30th April 2003

Hon. Snyder Rini (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 2002 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.

Section 4
Central Bank of Solomon Islands Act, CAP 49

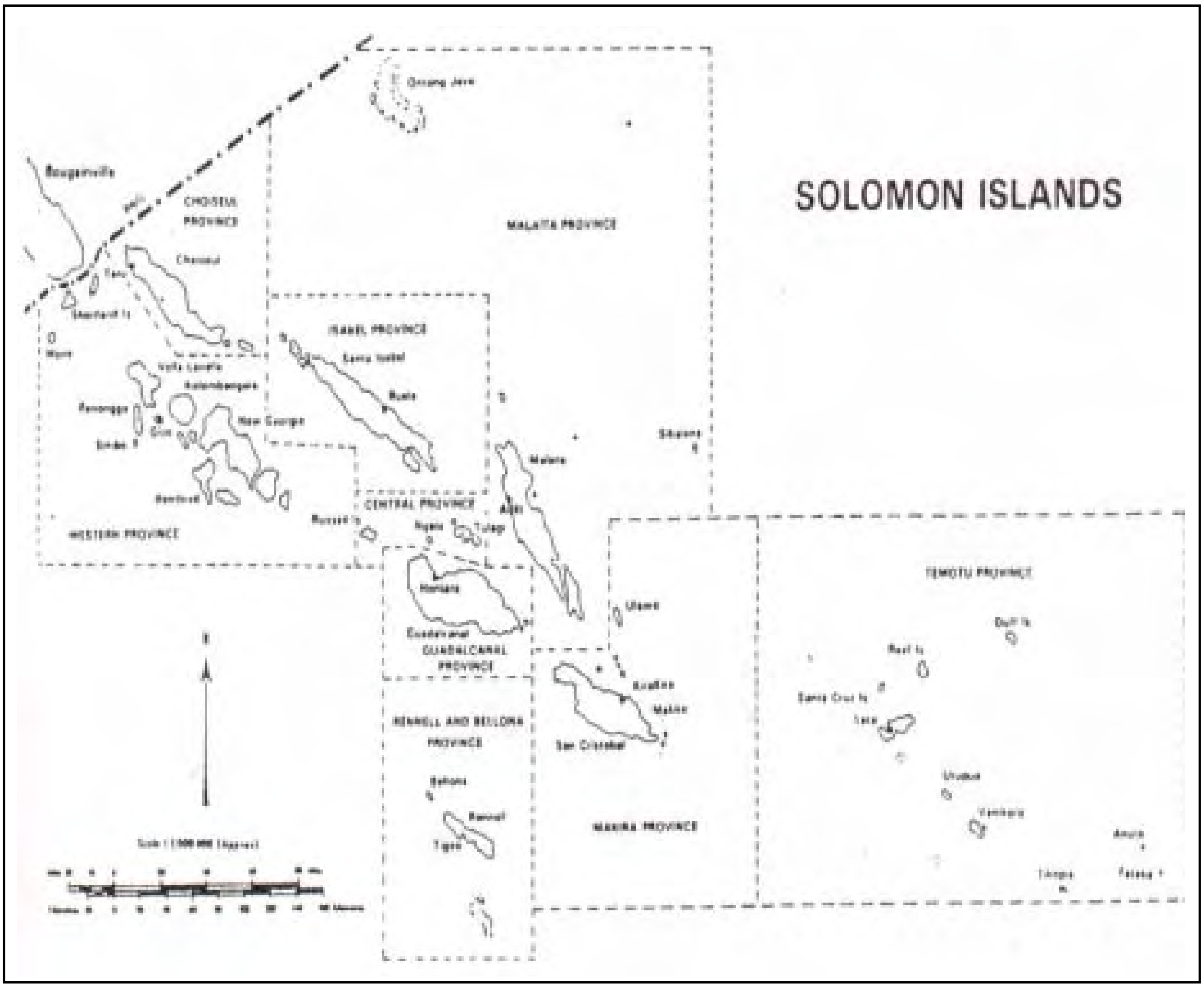
Foreword

This is the twenty first 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
May 2003



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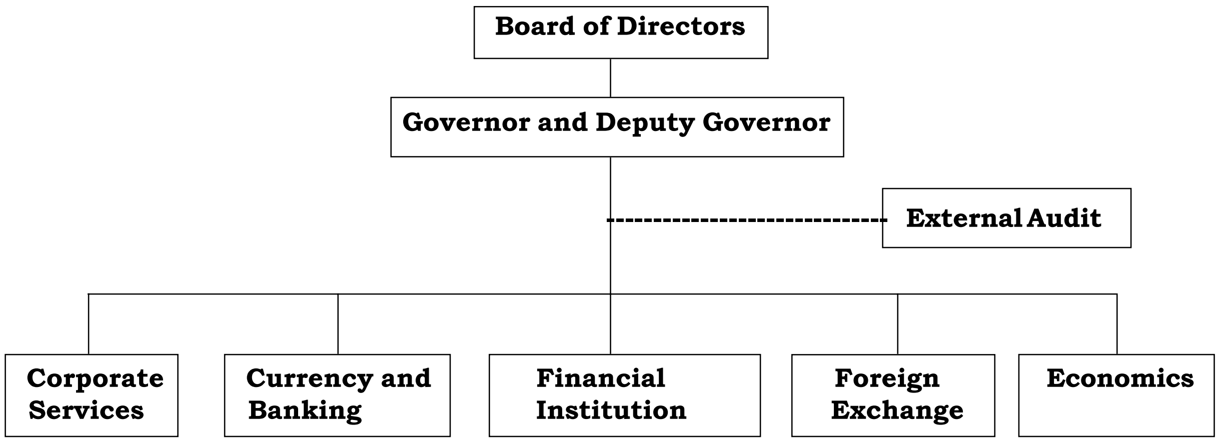


Board of the Central Bank, at end 2002		Management of the Central Bank, at end 2002	
R N Houenipwela	Chairman, ex officio	Governor	**R N Houenipwela**
D H Rarawa	Director, ex officio	Deputy Governor	**D H Rarawa**
S. Fanega	Permanent Secretary, DoF Director, ex officio	General Advisor	**M. Brown**
A Talasasa	Director (up to 23 April 2003)	Manager, Corporate Services	**E Ronia**
S Ilala	Director (up to 14 December 2002)	Manager, Financial Institutions	**G Simbe**
W Pita	Director (up to 23 April 2003)	Manager, Currency & Banking Operations	**F Afu**
A. Wickham	Director (effective 22 March 2003)	Manager, Foreign Exchange	**R P Aquillah**
Yushiyuki Sato	Director (effective 22 March 2003)	Manager, Economics	**I. Wore**
Ivan Dyer	Director (effective 22 March 2003)		
E Ronia	Secretary to the Board		

I. POLICY ISSUES, PERFORMANCE AND ECONOMIC OUTLOOK

Macroeconomic policy settings in 2002 were predominantly influenced by underlying conditions in the domestic economy. Since 2000, the Solomon Islands economy had severely contracted causing a fall in incomes, increased unemployment and widespread poverty, and the poor delivery of social services, particularly in the education and health sectors. In fact, without the goodwill of the donor's community, services in these two important sectors would have discontinued early in the year. With all major industries, either remained closed or struggling with uncertainty and drastic decline in donor assistance, it was only natural that great expectations were placed on the current government formed in December 2001.

The task ahead was monumental, but the government was determined to take the necessary actions to rebuild the economy. The opportunity was the 2002 budget passed in April. Knowing that any delays would only prolong the suffering, the government took on board the '*National Program for Economic and Financial Reconstruction 2002 – 2005'*, that was compiled by the Monthly Monitoring Management Meeting (4Ms) committee, and adopted a four-pronged development strategy as the way forward. These included consolidating the peace process and restore investor confidence by addressing the law and order issue, implementing wide structural reforms, improve both economic governance and government finances to regenerate economic growth, and improve the delivery of social services particularly in the education and health sectors.

Indeed the budget was tight and called for sacrifice. However, as the year progressed, it became evident that lack of political will and indecisiveness remain the key impediments to economic recovery and the rebuilding of Solomon Islands. For example, early in the year external reserves came under severe pressures because of exceptionally high demand for foreign exchange payments. With no sign of early export recovery given the law and order problem, and dwindling level of donor's assistance, using the exchange rate adjustment therefore became inevitable. Consequently, the Solomon Islands dollar was adjusted downwards by 25% in March. Although the decision received the support of the International Monetary Fund (IMF) and the World Bank, and seen by the donor community as a demonstration of governments seriousness to address the country's mounting problems, the adjustment was soon reversed and the Finance Minister removed from office. Such policy U-turns only create further confusion on key issues affecting the country and therefore must be avoided if development partners were to support government's efforts in the recovery process.

In addition, the 2002 budget demanded serious measures to enhance revenue collection and further reduce expenditures, particularly payroll costs. However, despite the increase in revenue following the removal of the Minister's power to grant duty remissions and exemptions, the government continued to face severe financial difficulties as unbudgeted expenditures continued unabated during the year. As a result, the government was unable to meet its statutory obligations, resulting in the rise in debt and salary arrears and disruption of both health and education services nation wide. As the major player in the economy, it is crucial that the government seriously addresses the issue of unbudgeted expenditures because this now appears to be the key threat to any efforts to stabilize government finances and reform programs. As they are, it appears that government budgets have now become irrelevant documents. The way forward is to enforce the rule of law and ensure budget guidelines are strictly followed.

The slowdown in the global economy that began in late 2001 appeared to have bottomed out in 2002 with world output rising by 3.3%. As a result, the volume of world trade increased, reversing the fall in the previous year. In both the US and the Euro area, there was growth in the first half of the year, but this slowly declined thereafter reflecting increased uncertainty arising from the fall in equity prices, widespread corporate scandals in major economies and the prospects of war in Iraq. In Japan, economic performance was relatively stronger resulting in output rising to 0.3%, reversing the decline in 2001. Nevertheless, the Japanese economy continued to be burdened with numerous problems. With the rise in non-performing loans and increase in government debts, which severely limits both monetary and fiscal stimuli, there is no prospect for early recovery in Japan. In non-Japan Asia, output grew by 6.5% from 5.5% in 2001 with the highest growth registered in the countries that have been hardest hit by the steep fall in world trade and high-tech demand in 2001. This growth momentum, however, may not be maintained in 2003 given the adverse effects of the Severe Acute Respiratory Syndrome (SARS) that has hit the region in recent months. A decline in economic activity in the region has the potential to adversely affect the Solomon Islands economy, given the high dependence on the region for exports. Closer to home, both the Australian and New Zealand economies also performed somewhat better in 2002 due to robust consumer spending. Based on the above developments, average commodity prices increased while interest rates remained low in most major economies.

On the domestic front, the general decline in economic activity seen since 2000 appeared to have bottomed-out in early 2002 and continued to improve, albeit at a relatively slow pace. As a result, real domestic product (GDP) declined marginally by 2.4%, compared to declines of 14.1% and 8.7% in 2000 and 2001 respectively. The relatively lower decline was driven mainly by favorable developments in the global economy and the resilience of the productive sector. In fact, whatever growth there was during the year was achieved without governments assistance. However, to ensure the recovery process continues, policies that enhance increased investment and private sector-led growth should be implemented. There are three broad issues to address as priorities. First, as the major sector in the economy, government needs to strengthen the management of its finances and show political will not only to decide but also to implement its reform programs. Second, there should be more investment in infrastructure development as this is a precondition for economic growth. Thirdly, given the role of financial institutions, it is crucial that their weaknesses are also addressed so that they could effectively perform their intermediation role in the recovery process.

The rise in commodity prices and positive developments in the export sector led to a balance of payments surplus of $57.4 million in 2002, reversing the $57.2 million deficit in 2001. The trade account significantly improved and registered a surplus of $68.8 million. Consequently, the current account deficit narrowed to $41.0 million from $172.3 million in 2001. Performances in other current account components, on the other hand, varied. The services account deficit deteriorated to $175.6 million, reflecting the increase in both net travel payments and fall in receipts from other services. In view of low interest rates in major financial markets, the income account moved from a surplus balance to a $50.6 million deficit during the year. On the other hand, the surplus in the transfers account increased to $116.4 million, from $58.2 million in 2001. This was driven mainly by the rise in official inflows that tripled the level in 2001. In deed, this was an encouraging development and every effort should be made to ensure there is continued donor assistance, especially during this post-conflict period. Based on the above developments, the level of external reserves rose 26.1% to $129.9 million, equivalent to more than two months of imports of goods and non-factor services.

With no early recovery in sight and slow response by development partners, the Central Bank therefore accelerated the depreciation of the Solomon Islands dollar following the reversal of the March devaluation. Although this was inconsistent to the objective of price stability, the protection of external reserves took priority, as the effects of significantly reduced reserves would be more detrimental on the economy.

Fiscal developments for 2002 showed an overall deficit of $309.1 million. This emanated from the rise in total accrued expenditures of $614.7 million against total revenues, including grants of $365.0 million. The rise in expenditures, which surpassed the budget estimates, was driven entirely by the surge in unbudgeted expenditures. In terms of debt financing, $130.3 million in debts were due during the year but the government only repaid $19.7 million although $28 million were budgeted for 2002. Consequently, total government debt arrears increased. Keeping current with debt-servicing obligations and normalizing interest arrears is critical to reinstating Solomon Islands international credibility and unlocking future external financing. However, since external financing is not without cost, a more coordinated strategy is required so that future capital inflows are self-financing. The way forward is to institute sound sectoral reforms that encourage increased investment in the export and other related sectors. This should help ease pressures on reserves and meet the future debt-servicing obligations of the country.

Revised inflation at the end of 2002 was 15.4% compared to an unlikely estimate of 5.9% at the end of 2001. The significant increase was due to improved data collection by the Statistics Division during the year. Reflecting the significant depreciation of the currency, the imported component amounted to 24.5% while the domestic inflation was 10.9%.

Monetary policy remained relatively inoperative in 2002 although the Treasury Bill market continued to function during the year. At the same time, the commercial banks maintained their concerns about the market and withheld their participation during the year. This resulted in the surge in liquidity in the banking system. Total lending, on the other hand, remained relatively low reflecting continued security concerns and the banks wait-and-see approach during the year. Average commercial bank deposit rates declined to 0.62%, causing a rise in interest margins to 15.02% from 14.10% in 2001. Broad money supply (M3) rose by 4.0%, to $414.9 million reflecting the rise in net foreign assets and a marginal increase in private sector credit. The increase in net foreign assets was driven partly by increased exports, relatively higher official inflows and the exchange rate depreciation.

The securities market functioned during the year despite the withdrawal of both the commercial banks and the National Provident Fund (NPF). Reflecting interest rate trends in the commercial banks and, in view of government's financial difficulties, the 91-days interest rate was allowed to fall 7.5%, from 9.0%. There was a general decline in the volume of auction treasury bills during the year. They declined from $35.7 million in the first quarter to $30.4 million in the second quarter and continued the trend so that by year-end they were at $19.8 million.

Outlook for 2003

Compared to other developing countries in the region, Solomon Islands is relatively well endowed with sufficient resources to generate increased benefits for its people. However, after twenty-five of political independence, the country remains underdeveloped with more than half the population struggling to meet their basic needs. This has happened because there was no political will and commitment to seriously consider and effectively address the structural problems and underlying weaknesses in the economy by succeeding governments. Developments since 2000 have only made the situation far worse.

Provisional data in 2002 and up to the first quarter of 2003 showed that the economy is recovering, albeit at a slow pace. It will take time to rebuild the economy given the current economic circumstances and poor infrastructures in the country. However, it is crucial that decisive and determined actions are taken at the political level to sustain the recovery process and put the economy on a strong growth path again. It should be noted, however, that the relative improvement of the past year did not happen as the result of any government policy action. This outcome was possible only because of a resilient private sector. The government needs to do more and with special emphasis on policies and strategies that would enhance the export sector. This requires restoring both investor confidence and the law and order issue, as the private sector would only invest if there was confidence in the rule of law. In addition, it is also crucial that all arms of government policy also operate in cohesion such as establishing a realistic balanced budget, tight monetary policy, stable exchange rate, and wage restraint.

As a donor dependant economy, it is also important that there is political will to match policy decisions with concrete actions. In recent years, this has become a major concern to the donor community. The diversion of aid money by government during the year had clearly demonstrated this weakness. This explained why some donors have now resolved to channel aid money through trust accounts instead of giving funds directly to government. With most donor funding now conditioned on the need for increased transparency and improved economic governance, it is pertinent that this requirement is not overlooked, especially when the country needs external assistance to rebuild the economy. It is in this regard that the government must take seriously the challenges and issues raised in the *Multi-Donor Economic Governance Mission Report* presented to Cabinet in early 2003. Already the government has agreed in principle with the findings of the report and started work on the National Economic Recovery and Development Plan (NERDP), 2003-2005. While this will greatly enhance the recovery process, it is crucial that the NERDP is actually implemented because failure to do so would only reverse whatever progress the country has reached so far and force the country into a state of hopelessness and economic despair.

Based on IMF estimates, the global economy is expected to remain relatively firm in 2003. However, there still remain major concerns. Much will depend on developments after the Iraq war. At the time of printing this report, average oil prices have declined to US$25 a barrel but are forecast to decline further after

June 2003 as oil production resumes in Iraq. In Solomon Islands, however, it is important that the authorities ensure the reduction in world oil prices is also reflected in the domestic oil prices. On this basis, and assuming that the production of major commodities continue, and government implements its reform programs, economic growth is projected to turn marginally positive in 2003 after three years of economic decline. However, there is also risk that this may not happen if growth in the Asian region significantly falls given the effects of SARS in recent months.

Balance of payments developments in the first quarter of 2003 showed a marginal improvement reflecting the rise in exports and official inflows. Consequently, external reserves have increased. However, these were kept artificially high because of Central Banks exchange controls and the government's inability to repay its external debt arrears which amount to $85.4 million at the end of March. Commodity prices are relatively high and are forecast to remain relatively stable during the year. This should increase export revenues, and therefore external reserves, as the production of major commodities are expected to marginally increase during the year. In recent weeks, however, there has been a rise in fuel imports. Such developments should be monitored more closely as this could easily reduce the level of external reserves.

Money supply continued the upward trend seen towards the end of 2002 in the first quarter of 2003. This mainly reflected positive developments in the external sector despite a marginal fall in credit to the private sector. Credit to the private sector, however, is expected to marginally improve in the months ahead as private sector activity increases further. Nevertheless, much also depends on governments ability to address the law and order problem and help restore investor confidence. The events of mid May when promoters of the Family Charity Fund (FCF), deemed a scam by the Central Bank, threatened officers of the ANZ. Banks closed for almost 2 days and reopened when Police arrested and charged 3 principals of the FCF. The authorities should ensure such events do not happen again as these do nothing but harm Solomon Islands reputation in the eyes of donors and potential investors

The 2003 budget, passed in December last year focuses on the delivery of goods and services to the rural areas. It emphasizes the improvement in the law and order, health and education services, and strengthening the financial system through improved debt servicing. Although some progress have been made on these fronts, recent developments in the Weather Coast and continued harassment of Treasury staff by certain elements of the disciplinary forces suggest that the strategies used so far have not worked in resolving the law and order problem. Although the demobilization of the Special Constables was an encouraging development in the overall objective of establishing law and order, stability and normalcy in the country, more efforts are needed.

The budget estimated domestic revenues at $250 million and recurrent expenditures at $259 million. However, given the government's record of accomplishment in spending revenue and diverting of resources in recent years, it is crucial that more cost cutting and revenue enhancing measures are taken as a matter of urgency. Recent government decisions to prioritize payment of statutory obligations and the resumption of dialogue with major debtors are in the right direction, but more decisive actions are still needed. These include right sizing of the public service by implementing the proposed retrenchment of over 1,000 public servants, improving revenue collection and ceasing all unauthorized accounts within certain ministries, curtailing unbudgeted expenditures, repaying debt arrears and reducing payroll as outlined in the 2003 budget. These concerns are critical imperatives as they form the foundation for a sound and sustainable economic recovery. Given the time constraint, it is important that efforts in addressing these issues are taken immediately as any further delays would only cost the country more in terms of increased debt, social dislocation and economic uncertainty.

Given the limited capacity of government to implement these changes, it is pertinent that there is close dialogue with all development partners and multilateral financial institutions, as these remain important parts in the process of rebuilding Solomon Islands economy. Most development partners have expressed their willingness to assist in this process, but prefer to be part of a more coordinated approach whereby project funding is linked to a long-term development strategy. In this regard, the government must be commended for initiating the production of the NERDP (2003-2005) as the strategic framework to address the mounting problems facing the country. These include normalizing the security situation, improving economic governance, restoring fiscal and financial stability and reforming the public sector, revitalising the productive sector and reconstructing supporting infrastructures, and restoring basic social services. The NERDP is also important in that it would enable the government to properly coordinate and establish mechanisms for increased consultation with development partners on key issues needing their assistance.

The road ahead will be long and difficult. However, it is crucial that the government demonstrates its seriousness in addressing the above issues. To begin with, the credibility of the 2003 budget must be restored as a matter of urgency. The way forward is first to establish a sound macroeconomic policy framework that encompasses realistic plans and objectives and secondly to consistently implement these objectives. Furthermore, it is also important for the government to call a parliament meeting immediately to discuss the problems facing the country. To use lack of funds as a reason to delay the meeting until November, and assume that problems would somehow disappear clearly demonstrates lack of commitment and accountability by government to face the economic and social reality that ordinary Solomon Islanders are now facing. Although recent measures taken at the Ministry of Finance are in the right direction, there must also be political will to see such initiatives come to fruition. The international donor community has shown its willingness to help reform and revive the economy. What is now required is for government to take up this opportunity and lead the country forward as any further delays due to lack of political will and indecisiveness will only cost the nation more in the future.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy rebounded in 2002, and grew by 3.0% compared to 2.3% in 2001. The improvement was due to several interrelated factors, in particular the easing of macroeconomic policy, especially in the US and a number of emerging economies in Asia soon after the terrorist attacks on September 11. Not only were policy rates substantially reduced to record lows, government expenditures have also increased sharply beginning early in the year. In the US, for example, the Federal Funds Rate was successively reduced eleven times from 6.5% to 1.75%, the lowest in the last forty years. While the Bank of Japan maintained it’s near zero interest rate policy, the European Central Bank and the Bank of England lowered their policy rates during the year. This together with a rebound from a record trough in high-tech sectors triggered the recovery process as consumption spending was boosted globally. As a result global trade and industrial production rose during the year. A closer review of developments across the globe, however, suggests that the rebound in 2002 was uneven than earlier been anticipated.

In the US, there was rapid recovery in the beginning of the year, driven largely by sharp increases in government expenditures in the aftermath of the September 11 events. Although the growth momentum continued into the third quarter, growth in the fourth quarter remained relatively low. Uncertainties following the fall in equity markets, the possible conflict with Iraq, and loss of consumer confidence stemming from corporate scandals in the country all led to a lower annualized growth of 2.4% than earlier predicted. The overall growth, however, was still higher than in 2001. In Latin America, there was negative growth of 1.1%. This outcome reflects not only the crisis in Argentina, but also major contractions in economic activity in other countries in the region. In a way, 2002 was the worst year for the region since the debt crisis in the early 1980s.

In the Euro area, there was economic growth in the first quarter because of favorable external sector developments. However, this was short lived as major financial institutions were hit hard by defaults in the US and in Argentina. The falling equity prices continued weakening of the US dollar and weaknesses in the industrial and telecommunications sectors also contributed. Consequently, growth in the Euro zone tumbled to an overall 0.8% at year-end compared to 1.4% and 3.5% in 2001 and 2000 respectively.

In Japan, economic performance was relatively stronger than expected in 2002. As a result, the economy grew by 0.3%, compared to a contraction of 0.4% in 2001. The marginal improvement was due to a turnaround in industrial production in the export sector. Despite the improvement, the Japanese economy continued to be burdened with numerous problems. The significant increase in government debt continues to place severe limits on both monetary and fiscal stimuli. This combined with the fragility of the banking system, which is burdened with excessively bad loans and diminishing capital prevented the growth in the export sector to have a positive impact on those that produce for domestic consumption.

The strong export performance, however, now stands at risk and could fade quickly if foreign demand conditions, especially in the US, worsen or the yen resumes its appreciation against the US dollar.

Table 1
World Economy: Selected Indicators
(Annual % Change)

	2000	2001	2002
World Output:	4.7	2.3	3.0
Advanced economies	3.9	0.9	1.8
Developing countries	5.7	3.9	4.6
of which: Asia	6.7	5.7	6.3
World Trade Volume	12.4	0.1	2.9
Imports of goods & services			
Advanced economies	11.6	-1.1	2.1
Developing countries	16.0	2.2	3.4
Exports of goods & services			
Advanced economies	11.7	-1.0	2.0
Developing countries	15.0	3.3	5.1
World Inflation			
Advanced economies	2.3	2.2	1.5
Developing countries	6.1	5.8	5.4

Source: IMF World Economic Outlook April 2003

The Australian and New Zealand economies grew by 3.5% and 4.4% in 2002 respectively. The growth in Australia was due to robust consumer spending, further expansion in housing, a firm labour market and relatively higher investment. The growth during the year, however, would have been higher had drought conditions not undermined growth prospects for the year. The favourable performance of the New Zealand economy was due to relatively stronger domestic spending which more than outweighed the weaker contribution from export growth. Although recent indicators point to a cooling in domestic demand, the general outlook for the New Zealand economy remains relatively firm as major firms activities remain reasonably robust.

In Asia, other than Japan, the economic recovery that began in late 2001 continued in the first half of 2003, but the growth momentum slowed thereafter as uncertainties increased. Overall, average output growth have risen to 6.5% from 5.5% in 2001 with the highest growth registered in the countries that have been hardest hit by the steep fall in world trade and high-tech demand in 2001. Supportive monetary and fiscal conditions have also contributed towards the rise in demand in these countries. Looking ahead, economic growth in the region is expected to remain firm in 2003. On balance, most countries in the region appear relatively well placed to weather external risks, especially if they can build on recent successes and continue to advance current reforms to foster domestic productivity growth.

The global growth has benefited most developing countries, including Solomon Islands through the rise in commodity prices. Average non-oil prices increased by 5.0% due to increases in average agriculture prices. On average, however, there has been considerable disparity among major agriculture commodities. Average prices of cocoa have doubled to a 16-year high due to supply disruptions in major producers while others have reached new lows. The disparity was partly related to different levels of carryover stocks, and partly due to weather and supply conditions. The increase in average agriculture prices is expected to be modest in 2003 due to relatively weak growth in demand, continued rapid increase in production and high stocks in some commodities.

Prospects for 2003

Based on IMF's World Economic Outlook, the general global outlook for 2003 remains very tentative. Earlier, the Fund has forecasted a continued recovery of 3.7% growth, but this was revised downward at 3.2% reflecting the rise in uncertainties arising from the war in Iraq and underlying weaknesses in the global economy. Growth in major industrial countries is expected to remain below potential.

In the US, growth is forecast at 2.4% for 2003, relatively the same as in 2002. Currently equity markets remained weak and consumer confidence is at a 9-year low reflecting weaker retail sales than anticipated. On a positive note, however, recent data showed that productivity remains above the typical cycle average. Investment is expected to rapidly pick up again once current uncertainties associated with the war in Iraq dissipate, especially the impact on confidence and the possible fiscal costs of the war. Although recent tax reforms would boost growth, there was concern that the war could worsen the medium-term fiscal position.

In the Euro area, growth prospects remain relatively weak with consumer sentiments depressed, industrial production remained low and unemployment relatively high. Growth for the region is projected at 1.1% underpinned by a rise in exports. To boost demand and confidence, the European Central Bank reduced its policy rate by 25 basis points, but this is not expected to contribute much as it had fallen short of market expectations. For major euro economies, the Germany's stagnation remains a key concern given the slump in industrial production, business confidence and retail sales. Although the authorities have announced structural reforms to address this weakness, this is not enough to boost demand. The outlook for other countries, especially France and Italy has also been marked downward, reflecting weak consumer confidence and a slower pickup in economic activity than previously forecast.

In Japan, the economic recovery that began in early 2002 seems to have waned reflecting the significant fall in domestic demand. Consequently, excess capacity remained high combined with a rise in unemployment. Despite the Bank of Japan's efforts to combat deflation, consumer confidence and prices continued to fall driven by expectations of future monetary policy. To ensure the economy grows, it is crucial that the quantitative easing of monetary policy is also accompanied by a broad restructuring of the banking, given the significant rise in bad loans, and corporate sectors. Moreover, although the governments plans, announced in October 2002, are showing positive signs, more actions are still needed if the entrenched banking problems are to be resolved. Specifically, this should include adequate provisioning for bad loans, improving the calculation of regulatory capital, injecting public capital into weak banks, and strengthening bank profitability.

Despite the positive global outlook for 2003, there are still many risks and vulnerabilities in the global economy. Most pre-date the war in Iraq. These must be addressed if global growth is to be restored. First, there is a need to reduce the excessive reliance of the global economy on economic recovery in the United States. This calls for the need to ensure there is higher growth in other developed countries. In particular, both Japan and the Euro economies must do more to address their impediments to growth. Second, although the Iraq war has ended, geopolitical factors relating to the war remain key concerns. Although the human and social consequences of the war are of paramount importance, the economic impact could also be significant, although it is too early at this stage to forecast the effects with any precision. Nevertheless, the conflict will impact on global growth through four key channels. The first is the rise in oil prices. Since late 2002, oil prices have increased steadily and reached US$34 a barrel in March 2003 although dropping to around US$25 by mid May following the successful conclusion of the war in Iraq.

The sharp increase was due mainly to market perceptions of supply disruptions in Iraq, despite the overall increase in global production in 2002. Terrorist attacks in other parts of the world could add to uncertainties in oil prices, result in high-risk premia in financial markets, and therefore lower equity valuations. This could significantly reduce economic activity across the globe as both consumption and invest fall globally. The effects of the current SARS problem will adversely affect countries that are dependent on tourism-related activities including the airlines industry.

Given the above concerns, it is crucial that appropriate policy actions are taken to offset economic consequences of the war. How each country will respond varies depending on the severity of the adverse effects. Although the first line of defense would be the use of monetary policy, appropriate fiscal policy should also be used. In some countries, discretionary fiscal policy would be inevitable if the economic downturn is deep. In addition, these measures should be accompanied with structural reforms and willingness by the international community to provide more aid to low-income countries and financial support to those that would need temporary financing.

Implications for Solomon Islands

Being a small and highly open economy, Solomon Islands economic performance will primarily be determined by developments in the global economy. As a fuel importer, the earlier surge in oil prices and relatively weak outlook for the Asian economies would have negative impacts on the economy. In the last three years, economic activity has contracted severely with cumulative declines in real GDP from 2000 to 2002 at 25.5%. Provisional data in 2002 showed that the general decline in economic activity has bottomed-out and is slowly picking up. However, it is crucial that the recovery process is sustained and supported with appropriate policies.

On the domestic front, the issues raised in the Central Banks 2001 Annual Report remain important. The first relates to the law and order issue, especially around Guadalcanal and Honiara and certain parts of Malaita. Although there is relative peace, the continued harassment of innocent people and non-return of high-powered weapons poses a great threat to any hope of renewed economic activities in the country. This is of paramount importance, especially when trying to reopen both the Gold Ridge and SIPL projects. The sooner they are opened, the better it would be, as both would contribute much towards employment and the government budget.

The second relates to the management of government finances. As the major sector in the economy, it is important that government addresses the problem of debt arrears. Already this is adversely affecting many individuals, companies and the financial system. The risk to the rest of the economy if the government fails on to services its debts and obligations should not be underestimated but seriously considered if these are to contribute positively towards the recovery process. Government's current debt level, exacerbated by growing payment arrears, is unsustainable. The Government must reach an overall debt compromise that reduces the annual debt burden to sustainable levels by stretching out the maturities, drastically decreasing the interest rates and securing moratoria on principal payments. Debt to the international institutions is already on concessional terms and is unlikely to be affected by any compromise, although donors may be willing to help clear the present arrears to these institutions to enable the resumption of project assistance.

The third relates to how effective the government can attract development partners to contribute towards the country's rehabilitation process. As a severely dependent economy, the country desperately needs increased external assistance. To unlock these needed funds, government must be credible with its budget and policy implementation. Indeed, this requires strong leadership and political will to take the necessary hard decisions to support the recovery process. Unfortunately recent decisions on certain important issues, such as the diversion of aid money and payment of unbudgeted items have only showed a lack of accountability and transparency in the decision making process.

III. DOMESTIC ECONOMIC ACTIVITY

Total domestic production of goods and services in any economy is measured by the value of gross domestic product (GDP). In developing countries, the production of these goods and services cannot be done without increased foreign investments. Although, these constitute claims on the country's future foreign exchange earnings, foreign investment has the potential to increase domestic production and therefore enhances the general welfare of the country as more goods and services are made available to people. The key issue, however, is that foreign investment can only flow into countries where political and economic conditions are stable and attractive.

Compared to other developing countries, Solomon Islands is relatively blessed with many natural resources. Unfortunately, lack of a proper policy guideline geared towards private sector-led growth through increased foreign investment has contributed towards low economic growth. This was further compounded in the last three years by the deterioration of the law and order. Although there is relative peace in the country, the situation remains fragile and needs more effort if foreign investors are to return and positively contribute towards the development of the country.

There are many deficiencies in the measurement of GDP in Solomon Islands. Although the current data sources and methodologies are relatively sound and appropriate to the stage of development in the country, there are areas that need further improvement, especially in the compilation of the accounts and their data sources. This is crucial because good and reliable statistics are necessary and important for sound policy formulation. It is in this regard that government must take urgent actions to address the underlying weaknesses in the National Statistics Office (NSO) so that it could effectively carry out its functions as the official source for compiling the country's official GDP.

Table 2
Estimated Real GDP, ($'million, 1985 Prices)

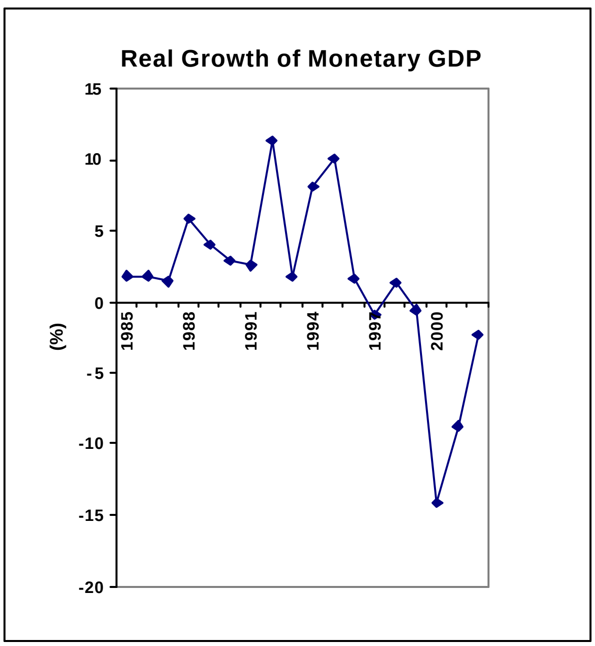
Industry	1999	2000	2001	2002
Agriculture	42.3	33.9	29.0	31.6
Forestry	23.6	20.4	20.3	20.9
Fishing	27.7	13.8	11.7	12.4
Mining & Exporation	19.2	9.3	-0.6	-0.6
Manufacturing	17.4	13.9	11.2	10.6
Electricity and Water	6.0	5.0	4.5	4.6
Construction	4.3	2.4	1.3	1.6
Retail and W/Sale Trade etc.	31.0	27.8	24.8	27.3
Transport & Commun.	15.3	12.3	10.0	11.1
Finance	16.4	15.9	15.4	15.2
Other Services	77.8	76.4	76.2	61.2
GDP at 1985 prices (Mln.)	280.9	231.1	203.8	195.9
Index (1985 = 100)	169.0	139.0	122.6	117.8
Annual % movement	-1.1	-17.6	-11.8	-3.9
Omitting Mining Explo.	261.8	221.8	204.4	196.5
Index (1985 = 100)	156.0	132.2	121.8	117.1
Annual % movement	-5.6	-15.2	-7.9	-3.9
Primary Prodn. (Ministry) - 1985 Prices	93.6	68.1	61.0	64.9
Annual % movement	-9.7	-27.2	-10.4	6.4
Non-Monetary : Food	54.1	55.5	57.2	58.7
Non-Monetary : Constr.	4.6	4.7	4.9	5.0
GDP at 1985 Prices (all Prodn) in SI$)	339.6	291.3	265.9	259.6
Annual % movement (Real)	-0.5	-14.1	-8.7	-2.4

Source: Central Bank of Solomon Islands

In the absence of any GDP data from the NSO, the Central Bank has continued to compile real GDP estimates since 1995. Provisional estimates for 2002 showed that Solomon Islands economy continued the general downward trend since 2000 and fell 2.4% in 2002 despite the relative improvement in certain sectors during the year. In a way, the fall was an improvement when compared with the performance in 2000 and 2001. Moreover, the data also showed the general economic decline seen since 2000 has bottomed out and the economy is now slowly recovering.

The slight decline was primarily attributable to relative increases in both agriculture, fishery and forestry sectors. The rise in the contribution of agriculture and allied activities to overall GDP growth was encouraging as this accounts for more than eighty percentage of the country's population. Despite the increase, which is engendered by a distinct improvement in production, the share of agriculture in GDP steadily deteriorated since 1992. The increase in fishery activities was due primarily to better fishing conditions. This resulted in the rise in production of major fishing companies. Other major categories, on the other hand declined during the year. The mining and exploration sector fell by 3.8%, manufacturing by 5.2%, finance by 1.3%, and other services sector by 19.6%.

Graph 1



Investment

No country can grow without first investing in new assets and replacing its old productive assets. This, however, also requires the fulfillment of several interrelated conditions. First, investment would only increase if current consumption is reduced and a greater portion of the national income is set aside as savings so that these can be used for investment later on, either by the saver himself or depositing these resources in the banking system and lending them to others. This implies, therefore that having access to savings is important for increasing investment, and therefore raising economic growth and development in the country. The reality, however, is that in developing countries these conditions are lacking. In many respects, there is a tendency for current consumption to increase with many potential projects remaining unfinanced, as people do not have easy access to the pool of savings in the banking system. In some instances, even if there is access, lending conditions have become the key hindrance to increased investment, as most people do not always meet these requirements. Secondly, investment would only increase in a stable political and economic environment, and where the rule of law is upheld.

In 2002, new investment activities remained sluggish despite the rise in excess financial resources in the domestic banking system. This primarily reflected the current fragile law and order situation, policy uncertainties and lack of incentives to attract new foreign and domestic investments during the year.

Nevertheless, the Foreign Investments Board (FIB), received 35 foreign investment applications worth $119.2 million in 2002. Although the number of applications remained relatively the same as in 2001, the value of the applications is a concern because it fell significantly compared to $862.3 million worth of investments proposals in the previous year. In addition, it was also revealed that most of the applications were not new foreign investment applications but applications submitted by existing companies for additional activities. Of the total applications, the Board approved 24 (worth $56.5 million), rejected 2 (worth $1.1 million), and deferred 1 (worth $1.5 million). These figures, however, look very big but in practical terms mean very little as far as the domestic economy is concerned, as most of these approvals never translate into real investments.

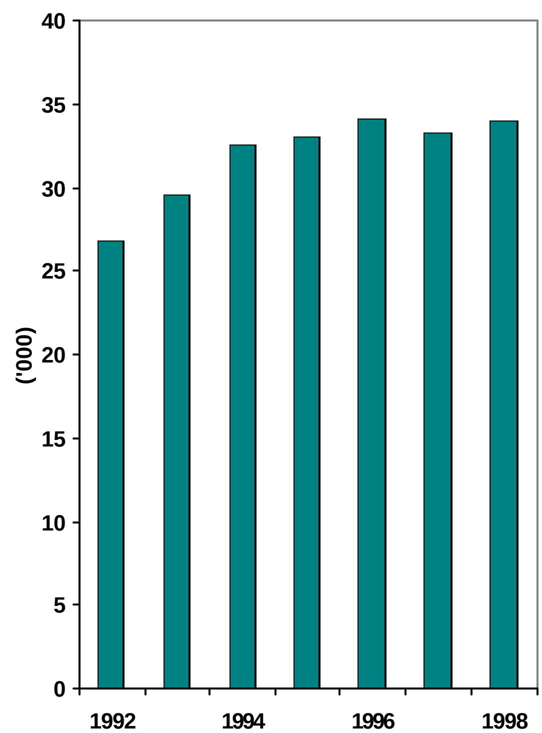
Of the screened applications, 33 were new investments, twenty-four were additional activities, six were technology agreements and five share transfers. The distribution of the approved applications by sector were: forestry 36.5%, agriculture 18.6%, fisheries, 17.7% and transport 15.6 and the rest were tourisms, consultancy service and other services. In terms of region, $28.3 million came from FICs, $13.2 million from South East Asia and $0.5 million from Canada and the rest from other parts of the world.

Employment and wages

No data is available on employment for 2002. Nevertheless, partial indicators derived from job advertisements showed that the labour market remained weak during the year. Although there was some recruitment during the year, these were not enough to offset the number of people leaving the labour market because of redundancies. In addition, several companies have also curtailed operations and consequently reduced their workforce.

On the demand side, discussions with various private companies suggest no immediate improvement in employment. This is a major concern given the number of people who left the labour market in the last four years because of the social unrest. On this basis, it is important that extra efforts are taken to reopen those companies that are still closed especially the Gold Ridge mine and Solomon Islands Plantations Limited (SIPL) that were closed because of the social unrest.

Graph 2
Total Employment



In 2002, the public sector maintained the wage freeze imposed since 1999. During the year, many private companies have also reduced costs through staff redundancies. This is expected to continue in 2003. In the public sector, the government also announced a reduction in the number of ministries from twenty to ten with the intention to reduce its labour force. The reduction in governments labour force, however, did not eventuate due to lack of political will and insufficient funds to implement the redundancy programme.

Energy

In the last three years, the SI Electricity Authority faced severe financial difficulties. These continued in 2002 and resulted in a loss of $19 million in revenue. The poor outcome was driven primarily by the relative fall in demand for electricity and difficulties in collecting revenues from customers during the year. In many cases, no revenues were collected given the financial difficulties faced by some major customers including the government. As a result, the amount of outstanding bills rose to $38.6 million compared to $24.8 million in 2001. Other contributing factors include the 10% rise in both fuel prices and spare parts during the year reflecting the weakening of the Solomon Islands dollar.

These together contributed towards the continued disruption of power supply during the year. The authority has requested government for financial assistance to address this problem but was unsuccessful as government also faced financial difficulties. However, together with a relief grant of $3.5 million from Ausaid and financial assistance from some private companies, the authority managed to continue its repair program and installed new generators. Repairs were done on three (3) of its major generators whilst installations were done in Honiara, Auki and Gizo. A Wartsila generator was installed in Honiara whilst two Cummins 250-kilowatt generators were installed in Auki and Gizo. The assistance received was timely, as the local governments could not help because of their inability to secure sufficient funds.

Despite the financial difficulties, the authority aims to normalize the supply of electricity to Honiara residents in 2003. This would be done by reducing costs through an internal restructuring exercise to be completed in the first half of the year. This should help reduce the loss by 50%.

During the year, Mobil Oil Australia, a long time supplier of fuel in the country left Solomon Islands. Its operations were taken over by Markwarth Oil Limited, a local company that has its roots in the transport industry. Although the take over did not disrupt the supply of fuel in the country, the departure of Mobil Oil poses great concern in the country's long-term development prospects.

At the Department of Energy, major programs such as the Lungga Hydro and rural electrification projects remained suspended. This reflected not only lack of funds but also concerns about the general law and order situation in the country.

Minerals

Activities in the mining sector remained subdued in 2002 due to lack of funds, land disputes, and more significantly the law and order situation in the country, which have repelled investors in recent years.

For the Gold Ridge Mine (GRM), 2002 was another disappointing year as no progress was made towards re-opening the mine despite the establishment of a special task force by government to carry out this important task. The hindering factors included continued lawlessness in Central Guadalcanal and the Weather Coast, unresolved land issues, and luck of funds to finance the Special Task Force committee work programs. The rise in criminal activities at the mine site also contributed.

Despite these factors, the company is still determined to reopen the mine. It continues to monitor activities at the mine site and is prepared to discuss with government and relevant authorities once the situation normalizes. At the same time, however, company assets continued to deteriorate, vandalized and looted during the year. This inevitably increased the cost of rehabilitation of the mine to escalate to about $40 million Australian dollars. This estimate excludes the cost of repairing the damaged roads and bridges to the mine site.

In a related development, Placer Dome of Canada acquired the Gold Ridge Company from Orion Company during the year. The latter was formed after Delta Gold and Gold Field Companies were merged earlier.

At the same time, increased alluvial gold panning continued around the Gold Ridge mine site during the year. These activities were strongly supported by Department of Mines (DOM) through the issuing of both panning permits for a fee of $30.00 and granting of alluvial gold export licenses at $2,000 per permit. It has been observed, however, that increased alluvial gold panning is also taking place in other provinces, especially in the Western province. During the year, 20 export permits were granted to dealers, compared to 14 in 2001. In early 2003, nine new licenses were also issued, although the ministry suspected that some exporters do not have an export license.

Prospecting activities, on the other hand, remained negligible in 2002 although companies maintained their licensed areas. However, the department continued to facilitate renewal and granting of prospecting licenses. Pacrim Resources Limited, the company which was licensed to develop the nickel deposit on Isabel has been advised to commence activities as early as first quarter of 2003. The company has started operation in early 2003, but it is important that it also complies with a government requirement to invest its initial capital of Canadian $0.5 million in Central Bank bonds. At the same time, staff shortages and lack of communication facilities at the Department remained the key constraints in carrying out its duties such as collecting panning permit fees and collecting data and information for monitoring purposes.

Prospecting activities in other provinces such as the Malaita diamond project and Vangunu copper and gold exploration, on the other hand were abandoned during the year given the law and order situation in the country. Regarding the Vangunu project, strong resistance by landowners together with environment groups in favour of transferring the site under World Heritage recongnition also contributed towards the closure of activities in the area.

With regards to petroleum, there were some interest in prospecting on Dai Island, Malaita Provinvce, but nothing was done during the year. In addition, DOM also confirmed that there are four areas containing hydrocarbon, which indicate the possibility of oil deposits in the country. These include the Iron Bottom Sound, Russell Islands, Western Province and the sea area between Isabel and Malaita.

The Department of Mines and Energy has great potential to generate income for the country. Whereas the government would have enhanced its revenue dramatically by strengthening collection potential of this department, it has continued to concentrate only on the forestry and fisheries sectors. Currently, these two sectors contribute more than 70% of the country's total exports. With such a narrow economic base, this poses a threat on the long-term development of the country as negative developments in these sectors could severely affect the economy. Logging at present levels is unsustainable beyond the next four to five years. This calls for the urgent need to diversify into other activities such as mining.

Tourism

The small and staggering tourist industry in Solomon Islands continued to grapple with the usual problems of lack of funds, insufficient infrastructure, inadequate facilities, poor promotion and the impacts of the recent social unrest.

In trying to re-build confidence, the Solomon Islands Visitors Bureau (SIVB) successfully undertook various programs during the year. These included launching a peace promotion campaign along with the Tourism Division and Solomon Islands Airlines, holding various eco-tourism workshops in the provinces; market promotion overseas, re-establishing confidence in the cruise industry and establishing good relations with Solomon Airlines. These promotions included the production of various films and video programs made about Solomon Islands by foreign television companies. Early this year, it launched another promotion program in Brisbane, Australia.

Actual data for incoming tourists to the country for 2002 is incomplete. Nevertheless, it is estimated that about 5,000 visitors came to the country in 2002, compared to 4,276 in 2001. The rise reflected the relative improvement, albeit slow, in the law and order in the country and efforts by SIVB during the year. The bureau expects the number of tourists to further increase in 2003 if Solomon Airlines were to open a New Zealand route and should government allow Virgin Blue from Australia or another carrier to operate in Solomon Islands. Although the arrival of Virgin Blue would boost tourism in the country, the proposal also has the potential to adversely affect the national airline.

At the same time, the Bureau has expressed concern that foreign governments continue to brand Solomon Islands as an unsafe destination. However, it should be noted that much of the country's adverse publicity overseas was also caused by domestic factors. Solomon Islands has great potential for tourism. What is now required is to address the constraints raised earlier so that it could grow and contribute positively towards the development of the country.

Telecommunications

Telecommunication developments in Solomon Islands slightly improved in 2002 with Solomon Telekom registering a net profit of $7.0 million compared to a net loss of $3.1 million in 2001. This outcome reflected the increase in revenue to $79.0 million from $35.3 million in 2001 despite uncollected revenues from government and some major clients during the year. The rise in total revenue reflected the 15% tariff increase during the year.

As a result, the company was able to implement some of its projects during the year. These included the establishment of provincial offices in Buala, Gizo and Auki. In addition, the company also installed digital exchange systems at Auki, Taro and Honiara and carried out preparatory work towards installation of similar systems at Atoifi, Yandina, and Malu'u. Work on improving its current services especially the Internet services also continued during the year. However, during the year the company had to suspend major investment projects due to cash flow problems and more importantly uncertainties arising from government policies and the current economic environment.

During the year, a 15% tariff rise was awarded to the company to relieve its cash flow problem. This followed a 10% rise in 2001 whilst a further 15% tariff increase is planned for 2003. This should enable the company to complete some of its planned projects for the year. These included installing a new exchange in Honiara and Noro, a new digital system for Lata, upgrading the Internet system, and opening new offices in other provinces.

Although the company was issued a licence to operate television services in 2001, it was not able to commence the services, as it still has to obtain approval from the Television Board. Meanwhile, it continued telecasting the British Broadcasting Corporation programs and has recently resumed relaying programs from the Australian Broadcasting Corporation after its suspension earlier.

Production

Real sector activities showed a mild recovery in 2002 as indicated by the 4.7% rise in the production index of major commodities. The turnaround was attributed largely to a general pick-up, albeit small, in logs, fish, copra, and cocoa. The total output, however, remains well below potential. However, there are indications that this would improve further as the security situation improves and the recovery process continues. It should be noted, however, that the growth witnessed during the year was purely because of the private sector resilience and not necessarily driven by government policy.

Forest

The forestry sector, the predominant contributor to the local economy registered sluggish growth in 2002. Data on export volume proxied for production, showed a 3.2% increase to 550,403 cubic meters, reversing the declines of 13.8% and 0.5% in 2000 and 2001 respectively. Of the total volume, natural logs constituted 456,979 cubic meters (83%) while plantation logs accounted for 93,424 cubic meters (17%).

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

Species	2000	2001	2002
Amoora	75	-	56
Burkela	77	66	55
Calophyllum	88	81	75
Campnosperma	61	56	49
Canarium (Ngali)	71	61	60
Celtis	52	50	na
Dillenia	68	69	62
Dysoxyllum	-	-	57
Elaeocarpus	na	na	53
Endospermum	55	-	80
Eucalyptus deglupta	77	77	67
Eugenia (Water Gum)	64	52	52
Falcata	60	50	na
Garcinia	83	-	na
Gmelina	56	53	58
Gonostylus	51	51	49
Kwila	na	na	89
Maranthes	56	57	54
Mixed Red	60	59	55
Mixed White	59	51	51
Neonauclea	50	55	51
Octomeles Sumatrana	86	-	na
Others Species (mix)	63	52	50
Palaguim	80	71	73
Paraserianthes Falcateria	82	-	na
Parinari	55	55	54
Planchonella	81	-	61
Pometia (Taun, Akwa)	83	70	74
Schizomeriaq (Beabea)	68	61	59
Teak (Tectona grandis)	150	156	153
Terminalia	76	55	49
Terminalia brassii	76	67	57
Terminalia (others)	71	50	48
Vitex (Vasa)	-	111	92

1/Jan-Mar **period**

Source: Central Bank of Solomon Islands

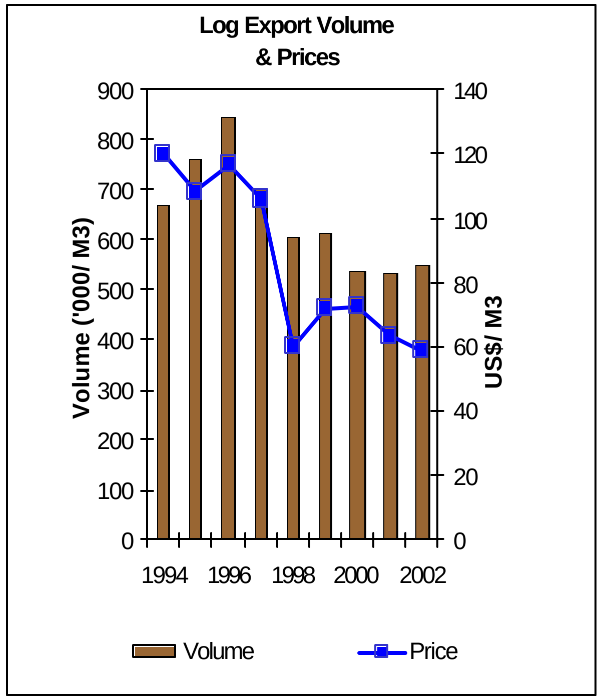
The slight growth came in the face of subdued demand Solomon Islands logs in the Asian markets, political pressures particularly from Western Province over the sharing of log revenues, and relatively weak prices. This was underpinned primarily by the continuous inflow of both foreign and local capital into the industry, issuing and renewing of licenses prior to the moratorium imposed in the second quarter, and the signing of new contracts by existing companies to operate in new concession.

About two thirds of the annual volume were derived from the Western Province followed by Isabel Province with 25.7%. These were reflective of the large number of logging companies operating in these two provinces. Although Malaita province only accounted for a negligible portion (3.1%) of total production, it has considerable potential in its large natural forest to attract more logging companies. However, land disputes combined with the prevailing law and order problems in some parts of the province may hinder any development in this regard.

The Alu forest plantation in Shortland Islands, Western Province that was earmarked by the government as one of the major projects in the drive to rehabilitate the ailing economy was delayed until the final quarter of 2002 when Dalgros (SI) Ltd was contracted specifically to harvest teak species. By year-end, about 1,248 cubic meters were harvested and exported to China. Despite the sluggish start, there was high optimism of activities at Alu plantation picking up in 2003 in conformity with strong price trends for teak species in the world market.

Contrastingly, Kolombangara Forest Plantation Limited (KFPL), surpassed projections by harvesting 58,000 cubic meters in 2002 as against 34,000 cubic meters in 2001. The upswing in volumes harvested was against a backdrop of weak prices that averaged around US$57 per cubic meter. The increase stemmed mainly from renewed demands from Vietnamese buyers for KFPL's plantation logs, which was driven mainly by the Forestry Stewardship Council award to KFPL in recognition of achieving sustainable logging standards. Moreover, KFPL had gained some niche market breakthroughs, albeit negligible, in Korea, India, China and Japan, which could become essential in future when the company increases its annual harvest. Company projections for 2003 are more optimistic with the annual harvest expected to increase to around 65,000 cubic meters and prices for plantation logs to rise to US$60 per cubic meter.

Graph 3
Volume and Average Log Prices



International average log prices reversed the decline in the preceding years and rallied 2.2% to US$163 per cubic meter in 2002. In contrast, the average price for local logs was down by a further US$4 to US$59 per cubic meter. The latter includes the average price of teak trees that hovered around US$153 per cubic meter. This consistent high price for teak logs was a major incentive for the increase in teak planting projects in various parts of the country. According to estimates from the Department of Forestry, smallholding farmers planted one hectare with teak species in 2002, bringing the cumulative total over the years to 1,000 hectares. Such smallholding projects not only complement reforestation efforts of major plantation companies but would also ease pressures on natural forests in the future.

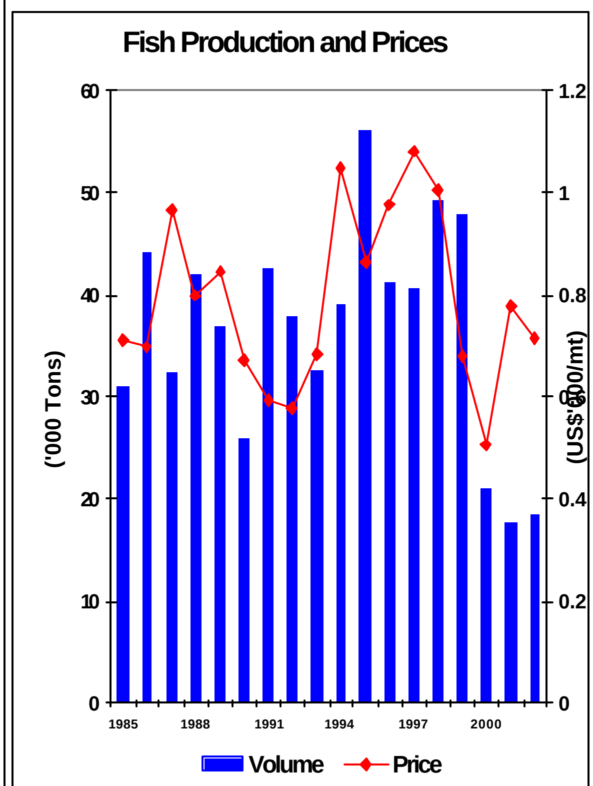
Besides the decline in export prices, the industry is also faced with other non-market factors such as legislative and administrative ambiguities, poor monitoring systems, lack of manpower, logging malpractices, and budgetary constraints. In addressing these shortcomings, the Department of Forestry revisited the rules and regulations pertaining to the sector. In May 2002, a revised Code of Logging Practice was introduced with strong emphasis on company compliance. Apart from that, the Division has also been working on a new bill to repeal previous legislations namely "Forest Resources and Timber Utilization Act 1969" and other subsequent legislations. The new bill would be tabled in Parliament for debate in 2003.

Fish

The fishing industry was robust in 2002. The annual catch rebounded from the weak trend seen in the past three years and registered 18,520 tons, a rise of 800 tons (4.5%) over 2001. Of the total catch, Soltai Fishing and Processing Ltd (SFPL) caught 10,438 tons (56.4%) while National Fisheries Development Ltd (NFD) accounted for 8,082 tons (43.6%). The turnaround was largely attributed to efforts by SFPL to increase production and relatively favorable fishing conditions in local waters in the second half of the year. Compared to 1999 and 2000, however, fish catches dropped by 29,443 tons and 2,645 tons respectively.

In 2002, SFPL continued to feature dominantly in the sector. However, cessation of Asian and European markets for tuna after the closure of Solomon Taiyo Ltd resulted in the strategic utilization of tuna resources for the production of canned tuna and smoked fish. At year-end, SFPL processed 8,455 tons, of which, 6,253 tons were for smoked fish while 2,202 tons were converted to canned tuna. Preliminary figures showed that SFPL exported 7,200 cartons of canned tuna to Vanuatu and Papua New Guinea - the two main markets for canned tuna - under the Melanesian Spearhead Group Trade Agreement (MSGTA). There were concerns about the high inflow of cheap imported canned products particularly from Papua New Guinea that undercut prices of local canned goods. Notwithstanding this competition, SFPL maintained its dominant position in the local market.

Graph 4
Fish Production and Average Prices



National Fisheries Development Ltd's (NFD) performance was relatively poor. Its total catch fell remarkably by 36.7% to hit an all time low of 8,082 tons. A similar trend was also depicted in fresh tuna exports, which dropped markedly to 8,848 tons. These adverse developments undermined better fishing conditions in local waters in the latter half of 2002 and strong world prices averaged around US$700 per ton in the first half of the year. The decline was due to: the reduction in the number of purseiners to one (Solomon Premier) following the selling of Solomon Empress to an overseas company in the third quarter, the exclusion of purseiners boats from the area designated specifically to SFPL's pole & line boats, and poor fishing conditions in the first half of the year. NFD purchased the government owned purseiner (Solomon Chieftain) in September 2002. However, the boat did not fish as it was sent for refitting in Singapore. On a positive note, fish catch in the first quarter of 2003 improved dramatically following the resumption of Solomon Chieftain, signaling a strong fishing year ahead for the company.

Another onshore fishing company, Solgreen Fishing Company Ltd, registered strong performance in 2002. The tuna catch rose from 704 tons in 2001 to 869 tons, in spite of soft auction prices at the Japanese markets, which was triggered largely by high tuna inventories. High freight costs stemming from lack of direct air routes to Asian markets and unreliable air schedules, high tax brackets, and higher fuel costs undermined the competitiveness of the company internationally. However, on the upside, the company contemplates diversifying into fish processing in 2003 once samples sent to potential markets yield positive responses. The undertaking would definitely bring immense benefits to the company and Solomon Islands economy.

Activities in other areas such as seaweed farming, pearl farming and other smaller projects took a back step as the donor community intentionally skewed budgetary disbursements towards other ongoing marine projects like the Rural Fisheries Centers project, the Nusatupe project, and monitoring of foreign fishing boats during the year.

Solomon Islands bilateral and multilateral fishing treaties remained intact during 2002 and are expected to do so in 2003 and beyond. As in previous years, the Department of Fisheries realized a substantial portion of its revenues from the fishing treaties. A total of 139 boats came under bilateral treaties to fish in Solomon Islands 200 miles Economic Exclusive Zone (EEZ) during the year. Of the total, Japan accounted for 69 boats followed by Taiwan with 44 boats, while Korea accounted for the remaining 26 boats. The fishing fleet was categorically dominated by long line type boats which accounted for 65%, pole & line 22% while the remainder were purse seiners. On future prospects, FFA had successfully negotiated the renewal of the USA multilateral fishing treaty for another 10 years. This is expected to come into effect in June 2003 and should bring the total number of US purse seiners fishing in the country's 200 miles EEZ to 50 boats.

Copra & Coconut Oil

Copra production was revived in 2002 but grew moderately by 1.7% to 1,731 tons. Most of the increase reflected the rise in purchases (1,511 tons) in the fourth quarter. Copra production was hindered by a number of factors including the poor financial status of CEMA prior to its liberalization, RIPEL's prolonged liquidation process, unreasonably high transport costs, poor conditions of basic infrastructures, and lack of credit facilities to enable license holders to buy copra from farmers.

The average international price of copra rose to US$266 per ton, following upward movements in the latter half of the year, which reversed the downward trend in the preceding two years. This increase was seen in domestic prices which rose to around $900 per ton, more than double that of a year ago. Average copra prices are envisaged to remain strong in 2003 and should positively impact on production as farmers capitalize on the rise in average prices.

The most distinctive event to occur in the agricultural sector was the liberalization of the Commodities Exporting and Marketing Authority (CEMA) around mid-year. The intentions were to salvage CEMA from its financial problems, relinquish CEMA's monopoly status to promote open competition in the copra industry, solicit private sector participation, and strengthen the Authority's regulatory and facilitating roles. These roles include- licensing, ensuring commodities meet minimal quality standards, marketing intelligence, identification and facilitation of new marketable commodities, and guaranteeing smallholding farmers' loans. The private sector has shown keen participation. Because of the liberalization, thirty applications for copra export licenses were received of which CEMA approved eleven, including two foreign owned companies.

Consequent to the liberalization policy, CEMA's revenue base shrank dramatically and was limited to licensing fees, management charges on exported tonnages, and rentals from various premises. This is a limitation to both the effective execution of the Authority's primary roles and its financial viability. Annual licensing fees for copra and cocoa were set at $500 and $5,000 respectively while management fees were charged at $20 per exported ton. Furthermore, about 80 employees of CEMA were made redundant in July 2002. Of the remaining staff, eight were stationed at CEMA headquarter while three inspectors were posted at different provincial sub-centers namely Noro, Yandina and Kaonasughu.

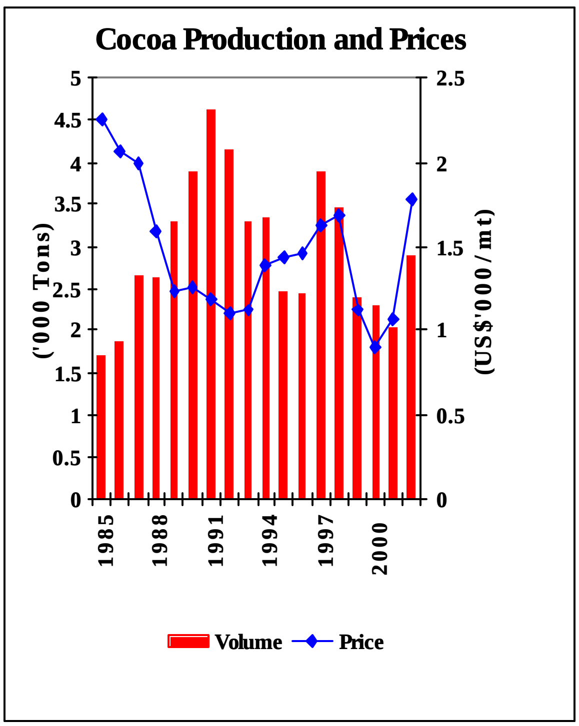
The liquidation of Russell Islands Plantation Estate Limited (RIPEL) in early 2002 has also weakened the industry during the year. The aftermath was characterised mainly by a contraction in annual copra output, a sizable cutback in export revenue, the rise in wage arrears, idle production plants, and lack of budgetary allocation for repairs and maintenance. The decision to award International Comtrade and Shipping Limited (ICSL) – an Australian company – the opportunity to take over RIPEL in the final quarter was a relief, albeit, too late to make any impact on annual copra production last year. This, however, provided an important opportunity to resuscitate the copra industry that was initially at the brink of extinction. Under the new company shareholding arrangements, landowners' hold 24.9% of the company shares, workers 20%, SIG 20%, Central Islands Province 20%, and ICSL 15.1%.

Cocoa

The cocoa industry was resilient during the year. Cocoa output grew noticeably by 42.6% to 2,907 tons, owing mostly to increases in both the second and the third quarters of the year. The increase was due to the relatively high cocoa prices in the local market, strong smallholder activities on Guadalcanal and Malaita Provinces, an increase in the number of licensed cocoa buyers, and favorable weather conditions.

The international price of cocoa rose strongly during the year with a more than twofold rise to US$1,778 per ton. Similarly, local prices closed around $900 per ton at year-end, as against $243 per ton in the preceding year and $350 per ton in early 2002. The sharp rise was due to supply disruptions arising from the security problems in Ivory Coast – the world's leading cocoa producer. Unfortunately, Solomon Islands has been unable to take advantage of this development due to rigidities in raising output capacity. It is hoped, however, that increased cocoa farming in most provinces during the year would result in higher levels of production in the future. It is also anticipated that the resumption of renewed activities RIPEL activities under ICSL and persistently high cocoa prices in early 2003 would impact positively on overall cocoa output in the medium term.

Graph 5
Cocoa Production and Prices



Rice

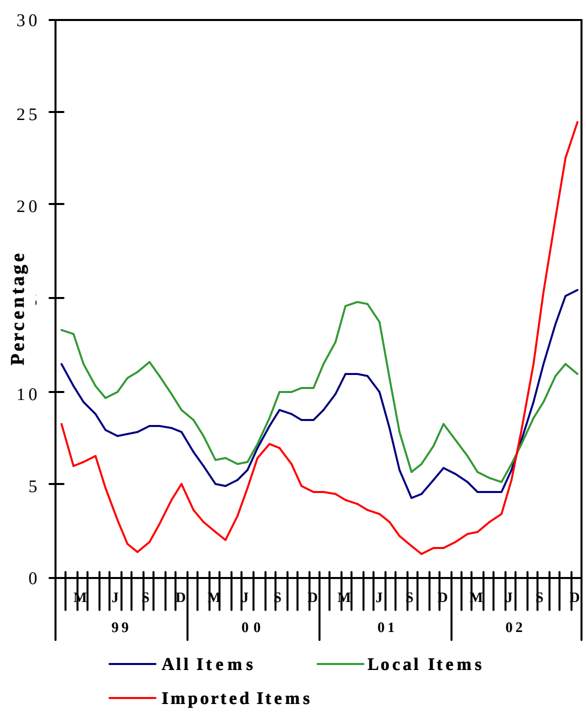
According to the National Rice Project office (NRPO) funded by ROC Taiwan, the total land area under rice farming throughout the country increased from 448 hectares in 2001 to 493 hectares. This included 30 hectares of commercial rice projects, of which Malaita Province accounted for 15 hectares, Temotu Province 10 hectares, with Isabel and Western provinces accounting for 5 hectares apiece. The increase in acreage was consistent with NRPO's annual objective of planting 500 hectares with rice and necessitated the pick up in annual yields from 2,083 tons to 2,267 tons at year-end. Of total rice production, Malaita Province accounted for 34.2%, Makira province 18.1%, Choiseul province 12.4%, Isabel province 11.2%, Temotu province 9.4%, Western province 7.1%, 4.2% by Guadalcanal province, Central Province 2.8% while Rennell and Bellona province accounted for 0.7%.

Like most other developing countries, rice has become the primary staple food in Solomon Islands. This is shown by the large inflow of rice imports from Australia, which rose sharply from 22,778 tons in 1999 to 30,218 tons in 2002. Rice imports cost the country a rising average of about $50 million annually over the past four years. This is a consequence of sluggish farming patterns and the weakening value of the local currency. Among other means, the foreign exchange costs could also be reduced in the long run through an aggressive import substitution strategy, which the government in association with NRPO could facilitate through the designing of appropriate land policies, increased financial and technical provisioning in this sector, as well as encouraging local farmers to partake in semi commercial rice projects.

Inflation Rate

The average annual rate of inflation in 2002 was 15.4%, compared to 5.9% in 2001 and 8.4% in 2000. Given the setbacks experienced recently in data collection, it would appear that the 2000 and 2001 figures understate the true inflation. The upward movement was driven mainly by significant increase in the imported component of the Honiara Retail Price index (HRPI), which rose to 24.5%. On the other hand, the local component registered a growth of 10.7%, compared to 8.3% in 2001.

Graph 6
Inflation Components



The imported component posted a single digit growth from January to July that was more ascribed to underreporting than reflecting inflationary trends. The double-digit figures since August reflect the rapid depreciation of the local currency against currencies of major trading partners in the second half of the year. The double-digit growth was significant in the prices of foodstuffs, drinks & tobacco, and clothing & footwear categories. Foodstuffs – the dominant constituent of the imported index – increased by more than 24 points and registered 28.8%, most of which was due to the increase in the price of rice. Drinks & tobacco also rose significantly given the rise in government duties subsequent to the cancellation of all remissions in early 2002. Other sub indices of the imported component such as household & utilities, household operations, transport and communication and recreation and health also increased during the year.

The local component of the index was flat during the year because of declines in the prices of foodstuffs, transport & communication, and recreation, health & other services categories that negated upward shifts in the prices of other categories. Inflation in Solomon Islands is relatively high compared to our major trading partners and other developing countries in the region. While low inflation remains an important policy objective, this may not be realized in the medium term under current economic circumstances and policy environment. In the coming months, domestic inflation is expected to increase further given the rise in oil prices due to supply disruptions because of the Iraq war.

IV. BALANCE OF PAYMENTS

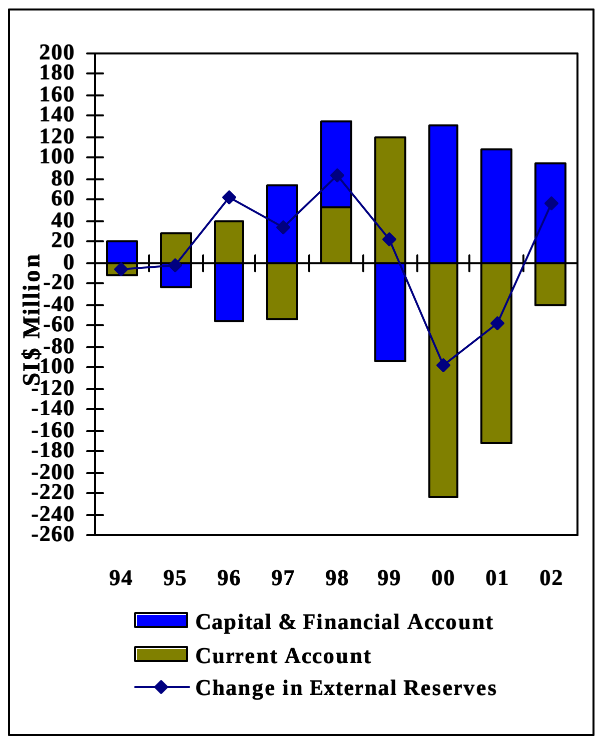
The balance of payments shows the outcome of transactions by Solomon Islands residents with the rest of the world. As a small open economy, Solomon Islands depend on the global economy for income and investment. The analysis of the country's balance of payments is therefore important as it helps to identify areas that need urgent actions to sustain the economic recovery process and map the long-term development needs of the country.

Overall Balance

The external sector exhibited strength in 2002 and swung sharply to an overall surplus of $57.4 million for the first time in the post-conflict period. Consequently, the official gross international reserves, after teetering on the brink of exhaustion at the beginning of the year, significantly rose by 26.1% to $129.9 million, the highest in the last four years although in US dollars terms, the level of reserves were constant. This turnaround reflected, first a significant reduction in the current account deficit from a staggering $172.3 million in 2001 to $41.0 million in 2002 and, secondly the net capital and financial surplus of $94.1 for the year.

The reduction in the current account deficit was exceptionally broad-based. On the external front, the resilience shown by economies of Solomon Islands main trading partners, despite a weaker-than-expected global economic recovery and increasing uncertainties surrounding the Middle East conflict, fuelled the upturn of non-fuel commodity prices as well as provided better opportunities for Solomon Islands external trade. As a result, the trade account moved into positive territory for the first time in post-conflict period despite the continued closure of some major exporting industries. On the domestic front, the improvements of law and order countrywide had sparked off a windfall of donor assistance after a short suspension and triggered reopening of some previously closed exporting companies. The surplus in the trade account plus donor assistance was the driving forces behind the narrowing of the current account deficit in 2002. Together they more than outweighed both factor and non-factor services payments imbalances during the year.

Graph 7
Balance of Payments



The level of official gross international reserves at the end of 2002 represents 2.8 months worth of imports of goods and non-factor services. This compares to 1.3 months cover in 2001. It should be noted that this improvement was in part due to the significant reduction in import demand during the post-conflict period. This has come because of Central Banks exchange controls, exchange rate movements, controls exercised by suppliers and the general constraint on domestic financing.

Trade Account

There was a clear turnaround in the trade performance with export receipts registering a positive trend for the first time in post-conflict period. The trade account, reflective of export earnings increasing faster than import payments, swung sharply and recorded a surplus of $68.8 million from a massive $182.7 million deficit in 2001.

Table 4
Balance of Payments Trade Account

					($Millions)
	1998	**1999**	**2000**	**2001**	**2002**
Exports fob	683.0	724.0	352.6	248.7	390.1
Imports fob	616.0	532.4	469.9	431.4	321.3
Trade Balance	67.0	193.4	-117.4	-182.7	68.8
Trade Balance as % of total trade	5.2	15.2	-14.3	-26.9	9.7

Source: Central Bank of Solomon Islands

Export earnings increased remarkably by 57% to $390.1 million, the highest in 3 years, despite the deterioration in the country's terms of trade. This remarkable performance, which reversed the decline in 2001, came on the back of robust external demand, particularly in the Asian region, and resumption in export activities of some previously closed exporting companies, particularly in the copra and cocoa industry. Except for minerals, export earnings of all export commodities registered exceptional performance in 2002.

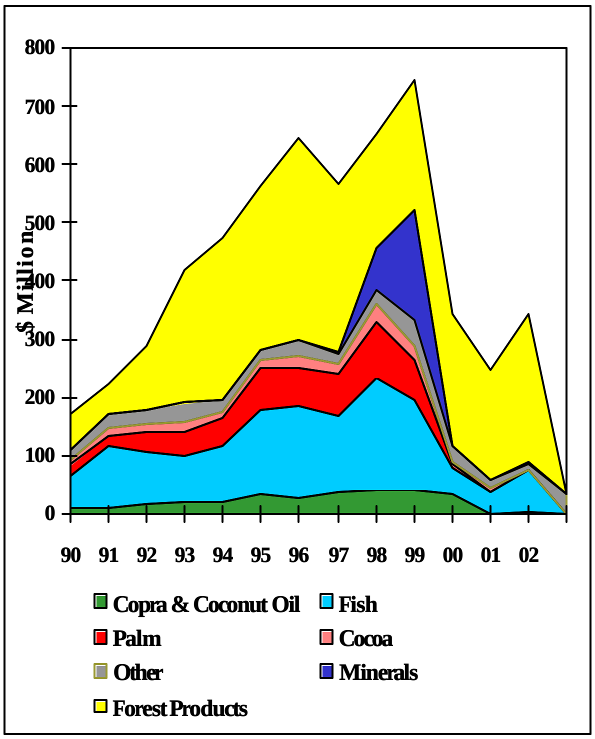
Rebounding agricultural activities along with improved shipping services, particularly to Guadalcanal, the main cocoa-producing province in the country, and favorable export prices, fuelled an exceptional upturn in the export of cocoa for the first time since 1998. As a result, export earnings of cocoa rose from an 18-year low of $4.5 million in 2001 to $27.7 million in 2002, the highest in 5 years. There is still prospect for this commodity increasing its contribution in the coming years if the current growth momentum is maintained and given the current robust demand for this commodity in the World market. The international price of cocoa rallied 66% to US$1778 a ton in 2002, the highest in more than a decade. Total cocoa receipts constituted 7% of the export share; significantly up on 1.8% in 2001.

Total export receipts of copra also rose dramatically, from a negligible $0.43 million in 2001 to a 2-year high of $2.2 million in 2002. This increase was set in motion by the copra industry privatization policy of the government implemented during the year as a result of massive liquidity problems encountered by both CEMA and RIPEL, reinforced by higher export prices, which soared 38% to US$266.3 a ton over the year in the overseas market. Copra contributed 0.56% of total export receipts during 2002 and has the potential to increase its share in years ahead.

The upswing in the export earnings of both copra and cocoa was the single most remarkable achievement in the agriculture sector since the collapse of both CEMA and RIPEL. These two commodities are important sources of income for the rural areas and the reactivation of this industry should send positive signals to the rural economy and reinvigorate economic activities nationwide.

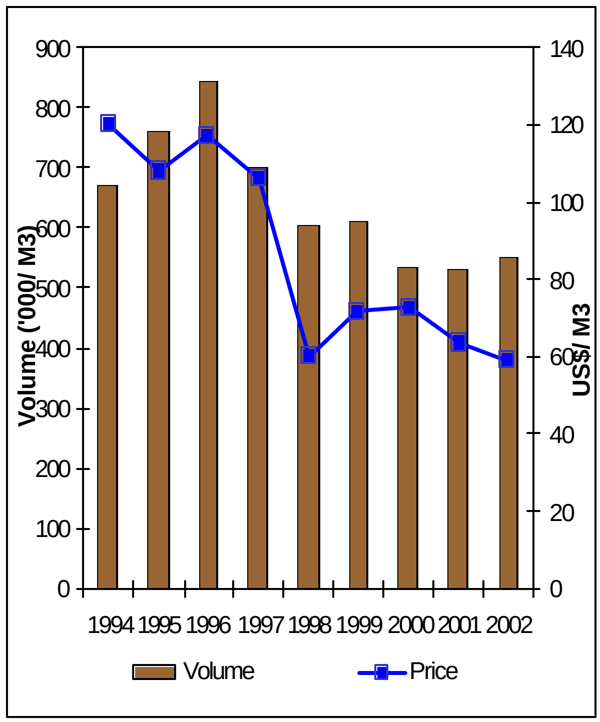
Despite depressed export prices of tuna in the Japanese market, export earnings of fish products, which was unstable during the year, had outperformed expectations, and soared 90% to $70.8 million in 2002, the highest in three years. This noteworthy performance was underpinned by a noticeable expansion of real exports of large commercial fishing operators. International price of fish products declined moderately by 8% to US$715 a ton, continuing the slide witnessed since 1998. The increase in fish export earnings has boosted the export share of this commodity by 3 percentage points to 18% over the year.

Graph 8
Export Value of Major Commodities



Export earnings of forest products, the traditional lifeline of the economy, rose by 33% to $254.1 million, the highest since 1999. This expansion was due to burgeoning logging operations in the face of robust external demand and enthusiasm by the government to see this sector play a catalytic role during the recovery process and assist in easing pressures on public finances. As a result, total clearing areas of natural forests, according to the Commissioner of Forests, were fast approaching the logging boom mark of the late 1980s. A total of 550,402 cubic meters of round logs were exported, up 3% on the previous year, with the direction of log exports leaning heavily towards the South East Asia region. The export price of logs rose 3% over the year to an annual average of $163.4 a cubic meters the highest since 2000. Forest products constituted 65% of the export share, 11 percentage points less on preceding year's, but given the current pace of logging operations, is likely to increase further in 2003.

Graph 9
Log Exports Volume and Prices



While export earnings of minerals declined steeply by 46% to $0.2 million, the export earnings of other export products rose sharply from $15.3 million in 2001 to a 5-year high of $34.9 million in 2002. The export earnings of mineral came mainly from alluvial activities. Gold Ridge Mining Ltd, the country's only large-scale commercial mining operator, remained closed in 2002.

The level of import payments could have been more dramatic with far-reaching socio-economic consequences had it not been for the exchange control measures imposed by the CBSI given the uncomfortable level of external reserves arising from relatively strong demand for foreign exchange. These controls, however, also impose costs on the economy and therefore should only be seen as short-term measures. In this regard, it is crucial that all closed exporting companies are re-opened, and existing ones retained. This should also be supported by a transparent fiscal and investment climate to attract new capital inflows into the country. The sequencing of these measures and the relaxation of exchange controls are critical given the openness of the economy. At the same time, it is also important that import payments are thoroughly assessed as these impinges on the sustainability of the current account and underlying level of external reserves.

Service Account

The services account, inclusive of freight and insurance, worsened to a $175.6 million deficit in 2002 from a $48.3 million deficit in 2001. The deterioration was driven primarily by increased services payments, which outstripped service receipts during the year. The negative publicity about the country abroad may have also contributed towards this outcome.

The net transportation deficit, driven by sharp contractions in payments, improved to $29.6 million from $56.1 million in 2001. The net travel, on the other hand, worsened to $34.5 million from $7.2 million in 2001 whilst the balance in 'other services' swung sharply to a net deficit of $111.4 million from a $15 million surplus registered a year ago. This turnaround was triggered by massive contractions in the receipts of communication, construction, financial services and royalties, and licenses fees during the year.

Table 5
Balance of Payments - Services Account

($Millions)

	2000	2001	20002
1. Transportation	**-175.1**	**-56.1**	**-29.6**
1.1 air transport	-54.9	-38.4	-27.8
receipts	3.3	20.1	0.8
payments	58.2	-58.5	-28.6
1.2 sea transport	-120.2	-17.7	-1.8
receipts	2.5	3.2	6.3
payments	122.7	-20.9	-8.1
2. Travel	**-29.4**	**-7.2**	**-34.5**
2.1 business	-1.5	-11.5	-17.2
receipts	15.7	1.7	2.2
payments	17.2	-13.2	-19.4
2.2 personal	-27.9	4.3	-17.2
receipts	3.9	25.8	2.6
payments	31.8	-21.5	-19.9
3. Other services	**85.7**	**15.0**	**-111.4**
receipts	225.7	221.6	95.9
payments	140.0	-206.6	-207.3
Overall net	**-118.8**	**-48.3**	**-175.6**

Source : Central Bank of Solomon Islands.

Income Account

The income account recorded a net deficit of $50.6 million in 2002, the largest since 1999, compared to a $0.6 million surplus in 2001. This reversal had been anticipated given the prevailing socio-economic conditions, depressed interest rates in major financial markets and terrorist threats worldwide. As a result, income from labour fell sharply and registered a net surplus of $7.4 million in 2002 compared to a $14.8 million surplus in 2001.

Table 6
Balance of Payments - Income Account

	($Millons)		
	2000	**2001**	**2002**
1. Employee Compensation	6.0	14.8	7.4
credit	22.0	23.9	15.1
debit	16.0	-9.1	-7.6
2. Investment Income	-27.3	-14.1	-58.1
2.1 Direct Investment	-27.3	-10.7	-47.1
2.1.2 Income on equity	-15.0	-5.2	-27.0
credit	0.4	2.1	-
debit	-15.4	-7.3	-27.0
2.1.3 Income on debt (interest)	-12.3	-5.5	-20.1
credit	14.4	1.9	-
debit	-26.8	-7.5	-20.1
2.2 Portfolio Investment	-	-	-
credit	-	-	-
debit	-	-	-
2.3 Other investment	-	-3.5	-10.9
credit	-	9.6	3.3
debit	-	-13.1	-14.2
Balance	-21.3	0.6	-50.6

Source: Central Bank of Solomon Islands

Investment income had also worsened to a $58.1 million deficit from a $14.1 million deficit a year ago. This was due partly to the increase in factor payments, especially the rise in government external debt arrears and depressed interest rates in major financial markets overseas. Dividends and profits repatriated rose to $17.5 million from $7.3 million in 2001 while reinvested earnings increased to $9.5 million from a negligible level in 2001.

Total government interest arrears rose to $14.4 million. However, in the face of massive expenditure overrun, government only paid $3.3 million during the year. Consequently, cumulative interest payment arrears tripled to $27.3 million by year-end.

Interest payments of private sector were $3.7 million as against $0.2 million in 2001. Interest income on financial investments, on the other hand, fell sharply in 2002 due to low interest rates in major financial markets.

Current Transfers

Like other developing countries, Solomon Islands needs increased foreign assistance for financing budgetary shortfalls, smoothing consumption and easing pressures on foreign exchange. Over the decades, donor assistance has contributed significantly towards enhancing the socio-economic and welfare in the country. In the short to medium term, the authorities must ensure that these inflows are used efficiently, distributed equitably and in a transparent manner so that wider segments of society can benefit and alleviate the risk of nationwide poverty.

Table 7
Balance of Payments - Current Transfers Account

	($Millions)		
	2000	**2001**	**2002**
1. General Government	115.5	54.5	161.9
cash	108.7	48.8	86.9
credit	110.7	52.9	108.7
debit	-2.0	- 4.1	-21.8
1.2 Non-cash-net	6.8	5.69	75.0
2. Other Sectors	-81.7	3.7	-45.5
2.1 Workers remittances	-16.9	-2.8	5.0
credit	-	-	6.7
debit	-16.9	-2.8	-1.7
2.2 Other transfers **1/**	-64.8	6.4	-50.5
credit	61.9	110.1	59.4
debit	-126.7	- 103.6	-113.4
Current transfers-net	33.8	58.2	116.4

1/ Figures on Table for 2002 are rounded to 1 decimal place and therefore may be slightly different from figures used in the text. The difference is caused by the rounding error.

Source: Central Bank of Solomon Islands.

In 2002, the current transfers account registered a surplus of $116.4 million, more than double the surplus in 2001. The significant improvement reflected the rise in official inflows, totaling $183.7 million, the highest in the last two years.

About 80% of these injections were for the provision of legal, health and education services. This comprised of $108.7 million in cash and $75.0 million in technical assistance.

Transfer receipts to other sectors amounted to $69.6 million, 37% less than in 2001, while transfer payments amounted to $115.1 million. This resulted in a private sector net deficit of $45.5 million compared to a surplus of $3.7 million in 2001.

For 2003, donor assistance to Solomon Islands is expected to increase further. The authorities, however, must not be complacent but ensure two fundamental requisites for unlocking donor assistance in 2003 are met. First, that the law and order must be strengthened. Secondly, it is important that government urgently puts in place a medium term development strategy. This should form the basis for aid coordination by government during the year. These two requisites are important because they form the basis for a stable economic environment and provide an important platform whereby donor countries can make decisions with reasonable degree of certainty.

Capital and Financial Account

The capital and financial account continued the trend of surpluses seen in the last three years and registered a net surplus of $94.2 million in 2002. Capital transfers to the public sector rose sharply to $53.2 million from $23.6 million in 2001 whilst those to the private sector fell during the year. As a result, the surplus in the capital account component of the capital and financial account rose to $47.4 million compared to $22.9 million in 2001.

On the financial side, there was a marked improvement in financial inflows to the private sector seen during the year. As a result, net capital repatriation ebbed to $9.6 million from $61.3 million in 2001. This turnaround reflects the relative improvement in the law and order situation. As a result, private companies were able to retain their capital and started to rebuild what has been lost in the last three years.

Table 8
Balance of Payments - Capital Account

	($Millions)		
	2000	**2001**	**2002**
1. Capital Transfers	65.7	22.9	47.4
1.1 General government	64.0	23.6	53.2
1.1.1 Debt Forgiveness	-	-	-4.0
credit	-	-	-
debit	-	-	-4.0
1.1.2 Other capital transfers of general govt.	64.0	23.6	57.2
credit	64.0	23.6	57.2
monetary	44.7	23.6	57.2
non-monetary	19.3	-	-
debit	-	-	-
monetary	-	-	-
non-monetary	-	-	-
1.2 Other Sectors	1.7	-0.6	-5.8
1.2.1 Migrant transfers-net	-	-0.6	-1.5
1.2.2 Debt forgiveness-net	-	-	-
1.2.3 Other transfers-net	1.7	-	-4.3
2. Non produced nonfinancial assets, net	0.5	0.1	-
Balance	66.2	23.0	47.4

Source: Central Bank of Solomon Islands.

Despite the improvement, there still lies ahead the daunting task of reinstating investors' confidence to pre-conflict levels. Given the country's lack of financial resources, it is important to retain and attract more foreign direct investments [FDI] to sectors the country has comparative advantage in without causing significant distortions on the economy. Although increased FDIs constitute claims on the country's future income, they also have spillover effects that can assist Solomon Islands in capacity building. Chief among these capacity buildings are acquisition of "learning by doing" skills and importation of new production techniques, technologies, risk management skills and markets through linkages with foreign owners. Sequentially, these can raise domestic productivity and lead to higher economic growth. It is in this regard that the authorities need to promote a stable socio-political environment to reinvigorate and enhance investor confidence.

Table 9
Balance of Payments - Financial Account

	2000	2001	2002
			($Millions)
1. Direct Investment in SI	6.9	61.3	-9.6
1.1 Equity capital-net	-	-0.6	-1.1
1.2 Reinvested earnings-net	-	-47.0	-2.5
1.3 Other capital-net	6.9	-8.3	-6.0
2.0 Other Investment	57.4	162.0	56.4
2.1. Assets	5.0	10.0	-26.8
2.2 Liabilities	52.4	152.0	83.2
2.2.1 Trade credit	49.8	15.0	-7.0
2.2.2 Loans	21.1	73.0	86.3
(a) General government			
(i) Long term	-29.9	48.2	11.9
Drawings	22.6	88.6	73.9
Repayments	52.5	-40.4	-55.5
(b) Other sectors			
(i) Long term	-9.1	-6.2	1.3
Drawings	3.4	0.2	3.1
Repayments	12.5	6.4	1.8
(c) Short-term-net	60.0	3.1	73.0
2.2.3. Other liabilities-net	-18.4	64.0	3.9

Source: Central Bank of Solomon Islands.

Official long-term net financial inflows were $73.9 million in 2002, 1% lower than in 2001. These comprised of drawings for projects in the health sector and for displaced victims of the ethnic conflict on Guadalcanal of $68 million. Private sector borrowings, on the other hand, rose by 35% to $42 million. This growth was the single most impressive performance in post-conflict period and signaled local and foreign investors' glimmer of hope on domestic socio-political conditions and investment climate of the country.

On the payments side, total public debt obligations amounted to $19.3 million but were not paid because of governments financial difficulties compounded by increased unbudgeted expenditures during the year. This contributed to the rise in cumulative principal debt arrears to $55.5 million from $29.5 million in 2001. The government must normalize the arrears on external debt and keep pace with its debt servicing obligations because they could exacerbate the debt problem and increase the burden of Solomon Islands as well as undermine the international credit standing and future external financing needs of the country. Amortizations of the private sector were $3.2 million. This compares to $6.4 million in the previous years.

External Debt

The national external debt stock rose by 10% to $1.2 billion in 2002 [See Table 10]. The increase was more than fully accounted for by the rise in public sector debt, as private sector debt moderately declined during the year. The sharp increase in external debt arrears in recent years demonstrate a major threat on the ability of government to sustain external debt servicing in the future as over dependence on a single commodity is insufficient to insulate the economy from risks of large external debt obligations.

High levels of external debt expose the country to external shocks, threaten domestic financial stability and undermine economic growth prospects. This calls for the need to urgently adopt a transparent external debt management strategy that links external financing to productive investment activities. This should ensure the national borrowing level is consistent with sustainable economic activity so that other important policy objectives such as low inflation and monetary stability are not compromised.

Table 10
External Debt

	1998	1999	2000	2001	2002
					($millions)
Private Sector	253.7	236.9	234.5	241.3	220.1
Government Sector	574.0	596.9	617.2	739.5	1071
of which: arrears	40.5	54.4	23.5	39.0	82.8
Total	827.7	833.8	851.7	980.8	1291.1
Debt Service	186.9	271.7	21.9	54.3	38.3
Principal	138.7	222.7	11.1	46.8	5.6
Interest	48.2	49.0	10.8	7.5	32.7

Source: Central Bank of Solomon Islands

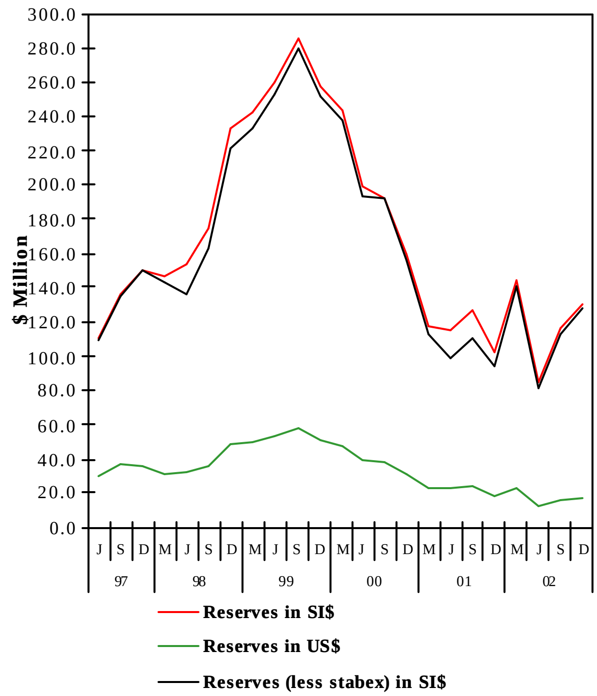
External Reserves

The downturn in the level of official gross reserves that started in the fourth quarter of 1999 and worsened throughout 2001 have finally showed signs of abatement in 2002. In the first half of the year, the level of gross reserves came under severe pressures arising from an unusually high demand for foreign exchange payments. In the second half, however, the level of gross reserves exhibited growth of 7.8% on average, a month before it leveled at $129.9 million by year-end.

The growth in the second half reflected the relative improvement in economic activities, rise in donor assistance, and effects of both exchange rate movements and exchange controls imposed by the Central Bank. Difficulties by government in servicing external debt obligations, which led to soaring official external debt arrears, also helped slow down the decline of reserves during the year.

It is important that Solomon Islands continues to maintain this growth momentum even though it is still difficult to establish with certainty the sustainability of this growth. As an open economy, with international trade accounting for 70-85% of GDP, holding a sustainable level of external reserves representing more than 3 to 4 months of imports remains an important policy objective. This calls for the need to ensure economic conditions remain stable and investment policies are attractive to foreign investors.

Graph 11
External Reserves



Despite the growth in the second half, the current level of official gross reserves remains fragile and can easily decline. It is in this regard that government must take decisive actions and institute sound supply-side policies, and appropriate reforms particularly in the productive sector to avoid adjustments that are painful and protracted in the future.

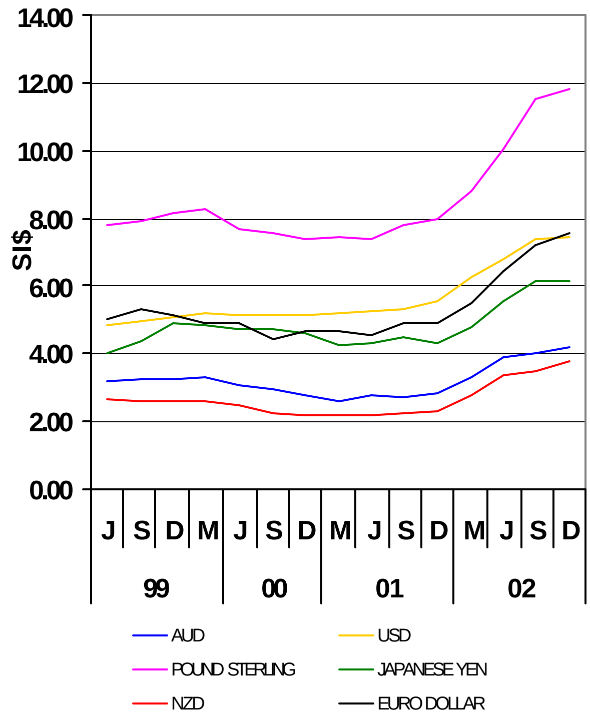
The official gross international reserves position at year-end was equivalent to 2.8 months of import cover. Although this was significantly higher than the 1.3 months cover registered in 2001, the level of reserves would have been depleted had the government fully repaid it debts arrears and the Central Bank not imposed strict exchange controls during the year.

Exchange Rates

In 2002, the Central Bank maintained the policy of setting the exchange rate against a trade-weighted basket of currencies important to Solomon Islands trade within policy guidelines mutually agreed between the Bank and Government. These include the need to sustain growth and minimize excessive inflationary pressures stemming from sharp currency depreciations.

However, as the year unfolded, it became increasingly apparent that more decisive actions and stronger policy adjustments were required to decelerate the fall of the external reserves due to burgeoning demand for foreign exchange, depressed interest rates in major financial markets and the continued closure of both the Gold Ridge project and palm oil industry. Consequently, the need to defend international reserves from dissipating rapidly and to avoid far reaching socio-economic costs to the economy took the upper hand of the exchange rate policy in 2002. As a result, the official exchange rate was adjusted downwards by 25% in the first quarter to offset the rapid decline in reserves early in the year. Although this was fully supported by both donor community and seen by the IMF and the World Bank as the correct action to take, lack of political will and indecisiveness by government led to a reversal in the policy only days after it was announced on the floor of parliament.

Graph 12
Exchange Rates



The Solomon Islands dollar [SBD] depreciated by 12% in the first half of the year on average and by 8% in the second half, on average, in nominal effective terms. For the year as a whole, the SBD depreciated against the basket by 34% in nominal effective terms and 29% in real terms. Against individual currencies, the SBD depreciated by 28.0% against the US dollar, 33.3% each against the Australian dollar and British pound, 24.0% against the Japanese yen, 40.7% against the New Zealand dollar, 35.6% against the SDR and against the Euro by 33.9%.

V. MONEY AND BANKING

Overview

The general decline in monetary aggregates that ensued throughout 2001 continued in the first half of 2002, but gradually improved thereafter as economic activity slowly improved, credit demand marginally increased and given a relatively favorable performance in the external sector. As a result, broad money supply (M3) and net foreign assets increased after sharp declines in 2001. The turnaround in credit growth was attained in an environment of sluggish performance in economic activities, dampened domestic and foreign investments, weak business prospects, cautious lending policies of commercial banks, an unfavorable government fiscal position and the persistent law and order problem. Activities in the Treasury Bill auction market remained modest despite the increase in liquidity in the banking system. Moreover, although average deposit rates marginally increased, the commercial banks interest rate spread remain high.

Monetary Policy in 2002

The emphasis of monetary policy in 2002 continued to focus on promoting stable monetary conditions and a sound financial system as a basis for increasing employment, and sustaining growth in output and a relatively low level of inflation. This also implies the need to ensure there is sufficient level of reserves. Accordingly, the Bank continued to manage domestic liquidity through the open market operation (OMO) despite the withdrawal of major players, and maintained tight exchange controls. These actions were taken amid growing concerns about weaknesses in government finances, a relatively weak financial system due to government's failure to settle unpaid debt arrears, unwillingness of international financial institutions to support the government's reform program and slow growth in real domestic activities due to the prevailing law and order situation

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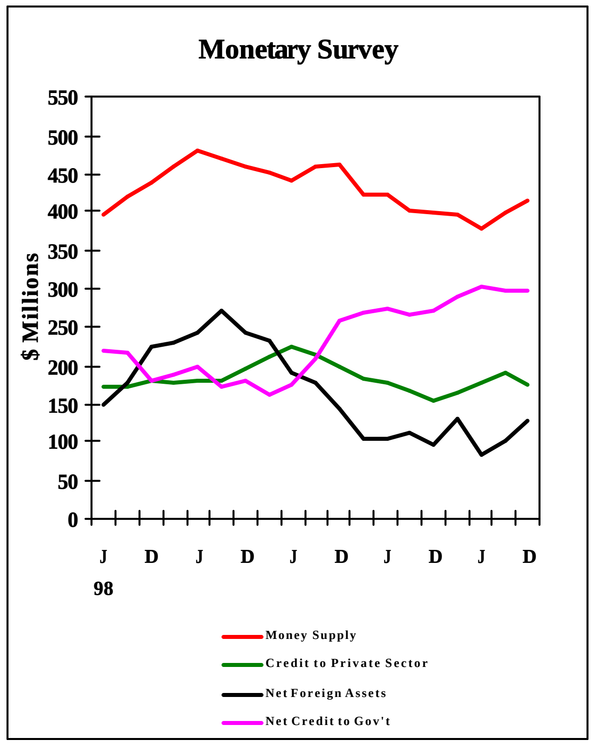
Graph 13
Monetary Survey

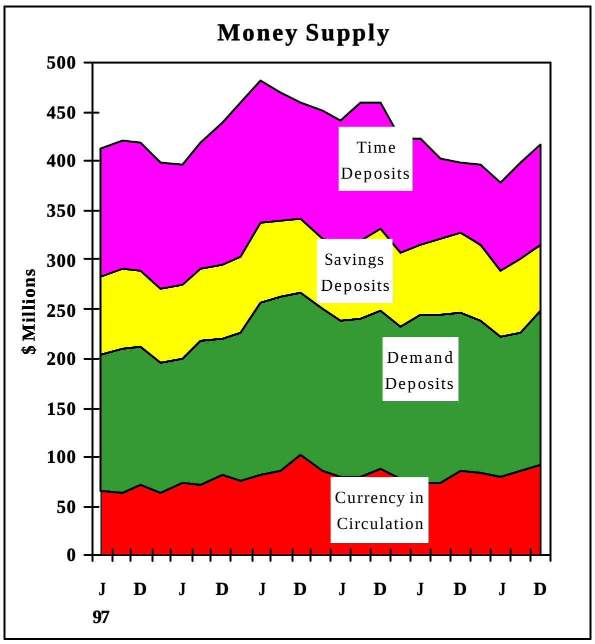


The failure of government to settle debt arrears to both commercial banks and other financial institutions remains the key impediments to the development of the government securities market. Despite the withdrawal of major players including commercial banks and NPF, the market remained opened during the year with small investors actively participating.

Money Supply

Broad money supply (M3) marginally grew by 4.0%, to $414.9 million, reversing the decline of 13.0% in 2001. The rise was driven partly by the increase in net foreign assets, and a relative increase in commercial bank credit to the private sector. Narrow money, which consists of currency in circulation and demand deposits with the commercial banks, also rose during the year, compared to declines in the previous two years. This reflected the 3.7% decline in commercial banks deposits, which more than offset the 8.0% increase in currency in circulation.

Graph 14
Money Supply



The decline in the demand deposits with the commercial banks reflected the contraction in business activities during the year. Business firms' demand deposits, which represent more than 50% of total demand deposits in the commercial banks, remained unchanged during the year. Savings deposits declined further by 15.4%, following a decline of 3.2% in 2001. The sharp fall was mainly due to an 11.2% decline in deposits by individuals and 16.4% decline in deposits by businesses. Both categories account for 72.4% and 16.1% of total saving deposits, respectively.Time deposits, on the other hand, rose sharply by 37.3% as against a significant decline of 43.6% in 2001. The strong growth was driven largely by the rise in all components of time deposits.

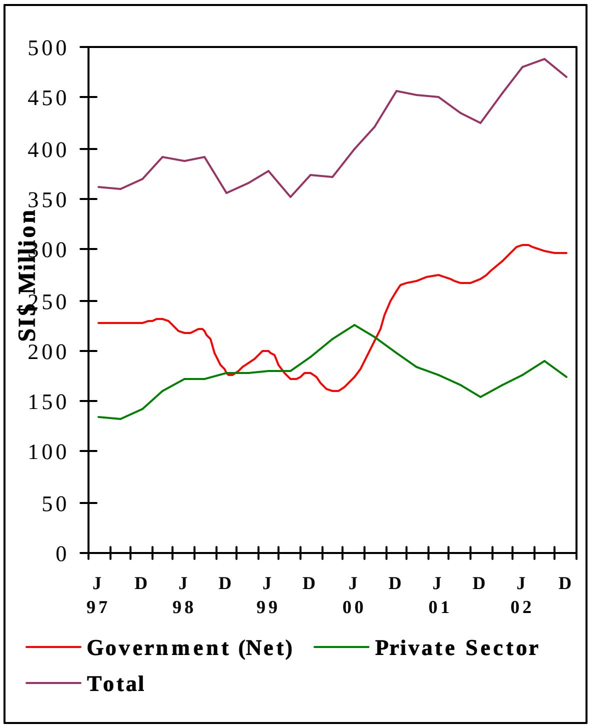
Net Foreign Assets

Net foreign assets (NFA) grew sharply in 2003 but remained relatively weak in terms of the import cover. The turnaround from a steep decline of 32.5% in 2001 was due to the robust growth in export earnings and relatively higher financial capital inflows. NFA continued to rise and peaked in March 2002 but started to decline thereafter as demand for payments mount until it reached a level of $77 million in July 2002. Although pressures on reserves mounted thereafter, the receipts of EXIM Bank loan and the rise in exports receipts in the second half resulted in the level of NFA reaching $127 million by year-end. Based on recent developments, the level of NFA is expected to increase further in 2003 as more official grants flow in and the export sector improves further.

Net Domestic credit

In 2002, total domestic credit grew by 11.0% to $471.2 million, following a growth of 7.3% in 2001. The increase reflected the rise in both net credit to government and the private sector. The 10.4% growth in net credit to government, however, was due primarily to declines in government deposits in the banking system and not necessarily new financing from the banking system. Total domestic credit to the private sector rose by 12.0% in 2002 compared to a fall of 22.9% in 2001. This development was indeed encouraging given the need to increase production and sustain the recovery process. However, a closer review of the data showed that the growth in private sector credit was not broad based, as only larger companies were able to have access to credit facilities during the year. To ensure the recovery process is sustained and broad based, it is crucial that adequate credit is also given to a larger segment of the community.

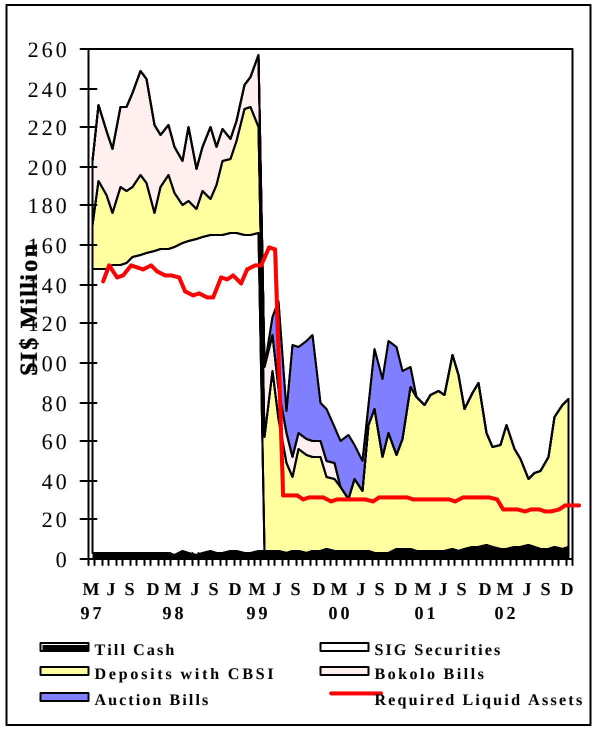
Graph 15
Total Domestic Lending



Liquidity

The banking system remained liquid throughout the year. In January 2002, the level of liquidity was $57.0 million, but by June, it had declined to $41.0 million. However, it rose steadily thereafter and reached $81 million by year-end. Consequently, excess liquidity rose significantly by 37.6% to $56.1 million compared to a growth of 25.0% in 2001.

Graph 16
Commercial Bank Liquidity

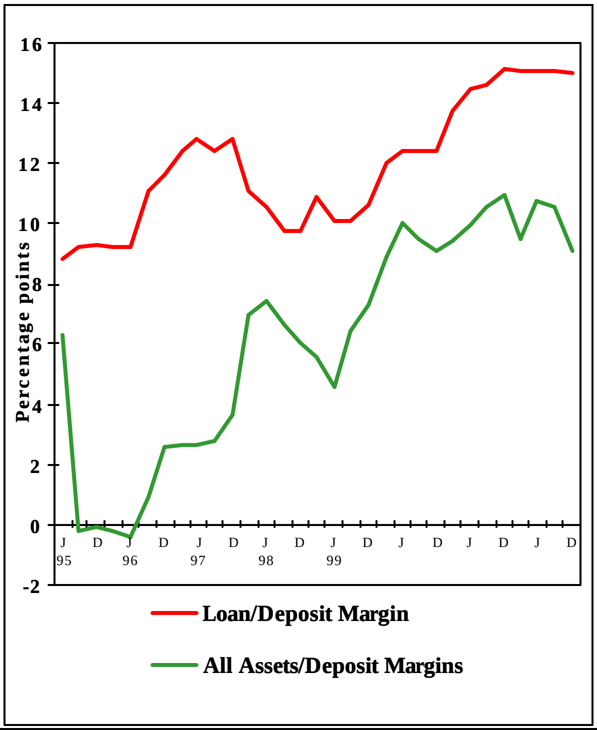


Interest Rates

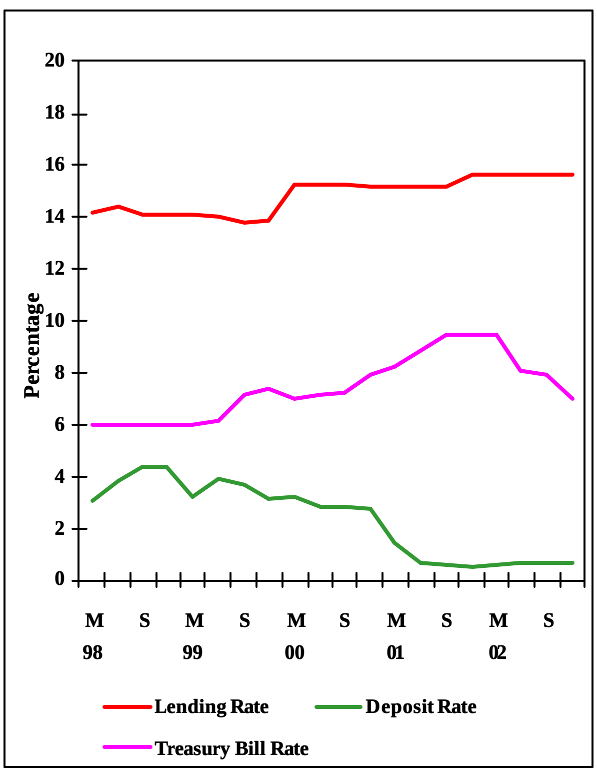
Interest rates charged by commercial banks continued to diverge during 2002. Whilst average deposit rates continued to show a declining trend, lending rates continued to remain high. Average deposit rates continued to decline since 1998. For example, in January that year, the average deposit rate was 3.22%, but declined thereafter so that by end 2002 it was merely 0.62%. At the same time average lending rate continued to increase. Although it slightly fell to 15.64% in 2002, it was still higher.

While the nominal interest represents compensation for anticipated inflation, real interest better reflects the economic costs of borrowing and return on lending.

Graph 17
Commercial Bank Margins



Graph 18
Nominal and real deposit rates



The real interest rate shows the difference between nominal interest rates and the annual inflation rate. The average real interest rate on lending at the end of 2002 was 0.24% from 11.15% and 6.69% in 2001 and 2000, respectively. The average real interest on deposits in 2002 was minus 8.68%, from minus 2.95% in 2001 and minus 5.45% in 2000. The yield on auctioned treasury bills provides an alternative investment avenue for potential investors. The yield on the 91-day Auction bill average 8.34% in 2002, compared to 8.57% in 2001 and 8.34% in 2000.

Monetary Policy and Outlook for 2003

The main objectives of monetary policy in Solomon Islands are to foster financial conditions conducive to the orderly and balanced development of the country. This also implies the need to ensure there is an adequate level of foreign reserves as the economy is heavily dependant on imports for productive purposes. Although price stability remains a key concern, recent developments have rendered the need to protect the level of external reserves now takes the upper hand of monetary policy.

Although prospects for 2003 are relatively positive, the underlying situation remains fragile. To achieve the above policy objective and sustain the recovery process, it is important that the Bank continues to act indirectly through its influence on money market conditions as the issuer of reserve money. The Bank shall do this through three policy instruments.

First, although activities in the security market have significantly fallen since the withdrawal of commercial banks, the Bank shall continue to use open market operations (OMO) as the key instrument for signaling its monetary policy stance and influence liquidity in the financial system. The Bank has no intention to use its own BOKOLO instrument due to budgetary constraints. However, in the event that domestic credit dramatically increases and fuels a downward pressure on external reserves, the Central Bank may resort to administrative controls and raise the liquid assets ratio (LAR) from 7.5% to a higher level.

Secondly, although export growth is forecast to impact positively on external reserves, this would not be sufficient to raise reserves to the desired level of more than three months of import cover. This puts the onus on the Central Bank to ensure there is adequate level of reserves to finance the recovery process. In addition, current exchange controls would also be maintained and only gradually liberalized once macroeconomic conditions have stabilized.

Finally, to ensure exports remain competitive and cap any possible pressures on reserves, it is also important that the Bank maintains the current policy of gradually depreciating the Solomon Islands dollar (SBD). At present, the SBD remains relatively stable against the US dollar. However, this is only possible given the weakening of the US dollar against major currencies. According to IMF forecasts, this development is not expected to last. Once growth in the US economy improves and the dollar strengthens, the Bank must opt to gradually depreciate the SBD as taking a 'hard currency' policy stand could easily erode the level of reserves. Obviously, this would undermine the objective of price stability. However, under current economic conditions and in view of the fact the economy is just 'coming back to life', it is pertinent that there are adequate reserves to expedite the recovery process.

VI. GOVERNMENT FINANCE

Broad Developments and outcome in 2002

The 2002 budget which was based on the '*The National Programme for Economic and Financial Reconstruction 2002 – 2005*' adopted a four-pronged strategy. These included consolidating the peace process and restore investor confidence by addressing the law and order issue, implement structural reforms to improve government finances and regenerate economic growth, and improve social services particularly in the education and health sectors.

However, as the year progressed, it became obvious that government was unable to implement some of the policies to achieve the above objectives. With the rise in threats on Treasury staff, compounded by lack of political will and misguided policy directions government finances deteriorated as a resulted of increased unbudgeted expenditures during the year. This had seriously affected moderate improvements seen in the revenue side. As a result, the private sector remained depressed. This contributed to the low economic performance and investments during the year.

The 2002 budget was drawn on a 'balanced budget' platform with total revenues (excluding grants) estimated at $250.0 million (later were revised down), equating recurrent expenditures. In terms of sources, the revenue comprised of $146.7 million from Inland Revenue, $77.9 million from Customs, and $25.4 million from other ministries. Recurrent expenditures, on the other hand, comprised of $120.0 million for payroll, $102.0 million for other charges, and $28.0 million for external debt servicing.

Total revenues amounted to $263.3 million (provisional), exceeding the revised budget estimates of $229.8 million by 14.4%. This reflected the improvement in revenue collection by both Customs and Inland Revenue Divisions. This more than offset the decline in revenue collection by other ministries.

Total recurrent expenditures were $614.7 million in 2002, much higher than the budgeted amount. Due to under reporting, total recurrent expenditures are expected to be higher than this amount. Early in the year, measures were put in place to curb expenditures. In addition, 1,500 workers were supposed leave during the year, but governments failure to implement the retrenchment excise resulted in the rise in payroll to $167.1 million by year end.

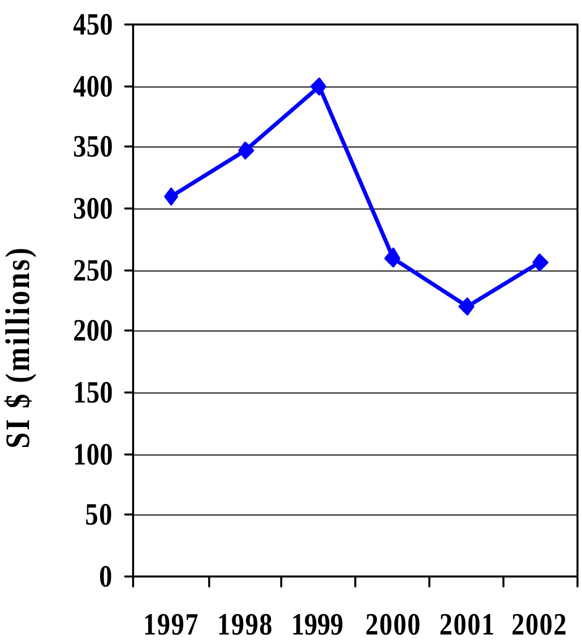
Provisional data showed that the overall fiscal deficit was $309.1 million in 2002, significantly higher than the deficit in 2001. The deficit was financed almost entirely by the increase in both debt and non-debt arrears during the year.

Revenues

Total domestic revenues amounted to $256.3 million in 2002. This consisted of $243.6 million in tax revenues and $12.8 million in non-tax revenues. The revenue receipts were $13.3 million and $43.6 million higher than the budget and the previous year respectively. Figures on other revenue, which consisted primarily of cash grants, were estimated at $108.7 million.

Revenues collected from the Inland Revenue Division reversed the downward trend seen in 2001 and rose by 6.3% to $142.3 million during the year. This was also above the budget estimates by 12.3%. The increase stemmed from the gradual improvement in economic activity. This resulted in the rise in revenue collections from all sources, except government P.A.Y.E that declined during the year. Of this, $73.6 million were in the form of income tax while $68.7 million were taxes on goods and services.

Graph 19
Total Government Revenue

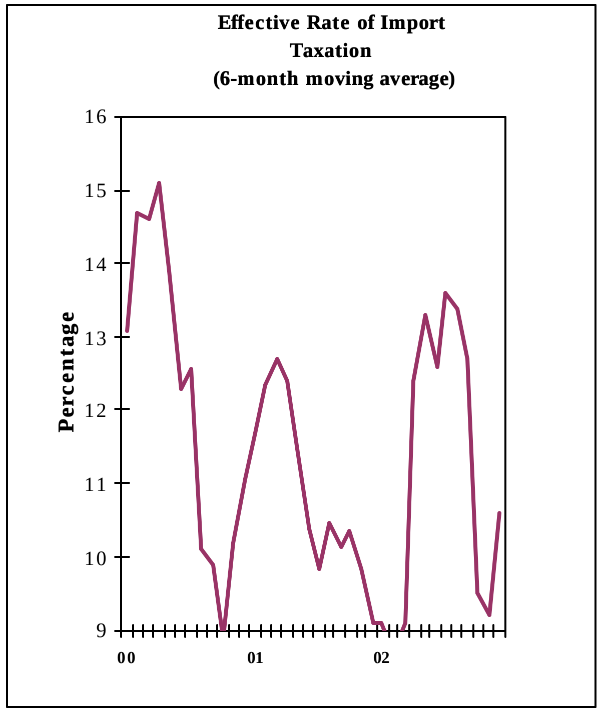


Total revenues from international trade rose significantly by 39.7% to $101.3 million, reversing the fall in the previous year. This also exceeded the budget by 36.3%. The increase was underpinned by increases in the value of imports and log exports, which boosted import duty receipts by 29.1% and log tax receipts by 74.9% respectively. The cancellation of early in the year remissions also contributed. Total revenue is expected to improve further this year, considering the new collection measures recently introduced by the Central Bank and Customs and Excise Division.

Log tax receipts rebounded by 74.9% to $38.3 million, reversing the declining trend seen in the last three years. This was also above budget estimates by 33.0%. The increase was due to the rise in both log export volumes and values.

The current log tax regime remains unchanged at 25% for logs valued up to SBD$450 per cubic meter and 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.

Graph 20
Effective Rate of Import Taxation



Total receipts from import duties surpassed the budget and the previous year by 46.6% and 29.1% respectively. The increase reflected the marginal rise in import payments and current tougher measures undertaken by Customs Division to redeem what is supposedly due to government. The cancellation of remissions early in the year also contributed. As such, the effective rate of import taxation (as indicated by a six months moving average) at the end of 2002 was 12.2%, 3.1% above the preceding year (See graph 20).

Total revenues collected from other ministries amounted to $12.8 million, 7.4% and 55.6% lower than the previous year and the budget respectively. Retrospectively, this source continues to perform poorly despite the input of many advisors to improve revenue collection. This has been exacerbated by low morale within the government employees due to the delay in payment of their salaries. It is important therefore, that government seriously addresses the issue of late salary payments to its workers. This should improve the performance and moral and thereby improve revenue collection.

Expenditures

Total accrued recurrent expenditures in 2002 totaled $614.7 million as against a revised budget of $283.1 million. This comprised of payroll, which amounted to $167.1 million, significantly higher than budget, other charges of $249.9 million, and debt servicing of $130.3 million. Most of these expenditures were financed through the increased in arrears as government was unable to pay all obligations due during the year. It is clear that government has no control mechanism in place, thus forcing the screening of the expenditures done by the cabinet, which defeats the objective of transparency and good governance.

A total of $243.6 million was budgeted for capital expenditures in 2002 of which $243.6 million were in cash. Unfortunately, most budgeted projects were not implemented reflecting the law and order problem and unwillingness of donors to commit additional funds during the year.

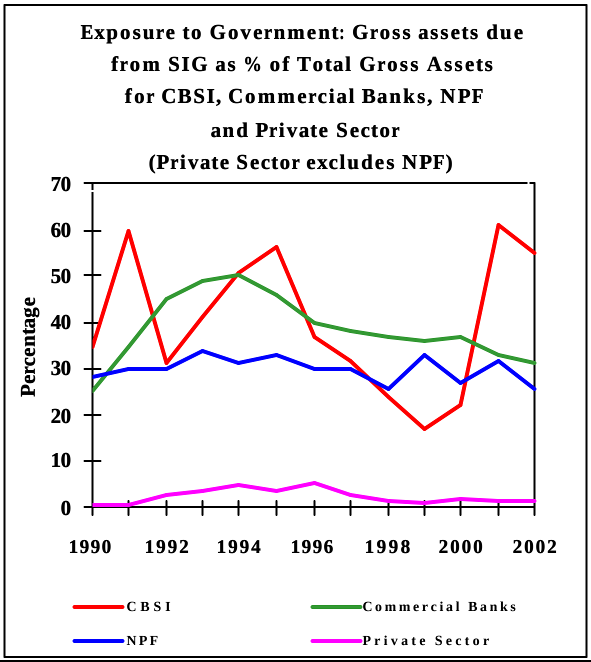
Table 11
Solomon Islands Government Operations
($Million)

	2001/1	2002/1	2003 Budget
1. Total Revenue &Grants	**272.6**	**365.0**	**500.3**
(A)Total normal revenue	219.7	256.3	259.0
(a) Income Tax	73.3	73.6	130.0
(b) Taxes on Goods & Services	67.7	75.8	-
(c) Tax on International Trade	65.8	94.1	105.0
(d) Total NonTax Revenue	13.5	12.8	24.0
(B) Cash Grants /2	32.5	49.3	77.2
(C) Capital Grants /2	20.4	59.4	164.1
2. Total Expenditures:	**467.1**	**674.1**	**509.8**
(D) Recurrent Expend.	446.7	614.7	259.0
(a) Wages and Salaries	182.4	167.1	123.0
(b) Debt Service /3	71.7	130.3	39.0
(c) Lost Property Payments /4	88.6	67.4	0.0
(d) Other Charges /5	104.0	249.9	97.0
(E) **Capital Expenditure**	20.4	59.4	250.8
3. Overall Balance	**-194.5**	**-309.1**	**-9.5**
4. Financing:	**194.5**	**309.1**	**9.5**
(i) Domestic	90.3	190.9	0.0
(a) Domestic debt arrears	56.2	66.8	0.0
(b) Arrears on other charges	34.1	131.1	0.0
(ii) External	104.2	111.2	9.5
(a) Debt arrears	15.6	43.8	0.0
(b) Loans	88.6	67.4	9.5

/1 Estimates
/2 Based on BOP data
/3 Figures represent total debt dues during the year
/4 EXIM loans for lost property
/5 Estimates based on MoF reports. Data for 2001 and 2002 included actuals and arrears.

Source: Department of Finance & Central Bank of Solomon Islands

Graph 21
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

The stock of government debts increased in 2002 to $1,635.9 million, 41.8% higher than the previous year. This comprised of $1,087.3 million in external debts and $548.6 million in domestic debts. The rise in the external component was due primarily to the inflow of Exim Bank loan proceeds and effects of exchange rate movements during the year. In terms of creditors, the Asian Development Bank (ADB) accounted for about 32.4% of the total external debt, followed by the World Bank 28.0%.

Total domestic debt rose from $434.3 million to $548.6 million in 2002. This consisted of $264.6 million in government securities and $284.0 million in SIG advances from the Central Bank. Of the total securities, 78.2% are held in restructured bonds, 7.5% in auction treasury bills, 13.2% in treasury bonds, 0.8% in development bonds, and 0.4% in frozen treasury bills.

In 2002, $28.0 million has been budgeted for debt servicing. However, the government only managed to pay $19.7 million during the year. This consisted of $7.7 million in external debts and $12.0 million in domestic debts. The former comprised of $5.4 million in interest repayment and $2.3 million in principal repayment while the latter consisted of all interest repayment, mainly on auction treasury bills.

As said earlier, government continued to face financial difficulties during the year. As a result, it could not fully service its debt obligations. Consequently, total arrears rose to $194.8 million, significantly higher than the previous year. This consisted of $82.8 million in external debt arrears and $112.0 million in domestic debt arrears. The latter were owed mostly to financial institutions in the form of restructured bonds. On the other hand, the former were mainly owed to Marubeni ($35.8 million), ADB ($15.5 million), Kuwait ($13.6 million), EU ($4.6 million), Europe Investment Bank ($3.8 million), OPEC (3.3 million), Exim Bank ($3.0 million), IFAD ($1.7 million), and IDCF ($0.9 million). In order to regain confidence with our development partners, it is crucially important that government set its priorities right and start repaying some of these arrears so that new funding could be forthcoming as there is no room for domestic borrowing.

Fiscal Policies and Government Reforms in 2002

The passage of 2002 budget was theoretically drawn on the same platform as that of 2001. The thrust of the budget was to improve government finances, improve social services, and restore economic confidence. Provisional data, however, suggest that none of these objectives was met. Instead, mismanagement of public finances deepened further, compounded with low moral in the public service due to late salary payments and continuous harassment of Treasury staff.

As a result, the restructuring of the public service and the recovery program were not implemented. The supposedly retrenchment of some 1,500 plus public servants did not eventuate because of political wrangling. While the liberalization of CEMA could be seen as a step towards recovery, there were no conducive follow up schemes nor incentives to insulate the private sector from exogenous shocks. As a result, many companies continued to struggle during the year.

In the social sector, the implementation of government policies to improve both education and health services remained problematic. In rural areas, clinics remained closed while those that were opened lacked basic drugs. On education, the non-payment of teachers salaries led to a national strike, thus denied students of their right for education.

Accounting and Audit

Under 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, pertaining to government operations, for audit within six months after the end of each financial year. However, due to untimely and inconsistent preparation of such financial statements, this legal requirement has not been fulfilled, resulting in the delay in auditing government accounts. So far, only the 1996 accounts have been audited. This poses greater risk especially in the efficient and effective management of the public finances, and therefore undermines the principals of transparency, accountability, and good governance. To comply with section 38(1), the audit office needs both technical and financial assistance immediately.

2003 Budget and Outlook

The 2003 budget passed in December 2002 was based on output budgeting where provinces and villages will be made to understand what goods and services Parliament has appropriated, purchased for them. In doing so, it enables the principle of good governance and inclusive development.

The budget envisages total revenue of $259.0 million, comprising of $250.8 million in cash and $9.5 million in external borrowing. At the stage, it is not clear whom the government will borrow from but given its record of inability in servicing its debts, no external financial institution would be willing to lend further funds to the government. This call for the need to significantly reduce expenditures and improve revenue colleition.

Developments in the first quarter of 2003 showed that total revenues already surpass budget estimates. Yet, the government continues to face difficulties in servicing its obligations. Despite assurances to limit expenditures within budget guidelines, the rise in unbudgeted items continued unabated. This is a concern because given the donors insistence on improved economic governance. Therefore, it is crucial that the integrity of the budget is restored as a matter of urgency. The measures taken by the Ministry of Finance in late April are indeed very encouraging, but more actions are still needed. Firstly, all government accounting officers must learn and uphold the rule of law. The national budget is a legal document and it is crucial that only budgeted items are approved for payment. Secondly, the law and order issue must be addressed. In recent years, lack of action by all responsible authorities has resulted in the increase in unbudgeted items. This had adversely affected the delivery of basic services, especially in the health and education sectors. Furthermore, it is also important that all aid money is used as intended and not diverted for other purposes, as has been the case in recent years. Finally, the government must lead by example and not evade established guidelines to help stabilize its own finances. In many respects, this has now become a norm within the public sector and is a major threat to efforts to improve the management of government finances.

VII. FINANCIAL SYSTEM

There are four tiers to structure of the Solomon Islands financial system. The first tier is the Central Bank of Solomon Islands, which is responsible for monetary policy. The second tier institutions are the commercial banks. National Provident Fund, the Development Bank of Solomon Islands, Home Finance Corporation, and Credit Unions, make up the third tier of the structure. Finally insurance companies, Investment Corporation of Solomon Islands, and micro-saving and credit organizations make up the fourth tier. There was no major change in the structure of the financial system in 2002.

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

The number of commercial banks licensed to conduct banking business remains at three. Of these, the National Bank of Solomon Islands Limited is a locally incorporated bank. The other two are branches of Australian banks: the Australia and New Zealand Banking Limited (ANZ), and Westpac Banking Corporation.

During the year positive developments towards bringing Solomon Islands banking services into modern electronic banking services continued. The initial steps towards this objective started some years back when banks started to convert their passbook account into electronic card system. In 2002, another ATM was installed in the ANZ Branch office at the Panatina Plaza. During the year, NBSI reopened its Ranadi Branch office after it closed following disturbances in previous years.

The number of banking service outlets throughout the Solomon Islands for the period ended December 2002 are as follows: 12 bank branches, 8 banking agencies, 2 ATMs and 46 EFTPOS machines. In terms of locations, Honiara customers have access to more bank services outlets than all other provinces in Solomon Islands. It has 7 bank branches, 1 gold card Center, 2 ATMs, and 46 EFTPOS machines. Western Province is second to Honiara with 3 branches and one banking agency. Malaita Province has 2 bank branches and 2 banking agencies. With the exception of Guadalcanal and Rennel and Bellona provinces that have no banking service, all other provinces are served by one banking agency each. There are 278 bank officers working the commercial banks as at end of 2002.

Performance of commercial banks in 2002

The Commercial banks together made after tax profit of $22 million for the 12 months ended December 31 2002 compared to $15 million in 2001. This result was driven by gains in foreign exchange transactions related to the movements of Solomon Island dollar, reduction in cost of funds, and increases in fees and charges. Net interest income for the year was $31 million, similar for the same period a year ago. The reason for the comparable result is low interest income received from deposits held with the Central Bank and reduction in interest income received from the bank's investment in government restructured bonds. Non-interest income was $40 million, up $16 million from $24 million as at end December 2001. Gains from exchange rate movements made up 67% of the total non-interest income.

The operational cost of running the commercial banks was $38.0 million up $6 million from a year ago. The increase came mainly from increases in loan loss provisions and other operational expenses.

Return on average assets was 5%, an increase from 3% as at end of 2001. Return on average capital was 24% compared to 18% a year ago. These ratios show that commercial banks profitability and earnings continue to contribute towards financial viability of these banks in a very difficult environment in Solomon Islands.

Because of the good earnings and profitability during the year, the banks' were able to increase their risk-weighted capital ratio to 24% compared to 18% in the previous year. In terms of amount, commercial capital was $92 million up $9 million from $83 million at end of 2001.

Commercial bank efficiency, the ability of management to manage operational expenses, measured as the ratio of expenses to total incomes improved by 2% from 57% a year ago to 54% at the end of 2002. The increase in the non-interest income components of total income, particularly the gain in currency movement was one of the contributing factors leading to the fall in the ratio.

In terms of liquidity, there was a fall in the liquid asset ratio compared to the previous year. Liquid asset ratio defined as liquid assets to total asset declined to 13% at end of 2002 from 16% at the end of 2001. Liquid assets to total demand deposit liabilities also fell to 27% from 31% at the end of 2001.

Despite the positive financial performance of banks during 2002, the asset quality of the banking sector continued to deteriorate during the year. At the end of the year, gross troubled loans (loans that are not being serviced according to agreements) increased by $0.9 million to $20.1 million from $19.2 million at the end of 2001. Gross troubled loans now represents 12% of gross loans outstanding at the end of 2002. To put this in another context, of every $100 loan outstanding at the end of the year, $12 is non-performing loan.

Overall, the 2002 performance of the banking sector realized an impressive result from a year ago, although the underlying problem relating to the increasing trend in non-performing loan remains a risk facing the commercial banking sector in Solomon Islands.

Licensing and legislative issues

There was no new application for banking license received during the year. There were also no changes made to the Financial Institutions Act. During the year, the Central Bank took a case against the Bank of Hawaii International to determine whether the gifting arrangement of its 51 per cent share in the National Bank of Solomon Islands Limited required the Central Banks approval. The Court however ruled against the Central Bank on the case.

During the year, the Central Bank also proceeded to prevent activities of pyramid schemes in the country. The Central Bank issued many public warnings to people against investing in these schemes, but many people refused to pay attention to the warnings. As a result, they found themselves not only losing their subscription fees but also lost hope of becoming millionaires. Following intimidation and threats against the Central Bank and ANZ in early May 2003 by organizers of the Family Charity Fund, the commercial banks and CBSI closed in protest and for the security of staff and premises. Police arrested and charged the promoters of the Fund with “obtaining money under false pretences” and ‘threatening behaviour” More charges are likely to follow including one on operating bank businesses without a banking license.

In August 2002, the Minister of Finance issued an order under Section 34(2) of the Financial Institutions Act 1998 (as amended) that all the provisions of the Financial Institutions Act be applied to the Development Bank of Solomon Islands and to the Solomon Islands National Provident Fund. Effectively this means that these two financial institutions are now regulated and supervised by the Central Bank of Solomon Islands. Like the commercial banks, the two financial institutions are required to meet the prudential standards in terms of capital adequacy, asset quality, liquidity, good corporate governance standards and other supervisory and regulatory requirements that the Central Bank will impose to supervised financial institutions from time to time.

Supervision and Financial Soundness Indicators

The Central Bank supervises the financial institutions with the aim of ensuring financial systems stability. The Bank conducts its supervisory roles in two ways: through offsite reporting and on-site examinations of the financial institutions. The Central Bank measures the soundness of the financial system using the key ratios of Capital Adequacy, Asset Quality, Earnings and Profitability, liquidity and quality of management in each financial institution. The trends of the basic indicators indicate the general soundness of the financial system in Solomon Islands. The analysis of trend in soundness indicators of the financial system of Solomon Islands is discussed below.

Capital Adequacy

In terms of current requirement Central Bank requires that financial institutions licensed under the Financial Institutions Act and supervised by the Central Bank are required to keep two set of capital ratios. First, is a risk capital ratio of 10 per cent and second a financial capital ratio of 30 per cent. Presently, the definition of capital for purpose of the first requirement is total capital less asset revaluation reserves. The resultant capital is defined as Net Capital. Financial Capital Ratio, the second measure of capital, is defined as Net capital minus net premises and equipment. Net premises and equipment is defined as total premises and equipment less asset revaluation. As at year-end, risk weighted capital was 28 per cent up from 27 per cent at end of 2001. Financial capital ratio was 80 per cent from 78 per cent at end of 2001. The banking sector in Solomon Islands is able to maintain capital well above the required level, reflecting the risk in doing banking business in the country.

Asset Quality

This is a measure of solvency risk of financial institutions as Non-performing loans (NPLs) indicate the impairment of assets. A desirable position would be that financial institutions should not have problem loans but this not usually the case. Since 1998, the trend in the quality of NPLs has deteriorated in Solomon Islands. Gross NPLs for 1998 was $6 million; the amount has increased to $7.3

million, $13.1 million, $19.2 million, and $20.1 million for years 1999, 2000, 2001 and 2002 respectively. These amounts directly indicate the financial heath and profitability of individuals and corporate borrowers over these years. For example, the $20.1 million in troubled loans for 2002, the banking system loses net interest income of approximately $2 million of unpaid interest income from borrowers. Since 2001 the NPLs to total outstanding loans is 11 percent, compared to 4.3 percent as at end of December 1998. In terms of coverage ratio – the ratio of total provisions to NPLs has fallen from 89 percent in 1998 to 44 percent at end of December 2002. This means commercial bank's provision against specific and unclassified loan losses for year ended December 2002 was enough to cover only $44 out of every $100 NPLs. The capacity of the banking system capital to withstand the NPL net of provision – defined here as the ratio of net NPLs total capital and reserves, for year ended December 2002 is 12 per cent down from 13.3 per cent for year ended December 31 2001. The indication from the ratios above show that asset quality of the banking sector in Solomon Islands remains under pressure. While the commercial banks provisioning and capital are still adequate to with stand the current level of NPLs, further deterioration would put more pressure of the solvency of the financial system in Solomon Islands.

Earnings and Profitability

Return on average assets and return on average equity are among the indicators used to measure profitability of the commercial banks. From the supervisory perspective, financial institutions that are profitable ensure that the capital base of the institution is not eroded, as in the case when a bank makes a loss in its operations. As at end of the year return on average assets for the banking sector was 5 per cent up from 3 per cent at the end of 2001. Return on average capital also increased in 2002 to 24 percent after falling to 18 percent in 2001, from 19 percent in 2000. These indicators show that despite the difficult economic conditions in Solomon Islands, banks in the country remained profitable.

Liquidity

The level of liquidity influences the ability of the banking sector to withstand shocks. These shocks can arise from changes in economic conditions or from depositors converting their savings to consumption. In the case of Solomon Islands, all commercial banks are required to maintain liquid asset reserves of 7.5% of total deposit liabilities. On average, this amounts to $25 million. However, because of the economic conditions, liquidity in the banking sector averaged $60 million in 2002. Measured in terms of ratio of liquid assets to average total asset, liquidity in the banking sector for year ended December 31 2002 was 13% down from 16% in 2001. Liquid assets to average total demand deposits ratio, which measures the ability of the banking sector to meet immediate demand from depositors fell to 27% down from 31% in the previous year.

From the above indicators on financial soundness, commercial banks in Solomon Islands remained sound. However, it must also be noted that the inability of the government to repay the arrears on restructured bonds on the books of the commercial banks remains a threat to the soundness of the commercial banks.

In October 2002, the first on-site examination of a commercial bank was conducted. Technical assistance from the Pacific Financial Technical Assistance Centre enabled the Bank to engage two advisors to assist the officers of the Financial Institutions department to carry out the examination audit. On site examination is a part of the normal supervisory tools of the Bank to ensure prudent operation of commercial banks particularly as it relates to risk management systems.

Development Bank of Solomon Islands (DBSI)

The Development Bank of Solomon Islands (DBSI) continued to face problems in 2002. For the first time, there was no disbursement, as the Bank could not draw down the fourth tranche of the Rural Constituency Development Fund (RCDF). During the year, the Bank also started recovering outstanding loans. The experience was that clients in Auki, Munda and Gizo were relatively better than in Guadalcanal and Honiara.

At the same time, work on recapitalising the Bank also started in 2002. As part of the plan, the Bank with the help of government requested an extension of it's credit line which will expire in early 2003 in order to finance agricultural exports, particularly in the copra and cocoa sectors.

In terms of reducing costs, the Bank reduced the number of working hours to six per day and continued its retirement scheme. As a result, the number of staff fell to forty, from sixty in 2001. Of DBSI's seven provincial branches, four (Munda, Taro, Buala and Lata) were temporarily closed due to high operating costs and low business activities. The staffs manning these branches were made either redundant or deployed to other sections within the Bank.

The Bank hopes to provide new lending in 2003. This, however, will depend on the availability of Stabex funds (1998), lost property claims from government of $10 million, and the possibility of government recapitalising the Bank. These should help the Bank to restructure its finances to comply with the Central Banks supervisory requirements as stipulated in the Financial Institutions Act. The Development Bank was unable to repay its depositors during the year. Without further significant financial assistance, the future of the bank must be in doubt. The Government's fiscal position rules out any direct government support.

National Provident Funds (NPF)

The NPF has not produced its annual reports and accounts for the last several years, and is cause for concern. It is important that the Fund produces its accounts on a regular basis.

In 2002, NPF's balance sheet grew marginally by 3.7% to $369.9 million compared to a 6.1% contraction in 2001. On the asset side, the increase was mainly in terms deposits with the commercial banks and loans to statutory authorities. The former more than tripled to $25.3 million and the latter rose 10.2% to $62.4 million. On the other hand, total loans to the private sector fell by 1.2% to $54.9 million whilst fixed assets marginally increased by 0.9% to $40.1 million, compared to a 1.3% decline in 2001. NPF's holdings of both development and restructured bonds remained unchanged at $38.8 million and $55.5 million respectively. 'Other' assets of the Fund rose by 11.5% to $92.9 milling during the year while fixed assets increased 0.9% to $40.0 million, from $39.7 million in 2001.

On the liabilities side, the members' contribution account amounted to $316.8 million, up 1.1% over the previous year. NPF's accumulated funds also increased to $44.9 million, up 22.4% over the previous year. 'Other' liabilities increased by 19.6% to $8.0 million from $6.7 million in 2001. The increase in members' contributions, however, was due to a partial payment of $0.5 million in arrears by government during the year. At the end of 2002, total government arrears on members contributions were $50.5 million. If paid, it could boost the Funds financial position and therefore enable it to make new investments.

The steady withdrawal of members' contributions also continued in 2002 and is a major concern to the Fund. Earlier, the Fund has proposed making amendments to the criteria under which members can withdraw their contributions. The amendments were given to the government but are yet to be endorsed by Cabinet.

NPF is an important source of domestic savings and in most cases, the only form of savings for workers. Entrusted with this important responsibility, the Fund Board is expected to exercise extreme diligence as custodian of the members' funds and at the same time secure. It is in this regard, that the Fund's lending to private companies and statutory bodies, (most of which have not made any profits in recent years), and the purchase of equity in others should be thoroughly appraised to determine the viability of those investments. The Central Bank considers this aspects as very important for supervision.

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 2002 due to lack of investment interest from the public following an invitation for tenders by the government. 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 in 2002 due to lack of lending fund low repayments during the year. This was further compounded by the increase in redundancy of SIHFL's clients and the consequential increase in loan defaults. In rectifying the situation, SIHFL sought legal redress in 2002. 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, eight mortgaged houses were put on tender of which only two houses were actually sold. The market for houses plunged because of insecurity in the capital coupled with commercial banks' tight lending policies.

A 5.8 hectares site at Noro reported in last year's annual report was finally secured in 2002 after a long series of dialogue 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 centers. The area could accommodate up to 150 houses and targeted clients would be the major companies at Noro such as Solomon Fishing and Processing Ltd, and the National Fisheries Development.

Investment Corporation of Solomon Islands (ICSI)

Activities of the Investment Corporation of Solomon Islands (ICSI) remained subdued in 2002 reflecting the prolonged closure of Solomon Islands Plantation Limited (SIPL) and sluggish activities by other portfolio companies during the year.

There were, however, improvements in the operation of some of its portfolio companies. Total exports by Kolombangara Forestry Plantation Limited (KFPL) increased in spite of occasional law and order problems, which distracted the company's operation during the year. Both Soltai Fishing and Processing Limited (SFPL) and Solomon Telekom also reported improvements in their operation during the year. These improvements, however, did not have positive impacts on the overall operation of ICSI.

During the year, the Commonwealth Development Co-operation (CDC) has also expressed its desire to sell its 68% shares in SIPL. Rumours that a Taiwanese company was interested in buying the CDC shares had been confirmed by ICSI as non-committal interest which could not be taken seriously.

Table 12
ICSI Portfolio of Companies
(Percent Share)

	2002
Kolombangara Forest Plantations Limited	19%
Solomon Islands Plantations Limited	68%
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

Solomon Airlines operations in 2002 were affected by poor management and acute financial constraint during the year. Accordingly, many staff were made redundant and the management replaced with a new interim one. Other portfolio companies such as Solomon Islands Printers, and Sasape Marina continued to experience severe financial problems during the year.

As in the past, ICSI continued to rely on its term deposits at the banks and the government security market at the Central Bank as its only sources of income during the year. However, these funds are progressively eroded as the Corporation continued drawing these down at mature dates and used them on operational expenditures. Its assets, on the other hand, increased following the acquisition of the former STL main office in Honiara and two other executive houses owned by that company.

The new ICSI administration plans to focus more on extending investment into provinces in the near future. This will result in further dialogue between ICSI and the government, as this is believed to be relevant for the proposed idea for state governance.

Credit Unions

Despite the official record showing 165 registered credit unions at end of the year, only 17 of these credit unions were actively trading. Of these, 15 were urban-based credit unions and 2 were from the rural areas. The active urban credit unions were employee based credit unions operating in Honiara, whereas the only two known active rural credit unions are in Isabel province. Total assets of 15 urban credit union members are $27 million.

The distribution of non-operative credit unions according to provinces are: – Honiara 27, Malaita 41, Isabel 23, Guadalcanal 18, Western 15, Makira 11, Temotu 7, Choisuel 4, and Central Islands Province 2.

Membership for most of the urban credit unions has dropped, profitability reduced and efficiency was affected because of members withdrawing of their membership contributions to their respective credit unions. Non-payment of members contributions deducted directly from members salary by the government was one of the major contributor to the cash flow problems of some employee-based credit unions.

The proposed changes to the current credit union legislation have have yet to be submitted to the government for consideration. When completed, the changes should broaden the current scope of the Act address the weaknesses identified in the current legislation.

The financial difficulties faced by the League affected its planned program to check the status of rural based member credit unions. As a result, the League's focus concentraded on assisting the 15 urban credit unions whose combined value of total assets represents 87 percent of the total number of credit unions. The League was able to employ one additional staff bringing the number of officers to three. The managers three-year contract expired during the year and was renewed for another year. The League was also able to hire temporary officers to assist with auditing work during the year.

Despite these difficulties, the League was able to conduct two training workshops for its credit union members in 2002. These workshops were conducted with the assistance of CUFA and were held at the SICUL Training Center. Topics were in the areas of governance and leadership, and Savings Clubs management. Participants from representatives of 20 member credit unions attended the trainings. The League also held follow-up trainings in Isabel and Makira provinces and was able to carry out audit on 8 credit union members' financial accounts during the year.

Financing of activities of the League is sourced from credit union member's dues each year. However, in 2002 only 11 out of the 17 active credit union members paid their dues to the League. For 2002 financing of its operations therefore came from interest earned from the Trust Fund and rental received from the use of the League's training facilities and accommodations which made up 80 per cent of the total revenue of the League during the year.

The League Board is yet to complete auditing its own financial accounts for the years 2001 and 2002.

Other Financial Institutions

In 2002, there were five insurance companies operating in Solomon Islands as compared to six companies in 2001. Of these, two (2) were life insurance companies and three (3) non-life ones. In addition, two insurance brokers; United Insurance and BJS Insurance Brokers Limited (formally AON Risk Service) also operated during the year. Despite the decline in the number of insurance companies, total premiums received increased to $16.8 million compared to $14.2 million in 2002. Of this amount, $15.9 million were collected from the life insurance market and $0.9 million from non-life insurance, down from $2.0 million in 2001.

At the same time, certain measures and approaches taken in 2001 were maintained in 2002. These included first, the 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. The second was the 'save the dollar' policy, where in the event that the insured cannot afford to pay up premiums, they could be allowed to forego further payments. 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. The industry also continued its redundancy measures and foregone some of its usual staff benefits as part of cost cutting measures during the year.

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

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; 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 operations in 2002 are summarized in this chapter.

Finance and Accounts

Financial operations for 2002 resulted in a net loss of $7.4 million, compared to a net loss of $175.6 million in 2001. The higher loss in 2001 resulted from a 100% provisioning by the Board in 2001 in respect of Government Debts of $176.7 million, which were classified as impaired by the External Auditors.

Given that SIG debts have been classified as impaired, primarily because of governments inability to service debts, no interest revenue has been recognized on the SIG loans and advances in 2002.

Interest income from investments of the external reserves further declined from $7.0 million in 2001 to $3.9 million in 2002. While the external reserves had slightly increased from $103.0 million in 2001 to $130.0 million in 2002, investable funds had to be placed on very short term low interest earning investments in order to meet foreign currency demand. This resulted in the substantial decline in interest income on the Bank's external investments in 2002. Apart from this source, other major sources of income during the year included royalties, fees, and commissions.

Total operating expenses fell significantly to $15.3 million in 2002 from $189.8 million in 2001. The substantial decline reflected the 100% provision allowed against SIG loans and advances in 2001.

In 2002, the Bank incurred substantial expenses in respect of redundancy exercise which had to be carried out as part of the restructuring and the reorganisation of the Bank. During the year, six officers were retired and another six made redundant under this exercise.

SIG advances and debts have slightly decreased to $174.1 million in 2002 from $176.7 million in 2001. No interests were charged on these investments. Following the 100% provisioning policy adopted by the Bank against SIG loans and advances in 2001 the Bank incurred total capital deficiency of $78.9 million. In 2002, the capital deficiency amount was reduced by 33.6% to $52.5 million.

Under Section 44 of Central Bank of Solomon Islands (CBSI) Act [Cap. 49], Solomon Islands Government had issued security notes to cover the deficiency amount of $78.9 million in the balance sheet in 2002. In accordance with section 45 (3) of the CBSI Act, these notes were then redeemed against the Revaluation Reserves in December 2002.

Applying the legal provisions of the CBSI Act to treat the capital deficiency in the balance sheet resulted in a substantial reduction in the balance of the Revaluation Reserves by 48.2%, from $93.0 million in 2001 to $48.2 million in 2002.

The General Reserves, however, have improved by 40.7% from a negative balance of $175.6 million in 2001 to a negative balance of $104.0 million in 2002.

As in the previous year, SI Government will be required to issue another security note for the capital deficiency amount of $52.5 million derived in 2002 to be redeemed against the Revaluation Reserves. This is the only treatment, which is both feasible and legal to address the deficiency in the Bank's balance sheet.

Audit

Under their current five (5) year term contract since 1998, PriceWaterhouseCoopers has now completed their appointment as External Auditors with the completion of the 2002 financial statements.

Discussions are progressing with the Auditor General on the appointment of the External Auditors. This is a matter of current confusion, as there appears to be differing interpretations of the law: whilst the CBSI Act specifically empowers the Central Bank Board to make the appointment, the Auditor General holds the view that he has that prerogative under the Audit and Finance Act. It is very important however, that the Bank receives regular and timely independent reporting on the examination of its books of accounts and scrutiny of its internal financial policies and procedures.

Greg Sojnocki Chartered Accountants are currently engaged for two years to provide the Internal Audit functions to the Bank. However, with the merger of their operations with PriceWaterhouseCoopers in late 2002, the Bank would have to determine the rest of this contract based on ensuring that both the external and internal audit functions are conducted independently. The Report on the Statements of Financial Operations, the Audit Report, the cash flow Statements and the Balance Sheet of the Bank for 2002 are provided in the next section of the report.

Currency Operations

Total currency in circulation increased by 6% to $97.8 million in 2002. Of this, notes increased by 6.0% and coins rose by 5.0% during the year.

In contrast, currency in trust deposits operated by commercial banks (CBSI holdings) decreased by 10% to $3.1 million from $3.46 million at end-2002. This reflected the concentration of banking services in Honiara, which could be attributable to shrinking business activity in the rural sector coupled with increasing costs of maintaining branches in the provincial centres.

Total notes destroyed in 2002 amounted to $17.5 million. This more than trebled the total destroyed in 2001. Of the total destroyed, more than 50% were $50 and $20 notes. This is a concern that management is dealing with to ensure more effective and efficient currency management systems in the Bank. In this regard, a new note sorting machine with higher note processing capability, especially in the sorting of unfit notes, counting and detection of counterfeits and mutilated notes would be acquired by the Bank in 2003. It is hoped that the installation of this machine would see a change in the Bank's note handling with positive effects on currency handling by public.

A total of $40,303.80 in notes and coins was sold to collectors both locally and overseas. This was a reduction by $17,579.20 from the total sold the previous year.

During the year, the Bank requested the note printing company responsible for the printing of the $2.00 commemorative polymer banknote to carry out analysis and evaluation on $2.00 polymer mutes, particularly the ink used on the polymer substrate. Results from preliminary tests on the mutes, however have not confirmed suspicions that the ink used was the problem. Further evaluations were carried out towards the end of the year, but the Bank has yet to receive their result. Discussions are continuing with the note printers with the view to replenishing of stock in 2003 at their cost.

Securities Market

Participation in the securities market was marred by the withdrawal of major players in the market coupled with government's inability to repay principal and interest on matured restructuring bonds. Despite this, public confidence in the auction treasury bills market remained intact following continued assurances from the Central Bank of its underwriting of the principal investments in auction treasury bills. The Bank continued to maintain the securities market for purposes of keeping the appropriate level of liquidity in the banking system in the light of shrinking business activities, and alternative financial savings assets to the public given falling interest rates in the banking sector.

During the year, interest rates offered on 91-days auction treasury bills were reduced to 7% from 9% in the previous year. The yields to maturity for the shorter treasury bills were also reduced during the year. In addition, the 182-days paper was withdrawn and investors encouraged to rollover their investments into shorter maturities including the 91-day paper.

In terms of total stock of securities, $206.8 million was in restructuring bonds, $1.1 million in frozen treasury bills, $2.0 million in development bonds, $34.8 million in treasury bonds and $19.8 million in auction treasury bills as at year-end. Total government papers that have matured (the first batch matured on 15 April 2001) amounted to $108.2 million at end year. This figure consisted of $100.4 million in restructuring bonds, $5.8 million in treasury bonds and $2.0 million in development bonds. As for auction treasury bills, the movement during the year was relatively stable, although the market slowed down in terms of number of participants and total stock per maturity. The Bank, however, is determined to promote confidence in the market to ensure effective conduct of monetary policy and liquidity management in the economy.

Debt Management

The external debt section continued its normal production of reports on government external debt on the CS-DRMS v.7.2 system. The migration of debt data from v.7.2 to the CS-DRMS 2000+ system (an upgraded version of v.7.2) in 2002 was not possible despite acquiring the software application package. In terms of user training, one staff attended a CS-DRMS workshop for users in the region - held in Samoa in September 2002.

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 feature. 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 administered 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 ensure that all export proceeds are received within a reasonable time. In fulfilling this requirement, the Bank has appointed 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 2002, the Bank maintained all exchange control mechanisms introduced since June 2000. These included the authorised limit of $5,000, from $25,000 and the commercial banks overnight limit of $1 million, which was restored to $2 million.

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. As already noted elsewhere, without these controls the external reserves would have run out before the year ended.

Despite the continuing precarious state of the reserves level, the Bank has led to be flexible in some cases, for example, the payment of suspended capital transactions such as shareholder dividends, to enable businesses to continue to operate as well as servicing current payments. Some of these capital payments had to be scheduled under instalment payments arrangements and to allow for other administrative procedures such as tax clearances from the Commissioner of Inland Revenue. This procedure also applied to emigrants wanting to transfer 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 later.

The second applies to all foreign borrowings by Solomon Islands residents. The third applies to foreign investments by non-residents in Solomon Islands. Investment transactions by foreign residences are also subject to approval by the Investment Board (IB).

In 2002, the Bank re-introduced the partial exchange control liberalization which was introduced in March 1999 and was subsequently withdrawn in 2001. This is part of ongoing efforts by the Bank 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 control production costs especially those arising from import payments due to the volatility in the exchange rate. To qualify for this facility, the exporter must meet three conditions:

- First, the exporter must have been 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 are eligible for this treatment.

- 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 provide a tax clearance from the Commissioner of

Inland Revenue to prove that compliance with tax obligations to 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 Forest. In 2002, the Bank approved 358 applications under the SA for the export of 550,402 cubic meters of round logs with an estimated value of US$32 million or SI$238.6 million. This was slightly higher than the average volume approved in the last three years. The value was immensely affected by the continuous downward adjustment of the Solomon Islands dollar. Overall foreign exchange receipts reported in 2002 was SI$470.428 million

Under the General Authority (GA), the Bank processed a total of 771 Export shipping bills valued at $176.7 million, compared to 7176 import applications approved by the Bank valued at $565,840 million in 2002.

During the year, the Bank also strengthen its surveillance of the exchange control measures, to address the current precarious position of the foreign exchange earning capacity of the country and to assist the government in its revenue enhancement efforts. This mechanism which was aimed at enhancing the roles of different law enhancing the rose of various agencies involved in the implementation process of exchange controls was introduced in October 2002.

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 based on strategies sanctioned by an 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 objectives 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 comprising 60% of the reserves and an Investment Fund (the remaining 40%) to be invested for interest income. That allocation further reiterates the priority of managing the reserves to ensure there is adequate foreign exchange for the country's international transaction needs.

Most of the liquidity 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 break term deposits, usually at cost, 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.

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 2002, due to the low level of foreign exchange to continually meet the daily short fall by the commercial banks to meet payment application, the Central Bank has adopted the **"live on what you earn policy"** to ensure that foreign exchange earnings received through the commercial banks are effectively used for payment of all imports and services. This is partly to address the fast decline in the external reserves as well as ensuring that inflated demand for imports is contained within the export earning capacity of the country.

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 quarterly to review and establish detailed guidelines for the department to follow. The committee does a quarterly report to the Board for information and sometimes to seek further policy guidance.

Small Business Finance Scheme

The gross outstanding value of loans nominated under the scheme at end of the year is $165,000 down $335,000 from $500,000 at end of 2001. The value of the Central Bank's guarantee covering these loans is $64,000. Because of the economic environment in the country, financial institutions were not active in nominating new loans to the scheme.

Research Activities

The Bank's Economics Department continued to collect, compile and publish economic information during the year. These formed the basis for the Banks advises 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 Banks Monthly, Quarterly and Annual Reports. During the year, the department worked on several research projects. These papers will be continued in 2003 with the view to having these published in the Banks Quarterly reports.

In addition, the Bank maintained active participation in policy discussions during the year. It participated in Monthly Management Meetings (4M's), which provides an important avenue to review recent developments in the economy, as well as other important forums on economic and financial matters. Apart from these, Bank staff also participated in a number of workshops and important seminars. These have allowed the Bank to positively contribute in the governments overall reform process and policy formulation during the year.

Administration, Personnel and Training

Year 2002 brought many challenges to the administration of the Bank especially in terms of its manpower. Six staff, including an Assistant Manager, and three supervisors were retired in 2002.

Following the review on the manpower needs of the Bank against its required functions and duties, a further reduction of five (5) staff was made through a redundancy exercise towards the end of 2002. As a result, the total number of staff in the Bank was reduced to sixty-eight from eighty-six at the end of 2001.

The position of Manager, Economics Department, which had been vacant for two years, was also filled during the year.

In terms of training, three senior officers, resumed duty in 2002 after successfully completing their Masters Degrees by the end of 2001. Another four staff are completing degree studies in the disciplines of Accountancy, Economics, Banking, Finance, and Information technology at the University of the South Pacific and Griffith University. Two Bank staff started full-time studies at the Solomon Islands College of Higher Education.

In September 2002, the Governor attended the joint World Bank and IMF Annual Meeting. He also attended the South Pacific Central Bank Governors Symposium hosted by the Reserve Bank of New Zealand in December 2002.

Three Assistant Managers and six staff attended different short courses, attachments and workshops at various institutions overseas in 2002. Fourteen (14) members of staff took part-time studies at the Honiara USP Centre and two at Solomon Islands College of Higher Education.

The Bank strongly believes in proper education of its staff through training locally and overseas to effectively undertake the functions of the Bank as required by the CBSI Act.

The three-year contract with Technisyst (SI) Ltd to provide information technology services to the Bank was terminated by the end of January 2003. The Bank thanks Technisyst management and staff for the valuable contribution to the Bank's IT function and the development during the contract period.

Properties

The property section of the Bank is entrusted with the administration of the office and residential properties of the Bank. Its property at Aruligo on West Guadalcanal has been abandoned since the height of the ethnic tension in 1999 due to security reasons.

Eight (8) new Staff Housing loans were approved and processed in 2002. A new Kijang Wagon replaced the Suzuki Vitara vehicle. The Prado vehicle previously allocated to the Governor was sold. The Toyota Hilux previously used for administrative purposes was reallocated to the Governor.

Renovations and repairs to residential houses at Mbokona were successfully completed in 2002. Two management vehicle loans were approved and processed during the year.

A number of capital projects budgeted for in 2002 were abandoned during the year due to cost cutting measures approved by the Board.

Two new tenancy agreements were signed with tenants for two vacant management houses at Skyline Ridge and Vavaya Ridge.

Board Activities

Fifteen Board meetings were held in 2002. Management presented 34 Board Papers for deliberation by the Board of Directors at these meetings.

The NBSI issue, the 2001 financial Statements, and the staff redundancy exercise were some of the major issues, which the Board dealt with during the year.

The Board, Governors, Management and staff of the Bank thanked and said fare well to outgoing Director, Solomon Ilala, the longest serving Director on the CBSI Board whose term expired in December 2002.

REPORT OF THE AUDITOR-GENERAL

To: *The Minister for Finance*
Ministry of Finance, Honiara

Scope

The financial statements of the Central Bank of Solomon Islands for the financial year which ended 31[st] December 2002 as set out in the accompanying pages have been audited under my direction pursuant to Section 47(2)(b) of the Public Finance and Audit Act [Cap. 120]. The Bank's directors are responsible for the preparation and presentation of the financial statements and the information they contain. The audit has been conducted on these financial statements in order to express and opinion on them.

The 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. The procedures included examination, on 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 material respect, the financial statements are presented fairly in accordance with applicable accounting standards and the statutory 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, and its operation, and its sources and application of funds.

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

Audit Opinion

In my opinion, the financial statements of the Central Bank of Solomon Islands have been properly drawn up in accordance with the Public Finance and Audit Act 1978, the applicable Accounting Standards in the Solomon Islands and the disclosure requirements of the laws of Solomon Islands, so as to give a true and fair view of the Bank's state of affairs as at 31st December 2002 and of its results for the financial year then ended.

Floyd Augustine Fatai
Auditor-General

Office of the Auditor-General
P O Box G18
Honiara
Solomon Islands

14 April 2003

CENTRAL BANK OF SOLOMON ISLANDS - BALANCE SHEET
AS AT 31ST DECEMBER, 2002

	Notes	2002 ($'000)	2001 ($'000)
ASSETS			
DOMESTIC			
GOVERNMENT			
Loans and Advances	10	174,082	176,734
Less provision for doubtful debts	10	(174,082)	(176,734)
Development Bonds		27	27
Treasury Bills		186	0
Other Securities		11,075	11,074
		11,288	**11,101**
SECURITIES AND INVESTMENT (less provision for diminution)	15	2,017	2,689
FIXED ASSETS			
Premises & Equipment (less provision for depreciation)	9	7,997	8,512
OTHER DOMESTIC ASSETS	11	12,659	14,283
EXTERNAL			
Holding of Special Drawing Rights		39	39
Money at Call		51,759	36,010
Term Deposits	12	78,638	66,695
Other	13	487	4,199
		130,923	**106,943**
TOTAL ASSETS		**164,884**	**143,528**
LIABILITIES			
DOMESTIC			
CURRENCY IN CIRCULATION			
Notes		91,800	86,274
Coins		6,013	5,700
		97,813	**91,974**
FIXED DEPOSITS			
Solomon Islands Government	14	5,283	5,437
DEMAND DEPOSITS			
Banks		76,145	57,370
Solomon Islands Government		1,697	0
Financial Corporations		27	148
Other		82	120
		77,951	**57,638**
PROVISION FOR TRANSFER TO CONSOLIDATED FUND	6	0	0
OTHER DOMESTIC LIABILITIES	7	3,580	3,539
SOLOMON ISLANDS GOVERNMENT MONETARY OPERATION	8	19,772	51,877
EXTERNAL			
Allocations of Special Drawing Rights by International Monetary Fund		6,610	4,598
Capital Subscriptions	4	6,320	6,435
Other External Liabilities	5	13	1,012
		12,943	**12,045**
TOTAL LIABILITIES		**217,342**	**222,510**
NET ASSETS/(LIABILITIES)		**(52,458)**	**(78,982)**
EQUITY			
CAPITAL AND RESERVES			
Paid up Capital	2	2,597	2,597
General Reserve	3(a)	(104,025)	(175,588)
Revaluation Reserve	3(b)	48,175	93,024
Other Reserves	3(c)	795	985
TOTAL EQUITY		**(52,458)**	**(78,982)**

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

Date: 8 April 2003 Signed: .... (Governor) Signed: .... (Manager, Corporate Services Dept)

CENTRAL BANK OF SOLOMON ISLANDS

INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2002

	Notes	2002 ($'000)	2001 ($'000)
Interest income:			
Interest received on external investment		3,900	7,025
Interest received on domestic lending		170	154
Total Interest Income		**4,070**	**7,179**
Interest expenses:			
Interest expense on external liabilites		145	161
Interest expense on domestic liabilities		768	1,123
Total Interest Expense		**913**	**1,284**
Net Interest Income		**3,157**	**5,895**
Other income:			
Royalties		205	120
Fees and commissions		1,179	1,774
Other income		3,219	258
Total Other Income		**4,603**	**2,152**
Total Income		**7,760**	**8,047**
Non-Interest Expenses			
Salaries and staff benefits		5,739	5,079
Administrative expenses		2,533	2,502
Board expenses		103	108
Currency expenses		1,076	1,234
Investment and commission		115	40
Depreciation		947	1,278
Subventions		375	285
Losses on Investment		374	290
Small Business Finance Scheme losses		71	88
Provision for Doubtful Debts - SIG Advances		0	176,734
Other expenses		3,916	2,188
Total Non-Interest Expenses		**15,249**	**189,827**
Operating profit/(Loss)		**(7,489)**	**(181,780)**
Transfer from Reserves			
General Reserves	3(a)	0	6,000
Other Reserves	3(c)	70	192
Total transfer from Reserves		**70**	**6,192**
Net Profit/(Loss)		**(7,419)**	**(175,588)**

Notes numbered 1 to 17 form part of these financial statements.

CENTRAL BANK OF SOLOMON ISLANDS
STATEMENT OF CASH FLOWS FOR PERIOD ENDED 31ST DECEMBER, 2002

	Notes	2002 ($000's)	2001 ($000's)
Cash flows from operating activities			
Interest received		4,070	7,179
Cash received from other income		1,828	2,142
Interest paid		(913)	(1,284)
Cash payments in the course of operations		(12,109)	(16,414)
Net cash from operating activities before movement in operating assets and liabilities		**(7,124)**	**(8,377)**
Cash received on placement of deposits		20,159	(15,347)
Cash received/(paid) on IMF allocation of SDR		2,012	258
(Increase)/decrease in government finance provided		2,465	(93,477)
Net cash provided by operating activities		**17,512**	**(116,943)**
Cash flows from investment activities			
Payments for Premises, Plant & Equipment		(432)	(2,507)
Proceeds from sale of Premises, Plant & Equipment		123	119
(Increase)/decrease in foreign investments		12,793	69,866
Net cash used in investment activities		**12,484**	**67,478**
Cash flows from financing activities			
Net movement in issue of circulating currency		5,839	(1,578)
Net movement in foreign currency loan		(3,754)	(316)
Solomon Islands Government Monetary Operations		(32,105)	51,877
Payments to Consolidated Fund		0	(500)
Net cash from financing activities		**(30,020)**	**49,483**
Net increase (decrease) in cash held		**(24)**	**18**
Cash at the beginning of the financial year		**135**	**117**
Cash at the end of financial year	16	**111**	**135**

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002

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 the 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.

CENTRAL BANK OF SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002**

	2002	2001
2 CAPITAL		
	($'000)	**($'000)**
Authorised Capital	3,000	3,000
3,000,000 ordinary shares @ $1 per share		
Paid up capital		
2,597,000 ordinary shares @ $1 per share fully paid	2,597	2,597
3 RESERVES		
(a) General Reserves		
Balance 1.1.02	(175,588)	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]	(7,419)	(181,588)
Security Note issued by the Solomon Islands Government in terms of section 44 of Central Bank of Solomon Islands Act, [CAP 49]	78,982	0
Balance 31.12.02	**(104,025)**	**(175,588)**
(b) Revaluation Reserves		
Balance 1.1.02	93,024	84,943
Transfer of portion of Gains/(losses) for year in terms of section 45(1) of Central Bank of Solomon Islands Act, [CAP 49]	34,133	8,081
Redemption of Security Notes in terms of section 45 (3) of Central Bank of Solomon Islands Act, [CAP49]	(78,982)	0
Balance 31.12.02	**48,175**	**93,024**
(c) Other Reserves		
Small Business Finance Scheme		
Balance 1.1.02	761	849
Payment on CBSI Schemes during the year	(70)	(88)
Transfer from Profit and Loss Appropriation in terms of Sections 20(2) CBSI Act, [CAP 49]	0	0
Balance 31.12.02	**691**	**761**

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002

	2002	2001
	($'000)	($'000)
Retirement Scheme		
Balance 1.1.02	0	104
Payment on CBSI Schemes during the year	0	(104)
Transfer from Profit and Loss Appropriation in terms of Sections 20(2) CBSI Act, (CAP 49)	0	0
Balance 31.12.02	**0**	**0**
Gratuity Reserve		
Balance 1.1.02	224	224
Payment During Year	(120)	0
Transfer from Profit and Loss Appropriation in terms of Section 20(2) CBSI Act, [CAP 49]	0	0
Balance 31.12.02	**104**	**224**
Total - Other Reserves	**795**	**985**
Total Reserves	**(47,637)**	**(81,579)**

4 CAPITAL SUBSCRIPTION

The liability includes subcriptions 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.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2002

		2002	2001	
5	**OTHER EXTERNAL LIABILITIES**	**2002**	**2001**	
		($'000)	**($'000)**	
	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)	(8)	986	
	Interest payable - accrued but not due (Interest payable on SDR allocations and other external liabilities)	21	26	
	Total other external liabilities	**13**	**1,012**	
6	**PROVISION FOR TRANSFER TO SIG CONSOLIDATED FUND**			
	Balance 1.1.02	0	500	
	Payment during the year	0	(500)	
	Transfer of portion of net profit in terms of section 20 (2) of Central bank of Solomon Islands Act, (CAP 49)		0	0
	Balance 31.12.02	**0**	**0**	
7	**OTHER DOMESTIC LIABILITIES**			
	Other (sundry creditors, bank cheques, etc.)	3,580	3,539	
8	**SECURITIES**			
	Solomon Islands Government Monetary Operations	19,772	51,877	

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002

9 FIXED ASSET

2002	TOTAL ($'000)	PREMISES ($'000)	FURNITURE EQUIPMENT ($'000)	COMPUTER ($'000)	MOTOR VEHICLE ($'000)
Written down Value at 1st January 2002	8,512	7,013	598	553	348
Additions during the year	450	117	66	98	169
Disposal during the year at written down value	(18)	0	0	0	(18)
Depreciations for the year	(947)	(264)	(190)	(387)	(106)
Written Down Value at 31st December 2002	**7,997**	**6,866**	**474**	**264**	**393**

2001	TOTAL ($'000)	PREMISES ($'000)	FURNITURE EQUIPMENT ($'000)	COMPUTER ($'000)	MOTOR VEHICLE ($'000)
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)
Written Down Value at 31st December 2001	**8,512**	**7,013**	**598**	**553**	**348**

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2002

10 CONCENTRATION OF CREDIT RISK

Loans and Advances to the government of $174.08m accounted for fifty one percent (51%) of the Banks total assets in comparision with fifty eight percent (58%) in 2001. 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 2002 was $98.4m(2001 - $98.4m)

The Directors of the Bank consider the value of loans and advances at balance date to be impaired and has maintained 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.

11 OTHER DOMESTIC ASSETS

	2002 ($000's)	**2001 ($000's)**
Accrued Interest	1	1
Staff loans (less provision for doubtful debts)	4,834	4,725
Other (SI cash, current assets etc.)	7,824	9,557
	12,659	**14,283**

12 MATURITY OF FINANCIAL ASSETS

All 2002 Term deposits mature within two months

13 OTHER EXTERNAL ASSETS

Accrued Interest - interest receivable but not due	479	1,425
Bills for collections	8	2,774
Total	**487**	**4,199**

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.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2002

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.

	2002 ($'000)	**2001 ($'000)**
Investment Corporation of Solomon Islands (ICSI)		
Investment at cost	10,000	10,000
Accumulated Provision for diminution	7,983	7,311
Net Equity Investment - ICSI	**2,017**	**2,689**
Development Bank of Solomon Islands (DBSI)		
Original investment at cost	2,150	2,150
Accumulated Provision for Diminution	2,150	2,150
Net Equity - DBSI	**0**	**0**
TOTAL NET EQUITY	**2,017**	**2,689**

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	111	135

17. DIRECTORS REMUNERATION

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

Directors' fees and allowances	103	108

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2002

18. GOING CONCERN

During the year ended 31 December 2002 the economy of Solomon Islands has continued to be affected by the recent social unrest in the Solomon Islands and the economy has entered 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 organisations 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 of Directors believe that the Bank will be able to continue as a going concern for the foreseeable future. The financial statements do not include any adjustmentsthat might result from the outcome of these uncertainties.

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

CENTRAL BANK OF SOLOMON ISLANDS

2002 CALENDAR OF EVENTS

January

- Australian Foreign Minister, Mr. A. Downer and New Zealand Foreign Minister, Mr. G. Goff visited the Central Bank,
- Mr. Ishmael Wore appointed as new Manager Economics Department.

March

- IMF Mission arrives to assess the macroeconomic framework,
- Three new Directors Mr. Ivan Dyer, Mr. Yoshiyuko Sato and Mr. Adrian Wickham appointed to the Central Bank Board,
- 25% devaluation of Solomon Islands dollar announced by Minister of Finance during Budget Speech,
- Minister of Finance Mr. Michael Maena sacked by the Prime Minister;
- New Minister of Finance, Mr. Laurie Chan appointed by the Prime Minister

April

- The 25% devaluation was reversed by the new Minister of Finance, Mr. Laurie Chan;
- High Court ruling on case between CBSI and Bank of Hawaii on gifting of shares to trustees,
- Second lot of Restructured Bonds matured

May

- Governor attends ADB Annual Meeting in Shanghai,
- Deputy Governor and Mr. Joe Vasuni, Supervisor, Foreign Exchange Department attend a SWIFT conference in Singapore,
- Governor attends a conference in Sydney,
- A Forum Secretariat Eminent Persons Group visited the Central Bank,
- 2001 CBSI Annual Report issued,

June

- Mr. Gane Simbe renews a three-year contract with the Bank as Manager, Financial Institutions Department (FID),
- Mr. Joe Vasuni and Alfred Kituru attend SWIFT training in Singapore;

July

- Mr. George Kosui, supervisor FID attends an on site contact in New Zealand;

August

- Second visit of IMF Mission to Solomon Islands,
- Mr. Primo Wafuni, Clerk External Debt Unit, Currency and Banking Operations department [CBO] attends a CS-DRMS course in Samoa,
-

September

- Mr. Belloni of ESCAP conducts Organizational Review of the Bank
- Governor attends the IMF and World Bank Annual Meetings in Washington DC,

October

- Mr. Edward Ronia signs a second three-year contract with the Bank as Manager Corporate Services Department,
- An Australian and New Zealand Governments high level mission visits the Central Bank,
- Mr. Frank Afu, Manager Currency and Banking Operations department attends the Currency Conference in Hawaii,
- Mr. Gane Simbe, Manager FID attends a supervision course in Washington DC,
- Three senior staff: Ms Pamela Zoleveke, Ms. Joycelyn Koromako and Mr. Philip Bero retires from the Bank,

November

- Deputy Governor and Ishmael Wore, Manager Economics department attends a GDDS seminar in Suva,
- Article IV Mission of the IMF visits Solomon Islands,
- CBSI Board endorses Mr. Belloni's report,
- Gane Simbe Manager FID and Ms Linda Folia, analyst FID attends a Supervision course in Suva,
- Mr. Raynick Aquillah signs a second three-year contract as Manager Foreign Exchange Department [FRX],
- Mr. Joe Vasuni, Supervisor FRX attends a SWIFT course in Port Moresby, PNG;

December

- Mr. Solomon Ilala completes his third term as director on the CBSI Board,
- Nine staff were made redundant or retired as part of the streamlining the operations of the Bank;
- Ms Helen Beck, assistant manager FRX attend a course in Singapore;
- Australian Foreign Minister Mr. A. Downer visits the Bank;
- Deputy Governor of Bank of Papua New Guinea, Mr. Benny Popoitai visits the Bank;
- Governor attends the South Pacific Central Bank Governors Conference in Wellington;
- High Court strikes out a previous court order restraining CBSI from enforcing new conditions on NBSI;
- Minister of Finance Mr. Laurie Chan resigns after presenting the 2003 Budget
- Mr. Snyder Rini appointed as new Minister of Finance;

STATISTICAL ANNEX

D. Prices

E. Domestic Economy

TABLE 1.7 ASSETS AND LIABILITIES OF OTHER LOCAL FINANCIAL INSTITUTIONS

(SI$'000)

	A S S E T S				L I A B I L I T I E S S				
End of Period	**Due from Banks**	**Loans and Advances**	**Treaury Bills**	**Other Assets**	**Time Deposits**	**Due to Banks**	**Capital**	**Other Liabilities**	**TOTAL ASSETS = TOTAL LIABIL-ITIES**
1989	117	4853	-	344	2713	1340	911	350	5314
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
1998									
Mar	131	2685	-	1113	457	-	3200	272	3929
Jun	896	2283	-	848	374	-	3385	268	4027
Sep	1387	1899	-	576	356	-	3177	329	3862
Dec	1672	1888	-	616	288	-	3321	567	4176
1999									
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
2000									
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 1.2 MONEY SUPPLY

(SI$'000)

Period Average 1/	(1) Currency In Active Circulation	(2) Demand Deposits Commercial Banks (adj)	(2) Demand Deposits Central Bank	(3) Money Supply (M1) (1 + 2)	(4) Savings Deposits	(5) Money Supply (M2) (3 + 4)	(6) Time Deposits (adj)	(7) Money Supply (M3) (5 + 6)
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
2002	91502	155478	109	247089	67375	314464	100440	414904
1999								
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
2000								
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
2001								
Mar	76589	154195	1609	232393	76056	308449	112415	420864
Jun	72947	169828	337	243112	72301	315413	106331	421744
Sep	72073	172191	278	244542	74743	319285	81707	400992
Dec	84704	161378	268	246349	79622	325971	73044	399015
2002								
Jan	75801	162026	259	238086	71858	309944	72247	382191
Feb	72104	156070	260	228433	72906	301339	75245	376584
Mar	82687	155075	331	238093	76367	314460	83053	397513
Apr	73016	144683	284	217983	72319	290302	81669	371971
May	76016	151831	173	228020	69889	297909	82991	380900
Jun	78017	144055	173	222245	67626	289871	88572	378443
Jul	73741	141988	348	216077	63840	279917	88944	368861
Aug	76470	139266	310	216046	65649	281695	91475	373170
Sep	86399	139586	136	226122	74297	300419	97335	397754
Oct	81393	153122	99	234613	67932	302545	99878	402423
Nov	85339	145397	70	230807	66820	297627	100305	397932
Dec	91502	155478	109	247089	67375	314464	100440	414904

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

TABLE 1.3 ASSETS OF CENTRAL BANK OF SOLOMON ISLANDS

(SI$'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	Advances	O/D Account	T/Bills	Dev Bonds	Other Secs	Total	Banks	Non-Bank	Secs & Invts	Prems & Equip	Other	Total		
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
2002	51759	78638	-	39	130436	174082	-	-	27	11075	185370	-	-	2017	7997	13391	23405	339211	12
2000																			
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
2001																			
Mar	31068	85632	-	14	116714	51841	-	-	27	11075	62943	-	-	4198	8495	11234	23927	203584	8
Jun	42763	72149	-	13	114925	54420	-	-	27	11075	65522	-	-80	3361	9377	12367	25105	205472	8
Sep	38171	88319	-	23	126513	61056	-	-	27	11075	72158	-	-80	3361	9590	14980	27931	226522	8
Dec	36010	66956	-	39	103006	174089	-	-	27	11075	185190	-	-80	3361	8512	18758	30631	318746	8
2002																			
Jan	30861	59875	-	40	90777	185088	-	-	27	11075	196190	-	-188	3361	8729	3556	15646	302424	9
Feb	51080	70634	-	19	121734	185996	-	302	27	11085	197409	-	-188	3361	8785	6202	18347	337302	9
Mar	53095	90741	-	25	143861	186808	-	477	27	11075	198386	-	-188	3361	8786	9665	21812	363870	9
Apr	38441	67925	-	21	106387	187709	-	536	27	11075	199346	-	-188	3361	8841	3726	15928	321472	8
May	32398	51489	-	4	83890	188597	-	633	27	11075	200331	-	-188	2689	8849	8181	19719	303752	10
Jun	43945	40011	-	4	83961	189502	-	563	27	11075	201166	-	-188	2689	8864	5427	16980	301918	11
Jul	51688	40146	-	52	91886	190382	-	632	27	11075	202116	-	-188	2689	8909	5697	17296	311109	12
Aug	55100	40832	-	26	95958	191296	-	349	27	11075	202746	-	-188	2689	8975	7248	18912	317428	12
Sep	48659	67066	-	26	115750	192214	-	253	27	11075	203569	-	-188	2689	8984	3708	15381	334512	12
Oct	54225	68246	-	66	122537	193108	-	510	27	11075	204720	-	-188	2689	8979	7566	19233	346302	12
Nov	54975	68837	-	30	123843	194036	-	402	27	11075	205540	-	-188	2689	8949	8461	20099	349293	12
Dec	51759	78638	-	39	130436	174082	-	-	27	11075	185370	-	-	2017	7997	13391	23405	339211	12

* 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

(SI$'000)

Period 1/ Average	EXT. LIABILITIES: S.D.R. Alloca.	EXT. LIABILITIES: Other	EXT. LIABILITIES: Total	CURRENCY IN CIRCULATION: Notes	CURRENCY IN CIRCULATION: Coins	CURRENCY IN CIRCULATION: Total	DEPOSITS: Government: Euro-Loan	DEPOSITS: Government: Other	DEPOSITS: Government: Total	DEPOSITS: Banks	DEPOSITS: Other	DEPOSITS: Total	CAPITAL FUNDS: Paid-up Capital	CAPITAL FUNDS: Reval'n Res	CAPITAL FUNDS: Other Res	CAPITAL FUNDS: Total	SEC: Bokolo Bills	OTHER DOM LIABS	TOTAL LIABI-LITIES
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
2002	6610	6333	12943	91800	6013	97813	-	26751	26751	76145	109	103005	2597	48175	-103230	-52458	-	177907	339211
2000																			
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
2001																			
Mar	4297	7529	11826	74837	5472	80309	-	-60421	-60421	75005	1609	16193	2597	84943	8408	95948	-	-692	203584
Jun	4328	9086	13414	71505	5536	77041	-	-63566	-63566	79797	337	16568	2597	84943	8408	95948	-	2501	205472
Sep	4522	15395	19917	71305	5554	76859	-	-47677	-47677	70485	278	23086	2597	84943	8408	95948	-	10712	226522
Dec	4592	7461	12053	86275	5700	91975	-	62920	62920	57380	267	120415	2597	84943	8408	95948	-	-203	318746
2002																			
Jan	4759	9791	14551	76662	5706	82368	-	50175	50175	50503	259	100937	2597	93024	6985	102606	-	1962	302424
Feb	4906	9413	14318	71870	5712	77582	-	84495	84495	52514	260	137269	2597	93024	6985	102606	-	5527	337302
Mar	6250	9660	15910	82461	5705	88166	-	57192	57192	63285	331	120808	2597	93024	2804	98425	-	40561	363870
Apr	5269	12331	17600	73112	5754	78866	-	57986	57986	51634	284	109904	2597	93024	2804	98245	-	16678	321472
May	5499	10157	15656	76194	5780	81974	-	45208	45208	44652	173	90032	2597	93024	-174650	-79029	-	195118	303752
Jun	6209	8746	14955	78849	5805	84654	-	42360	42360	34097	173	76630	2597	93024	-174650	-79020	-	204708	301918
Jul	6298	9598	15896	74146	5823	79970	-	49354	49354	38490	348	88192	2597	93024	-174668	-79047	-	206098	311109
Aug	6360	8249	14609	75632	5848	81480	-	51178	51178	39587	310	91075	2597	93024	-174693	-79072	-	209336	317428
Sep	6372	8186	14558	86040	5912	91952	-	48309	48309	47692	136	96137	2597	93024	-174693	-79072	-	210936	334512
Oct	6441	8970	15411	81288	5958	87247	-	42812	42812	66509	99	109419	2597	93024	-174729	-79108	-	213333	346302
Nov	6466	7808	14275	84655	5960	90614	-	34048	34048	74376	70	108494	2597	93024	-174765	-79144	-	215053	349293
Dec	6610	6333	12943	91800	6013	97813	-	26751	26751	76145	109	103005	2597	48175	-103230	-52458	-	177907	339211

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

TABLE 1.4 ASSETS OF COMMERCIAL BANKS

(SI$'000)

Period Average 1/	S.I CASH	DUE FROM CENTRAL BANK: Call	DUE FROM CENTRAL BANK: Other	SECURITIES: Treasury Bills	SECURITIES: Dev/Tr Bonds	SECURITIES: Restr. Bonds	SECURITIES: Auct. T'Bills	SECURITIES: CBSI Secur.	LOANS AND ADVANCES: SIG	LOANS AND ADVANCES: Prov Govt	LOANS AND ADVANCES: Stat Corps	LOANS AND ADVANCES: Other	LOANS AND ADVANCES: Total	OTHER DOM ASSETS	FOR'N ASSETS	TOTAL ASSETS
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
2002	6311	75023	-	-	24800	125040	-	-	-	775	1965	171317	174057	48656	39945	493832
2000																
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
2001																
Mar	3720	75049	-	-	24800	125040	-	-	3	150	2443	181465	184061	37248	15696	465614
Jun	4094	79816	-	-	24800	125040	-	-	94	143	2856	173710	176803	41889	22959	475401
Sep	4786	71815	-	-	24800	125040	-	-	20	157	2573	164501	167251	43529	31992	469213
Dec	7271	57317	-	-	24800	125040	-	-	-	159	2004	152729	154892	52897	30654	452871
2002																
Jan	6567	50658	-	-	24800	125040	-	-	8	124	2298	158502	160932	52625	34666	455288
Feb	5478	52767	-	-	24800	125040	-	-	-	153	2080	153275	155508	53055	34897	451545
Mar	5479	62966	-	-	24800	125040	-	-	-	788	2011	163909	166708	48249	26943	460185
Apr	5850	50121	-	-	24800	125040	1992	-	-	693	2102	164314	167109	45575	21555	442042
May	5958	44768	-	-	24800	125040	3989	-	-	560	2249	169782	172591	43144	33199	453489
Jun	6637	34571	-	-	24800	125040	997	-	-	715	2048	173830	176593	48599	40706	457943
Jul	6229	38045	-	-	24800	125040	-	-	-	662	2173	178833	181668	45031	25853	446666
Aug	5010	39868	-	-	24800	125040	-	-	-	711	2111	181258	184080	44646	23614	447058
Sep	5553	46949	-	-	24800	125040	-	-	-	757	2079	188522	191358	46921	26295	466915
Oct	5854	66506	-	-	24800	125040	-	-	-	781	1986	174931	177698	50317	38276	488491
Nov	5275	72800	-	-	24800	125040	-	-	-	787	1983	171412	174182	49957	31576	483630
Dec	6311	75023	-	-	24800	125040	-	-	-	775	1965	171317	174057	48656	39945	493832

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

TABLE 1.4 LIABILITIES OF COMMERCIAL BANKS

(SI$'000)

Period Average 1/	DEMAND DEPOSITS S.I.G	DEMAND DEPOSITS Prov Govt	DEMAND DEPOSITS Stat Corps	DEMAND DEPOSITS Other	DEMAND DEPOSITS Total	SAVINGS DEPOSITS	TIME DEPOSITS S.I.G	TIME DEPOSITS Prov Govt	TIME DEPOSITS Stats Corps	TIME DEPOSITS Other	TIME DEPOSITS Total	TOTAL DEPOSITS S.I.G.	TOTAL DEPOSITS Prov Govt	TOTAL DEPOSITS Stat Corps	TOTAL DEPOSITS Other	TOTAL DEPOSITS Grand Total	DUE TO CBSI	CAP & RES	OTHER LIABS	FOR'N LIABS	TOTAL LIABS
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
2002	2826	9033	9577	145901	167337	67375	59	279	7694	92746	100778	2885	9312	17271	306022	335490	-	95839	32909	29594	493832
2000																					
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
2001																					
Mar	1460	2594	15259	138936	158249	76056	154	320	40480	71935	112889	1614	2914	55739	286927	347194	-	80289	21318	16813	465614
Jun	655	3002	14506	155322	173485	72301	155	292	33714	72617	106778	810	3294	48220	300240	352564	-	81165	21354	20318	475401
Sep	723	1877	10274	161917	174791	74743	151	249	10041	71666	82107	874	2126	20315	308326	331641	-	85943	24584	27045	469213
Dec	998	1250	10084	151294	163626	79622	99	283	3173	69871	73426	1097	1533	13257	300787	316674	-	87877	24088	24232	452871
2002																					
Jan	712	245	12166	149860	162983	71858	99	276	3148	69099	72622	811	521	15314	290817	307463	-	89914	26839	31072	455288
Feb	662	676	10463	145607	157408	72906	80	302	3150	72095	75627	742	978	13613	290608	395841	-	88813	28234	28557	451545
Mar	1169	985	12371	142704	157229	76367	80	295	3285	79768	83428	1249	1280	15656	298839	317024	-	91894	28064	23203	460185
Apr	2820	1254	13232	131451	148757	72319	1098	297	5937	75732	83064	3918	1551	19169	279502	304140	-	92219	25390	20293	442042
May	4070	6345	13955	1378761	162246	69889	2139	297	5715	77276	85427	6209	6642	19670	285041	317562	-	92962	24870	18095	453489
Jun	3476	2407	8100	135955	149938	67626	608	284	4170	84402	89464	4084	2691	12270	287983	307028	-	93359	30062	27494	457943
Jul	2619	1804	5363	136625	146411	63840	608	285	4169	84775	89837	3227	2089	9532	285240	300088	-	94468	27729	24381	446666
Aug	2523	2803	8210	131056	144592	65649	596	290	4169	87306	92361	3119	3093	12379	284011	302602	-	95819	27033	21604	447058
Sep	1704	4726	11359	128227	146016	74297	614	279	7669	89666	98228	2318	5005	19028	292190	318541	-	95454	27233	25687	466915
Oct	3035	13555	10284	142838	169712	67932	96	299	7693	92185	100273	3131	13854	17977	302955	337917	-	92141	32186	26247	488491
Nov	4685	16079	9562	135835	166161	66820	108	268	7693	92612	100699	4793	16365	17255	295267	333680	-	92099	32646	25205	483630
Dec	2826	9033	9577	145901	167337	67375	59	279	7694	92746	100778	2885	9312	17271	306022	335490	-	95839	32909	29594	493832

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

TABLE 1.5A SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING *

(SI$'000)

End of Period	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecom-munications	Distribu-tion	Tourism
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
2002	2084	20449	364	1305	42774	10418	1407	14185	31597	3062
2000										
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
2001										
Mar	3620	13341	1905	-	55441	9975	3505	167	32664	3552
Jun	3690	16823	2414	-	50074	10133	3447	-	29676	3451
Sep	3159	18721	1141	-	46076	9165	3448	-	29824	3304
Dec	3022	16067	266	-	41717	9601	3682	-	29442	3889
2002										
Jan	3040	1713	239	-	42486	9793	3537	2823	29839	3724
Feb	2999	15731	268	-	39910	9804	3492	2834	29318	3089
Mar	2432	18032	75	-	48245	9805	3508	3702	28518	3236
Apr	2497	14388	858	-	50114	9586	3366	5787	30079	3119
May	2605	16700	857	3	49538	9615	2398	7281	31529	3211
Jun	2523	15239	833	-	58321	10719	2096	6030	30086	2871
Jul	2476	17726	136	-	55735	9811	2085	7046	34487	2875
Aug	2487	22236	539	538	55595	9280	2072	6419	33517	3036
Sep	2464	20135	330	-	63628	8709	1999	7448	36113	3023
Oct	2456	20467	389	3	53079	10290	1968	7371	32720	2893
Nov	2598	19848	1213	-	42976	10324	1860	10646	34773	2927
Dec	2084	20449	364	1305	42774	10418	1407	14185	31597	3062

* 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)

(SI$'000)

End of Period	Entertainment & Catering	Government	Statutory Corporations	Public Financial Institutions	Private Financial Institutions	Professional & Other Services	Personal	TOTAL	NON-RESIDENT
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
2002	1169	775	1965	-	268	8466	33734	174022	59
2000									
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
2001									
Mar	2764	153	2454	-	281	10259	43980	184061	152
Jun	2689	237	2408	448	263	9459	41591	176803	143
Sep	2553	177	2122	451	372	7836	38902	167251	159
Dec	2433	158	1821	183	373	6605	35633	154892	42
2002									
Jan	2347	132	1822	4761	437	7418	35646	160932	41
Feb	1859	153	1622	458	456	7748	35767	155508	41
Mar	1482	791	2008	2	459	8105	36308	166708	39
Apr	1480	693	2099	3	435	7442	35163	167109	38
May	1477	560	2250	2	441	7300	36824	172591	37
Jun	1433	715	2047	1	486	7601	35592	176593	36
Jul	1418	662	2173	-	401	9136	35501	181668	35
Aug	1341	711	2111	-	425	8633	35140	184080	34
Sep	1352	757	2079	1	346	8776	34198	191358	33
Oct	1252	781	1986	-	320	8403	33320	177698	25
Nov	1214	787	1982	1	363	8541	33772	173825	52
Dec	1169	775	1965	-	268	8466	33734	174022	59

Source: Central Bank of Solomon Islands.

TABLE 1.6 COMMERCIAL BANK LIQUID ASSETS POSITION

(SI$'000)

	ELIGIBLE RESERVE ASSETS				REQUIRED RESERVE ASSETS	OTHER LIQUID ASSETS	SURPLUS/ (DEFECIT)
Period Average 1/	Till Cash	Balances With CBSI	Government Securities	Total		CBSI Securities	
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
2002							
2000							
Mar	3988	32950	-	36938	28273	-	8665
Jun	3953	30794	-	34747	27812	-	6935
Sep	3288	48486	-	51774	29196	-	22578
Dec	5280	55670	-	60950	28305	-	32645
2001							
Mar	3720	75049	-	78769	26040	-	52729
Jun	4094	79816	-	83910	26442	-	57468
Sep	4786	71815	-	76601	24873	-	51728
Dec	7271	57317	-	64588	23751	-	40837
2002							
Jan	6567	50658	-	57225	23060	-	34165
Feb	5478	52767	-	58245	22946	-	35299
Mar	5479	62966	-	68445	23777	-	44668
Apr	5850	50121	-	55971	22811	-	33161
May	5958	44768	-	50726	23817	-	26909
Jun	6637	34571	-	41208	23027	-	18181
Jul	6229	38045	-	44274	22507	-	21767
Aug	5010	39868	-	44878	22695	-	22183
Sep	5553	46949	-	52502	23891	-	28611
Oct	5854	66506	-	72360	25344	-	47016
Nov	5275	72800	-	78075	25026	-	53049
Dec	6311	75023	-	81334	25162	-	56172

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

TABLE 1.7 ASSETS AND LIABILITIES OF OTHER LOCAL FINANCIAL INSTITUTIONS

(SI$'000)

	A S S E T S				L I A B I L I T I E S S				
End of Period	**Due from Banks**	**Loans and Advances**	**Treaury Bills**	**Other Assets**	**Time Deposits**	**Due to Banks**	**Capital**	**Other Liabilities**	**TOTAL ASSETS = TOTAL LIABIL-ITIES**
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
1999									
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
2000									
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

(SI$'000)

	ASSETS							LIABILITIES						
								Term Liabilities				Capital		
End of Period	Fixed Deposits	Treasury Bills	Term Loans	Equity Holdings	Staff Loans	Fixed* Assets	Other+ Assets	S.I.G	C.B.S.I	Overseas#	N.P.F	and Reserves	Other Liabs	TOTAL ASSETS = TOTAL LIABS.
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
2002	517	-	61131	97	4255	3561	-26073	7145	-	10589	2558	-6755	29951	43489
2000														
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
2001														
Mar	2969	-	62218	97	3778	4270	-14799	7157	-	12291	2515	4327	32243	58533
Jun	1173	-	63781	97	3873	3152	-17335	7146	-	10037	2584	4452	30522	54741
Sep	569	-	64241	97	4061	4220	-20289	7145	-	10038	4584	1650	29482	52899
Dec	621	-	62389	-	4131	4098	-20415	7145	-	10038	2584	681	30472	50920
2002														
Jan	621	-	62339	97	4149	4141	-20433	7145	-	10038	2584	668	30478	50914
Feb	611	-	62371	97	4201	4040	-20484	7145	-	10038	2584	573	30495	50835
Mar	512	-	62369	97	4211	4136	-22924	7145	-	10222	2584	-1206	29655	48401
Apr	562	-	62131	97	4189	4055	-20408	7145	-	10222	2584	1136	20538	50625
May	532	-	62095	97	4176	3918	-20396	7145	-	10222	2584	1000	29460	50422
Jun	522	-	61989	97	4196	3720	-20361	7145	-	10222	2584	1000	29212	50164
Jul	617	-	61794	97	4207	3611	-20371	7145	-	10222	2584	696	29307	49955
Aug	555	-	61662	97	4240	3552	-20405	7145	-	10222	2584	447	29302	49701
Sep	530	-	61492	97	4245	3494	-20410	7145	-	10222	2584	316	29181	49448
Oct	530	-	61459	97	4261	3716	-26149	7145	-	10589	2584	-6327	29922	43914
Nov	530	-	61273	97	4227	3611	-26073	7145	-	10589	2584	-6527	29873	43665
Dec	517	-	61131	97	4255	3561	-26073	7145	-	10589	2558	-6755	29951	43489

* 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)

	1998	1999	2000	2001	2002
A. CURRENT ACCOUNT	**53.4**	**120.0**	**-223.8**	**-172.3**	**-41.0**
1. Goods and Services	**-29.4**	**-40.3**	**-236.2**	**-231.1**	**-106.8**
1.1 Goods	67.0	192.6	-117.3	-182.7	68.8
a) Exports f.o.b.	683.0	725.0	352.6	248.7	390.1
b) Imports f.o.b.	-616.0	-532.4	-469.9	-431.4	-321.3
1.2. Services	**-96.4**	**-232.9**	**-118.9**	**-48.3**	-175.6
a) Transportation	-106.8	-240.9	-175.2	-56.1	-29.6
credit	1.7	23.2	5.7	23.3	7.0
debit	-108.5	-264.1	-180.9	-79.4	-36.7
b) Travel	3.9	-7.2	-29.4	-7.2	-34.5
credit	31.9	27.5	19.6	27.5	4.8
dedit	-28.0	-34.7	-49.0	-34.7	-39.3
c) Other	6.5	15.2	85.7	15.0	-111.4
credit	46.7	221.7	225.7	221.6	95.9
debit	-40.2	-206.5	-140.0	-206.6	-207.3
2. Income	**-35.7**	**-81.9**	**-21.4**	**0.6**	-50.6
a) Compensation of employees	-	-16.3	6.0	14.8	7.4
credit	-	11.4	22.0	23.9	15.1
debit	-	-27.7	-16.0	-9.1	-7.6
b) Investment income	-35.7	-65.6	-27.4	-14.2	-58.10
i. Direct Investment	-35.7	-65.6	-27.4	-10.7	-47.1
credit	1.9	15.1	14.9	4.0	0.0
debit	-37.6	-80.7	-42.3	-14.8	-47.2
ii. Other Investment	-	-	-	-3.5-	-10.9
credit	-	-	-	9.6	3.3
debit	-	-	-	-13.1	-14.2
3. Current Transfers	**118.5**	**242.2**	**33.8**	**58.2**	**116.4**
3.1. General government	118.6	266.5	115.5	54.5	161.9
a) Cash	112.2	85.8	108.7	48.8	86.9
credit	115.8	103.1	110.7	52.9	108.7
debit	-3.6	-17.3	-2.0	-4.1	-21.8
b) Goods and services	6.4	180.7	6.8	5.7	75.0
3.2 Other sectors	-0.1	-24.3	-81.7	3.7	-45.5
credit	122.3	99.8	61.9	110.1	69.6
debit	-122.4	-124.1	-143.6	-106.4	-115.1
B. CAPITAL AND FINANCIAL ACCOUNT	**81.7**	**-93.8**	**131.8**	**123.7**	**94.1**
1. Capital Account	**34.0**	**44.3**	**67.5**	**23.0**	**47.4**
1.1 Capital transfers - net	34.0	44.3	67.5	23.0	47.4
a) General government	32.0	40.6	65.8	23.6	53.2
i. Debt forgiveness - net	-	-	-	-	-4.0
ii. Other - net	32.0	40.6	65.8	23.6	57.2
b) Other sectors	2.0	3.7	1.7	-0.5	-5.8
i. Migrants' transfers - net	-	-	-	-0.6	-1.5
ii. Debt forgiveness - net	-	-	-	-	-
iii. Other - net	2.0	3.7	1.7	0.1	-4.3
2. Financial Account	**47.7**	**-138.1**	**64.3**	**85.2**	**46.7**
2.1 Direct Investment	8.8	-89.8	6.9	-61.3	-9.6
2.1.1. In Reporting Economy	8.8	-89.8	6.9	-61.3	-9.6
a) Equity capital	-	-	-	-6.0	-1.1
b) Reinvested earnings	-	-	-	-47.0	-2.5
c) Other capital	8.8	-89.8	6.9	-8.3	-6.0
2.2. Other Investment	38.9	-48.3	57.4	146.5	56.3
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	-	-33.3
d) Other assets	-	-	-	-	-
2.2.2. Liabilities	38.9	-51.2	52.4	152.0	56.3
a) Trade credits	-	106.5	49.8	15.0	-7.0
b) Loans	46.6	-156.2	21.0	73.0	59.4
i. Monetary Authority - net	-	-	-	-	-
ii. General Government:					
Long term	58..6	53.3	-29.9	48.2	-14.9
credit	92.8	74.4	22.6	88.6	73.9
debit	-34.2	-21.1	-52.5	-40.4	-55.5
iii. Other Sectors:					
Long term	5.2	-191.5	-9.1	-6.2	1.3
credit	109.7	10.1	3.4	0.2	3.1
debit	-104.5	-201.6	-12.5	-6.4	-1.8
iv. Short term - net	-17.2	-18.0	60.0	15.5	73.0
c) Other Liabilities - net	-7.7	-1.5	-18.4	64.0	3.9
Net Errors and Ommissions	-52.1	-3.2	-5.2	6.9	4.3
Overall Balance	**83.0**	**23.0**	**-97.2**	**-57.2**	57.4
Financing	**-83.0**	**-23.0**	**97.2**	**57.2**	**-57.4**
Reserves (-=increase)	**-83.0**	**-23.0**	**97.2**	**57.2**	-57.4

Source: Central Bank of Solomon Islands

TABLE 1.10 FOREIGN EXCHANGE RECEIPTS 1/
(Year Ended) (SI$'000)

	1997	1998	1999	2000	2001	2002
Current Receipts						
Exports						
Copra	17713	39168	39290	34740	432	2218
Fish	182403	194179	159045	41174	37336	70752
Logs	309393	196270	250658	224422	190457	254149
Palm Oil & Kernels	57410	97910	65144	6565	237	-
Cocoa	44504	30280	24394	9277	4536	27728
Minerals	-	-	43986	1315	354	192
All Other	37278	50464	24850	13809	15334	34970
Total Exports	**648701**	**608271**	**607367**	**331302**	**248685**	**390008**
Services						
Transportation	9562	7632	5242	3209	6139	7017
Travel	26318	31932	27515	18404	11574	9914
Insurance	213	599	177	2	747	253
Royalties & License Fees	-	538	343	1228	41580	805
Communication	-	10835	10981	9051	630	18579
Financial Services	-	92113	92757	110646	127	561
Others	202581	140751	116851	104725	69570	75655
Total Services	**238674**	**284400**	**253866**	**247266**	**130368**	**112784**
Income Account						
Wages & Others	-	4233	11410	21831	20994	15061
Interest, Divindends & Profits	1138	1726	1208	1202	2021	11
Official Interest	8941	8287	13282	13712	5934	3280
Other Income	-	30	135	7	3694	-
Total Income	**10079**	**14276**	**26035**	**36752**	**32644**	**18352**
Transfers						
Official						
Cash Aid	94351	14043	19776	1145	49244	42231
Other Official	19521	35762	4516	10103	3662	7111
Total Official Transfers	**28956**	**49805**	**24292**	**11248**	**52906**	**49342**
Transfers						
Private						
Gifts and Donations	30243	29425	16099	10323	17333	23706
Transfers by Temp. Res. & Immigrants	18733	1461	1926	2973	16582	6703
Churches & Charitable Institutions	16483	26487	21464	17313	20546	18382
Foreign Governments	22834	29225	23055	19254	34870	24634
Internatinoal Organisations	19521	35762	60256	33879	37307	34205
Total Private Transfers	**65459**	**57373**	**122800**	**83743**	**126647**	**107629**
Total Current Receipts	**991869**	**1014125**	**1034360**	**710310**	**591249**	**678116**
Capital & Financial Receipts						
Private						
Investment Grants	-	174	3743	1734	521	954
Direct Investment	2021	672	7563	10644	2845	-
Loans	80963	13431	3236	1868153	153	3116
Other Foreign Investment	25	1316	1610	41	2050	6057
Total Private Inflows	**33009**	**15593**	**16152**	**14288**	**5568**	**10126**
Official						
Investment Grants	-	33303	3440	28180	23062	20808
Loans	9670	92822	47001	22604	88621	40642
CBSI	-	-	-	-	-	-
Euro $ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Inflows	**9670**	**126125**	**50441**	**50784**	**111683**	**61451**
Total Capital Receipts	**42679**	**141718**	**66593**	**65072**	**117251**	**71577**
TOTAL RECEIPTS	**1034548**	**1155843**	**1100953**	**775381**	**708500**	**749692**

1/ Derived from the formal banking system.
Source: Central Bank of Solomon Islands.

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

	1997	1998	1999	2000	2001	2002
Current Payments						
Imports						
Government	5604	-	-	-	-	-
Oil Imports	100718	103709	75162	93417	75750	75589
Food Imports 2/	86085	82138	83026	79363	108448	108849
Beverages & Tabacco	-	9170	6147	5105	9298	11061
Plants, Vehicles & Transport Equipt.	86085	121523	127544	88241	53320	57452
Building & Construction Mat.	261547	34050	33368	25489	22577	23831
Chemical	-	13297	14771	9018	13745	11513
Other Imports	261547	251514	198,489	198337	148799	148047
Total Imports	**801586**	**615401**	**538407**	**498970**	**431937**	**436342**
Services						
Transportation	21511	41130	38108	23177	17239	25567
Travel	33385	26860	34644	44317	34332	29295
Insurance	10147	5363	13310	4469	5059	9262
Communication	-	22448	26059	13799	8527	12163
Financial	-	41708	24940	13995	32858	11086
Royalties & License Fees etct.	245	517	264	981	759	16
Others	220796	185503	95838	72247	65255	28350
Total Services	**286084**	**323529**	**233163**	**172988**	**164030**	**115740**
Income						
Wages & Others	-	15676	26710	14850	9119	7641
Interest Dividends & Profits	31928	25366	19555	16829	7543	21175
Official Interest	1988	9750	9672	3042	2820	**2256**
Total Income Payments	**33916**	**50792**	**55937**	**34721**	**19482**	**31071**
Transfers						
SI Govt Current Payments	6327	15778	17344	7655	2022	4465
Gifts & Donation	52910	79790	99570	126692	4104	103541
Transfers by Temporary Residents	10646	10098	13309	14387	93206	74131
Other Transfers	4785	10554	9662	10218	2785	11768
Total Transfers	**74668**	**116220**	**139885**	**158952**	**102117**	**193906**
Total Current Payments	**1196254**	**1105942**	**967392**	**865628**	**717566**	**777059**
Capital & Financial Payments						
Private						
Loan Repayments	39683	49900	49683	4368	6395	3188
Capital Repatraition		2603	2015	-	-	3
Emigrant Transfers	4785	1260	1470	2507	634	1431
Other Payments	-	21	6047	849	4162	2026
Total Private Inflows	**47071**	**53196**	**57200**	**7735**	**11191**	**6648**
Official						
S I Government Loans	8211	34195	9836	6181	3445	-
CBSI	-	66	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Outflows	**8211**	**34261**	**9837**	**6181**	**344**	**-**
Total Capital Payments	**55282**	**87457**	**67037**	**13916**	**14636**	**6648**
TOTAL PAYMENTS	**1251536**	**1193399**	**1034429**	**879505**	**741990**	**783707**

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 SI$ PER FOREIGN CURRENCY)

Period Average	US$	Aus$	Pound Stg	Yen	NZ$ (Per 100)	S.D.R.	EURO
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	5.41
1999	4.93	3.18	7.99	4.36	2.61	6.75	5.27
2000	5.09	2.99	7.72	4.74	4.34	6.70	4.73
2001	5.30	2.76	7.70	4.40	2.25	6.45	4.80
2002	6.78	3.69	10.26	5.46	3.16	8.75	6.43
1996							
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	-
1997							
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	-
1998							
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	-
1999							
Mar	4.88	3.09	7.98	4.20	2.63	6.74	-
Jun	4.84	3.16	7.79	4.01	2.63	6.53	-
Sep	4.95	3.23	7.92	4.37	2.60	6.73	-
Dec	5.06	3.25	8.25	4.84	2.59	6.98	-
2000							
Mar	5.17	3.27	8.30	4.83	2.58	6.99	5.10
Jun	5.09	3.02	7.67	4.74	2.44	6.76	4.76
Sep	5.09	2.93	7.53	4.73	2.25	6.67	4.61
Dec	5.10	2.73	7.39	4.64	2.11	6.36	4.45
2001							
Mar	5.21	2.86	7.86	4.57	2.33	5.54	4.97
Jun	5.24	2.68	7.44	4.27	2.17	6.60	4.58
Sep	5.30	2.72	7.62	4.36	2.22	6.74	4.72
Dec	5.46	2.79	7.87	4.42	2.26	6.93	4.95
2002							
Jan	5.71	2.95	8.19	4.31	2.42	7.16	5.05
Feb	5.95	3.05	8.46	4.68	2.49	7.40	5.17
Mar	6.26	3.28	8.78	4.77	2.71	7.82	5.59
Apr	6.37	3.41	9.16	4.87	2.82	8.00	5.72
May	6.43	3.41	9.39	5.08	2.96	8.20	5.89
Jun	7.23	4.01	10.05	5.50	3.31	8.88	6.48
Jul	7.23	4.01	11.17	6.13	3.49	8.88	7.19
Aug	7.31	3.96	11.24	6.14	3.39	9.65	7.15
Sep	7.36	4.03	11.49	6.10	3.46	9.74	7.22
Oct	7.43	4.09	11.59	6.01	3.58	9.79	7.17
Nov	7.11	3.99	11.76	5.85	3.53	9.47	7.12
Dec	7.46	4.19	11.81	6.10	3.79	9.97	7.57

Source: Central Bank of Solomon Islands.

TABLE 1-13 COMPETITIVENESS AND RELATIVE PRICES

Period Average	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	D Terms of Trade export unit values relative to foreign export prices (in common currency)
	Exchange rates			
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	65.9	124.0
2000	205.7	79.6	64.1	117.9
2001 +	195.0	70.2	57.9	118.1
2001 + Q1	193.2	70.0	57.9	119.9
Q2	191.3	69.2	57.9	118.5
Q3	194.8	69.9	57.6	118.1
Q4	200.7	71.7	58.4	116.0
2002 1/ Q1	221.8	77.4	63.4	102.1
Q2	250.4	86.5	69.0	91.4
Q3	281.7	96.8	75.7	83.8
Annual Percentage Changes				
1990	9.7	4.2	-1.3	-7.7
1991	10.7	3.0	-5.5	-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	-0.3	-6.5	-2.9
2000	0.2	-6.3	-2.6	-4.9
2001 +	-5.2	-11.8	-9.7	0.2
Quarterly Percentage Changes				
2001+ Q1	-2.1	-0.7	-0.8	0.2
Q2	-1.0	-12.2	-10.8	-1.6
Q3	1.9	1.6	0.3	-0.2
Q4	3.0	3.5	3.8	-3.8
2002 1/ Q1	10.5	8.1	8.6	-12.0
Q2	12.9	11.7	8.9	-10.5
Q3	12.5	11.9	9.6	-8.3

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 2002 are provisional estimates + Revised figures*

Source: Central Bank of Solomon Islands.

TABLE 1.14 GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

(SI$'000)

End of Period	DEVELOPMENT & TREASURY BONDS						TREASURY BILLS						OTHER	
	Commercial Banks	Central Bank	National Provident Fund	Statutory Corporations	Public	Total	Commercial Banks	Central Bank	National Provident Fund	Statutory Corpora-tions	Public	Total	Central Bank	GRAND TOTAL
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
2002	149840	27	94271	-	1500	245638	-	186	-	-	20968	21154	11075	277867
1999														
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
2000														
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
2001														
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
2002														
Mar	149840	27	94271	-	1500	245638	-	477	8497	-	28358	37332	11075	294045
Jun	149840	27	94271	-	1500	245638	997	563	-	-	28129	29689	11075	286402
Sep	149840	27	94271	-	1500	245638	-	252	-	-	26315	26567	11075	283280
Dec	149840	27	94271	-	1500	245638	-	186	-	-	20968	21154	11075	277867

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)

	2000	2001	2002
<u>Budget Forecasts</u>:			
Total Expenditure	**426.7**	**488.6**	**260.0**
A. Recurrent Expenditure	396.7	448.9	250.0
i. Pay	150.2	155.0	120.0
ii. Other Charges	197.3	223.9	102.0
iii. Debt Service	49.2	70.0	28.0
iv. Lost Property Payments	-	-	-
B. Development Expenditure	30.0	39.7	10.0
Total Income	**528.6**	**370.3**	**418.4**
i. Total Recurrent Revenue	410.7	264.0	250.0
ii. Tax Revenue	362.6	196.6	224.6
iii. Non-Tax Revenue	48.1	67.4	25.4
iv. Lost Property Payments	-	-	-
v. Grants	101.8	106.3	168.4
Fiscal Deficit (domestically financed)	**(16.0)**	**(224.6)**	**(10.0)**
<u>Actual Government Accounts</u>:			
Total Expenditure	**420.2**	**467.1**	**674.1**
A. Recurrent Expenditure	404.9	358.1	547.3
i. Pay	173.6	182.4	167.1
ii. Other Charges	202.7	104.0	249.9
iii. Debt Service	28.6	71.7	130.3
iv. Lost Property Payments	-	88.6	67.4
B. Development Expenditure	153.3	20.4	59.4
Total Revenue and Grants	**185.7**	**361.4**	**432.5**
i. Total Recurrent Revenue	177.7	219.9	256.4
ii. Tax Revenue	159.1	206.4	243.6
iii. Non-tax Revenue	18.6	13.5	12.8
iv. Lost Property Payments	-	88.6	67.4
v. Grants	8.0	52.9	108.7
Fiscal Deficit (domestically financed)	**(242.5)**	**(109.0)**	**(126.8)**
<u>Difference between Actual and Budget (%)</u>			
Total Expenditure	**-2%**	**-4%**	**159%**
A. Recurrent Expenditure	2%	-20%	119%
i. Pay	16%	-18%	39%
ii. Other Charges	3%	-54%	145%
iii. Debt Service	-42%	2%	365%
iv. Lost Property Payments	0%	0%	0%
B. Development Expenditure	-49%	-49%	494%
Total Revenue and Grants	**-65%**	**-2%**	**3%**
i. Total Recurrent Revenue	-57%	-17%	3%
ii. Tax Revenue	-56%	5%	8%
iii. Non-Tax Revenue	-61%	-80%	-50%
iv. Lost Property Payments	-100%	0%	0%
v. Grants + Borrowings	-92%	-50%	-35%
Fiscal Deficit/Surplus (domestically financed)	**1416%**	**-51%**	**1168%**
Memorandum Items:			
Actual Change in Government Domestic Debt			
Change in Gross Domestic Debt	68.9	49.3	35.8
.Change in Net Domestic Debt		59.0	46.0
Change in Foreign Debt	-3.2	125.6	368.0
Gross change in Total Debt	34.9	246.6	482.3
Net change in Total Debt	65.8	174.9	n.a

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

Source: Central Bank of Solomon Islands.

TABLE 1-16 GOVERNMENT REVENUES

(SI$'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 *
2000	**260169**	101225	51986	37950	-	2869	8419	158944	26121	35334	18744	59355	19390	18515
2001	**204918**	72219	42035	21707	-	1341	7135	132699	19324	20693	22011	56755	13916	15279
2002	**243012**	100947	54069	38233	-	1070	7575	142065	19734	22314	15320	62975	21722	12841
2000														
Q1	**79264**	29365	15205	10852	-	966	2342	49899	8911	12884	3922	19110	5072	6397
Q2	**70357**	27402	14548	9208	-	1141	2507	42955	6966	8713	3945	17579	5752	5859
Q3	**50896**	18459	7002	9825	-	490	1142	32437	7484	8192	3359	10652	2750	3567
Q4	**59652**	25999	15231	8067	-	272	2428	33653	2760	5545	7518	12014	5816	2692
2002														
Q1	52442	19620	11056	7938	-	207	419	32822	4174	4444	4345	13316	6543	2458
Q2	56775	26789	17320	7399	-	279	1791	29986	3809	5740	4143	12431	3863	4667
Q3	65087	26671	12108	12467	-	347	1749	38416	4962	5876	3372	18640	5566	1937
Q4	68708	27867	13585	10429	-	237	3616	40841	6789	6254	3460	18588	5750	3779
Percentage Change on year earlier														
2001	-21%	-29%	-19%	-43%	-	53%	-15%	-17%	-26%	-41%	17%	-4%	-28%	-17%
2002	19%	40%	29%	76%	-	-20%	6%	7%	2%	8%	-30%	11%	56%	-19%
2002														
Q1	-14.3	-18.6	-14.8	-8.4	-	-64.6	-77.5	-11.6	-3.0	-22.7	-28.1	-11.6	9.9	-23.6
Q2	9.3	38.1	88.3	-4.9	-	26.1	-18.4	-7.9	-29.1	16.9	-28.8	-6.7	23.5	33.3
Q3	33.5	64.3	7.9	386.0	-	-14.7	-14.4	18.1	-2.6	25.3	-44.2	36.4	84.2	-71.2
Q4	59.8	123.0	57.2	287.7	-	85.2	250.0	33.8	49.1	17.0	-15.7	26.5	217.2	55.2
2000														
Q1	**-14.0**	-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	**-20.2**	-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	**-42.9**	-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	**-37.8**	-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
Percentage Contribution to Total Inland Revenue and Customs Revenue														
2000	**100.0**	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
2001	**100.0**	35.2	20.5	10.6	0.0	0.7	3.5	64.8	9.4	10.1	10.7	27.7	6.8	7.5
2002	**100.0**	41.5	22.2	15.7	0.0	0.4	3.1	58.5	8.1	9.2	6.3	25.9	8.9	5.1

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)

Period Average	Food	Drink & Tobacco	Clothing & Footwear	Transport	Housing & Utilities	Micellaneous	Local Items	Imported Items	All Items	Annual % Change (All Items)
Weight	**510.0**	**100.0**	**49.0**	**66.0**	**125.0**	**150.0**	**463.0**	**537.0**	**1000.0**	
Annual Averages										
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	525.4	713.1	277.5	728.0	317.6	381.7	587.6	441.9	534.2	6.8
2001	570.8	730.0	284.8	752.9	339.6	377.7	587.6	441.9	534.2	6.8
2002	623.9	797.0	288.5	842.2	361.4	373.7	628.5	477.6	573.4	7.3
Three months averages										
2000										
Mar	496.7	686.9	286.8	721.5	299.7	370.0	504.8	427.5	478.7	5.2
Jun	517.5	637.1	287.8	725.0	301.8	392.1	520.4	473.3	492.1	6.7
Sep	545.1	808.8	268.2	732.8	333.9	379.8	560.6	439.9	517.2	9.4
Dec	542.3	719.7	267.1	732.9	335.0	384.9	553.3	440.8	513.2	8.0
2001										
Mar	558.6	720.2	284.4	753.6	341.9	380.3	578.4	440.2	528.0	10.3
Jun	570.1	712.8	284.4	755.3	341.9	383.0	588.7	440.0	534.1	8.5
Sep	574.5	714.7	284.8	752.4	338.4	375.1	589.4	442.3	535.5	3.5
Dec	579.9	772.2	285.6	750.5	336.3	372.5	593.7	445.1	539.2	5.1
2002										
Jan	585.8	799.4	285.7	769.7	358.3	370.1	609.7	447.0	549.6	4.5
Feb	596.7	797.5	286.3	769.7	358.3	370.3	615.2	451.2	554.6	4.6
Mar	603.6	798.4	286.3	769.7	358.3	371.0	621.0	450.9	558.0	4.8
Apr	600.2	801.0	286.3	769.7	358.3	374.4	617.1	453.5	556.7	4.3
May	607.0	805.9	286.3	769.7	358.3	370.7	620.2	457.0	560.0	4.1
Jun	625.8	769.9	290.2	897.2	363.2	369.8	636.9	473.4	576.8	5.1
Jul	635.7	783.4	290.2	893.4	363.2	371.5	637.2	486.1	582.2	6.9
Aug	646.8	812.9	290.2	893.4	363.2	377.2	637.9	501.6	589.0	8.8
Sep	643.1	816.5	290.2	893.4	363.2	377.2	635.3	501.6	587.4	9.2
Oct	646.8	786.8	290.2	893.4	363.2	377.2	637.1	501.6	588.5	9.5
Nov	647.8	796.0	290.2	893.4	364.8	377.2	636.9	503.5	589.1	9.3
Dec	647.8	796.0	290.2	893.4	364.8	377.2	636.9	503.5	589.1	9.3

*Only up to May, the latest available.
Source: Statistics Division, Ministry of Finance and Central Bank of Solomon Islands

TABLE 1-18 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)
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
2002	266	390	713	1778	163
1997					
Mar	497	569	858	1442	238
Jun	436	550	1057	1613	252
Sep	396	508	1152	1699	245
Dec	404	559	1260	1720	215
1998					
Mar	376	650	1153	1678	197
Jun	405	675	1170	1741	150
Sep	405	679	1046	1695	141
Dec	459	679	657	1591	162
1999					
Mar	458	563	842	1394	175
Jun	521	459	792	1103	178
Sep	434	354	623	1057	196
Dec	433	368	465	954	199
2000					
Mar	410	343	710	901	189
Jun	324	337	465	927	193
Sep	260	302	423	890	192
Dec	225	258	425	884	186
2001					
Mar	182	254	725	1124	166
Jun	196	257	890	973	165
Sep	210	306	790	1024	156
Dec	212	338	750	1337	138
2002					
Jan	221	338	710	1386	133
Feb	232	330	735	1491	135
Mar	232	338	690	1593	144
Apr	244	348	715	1568	144
May	263	371	700	1602	151
Jun	289	411	710	1659	164
Jul	289	406	730	1871	179
Aug	290	425	na	1959	182
Sep	270	400	na	2161	182
Oct	274	408	na	2202	180
Nov	290	442	na	1812	184
Dec	301	465	na	2032	182

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	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Agriculture	138.0	132.7	103.5	83.0	70.9	77.3
Forestry, Logging, Sawmilling	195.8	134.9	153.0	132.2	131.1	135.6
Fishing	156.7	176.6	170.9	85.3	72.3	76.8
Mining & Exploration	124.2	-449.7	-1262.5	-613.1	38.2	36.7
Manufacturing	237.8	245.7	246.0	197.2	158.1	149.8
Electricity and Water	249.7	263.4	276.4	231.0	183.4	214.4
Construction	189.5	103.9	72.3	40.1	21.8	26.1
Retail and Wholesale Trade	146.6	159.8	149.7	134.5	119.9	131.7
Transport and Communications	152.0	170.7	179.3	143.4	114.7	129.8
Finance	281.6	243.9	247.6	239.4	231.4	228.3
Other Services	171.2	182.2	175.9	172.8	172.4	138.5
Index of Monetary GDP Production	168.9	170.9	169.1	139.1	122.0	118.0
Annual % movement	-1.7	1.2	-1.0	-17.8	-12.3	-3.6
Index of Primary Production149.0	143.0	129.1	93.8	94.0	84.1	89.6
Annual % movement	3.7	-7.4	-9.7	-27.2	-10.4	6.4
Non-Monetary: Food	136.3	139.0	143.6	147.4	151.9	155.9
Non-Monetary: Construction	131.1	133.7	136.2	141.6	147.2	150.1
Non-Monetary GDP Index	135.9	139.4	143.0	147.0	151.5	155.4
Index of Total GDP Production	**162.6**	**164.7**	**163.8**	**140.6**	**127.9**	**125.3**
Annual % movement	**-0.9**	**1.3**	**-0.5**	**-14.2**	**-9.1**	**-2.4**

* 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 Prodn. ('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
2002	1731	-	-		2907	18520	550
1997							
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
1998							
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
1999							
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
2000							
Mar	7157	3171	-	-	734	7178	134
Jun	6383	2126	-	-	864	10272	130
Sep	2600	2173	-	-	357	2954	148
Dec	2865	1083	-	-	360	760	124
2001							
Mar	636	-	-	-	222	1337	140
Jun	438	-	-	-	881	3073	137
Sep	229	-	-	-	599	7092	109
Dec	398	-	-	-	335	6217	148
2002							
Jan	76	-	-	-	53	1130	63
Feb	115	-	-	-	65	941	26
Mar	100	-	-	-	50	2120	21
Apr	14	-	-	-	249	1300	42
May	14	-	-	-	591	1534	32
Jun	-	-	-	-	437	1066	54
Jul	-	-	-	-	467	1217	54
Aug	49	-	-	-	379	1872	42
Sep	85	-	-	-	245	1962	66
Oct	98	-	-	-	73	1921	64
Nov	361	-	-	-	152	1851	52
Dec	819	-	-	-	148	1608	34

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

		Unit	2001				2002			
			Quarter 1	Quarter II	Quarter III	Quarter IV	Quarter I	Quarter II	Quarter III	Quarter IV
A.	External Trade	SI$'000								
	i) Exports		60599	54613	55698	76922	68,632	82156	123474	115747
	ii) Imports c.i.f.		117082	96739	104725	11390	103915	121301	110336	110336
B.	Gross External Reserves	SI$'000	116713	114925	126517	102641	143860	83961	115750	129900
C.	Money Supply	SI$'000								
	i) Currency in active circulation		76589	72947	72073	84704	82687	78017	86399	91502
	ii) Demand Deposits		155804	170165	172469	161646	155406	144228	139722	155587
	iii) Money Supply (M1)		232393	243112	244542	246349	238093	222245	226122	247089
	iv) M1 and Savings Deposits (M2)		308449	315413	319285	325971	314460	289871	300419	314464
	v) M2 and Term Deposits (M3)		450523	440956	458303	460010	397513	378443	397754	414904
D.	Domestic Credit	SI$'000								
	i) Government (net)		268829	275061	266852	269781	155167	171843	183181	173207
	ii) Statutory Corporations		2443	2856	2573	2004	2298	2102	2173	1986
	iii) Other		181465	173710	164501	152729	158502	164314	178833	174931
E.	Interest Rates (average)	%								
	i) Savings Deposits		1.0	0.6	0.4	0.4	0.4	0.4	0.4	0.4
	ii) Time Deposits (6-12 months)		2.4	1.3	1.0	1.0	1.0	1.3	1.3	1.3
	iii Lending		15.1	15.2	15.1	15.7	15.6	15.6	15.6	15.6
	iv) Bank Deposits with CBSI		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
F.	Exchange Rates									
	i) US$1.00 = SI$		5.1	5.3	5.3	5.5	6.1	6.5	7.3	7.4
	ii) AU$1.00 = SI$		2.6	2.7	2.7	2.8	3.1	3.6	3.0	0.0
G.	Honiara Retail Price Index (1985=100)		529.7	531.7	536.5	539.6	558.0	576.8	587.4	589.1
	Annual % change		10.3	8.5	3.5	5.1	4.9	5.7	9.5	9.2
H.	Tourist Arrivals		1.4	1.5	n.a	n.a	n.a	n.a	n.a	n.a
I.	Electricity Consumption		12878	13920	12951	9904	12453	13301	13141	11461
J.	International Commodity Prices	SI$/per tonne								
	i) Copra		993.7	1001.7	1181.9	1108.4	1391	1725	2066	2134
	ii) Cocoa		5162.3	5538.5	5337.1	6650.3	9089	10463	14578	14913
	iii) Palm Oil		1281.6	1303.8	1749.0	1709.0	2044	2448	2995	3244
	iv) Fish		3469.5	4860.1	3937.9	4193.3	4343	4604	5259	5331
	v) Logs (SBD/m3)		876	870	838	783	837	994	1328	1346

Source: Central Bank of Solomon Islands