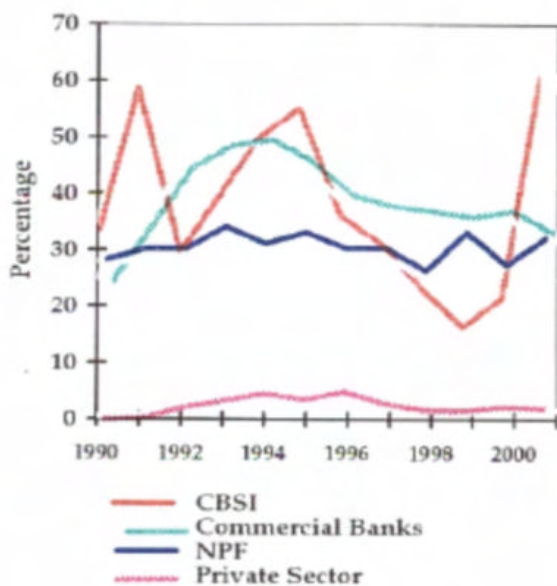
**Table 11**  
**Solomon Islands Government Operations**  
**(\$Million)**

	1999	2000/1	2001/1 Budget	2002
<b>Total Revenue &amp; Grants:</b>	<b>562.6</b>	<b>388.1</b>	<b>214.4</b>	<b>426.9</b>
Total Revenue	459.5	277.4	214.4	248.5
Income Tax	145.8	99.7	63.6	146.7
Taxes on Goods & Services	71.2	59.4	60.6	77.9
Tax on International Trade	143.9	99.7	72.2	23.9
Total NonTax Revenue	98.6	18.6	18.0	-
Grant	103.1	110.7	na	178.4
<b>Total Expenditures:</b>	<b>493.3</b>	<b>625.1</b>	<b>301.9</b>	<b>287.2</b>
Recurrent Expend.	369.2	428.8	298.9	222.0
Wages and Salaries	149.7	150.5	184.3	120.0
Interest	44.4	49.2	23.1	-
Other	175.1	229.1	91.5	102.0
Capital Expend.	124.1	196.3	3	65.2
Domestically Financed	24.3	30.0	3	-
Externally Financed	99.8	166.3	na	65.2
Current Balance	90.3	-151.4	-84.5	26.5
Overall Balance	69.3	-237.0	-87.5	139.7
Financing	27.9	-	-	-
Foreign (net)	27.9	-	-	-
Domestic (net)	-	-	-	-
Privatization	-	-	-	-
/1. Estimates na: not available				
Source: Department of Finance & Central Bank of Solomon Islands				

On the capital component, a total of \$553.8 million was budgeted for the year. This includes \$255.3 million in cash grants. It is estimated however; capital expenditures were much lower than the

budget since there were not many projects undertaken during the year given the adverse law and order situation in the country. The withholding of aid assistance by donors due to deteriorating law and order situation has also contributed to this development.

Exposure to Government: Gross assets due from SIG as % of Total Gross Assets for CBSI, Commercial Banks, NPF and Private Sector (Private Sector excludes NPF)



### Government Debt and Arrears

Government finances came under severe strain in 2001. As a result it could not repay its debt obligation, thus increasing the total stock of government debt by 15.1% to \$1153.6 million. The stock of debt has steadily increased throughout the year, and is unsustainable as it far exceeds the country's earning capacity. It is important therefore; that the government takes serious action now to address its debt problem.

Of the total debt, \$719.3 million were external debts, an increase of 16.5% from the previous year. The rise stemmed mainly, from the inflow of the first and

second tranches from the Exim Bank (ROC), amounting to \$83.5 million during the year. In terms of creditors shares, most of the debts are held by the Asian Development Bank (34.4%) and the World Bank (29.3%). The weakening in the Solomon Island dollars (SI dollar) against the major trading currencies, has also contributed towards the rise in external debts during the year.

On the domestic front, total domestic debt rose from \$385.0 million to \$434.3 million at the end of 2001, of which \$297.6 million comprised of government securities and \$136.7 million were SIG advances from the Central Bank. Of the total government securities, 70% (\$206.8 million) are held in restructured bonds, 17.8% in auction treasury bills, 11.7% in treasury bonds and 0.7% in development bonds. Although the role of government debts in the securities market is important in the conduct monetary policy, the extent of CBSI advances to the government remains a serious concern since it has more than exceeded its legal limits.

In terms of debt servicing, a total of \$70 million was budgeted for in 2001 with \$22.1 million in external debts and \$47.9 million for domestic debt servicing. However, due to severe financial difficulties, the government was only able to pay \$27.6 million during the year. This consisted of \$5.4 million in external debt services and \$22.3 million in domestic debts. Of the external debts, \$2.6 million were for principal payments while \$2.8 million for interest payment. The domestic component, on the other hand, comprised of \$0.5 million in principal payments and \$21.8 million were for interest payments.

At the beginning of 2001 debt arrears stood at \$22.6 million, but increased dramatically in April when the government failed to meet its due



domestic debts. This resulted in the rise in debt arrears to \$95.2 million at the year-end. The amount comprised \$56.2 million in domestic debt arrears and \$39.0 million in external debt arrears. The former being largely for principal of matured restructured bonds held mostly, by financial institutions while the latter were mainly owed to Hong Kong Marubeni (\$23.7 million), Kuwait (\$5.7 million), ADB (\$3.25million), EU (\$1.5 million), Europe Investment Bank (\$1.8 million), World Bank (\$1.8 million), IFAD (\$0.62 million), and OPEC (\$1.16 million). The rise in external arrears has serious implications for the economy. For instance, it diminishes the credibility of the country in the financial markets. Already some international financial institutions have conditioned additional lending on the repayment of debt arrears and a commitment not to default again. As a net borrower, it is crucially important therefore, that these arrears are repaid at the earliest date so that funds to rebuild the economy are not unnecessarily delayed.

### **Fiscal Policies and government reforms in 2001**

The fiscal programme envisaged in the 2001 budget aimed at containing the gross fiscal deficit by reducing expenditures and enhancing revenues. Provisional data suggest, however, that most government objectives were not achieved during the year as the adverse effects of the social unrest continued to affect government finances combined with the indiscriminate granting of duty remission and exceptions during the year.

As a result the reform programs, including the supposed retrenchment exercise in the public service, and privatization of some statutory companies were not implemented during the year. Although the policy of duty remission was meant

to stimulate private sector participation in reviving the economy, it however, only worsened the provision of basic health and education services in the country. As a result, most health centers and schools, including the Solomon Islands College of Higher Education, were closed, thus compromising the health and future development of the country's manpower. Furthermore, government trade creditors were unpaid as well as obligations to international organizations, provincial grants, rentals, and contributions of public employees to NPF. The government should take serious efforts to address its arrears in contributions to the NPF as this has serious implications for the funds ability to meeting its mandated obligations.

During the year government officers did put more emphasis in improving revenue collection. Unfortunately, their efforts bore no positive outcomes as a result of increased duty remissions and exemptions during the year. As a result, the delivery of government services significantly deteriorated, especially in the health and education sectors. The impact was severely felt in the rural communities. Should government policies be carried out in a procedural and systematic manner, the results could have been more productive. For example if the payments of allowances and compensation claims were coordinated and managed properly, the government could have saved money.

### **Accounting and Audit**

According to section 38(1) of the Public Finance and Audit Act, the ministry of Finance is required to prepare and transmit to the Auditor General all financial statements for audit within six months after the end of each financial year. To date this legal requirement has not been fulfilled, thus resulting in unacceptable lags in auditing government

accounts. So far only the 1996 public accounts have been audited. This poses a great threat to the efficient and effective management of public finances. To ensure there is good governance and appropriate corrective measures are taken, it is important that the audit office is strengthened, both technically and financially. Any delays in achieving this objective will only further weakened the management of government finances.

### **2002 Budget and Outlook**

The 2002 budget had been restrictively based on a macroeconomic framework that provides appropriate measures, which may at best succeed in reducing and halting the anticipated decline in the economy. In that, the government has matched anticipated revenues and expenditures at \$250 million, in its recurrent operations. Indeed, this is a very tight budget, and therefore, calls for restraint and sacrifice.

Of the anticipated revenue of \$250 million, \$146.7 million will come from Inland Revenue, \$77.9 million from Customs and Excise, and \$23.9 million from other ministries. Although this level of revenue is similar in magnitude to that in 2001, this year's budget support from our development partners is doubtful, unlike 2001. On the other hand, recurrent expenditures will comprise of \$120 million for payroll, \$102 million for other charges and external debt servicing of \$28 million. So far no external debt has been repaid despite a total of \$13.4 million were due in the first four months of 2002. Instead the government was forced to use the funds for domestic debt serving - so far it repaid \$6.3 million for interest rate arrears on domestic debts.

Indeed the 2002 Budget calls for restraint in spending in all government departments and ministries. On the revenue side there are no significant investments anticipated for the year since investor confidence remained at its lowest level due to fragile law and order situation. The onus is therefore on the government to convince and persuade investors to invest by taking tougher measures, especially, on criminal activities. Despite the difficulties, there is still potential to increase revenue collections. This needs strengthening revenue collections at all points, and broadening the revenue base. The government is also contemplating increasing import duties on luxury goods (especially beer and cigarette), improve tax compliance, and introducing the user-pay principle on road users. So far, no actions along these lines have been taken.

On the expenditure side, the drastic cut in revenue signals the need for government to make sacrifices at both the national and provincial levels. This means ceasing all allowances and recruitments, reduce number of public employees or maintain the number but reduce working hours, especially in nonessential services.

The way forward will depend on how effective the government employs its resources towards rebuilding the economy. There should be tougher restrictions on expenditures, broaden and strengthen the revenue base, have a manageable fiscal deficit and have the right mind and attitude towards work. These combined with other important policy areas discussed elsewhere in the report should established the foundation for building economic recovery and hence economic growth in the future.

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## VII. FINANCIAL SYSTEM

The Solomon Islands' financial system consists of the Central Bank (CBSI), three commercial banks (National Bank of Solomon Islands, (NBSI), ANZ Bank and Westpac Banking Corporation), the Development Bank of Solomon Islands (DBSI), one finance company and over a hundred credit unions. In addition, there are several specialized financial institutions such as the National Provident Fund (NPF), Solomon Islands Home Finance Ltd (SIHFL), Investment Corporation of Solomon Islands (ICSI), and five insurance companies.

Given the importance of the financial system in the economy, it is crucial that the stability and soundness of these institutions are maintained at all times in terms of efficient service delivery, the cost and accessibility of their service, safety of deposits and management accountability. This explains why the Central Bank, as the overseer of the financial system places great importance on ensuring that there is regular and accurate reporting of information to allow surveillance and supervision of financial institutions.

### **Commercial Banks**

Commercial Banks play an important role in the development of the country through the process of financial intermediation in mobilizing savings and lending these to borrowers either for investment or consumption purposes.

The number of banks operating in Solomon Islands remained unchanged in 2001. The Central Bank received one concept application during the year. It basically seeks the Banks opinion on whether the proposed concept can be considered suitable for either a bank or a credit institution. The Bank, however, advised against the idea because the

nature of the proposed institution could not fall within the two institutions intended. The three commercial banks operated 11 branches in the main urban centers and 8 agencies throughout the country. Together they employed 272 staff, of whom 11 were expatriates.

The combined commercial banks balance sheet contracted by 8.7% in 2001 following a fall of 1.2% in 2000. On the assets side, the major movement was in the loans and advances, which declined by 22.1% to \$154.8 million, from \$198.9 million in 2000. This mainly reflected the general economic situation prevalent during the year that forced commercial banks to suspend all new borrowings. On the liabilities side, total deposits fell by 16.1% as a result of a significant decline in time deposits to \$73.4 million from \$130.1 million at the end of 2000. Both demand and savings deposits also registered declines during the year.

Despite depressed activities during the year, net after tax profit of the banking increased to \$15.5 million from \$14.6 million at the end of 2000. Their return on asset also increased to 3.26% from 2.93% at the end of the preceding year. In terms of income, total net interest income marginally declined to \$31 million from \$33.8 million in 2000, while income from off-balance activities rose to \$23.9 million. The commercial banking sector remained liquid during the year. Since 1998, the liquid assets ratio has been above 10%. At the end of 2001, the liquid assets ratio was 14.3%, up from 12.3% in 2000.

The above figures, however, conceal a basic weakness in the commercial banking sector during the year. This weakness relates to the quality of their assets. Asset quality deteriorated further by 45% between 2000 and 2001. Non-

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performing loans (NPL) to gross loan ratio increased from 6.6% at end of 2000 to 12.4% at 2001. NPL net of provisions to capital ratio also rose to 19.8% of capital from 15.7% in 2001. This means that for every \$100 in gross loans, there is a \$12.40 non-performing asset at end of 2001. In terms of capital for every \$100 in capital held by the commercial banks at end of 2001, there is already a \$19.80 of potential bad loan coverage. The deteriorating asset quality reflects the general decline in the Solomon Island economy following the two years of ethnic conflict, which had severely affected the business environment particularly in Honiara and Guadalcanal. At the end of 2000, the total value of NPL were \$13.3 million. This increased to \$19.2 million at end of 2001. The deterioration in credit quality close to 45%, which started in 1998 if continued poses cashflow, net income and solvency problems for commercial banks in Solomon Islands.

Another major concern to asset quality of the banking sector is the inability of the Solomon Island government to service its bond market. In 2000, a total of \$37 million in arrears in restructured bonds principal has not been settled. The government is also likely to default on a similar amount in 2002. If a write-off or provisioning is made against the total holdings of the restructured bonds held by the commercial banks to the end of 2001 (i.e. \$150m) the result could turn the total capital held by commercial banks as at end of 2001 into negative capital. The issue of government securities is the greatest risk facing the banking sector in Solomon Islands in 2002 and beyond.

### **Development Bank of Solomon Islands (DBSI)**

Total loan disbursement in 2001 sharply declined by 33% from the previous year to \$2 million. This amount was received

in February from ROC's International Corporation Development Fund (ICDF) under SIG's Rural Constituency Development Fund (RCDF) arrangement. It was the second of three tranches. The RCDF facility was available for disbursement in February but was ceased later on in July due to exhaustion of lending funds and because the third tranche was not forthcoming.

Total outstanding arrears rose to \$21 million by year-end as against \$18 million in 2000, the bulk of which were accounted for by the properties lost and damaged during the social unrest on Guadalcanal and Honiara. This was 34% of the bank's total loan portfolio as against 30% in 2000. Consequently, the bank was caught in an illiquidity trap that incited the implementation of several remedial measures that involves, recouping extended loans through legal means, reducing the number of working hours by slicing 10 hours per fortnight, deferment of management entitlements, and downscaling bank branches. Of DBSI's seven provincial branches, three (Lata, Buala and Taro) were earmarked for closure in 2002, as they must lend a minimum of \$2.5 million to substantiate their existence.

The bank's total loan portfolio marginally increased by 3.2% to \$63.5 million in 2001. Of this amount, 45% was allocated to the services sector, 22% to Commerce, 13% to Agriculture, and the remainder goes to other sectors. In terms of provincial distribution, Honiara accounted for 52%, Guadalcanal received 13%, Malaita 11%, Western 10%, and other provinces shared the remaining 14%.

The government has earmarked a total of \$10 million in its 2002 development budget to assist DBSI. The necessary funds should be drawn from European Union under Stabex arrangement. Realisation of this allocation is not only

crucial to the long-term existence of DBSI but should also enable the bank to restructure its finances so as to be in compliance with the CBSI supervisory requirements as stipulated in the 1999 Financial Institutions Act.

### **National Provident Funds (NPF)**

The balance sheet of the NPF contracted by 6% to \$356.8 million in 2002 following a 1% contraction in 2001. On the asset side, its term deposits with the banks fell to \$8.8 million from 2000, representing an 84.5% drop. Loans to private sector declined by 5.8% to \$55.5 million whilst loans to statutory authorities rose by 13.7% to \$56.7 million. Fixed assets declined by 1.9% to \$39.7 million. NPF's holdings of government frozen Treasury Bills surged significantly by 73.6% to \$18.4 million. Both Development and Restructuring Bonds remained unchanged. The former stood at \$38.8 million whilst the latter was recorded at \$55.5 million. 'Other' assets of the Fund rose by 20% to \$83.3 million during the year.

On the liabilities side, the members' contribution account dropped further in 2001 by 9.6% to \$313.3 million, following a 3% drop in 2000. The decline last year was attributable to redundancy exercises undertaken by both the government and some private companies. Redundancy usually impacts on the contribution account in two ways. First it reduces contribution payments to the Fund and secondly, qualifies members being redundant to withdraw their funds earlier than normal retirement. The mass withdrawal of funds during the year was also due to qualification under two other criteria; a two-third pledge security from the commercial banks and a 40 years limit. Under the two-third pledge criterion, the bank from which an NPF member has borrowed can claim an amount equivalent to his outstanding

loan at the bank. Under the 40-years limit criteria, a member is qualified to withdraw his funds if he leaves employment at the age of forty. The NPF's accumulated funds rose 36.7% to \$22 million, continuing its rising trend, which started in 1902. 'Other' liabilities dropped moderately by 1.4%. Despite the financial problems, NPF recorded some profits in 2001.

The steady withdrawal of the members' contribution is still continuing and is therefore of great concern to the Fund. Assuming all things else equal, this development could see NPF with no funds around mid 2002. Its ongoing financial problems have denied the NPF from making new investments during the year. In its preventive measure, the Fund has proceeded with work on amendments of the three qualification criteria mentioned above. However, these amendments have yet to be approved by Cabinet for tabling in Parliament.

### **Home Finance Corporations (HFC)**

The proposed partial privatization of Solomon Islands Home Finance Limited (SIHFL) reported in last year's annual report did not eventuate in 2001. This was due to lack of investment interest from the public following an invitation to tender by the Privatisation Unit of the Ministry of Economic Reform. ICSI's proposed 40% shares have not been sorted but it should be a key financing component in SIHFL's future divestment plans.

The responsibility for SIHFL to provide houses for local citizens remains a fundamental activity. However this was hampered when the lending facility that was suspended in 1999 continued last year and this year. The underlying rationale was two fold: first the institution lacked the necessary lending

fund and secondly, the current repayment trend was very sluggish. Further compounding this was the depressed economic conditions that resulted in the involuntary redundancy of most SIHFL's clients and the consequential increase in loan defaults. In rectifying the situation, SIHFL pursued redress through legal means in 2001. Outstanding arrears increased from the \$1.1m reported for last year to \$1.9m. This was about 16% of the gross outstanding loan portfolio of \$11.8m. During the year, 8 mortgaged houses were put on tender of which only 2 houses were actually sold. The market for houses plunged as a result of insecurity in the capital coupled with commercial banks' policies that restrained new lending.

A 5.8 hectares site at Noro reported in last year's annual report was finally secured this year after a long and tedious discussion with the Commissioner of Lands. The site was surveyed in February 2002 and preliminary works on basic infrastructures should start soon in spite of limited funds. Development of the Noro site is based on a "build and sale" policy and was part of the organizations divestment plan to venture into other provinces beginning with the more economical centres. The area could accommodate up to 150 houses ranging from simple 2 bedroom houses to classy executive houses and targeted clients would be the major companies with large establishments at Noro such as Solomon Fishing and Processing Ltd, National Fisheries Development, and so on.

### **Investment Corporation of Solomon Islands (ICSI)**

Activities at ICSI were subdued in 2001. The only major task undertaken was the facilitating of the inauguration of the Soltai Fishing and Processing Limited

(SFPL). SFPL, the successor of the wound-up Solomon Taiyo Limited (STL), was incorporated on January 2001, with 51% ownership by the Solomon Islands Government and 49% by the Western Province. Its successful inauguration earlier in the year led to its operation in August. It started to demonstrate its commitment in the economy by regularly repaying its loans from Maruha, Japan, after taking over the loan from its predecessor, the STL.

In terms of other developments, CDC (Commonwealth Development Co-operation) has decided to sell its shares (68%) in SIPL. There were rumours about a Taiwanese company being interested in buying the CDC shares, but no formal discussions had taken place between ICSI and this foreign company. The current portfolio shares are in the Table 12.

**Table 12**  
**ICSI Portfolio of Companies**  
(Percent Share)

	<b>2001</b>
Kolombangara Forest Plantations Limited	19%
Solomon Islands Plantations Limited	30%
Soltai Fishing Company	100%
Solomon Islands Printers	100%
Sasape Marina Limited	100%
Solomon Airlines	100%
Solomon Telekom	7%
Development Bank of Solomon Islands	10%
Source: Investment Corporation of Solomon Islands	

The low-profiled operation of these portfolio companies during the year, collectively, has affected ICSI. While operations in most of its state-owned companies were waning, due to the recent social unrest, only SFPL was slowly gaining strength. Its two major revenue sources, Solomon Telekom and SIPL were seriously impaired by the unrest resulting in the latter still un-operational. ICSI's remaining income

sources are its cash deposits in the banks and its investment in government Security Market. Its assets, however have expanded, due mainly to its purchases of the former STL main office in Honiara and two other executive houses formerly owned by that company. The acquisition of these premises was contracted on agreement with STL in exchange for its outstanding loans held by STL.

There was a further internal problem. This related to how the Minister of Finance gives directives for uses of funds without first considering such requests through the Board. This is an area that still needs serious and further discussions. Such practice should be discontinued, as it would only make government see the Corporation as its cash provider rather than an investment engine itself.

During the year, a new chairman and manager were appointed following resignations of the previous ones. Under the new administration, there is a new prospective of extending investment into provinces in the near future. Accordingly, there is going to be further dialogue between ICSI and the government, as this is believed to be relevant for the proposed idea for state governance.

### **Credit Unions**

Credit unions play an important function in mobilizing small savings and lending these resources out for purposes that commercial banks may find it difficult to finance. They are important agents of development in their role of introducing rural communities to modern concepts of saving and lending.

The financial constraints of the Solomon Islands Credit Union League (SICUL) drastically suppressed its service delivery

to its member credit unions in 2001. The League was also not able to recruit new officers during the year. As a result no updated statistics on the credit unions still operating in the country is available. In 1998 there were 164 credit unions operating in the country but it is very doubtful that this level of credit were active 2001. In Honiara, for example there are only 12 credit unions still actively trading, compared to the 42 registered credit unions in 1998. Uncertainty in employment because of effects of the subdued economic situation is one reason given for many of the registered small credit unions in Honiara to remain quiescent.

The League is charged with the supervision of its member credit unions. But as reported in the previous annual reports, the League is under resourced to carry out its functions. In 2001, only two professional officers were employed to administer the movement. Consequently the League focused its service delivery to the larger urban credit unions. Member credit unions in the rural areas were left unattended.

To assist the League, seconded officers from the Registrars Office provided some assistance to the League by way of assisting with accounting, supervisions of larger credit unions and auditing in Honiara. The assistance however, was temporary and would be withdrawn as soon as the League is able to recruit its own manpower.

One of the major achievements of the League, however, was calling an annual general meeting for the member credit unions. As a result a new board of directors and a new supervisory committee were elected. However, the election of the new board of directors was not a savior to the credit unions movement. As at the end of the year, no viable strategies that can be

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confidentially supported by the member credit unions has been decided. The financial difficulties of each member credit unions themselves, is also a set back to League financial survival, as member credit unions cannot pay their dues to finance the operations of the League.

Despite the financial difficulties the League was able to provide minimum services to the member credit unions especially the large urban member credit unions.

### **Other Financial Institutions**

In 2001, there were six insurance companies operating in Solomon Islands as compared to five companies in the previous year. Of these, three (3) were life insurance companies and four (3) non-life ones. Apart from these, there were two insurance brokers; AON Risk Service and United Insurance.

The insurance market in Solomon Islands shrank significantly in 2001 to a level ten years back. This was due to both domestic and global factors. Domestically, the poor plight of the economy was the fundamental factor whilst overseas, the terrorist attack in the US on 11 September last year also played some parts. Accordingly, the industry was wrestling with poor prices (premium) as against significantly risen exposures (risks) during the year. The recorded launched applications were so high that they wiped out ten years of savings of the insurance industry in the country.

The financial difficulties of these insurance companies prompted the industry to take up certain measures and approaches. First, it adopted a self insurance policy where the insured company would decide to pay premiums that would cover only certain portion of the full cover while be willing to bear the risk of the rest. Secondary, the industry adopted the 'save the dollar' policy, where in the event that the insured cannot afford to pay up premiums, they could be allowed not to pay any more. Thirdly, it cancelled the Right Strikes and Civil Commotion (RSCC) policy where incidences relating to or caused by the use of force or weapons, were seen to be no longer accidental phenomena in the country. As part of cost cutting measures, the industry has undertaken redundancies and foregone some of its usual staff benefits.

Total premium premiums collected from these companies in 2001 dropped further to \$14.2 million from \$16.9 million in 2000. The declining trend started in 1993. Of the total, \$12.2 million (85.9%) were collected by life insurance market and \$2 million by non-life insurance. Total claims stood at \$5.4 million, of which \$4.8 million were registered by general insurance.

The current situation of this industry is vulnerable while the future stands gloomy. The situation is so fragile that the industry cannot afford to make erratic decisions. Besides, it must try and live within its means as much as possible.

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## VIII. CENTRAL BANK OPERATIONS

The main functions of the Central Bank are provided for in the Central Bank Act [CAP 49]. These are to conduct monetary policy; act as banker to banks, government and statutory bodies; act as adviser to the government on economic and financial matters; issue currency notes and coins; manage the external reserves; administer exchange control and banking legislation; supervise commercial banks and credit unions; manage the Small Business Financial Scheme; act as a liaison institution between the Solomon Islands and international financial institutions; and carry out economic research and analysis.

These functions are carried out by different departments in the Bank. The highlights of the Central Bank are summarized in this chapter.

### **Finance and Accounts**

The 2001 audited financial statement of the Central Bank of Solomon Islands and notes to and forming part of these statements are provided in the next section of the report. The Bank's balance sheet for the year ended 31 December 2001, recorded net liabilities and deficit equity of \$79 million.

About fifty eight percent of the Bank's total assets were tied up in Government loans and advances. Lending to the Government during the period registered an increase of 119% (2000: 86%), which is accounted for by increased activities and difficulties in the Government security markets and debt servicing. Loans and advances to Government also surpassed the legal limits (2001: \$98.4m; \$2000: 98.4m) set for such lending by the Central Bank of Solomon Islands Act (CAP 49). In addition, the Governments ability to meet its debt obligations was further

eroded by the financial difficulties faced during the period. At balance date the Bank's Board of Directors assessed and considered the value of these loans and advances to be impaired and therefore approved full provisioning for them in the accounts. This accounted for the unprecedented operational loss of \$175.6 million for the year, which resulted in the Banks balance sheet showing a negative net worth of \$79 million.

Further provisioning was also applied to the Bank's investment in Investment Corporation of Solomon Islands and some properties acquired through the Staff Housing Loan scheme.

The Bank's fixed assets increased by 15% through acquisition of new assets and capitalized repair and maintenance costs. External assets, on the other hand, continued the downward trend seen in the past three years and declined from \$169 million in 2000 to \$106 million for the period under review.

Total liabilities increased by 18% compared to a decline of 20% in 2000. The increase is accounted for by the liability account (Solomon Islands Government Monetary Operation) established to recognize the cost price of Treasury Bills issued during the year. In previous years, the proceeds and repayments were offset against the Solomon Islands Government Loans and advances. Movements in liabilities mainly reflect changes in domestic liabilities while the Bank's external liabilities remained at the same level.

Total income for the year declined by 39% to \$9.3 million compared to \$15.6 million in 2000. The fall was mainly due to the drastic decline in reserves and low interest in financial markets during the year. Non-interest income also fell during

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the year. In terms of non-interest expenditures, the Bank expended provisions on Government debts by 100% and wrote down its investment in the Investment Corporation of Solomon Islands by \$0.7 million. Other non-interest expenditure items recorded declines. The Bank incurred a net operating loss of \$175.6 million. The net loss is reflected in the equity item captioned "General Reserves" in the Bank's balance sheet. The negative net worth in the Bank's balance sheet will be addressed during year 2002 in accordance with the provisions of the CBSI Act [CAP 49], and as advised by the International Monetary Fund, based on similar situations elsewhere in some member countries.

### **Currency Operations**

Total currency in circulation in 2001 marginally declined by 1% to \$91 million, from \$93 million at the end of the previous year. The amount comprised of \$88 million in currency in active circulation and \$3 million in commercial banks' till holdings. The balance in till holdings represented around 4% of total currency in active circulation at the end of the year.

Currency replenishment during the year amounted to \$53 million. This consisted of \$50 million of the upgraded \$50 banknotes and \$3 million of the recently introduced \$2.00 polymer notes. During the year, a total of 18,426 pieces of banknotes, worth \$57,883.00 in value were also sold to both domestic and foreign currency collectors. This was a significant increase of more than 100% from the previous year's balance of \$9,000 but 33% lower than the figure in 1999. It is expected that sales of bank notes would increase further in 2002 attributable to the newly established website which enables access internationally.

A total of around \$6 million in mutilated notes were also destroyed during the year, 42% and 59% lower than in 2000 and 1999 respectively. The significant falls may have been due CBO department rescheduling destruction times from twice yearly to once in 2001.

During the year, two cases of counterfeit \$50.00 notes were reported to the Currency and Banking Operations Department (CBO) and, subsequently reported to Police to investigate. With the upgraded security features in the paper and print specifications, illegal duplication of all banknotes would be difficult in the future.

The commemorative \$50.00 and polymer \$2.00 banknotes were put into circulation on the occasion of the Bank's silver jubilee anniversary in June 2001. The commemorative \$2.00 polymer substrate, made of polypropylene plastic is stronger and more durable than other paper notes. They are expected to last nearly five times the life in circulation as compared to the old paper notes.

### **Securities Market**

The securities market maintained a relatively satisfactory performance in 2001 vis-à-vis low confidence in the market that ensued following the events of 5<sup>th</sup> June 2000. This mainly reflects continued efforts to strengthen confidence in the market despite the precarious state of government finances. One remarkable development in the securities market has been the daily auctioning of short-term treasury bills at very competitive interest rates as from August. This, however, did not attract the commercial banks as their participation was subject to government fully settling their matured bonds totalling about \$56.73m that matured during the year. Accordingly, public and other financial institutions participation

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in the auction treasury bills largely influenced movements in the total stock of securities.

The stock of securities amounted to \$298 million at the end of 2001. This amount comprised of \$207 million in Restructuring Bonds, \$2 million in Development Bonds, \$1 million in Frozen Treasury Bills, \$35 million in Treasury Bonds and \$53 million in Auction Treasury Bills. There was no significant change in investor attitude resembled in the stock balances in 2001 except for a slight drop of about 2% compared to the stock balance at the end of 2000. The decline was attributable to loss of investor confidence and uncertainties in the financial system, in general. The level of auction treasury bills, in particular, dropped from \$29 million at end of first quarter to \$24 million in the second quarter. This, however, was reversed as the payment of lost, damaged and abandoned properties begun in June 2001. As a result, the stock of auction treasury bills increased two folds to \$46 million at end-September, and rose further to \$53 million at end-year.

There is a reasonable prospect for further growth in the auction treasury market in 2002. This positive outlook, however, could be short-lived if the financial system weakens further in 2002 and as the outcome of the recent court ruling against the government for default on principal repayment of matured domestic debt instruments overshadow the prospects for growth in the market.

#### **Debt Management- CS-DRMS 2000+**

An improvement to the CS-DRMS version currently in use for debt recording is expected in 2002. The upgraded version known as CS-DRMS 2000+ is more user friendly with improved debt administration and management tools. It

is anticipated that the acquisition of the CS-DRMS 2000+ software package would assist the Bank and, particularly the CBO department to carry out the better analysis of debt data and sensitivity testing on important tasks like determining the impact of future borrowings, debt restructuring and exchange rate volatility as well as comparative analysis on loan terms and computation of debt indicators.

#### **Exchange Control Operations**

In most developing economies, the use of administrative controls to monitor foreign exchange transactions between residents of the country and those of the rest of the world are a common phenomenon. Like other countries, the primary reason for controlling foreign exchange transaction in Solomon Islands is to help conserve the country's foreign reserves, given their very limited supply. This important function is done by the Central Bank of Solomon Islands under the Exchange Control Act (1977). The Bank is required to monitor both inflows and outflows of foreign exchange and ensuring that all export proceeds are received within a reasonable time. In fulfilling this requirement, the Bank also appoints commercial banks as authorized dealers for processing transactions up to a specified limit as directed by the Central Bank from time to time. All transactions with values above this limit, however, require the approval of the Central Bank.

In 2001, the Bank maintained all exchange control mechanisms introduced since June 2000 given the fast depletion of the country's reserves. These included the authorised limit of \$5,000, from \$25,000 and the commercial banks overnight limit of \$1 million, from \$2 million.

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To augment the above, the Bank has also tightened its own internal control mechanisms during the year. These include the rationing of exchange control approvals, and monitoring of all exports proceeds and import payments. In fact, without these controls reserves would have run out before the year ended.

The tightening of controls, however, does not mean ceasing all foreign exchange transactions. However, given the precarious state of the reserve levels, the Bank also had to prioritize current payments and let the remittance of capital, dividends, and interest take second priority during the year provided there is a tax clearance from the Commissioner of Inland Revenue. This procedure also applied to emigrants wanting to transfer part or all of their savings. As for temporary residents, Central Bank approval is required before they could transfer their surplus funds.

Apart from the above, Central Bank approval is also required for three other specific transactions. The first relates to the sale and purchase of shares in companies registered in Solomon Islands. This is to ensure the proper recording of new owners who may wish to remit capital funds, profits and dividends at a later date.

The second applies to all foreign borrowings by Solomon Islands residents, either they be individuals, registered companies or whatever. The third applies to foreign investments by non-residents in Solomon Islands. Such transactions require prior approval by the Investment Board (IB) and are further subjected to Exchange Control Requirements.

The Bank maintained the partial exchange control liberalizations effected since March 1999 to 2001. This was part of ongoing efforts to promote export growth. The mechanism allows exporters

to hold 20% of any export proceeds in foreign currency with the commercial banks. This helps them to reduce import payments arising from the volatility in the exchange rate. To qualify for this facility, the exporter must meet three conditions:

First, the exporter must be in business for more than two years and must not have any outstanding export proceeds. This is to ensure that only exporters who repatriated all export proceeds within 90 days after the date of exports qualify. Second, the exporter should be exporting goods and not services and must be in the business for at least two years.

Third, the exporter must have a tax clearance from the Commissioner of Inland Revenue to prove that compliance with tax obligations of the Solomon Islands government.

All commodities, except round logs, continued to be exported under the General Authority during the year. Export proceeds must be remitted back to Solomon Islands within ninety days from the date of export, and all foreign currency proceeds should be sold to a commercial bank in the country. The export of round logs, however, requires a Specific Authority (SA). The SA is given by the Central Bank only after the exporter has obtained a market price certificate from the Commissioner of Forestry. In 2001, the Bank approved 265 applications under the SA for the export of 537,953 cubic meters of round logs with an estimated value of US\$34 million or SI\$176 million. This was lower than the average volume of approved in the last three years.

Under the General Authority (GA), the Bank processed a total of 481 shipping bills valued at \$180 million. This compared with 744 applications with a value of \$225 million in 2000. Overall, the Bank received a total of 9,842

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applications for overseas remittances in 2001, 47% more in numbers but less in value terms than applications received in the previous two years.

### **Management of External Reserves**

The Central Bank manages the country's foreign reserves under guidelines approved by its Board. This role is performed by the Foreign Exchange Department of the Bank daily based on strategies sanctioned by its own internal Investment Advisory Committee. The Bank has also been appointed the administrator of exchange controls through the Exchange Controls Act. In terms of this legislation the Manager of the Department is the Controller of Foreign Exchange with certain powers to perform his tasks. The three objectives of reserve management are:

- ❑ to ensure the availability of reserves to meet the trading needs of the economy;
- ❑ to ensure the safety of the reserves; and
- ❑ to receive maximum income from the investment of these reserves.

The first two took prominence given the economic circumstances during the year. To achieve these objectives, the Board has established that the Bank would keep the external reserves in two pools: a liquidity fund to comprise 60% of the reserves and an Investment Fund (40%) to be invested for interest income. That allocation further reiterates the point that the priority in managing the reserves is to ensure there is adequate foreign exchange for the country's international transaction needs.

Most of the liquid funds are kept with central banks and other clearing banks for ease of international transactions. This portion of the reserves earns very little or no interest. When the liquidity

fund is low and there are impending import and other payments to be made, the Bank inevitably shifts funds from the investment portion to liquidity, and often than not, the Bank has to reduce term deposits in order to do that.

The fact that the Board has approved only 40% in reserves for investment purposes reflects both the high demand and current low level of reserves. Some countries do invest in long-term bonds, and other securities that earn better rate of return. Where the country has bigger reserves to manage, some of it is often given to fund managers to invest at higher interest rates. SI has yet to have the privilege of enjoying that sort of benefit.

As noted earlier, commercial banks have been authorized (by Central Bank under the exchange control regulations) to deal in foreign exchange with their clients. Everyday, any excess in foreign exchange above their ceilings are sold to the Central Bank, and buy whenever they are short of foreign exchange. In the last several months, rather than selling, the banks have been buying more and more foreign exchange from the Central Bank. This partly accounted for the fast decline in the reserve level during the year.

Aside from the normal prudential management applications reflected by the foregoing policy thrust, the Board has also established a list of banks and financial institutions with which the external reserves can be kept. These are usually central banks or AA+ rated financial institutions. As also noted earlier, the departmental manager is guided by an in-house committee to ensure that prudential management of the reserves is maintained, and other risks are mitigated as much as possible. The committee meets at least quarterly for reviews and establishes more detailed guidelines for the department to follow.

The committee does a quarterly report to the Board for information and sometimes to request and seek further policy guidance.

### **Licensing and legislative changes**

The number of licensed principal financial intermediaries remained under changed during the year. These consisted of three commercial banks, namely the Australia and New Zealand Banking Group Limited, National Bank of Solomon Islands Limited, Westpac Banking Corporation and one credit institutions, AGC Finance (SI) Limited. However, only the commercial banks were actively trading during the year. The licensed credit institution was wounding down its operation.

In terms of new applicants for banking license, the Bank received one concept application from a group of local promoters seeking opinion from Central Bank on whether their concepts can be considered suitable for either a bank or a credit institution. After study of the concepts the CBSI advised against the idea because the nature of the proposed institution could not fall within the two institutions intended.

Bank of Hawaii International Inc. the controlling shareholder of the National Bank of Solomon Islands informed the Bank that it intends to sell off its shares and leave the banking business in Solomon Islands. The reason to exit is because of changes in corporate strategy of the banking group. But by the end of the year, the owners had not been able to find a suitable buyer for their shares. There were no changes made to the Financial Institutions Act during the year.

### **Supervision of Financial Institutions**

Changes in the macroeconomic

environment faced by the country since 1999 affected the banking business of the licensed financial institutions in Solomon Islands. In particular, the quality of their assets portfolio indicated by the growth in non-performing loan revealed a deteriorating trend. In order to manage their balance sheet, the financial institutions took action in reducing their lending portfolios, reduced cost of funds to very low level, and accumulating in their balance sheet large amount of free liquidity. Overshadowing the developments in the macroeconomic environment was the fiscal problems of the government and the uncertainty on its ability to service its bond issues that were in arrears and will be maturing in the coming years.

Macro prudential indicators of the soundness of the banking sector showed a mixture of good and bad outcomes. Whilst the each commercial bank was able to maintain its required capital ratio, improved its earnings and profitability ratios, the deteriorating macro economic environment affected the asset qualities of banks in a significant way. Measured in terms of ratio of non-performing loan to gross loans, asset quality deteriorated from 3.8 per cent in 1999 to 12.4 percent at end of 2001 representing in value term non-performing loan of \$19.2 million or 1.7 percent of estimated gross domestic product. If measured against the total gross capital available, asset quality worsened to 19.8 percent up from 10.1 percent in 1999. If the macro economic circumstance does not change, the assets quality of the banking sector might continue to deteriorate.

The department re-circulated the prudential statements once again to the commercial banks on the second half of the year. The responses from the commercial banks have been received with useful comments made on the draft prudential policies. Most of these

minimum prudential standards are already part of each commercial bank's prudential risk management and internal control systems. It is expected that changes to the reporting requirements to comply with the prudential requirements will be sequenced in the coming years.

### **Small Business Finance Scheme**

The subdued economic environment also affected new nominations to the Small Business Finance scheme; in fact there were no new nominations made under the scheme in 2001. As at the end of year, the total gross value of loans outstanding nominated under the scheme stood at \$0.5 million, a reduction from \$1.6 million at end of 2000. The value of Central Bank guarantee outstanding stands at \$77,000. The value of expired nominations totaled in gross term \$1.2 million. In terms of claims, CBSI paid claims valued at \$62,000. The future of the scheme is uncertain and urgently needs a full review.

### **Credit Unions and Rural Financial Services Development**

The financial constraints of the Solomon Islands Credit Union League (League) continued to suppress its service delivery to its member credit unions. The League was not able to recruit new officers or carry out its service delivery activities because of poor cash flow problem. One consequence of this is that no updated statistical information on the credit union institutions that might be still in operation in the country is known. While the numbers of registered credit unions in 1998 totalled 164 credit unions, it is very doubtful that this level of credit institutions is still operating in 2001. For example in Honiara, there are only 12 credit union institutions that are still actively trading, compared to the 42

registered credit unions in 1998. Uncertainty in employment because of effects of the subdued economic situation is one reason given for many of the registered small credit unions in Honiara to remain quiescent.

The League is charged with the supervision of its member credit unions. But as reported in the previous annual reports, the League is under resourced to carry out its functions. In 2001, only two professional officers were employed to administer the movement. Consequently the League focused its service delivery to the larger urban credit unions. Member credit unions in the rural areas were left unattended.

To assist the League, seconded officers from the Credit Union Registrar officer provided some assistance to the League by way of assisting with accounting, supervisions of larger credit unions and auditing in Honiara. The assistance however, was temporary and would be withdrawn as soon as the League is able to recruit its own manpower.

One of the major achievements of the League, during the year, was calling a annual general meeting for the member credit unions. As a result a new board of directors and a new supervisory committee were elected. However, the election of the new board of directors was not a savior to the credit unions movement. As at the end of the year, no viable strategies that can be confidential supported by the member credit unions has been decided. The financial difficulties of each member credit unions themselves, is also a set back to League financial survival, as member credit unions cannot pay their dues to finance the operations of the League.

Despite the financial difficulties the League was able to provide minimum

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services to the member credit unions especially the large urban member credit unions.

### **Amendments to the Credit Union Act (1986)**

In 1999, technical assistance from AusAid assisted the League in preparing amendments to the Credit Union Act. The event of June 2000 has not been conducive for submission of these amendments to the Minister of Finance for required approval, drafting and presentation to the parliaments. It is expected that these amendments will be presented to the Minister of Finance in 2002 for appropriate action. The changes to the Credit Union Act will provide needed reform in the administration of the credit union movements in Solomon Islands.

### **Rural Financial Services**

A draft of a report prepared within the department on review of Rural Financial service policy was partly completed during the year. Work on the document will continue, with the aim of making recommendations to the government on alternatives to address the availability of financial services to the rural people in Solomon Islands.

### **Research Activities**

One of the Banks core responsibilities is to collect, compile and publish economic information. This role is undertaken by the Economics Department of the Bank using data derived from various domestic and external sources. The analysis and research on the economy's condition continued during the year and formed the basis for the Banks advise to the government and other interested parties. Such activities are also important for the

setting of monetary policy by the Banks internal Monetary Policy Committee (MPC). The analysis on the economy is published regularly through the Monthly, Quarterly and Annual Reports. In addition, researches on specific topics of interest were also done during the year. It is envisaged that some of these will be published in the banks Quarterly reports in 2002.

As an important institution in the economy, the Bank continued to be represented on important government policy issues in 2001. The Bank hosted the Monthly Management Meetings (4M's), which provides an important avenue to review recent developments in the economy including the Financial, and Economic Restructuring Programme (2002-2005) report that was accepted by the current government as its major policy direction to revive the economy. Apart from this Bank staff also participated in a number of workshops and important seminars. These have allowed the Bank to positively contribute in the government overall reform process and policy formulation during the year.

### **Audit**

Under a two years contract agreement, Sojnocki Chartered Accountants continued to provide internal audit duties to the Bank. Examination of accounts and systems are conducted regularly with quarterly reporting on findings to the Bank.

Princewaterhouse and Coopers remains the Bank's External auditors. Their role includes carrying out both interim and final audit examinations of the Banks financial reports. In their opinion the financial statements of the Bank present a true and fair view of the operations and the state of the Bank as at 31 December 2001.

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## **Administration, Personnel and Training**

Training is very important for the Bank. As a result, the Bank sponsored four staff on full time studies during the year. Three were in Australia and one in the United Kingdom under the British Council Sponsorship Program. At the end of the year, three of them graduated with Masters degrees.

Fourteen staff members attended part time courses at the USP (SI) Centre. Staff undertaking full time and part-time courses at SICHE could not proceed after lectures were suspended at the college. Fifteen officers and two managers also attended various short courses overseas.

Technysyst (SI) also conducted an in-house computer course for management and staff during the year. This was to equip staff on the latest computer applications used in different operating systems in the Bank.

Total staff employed at the end of 2001 was 71. This comprised of 28 females and 43 males. Staffs who were absent for most of 2000 due to the ethnic tension returned and resumed duties at the beginning of 2001. The Bank continued to provide medicare through Solomons Mutual Insurance to its staff and their dependents during the year.

### **Properties**

The exterior of the Central Bank building was repainted in 2001 in preparation for the 25<sup>th</sup> Anniversary celebration held on 21<sup>st</sup> June. This also included the renovation of all toilet facilities in the building.

On the second floor, a glass partition to provide needed privacy to the Account Section was also completed during the year. While the physical security systems

were completed in 2000, the electronic security system was not fully installed until 2001.

Two new standby generators were acquired and installed at the main CBSI office and the old adjacent office. The new standby generator installed at the main office has the capacity to supply enough power to run the air condition system within the building. This has now eased the uncomfortable environment caused by the fluctuation in power supply by SIEA as experienced in the past years.

Extension of one room to the Deputy Governors' residence and the construction of a swimming pool at the back of the house were also completed in 2001. Repair work on the timber floors of the shower rooms at Mbokona houses continued during the year.

One of the Bank's old vehicle was sold and replaced with the new one during the year.

### **Security System upgrade**

Work on upgrading the Banks security system continued was completed in 2001. This is important given the prevailing security situation in Honiara. The work included the upgrading of the electronic security system, erection of appropriate physical barriers to seal off the banking chambers, relocation of important computer devices and the installation of a roller gate to be controlled by electronic system from the security room.

### **Board Activities**

Ten Board meetings were held in 2001 comprising five (5) scheduled and five (5) special meetings. One of the Board meetings was held at Buala, Isabel Province.

The increase in special board meetings

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was dictated by the need to regularly update the Board on the deteriorating state of the economy that resulted in the rise in government advances and borrowings from the Central Bank.

Three new Board Members were also appointed in 2001.

### **Relations with International Organizations**

Like other developing countries, maintaining good relations with multilateral development agencies and development partners is very important for Solomon Islands. This is not only because these organizations provide an important avenue for the exchange of ideas and provide policy advice on important economic and financial matters, but also because they provide much needed financial and technical resources that the country needs for development.

There was regular consultation by the Central Bank with the major multilateral financial agencies including the International Monetary Fund, World Bank and Asian Development Bank on economic and financial matters in 2001.

The Bank provided regular reports to these institutions particularly to the IMF and missions from these institutions or consultants working for them, visited the country to review and discuss developments in the economy.

A Donors Meeting organized by the government in February 2001, brought together representatives of Solomon Islands main multilateral and bilateral development partners. The Governor of the Central Bank presented an overview of the economy to the meeting and participated in the discussions. Unfortunately, the meeting failed to produce positive results because the

government was unable to convince the donor community that it was pursuing credible economic policies to address the problems in the economy.

Solomon Islands relationship with its development partners in 2001 was somewhat strained because of disagreements with the direction and focus of the previous governments' economic policies. As a result constructive dialogue with international organizations aimed at addressing the financial and economic problems facing the country were limited. Government policies on duty remissions and exemptions and excessive recruitment of political appointees and special constables were seen as contrary to credible policy making by the previous government. This led to the suspension of many on-going projects and the withholding of disbursement of financial resources that would have been otherwise available to the Solomon Islands Government. The hold-up of ADB loan drawdowns and EU Stabex transfers were two cases in point.

Following the attack on the World Trade Center buildings in New York and the associated questions of security for delegates, the annual meetings of the World Bank/International Monetary Fund in 2001 were cancelled. Solomon Islands also attended the annual meetings of the Asian Development Bank held in Hawaii in 2001. These meetings provide useful opportunities for government and CBSI officials to meet and discuss with their counterparts of development partner countries around the world, issues that are relevant and important to Solomon Islands economic conditions. The Central Bank should have hosted the South Pacific Central Bank Governors Conference in Honiara at the end of 2001. Unfortunately because of security concerns the meeting had to be cancelled.

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CENTRAL BANK OF SOLOMON ISLANDS

AUDITORS' REPORT TO THE BOARD OF DIRECTORS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2001

**Scope**

We have audited the financial statements of Central Bank of Solomon Islands for the financial year ended 31<sup>st</sup> December 2001 as set out on accompanying pages. The Bank's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the Board of Directors.


Our audit has been conducted in accordance with applicable Auditing Standards in the Solomon Islands to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the accounting standards and the disclosure requirements of the laws of Solomon Islands so as to present a view which is consistent with our understanding of the Bank's financial position, the results of its operations and its sources and application of funds.

The audit opinion expressed in this report has been formed on the above basis.

**Audit Opinion**

In our opinion the financial statements of Central Bank of Solomon Islands are properly drawn up:

- (i) so as to give a true and fair view of the Bank's state of affairs as at 31<sup>st</sup> December 2001 and of its results for the financial year ended on that date;
- (ii) in accordance with the provisions of the Public Finance and Audit Act 1978; and
- (iii) in accordance with the accounting standards and the disclosure requirements of the laws of Solomon Islands.

  
PRICEWATERHOUSECOOPERS  
 Chartered Accountants

Date: 29 March 2002  
 Honiara

  
W F MORRIS  
 PARTNER

CENTRAL BANK OF SOLOMON ISLANDS - BALANCE SHEET  
AS AT 31ST DECEMBER, 2001

	Notes	2001 (\$'000)	2000 (\$'000)
<b>ASSETS</b>			
<b>DOMESTIC</b>			
GOVERNMENT			
Loans and Advances	10	176,734	80,612
	10	(176,734)	0

## CENTRAL BANK OF SOLOMON ISLANDS

INCOME STATEMENT  
FOR THE YEAR ENDED 31ST DECEMBER, 2001

	Notes	2001 (\$'000)	2000 (\$'000)
<b>Interest income:</b>			
Interest received on external investment		7,025	12,782
Interest received on domestic lending		154	134
<b>Total Interest Income</b>		<b>7,179</b>	<b>12,916</b>
<b>Interest expenses:</b>			
Interest expense on external liabilities		161	197
Interest expense on domestic liabilities		1,123	2,036
<b>Total Interest Expense</b>		<b>1,284</b>	<b>2,233</b>
<b>Net Interest Income</b>		<b>5,895</b>	<b>10,683</b>
<b>Other income:</b>			
Royalties		120	153
Fees and commissions		1,774	2,005
Other income		258	237
<b>Total Other Income</b>		<b>2,152</b>	<b>2,395</b>
<b>Total Income</b>		<b>8,047</b>	<b>13,078</b>
<b>Non-Interest Expenses</b>			
Salaries and staff benefits		5,079	5,260
Administrative expenses		2,502	4,482
Board expenses		108	52
Currency expenses		1,234	1,391
Investment and commission		40	107
Depreciation		1,278	1,217
Subventions		285	354
Losses on Investment		290	52
Small Business Finance Scheme losses		88	269
Provision for Doubtful Debts - SIG Advances		176,734	0
Other expenses		2,188	1,200
<b>Total Non-Interest Expenses</b>		<b>189,827</b>	<b>14,384</b>
<b>Operating profit/(Loss)</b>		<b>(181,780)</b>	<b>(1,306)</b>
<b>Transfer from Reserves</b>			
General Reserves	3(a)	6,000	0
Other Reserves	3(c)	192	2,076
<b>Total transfer from Reserves</b>		<b>6,192</b>	<b>2,076</b>
<b>Net Profit/(Loss)</b>		<b>(175,588)</b>	<b>770</b>
<b>Transfers to other Reserves</b>			
Other Reserves	3(c)	0	270
<b>Total transfer to other Reserve</b>		<b>0</b>	<b>270</b>
<b>Transfer to SIG consolidated fund</b>	6	<b>0</b>	<b>500</b>

Notes numbered 1 to 18 form part of these financial statements.

**CENTRAL BANK OF SOLOMON ISLANDS**  
**STATEMENT OF CASH FLOWS FOR YEAR ENDED 31ST DECEMBER, 2001**

	Notes	2001 (\$000's)	2000 (\$000's)
<b>Cash flows from operating activities</b>			
Interest received		7,179	12,916
Cash received from other income		2,142	318
Interest paid		(1,284)	(2,233)
Cash payments in the course of operations		(16,414)	(11,209)
<b>Net cash from operating activities before movement in operating assets and liabilities</b>		<b>(8,377)</b>	<b>(208)</b>
Cash received on placement of deposits		(15,347)	(15,812)
Cash received/(paid) on IMF allocation of SDR		258	(224)
(Increase)/decrease in government finance provided		(93,477)	(35,884)
<b>Net cash provided by operating activities</b>		<b>(116,943)</b>	<b>(52,128)</b>
<b>Cash flows from investment activities</b>			
Payments for Premises, Plant & Equipment		(2,507)	(1,205)
Proceeds from sale of Premises, Plant & Equipment		119	0
(Increase)/decrease in foreign investments		69,866	76,631
<b>Net cash used in investment activities</b>		<b>67,478</b>	<b>75,426</b>
<b>Cash flows from financing activities</b>			
Net movement in issue of circulating currency		(1,578)	(11,058)
Net movement in foreign currency loan		(316)	(2,498)
Solomon Islands Government Monetary Operations		51,877	(8,440)
Payments to Consolidated Fund		(500)	(1,253)
<b>Net cash from financing activities</b>		<b>49,483</b>	<b>(23,249)</b>
<b>Net increase (decrease) in cash held</b>		<b>18</b>	<b>49</b>
<b>Cash at the beginning of the financial year</b>		<b>117</b>	<b>68</b>
<b>Cash at the end of financial year</b>	16	<b>135</b>	<b>117</b>

Notes numbered 1 to 18 form part of these financial statements

**CENTRAL BANK OF SOLOMON ISLANDS****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2001****1. STATEMENT OF ACCOUNTING METHODS**

The financial statements of the Bank has been drawn up in accordance with the accounting standards and the disclosure requirement of the laws of Solomon Islands, in particular the Central Bank of Solomon Islands Act, CAP 49. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated current valuations of non-current assets. Except where stated, the accounting policies have been consistently applied.

Set out below is a summary of the significant accounting policies adopted by the Bank in the preparation of the accounts.

**(a) Depreciation**

Depreciation is provided on all fixed assets so as to write-off the assets progressively over their estimated economic life. Fixed assets are first depreciated in the year of acquisition. The straight-line method of depreciation has been used. The estimated useful lives of non-current assets are: premises -30 years, furniture and equipment 3 - 5 years, motor vehicle - 4 years.

**(b) Foreign Currencies**

Transactions involving foreign currencies have been recorded in Solomon Islands dollars using the rates of exchange prevailing on the date of transaction.

Assets and liabilities in foreign currencies have been translated into Solomon Islands dollars at the rate of exchange prevailing at the year-end.

**(c) Valuation of Overseas Assets and Liabilities**

The gains or losses arising from appreciation or depreciation of the Bank's overseas assets and liabilities due to movements in exchange rates have been accounted for in accordance with section 45 (1) of the Central Bank of Solomon Islands Act, CAP 49 and are not included in the determination of net profit. (See also notes 3 and 5).

**(d) Revenues and Expenditures**

Revenue and expenditures have been accounted for on accrual basis, except where assets are regarded by the Board of Directors as impaired. In such cases revenue is recognised only upon the receipt of income.

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**CENTRAL BANK OF SOLOMON ISLANDS**
**NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2001**

<b>2 CAPITAL</b>	<b>2001</b>	<b>2000</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
Authorised Capital 3,000,000 ordinary shares @ \$1 per share	3,000	3,000
Paid up capital 2,597,000 ordinary shares @ \$1 per share fully paid	2,597	2,597
<b>3 RESERVES</b>		
(a) General Reserves		
Balance 1.1.01	6,000	6,000
Transfer of net operating profit/(loss) for year in terms of section 20 (1) of Central Bank of Solomon Islands Act, [CAP 49]	(181,588)	0
<b>Balance 31.12.01</b>	<b>(175,588)</b>	<b>6,000</b>
(b) Revaluation Reserves		
Balance 1.1.01	84,943	96,344
Transfer of portion of Gains/(losses) for year in terms of section 45(1) of Central Bank of Solomon Islands Act, [CAP 49]	8,081	(11,401)
<b>Balance 31.12.01</b>	<b>93,024</b>	<b>84,943</b>
(c) Other Reserves		
Small Business Finance Scheme		
Balance 1.1.01	849	1,062
Payment on CBSI Schemes during the year	(88)	(269)
Transfer from Profit and Loss Appropriation in terms of Sections 20(2) CBSI Act, [CAP 49]	0	56
<b>Balance 31.12.01</b>	<b>761</b>	<b>849</b>

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## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2001

	2001	2000
	(\$'000)	(\$'000)
Retirement Scheme		
Balance 1.1.01	104	241
Payment on CBSI Schemes during the year	(104)	(307)
Transfer from Profit and Loss Appropriation in terms of Sections 20(2) CBSI Act, (CAP 49)	0	170
<b>Balance 31.12.01</b>	<b>0</b>	<b>104</b>
Capital Assets Reserve		
Balance 1.1.01	0	1,500
Transfer to Profit and Loss Account	0	(1,500)
Transfer from Profit and Loss Appropriation in terms of Section 20(2) CBSI Act, [CAP 49]	0	0
<b>Balance 31.12.01</b>	<b>0</b>	<b>0</b>
Gratuity Reserve		
Balance 1.1.01	224	181
Payment During Year	0	0
Transfer from Profit and Loss Appropriation in terms of Section 20(2) CBSI Act, [CAP 49]	0	43
<b>Balance 31.12.01</b>	<b>224</b>	<b>224</b>
<b>Total - Other Reserves</b>	<b>985</b>	<b>1,177</b>
<b>Total Reserves</b>	<b>(81,579)</b>	<b>92,120</b>

**4 CAPITAL SUBSCRIPTION**

The liability includes subscriptions to the International Monetary Fund (IMF) which are maintained in the two accounts, namely IMF No.1 and IMF No.2 Accounts. IMF keeps a balance both in SDR as well as in Solomon Islands dollars while the Bank keeps balances only in Solomon Islands dollars.

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**CENTRAL BANK OF SOLOMON ISLANDS**
**NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2001**

	<b>2001</b>	<b>2000</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
<b>5 OTHER EXTERNAL LIABILITIES</b>		
Demand deposit of international organisations such as Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association (IDA)	986	1,210
Interest payable - accrued but not due (Interest payable on SDR allocations and other external liabilities)	26	35
<b>Total other external liabilities</b>	<b>1012</b>	<b>1,245</b>
<b>6 PROVISION FOR TRANSFER TO SIG CONSOLIDATED FUND</b>		
Balance 1.1.01	500	1,253
Payment during the year	(500)	(1,253)
Transfer of portion of net profit in terms of section 20 (2) of Central bank of Solomon Islands Act, (CAP 49)	0	500
<b>Balance 31.12.01</b>	<b>0</b>	<b>500</b>
<b>7 OTHER DOMESTIC LIABILITIES</b>		
Other (sundry creditors, bank cheques, etc.)	3,539	5,968
<b>8 SECURITIES</b>		
Solomon Islands Government Monetary Operations	51,877	0
<p>During the year ended 31 December 2001 a liability was established to recognise the cost price of Treasury Bills issued during the year. Upon maturity the cost price is debited to this account and the interest paid is debited to the Solomon Islands Government's debt servicing account. In previous years the proceeds and repayments were offset against the Solomon Islands Government Loan and Advance. The amount advanced for Monetary operations was \$29.7 million as at 31 December 2001.</p>		
<b>9 FIXED ASSET</b>		
<b>Fixed Assets less accumulated depreciation</b>		
Premises - at cost	10,076	8,761
Accumulated depreciation	(3,063)	(2,949)
<b>Written down value</b>	<b>7,013</b>	<b>5,812</b>
Furniture and equipment - at cost	2,183	1,682
Accumulated depreciation	(1,585)	(1,380)
<b>Written down value</b>	<b>598</b>	<b>302</b>
Computer - at cost	1,919	1,821
Accumulated depreciation	(1,366)	(946)
<b>Written down value</b>	<b>553</b>	<b>875</b>

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## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2001

	<b>2001</b>	<b>2000</b>			
<b>9 Fixed Asset cont'd</b>	<b>(\$'000)</b>	<b>(\$'000)</b>			
Motor Vehicle - at cost	815	733			
Accumulated depreciation	(467)	(331)			
<b>Written down value</b>	<b>348</b>	<b>402</b>			
Total Fixed Asset - at cost	14,993	12,997			
Accumulated depreciation	(6,481)	(5,606)			
<b>Written down value</b>	<b>8,512</b>	<b>7,391</b>			
<b>2001</b>	<b>TOTAL PREMISES</b>	<b>FURNITURE</b>	<b>COMPUTER</b>	<b>MOTOR</b>	
	<b>(\$'000)</b>	<b>(\$'000)</b>	<b>EQUIPMENT</b>	<b>VEHICLE</b>	
			<b>(\$'000)</b>	<b>(\$'000)</b>	
Written down Value at 1st January 2001	7,391	5,812	302	875	402
Additions during the year	2,507	1,534	501	266	206
Disposal during the year at written down value	(109)	0	0	(10)	(99)
Depreciations for the year	(1,277)	(333)	(205)	(578)	(161)
<b>Written Down Value at 31st December 2001</b>	<b>8,512</b>	<b>7,013</b>	<b>598</b>	<b>553</b>	<b>348</b>
<b>2000</b>	<b>TOTAL PREMISES</b>	<b>FURNITURE</b>	<b>COMPUTER</b>	<b>MOTOR</b>	
	<b>(\$'000)</b>	<b>(\$'000)</b>	<b>EQUIPMENT</b>	<b>VEHICLE</b>	
			<b>(\$'000)</b>	<b>(\$'000)</b>	
Written down Value at 1st January 2000	7,228	5,337	438	1,031	422
Additions during the year	1,758	740	158	728	132
Disposal during the year at written down value	(378)	0	0	(368)	(10)
Depreciations for the year	(1,217)	(265)	(294)	(516)	(142)
<b>Written Down Value at 31st December 2000</b>	<b>7,391</b>	<b>5,812</b>	<b>302</b>	<b>875</b>	<b>402</b>

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**CENTRAL BANK OF SOLOMON ISLANDS**
**NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2001**
**10 CONCENTRATION OF CREDIT RISK**

Loans and Advances to the government of \$176.74m accounted for fifty eight percent (58%) of the Banks total assets in comparison with thirty two percent (32%) in 2000. The quality of this asset has been affected by difficulties faced by the Government since 1995 in meeting its debt servicing obligations.

The current level of borrowings by the government is in breach of the limits set for such borrowings in the Central Bank of Solomon Islands Act, [CAP 49]. The statutory limit as at 31 December 2001 was \$98.4m(2000 - \$98.4m)

The Directors of the Bank consider the value of loans and advances at balance date to be impaired and has made full provision for the loans and advances.

Under Section 44 of the Central Bank of Solomon Islands Act, (CAP 49), where the total assets are less than the liabilities then the Government is required to transfer to the Bank non-negotiable non-interest bearing securities to cover the deficiency.

Section 45(3) of the Central Bank of Solomon Islands Act, (CAP 49), requires that these securities shall be redeemed out of the Revaluation Reserves.

<b>11 OTHER DOMESTIC ASSETS</b>	<b>2001</b>	<b>2000</b>
	<b>(\$000's)</b>	<b>(\$000's)</b>
Accrued Interest	1	1
Staff loans (less provision for doubtful debts)	4,725	4,472
Other (SI cash, current assets etc.)	9,557	6,951
	<b>14,283</b>	<b>11,424</b>

**12 MATURITY OF FINANCIAL ASSETS**

All 2001 Term deposits mature within two months

**13 OTHER EXTERNAL ASSETS**

Accrued Interest - interest receivable but not due	1,425	1,222
Bills for collections	2,774	7,614
<b>Total</b>	<b>4,199</b>	<b>8,836</b>

**14 SOLOMON ISLANDS GOVERNMENT (SIG) DEPOSITS**

Represents funds received by Solomon Islands Government (SIG) under the Stabex scheme of the European Community, Asian Development Bank, Republic of China and Papua New Guinea Government. The corresponding foreign exchange funds form part of the external reserves. Interest is earned by the Bank on the external reserves, and interest is paid to SIG on the local currency deposit. SIG draws on these deposits as and when it is ready to use the fund in the manner approved by Stabex authorities.

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**CENTRAL BANK OF SOLOMON ISLANDS**
**NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2001**
**15 SECURITY INVESTMENT**

These Investments made by the Bank, at the request of SIG, in the share capital of Investment Corporation of Solomon Island (ICSI) and Development Bank of Solomon Islands (DBSI) are carried at the lower of cost and recoverable amount, being at the Directors valuation based on historical cost, less provision for diminution of the value to reflect the net asset value and trend in operating results indicated by the financial statement of each institution: - ICSI - 1997 qualified accounts and DBSI - 2000 final accounts.

Due to the unavailability of up to date accounts for ICSI it has been decided to write off the investment over five (5) years at \$672,000 per year commencing from the year 2001.

	<b>2001</b>	<b>2000</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
<b>Investment Corporation of Solomon Islands (ICSI)</b>		
Investment at cost	10,000	10,000
Accumulated Provision for diminution	7,311	6,639
<b>Net Equity Investment</b>	<b>2,689</b>	<b>3,361</b>
<b>Development Bank of Solomon Islands (DBSI)</b>		
Original investment at cost	2,150	2,150
Accumulated Provision for diminution	2,150	2,150
<b>Net Equity Investment</b>	<b>0</b>	<b>0</b>
<b>TOTAL NET EQUITY</b>	<b>2,689</b>	<b>3,361</b>

**16. CASH AND CASH EQUIVALENT**

Cash and cash equivalents in the statement of cash flows comprise the following amounts, included in the Balance Sheet caption "Other Domestic Assets"

Cash on Hand	135	117
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**17. DIRECTORS REMUNERATION**

Remuneration includes income from monthly and sitting allowances as approved by the Minister of Finance.

Directors' fees and allowances	108	42
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**CENTRAL BANK OF SOLOMON ISLANDS****NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2001****18. GOING CONCERN**

During the year ended 31 December 2001 the economy of Solomon Islands has continued to be affected by the recent social unrest in the Solomon Islands and the economy has continued to enter a period of economic uncertainty. The impact includes, but is not limited to: a steep decline in exports and business activity, a decline in the country's foreign reserves and a restriction on foreign exchange payments, a decline in law and order causing increased risk of loss or damage to property, compounded by various new insurance policy exclusion clauses.

The operations of the Bank and those of other organisation in the Solomon Islands have been significantly affected by these factors since and will continue to be affected for the foreseeable future. Despite the economic conditions described above the Board believes that the Bank will be able to continue as a going concern for the foreseeable future. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The financial statements have been prepared on a going concern basis.

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**CENTRAL BANK OF SOLOMON ISLANDS**

**2001 CALENDAR OF EVENTS**

**February**

- Board Meeting held at Buala, Isabel Province;
- The terms of Mr. Rollance Hilly, Hon. Alfred Hairiu and Ms. Janita Radford as Directors on the Board expired;
- Development Partners Meeting held in Honiara;
- Governor attended a Conference on Financial Sector Stability in Samoa;

**March**

- The contract of the Head of IT Mr. Anthony Ghona was terminated;

**April**

- Three new Directors: Mr. Abraham Eke, Mr. William Pita and Mr. Aquila Talasasa were appointed to the Board;
- Bank of Hawaii announced its intention to withdraw from the South Pacific region;
- Government defaulted on its first lot of matured restructured bonds;

**May**

- The 2000 Annual Report was launched;
- IT contract was signed with Technysist [SI] Ltd. for them to provide IT services for the Bank for three years;
- Banking Supervision advisor at PFTAC, Ms. Rose Olaso visited the Bank;

**June**

- The Central Bank celebrated its Silver Jubilee;
- Consignment of upgraded \$50 notes were received;
- The \$2 note was re-issued on the polymer substrate as a commemorative note;
- Two weeks Currency Display was mounted as part of the Silver Jubilee celebrations;

**September**

- Soltai Fishing company formally inaugurated;
  - Project to upgrade the security and surveillance equipment in the Bank completed;
  - Deputy Governor re-appointed for a second three year term;
  - Terrorist attack on the World Trade Center
-

**October**

- Governor attended an ANU Conference in Canberra, Australia;
- The Economic Association of Solomon Islands [EASI] was formed;

**November**

- Three staff: Helen Beck, Rodney Rutepitu and Ishmael Wore, return from overseas training with post graduate qualifications;

**December**

- National Election held in Solomon Islands;
  - Sir Allan Kemakeza elected as the new Prime Minister of Solomon Islands;
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**STATISTICAL ANNEX**

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TABLE 1.1 MONETARY SURVEY

(SIS '000)

Period Average 1	NET FOREIGN ASSETS			DOMESTIC CREDIT			NARROW MONEY (M1)				QUASI-MONEY		BROAD MONEY (M3)	OTHER ITEMS (NET)
	Monetary Authority	Banks	Total	Government(net)	Private Sector	Total	Currency in Circulation	Demand Deposit		Total	Savings Deposits	Time Deposits		
1990	37788	-6839	30949	60524	95767	156291	25289	38582	2220	66091	29001	46316	141408	45832
1991	14921	-1038	13883	119692	87772	207464	27802	50528	339	78669	36212	57731	172612	48735
1992	58905	1654	60559	131043	80913	211956	34763	71950	135	106848	41041	69660	217549	54966
1993	49233	1732	50965	170555	88276	258831	42152	80838	1019	124009	49705	75486	249200	60596
1994	46745	-4175	42570	214837	107971	322808	50280	109325	830	160435	60633	88286	309354	56024
1995	43991	-1816	42175	226937	123176	350113	54961	113556	1097	169614	64318	106135	340067	52221
1996	107728	-1352	106376	226024	130901	356925	59722	136773	1712	198207	64260	131001	393468	69834
1997	143846	7044	150890	226910	142021	368931	70840	139250	1278	211368	77104	129827	418299	101522
1998	225037	18	225055	177999	177768	355767	81340	135727	3507	220574	74790	143157	438521	142301
1999	240844	2570	243414	178267	194317	372584	100114	162764	1882	264760	75792	117778	458330	157668
2000	147720	-3531	144189	258170	198806	456976	88272	159351	662	248285	82240	129485	460010	141155
2001	90971	6422	97241	269782	154653	424434	84704	161378	268	246349	79622	73044	399015	130940
<b>1999</b>														
Mar	228884	-74	228810	187819	177434	365253	75904	144702	4664	225270	77266	155770	458306	135757
Jun	245725	-2142	243583	199126	179288	378414	80890	175619	924	257433	79625	144052	481110	140887
Sep	271527	-1837	269690	172018	179995	352013	84416	171586	6068	262070	78616	128406	469092	152611
Dec	240844	2570	243414	178267	194317	372584	100114	162764	1882	264760	75792	117778	458330	157668
<b>2000</b>														
Mar	229149	1680	230829	159910	211371	371281	83976	164100	566	248642	72539	129342	450523	151587
Jun	186367	3692	190059	174133	224873	399006	79520	158670	298	238488	75909	126559	440956	148109
Sep	178188	-1218	176970	209025	212694	421719	77784	161146	465	239395	79800	139108	458303	140386
Dec	147720	-3531	144189	258170	198806	456976	88272	159351	662	248285	82240	129485	460010	141155
<b>2001</b>														
Jan	129009	459	129468	265580	195897	461477	75988	174679	506	251173	76959	119406	447538	143407
Feb	117595	1472	119067	256828	196332	453160	73928	165941	518	240387	78154	118142	436683	135544
Mar	104888	-1117	103771	268829	183908	452737	76589	154195	1609	232393	76056	112415	420864	135644
Apr	109252	-1076	108176	275223	180487	455710	73045	156258	4438	233741	75491	113644	422876	141010
May	93051	4899	97950	280791	173071	453862	70864	171995	2427	245286	72711	106743	424740	127072
Jun	101511	2641	104152	275061	176486	451547	72947	169828	337	243112	72301	106331	421744	133955
Jul	133546	6668	140214	260887	167962	428849	71501	194346	428	266275	71372	92464	430111	138952
Aug	118751	4839	123590	272761	166382	439143	75612	180983	376	256971	75816	89338	422125	140608
Sep	106596	4947	111543	266852	166994	433846	72073	172191	278	244542	74743	81707	400992	144397
Oct	145051	-1800	143251	238743	162214	400957	73511	175080	264	248855	76713	73234	398802	145405
Nov	119147	-925	118222	282080	160289	442369	87146	179140	251	266537	81276	75380	423193	137398
Dec	90971	6422	97241	269782	154653	424434	84704	161378	268	246349	79622	73044	399015	130940

(1) End of period beginning January 1989

Source: Central Bank of Solomon Islands

TABLE 1.2 MONEY SUPPLY

(SIS'000)

Period Average 1/	(1)	(2)		(3)	(4)	(5)	(6)	(7)
	Currency In Active Circulation	Commercial Banks (adj)	Central Bank	Money Supply (M1) (1 + 2)	Savings Deposits	Money Supply (M2) (3 + 4)	Time Deposits (adj)	Money Supply (M3) (5 + 6)
1990	25289	38582	2220	66091	29001	95092	46316	141408
1991	27802	50528	339	78669	36212	114881	57731	172612
1992	34763	71950	135	106848	41041	147889	69660	217549
1993	42152	80838	1019	124009	49705	173714	75486	249200
1994	50280	109325	830	160435	60633	221068	88286	309354
1995	54961	113556	1097	169614	64318	233932	106135	340067
1996	59721	136773	1713	198207	64260	262467	131001	393468
1997	70840	139250	1278	211368	77104	288472	129827	418299
1998	81340	135727	3502	220574	74790	295364	143157	438521
1999	100114	162764	1882	264760	75792	340552	117778	458330
2000	88272	159351	662	248285	82240	330525	129485	460010
2001	84704	161378	268	246349	79622	325971	73044	399015
<b>1999</b>								
Mar	75904	144702	4664	225270	77266	302536	155770	458306
Jun	80890	175619	924	257433	79625	337058	144052	481110
Sep	84416	171586	6068	262070	78616	340686	128406	469092
Dec	100114	162764	1882	264760	75792	340552	117778	458330
<b>2000</b>								
Mar	83976	164100	566	248642	72539	321181	129342	450523
Jun	79520	158670	298	238488	75909	314397	126559	440956
Sep	77784	161146	465	239395	79800	319195	139108	458303
Dec	88272	159351	662	248285	82240	330525	129485	460010
<b>2001</b>								
Jan	75988	174679	506	251173	76959	328132	119406	447538
Feb	73928	165941	518	240387	78154	318541	118142	436683
Mar	76589	154195	1609	232393	76056	308449	112415	420864
Apr	73045	156258	4438	233741	75491	309232	113644	422876
May	70864	171995	2427	245286	72711	317997	106743	424740
Jun	72947	169828	337	243112	72301	315413	106331	421744
Jul	71501	194346	428	266275	71372	337647	92464	430111
Aug	75612	180983	376	256971	75816	332787	89338	422125
Sep	72073	172191	278	244542	74743	319285	81707	400992
Oct	73511	175080	264	248855	76713	325568	73234	398802
Nov	87146	179140	251	266537	81276	347813	75380	423193
Dec	84704	161378	268	246349	79622	325971	73044	399015

1/ End of period beginning January 1989.

Source: Central Bank of Solomon Islands.

**TABLE 1.3 ASSETS OF CENTRAL BANK OF SOLOMON ISLANDS**

(SIS'000)

Period	EXTERNAL ASSETS					SOLOMON ISLANDS GOVERNMENT						LOANS & ADVANCES		OTHER DOMESTIC ASSETS				TOTAL ASSETS	GOVT * FOREIGN ASSETS
	Average 1/	Money at call	Deposits	Secs	SDR Holdings	Total	O/D Advances	Account	T/Bills	Dev Bonds	Other Secs	Total	Banks	Non-Bank	Secs & Invt	Premis & Equip	Other		
1990	14747	27231	-	963	42941	21808	-	9107	110	1333	32358	63	5000	3803	4123	4615	12541	92903	-39
1991	15098	6450	-	287	21835	55031	-	2016	12	3819	60878	25	5600	4053	3962	4587	12602	100940	45
1992	28994	31888	6202	154	67238	29331	-	267	3	8527	38128	-	6909	2888	3718	3954	10560	122835	856
1993	30562	24538	6496	130	61716	43087	-	43	4	8527	51661	-	1336	2888	4105	3904	10897	125620	926
1994	20008	35115	-	41	55164	62408	-	-	25	8527	70960	-	-	4198	4885	3161	12244	138368	419
1995	26878	25605	-	19	52502	76108	-	-	3	8527	84638	-	-	4198	5689	3558	13445	150585	109
1996	67134	49397	-	35	116566	71217	-	-	25	7282	78524	-	-	4198	8238	7743	19179	214269	197
1997	34189	116184	-	17	150390	75139	-	-	25	6410	81574	-	-	4198	9121	8552	21871	254650	57
1998	128488	104914	-	2	233404	75183	-	-	27	6410	81620	-	-	4198	9118	9000	22316	337340	0
1999	103618	152248	-	52	255919	44727	-	-	27	11075	55829	-	-184	4198	7110	9778	21086	332834	22
2000	39098	120673	-	13	159784	43404	-	-	27	11075	54506	-	-	4198	8735	20316	33249	247539	8
2001	36010	66956	-	39	103006	174089	-	-	27	11075	185190	-	-80	3361	8512	18758	30631	318746	8
<b>1999</b>																			
Mar	102325	139145	-	11	241481	75183	-	-	27	11075	86285	-	-	4198	8730	9915	22843	350609	140
Jun	114754	138416	4903	47	258120	49014	-	-	27	11075	60116	-	-	4198	9074	8992	20264	340500	36
Sep	136738	148676	-	21	285435	20766	-	-	27	11075	31868	-	-	4198	9175	11673	25046	342349	34
Dec	103618	152249	-	52	255919	44727	-	-	27	11075	55829	-	-	4198	7110	9778	21086	332834	22
<b>2000</b>																			
Mar	83517	159165	-	18	242700	45686	-	-	27	11075	56788	-	-	4198	7529	9295	21022	320510	9
Jun	28596	144530	25934	50	199110	35874	-	-	27	11075	46976	-	-	4198	7914	9488	21600	267686	8
Sep	53917	137657	-	13	191587	49701	-	-	27	11075	60803	-	-	4198	8254	10399	22851	275241	8
Dec	39098	120673	-	13	159784	43404	-	-	27	11075	54506	-	-	4198	8735	20316	33249	247539	8
<b>2001</b>																			
Jan	25933	116489	-	53	142475	57863	-	-	27	11075	68965	-	-	4198	9244	15883	29325	240765	8
Feb	44150	85698	-	14	129862	41391	-	-	27	11075	52493	-	-	4198	9474	13269	26941	209296	8
Mar	31068	85632	-	14	116714	51841	-	-	27	11075	62943	-	-	4198	8495	11234	23927	203584	8
Apr	35903	87221	-	47	123171	52481	-	-	27	11075	63583	-	-80	4071	8933	11027	24031	210705	8
May	21087	87346	-	13	108446	53746	-	-	27	11075	64848	-	-80	3361	9025	17523	29909	203123	8
Jun	42763	72149	-	13	114925	54420	-	-	27	11075	65522	-	-80	3361	9377	12367	25105	205472	8
Jul	74053	72409	-	53	146515	55794	-	-	27	11075	66896	-	-80	3361	9444	13752	26557	239888	8
Aug	46885	87445	-	23	134353	62679	-	-	27	11075	73781	-	-80	3361	9548	15511	28420	236474	8
Sep	38171	88319	-	23	126513	61056	-	-	27	11075	72158	-	-80	3361	9590	14980	27931	226522	8
Oct	70168	89328	-	65	159561	172800	-	-	27	11075	183902	-	-80	3361	9608	16563	29532	372915	8
Nov	42459	89774	-	73	132306	180696	-	-	27	11075	191798	-	-80	3361	9736	14609	27706	351729	8
Dec	36010	66956	-	39	103006	174089	-	-	27	11075	185190	-	-80	3361	8512	18758	30631	318746	8

\* Included as memorandum item only; not part of CBSI assets.

1/ End of period beginning January 1989.

Source: Central Bank of Solomon Islands.

**TABLE 1.3 LIABILITIES OF CENTRAL BANK OF SOLOMON ISLANDS**

(SIS'000)

Period 1/ Average	EXT. LIABILITIES			CURRENCY IN CIRCULATION			DEPOSITS					CAPITAL FUNDS				SEC	OTHER	TOTAL LIABI- LITIES	
	S.D.R. Alloca.	Other	Total	Notes	Coins	Total	Government			Banks	Other	Total	Paid-up Capital	Reval'n Res	Other Res	Total	Bokolo Bills		DOM LIABS
							Euro- Loan	Other	Total										
1990	2414	2739	5153	26026	2405	28431	-	8630	8630	2642	2220	13492	2597	35784	6562	44943	-	884	92903
1991	2614	4300	6914	29104	2584	31688	-	1672	1672	10559	339	12570	2597	35818	6503	44918	-	4850	100940
1992	2792	5541	8333	35003	2813	37816	-	5710	5710	3130	135	8975	2597	38037	6368	47002	17439	3270	122835
1993	2924	9569	12493	41565	3152	44717	-	5039	5039	2295	1019	8353	2597	40438	6355	49390	9866	801	125620
1994	3149	5270	8419	51388	3405	54793	-	10673	10673	6731	830	18234	2597	46194	5450	54241	1531	1150	138368
1995	3390	5121	8511	54973	3795	58768	-	4179	4179	16889	1097	22165	2597	47174	6251	56002	-	5119	150585
1996	3401	5437	8838	58539	4081	62620	-	3661	3661	37366	1712	42739	2597	50898	6850	60345	35000	4727	214269
1997	4195	2349	6544	68994	4430	73424	-	6492	6492	19094	1278	26864	2597	50898	6850	60345	47600	39873	254650
1998	4464	3903	8367	80307	4764	85071	-	59728	59728	49943	3507	113178	2597	85268	8198	96063	25480	9181	337340
1999	4563	10512	15095	98652	5078	103730	-	40979	40979	48728	1882	91589	2597	96344	8125	107066	8440	6934	332834
2000	4340	7724	12064	88127	5425	93552	-	-25480	-25480	60863	662	36045	2597	96344	2984	107925	-	-2047	247539
2001	4592	7461	12053	86275	5700	91975	-	62920	62920	57380	267	120415	2597	84943	8408	95948	-	-203	318746
<b>1999</b>																			
Mar	4252	8345	12597	74929	4786	79715	-	48459	48459	55746	4664	108869	2597	89834	9488	101919	52160	-4651	350609
Jun	4238	8157	12395	80175	4866	85041	-	58540	58540	66989	924	126453	2597	89834	9488	101919	18550	-3858	340500
Sep	4573	9335	13908	83132	4910	88042	-	55292	55292	53263	6068	114623	2597	89834	9488	101919	8800	15057	342349
Dec	4563	10512	15075	98652	5078	103730	-	40979	40979	48728	1882	91589	2597	96344	8125	107066	8440	6934	332834
<b>2000</b>																			
Mar	4473	9078	13551	82786	5178	87964	-	78524	78524	32701	566	111791	2597	96344	8125	107066	-	138	320510
Jun	4455	8288	12743	78273	5200	83473	-	36620	36620	31190	298	68108	2597	96344	8984	107925	-	-4563	267686
Sep	4334	9065	13399	75868	5204	81072	-	33077	33077	48486	465	82028	2597	96344	8984	107925	-	-9183	275241
Dec	4340	7724	12064	88127	5425	93552	-	-25480	-25480	60863	662	36045	2597	96344	8984	107925	-	-2047	247539
<b>2001</b>																			
Jan	4317	9149	13466	75448	5442	80890	-	-43791	-43791	82181	506	38896	2597	96343	8984	107924	-	-411	240765
Feb	4317	7950	12267	72930	5434	78364	-	-59072	-59072	78366	518	19812	2597	96344	8984	107925	-	-9072	209296
Mar	4297	7529	11826	74837	5472	80309	-	-60421	-60421	75005	1609	16193	2597	84943	8408	95948	-	-692	203584
Apr	4345	9574	13919	71788	5484	77272	-	-66081	-66081	80141	4438	18498	2597	84943	8408	95948	-	5068	210705
May	4314	11081	15395	68947	5501	74448	-	-69564	-69564	83254	2427	16117	2597	84943	8408	95948	-	1215	203123
Jun	4328	9086	13414	71505	5536	77041	-	-63566	-63566	79797	337	16568	2597	84943	8408	95948	-	2501	205472
Jul	4351	8618	12969	71280	5532	76812	-	-50079	-50079	100079	428	50428	2597	84943	8408	95948	-	3731	239888
Aug	4428	11174	15602	74204	5557	79761	-	-51986	-51986	90051	376	38441	2597	84943	8408	95948	-	6722	236474
Sep	4522	15395	19917	71305	5554	76859	-	-47677	-47677	70485	278	23086	2597	84943	8408	95948	-	10712	226522
Oct	4541	9969	14510	74181	5583	79764	-	88109	88109	81575	264	169949	2597	84943	8408	95948	-	12743	372915
Nov	4541	8617	13158	88063	5636	93699	-	57056	57056	82686	251	139993	2597	84943	8408	95948	-	8931	351729
Dec	4592	7461	12053	86275	5700	91975	-	62920	62920	57380	267	120415	2597	84943	8408	95948	-	-203	318746

1/ End of period beginning January 1989.  
Source: Central Bank of Solomon Islands.

**TABLE 1.4 ASSETS OF COMMERCIAL BANKS**

(SIS'000)

Period Average 1/	S.I CASH		DUE FROM CENTRAL BANK		SECURITIES				LOANS AND ADVANCES				OTHER DOM ASSETS	FOR'N ASSETS	TOTAL ASSETS	
	Call	Other	Treasury Bills	Dev/Tr Bonds	Restr. Bonds	Auct. T'Bills	CBSI Secur.	SIG	Prov Govt	Stat Corps	Other	Total				
1990	3142	2641	-	20254	16628	-	-	-	2478	636	8458	82309	93881	20913	3131	160590
1991	3886	10173	-	42776	27161	-	-	-	1	283	6532	75640	82456	24909	6501	197862
1992	3053	3582	-	80405	24831	-	-	15959	230	478	1783	72221	74712	26265	6696	235503
1993	2565	2295	-	107341	23131	-	-	8342	391	411	2717	84223	87742	29788	6908	268112
1994	4513	7987	-	128654	33289	-	-	-	700	1244	913	107058	109915	31485	11875	327718
1995	3807	18229	-	133644	23253	-	-	-	2101	223	1219	121957	125500	34625	4511	343569
1996	2898	37005	-	144243	14333	-	-	28000	1752	597	2705	128196	133250	28249	13136	401114
1997	2584	19059	-	154478	4500	-	-	45000	3726	309	753	141268	146056	34343	19208	425228
1998	3731	4773	-	162027	3500	-	-	10000	-	208	783	176985	177976	41479	6290	452776
1999	3616	48721	-	42473	27300	91040	19484	8000	-	219	2581	191736	194536	36277	30784	502231
2000	5280	55670	-	-	24800	125040	34512	-	-	157	3586	195220	198963	39523	12407	496195
2001	7271	57317	-	-	24800	125040	-	-	-	159	2004	152729	154892	52897	30654	452871
<b>1999</b>																
Mar	3811	54688	-	162027	3500	-	-	36000	2	3	793	176641	177439	40470	10750	488685
Jun	4151	66998	-	86389	119340	-	-	16000	8	13	732	178556	179309	43619	6933	522739
Sep	3626	52882	-	42473	27300	91040	43501	8000	34	183	1654	178341	180212	40959	20027	510020
Dec	3616	48721	-	42473	27300	91040	19484	8000	-	219	2581	191736	194536	36277	30784	502231
<b>2000</b>																
Mar	3988	32950	-	16689	27300	125040	23471	-	-	142	4363	207008	211513	44618	32032	517601
Jun	3953	30794	-	6076	26800	125040	15454	-	-	99	4491	220382	224972	48651	19432	501172
Sept	3288	48486	-	721	24800	125040	39730	-	2	228	3399	209295	212924	45019	18031	518039
Dec	5280	55670	-	-	24800	125040	34512	-	-	157	3586	195220	198963	39523	12407	496195
<b>2001</b>																
Jan	4902	82829	-	-	24800	125040	10637	-	-	94	2483	193414	195991	34429	15572	494200
Feb	4436	78252	-	-	24800	125040	-	-	119	114	2534	193798	196565	36669	20205	485967
Mar	3720	75049	-	-	24800	125040	-	-	3	150	2443	181465	184061	37248	15696	465614
Apr	4227	79660	-	-	24800	125040	-	-	2	133	2558	178009	180702	37696	16072	468197
May	3584	82298	-	-	24800	125040	-	-	119	138	2683	170468	173408	42781	19795	471706
Jun	4094	79816	-	-	24800	125040	-	-	94	143	2856	173710	176803	41889	22959	475401
Jul	5311	98621	-	-	24800	125040	-	-	266	135	2678	165364	168443	40901	23302	486418
Aug	4149	89808	-	-	24800	125040	-	-	1	146	2468	163994	166609	41304	31977	483687
Sep	4786	71815	-	-	24800	125040	-	-	20	157	2573	164501	167251	43529	31992	469213
Oct	6253	78157	-	-	24800	125040	-	-	1	159	2439	159855	162454	48799	23919	469422
Nov	6553	83547	-	-	24800	125040	-	-	-	157	2354	158015	160526	52855	10400	463721
Dec	7271	57317	-	-	24800	125040	-	-	-	159	2004	152729	154892	52897	30654	452871

1/ End of period beginning January 1989.  
Source: Central Bank of Solomon Islands.

**TABLE 1.4 LIABILITIES OF COMMERCIAL BANKS**

(SIS'000)

Period	DEMAND DEPOSITS															SAVINGS DEPOSITS					TIME DEPOSITS					TOTAL DEPOSITS					DUE TO CBSI	CAP & RES	OTHER LIABS	FOR'N LIABS	TOTAL LIABS
	DEMAND DEPOSITS					SAVINGS DEPOSITS					TIME DEPOSITS					TOTAL DEPOSITS																			
	Average 1/	S.I.G	Prov Govt	Stat Corps	Other	Total	S.I.G	Prov Govt	Stat Corps	Other	Total	S.I.G.	Prov Govt	Stat Corps	Other	Grand Total																			
1990	2020	652	2095	36487	41254	29001	194	334	17509	28807	46844	2214	986	19604	94295	117099	63	16570	16888	9970	160590														
1991	2427	1428	4512	46016	54383	36212	5509	371	26712	31019	63611	7936	1799	31224	113247	154206	29	18385	17703	7539	197862														
1992	3214	2323	4863	67087	77487	41041	1098	684	25708	43952	71442	4312	3007	30571	152080	189970	-	25540	14951	5042	235503														
1993	4015	1223	5784	75054	86076	49705	1159	944	26912	48574	77589	5174	2167	32696	173333	213370	-	32295	17271	5176	268112														
1994	2825	3323	11072	98253	115473	60633	2410	779	26812	61474	91475	5235	4102	37884	220360	267581	-	30874	13213	16050	327718														
1995	4364	2467	6820	106736	120387	64318	4956	956	23978	82157	112047	9320	3423	30798	253211	296752	-	28789	11692	6327	343569														
1996	2588	1305	13690	123103	140666	64260	5246	625	15534	115467	136872	7834	1930	29204	302830	341798	-	32542	12286	14488	401114														
1997	2973	2408	11926	127324	144631	77104	5250	554	25273	104554	135631	8223	2962	37199	308982	357366	-	38351	17347	12164	425228														
1998	4205	4721	16402	119325	144653	74790	147	555	18491	124666	143859	4352	5276	34893	318781	363302	-	62394	20808	6272	452776														
1999	12741	3711	9361	153403	179216	75792	142	505	26284	91494	118425	12883	4216	35645	320689	373433	-	72188	28396	28214	502231														
2000	2186	3496	9456	149895	165033	82240	160	483	30707	98778	130128	2346	3979	40163	330913	377401	-	76349	26507	15938	496195														
2001	998	1250	10084	151294	163626	79622	99	283	3173	69871	73426	1097	1533	13257	300787	316674	-	87877	24088	24232	452871														
<b>1999</b>																																			
Mar	11441	3241	11191	133511	159384	77266	148	709	41132	114638	156627	11589	3950	52323	325415	393277	-	63236	21348	10824	488685														
Jun	5391	1989	39982	135637	182999	79625	149	671	32710	111342	144872	5540	2660	72692	326604	407496	-	77637	28531	9075	522739														
Sep	6293	1660	29895	141691	179539	78616	152	982	27317	101089	129540	6445	2642	57212	321396	387695	-	64144	36317	21864	510020														
Dec	12741	3711	9361	153403	179216	75792	142	505	26284	91494	118425	12883	4216	35645	320689	373433	-	72188	28396	28214	502231														
<b>2000</b>																																			
Mar	7466	2944	13991	150109	174510	72539	147	439	15937	113405	129928	7613	3383	29928	336053	376977	-	80012	30260	30352	517601														
Jun	6736	2349	13381	145289	167755	75909	361	246	16170	110389	127166	7097	2595	29551	331587	370830	-	76217	38385	15740	501172														
Sep	4620	3971	12948	148198	169737	79800	159	472	10022	129086	139739	4779	4443	22970	357084	389276	-	79945	29569	19249	518039														
Dec	2186	3496	9456	149895	165033	82240	160	483	30707	98778	130128	2346	3979	40163	330913	377401	-	76349	26507	15938	496195														
<b>2001</b>																																			
Jan	2851	4258	15290	159389	181788	76959	154	484	27767	91639	120044	3005	4742	43057	327987	378791	-	77457	22839	15113	494200														
Feb	1218	2954	16296	149645	170113	78154	154	484	46091	72051	118780	1372	3438	62387	299850	367047	-	78803	21384	18733	485967														
Mar	1460	2594	15259	138936	158249	76056	154	320	40480	71935	112889	1614	2914	55739	286927	347194	-	80289	21318	16813	465614														
Apr	1539	2651	11090	145168	160448	75491	155	71	40786	72858	113870	1694	2722	51876	293517	349809	-	78685	22555	17148	468197														
May	623	2648	22085	149910	175266	72711	155	292	33680	73063	107190	778	2940	55765	295684	355167	-	79931	21712	14896	471706														
Jun	655	3002	14506	155322	173485	72301	155	292	33714	72617	106778	810	3294	48220	300240	352564	-	81165	21354	20318	475401														
Jul	2492	3406	19281	175065	200244	71372	352	79	16357	76107	92895	2844	3485	35638	322544	364511	-	82644	22629	16634	486418														
Aug	782	1766	12851	168132	183531	75816	330	115	16345	72993	89783	1112	1881	29196	316941	349130	-	84230	23189	27138	483687														
Sep	723	1877	10274	161917	174791	74743	151	249	10041	71666	82107	874	2126	20315	308326	331641	-	85943	24584	27045	469213														
Oct	2235	4427	9786	165294	181742	76713	98	290	4753	68481	73622	2333	4717	14539	310488	332077	-	85407	26219	25719	469422														
Nov	690	1580	13426	165714	181410	81276	99	290	4701	70679	75769	789	1870	18127	317669	338455	-	86938	27003	11325	463721														
Dec	998	1250	10084	151294	163626	79622	99	283	3173	69871	73426	1097	1533	13257	300787	316674	-	87877	24088	24232	452871														

1/ End of period beginning January 1989.  
Source: Central Bank of Solomon Islands.



TABLE 1.5A SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING\*

(SIS'000)

End of Period	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecommunications	Distribution	Tourism
1990	6152	7677	5399	63	8686	5697	3415	3605	19742	1632
1991	6237	2442	6607	-	6953	5484	4695	2664	18786	1775
1992	6064	4053	4448	-	6792	3982	4094	1877	16787	1719
1993	4146	7213	5765	-	8155	6045	3537	789	18949	3169
1994	2899	6631	5260	-	5661	7977	4460	3894	27057	4254
1995	1448	3799	6370	3	8618	9576	5088	3180	27710	8617
1996	2043	4180	2494	-	12471	9604	4232	2041	36347	6554
1997	2962	5982	1970	-	22656	9244	3296	892	34762	5940
1998	5740	9331	597	-	26386	9294	3782	730	54256	5188
1999	6547	11936	1738	-	33897	8014	3245	6546	38714	3688
2000	4443	14262	13119	-	54130	10390	2894	382	27407	3966
2001	3022	16067	266	-	41717	9601	3682	-	29442	3889
<b>1999</b>										
Mar	5611	11152	269	-	37025	9500	4985	1708	37587	5015
Jun	3855	11524	1296	-	33341	9355	2829	3471	41058	4038
Sep	5274	9248	2405	-	29970	8755	3704	3537	39777	3894
Dec	6547	11936	1738	-	33897	8014	3245	6546	38714	3688
<b>2000</b>										
Mar	5708	9474	15359	-	42782	10222	2657	4254	37566	3923
Jun	4541	10275	11070	-	63525	10377	3821	2842	35747	3843
Sep	5156	10269	14898	-	58714	10838	3908	901	32176	3741
Dec	4443	14262	13119	-	54130	10390	2894	382	27407	3966
<b>2001</b>										
Jan	3985	13521	11515	-	54962	10323	3761	414	31245	3715
Feb	3666	13942	11500	-	55732	10113	4180	240	31894	3675
Mar	3620	13341	1905	-	55441	9975	3505	167	32664	3552
Apr	3653	12907	2076	-	56363	9723	3214	193	31780	3519
May	3621	12544	1634	-	52123	10341	4110	18	28854	3551
Jun	3690	16823	2414	-	50074	10133	3447	-	29676	3451
Jul	3540	18155	103	-	46300	9884	3353	-	28529	3452
Aug	3341	16818	194	-	48185	9813	3355	-	28643	3380
Sep	3159	18721	1141	-	46076	9165	3448	-	29824	3304
Oct	3022	19030	682	-	43971	9227	3208	-	29730	3223
Nov	3072	20572	922	-	40551	9571	3584	-	30445	3708
Dec	3022	16067	266	-	41717	9601	3682	-	29442	3889

\* Part of this table is continued on the next page.  
Source: Central Bank of Solomon Islands

**TABLE 1.5B SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING (Cont'd)**

**(SIS'000)**

<b>End of Period</b>	<b>Entertainment &amp; Catering</b>	<b>Government</b>	<b>Statutory Corporations</b>	<b>Public Financial Institutions</b>	<b>Private Financial Institutions</b>	<b>Professional &amp; Other Services</b>	<b>Personal</b>	<b>TOTAL</b>	<b>NON-RESIDENT</b>
1990	245	3114	6885	1573	1941	7374	10780	93881	123
1991	378	284	6125	407	950	7583	11086	82456	118
1992	375	708	1398	383	1069	7004	13959	74712	88
1993	384	802	1768	949	667	5472	19932	87742	70
1994	1310	1944	682	231	951	8991	27713	109915	1291
1995	3450	2324	1194	25	823	8172	35103	125500	731
1996	3432	2349	1439	1266	1058	7536	36204	133250	168
1997	3583	4035	746	7	1037	8352	40592	146056	521
1998	3120	208	102	681	646	7903	50012	177976	551
1999	2926	219	2350	231	1088	7701	65696	194536	287
2000	2808	1057	3569	41	232	11345	48918	198863	165
2001	2433	158	1821	183	373	6605	35633	154892	42
<b>1999</b>									
Mar	3123	5	752	41	614	7825	52227	177439	470
Jun	3180	21	437	295	940	7559	56110	179309	452
Sep	3225	217	1237	417	992	7967	59593	180212	311
Dec	2926	219	2350	231	1088	7701	65696	194536	287
<b>2000</b>									
JMar	2951	142	4312	111	631	10700	60721	211513	358
Jun	2832	103	4533	-	737	10876	59850	224972	336
Sep	2843	230	3423	4	176	10798	54849	212924	192
Dec	2808	1057	3569	41	232	11345	48918	198963	165
<b>2001</b>									
Jan	2861	94	2497	-	204	10780	46114	195991	163
Feb	2845	233	2543	-	187	10171	45644	196565	161
Mar	2764	153	2454	-	281	10259	43980	184061	152
Apr	2850	135	2433	125	298	9532	41901	180702	148
May	2864	257	2472	211	366	9433	41009	173408	144
Jun	2689	237	2408	448	263	9459	41591	176803	143
Jul	2709	401	2321	357	244	8316	40779	168443	57
Aug	2626	147	2322	146	394	8007	39238	166609	159
Sep	2553	177	2122	451	372	7836	38902	167251	159
Oct	2504	160	2022	417	429	7933	36896	162454	46
Nov	2433	158	1979	376	363	7005	35701	160526	43
Dec	2433	158	1821	183	373	6605	35633	154892	42

Source: Central Bank of Solomon Islands.

**TABLE 1.6 COMMERCIAL BANK LIQUID ASSETS POSITION**

**(SIS'000)**

Period Average 1/	ELIGIBLE RESERVE ASSETS			REQUIRED RESERVE ASSETS	OTHER LIQUID ASSETS	SURPLUS/ (DEFECIT)	
	Till Cash	Balances With CBSI	Government Securities	Total	CBSI Securities		
1990	3142	2641	36882	42665	36246	-	6419
1991	3886	10173	-	14059	11754	-	2305
1992	3053	3582	80405	87040	71239	15959	31760
1993	2565	2295	107341	112201	80014	8342	40529
1994	4513	7987	128654	141154	100343	-	40811
1995	3807	18229	133644	155680	118701	-	36979
1996	2898	37005	144243	184146	136719	28000	75427
1997	2584	19059	154478	176121	142946	45000	78175
1998	3731	47773	162027	213531	145321	10000	78210
1999	3616	47821	-	52337	28007	8000	32330
2000	5280	55670	-	60950	28305	-	32645
2001	7271	57317	-	64588	23751	-	40837
<b><u>1999</u></b>							
Mar	3811	54688	162027	220526	157311	36000	99215
Jun	4151	66998	-	71149	30562	16000	56587
Sep	3626	52882	-	56508	29077	8000	35431
Dec	3616	48721	-	52337	28007	8000	32330
<b><u>2000</u></b>							
Mar	3988	32950	-	36938	28273	-	8665
Jun	3953	30794	-	34747	27812	-	6935
Sep	3288	48486	-	51774	29196	-	22578
Dec	5280	55670	-	60950	28305	-	32645
<b><u>2001</u></b>							
Jan	4902	82829	-	87731	28409	-	59322
Feb	4436	78252	-	82688	27529	-	55159
Mar	3720	75049	-	78769	26040	-	52729
Apr	4227	79660	-	83887	26236	-	57651
May	3584	82298	-	85882	26638	-	59244
Jun	4094	79816	-	83910	26442	-	57468
Jul	5311	98621	-	103932	27338	-	76594
Aug	4149	89808	-	93957	26185	-	67772
Sep	4786	71815	-	76601	24873	-	51728
Oct	6253	78157	-	84410	24906	-	59504
Nov	6553	83547	-	90100	25384	-	64716
Dec	7271	57317	-	64588	23751	-	40837

1/ End of period beginning January 1989.  
Source: Central Bank of Solomon Islands.

TABLE 1.7 ASSETS AND LIABILITIES OF OTHER LOCAL FINANCIAL INSTITUTIONS

(SIS'000)

End of Period	A S S E T S				L I A B I L I T I E S S				TOTAL ASSETS = TOTAL LIABILITIES
	Due from Banks	Loans and Advances	Treasury Bills	Other Assets	Time Deposits	Due to Banks	Capital	Other Liabilities	
1990	-	6347	-	1159	4389	1225	500	1392	7506
1991	60	4852	-	252	3269	354	1477	164	5264
1992	462	5439	-	285	3657	-462	2380	611	6186
1993	178	6418	-	952	4634	-	3329	-415	7548
1994	50	7592	-	1019	5040	-	3743	-122	8661
1995	535	7049	-	2404	5792	1750	2145	301	9988
1996	1200	6447	-	2652	7514	-	2631	154	10299
1997	-	3281	-	1118	764	357	2978	300	4399
1998	1672	1888	-	616	288	-	3321	567	4176
1999	3261	430	-	299	105	-	3727	158	3990
2000	3613	237	-	169	107	-	3654	258	4019
<b>1999</b>									
Mar	2438	1255	-	307	247	-	3459	294	4000
Jun	2743	827	-	361	155	-	3581	195	3931
Sep	2986	533	-	415	100	-	3679	155	3934
Dec	3261	430	-	299	105	-	3727	158	3990
<b>2000</b>									
Jan	3311	375	-	255	105	-	3567	269	3941
Feb	3361	341	-	242	105	-	3571	268	3944
Mar	3386	319	-	244	106	-	3579	264	3949
Apr	3408	298	-	244	106	-	3579	265	3950
May	3539	247	-	189	106	-	3603	266	3975
Jun	3544	241	-	200	106	-	3614	265	3985
Jul	3548	238	-	211	106	-	3625	266	3997
Aug	3553	234	-	221	107	-	3636	265	4008
Sep	3563	241	-	212	107	-	3647	262	4016
Oct	3610	240	-	177	107	-	3657	263	4027
Nov	3610	240	-	184	107	-	3665	262	4034
Dec	3613	237	-	169	107	-	3654	258	4019

Source: Central Bank of Solomon Islands.

TABLE 1.8 ASSETS AND LIABILITIES OF DEVELOPMENT BANK OF SOLOMON ISLANDS

(SIS'000)

End of Period	ASSETS							LIABILITIES					TOTAL ASSETS = TOTAL LIABS.	
	Fixed Deposits	Treasury Bills	Term Loans	Equity Holdings	Staff Loans	Fixed* Assets	Other+ Assets	Term Liabilities				Capital and Reserves		Other Liabs
								S.I.G	C.B.S.I	Overseas#	N.P.F			
1990	1232	800	14518	307	722	2176	-1574	2500	-	4205	2757	8112	607	18181
1991	2379	1800	14958	150	1248	2843	-4902	3747	-	1496	2397	9871	670	18476
1992	2950	3100	18139	150	1511	2686	-4810	3286	-	3185	3941	12421	893	23726
1993	1795	1600	24745	150	1746	2553	-7533	2856	-	4361	3385	13339	1115	25056
1994	1216	958	25021	97	1308	2765	-4033	2423	-	5019	3656	14128	2106	27332
1995	1385	780	29488	97	1578	2589	-4521	2369	-	6737	1020	14575	6695	31396
1996	3987	780	36461	97	2440	2658	-6178	1881	-	7944	905	14931	14584	40245
1997	4765	780	44614	97	3843	2844	-3565	1346	-	8069	703	15624	27636	53378
1998	2248	-	55609	970	2508	2852	-6839	1321	-	8069	2713	14583	30662	57348
1999	2573	-	60640	97	3817	5036	-8819	1320	-	13561	2647	14781	31035	63344
2000	374	-	61542	97	3578	4538	-14565	5117	-	12291	2515	4664	30977	55564
2001	621	-	62389	-	4131	4098	-20415	7145	-	10038	2584	681	30472	50920
<b>1999</b>														
Mar	3292	-	57653	97	3353	3901	-9624	1320	-	12428	2647	11434	30843	58672
Jun	802	-	58424	97	3480	4371	-9369	1320	-	13361	2647	10709	29768	57805
Sep	1517	-	59844	97	3624	4321	-9915	4820	-	11511	2647	10166	30344	59488
Dec	2573	-	60640	97	3817	5036	-8819	1320	-	13561	2647	14781	31035	63344
<b>2000</b>														
Mar	620	-	61437	97	4177	6710	-8981	5117	-	13561	2592	12335	30455	64060
Jun	172	-	62276	97	4399	4816	-9229	5117	-	13561	2540	9910	31403	62531
Sep	253	-	62537	97	3463	4718	-14951	5117	-	13561	2515	4219	30705	56117
Dec	374	-	61542	97	3578	4538	-14565	5117	-	12291	2515	4664	30977	55564
<b>2001</b>														
Jan	1866	-	61774	97	3645	4452	-14606	7157	-	12291	2515	4580	30685	57228
Feb	1868	-	61793	97	3666	4388	-14666	7157	-	12291	2515	4651	30532	57146
Mar	2969	-	62218	97	3778	4270	-14799	7157	-	12291	2515	4327	32243	58533
Apr	2970	-	62494	97	3801	5340	-14519	7157	-	12291	2515	5952	32268	60183
May	1773	-	63124	97	3893	3272	-14957	7157	-	12291	2515	4112	31127	57202
Jun	1173	-	63781	97	3873	3152	-17335	7146	-	10037	2584	4452	30522	54741
Jul	1023	-	62476	97	3582	3882	-19908	7146	-	10037	2584	1594	29791	51152
Aug	704	-	62943	97	4016	4373	-20342	7145	-	10038	4584	2029	27995	51792
Sep	569	-	64241	97	4061	4220	-20289	7145	-	10038	4584	1650	29482	52899
Oct	531	-	63720	97	3718	3912	-19967	7145	-	10038	2584	1950	30293	52010
Nov	630	-	62467	97	3782	4235	-20051	7145	-	10038	2584	2488	28904	51160
Dec	621	-	62389	-	4131	4098	-20415	7145	-	10038	2584	681	30472	50920

\* Less provision for depreciation.

+ Include provisions for doubtful debts.

# Intermediated by SI Government

Source: Development Bank of Solomon Islands.

TABLE 1-9 BALANCE OF PAYMENTS

(SI\$ Million)

	1997	1998	1999	2000	2001
<b>A. CURRENT ACCOUNT</b>	<b>-54.4</b>	<b>53.4</b>	<b>120.0</b>	<b>-223.8</b>	<b>-172.3</b>
1. Goods and Services	-174.3	-29.4	-40.3	-236.2	-231.1
1.1 Goods	32.8	67.0	192.6	-117.3	-182.7
a) Exports f.o.b.	581.5	683.0	725.0	352.6	248.7
b) Imports f.o.b.	-548.7	-616.0	-532.4	-469.9	-431.4
1.2. Services	-207.1	-96.4	-232.9	-118.9	-48.3
a) Transportation	-82.0	-106.8	-240.9	-175.2	-56.1
credit	9.6	1.7	23.2	5.7	23.3
debit	-91.6	-108.5	-264.1	-180.9	-79.4
b) Travel	-6.8	3.9	-7.2	-29.4	-7.2
credit	26.4	31.9	27.5	19.6	27.5
debit	-33.2	-28.0	-34.7	-49.0	-34.7
c) Other	-118.3	6.5	15.2	85.7	15.0
credit	226.4	46.7	221.7	225.7	221.6
debit	-344.7	-40.2	-206.5	-140.0	-206.6
2. Income	-30.8	-35.7	-81.9	-21.4	0.6
a) Compensation of employees	-	-	-16.3	6.0	14.8
credit	-	-	11.4	22.0	23.9
debit	-	-	-27.7	-16.0	-9.1
b) Investment income	-30.8	-35.7	-65.6	-27.4	-14.2
i. Direct Investment	-30.8	-35.7	-65.6	-27.4	-10.7
credit	1.1	1.9	15.1	14.9	4.0
debit	-31.9	-37.6	-80.7	-42.3	-14.8
ii. Other Investment	-	-	-	-	-3.5
credit	-	-	-	-	9.6
debit	-	-	-	-	-13.1
3. Current Transfers	150.7	118.5	242.2	33.8	58.2
3.1. General government	145.3	118.6	266.5	115.5	54.5
a) Cash	139.0	112.2	85.8	108.7	48.8
credit	139.0	115.8	103.1	110.7	52.9
debit	-	-3.6	-17.3	-2.0	-4.1
b) Goods and services	6.3	6.4	180.7	6.8	5.7
3.2 Other sectors	5.4	-0.1	-24.3	-81.7	3.7
credit	79.6	122.3	99.8	61.9	110.1
debit	-74.2	-122.4	-124.1	-143.6	-106.4
<b>B. CAPITAL AND FINANCIAL ACCOUNT</b>	<b>74.1</b>	<b>81.7</b>	<b>-93.8</b>	<b>131.8</b>	<b>108.2</b>
1. Capital Account	-3.8	34.0	44.3	67.5	23.0
1.1 Capital transfers - net	-3.8	34.0	44.3	67.5	23.0
a) General government	-4.8	32.0	40.6	65.8	23.6
i. Debt forgiveness - net	-	-	-	-	-
ii. Other - net	-4.8	32.0	40.6	65.8	23.6
b) Other sectors	1.0	2.0	3.7	1.7	-0.5
i. Migrants' transfers - net	-	-	-	-	-0.6
ii. Debt forgiveness - net	-	-	-	-	-
iii. Other - net	1.0	2.0	3.7	1.7	0.1
2. Financial Account	77.9	47.7	-138.1	64.3	85.2
2.1 Direct Investment	33.9	8.8	-89.8	6.9	-61.3
2.1.1. In Reporting Economy	33.9	8.8	-89.8	6.9	-61.3
a) Equity capital	-	-	-	-	-6.0
b) Reinvested earnings	-	-	-	-	-47.0
c) Other capital	33.9	8.8	-89.8	6.9	-8.3
2.2. Other Investment	44.0	38.9	-48.3	57.4	146.5
2.2.1. Assets	-	-	2.9	5.0	10.0
a) Trade credits	-	-	2.9	1.5	10.0
b) Loans	-	-	-	-	-
c) Currency and deposits	-	-	-	3.5	-
d) Other assets	-	-	-	-	-
2.2.2. Liabilities	44.0	38.9	-51.2	52.4	136.5
a) Trade credits	-	-	106.5	49.8	15.0
b) Loans	48.6	46.6	-156.2	21.0	57.5
i. Monetary Authority - net	-	-	-	-	-
ii. General Government:					
Long term	-18.9	58.6	53.3	-29.9	48.2
credit	9.7	92.8	74.4	22.6	88.6
debit	-28.6	-34.2	-21.1	-52.5	-40.4
iii. Other Sectors:					
Long term	29.4	5.2	-191.5	-9.1	-6.2
credit	80.4	109.7	10.1	3.4	0.2
debit	-51.0	-104.5	-201.6	-12.5	-6.4
iv. Short term - net	38.1	-17.2	-18.0	60.0	15.5
c) Other Liabilities - net	-4.6	-7.7	-1.5	-18.4	64.0
Net Errors and Omissions	14.2	-52.1	-3.2	-5.2	6.9
<b>Overall Balance</b>	<b>33.9</b>	<b>83.0</b>	<b>23.0</b>	<b>-97.2</b>	<b>-57.2</b>
<b>Financing</b>	<b>-33.9</b>	<b>-83.0</b>	<b>-23.0</b>	<b>97.2</b>	<b>57.2</b>
<b>Reserves (=-increase)</b>	<b>-33.9</b>	<b>-83.0</b>	<b>-23.0</b>	<b>97.2</b>	<b>57.2</b>

Source: Central Bank of Solomon Islands

**TABLE 1.10 FOREIGN EXCHANGE RECEIPTS 1/**  
(Year Ended)

(SI\$'000)

	1996	1997	1998	1999	2000	2001
<b>Current Receipts</b>						
<b>Exports</b>						
Copra	27681	17713	39168	39290	34740	432
Fish	157165	182403	194179	159045	41174	37336
Logs	366489	309393	196270	250658	224422	190457
Palm Oil & Kernels	66695	57410	97910	65144	6565	237
Cocoa	17716	44504	30280	24394	9277	4536
All Other	20570	37278	50464	68836	15124	15688
<b>Total Exports</b>	<b>656316</b>	<b>648701</b>	<b>608271</b>	<b>607367</b>	<b>331302</b>	<b>248685</b>
<b>Services</b>						
Transportation	7318	9562	7632	5242	3209	6139
Travel	49415	26318	31932	27515	18404	11574
Insurance	1425	213	599	177	2	747
Royalties & License Fees	-	-	538	343	1228	41580
Communication	-	-	10835	10981	9051	630
Financial Services	-	-	92113	92757	110646	127
Others	107814	202581	140751	116851	104725	69570
<b>Total Services</b>	<b>165972</b>	<b>238674</b>	<b>284400</b>	<b>253866</b>	<b>247266</b>	<b>130368</b>
<b>Income Account</b>						
Wages & Others	-	-	4233	11410	21831	20994
Interest, Dividends & Profits	234	1138	1726	1208	1202	2021
Official Interest	6056	8941	8287	13282	13712	5934
Other Income	-	-	30	135	7	3694
<b>Total Income</b>	<b>8400</b>	<b>10079</b>	<b>14276</b>	<b>26035</b>	<b>36752</b>	<b>32644</b>
<b>Transfers</b>						
<b>Official</b>						
Cash Aid	5559	94351	14043	19776	1145	49244
Other Official	14059	19521	35762	4516	10103	3662
<b>Total Official Transfers</b>	<b>19618</b>	<b>28956</b>	<b>49805</b>	<b>24292</b>	<b>11248</b>	<b>52906</b>
<b>Transfers</b>						
<b>Private</b>						
Gifts and Donations	29608	30243	29425	16099	10323	17333
Transfers by Temp. Res. & Immigrants	17664	18733	1461	1926	2973	16582
Churches & Charitable Institutions	18768	16483	26487	21464	17313	20546
Foreign Governments	23560	22834	29225	23055	19254	34870
International Organisations	14059	19521	35762	60256	33879	37307
<b>Total Private Transfers</b>	<b>66040</b>	<b>65459</b>	<b>57373</b>	<b>122800</b>	<b>83743</b>	<b>126647</b>
<b>Total Current Receipts</b>	<b>916346</b>	<b>991869</b>	<b>1014125</b>	<b>1034360</b>	<b>710310</b>	<b>591249</b>
<b>Capital &amp; Financial Receipts</b>						
<b>Private</b>						
Investment Grants	-	-	174	3743	1734	521
Direct Investment	1621	2021	672	7563	10644	2845
Loans	45742	80963	13431	3236	1868153	153
Other Foreign Investment	21958	25	1316	1610	41	2050
<b>Total Private Inflows</b>	<b>69321</b>	<b>33009</b>	<b>15593</b>	<b>16152</b>	<b>14288</b>	<b>5568</b>
<b>Official</b>						
Investment Grants	-	-	33303	3440	28180	23062
Loans	6149	9670	92822	47001	22604	88621
CBSI	-	-	-	-	-	-
Euro \$ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
<b>Total Official Inflows</b>	<b>6149</b>	<b>9670</b>	<b>126125</b>	<b>50441</b>	<b>50784</b>	<b>111683</b>
<b>Total Capital Receipts</b>	<b>75470</b>	<b>42679</b>	<b>141718</b>	<b>66593</b>	<b>65072</b>	<b>117251</b>
<b>TOTAL RECEIPTS</b>	<b>991816</b>	<b>1034548</b>	<b>1155843</b>	<b>1100953</b>	<b>775381</b>	<b>708500</b>

1/ Derived from the formal banking system.

Source: Central Bank of Solomon Islands.

**TABLE 1.11 FOREIGN EXCHANGE PAYMENTS 1/  
(Year Ended) (SI\$'000)**

	1996	1997	1998	1999	2000	2001
<b>Current Payments</b>						
<b>Imports</b>						
Government	16134	5604	-	-	-	-
Oil Imports	78504	100718	103709	75162	93417	75750
Food Imports 2/	58645	86085	82138	83026	79363	108448
Beverages & Tobacco	-	-	9170	6147	5105	9298
Plants, Vehicles & Transport Equipt.	58645	86085	121523	127544	88241	53320
Building & Construction Mat.	262208	261547	34050	33368	25489	22577
Chemical	-	-	13297	14771	9018	13745
Other Imports	262208	261547	251514	198,489	198337	148799
<b>Total Imports</b>	<b>736344</b>	<b>801586</b>	<b>615401</b>	<b>538407</b>	<b>498970</b>	<b>431937</b>
<b>Services</b>						
Transportation	11662	21511	41130	38108	23177	17239
Travel	54164	33385	26860	34644	44317	34332
Insurance	6271	10147	5363	13310	4469	5059
Communication	-	-	22448	26059	13799	8527
Financial	-	-	41708	24940	13995	32858
Royalties & License Fees etct.	262	245	517	264	981	759
Others	167937	220796	185503	95838	72247	65255
<b>Total Services</b>	<b>240296</b>	<b>286084</b>	<b>323529</b>	<b>233163</b>	<b>172988</b>	<b>164030</b>
<b>Income</b>						
Wages & Others	-	-	15676	26710	14850	9119
Interest Dividends & Profits	26833	31928	25366	19555	16829	7543
Official Interest	2398	1988	9750	9672	3042	2820
<b>Total Income Payments</b>	<b>29231</b>	<b>33916</b>	<b>50792</b>	<b>55937</b>	<b>34721</b>	<b>19482</b>
<b>Transfers</b>						
SI Govt Current Payments	8307	6327	15778	17344	7655	6126
Gifts & Donation	21383	52910	79790	99570	126692	93206
Transfers by Temporary Residents	30157	10646	10098	13309	14387	2785
Other Transfers	9640	4785	10554	9662	10218	9788
<b>Total Transfers</b>	<b>69487</b>	<b>74668</b>	<b>116220</b>	<b>139885</b>	<b>158952</b>	<b>111905</b>
<b>Total Current Payments</b>	<b>1075358</b>	<b>1196254</b>	<b>1105942</b>	<b>967392</b>	<b>865628</b>	<b>727354</b>
<b>Capital &amp; Financial Payments</b>						
<b>Private</b>						
Loan Repayments	66161	39683	49900	49683	4368	6395
Capital Repatriation	2317	2603	2015	-	11	-
Emigrant Transfers	9640	4785	1260	1470	2507	634
Other Payments	-	-	21	6047	849	4162
<b>Total Private Inflows</b>	<b>78118</b>	<b>47071</b>	<b>53196</b>	<b>57200</b>	<b>7735</b>	<b>11191</b>
<b>Official</b>						
S I Government Loans	6115	8211	34195	9836	6181	3445
CBSI	-	-	66	-	-	-
IMF Transactions	-	-	-	-	-	-
<b>Total Official Outflows</b>	<b>6115</b>	<b>8211</b>	<b>34261</b>	<b>9837</b>	<b>6181</b>	<b>3445</b>
<b>Total Capital Payments</b>	<b>84233</b>	<b>55282</b>	<b>87457</b>	<b>67037</b>	<b>13916</b>	<b>14636</b>
<b>TOTAL PAYMENTS</b>	<b>1159591</b>	<b>1251536</b>	<b>1193399</b>	<b>1034429</b>	<b>879505</b>	<b>741990</b>

1/ Derived from the formal banking system.

2/ Includes beverages and tobacco up to 1997.

Source: Central Bank of Solomon Islands.



**TABLE 1-12 EXCHANGE RATES**  
(UNITS OF S\$ PER FOREIGN CURRENCY)

Period Average	US\$	Aus\$	Pound Stg	Yen (Per 100)	NZ\$	S.D.R.
1990	2.53	1.97	4.52	1.75	1.49	3.44
1991	2.72	2.12	4.79	2.03	1.56	3.72
1992	2.93	2.15	5.15	2.31	1.58	4.11
1993	3.18	2.17	4.79	2.87	1.72	4.47
1994	3.29	2.41	5.04	3.23	1.95	4.72
1995	3.41	2.52	5.38	3.64	2.24	5.17
1996	3.55	2.80	5.54	3.27	2.44	5.15
1997	3.73	2.76	6.13	3.07	2.46	5.12
1998	4.82	3.03	7.98	3.68	2.60	6.55
1999	4.93	3.18	7.99	4.36	2.61	6.75
2000	5.11	2.99	7.72	4.74	2.34	6.70
2001	5.52	2.84	7.96	4.34	2.30	6.98
<b><u>1996</u></b>						
Mar	3.52	2.77	5.33	3.28	2.40	5.10
Jun	3.54	2.81	5.47	3.25	2.40	5.11
Sep	3.58	2.84	5.58	3.26	2.49	5.19
Dec	3.61	2.88	6.01	3.18	2.55	5.20
<b><u>1997</u></b>						
Mar	3.64	2.87	5.81	2.97	2.54	5.01
Jun	3.67	2.77	6.04	3.20	2.53	5.09
Sep	3.72	2.69	5.96	3.08	2.37	5.05
Dec	4.22	2.81	7.02	3.11	2.51	5.72
<b><u>1998</u></b>						
Mar	4.78	3.21	7.94	3.72	2.75	6.43
Jun	4.81	2.90	7.92	3.26	2.46	6.40
Sep	4.93	2.90	8.29	3.66	2.49	7.05
Dec	4.84	3.00	8.07	4.11	2.53	6.77
<b><u>1999</u></b>						
Mar	4.82	3.04	7.81	4.03	2.57	6.53
Jun	4.84	3.18	7.73	4.01	2.58	6.49
Sep	5.04	3.25	8.18	4.70	2.64	6.93
Dec	5.06	3.22	8.16	4.93	2.57	6.95
<b><u>2000</u></b>						
Mar	5.08	3.10	8.03	4.76	2.49	6.82
Jun	5.09	3.07	7.74	4.85	2.39	6.81
Sep	5.09	2.83	7.30	4.77	2.13	6.59
Dec	5.10	2.70	7.51	4.54	2.24	6.63
<b><u>2001</u></b>						
Jan	5.10	2.83	7.54	4.37	2.27	6.64
Feb	5.38	3.16	8.61	5.09	2.58	3.39
Mar	5.14	2.59	7.43	4.24	2.16	6.59
Apr	5.21	2.59	7.46	4.20	2.12	6.60
May	5.24	2.73	7.47	4.29	2.21	6.61
Jun	5.27	2.73	7.39	4.31	2.18	6.59
Jul	5.29	2.69	7.47	4.25	2.16	6.62
Aug	5.29	2.77	7.60	4.35	2.28	6.74
Sep	5.32	2.70	7.78	4.49	2.24	6.85
Oct	5.39	2.72	7.83	4.45	2.23	6.90
Nov	5.45	2.81	7.84	4.46	2.27	6.92
Dec	5.52	2.84	7.96	4.34	2.30	6.98

Source: Central Bank of Solomon Islands.

TABLE 1-13 COMPETITIVENESS AND RELATIVE PRICES

Period Average	Exchange rates			Term of Trade export unit values relative to foreign export prices (in common currency)
	A Nominal Effective	B Real Effective 1 based on relative retail prices	C Real Effective 2 based on domestic retail prices and foreign export prices	
1990	100.0	100.0	100.0	100.0
1991	110.7	103.0	94.5	98.8
1992	121.0	102.7	92.4	103.8
1993	134.2	103.2	90.3	149.4
1994	147.5	98.9	83.4	144.1
1995	160.8	98.7	83.5	125.7
1996	160.1	92.0	75.2	131.0
1997	161.4	85.0	69.2	140.8
1998	185.3	85.2	70.4	127.7
1999	205.4	85.0	65.4	125.2
2000	205.7	84.6	68.2	117.8
<b>2001 1/</b>	<b>194.5</b>	<b>74.6</b>	<b>62.0</b>	<b>116.8</b>
<b>2000</b> Q1	212.7	86.9	68.5	117.1
Q2	208.5	85.1	68.5	117.4
Q3	204.4	84.6	68.0	118.0
Q4	197.4	81.5	67.3	119.2
<b>2001 1/</b> Q1	194.1	80.9	66.8	119.5
Q2	192.5	71.0	59.5	117.5
Q3	195.5	72.1	59.7	117.3
Q4	195.9	74.6	62.0	112.9
<b>Annual Percentage Changes</b>				
1990	9.7	8.6	2.8	-7.7
1991	10.7	-1.1	-9.3	-1.2
1992	9.3	-0.3	-2.3	5.1
1993	10.9	0.5	-2.2	43.9
1994	9.9	-4.2	-7.6	-3.5
1995	9.0	-0.2	0.1	-12.8
1996	-0.5	-6.8	-10.0	4.1
1997	0.9	-7.6	-8.0	-7.5
1998	14.8	0.3	1.8	-9.3
1999	10.8	-0.2	-6.4	-3.0
2000	0.2	-0.5	3.5	3.0
2001 1/	-5.4	-0.4	-1.5	-1.3
<b>Quarterly Percentage Changes</b>				
<b>2000</b> Q1	-1.7	-1.0	0.6	-0.8
Q2	-1.9	-2.0	-0.2	0.2
Q3	-2.0	-0.6	-0.5	0.4
Q4	-3.3	-3.5	-0.9	0.7
<b>2001 1/</b> Q1	-1.7	-0.7	-0.8	0.2
Q2	-0.8	-12.2	-10.8	-1.6
Q3	1.6	1.6	0.3	-0.2
Q4	0.2	3.5	3.8	-3.8

A A rise in the nominal effective exchange rates implies a depreciation of the average exchange rate of SI dollar against a trade weighted basket of other currencies.

B. A rise indicates a depreciation: average foreign retail prices increased faster than HRPI when all are expressed in a common currency.

C. A rise indicates a depreciation: average foreign export prices increased faster than SI consumer prices, when all are expressed in a common currency.

D. A rise indicates SI export prices increased relative to those countries from which it imports.

1/ - Figures for 2001 are provisional estimates

Source: Central Bank of Solomon Islands.

**TABLE 1.14 GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT**

(SIS'000)

End of Period	DEVELOPMENT & TREASURY BONDS						TREASURY BILLS						OTHER		GRAND TOTAL
	Commercial Banks	Central Bank	National Provident Fund	Statutory Corporations	Public	Total	Commercial Banks	Central Bank	National Provident Fund	Statutory Corporations	Public	Total	Central Bank		
1990	16628	110	11050	514	554	28856	20254	9107	-	1250	753	31364	1333	61558	
1991	27161	11	11050	59	593	38875	42776	2016	10082	1753	1639	58266	3819	100960	
1992	24831	3	11050	59	3140	39083	80405	267	17250	3100	5799	106821	8527	154431	
1993	23131	4	12650	-	4976	40761	107340	43	39000	1363	10439	158185	8527	207473	
1994	33278	24	18504	-	8055	59861	128654	-	31787	958	15680	177079	8527	245467	
1995	23253	25	17504	-	7979	48761	133644	-	41292	780	13453	189179	8527	246445	
1996	14333	25	22204	-	5334	41896	144243	-	45595	780	14747	205365	7252	254513	
1997	4500	25	16104	-	344	20973	154478	-	51672	780	18809	225739	6410	253122	
1998	3500	27	53775	-	340	57542	162027	-	55804	-	11877	229708	6410	293760	
1999	118340	27	110475	-	-	228842	61957	-	14648	-	10033	86638	11075	326555	
2000	149840	27	92271	-	-	242138	34512	-	10594	-	15717	60823	11075	314036	
2001	149840	27	94271	-	1500	245638	-	-	18394	-	31641	50035	11075	306748	
<b>1999</b>															
Mar	1000	27	54975	-	324	56326	162027	-	54444	-	12054	228525	11075	295926	
Jun	25800	27	110475	-	2339	139622	86389	-	1994	-	15421	103804	11075	254501	
Sep	118340	27	104475	-	2339	225181	85974	-	14537	-	15964	116475	11075	352731	
Dec	118340	27	110475	-	-	228842	61957	-	14648	-	10033	86638	11075	326555	
<b>2000</b>															
Mar	151840	27	106318	-	339	258524	40160	-	21400	-	11533	73093	11075	342692	
Jun	151840	27	103575	-	339	255781	21530	-	24185	-	9985	55700	11075	322556	
Sep	149840	27	95221	-	37	245125	40451	-	21170	-	16453	78074	11075	334274	
Dec	149840	27	92271	-	-	242138	34512	-	10594	-	15717	60823	11075	314036	
<b>2001</b>															
Mar	149840	27	94271	-	-	244138	-	-	7845	987	19396	28228	11075	283441	
Jun	149840	27	94271	-	2000	246138	-	-	2983	490	19602	23075	11075	280288	
Sep	149840	27	94271	-	1500	245638	-	-	17873	-	29561	47434	11075	304147	
Dec	149840	27	94271	-	1500	245638	-	-	18394	-	31641	50035	11075	306748	

Note: NPF, Public and Statutory Corporations use data for the last Wednesday of the month. Commercial Banks and Central Bank use end month data.  
Source : Central Bank of Solomon Islands.

TABLE 1-15 SUMMARY OF GOVERNMENT ANNUAL ACCOUNTS AND BUDGET FORECASTS\*

(\$ Millions)

	1995	1996	1997	1998	1999	2000	91-2000 Ave
<b>Budget Forecasts:</b>							
<b>Total Expenditure</b>	<b>354</b>	<b>387</b>	<b>375</b>	<b>543</b>	<b>379</b>	<b>592</b>	<b>354.2</b>
A. Recurrent Expenditure	328	358	337	523	349	396	315.8
i. Pay	111	126	142	147	141	150	116.1
ii. Other Charges	147	148	151	160	149	197	132.1
iii. Debt Service	70	84	44	67	59	49	52.7
iv. Policy & Struct. Reform				149	92	-	24.1
B. Development Expenditure	26	29	38	20	30	196	38.4
<b>Total Income</b>	<b>309</b>	<b>336</b>	<b>315</b>	<b>534</b>	<b>559</b>	<b>443</b>	<b>329.14</b>
i. Log Revenue	70	73	58	36	46	32	45.1
ii. Non-Log Revenue	239	263	257	311	356	411	261.04
iii. Policy & Struct. Reform Income				149	79	-	24.1
iv. Grants				38	78	118	26.8
<b>Fiscal Deficit (domestically financed)</b>	<b>51</b>	<b>55</b>	<b>50</b>	<b>-44</b>	<b>-80</b>	<b>149</b>	<b>25.06</b>
<b>Actual Government Accounts:</b>							
<b>Total Expenditure</b>	<b>360</b>	<b>391</b>	<b>365</b>	<b>490</b>	<b>479</b>	<b>458.8</b>	<b>362.08</b>
A. Recurrent Expenditure	328	362	307	471	458	428.8	337.28
i. Pay	124	127	137	108	152	150.5	119.95
ii. Other Charges	134	151	157	129	175	229.1	141.17
iii. Debt Service	70	84	13	85	87	49.2	56.32
iii. Policy & Struct. Reform				149	44	-	19.3
B. Development Expenditure	32	29	58	19	21	30	24.8
<b>Total Income</b>	<b>309</b>	<b>336</b>	<b>315</b>	<b>534</b>	<b>559</b>	<b>449.9</b>	<b>333.06</b>
i. Log Revenue	70	73	58	36	46	37	50.3
ii. Non-Log Revenue	239	263	257	311	356	277	236.4
iii. Policy & Struct. Reform Income				149	79	-	22.8
iv. Grants				38	78	135.9	23.56
<b>Fiscal Deficit (domestically financed)</b>	<b>51</b>	<b>55</b>	<b>50</b>	<b>-44</b>	<b>-80</b>	<b>8.9</b>	<b>29.02</b>
<b>Difference between Actual and Budget (%)</b>							
<b>Total Expenditure</b>	<b>2%</b>	<b>1%</b>	<b>-3%</b>	<b>-10%</b>	<b>26%</b>	<b>-23%</b>	<b>6%</b>
A. Recurrent Expenditure	0%	1%	-9%	-10%	31%	-8%	9%
i. Pay	12%	1%	-4%	-27%	8%	-0%	6%
ii. Other Charges	-9%	2%	4%	-19%	17%	-16%	9%
iii. Debt Service	0%	0%	-70%	27%	47%	-0%	7%
iv. Policy and Structural Reform				0%	-52%	-	-
B. Development Expenditure	23%	0%	53%	-5%	-30%	-85%	13%
<b>Total Income</b>	<b>12%</b>	<b>0%</b>	<b>-29%</b>	<b>-12%</b>	<b>44%</b>	<b>2%</b>	<b>3%</b>
i. Log Revenue	-7%	4%	-40%	-23%	35%	16%	51%
ii. Non-Log Revenue	20%	-1%	-26%	-5%	4%	-33%	-7%
iii. Policy and Structural Reform				0%	-14%	-	-
iv. Grants				-53%	13%	15%	-16%
<b>Fiscal Deficit (domestically financed)</b>	<b>-35%</b>	<b>10%</b>	<b>-171%</b>	<b>-28%</b>	<b>-3177%</b>	<b>-94%</b>	<b>-231%</b>
<b>Memorandum Items:</b>							
Actual Change in Government Domestic Debt							
Change in Gross Domestic Debt	17	5	6	27	-10	-13.5	28.6
Change in Net Domestic Debt	19	7	3	-27	-10	30.5	24.2
Change in Foreign Debt	9	11	94	83	63	-34.1	38.1
Gross change in Total Debt	38	16	100	111	-5	-47.6	60.3
Net change in Total Debt	18	98	25	60	65	29.6	60.5

\* Budget Forecasts are published in February or March of each year by the Ministry of Finance.

# In 1998 the government made a surplus budget of \$44 million.

Source: Central Bank of Solomon Islands.

TABLE 1-16 GOVERNMENT REVENUES

(SIS'000)

End of Period	Total Customs & Inland Revenue	Total Customs	Import Duty	Log Export Duty	Timber Levy	Other Exports	Other Customs	Total Inland Rev.	Company	Personal	Govt. PAYE	Goods & Sales	Other I.R.	Ministries & Other *
1997	<b>285874</b>	140402	69060	50778	7407	7416	5741	145472	27592	33361	21611	42241	20667	28820
1998	<b>316047</b>	126093	71422	30702	5525	11839	6605	189954	55184	39703	16813	53657	24597	31305
1999	<b>365368</b>	148029	75660	45604	-	10790	15974	217339	51774	44101	18077	71318	32069	32216
2000	<b>260169</b>	101225	51986	37950	-	2869	8419	158944	26121	35334	18744	59355	19390	18515
<b>1999</b>														
Q1	<b>91916</b>	38338	17494	13829	-	3411	3604	53578	14925	10304	3464	16404	8481	16546
Q2	<b>86974</b>	36767	20753	8618	-	3761	3634	50207	11413	11274	3874	17724	5922	4152
Q3	<b>89175</b>	32340	15275	12194	-	1321	3550	56835	14797	11843	4345	16847	9003	5215
Q4	<b>95852</b>	39134	22138	9963	-	2197	4836	56718	10639	10680	6394	20343	8662	6303
<b>2000</b>														
Q1	<b>79264</b>	29365	15205	10852	-	966	2342	49899	8911	12884	3922	19110	5072	6397
Q2	<b>70357</b>	27402	14548	9208	-	1141	2507	42955	6966	8713	3945	17579	5752	5859
Q3	<b>50896</b>	18459	7002	9825	-	490	1142	32437	7484	8192	3359	10652	2750	3567
Q4	<b>59652</b>	25999	15231	8067	-	272	2428	33653	2760	5545	7518	12014	5816	2692
<b>Percentage Change on year earlier</b>														
1997	<b>-2%</b>	-8%	7%	-25%	-18%	18%	20%	6%	-32%	19%	74%	1%	-42%	-38%
1998	<b>11%</b>	-10%	3%	-40%	-25%	60%	15%	31%	100%	19%	-22%	27%	19%	9%
1999	<b>16%</b>	17%	6%	49%	-100%	-9%	142%	14%	-6%	11%	8%	33%	30%	3%
<b>1999</b>														
Q1	<b>25.6</b>	11.3	2.1	15.3	-100.0	35.0	203.9	38.5	119.9	6.7	-15.0	47.7	20.1	188.0
Q2	<b>34.8</b>	38.2	10.7	126.8	-100.0	28.8	245.8	32.3	25.7	27.6	-17.4	63.9	30.8	-65.7
Q3	<b>9.9</b>	10.5	-11.0	110.2	-100.0	-55.4	70.4	9.6	-7.5	23.7	12.5	16.3	13.6	-9.5
Q4	<b>-0.3</b>	12.8	20.5	15.0	-100.0	-34.4	122.8	-7.7	-54.4	-8.2	52.7	17.9	70.3	7.9
<b>2000</b>														
Q1	<b>-14.0</b>	-23.9	-13.1	-21.5	0.0	-71.7	-39.1	-6.9	-40.3	25.0	13.2	16.5	-40.2	-61.3
Q2	<b>-20.2</b>	-27.8	-29.9	-4.3	0.0	-70.4	-32.9	-14.4	-39.0	-22.7	1.8	-0.8	-2.9	41.1
Q3	<b>-42.9</b>	-42.9	-54.2	-19.4	0.0	-62.9	-67.9	-42.9	-49.4	-30.8	-22.7	-36.8	-69.5	-31.6
Q4	<b>-37.8</b>	-33.6	-31.2	-19.0	0.0	-87.6	-49.8	-40.7	-74.1	-48.1	17.6	-40.9	-32.9	-57.3
<b>Percentage Contribution to Total Inland Revenue and Customs Revenue</b>														
1997	<b>100.0</b>	49.1	24.2	17.8	2.6	2.6	2.0	50.9	9.7	11.7	7.6	14.8	7.2	10.1
1998	<b>100.0</b>	39.9	22.6	9.7	1.7	3.7	2.1	60.1	17.5	12.6	5.3	17.0	7.8	9.9
1999	<b>100.0</b>	40.5	20.7	12.5	0.0	3.0	4.4	59.5	14.2	12.1	4.9	19.5	8.8	8.8
2000	<b>100.0</b>	38.9	20.0	14.6	0.0	1.1	3.2	61.1	10.0	13.6	7.2	22.8	7.5	7.1

Source: Central Bank of Solomon Islands

\* In 2000, other ministries monthly revenues were up to November only

**TABLE 1-17 HONIARA RETAIL PRICE INDEX**  
(1985 = 100)

<b>Period Average</b>	<b>Food</b>	<b>Drink &amp; Tobacco</b>	<b>Clothing &amp; Footwear</b>	<b>Transport</b>	<b>Housing &amp; Utilities</b>	<b>Micellaneous</b>	<b>Local Items</b>	<b>Imported Items</b>	<b>All Items</b>	<b>Annual % Change (All Items)</b>
<b>Weight</b>	<b>510.0</b>	<b>100.0</b>	<b>49.0</b>	<b>66.0</b>	<b>125.0</b>	<b>150.0</b>	<b>463.0</b>	<b>537.0</b>	<b>1000.0</b>	
<b>Annual Averages</b>										
1990	185.0	251.4	152.4	200.7	134.1	174.7	177.9	188.8	183.8	8.6
1991	216.0	275.9	182.8	256.9	147.2	193.0	203.6	218.8	211.8	15.2
1992	240.8	313.4	201.9	300.1	149.3	207.4	222.3	245.1	234.5	10.7
1993	262.7	354.3	210.3	350.0	159.0	226.7	245.5	264.2	256.0	9.2
1994	292.3	380.5	231.9	460.3	177.7	261.2	287.5	285.7	290.1	13.3
1995	313.4	437.1	253.8	486.1	188.7	278.8	313.7	304.4	317.9	9.6
1996	355.3	445.8	261.5	516.5	230.0	307.2	363.3	333.9	355.3	11.8
1997	394.8	534.0	265.2	537.1	237.8	314.3	399.8	350.5	384.0	8.1
1998	445.4	585.5	282.0	666.3	262.4	252.5	447.1	396.4	431.3	12.4
1999	493.7	576.2	284.0	709.4	291.2	371.8	494.1	412.7	466.1	8.0
2000*	518.6	641.5	286.7	725.0	301.8	392.5	521.8	436.3	492.5	6.1
<b>Three months averages</b>										
<b>1998</b>										
Mar	431.3	562.8	280.6	595.7	254.0	392.0	425.8	389.2	415.6	10.8
Jun	441.0	578.1	282.3	679.5	262.8	393.3	445.6	394.7	429.7	11.6
Sep	452.5	592.0	282.1	691.0	266.5	398.6	456.5	398.5	437.8	13.7
Dec	456.8	609.1	283.1	699.0	266.4	405.4	460.6	403.3	442.3	13.3
<b>1999</b>										
Mar	475.8	619.7	283.7	704.1	277.6	367.6	475.0	413.7	455.1	9.5
Jun	485.5	616.5	283.2	710.3	288.2	370.0	490.0	407.0	461.4	7.4
Sep	507.5	536.1	283.2	710.5	305.2	368.8	509.3	406.2	472.6	7.8
Dec	506.0	532.6	285.9	712.6	293.8	423.2	463.8	448.4	475.4	7.5
<b>2000</b>										
Jan	494.4	698.0	286.5	722.1	294.8	346.4	504.4	428.7	478.9	7.5
Feb	496.0	718.5	286.9	720.5	299.7	374.7	508.3	421.6	478.4	6.6
Mar	499.6	642.7	287.1	721.9	304.9	388.8	502.5	432.1	478.7	5.5
Apr	514.2	628.3	286.7	725.0	301.8	391.4	517.8	437.3	490.5	5.5
May	518.6	641.5	286.7	725.0	301.8	392.5	521.8	436.3	492.5	6.1

\*Only up to May, the latest available.

Source: Statistics Division, Ministry of Finance and Central Bank of Solomon Islands

TABLE1-18 INTERNATIONAL COMMODITY PRICES

End of Period	Copra (US\$/m.t)	Palm Oil (US\$/m.t)	Fish # (US\$/m.t)	Cocoa (US\$/m.t)	Logs * (US\$/cu.m)
1990	229	290	674	1267	210
1991	287	339	594	1195	222
1992	380	394	578	1100	250
1993	296	379	682	1117	386
1994	418	532	1048	1391	310
1995	439	628	862	1432	256
1996	489	531	975	1455	253
1997	433	547	1082	1618	237
1998	411	671	1006	1676	163
1999	462	436	680	1127	187
2000	305	310	506	900	190
2001	202	285	776	1069	159
<b>1997</b>					
Mar	497	569	858	1442	238
Jun	436	550	1057	1613	252
Sep	396	508	1152	1699	245
Dec	404	559	1260	1720	215
<b>1998</b>					
Mar	376	650	1153	1678	197
Jun	405	675	1170	1741	150
Sep	405	679	1046	1695	141
Dec	459	679	657	1591	162
<b>1999</b>					
Mar	458	563	842	1394	175
Jun	521	459	792	1103	178
Sep	434	354	623	1057	196
Dec	433	368	465	954	199
<b>2000</b>					
Mar	410	343	710	901	189
Jun	324	337	465	927	193
Sep	260	302	423	890	192
Dec	225	258	425	884	186
<b>2001</b>					
Jan	205	254	575	996	172
Feb	193	240	725	893	173
Mar	182	254	725	1124	166
Apr	183	248	950	1084	163
May	189	234	910	1077	165
Jun	196	257	890	973	165
Jul	223	323	715	966	159
Aug	236	362	725	1032	159
Sep	210	306	790	1024	156
Oct	195	277	790	1085	150
Nov	202	323	765	1232	143
Dec	212	338	750	1337	138

# Prior to 1995 Q1, average ATSA prices from INFOFISH was used, but from 1995 Q1 to present, data source has been changed to Thailand Market prices.

\* Malaysian Meranti, Sale price charged by importer, Japan.

Source: World Bank and Infofish..

TABLE 1-19 REAL GROSS DOMESTIC PRODUCT

(1985 = 100 )

Industry	1996	1997	1998	1999	2000	2001
Agriculture	125.1	138.0	132.7	103.5	83.0	70.9
Forestry, Logging, Sawmilling	209.9	195.8	134.9	153.0	132.2	131.7
Fishing	151.4	156.7	176.6	170.9	85.3	72.3
Mining & Exploration	74.9	124.2	-449.7	-1262.5	-613.1	38.2
Manufacturing	235.1	237.8	245.7	246.0	197.2	158.1
Electricity and Water	232.4	249.7	263.4	276.4	231.0	183.4
Construction	289.8	189.5	103.9	72.3	40.1	21.8
Retail and Wholesale Trade	146.9	146.6	159.8	149.7	134.5	119.9
Transport and Communications	164.0	152.0	170.7	179.3	143.4	114.7
Finance	303.2	281.6	243.9	247.6	239.4	231.4
Other Services	170.7	171.2	182.2	175.9	172.8	172.4
Index of Monetary GDP Production	171.8	168.9	170.9	169.1	139.1	122.0
Annual % movement	1.4	-1.7	1.2	-1.0	-17.8	-12.3
Index of Primary Production <sup>149.0</sup>	154.5	143.0	129.1	93.8	94.0	84.1
Annual % movement	-6.0	3.7	-7.4	-9.7	-27.2	-10.4
Non-Monetary: Food	132.8	136.3	139.0	143.6	147.4	151.9
Non-Monetary: Construction	128.7	131.1	133.7	136.2	141.6	147.2
Non-Monetary GDP Index	132.4	135.9	139.4	143.0	147.0	151.5
<b>Index of Total GDP Production</b>	<b>164.1</b>	<b>162.6</b>	<b>164.7</b>	<b>163.8</b>	<b>140.6</b>	<b>127.9</b>
<b>Annual % movement</b>	<b>1.6</b>	<b>-0.9</b>	<b>1.3</b>	<b>-0.5</b>	<b>-14.2</b>	<b>-9.0</b>

\* Provisional.

Source: Central Bank of Solomon Islands.



TABLE 1-20 PRODUCTION BY MAJOR COMMODITY

Period	Copra (m.t)	Coconut Oil (m.t)	Palm Oil (m.t)	Palm Kernel (m.t)	Cocoa (m.t)	Fish Catch (m.t)/1	Timber Log Prod'n. ('000Cum) 2/
1990	34306	2693	22104	5051	3895	25986	442
1991	25133	2717	22518	4992	4615	50859	336
1992	29073	3879	30854	6781	4159	39996	640
1993	29057	4286	30986	7043	3297	32486	547
1994	22500	2827	29737	7183	3337	39005	267
1995	26148	4372	29562	6861	2482	56133	-
1996	21989	3520	28680	6834	2464	41199	-
1997	28679	5399	28863	7005	3907	40654	650
1998	26971	8339	29077	6821	3454	49390	604
1999	23242	10345	12877	3182	2395	47961	622
2000	19004	8553	-	-	2316	21163	536
2001	1701	117	-	-	2038	17699	534
<b><u>1997</u></b>							
Mar	5915	1085	5904	1403	320	9535	168
Jun	7146	1171	7783	1864	1309	10702	181
Sep	7418	2612	7991	1864	1383	9165	195
Dec	8200	531	7185	1874	895	11251	107
<b><u>1998</u></b>							
Mar	6536	1619	8427	2088	726	6794	166
Jun	7666	2370	7976	1821	794	14209	150
Sep	6082	1857	6500	1553	1613	11832	120
Dec	6687	2493	6174	1359	321	16555	166
<b><u>1999</u></b>							
Mar	6528	2568	7041	1772	357	11628	150
Jun	5842	3256	5836	1410	902	13788	165
Sep	5202	2015	-	-	526	12132	164
Dec	5670	2506	-	-	610	10413	143
<b><u>2000</u></b>							
Mar	7157	3171	-	-	734	7178	134
Jun	6383	2126	-	-	864	10272	130
Sep	2600	2173	-	-	357	2954	148
Dec	2865	1083	-	-	360	760	124
<b><u>2001</u></b>							
Jan	251	117	-	-	32	145	57
Feb	71	-	-	-	135	530	48
Mar	315	-	-	-	55	662	35
Apr	281	-	-	-	230	943	59
May	89	-	-	-	347	1075	52
Jun	68	-	-	-	304	1056	26
Jul	77	-	-	-	356	1444	35
Aug	48	-	-	-	136	2142	48
Sep	105	-	-	-	108	3506	26
Oct	166	-	-	-	103	2524	54
Nov	152	-	-	-	148	2067	26
Dec	80	-	-	-	85	1606	68

1/ The catches reported here are those of Solomon Taiyo Ltd and National Fisheries Development only.

2/ Log production data has no sources, thus export data has been used since January 1997 as proxy.

Source: Central Bank of Solomon Islands.

**TABLE 1-21 SELECTED ECONOMIC INDICATORS**

		1999		2000				2001			
Unit		Quarrrter IV	Quarter I	Quarter II	Quarter III	Quarter IV	Quarter I	Quarter II	Quareter III	Quarter IV	
A.	External Trade	SIS'000									
	i) Exports	117997	104201	92013	75646	59442	60599	54613	55698	76922	
	ii) Imports c.i.f.	129847	149407	121660	95845	105120	117082	96739	104725	11390	
B.	Gross External Reserves	SIS'000									
		255098	243625	199110	191587	156106	116713	114925	126517	102641	
C.	Money Supply	SIS'000									
	i) Currency in active circulation	100994	83976	79520	77784	88272	76589	72947	72073	84704	
	ii) Demand Deposits	163772	164666	158968	161611	160013	155804	170165	172469	161646	
	iii) Money Supply (M1)	264766	248642	238488	239395	248285	232393	243112	244542	246349	
	iv) M1 and Savings Deposits (M2)	340558	321181	314397	319195	330525	308449	315413	319285	325971	
	v) M2 and Term Deposits (M3)	458336	450523	440956	458303	460010					
D.	Domestic Credit	SIS'000									
	i) Government (net)	178267	159911	174133	209025	258170	268829	275061	266852	269781	
	ii) Statutory Corporations	2581	4363	4491	3399	3586	2443	2856	2573	2004	
	iii) Other	191736	207008	220382	209295	195220	181465	173710	164501	152729	
E.	Interest Rates (average)	%									
	i) Savings Deposits	2.7	1.3	1.3	1.3	1.3	1.0	0.6	0.4	0.4	
	ii) Time Deposits (6-12 months)	4.8	4.7	3.4	3.4	3.4	2.4	1.3	1.0	1.0	
	iii) Lending	13.8	14.7	15.2	15.2	15.2	15.1	15.2	15.1	15.7	
	iv) Bank Deposits with CBSI	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	
F.	Exchange Rates										
	i) US\$1.00 = SIS	5.1	5.2	5.1	5.1	5.1	5.1	5.3	5.3	5.5	
	ii) AU\$1.00 = SIS	3.3	3.3	3.0	2.9	2.8	2.6	2.7	2.7	2.8	
G.	Honiara Retail Price Index (1985=100)										
	Annual % change	477.5	479.2	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
		7.8	5.5	n.a	n.a	n.a	n.a	n.a	n.a	n.a	
H.	Electricity Consumption	16833	15078	15222	13391	12397	12878	13920	12951	9904	
I.	International Commodity Prices	SIS/per tonne									
	i) Copra	2195.8	2120.0	1649.2	1323.4	1145.3	993.7	1001.7	1181.9	1108.4	
	ii) Cocoa	4832.1	4657.0	4720.1	4530.1	4497.9	5162.3	5538.5	5337.1	6650.3	
	iii) Palm Oil	1865.0	1773.5	1715.3	1535.5	1313.2	1281.6	1303.8	1749.0	1709.0	
	iv) Fish	2354.4	3671.1	2366.9	2154.8	2163.3	3469.5	4860.1	3937.9	4193.3	

Source: Central Bank of Solomon Islands