


30th April 2004

Hon. Francis J Zama (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 2003 Annual Report and the audited Accounts of the Central Bank of Solomon Islands.

Yours sincerely,



R N. Houenipwela
Governor

CENTRAL BANK MISSION AND VALUES**CBSI Vision.**

“Facilitating economic growth and financial stability in Solomon Islands”

Central Bank Values

“Upholding integrity, excellence, professionalism, corporate governance, team spirit and friendly service.”

Central Bank Mission.

- (a) Conduct monetary policy to foster balanced economic growth and financial stability;
- (b) Provide proactive and sound advice to government and people of Solomon Islands;
- (c) Develop and promote a reputable financial system;
- (d) Recruit and equip a professional team; and
- (e) Disseminate timely quality information.

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

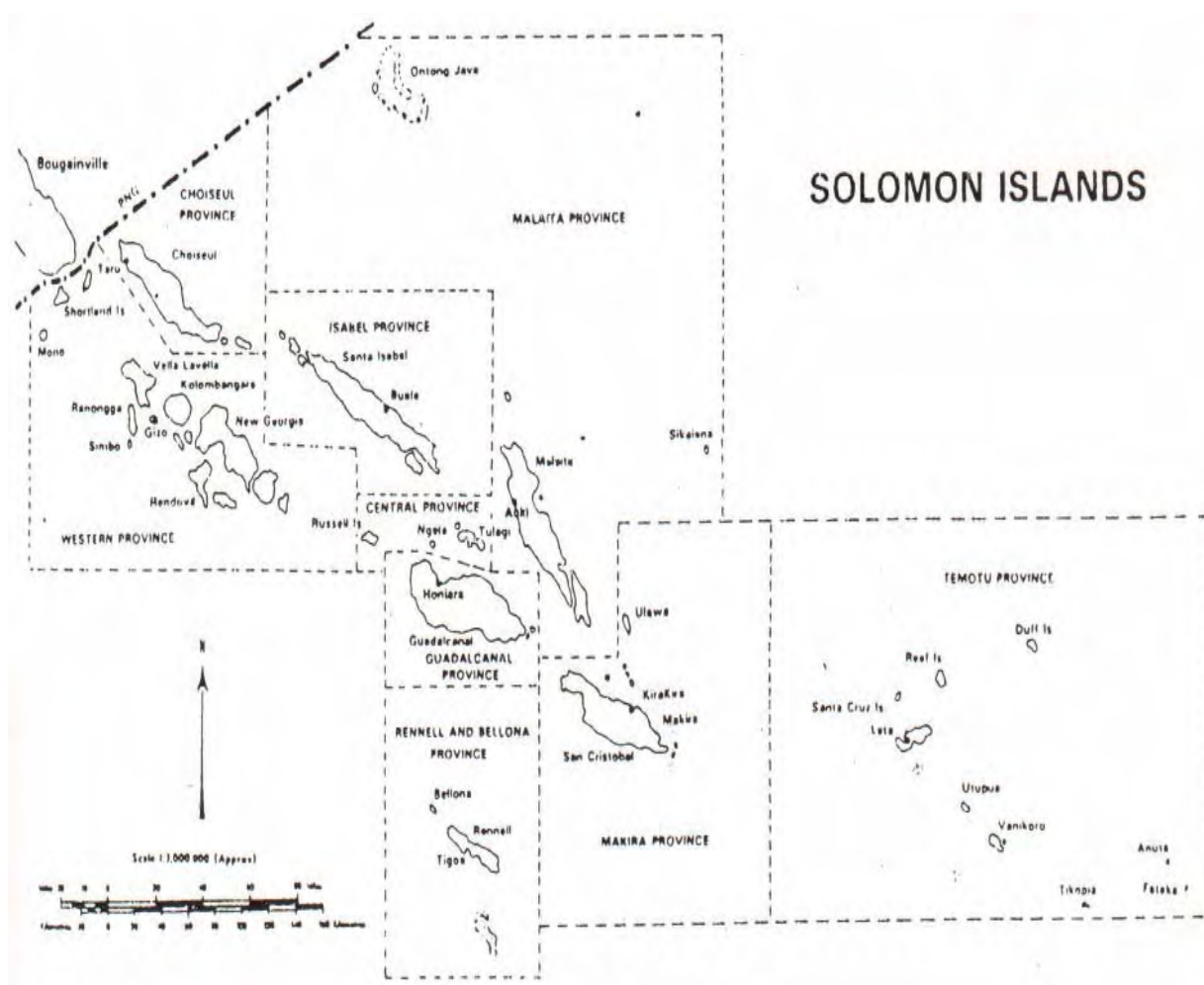
Foreword

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

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

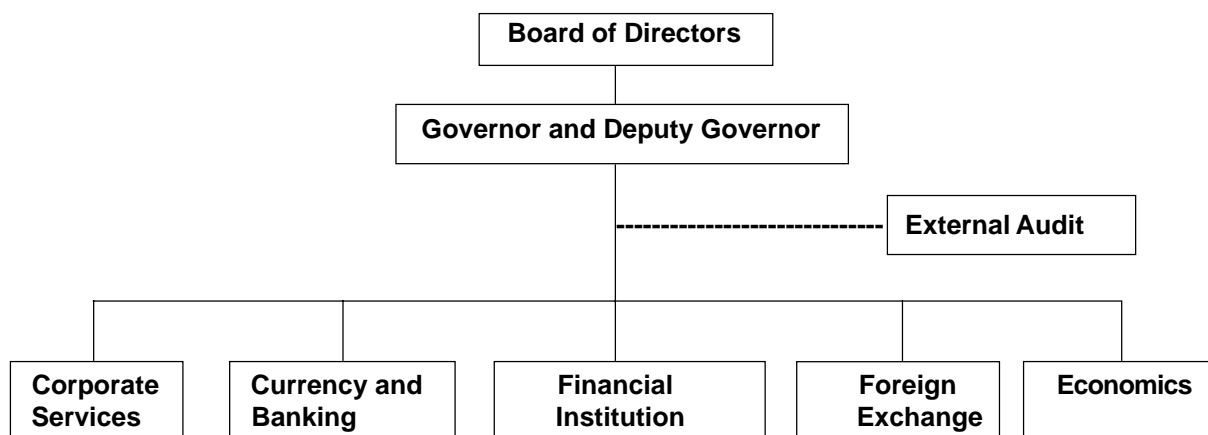
Data on the monetary system are derived from Central Bank records. The interpretations and conclusions in this report are entirely the responsibility of the Central Bank.

Central Bank of Solomon Islands
June 2003



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Organisation of the Central Bank



Board of the Central Bank, at end 2003

Rick N Houenipwela	Chairman, ex officio
Denton H Rarawa	Director, ex officio
Shadrack Fanega	Permanent Secretary, MoF
Yoshi Yuki Sato	Director effective 22.03.02
Ivan Dyer	Director effective 22.03.02
Adrian Wickham	Director effective 22.03.02
Jack F Kairi	Director effective 16.09.2003
Anthony V Hughes	Director effective 16.09.03
George Kiriau	Director effective 21.09.03
Edward Ronia	Secretary to the Board

Management of the Central Bank, at end 2003

Governor	Rick N Houenipwela
Deputy Governor	Denton H Rarawa
General Advisor	Michael Brown
Manager, Corporate Services	Edward Ronia
Manager, Financial Institutions	Gane A Simbe
Manager, Currency & Banking Operations	Frank M Afu
Manager, Foreign Exchange	Raynick P Aquillah
Manager, Economics	Ishmael Wore

I. POLICY ISSUES, PERFORMANCE, AND OUTLOOK

The Solomon Islands economy emerged in 2003 from four years of contraction to record relatively strong growth in economic activity. As a result real gross domestic product (GDP) rose by 3.8%. This was a significant turnaround after four consecutive years of negative growth. The outcome reflected four key inter-related factors: improved law and order situation leading to the pickup in economic activity, favourable external conditions, substantial donor inflows and private sector resilience. The improvement was driven by increased output in tree-crop agriculture, natural logs and forest plantations, fishery and construction sectors. Relatively smaller but valuable contributions also came from improvements in the services sector, particularly transport, communication, and electricity and water services. The trade account maintained its surplus balance because of increased exports, no new borrowing by government and continued selective lending by financial institutions during the year. This, along with increased donor inflows led to a significant rise in the level of external reserves that contributed towards the rise in money supply and liquidity during the year. Government finances also improved following the intervention by the Regional Assistance Mission to Solomon Islands [RAMSI] while inflation has remained relatively stable.

Preliminary data for the first quarter of 2004 show that the recovery process in Solomon Islands is on track and gaining momentum. Nevertheless, it should be noted that the damage inflicted on the economy in the recent past is substantial, and it will take considerable time and consistent effort for economic activity to reach pre-conflict levels. In addition, although good progress has been achieved so far, the recovery process is still fragile and could easily be reversed if appropriate

supporting policy actions are not taken.

To consolidate and sustain the recovery process, it is crucial that underlying fundamental weaknesses inherent in the economy such as impediments to investment, weak and inefficient government machinery, cronyism and corruption in the public sector, which have always weaken efforts to reform the economy, are addressed as a matter of priority. There are many other important issues that need urgent action. These range from inequalities in terms of income distribution and economic opportunities to inefficiencies in public services delivery. In many respects, there also seems to be lack of policy action in relation to the enormous disparities in natural resource endowments and consequential heavy demands on government resources arising from a fast growing population. Given the fact that a large portion of the population is young, the pressures that emanate from unemployment represent a real time bomb. Until these issues are effectively addressed, the achievement of economic prosperity and concerns for developing a united Solomon Islands may prove elusive.

The Central Bank believes that the positive developments in 2003 offer the best opportunity to rebuild and reform the Solomon Islands economy and establish a solid basis to sustain the recovery process. With the normalization of the security situation, restoration of public confidence in and effectiveness of law enforcement agencies, expected growth in the global economy and increase in donor support into efforts to re-grow the economy, it is crucial that this window of opportunity is grasped. As has been noted elsewhere, the remarkable recovery seen last year was actually started at the end of 2002, well before the arrival of RAMSI. This reflects one

simple truth: the resilience of the private sector, and the ability of the productive sector to reassert itself again even under extreme circumstances. Much of the progress, which took place before RAMSI's arrival, did not happen as a result of government policies, but decisive actions and commitment by the many Solomon Islands companies and individuals who did not wait for a change in government policies. Instead, they took the deliberate decision to "take the bull by the horn". The challenge is two-fold: firstly, it is important that those who are still taking the "wait and see approach" or waiting for the government to show the way to now make that crucial decision. Secondly, it is vital that this remarkable progress is not only increased, but also sustained in the long term. In this connection, while RAMSI's positive contribution so far has indeed spurred the recovery process, Solomon Islanders must be reminded again that our expatriate friends and the current overwhelming donor support will not be here for ever. All Solomon Islanders are reminded that history has proved that it can be done.

The ***National Economic Recovery, Reform and Development Plan [NERDP], 2003-2006*** endorsed by Government and its development partners in November 2003, provides the best opportunity and starting point for government to address the issues raised above. Government has already made progress on certain issues, but it is extremely important that the pace of reform is accelerated. This is very important if the donor community is to start funding the various development projects identified in the plan. Furthermore, proposed actions such as right sizing the public service and imposing stringent controls on expenditure may be costly and could potentially affect the operations of many small businesses. However, it is vital that these reforms are implemented, as they constitute an important pre-requisite

to stabilize fiscal policy and ensure this effectively contributes towards the recovery process. There should be strong emphasis on policies and strategies that enhance the export and productive sectors and enable the restart of both the Gold Ridge and oil palm projects. While government must be commended for its efforts and actions already taken, it is also crucial that recent calls to involve all stakeholders, particularly landowners, in the process to re-open both projects are heeded. This is very important to avoid the experience of recent years that had forced the economy into severe recession since 2000.

Whatever economic, social or political structures and reform strategies are designed to meet this challenge, the key objective must be to improve the overall well being of all ordinary Solomon Islanders, with those living in the rural areas the priority. This development strategy must encompass strengthening all government institutions, promoting good governance and accountability, providing strong law enforcement, producing an effective and efficient public service, and improving the provision of transportation and telecommunications infrastructures throughout the country. To avoid the economic, social and political ills of recent years, it is also important that the social fabric and traditional values in the country are not ignored. In many respects, economic programs may also have to be reassessed to ensure their design and expected outcomes are beneficial to all ordinary Solomon Islanders. Such an approach will entail long-term commitment and patience from both development partners and Solomon Islanders.

The global economy recovered from shocks it faced early in the year and grew 3.9% in 2003, as a result of growth in the US and Asian economies including Japan while growth in Europe remained low due to weak demand conditions. The

waning of geopolitical uncertainties, easing of macroeconomic policies in the major economies, and rise in economic activity, investment and consumer confidence in both major industrial and emerging economies underpinned the recovery during the year. Inflation remained low in most of Solomon Islands major trading partners, with average prices rising less than 2.0% in Japan, USA and Australia. Average petroleum prices also declined slightly, while interest rates remained low in most major economies.

Given the global recovery, the Solomon Islands economy benefited from a rise in both export values and volumes in all its major export commodities. There is concern, however, that a large portion of these values, particularly from the export of natural resources, was not remitted back into the country or has been valued at questionably very low prices. Such practices deny the country of vital financial resources to help development and should be a concern for all responsible authorities.

Total net foreign assets (NFA) of the banking system rose to \$266.0 million in 2003 from \$127.8 million at the end of 2002. This trend continued in early 2004 with NFA rising to \$304.9 million at the end of March.

The improvement in the trade account together with improved donor inflows led to a significant rise in the liquidity of the banking system during the year. Consequently, all monetary aggregates increased as these inflows eventually ended up in both businesses and household accounts. Although private sector lending rose 25.4%, total domestic lending fell 0.8% reflecting the 16.1% decline in net lending to government during the year in view of increasing levels of its deposits with the banking system.

During the first seven months of 2003, government experienced persistent and severe financial difficulties, mainly in controlling expenditures. While the size and cost of the public service payroll remained high and unsustainable, lack of political will to effectively address undisciplined government spending and extortion of public funds, were the key constraints to managing government finances during the period. This had severely affected the delivery of basic services, particularly in the education and health sectors. Following the arrival of RAMSI in late July, however, this picture quickly changed as RAMSI addressed the law and order problem and instituted stringent budgetary controls at the Ministry of Finance. Significant improvements in both fronts led to a reduction in the government's overall deficit to \$103.9 million, from \$309.1 million in 2002.

Recorded government debt at the end of 2003 stood at \$1,669.2 million, somewhat lower than the \$1,687.5 million recorded at the end of 2002. There are other debt arrears and unverified claims that could worsen the debt situation. It is crucial that government's total debt be restructured to keep total annual debt servicing costs within 15% of government revenues – the maximum capacity of government for debt serving. To that end, the Government developed proposals on elements of domestic debt repayment during the last quarter of 2003 and commenced formal negotiations with bondholders in February 2004 and a successful outcome is expected to be reached soon. This should pave the way for initiatives on remaining domestic debt and on external debt. Key requirements of any compromise are sustainability over the long term and affordability to pay.

The average annual inflation rate was 10.1% in 2003, slightly higher than 9.4% in 2002. On a monthly basis, however, inflation had continued to decline during

the year so that by December, it was only 4.1%, compared to 15.5% at the beginning of the year. The fall in domestic food prices reflecting improved supply of fresh fruits and vegetables to the Honiara markets, gradual decline in oil prices experienced in late 2002 and early 2003, and relative stability in the SI dollar exchange rate against the US dollar, all contributed to the declining trend in inflation. Looking ahead, prospects for inflation to remain low are good, especially if the exchange rate continues to remain stable. Currently oil prices remain relatively high by historical standards, but are forecast to decline as global supply improves. In addition, the improvement in law and order should help maintain the supply of fresh fruits and vegetables to the Honiara market. This should help keep domestic inflation down as food accounts for almost 50% of the consumer price index [CPI]. Nevertheless, there is also risk that as the economy strengthens, inflation could rise if production does not keep pace with increased demand.

The Bank implements both monetary and exchange rate policies, in consultation with government. During the year, monetary policy remained relatively neutral. The Bank continued to monitor the rise in liquidity that resulted from improvements in the balance of payments. However, the Bank decided not to intervene, as there were no pressures to do so. The Bank continued with its open market treasury bill operations during the year, with the amount limited to just \$30 million.

Average commercial banks' indicative interest rates marginally changed during the year. The average deposit rate rose to 0.98% from 0.55% in 2002, while the average lending rate fell to 14.6% from 15.1% in 2002. Wholesale deposit rates were substantially larger for major deposits and low risk borrowers would typically negotiate lower interest rates.

Although the movements in average interest rates led to a fall in commercial bank margins, it should be noted that the current interest rate structure is a disincentive for the country's long-term economic growth. To encourage domestic savings and ensure sufficient financial resources to support credit oriented growth activities, it is important that savers are also rewarded. While the Bank wishes to see part of the excess liquidity used for productive purposes, it is also mindful of the potential for increased lending to put pressures on the level of foreign reserves. In this regard, the Bank will continue to closely monitor developments in the balance of payments in 2004 and would take appropriate action when required.

In 2003, exchange rate policy shifted from a purely defensive stance to focusing more on instilling financial stability and influencing confidence as the foreign reserves rose during the year.

2004 Economic Outlook

The economic outcome in 2003 had shed useful light on the strength and weaknesses of the Solomon Islands economy. Indeed if the present trend is maintained, it would be possible within five to ten years to reach the levels of income enjoyed in the pre-conflict period and to close the gap that still exists between Solomon Islands and average income levels in neighbouring developing countries. The key questions that have to be addressed are, therefore, what conditions are necessary to sustain the growth trend, and do they currently exist in the country? The Bank is optimistic that developments in 2003 have provided the basis and impetus for this to be realised.

Furthermore, the recovery in the global economy remains strong and is forecast to grow further by 4.6% in 2004, higher than in 2003 with the area of strongest

growth again in Asia. Solomon Islands is expected to benefit through higher exports to this region. The production of major export commodities will improve further in 2004. As a result, total exports are projected to rise more than \$600 million in 2004. This combined with the expected increase in donor inflows should result in a further increase in the level of reserves by year-end. The domestic economy is also expected to benefit from substantial budget supplementation provided by both Australia and New Zealand during the year.

The projected positive balance of payments outcome would be reflected in further improvements in the monetary aggregates during the year. Data in the first quarter of 2004 suggest that demand for private sector credit is picking up and is projected to grow strongly in 2004. This should reduce the level of excess liquidity that currently overhangs the financial system. In accordance with the need to foster a conducive environment friendly to private sector growth, the Bank will continue to monitor economic developments in the months ahead and take appropriate policy action should credit growth exert downward pressures on the level of reserves. This should help avoid the prospect of the very low levels of external reserves experienced during the 2000-2002 period.

The 2004 National Budget passed in December 2003 builds on the progress made in the fourth quarter of 2003 based on budget guidelines approved by Cabinet in December 2003. The budget aims to rebuild public sector institutions, and enhance economic growth through better delivery of services throughout the country. Timely payment of all dues also started towards the end of 2003 and is expected to continue in 2004. The budget also recognises the importance of strengthening the financial system. Accordingly, the Government has resumed its dialogue with all

bondholders in February 2004, to find means of amicably resolving the restructured bonds issue. These discussions are ongoing and are expected to end successfully soon.

The budget projects total revenue, inclusive of grants and borrowings to equate total expenditures at \$779.8 million with recurrent costs accounting for \$479.7 million (61.5%) and capital expenditures \$300.1 million (38.5%), more than double the actual in 2003. In view of continued stringent controls on expenditures and strengthening of revenue collection, the recurrent budget is forecast to register a surplus. Unfortunately, the potential fiscal gains of these actions are now doubtful in view of the Government's recent approval to pay 2.5% in salary adjustment to public servants in January 2004 and a similar back payment in May. While the nation appreciates public servants contributions, it is equally important that government strictly adheres to budgetary provisions and should allow no further salary adjustments during the year. This should allow government to use expected savings to settle some outstanding debts once supplementary appropriations are approved by Parliament in its May session. This extra cash is expected to spur further activity throughout the economy.

The economy now appears to be on a recovery path with growth forecast at 4.0% for 2004. Compared to other developing countries, Solomon Islands has the necessary resources to make a difference. There is no hope in simply hoping that problems will solve themselves. The Bank believes that there is no better time than now to make that difference in Solomon Islands. With the positive impetus from the global recovery, improved law and order and the deep commitment and resilience of the private sector as has been shown before, and increase in donor inflows during the

year, the opportunity to rehabilitate the economy must be taken now if current economic weaknesses are not to persist and derail future efforts to achieve economic prosperity for Solomon Islands.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

In 2003, the global economy has had to cope with several setbacks including corporate governance problems and adverse impacts from high oil prices. In addition, the spill-over effects from SARS, September 11, and the on-going Iraq war have not been helpful to economic growth. Nevertheless, the global economy recovered from the adverse shocks it faced in the first half of the year and grew 3.2% in 2003, exceeding the 3.0% growth in 2002. The recovery reflected the waning of geopolitical uncertainties associated with the US-led war on Iraq, and general pickup in economic activity, investment and consumer confidence in both major industrial and emerging economies. This is an outcome due to interrelated factors, particularly the decline oil prices, and strengthening of equity markets, accompanied with the easing of macroeconomic policies in major economies. Interest rates, for example, have declined substantially in Europe, the United States and other industrial and emerging economies so much so that long-run interest rates were down to 40-years low by mid-2003. The growth had been broad-based and appeared noticeable in all major regions, including developing countries.

As a result, the volume of world trade rose 2.9%, in 2003. At the same time, average world inflation remained very low. In the major economies, average inflation remained below 2.0% and is forecasted to fall further in 2004. The average inflation for developing countries was 5.9% and is expected to decline in 2004.

The global recovery was led by growth in the US economy. Growth had slowed markedly towards the end of 2002 and continued in early 2003 as the imminence for war in Iraq intensified.

Nevertheless, the economy regained its growth momentum and ended with overall growth of 2.6% in 2003. Although the easing of both monetary and financial conditions played a key role, the surge in fiscal expenditures, combined with substantial tax cuts, the pickup in consumption as well as private investment and the significant fall of the US dollar against other major currencies, all contributed.

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

	2002	2003	2004
World Output:	3.0	3.9	4.6
Advanced economies	1.7	2.1	3.5
Developing countries	3.9	4.2	5.2
of which: Asia	6.4	7.8	7.4
World Trade Volume	3.1	4.5	6.8
Imports of goods & services			
Advanced economies	2.3	3.5	5.7
Developing countries	6.5	8.7	8.1
Exports of goods & services			
Advanced economies	1.9	2.7	6.3
Developing countries	6.5	8.7	8.1
World Inflation			
Advanced economies	1.5	1.8	1.7
Developing countries	6.0	6.1	5.7
Source: IMF World Economic Outlook April 2003			

After impressive growth rates in the first three quarters of 2002, GDP growth in Canada had slowed considerably in the first half of 2003. This partly reflected the appreciation of its currency, relatively weaker global demand and the adverse impacts of SARS and mad cow disease. However, with inflation remained low, the Bank of Canada reduced interest rates in July and September. This combined with the growth in the US economy, improvement of consumer confidence and the fading impacts of the earlier shocks, raised growth by year-end. There was

also growth in Latin America, although this was highly differentiated across the region. The growth reflected the pickup in exports, helped by the global growth and substantial real exchange rate depreciations, and improvement in policy fundamentals. Despite the recovery, there remained major weaknesses. These included concerns about policy slippages and political instability in the region. This underscores the need to implement reforms.

In the Euro area, the slowdown in economic activity had been more prolonged than earlier expected. GDP declined during the second quarter in all major economies including Germany, France and Italy. Although equity markets and business confidence strengthened in the second half, the underlying weaknesses had remained. In many cases, the fall in investment spending remained a key weakness because of problems in the corporate sector, financial institutions and the slow pace of adjustment. With inflation low and economic activity weak, the European Central Bank reduced interest rates in June. This combined with various policy support undertaken earlier and relative improvement in external conditions resulted in a marginal growth of 1.7% in 2003. Nevertheless, the continued appreciation of the Euro together with the limited scope for fiscal policy to counteract economic weaknesses and the need to implement structural reforms in major economies remain the key issue to improving growth prospects in the Euro area.

The Japanese economy grew by 0.4% in 2003, relatively better than in 2002. The marginal improvement mainly mirrored recovery in the global economy, particularly in the U.S. and other Asian economies. As a result, total production and exports reversed the downward trend seen in previous years and rose during

the year. To sustain this recovery, it is crucial that Japan continues with the restructuring of its corporate and financial sectors.

Despite the slowdown in early 2003, the Asian region, other than Japan, registered an average growth of 5.9%, compared to averages of 6.2% and 5.1% in 2002 and 2001 respectively. Although increases in exports and domestic demand, arising from the easing of monetary policy, underpinned the growth, the cyclical impacts of positive developments in the global economy remain the key determinant to continued high growth in the region. To sustain current growth rates, and in view of the need to balance global demand following the decline in the U.S dollar, Asia needs to boost domestic demand. This requires implementing structural reforms, including more exchange rate flexibility in some countries.

The Australian economy grew 3.0% in 2003, compared to 3.8% in 2002. The lower growth reflected the marginal decline in commodity prices, adverse impacts of drought and the appreciation of the Australian dollar in the last two years. In New Zealand, the pace of economic growth has also slowed, reflecting weaker export growth arising from the appreciation of its currency, and weak domestic demand.

2004 Growth Prospects

According to the latest World Economic Outlook, released in April 2004, the International Monetary Fund (IMF) has revised upward the forecast for global growth to 4.6%. The improvement would be led by robust growth in the United States reflecting positive impacts of the fiscal and monetary stimulus in 2003. Latest data suggest that consumer spending would continue to be the key driver of the recovery, boosted by low

interest rates, tax cuts and improving consumer confidence. The recovery would be broadly based, with business investment expected to remain firm and profits rebounding strongly during the year.

In the Euro zone, the modest recovery which begun in the second half of 2003 is forecasted to continue in 2004 as the global economy strengthens further. All major economies, including Germany, France and Italy envisage a gradual recovery with average inflation in the euro zone expected to fall below 2.0% during the year. However, there are risks that fragile domestic demand and renewed appreciation of the Euro in recent months could have a dampening effect on net exports and hence growth.

The Japanese recovery in 2003 will continue in 2004. Latest data indicate that export-led growth is driving the resurgence and business confidence is improving. The implementation of its reforms will further boost this outlook. Growth in Japan is good news for Asia as Japan accounts for half of the regions retail sales and gross domestic product. China seems certain to maintain its fast pace in 2004. In the long-term, however, there are risks that must be addressed to sustain growth in China. These include impacts of major social and demographic changes, regional inequality, the future of state owned enterprises and role of non-performing loans in the financial sector. There is also concern that in some sectors, such as credit growth, there are signs of overheating. Pressures to revalue the Yuan could also have implications for its traded sector and realignment of currencies across the globe. Other Asian economies are also forecast to do better in 2004.

Both the Australian and New Zealand economies were strong in 2003 and are forecast to remain firm in 2004 fuelled

by strong consumer sentiments, business confidence, low inflation and improved external conditions. Average global inflation is also forecasted to remain low, reflecting declines in both major and developing countries. The expected decline in average fuel prices remains an important factor in the inflation outlook for 2004.

Implications for Solomon Islands

The growth in the global economy in 2004, particularly in Japan and Asia is good news to Solomon Islands economy, particularly in the export sector. The problem, however, is that the country does not have the capacity to fully respond to the expected better environment. There are three key issues to address.

The first relates to constraints to domestic production attributed to the small size and dispersion of operations, inefficient facilities, unreliable transport services and poor infrastructure. Secondly, given the improvement in the security situation and willingness of development partners to assist the country, it is crucial that government implements the proposed reforms as outlined NERDP approved in November 2003. This should induce development partners to contribute more towards the country's recovery process. Progress to date in implementing the NERDP has been slow, patchy, and ad hoc. Thirdly, in the medium to long-term, and related to the above concern, it is also crucial that existing investment procedures and conditions are reviewed to attract genuine foreign investors to contribute positively towards to the country's recovery efforts. While government's efforts to reopen both the oil plantation and Gold Ridge project are encouraging, it is also important that new investment are also attracted in the country. This should widen the country's economic base and hence support the

recovery process. The Foreign Investment board should not recommend any tax holidays or other incentives for investors that would impact unfavourably on government revenues.

III. DOMESTIC ECONOMIC OUTCOMES

National Income

The economic recovery that started towards the end of 2002 gained momentum in 2003. As a result, real gross domestic product (GDP) expanded by 3.8% in 2003, reversing the trend of negative growths in the previous four years. The recovery was broad based, with all major GDP components registering growth. In response to improved law and order and external demand conditions, the export sector continued the improvement in export values that started in 2002 (53% in value terms) with 42.7% growth in 2003. The main impetus to volume growth in 2003 came from agriculture (33.6%), forestry (4.0%) and fishery (30.8%) sectors.

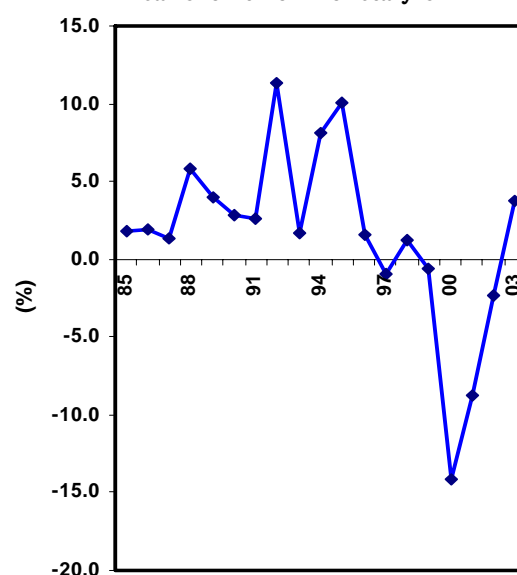
Table 2
Estimated Real GDP, (\$'million, 1985 Prices)

Industry	2000	2001	2002 Rev	2003 Est
Agriculture	83.0	70.9	77.3	103.9
Forestry	135.8	135.8	139.9	145.5
Fishing	85.7	72.3	80.4	105.1
Mining & Exporation	-613.1	-6.3	-7.8	-3.2
Manufacturing	197.2	158.1	149.8	134.3
Electricity and Water	231.0	206.8	214.4	256.1
Construction	39.7	31.9	19.1	35.9
Retail and W/Sale Trade etc.	134.0	119.8	131.5	135.5
Transport & Commun.	143.4	118.5	130.7	138.2
Finance	239.4	231.4	228.3	224.5
Other Services	172.8	172.4	137.8	120.7
Index of Monetary GDP Prod	139.4	123.7	118.8	124.7
Annual % movement	-17.8	-11.3	-4.0	5.0
Index of Primary Prodn (Min)	94.8	85.0	91.3	112.7
Annual % movement	-28.0	-10.4	7.4	23.4
Non-Monetary : Food	147.4	151.9	155.9	156.0
Non-Monetary : Constr.	141.6	147.2	150.1	150.2
Non-Monetary : GDP Index	147.0	151.5	155.4	155.6
Index of Total GDP Prodn.	140.8	129.2	125.8	130.6
Annual % movement (Real)	-14.2	-8.2	-2.6	3.8

Source: Central Bank of Solomon Islands

Underlying the growth in agriculture sector was the growth in both copra and cocoa productions, while growth in the forestry sector stemmed primarily from the expansion in log production during the year. The same development also occurred in the fishery sector although improvements in average fish prices also contributed.

Graph 1
Real Growth of Monetary GDP



The construction sector also grew strongly (88.2%) due to increases in the approval of residential, commercial and other dwellings during the year. Other sectors also registered albeit modest increases except for finance and 'Other' services sectors.

In terms of sectoral contributions, agriculture accounts for 15.6%, up from 12.1% in 2002; forestry remained unchanged at 8.3%; fishery accounted for 6.3% compared to 5.0% a year earlier while 'Other services' (which includes government) contribution fell to 19.7%,

from its average contribution of 25.0% in the previous years. Combined effects from improved law and order conditions, increased donor assistance, better external economic conditions and private sector resilience underpinned the economic turnaround.

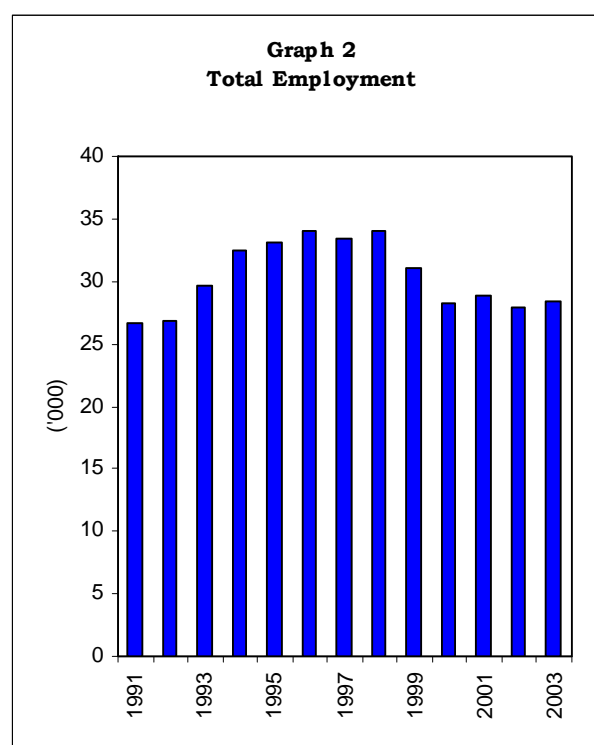
Investment

Total new investment remained relatively low in 2003 despite improved law and order conditions. To sustain the recovery process, it is important that investment increases every year. For this to happen, it is crucial that existing impediments to investment are addressed as a matter of priority. In 2003, the Foreign Investment Board (FIB) received 94 applications worth \$545.0 million. The numbers of applications, and value of the proposals, were four and half times higher than in 2002. Of the total applications, the Board approved 53 (worth \$278.4 million), rejected 9 (worth \$81.0 million), deferred 26 (worth \$135.6 million) and cancelled 1 (worth \$50.0 million). Of the screened applications, 34 were new applications, 3 were additional activities, 13 were technology agreements, 14 were shares transfers, 14 were for variation of activities, 7 were resubmissions, and 10 were on other categories. The distribution of the approved applications by sectors were: forestry 32%, fisheries 8%, tourism 8% and services, transport 4% sectors and other sectors 34%. Most of these investment proposals were from Australia and Malaysia.

Employment and Industrial Relation

Employment figures for 2003 are not available. However, the employment sector has seen some improvement since the arrival of the RAMSI in the middle of 2003. Private companies that were contracted to work for RAMSI recruited locals to work in various areas such as

housekeeping, construction, cleaners, catering, administration and other related activities. International agencies located in the Solomon Islands also recruited workers. The United Nation Development Program (UNDP), for instance, has continued to employ local village youths and ex-militants in an effort to provide job opportunities to rebuild the roads in Guadalcanal Province. Some logging companies also recruited new workers during the year for their own new logging camps.

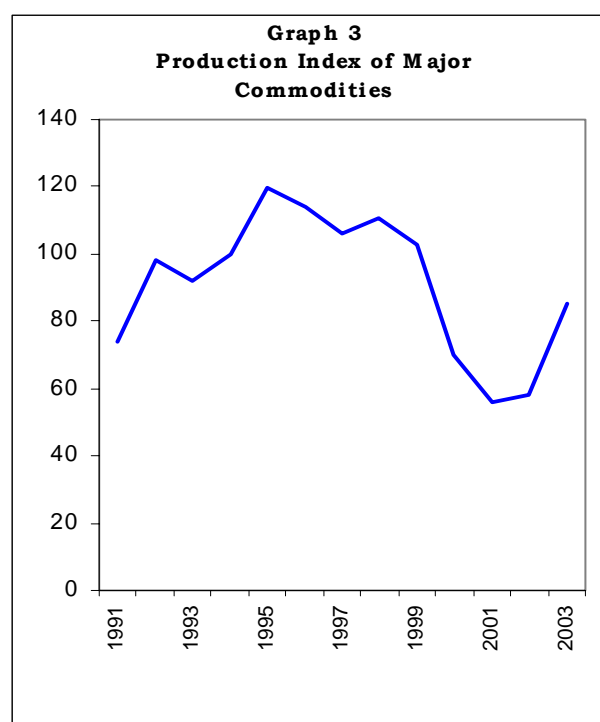


Goodman Fielder (SI) Ltd, the major supplier of flour products in Solomon Island closed its operations in the second half of the year and as result, more than hundred workers were made redundant. However, the business is back in operation when a local consortium purchased the business in the beginning of 2004. Consequently, most of those who were made redundant were re-employed in the company.

The Solomon Islands Trade Dispute Panel (TDP) awarded Solomon Islands Public Employees Union (SIPEU) an 8.0% in salary backdated to 2002 and a cost of living judgement (COLA) of 2.5% also backdated to 2002. Although the government was willing to honour the awards, it stressed strongly that the timing did not warrant it as the government is still under the recovery period. A survey done by the Central Bank showed that statutory institutions, commercial banks and other corporations in the private sector gave COLA awards, ranging from 5%-10% to their employees.

During the year, concerns were raised about the use of foreign workers to do jobs reserved for Solomon Islanders in the fishery, retailing and forestry sectors. It is interesting to see that the government is responding appropriately to strengthen the Labour Division so that all labour regulations and requirements are complied with.

Production



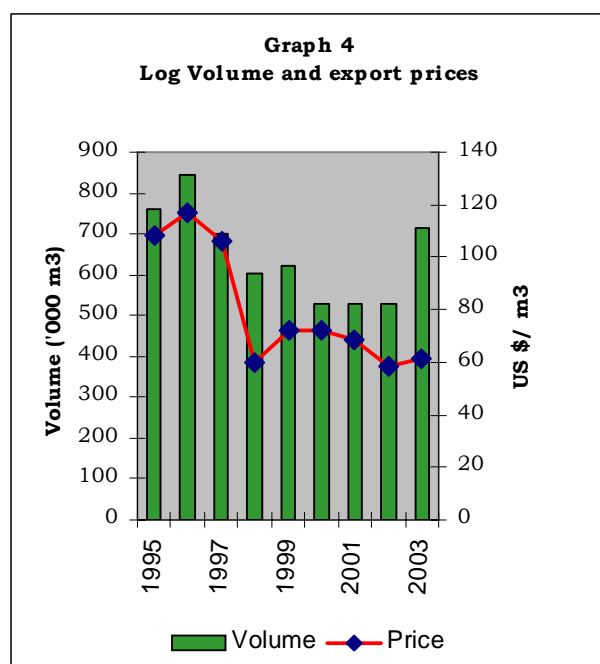
The improvement in law and order and external conditions had positive impacts on the productive sector, particularly in all major export commodities. This is witnessed in the 45.8% rise in the overall production index during the year, significantly higher than 4.7% in 2002.

Forest Products

Logging has been the mainstay of the economy following the closure of major industries after June 2000. Total production, proxied by actual export volumes for the year, showed an increase of 29.8% to 714,179 cubic metres, three times higher than the sustainable level of 255,000 cubic metres per annum. Of the total, 94,600 cubic metres were plantation logs of which 1,600 cubic metres came from the government owned Alu Plantation, in the Western Province. Of the total log exports, Western Province and Isabel Province accounted for 66.8% and 22.8%, respectively. To date, 41 logging licenses have been issued but only 27 logging licenses were in operation in 2003.

Kolombangara Forest Product Limited (KFPL) and Eagon Plantation Limited engaged in large-scale reforestation operations during the year. KPFL currently has 12,000 hectares of forest plantation out of the 37,000 hectares of land directly under its control. In 2003, the company harvested 478 hectares of plantation trees and produced 66,040 cubic meters of logs, slightly higher than its target of 65,000 cubic meters. Nevertheless, it only exported 59,056 cubic meters or 9.7% less than its target of 65,400 cubic meters. The fall was due to difficulties in transport, which led to the cancellation of two planned shipments in the fourth quarter. The company exported most of its high valued logs to Vietnam (65%) while others were exported to Philippines, South Korea, China and India (35%). The company also

plans to diversify its market as well as introducing processing of logs before exports. However, this will only happen if KFPL finds another overseas company that has the technology, skill and capital. The company also replanted 523 hectares with new trees during the year. With the expected increase in the average price of plantation logs together with the planned expansion of operation, KFPL projects total production for 2004 at 80,000 cubic metres. The Forest Stewardship Council (FSC) certifies all KFPL operations and products. This means that its exported logs could earn premium prices in the international markets.



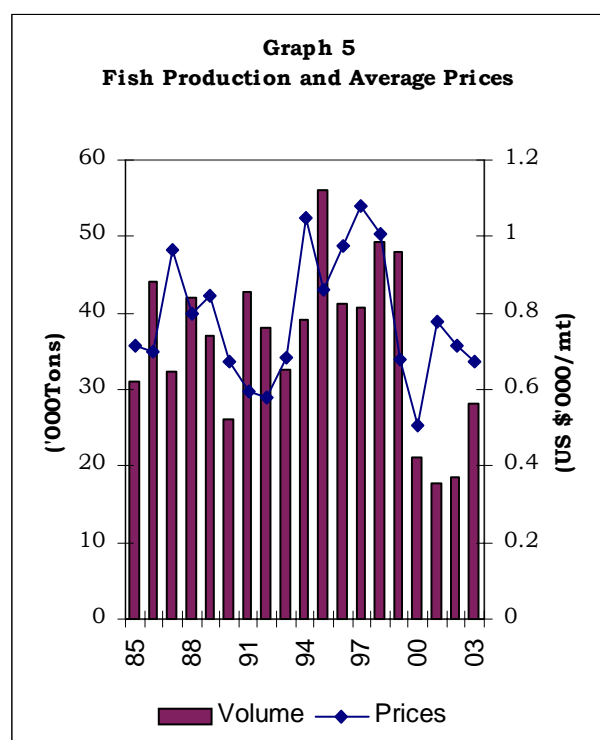
Eagon Plantation Limited (EPL) planted a total 9,000 hectares of plantation trees of which 6,000 hectares are in New Georgia, in the Western Province and 3,000 hectares in Choiseul Province. The company produced about 27,000 cubic metres in 2003, all of which were exported to South Korea. It plans to harvest 60,000 cubic meters of round logs in 2004.

The Forestry Department was also involved in encouraging rural communities to plant commercial trees during the year. The Department reported that the campaign was very successful and that more than 2,500 hectares were planted by the end of 2003. About 50% of this was in the Western Province. Most groups planted teak, although species such as mahogany, eucalyptus deglupta, gmelina arborrea and others were also planted. Family based tree plantations are expected to grow in the coming years as more farmers are getting not only financial and technical assistance from the government through log tax remission schemes but also from other donor agencies.

Total volume of rough sawn timber exported doubled from 4,000 cubic metres in 2002 to more than 8,000 cubic metres in 2003 with most of this produced by rural communities. This is expected in view of increased prices of sawn timber, which ranged from US\$1,500 to US\$2,500 per cubic metre during the year. Rosewood accounted for most of the sawn timber exports in 2003. The average price for Solomon Islands natural logs was US\$61.0 per cubic metre as against US\$59 per cubic in 2002.

Fisheries

The fishing industry strengthened further in 2003 with total fish catch rising to 28,955 tons from 18,520 tons in 2002. Of the total catch, Soltai Fishing and Processing Ltd (SFPL) caught 10,792 tons, National Fisheries Development Ltd (NFD) caught 17,280 tons and Solgreen 883 tons (3.0%). The turnaround was largely attributed to efforts by both SFPL and NFD to increase production and relatively favorable fishing conditions throughout the year.



SFPL operated its pole and line fleet of 12 boats in 2003. Out of its fish catch of 10,792 tons, it produced 2,097 tons of canned products and 5,783 tons of smoked fish, lower than production levels in 2002. Towards the end of 2003, the company has also started producing loins for the Italian and other European markets. The company used nearly 15 tonnes of raw material per day for loins. SFPL intends to focus more on loin production from 2004 onward given its high value in the market. However, to ensure there is sufficient supply of raw materials, it is crucial that two important issues affecting the company are also addressed. First, the company expressed concern about the presence of foreign purseiners in areas designated only for local pole and line boats. While there is no immediate threat on supply, such actions only demonstrate lack of government support for local enterprises. Second, the company has the capacity to increase cannery production. However, to do this it needs to rehabilitate its aging fishing fleet and equipment to meet the

200 tons of raw materials that the cannery needs a month to meet all its production requirements. This exercise will cost nearly \$20 million to complete. SFPL is a major player in the fishery sector. It employed 840 workers in 2003 and could contribute more towards the economy both in terms of exports and employment provided government also positively considers its pressing needs. The government should consider privatisation of SFPL whereby a foreign investor could finance the rehabilitation of the fleet and processing equipment. The surge in fish catch by National Fisheries Development Ltd's (NFD) was due to the increase in the number of its purseiners, and better fishing conditions during the year. The company purchased Solomon Chieftain in September 2002 but the boat only started fishing in early 2003. NFD also sold 95 tons of fish to SFPL towards the end of 2003 due to shortages in raw materials to produce loins during the period. Fish production by Solgreen Company Ltd, on the other hand, declined considerably to 883 tons in 2003, from 1,379 tons in 2002.

World market price for frozen skipjack tuna fluctuated significantly in 2003. In January 2003, the average tuna price was US\$700.0 per metric ton, but gradually declined thereafter to US\$510.0 per ton in June 2003. However, due to supply shortages, fish prices increased and peaked at US\$860.0 per ton in October 2003.

Solomon Islands bilateral and multilateral fishing treaties remained unchanged in 2003. During the year, a total of 139 boats, mainly long line and purseiners came under the bilateral treaties to fish in the Solomon Islands 200 miles Economic Exclusive Zone (EEZ) while 50 purseiners came under the multilateral treaty arrangement with the US. The Fisheries Department expects to sign a new fishing treaty with the

European Union in 2004 to allow 4 purseiners to fish in the country's 200 miles economic exclusive zone (EEZ) at any one time. The Fisheries Department expects to earn SBD\$3.6 million from this treaty annually.

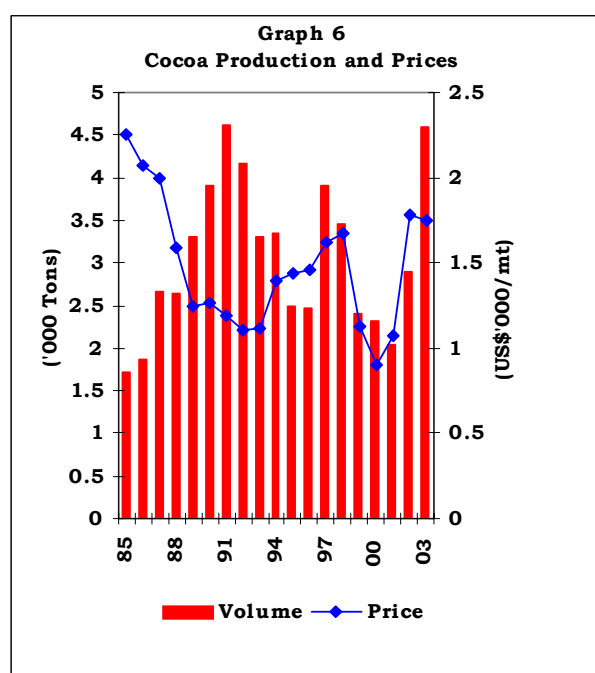
Copra and Coconut Oil

Total copra production rose markedly to 14,848 tons in 2003 from 1,731 tons in 2002 although this is still below total production in the pre-ethnic tension period. The rise in copra production was due mainly to increased production by small holders reflecting efforts by copra buyers to reach farmers during the year. Total production would have increased further had all 12 companies with valid copra export licenses been actively involved in the industry during the year. Of the total, only 5 were active in purchasing copra in 2003. The international price of copra rose by 8.5% to US\$289.0 per ton in 2003 from US\$266.3 per ton in 2002. The increase in average copra prices inflected improved demand for coconut products during the year.

Cocoa

Total cocoa production improved significantly in 2003 to 4,587 tons, the highest to date. The increase was due mainly to the rise in international cocoa prices, which exporters readily passed on to the producers and harvesting of cocoa plantations that were unattended to in previous years as well as new ones that started bearing fruit during the year. The average international price of cocoa was US\$1,741.5 per ton in 2003. The international price of cocoa peaked at US\$2,282.0 per ton during the pre-cocoa season in early 2003 but steadily fell thereafter until it bottomed-out at US\$1,483 per ton in October 2003. From then onward prices began to pick up again until it leveled out at US\$1,629.0 by the

end of the year. Like copra, the benefits from increased cocoa production go directly to ordinary Solomon Islanders. It is in this regard that cocoa farmers are asking the government to provide more assistance, both financial and technical assistances if the industry is to remain strong in the future.



Rice

The Chinese Agriculture Technical Mission (CATM) to Solomon Islands continued to assist in the development of semi-commercial rice farming throughout the country in 2003. However, according to the National Rice Project office (NRPO) in the Ministry of Agriculture & Lands, total rice production declined to 1,947 tons in 2003 from 2,267 tons in 2002. Of the total rice produced, Malaita Province accounted for 28%, followed by Makira (20%), Choiseul and Temotu Provinces (13%), Ysabel Province (10%), Western Province (7%), and Guadalcanal Province (6%). Nevertheless, total land area under rice farming through out the country

increased to 607 hectares in 2003 from 493 hectares in 2002. Rice is now the number one staple food in the Solomon Islands, outstripping root crops such as potato, taro and yam. Rice imports cost the country an average of \$50 million annually. The country could reduce this amount if it aggressively pursues an import substitution strategy. This could be done through close collaboration between the government and NRPO by designing appropriate land policies, increased financial and technical assistance in this sector, and encouraging more local farmers to partake in semi commercial rice projects. Care should be taken to maximize the return from land use. The Agricultural department should evaluate cost/benefits of rice growing and compare them with other cash crops that do not need any subsidy.

Energy

Solomon Island Electricity Authority's (SIEA) revenue performance slightly improved in 2003. Nevertheless, this was not sufficient to consistently meet its operations during the year, resulting in continued breakdowns of the main Mitsubishi generator set at Lunga power station which led to the rationing of power supply experienced in the first half of the year. The engine, however, was later repaired with financial assistance from RAMSI towards the end of the year.

At the same time, SIEA also introduced a Coconut Oil Fuel Pilot Project at its power station at Lata during the year. This was purposely to determine the viability of using coconut oil as an alternative to imported fuel. If the project is successful, it could become a model for other power stations in the provincial centres. This should help reduce the cost of fuel, which currently account for 65.0% of its operating costs.

During the year, the Japan International Cooperation Agency (JICA) carried a feasibility study on rural electrification and identified ten possible sites for mini hydro schemes. However, actual work on these projects did not eventuate due to lack of financial resources.

Minerals

Activities in the mining sector resurfaced in 2003 with more focus on both the Bugotu Nickel deposit and Gold Ridge Mine projects. A license was given to Pacrim Resources Ltd to carry out prospecting activities at San Jorge in Isabel Province but progress was delayed due to continued land disputes between various landowning groups, compounded by disagreements between the provincial and national governments over the process of granting the license to Pacrim Resources Ltd. The other contributing factor was Pacrim Resources Ltd has failure to pay a cash deposit of \$700 thousand (Canadian dollars) as required by the Mining Act. In any case, the license given to Pacrim Resources Ltd will expire at the end of the 2004 and may not be renewed.

Government formed a Task Force in 2003 to find ways of reopening the Gold Ridge mining project after it closed down during the height of ethnic unrest. The task force consists of various ministerial heads, landowners at Gold Ridge area and Guadalcanal Plains, and other stakeholders in the Gold Ridge project. The task force has met several times in 2003 to discuss matters relating to the project. This process continues in 2004. Total alluvial gold production amounted to 43,457.05 grams in 2003 with most of this produced at Gold Ridge mining site on Guadalcanal Province although some also came from Fauro in the Shortland Islands, Western Province. Alluvial gold production is expected to increase in 2004 reflecting the rise in gold prices.

Looking ahead, three new companies expressed strong interest to apply for prospecting licenses in 2004. Both ARM Australia Resource Management and Central Solomon Mine plan to carry out prospecting work in Guadalcanal while Metallic Mineral Ltd wants a license to do prospecting at Tiroa in the New Georgia Islands.

Tourism

Activities in the tourism industry remained relatively weak in 2003 due to lack of adequate facilities, insufficient infrastructure, and lack of financial support from government. Nevertheless, industry took a major leap forward in 2003 following the lifting of the negative Travel Advisory imposed by the Australia government and the provision of financial assistance from the Taiwan government to the Solomon Islands Visitors Bureau (SIVB). With this assistance, SIVB successfully launched the "Visit Solomons" campaign in major cities in Australia and re-established contacts with major travel agencies in Australia to sell Solomon Islands in the international tourism markets. This marketing and promotional campaign set the stage for rebuilding and re-establishing the image of Solomon Islands as a viable and friendly tourist's destination. The SIVB plans to organise another promotional campaign in cities around New Zealand in 2004.

Data on incoming tourists to the country is currently not available. However, it is estimated that over 5,000 tourists came into the country in 2003 in view of improved law and order conditions. Major hotels in Honiara have also reported that about 70% of their rooms were occupied throughout the year at an average of stay of two weeks.

The country has much to gain from the tourism industry. What is now required

is to ensure the constraints raised earlier are addressed so that it could grow and contribute positively towards the development of the country.

Telecommunication

Activities in the telecommunication sector rose further in 2003 culminating in government signing a new licensing agreement that gives Solomon Telekom (ST) exclusive rights to provide telecommunication services in the country for fifteen years. The company's financial position also improved in 2003, reflecting improved revenue collection and 8.0% rise in tariff rates. As a result, it managed to implement some of the projects that were shelved during the tension period.

For instance, Telekom re-introduced the "Unity Bilong Community" communication concept adopted some years earlier to provide telecommunication services to the rural areas through out the country. However, due to cost factors, the project was extensively revised and now reduced to a smaller scale compared with the initial proposal. The company expects to complete the project in 2004.

Telekom also started new projects worth \$43.0 million in 2003. About \$10.5 million came from its own revenue sources while commercial banks and the National Provident Fund would finance the other \$32.5 million. The completion of these projects should significantly improve telecommunications services throughout the country, including the rural areas.

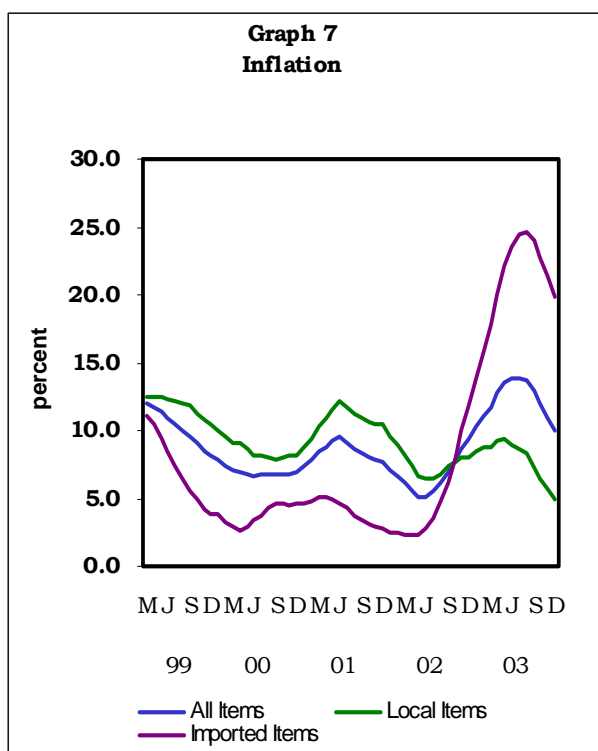
Inflation

The average annual rate of inflation (as measured by the 12 months moving average of the Honiara Retail Price Index) was 10.1% in 2003, higher than 9.4% in

2002 and 7.6% in 2001. The marginal increase was due mainly to a 19.8% rise in the imported component of the Honiara Retail Price Index (HRPI) compared to 11.9% in 2002.

This contrasts the fall in inflation in most of Solomon Islands major trading partners and relative stability in the exchange rate during the year. The increase mainly reflects the general high cost of doing business in the country, a major impediment that must be addressed in order to promote growth in the private sector.

On a monthly basis, however, inflation had continued to decline from 15.5% in January to 4.1% in December. The fall in domestic food prices reflecting improved supply of fresh fruit and vegetables to the Honiara markets, gradual decline in oil prices experienced in late 2002 and early 2003, and relative stability in the exchange rate against the USD\$ all contributed to the declining trend in inflation during the year.

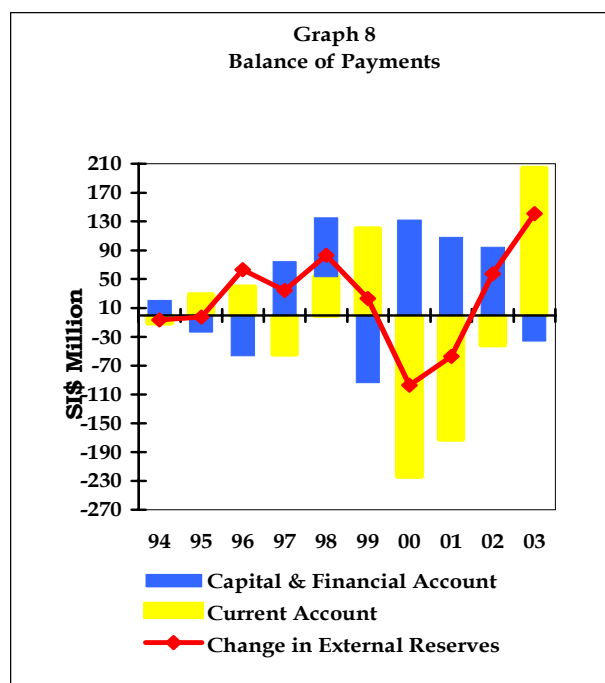


IV. BALANCE OF PAYMENTS

The balance of payments is a summary showing transactions by Solomon Islands residents with the rest of the world at any particular time interval. As the country heavily depends on the global economy for income and investment due to insufficient domestic savings, it is crucial that the recording of these transactions is done thoroughly as it helps to identify important areas that need urgent policy actions to map the long-term development needs of the country.

Overall Balance

The balance of payments strengthened further in 2003 and registered an overall surplus of \$140.6 million, the highest since independence.



The significant improvement was due mainly to positive developments in the current account, which swung from a negative balance in 2002 to a \$204.0 million surplus in 2003. Consequently,

the level of official external reserves more than doubled to \$271.1 million, from \$130.4 million at the end of 2002. The sharp turnaround in the current account balance was due to an exceptionally high level of donor inflows, which boosted the current transfers surplus to a historical record of \$400 million. This more than outweighed imbalances in both factor and non-factor services payments during the year. The level represents about 4.9 months worth of imports of goods and non-factor services.

Trade Account

The turnaround in the trade performance, which commenced in 2002 continued in 2003 and led to a surplus of \$31.6 million. Total export receipts rose by 42.7% to \$557.0 million, the highest since 2000. This remarkable outcome, which reversed the decline in exports that ensued since major industries were closed in 2000, was due to robust external demand in the Asian region and significant increases in export volumes of all major export commodities reflecting improved law and order conditions that paved the way for increased production during the year.

Table 3
Balance of Payments Trade Account

	(\$Millions)				
	1999	2000	2001	2002	2003
Exports fob	725.8	352.6	248.7	390.1	557.0
Imports fob	532.4	469.9	431.4	321.3	525.5
Trade Balance	193.4	-117.4	-182.7	68.8	31.6
Trade Balance as % of total trade	15.2	-14.3	-26.9	9.7	2.9
Source: Central Bank of Solomon Islands					

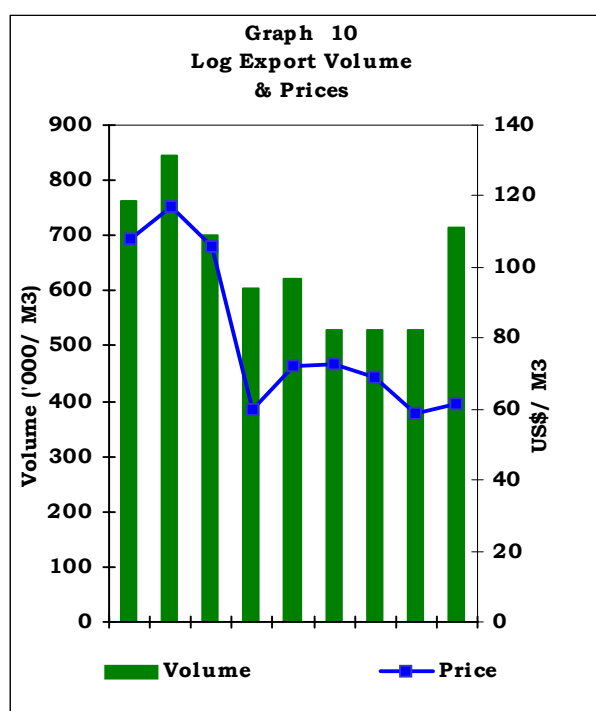
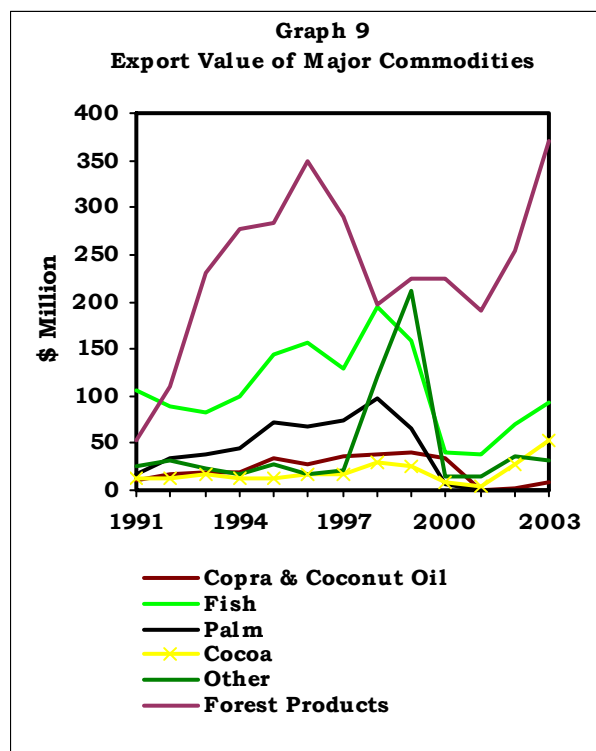
Activities in the agriculture sector remained buoyant throughout 2003. As a result, total earnings from cocoa surged to a record high of \$53.2 million. This outcome was underpinned by an exceptional increase in export volumes to 4,587 tons because of relatively high export prices during the year. Total cocoa receipts accounted for 9.5% of total exports, up from 7.1% in 2002. There is good prospect for earnings from cocoa to increase further in view of robust demand for this commodity in the overseas market.

The copra industry has also done remarkably well in 2003. As a result, total receipts from copra surged to \$7.8 million, from \$2.2 million in 2002. Total export volumes rose to 14,848 tons compared to 1,731 tons in 2002. This was a major turnaround following the liberalization of the copra industry three years earlier. The average international price of copra marginally rose by 12.7% to US\$299.97 per ton during the year. Receipts from copra represent 1.4% of the total export earnings in 2003 and are projected to increase further.

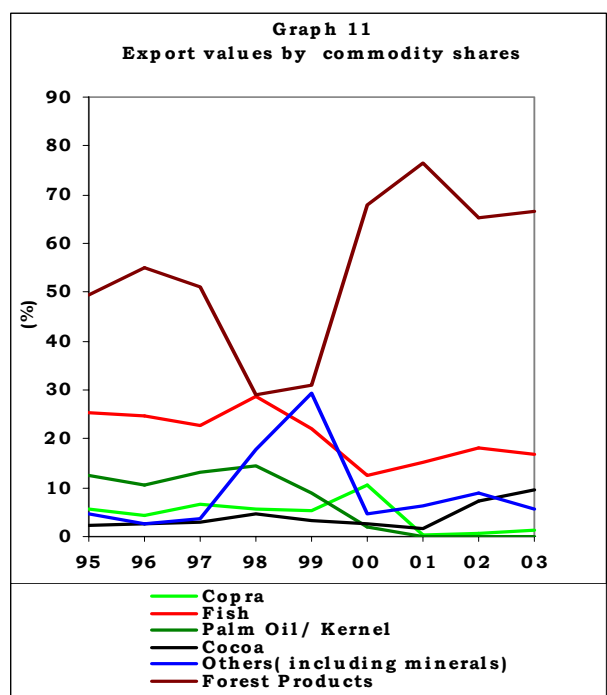
Both cocoa and copra are important sources of income for the rural populace countrywide. The reactivation of these industries in the last two years should send positive signals to policy makers that if development is to be shared equally, then government should focus more on activities that directly benefit the majority of people.

Total earnings from fish products rose 31.3% to \$92.9 million in 2003, the highest in the post-conflict period. This performance was underpinned by increased real exports by the two large commercial fishing operators during the year. International price of fish products declined moderately by 8% to US\$715 a ton, continuing the slide witnessed since 1998. Earnings from fish products

accounted for 16.7% of total exports in 2003.



Total export earnings from forest products rose by 46.1% to \$371.4 million, the highest in the post-conflict period. The rise was due to increased logging operations reflecting robust demand overseas. Accordingly total log export volume rose significantly to 714,179 cubic meters, with 63.6% of this been exported to both China and South Korea. The average export price of logs rose by 14.7% \$187 per cubic meters. Forest products accounted for 67% of total exports, 2% higher than in 2002. Total earnings from other products, including minerals fell 9.7% in 2003.



Although the rise in logging activities contributed towards growth in reserves, heavy reliance on one export commodity alone is unsustainable and makes the country highly vulnerable to external shocks. This calls for the re-opening of all closed exporting industries. In addition, it is important that existing exporters are also encouraged to operate at economies of scale and expand the export base to insulate the economy from

adverse effects of increased volatility in commodity prices. Such efforts should also be accompanied by a strong desire to diversify the geographic locations of major investment projects to cushion against provincial discontent and other endogenous factors. In the short to long-term, this development strategy must be complimented by adequate infrastructure development, a reformed land tenure system, a transparent taxation regime, stable socio-political conditions, and conducive investment environment. However, diversification should not be achieved by offering inducements that would reduce government revenues. Projects should be viable in their own right whatever location is chosen for them.

Actual import data from the National Statistics Office is currently not available. However, data derived from the foreign exchange transactions through the banking system and other official sources showed imports rose significant by 63.5% in 2003. The sharp increase reflected the marginal rise in consumer demand, growth in economic activity and significant increase in donor inflows as some of these funds were used to finance imports during the year. The increase in economic activity led to a rise in most import categories with major movements in fuel [16.3% to \$87.9 million], Food [3.2% to \$112.3 million], Plants and Heavy Equipment [12.2% to \$64.5 million], Building and Construction Materials [126.8% to \$54.1 million], chemicals [22.5% to \$14.1 million] and Miscellaneous Items [13.0% to \$167.3 million]. Total import payments of Beverages and Tobacco, on the other hand, fell 37.3% to \$6.9 million.

Total import payments are projected to increase further in 2004 in view of expected rise in economic activity and lifting of exchange controls by the Central Bank. While reserves are also forecast

to increase, it is important that all closed exporting companies are also re-opened to help cushion the rise in imports. This should also be supported by a transparent fiscal and investment climate to attract new capital inflows into the country. At the same time, it is also important that import payments are thoroughly assessed as these impinge on the sustainability of the current account and underlying level of external reserves.

Services Account

The services account, inclusive of freight and insurance, recorded a deficit of \$198.3 million in 2003 compared to \$175.6 million in 2002. The deterioration was driven primarily by the 36.9% increase in services payments, which outstripped total service receipts during the year.

Table 4			
Balance of Payments - Services Account			
	(\$Millions)		
	2001	2002	2003
1. Transportation	-56.1	-29.6	-8.7
1.1 air transport	-38.4	-27.8	-17.4
receipts	20.1	0.8	0.3
payments	-58.5	-28.6	-17.7
1.2 sea transport	-17.7	-1.8	8.7
receipts	3.2	6.3	14.7
payments	-20.9	-8.1	-6.0
2. Travel	-7.2	-34.5	-21.8
2.1 business	-11.5	-17.2	-5.9
receipts	1.7	2.2	6.2
payments	-13.2	-19.4	-12.1
2.2 personal	4.3	-17.2	-15.9
receipts	25.8	2.6	5.4
payments	-21.5	-19.9	-21.3
3. Other services	15.0	-111.4	-167.8
receipts	221.6	95.9	163.0
payments	-206.6	-207.3	-330.8
Overall net	-48.3	-175.6	-198.3

Source : Central Bank of Solomon Islands.

At the same time, the net transportation deficit improved markedly to \$8.7 million from \$29.6 million in 2002 reflecting the rise in receipts and fall in transportation

payments. The net travel balance also improved to \$21.8 million from \$34.5 million in 2002 whilst the deficit balance in the 'other services' worsened to \$167.8 million from \$111.4 million in 2002. The deterioration was driven mainly by the increase in payments, particularly communication, construction, financial services, royalties and license fees during the year.

Income Account

The income account registered a net deficit of \$29.2 million in 2003, down from \$50.6 million in 2002. The lower deficit was underpinned by a marginal growth in income receipts, and relative decline in payments during the year.

Table 5			
Balance of Payments - Income Account			
	(\$Millions)		
	2001	2002	2003
1. Employee Compensation	14.8	7.4	9.9
credit	23.9	15.1	21.0
debit	-9.1	-7.6	11.1
2. Investment Income	-14.1	-58.1	-39.1
2.1 Direct Investment	-10.7	-47.1	-44.2
2.1.2 Income on equity	-5.2	-27.0	-13.9
credit	0.4	2.1	0.2
debit	-7.3	-27.0	14.0
2.1.3 Income on debt (interest)	-5.5	-20.1	30.4
credit	1.9	-	2
debit	-7.5	-20.1	-30.5
2.2 Portfolio Investment	-	-	-
credit	-	-	-
debit	-	-	-
2.3 Other investment	-3.5	-10.9	5.2
credit	9.6	3.3	5.2
debit	-13.1	-14.2	-
Balance	0.6	-50.6	-29.2

Source: Central Bank of Solomon Islands

Investment income recorded a deficit of \$39.1 million, down from \$58.1 million in 2002. The lower deficit stemmed from the fall in dividend payments. At the same time, interest arrears on government debts rose to \$49.9 million compared to \$16.6 million interest payments during the year while total interest payments on private sector debts

was \$3.2 million compared to \$21.2 million in the previous year.

Current Transfers

In 2003 the surplus on the current transfers account soared to \$400.8 million from \$134.1 million in 2002. The improvement reflected the significant growth in official transfer receipts totaling \$401.5 million during the year. This consists of \$207.0 million in cash and \$193.7 million in goods and technical assistance. Most of these inflows were directed towards both the health and education sectors.

Table 6 Balance of Payments - Current Transfers Account			
	(\$Millions)		
	2001	2002	2003
1. General Government	54.5	161.9	401.5
cash	48.8	86.9	207.8
credit	52.9	108.7	241.3
debit	- 4.1	-21.8	-33.5
1.2 Non-cash-net	5.7	75.0	193.7
2. Other Sectors	3.7	-27.8	-0.7
2.1 Workers remittances	-2.8	5.0	7.5
credit	-	6.7	8.2
debit	-2.8	-1.7	-0.7
2.2 Other transfers 1/	6.4	-36.3	-8.2
credit	110.1	77.1	98.5
debit	-103.6	-113.4	-106.6
Current transfers-net	58.2	134.1	400.8
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.			

Transfer receipts to other sectors surged by 22.1% to \$106.6 million, less than the transfer payments of \$107.43 million during the year. As a result, net private transfer payments fell to \$0.7 million deficit, compared to \$27.8 million deficit in the previous year.

Total donor assistance to the government is forecast to remain strong in 2004 as government continues to implement its

reform programs with \$117 million alone earmarked for direct budgetary support. This should help government to improve the delivery of services during the year. To receive the donor's assistance, it is important that government also speeds up the implementation of its reform programs. Any delays would only result in lower donor inflows during the year.

Capital and Financial Accounts

The capital and financial account swung from a surplus in 2002 and recorded a deficit of \$35.8 million in 2003 because of the deterioration of the financial accounts component. This is in spite of the considerable increase in capital transfers to public sector by 79.3% to \$95.4 million, which saw an increase in the surplus on net capital account to \$94.0 million.

Table 7 Balance of Payments - Capital Account			
	(\$Millions)		
	2001	2002	2003
1. Capital Transfers	22.9	47.4	94.0
1.1 General government	23.6	53.2	95.4
1.1.1 Debt Forgiveness	-	-4.0	-
credit	-	-	-
debit	-	-4.0	-
1.1.2 Other capital transfers			
of general govt.	23.6	57.2	95.4
credit	23.6	57.2	95.4
monetary	23.6	57.2	95.4
non-monetary	-	-	-
debit	-	-	-
monetary	-	-	-
non-monetary	-	-	-
1.2 Other Sectors	-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	-	-4.3	-
2. Non produced nonfinancial assets, net	0.1	-	-1.4
Balance	23.0	47.4	94.0
Source: Central Bank of Solomon Islands.			

The financial accounts recorded a deficit of \$129.9 million compared to a surplus of \$46.7 million in 2002. The

deterioration was due largely to the increase in short-term trade credits by the private sector. This accounted for the significant increase in total liabilities of \$116.2 million during the year.

Table 8 Balance of Payments - Financial Account			
	(\$Millions)		
	2001	2002	2003
1. Direct Investment in SI	61.3	-9.6	-13.7
1.1 Equity capital-net	-0.6	-1.1	-5.5
1.2 Reinvested earnings-net	-47.0	-2.5	-8.2
1.3 Other capital-net	-8.3	-6.0	0.0
2.0 Other Investment	162.0	56.4	-116.2
2.1. Assets	5.0	-33.3	0.0
2.2 Liabilities	152.0	89.7	-116.2
2.2.1 Trade credit	15.0	-7.0	-166.7
2.2.2 Loans	73.0	92.8	7.5
(a) General government			
(i) Long term	48.2	18.4	-33.6
Drawings	88.6	73.9	23.2
Repayments	-40.4	-55.5	-56.8
(b) Other sectors			
(i) Long term	-6.2	1.3	-1.4
Drawings	0.2	3.1	0.2
Repayments	6.4	-1.8	-1.6
(c) Short-term-net	3.1	73.0	42.5
2.2.3. Other liabilities-net	64.0	3.9	43.0
Balance	100.7	46.7	-129.9
Source: Central Bank of Solomon Islands.			

Official long-term financial inflows fell by 68.6% to \$23.2 million while Private sector borrowings remained low at \$0.2 million, down from \$3.1 million in the previous year.

During the year a total of \$56.8 million in government foreign debts were due but only \$19.4 million were repaid, up from \$2.4 million in the previous year. It should be noted however, that this would not have been possible without the assistance of donors. Despite the rise in loan repayments, government still ended with a rise in debt arrears totaling \$56.6 million at the end of the year. The private sector repaid \$1.6 million in debts during the year compared to \$1.8 million in the previous year.

External Debt

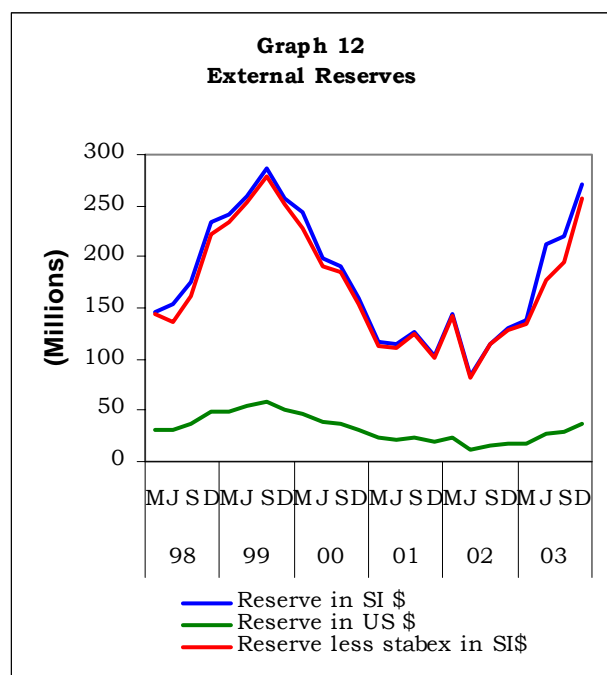
The country's external debt stock rose to \$1.4 billion in 2003 compared to \$1.3 billion in 2002. The increase was due to a rise in public debt as private sector debt dropped marginally during the year. With the assistance of donors, government hopes to address its debt arrears in 2004 so that it becomes current again with debt servicing.

Table 9 External Debt					
	(\$Millions)				
	1999	2000	2001	2002	2003
Private Sector	236.9	234.5	241.3	220.1	198.9
Government Sector	596.9	617.2	716.5	1087	1181.0
of which: arrears	54.4	23.5	39.0	82.8	106.5
Total	833.8	851.7	957.3	1307.4	1379.9
Debt Service	271.7	21.9	54.3	38.3	9.8
Principal	222.7	11.1	46.8	5.6	1.9
Interest	49.0	10.8	7.5	32.7	7.9
Source: Central Bank of Solomon Islands					

The current level of external debt is more than double the level of national income and therefore threatens the growth prospects of the economy. It is essential, therefore, that a transparent debt management strategy is put in place, one where external borrowing is directly linked to investment activities and economic growth.

External Reserves

The level of external reserves was relatively flat in the first quarter of 2003. Thereafter the level of reserves gradually increased and stood at \$211.8 million by the end of June as exports improved and donor inflows increased. The exchange controls imposed by the Central Bank also contributed towards the growth in the reserves level.

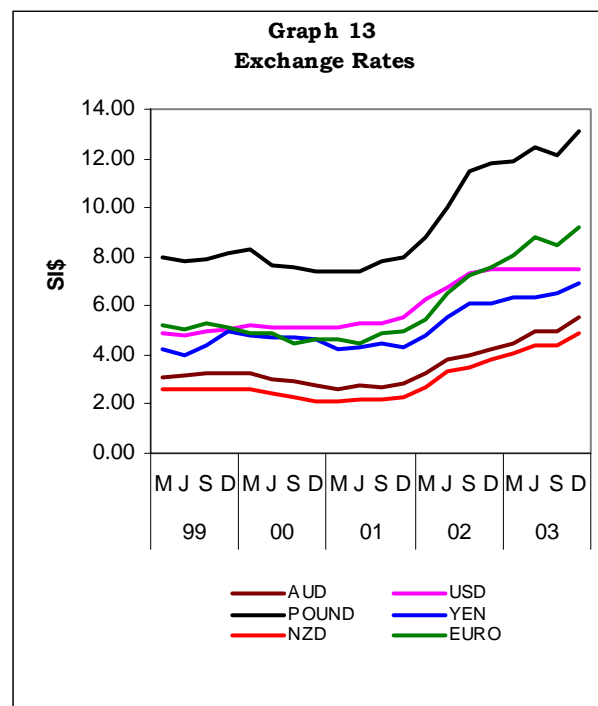


This trend was further boosted in the second half as exports strengthened following the improvement in the law and order situation, and as donors provided more assistance towards government efforts to rehabilitate the economy. As a result, reserves soared to \$271.1 million by the end of December despite the rise in import payments during the period. This level of reserves represented about 4.9 months of import cover. Nevertheless, the level of reserves would have been lower had government not accumulated external debt arrears and \$12.5 million worth of foreign exchange applications pending at the end of the year were paid.

Exchange Rates

The Central Bank maintained the policy of pegging the Solomon Islands dollar to a trade-weighted basket of currencies important to Solomon Islands within

policy guidelines agreed between Government and the Bank. Reflecting the increase in exports and donor inflows, the focus of exchange rate policy shifted from defending the reserves level to minimizing inflationary pressures and improving private sector confidence.



As a result, the Solomon Islands dollar (SBD) depreciated against the basket of currencies by only 16.9% during the year, compared to 34.0% in 2002. Against individual currencies, the SBD depreciated 10.8% against the U.S dollar, 32.8% against the Australian dollar, 19.6% against the Pound Sterling, 18.7% against the Japanese Yen, 38.0% against the New Zealand dollar, 20.1% against the SDR, and against the Euro by 32.2%. These movements were lower than similar changes in 2002.

V. MONEY AND BANKING

Overview

The upturn in monetary aggregates that began in mid-2002 persisted in 2003. The outcome was broadly expected given the surge in economic activities, rebound in private sector demand for credit, rising government savings and a robust balance of payments outcome. All components of money trended upwards. Broad money supply rose in 2003 and so did net foreign assets of the banking system and credit to the private sector. Net credit to government eased, reflecting increases in government deposits during the year.

Activities in the Auction Treasury Bills Market (ATBM) were relatively robust, particularly in the second-half of 2003, with over-subscription being a regular feature in the domestic securities market. Excess liquidity increased marginally in 2003 while interest rate margins declined slightly during the same period. Real interest rates on deposits, as in previous years, continued to remain in negative territory in 2003.

Monetary Policy in 2003

The Central Bank maintained the 2002 monetary policy stance in 2003. This decision was taken despite the gradual improvement in domestic economic activity witnessed since late 2002 as the underlying macroeconomic conditions remained fragile and could be easily reversed if socio-economic conditions deteriorated and implementation of government reform gratuitously delayed.

The conduct of monetary policy throughout the year, accordingly, has been to ensure the rise in liquidity did not lead to consumption that would undermine the foreign reserves and, to provide an environment conducive for economic growth by capping undue

inflationary pressures. These objectives, given the fragile macroeconomic conditions, were crucially important for two fundamental reasons. First and foremost is to forestall full-blown foreign exchange shortages and to avoid inflicting far-reaching socio-economic costs of such shortages to the economy. Secondly, to promote investor confidence so as to attract, and retain, both old and new investors into the country.

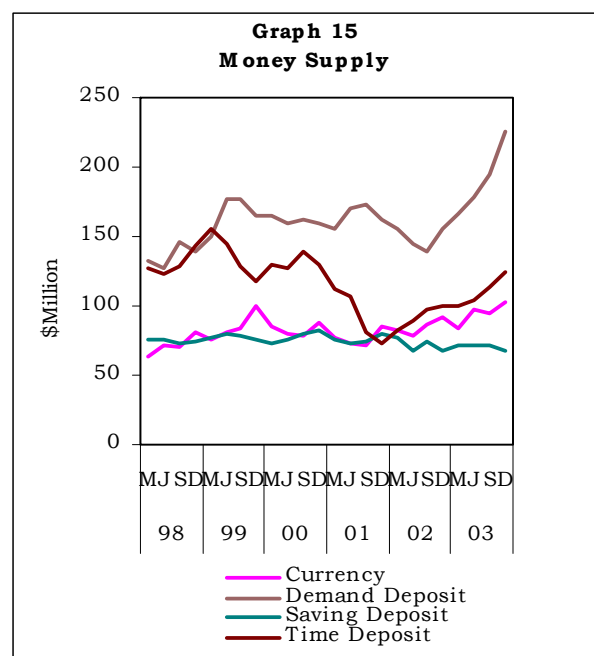
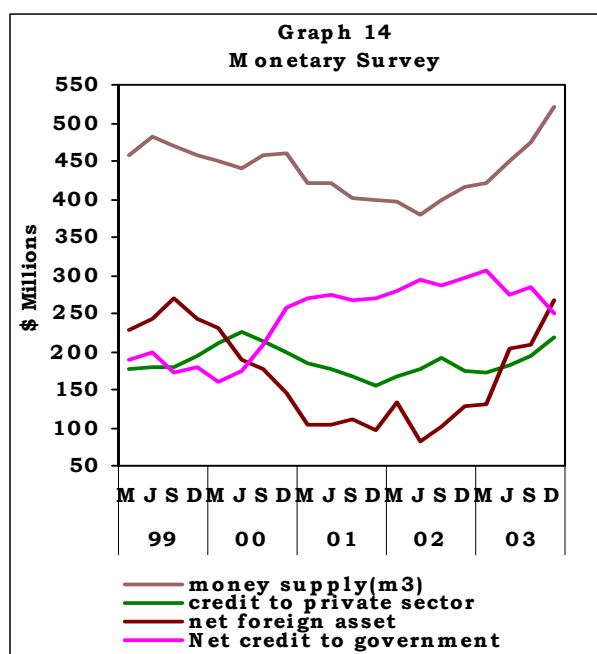
In line with these objectives, and given that reserve money continues to be the nominal anchor for monetary policy, Open Market Operations [OMO] and Foreign Exchange Market [FEM] interventions were used as main policy instruments for monetary management.

In the FEM, the Central Bank maintained the exchange controls instituted since mid-2000, withdrew its participation from FEM and stabilized the exchange rate vis-à-vis the US dollar. In the OMO, the Central Bank continued to operate the Auctions Bill Market [ABM] to influence the term structure of interest rates and liquidity. The thrust of these FEM interventions and OMO has been to defend the external reserves and to bring back confidence in the domestic securities market.

The performance of the ATBM was mixed. In the first-half of 2003, the ATBM performed poorly in the wake of commercial banks and NPF reluctance to participate in the market in the face of swelling government debt arrears, mounting debt-burden, chronic government expenditure-overrun and low fiscal credibility rating. However, in the second-half of the year, some major financial investors have returned. Consequently, over-subscriptions have become a common feature in the Auction Bills Market. Improved law and order

environment plus lack of alternative domestic short-term investment options have been the driving force behind this turnaround. The monetary policy stance, accordingly, moved slightly to an easing bias in the fourth quarter when yield rates in the ABM were cut by a 1-percentage point across the board to influence the term structure of interest rates. Its objective of defending the external reserves, however, remained.

in M1 was attributed to growth in both currency in circulation and demand deposits. The former grew by 12.2% to \$102.7 million, whilst the latter registered a more than twofold increase to \$225.2 million during the year. The increase in demand deposits was in line with improved economic activities that prompted firms to increase their cash balances for transaction purposes. Firms' demand deposits with commercial banks increased by 45.8% to \$123.8 million during the year.



Money Supply

The broad money supply [M3] grew further in 2003 by 25.4% to \$520.2 million, following a growth of 4.0% in 2002. The growth in M3, which began in mid-2003, had been fundamentally driven by the increase in net foreign assets despite the decline in net domestic assets during the year.

Narrow money supply [M1], defined as currency outside banks and demand deposits, increased by 32.7% to \$327.9 million in 2003, extending further the 0.3% growth posted in 2002. The increase

Demand deposits of both statutory corporations and private financial institutions increased by 7.1% whilst those of “other” depositors rose by 39.5% during the year. Demand deposits of public financial institutions and private individuals, by contrast, fell 34.3% and 11.7% respectively during the year.

Savings and time deposits also increased by 0.1% and 24.3% respectively in 2003. Consequently, quasi-money rose by 14.6% to \$192.2 million during the year. The rise in savings deposits was due to

increases in savings deposits of business firms, private financial institutions and “other” depositors in the banking system during the year.

Savings deposits of business firms increased by 8.7%, “other” depositors by 6.1%, and private financial institutions by more than 100%. The upturn in savings deposits, although is particularly encouraging, have one important policy implication. The increase in savings deposits can in the immediate term induce commercial banks to raise their savings rate as incentives for resident entities to save. This, however, can impinge on private sector spending and, in turn, lead to a decline in domestic demand and thereby economic growth.

The strong growth of time deposits in 2003 was spurred by all components of time deposits, except for public financial institutions and business firms, which fell by 21.6% and 20.8%, respectively. The strong growth in longer-term deposits provides more funds to commercial banks to increase their loan portfolios and lending capacities. This, in the medium term, should increase investment in capital goods and diversify the production base of the economy, which are fundamental for long-term growth.

Net Foreign Assets

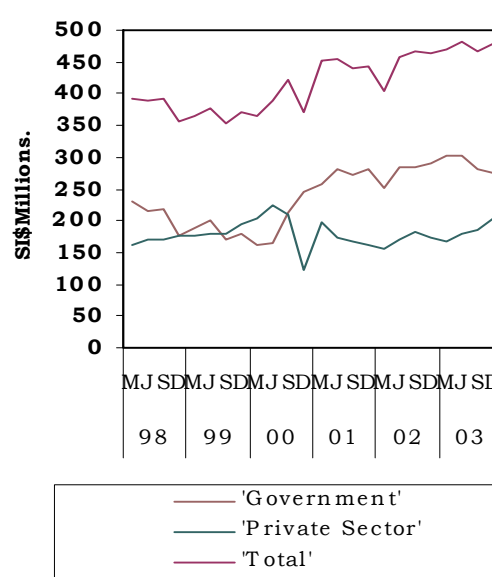
Total Net Foreign Assets [NFA] registered a more than twofold increase to \$266.1 million in 2003, following a growth of 31.3% in 2002. The increase in NFA was due mainly to increases in donor inflows, export earnings, and financial capital inflows. Based on recent BOP developments, the level of NFA in terms of import cover is expected to remain firm in 2004.

Net Domestic Credit

Total domestic credit [TDC] from the

banking system fell by 0.8% to \$466.5 million, partly reversing the growth of 10.8% in 2002. The fall in TDC was attributed to a drop in net credit to government by 16.1% to \$249.2 million. Credit to the private sector, by contrast, rose 25.4% to \$249.2 million during the year.

Graph 16
Total Domestic Lending



The decline in net credit to government primarily reflected increases in government deposits in the banking system that came on the back of revenue enhancing measures instituted by the government, inflows of donor assistance, and capping of unbudgeted expenditures in the second-half of 2003. The latter is perhaps the single most important development in government finances in the post-conflict period. This development indeed is timely considering the government’s efforts to negotiate debt arrears settlement with its creditors under its debt compromise strategy in 2004. The decline in net credit to government from the domestic money market can over the medium-term spur

private sector growth given that previous heavy financing by government from the domestic banking system had had a crowding-out effect on private sector spending and investment decisions over the past few decades.

Credit is an important catalyst for expansion of domestic investment. Impediments to credit growth must be eliminated. This is essential for generating future income and wealth of the country. In that connection future credit expansions must target new investments and channelled into sectors that the country has comparative advantage in so that the productive and export base of the economy can be expanded. In this way the economy can be insulated from export demand shocks, vagaries of the global economy, and internal shocks such as what the country has experienced in recent years.

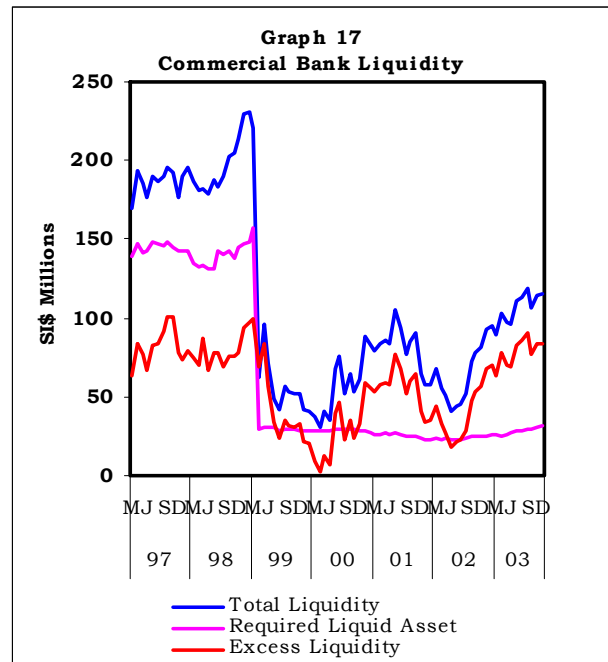
The growth in bank credit to the private sector in 2003 had been driven almost entirely by increased use of overdraft facilities by businesses to sustain their existing operations and not necessarily for new investments. The upturn in this form of bank credit [overdraft facility] largely reflected the corporate decisions of domestic firms to increase their working capital and expand their operational capacity. The outcome, although might not add to investment stock of the country, provides an important stepping-stone for Solomon Islands in terms of enhancing productive sector activities and sustaining the economic recovery momentum that was set in motion in late-2002 in 2004 and beyond.

In terms of credit distribution, a large portion of private sector credit was absorbed by the forestry sector [18.9%], followed by the communications sector [17.1%], personnel sector [15.6%], and the manufacturing sector [14.6%]. The

forestry sector expanded its share of total credit in the face of rising logging activities in Choisuel, Isabel, Makira, and Western Provinces. The increase in domestic credit to the communication sector primarily reflected a modest rise in communication facility projects instituted during the year. The increase in credit to the personal sector reflected developments in real estates and property investments, particularly in Honiara. In the manufacturing sector, the increase in credit was generally for “food and non-alcoholic beverages” and “furniture and wood products”.

Liquidity

Overall, the banking system continued to be very liquid throughout the year as a result of balance of payments surpluses and restrained lending.



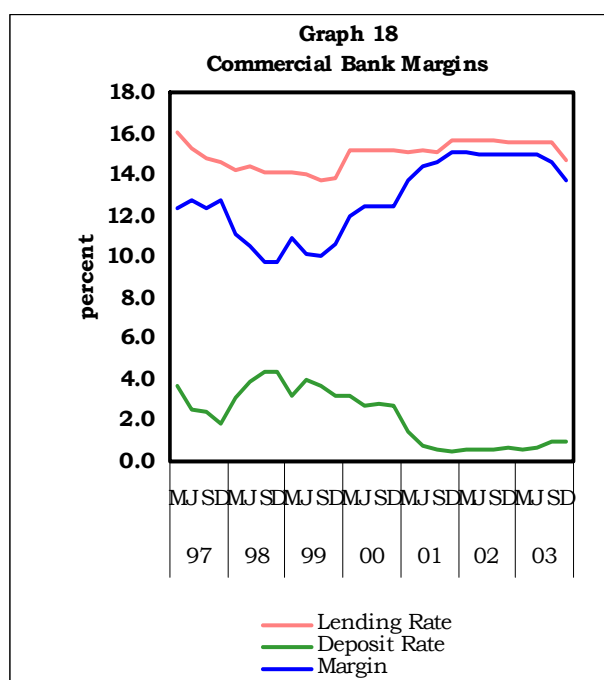
Over the course of 2003, commercial bank liquidity fluctuated erratically. During the first quarter, liquidity fell by 22.4% but soared 10.0% and 25.3% respectively in the second and third quarter. By the

end of the year, total liquidity reached \$115.3 million, an increase of 41.8% over the previous year.

The required reserves that commercial banks must hold also increased during the year by 27.2% to \$31.9 million. As a result, excess liquidity increased further by 48.4% to \$83.4 million. Compared to the same period last year, excess liquidity increased by 37.6%.

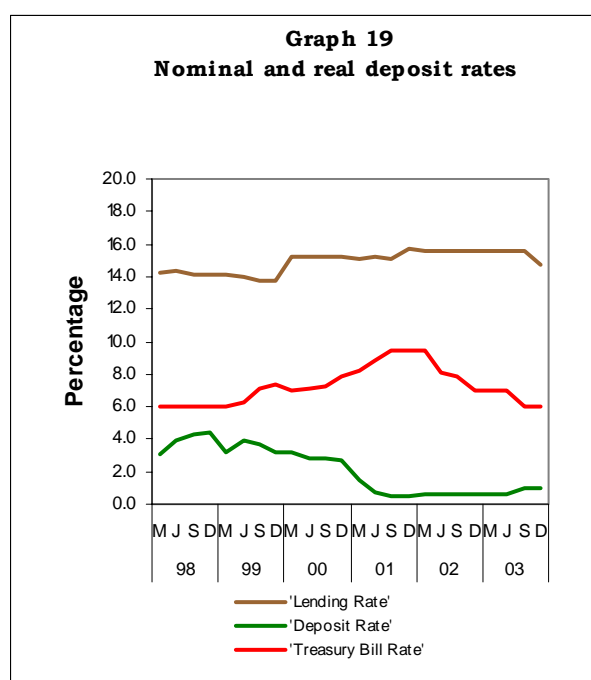
Interest Rates

The commercial banks indicative average deposit and lending rates reported movements over the year. The indicative weighted average rate on deposits in the first and second quarter of 2003 remained fairly stable at 0.63% but increased moderately in the third quarter.



At the end of the year, the indicative weighted average deposit rate reached 0.98% compared to a 0.64% registered a year ago. The growth was attributed to

an increase in the indicative weighted average rate of time deposits by 77 basis points to 1.29% during the year. On the other hand, the indicative weighted average lending rate in 2003 declined slightly by 2 basis points to 15.60% due largely to a 48 basis points drop in the indicative weighted average rate on personal loans to 2.7% and a 25 basis points decline in the indicative weighted average rate of “other” loans to 5.57% during the year.



The indicative commercial bank interest margin, which is the difference between the interest rates on deposit and lending, at the end of 2003 was 14.66% compared to 15.02% in 2002. The slight drop was caused by the increase in the average deposit rate by 0.43% that more than outweighed the 0.02% fall in the average lending rate during the year. By regional standards, the commercial bank interest margins in the Solomon Islands in 2003 are high and can undermine savings and impede private sector growth and investment. The high interest margin in

Solomon Islands is attributable in large part to the small market size, high costs and risks of doing business and low levels of competition in the banking sector.

Real interest rates as depicted in Graph 18 show the difference between nominal interest rates and the annual rate of inflation. In 2003, the average real interest rate on lending was 4.2% as compared to 7.0% in 2002. On the other hand, the average real interest rate on deposits was negative 10.5% in 2003 compared to a negative 8.0% in 2002. The negative real interest rates on deposits have persisted for quite some time. This increasingly has become a major cause of concern and would remain an important policy issue in years ahead because of its adverse consequences on savings mobilization, physical investments and long-term economic growth of the country. In terms of Auction Bills Market rates, the yields on the 91-day auction bill during the year have been trending downwards. From January to August, the yield on the 91-day auction bill averaged 7.00% but declined to 6.00% at end-2003 compared to 8.34% at end-2002.

Monetary Policy and Outlook for 2004

The focus of monetary policy in 2004 would be to ensure expansions in domestic liquidity do not undermine the objectives for growth, inflation, and balance of payments. Providing an environment conducive for private sector-led growth and keeping a tight lid on inflation so that it remains in single-digits would take more emphasis in 2004. These objectives are clearly warranted as the positive socio-economic and political developments witnessed since mid-2003 have provided a window of opportunity to rehabilitate the SI economy. In that connection, the monetary policy would continue to ensure economic and financial conditions remain conducive for private sector-led growth activities in 2004 and beyond.

The balance of payments objective, by contrast, will only be activated if the current account and the underlying level of external reserves are threatened. The conduct of monetary policy in 2004 will only be effective if it works in tandem with fiscal, incomes, wages, exchange rates and other policy arms of the government.

VI. GOVERNMENT FINANCE

Broad Developments and outcome in 2003

The thrust of the 2003 Budget presented to Parliament in December 2002 was to consolidate the peace process, restore essential government services particularly in the education and health sectors, and invigorate private sector activities. The budget was framed on the platform of good governance, increased accountability and transparency. Like in previous years, it was a 'balanced budget' with total expected revenues (excluding grants) matching total recurrent expenditures at \$259 million.

However, as the implementation of the budget progressed, it became obvious that government would not achieve its budgeted objectives due to lack of political will to effectively manage its finances. This led to the significant rise in unbudgeted expenditures and extortion of public funds, which had severely affected the delivery of basic services, particularly in both the education and health sectors. This trend continued during the first seven months of the year. However, following the arrival of RAMSI in late July, the situation drastically changed as the law and order situation was addressed and stringent budgetary controls were instituted at the Ministry of Finance. Significant improvements in both fronts together with other measures to enhance revenue in the second half of the year led to a reduction in the governments overall deficit to \$103.9 million in 2003 compared to more than \$300 million in 2002.

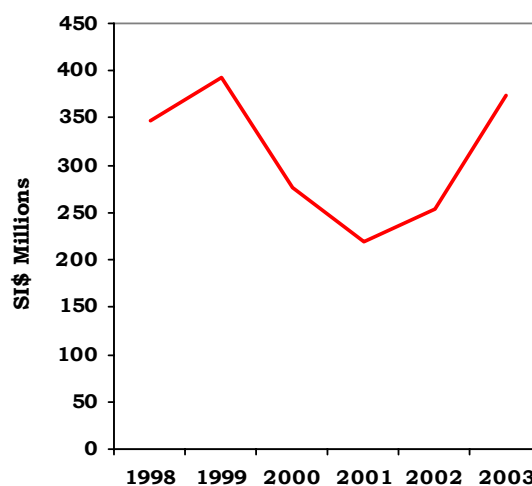
Revenues

Total government revenues rose by 46.9% or \$119.2 million to \$373.4 million in 2003 (Graph 19), higher than budget estimates because of higher outturns in

all revenue sources. Tax revenue, which accounted for 91.2% of total revenue rose by 44.9% to \$340.4 million while other non-tax revenues rose to \$33.0 million, more than tripled the level in 2002. Both tax and non-tax revenues outstripped 2003 budget estimates by 42.9% and 58.8% respectively.

The positive outcome in total tax revenues mirrored strong growth in goods tax, PAYE and company tax collection by the Inland Revenue Division (IRD) and log duty receipts, import duties and excise duty categories of the Customs and Excise Division (CED). This reflected the introduction of new measures to enhance revenue collection, particularly in the second half of the year as economic activities increased following the improvement in the law and order situation.

Graph 20
Total Government Revenue



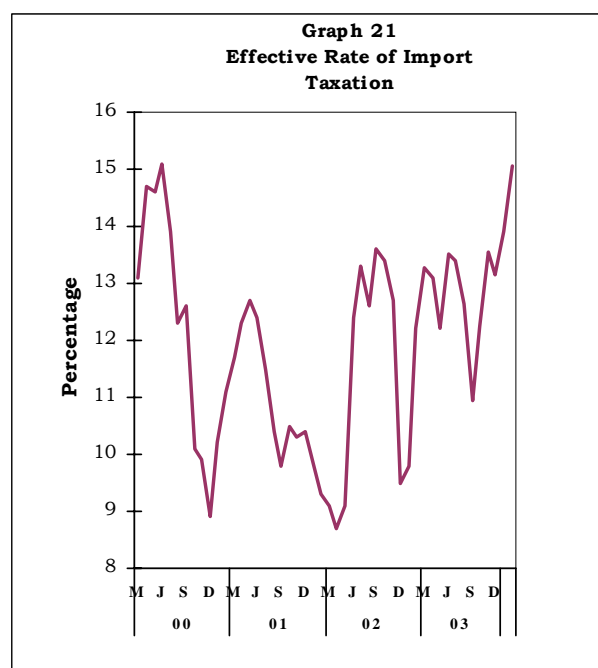
The IRD collected \$194.2 million during the year. This was not only 49.4% higher than the 2003 budget estimates, but also

surpassed total collection in 2002 by 36.5%. Total revenue from goods tax, rose by 61.5% to \$88.1 million reflecting the positive response of the tax amnesty and strong retailing activities in the latter half of the year. PAYE collection reversed the decline in 2002 and rose by 16.0% to \$43.8 million. Total revenue from company tax also performed strongly with a growth of 41.3% to \$27.9 million while withholding tax (WT) maintained the trend seen in the previous two years and increased by 14.1% to \$18.3 million. Total sales tax (ST) registered \$8.6 million during the year. Other sources of revenue also increased: stamp duty by 20.5% to \$3.5 million, and licenses by 42.3% to \$4.0 million. These favourable outcomes reflected the various tax compliance initiatives IRD had enforced during the year, particularly after RAMSI arrived in July.

The CED collected \$146.3 million in 2003, up 44.5% and 35.1% over the previous year and 2003 budget estimates respectively. The significant improvement reflected strict controls on the granting of exemptions and remissions, and positive impacts of continued revenue enhancement procedures within the division during the year. This led to a 15.1% rise in the effective rate of import taxation (Graph 20) for the year.

Total import duties rose by 26.9% \$68.7 million reflecting the rise in general economic activities and demand for imported consumer items during the year. The outcome was also 36.0% higher than the 2003 budget estimates. Total log duty receipts also improved and registered \$61.0 million in 2003, \$14.1 million higher than budget estimates. The rise in duty from log exports was expected in view of increased logging activities in the Western, Isabel, and Makira provinces together with a relative increase in average log export prices during the year.

Excise duties, more-than-doubled the 2003 budget estimates and increased to \$14.9 million. The growth was due to increases in duty on both alcohol and tobacco products. Total non-tax revenue collected by other ministries increased significantly to \$33 million. More than half of this amount came from the Ministry of Natural Resources, reflecting the rise in income from fishing licenses and renewal of work permits at the Ministry of Commerce.



Expenditures

Total accrued recurrent expenditures amounted to \$564.2 million in 2003, less compared to \$614.7 million in 2002 (see Table 11). This comprised of \$170.3 million in payroll, significantly higher than budget, debt service of \$121.5 million, and other charges of \$272.4 million. Apart from payroll costs, major components of both other charges and debt were financed through increased arrears as government found it extremely difficult to finance all obligations due during the year despite receiving

budgetary support of \$14.3 million from donors in the fourth quarter. It should be noted, however, that total recurrent expenditures in 2003 were \$305.2 million higher than budgeted estimates because of government's weaknesses to control the rise in unbudgeted expenditures, particularly in the first seven months of the year.

Table 10
Solomon Islands Government Operations

	(\$Million)		
	2002/1 Actuals	2003 Actuals	2004 Budget
1. Total Revenue & Grants	365.0	579.0	762.6
(A) Total normal revenue	256.3	373.4	362.0
(a) Income Tax	73.6	90.0	102.8
(b) Taxes on Goods & Services	75.8	104.1	91.0
(c) Tax on International Trade	94.1	146.3	142.5
(d) Total NonTax Revenue	12.8	33.0	25.7
(B) Cash Grants /2	49.3	110.0	117.6
(C) Capital Grants /2	59.4	95.4	283.0
2. Total Expenditures:	674.1	682.8	779.7
(D) Recurrent Expend.	614.7	564.2	479.6
(a) Wages and Salaries	167.1	170.3	188.8
(b) Debt Service /3	130.3	121.5	77.4
(c) Lost Property Payments /4	67.4	0.0	0.0
(d) Other Charges /5	249.9	272.4	213.4
(E) Capital Expenditure	59.4	118.6	300.1
3. Overall Balance	-309.1	-103.9	-17.1
4. Financing:	309.1	103.9	17.1
(i) Domestic	190.9	57.0	0.0
(a) Domestic debt arrears	66.8	57.0	0.0
(b) Arrears on other charges	131.1	0.0	0.0
(ii) External	111.2	46.9	17.1
(a) Debt arrears	43.8	23.7	0.0
(b) Loans	67.4	23.2	17.1
/1 Estimates			
/2 Based on BOP data			
/3 Actual figures represent total debt dues during the year			
/4 EXIM loans for lost property			
/5 Estimates based on MoF reports. Data for 2002 and 2003 included arrears and actuals.			
Source: Department of Finance & Central Bank of Solomon Islands			

Total debt serving amounted to \$40.9 million, compared to a budget of \$39.0 million. The increase reflected direct repayment of government debt arrears by RAMSI, especially in the third and fourth

quarters. Out of the \$444.4 million in budgetary support, \$30.1 million were used to pay debt arrears owed to international financial institutions (IFI).

During the fourth quarter, the Ministry of Finance introduced prudent fiscal measures aimed at stabilizing government finances. These measures include: reviewing of financial management processes; establishing a cash management system to enable cash flow forecasting, reviewing the entire payroll system, closing all unauthorized bank accounts held by ministries, and strengthening the procurement and tender procedures.

The actual data on the development budget is currently not available. However, government received about \$119 million in grants for development projects during the year with most projects in the education and health sectors.

Government Debt

Total government debt at end 2003 rose from \$1.56 billion to \$1.68 billion at the end of 2003 because of increases in both the domestic and external debt components. The external debt, which accounts for 65.9% of the total stock, increased by 2% (\$21.3 million) to \$1,108.6 million mainly as a result of exchange rate movements while the domestic debt rose by \$55.4 million to \$494.3 million as a result of upward movements in the auction treasury bills market. The increase in interest arrears on advances with the Central Bank was also another contributing factor to the increase in the stock of domestic debt.

As stated earlier, government paid \$40.9 million in debt arrears in 2003 with 88.3% (\$36.1 million) used on external debts. Despite these payments, total stock of government debt arrears increased by more than \$80 million to \$275.4 million

by the end of 2003. This comprised of \$106.5 million in external arrears and \$169 million in domestic arrears. The government hopes to address its debt problem through the new Debt Management Strategy (DMS) introduced in August 2003. Government has resumed its discussion with major creditors as part of this new approach in 2003 and intends to continue in 2004.

Accounting and Audit

Government accounts have not been audited since 1997. This directly contravenes Section 38(1) of the Public Finance and Audit Act, which requires all government accounts to be audited within six months after the end of the financial year. This arose because of inadequate resources within the Office of the Auditor General (OAG) to effectively perform its work. However, the audited accounts for 1996 are expected to be tabled in Parliament during the May meeting.

The OAG plans to do two major audit tasks in 2004. The first is to audit all government accounts for 1997 to 1999, and second to audit the disbursement of the Exim Bank loan for lost properties. These activities should help government's efforts to be more transparent and accountable in managing its finances.

2004 Budget Outlook

The 2004 national budget aimed at stabilizing government finances by strengthening revenue collection and

capping expenditures, restoring essential services, sustaining the peace process, and resolving the debt problem in line with budget guidelines as approved by Cabinet in late 2003.

Domestic revenue in 2004 is forecast at \$362.1 million with \$193.9 million coming from the Inland Revenue Division, \$142.5 million from the Customs and Exercise Division. This brings total government expenditure to \$779.9 million, with the development component of \$300.1 million to be wholly funded by donors. The recurrent budget consists of \$188.8 million for payroll, \$77.4 million for debt servicing and \$213.4 million for other charges.

Government also expects to receive \$117.6 million in direct budget support in 2004. This comprised of \$73.8 million to be drawn from Australia's budgetary support, and \$43.8 million to be funded by New Zealand. This should help improve the delivery of government services during the year, especially in the education and health sectors.

Available data for the first quarter of 2004 showed that the 2004 budget is on track with a total savings of about \$19 million for the first two months. This was a significant improvement compared to how government finances were managed in the pre-RAMSI period. Government expects this trend to continue in the months ahead. This should enable government to address the fiscal weaknesses that undermined its fiscal operations in previous years.

VII. FINANCIAL SYSTEM

The structure of the Solomon Islands financial system remained unchanged during the year. The institutions comprising the financial system are Central Bank, commercial banks, the Solomon Islands National Provident Fund, the Development Bank of Solomon Islands, Credit Unions, and Insurance companies.

Commercial Banks

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

In terms of improvement in delivery of banking services, Westpac introduced its first ATM terminal for its international cardholders during the year while the National Bank of Solomon Islands Limited made history introduced its Saturday morning banking services to its customers in Honiara.

Despite these developments, banking services remain concentrated in urban centers particularly in Honiara, Auki, Gizo and Noro. Altogether, the commercial banks have 12 branches while the number of agencies fell to 7 agencies from 8 in 2002. There was also an increase in the number of ATMs and EFTPOS terminals during the year to 4 ATMs and 61 EFTPOS terminals compared to 2 ATMs and 45 EFTPOS in 2002, but all these electronic banking service outlets are concentrated in Honiara.

Banking financial performance in 2003

The performance of the commercial banking sector measured in terms of net profit after tax reveals another successful year for the commercial banks in Solomon Islands. Net after tax profit at year-end was \$27 million up 25% from \$21 million in 2002. The result is attributed to increases in non-interest income. Net interest income amounted to \$29.3 million compared to \$30.1 million in 2002. While non-interest income recorded the highest level of earning of \$54.6 million from \$40.1 million in 2002.

Table 11
Commercial Banks Profit & Loss Statement

	(SI\$ millions)			
	2000	2001	2002	2003
(i) Interest Income (net)	33.8	31.0	30.1	29.3
(a) Interest from SIG Sec.	13.0	10.7	7.6	9.4
(b) Interest on loans	30.2	24.2	24.9	24.4
(c) Others	0.9	0.8	0.4	0.0
Less interest expenses	10.2	4.8	2.8	4.5
(ii) Non-Interest Income	22.1	23.9	40.1	54.6
(a) Service charges on deposits	4.4	4.7	5.8	6.2
(b) Foreign exchange gains	12.6	13.3	26.9	38.0
(c) Fees & others	5.1	5.9	7.4	10.4
(iii) Operating Income	55.9	54.9	70.3	84.0
(iv) Less Non-Interest exp.	32.8	31.6	38.2	42.0
(a) Salary	14.1	15.1	14.8	17.0
(b) Occupancy, furniture & equipment	2.7	3.3	4.3	4.6
(c) Others	16.0	13.2	19.2	20.1
Operating Income before tax	23.1	23.4	32.0	41.9
Tax	8.5	7.9	10.7	15.4
(v) Net Profit	14.6	15.5	21.3	26.6

Source: Central Bank of Solomon Islands

Earnings from foreign exchange transactions of \$38 million, up from \$27 million in 2002 were the main contributor to the increase in non-interest income during the year. The substantial earning in the non-interest income made 2003 the second year in a row where non-interest income was more than sufficient

to cover the operational or non-interest expenses of the banking sector of \$42 million in 2003 and \$38.2 million in 2002. Increases in both net interest income and non-interest income resulted in the rise of total operating income to \$84 million from \$70.3 million in 2002. This resulted in the efficiency ratio improving to 47% from 54% in 2003. The ratio meant that for every \$100 earned as total operating income, \$47 was used for meeting operational expenses to provide the banking services in Solomon Islands. Return on Average Assets was 5%, the same as in 2002. Return on Average Capital was 33% compared to 28% compared to 23% a year ago.

Licensing and legislative issues

No new application for banking license was received during the year. At the same time, no change was made to the Financial Institutions Act.

During the year, CBSI conducted its first on-site examinations of the National Provident Fund (NPF) and the Development Bank of Solomon Islands (DBSI) since the order by the Minister of Finance under the Financial Institutions Act in 2002 to apply the full provisions of the Financial Institutions Act to NPF and DBSI.

The successful prosecution and conviction of the promoters of Family Charitable Fund in 2003 has sent a clear message to fraudsters that the Courts in Solomon Islands would not tolerate their dubious activities.

Financial System Soundness Indicators

The protection of the quality of the monetary assets in the form of credits and investment held by the supervised financial institutions is one of the key objectives of supervision regime in

Solomon Islands. The key indicator of the vulnerability or the health of the banking sector is measured by the level of Non-Performing Loans (NPLs) that banks and financial institutions hold in their balance sheets. Central Bank measures the risk and soundness of the financial system using the key ratios of asset quality, capital adequacy, earnings and profitability, liquidity and quality of management in each of the supervised financial institution.

Asset Quality

In 2003, the risk exposure of the banking sector measured in terms of the Gross Non Performing Loans (NPLs) of commercial banks declined to \$15.9 million from \$20.1 million in 2002. This level of NPLs however remains very high compared to \$7 million on about the same level of gross loans in 1999. The component of NPL show non-accruals and unproductive loans fell to \$10.3 million from \$10.9 million in 2002. Other troubled loans fell from \$9.2 million to \$5.5 million. Therefore much of the improvement in the asset quality came from other troubled loans rather than from the non-accruals and unproductive loans. Commercial banks set aside \$8.6 million in 2003 compared to \$8.8 million in 2002 in specific and general provisions to cover possible losses from the NPLs. These provisions represented 56% and 44% of NPLs for 2003 and 2002.

Capital Adequacy

The capital maintained by the banking sector in 2003 increased to \$86 million up from \$83 million at the end of 2002. Capital in terms of risk assets represented 29.4% up from 28.6% in 2002. These risk capital ratios were well above the 10% risk capital required under the prudential requirements of the Central Bank.

Earnings and Profitability

As at end of 2003, return on average assets for the banking sector was 5% the same as in 2002. Return on average capital, however, increased in 2003 to 28% compared to 23% in 2002. Historically, commercial banks income has been driven largely by interest from loans and other earning assets. However, the trend has reversed since 2002 towards non-interest income. In 2003, non-interest income represented 61% of total operating income.

Liquidity

Commercial banks in Solomon Islands are required to maintain liquid asset reserves of 7.5% of total deposit liabilities. On average, this amounted to \$25 million. However, liquidity in the banking sector averaged \$105 million in 2003. Measured in terms of ratio of liquid assets to average total asset, liquidity in the banking sector 2003 was 20% up from 13% in 2002. A short-term measure of liquidity also used is the ratio of demand deposits to liquid assets. As at end of 2003, this ratio was 53% up from 39% in 2002. These indicators showed that the banking system in Solomon Islands was very liquid in 2003.

The above soundness indicators showed that commercial banks remain profitable, and had more surplus liquidity, the underlying risk on the quality of assets indicated by the NPLs ratio remains high compared to the level in 1999.

Credit Unions

Two new credit Unions were registered during the year bringing the official record of registered credit unions in Solomon Islands to 170. But as reported in the 2002 Annual Report, most of the credit unions in the register are no longer operating. According to the

Registrar's record only 18 credit unions were actively operating in 2003, 15 were urban-based credit unions and 3 were from the rural areas.

The Solomon Islands Credit Union League (SICUL) as the apex body for the credit union movement, continued to experience both financial and administrative problems in 2003. The Leagues sources of funds was severely affected by the non-operations of its member credit unions that used to finance the operations of the League under the Credit Union Act. The failure of the SICUL Board of Directors to meet regularly and manage the League as required under the Credit Union Act resulted in the loss of focus on the objectives of the League. Unless the Board of Directors of the League provide the leadership and direction to the League management, the function of the League as promoters and supervisor of Credit Unions in Solomon Islands will not improve.

In 2003, the League was able to audit 8 accounts of its member credit unions especially those in Honiara. The League also conducted some educational programs to urban credit unions in Honiara. One of the major programs conducted during the year was organizing a workshop for 95 women of East Honiara, with the help of AusAid on how to start and operate Savings Clubs. As at end of the year, 3 Savings Clubs are listed with the League office.

Solomon Islands National Provident Fund

The Solomon Islands National Provident Fund (NPF) underwent its first on-site examination in 2003 since it came under the supervision of the Central Bank in August 2002. A report on the findings and areas of improvements identified in the examination was

submitted to the Fund Board who had accepted these recommendations to strengthen the operational risks and improve the governance of the Fund for its members. The Fund was able to produce its audited accounts for 2003 and published its financial statements according to the provisions of the Financial Institutions Act during the year as well. The new management team and the board of the NPF are committed to bring changes in the operations of the Fund so that the interests of its members are protected and at the same time, best prudential practices are followed in its operations.

Table 12 Summary of NPF's Financial Position			
	(SI\$ million)		
	2001	2002	2003
Balance Sheet (up to Dec 2003)			
Total Assets	356.7	369.9	402.3
Claims on SIG	112.6	94.3	94.3
Claims on Statutory Corps	42.1	45.7	48.2
Claims on Provincial Govt.	14.5	16.8	19.3
Private Sector Borrowings	50.2	49.5	47.5
Equity Shares	64.4	64.4	64.4
Others	72.9	99.2	128.6
Liabilities	356.7	369.9	402.3
Contributions	313.3	316.9	340.1
Capital	33.9	40.3	45.0
Others	9.5	12.7	17.2
Income Statement (June 2003)			
Total Income	32.1	28.5	28.4
Operating Expenses	13.7	15.9	18.1
Net profit	18.4	12.6	10.3
Source: Central Bank of Solomon Islands			

In 2003, the NPF's balance sheet showed total assets of \$402.3 million, up from \$369.9 million in 2002. This was the second year of growth in the Fund's assets reversing the downward trend witnessed since 1999. Of the components of the balance sheet assets, claims on the government remained at \$94.3 million, while claims on Statutory Corporations and provincial governments increased to \$67.5 million from \$62.4 million in 2002. The increase was due

mainly to capitalized interest charges. Members borrowing from Fund fell to \$47.5 million from \$49.5 million in 2002. While the Fund's investment portfolio and fixed assets remain unchanged. Other assets however increased to \$33.6 million from \$19.9 million in 2002.

On the liability side of the balance sheet, member's contributions increased to \$340.1 million from a low of \$316.9 million in 2001. General reserves of the Fund reached \$43 million from \$38 million in 2002.

For the financial year ended June 2003, the Fund reported an operating surplus of \$10.3 million, down from \$12.6 million in 2002. The Fund received total income of \$28.4 million about the same level earned in 2002, while its operating expenses rose to \$18.1 million from \$15.9 million in 2002.

In terms of profitability measurement, the Fund's Return on Average Assets defined as operating surplus over average total assets, as at end June 2003 was 2.8% down from 3.4% in 2002. The fall in return on assets reflected the decline in interest earnings of the Fund because of the low level of interest paid on deposits in the market and the level of dividend the Fund received from its investment portfolio.

Despite the fall in earnings and profitability, the Fund's dividend or interest payout ratio to members (interest payout to members over operating surplus) in 2003 was 66% compared with 65.7% in 2002. This payout ratio represented the 2.5% minimum return that the Fund is legally required to pay to members each year based on their contribution balance in the previous year.

The Fund's liquidity situation that had been under pressure in the last three years as a result of net withdrawals,

failure by the Government to pay its contributions and non-performing loans and investments, improved in 2003. As at end of June 2003, the total liquid funds, which include demand deposits and cash at banks, and Term deposits were \$30.9 million (excluding the DBSI term deposits) compared to \$22.2 million in 2002 and \$41.5 million in 2001.

The Development Bank of Solomon Islands

The financial problems faced by the Development Bank of Solomon Islands (DBSI) continued unabated in 2003. DBSI recorded losses of \$1.5 million in 2003, an improvement from the \$2.0 million losses in 2002. DBSI has been making losses since 1997 rendering the institution technically insolvent with a negative capital of \$15 million by end 2003.

Table 13
Summary of DBSI's Financial Position

	(SI\$ millions)		
	2001	2002	2003
Balance Sheet as at 31st December			
Total Assets	50.9	43.5	38.9
Loans and Advances	46.1	39.2	35.3
Others	4.8	4.3	3.6
Liabilities	23.5	15.6	6.2
Term Deposits (inclusive of			
Accrued interest)	22.8	22.4	21.7
Capital & Reserves	0.7	-6.8	15.5
Others	27.4	27.9	32.7
Income Statement as at 31st December			
Total Income	6.8	5.1	4.5
Interest Expenses	2.5	2.2	2.1
Operating Expenses	6.0	4.9	3.9
Net profit	-1.7	-2.0	-1.5

Source: Central Bank of Solomon Islands

Gross earnings of DBSI fell by \$0.4 million to \$2.4 million in 2003. Operating expenses (excluding provisions for bad and doubtful debts) fell to \$3.9 million from \$4.9 million. Despite reduction in non-interest operating expenses, the efficiency ratio remained serious at 166%

and showed a little or no improvement from 2002. The ratio indicates that for every \$100 earned in gross income, DBSI spent all of the \$100 income and further borrowed \$66 from capital flows to meet all of its operational expenses.

The continuous cash flow problems in 2003 forced DBSI management to further reduce the size of its operations. It decided to maintain only Auki and Gizo returning all other provincial operations to the head office. But these efforts have not been able to solve the problem faced by the financial institution.

The Banks total assets as at December 2003 was \$38.9 million compared to \$43.5 million in 2002. The banks balance sheet also showed that DBSI owes \$21.7 million to depositors and \$33.4 million to creditors. Efforts made by the DBSI management and Board to get new capital injection by the shareholder was not successful because of the financial problems faced by the government. At the same time, donors were not prepared to put money into the DBSI because of its weak balance sheet problems.

On supervision and regulating of the institution, DBSI operated without formal supervision of the Central Bank until in August 2002 when an order was given by the Minister of Finance for DBSI to come under supervision of the Central Bank. The order effectively required the Board and management of DBSI to ensure that DBSI meet all of the requirements of the Financial Institutions Act and the prudential guidelines that Central Bank might issue from time to time.

As part of that mandate, the Central Bank completed an off-site report in November 2003. Subsequent to that, an on-site examination was also conducted by CBSI at the end of November to early December 2003. The scope of the examination was to identify the performing loans and the

kind of inherent weaknesses in the loan portfolio. A report containing the findings and recommendations to correct the position of DBSI was presented to the Central Bank Board. The recommendations were also discussed with the government for appropriate action.

Insurance Industry

The number of insurance companies conducting insurance business in Solomon Islands in 2003 remained unchanged at five. Two of the companies were in the business of life insurance and three (3) were general insurance companies. The number of licensed insurance brokers remained at two.

Foreign ownership dominated the insurance business in Solomon Islands. Foreign interests own one life and two general insurers principally from Australia and New Zealand based

insurance companies. Two of the insurance intermediaries are 100% owned by local interest and one life and general insurance company is 75% locally owned.

The lack of financial accounts from the insurance business for 2003 hinders the analysis of the insurance business in Solomon Islands in 2003. However, the available figures from the Office of the Controller show that insurance premium fell from \$24.5 million in 1999 to an average of \$16 million per year for 2000, 2001 and 2002 respectively.

During the year, the Office of the Controller of the Insurance was without a Controller of Insurance as required by the Insurance Act. Only one insurance officer was administering the Insurance Act, until the temporary appointment of the Governor of the Central Bank as the Controller of Insurance from September 2003.

VIII. CENTRAL BANK OPERATIONS

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

Different departments in the Bank carry out these functions. The highlights of the Central Bank are summarised in this chapter.

Finance and Accounts

The Bank incurred a net loss of \$4.7million compared to a net loss of \$7.4million in the previous year. This is a 37% improvement on the previous year's result. Total income showed a 7.6% decline compared to 6.6% decline in the previous year, total expenditure for the period continued to fall, a trend since 2000 resulting in improved performance for the year.

The fall in income for the period is attributed to a number of factors. Though there was improvement in the level of foreign reserves, there was continuous pressure on the foreign reserves to meet foreign currency liabilities, hence limiting funds available for investment. The pressure on foreign reserves led to strict foreign exchange control measures and short-term investments at low interest rates prevailing at the market place. Furthermore, a significant portion

of the Bank's asset (36%; 2002: 51%) was still tied up in Government debt, which did not receive any interest during the year. Nevertheless interest income recorded a 23% increase, fees and commissions moved up by 74%, these increases were offset by reductions in royalties (41%) and other income, which declined by 80%.

Total expenditures for the period fell by 22% from \$16.2m in 2002 to \$12.8m. The downward trend since 2000 was a result of expenditure control measures and policies and actions implemented by management to contain expenditures to a reasonable level. With the extension of the supervisory role of CBSI over NPF and DBSI and the planned assumption of the Office of the Controller of Insurance into the operations of CBSI in the near future, CBSI will be obliged to incur recruitment and necessary additional costs to accommodate the expected increase in operations. It is unlikely that this trend in reduction of operating costs will continue in 2004.

The Bank's balance sheet recorded a net liability of \$28.4m compared to a net liability of \$52.5m in the previous year. The improvement in the net worth is attributed to increases in total asset, which recorded an 87.9% improvement compared to 4.9% increase in the previous year. The improvement in total asset is mostly due to increases in foreign currency assets in particular foreign reserves holding of the Bank which increased more than two folds from \$130.9m in 2002 to \$271.9m and marginal increases in local currency assets resulting from acquisition of fixed assets and increases in current assets. The Bank's liabilities moved up from \$204.5m in 2002 to \$338.3m. The increases in liabilities is accounted for by increases in demand deposits both in foreign and

local currency assets, increases in issue of currencies and government accounts, which were slightly offset by reductions in other local currency liabilities.

The Bank's net equity improved from a deficiency of \$52.5m to \$28.4m, an improvement of 46% compared to 34% improvement registered for the previous year. The increase in net equity is accounted for by 60% increase in revaluation reserves resulting from unrealised currency revaluation gains transferred to the reserves as required by section 45(1) of the Central Bank of Solomon Islands Act (CAP 49). The increase in revaluation reserves were offset by further deficiencies in general reserves which increased by the net loss amount (\$4.7m) and reduction in other reserves which fell marginally by 2.4%. Approval was granted to increase the Bank's authorised capital from \$3m to \$50m in accordance with provisions of section 18(1) of the Central Bank of the Solomon Islands Act (CAP 49), however, Paid Up Capital still remained at \$2.6m.

In circumstances where a deficit equity is incurred, section 44 of the Central Bank of Solomon Islands Act (CAP 49) requires the Government to issue or transfer to the Bank a non-negotiable, non-interest bearing security to cover the deficit. However, efforts to get the Government to issue the security instrument to cover for the deficiency in equity recorded in the previous year did not materialise during the current financial year. The Bank will continue discussions with the Government to fulfill its obligations as set out by section 44 of the Central Bank of Solomon Islands Act. Section 45(3) of the same Act was also used previously to redeem the security instrument from the Government.

Audit

The external auditors, PriceWaterHouseCoopers, initial five year term contract ended with the completion of 2002 financial statements audit. With the recommendation by the CBSI Board the Auditor General reappointed PriceWaterHouseCoopers as the Bank's External Auditor for a further three year term contract which begun with the audit of the current financial statements and should be completed with the audit of 2005 financial statements.

Sojnocki Chartered Accountants were providing internal audit services to the Bank, however, with the merger of their operations with PriceWaterHouseCoopers in late 2002, they ceased to provide internal audit services to the Bank at the end of June 2003. A new audit firm to provide internal audit services for the Bank was not appointed until the first quarter of 2004.

The Audit Report on the 2003 Financial Statements is provided in the next section of this report.

Currency Operations

Currency issued by the Bank in 2003 increased by 13.7% to \$111.2 million compared to a rise of 11% in the previous year. Of the total stock of currency issued, \$104.7 million was in currency notes an increase of 14% while \$6.5 million was in coins representing an increase of 8.3%. The \$50 denomination accounted for more than three quarter of the total notes in circulation whilst the \$5 being the least denomination in circulation. This clearly demonstrated increasing public demand for higher value notes and hence the need for the Bank to start preparing for issuing a higher denomination note.

During the year, the Bank destroyed \$104.4 million in mutilated notes compared to \$134.3 million in 2002. To enhance this process of cash management more inefficiently and effectively a note-sorting machine had been partly acquired, tested in 2003 and delivery would be in the first quarter of 2004.

Another currency issue resolved during the year was the quality of the \$2 polymer note. Note Printing Australia has upgraded the quality of the polymer note and replaced a total stock of \$2.42 million at their own costs to supplement the stock in hand.

The Bank also signed an agreement for the issue numismatic coins during the year, depicting the 'History of Air Travel' targeted mainly the US and European markets. A total of 180,000 coins were minted in gold, silver and cupro-nickel. Numismatic sales during the year were far from satisfactory. Gross sales during the years accounted for only \$0.25 million whilst royalties received from offshore sales was \$0.12 million.

Securities Market

The Auction Treasury Bills market continued to function satisfactorily during 2003 and one commercial bank returned to the market. A review was done with the objective to reduce overall interest rates and cap the total stock at \$30 million. In reducing the interest rates, the reduced 91day rate of 6% was the benchmark on which all other rates were set.

Total government securities remained stable at \$275 million, comprising of \$207 million in Restructured Bonds, \$2 million in Development Bonds, \$35 million in Treasury Bonds, and \$1 million in Frozen Treasury Bills. At the same time, the government continued to build up on

arrears, on both principal and interest on a large portion of government securities. The government again defaulted on the third tranche of the Restructured Bonds that matured in April 2003 and was only able to pay interest at 3%. With the assistance of RAMSI, a comprehensive debt compromise (CDC) strategy was formulated to address the government debt arrears situation.

Debt Management

The external debt section continued to monitor, took stock of arrears and provide information that were vital to government's initiative to address the debt situation through the proposed comprehensive debt compromise (CDC) program.

During the second half of the year, two staff members who are responsible for public debt and an officer from the IT section undertook special training in Papua New Guinea (PNG) on the installment of the upgraded CS-DRMS 2000+ system to replace the outmoded 7.2 version. The training enabled the migration of debt data to the new system. In the first quarter of 2004, the new system should be tested on a parallel run with the old version.

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 transactions 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 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 2003, the Bank maintained all exchange control mechanisms introduced since June 2000. These included the authorized limit of \$5,000 and the commercial banks overnight limit of \$1 million, which was restored to \$2 million on March 2003. The ceiling of \$5,000 was reviewed in December 2003, and raised to \$25,000 but only for non-trade payments. This was possible following improvements in foreign exchange inflows during the third and fourth quarters of 2003 after the arrival of RAMSI. The ceiling was further reviewed and raised to \$25,000 for all payments. The commercial banks overnight limit of \$2 million was raised to \$3 million in April 2004.

Despite the continuing precarious state of the reserves level, the Bank has had to be flexible in some cases, for example, the payment of suspended capital transactions such as shareholder dividends, to enable businesses to continue operate as well as servicing current payments. Some of these capital payments had to be rescheduled under instalment 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.

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 residents are also subject to approval by the Investment Board (IB).

In 2003, the Bank continued to maintain the partial exchange control liberalization that was introduced in March 1999. 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 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 2003, the Bank approved 359 applications under the SA for the export of 714,178 cubic meters of round logs with an estimated value of US\$44.5 million. This was higher than in 2002 by 61% in volumes and 72% in US dollar value. Under the General Authority (GA), the Bank processed a total of 818 Export shipping bills valued at \$225.9 million, compared to 7319 import applications approved by the Bank valued at \$666.1 million in 2003.

Through out 2003, the Bank continued to 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 aimed at enhancing the roles 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 Foreign Exchange 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 currency 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 2003, 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 continued to adopt the “live on what you earn policy” introduced in October 2002 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 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 prepares a quarterly report for the Board for information and sometimes to seek further policy guidance.

Financial sector supervision issues

The Financial Institution Department conducted on-site examinations of the National Provident Fund (NPF) and the Development Bank of Solomon Islands (DBSI) since the order by the Minister of

Finance under the Financial Institutions Act in 2002 to apply the full provisions of the Financial Institutions Act. This is the first time the Bank has done such examination exercises. World Bank provided funding for a technical assistance to help in the review of the on site-examination report on the NPF, while AusAID made available an advisor to work with the officers of the Financial Institutions department during the on-site examinations of DBSI. Reports on the findings and recommendations to correct weaknesses identified in the two onsite examinations as well as the off-site analysis reports of the two institutions have been submitted to the Board of Directors of Central Bank and Board of Directors of the relevant institutions.

The department conducted a total of 80 man-hours of in house training on “*Onsite & Offsite supervision techniques and analysis*” for its officers in February and March 2003. In November 2003, the manager and one of the officers attended a Workshop on New Basel Capital Accord, Credit Risk Management and Corporate Governance organized by the Association of Financial Supervisors of Pacific Countries (AFSPC), in collaboration with the Pacific Financial Technical Assistance Centre (PFTAC) and conducted by the Financial Stability Institute in Suva, Fiji. At the same time, the officers, also attended the annual meetings of the Heads of Supervision of AFSPC in Suva.

The department also organized two separate bankers meeting during the year, with the first meeting held in February and the final one November. Commercial bank managers and the head of the Development Bank of Solomon Islands, and heads of CBSI departments attended the meetings for discussion and information sharing.

Although the Governor of the Central

Bank was appointed Acting Controller of Insurance in the fourth quarter of 2003, the proposed amalgamation of the Office of the Controller with the Financial Institutions department of the Central Bank did not progress further in 2003. This matter, however, is still under discussion with the government and provided legal matters and questions are cleared, further progress could be made in 2004.

The final revised prudential statements are now completed but are yet to be submitted to the CBSI Board for final approval.

The successful prosecution and conviction of the promoters of Family has sent a clear message to fraudsters that the Courts in Solomon Islands would not tolerate their scheming.

Small Business Finance Scheme

The transfer of the Small Business Finance Scheme to the Currency and Banking Operations department did not take place because of the declining balance and nominations of new loans under the scheme. As at end of the year, the gross value of loans outstanding under the scheme is \$306,000 of which CBSI's guarantee is \$86,000 or 28% of value outstanding. CBSI paid \$19,000 of claims against the scheme in 2003.

Research Activities

The Economics Department continued to fulfil the Banks responsibility to collect, compile and publish economic information during the year. Most of the data used were derived from various domestic and external sources. The analysis of economic conditions continued during the year and formed the basis for the Banks advise to the government and other interest parties. Such activities are also important for the setting of monetary

policy by the Banks internal Monetary Policy Committee (MPC). The analysis on the economy is published regularly through the Monthly, Quarterly and Annual Reports. In addition, researches on specific topics of interest were also done during the year.

The Bank continued to participate in important government policy issues throughout 2003. These include hosting the Monthly Management Meetings (4M's), which provides an important avenue to review recent developments in the economy including the Financial, and Economic Restructuring Programme (2002-2005) report that was accepted by the current government as its major policy direction to revive the economy. This report was also discussed during the donors meeting in November 2003. 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 government overall reform process and policy formulation during the year.

Administration, Personnel and Training

Total number of staff including the Governors, contracted managers, permanent and non-established staff was maintained at 71 throughout the year. There was no recruitment of new staff members during the year.

The Governor's contract was renewed by the Governor General on the advise of the Minister of Finance for another term of five years. Manager, Currency and Banking Operations (CBO) first 3-year contract expired on 18 December 2003. The Board reappointed him for a reduced term of two years.

During the year, ten staff members completed ten (10) years of service in the Bank and qualified for long service benefit. A staff member underwent

medical treatment in Australia under the CBSI Medical Repatriation Scheme with Solomon Mutual Insurance.

Three staff members also successfully completed their full time studies in 2003: one in Economics from the University of the South Pacific, the other in Information Technology from Griffith University, Australia and another successfully completed his Master in Business Administration (MBA) degree from USP.

Two staff members undertook full-time studies at the Solomon Islands College of Higher Education (SICHE); one successfully attained a Diploma in Finance and Banking Certificate.

Manager, Corporate Services Department (CSD) attended a one-week course in Safeguards Assessment in Singapore and two others attended different courses at the IMF – Singapore Training Institute. Governor and Manager Economics Department attended the IMF/World Bank Annual Meeting held in Dubai, United Arab Emirates in September 2003.

Manager, Financial Institutions Department (FID) and the Deputy Governor attended the South Pacific Central Bank Governors Annual Meeting in Port Moresby, PNG in December 2003. Manager FID with one of his staff attended a seminar in Banking Supervision in Suva, Fiji. Manager Foreign Exchange Department with four other members of staff attended Swift related courses during the year in New Zealand and Fiji.

The Bank also sent one of the Assistant Managers and two other officers to attend a seminar on the upgraded version of DRMS in PNG in 2003. One officer of the Accounts unit attended a four weeks course in Organizational Finance and Budgeting at the Australia National

University (ANU), in Canberra, Australia.

Nine members of staff were enrolled for various units of study on part-time basis at the USP Center. Three staff of CSD successfully completed 2 years electrical courses at Willies Electrical School. One staff continued to do postgraduate diploma studies in Banking through correspondence with the Massey University, New Zealand.

The Bank placed applications for training scholarship for CBSI staff on the government scholarship application processing system for possible funding by aid donors.

Properties

The Properties Section of the Bank ensures that all CBSI properties are maintained and kept in good and workable conditions at all times. Land rents, rates, and their respective insurance cover are maintained up to date to ensure proper ownership and the titles to Bank properties are valid. The Board suspended the Staff Housing loan Scheme in 2003. Only one staff-housing loan was approved before the Board resolution to halt all housing loans was executed in 2003.

Other activities during the year included the treatment of white ant infestation, repairing of Bank properties, subdividing the property at Rifle Range, renting of some Bank properties and acquiring a new voicemail telephone system.

Board Activities

Nine Board Meetings (6 schedule and 3 special) were held in 2003 during which 30 board papers were presented and discussed.

Apart from the regular periodical papers such as the Annual Budget, Annual Work Programmes, Investment and Reserves

Management Report, Review of economic developments, End of year financial statements and Banking Sector Reports, the Board also deliberated on other important issues during the year. These include the Monetary Stance for 2003, the Review of the Staff terms and conditions, the NBSI ownership issue, the On-site/Off-site Reports on NPF and DBSI, the reappointment of the Governor for another 5-year term in office and the appointment of Manager, CBO.

Three directors Mr. Tony Hughes, Mr. George Kiriau, and Mr. Francis Kairi were appointed by the Minister of Finance for two-years term in September 2003 to

replace Mr. Solomon Ilala whose term expired in December 2002, and Mr. William Pita and Mr. Akuila Talasasa whose terms expired in April 2003. With the appointment of the three new directors to the Board, the Board operated at the maximum number of nine Board members allowed for under the CBSI Act.

The Board also reviewed the terms and conditions of Directors during the year. As a result, the monthly allowance was removed in view of the Banks difficult financial situation. All Board meetings during the year were held in Honiara.



TO: Honourable Francis Zama, MP
Minister
Ministry of Finance
Honiara

REPORT OF THE AUDITOR-GENERAL

Scope

The financial statements of the Central Bank of Solomon Islands (herein referred to as "the Bank") for the financial year which ended 31st December 2003 as set out on 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 independent audit has been conducted on these financial statements in order to express an opinion on them.

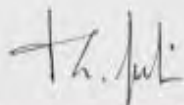
The audit has been conducted in accordance with applicable Auditing Standards in the Solomon Islands to provide reasonable assurance as to whether the

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

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

Audit Opinion

In my opinion and according to the information given me, the financial statements of the Central Bank of Solomon Islands have been properly drawn up so as to give a true and fair view of the Bank's state of affairs as at 31 December 2003 and its results for the financial year then ended, is in accordance with the provisions of the Act; and is in accordance with the applicable Accounting Standards in the Solomon Islands and the disclosure requirements of the laws of Solomon Islands.



Floyd Augustine Fatai
Auditor-General

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

15 April 2004

CENTRAL BANK OF SOLOMON ISLANDS

BALANCE SHEET
AS AT 31ST DECEMBER, 2003

	Notes	2003 (\$'000)	2002 (\$'000)
ASSETS			
Foreign Currency Assets			
Money at Call		131,135	51,759
Accrued Interest & Bills Collectibles	14	836	487
Term Deposits	13	139,945	78,638
Holding of Special Drawing Rights		2	39
Total Foreign Currency Assets		271,918	130,923
Local Currency Assets			
Cash on Hand	17	113	111
Loans and Advances	11	15,871	16,122
Equity Investments	16	1,345	2,017
Premises & Equipment (less provision for depreciation)	10	8,860	7,997
Other Assets	12	11,836	7,714
Total Local Currency Assets		38,025	33,961
TOTAL ASSETS		309,943	164,884
LIABILITIES			
Foreign Currency Liabilities			
Accrued Interests		41	21
Demand Deposits	5	7,829	(72)
IMF Special Drawing Rights Allocations		7,258	6,610
Capital Subscriptions	4	6,320	6,320
Total Foreign Currency Liabilities		21,448	12,879
Local Currency Liabilities			
Demand Deposits	6	151,769	78,015
Currency In Circulations	9	111,194	97,813
SIG Monetary Operations Account	8	31,662	19,772
Fixed Deposits	15	19,449	5,283
Other Liabilities	7	2,807	3,580
Total Local Currency Liabilities		316,881	204,463
TOTAL LIABILITIES		338,329	217,342
NET LIABILITIES		(28,386)	(52,458)
EQUITY			
Capital and Reserves			
Authorised Capital		50,000	3,000
Paid up Capital		2,597	2,597
General Reserves	3(a)	(108,716)	(104,025)
Revaluation Reserve	3(b)	76,957	48,175
Other Reserves	3(c)	776	795
TOTAL EQUITY		(28,386)	(52,458)

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

Date: 2 April 2004

Signed:

(Governor)

Signed:

(Manager, Corporate Services Dept)

CENTRAL BANK OF SOLOMON ISLANDS
INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2003

	Notes	2003 (\$'000)	2002 (\$'000)
<u>INCOME</u>			
Interest Income	2(a)	5,006	4,070
Fees and Commissions	2(b)	2,261	1,297
Royalties		121	205
Other Income	2(c)	627	3,101
Total Income		8,015	8,673
<u>EXPENSES</u>			
Interest expense	2(d)	137	913
Fees and Commissions		45	115
Loss on Exchange of Foreign Currency		0	374
Administrative Expenses	2(e)	8,035	9,968
Other operating Expenses	2(f)	4,508	4,792
Total Expense		12,725	16,162
Operating Loss		(4,710)	(7,489)
Transfer from Reserves			
Other Reserves	3(c)	19	70
Total transfer from Reserves		19	70
Net Loss		(4,691)	(7,419)
<u>Appropriation of Net Loss</u>			
Net Loss Transferred to General Reserves		(4,691)	(7,419)
Transfer to Solomon Islands Government Consolidated Fund		0	0

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

CENTRAL BANK OF SOLOMON ISLANDS**STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2003**

	Authorised Capital (\$'000)	Paid Up Capital (\$'000)	General Reserve (\$'000)	Revaluation Reserve (\$'000)	Other Reserves (\$'000)
Balance at 31 December 2001	3,000	2,597	(175,588)	93,024	985
Transfer of net operating profit/ (loss) in terms of Section 20(1) of Central Bank of Solomon Islands ("CBSI") Act (CAP49)	0	0	(7,419)	0	0
Security Note issued by the Solomon Islands Government in terms of Section 44 of CBSI Act (CAP49)	0	0	78,980	0	0
Transfer of Revaluation Gains/(losses) for the year in terms of section 45(1) of CBSI Act (CAP49)	0	0	0	34,133	0
Redemption of Security Note in terms of section 45(3) of CBSI Act (CAP49)	0	0	0	(78,980)	0
Transfer from Reserves to Income Statement - SBFS payments	0	0	0	0	(190)
Balance - 31 December 2002	3,000	2,597	(104,025)	48,175	795
Increase in authorised Capital in terms of section 18(1) of CBSI Act (CAP 49)	47,000				
Transfer of net operating profit/ (loss) in terms of Section 20(1) of CBSI Act (CAP49)	0	0	(4,691)	0	0
Transfer of Revaluation Gains/(losses) for the year in terms of section 45(1) of CBSI Act (CAP49)	0	0	0	28,782	0
Transfer from Other Reserves to Income Statement - SBFS payments	0	0	0	0	(19)
Balance - 31 December 2003	50,000	2,597	(108,716)	76,957	776

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF CASH FLOWS
FOR PERIOD ENDED 31ST DECEMBER, 2003

	Notes	2003 (\$'000)	2002 (\$'000)
Cash flows from operating activities			
Interest received		4,657	4,070
Cash received from other income		3,018	1,828
Interest paid		(137)	(913)
Cash payments in the course of operations		(16,634)	(12,109)
Net cash from operating activities before movement in operating assets and liabilities		(9,096)	(7,124)
Cash received on placement of deposits		87,920	20,159
Cash received/(paid) on IMF allocation of SDR		648	2,012
(Increase)/decrease in government finance provided		127	2,465
Net cash provided by operating activities		79,599	17,512
Cash flows from investment activities			
Payments for Premises, Plant & Equipment		(935)	(432)
Proceeds from sale of Premises, Plant & Equipment		10	123
(Increase)/decrease in foreign investments		(110,490)	12,793
Net cash used in investment activities		(111,415)	12,484
Cash flows from financing activities			
Net movement in issue of circulating currency		13,381	5,839
Net movement in foreign currency loan		6,547	3,754
Solomon Islands Government Monetary Operations		11,890	(32,105)
Net cash from financing activities		31,818	(30,020)
Net increase (decrease) in cash held		2	(24)
Cash at the beginning of the financial year		111	135
Cash at the end of financial year	17	113	111

Notes numbered 1 to 18 form part of these financial statements

CENTRAL BANK OF SOLOMON ISLANDS**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003****1. STATEMENT OF ACCOUNTING METHODS**

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

(a) Basis of Preparations

The financial statements of the Bank have been drawn up in accordance with applicable accounting standards in the Solomon Islands 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.

The Central Bank of Solomon Islands is working towards adopting and complying with the International Financial Reporting Standards by 2005.

(b) Currency of Presentation

All amounts are expressed in Solomon Islands Dollar

(c) 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.

(d) 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.

(e) 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/ (loss). (See also notes 3 and 5).

(f) 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003**(g) Comparative Figures**

Where necessary comparative figures have been changed to conform to presentation in the current year

(h) Rounding

Amounts in the financial statements are rounded to the nearest thousand dollars unless otherwise stated

2 INCOME AND EXPENSES

	2003 (\$'000)	2002 (\$'000)
(a) Interest Income		
Interest Received from foreign investment	4,859	3,900
Interest received from local investment	147	170
	5,006	4,070
(b) Fees and Commissions		
Fees and commissions - foreign dealings	2,126	1,179
Fees and commissions - local dealings	135	118
	2,261	1,297
(c) Other Income		
Proceeds from disposal of fixed assets	10	123
Rent Received	303	199
Sale of Numismatic coins	249	42
Others	65	2,737
	627	3,101
(d) Interest Expenses		
Interest expenses on foreign liabilities	137	145
Interest expenses on local liabilities	0	768
	137	913
(e) Administration expenses		
Staff Costs	5,540	7,263
Others	2,495	2,705
	8,035	9,968
(f) Other Operating expenses		
Board of Directors Remunerations & expenses	54	103
Currency expenses	834	1,076
Depreciation	937	947
Auditors Remuneration	165	309
Provisions for Bad and Doubtful Debts	1,800	80
Provision for Diminution	672	672
Others	46	1,605
	4,508	4,792

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003**3 RESERVES****(a) General Reserves**

General Reserves is maintained to cover for net losses incurred by the Bank and unforeseen events and contingencies.

(b) Revaluation Reserves

In accordance with provisions of Section 45(1) of the Central Bank of Solomon Islands Act (CAP 49), all unrealised gains and losses arising from revaluation of foreign currencies are transferred to revaluation reserves at the end of each financial year. This is at variance with the International Financial Reporting Standard IAS 21 "Effects of Changes in Foreign Exchange Rates", but in the opinion of the Board, it is appropriate in this instance to comply with the provisions of the Act.

(c) Other Reserves

Other reserves caters for approved schemes operated by the Bank. The schemes includes, Small Business Finance Scheme (SBFS), early retirements and gratuity payments.

4 CAPITAL SUBSCRIPTION

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

5 FOREIGN CURRENCY DEMAND DEPOSITS

	2003	2002
	(\$'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)	7,829	(72)

6 LOCAL CURRENCY DEMAND DEPOSITS

Banks	110,690	76,145
Solomon Islands Government	40,787	1,697
Financial Corporations	220	27
Other	72	146
	151,769	78,015

CENTRAL BANK OF SOLOMON ISLANDS**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003**

	2003 (\$'000)	2002 (\$'000)
7 OTHER LOCAL CURRENCY LIABILITIES		
Unpresented Bank Cheques	2,020	2,734
Provisions for employee entitlements	290	222
Other	497	624
	2,807	3,580
8 SECURITIES		
Solomon Islands Government Monetary Operations	31,662	19,772
9 Currency In Circulation		
Notes	104,660	91,800
Coins	6,534	6,013
	111,194	97,813
10 FIXED ASSET		

2003	TOTAL PREMISES	FURNITURE	COMPUTER	MOTOR
	(\$'000)	(\$'000)	(\$'000)	VEHICLE
				(\$'000)
Written down Value at 1st January 2003	7,997	6,866	474	264
393				
Additions during the year	1,800	1,181	296	323
0				
Disposal during the year at written down value	0	0	0	0
0				
Depreciations for the year	(937)	(278)	(289)	(234)
(136)				
Written Down Value at 31st December 2003	8,860	7,769	481	353
257				

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003

2002 TOTAL	PREMISES FURNITURE COMPUTER EQUIPMENT			MOTOR VEHICLE	
(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'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

11 LOANS AND ADVANCES

	2003 (\$'000)	2002 (\$'000)
(a) Loans and Advance to Solomon Islands Government		
Loans and Advances	174,289	174,082
Less Provision for Doubtful Debts	(174,289)	(174,082)
Development Bonds	27	27
Treasury Bills	59	186
Other Securities	11,075	11,075
Total Advances to Solomon Islands Government	11,161	11,288
(b) Staff Loans		
Staff Housing Loans	3,921	3,999
Less Provision for Doubtful Debts	(251)	(245)
Management Car Loans	106	134
Personal Loans	934	946
Total Advance to Staff	4,710	4,834
Total Loans and Advances	15,871	16,122

CENTRAL BANK OF SOLOMON ISLANDS**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003****(c) Concentration of Credit Risk**

Loans and Advances to the government of \$174.29m accounted for thirty six percent (36%) of the Bank's total assets in comparison with fifty one percent (51%) in 2002. The quality of this asset has been affected by difficulties faced by the Government since 1995 in meeting its debt servicing obligations.

The Government now has the assistance of the Regional Assistance Mission to the Solomon Islands personnel in inline positions to work with the Ministry of Finance to assist with financial management and a Debt Management Strategy. Discussions have commenced between the Bank and Government regarding repayment of Government borrowings but it is not yet certain whether the Government will be able to arrange repayment of debts and outstanding interest.

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 2003 was \$98.4m(2002 - \$98.4m)

The Directors of the Bank consider the value of Government 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.

12 OTHER LOCAL CURRENCY ASSETS	2003 (\$'000)	2002 (\$'000)
Accrued Interest	1	1
Current Assets	7,190	1,362
SI Notes and Coins	3,375	3,881
Advances and prepayments	2,858	2,470
Less Provision for Doubtful Debts	(1,588)	0
	11,836	7,714
13 MATURITY OF FINANCIAL ASSETS		
All 2003 Term deposits mature within five months		
14 ACCRUED INTEREST AND BILLS COLLECTIBLES		
Accrued Interest - interest receivable but not due	828	479
Bills for collections	8	8
Total	836	487

CENTRAL BANK OF SOLOMON ISLANDS**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003****15 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 funding agencies.

16 EQUITY 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 - 200 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.

	2003 (\$'000)	2002 (\$'000)
Investment Corporation of Solomon Islands (ICSI)		
Investment at cost	10,000	10,000
Accumulated Provision for diminution	(8,655)	(7,983)
Net Equity Investment - ICSI	1,345	2,017
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	1,345	2,017

17 CASH AND CASH EQUIVALENT

Cash and cash equivalents in the statement of cash flows comprise of cash held at the Bank till

Cash on Hand	113	111
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CENTRAL BANK OF SOLOMON ISLANDS**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003****18 GOING CONCERN**

During the year ended 31 December 2003 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 insurance policy exclusion clauses. However since the arrival of Regional Assistance Mission to Solomon Islands on 24 July 2003 law and order has been restored, there has been an improvement in the country's foreign reserves and the restriction on foreign exchange payment has been reviewed.

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 believes that the Bank will be able to continue as a going concern for the foreseeable future. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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

CENTRAL BANK OF SOLOMON ISLANDS**2003 CALENDAR OF EVENTS****January**

- Pacific Financial Technical Assistance Centre [PFTAC] Statistics Advisor, Philip Turnbull visits the Central Bank;
- Manager, Corporate Services department [CSD] attends course on Central Bank Accounting in Singapore;

February

- Financial Institutions Department [FID] conducts two weeks of in-house training on “On-site and off-site Supervision Techniques and Analysis”.

March

- Pacific Software of Brisbane conducts Sun computer training for Central Bank of Solomon Islands [CBSI] staff;
- Foreign Exchange department [FRX] introduces a scheme for fuel importers;

April

- Two security officers complete their contract of employment with the Bank;
- The two-year terms of Directors, Akuila Talasasa and William Pita expires.

May

- Banking business in Honiara disrupted for two days because of threats from promoters of the Family Charity Fund [FCF] scheme;
- The Bank launches its 2002 Annual Report at Honiara hotel.

June

- Governor attends the Bank of England symposium in London, visits the International Monetary Fund [IMF] and Reserve Bank of Fiji.
- FID completes an Off-site Analysis Report on the Financial Accounts, Credit
- Risk Management and Investment policy of the Solomon Islands National Provident Fund (NPF).

July

- The Regional Assistance Mission to Solomon Islands [RAMSI] arrives in Solomon Islands;

August

- Australian Foreign Minister, Mr. Alexander Downer visits the Central Bank;
- The Government reappoints Rick Hou as Governor for a third term;
- An European Union Mission visits the Central Bank;
- Deputy Governor attends a Commonwealth Association for Corporate Governance Seminar on Corporate Governance in Fiji;
- Supervisor Accounts, CSD attends course on budgeting in Canberra;
- Mr. Francis Zama replaces Mr. Snyder Rini as new Minister of Finance;
- FID conducts on-site examinations of the NPF's Credit Portfolio.

September

- Acting Vice Chancellor of the University of the South Pacific visits the Central Bank;
- The Minister of Finance appoints Mr. Tony Hughes, Mr. George Kiriau and Mr. Francis Kairi as new Directors on the CBSI Board;
- Governor and Manager Economics department attends the IMF and World Bank [WB] Annual Meetings in Dubai;
- The Minister of Finance appoints the Governor as Acting Controller of Insurance for six months.

October

- Magistrate Court finds the promoters of FCF guilty of conspiracy to defraud and sent to jail;
- A joint Asian Development Bank/World Bank mission visits Solomon Islands;
- Supervisor, Investment Unit, FRX department attends a course on Reserves Management in Singapore;
- One staff of Information Technology [IT] unit attends SWIFT Migration Training in New Zealand.

November

- Governor and Permanent Secretary, Ministry of Finance, attends a pre-donors meeting on Solomon Islands in Sydney;
- Another IMF Mission visits Solomon Islands;
- SI Government meets with its bilateral and multilateral donors in Honiara;
- Manager, FID, and a Bank Analyst, FID attends a regional workshop on Basel II Capital Accord, Risk Management and Corporate Governance and Heads of Supervision Meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC) in Fiji;
- Two Currency & Banking Operations [CBO] department staff and one Information Technology [IT] unit staff attends training on CS-DRMS 2000+ in PNG.
- FID submits its report and recommendations on the NPF On-site examinations to the Central Bank and NPF boards;
- FID conducts On-site examinations of the Development Bank of Solomon Islands.

December

- Deputy Governor and Manager FID attends the South Pacific Central Bank Governors Conference in PNG;
- Manager CBO signs a new employment contract for two years.

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TABLE1.1 MONETARY SURVEY

(SIS'000)

Period Average 1	NET FOREIGN ASSETS			DOMESTIC CREDIT			NARROW MONEY (M1)				QUASI-MONEY		BROAD MONEY (M3)	OTHER ITEMS (NET)
	Monetary Authority	Banks	Total	Govern- ment(net)	Private Sector	Total	Currency in Circulation	Demand Deposit Banks	CBSI	Total	Savings Deposits	Time Deposits		
1998	225037	18	225055	177999	177768	355767	81340	135727	3507	220574	74790	143157	438521	142301
1999	240844	2570	243414	178267	194317	372584	100114	162764	1882	264760	75792	117778	458330	157668
2000	147720	-3531	144189	258170	198806	456976	88272	159351	662	248285	82240	129485	460010	141155
2001	90971	6422	97241	269782	154653	424434	84704	161378	268	246349	79622	73044	399015	130940
2002	117493	10351	127844	297036	173282	470318	91502	155478	109	247089	67375	100440	414904	183258
2003	249570	16481	266051	249170	217345	466515	102691	224987	228	327906	67453	124825	520184	212381
2001														
Mar	104888	-1117	103771	268829	183908	452737	76589	154195	1609	232393	76056	112415	420864	135644
Jun	101511	2641	104152	275061	176486	451547	72947	169828	337	243112	72301	106331	421744	133955
Sep	106596	4947	111543	266852	166994	433846	72073	172191	278	244542	74743	81707	400992	144397
Dec	90971	6422	97241	269782	154653	424434	84704	161378	268	246349	79622	73044	399015	130940
2002														
Mar	127950	3740	131690	289293	165732	455024	82687	155075	331	238093	76367	83053	397513	189202
Jun	69006	13212	82218	303583	175690	479273	81599	144055	173	222245	67626	88572	378443	183048
Sep	101193	608	101801	298534	190412	488946	81599	139586	136	226122	74297	97335	397754	192993
Dec	117493	10351	127844	297036	173282	470318	91502	155478	109	247089	67375	100440	414904	183258
2003														
Jan	121679	(1338)	120341	299280	174261	473541	85318	162004	131	247453	65134	96715	409302	184580
Feb	119344	8707	128051	303435	167304	470739	85885	167891	20	253797	70269	99772	423838	174953
Mar	124125	5446	129571	305064	172775	477839	84133	166027	27	250187	71269	100019	421475	185936
Apr	130853	1143	131996	296984	171137	468121	91113	154696	41	245850	70027	104688	420565	179552
May	143644	2089	145733	301785	178967	480752	97938	162211	55	260204	72641	106781	439626	186858
Jun	196297	8415	204712	273346	181616	454962	97490	177891	33	275414	71637	103909	450960	208714
Jul	196837	6445	203282	278321	181943	460264	92650	186655	44	279349	71112	105065	455526	208019
Aug	195595	6634	202229	282881	184570	467451	94263	183382	301	277946	70892	106843	455681	213999
Sep	200715	6632	207347	284332	195040	479372	94156	194530	175	288860	72127	114065	475052	211667
Oct	211879	21645	233524	277081	203138	480219	99922	195886	282	296090	70778	122816	489684	224059
Nov	224528	13933	238461	275994	204094	480088	99537	205895	766	306198	69387	123913	499498	219051
Dec	249570	16481	266051	249170	217345	466515	102691	224987	228	327,906	67453	124825	520184	212381

(1) End of period beginning January 1989
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)	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)
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
2003	102691	224987	228	327906	67453	395359	124825	520184
<u>2000</u>								
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
<u>2001</u>								
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
<u>2002</u>								
Mar	82687	155075	331	238093	76367	314460	83053	397513
Jun	78017	144055	173	222245	67626	289871	88572	378443
Sep	86399	139586	136	226122	74297	300419	97335	397754
Dec	91502	155478	109	247089	67375	314464	100440	414904
<u>2003</u>								
Jan	85318	162004	131	247453	65134	312587	96715	409302
Feb	85885	167891	20	253797	70269	324066	99772	423838
Mar	84133	166027	27	250187	71269	321456	100019	421475
Apr	91113	154696	41	245850	70027	315877	104688	420565
May	97938	162211	55	260204	72641	332845	106781	439626
Jun	97490	177891	33	275414	71637	347051	103909	450960
Jul	92650	186655	44	279349	71112	350461	105065	455526
Aug	94263	183382	301	277946	70892	348838	106843	455681
Sep	94156	194530	175	288860	72127	360987	114065	475052
Oct	99922	195886	282	296090	70778	366868	122816	489684
Nov	99537	205895	766	306198	69387	375585	123913	499498
Dec	102691	224987	228	327906	67453	395359	124825	520184

1/ End of period beginning January 1989.

Source: Central Bank of Solomon Islands.

TABLE 1.3A 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
	Money at call	Deposits	Secs	SDR Holdings	Total	O/D Advances	Account	T/Bills	Dev Bonds	Other Secs	Total	Banks	Non-Bank	Secs & Invt	Premis & Equip	Other	Total		
Average 1/																			
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
2003	131135	139945	-	2	271082	174289	-	59	27	11075	185450	-	-	1345	8860	19334	29539	486070	13
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																			
Mar	53095	90741	-	25	143861	186808	-	477	27	11075	198386	-	-188	3361	8786	9665	21812	363870	9
Jun	43945	40011	-	4	83961	189502	-	563	27	11075	201166	-	-188	2689	8864	5427	16980	301918	11
Sep	48659	67066	-	26	115750	192214	-	253	27	11075	203569	-	-188	2689	8984	3708	15381	334512	12
Dec	51759	78638	-	39	130436	174082	-	-	27	11075	185370	-	-	2017	7997	13391	23405	339211	12
2003																			
Jan	42202	94847	-	39	137088	174082	-	254	27	11075	185438	-	-	2017	8031	14315	24363	346889	13
Feb	41588	92906	-	13	134507	174969	-	433	27	11075	186503	-	-	2017	8209	14364	24589	345600	13
Mar	40436	97845	-	14	138394	175774	-	372	27	11075	187248	-	-	2017	8315	13360	23692	349334	12
Apr	44292	100685	-	35	145012	176670	-	363	27	11075	188134	-	-	2017	8668	12198	22883	356030	13
May	53951	105473	-	12	159436	177541	-	294	27	11075	188937	-	-	2017	8696	16994	27707	376079	13
Jun	105269	106511	-	12	211792	178446	-	235	27	11075	189783	-	-	2017	8831	(2920)	7928	409502	14
Jul	108710	106116	-	43	214870	179326	-	245	27	11075	190673	-	-	2017	8851	(651)	10217	415760	13
Aug	95017	120252	-	28	215297	180239	-	226	27	11075	191567	-	-	2017	8863	(3137)	7743	414607	13
Sep	95671	124885	-	29	220585	181158	-	69	27	11075	192329	-	-	2017	8898	(3121)	7794	420708	13
Oct	104606	128298	-	23	232926	182051	-	138	27	11075	193291	-	-	2017	8985	(1159)	9843	436060	13
Nov	110648	134739	-	2	245388	182979	-	634	27	11075	194715	-	-	2017	8908	(1270)	9654	449758	13
Dec	131135	139945	-	2	271082	174289	-	59	27	11075	185450	-	-	1345	8860	19334	29539	486070	13

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

1/ End of period beginning January 1989.

Source: Central Bank of Solomon Islands.

TABLE 1.3B LIABILITIES OF CENTRAL BANK

(SI\$'000)

Period 1/ Average	EXT. LIABILITIES			CURRENCY IN CIRCULATION			DEPOSITS						CAPITAL FUNDS			SEC	OTHER DOM Bokolo Bills	TOTAL LIABI- LITIES	
	S.D.R. Alloca.	Other	Total	Notes	Coins	Total	Government			Banks	Other	Total	Paid-up Capital	Reval'n Res	Other Res	Total			
							Euro- Loan	Other	Total										
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
2003	725	14254	21512	104660	6534	111194	-	91898	91898	110684	228	202815	2597	76987	-107980	-28386	-	178935	486070
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																			
Mar	6250	9660	15910	82461	5705	88166	-	57192	57192	63285	331	120808	2597	93024	2804	98425	-	40561	363870
Jun	6209	8746	14955	78849	5805	84654	-	42360	42360	34097	173	76630	2597	93024	-174650	-79020	-	204708	301918
Sep	6372	8186	14558	86040	5912	91952	-	48309	48309	47692	136	96137	2597	93024	-174693	-79072	-	210936	334512
Dec	6610	6333	12943	91800	6013	97813	-	26751	26751	76145	109	103005	2597	48175	-103230	-52458	-	177907	339211
2003																			
Jan	6720	8689	15409	85392	5972	91364	-	27907	27907	86037	131	114075	2597	42009	-103230	-58623	-	184665	346889
Feb	6506	8656	15162	85736	5957	91692	-	31622	31622	89548	20	121191	2597	42617	-103230	-58015	-	175570	345600
Mar	6706	7563	14269	84032	6017	90049	-	37774	37774	82385	27	120186	2597	42617	-103230	-58015	-	182846	349334
Apr	6769	7390	14159	89348	6047	95395	-	34048	34048	95468	41	129557	2597	42617	-103230	-58015	-	174934	356030
May	6957	8835	15792	96774	6090	102864	-	40811	40811	92357	55	133223	2597	42617	-103230	-58015	-	182215	276079
Jun	6948	8547	15495	97898	6142	104039	-	74882	74882	89183	33	164097	2597	42617	-103230	-58015	-	183886	409502
Jul	6901	11131	18033	95389	6264	101652	-	68966	68966	101475	44	170484	2597	42617	-103230	-58015	-	183606	415760
Aug	6807	12895	19702	94569	6314	100084	-	64220	64220	107032	301	171554	2597	42617	-103230	-58015	-	180483	414607
Sep	6948	12922	19870	96942	6331	101273	-	58451	58451	110326	175	168952	2597	42617	-103230	-58015	-	186628	420708
Oct	7049	13999	21047	100554	6387	106942	-	72791	72791	99782	282	172856	2597	42617	-103230	-58015	-	193230	436060
Nov	7065	13795	20860	100126	6445	106571	-	76498	76498	106959	766	184223	2597	42617	-103230	-58015	-	196119	449754
Dec	7258	14254	21512	104660	6534	111194	-	91898	91898	110689	228	202815	2597	76997	-107980	-28386	-	178935	486070

1/ End of period beginning January 1989.

Source: Central Bank of Solomon Islands.

TABLE 1.4A ASSETS OF COMMERCIAL BANKS

(SIS\$'000)

Period Average 1/	<u>S.I CASH</u>	<u>DUE FROM CENTRAL BANK</u>		<u>SECURITIES</u>					<u>LOANS AND ADVANCES</u>					<u>OTHER DOM ASSETS</u>	<u>FOR'N ASSETS</u>	<u>TOTAL ASSETS</u>
		Call	Other	Treasury Bills	Dev/Tr Bonds	Restr. Bonds	Auct. T'Bills	CBSI Secur.	SIG	Prov Govt	Stat Corps	Other	Total			
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	149840	-	-	-	159	2004	152729	154892	52897	30654	452871
2002	6311	75023	-	-	24800	149840	-	-	-	775	1965	171317	174057	48656	39945	493832
2003	8503	106841	-	14377	-	149840	-	-	-	715	1359	215986	218060	59448	55170	612239
<u>2001</u>																
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
<u>2002</u>																
Mar	5479	62966	-	-	24800	125040	-	-	-	788	2011	163909	166708	48249	26943	460185
Jun	6637	34571	-	-	24800	125040	997	-	-	715	2048	173830	176593	48599	40706	457943
Sep	5553	46949	-	-	24800	125040	-	-	-	757	2079	188522	191358	46921	26295	466915
Dec	6311	75023	-	-	24800	125040	-	-	-	775	1965	171317	174057	48656	39945	493832
<u>2003</u>																
Jan	6046	86357	-	-	-	149840	-	-	-	791	1994	172267	175052	46860	24130	488285
Feb	5807	89663	-	4997	-	149840	-	-	-	673	2005	165299	167977	48364	34414	501062
Mar	5916	83577	-	9989	-	149840	-	-	-	669	1916	170859	173444	53346	30123	506235
Apr	4282	98495	-	-	-	149840	-	-	-	692	1933	169204	171829	53643	28352	506441
May	4926	91855	-	9989	-	149840	-	-	-	715	1907	177060	179682	53447	35781	525520
Jun	6549	89973	-	14964	-	149840	-	-	-	663	1875	179741	182279	54402	70981	568988
Jul	9002	101676	-	14969	-	149840	-	-	-	730	1845	180098	182673	58360	65488	582008
Aug	6621	106720	-	14892	-	149840	-	-	-	736	1571	182999	185306	57272	66394	587045
Sep	9117	110120	-	8910	-	149840	-	-	-	728	1445	193595	195768	61221	63832	598808
Oct	7020	99439	-	15829	-	149840	-	-	-	706	1721	201417	203844	58759	78525	613256
Nov	7034	106785	-	14863	-	149840	-	-	-	740	1418	202676	204834	58031	60090	601477
Dec	8503	106841	-	14377	-	149840	-	-	-	715	1359	215986	218060	59448	55170	612239

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

TABLE 1.4B LIABILITIES OF COMMERCIAL BANKS

(SIS'000)

Period	DEMAND DEPOSITS					SAVINGS DEPOSITS	TIME DEPOSITS					TOTAL DEPOSITS					DUE TO CBSI	CAP & RES	OTHER LIABS	FOR'N LIABS	TOTAL LIABS
	Average1/	S.I.G	Prov Govt	Stat Corps	Other	Total	S.I.G	Prov Govt	Stats Corps	Other	Total	S.I.G.	Prov Govt	Stat Corps	Other	Grand Total					
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
2003	3822	5107	7167	217820	233916	67453	112	273	6219	118606	125210	3934	5380	13386	403879	426579	-	99569	47402	38689	612239
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																					
Mar	1169	985	12371	142704	157229	76367	80	295	3285	79768	83428	1249	1280	15656	298839	317024	-	91894	28064	23203	460185
Jun	3476	2407	8100	135955	149938	67626	608	284	4170	84402	89464	4084	2691	12270	287983	307028	-	93359	30062	27494	457943
Sep	1704	4726	11359	128227	146016	74297	614	279	7669	89666	98228	2318	5005	19028	292190	318541	-	95454	27233	25687	466915
Dec	2826	9033	9577	145901	167337	67375	59	279	7694	92746	100778	2885	9312	17271	306022	335490	-	95839	32909	29594	493832
2003																					
Jan	4298	4189	9952	152052	170491	65134	96	299	7694	89021	97110	4394	4488	17646	306207	332735	-	97076	33006	25468	488285
Feb	3498	3065	7291	160600	174454	70269	106	287	7694	92078	100165	3604	3352	14985	322947	344888	-	99556	30911	25707	501052
Mar	1941	2788	79461	580811	170756	71269	99	80	7694	92325	100198	2040	2868	15640	321675	342223	-	92069	47266	24677	506235
Apr	4153	3302	7323	147373	162151	70027	81	98	7704	96984	104867	4234	3400	15027	314384	337045	-	93785	48402	27209	506441
May	4086	2405	6013	156198	168702	72641	93	301	7704	99077	107175	4179	2706	13717	327916	348518	-	94051	49259	33692	525520
Jun	3183	3448	7318	170573	184522	71637	93	297	7706	96203	104299	3276	3745	15024	338413	360458	-	96222	49742	62566	568988
Jul	5097	3438	6647	180008	195190	71112	93	297	7706	97359	105455	5190	3735	14353	348479	371757	-	98196	53012	59043	582008
Aug	6474	3069	3315	180067	192925	70892	94	297	13822	93201	107234	6568	3366	17137	343980	371051	-	101492	54742	59760	587045
Sep	5734	2898	7798	186732	203162	72127	94	297	7706	106359	114456	5828	3195	15504	365218	389745	-	100122	51741	57200	598808
Oct	5573	4044	6205	189681	205503	70778	94	82	7214	115602	122992	5667	4126	13419	376061	399273	-	99633	57470	56880	613250
Nov	4504	3027	5625	200270	213426	69387	106	29	6218	117695	124048	4610	3056	11843	387352	406861	-	96066	52393	46157	601477
Dec	3822	5107	7167	217820	233916	67453	112	273	6219	118606	125210	3934	5380	13386	403879	426579	-	99569	47402	38689	612239

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	Telecommunications	Distribution	Tourism
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
2003	2912	41131	4033	-	31890	13658	2114	37362	30046	3777
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										
Mar	2432	18032	75	-	48245	9805	3508	3702	28518	3236
Jun	2523	15239	833	-	58321	10719	2096	6030	30086	2871
Sep	2464	20135	330	-	63628	8709	1999	7448	36113	3023
Dec	2084	20449	364	1305	42774	10418	1407	14185	31597	3062
2003										
Jan	2207	25075	347	72	39397	10475	1633	13527	33005	3123
Feb	1900	17510	318	-	39847	10706	1866	14439	32148	3324
Mar	1963	23196	448	2612	38201	10453	1864	15081	31290	3212
Apr	2160	26337	781	1073	39397	10475	2248	14412	31501	3306
May	2180	29426	666	-	36943	11147	2282	18084	32095	3212
Jun	2247	28120	1619	1102	33354	13494	2202	21848	30919	3129
Jul	2379	29220	1100	-	33852	13361	1819	23590	30400	3155
Aug	2359	32175	1293	1929	32712	12414	1637	24279	30851	2871
Sep	2525	42839	415	637	32932	12568	1677	25872	29422	3177
Oct	2865	37240	1064	-	33484	13691	1679	32880	29796	3598
Nov	2934	39615	1827	-	30429	13730	1923	31835	29572	3903
Dec	2912	41131	4033	-	31890	13658	2114	37362	30046	3777

* 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
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
2003	825	715	1359	-	309	13873	34056	218060	167
2000									
Mar	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									
Mar	1482	791	2008	2	459	8105	36308	166708	39
Jun	1433	715	2047	1	486	7601	35592	176593	36
Sep	1352	757	2079	1	346	8776	34198	191358	33
Dec	1169	775	1965	-	268	8466	33734	174022	59
2003									
Jan	940	792	1994	1	442	8579	33443	175052	60
Feb	1026	673	2005	-	361	9018	32836	167977	29
Mar	1006	671	1916	-	348	8444	32739	173444	27
Apr	951	692	1933	-	248	7986	32299	175799	27
May	972	715	1907	-	338	8655	31060	179682	27
Jun	942	670	1875	-	346	9026	31386	182279	27
Jul	959	830	1845	-	345	8636	31182	182673	1
Aug	917	736	1573	-	314	9007	30238	185305	-
Sep	919	7281	1652	-	213	9184	31007	195767	-
Oct	869	706	1721	-	247	12232	31771	203843	1
Nov	849	740	1418	-	295	13588	33176	204834	2
Dec	825	715	1359	-	309	13873	34056	218060	167

Source: Central Bank of Solomon Islands.

TABLE 1.6 COMMERCIAL BANK LIQUID ASSETS POSITION

(SI'000)

Period Average 1/	ELIGIBLE RESERVE ASSETS				REQUIRED RESERVE ASSETS	OTHER LIQUID ASSETS	SURPLUS/ (DEFECIT)
	Till Cash	Balances With CBSI	Government Securities	Total		CBSI Securities	
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	6311	75023	-	81334	25162	-	56172
2003	8503	106841	-	115344	31993	-	83351
<u>2000</u>							
Mar	3988	32950	-	36938	28273	-	8665
Jun	3953	30794	-	34747	27812	-	6935
Sep	3288	48486	-	51774	29196	-	22578
Dec	5280	55670	-	60950	28305	-	32645
<u>2001</u>							
Mar	3720	75049	-	78769	26040	-	52729
Jun	4094	79816	-	83910	26442	-	57468
Sep	4786	71815	-	76601	24873	-	51728
Dec	7271	57317	-	64588	23751	-	40837
<u>2002</u>							
Mar	5479	62966	-	68445	23777	-	44668
Jun	6637	34571	-	41208	23027	-	18181
Sep	5553	46949	-	52502	23891	-	28611
Dec	6311	75023	-	81334	25162	-	56172
<u>2003</u>							
Jan	6046	86357	-	92403	24955	-	67448
Feb	5807	89663	-	95470	25867	-	69603
Mar	5916	83577	-	89493	25667	-	63826
Apr	4282	98495	-	102777	25278	-	77499
May	4926	91855	-	96781	26139	-	70642
Jun	6549	89973	-	96522	27034	-	69488
Jul	9002	101676	-	110678	27882	-	82796
Aug	6621	106720	-	113341	27829	-	85512
Sep	9117	110120	-	119237	29231	-	90006
Oct	7020	99439	-	106459	29945	-	76514
Nov	7034	106785	-	113819	30515	-	83304
Dec	8503	106841	-	115344	31993	-	83351

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)

End of Period	A S S E T S				L I A B I L I T I E S S				TOTAL ASSETS = TOTAL LIABILITIES
	Due from Banks	Loans and Advances	Treasury Bills	Other Assets	Time Deposits	Due to Banks	Capital	Other Liabilities	
1990	-	6347	-	1159	4389	1225	500	1392	7506
1991	60	4852	-	252	3269	354	1477	164	5264
1992	462	5439	-	285	3657	-462	2380	611	6186
1993	178	6418	-	952	4634	-	3329	-415	7548
1994	50	7592	-	1019	5040	-	3743	-122	8661
1995	535	7049	-	2404	5792	1750	2145	301	9988
1996	1200	6447	-	2652	7514	-	2631	154	10299
1997	-	3281	-	1118	764	357	2978	300	4399
1998	1672	1888	-	616	288	-	3321	567	4176
1999	3261	430	-	299	105	-	3727	158	3990
2000	3613	237	-	169	107	-	3654	258	4019
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)

End of Period	ASSETS							LIABILITIES						
	Fixed Deposits	Treasury Bills	Term Loans	Equity Holdings	Staff Loans	Fixed* Assets	Other+ Assets	Term Liabilities				Capital and Reserves	Other Liabs	TOTAL ASSETS = TOTAL LIABS.
								S.I.G	C.B.S.I	Overseas#	N.P.F			
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	97	4131	4098	-20415	7145	-	10038	2584	681	30472	50920
2002	517	-	61131	97	4255	3561	-26073	7145	-	10589	2558	-6755	29951	43489
2003	685	-	57543	97	3587	2271	-25240	7145	-	16813	2558	-15526	27954	38944
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														
Mar	512	-	62369	97	4211	4136	-22924	7145	-	10222	2584	-1206	29655	48401
Jun	522	-	61989	97	4196	3720	-20361	7145	-	10222	2584	1000	29212	50164
Sep	530	-	61492	97	4245	3494	-20410	7145	-	10222	2584	316	29181	49448
Dec	517	-	61131	97	4255	3561	-26073	7145	-	10589	2558	-6755	29951	43489
2003														
Jan	530	-	60623	97	4162	3524	-26050	7145	-	10589	2558	-6980	29574	42887
Feb	530	-	60696	97	4162	2418	-26049	7145	-	10589	2558	-7500	29061	41854
Mar	530	-	60566	97	4117	2773	-26003	7145	-	10589	2558	-7609	29396	42080
Apr	515	-	60496	97	4112	2742	-25987	7145	-	10589	2558	-7850	29533	41976
May	503	-	59891	97	4100	2571	-45322	7145	-	10589	2558	-9059	11234	21940
Jun	513	-	59641	97	4116	2671	-26386	7145	-	10589	2558	-9190	26513	40622
Jul	513	-	59615	97	4131	2610	-26392	7145	-	10589	2558	-9281	29561	40573
Aug	1351	-	58296	97	3414	2579	-25675	7145	-	16813	2558	-15455	29000	40062
Sep	1026	-	58202	97	3432	2549	-25692	7145	-	16813	2558	-15753	28850	39613
Oct	1026	-	57533	97	3464	2521	-25725	7145	-	16813	2558	-5905	18404	39016
Nov	1026	-	58184	97	3432	2549	-25582	7145	-	11572	2558	-15569	33999	39706
Dec	685	-	57543	97	3587	2271	-25240	7145	-	16813	2558	-15526	27954	38944

* 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)

	1999	2000	2001	2002	2003
A. CURRENT ACCOUNT	120.0	-223.8	-172.3	-23.4	204.0
1. Goods and Services	-40.3	-236.2	-231.1	-106.8	-166.7
1.1 Goods	192.6	-117.3	-182.7	68.8	31.6
a) Exports f.o.b.	725.0	352.6	248.7	390.1	557.0
b) Imports f.o.b.	-532.4	-469.9	-431.4	-321.3	-525.5
1.2 Services	-232.9	-118.9	-48.3	-175.6	-198.3
a) Transportation	-240.9	-175.2	-56.1	-29.6	-8.7
credit	23.2	5.7	23.3	7.0	15.1
debit	-264.1	-180.9	-79.4	-36.7	-23.7
b) Travel	-7.2	-29.4	-7.2	-34.5	-21.8
credit	27.5	19.6	27.5	4.8	11.6
debit	-34.7	-49.0	-34.7	-39.3	-33.4
c) Other	15.2	85.7	15.0	-111.4	-167.8
credit	221.7	225.7	221.6	95.9	163.0
debit	-206.5	-140.0	-206.6	-207.3	-330.8
2. Income	-81.9	-21.4	0.6	-50.6	-29.2
a) Compensation of employees	-16.3	6.0	14.8	7.4	-9.9
credit	11.4	22.0	23.9	15.1	21.0
debit	-27.7	-16.0	-9.1	-7.6	-11.1
b) Investment income	-65.6	-27.4	-14.2	-58.10	-39.1
i. Direct Investment	-65.6	-27.4	-10.7	-47.1	-44.2
credit	15.1	14.9	4.0	0.0	0.4
debit	-80.7	-42.3	-14.8	-47.2	-44.6
ii. Other Investment	-	-	-3.5	-10.9	5.2
credit	-	-	9.6	3.3	5.2
debit	-	-	-13.1	-14.2	-
3. Current Transfers	242.2	33.8	58.2	134.0	400.8
3.1. General government	266.5	115.5	54.5	161.9	400.7
a) Cash	85.8	108.7	48.8	86.9	207.0
credit	103.1	110.7	52.9	108.7	241.3
debit	-17.3	-2.0	-4.1	-21.8	-34.3
b) Goods and services	180.7	6.8	5.7	75.0	193.7
3.2 Other sectors	-24.3	-81.7	3.7	-45.5	-0.7
credit	99.8	61.9	110.1	69.6	106.6
debit	-124.1	-143.6	-106.4	-115.1	-107.4
B. CAPITAL AND FINANCIAL ACCOUNT	-93.8	131.8	123.7	94.1	-35.8
1. Capital Account	44.3	67.5	23.0	47.4	94.0
1.1 Capital transfers - net	44.3	67.5	23.0	47.4	94.0
a) General government	40.6	65.8	23.6	53.2	95.4
i. Debt forgiveness - net	-	-	-	-4.0	-
ii. Other - net	40.6	65.8	23.6	57.2	95.4
b) Other sectors	3.7	1.7	-0.5	-5.8	-1.4
i. Migrants' transfers - net	-	-	-0.6	-1.5	-
ii. Debt forgiveness - net	-	-	-	-	-
iii. Other - net	3.7	1.7	0.1	-4.3	-1.4
2. Financial Account	-138.1	64.3	85.2	46.7	-129.9
2.1 Direct Investment	-89.8	6.9	-61.3	-9.6	-13.7
2.1.1. In Reporting Economy	-89.8	6.9	-61.3	-9.6	-13.7
a) Equity capital	-	-	-6.0	-1.1	-5.5
b) Reinvested earnings	-	-	-47.0	-2.5	-8.2
c) Other capital	-89.8	6.9	-8.3	-6.0	-
2.2. Other Investment	-48.3	57.4	146.5	56.3	-116.2
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	-51.2	52.4	152.0	89.6	-116.2
a) Trade credits	106.5	49.8	15.0	-7.0	-166.7
b) Loans	-156.2	21.0	73.0	92.7	7.5
i. Monetary Authority - net	-	-	-	-	-
ii. General Government:					
Long term	53.3	-29.9	48.2	-18.4	-33.6
credit	74.4	22.6	88.6	73.9	23.2
debit	-21.1	-52.5	-40.4	-55.5	-56.8
iii. Other Sectors:					
Long term	-191.5	-9.1	-6.2	1.3	-1.4
credit	10.1	3.4	0.2	3.1	0.2
debit	-201.6	-12.5	-6.4	-1.8	-1.6
iv. Short term - net	-18.0	60.0	15.5	73.0	42.5
c) Other Liabilities - net	-1.5	-18.4	64.0	3.9	43.0
Net Errors and Omissions	-3.2	-5.2	6.9	-43.8	-27.5
Overall Balance	23.0	-97.2	-57.2	26.9	140.6
Financing	-23.0	97.2	57.2	26.9	-140.6
Reserves (=-increase)	-23.0	97.2	57.2	-26.9	-140.6

Source: Central Bank of Solomon Islands

TABLE 1.10 FOREIGN EXCHANGE RECEIPTS^{1/}
(Year Ended)

(SI\$'000)

	1998	1999	2000	2001	2002	2003
<u>Current Receipts</u>						
Exports						
Copra	39168	39290	34740	432	2218	7821
Fish	194179	159045	41174	37336	70752	92869
Logs	196270	250658	224422	190457	254149	371394
Palm Oil & Kernels	97910	65144	6565	237	-	-
Cocoa	30280	24394	9277	4536	27728	53186
Minerals	-	43986	1315	354	192	581
All Other	50464	24850	13809	15334	34970	31163
Total Exports	608271	607367	331302	248685	390008	557013
Services						
Transportation	7632	5242	3209	6139	7017	7457
Travel	31932	27515	18404	11574	9914	17057
Insurance	599	177	2	747	253	757
Royalties & License Fees	538	343	1228	41580	805	808
Communication	10835	10981	9051	630	18579	409
Financial Services	92113	92757	110646	127	561	6809
Others	140751	116851	104725	69570	75655	126082
Total Services	284400	253866	247266	130368	112784	159378
Income Account						
Wages & Others	4233	11410	21831	20994	15061	20954
Interest, Dividends & Profits	1726	1208	1202	2021	11	192
Official Interest	8287	13282	13712	5934	3280	5091
Other Income	30	135	7	3694	-	77
Total Income	14276	26035	36752	32644	18352	26314
Transfers						
Official						
Cash Aid	14043	19776	1145	49244	42231	56868
Other Official	35762	4516	10103	3662	7111	23036
Total Official Transfers	49805	24292	11248	52906	49342	79904
Transfers Private						
Gifts and Donations	29425	16099	10323	17333	23706	36166
Transfers by Temp. Res. & Immigrants	1461	1926	2973	16582	6703	8177
Churches & Charitable Institutions	26487	21464	17313	20546	18382	21606
Foreign Governments	29225	23055	19254	34870	24634	31541
International Organisations	35762	60256	33879	37307	34205	40697
Total Private Transfers	57373	122800	83743	126647	107629	138189
Total Current Receipts	1014125	1034360	710310	591249	678116	960798
Capital & Financial Receipts						
Private						
Investment Grants	174	3743	1734	521	954	-
Direct Investment	672	7563	10644	2845	-	674
Loans	13431	3236	1868153	153	3116	237
Other Foreign Investment	1316	1610	41	2050	6057	1
Total Private Inflows	15593	16152	14288	5568	10126	912
Official						
Investment Grants	33303	3440	28180	23062	20808	95405
Loans	92822	47001	22604	88621	40642	23179
CBSI	-	-	-	-	-	-
Euro \$ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Inflows	126125	50441	50784	111683	61451	118584
Total Capital Receipts	141718	66593	65072	117251	71577	119496
TOTAL RECEIPTS	1155843	1100953	775381	708500	749692	1080294

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

TABLE 1.11 FOREIGN EXCHANGE PAYMENTS 1/
(Year Ended)

(SI\$'000)

	1998	1999	2000	2001	2002	2003
<u>Current Payments</u>						
Imports						
Government	-	-	-	-	-	-
Oil Imports	103709	75162	93417	75750	75589	87885
Food Imports 2/	82138	83026	79363	108448	108849	112297
Beverages & Tobacco	9170	6147	5105	9298	11061	6937
Plants, Vehicles & Transport Equipt.	121523	127544	88241	53320	57452	64459
Building & Construction Mat.	34050	33368	25489	22577	23831	54051
Chemical	13297	14771	9018	13745	11513	14102
Other Imports	251514	198,489	198337	148799	148047	167272
Total Imports	615401	538407	498970	431937	436342	507004
Services						
Transportation	41130	38108	23177	17239	25567	23616
Travel	26860	34644	44317	34332	29295	33401
Insurance	5363	13310	4469	5059	9262	8975
Communication	22448	26059	13799	8527	12163	16720
Financial	41708	24940	13995	32858	11086	6130
Royalties & License Fees etc.	517	264	981	759	16	72
Others	185503	95838	72247	65255	28350	25609
Total Services	323529	233163	172988	164030	115740	114523
Income						
Wages & Others	15676	26710	14850	9119	7641	11102
Interest Dividends & Profits	25366	19555	16829	7543	21175	17240
Official Interest	9750	9672	3042	2820	2256	4758
Total Income Payments	50792	55937	34721	19482	31071	33100
Transfers						
SI Govt Current Payments	15778	17344	7655	2022	4465	33534
Gifts & Donation	79790	99570	126692	4104	103541	93822
Transfers by Temporary Residents	10098	13309	14387	93206	74131	735
Other Transfers	10554	9662	10218	2785	11768	11922
Total Transfers	116220	139885	158952	102117	193906	145356
Total Current Payments	1105942	967392	865628	717566	777059	799982
Capital & Financial Payments						
Private						
Loan Repayments	49900	49683	4368	6395	3188	5732
Capital Repatriation	2603	2015	-	-	3	1356
Emigrant Transfers	1260	1470	2507	634	1431	898
Other Payments	21	6047	849	4162	2026	1212
Total Private Inflows	53196	57200	7735	11191	6648	9198
Official						
S I Government Loans	34195	9836	6181	3445	-	262
CBSI	66	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Outflows	34261	9837	6181	344	-	262
Total Capital Payments	87457	67037	13916	14636	6648	9461
TOTAL PAYMENTS	1193399	1034429	879505	741990	783707	809443

1/ Derived from the formal banking system.

2/ Includes beverages and tobacco up to 1997.

Source: Central Bank of Solomon Islands.

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

Period Average	US\$	Aus\$	Pound Stg	Yen	NZ\$ (Per 100)	S.D.R.	EURO
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
2003	7.51	4.90	12.27	6.48	4.36	10.51	8.50
<u>1998</u>							
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	-
<u>1999</u>							
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	-
<u>2000</u>							
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
<u>2001</u>							
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
<u>2002</u>							
Mar	6.26	3.28	8.78	4.77	2.71	7.82	5.59
Jun	7.23	4.01	10.05	5.50	3.31	8.88	6.48
Sep	7.36	4.03	11.49	6.10	3.46	9.74	7.22
Dec	7.46	4.19	11.81	6.10	3.79	9.97	7.57
<u>2003</u>							
Jan	7.47	4.34	12.05	6.29	4.02	10.18	7.92
Feb	7.47	4.43	12.05	6.25	4.13	10.25	8.05
Mar	7.50	4.51	11.86	6.32	4.11	10.27	8.10
Apr	7.52	4.52	11.76	6.29	4.11	10.27	8.08
May	7.51	4.87	12.33	6.34	4.32	10.57	8.86
Jun	7.52	4.99	12.47	6.35	4.37	10.66	8.77
Jul	7.51	4.98	12.21	6.34	4.41	10.52	8.57
Aug	7.52	4.90	12.00	6.33	4.39	10.43	8.40
Sep	7.51	4.97	12.09	6.53	4.38	10.47	8.43
Oct	7.51	5.21	12.60	6.86	4.52	10.81	8.80
Nov	7.51	5.53	12.69	6.89	4.72	10.76	8.79
Dec	7.50	5.53	13.11	6.95	4.84	10.99	9.19

Source: Central Bank of Solomon Islands.

TABLE 1-13 COMPETITIVENESS AND RELATIVE PRICES

	A	B	C	D
	Exchange rates			
Period Average	Nominal Effective	Real Effective 1 based on relative retail prices	Real Effective 2 based on domestic retail prices and foreign export prices	Terms of Trade export unit values relative to foreign export prices (in common currency)
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
*2002	259.5	86.9	68.8	91.0
2003	303.2	102.0	79.4	76.3
*2002				
Q1	221.8	77.5	63.1	103.1
Q2	250.4	85.2	67.8	92.5
Q3	281.4	91.6	71.6	84.9
Q4	283.8	93.3	72.7	83.4
*2003				
Q1	297.1	99.5	77.4	78.8
Q2	304.8	102.6	79.9	75.7
Q3	308.0	103.6	80.3	74.6
Annual Percentage Changes				
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	-12.3	-10.3	0.4
2002	33.0	-24.4	19.6	-23.1
Quarterly Percentage Changes				
2002_1/				
Q1	10.5	8.1	8.6	-12.0
Q2	12.9	11.7	8.9	-10.5
Q3	12.4	11.9	9.6	-8.3
Q4	0.9	1.9	1.6	-8.1
*2002				
Q1	10.5	9.8	10.1	-11.4
Q2	12.9	9.9	7.4	-10.3
Q3	12.4	7.5	5.6	-8.1
Q4	0.9	1.9	1.6	-1.8
*2003				
Q1	4.7	6.0	5.8	-5.5
Q2	2.6	5.0	5.2	-4.0
Q3	1.1	-3.0	-0.7	-1.5

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

* Provisional Estimates

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 Corporations	Public	Total	Central Bank	GRAND TOTAL
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
2003	149840	27	94271	-	1500	245638	8910	59	-	-	18351	27320	11075	284033
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
2003														
Mar	149840	27	94271	-	1500	245638	9989	372	-	-	21116	31477	11075	288190
Jun	149840	27	94271	-	1500	245638	14964	235	-	-	19533	34732	11075	291445
Sep	149840	27	94271	-	1500	245638	8910	69	-	-	19680	28659	11075	285372
Dec	149840	27	94271	-	1500	245638	8910	59	-	-	18351	27320	11075	284033

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	2003
Budget Forecasts:				
Total Expenditure	426.7	488.6	260.0	509.8
A. Recurrent Expenditure	396.7	448.9	250.0	259
i. Pay	150.2	155.0	120.0	123
ii. Other Charges	197.3	223.9	102.0	97
iii. Debt Service	49.2	70.0	28.0	39
iv. Lost Property Payments	-	-	-	-
B. Development Expenditure	30.0	39.7	10.0	250.8
Total Income	528.6	370.3	418.4	500.3
i. Total Recurrent Revenue	410.7	264.0	250.0	259
ii. Tax Revenue	362.6	196.6	224.6	235
iii. Non-Tax Revenue	48.1	67.4	25.4	24
iv. Lost Property Payments	-	-	-	-
v. Grants	101.8	106.3	168.4	241.3
Fiscal Deficit (domestically financed)	(16.0)	(224.6)	(10.0)	(250.8)
Actual Government Accounts:				
Total Expenditure	420.2	467.1	674.1	545.7
A. Recurrent Expenditure	404.9	358.1	547.3	374.5
i. Pay	173.6	182.4	167.1	170.3
ii. Other Charges	202.7	104.0	249.9	163.3
iii. Debt Service	28.6	71.7	130.3	40.9
iv. Lost Property Payments	-	88.6	67.4	-
B. Development Expenditure	153.3	20.4	59.4	171.2
Total Revenue and Grants	185.7	361.4	432.5	548.8
i. Total Recurrent Revenue	177.7	219.9	256.4	373.5
ii. Tax Revenue	159.1	206.4	243.6	340.5
iii. Non-tax Revenue	18.6	13.5	12.8	33.0
iv. Lost Property Payments	-	88.6	67.4	-
v. Grants	8.0	52.9	108.7	175.3
Fiscal Deficit /1	(242.5)	(247.2)	(417.7)	(309.3)
Difference between Actual and Budget (%)				
Total Expenditure	-2%	-4%	159%	34%
A. Recurrent Expenditure	2%	-20%	119%	118%
i. Pay	16%	-18%	39%	38%
ii. Other Charges	3%	-54%	145%	181%
iii. Debt Service	-42%	2%	365%	212%
iv. Lost Property Payments	0%	0%	0%	100%
B. Development Expenditure	-49%	-49%	494%	-53%
Total Revenue and Grants	-65%	-2%	3%	16%
i. Total Recurrent Revenue	-57%	-17%	3%	44%
ii. Tax Revenue	-56%	5%	8%	45%
iii. Non-Tax Revenue	-61%	-80%	-50%	38%
iv. Lost Property Payments	-100%	0%	0%	100%
v. Grants + Borrowings	-92%	-50%	-35%	-15%
Fiscal Deficit/Surplus (domestically financed)	1416%	10%	4077%	23%
Memorandum Items:				
Actual Change in Government Domestic Debt				
Change in Gross Domestic Debt	68.9	49.3	35.8	45.8
Change in Net Domestic Debt		59.0	46.0	-129.0
Change in Foreign Debt	-3.2	125.6	368.0	-21.3
Gross change in Total Debt	34.9	246.6	482.3	-18.32
Net change in Total Debt	65.8	174.9	458.9	-29.9

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

/1 Actuals in 2001- 2002 were revised figures.

Source: Central Bank of Solomon Islands.

TABLE 1-16 GOVERNMENT REVENUES

(SIS'000)

End of Period	Total Customs & Inland Revenue	Total Customs	Import Duty	Log Export Duty	Timber Levy	Other Exports	Other Customs	Total Inland Rev.	Company	Personal	Govt. PAYE	Goods & Sales	Other I.R.	Ministries & Other *
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
2003	340398	146232	68673	61017	-	1230	15311	194166	27887	27913	15924	96632	25810	33027
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
2003														
Q1	68826	33838	13601	16641	-	327	3269	34988	4180	6210	3285	17644	3669	6690
Q2	80604	34204	17454	12821	-	222	3707	46400	7286	6077	3598	22765	6675	5666
Q3	81138	31748	16126	11148	-	373	4101	49390	7114	7103	4146	24075	6952	9672
Q4	109829	46442	21492	20407	-	309	4234	63387	9308	8523	4895	32147	8515	11000
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%
2003	40%	45%	27%	60%	-	15%	102%	37%	41%	25%	4%	53%	19%	157%
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
2003														
Q1	31.2%	72.5%	23.0%	109.6%	-	58.0%	680.2%	6.6%	0.1%	39.7%	-24.4%	32.5%	-43.9%	172.2%
Q2	42.0%	27.7%	0.8%	73.3%	-	-20.4%	107.0%	54.7%	91.3%	5.9%	-13.2%	83.1%	72.8%	21.4%
Q3	24.7%	19.0%	33.2%	-10.6%	-	7.5%	134.5%	28.6%	43.4%	20.9%	23.0%	29.2%	24.9%	399.3%
Q4	59.8%	66.7%	58.2%	95.7%	-	30.2%	17.1%	55.2%	37.1%	36/3%	41.5%	72.9%	48.1%	191.1%
Percentage Contribution to Total Inland Revenue and Customs Revenue														
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
2003	100.0	43.0	20.2	17.9	0.0	0.4	4.5	57.0	8.2	8.2	4.7	28.4	7.6	9.7

* In 2000, other ministries monthly revenues were up to November only
Source: Central Bank of Solomon Islands

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										
1998	445.4	585.5	282.0	666.3	262.4	252.5	447.1	396.4	431.5	12.4
1999	493.7	576.2	284.0	709.4	291.2	371.8	494.1	412.7	465.9	8.0
2000	525.4	713.1	277.5	728.0	317.6	381.7	587.6	441.9	498.0	6.9
2001	570.8	730.0	284.8	752.9	339.6	377.7	587.6	441.9	536.0	7.6
2002	623.9	797.0	288.5	842.2	361.4	373.7	628.5	477.6	586.2	9.4
2003	664.6	969.5	289.8	986.4	470.2	422.6	669.1	593.0	645.3	10.1
Three months averages										
<u>2001</u>										
Mar	558.6	720.2	284.4	753.6	341.9	380.3	578.4	440.2	528.5	10.8
Jun	570.1	712.8	284.4	755.3	341.9	383.0	588.7	440.0	536.2	10.0
Sep	574.5	714.7	284.8	752.4	338.4	375.1	589.4	442.3	536.9	4.2
Dec	579.9	772.2	285.6	750.5	336.3	372.5	593.7	445.1	542.6	5.9
<u>2002</u>										
Mar	603.6	798.4	286.3	769.7	358.3	371.0	621.0	450.9	552.6	4.6
Jun	625.8	769.9	290.2	897.2	363.2	369.8	636.9	473.4	567.2	5.8
Sep	643.1	816.5	290.2	893.4	363.2	377.2	635.3	501.6	598.6	11.5
Dec	647.8	796.0	290.2	893.4	364.8	377.2	636.9	503.5	626.6	15.5
<u>2003</u>										
Jan	672.0	963.0	288.1	960.7	447.1	405.4	672.1	560.8	633.9	15.4
Feb	659.5	965.4	288.3	969.7	453.0	408.6	658.0	572.1	630.1	14.9
Mar	662.6	923.2	288.3	969.7	453.0	412.0	660.8	574.3	632.7	14.3
Apr	660.3	940.4	290.2	990.6	489.7	417.9	676.1	587.9	647.4	14.3
May	668.6	930.5	290.2	986.9	485.7	421.3	672.5	599.9	650.2	14.9
Jun	659.1	945.6	290.2	986.0	477.6	427.2	666.3	596.1	644.9	14.0
Jul	658.0	948.9	290.2	985.3	478.0	429.5	665.3	599.1	645.6	12.1
Aug	665.9	960.9	290.4	990.2	483.2	429.0	670.9	604.1	651.0	10.2
Sep	664.1	960.9	290.4	995.4	481.2	429.0	669.7	603.4	650.0	8.3
Oct	669.1	1024.6	290.4	998.8	464.5	429.3	672.5	605.4	652.5	6.5
Nov	668.6	1032.3	290.4	998.8	464.5	431.2	672.9	605.6	652.9	4.7
Dec	667.4	1038.0	290.4	1005.1	464.5	431.2	671.8	606.9	652.7	4.1

*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)
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
2003	300	450	674	1751	187
<u>1998</u>					
Mar	376	650	1153	1678	197
Jun	405	675	1170	1741	150
Sep	405	679	1046	1695	141
Dec	459	679	657	1591	162
<u>1999</u>					
Mar	458	563	842	1394	175
Jun	521	459	792	1103	178
Sep	434	354	623	1057	196
Dec	433	368	465	954	199
<u>2000</u>					
Mar	410	343	710	901	189
Jun	324	337	465	927	193
Sep	260	302	423	890	192
Dec	225	258	425	884	186
<u>2001</u>					
Mar	182	254	725	1124	166
Jun	196	257	890	973	165
Sep	210	306	790	1024	156
Dec	212	338	750	1337	138
<u>2002</u>					
Mar	232	338	690	1593	144
Jun	289	411	710	1659	164
Sep	270	400	na	2161	182
Dec	301	465	na	2032	182
<u>2003</u>					
Jan	311	458	700	2178	188
Feb	309	452	600	2282	187
Mar	291	426	565	1947	184
Apr	273	412	530	1924	180
May	276	498	505	1736	184
Jun	279	430	510	1571	182
Jul	279	411	790	1560	182
Aug	275	395	725	552	182
Sep	274	420	775	1638	187
Oct	297	485	860	1483	197
Nov	335	503	765	1506	198
Dec	400	510	765	1634	196

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	1998	1999	2000	2001	2002 Rev.	2003 Est.
Agriculture	132.7	103.5	83.0	70.9	77.3	103.3
Forestry, Logging, Sawmilling	134.9	153.0	132.2	131.1	139.9	145.5
Fishing	176.6	170.9	85.3	72.3	80.4	105.1
Mining & Exploration	-449.7	-1262.5	-613.1	38.2	-7.8	-3.2
Manufacturing	245.7	246.0	197.2	158.1	149.8	134.3
Electricity and Water	263.4	276.4	231.0	183.4	214.4	256.1
Construction	103.9	72.3	40.1	21.8	19.1	35.9
Retail and Wholesale Trade	159.8	149.7	134.5	119.9	131.5	135.5
Transport and Communications	170.7	179.3	143.4	114.7	130.7	138.2
Finance	243.9	247.6	239.4	231.4	228.3	224.5
Other Services	182.2	175.9	172.8	172.4	137.8	120.7
Index of Monetary GDP Production	170.9	169.1	139.1	122.0	118.8	124.7
Annual % movement	1.2	-1.0	-17.8	-12.3	-4.0	5.0
Index of Primary Production ^{149.0}	129.1	93.8	94.0	84.1	91.3	112.7
Annual % movement	-7.4	-9.7	-27.2	-10.4	7.4	23.4
Non-Monetary: Food	139.0	143.6	147.4	151.9	155.9	156.0
Non-Monetary: Construction	133.7	136.2	141.6	147.2	150.1	150.2
Non-Monetary GDP Index	139.4	143.0	147.0	151.5	155.4	155.6
Index of Total GDP Production	164.7	163.8	140.6	127.9	125.8	130.6
Annual % movement	1.3	-0.5	-14.2	-9.1	-2.6	3.8

* 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/
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
2003	14848	-	-	-	4587	28955	714
<u>1998</u>							
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
<u>1999</u>							
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
<u>2000</u>							
Mar	7157	3171	-	-	734	7178	134
Jun	6383	2126	-	-	864	10272	130
Sep	2600	2173	-	-	357	2954	148
Dec	2865	1083	-	-	360	760	124
<u>2001</u>							
Mar	636	-	-	-	222	1337	140
Jun	438	-	-	-	881	3073	137
Sep	229	-	-	-	599	7092	109
Dec	398	-	-	-	335	6217	148
<u>2002</u>							
Mar	292	-	-	-	168	4190	110
Jun	28	-	-	-	1276	3900	128
Sep	133	-	-	-	1091	5050	162
Dec	1278	-	-	-	372	5380	150
<u>2003</u>							
Jan	402	-	-	-	134	2588	41
Feb	710	-	-	-	90	2989	87
Mar	827	-	-	-	14	2430	80
Apr	1130	-	-	-	340	1674	52
May	851	-	-	-	634	2074	74
Jun	834	-	-	-	698	2452	74
Jul	1441	-	-	-	645	2663	66
Aug	1563	-	-	-	531	3025	40
Sep	1771	-	-	-	473	2782	29
Oct	1758	-	-	-	353	2631	89
Nov	1612	-	-	-	392	1837	29
Dec	1950	-	-	-	282	927	52

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 1-21SELECTEDECONOMICINDICATORS

	Unit	2002				2003			
		Quarter 1	Quarter II	Quarter III	Quarter IV	Quarter I	Quarter II	Quarter III	Quarter IV
A. External Trade	SI\$'000								
i) Exports		68632	82156	123474	115747	124834	137631	132949	161599
ii) Imports c.i.f.		103914	121301	110336	110336	121573	124110	123813	137507
B. Gross External Reserves	SI\$'000	143860	83961	115750	129900	138394	211292	220585	269647
C. Money Supply	SI\$'000								
i) Currency in active circulation		82687	78017	86399	93745	84133	97490	94156	102691
ii) Demand Deposits		155406	144228	139722	155593	166054	177924	194705	225215
iii) Money Supply (M1)		238093	222245	226122	249338	250187	275414	288860	327906
iv) M1 and Savings Deposits (M2)		31446	289871	300419	316713	321456	347051	360987	395359
v) M2 and Term Deposits (M3)		397513	378443	397754	417153	421475	450960	475052	520184
D. Domestic Credit	SI\$'000								
i) Government (net)		289293	303583	298534	173207	305064	273346	284332	249170
ii) Statutory Corporations		2011	2048	2079	1986	1916	1875	1445	1359
iii) Other		163909	173830	188522	174931	170859	179741	193595	215986
E. Interest Rates (average)	%								
i) Savings Deposits		0.4	0.4	0.4	0.3	0.3	0.5	0.5	0.5
ii) Time Deposits (6-12 months)		1.0	1.3	1.3	1.3	1.3	0.8	1.1	1.4
iii) Lending		15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.0
iv) Bank Deposits with CBSI		3.0	3.0	3.0	0.0	0.0	0.0	0.0	0/0
F. Exchange Rates									
i) US\$1.00 = SI\$		6.1	6.5	7.3	7.4	7.5	7.52	7.51	7.50
ii) AU\$1.00 = SI\$		3.1	3.6	3.9	4.1	4.4	4.99	4.97	5.53
G. Honiara Retail Price Index (1985=100)		556.7	579.8	615.4	628.8	632.7	644.9	650.0	652.7
Annual % change		4.6	5.8	11.5	15.5	14.4	14.2	8.4	4.2
H. Tourists Arrivals	'000	n.a	n.a	n.a	n.a	na	na	na	na
I. Electricity Consumption	kwh	12453	13301	13141	11461	12324	13838	14375	14301
J. International Commodity Prices	SI\$/per tonne								
i) Copra		1452	1961	1988	2245	2181	2098	2061	2999
ii) Cocoa		9969	11255	15913	15153	14595	11812	12307	12249
iii) Palm Oil		2115	2788	2946	3468	3193	3233	3156	3823
iv) Fish		4318	4817	5286	5357	4235	3835	6123	5735
v) Logs (SBD/m3)		900	1110	1340	1359	1381	1371	1406	1472

* from 1997 Q4 and onward, tourist arrivals data are for visitors travelled by air only.

Source: Central Bank of Solomon Islands