



**CENTRAL BANK OF SOLOMON
ISLANDS**

ANNUAL REPORT

2004

9th May 2005

Hon. Peter Boyers (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 2004 Annual Report and the audited Accounts of the Central Bank of Solomon Islands.

Yours sincerely,

R N Houenipwela
Governor

CENTRAL BANK OF SOLOMON ISLANDS**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

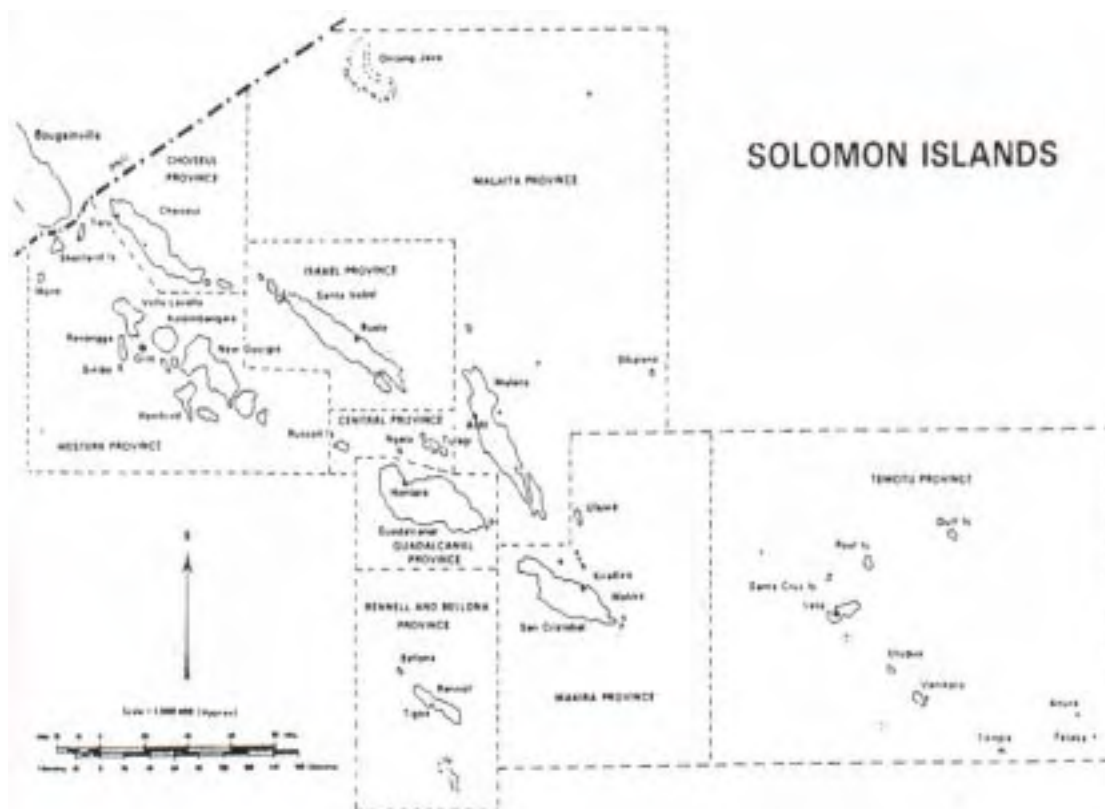
Foreword

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

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

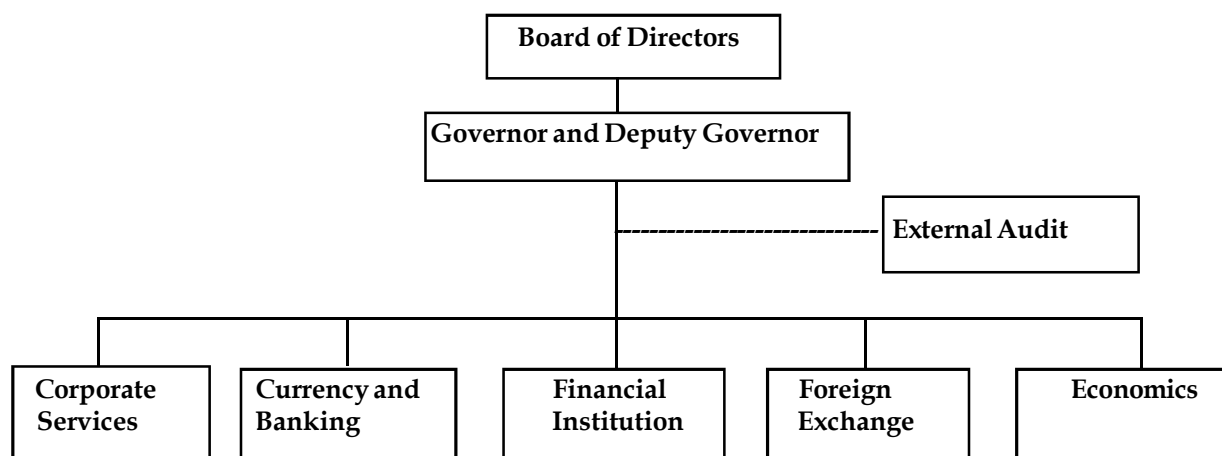
Data on the monetary system are derived from Central Bank records. The interpretations and conclusions in this report are entirely the responsibility of the Central Bank.

Central Bank of Solomon Islands
May 2005



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Organisation of the Central Bank



Board of the Central Bank, at end 2004

Rick N Houenipwela	Chairman, ex officio
Denton H Rarawa	Director, ex officio
Shadrack Fanega	Permanent Secretary, MoF
Yoshi Yuki Sato	Director
George Kejoa	Director
Moses Pelomo	Director
Jack F Kairi	Director
Anthony V Hughes	Director
George Kiriau	Director
Edward Ronia	Secretary to the Board

Management of the Central Bank, at end 2004

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. ECONOMIC OVERVIEW, POLICY ISSUES AND ECONOMIC OUTLOOK

The economic performance of Solomon Islands in 2004, although reported generally positive growth, highlighted the vulnerability and fundamental structural weaknesses underlying the economy. The high dependence on the forestry sector not only for government revenues but also as the main driver of growth in external reserves represents a major weakness of the economy. While the security situation has significantly improved and paved the way for increased economic activity, other important impediments such as poor infrastructure and utilities, inefficiency in public institutions and investment procedures, significant delays in acquiring land for development purposes and uneven application of taxation policies continued to affect growth during the year. These need to be addressed more forcefully to sustain the growth process and improve the general standard of living for everyone.

Preliminary estimates showed real gross domestic product (RGDP) grew by 5.5% in 2004; the fastest growth rate since the logging boom in the early 1990s. This robust economic performance was particularly noteworthy in an environment marked by subdued domestic lending and volatility in international oil prices and foreign exchange market. The economy benefited from overall growth in the international economy, which boosted commodity prices and exports, improved law and order situation, rise in donor inflows and strong private sector activity. Excessive harvesting of natural logs, the rebound in output of smallholder-based agriculture, and a rise in construction activities accounted for

the growth during the year. Relatively smaller but valuable contributions also came from the increase in smallholder based mining activities and improvements in the services sector, particularly transport, communication, and utilities. Government continued to consolidate its finances during the year and recorded a surplus at year-end. The trade account also maintained its surplus in 2004. This together with the rise in donor inflows saw the level of external reserves at a record high, which resulted in the rise in money supply and liquidity as financial institutions maintained selective lending during the year.

The global economy grew by an estimated 5.1% in 2004, despite the surge in oil prices during the year. The growth was the highest in nearly three decades. The high growth was underpinned by strong growth in the US and exceptionally rapid expansion in emerging economies, particularly in China where it has become an important driver of world growth. In other parts of the world, including Japan and the euro area, however, growth remained relatively low, reflecting weak domestic conditions. The expansion in the world economy during the year was accompanied by a strong upturn in industrial production, global trade flows and a rise in consumption reflecting improved labor market conditions and investment in major economies. The strong growth in the global economy contributed towards upward pressures on commodity prices. An important development during the year was the sharp rise in international oil prices. While strong global demand underpinned the rise in oil prices,

supply disruptions also contributed. Prices of a range of other commodities, including Solomon Islands major export commodities; have also increased during the year. This provided a significant windfall to national income and consumption during the year. Inflation has remained low in most countries that trade with Solomon Islands, with prices rising less than 2.0% in USA, Japan and Australia. Interest rates also remained low in most major economies.

With the improved law and order situation, supported by favorable conditions in the world economy, Solomon Islands benefited from a rise in both export prices and volumes in 2004. But a large part of this increase emanated from a massive income windfall, generated by a steep rise in the volume of log exports. At the same time, however, there is evidence that the prices contracted for SI logs were significantly lower than the average price of similar logs exported from other countries. Part of these log exports were not remitted to or taxed in Solomon Islands. The Bank has repeatedly raised concerns about such practices in the past and seeks an improvement in the monitoring of log exports.

The improvement in the external account was anticipated for 2004, in light of increased donor inflows, higher export volumes, favourable movements in average prices and prudent management of fiscal operations. Total exports grew strongly and resulted in a trade surplus of \$86.4 million. This combined with the rise in transfer receipts led to a current account surplus of \$274.8 million, the highest to date. Other current account components have also improved. The services account deficit narrowed in 2004 to \$70.9 million from \$198.2

million in 2003. In view of relatively high interest rates in major financial markets, the income account moved from a deficit balance to a \$38.3 million surplus during the year. These outcomes were very encouraging and confirm that the economy is well and truly on a recovery path. Reflecting positive developments in the balance of payments, the level of external reserves rose to \$592.8 million, equivalent to more than eight months of imports of goods and non-factor services.

Total net foreign assets (NFA) of the banking system rose to \$575.9 million in 2004, compared to \$266.1 million in 2003. The improvement in the trade account combined with donor inflows led to a significant rise in the liquidity of the banking system, causing a rise in all monetary aggregates. All forms of deposits increased, as these inflows found their way into business and household accounts. Private sector lending rose 9.8%, but overall domestic lending fell 32.2% as net lending to government declined as its deposits with the banking system rose during the year.

The balance of payments performed strongly and registered a surplus of \$321.7 million in 2004. The monetary counterpart of this was higher deposits, and relatively low lending resulting in increased liquidity in the banking system. The appropriate policy response to these movements depends on whether they are driven by temporary changes in volume, prices, attitudes of economic actors, or more enduring structural shifts. The Central Bank continuously monitored these developments and considered the improved performance during the year as unsustainable and temporary as they were driven by excessive harvesting of logs while growth impediments

in other important sectors, which have direct impacts on the majority of people, particularly in the agriculture sector remained unresolved. The recovery in the last two years was testament to the private sector's readiness to meet such a challenge. They need to be supported by coordinated economic reform and appropriate policies in the areas of taxation, investment, financial services and reliable infrastructure and utilities.

The improvements in government finances towards the end of 2003 following the arrival of the Regional Assistance Mission to Solomon Islands (RAMSI) strengthened further in 2004 and registered a surplus of \$102.1 million. Exceptionally high domestic revenue collection and fall in expenditures, reflecting stringent controls instituted by RAMSI accounted for the positive outcome. Government also finalized a debt compromise strategy in early 2004 and addressed its debt problem during the year. Some of the actions taken included restructuring a significant part of its official debts to domestic creditors at relatively lower interest rates and over a longer repayment period. Other measures include making part payments of debt arrears to domestic trade creditors. Negotiations with external creditors commenced in 2004 and would continue in 2005. Preliminary estimates suggest that without debt forgiveness, government would not be able to fund all debt obligations in the medium term. It is crucial therefore that other options are considered. Failure to do so would only constrain current efforts to rehabilitate the economy and put government debt on a more sustainable basis.

Furthermore, it is important that government does not give away revenues through duty

exemptions and remissions when its mountain of debts is still outstanding. During the year, a total volume of 576,549 cubic meters of logs (55.3% of total volume exported) was approved for duty exemptions. Total revenue in export duty forgone amounted to \$29.93 million. The exempted volume was also much higher than total volume exemptions in the 2001-2003 period. While most of these exemptions were given to landowners, it is believed that the benefits of these exemptions have not reached the communities.

After rising to 10.1% in 2003, the annual inflation rate as measured by the twelve months moving average of the Honiara Retail Price Index (HRPI) steadily declined to 6.9% in 2004. The decline in average inflation rate of imported items, reflect the relative stability of the SI dollar exchange rate viz-a-viz the US dollar and the fall in inflation in Solomon Islands trading partner countries. Looking ahead, prospects for inflation to remain low are good, especially if the exchange rate continues to remain stable as it has been in the last year. The expected decline in average oil prices and continuing low inflation in Solomon Islands major trading partners should also contribute. A reliable supply of fresh fruits and vegetables to the Honiara market has also helped keep domestic inflation down. There is risk, however, that as the economy strengthens, inflation could rise if domestic production does not keep pace with increased demand.

Monetary and exchange rate policies are decided in close consultation with the government and implemented by the Bank with a degree of operational autonomy through its influence on money, credit and

exchange rates. This arrangement has proved beneficial for the country as it endeavors to provide a reasonable balance between short-term political and longer-term economic considerations.

Monetary policy generally remained relatively inactive in 2004, although the Treasury bill market continued to function at a modest level during the year. At the same time, most of the key players expressed concerns about the market and withheld their participation during the year. Total lending, on the other hand, also remained relatively low. Interest rate developments during the year saw a decline in both average indicative deposit and lending rates causing a fall in interest margins to 13.74% from 14.37% in 2004. While the fall in average indicative lending rate is encouraging, the current interest rate structure remains a disincentive for savings and the country's long-term economic growth. With the fall in inflation, financial institutions were earning positive returns on their lending while depositors continued to earn negative returns. In the long run, savers must also be rewarded with positive real returns to support credit oriented growth activities. 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 2005 and would take appropriate action when required. Broad money supply (M3) rose by 19.0%, to \$621.7 million reflecting the surge in net foreign assets that outweighed the fall in domestic lending. In 2004, exchange rate policy shifted from a purely defensive stance to focusing more on pursuing financial

stability and influencing confidence as the foreign reserves rose during the year.

Despite the progress in 2004, many challenges still remain and require prompt action in order to sustain the recovery process. The first relates to the over-reliance on logs for exports and income. At 1,043,150 cubic meters, the volume harvested during the year was not only the highest to date, but also threatens the country's long term economic development as the current level is significantly higher than the sustainable rate, estimated at 300,000 cubic meters per annum. Such over dependence on one commodity only makes the economy more vulnerable as any adverse developments in the industry, either from a fall in prices as seen during the Asian crisis or disruption in production could easily reverse the economic progress made so far. Addressing any remaining impediments to reopen the former palm oil and gold mine projects will help in the rebuilding of SI economy. It is also equally important that fundamental weaknesses inherent in the economy such as lack of adequate infrastructures, inefficiency in government institutions, cronyism and corruption in the public sector are addressed as a matter of priority. Another major challenge is the economic burden of having a very young population. Data obtained from the National Provident Fund showed that total employment in the formal sector grew by 1.3% to 42,297 in 2004. This accounts for about 10% of the working age population in the country, insufficient to absorb the increasing number of men and women coming out of the education system each year. The low growth in employment reflects inconsistent policies, which undermine investor confidence in the economy. Major companies have also

expressed reservations about further investment due to uncertainties concerning government policies relating to taxation, labour regulations, incentives, infrastructure development, and high utility costs. Most emanate from lack of consultation between government and the private sector. In most cases, there was also lack of responsiveness to private sector concerns.

The positive developments so far offer the best opportunity for government to press ahead with its reform agenda in order to sustain the progress achieved thus far. The current reforms aimed at improving the rule of law, strengthening public institutions, combating corruption, and making public expenditure more efficient are all part of the necessary groundwork for rapid growth. It is crucial that policies that promote macroeconomic stability are pursued. These include prudent fiscal and monetary policy, the pursuit of low inflation, sustainable debt levels, flexible labor markets, and a healthy and well-regulated financial sector. Growth itself also presents new challenges. Therefore it is important that economic reform remains an ongoing process to sustain the positive outcome made so far.

Government recognizes the importance of these concerns through its *National Economic Recovery, Reform and Development Plan [NERDP], 2003-2006* endorsed in November 2003. While there is already progress on certain issues, it is also important that the pace of reform is accelerated. This is very important, particularly for policies and strategies that enhance the export and productive sectors such as the reopening of both the Gold Ridge and oil palm projects. While government must

be commended for its efforts so far, recent conflicting views by certain stakeholders' only shows there is more to be done if both projects are to eventuate and help reduce the vulnerability of heavy dependence on logs. Addressing these concerns now should help avoid the experience of recent years that forced the economy into severe recession.

2005 Economic Outlook

Looking ahead, the prospects for the Solomon Islands economy generally remain positive, with growth of 4.0% projected in 2005, aided by sound and proactive macroeconomic policies, continuing reforms, and a favorable global economy. There is need to further build on and consolidate the progress made in 2004 and 2003 so that the Solomon Islands economy can grow further and bring an improved standard of living for all. By whatever means this is achieved, it is crucial that the general policy framework that guided the outcomes in 2004 is maintained and strengthened. For 2005 and the years ahead, this means strengthening the security environment, promoting good governance, restoration of basic social services, ensuring a stable enabling macroeconomic environment, and revitalize the productive sector with supporting infrastructure. To avoid a repetition of events in recent past, it is necessary that development and incomes are also equitably distributed. Developments in 2004 have provided the basis and impetus for this to happen and it is important that this opportunity is taken advantage of and fully used.

One precondition for improving the general living standard in the country is to ensure the

volume of goods and services produced in the country rise faster than the rate of population growth. This is possible given the country's relatively large natural resource base. The challenge is to increase the opportunities and make these available for Solomon Islanders. Already there are disparities in income and rising levels of disadvantaged sections of our communities. Unless current institutional and structural constraints are addressed together with a redirection of policy, pockets of poverty will increase despite the rise in economic growth.

The global economic expansion remains firm with growth forecast to be 4.3% for 2005. Given the current stable environment, which paved the way for increased private sector activity, total exports are projected to remain strong in 2005. This together with continued donor inflows should result in a further increase in the level of reserves by year-end. Balance of Payments developments in the first quarter of 2005 remained positive and are forecast to continue. This should provide further growth in the monetary aggregates during the year. Private sector credit growth has risen 19% in the first four months to April and is projected to grow strongly in 2005. This should reduce the level of excess liquidity that

currently overhangs the financial system. The Bank supports private sector credit growth and will continue to closely monitor economic developments in the months ahead and take appropriate policy action should credit growth exert downward pressures on the level of foreign reserves. The 2005 National Budget passed in December 2004 builds on the progress made in 2004 with eight key policy objectives. These include the need to improve basic service delivery, improve governance, build national wealth, support infrastructure development, promote and restore the country's image internationally and revitalise private sector growth.

The budget projects total revenue, inclusive of grants to equate total expenditures at \$670 million. Financing of the budget would come from domestic revenues (\$550.0 million), rundown of accumulated budget surpluses of \$80.0 million in 2004 and New Zealand budget support of \$40.0 million. The introduction of a Baseline Budget for each Ministry, together with continued stringent controls on expenditures should ensure fiscal coherence and enable government to settle some of its outstanding debts and contribute towards further economic activity during the year.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy performed exceptionally strongly in 2004. Based on the International Monetary Funds latest *World Economic Outlook*, world GDP grew by 5.0% in 2004, the highest rate of expansion in nearly three decades. This was in spite of high oil prices, which were at the US\$40-50 per barrel for much of 2004, a weakening US dollar, rising interest rates in major economies, continued geopolitical uncertainty arising from international terrorism, and continued conflict in the Middle East. Continued accommodative macroeconomic policies in major economies, rise in both corporate profitability and private consumption from rising equity markets and improved labour conditions underpinned the global expansion in 2004. The global expansion was accompanied by strong growth in industrial production, global trade, private consumption, and investment. Globally, the growth was geographically broad-based although some regions grew much faster than others.

Strong growth in the United States (US) and Asia, particularly in China drove the high global outcome in 2004. In the US, the economic expansion remained strong although growth momentum slightly weakened in the second quarter as concerns about the rise in oil prices mounted, fall in both consumer spending and exports. But the economy rallied in the second half and ended with overall growth of 4.4% in 2004, higher than 3.0% in 2003. Although strong domestic demand fueled by higher consumer spending and rise in private investment played a key role, the

fiscal stimulus provided by the budget deficit, estimated at 4.4% of GDP in 2004 also contributed. Industrial production rose strongly during the year while core inflation increased by 1.7%, lower than in 2003.

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

	2003	2004	2005
World Output:	4.0	5.1	4.3
Advanced economies	2.0	3.4	2.6
Developing countries	6.4	7.2	4.0
of which: Asia	8.1	8.2	7.4
World Trade Volume	4.9	9.9	7.4
Imports of goods & services			
Advanced economies	3.6	8.5	6.5
Developing countries	8.9	15.5	12.0
Exports of goods & services			
Advanced economies	2.8	8.1	5.9
Developing countries	10.7	13.8	9.9
World Inflation			
Advanced economies	1.8	2.0	2.0
Developing countries	6.0	5.7	5.5
Source: IMF World Economic Outlook			
April 2005			

Other economies also performed well in 2004. The Canadian economy, for example, grew by 2.9% reflecting the global expansion, relatively low domestic interest rates and rise in exports. The Latin American economies also performed well in 2004, although this was highly differentiated across the region. The growth was underpinned by a pickup in exports, helped by the global growth, improvements in policy fundamentals and real exchange rate depreciations.

The economic recovery in the euro area also strengthened in 2004, although it is geographically uneven and remained heavily reliant on external demand. GDP growth was projected at 2.2% for the year on account of a rise in net exports as consumption and investment remained weak, despite the stimulus to consumption from tax cuts early in the year. The pattern of growth also varied considerably across euro area countries. Of the larger economies, only France showed strong growth reflecting strong domestic demand and the rise in house prices. In other countries, including Germany, Italy and the Netherlands, domestic demand remained weak reflecting uncertainty about proposed industrial and welfare reforms and continued tight credit conditions.

Japan, the largest export market for Solomon Islands, also recovered with growth estimated at 2.6% in 2004, higher than in 2003. Although strong growth in both exports, particularly to Asia, and investment were the key drivers, the rise in private consumption also contributed. Growth in emerging Asia exceeded expectations in 2004, despite adverse impacts of high oil prices. The Chinese economy maintained its strong performance, and grew 9.0% in 2004, despite the tightening of macroeconomic policy earlier in the year. The rise in industrial production, investment, domestic demand and exports, reflecting the competitiveness of China's exports in world markets accounted for the growth in 2004. Elsewhere in the region, economic growth remained solid including in Australian and New Zealand also reported high rates of growth during the year, reflecting the rise in investment, production and exports.

The strong global economy contributed to upward pressures on commodity prices during the year. Globally, attention has focused on the rise in oil prices during the year. The rise in oil prices mainly reflected the growth in world demand rather than disruption to supply. Prices of other commodities have generally remained firm during the year. For Solomon Islands, this provided a significant boost to exports and national income.

2005 Growth Prospects

Looking ahead, the global economy is projected to remain firm with growth moderating to 4.3% for 2005. Strong growth in the United States, China and emerging economies are expected to lead the way, supported with a gradual recovery in Japan and the euro area. Continued accommodative macroeconomic policies, improved corporate balance sheets and financial markets, supported by increased investment and exports will continue to account for growth during the year. There are also positive growth prospects for the developing world, underpinned by generally prudent macroeconomic policies, and expected buoyant commodity prices. Average global inflation is also forecast to remain low, reflecting declines in both industrial and developing countries during the year.

There are, however, three major risks to global economic growth. First, despite the positive global growth, the expansion is becoming very uneven, as regional divergences increased. As said earlier, the current global economic expansion remains unduly dependant on both the US and Chinese economies. Any simultaneous weakening in both economies

could significantly adversely affect the global economy. Second, oil prices have risen in recent months with high prices likely to persist. Though this will benefit oil-producing economies, many others are likely to be adversely affected, resulting in the slow down in the pace of global growth. The third relates to the prospects of increased interest rates during the year. Currently, policy interest rates are generally below neutral levels but there is need to eventually increase, although the appropriate timing and pace will depend on each country's circumstances. In major economies, there is need for tight monetary policy, particularly in China and the US.

The expected growth in the global economy in 2005, particularly in Asia is good news for Solomon Islands economy. The problem, however, is that the country does not have the capacity to fully respond to the expected better environment. The issues raised by the Bank in

the 2003 annual report remains valid should Solomon Islands gain from the global growth. The first relates to constraints to domestic production from the size and dispersion of operations, inefficient facilities, and unreliable transport services and poor infrastructure. Secondly, there is need for government to speed the implementation of various reforms identified in the National Economic, Recovery and Development Program (NERDP). Thirdly, in the medium to long-term, it is also crucial that existing investment procedures and conditions are reviewed to attract genuine foreign investors to the country. Government's efforts to reopen both the oil palm plantation and Gold Ridge projects are encouraging, but it is also important that new investment is attracted in the country. This should widen the country's economic base and reduce the risks of over dependence on the forestry sector as in recent years.

III. DOMESTIC ECONOMIC OUTCOMES

The Central Bank has been compiling an estimate of real GDP based on direct estimates of real activity levels in various industries, as proxied by changes in quantities of output. Each series is assigned a weight, to represent its contribution to GDP in the base period. Apart from the basic methodological drawbacks of estimating real GDP, qualifications must also be given to the appropriateness and reliability of the data used as real activity proxies. In the primary sector, production data is used and presents no difficulty. In other sectors, input data, particularly employment levels are used. This raises difficulty reflecting the frequency of employment surveys. The Statistics Division (SD) conducted an employment survey in 2004 but the results will not be available until in June 2005.

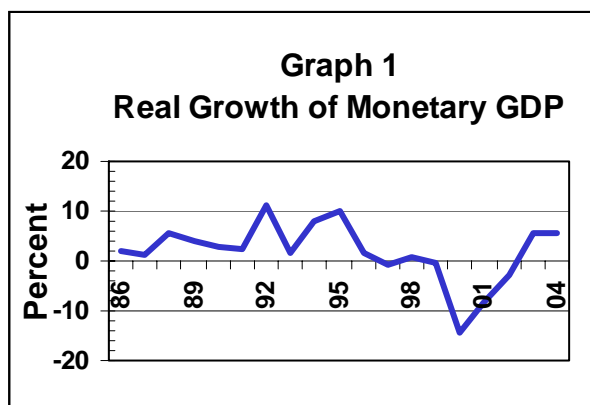
National Income

Subject to the caveats mentioned above, the Solomon Islands economy is estimated to have grown in real terms by 5.5% in 2004. The growth was driven by buoyant activity in all major sectors, particularly in the forestry sector where log production exploded 46.1% and caused total primary production in the monetary sector to rise by 9.7%. Marked increases were recorded in construction, up 36.1%, electricity and water (16.6%), and mining and exploration (6.12%). Other sectors, including agriculture, retailing, finance and manufacturing also recorded increases during the year.

Table 2 Estimated Real GDP, (\$'million, 1985 Prices)			
Industry	2002 Rev.	2003 Est.	2004 Est.
Agriculture	77.3	103.9	107.0
Forestry	139.9	145.5	241.0
Fishing	80.4	105.1	103.6
Mining & Exploration	-7.8	-3.2	-3.4
Manufacturing	149.8	134.3	136.0
Electricity and Water	214.4	256.1	268.9
Construction	19.1	35.9	48.9
Retail and W/Sale Trade etc.	131.5	135.5	148.6
Transport & Commun.	130.7	138.2	139.3
Finance	228.3	224.5	229.4
Other Services	137.8	120.7	117.7
Index of Monetary GDP Prod	118.8	124.7	136.0
Annual % movement	-4.0	7.3	6.7
Index of Primary Prodn (Min)	91.3	112.7	134.7
Annual % movement	7.4	30.3	13.3
Non-Monetary : Food	155.9	156.0	157.6
Non-Monetary : Constr.	150.1	150.2	150.2
Non-Monetary : GDP Index	155.4	155.6	157.0
Index of Total GDP Prodn.	125.8	130.6	140.1
Annual % movement (Real)	-2.6	5.6	5.5
Source: Central Bank of Solomon Islands			

Some initiatives to strengthen the compilation of national accounts procedures also commenced during the year. The Statistics Division conducted a business and employment surveys. Unfortunately the results are not available for inclusion in this report. It is hoped, however, that when the result are out, the nominal GDP estimate for the year can be produced. The appointment of a new Statistical Adviser to the Division should also

help the unit effectively address its weaknesses and produce timely and reliable statistics necessary for policy formulation and sound economic management.



Investment

To sustain the progress made so far, it is important that Solomon Islands attract more foreign investment. Higher investment, both domestic and foreign is important for economic growth, employment creation, and generation of high levels of national income. Investors also need a stable economic climate where rules governing taxation, labour regulations, investment incentives and rewards are clear, transparent and consistently applied to all investors. No investment will ever take place if these are not present.

During the year, the Foreign Investment Board (FIB), the authority responsible for screening and approving foreign investment applications in Solomon Islands received 25 new investment proposals worth \$596.8 million. Of this, the Board approved 22 applications worth \$53.6 million and deferred 3 applications worth

\$543.0 million. Of the total, 4 applications worth \$543.8 million were for fisheries, 4 applications worth \$15.4 million for forestry, 5 applications worth \$15.1 million for tourism, 2 applications worth \$15.5 million for energy and mining sectors, 1 application worth \$0.59 million for transport and 9 applications worth \$6.47 million for other sectors. Most of these investment proposals were from Asian countries particularly Malaysia and Australia and New Zealand.

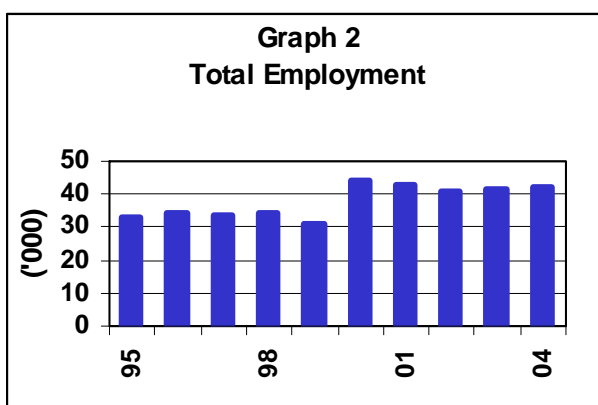
The government also engaged technical assistance from Ausaid and World Bank in 2004 to review the Foreign Investment Act. The main thrust of the review is to streamline the foreign investment approval procedures to enable simple registration of investors and a more investor friendly process. This would require the amendment of the Investment Act earmarked for mid 2005.

Employment and Industrial Relations

The Statistics Division conducted an employment survey in 2004 but the results are not available for inclusion in this report. Data obtained from the National Provident Fund, however, showed that total employment in the formal sector rose 1.3% to 42,297 compared to a 1.6% rise in 2003.

This figure suggests that formal employment accounts for about 10% of the working age population in the country, insufficient to absorb the increasing number of men and women emerging from the education system each year. This is mainly due to inconsistent policies, which undermine investor confidence in the economy. Major companies have

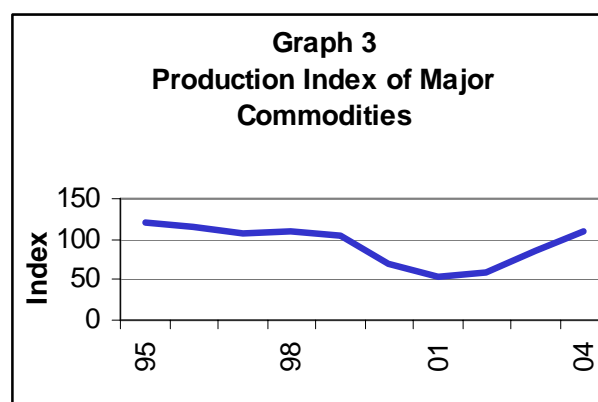
expressed reservations about further investment due to uncertainties concerning government policies relating to taxation, labour relations, incentives, infrastructure development, and high utility costs. Most emanate from lack of consultation between government and the private sector. In most cases, there was also lack of responsiveness to private sector concerns.



Government signed an MOU with Solomon Islands Public Employee Union (SIPEU) in October and paid cost of living allowances in early 2005 without the need for recourse to arbitration. While this proved to be the right approach to determining remuneration packages, several companies resorted to strike and other means of settlement during the year. A good example was the industrial dispute between the Solomon Islands National Union of Workers and RIPEL. Given the size of the company and its role in the copra industry, it is important that this dispute is resolved soon as further delays only undermine the economic recovery process.

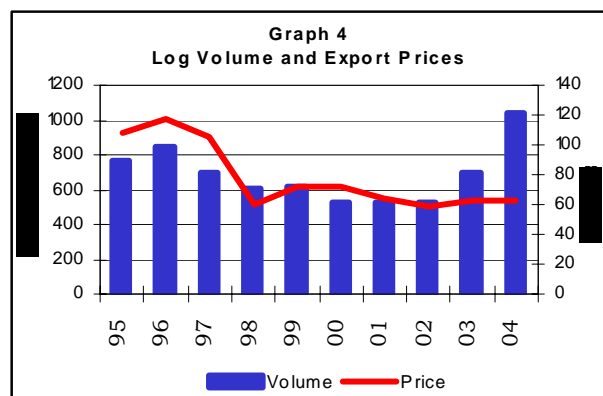
Production

Favourable developments in both the domestic and external conditions had positive impacts on the productive sector in 2004. This is witnessed in the 28.0% rise in the overall production index during the year.



Forest Products

Total log production, proxied by actual export volumes for the year, depicted a sharp increase of 46.1% to 1,043,150 cubic metres, the highest production level to date. Log production level average around 86,000 cubic metres per month during 2004. Of the total, 85,872 cubic metres were plantation logs. In terms of provincial distribution, the Western Province accounted for 68.3%, followed by Isabel Province (22.8%), Choiseul Province (5.5%), and other provinces (3.5%).



The logging industry is the mainstay of the national economy, but there is an urgent need to address sustainability concerns in this industry. The current rate of log production, estimated to be at four times the sustainable rate could threaten the stability of the Solomon Islands economy in the near future. If the current rate of harvesting continues it would rapidly deplete the natural forests.

Kolombangara Forest Product Limited (KFPL) currently has 12,000 hectares of forest plantation, out of the 30,000 hectares of land available to them. In 2004, the company harvested 520 hectares of plantation trees and produced 58,500 cubic metres of logs, 28.2% lower than its target of 75,000 cubic metres. However, it only exported 50,440 cubic metres of logs, due mainly to the difficulties in shipping. The company exported most of its high valued logs to Vietnam (65%), whilst others were exported to Philippines, South Korea, China and India (35%). The average export prices of the logs were US\$69.9 per cubic metre. The company replanted 626 hectares with new tree seedlings, 43.8% lower than its

targets of 900 hectares in 2004. With the expected rise in the price of plantation logs together with the expansion in the capital and human resource developments, KFPL projects total production for 2005 at 75,000 cubic metres. The KFPL is also diversified to planting other tree species such as *Teak*, *Mahogany*, *Eucalyptus*, rather than concentrate on just *Gmelina*.

Eagon Plantation Limited (EPL) a foreign owned company that operates forest plantations in New Georgia, Western Province and in Choiseul Province, planted 7,000 hectares in Western Province and 4,000 hectares in Choiseul Province. The company produced about 27,000 cubic metres of logs in 2004, the same as in 2003.

The Forest Department estimated that the rural communities planted 1,000 hectares of commercial trees in 2004, which was more or less the same in the previous two years. The total commercial tree planted so far since the inventory started in 1999 was estimated at 4,000 hectares. In terms of provincial distributions, the Western Province accounted for 68.3%, followed by Malaita Province (16.9%), Guadalcanal Province (6.2%), Isabel Province (3.8%), Choiseul Province (2.9%), Makira Province (1.3%), Central Province (0.4%) and Temotu Province (0.2%). Exotics tree species such as teak, mahogany, eucalyptus deglupta, and gmelina arborrea were mostly planted although other local species such as calophyllum, taun (a.k.a. akwa), canarium, were also planted. The government promoted the rural community based tree planting by granting log tax remissions to communities that are involved

in the harvesting of their natural forests through logging.

The total volume of rough sawn timber exported in 2004 was 8,040 cubic metres, compared to 8,000 and 4,000 cubic metres in 2003 and 2002, respectively. The average domestic price of sawn timber ranged from \$1,200 to \$2,500 per cubic metre during the year. Rough sawn timbers were produced mainly by individuals.

The average international price of logs rose by 5.9% to US\$198 per cubic metre compared to US\$187 per cubic metre in 2003. The increase in the international price was due mainly to the relatively high demand for timber in the world market. On the domestic front, natural logs were exported at an average price of US\$62 per cubic metre compared with US\$61 per cubic metre in 2003 and US\$59 per cubic metre in 2002.

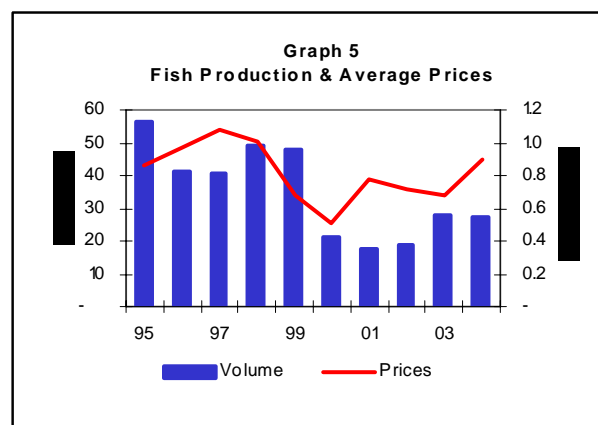
A new Forestry Bill that aim to limit the harvest of natural forest to a sustainable level and maximise the economic returns for landowners was deferred in 2004 for further consultations with resource owners, and other stakeholders in the country.

Fish

Total fish catch amounted to 28,235 tons in 2004, down by 2.5% compared to 2003. Of this, Soltai Fishing and Processing Ltd (SFPL), caught 6,937 tons, National Fisheries Development Ltd (NFD) 20,312 tons and Solgreen Ltd 986 tons. The fall was due to a sharp decline (35.7%) in fish catch by SFPL reflecting disruption to its fishing capacity early

in the first half of the year due to mechanical difficulties. Most of SFPLs boats are quite old and will need considerable amount of financial resources to ensure they operate at full capacity.

Although the resource does not appear to be under threat as current operations are catching only less than half the sustainable level of 120,000 tons, there is need to properly monitor fishing operations to ensure the economy fully benefits from the exploitation of this resource. The country has the comparative advantage of resource availability, but it is competing in a market (frozen tuna) where all producers, particularly in Asia are producing at lower cost structures. To be competitive, Solomon Islands must try to achieve lower cost operations. It is in this regard that government must ensure that taxation and industrial policies are complementary to these concerns.



Average international prices for tuna stabilised at US\$850 per metric ton in the first half of the year before falling to US\$570 per metric ton in July and August 2004. Prices again rallied

thereafter and rose to US\$1000 per metric ton in November before falling to the level at the beginning of the year.

The Solomon Islands multilateral fishing treaties remained unchanged in 2004. During the year, a total of 143 boats, mainly long line and purse seiners under the bilateral treaties fished in Solomon Islands 200 miles Economic Exclusive Zone (EEZ) while 50 purse seiners came under the multilateral treaty agreement with the US. This raised \$29.1 million in total revenue for government.

Seaweed

Seaweed farming could be the new source of incomes for a lot of coastal people in the rural areas in the future. The trial farming of seaweed in Rarumana -Western Province and Wagina - Choiseul Provinces are proving very successful. In 2004 seaweed production totalled 204.8 metric tons. Seaweed farming in the Solomon Islands is promoted by financial and technical support from the European Union. It is expected that seaweed production will increase dramatically in 2005, given the fact that more farmers, including those from Malaita and Shortlands are now involved in seaweed farming.

Copra and Coconut Oil

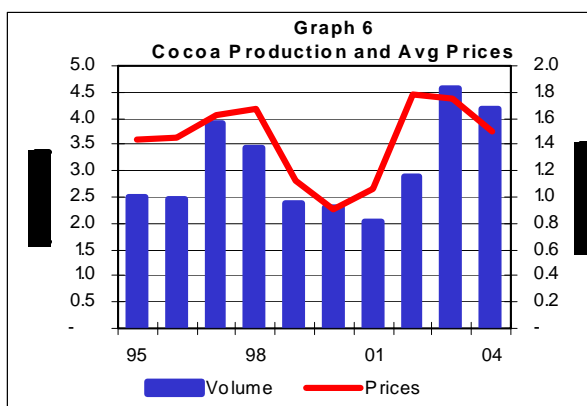
Total copra production rose significantly by 47.0% to 21,831 tons in 2004, compared to 14,848 tons in 2003, and 1,731 tons in 2002. Copra production has now been restored to pre-conflict levels. The rapid increase in copra production was attributable to increased production by smallholders in all the provinces.

Total production could have increased further had it not been for the industrial dispute that affected the operations of RIPEL at Yandina.

Of the 13 companies with valid copra export licences, 6 were actively involved in purchasing copra during the year. The average international price of copra rose by 50.0% to US\$450.0 compared to US\$300.0 per metric ton in 2003. The price of copra was relatively stable during 2004. In the beginning of the year the price was US\$388 per metric ton, then it rose to a peak of US\$500.0 per metric ton in April 2004. From then onwards prices began to fall until it hovered at US\$450.0 per metric in the last 6 months of the year.

Cocoa

Total cocoa production slightly declined by 8.8% to 4,181 tons, reversing significant increases of 57.8% and 42.6% in 2003 and 2002, respectively. The fall in production also coincided with the decline in the international price of cocoa. The decline was mainly owed to the low production, especially at the RIPEL plantation in Yandina, Central Province.



The average world market price of cocoa declined in the first six months until it bottomed-out at US\$1,405 per metric ton, then rose to a peak of US\$1,728 per metric ton in August. From then onwards prices fell to US\$1,480 per metric ton in October 2004 then levelled-out at US\$1,659 per metric ton in the last 2 months of the year.

Palm Oil and Kernel

A PNG based company is taking over the operation of the former Solomon Islands Plantations Limited (SIPL) on the Guadalcanal plains. The model operation would be based on communal and landowners participating in the operation by owning plots of oil palm trees and selling the fruits to the company. The initial groundwork has already started and arrangements to restart the oil palm operations are well underway in early 2005. The company will employ 2,000 workers when in full production.

Vangunu palm oil project began operations in 1992 on a 10,000 hectares crown land on Vangunu Island, Western Province. Initial assessment suggested that 6,000 ha are suitable for palm oil cultivation. In 1999 the company planted 706.6 ha of palm oil. Further assessments in 2004 suggested that less than 4,000 ha are suitable for oil palm. In order to build the milling factory, they need at least 6,000 ha of oil palm. Thus the company is currently negotiating with landowners for additional land for the project. The company was able to secure 1,000 ha from the landowners in Vangunu and Ngatokae islands. The company plan to build a township at

Merusu, with the initial infrastructural projects to start in 2005.

The government has appointed a task force to start preparatory work on the proposed Aluta Basin Oil Palm project in Malaita Province. Following a survey conducted recently on the area suggested that 12,000 ha are suitable for oil palm plantation. Initial work will include identifying the landowning groups and acquisition of the land for the plantation and other infrastructural developments. The Task Force consisted of various stakeholders in the project, including landowners, government officials from relevant ministries and the Malaita Province. The government allocated \$1.0 million for the work of the taskforce in 2004.

Honey

In 2004 it is estimated that there were around 2,000 beehives producing about 50 tons of honey through out the Solomon Islands. A total of 9.9 tons of pure honey was sold to the Solomon Islands Honey Producers Cooperatives Association Ltd, (SIHPCA) a body set up to look after the interests of the bee keeping farmers. Of the total honey sold to the SIHPCAL 69% was from Makira, 25.2% from Central, 8.1% from Malaita, 5.3% from Temotu and 0.4% from the Western Province. Farmers sold the other 40.1 tons direct to customers and trade stores. The current production level could not meet the high domestic demand in the country as such no honey was exported in 2004. SIHPCA purchased honey from farmers at \$10 per kilogram. Retail outlets in Honiara are selling at \$18.00 per 500 grams.

The European Union Micro Project programme has been very active in promoting the bee keeping industry by providing funds, training and technical assistance to farmers over the past years. By the end of 2004, the EU Micro Project funded 11 honey projects through out the country with a total value of \$0.5 million. It is estimated that by the end of this year the production of honey will double as more farmers are engaged in bee keeping.

Energy

There was general improvement in the provision of reliable electricity services in Honiara. This was due mainly to the resumption of a number of generators sets at Lungga Power station, following repairs funded under the auspices of RAMSI. The project will be completed with the installation of a 4.2 Megawatt generator at the end of April 2005.

Solomon Islands Electricity Authority (SIEA) financial performance was better than expected in 2004. This positive development was mainly due to government partial payment of its outstanding debts and tight policy in relation to customer payments, which resulted in the rapid improvement in revenue collection. The rising cost of fuel and other operational costs have been the major factors that constrain the funding of major capital investments during the year.

A team of consultants from PriceWaterhouseCoopers is working on a World Bank funded project to review SIEA's financial situation. The main thrust of the project is to develop a management and

operational system that would be effective, efficient and sustainable in the long run. The consultants report when completed in 2005 will form the basis for the expected restructuring of SIEA. The Japanese government under the auspices of JICA is providing a grant to install a 4.2 Megawatt diesel generator at Lungga Power Station and to upgrade power transmission lines in Honiara. The project will commence in 2006.

Mineral

Activities in the mining sector are mainly centred on the Bugotu Nickel deposit and Gold Ridge Mine Projects. The on going problems mentioned in the Bank Annual Report 2003 with regards to the Pacrim Resource Ltd persisted in 2004. As a result the company could not start prospecting activities on San Jorge in Isabel. Pacrim Resources Ltd license expired at the end of 2004. The renewal of its license will depend on an independent report prepared by a consultant from SOPAC to scrutinize its operations.

The Gold Ridge Mine took a further step towards resumption when a new consortium took over the shareholding of the company. The new owners met with the various stakeholders, including the Gold Ridge landowners, Guadalcanal Provincial government and the national government. Foreign Investment Board approval of the project has also been granted in early 2005 and it is envisaged that the operation could commence at the end of 2006.

Nine new applications from overseas companies were received in 2004 to carry out

prospecting activities in various parts of the country. Sumitomo Ltd of Japan was licensed to conduct prospecting activities on Choiseul and Isabel Provinces. Previous prospecting records suggested the presence of minerals deposits in these two provinces.

Total alluvial gold production amounted to 58,933.6 grams in 2004, compared to 43,457.05 grams in 2003. Most of the alluvial gold was panned at the Gold Ridge site on Guadalcanal Province while some came from Fauro, in the Shortland Islands, Western Province.

Tourism

The tourism sector in Solomon Island is lagging way behind other countries in the South Pacific region. The Solomon Islands accounted for less than 1.0% of tourists coming to the South Pacific at any given year. There are many constraints to the progress in the tourism sector. Some of these include inadequate facilities and infrastructure, poor transportation, lack of qualified human resources, inadequate accommodation as well as lack of financial and technical support from the government in terms of promotion and marketing.

Official data on visitor's arrival for 2004 are not available. However, it is estimated that about 5,000 visitors came into the country. The collection and the compilation of data on tourist arrivals is a weak area that needs to be improved. Currently the operation of the tourism sector produces no up to date and reliable statistics.

The Solomon Islands Visitors Bureau (SIVB) is responsible for tourism promotion and marketing in Solomon Islands. SIVB programs and activities were handicapped by lack of funds. Despite these shortcomings, the SIVB was able to organise road shows in three major cities in New Zealand in 2004. This follows similar promotion in Australia in 2003. The success of these promotions in attracting tourists to the country cannot be measured due to lack of reliable data.

However, not all is gloom and doom, with the rich and diverse cultural heritage and the abundance of natural attractions ready to be commercially exploited throughout the provinces, tourism has the potential to contribute to the growth in the economy. The Western Province, the main tourist destinations, and to some extent the Central Province are leading the way in terms of reviving the tourism industry in the country. With the lifting of the travel ban by Australia in 2004 plus the restoration of law and order it is expected that visitors to Solomon Islands will increase further in the years ahead.

Telecommunication

Telecommunication developments in Solomon Islands progressed at a stronger pace in 2004. Solomon Telekom Ltd that has the monopoly to provide communication services in the Solomon Islands, made after tax profit of SI\$17.75 million for the year ending March 2005, higher than the same period in 2003.

In ongoing efforts to provide fast services, the company launched a new prepaid service to its GSM Mobile Service. The company

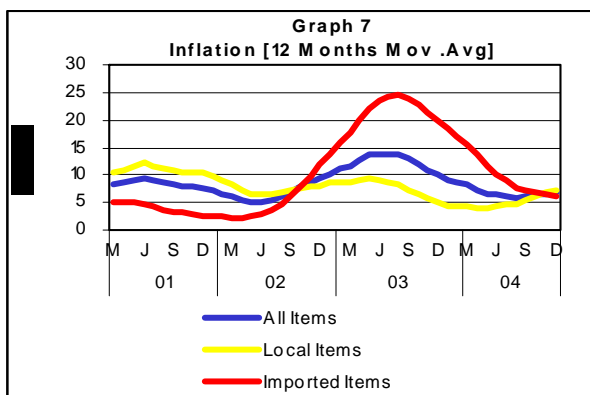
undertook major projects during the year. These included the expansion of GSM services in Honiara, and the upgrade of all Telekom Provincial centres, such as the introduction of the ViaSat Service and the installation of the new Digital Redcom exchanges.

The Unity Blong Community 2004 & Beyond project was launched in 2004, geared towards developing communication services to the rural areas. The success of the plan is dependent on donor aid to support the project. Nevertheless, Telekom will continue its development plans for the rural areas on the basis of a small number of sites each year.

Inflation

The average annual rate of inflation (as measured by the 12 months moving average of the Honiara Retail Price Index) was 6.9% in 2004, lower than the 10.1% recorded in 2003, and 9.4% in 2002. The downward movement was mainly due to a 6.2% decline in the imported component of the Honiara Retail Price Index (HRPI) compared to 19.8% in 2003. The relative stability in the Solomon Islands

dollar against the USdollar together with the decline in inflation in major trading partner countries, resulted in the decline in inflation during the year.

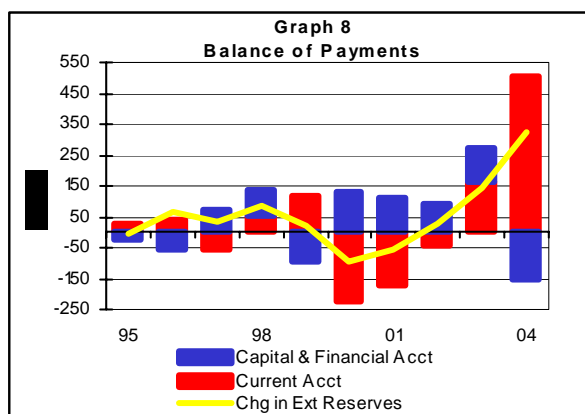


On a monthly basis, however, inflation recorded steady increases during the year. Inflation early in the year was 4.3%, but rose to 7.5% by December 2004. The rise in the price of domestic items, particularly food reflecting relatively short supply of fresh fruits and vegetables to the Honiara markets and fuel prices, which saw a rise in transport costs, accounted for the general rise in inflation during the year.

IV. BALANCE OF PAYMENTS

Developments in the balance of payments were generally positive in 2004 as a result of buoyant performance in the external sector. This resulted in an all time record of \$321.7 million in the overall balance. The significant improvement was owed mainly to positive outturns in the export sector as well as significant donor inflows, which boosted the current account by 142.2% from the previous year. These positive outcomes reflected the strong economic performance in the Asian region, the country's main export market.

Against this background, the level of gross official reserves rose to a record high of \$592.8 million at the end of 2004 compared to \$271.1 million in the previous year. Accounting for government's external debt arrears, this level represents approximately 7.0 months of imports of goods and non-factor services.



Current Account

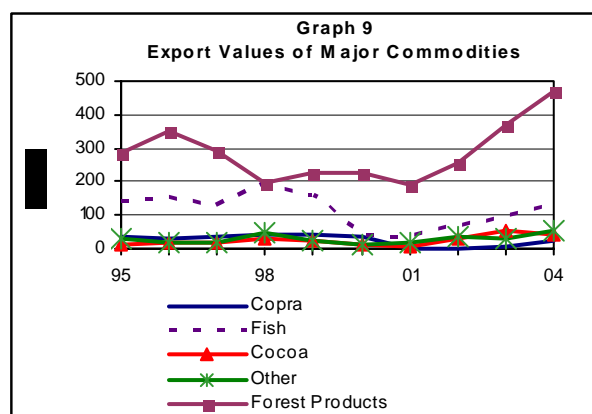
With increasing domestic demand and favourable prices for Solomon Islands export commodities, the current account components maintained a positive result witnessed since 2003. An all time record surplus of \$502.5 million was reported during the year, owing mainly to positive outcomes in the trade account, transfers, and to some extent, the income account.

Trade Account

The positive performance in the trade account strengthened further in 2004 and registered a surplus of \$187.7 million, up by more than 100% on the previous year. Export receipts soared to \$727.7 million from \$557.0 million in the previous year, owing mainly to favourable international prices for export commodities, despite mixed performance in export volumes.

Table 3 Balance of Payments Trade Account (\$Millions)					
	2000	2001	2002	2003	2004
Exports fob	352.6	248.7	390.1	557.0	727.7
Imports fob	469.9	431.4	321.3	525.5	540.0
Trade Balance	-117.4	-74.9	67.9	31.6	187.7
Trade Balance as % of total trade	-14.3	-26.9	9.7	2.9	14.8
Source: Central Bank of Solomon Islands					

Apart from cocoa, activities in the export sector remained buoyant in 2004. Earnings from cocoa dropped by 24.0% to \$40.4 million owing mainly to industrial disputes, which disrupted the operations of one of the major cocoa exporters. The international average price for cocoa dropped by 11.2% to US\$1555.00 per ton in 2004. Earnings from cocoa represents 5.6% of total export earnings. Hopefully the dispute at RIPEL can be solved amicably so that production could commence, as further delays would only jeopardize the recovery of the industry on which a majority of the rural populace heavily depend.

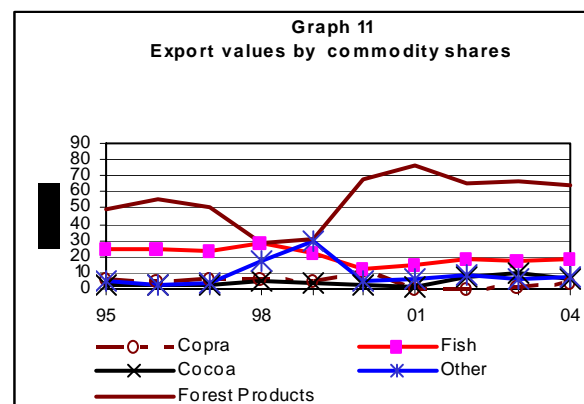
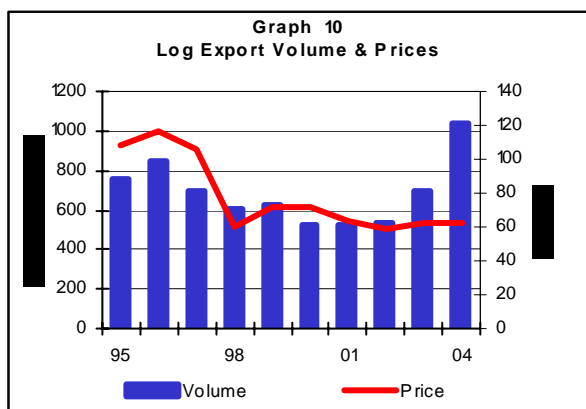


Performance in the **copra** industry has been very robust in 2004, which saw total receipts soaring by 226.7% to \$25.5 million. This remarkable increase is owed mainly to a significant surge in export volumes to 22,146 tons compared to 14,848 tons as well as favourable prices in 2004. So far this is the highest level recorded since the post crisis period. The average international price of copra rose by 50.0% to US\$450.00 per ton

during the year. Receipts from copra represents 3.5% of total export earnings in 2004 and is expected to increase further.

Total earnings from **fish exports** markedly rose by 42.2% to \$132.1 million during the year, continuing the upward trend for four consecutive years. This is underpinned by increased exports (especially fish loining due to high demand for it) by one of the large fishing operators, in spite of some operators operating below their capacity due to ageing vessels and equipments. The average international price of fish products rose significantly by 43.3% to US\$966.25 per ton. Receipts from fish products accounted for 18.2% of total exports in 2004.

Forest products export receipts continued the upward trend and soared by 26.1% to \$468.2 million during the year, registering an all time record. This is driven largely by increased logging activities reflecting the robust demand in the international market. The review on the forestry bill, which could have restricted logging operators, also contributed to the increased logging activities. As a result, total log export volume rose from 714,179 cubic meters to 1,043,150 cubic meters in 2004. The average international price for logs rose by 5.6% to US\$197.58 per cubic meters from the previous year. Solomon Islands log exports received an average export price of approximately US\$62.35 per cubic meter, about 31.3% of the average international price. Forest products accounted for 64.6% of total earnings. Earnings from other exports and mineral rose by 76.6% to \$55.1 million and 391.8% to \$2.9 million respectively.



Apparently, the high grade logging activities, although contributing to foreign exchange, does not cushion the country from external volatility. Similarly, heavy reliance on one commodity would only increase the economy's vulnerability. It is therefore important that the export base is broadened to at least insulate some of these shocks.

Actual figures on imports, which are derived from Customs Division database, are not available. However, used as proxy, data derived from the foreign exchange transactions through the banking system and other official sources showed that total imports reported on fob basis increased by 2.7% in 2004. The increase appeared to go in line with the improved level of economic activities that has taken place so far. It is also important to note that other associated costs to import have actually inflated the cost of imports, thus restricting the possibility of reducing the propensity to import.

The increase in imports essentially appears to be triggered by price rather than volume driven. This is partly due to the current exchange rate policy, which does not favour import consumption. Importantly, the build up in foreign reserves should strongly be backed by exports rather than donor inflows, as the later does not directly propel growth in the economy.

Notwithstanding this, oil imports (face value) markedly rose by 98.9% to \$174.8 million reflecting the oil price hike in 2004. The other import categories that registered increases were beverages and tobacco up by 12.1% to \$7.8 million, plants, vehicles & transport equipment by 3.0% to \$66.4 million, and other imports by 35.2% to \$226.2 million. Food, chemical, and buildings & construction materials, on the other hand, receded by 9.6% to \$101.5, 10.6% to \$12.6 million, and 10.5% to \$48.4 million, respectively, during the year.

Services Account

The services account, which recorded a net deficit in the previous year, narrowed the deficit by 60.4% to \$78.6 million at the end of the year. The marked improvement stemmed mainly from the 116.9% improvement in other services, which more than offset the rise in transportation and travel.

Table 4 Balance of Payments - Services Account (\$Millions)			
	2002	20003	2004
1. Transportation	-29.6	-8.7	-131.8
1.1 air transport	-27.8	-17.4	-31.6
receipts	0.8	0.3	0.5
payments	-28.6	-17.7	-32.1
1.2 sea transport	-1.8	8.7	-100.9
receipts	6.3	14.7	7.8
payments	-8.1	-6.0	-108.7
2. Travel	-34.5	-21.8	-40.8
2.1 business	-17.2	-5.9	-2.3
receipts	2.2	6.2	16.7
payments	-19.4	-12.1	-19.0
2.2 personal	-17.2	-15.9	-38.5
receipts	2.6	5.4	9.6
payments	-19.9	-21.3	-48.1
3. Other services	-111.4	-167.8	94.1
receipts	95.9	163.0	195.9
payments	-207.3	-330.8	-101.8
Overall net	-175.6	-198.3	-78.6
Source : Central Bank of Solomon Islands.			

Transportation (net) widened the deficit by more than 100% to \$131.8 million reflecting 491.6% rise in payments to \$140.2 million at the end of 2004. This is in contrast to a 45.0% decline in receipts to \$8.3 million. The net

travel balance also worsened in 2004, by 87.2% to \$40.8 million owing to increase in payments by 100.9% to \$67.1 million despite a 126.7% rise in receipts to \$26.3 million.

Income Account

The income account, which had registered deficit balances for the last two consecutive years, reversed the trend in 2004 to record a surplus of \$16.4 million. This is owed mainly to increased compensation to employee component, of which RAMSI personnel constituted the bulk of it.

Investment income continued the deficit trend, however it improved by 40.4% to register a deficit of \$21.2 million.

Table 5 Balance of Payments - Income Account (\$Millions)			
	2002	2003	2004
1. Employee Compensation	7.4	9.9	37.6
credit	15.1	21.0	49.0
debit	-7.6	-11.1	-11.4
2. Investment Income	-58.1	-35.8	-21.2
2.1 Direct Investment	-47.1	-40.9	-50.9
2.1.2 Income on equity	-27.0	-14.0	-42.2
credit	2.1	0.0	0.0
debit	-27.0	14.0	-42.2
2.1.3 Income on debt (interest)	-20.1	26.9	-8.7
credit	-	0.2	0.0
debit	-20.1	-27.1	8.7
2.2 Portfolio Investment	-	-	0.0
credit	-	-	0.0
debit	-	-	0.0
2.3 Other investment	-10.9	5.2	29.7
credit	3.3	5.2	29.7
debit	-14.2	-	0.0
Balance	50.8	-25.9	16.4
Source: Central Bank of Solomon Islands			

Current Transfers

The current transfers account registered a surplus of \$377.0 million in 2004, continuing the surplus trend, although lower than the previous year by 5.8%. Of this, \$371.8 million were for official transfers receipts of which \$183.1 million were in cash while \$188.7 million were in goods and technical assistance. Most of these inflows were directed to the social sector, particularly in the health and education.

Table 6 Balance of Payments - Current Transfers Account (\$Millions)				
	2002	2003	2004	
1. General Government	161.9	400.7	371.8	
cash	86.9	207.0	183.1	
credit	08.7	241.3	196.9	
debit	-21.8	-34.3	-13.8	
1.2 Non-cash-net	75.0	193.7	188.7	
2. Other Sectors	-27.8	-0.7	5.1	
2.1 Workers remittances	5.0	7.5	13.9	
credit	6.7	8.2	16.1	
debit	-1.7	-0.7	-2.2	
2.2 Other transfers	-36.3	-8.2	-8.8	
credit	77.1	98.5	161.3	
debit	-113.4	-106.6	-170.0	
Current transfers-net	134.0	400.0	377.0	
Source: Central Bank of Solomon Islands.				

Transfer receipts to other sectors rose by 66.4% to \$177.4 million while transfer payments soared by 60.3% to \$172.2 million in 2004. Consequently, net private transfers rose slightly from a \$0.7 million deficit in the previous year to record a surplus of \$5.1 million in 2004.

The budgetary support provided by Australia in 2004 has ceased in 2005 therefore, while donor assistance is welcomed and now that law and order normalized, it is crucially important that the economy sustain itself from its endowed resources so as to avoid unnecessary shocks. This of course, calls for workable policies that could drive the economy forward.

Capital and Financial Accounts

The capital and financial accounts recorded a deficit of \$151.0 million in 2004 compared to the (revised) \$36.7 million deficit in 2004.

Table 7 Balance of Payments - Capital Account (\$Millions)				
	2002	2003	2004	
1. Capital Transfers	47.4	94.5	11.5	
1.1 General government	53.2	95.4	11.5	
1.1.1 Debt Forgiveness	-4.0	-	-	
credit	-	-	-	
debit	-4.0	-	-	
1.1.2 Other capital transfers				
of general govt.	57.2	95.4	11.5	
credit	57.2	95.4	11.5	
monetary	57.2	95.4	11.5	
non-monetary	-	-	-	
debit	-	-	-	
monetary	-	-	-	
non-monetary	-	-	-	
1.2 Other Sectors	-5.7	-	-0.4	
1.2.1 Migrant transfers-net	-1.4	-	-0.4	
1.2.2 Debt forgiveness-net	-	-	-	
1.2.3 Other transfers-net	-4.3	-	-	
2. Non produced nonfinancial assets, net	-	-1.4	-	
Balance	47.4	93.2	11.2	
Source: Central Bank of Solomon Islands.				

This was triggered by deterioration in the financial account, which recorded a deficit of \$162.2 million in 2004. The \$162.7 million deficit stemmed from increased trade credits in other investments. The capital account also contributed, which saw a decline from \$93.2 million surplus in 2003 to a surplus of \$11.2 million at the end of 2004.

Table 8 Balance of Payments - Financial Account (\$Millions)			
	2002	2003	2004
1. Direct Investment in SI	-9.6	-13.7	-11.7
1.1 Equity capital-net	-1.1	-5.5	-64.2
1.2 Reinvested earnings-net	-2.5	-8.2	-20.0
1.3 Other capital-net	-6.0	0.0	-32.5
2.0 Other Investment	56.4	-116.2	-173.9
2.1. Assets	5.0	-33.3	-
2.2 Liabilities	89.7	-116.2	-173.9
2.2.1 Trade credit	-7.0	-166.7	-170.3
2.2.2 Loans	92.8	7.5	-9.0
(a) General government			
(i) Long term	18.4	-33.6	-2.9
Drawings	73.9	23.2	15.9
Repayments	-55.5	-56.8	-18.8
(b) Other sectors			
(i) Long term	1.3	-1.4	-4.6
Drawings	3.1	0.2	0.3
Repayments	-1.8	-1.6	-4.6
(c) Short-term-net	73.0	42.5	-1.5
2.2.3. Other liabilities-net	3.9	43.0	5.4
Balance	46.7	-129.9	-162.2

Source: Central Bank of Solomon Islands.

Long-term net loan obligation of the government improved from the previous year to have recorded at \$2.9 million. Repayments in 2004 on these obligations amounted to \$18.8 million while drawdowns were \$15.9 million during the year.

Total repayments in the private sector were estimated to be around \$4.6 million for long-term obligations and \$1.5 million for short-term obligations.

External Debt

The country's total external debt is estimated at \$1462.1 million at the end of 2004, compared to \$1378.5 million in 2003. Of the total debts, government debts amounted to \$1268.5 million while private sector debts totaled \$193.6 million. Australia settled the government's debt arrears with the multilateral donors, namely ADB and the World Bank (IDA). The external debt to GDP ratio of 86% is considered very high and therefore, calls for the government especially, to seriously address this.

Table 9 External Debt (\$Millions)			
	2002	2003	2004
Private Sector	220.1	198.9	193.6
Government Sector	1 087	1181.0	1268.5
of which: arrears	82.8	106.5	118.9
Total	1307.4	1379.9	1462.1
Debt Service	38.3	9.8	39.2
Principal	5.6	1.9	21.4
Interest	32.7	7.9	17.8

Source: Central Bank of Solomon Islands

While most of the donor funds coming in are mainly for the social sector it is also simultaneously important that any external borrowing by the government be linked to investment activities and economic growth.

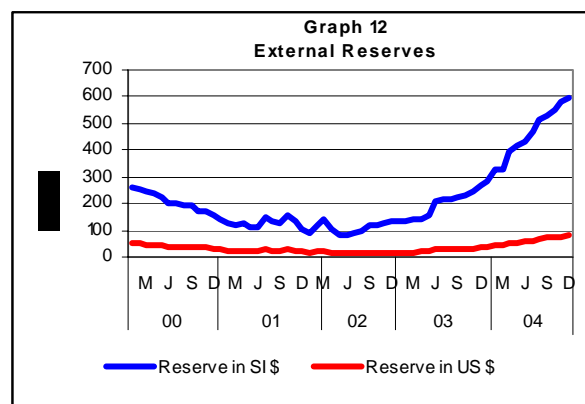
International Reserves

The level of external reserves generally determines the country's ability to trade with other countries. In such a small open and vulnerable economy like Solomon Islands, it is important to monitor and maintain adequate reserves to sustain the growing trade demands and cushion against external shocks. This can be determined and monitored through the foreign exchange cash flow analysis for which the foreign exchange market plays a vital role.

With continued improvement in the export sector seen in 2003, coupled with substantial inflows from donors the level of gross external reserves likewise rose simultaneously so that by June 2004 the gross reserve soared to \$433.4 million. By the end of 2004 total gross reserves reached \$592.8 million, significantly higher than the previous year and are at a record high. The driving factors behind this upsurge were predominantly from the export receipts and official inflows. The exchange control measures imposed during the crisis period were relaxed in April 2004 after assessing the economic environment in relation to its impact on the reserves. This reserve level represents approximately 7.0 months worth of imports of goods and non-factor services. While this level is comfortably high, it is still fragile in terms of sustainability because significant inflows also come from the donors, which sometimes cannot be predicted.

Exchange Rates

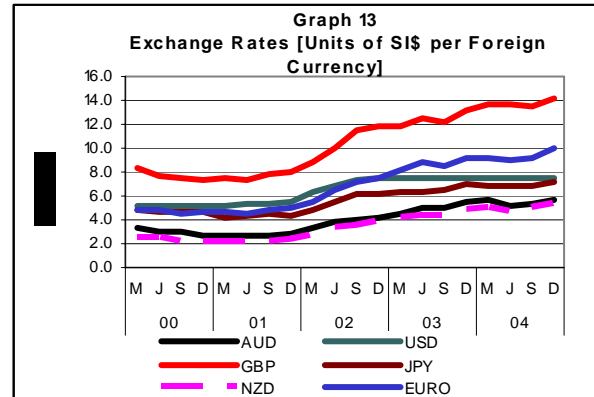
The exchange rate is one of the Key Monetary Policy instruments in Solomon Islands. The Solomon Islands dollar is currently pegged to a basket of currencies considered important to the country's trading arrangements. In 2004 the exchange rate policy stance was geared more towards relative price stability rather than defending the foreign reserves. Hence the SI dollar was stabilized against the U.S dollar. This policy of course, was affected by volatility in other currencies against the US dollar. The current exchange rate regime generally characterized by stabilization and autonomy of monetary policy provides an avenue for exchange control, which currently the Central Bank undertakes to avoid exogenous shocks.



In 2004 the Solomon Islands dollar lost ground against all other major currencies apart from the U.S dollar. It depreciated by 12.6%, 11.6%, 6.9%, 14.2%, and 9.5% against the Australian dollar, Pound Sterling, Japanese yen, New Zealand dollar, and Euro

respectively, compared to the previous year. It rose slightly against U.S dollar by 0.4%.

As a result of the widening trade and fiscal deficits in the U.S economy, the U.S dollar lost ground against the other major currencies. It depreciated against Australian dollar by 11.8%; Pound Sterling by 11.6%; Japanese yen by 6.8%; New Zealand dollar by 12.8%; and 3.6% against Singaporean dollar.



V. MONEY AND BANKING

The upturn in monetary aggregates that began in mid-2002 and accelerated in 2003 reported mixed movements in 2004. The outcome was expected due primarily to improved fiscal discipline; noticeable expansions in private sector demand for credit, slow but steady expansion in economic activities and vigorous balance of payments outcome. All components of money trended upwards. Broad money increased in 2004 and so did net foreign assets of the banking system and credit to private sector. Net credit to government eased during the year.

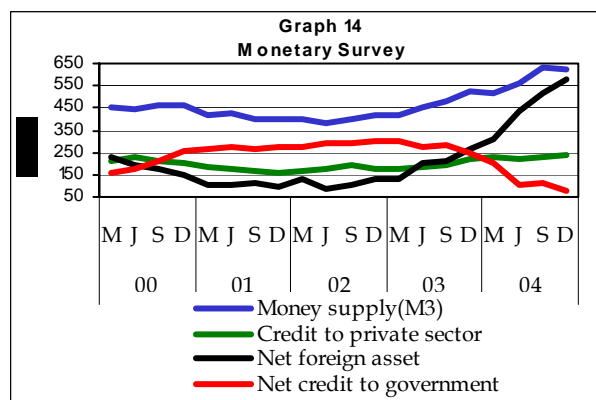
Activities in the Auction Treasury Bills Market [ATBM] remained relatively robust in 2004 with over-subscription being a regular feature in the domestic securities market. Excess liquidity increased more than twofold in 2004 while interest margin widened during the same period. Real interest rates on deposits, as in previous years, persisted in negative territory in 2004.

Monetary Policy in 2004

The Monetary Policy Committee of the Central Bank maintained its 2003 monetary policy stance in 2004. This decision was taken despite the improvements in domestic economic activity and dramatic upswing in external reserves position as the underlying macroeconomic conditions remained fragile and could be easily reversed should RAMSI pulls out of the country and if implementation of government reform were to be delayed.

The conduct of the monetary policy in 2004 was to ensure the rise in liquidity did not lead to consumption that would undermine the foreign reserves on one hand and to provide an environment conducive for economic growth by capping undue inflationary pressures on the other.

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

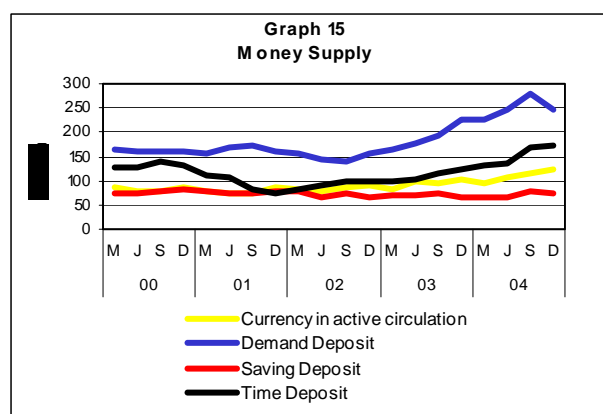


In the FEM, the Central Bank withdrew its participation from FEM and stabilized the exchange rate vis-à-vis the US dollar. In the OMO, the Central Bank continued to operate the Auction Treasury Bills Market to influence the term structure of interest rates and liquidity.

The ATBM maintain its performance that began in the second-half of 2003 throughout 2004. This outcome was broadly expected given the improvements in fiscal discipline and return of confidence in government machinery and domestic economic environment.

Money Supply

Broad Money [M3] grew further in 2004, by 19% to \$621.7 million, following growth of 25.4% and 4% posted in 2003 and a year earlier respectively. The growth in M3, which began in mid-2003, was spurred by an increase in Net Foreign Assets [NFA]. The NFA increased more than twofold to compensate the decline in net domestic assets during the year.



Narrow money supply [M1], defined as currency outside banks and demand deposits, increased by 12.6% to \$371.9 million in 2004, extending further the 32.7% and 0.4% growths posted in 2003 and 2002, respectively. The increase in M1 was spurred by growth in currency in circulation and demand deposits. The former grew 20.1% to \$123.3 million whilst

the latter grew 9.3% to \$248.6 million. The growth in demand deposits was broadly expected in light of a favourable business environment, which induced business firms to increase their cash holdings for immediate transactions throughout the year. Business firms' demand deposits with commercial banks increased by 4.1% to \$128.9 million during the year.

Savings and time deposits also increased in 2004, by 12.7% and 39.3%, respectively. Consequently, quasi-money rose by 29.9% to \$249.8 million. The rise in savings deposits was due to increases in savings deposits of business firms, private financial institutions and "other" in the banking system during the year. Savings deposits of business firms increased by 66.5%, private financial institutions more than threefold and "other" by 9.1%.

The strong growth of time deposits in 2004 reflected increases in all time deposit components, except for public financial institutions, which contracted significantly during the year. The strong growth in longer-term deposits was a welcome development because they provided 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 and sustainability of the economy.

Net Foreign Assets

Net Foreign Assets [NFA] increased more than twofold to \$575.9 million in 2004. This

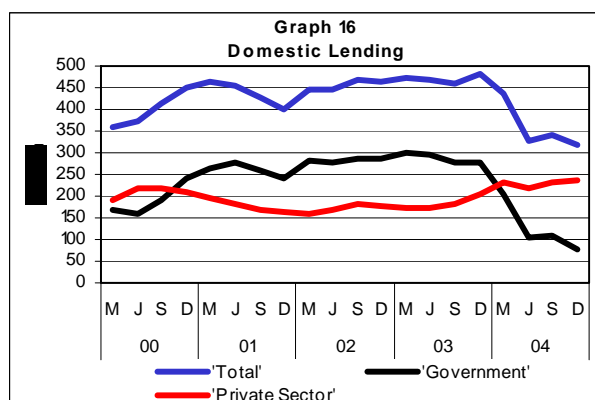
continued the twofold increase posted in 2003 and a 31.3% growth posted in 2002. The increase in NFA was due mainly to increase in donor inflows, export earnings, and financial capital inflows. In the first quarter of 2004, NFA grew by 1.4%, increased by 58.0% in the second quarter and rose by 1.3% in the third quarter. At the end of the fourth quarter, NFA grew by 27.7% to a 20-year high of \$264.7 million in 2004. As a result, NFA remains strong in terms of the import cover throughout the year. Based on recent BOP developments, the level of NFA in terms of import cover should remain adequate in 2005.

Domestic Credit

Total domestic credit [TDC] declined by 32.1% to \$316.7 million, continuing the downturn that started in the previous year. The fall in TDC was attributed to a drop in net credit to government, by 68.6% to \$77.9 million. This more than offsets the 9.8% rise in credit to private sector. The decline in net credit to government chiefly reflected increases in government deposits in the banking system that came fundamentally on the back of improved fiscal discipline.

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 expansion must target new investments and channelled into sectors the country has comparative advantage 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.

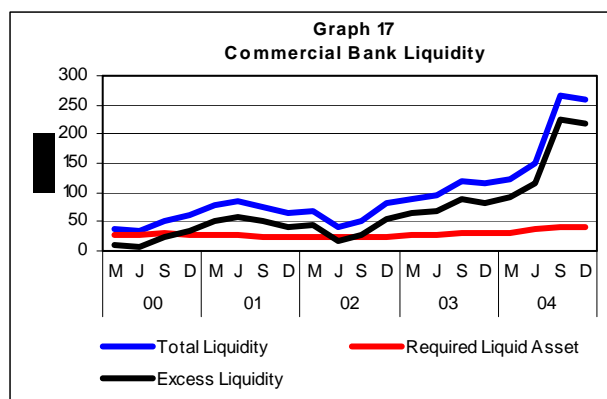


The growth in bank credit to private sector in 2004 had been driven almost entirely by increased overdraft facility usage by businesses to sustain and expand existing operations and not necessarily for new investments. The upturn in this form of bank credit [overdraft facility] to a large extent reflected 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 recovery momentum in 2005 and beyond.

In terms of credit distribution, a large portion of private sector credit was accounted for by the Distribution and retail sector [19.5%] followed by the Communication sector [17.7%], Forestry sector [17.5%] and Personal sector [17%].

Liquidity

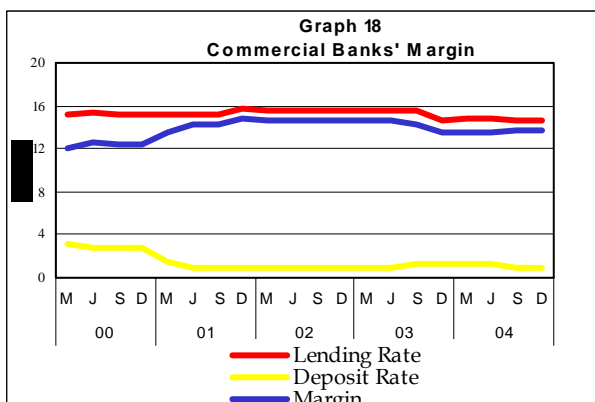
The banking system remained very liquid throughout the year as a result of a robust balance of payments outcome and a decline in net lending to government. Liquidity swelled 7.3% in the first quarter and by 22.3% and 74.9% respectively in the second and third quarter before easing somewhat in the fourth quarter. Consequently total liquidity increased more than twofold to \$260.3 million in 2004.



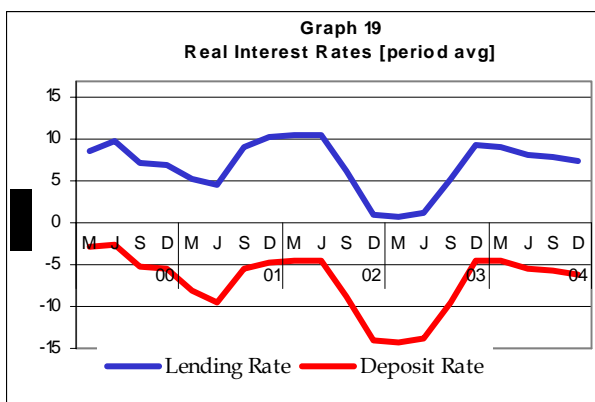
The required reserves that commercial banks must hold increased by 27.2% to \$31.9 million. This led to a near tripling of excess liquidity to \$219.5 million during the year.

Interest Rates

Commercial banks' indicative interest margin widened from 13.48% in 2003 to 13.74% in 2004 caused by diverging movements in the weighted average indicative interest rates for deposits and lending. The former declined by 26 basis points to 0.95% whilst the latter increased by 1 basis point to 14.69%.



Real interest rate on deposits and lending were negative 5.95% and positive 7.79% respectively in 2004 compared to negative 10.5% and positive 4.2% in 2003 respectively. The negative real interest rates on deposits not only persisted for quite some time but became a major cause of concern for a number of years because of its consequences on domestic savings and investment and in turn the economic growth of the country. The yields for ABM remained unchanged and ranged from 2%-6% in 2004.



Monetary Policy and Outlook for 2005

The focus of monetary policy in 2005 would be to strengthen and sustain the growth achieved so far, contain inflation and protect the external reserves. 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 2005. These two objectives are considered paramount to sustain the current recovery process and efforts to re-grow the economy. In that connection, monetary policy

would continue to ensure economic and financial conditions remain conducive for private sector-led growth activities in the medium term 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 2005 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

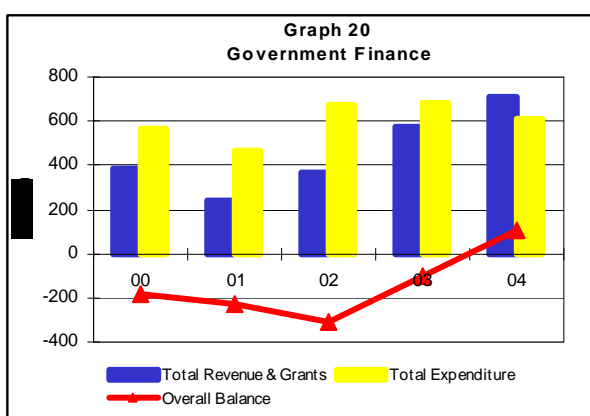
Broad Developments in 2004

The government continued to consolidate its financial position in 2004 following the positive developments in 2003. This was shown through strong revenue collection of \$710.9 million and tight expenditures of \$608.8 million that resulted in a surplus of \$102.1 million (see Graph 20) at year-end, a notable turnaround from consecutive deficits in previous years. Total revenue and expenditures were down against budget by 26.5% and 38.4% respectively, owing largely to the slow implementation of the development budget.

In terms of the broad budget objectives, the government made considerable progress on several fronts. Basic services such as health and education improved significantly over the previous years following sizable injections from both the government and donors. On the debt front, the government restructured and regularized its debts with major financial institutions and cleared \$32.0 million of trade credit arrears to local businesses, organizations and individuals. There were also other notable undertakings during the year such as auditing of major revenue departments and capacity building exercises such as training and recruitment.

However, the government cannot afford to be complacent in view of persisting underlying economic problems. The local revenue base, which is still very narrow and highly susceptible to unfavorable shocks, must be broadened further to cushion downturns in

major revenue areas. The economy is becoming more dependent on aid inflows following the social unrest but this level of assistance is not sustainable in the long term. Debt repayment that accounts for a significant portion of current expenditure level is another simmering issue that needs immediate attention.



Revenues

Total revenue in 2004 was \$710.9 million, a double-digit growth over 2003 and represents 73.5% of the budgeted revenue. By major sources, Inland Revenue Division collected \$300.8 million, Customs Division was \$171.4 million, non-tax revenue was \$37.8 million, and external grants were \$201.0 million. Compared to budget, the local sources registered growths of 17.4%, 9.3%, and 31.3% respectively as opposed to the shortfall of 61.8% in external grants.

The strong revenue performance was fundamentally driven by strong import

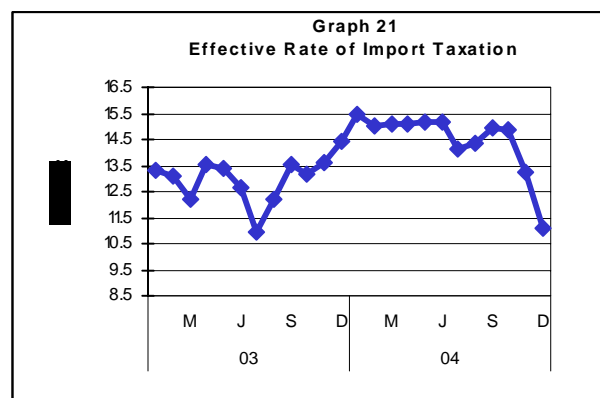
demand that stemmed from the gradual pick up in private sector activities, improved tax compliance, and vigorous collection measures. Total revenues would have been much higher in 2004 if revenues foregone through duty exemptions and remissions granted by the government in the tune of \$29.9 million were taken into account.

Of tax revenue IRD collected, goods tax was on track at \$126.1 million as against a budget of \$121.1 million. Company tax grew by \$18.5 million to \$62.3 million, benefiting largely from the windfall arrear receipts that were realized during the year. Excluding the windfall receipts, company tax was somewhat higher than the budgeted amount and equaled the pre crisis levels. The growth reflected gains from tax compliance measures instituted since 2003, increased capacity within the department, and a general improvement in business activities.

PAYE tax grew by \$11.9 million more than the budgeted amount to \$61.9 million. Of the total, private sector contributed \$45.8 million and \$16.1 million was drawn from the government sector. Compared to 2003, the two categories recorded growths of 64.0% (\$17.9 million) and 1.4% (\$0.2 million) respectively. The significant growth in the former was attributed to a one off arrears receipt from NBSI. Excluding that, the performance from this category was still firm, indicative of a gradual pick up in private sector activities following the economic slowdown seen in previous years. Total withholding tax strengthened from \$18.3 million a year ago to \$25.7 million. This was 24.9% above budget and mirrored upbeat economic activities. Sales tax almost doubled the amount a year ago to \$15.3 million,

consistent with the broadened tax base that now captured business activities that were previously excluded.

Revenue from Customs Division firmed at \$171.4 million up on the budget by \$21.3 million, benefiting mainly from the general improvement in the external sector. On a year-to-year basis, revenues from international trade followed the upward trend that started since 2002 with a growth of 17.2% (\$25.1 million). Import duties - a principal category, contributed \$81.9 million (41.9%) to reflect the strong import demand that stemmed from upbeat consumer demand coupled with the vibrant business sector.



Data available to the Bank suggest that government had lost millions in revenue through import duties in 2004. This is shown by the decline in the effective rate of import taxation (6 months moving average), to 11.1%, from 14.4% (see Graph 21) in 2003. This indicator is calculated as actual total import duties received divided by the total value of imports based on foreign exchange transactions (FET) data through the banking

system. This occurred in spite of increased tax compliance measures during the year. The fall reflected continued granting of import duty remissions and double invoicing by importers to avoid paying higher duties to government. Government must take appropriate actions to remedy these weaknesses to enhance its revenue collection.

Log export duty negligibly exceeded its budget and a year ago by \$1.0 million and \$5.3 million respectively to \$66.3 million. However, the marginal growth contradicted the record high log volumes and firm log prices. The inconsistent outturn came on the backdrop of the large number of log duty exemptions and remissions approved in 2004 to assist landowning groups and communities to reforest their deforested areas. Total revenue foregone during the year in terms of log remissions and exemptions was \$29.9 million, more than three times higher than in 2003. Experiences in 2004 showed procedural weaknesses in the remission facility particularly in the area of monitoring and ensuring beneficiaries complied with reforestation requirements. Hence, the governments should abolish the mechanism of discretionary granting of tax and duty exemptions and remissions and investigate those who have abused the system.

Export duties received from non-log commodities remained negligible at \$1.5 million as against a budget of \$1.0 million. The marginal growth mirrored the narrow non-log exports base that was predominantly marine products coupled with the tax breaks the agricultural produce (copra and cocoa) benefited as a result of their economic

significance to the rural people. Revenue from the export sector is now at the crossroads in view of the excessive pressures to cutback the unsustainable log output in recent years. Emphasis must be shifted to cushioning revenue options such as non-log exports by promoting internationally competitive tax packages in non log activities, remove cumbersome investment procedures, protect non-log export oriented industries, and improve major investment infrastructures.

Non-tax revenue trended upward from \$33.0 million a year ago to \$37.8 million. Compare to budget, this was an increase of 31.3%. The multilateral and bilateral fishing arrangements that increased notably over a year ago contributed around 90% of the total receipts. Contributing to this major improvement were the auditing exercise that was undertaken since 2003 on key revenue departments such as the Department of Fisheries, revenue enhancement measures, centralization of government bank accounts, and a general economic upbeat.

Donor assistance towards the development budget increased sharply in 2004. However, it is not possible to ascertain the exact amount, as the government has no mechanism in place to capture capital injections received for the projects stated in the development budget. Notwithstanding the statistical deficiency, Foreign Exchange Transactions sources indicated total grant inflows received in the period rose by 14.6% over 2003 to \$201.0 million. The major beneficiaries were services (health, education, and police services), agriculture, and physical infrastructure sectors.

Expenditures

Total expenditure contracted from \$682.8 million in 2003 to \$608.8 million, accounting for 60% of the budgeted expenditure. The below budget performance was anticipated and due mainly to stringent expenditure policies, lack of spending capacities in some ministries, and weak performance from the development budget.

Recurrent expenditure was \$506.2 million, (see Table 10) 10% lower than 2003 and represented more than 87% of the budgeted amount. Payroll trended upward from \$170.3 million to \$173.5 million, consistent with the Cost of Living Adjustment (COLA) payments public servants received during the year. However, this was \$15.3 million (8.1%) within the budgeted amount and reflected payroll cleansing measures the Ministry of Finance instituted and unplanned payroll savings from budgeted vacant posts. The payroll is bound to increase in 2005 as a result of new recruitment and an "across the board" pay rise to public servants in January 2005.

Other charges contracted against budget to \$252.6 million. The tight spending was related to some departments' lack of capacities to utilize allocated funds coupled with stringent expenditure policies in some areas. Of the \$252.6 million, about \$74.3 million came as budget support from Australia and New Zealand with a sizable amount going to the services sector. Although the cessation of Australia's budget support at midyear left a vacuum, the upturn in local revenue during the year was enough to cushion it.

Following the approval of the supplementary appropriation bill 2004, the government disbursed \$38.2 million on informal debt repayments from surplus funds in 2003. These financial injections, though insignificant compared to the total arrears, restored fiscal credibility as well as stimulating smaller economic activities. A third phase of informal debt repayment of \$34.3 million was anticipated for the second quarter of 2005.

Table 10
Solomon Islands Government Operations
(\$Million)

	2003	2004	2005
	Actuals	Actuals	Budget
1. Total Revenue & Grants	579.0	710.9	1128.9
(A) Total normal revenue	373.4	509.9	550.0
(a) Income Tax	90.0	149.9	139.8
(b) Taxes on Goods & Services	104.1	150.9	167.2
(c) Tax on International Trade	146.3	171.3	178.4
(d) Total NonTax Revenue	33.0	37.8	64.6
(B) Cash Grants /1	110.0	74.3	40.0
(C) Capital Grants /1	95.4	126.7	538.9
2. Total Expenditures:	682.8	608.8	1240.6
(D) Recurrent Expend.	564.2	506.2	654.9
(a) Wages and Salaries	170.3	173.5	226.8
(b) Debt Service /2	121.5	80.1	78.0
(c) Other Charges /3	272.4	252.6	350.1
(E) Capital Expenditure	118.6	102.6	585.7
3. Overall Balance	-103.9	102.1	-111.7
4. Financing:	103.9	14.5	31.7
(i) Domestic	57.0	-	-
(a) Domestic debt arrears	57.0	-	-
(b) Arrears on other charges	-	-	-
(ii) External	46.9	14.5	31.7
(a) Debt arrears	23.7	12.4	-
(b) Loans	23.2	2.1	31.7

1/ Based on BOP data

2/ Actual figures represent total debt dues during the year

3/ Estimates based on MoF reports. Data for 2003 and 2004 included arrears and actuals.

Source: Department of Finance & CBSI.
Central Bank of Solomon Islands

Debt servicing bettered the previous year by \$16.8 million to \$67.6 million. Of this, \$33.4 million was for external debt payments of which principal repayment accounted for 59.5% and interest payments 40.5%. Except for ADB, IDA and EXIM bank loan that were financed mainly by donor partners to June 2004, other debts were not serviced resulting in the buildup of external debt arrears.

Domestic debt repayment was \$34.2 million comprising of \$12.0 million in principle repayment and \$22.2 million in interest payment. The repayment influx in the local component was an aftermath of the debt compromise strategy the government successfully negotiated with commercial banks and the National Provident Fund (NPF).

Development expenditure for 2004 was not available. However, proxy indicators from Foreign Exchange Transactions showed aid inflows rose 14.6% over the previous year to \$201 million. It is not possible to ascertain the expenditure mix of these inflows but a significant percent of these inflows was used to finance the development budget. The main sectors that benefited from the capital injections were education, health, law and order, agriculture, and physical infrastructures. Over the years, there were no proper documentation of implemented projects and there was lack of coordination between aid donors and the implementing ministry. These prompted the Department of Planning in conjunction with AusAid to formulate a statistical system that will capture capital expenditures. The new scheme should sharpen aid coordination, improve project monitoring mechanisms, and to upgrade the reporting system.

Government Debt & Arrears

Government debt stock at end 2004 rose from \$1.6 billion to \$1.7 billion, accounting for more than 100% of Gross Domestic Product (GDP). This current debt level must be reduced to an affordable level. The debt stock was represented by \$1.1 billion in external debt and \$0.5 billion in domestic debt. The latter grew by \$32.6 million over 2003, owing largely to the NPF arrears the government amortized and interest due on CBSI advances. The former rose \$40.8 million, reflecting loan disbursements from IDA and ADB towards the health sector and post conflict rehabilitation projects, and exchange rate movements.

Total debt arrears in 2004 fell sharply by \$156.6 million to \$118.9 million to contrast the \$80.6 million arrears build up in 2003, attributable to the debt restructure exercise concluded by the government and its restructured bondholders. Under the new arrangement, interest rates averaged around 2% as opposed to 9% under the previous regime while the term was spread over a period of up to 14 years. Consequently, a sizable amount of the government's debt obligations towards domestic debt holders was shaved off.

Total debt repayment for 2005 is projected at \$69.2 million, of which the external component accounted for \$58.1 million (83.0%) and domestic component about \$11.1 million (17.0%). This level of debt repayment accounts for a significant portion of the recurrent expenditures and is quite unsustainable in view of the narrow revenue base coupled with huge debt arrears position and the depreciating Solomon Islands dollar. On an

upside, the Ministry of Finance has started preliminary dialogue with external creditors, and the process is expected to culminate in a joint forum to be attended by representatives of all external creditors later in 2005.

Accounting & Audit

Financial and technical assistance to the Office of Auditor General [OAG] improved markedly, albeit still inadequate, in 2004. However, there was no new recruitment although the posts were budgeted for and was due mainly to cumbersome recruitment procedures. The major audit undertakings authorized by the Auditor General in 2004 were the auditing of Fisheries Department, Forestry Department, and Exim Bank loan disbursements. The three reports were completed and were with the respective departments.

There is concern on the lack of accountability in the general government. However, on an upside, accountability at the provincial level, albeit only a few, was progressing well with Malaita, Isabel, Guadalcanal, and Western provinces auditing their accounts after several years. Some statutory authorities were also taking the same line as in the case of SIEA, who is now benefiting from a World Bank project whose terms of reference covers auditing and restructuring of the authority. Meanwhile, OAG was hopeful of the positive knock on effects of these achievements on other government agencies.

2005 Budget Outlook

The government has developed the 2005 national budget based on the sound fiscal

performance in 2004. The budget was formulated using a budget baseline framework that will systematically allow the government to make allocations to priority areas, align departmental expenditures with departmental objectives, and enable the public to measure government performance from the budget outcomes. The priority spending areas in 2005 are service delivery to the mass populace, sustaining the current peace process, enhancing public sector capacity, revamping the productive sector through infrastructure rehabilitation, and promoting the country internationally.

The recurrent budget is forecast at \$670.0 million and will be financed primarily from \$550.0 million in domestic revenue, \$80.0 million from the budget surplus in 2004, and a budget support of \$40.0 million from New Zealand. Domestic revenue was up by 7.9% over the collection a year ago but would score a double-digit growth once windfall receipts in 2004 are excluded. Categorizing domestic revenue by major sources, Inland Revenue Division (the principal revenue earner) is expected to contribute \$306.9 million (55.8%), Customs Division \$178.4 (32.4%), and other ministries \$64.4 million (11.7%). These, registered increases of 2.0%, 4.1%, and 70.4% over the receipts they collected respectively in 2004.

The development budget almost doubled the 2004 estimates to register \$939.7 million. This of which, cash component is \$228.8 million, equipment \$353.8 million, and non-cash component \$357.1 million. Over recent years, donor injections played a crucial role in the sustenance of government services. However,

in view of the uncertainty surrounding donor funds, the government must harness the productive capacity of the local economy to ensure the country becomes self reliant in the foreseeable future.

Provisional 2005 budget outcome in the first quarter showed a fiscal slowdown with revenue posting \$133.9 million as opposed to expenditure outlay of \$143.7 million. These, weakened against budget by \$2.6 million and

\$12.2 million respectively. Although the revenue slowdown was seasonal and weak expenditure in the first quarter was anticipated in view of the big spending programs that would come through in the second quarter, the government must match an unexpected fall in revenue in latter quarters with a cutback in expenditure to ensure it lives within its budget guidelines. Such fiscal discipline is necessitated by the policy stance of the government not to incur any new borrowings in 2005.

VII. FINANCIAL SYSTEM

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

Commercial Banks

The number of licensed commercial banks operating in the country remained unchanged in 2004. The Australia and New Zealand Banking Group Limited (ANZ), and Westpac Banking Corporation are branches of Australian banks. The National Bank of Solomon Islands Limited is a locally incorporated bank.

The numbers of banking service centers remain unchanged from previous year: number of branches 13 and 7 agencies. But the year saw an increase in the number of Electronic Fund Transfer at Point Of Sale (EFTPOS) terminals from 61 to 69. Whilst the number of Automatic Teller Machines (ATMs) remain at 4, the introduction of new banking information systems and platforms by two commercial banks would pave the way for more increases in the use of electronic banking in Solomon Islands in the coming years. For technical reasons, the electronic banking facilities are available to customers in Honiara only.

As at end of December 2004 commercial banks employed a total of 230 workers from 238 officers in 2003. The number of expatriate

officers at end of 2004 was 10, an increase of one person from 2003.

Financial Position of Commercial Banks in 2004

2004 was another profitable year for the commercial banking sector. Net after tax profit for 2004 was \$35.1 million, an increase of \$3.3 million from \$31.8 million realized in 2003, revealing an annual growth of 24.5% of net tax profit since 2000. The rise in earning was attributed to increases in both net interest and non-interest incomes and an extra-ordinary earning of \$1.5 million during the year.

Table 11
Commercial Banks Profit & Loss Statement
(SIS millions)

	2002	2003	2004
(i) Interest Income (net)	31.0	34.6	39.6
(a) Interest from SIG Sec.	7.9	9.9	6.8
(b) Interest on loans	25.3	29.1	40.0
(c) Others	0.6	0.1	0.3
Less interest expenses	2.8	4.5	7.5
(ii) Non-Interest Income	40.1	54.6	66.9
(a) Service charges on deposits	5.8	6.2	7.7
(b) Foreign exchange gains	26.9	38.0	47.7
(c) Fees & others	7.4	10.4	11.5
(iii) Operating Income	71.1	89.2	106.5
(iv) Less Non-Interest exp.	38.2	42.0	53.6
(a) Salary	14.8	17.3	19.2
(b) Occupancy, furniture & equipment	4.3	4.6	6.4
(c) Others	19.1	20.1	28.0
(v) Operating Income Before Extraordinary Items	32.9	47.2	52.9
Extraordinary Items	0.0	0.0	1.5
(vi) Net Profit Before Tax	32.9	47.2	54.4
Tax	10.7	15.4	19.3
(v) Net Profit After Tax	22.2	31.8	35.1

Source: Central Bank of Solomon Islands

Net interest income amounted to \$39.6 million up \$5 million from \$34.6 million in 2003. Despite the rise in costs of funds by \$3 million to \$7.5 million at end of 2004, net interest income rose as result of increased loans and advances to \$238.9 million at the end of the year. Non-interest income continued to contribute more than 60% of the total operating income of the banking sector. In 2004, non-interest income was a record \$66.9 million up \$12.6 million on 2003. While non-interest earnings have increased during the year, there was also corresponding increase in the operational expenses of the banking sector to \$52.9 million as compared to \$42.0 million 2003.

The banking sector direct contributions to the national economy in terms of labour cost, deposit cost, purchases of services and payment of company tax to the government amounted to \$80.4 million in 2004 up from \$61.9 million in 2003.

Licensing and Legislative Issues

Under Section 18 of the Financial Institutions Act 1998(as amended), CBSI applied to the High Court to take control of the Development Bank of Solomon Islands in 2004. This action was taken in order to protect the stability of the financial system, and the interest of depositors in DBSI. Following on-site examination of the Development Bank of Solomon Islands in late 2003, the Central Bank concluded that the Development Bank was following unsound and unsafe practices in the conduct of its business, seriously jeopardizing depositor's money and unable to pay its creditors. The High Court appointed the

Central Bank to manage DBSI for a period of 6 months from June 2004. This period was extended for another 6 months to June 2005.

As the Court Manager of DBSI, the Central Bank reduced the numbers of employees, cut down unnecessary costs, and established new standards for reviewing loans and took recovery actions against defaulting borrowers. During the six months period to December 2004, CAM has been able to repay \$3.5 million to depositors, reduced deposit liabilities from \$19.1 million at mid-year to \$15.6 million at end of December 2004.

This is the first time; a financial institution has been taken control of by the Central Bank under the provisions of the Financial Institutions Act.

Other legal issues that emerged during the year include the National Bank Officers' Association legal case against the Trustee of NBSI Employees Trust Fund. The employees were seeking a court ruling on their 17 per cent share for allocation. The National Provident Fund has also filed a case against Bank of Hawaii and the three trustees disputing the transfer of Bank of Hawaii shares in NBSI to the trustees. Both cases are still pending before the courts.

Financial System Soundness Indicators

In line with international standards, Solomon Islands compiles certain financial stability indicators (FSI) to assess the soundness of its financial system. At present the FSI are compiled only for the commercial banks. The key FSI's calculated for Solomon Islands are

capital adequacy ratios, asset quality ratios measured in terms of non-performing assets to gross loans and advances, earnings and profitability ratios and liquidity ratios.

Asset Quality

Asset quality a measuring of non-performing assets in the banking sector, improved further in 2004, with non-performing loans (NPL) ratio down to 3.4 percent from high of 11.9 percent in 2002. NPL peaked in 2002 at \$20.7 million. It has since declined to \$8 million at end of 2004. This improvement is attributed to the recovery in the economy enabling commercial bank clients to repay their non-performing loans, rigorous recovery actions and selective lending by the commercial banks.

Capital Adequacy

The average risk weighted capital was 26.1 percent at end of 2004 marginally lower than 26.4 percent for 2003. The required risk weighted capital was 10 percent. All three commercial banks were well above the required risk capital ratio.

Earnings and Profitability

Return on average asset and return on average equity are profitability indicators that measure banks' efficiency in using their assets and capital. As at end December 2004, return on average asset was 5.1 percent, marginally lower than 5.7 percent in 2003. Return on average equity fell slightly to 31.9 percent from 32.6 percent at end of 2003. The growth in average assets from \$557.5 million to \$698.5 million and average equity from \$97.7 million

to \$110.3 million between 2003 between 2004, contributed also to lower indicator percentage.

Liquidity

Liquidity FSI remain high during the year. Liquid asset ratio (liquid asset to total asset ratio) rose to 33.6 percent at end of 2004 compared to 18.6 percent in 2003, indicating very high level of liquidity in the system. Liquid asset to short term liability ratio (liquid asset to demand deposits) was 88.9 percent in 2004, up from 49.3 percent in 2003, indicating that there is sufficient liquidity to meet short-term obligations.

Generally the above FSI showed that commercial banks operations in 2004 remained sound, with growth in profits and surplus liquidity and, strong capital positions. Also, the banks have managed to reduce the risk on their assets depicted by the overall reduction in their non-performing loans ratio.

Credit Unions

There was no change in the number of registered credit unions numbering 170, in 2004. According to the Stage 1 Report undertaken by the Pacific Enterprises Development Facility (PEDF) there were only 27 active credit unions in the country during 2004. Of the 27, 18 credit unions were urban-based and 9 credit unions were in the rural areas.

One of the core functions of the Registrar of Credit Unions is licensing and registration of the credit unions. During the year the Registrar's Office assisted the Solomon Islands

Credit Union League [SICUL] maintain its credit union database. At the same time, the Office was able to revitalize one credit union and assisted others to sort out their reporting systems.

In June 2004, the Bank facilitated a meeting for all credit unions during which they elected a new SICUL Board, after almost four years without one. The Bank continued to manage the SICUL Trust Fund resulting in the total Fund increasing to \$1.4 million at the end of 2004. A sum of \$64,000 in interest income earned on the Trust Fund was paid to the SICUL to meet its operational expenses during the year.

PEDF carried out a review of credit unions in Solomon Islands as part of a project aimed at revitalization credit unions in the country. Stage one of the project which covered operational and financial assessments of the current status of credit unions and identifying those that needed immediate and short term rehabilitation, had been completed. Stages two and three of the project would be carried out in 2005. The number of Savings clubs registered with SICUL increased by 68%, from 25 in 2003 to 41 in 2004.

Solomon Islands National Provident Fund

There have been some positive developments undertaken by the National Provident Fund in 2004 in response to the recommendations from the Bank's on site examination in 2003. Some, which needed restructuring, have already been undertaken during the year.

Table 12
Summary of NPF's Financial Position
(SIS million)

	2002	2003	2004
Balance Sheet			
(up to Dec 2004)			
Total Assets	369.9	402.3	474.6
Claims on SIG	94.3	94.3	126.1
Claims on Statutory Corps	45.7	48.2	44.8
Claims on Provincial Govt.	16.8	19.3	19.4
Private Sector Borrowings	49.5	47.5	42.6
Equity Shares	64.4	64.4	90.4
Others	99.2	128.6	151.3
Liabilities	369.9	402.3	474.6
Contributions	316.9	340.1	410.1
Capital	40.3	45.0	11.9
Others	12.7	17.2	52.6
Income Statement (up to Dec 2004)			
Total Income	28.5	28.4	25.5
Operating Expenses	15.9	18.1	67.7
Net profit	12.6	10.3	-42.2
Source: Central Bank of Solomon Islands			

The Fund has established a new department to look after its investments during the year. Under the old arrangement, investment came under the umbrella of the finance department. The Fund has also secured technical assistance from the World Bank during the year to formulate an investment strategy. One of the major developments undertaken by the Fund was the revision to its financial statements in line with requirements of the Financial Institutions Act [FIA] and the International Accounting Standards (IAS).

The Fund also took the bold step during the year to undertake a revaluation on its fixed assets, something that had not been done for a number of years. This had a major impact on

the Fund's financial position in 2004. The Fund Board has also taken a bold step in making changes to its income recognition policy and making provisions for its non-performing loans and investments.

The 2004 annual audited accounts of the Fund have shown a net loss of \$50.1 million. This was attributed largely to the substantial provisioning they made for doubtful debts and write-offs for non-performing loans over the last five years.

Development Bank of Solomon Islands

In April, the CBSI applied to the High Court of Solomon Islands under Section 18 of the Financial Institutions Act 1998 (as amended) to take control of the DBSI. The action became necessary following an onsite examination of the bank in late 2003 concluding that the financial institution was following unsound and unsafe practices in the conduct of its business that was jeopardizing its obligations to its depositors. At the same time, the Auditor General, who is the external auditor of DBSI, issued a qualified audited report of the Bank's financial accounts for 2002 and 2003 stating that in his opinion DBSI was insolvent.

The High Court Judgment and Order were issued in June 2004 and appointed the CBSI as the Court Appointed Manager (CAM) for a period of 6 months. Under the Court Order the members of the Board of directors of DBSI were suspended and CAM took control of the day-to-day administration of the bank. One staff from FID and a technical advisor funded

by AusAid were deployed by CAM to the DBSI to assist in running the financial institution. In line with the requirement of the Court Order, CAM made a report to the Court, the Minister of Finance and Governor of the CBSI in November 2004 on progress of its work. As the tasks required to recover the money owed to the depositors was far from completion, CAM re-applied to the High Court for extension of its appointment in December 2004 for another 6 months. The application was granted for a further six months and would expire on June 2005. Since taking control of DBSI, CAM has paid \$3.5 million to depositors. At the same time the net worth of DBSI's balance sheet has improved from negative \$23.1 million as at end of December 2003 to negative \$13.1 million as at end of December 2004.

Table 13
Summary of DBSI's Financial Position
(SIS millions)

	2002	2003	2004
Balance Sheet (31st December)			
Total Assets	43.5	38.9	30.9
Loans and Advances	39.2	35.3	25.8
Others	4.3	3.6	5.1
Liabilities	15.6	6.2	30.9
Term Deposits (inclusive of			
Accrued interest)	22.4	21.7	16.4
Capital & Reserves	-6.8	-15.5	-13.0
Others	27.9	32.7	27.5
Income Statement (31st December)			
Total Income	4.9	4.5	4.4
Interest Expenses	2.3	2.1	0.6
Operating Expenses	4.6	3.9	4.7
Net profit	-2.0	-1.5	-0.9
Source: Central Bank of Solomon Islands			

Insurance Industry

The integration of the functions of the Office of the Insurance Controller into the Central Bank was further delayed in 2004. By end of the year, the officer manning the insurance

office is yet to be formally transferred to the Central Bank. Discussions are progressing and it is expected that this would be finalized in 2005. In the meantime, the Governor was re-appointed as the temporary Controller of Insurance in 2004.

VIII. CENTRAL BANK OPERATIONS

The main functions of the 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 Finance 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 activities in 2004 are summarised in this chapter.

Finance and Accounts

The Bank recorded a net profit of \$8.5 million in 2004 compared to a net loss of \$4.7 million in 2003, a significant turnaround in the financial performance of the Bank. The improved performance was largely due to the rise in the Bank's overall income and further reduction in expenditures during the year.

Total income for the period increased by more than two fold to \$20.8 million from \$8 million in 2003. The improvement in income is attributed to better return on foreign investments, resulting from increased investment funds coupled by better interest rates and favourable exchange rates. Notable increases also came from income from fees, and commissions and royalties' income as a result of increased foreign exchange transactions

and additional contracts on numismatic coins production and sales.

Total expenditure fell by 4% compared to a decline of 21% for the previous year. Though overall expenditure fell, administrative expenditures showed an increase of 14% compared to a reduction of 21% in 2003. The increase is largely accounted for by increases in operational expenses incurred in relation to shouldering additional functions and in training staff in upgrading skills and technical capacity.

The Bank's balance sheet showed a net asset of \$16.3 million compared to a net liability of \$28.4 million in the previous year. This is a significant turnaround after recording three consecutive years of deficit equity. The improvement in the financial position or net worth of the Bank is attributed to increases in total assets, which grew by \$319.9 million or 103% compared to 88% in the previous year, which was offset by increases in total liabilities, which recorded an increase of 81% mostly in demand deposit liabilities.

To address the deficit equity recorded for the previous year, the Solomon Islands Government issued a non-negotiable security instrument in terms of section 44 of the Central Bank of Solomon Islands Act [CAP 49]. This instrument was redeemed at the end of the financial year in accordance with section 45(3), which allows for redemption of such instrument against the currency revaluation reserve balance.

Discussions with the government have commenced in early 2005 to address SIG's advances with the Bank. Once these discussions are concluded this should further strengthen the Banks balance sheet.

Audit

PriceWaterhouseCoopers continued to audit the Bank's financial statements under the three-year contract signed in 2002 and covering financial years from 2003 to 2005. With the merger between the Bank's previous internal auditor and current external auditor, a new internal audit firm, CBL Certified Practicing Accountants, was appointed in the first quarter of 2004 to provide internal audit services for a contract period of two years. The Audit Report on the 2003 Financial Statement is provided in the next section of this report.

Currency Operations

Total currency in circulation increased by 24% to \$138 million in 2004 compared to a rise of 14% in the previous year. This figure consisted of \$131 million in currency notes and \$7 million in coins. The \$50 denomination accounted for 80% of total notes in circulation by value whilst the \$5 denomination consisted of 2% of total notes by value. In terms of volume, both the \$50 and \$2 denominations made up over 60% of the total notes in circulation in 2004.

During the year, the Bank destroyed \$22.9 million of mutilated notes compared to \$10.2 million in 2003. The cumulative total of notes destroyed was \$167.4 million at end-year. This was an increase of more than 100% compared

to previous year data. This indicated the need to address the issue of currency management more seriously, and in partnership with financial institutions.

The increase in the volume of notes destroyed during the year resulted in similar increases in orders for notes by the banking sector and the public in general. New notes introduced into circulation in 2004 totalled \$40.4 million. This comprise of 74% in \$50 denomination followed by \$20 denomination (15%) and the remaining fairly distributed between the lower value denominations. In terms of volume, the \$50 and \$2 denominations made up 62% of the total new notes issued during the year. This agrees with the analysis of the total notes composition in circulation by volume in the same period. Again this signals amongst other factors the need to introduce a high value note.

During the year, the Bank also introduced the upgraded \$20 and \$5 denominations with improved security features. The most outstanding features in the upgraded notes included the cornerstone to strengthen the corners of the \$20 denomination, as well as the inclusion of the national flag on both notes as part of the standardisation of Solomon Islands Banknotes.

On numismatic operations, the Bank received \$1.2 million in royalties from overseas sales of commemorative coins. Commission on sales of circulation notes and coins improved a lot from recent years as well as local sales of commemorative coins. The Bank also approved the minting of the smallest gold coin in the world introduced into the market towards the end-year. With the success of the coin

programme depicting the anniversary of powered flights entitled 'history of powered flights,' the Bank has also approved a similar commemorative program relating to battleships. This should be in the market in 2005. The RAMSI commemorative coin was also one of the coin programs approved during the year, which will become available for local sales in mid-2005.

Securities Market

The auction treasury bills market continued to function satisfactorily during the year. However, the total stock of treasury bills in the market was capped at \$30 million at the request of government. The public continued to dominate the weekly auctions of treasury bills with higher preferences for the 91-day maturity at 6%. The lowest maturity of 7-days at 1.5% was not so popular with investors in the auction treasury bills. There was relatively no active bidding as investors simply took the price offered on the market for their specific deposits.

An agreement between the government, and domestic bondholders resulted in the conversion of the former "restructured bonds" to amortising bonds with new repayment terms of reduced rates of interests, grace period on some bonds and longer maturity structures for the bonds. Total government securities equalled \$270 million at year-end 2004: this consisted of \$269 million in Amortising Bonds and \$1 million in Frozen Treasury Bills.

Debt Management

The external debt section continued to provide vital debt information to the government as

well as reconcile statements as and when received from creditors. An upgraded CS DRSM 2000+ v.1.0 software was installed in early 2005 with technical assistance from the Commonwealth Secretariat and is now fully operational.

Exchange Control Operations

Like other countries, the primary reason for controlling foreign exchange transactions in Solomon Islands is to protect the country's foreign reserves, and to ensure the country benefits from the proceeds of its exports. 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 ensuring that all export proceeds are received within a reasonable time. In fulfilling this requirement, the Bank has appointed commercial banks as authorised 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 2004, the Bank reviewed all exchange control mechanisms introduced since June 2000. This resulted in the easing of exchange control restrictions including raising the authorised limit of commercial banks to deal with customers from \$5,000 to \$25,000, and increasing the commercial banks overnight limit of \$2 million to \$3 million.

The Bank also reviewed its own internal control mechanisms to accommodate improvement in overseas trade during the year. These include review of the rationing of exchange control

approvals, and monitoring of all exports proceeds and import payments. In fact, with the improvement of the social and economic environment during the year the Bank had reverted back to its pre-June 2000 exchange control measures given the improvement of the external reserves.

The flexibility of controls is intended to assist in the settlement of foreign exchange transactions. The Bank also lifted payment of suspended capital transactions to resume normal business operations. All capital payments require tax clearances from the Commissioner of Inland Revenue. This procedure also applied to emigrants wanting to transfer part or all of their savings. As for temporary residents, Central Bank approval is required before they could transfer their surplus funds.

Central Bank approval is also required for three other specific transactions. The first relates to the sale and purchase of shares in companies registered in Solomon Islands. This is to ensure the proper recording of new owners who may wish to remit capital funds, profits and dividends at a later date. The second applies to all foreign borrowings by individuals or registered companies in Solomon Islands. The third applies to foreign investments by non-residents in Solomon Islands. Such transactions require prior approval by the Investment Board (IB) and are further subjected to Exchange Control Requirements.

The Bank maintained during the year the partial exchange control liberalizations as part of ongoing efforts to promote export growth.

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

- First, the exporter must be in business for more than two years and must not have any outstanding export proceeds. This is to ensure that only exporters who repatriated all export proceeds within 90 days after the date of exports qualify.
- Second, the exporter should be exporting goods and not services and must be in the business for at least two years.
- Third, the exporter must have a tax clearance from the Commissioner of Inland Revenue to prove that compliance with tax obligations of the Solomon Islands government.

All commodities, except round logs, continued to be exported under the General Authority during the year. Export proceeds must be remitted back to Solomon Islands within ninety days from the date of export, and all foreign currency proceeds should be sold to a commercial bank in the country. The export of round logs, however, requires a Specific Authority (SA). The SA is given by the Central Bank only after the exporter has obtained a market price certificate from the Commissioner of Forestry. In 2004, the Bank approved 497 applications under the SA for the export of 1,190,281 cubic meters of round logs with an estimated value of US\$67,403,383 or SI\$506,199,406.33. This was slightly higher

than the average volume approved in the last three years. The value was immensely affected by the continuous adjustment of the Solomon dollar. Overall foreign exchange receipts reported in 2004 was SI\$1.497 billion.

Under the General Authority (GA), the Bank processed a total of 590 Export shipping bills valued at \$218.997 million, compared to 9204 Import applications approved by the Bank valued at \$1.923 billion in 2004.

During the course of 2004, the Bank also strengthen and reviewed its surveillance of the exchange control measures, to address the current position of the foreign exchange earning capacity of the country, and continue to assist the government in its revenue enhancement efforts.

Management of External Reserves

The Central Bank manages the country's foreign reserves under guidelines approved by its Board. The three objectives of reserve management are:

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

The first two took prominence given the economic circumstances during the year. To achieve these objectives, the Board has established that the Bank would keep the external reserves in two pools: a liquidity fund to comprise 30% of the reserves and an Investment Fund (70%) to be invested for

interest income. That allocation further reiterates the point that there has been an improvement in the external reserves and the pressure to maintain large amounts of liquid funds have been relieved due to improved foreign currency receipts for settlement of trade. This depicts the flexibility in managing the reserves is to ensure there is adequate foreign exchange for the country's international transaction needs as well as for income enhancement of the Bank.

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 reduce term deposits in order to do that.

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

Financial sector supervision issues

The year was the busiest for the Financial Institutions department. The department conducted two on-site examinations on two commercial banks, took control of the Development of Solomon under a Court order, recruited new officers, monitored progress made by NPF on meeting its action plans to comply with prudential requirements and conducted staff training. The department also assisted the Solomon Islands Credit Union League to elect a new board of directors.

In line with the two-year cycle for examination of a licensed and supervised institution, two commercial banks: the Australia and New Zealand Banking Group Limited and Westpac Banking Corporation were examined during the year. The findings of the two supervision audits were discussed with the respective managements of the two banks. The Board of the Central Bank was informed of the findings of these examinations.

In April, the CBSI applied to the High Court of Solomon Islands under Section 18 of the Financial Institutions Act 1998 (as amended) to take control of the DBSI. The action became necessary following the FID's onsite examination of the bank in late 2003 concluding that the financial institution was following unsound and unsafe practices in the conduct of its business that was jeopardizing its obligations to its depositors. At the same time, the Auditor General, who is the external auditor of DBSI, issued a qualified audited report of the Bank's financial accounts for 2002 and 2003 stating that in his opinion DBSI was insolvent.

The Court judgment and order were issued in June 2004 and appointed CBSI as the Court Appointed Manager (CAM) for a period of 6 months. Under the Court Order the members of the Board of directors of DBSI were suspended and CAM took control of the day-to-day administration of the bank. One staff from FID and a technical advisor funded by AusAid were deployed by CAM to the DBSI to assist in running the financial institution. In line with the requirement of the Court Order, CAM made a report to the Court, the Minister of Finance and Governor of the CBSI in November 2004 on the progress of its work. CAM re-applied to the High Court for an extension of its appointment in December 2004 for another 6 months. The application was granted by the High Court and this would expire in June 2005. Since taking control of DBSI, CAM has paid depositors a sum of \$3.5 million of their \$20.0 million deposits. At the same time the net worth in DBSI's balance sheet has been reduced from negative \$23.1 million as at end of December 2003 to negative \$13.1 million as at end of December 2004.

Two new officers were recruited in 2004, bringing the total number of staff to seven. The increase in staff was to support the new responsibilities of supervising the DBSI, and the National Provident Fund. At the same time the proposed plan to merge the functions of insurance supervision, as part of the regulatory function of CBSI would also require additional manpower. The planned relocation however could not be implemented by the end of the year for reasons outside the Bank's control.

In terms of technical assistance, the Department received technical assistance funded by the AusAid and the World Bank during the year. AusAid funded two consultants to assist in the administration of the DBSI. Another consultant was engaged through the World Bank to assist the Solomon Islands National Provident Fund set up their investment policy and guidelines.

The department views the provision of training both in house, on the job and attendance of overseas workshops and seminars as key part of its human resource development program. Knowledgeable and properly trained staff is needed if the department is to perform its assigned responsibilities effectively.

In 2004, the department conducted a total of 141 man-hours in house training for department staff and other staff within the CBSI. The topics covered include the legal framework for supervision in Solomon Islands, principles of good lending practices, why banks are supervised, business of banking and banking risks, general principles of supervision, an overview of the Solomon Island economy and its structural issues, and the role of IMF to its member countries.

Officers in the Department attended several overseas workshops and seminars during the year. In March, the Manager attended an Anti-money laundering and combating the financing of terrorism Conference in Singapore. In the same month, two other staff members of the department attended a banking workshop in Sydney, Australia. The department also participated in the annual

PFTAC and Association of Pacific Supervisors Conference in Port Vila, Vanuatu. Towards the end of the year, an officer was sent on attachment training with Bank of Papua New Guinea on supervision of Superannuation funds conducted by the Australia Prudential Regulatory Authority (APRA). This attachment-training program is expected to continue in 2005. Attachment training is jointly funded by APRA and CBSI. During the year, the Department also organized training for NPF staff on credit management. This was conducted by technical assistance personnel made available to the FID by AusAid.

Small Business Finance Scheme

There were no nominations or claims submitted to the Small Business Finance Scheme in 2004. As at the end of the year, total gross loan outstanding was \$305,000 of which CBSI guarantee was \$86,000 or 28% of the total loan value.

Research Activities

The Economics Department continued to fulfil the Banks responsibility to collect, compile and publish economic information in 2004. Most of the data were taken from various domestic and external sources. The analysis of economic conditions 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.

The Bank also continued to participate in important government policy issues throughout during the year. These include hosting the Monthly Management Meetings (4M's), which provides an important avenue to review recent developments in the economy. Department 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

The Bank believes in training as an important means to keep its workforce effective and updated on the new changes, developments in various disciplines and information technology. The Bank sponsored three students to undertake full time studies at USP Campus in Suva, Fiji. Two students are doing 1st degree studies and one is pursuing a post degree programme.

Besides CBSI sponsored students, the Commonwealth Secretariat sponsored one of the Assistant Managers, who completed his Masters in Business Administration programme by the end of the year. Another two students were co-sponsored by SIG and CBSI. One was fully sponsored by SIG. The government fully sponsored student also graduated in the 1st half of 2004. A total of 7 students are doing first degree and post degree in 2005 mainly at the USP campus in Suva, Fiji.

Nine staff attended short courses and attachments at regional institutions in Singapore, Australia, Papua New Guinea and Fiji.

Locally three staff attended day-release classes at SICHE and 13 enrolled for part-time courses at USP centre, Honiara.

The Executive Secretary for the Governors Office, two Bank Analyst posts in the Financial Institution Department were filled in 2004. All three are supervisory grade posts. With these recruitments, the total number of staff in the Bank has increased to 73.

One staff member has attained ten years of service in the Bank and was qualified for a long service benefit entitlement. Deputy Governor's term expired in September 2004. The Minister of Finance renewed his contract for a further term of five years.

Eighty percent of staff received uniform replacement. The Bank plans to issue new set of uniforms to staff in 2005. The Bank continues to hold its medi-care scheme policies with SMI.

Properties

Work on the Aruligo Recreation site has started after the site was abandoned since the ethnic tension in 2000. The site was fenced, a new tank tower was erected and the ablution blocks repaired. By the beginning of 2005 a reasonable size open leaf hut has been completed for shelter especially for daytime users of the site.

The main genset standby generator was fully overhauled. The CBSI rooftop generator was also fully serviced. A number of stand alone air condition units and compressor valves on the main air-condition system were also

serviced. A number of Mbokona residences were repaired for damage caused by white ants and decay to bathroom timber floors and walls. The Rifle Range property was also repaired and rented out to tenants.

A new 2-ton Isuzu pick-up truck was acquired to replace the Toyota truck, which was sold by tender on the open market. A new cash-sorting machine was acquired for CBO in 2004. Since the appointment of CBSI as the Court Appointed Manager of DBSI, the properties unit was also involved in revaluation of DBSI properties and other related duties.

Board Activities

Nine scheduled and three special board meetings were held in 2004 during which thirty-three Board papers were deliberated on and discussed. One of the Board meetings was held in Gizo, Western Province.

The two-years term of two Directors expired in 2004. The Minister of Finance appointed three new Directors to replace them during the year. Some of the papers discussed during the Board meetings included the 2003 Financial Report, 2005 Budget, CBSI Work Programs for 2004, CAM related issues, Investment Reserves Management reports, Mid-year review of the CBSI Budgets and work programs, 2004 Monetary Policy Stance and Financial Institutions On-Site examination reports, review of contracted Managers employment contracts. The Board also discussed reviews of economic developments during the year. In one of its meetings the Board also resolved to host a Conference on Revitalising Rural Finance in 2005. The board was concerned

about the current financial services especially to the rural areas. The Bank successfully hosted the Conference in April 2005.

Relations with International Organizations

The Central Bank continued to maintain close contact with other central banks in the region and multilateral financial institutions such as the World Bank, IMF and ADB in 2004. These relations have been beneficial to the Bank in terms of training opportunities for staff, sourcing of technical assistance, or simply the exchange of economic and financial information. With the expansion in the functions and responsibilities of the Bank in recent years, these contacts have proved very beneficial for the Bank especially in areas where the Bank has limited technical expertise.

During the year, the Bank made use of the IMF regional training institute in Singapore and the Pacific Financial Technical Assistance Centre in Fiji for staff training and to engage short-term technical assistance. The IMF continued to provide a General Advisor on a peripatetic basis and short-term TA's in banking supervision, insurance, anti-money laundering and statistics while the World Bank provided TA's to review NPF's investment policies and the credit union movement.

The Governor attended the annual meetings of the IMF and World Bank group in Washington and the ADB annual meeting in Seoul as part of the Solomon Islands delegation to these meeting led by Minister of Finance, Mr Francis Zama. He also attended the BIS annual meeting in Basel, Switzerland, and the South Pacific Central Bank Governors

conference in Sydney. These meetings provide a vital avenue for strengthening the relationship between the Bank and other

central banks and international financial institutions.



REPORT OF THE AUDITOR-GENERAL

TO: Minister of Finance

Scope

The accompanying balance sheet of the Central Bank of Solomon Islands for the year ended 31st December 2004 and the related profit and loss statement and the statement of cash flows and notes to and forming part of the financial statements for the year then ended have been audited under my direction pursuant to Section 47(1) and Section 47(2)(b) of the Public Finance and Audit Act [Cap. 120].

The audit has been conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free of material misstatement. The procedures include examination, on test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the Central Bank of Solomon Islands Act [Cap. 49] and the International Accounting Standards, so as to present a view which is consistent with my understanding of the Bank's financial position and the results of its operations and cash flows.

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

Audit Opinion

In my opinion and according to my information the financial statements of the Central Bank of Solomon Islands have been prepared in accordance with the requirements of the International

Accounting Standards, the Public Finance and Audit Act [Cap. 120] and the Central Bank of Solomon Islands Act [Cap. 49], so as to give a true and fair view of the Bank's state of affairs as at 31st December 2004 and the results of its operations for the year then ended.



Floyd Augustine Fatai
Auditor-General

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

April 26, 2005

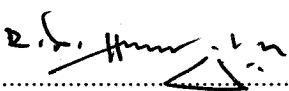
CENTRAL BANK OF SOLOMON ISLANDS

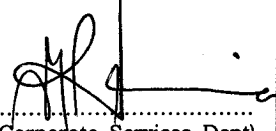
**BALANCE SHEET
AS AT 31ST DECEMBER, 2004**

	Notes	2004 (\$'000)	2003 (\$'000)
ASSETS			
<u>Foreign Currency Assets</u>			
Money at Call		140,348	131,135
Accrued Interest & Bills Collectibles	14	3,956	836
Term Deposits	13	452,434	139,945
Holding of Special Drawing Rights		21	2
Total Foreign Currency Assets		596,759	271,918
<u>Local Currency Assets</u>			
Cash on Hand	17	69	113
Loans and Advances	11	14,034	15,871
Equity Investments	16	673	1,345
Premises & Equipment (less provision for depreciation)	10	9,145	8,860
Other Assets	12	9,200	11,836
Total Local Currency Assets		33,121	38,025
TOTAL ASSETS		629,880	309,943
LIABILITIES			
<u>Foreign Currency Liabilities</u>			
Accrued Interests		0	41
Demand Deposits	5	8,554	7,829
IMF Special Drawing Rights Allocations		7,610	7,258
Capital Subscriptions	4	6,320	6,320
Total Foreign Currency Liabilities		22,484	21,448
<u>Local Currency Liabilities</u>			
Demand Deposits	6	396,920	151,769
Currency In Circulations	9	137,693	111,194
SIG Monetary Operations Account	8	29,176	31,662
Fixed Deposits	15	25,850	19,449
Other Liabilities	7	1,446	2,807
Total Local Currency Liabilities		591,085	316,881
TOTAL LIABILITIES		613,569	338,329
NET ASSET/(LIABILITIES)		16,311	(28,386)
EQUITY			
<u>Capital and Reserves</u>			
Authorised Capital		50,000	50,000
Paid up Capital		2,597	2,597
General Reserves	3(a)	(71,804)	(108,716)
Revaluation Reserve	3(b)	84,742	76,957
Other Reserves	3(c)	776	776
TOTAL EQUITY		16,311	(28,386)

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

Date: 21 April 2005

Signed: 
(Governor)

Signed: 
(Manager, Corporate Services Dept)

CENTRAL BANK OF SOLOMON ISLANDS
INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2004

	Notes	2004 (\$'000)	2003 (\$'000)
<u>INCOME</u>			
Interest Income	2(a)	14,536	5,006
Fees and Commissions	2(b)	4,459	2,261
Royalties		1,213	121
Other Income	2(c)	592	627
Total Income		20,800	8,015
<u>EXPENSES</u>			
Interest expense	2(d)	107	137
Fees and Commissions		34	45
Administrative Expenses	2(e)	9,178	8,035
Other operating Expenses	2(f)	2,955	4,508
Total Expense		12,274	12,725
Operating Profit/(Loss)		8,526	(4,710)
Transfer from Reserves			
Other Reserves	3(c)	0	19
Total transfer from Reserves		0	19
Net Profit/(Loss)		8,526	(4,691)
<u>Appropriation of Net Profit/(Loss)</u>			
Net Profit/(Loss) Transferred to General Reserves		8,526	(4,691)
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 CASH FLOWS
FOR PERIOD ENDED 31ST DECEMBER, 2004

	Notes	2004 (\$'000)	2003 (\$'000)
Cash flows from operating activities			
Interest received		11,416	4,657
Cash received from other income		6,202	3,018
Interest paid		(107)	(137)
Cash payments in the course of operations		(7,013)	(16,634)
Net cash from operating activities before movement in operating assets and liabilities		10,498	(9,096)
Cash received on placement of deposits		251,488	87,920
Cash received/(paid) on IMF allocation of SDR		352	648
(Increase)/decrease in government finance provided		(127)	127
Net cash provided by operating activities		262,211	79,599
Cash flows from investment activities			
Payments for Premises, Plant & Equipment		(1,527)	(935)
Proceeds from sale of Premises, Plant & Equipment		62	10
(Increase)/decrease in foreign investments		(285,549)	(110,490)
Net cash used in investment activities		(287,014)	(111,415)
Cash flows from financing activities			
Net movement in issue of circulating currency		26,498	13,381
Net movement in foreign currency loan		747	6,547
Solomon Islands Government Monetary Operations		(2,486)	11,890
Net cash from financing activities		24,759	31,818
Net increase (decrease) in cash held		(44)	2
Cash at the beginning of the financial year		113	111
Cash at the end of financial year	17	69	113

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 2004**

	Authorised Capital (\$'000)	Paid Up Capital (\$'000)	General Reserve (\$'000)	Revaluation Reserve (\$'000)	Other Reserves (\$'000)
Balance at 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	0	0	0	0
Transfer of net operating profit/(loss) in terms of Section 20(1) of Central Bank of Solomon Islands ("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 Reserves to Income Statement - SBFS payments	0	0	0	0	(19)
Balance - 31 December 2003	50,000	2,597	(108,716)	76,957	776
Transfer of net operating profit/(loss) in terms of Section 20(1) of CBSI Act (CAP49)	0	0	8,526	0	0
Transfer of Revaluation Gains/(losses) for the year in terms of section 45(1) of CBSI Act (CAP49)	0	0	0	36,171	0
Security Note Issued By the Solomon Islands Government in terms of section 44 of CBSI Act (CAP 49)	0	0	28,386	0	0
Redemption of Security Note in terms section 45(3) of of CBSI Act (CAP 49)	0	0	0	(28,386)	0
Balance - 31 December 2004	50,000	2,597	(71,804)	84,742	776

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2004

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, Computers - 3 years Furniture, Plant 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, 2004

(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

	2004	2003
	(\$'000)	(\$'000)
(a) Interest Income		
Interest Received from foreign investment	14,396	4,859
Interest received from local investment	140	147
	14,536	5,006
(b) Fees and Commissions		
Fees and commissions - foreign dealings	4,382	2,126
Fees and commissions - local dealings	77	135
	4,459	2,261
(c) Other Income		
Proceeds from disposal of fixed assets	62	10
Rent Received	393	303
Sale of Numismatic coins	97	249
Others	40	65
	592	627
(d) Interest Expenses		
Interest expenses on foreign liabilities	107	137
Interest expenses on local liabilities	0	0
	107	137
(e) Administration expenses		
Staff Costs	6,147	5,540
Others	3,031	2,495
	9,178	8,035
(f) Other Operating expenses		
Board of Directors Remunerations & expenses	73	54
Currency expenses	773	834
Depreciation	1,206	937
Auditors Remuneration	212	165
Provisions for Bad and Doubtful Debts	2	1,800
Provision for Diminution	673	672
Others	16	46
	2,955	4,508

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2004

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

	2004 (\$'000)	2003 (\$'000)
Demand deposit of international organisations such as Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association (IDA)	8,554	7,829

6 LOCAL CURRENCY DEMAND DEPOSITS

Banks	244,559	110,690
Solomon Islands Government	151,094	40,787
Financial Corporations	1,188	220
Other	79	72
	396,920	151,769

CENTRAL BANK OF SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

	2004 (\$'000)	2003 (\$'000)
7 OTHER LOCAL CURRENCY LIABILITIES		
Unpresented Bank Cheques	590	2,020
Provisions for employee entitlements	245	290
Other	611	497
	1,446	2,807
8 SECURITIES		
Solomon Islands Government Monetary Operations	29,176	31,662
9 Currency In Circulation		
Notes	130,584	104,660
Coins	7,109	6,534
	137,693	111,194

10 FIXED ASSET

2004	TOTAL PREMISES	FURNITURE	COMPUTER	MOTOR
	(\$'000)	(\$'000)	EQUIPMENT	VEHICLE
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Written down Value at 1st January 2004	8,860	7,769	481	353
Additions during the year	1,527	0	1,047	316
Disposal during the year at written down value	(37)	0	0	0
Depreciations for the year	(1,205)	(300)	(381)	(397)
Written Down Value at 31st December 2004	9,145	7,469	1,147	272

CENTRAL BANK OF SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

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

11 LOANS AND ADVANCES

	2004	2003
	(\$'000)	(\$'000)
(a) Loans and Advance to Solomon Islands Government		
Loans and Advances	174,289	174,289
Less Provision for Doubtful Debts	(174,289)	(174,289)
Development Bonds	27	27
Treasury Bills	187	59
Other Securities	11,075	11,075
Total Advances to Solomon Islands Government	11,289	11,161
(b) Staff Loans		
Staff Housing Loans	2,156	3,921
Less Provision for Doubtful Debts	(251)	(251)
Management Car Loans	37	106
Personal Loans	803	934
Total Advance to Staff	2,745	4,710
Total Loans and Advances	14,034	15,871

CENTRAL BANK OF SOLOMON ISLANDS**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2004****(c) Concentration of Credit Risk**

Loans and Advances to the government of \$174.29m accounted for twenty two percent (22%) of the Bank's total assets in comparison with thirty six percent (36%) in 2003. 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 2004 was \$98.4m(2003 - \$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	2004	2003
		(\$'000)	(\$'000)
	Accrued Interest	0	1
	Current Assets	1,853	7,190
	SI Notes and Coins	6,689	3,375
	Advances and prepayments	2,246	2,858
	Less Provision for Doubtful Debts	(1,588)	(1,588)
		9,200	11,836
13	MATURITY OF FINANCIAL ASSETS		
	All 2004 Term deposits mature within five months		
14	ACCRUED INTEREST AND BILLS COLLECTIBLES		
	Accrued Interest - interest receivable but not due	3,948	828
	Bills for collections	8	8
	Total	3,956	836

CENTRAL BANK OF SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

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

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

	2004 (\$'000)	2003 (\$'000)
Investment Corporation of Solomon Islands (ICSI)		
Investment at cost	10,000	10,000
Accumulated Provision for diminution	(9,327)	(8,655)
Net Equity Investment - ICSI	673	1,345
Development Bank of Solomon Islands (DBSI)		
Investment at cost	2,150	2,150
Accumulated Provision for diminution	(2,150)	(2,150)
Net Equity - DBSI	0	0
TOTAL NET EQUITY	673	1,345

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	69	113
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CENTRAL BANK OF SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

18 GOING CONCERN

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
2004 CALENDAR OF EVENTS**

February

- A representative of our note printers [De La Rue] visits the Central Bank;
- Two new officers are recruited as analysts in the Financial Institutions department [FID].

March

- Term of two Directors: Mr Adrian Wickham and Mr Ivan Dyer on the Board expired.
- A World Bank funded TA reviews the National Provident Fund's investment policies;
- Governor appointed as acting Controller of Insurance;
- Two officers from the Bank attends an Ausaid sponsored course for Solomon Islands officials for three months at ANU;
- Manager FID attends Anti-Money Laundering (AML) workshop in Singapore;
- A Financial Advisor funded by Ausaid engaged to assist in the administration of the Development Bank of Solomon Islands (DBSI).

April

- Exchange Control mechanisms introduced in 2000 were relaxed;
- IMF Mission visits Solomon Islands;
- Two new Directors: Mr. Moses Pelomo and Mr George Kejoa appointed to the Board;
- The Bank releases its Monetary Policy Stance for 2004;
- The High Court of Solomon Islands hears CBSI Application under Section 18 of the Financial Institutions Act (FIA) for Court Appointed Management of DBSI.

May

- The Bank's 2003 Annual report launched;
- Governor attends ADB annual meeting in Seoul, Korea;
- D/Governor attends IMF/RBA meeting in Sydney;
- FID conducts examination of ANZ.

June

- The High Court orders the Central Bank to be Court Appointed Manager [CAM] of DBSI for a period of six months;
- The Bank recruits a new Executive Secretary for the Governors Office;
- New Zealand Foreign Minister Hon Phil Goff visits the Bank;

- Governor attends Bank of England symposium in London and BIS annual meetings in Basel;
- A new SICUL Board was elected after four years without a board.

July

- Government agrees with its Bondholders (commercial banks and NPF) to restructure the debt over a longer maturity period;
- Governor presents the Keynote Address to a Reserve Bank of Fiji [RBF] Conference in Suva;
- Two CBO officers undergo two weeks attachment with RBF to look at currency handling activities.

August

- Bank Management participated in a series of workshops organized by a RAMSI TA aimed at institutional strengthening of key economic agencies in Solomon Islands.

September

- CBSI Board holds its meeting at Gizo, Western Province;
- Governor and Manager, FRX attends IMF and World Bank annual meetings in Washington DC,
- M/CBO and one clerk undertook work attachment with the Reserve Bank of Fiji for two weeks;
- Deputy Governor is reappointed for a third term;
- IMF TA visits CBSI to assist with AML Legislation and set up the Financial Intelligence Unit (FIU) in the Bank.

October

- Two Reserve Bank of Australia [RBA] officials visit SI to assess the idea of adopting the Australian dollar;
- M/FID and Bank Analyst attend meeting of SP Financial supervisors in Vanuatu.

November

- Draft Federal Constitution launched in Honiara by the Governor General;
- IMF Mission visits Solomon Islands;
- Solomon Islands Government meets with its Development Partners;
- FID Officer attend an APRA and BPNG sponsored training on superannuation in Port Moresby.

December

- Government signs Agreement with NPF to restructure its other debts;
- Governor attends the annual meeting of South Pacific Central Bank Governors in Sydney;
- The High Court extends the CAM arrangement for another six months.

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TABLE 1.1 MONETARY SURVEY

(SI\$'000)

End of Period	NET FOREIGN ASSETS			DOMESTIC CREDIT			NARROW MONEY (M1)				QUASI-MONEY		BROAD MONEY (M3)	OTHER ITEMS (NET)
	Monetary Authority	Banks	Total	Government(net)	Private Sector	Total	Currency in Circulation	Demand Deposit Banks	CBSI	Total	Savings Deposits	Time Deposits		
2000	147720	-3531	144189	259070	197906	456976	88272	159351	662	248285	82240	129485	460010	141155
2001	90972	6422	97341	269781	154653	424433	84704	161378	268	246349	79622	73044	399015	130940
2002	117515	10351	127866	297939	173282	471221	91302	155478	116	246896	67375	100440	414711	184376
2003	249570	16481	266051	249170	217345	466515	102691	224987	228	327906	67453	124825	520184	212381
2004	570256	5680	575936	77918	238593	316511	123235	247401	1203	371839	75988	173860	621687	270761
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	97341	269781	154653	424433	84704	161378	268	246349	79622	73044	399015	122812
2002														
Mar	127950	3740	131690	289293	165732	455024	85392	155075	331	240798	76367	83053	400218	186496
Jun	69006	13212	82218	303583	175690	479273	78017	144055	173	222245	67626	88572	378443	183048
Sep	101193	608	101801	298534	190412	488946	86399	139586	136	226122	74297	97335	397754	192993
Dec	117493	10351	127844	297036	173282	470318	91502	155478	109	247089	67375	100440	414904	183258
2003														
Mar	124125	5446	129571	305064	172775	477839	84133	166027	27	250187	71269	100019	421475	185936
June	196297	8415	204712	306735	181616	488351	97490	177891	33	275414	71637	103909	450960	242103
Sep	200715	6632	207347	284332	195040	479372	94156	194530	175	288860	72127	114065	475052	211667
Dec	249570	16481	266051	249170	217345	466515	102691	224987	228	327906	67453	124825	520184	212381
2004														
Jan	256719	16945	273664	237658	224535	462193	96393	223451	846	320690	64558	125944	511192	324664
Feb	300000	8992	308992	234536	222232	456768	96500	237537	388	334425	65305	128207	527937	239662
Mar	302340	2634	304974	205238	230973	436211	95463	223463	798	319724	65947	130264	515935	225149
Apr	369502	9068	378570	164463	230893	395356	100021	262853	602	363476	64499	134674	562649	211357
May	390153	15753	405906	137540	212515	350055	102478	242717	607	345802	66178	136853	548833	207442
Jun	409279	21698	430977	106869	219408	326277	106759	246432	535	353726	65820	137261	556807	200207
Jul	448558	20201	468759	139536	219463	358999	116198	281359	754	398311	70138	153900	622349	205409
Aug	490618	6433	497051	138995	218907	357902	111986	290213	462	402661	74002	161261	637924	217029
Sep	507634	19391	517025	109941	232765	339618	113020	278181	558	391759	76804	167927	636490	223241
Oct	529967	8194	538161	112128	237933	350061	115166	295785	1554	412505	76625	173295	662425	225797
Nov	554641	7937	562578	106930	244096	351026	114594	284771	1242	400607	76377	180695	657679	255925
Dec	570256	5680	575936	77918	238593	316511	123235	247401	1203	371839	75988	173860	621687	270761

Source: Central Bank of Solomon Islands

TABLE 1.2 MONEY SUPPLY

(SI\$'000)

End of Period	(1) Currency In Active Circulation	(2) Demand Deposits		(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)
		Commercial Banks (adj)	Central Bank					
2000	88272	159351	662	248285	82240	330525	129485	460010
2001	84704	161378	268	246349	79622	325971	73044	399015
2002	91302	155478	116	246896	67375	314271	100440	414711
2003	102691	224987	228	327906	67453	395359	124825	520184
2004	123235	247401	1203	371839	75988	447827	173860	621682
<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	85392	155075	331	240798	76367	317165	83053	400218
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>								
Mar	84133	166027	27	250187	71269	321456	100019	421475
Jun	97490	177891	33	275414	71637	347051	103909	450960
Sep	94156	194530	175	288860	72127	360987	114065	475052
Dec	102691	224987	228	327906	67453	395359	124825	520184
<u>2004</u>								
Jan	96390	223451	846	320690	64558	385248	125944	511192
Feb	95500	237537	388	333425	65305	398730	128207	526937
Mar	95463	223463	798	319724	65947	385671	130264	515935
Apr	100021	262853	602	363476	64499	427975	134674	562649
May	102478	242717	607	345802	66178	411980	136853	548833
Jun	106759	246432	535	353726	65820	419546	137261	556807
Jul	116198	281359	754	398311	70138	468449	153900	622349
Aug	111986	290213	462	402661	74002	476663	161261	637924
Sep	113020	278181	558	391759	76804	468563	167927	636490
Oct	115166	295785	1554	412505	76625	489130	173295	662425
Nov	114594	284771	1242	400607	76377	476984	180695	657679
Dec	123235	247401	1203	371839	75988	447827	173860	621687

Source: Central Bank of Solomon Islands.

TABLE 1.3 ASSETS OF CENTRAL BANK OF SOLOMON ISLANDS

(SIS'000)

(S\$ 000)																				
End of Period	EXTERNAL ASSETS					SOLOMON ISLANDS GOVERNMENT						LOANS & ADVANCES		OTHER DOMESTIC ASSETS					TOTAL ASSETS	GOVT * FOREIGN ASSETS
	Money at call	Deposits	Secs	SDR Holdings	Total	Advances	O/D Account	T/Bills	Bonds	Dev Secs	Other Total	Banks	Non-Bank	Secs & Invt	Prem & Equip	Other	Total			
2001	36010	66956	-	39	103006	174089	-	-	27	11075	185190	-	-80	3361	8512	18758	30631	318746	8	
2002	51759	78638	-	39	130436	174985	-	186	27	11075	186272	-	-	2017	7997	15313	25327	342036	12	
2003	131135	139945	-	2	271082	174281	-	59	27	11075	185450	-	-	1345	8860	19334	29539	486070	13	
2004	140348	452434	-	21	592803	174289	-	187	27	11075	185578	-	-	673	9145	17808	27626	806007	15	
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	-	186	27	11075	185370	-	-	2017	7997	14816	24830	340636	12	
2003																				
Mar	40536	97845	-	14	138394	175774	-	372	27	11075	187248	-	-	2017	8315	13360	23692	349334	12	
Jun	105269	16511	-	12	211792	178448	-	235	27	11075	189783	-	-	2017	8831	2942	7906	409481	14	
Sep	95671	124885	-	29	220585	181158	-	69	27	11075	192329	-	-	2017	8898	(3121)	7794	420708	13	
Dec	131135	139945	-	2	271082	174289	-	59	27	11075	185450	-	-	1345	8860	19334	29539	486070	13	
2004																				
Jan	135203	146690	-	35	281928	174289	-	10	27	11075	185401	-	-	1345	8951	12955	23251	490580	15	
Feb	148075	176798	-	13	324886	175177	-	20	27	11075	186299	-	-	1345	8268	14867	24480	535665	15	
Mar	151958	174136	-	13	326107	175983	-	40	27	11075	187125	-	-	1345	9197	13104	23646	536878	15	
Apr	223131	170251	-	45	393427	175186	-	59	27	11075	186347	-	-	1345	10620	13261	25226	605000	15	
May	201257	212491	-	23	413771	174289	-	20	27	11075	185411	-	-	1345	10620	12513	24478	623660	15	
Jun	197514	236031	-	23	433568	174289	-	29	27	11075	185420	-	-	1345	9907	13903	25155	644143	15	
Jul	160498	311156	-	34	471688	174289	-	59	27	11075	185450	-	-	1345	9997	11787	23129	680267	15	
Aug	153714	359551	-	9	513274	174289	-	98	27	11075	185489	-	-	1345	10009	14281	25635	724398	14	
Sep	146643	383873	-	9	530525	174289	-	118	27	11075	185509	-	-	1345	10022	16682	28049	744083	14	
Oct	158043	394931	-	49	553023	174289	-	30	27	11075	185420	-	-	1345	10066	18663	30074	768517	14	
Nov	130271	447436	-	20	577727	174289	-	108	27	11075	185499	-	-	673	9987	19596	30256	793482	15	
Dec	140348	452434	-	21	592803	174289	-	187	27	11075	185578	-	-	673	9145	17808	27626	806007	15	

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

Source: Central Bank of Solomon Islands.

TABLE 1.4 LIABILITIES OF CENTRAL BANK OF SOLOMON ISLANDS

(SI\$'000)

End of Period	EXT. LIABILITIES			CURRENCY IN CIRCULATION			DEPOSITS							CAPITAL FUNDS				SEC	OTHER DOM	TOTAL
	S.D.R. Alloca.	Other	Total	Notes	Coins	Total	Government			Banks	Other	Total	Paid-up Capital	Reval'n Res	Other Res	Total	Bokolo Bills	LIABS	LIABI-LITIES	
							Euro-Loan	Other	Total											
2000	4340	7724	12064	88127	5425	93552	-	-25480	-25480	60863	662	36045	2597	96344	8984	107925	-	-2047	247539	
2001	4592	7461	12053	86275	5700	91975	-	62920	62920	57380	267	120415	2597	84943	8408	95948	-	-203	318746	
2002	6610	6311	12921	91600	6013	97631	-	26751	26751	76345	116	103212	2597	48175	-95854	-45082	-	173372	342036	
2003	7258	14254	21512	104660	6534	111194	-	91898	91898	110689	228	202815	2597	76997	-107980	-28386	-	178935	486070	
2004	7610	14932	22547	130584	7108	137692	-	206121	206121	244559	1203	451883	2597	84743	-71029	16311	-	177574	806007	
2002																				
Mar	6250	9660	15910	84580	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	-79029	-	204708	301918	
Sep	6372	8186	14558	86040	5912	91952	-	48309	48309	47692	136	96137	2597	93204	-174693	-79072	-	210936	334512	
Dec	6610	6333	12943	91800	6013	97813	-	26751	26751	76145	109	103005	2597	48175	-101813	-51041	-	177916	340636	
2003																				
Mar	6706	7563	14269	84032	6017	90049	-	37774	37774	82385	27	120186	2597	42617	-103230	-58015	-	182846	349334	
Jun	6948	8547	15495	97898	6142	104039	-	74882	74882	89183	33	164097	2597	42617	-103231	-58016	-	183886	409502	
Sep	6948	12922	19870	96942	6331	103273	-	58451	58451	110326	175	168952	2597	42617	-103230	-58015	-	186628	420708	
Dec	7258	14254	21512	104660	6534	111194	-	91898	91898	110689	228	202815	2597	76997	-107980	-28386	-	178935	486070	
2004																				
Jan	7309	17900	25209	98333	6563	104896	-	105238	105238	95565	846	201649	2597	76997	-107981	-28387	-	187213	490580	
Feb	7309	17577	24886	97028	6578	103606	-	111632	111632	130945	388	242965	2597	74846	-103248	-25805	-	190013	535665	
Mar	7221	16546	23767	97350	6613	103963	-	139672	139672	117845	798	258315	2597	76958	-107941	-28386	-	179219	536878	
Apr	7105	16820	23925	99873	6657	106530	-	183754	183754	147846	602	332202	2597	76958	-107941	-28386	-	170729	605000	
May	7112	16506	23618	104283	6697	110980	-	183703	183703	161171	607	345481	2597	76958	-107941	-28386	-	172281	623660	
Jun	7167	17122	24289	110629	6773	117402	-	214006	214006	143240	535	357781	2597	76958	-107941	-28386	-	172817	644143	
Jul	7170	15960	23130	119191	6870	126061	-	175097	175097	210820	754	386671	2597	76958	-107941	-28386	-	172791	680267	
Aug	7164	15492	22656	116015	6915	122930	-	174519	174519	258834	462	433815	2597	76958	-107911	-28386	-	173383	724398	
Sep	7209	15682	22891	116818	6950	123768	-	202514	202514	242154	558	445226	2597	76958	-107941	-28386	-	180584	744083	
Oct	7327	15729	23056	116600	6998	123597	-	200742	200742	255409	1554	457705	2597	76958	-107941	-28386	-	192544	768517	
Nov	7513	15573	23086	119718	7051	126769	-	203201	203201	254753	1242	459196	2597	76958	-107941	-28386	-	212817	793482	
Dec	7610	14932	22547	130584	7108	137692	-	206121	206121	244559	1203	451883	2597	84743	-71029	16311	-	177574	806007	

Source: Central Bank of Solomon Islands.

TABLE 1.5 ASSETS OF COMMERCIAL BANKS

(SIS'000)

End of Period	<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			
2001	7271	57317	-	-	24800	125040	-	-	-	159	2004	152729	154892	52897	30654	452871
2002	6311	75023	-	-	24800	125040	-	-	-	775	1965	171317	174057	48656	39945	493832
2003	8503	106841	-	14377	-	149840	-	-	-	715	1359	215986	218060	59448	55170	612239
2004	14457	245937	-	3969	-	141913	-	-	-	240	7	238833	238586	58609	71863	775581
<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>																
Mar	5916	83577	-	9989	-	149840	-	-	-	669	1916	170859	173444	53346	30123	506235
Jun	6549	89973	-	14964	-	149840	-	-	-	663	1875	179741	182279	54402	70981	567988
Sep	9117	110120	-	8910	-	149840	-	-	-	728	1445	193595	195768	61221	63732	603808
Dec	8503	106841	-	14377	-	149840	-	-	-	715	1359	215986	218060	59448	55170	612239
<u>2004</u>																
Jan	8502	94135	-	12431	-	149849	-	-	-	736	1994	222541	225271	68203	74333	632715
Feb	8945	129009	-	14408	-	149840	-	-	-	728	1423	220809	222960	57935	75385	658582
Mar	8399	115320	-	11886	-	149840	-	-	-	715	1123	229850	231688	61451	68048	646632
Apr	6589	146442	-	16326	-	149840	-	-	-	696	954	229939	231589	63268	81682	695736
May	8502	160017	-	12878	-	149840	-	-	-	691	-	212515	213206	66292	72067	682802
Jun	10643	140655	-	12914	-	149840	-	-	-	710	-	219408	220118	72093	97862	704125
Jul	9863	213812	-	12955	-	144720	-	-	-	221	3	219460	219684	56509	97329	754872
Aug	10944	258795	-	6928	-	144159	-	-	-	227	3	218904	219134	54649	80682	775291
Sep	10748	253918	-	4947	-	142148	-	-	-	250	5	232750	233015	51270	82158	778214
Oct	8431	251961	-	3468	-	141669	-	-	-	370	8	237925	238303	65779	88151	797762
Nov	12175	250498	-	3973	-	140943	-	-	-	237	-	244096	244333	59405	73623	784950
Dec	14457	245937	-	3969	-	141913	-	-	-	240	7	238833	238833	58609	71863	775581

Source: Central Bank of Solomon Islands.

TABLE 1.6 LIABILITIES OF COMMERCIAL BANKS

(SIS'000)

End of Period	DEMAND DEPOSITS					SAVINGS DEPOSITS	TIME DEPOSITS					TOTAL DEPOSITS					DUE TO CBSI	CAP & RES	OTHER LIABS	FOR'N LIABS	TOTAL LIABS
	S.I.G	Prov	Stat	Other	Total	S.I.G	Prov	Stats	Other	Total	S.I.G.	Prov	Stat	Grand Total							
		Govt	Corps				Govt	Corps				Govt	Corps								
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
2004	42710	3712	18293	229108	293823	75988	806	433	3050	170810	175099	43516	4145	21343	475906	544910	-	121051	43437	66183	775581
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																					
Mar	1941	2788	7946	158081	170756	61269	99	80	7694	92325	100198	2040	2868	15640	321675	342223	-	92069	47266	24677	506235
Jun	3183	3448	7318	170573	184522	71637	93	297	7706	96203	104299	3276	3745	15024	338413	360458	-	96222	49742	62566	500988
Sep	5734	2898	7798	186732	203162	72127	94	297	7706	106359	114456	5828	3195	15504	365218	389745	-	100122	51741	57200	603808
Dec	3822	5107	7167	217820	233916	67453	112	273	6219	118606	125210	3934	5380	13386	403879	426579	-	99569	47402	38689	612239
2004																					
Jan	1680	3497	6086	217365	228628	64558	36	299	5393	120551	126279	1716	3796	11479	402474	419465	-	102553	53309	57388	632715
Feb	1026	3603	7052	230485	242166	65305	179	299	6219	121988	128685	1205	3902	13271	417778	436156	-	103805	52228	66393	658582
Mar	1292	2971	5250	218213	227726	65947	310	83	3715	126549	130657	1602	3054	8965	410709	424330	-	106645	50243	65414	646632
Apr	1527	3083	5848	257005	267463	64499	81	301	3726	130948	135056	1608	3384	9574	452452	467018	-	104616	51488	72614	695736
May	23795	3456	7495	235222	269968	66178	24	302	3726	133127	137179	23819	3758	11221	434527	473325	-	99996	53167	56314	682802
Jun	23773	3910	10018	236414	274115	65820	24	302	2927	134334	137587	23797	4212	12945	436568	477522	-	102021	48418	76164	704125
Jul	20979	7350	8797	272562	309688	70138	82	302	3727	150173	154284	21061	7652	12524	492873	534110	-	108743	34891	77128	754872
Aug	14376	6702	8965	281248	311291	74002	82	2129	3727	157534	163472	14458	8831	12692	512784	548765	-	112372	39905	74249	775291
Sep	12708	6979	8344	269837	297868	76804	82	630	3519	164408	168639	12790	7609	11863	511049	543311	-	121002	41134	72767	778214
Oct	15000	2377	9295	286490	313162	76625	102	578	3888	169407	173975	15102	2955	13183	532522	563762	-	119496	34547	79957	797762
Nov	17030	2611	1044	274726	304412	76377	203	677	5528	175167	181575	17233	3288	15573	526770	562364	-	115404	41496	65686	784950
Dec	42710	3712	18293	229108	293823	75988	806	433	3050	170810	175099	43516	4145	21343	465906	544910	-	121051	43437	66183	775581

Source: Central Bank of Solomon Islands.

TABLE 1.7 SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING *

(SIS'000)

End of Period	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecom-munications	Distribu-tion	Tourism
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
2004	4535	42139	333	142	26794	14947	2016	42802	46941	2644
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										
Mar	1963	23196	448	2612	38201	10453	1864	15081	31290	3212
Jun	2247	28120	1619	1102	33354	13494	2202	21848	30919	3129
Sep	2525	42839	415	637	32932	12568	1677	25672	29422	3177
Dec	2912	41131	4033	-	31890	13658	2114	37362	30046	3777
2004										
Jan	2952	45649	4195	-	30866	13710	1893	38296	31057	3881
Feb	2906	39709	3495	-	28143	12503	1742	41929	33728	3574
Mar	2899	41326	5024	-	27694	17969	1253	43163	33990	3438
Apr	3190	38366	5548	7	29939	17556	1834	43831	34871	2709
May	3499	33077	4879	-	11675	16936	1831	47573	35418	2919
Jun	3585	37357	5375	-	14832	13804	1722	50453	35744	3692
Jul	3782	29815	1242	-	15132	16287	1804	51784	35933	3683
Aug	3853	30204	1485	-	18251	16089	1855	53268	35670	3501
Sep	3468	31549	331	-	19246	17762	2050	55152	47544	1828
Oct	3735	34397	442	-	27100	15881	2036	56144	42893	2030
Nov	4181	33321	682	-	26867	14406	1988	56491	42306	2503
Dec	4535	42139	333	142	26794	14947	2016	42802	46941	2644

* Part of this table is continued on the next page.

Source: Central Bank of Solomon Islands

TABLE 1.7 SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING (Cont'd)

(SIS'000)

End of Period	Entertainment & Catering	Government	Statutory Corporations	Public Financial Institutions	Private Financial Institutions	Professional & Other Services	Personal	TOTAL	NON-RESIDENT
2000	2808	1057	3569	41	232	11345	48916	198963	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
2004	1669	428	7	-	5	14971	40927	241300	1553
<u>2001</u>									
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
<u>2002</u>									
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
<u>2003</u>									
Mar	1006	671	1916	-	348	8444	32739	173444	27
Jun	942	670	1875	-	346	9026	31386	182279	27
Sep	919	728	1652	-	213	9184	31007	195767	-
Dec	825	715	1359	-	309	13873	34056	218060	167
<u>2004</u>									
Jan	827	736	1455	-	1455	15283	35434	226789	-
Feb	688	728	1423	-	1423	16470	36289	224750	592
Mar	649	715	1123	2	1121	17366	34882	232620	1205
Apr	655	696	949	5	307	16146	33980	231589	1308
May	582	691	-	-	309	16219	34484	210092	1288
Jun	593	710	-	-	302	16413	35536	220118	1401
Jul	538	421	3	-	49	16948	35441	219684	1403
Aug	438	433	3	-	44	16325	36312	217731	1424
Sep	440	229	-	-	2	15955	40661	236217	1549
Oct	1748	232	-	-	2	17210	40684	244534	1552
Nov	1646	238	-	-	1	17060	40604	242294	1548
Dec	1669	428	7	-	5	14971	40927	241300	1553

Source: Central Bank of Solomon Islands.

TABLE 1.8 COMMERCIAL BANK LIQUID ASSETS POSITION

(SI\$'000)

Period Average 1/	ELIGIBLE RESERVE ASSETS			REQUIRED RESERVE ASSETS	OTHER LIQUID ASSETS	SURPLUS/ (DEFICIT)
	Till Cash	Balances With CBSI	Government Securities			
				Total	CBSI Securities	
2000	5280	55670	-	60950	-	32645
2001	7271	57317	-	64588	-	40837
2002	6311	75023	-	81334	-	56172
2003	8503	106841	-	115344	-	83351
2004	14457	245937	-	260394	-	219526
<u>2001</u>						
Mar	3720	75049	-	78769	-	52729
Jun	4094	79816	-	83910	-	57468
Sep	4786	71815	-	76601	-	51728
Dec	7271	57317	-	64588	-	40837
<u>2002</u>						
Mar	5479	62966	-	68445	-	44668
Jun	6637	34571	-	41208	-	18181
Sep	5553	46949	-	52502	-	28611
Dec	6311	75023	-	81334	-	56172
<u>2003</u>						
Mar	5916	83577	-	89493	-	63826
Jun	6549	89973	-	96522	-	69488
Sep	9117	110120	-	119237	-	90006
Dec	8503	106841	-	115344	-	83351
<u>2004</u>						
Jan	8502	94135	-	102637	-	71177
Feb	8945	129009	-	137954	-	105242
Mar	8399	115320	-	123719	-	91894
Apr	6589	146442	-	153031	-	118005
May	8502	160017	-	168519	-	133020
Jun	10643	140655	-	151298	-	115484
Jul	9863	213812	-	223675	-	183617
Aug	10944	258795	-	269739	-	228582
Sep	10748	253918	-	264666	-	223918
Oct	8431	251961	-	260392	-	218110
Nov	12175	250498	-	262673	-	216698
Dec	14457	245937	-	260394	-	219526

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

TABLE 1.9 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	
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
<u>1998</u>									
Mar	131	2685	-	1113	457	-	3200	272	3929
Jun	896	2283	-	848	374	-	3385	268	4027
Sep	1387	1899	-	576	356	-	3177	329	3862
Dec	1672	1888	-	616	288	-	3321	567	4176
<u>1999</u>									
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
<u>2000</u>									
Mar	3386	319	-	244	106	-	3579	264	3949
Jun	3544	241	-	200	106	-	3614	265	3985
Sep	3563	241	-	212	107	-	3647	262	4016
Dec	3613	237	-	169	107	-	3654	258	4019
<u>2001</u>									
Jan	3608	237	-	169	107	-	3648	259	4014

Source: Central Bank of Solomon Islands

TABLE 1.10 ASSETS AND LIABILITIES OF DEVELOPMENT BANK OF SOLOMON ISLANDS

(SI\$'000)

End of Period	ASSETS							LIABILITIES							TOTAL ASSETS = TOTAL LIABS.
	Fixed Deposits	Treasury Bills	Term Loans	Equity Holdings	Staff Loans	Fixed* Assets	Other+ Assets	Term Liabilities				Capital and Reserves	Other Liabs		
								S.I.G	C.B.S.I	Overseas#	N.P.F				
2000	375	-	60438	97	3578	4538	-19027	5117	-	12291	2515	2452	26968	49343	
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	
2004	2201	-	50918	97	2549	958	-27342	-	-	20235	3799	-14520	19867	29381	
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	97	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															
Mar	530	-	60566	97	4117	2773	-26003	7145	-	10589	2558	-7609	29396	42080	
Jun	513	-	59641	97	4116	2641	-41796	10151	-	10589	2558	-9190	1103	25212	
Sep	1026	-	58202	97	3432	2549	-25694	7145	-	16813	2558	-15753	28849	39612	
Dec	685	-	57543	97	3587	2271	-25240	7145	-	16813	2558	-15526	27954	38944	
2004															
Jan	681	-	57387	97	3591	2377	-25242	7145	-	16813	2558	-15616	27991	38891	
Feb	632	-	57669	97	3587	1802	-25280	7145	-	16813	2558	-15898	27888	38507	
Mar	348	-	57448	97	3579	2079	-25173	7145	-	16813	2558	-15674	27536	38378	
Apr	152	-	57252	97	3416	1955	-29930	7145	-	20235	2558	-23853	26857	32942	
May	152	-	57403	97	3486	1813	-29828	7145	-	20235	2558	-24004	27188	33123	
Jun	172	-	57516	97	3363	1673	-29618	7145	-	20235	2558	-24208	27372	33103	
*Jul	502	-	56356	97	3342	1524	-29966	7145	-	20235	2558	-25113	27030	31855	
*Aug	682	-	55246	97	3178	1524	-28772	-	-	20235	3815	-17291	25196	31955	
*Sep	1237	-	54668	97	3178	1272	-28574	-	-	20235	3815	-16261	24088	31878	
Oct	2251	-	51829	97	3047	1113	-27742	-	-	20235	3811	-16721	23269	30594	
Nov	1701	-	51494	97	2580	956	-26860	-	-	20235	3799	-17027	22961	29968	
Dec	2201	-	50918	97	2549	958	-27342	-	-	20235	3799	-14520	19867	29381	

* Less provision for depreciation.

+ Include provisions for doubtful debts.

Intermediated by SI Government

Source: Development Bank of Solomon Islands.

TABLE1-11 BALANCE OF PAYMENTS

(SI\$ Million)

	2001	2002	2003	2004
A. CURRENT ACCOUNT	-172.3	-23.4	207.5	502.5
1. Goods and Services	-231.1	-106.8	-166.7	109.0
1.1 Goods	-182.7	68.8	31.6	187.7
a) Exports f.o.b.	248.7	390.1	557.0	727.7
b) Imports f.o.b.	-431.4	-321.3	-525.5	-540.0
1.2. Services	-48.3	-175.6	-198.3	-78.6
a) Transportation	-56.1	-29.6	-8.7	-131.8
credit	23.3	7.0	15.1	8.3
debit	-79.4	-36.7	-23.7	-140.2
b) Travel	-7.2	-34.5	-21.8	-40.8
credit	27.5	4.8	11.6	26.3
debit	-34.7	-39.3	-33.4	-67.1
c) Other	15.0	-111.4	-167.8	94.0
credit	221.6	95.9	163.0	195.9
debit	-206.6	-207.3	-330.8	-101.8
2. Income	0.6	-50.6	-25.7	16.4
a) Compensation of employees	14.8	7.4	9.9	37.6
credit	23.9	15.1	21.0	49.0
debit	-9.1	-7.6	-11.1	-11.4
b) Investment income	-14.2	-58.1	-35.6	-21.2
i. Direct Investment	-10.7	-47.1	-40.8	-50.9
credit	4.0	-	0.4	-
debit	-14.8	-47.2	-44.1	-50.9
ii. Other Investment	-3.5	-10.9	5.2	29.7
credit	9.6	3.3	5.2	29.7
debit	-13.1	-14.2	-	-
3. Current Transfers	58.2	134.0	400.0	377.0
3.1. General government	54.5	161.9	400.7	371.8
a) Cash	48.8	86.9	207.0	183.1
credit	52.9	108.7	241.3	196.9
debit	-4.1	-21.8	-34.3	-13.8
b) Goods and services	5.7	75.0	193.7	188.7
3.2 Other sectors	3.7	-27.5	-0.7	5.1
credit	110.1	87.3	106.6	177.4
debit	-106.4	-115.1	-107.4	-172.2
B. CAPITAL AND FINANCIAL ACCOUNT	108.2	94.1	-35.9	-151.0
1. Capital Account	23.1	47.4	94.0	11.2
1.1 Capital transfers - net	23.1	47.4	94.0	11.2
a) General government	23.6	53.2	95.4	11.5
i. Debt forgiveness - net	-	-4.0	-	-
ii. Other - net	23.6	57.2	95.4	11.5
b) Other sectors	-0.5	-5.8	-1.4	-0.4
i. Migrants' transfers - net	-0.6	-1.5	-	-
ii. Debt forgiveness - net	-	-	-	-
iii. Other - net	0.1	-4.3	-1.4	-
2. Financial Account	85.2	46.7	-129.9	-162.2
2.1 Direct Investment	-61.3	-9.6	-13.7	11.7
2.1.1. In Reporting Economy	-61.3	-9.6	-13.7	11.9
a) Equity capital	-6.0	-1.1	-5.5	64.2
b) Reinvested earnings	-47.0	-2.5	-8.2	-20.0
c) Other capital	-8.3	-6.0	-	-32.5
2.2. Other Investment	146.5	56.3	-116.2	-173.9
2.2.1. Assets	10.0	-33.0	-	-
a) Trade credits	10.0	-	-	-
b) Loans	-	-	-	-
c) Currency and deposits	-	-33.3	-	-
d) Other assets	-	-	-	-
2.2.2. Liabilities	136.5	89.6	-116.2	-173.9
a) Trade credits	15.0	-7.0	-166.7	-170.3
b) Loans	73.0	92.7	7.5	-9.0
i. Monetary Authority - net	-	-	-	-
ii. General Government:				
Long term	48.2	18.4	-33.6	-2.9
credit	88.6	73.9	23.2	15.9
debit	-40.4	-55.5	-56.8	-18.8
iii. Other Sectors:				
Long term	-6.2	1.3	-1.4	-4.6
credit	0.2	3.1	0.2	-
debit	-6.4	-1.8	-1.6	-4.6
iv. Short term - net	15.5	73.0	42.5	-1.5
c) Other Liabilities - net	64.0	3.9	43.0	-5.4
Net Errors and Omissions	6.8	-42.4	-31.0	-29.8
Overall Balance	-56.8	27.4	140.6	321.7
Financing	56.8	-27.4	-140.6	-321.7
Reserves (=-increase)	56.8	-27.4	-140.6	-321.7

Source: Central Bank of Solomon Islands

TABLE 1-12 FOREIGN EXCHANGE RECEIPTS/1
(Year Ended)

(SI\$'000)

	1999	2000	2001	2002	2003	2004
<u>Current Receipts</u>						
Exports						
Copra	39290	34740	432	2218	7821	25549
Fish	159045	41174	37336	70752	92869	132052
Logs	250658	224422	190457	254149	371394	468175
Palm Oil & Kernels	65144	6565	237	-	-	-
Cocoa	24394	9277	4536	27728	53186	40419
Mineral	43986	1315	354	192	581	2857
All Other	24850	13809	15334	34970	31163	55075
Total Exports	607367	331302	248685	390008	557013	724127
Services						
Transportation	5242	3209	6139	7017	7457	2972
Travel	27515	18404	11574	9914	17057	33282
Insurance	177	2	747	253	757	799
Royalties & License Fees	343	1228	630	805	808	1002
Communication	10981	9051	127	18579	409	1086
Financial Services	92757	110646	41580	561	6809	9074
Others	116851	104725	69570	75655	126082	179211
Total Services	253866	247266	130368	112784	159378	227427
Income Account						
Wages & Others	11410	21831	20994	15061	20954	45035
Interest, Dividends & Profits	1208	1202	2021	11	192	12
Official Interest	13282	13712	5934	3280	5091	18493
Other Income	135	7	3694	-	77	-
Total Income	26035	36752	32644	18352	26314	63540
Transfers						
Official						
Cash Aid	19776	1145	49244	42231	56868	165401
Other Official	4516	10103	3662	7111	23036	31471
Total Official Transfers	24292	11248	52906	49342	79904	196872
Transfers Private						
Gifts and Donations	16099	10323	17333	23706	36166	82714
Transfers by Temp. Res. & Immigrants	1926	2973	16582	6703	8177	16107
Churches & Charitable Institutions	21464	17313	20546	18382	21606	38137
Foreign Governments	23055	19254	34870	24634	31541	99992
International Organisations	60256	33879	37307	34205	40697	40415
Total Private Transfers	122800	83743	126638	107629	138189	277366
Total Current Receipts	1034360	710310	591241	678116	960798	1489331
Capital & Financial Receipts						
Private						
Investment Grants	3743	1734	521	954	-	2388
Direct Investment	7563	10644	2845	-	674	122
Loans	3236	1868	153	3116	237	370
Other Foreign Investment	1610	41	2050	6057	1	-
Total Private Inflows	16152	14288	5568	10126	912	2880
Official						
Investment Grants	3440	28180	23062	20808	95405	4107
Loans	47001	22604	88621	40642	23179	2104
CBSI	-	-	-	-	-	-
Euro \$ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Inflows	50441	50784	111683	61451	118584	6211
Total Capital Receipts	66593	65072	117251	71577	119496	9091
TOTAL RECEIPTS	1100953	775381	708492	749692	1080294	1498422

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

TABLE 1.13 FOREIGN EXCHANGE PAYMENTS /1
(Year Ended) (SI\$'000)

	1999	2000	2001	2002	2003	2004
<u>Current Payments</u>						
Imports						
Oil Imports	75162	93417	75750	75589	87885	174766
Food Imports 2/	83026	79363	108448	108840	112297	101492
Beverages & Tobacco	6147	5105	9298	11061	6937	7775
Plants, Vehicles & Transport Equipt.	127544	88241	53320	57452	64459	66421
Building & Construction Mat.	33368	25489	22577	23831	54051	48402
Chemical	14771	9018	13745	11513	14102	12605
Other Imports	198,489	198337	148799	148047	167272	226232
Total Imports	538407	498970	431937	436342	507004	637694
Services						
Transportation	38108	23177	17239	25567	23616	45061
Travel	34644	44317	34332	29295	33401	33213
Insurance	13310	4469	5059	9262	8975	7272
Communication	26059	13799	8527	12163	16720	11624
Financial	24940	13995	32858	11086	6130	11776
Royalties & License Fees ectc.	264	981	759	16	72	43
Others	95838	72247	65255	28350	25609	60964
Total Services	233163	172988	164030	115740	114523	169953
Income						
Wages & Others	26710	14850	9119	7641	11102	11367
Interest Dividends & Profits	19555	16829	7543	21175	17240	17781
Official Interest	9672	3042	2820	2256	4758	6679
Total Income Payments	55937	34721	19482	31071	33100	35826
Transfers						
SI Govt Current Payments	17344	7655	2022	4465	33534	11213
Gifts & Donation	99570	126692	4104	103541	93822	154493
Transfers by Temporary Residents	13309	14387	93206	74131	735	2186
Other Transfers	9662	10218	2785	11768	11922	14635
Total Transfers	139885	158952	102117	193906	145356	185614
Total Current Payments	967392	865628	717566	777059	799982	1029088
Capital & Financial Payments						
Private						
Loan Repayments	49683	4368	6395	3188	5732	3997
Capital Repatriation	-	11	-	3	1356	-
Emigrant Transfers	1470	2507	634	1431	898	913
Other Payments	6047	849	4162	2026	1212	1138
Total Private Inflows	57200	7735	11191	6648	9198	6047
Official						
S I Government Loans	9836	6181	3445	-	262	18824
CBSI	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Outflows	9837	6181	3445	-	262	18824
Total Capital Payments	67037	13916	14636	6648	9461	24872
TOTAL PAYMENTS	1034429	879505	732202	783707	809443	1053959

1/ Derived from the banking system.

2/ Includes beverages and tobacco up to 1997.

Source: Central Bank of Solomon Islands.

TABLE 1-14 EXCHANGE RATES

(UNITS OF S\$ PER FOREIGN CURRENCY)

Period Average	US\$	Aus\$	Pound Stg	Yen (Per 100)	NZ\$	EURO	S.D.R.
1998	4.82	3.03	7.98	3.68	2.60	5.41	6.55
1999	4.93	3.18	7.99	4.36	2.61	5.27	6.75
2000	5.11	2.99	7.72	4.74	2.34	4.73	6.70
2001	5.30	2.76	7.70	4.40	2.25	4.80	6.45
2002	6.78	3.69	10.26	5.46	3.16	6.43	8.75
2003	7.51	4.90	12.27	6.48	4.36	8.50	10.51
2004	7.48	5.51	13.69	6.92	4.98	9.31	11.09
<u>1999</u>							
Mar	4.88	3.09	7.98	4.20	2.63	5.25	6.74
Jun	4.84	3.16	7.79	4.01	2.63	5.03	6.53
Sep	4.95	3.23	7.92	4.37	2.60	5.30	6.73
Dec	5.06	3.25	8.25	4.84	2.59	5.12	6.98
<u>2000</u>							
Mar	5.17	3.27	8.30	4.83	2.58	4.90	6.99
Jun	5.09	3.02	7.67	4.74	2.44	4.85	6.76
Sep	5.09	2.93	7.53	4.73	2.25	4.44	6.67
Dec	5.10	2.73	7.39	4.64	2.11	4.65	6.36
<u>2001</u>							
Mar	5.21	2.86	7.86	4.57	2.33	4.68	5.54
Jun	5.24	2.68	7.44	4.27	2.17	4.50	6.60
Sep	5.30	2.72	7.62	4.36	2.22	4.85	6.74
Dec	5.46	2.79	7.87	4.42	2.26	4.93	6.93
<u>2002</u>							
Mar	6.26	3.28	8.78	4.77	2.71	5.49	7.82
Jun	6.78	3.86	10.05	5.50	3.31	6.48	8.88
Sep	7.36	4.03	11.49	6.10	3.46	7.22	9.74
Dec	7.46	4.19	11.81	6.10	3.79	7.57	7.57
<u>2003</u>							
Mar	7.50	4.51	11.86	6.32	4.11	8.10	10.27
Jun	7.51	4.91	12.31	6.39	4.35	8.77	10.66
Sep	7.51	4.97	12.09	6.53	4.38	8.43	10.47
Dec	7.50	5.53	13.11	6.95	4.84	9.19	10.99
<u>2004</u>							
Jan	7.50	5.78	13.66	7.05	5.04	9.47	11.19
Feb	7.50	5.82	13.99	7.04	5.17	9.48	11.21
Mar	7.48	5.61	13.66	6.88	4.95	9.18	11.01
Apr	7.48	5.58	13.48	6.96	4.81	8.98	10.93
May	7.47	5.27	13.33	6.67	4.59	8.97	10.85
Jun	7.46	5.19	13.64	6.82	4.69	9.07	10.94
Jul	7.46	5.35	13.76	6.82	4.82	9.16	11.00
Aug	7.47	5.32	13.61	6.78	4.90	9.11	10.95
Sep	7.50	5.26	13.44	6.81	4.93	9.15	10.98
Oct	7.50	5.49	13.53	6.88	5.25	9.35	11.12
Nov	7.50	5.77	13.92	7.15	5.24	9.72	11.33
Dec	7.50	5.75	14.22	7.22	5.36	10.03	11.55

Source: Central Bank of Solomon Islands.

TABLE 1-15 COMPETITIVENESS AND RELATIVE PRICES

Exchange rates				
A	B	C	D	
Period Average	Nominal Effective	Real Effective 1 based on relative retail prices	Real Effective 2 based on domestic retail prices and foreign export prices	Term of Trade export unit values relative to foreign export prices (in common currency)
2001*	195.0	69.8	57.5	118.4
2002*	295.3	82.5	67.7	93.3
2003*	309.4	96.6	76.7	79.8
2004	333.5	407.5	328.6	70.7
2002*				
Q2	250.4	85.2	67.8	92.5
Q3	281.4	91.6	71.5	85.0
Q4	283.8	93.3	72.7	83.4
2003*				
Q2	304.8	95.0	76.1	80.5
Q3	308.0	96.2	75.8	80.5
Q4	327.7	102.2	79.0	77.1
2004				
Q2	327.7	400.9	323.9	72.0
Q3	329.6	398.0	330.5	69.3
Q4	337.6	405.4	329.8	69.4
Annual Percentage Changes				
2001*	-5.2	165.5	147.1	9.1
2002*	33.0	74.5	69.2	-25.1
2003*	19.3	7.2	3.4	-17.3
2004	7.8	3.0	12.9	-9.4
Quarterly Percentage Changes				
2001*				
Q2	-1.0	-1.6	-0.1	-1.3
Q3	1.9	1.3	-0.3	-0.3
Q4	3.0	1.1	-0.3	-1.6
2002*				
Q2	12.9	9.9	7.4	-10.3
Q3	12.4	7.5	5.5	-8.1
Q4	0.9	1.9	1.6	-1.8
2003*				
Q1	4.7	7.3	1.8	-5.5
Q2	2.6	2.1	0.3	-0.8
Q3	1.1	1.3	-0.4	0.0
Q4	6.4	6.2	4.2	-4.2
2004*				
Q1	3.5	0.1	0.5	-4.9
Q2	-3.4	-5.8	-1.9	-0.4
Q3	0.6	-0.7	2.0	-3.8
Q4	2.4	1.8	-0.2	0.2

- 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.

* *Provisional estimates*

Source: Central Bank of Solomon Islands.

TABLE 1-16 GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

(SIS'000)

End of Period	DEVELOPMENT & TREASURY BONDS						TREASURY BILLS						OTHER	GRAND TOTAL
	Commercial Banks	Central Bank	National Provident Fund	Statutory Corporations	Public	Total	Commercial Banks	Central Bank	National Provident Fund	Statutory Corporations	Public	Total	Central Bank	
1999	118340	27	110475	-	-	228842	61957	-	15119	-	10033	87109	11075	327026
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	245637	14377	59	-	-	18351	32787	11075	289500
2004	141913	27	126426	-	1417	269783	3969	187	-	1190	24955	30301	11075	311159
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	-	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	-	-	-	21116	31105	11075	287818
Jun	149840	27	94271	-	1500	245638	14964	-	-	-	19533	34497	11075	291200
Sep	149840	27	94271	-	1500	245638	8910	-	-	-	19680	28590	11075	285303
Dec	149840	27	94271	-	1500	245638	14377	-	-	-	18351	32728	11075	289441
2004														
Mar	149840	27	94721	-	1500	245638	11886	40	-	-	19552	31478	11075	288191
Jun	149840	27	94271	-	1500	245638	12914	29	-	-	16565	29508	11075	286221
Sep	142148	27	91910	-	1429	235514	4947	118	-	1129	24134	30240	11075	276828
Dec	141913	27	126426	-	1417	269783	3969	187	-	1190	24955	30301	11075	311159

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 1-17 SUMMARY OF GOVERNMENT ANNUAL ACCOUNTS AND BUDGET FORECASTS*

(\$ Millions)

	2002	2003	2004
<u>Budget Forecasts:</u>			
Total Revenue and Grants	418.4	500.3	967.8
i. Total Recurrent Revenue	250.0	259.0	441.9
ii. Tax Revenue	224.6	235.0	413.1
iii. Non-Tax Revenue	25.4	24.0	28.8
iv. Grants	168.4	241.3	525.9
Total Expenditure	493.6	509.8	1012.2
A. Recurrent Expenditure	250.0	259.0	586.8
i. Pay	120.0	123.0	188.8
ii. Other Charges	102.0	97.0	308.7
iii. Debt Service	28.0	39.0	89.3
B. Development Expenditure	243.6	250.8	425.4
Fiscal Surplus (Deficit)	(75.2)	(9.5)	(44.4)
<u>Actual Government Accounts /1:</u>			
Total Revenue and Grants	365.0	578.9	710.9
i. Total Recurrent Revenue	256.3	373.5	509.9
ii. Tax Revenue	243.5	340.5	472.1
iii. Non-Tax Revenue	12.8	33.0	37.8
iv. Grants	108.7	205.4	201.0
Total Expenditure	674.1	682.8	608.8
A. Recurrent Expenditure	547.3	564.2	506.2
i. Pay	167.1	170.3	173.5
ii. Other Charges	249.9	272.4	252.6
iii. Debt Service	130.3	121.5	80.1
B. Development Expenditure	126.8	118.6	102.6
Fiscal Surplus (Deficit)	(309.1)	(103.9)	102.1
<u>Memorandum Items:</u>			
SIG Formal Debt			
Domestic Debt	469.6	494.3	526.8
External Debt	1087.3	1108.6	1149.3
Total Debt	1556.9	1602.8	1676.2

/1 Provisional figures.

* Budget Forecasts are published in November or December of each year by the Ministry of Finance.

Source: Central Bank of Solomon Islands and Ministry of Finance.

TABLE 1.18 GOVERNMENT REVENUES

(SI\$'000)

End of Period	Total Customs & Inland Revenue	Total Customs	Import Duty	Log Export Duty	Timber Levy	Other Exports	Other Customs	Total Inland Rev.	Company	Personal	Govt. PAYE	Goods & Sales	Other I.R.	Ministries & Other *
2001	204918	72219	42035	21707	-	1341	7135	132699	19324	20693	22011	56755	13916	17984
2002	243012	100947	54069	38233	-	1070	7575	142065	19734	22314	15320	62975	21722	12386
2003	340398	146232	68673	61017	-	1230	15311	194166	27887	27913	15924	96632	25810	33027
2004	472058	171300	81903	66279	-	1463	21654	300758	62332	45770	16143	141368	35146	37800
<u>2001</u>														
Q1	61205	24090	12972	8668	-	585	1864	37115	4302	5752	6042	15064	5955	2621
Q2	51946	19396	9197	7784	-	221	2194	32550	5371	4909	5818	13325	3127	3500
Q3	48759	16238	11222	2565	-	407	2044	32521	5097	4688	6048	13667	3021	6724
Q4	43008	12495	8644	2690	-	128	1033	30513	4554	5344	4103	14699	1813	2434
<u>2002</u>														
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
<u>2003</u>														
Q1	68826	33838	13601	16641	-	327	3269	34988	4180	6210	3285	17644	3669	6690
Q2	80604	34204	17454	12821	-	221	3705	46965	7286	6077	3598	22765	7239	5666
Q3	81138	31748	16126	11148	-	373	4101	49390	7114	7103	4146	24075	6952	4172
Q4	109829	46442	21492	20407	-	309	4234	63387	9308	8523	4895	32147	8515	11000
<u>2004</u>														
Q1	101717	38669	19488	14009	-	244	4929	63048	11559	7735	3816	32461	7476	7177
Q2	118768	41822	21331	16341	-	350	3799	76946	22545	13370	3677	30700	6654	9323
Q3	129458	46565	21863	18731	-	441	5529	82893	17368	12573	4410	37801	10741	9700
Q4	122132	44245	19221	17199	-	428	7397	77887	10859	11650	4241	40308	10830	11600

Source: Central Bank of Solomon Islands

TABLE 1-19 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	352.5	447.3	396.5	431.5	12.4
1999	493.8	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	534.8	436.4	498.0	6.9
2001	573.0	742.0	284.8	752.9	339.6	377.7	587.6	441.8	536.0	7.6
2002	635.0	871.4	288.5	842.2	361.4	373.7	628.4	477.7	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
2004	722.7	1012.7	291.1	1082.6	395.5	438.4	718.1	629.9	689.9	6.9
Three months averages										
<u>2002</u>										
Mar	608.5	828.3	286.3	778.1	335.1	376.2	617.2	453.4	556.7	4.6
Jun	630.8	802.0	290.2	916.7	355.4	379.5	640.3	475.9	579.8	5.8
Sep	663.7	921.8	288.1	912.7	423.5	396.9	662.5	529.8	615.4	11.4
Dec	673.7	962.1	290.2	957.6	440.1	402.5	664.2	560.1	628.8	15.4
<u>2003</u>										
Mar	662.6	923.2	288.3	969.7	453.0	412.0	660.8	574.3	632.7	14.3
Jun	659.1	945.6	290.2	986.0	477.6	427.2	666.3	596.1	644.9	14.0
Sep	664.1	960.9	290.4	995.4	481.2	429.0	669.7	603.4	650.0	8.3
Dec	667.4	1038.0	290.4	1005.1	464.5	431.2	671.8	606.9	652.7	4.1
<u>2004</u>										
Jan	692.1	1053.2	290.3	1054.1	390.2	431.3	694.3	608.9	667.0	4.4
Feb	711.2	1065.1	290.6	1060.7	392.6	434.5	707.0	621.4	679.8	5.6
Mar	709.7	1066.0	290.5	1057.6	394.4	432.6	704.4	626.2	680.2	6.8
Apr	726.4	1010.6	290.5	1048.3	395.7	436.5	715.3	624.8	686.1	7.1
May	727.6	1010.6	291.3	1051.1	395.9	436.5	720.4	624.4	689.0	6.5
Jun	726.7	1014.9	291.4	1050.9	395.9	437.9	717.0	628.7	688.7	6.3
Jul	730.3	1015.3	291.3	1073.5	395.9	440.6	722.1	635.4	694.6	6.8
Aug	725.3	990.1	291.4	1066.4	396.4	441.2	717.7	631.9	690.5	6.8
Sep	733.9	1035.0	291.4	1107.1	396.7	442.3	728.6	641.1	700.8	7.2
Oct	731.0	968.4	291.4	1130.6	397.3	440.4	729.4	638.5	700.2	7.1
Nov	730.2	968.3	291.4	1137.8	397.5	443.5	730.3	638.5	700.7	7.5
Dec	728.7	955.1	291.4	1153.0	398.2	443.5	730.3	639.0	701.0	7.3

Source: Statistics Division, Ministry of Finance

TABLE 1-20 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\$/)
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
2004	450	471	902	1555	198
<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>					
Mar	291	426	565	1947	184
Jun	279	430	510	1571	182
Sep	274	420	815	1638	187
Dec	400	510	765	1634	196
<u>2004</u>					
Jan	388	496	810	1629	199
Feb	415	527	1550	1629	199
Mar	450	550	850	1504	199
Apr	500	538	850	1439	198
May	498	518	850	1420	188
Jun	471	440	850	1405	199
Jul	445	426	970	1564	201
Aug	440	432	970	1728	199
Sep	448	439	985	1545	199
Oct	447	431	985	1480	198
Nov	449	433	100	1659	202
Dec	449	423	850	1658	190

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. (C+F Bankgkok)

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

Source: World Bank and Infofish..

TABLE 1-21 REAL GROSS DOMESTIC PRODUCT

(1985 = 100)

Industry	1999	2000	2001	2002 Est	2003 Est	2004 Est
Agriculture	103.5	83.0	70.9	77.3	103.3	107.0
Forestry, Logging, Sawmilling	153.0	132.2	131.7	135.6	175.1	241.0
Fishing	170.9	85.3	72.3	76.8	105.1	103.0
Mining & Exploration	-1262.5	-613.1	38.2	36.7	-3.2	-3.4
Manufacturing	246.0	197.2	158.1	149.8	134.3	136.0
Electricity and Water	276.4	231.0	183.4	214.4	256.1	268.9
Construction	75.1	40.1	21.8	26.1	35.9	48.9
Retail and Wholesale Trade	149.7	134.5	148.6	131.5	135.5	148.6
Transport and Communications	179.3	143.4	119.9	129.8	138.2	139.3
Finance	247.6	239.4	231.4	228.3	224.5	229.4
Other Services	175.9	172.8	172.4	138.5	120.7	117.7
Index of Monetary GDP Production	169.2	139.1	122.0	118.0	127.4	136.0
Annual % movement	-1.0	-17.8	-12.3	-3.6	7.3	6.7
Index of Primary Production	129.1	94.0	84.1	89.6	118.9	134.7
Annual % movement	9.7	-27.2	-10.4	6.4	30.3	13.3
Non-Monetary: Food	143.6	147.4	151.9	155.9	156.0	157.6
Non-Monetary: Construction	136.2	141.6	147.2	150.1	150.2	150.2
Non-Monetary GDP Index	143.0	147.0	151.5	155.4	155.6	157.0
Index of Total GDP Production	163.9	140.5	127.9	125.3	132.8	140.1
Annual % movement	-0.5	-14.3	-9.0	-2.4	5.6	5.5

Source: Central Bank of Solomon Islands.

TABLE 1-22 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)	Timber Log Prodn. (‘000Cum) /1
1995	26148	4372	29562	6861	2482	56133	-
1996	21989	3520	28680	6834	2464	41199	791
1997	28679	5399	28863	7005	3907	40654	650
1998	26971	8339	29077	6821	3454	49390	593
1999	23242	10345	12877	3182	2395	47961	628
2000	19004	8553	-	-	2316	21163	541
2001	1701	117	-	-	2038	17720	493
2002	305	-	-	-	2907	18520	550
2003	12898	-	-	-	4587	28955	714
2004	22146	-	-	-	4181	27249	1043
<u>1999</u>							
Mar	6528	2568	7041	1772	357	11628	150
Jun	5842	3256	5836	1410	1087	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	315	-	-	-	55	662	35
Jun	68	-	-	-	304	1056	26
Sep	105	-	-	-	108	3506	26
Dec	80	-	-	-	85	1606	68
<u>2002</u>							
Mar	100	-	-	-	50	2119	21
Jun	-	-	-	-	437	1066	54
Sep	85	-	-	-	245	1962	66
Dec	661	-	-	-	148	1607	34
<u>2003</u>							
Mar	827	-	-	-	14	2430	62
Jun	834	-	-	-	688	2102	72
Sep	1709	-	-	-	473	2782	54
Dec	1950	-	-	-	282	927	61
<u>2004</u>							
Jan	1475	-	-	-	124	1550	41
Feb	1725	-	-	-	249	1420	46
Mar	1904	-	-	-	136	1513	43
Apr	2106	-	-	-	455	1880	45
May	1907	-	-	-	718	2102	44
Jun	2007	-	-	-	437	2509	44
Jul	2144	-	-	-	723	3635	108
Aug	1554	-	-	-	298	2762	93
Sep	1905	-	-	-	182	2879	67
Oct	1339	-	-	-	272	3011	65
Nov	1727	-	-	-	312	2049	97
Dec	1574	-	-	-	186	1940	68

Source: Central Bank of Solomon Islands

1/ From 1997 up, log export data are used as there are no sources for production data.