



Central Bank of Solomon Islands

**Annual Report
2005**

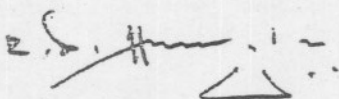
10th May 2006

Hon Batholomew Ulufa'alu (MP)
Minister of Finance
Department of Finance and Treasury
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 2005 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

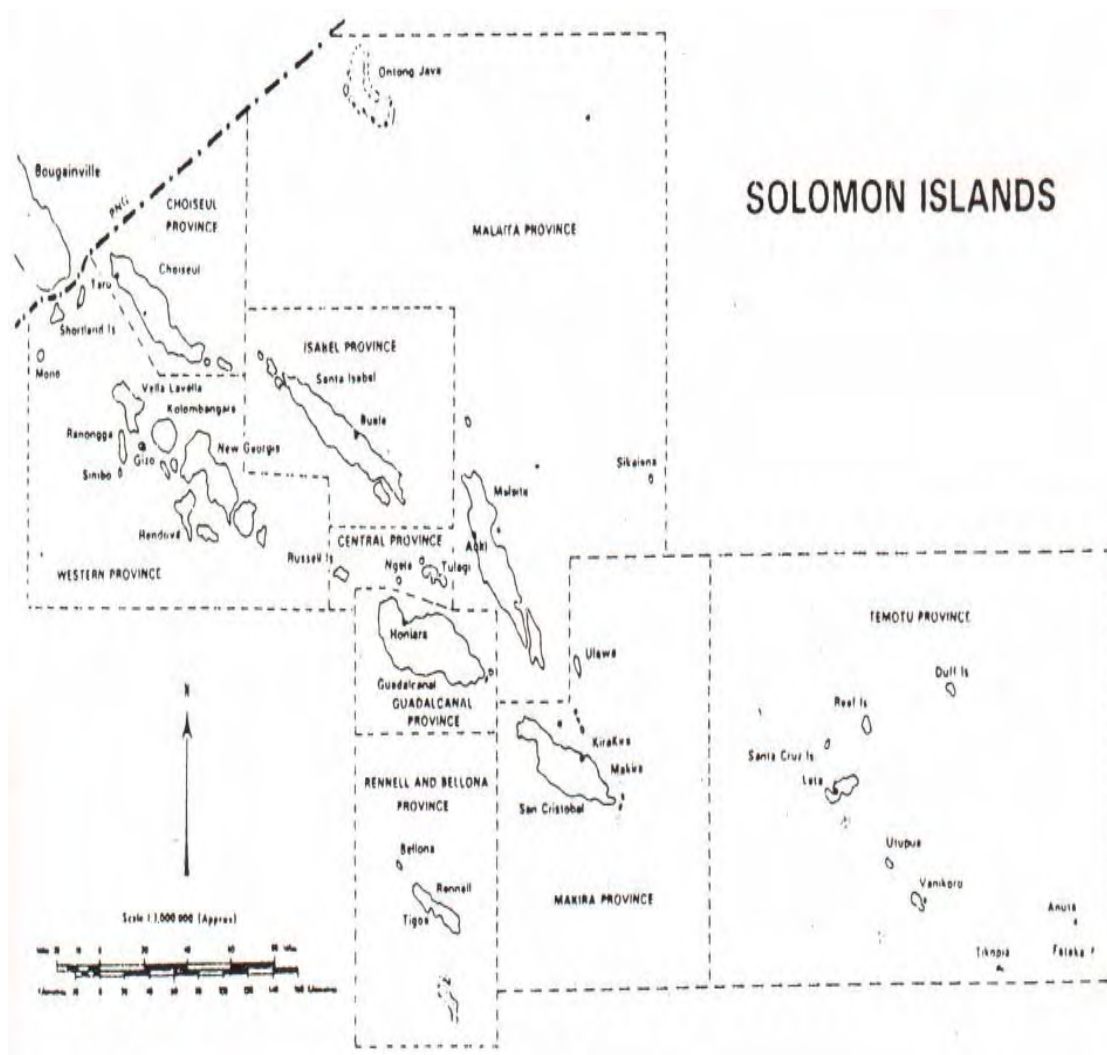
Foreword

This is the twenty second 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.

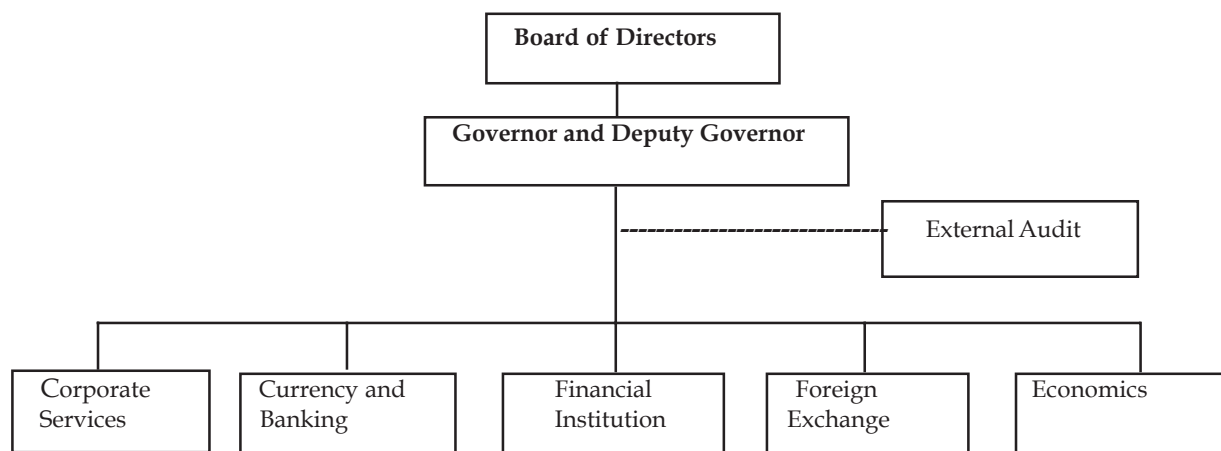
Data on the monetary system are derived from Central Bank records. The interpretations and conclusions in this report are entirely the responsibility of the Central Bank.

Central Bank of Solomon Islands
May 2006



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Organisation of the Central Bank



Board of the Central Bank, at end 2005

Rick N Houenipwela	Chairman, ex officio
Denton H Rarawa	Director, ex officio
Shadrack Fanega	Permanent Secretary, MoF
Yoshiyuki Sato	Director
George Kejoa	Director
Moses Pelomo	Director
Jack F Kairi	Director
Anthony V Hughes (to September 2005)	Director
George Kiriau	Director
Bruce Saunders (wef Oct 2005)	Director
Edward Ronia	Secretary to the Board

Management of the Central Bank, at end 2005

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 (to November 2005)

I. ECONOMIC OVERVIEW, POLICY ISSUES AND ECONOMIC OUTLOOK

Economic performance in the Solomon Islands continued the upward trend seen since 2003 and remained broadly on track in 2005, although some fundamental issues remain to be addressed. These issues include the narrow based export sector with over reliance on the forestry sector, poor infrastructure and badly performing utilities, inefficiencies in public institutions and investment procedures, difficulties in acquiring land for development purposes, and the taxation system. The passing of the new foreign investment bill in 2005 and the proposed amendments to the taxation regime should however, pave the way for robust private-sector-led growth.

Preliminary estimates suggested that real gross domestic product (GDP) grew by 5.0% in 2005, higher than the projected 4.0% growth rate. The general improvement in the local business environment coupled with the stable law and order situation and favourable developments in the external sector were all conducive for increased private sector activities during the year. Despite rising international oil prices, international prices for Solomon Islands export commodities remained generally stable. This, plus continuous donor support and the Government's commitment to its reform programs and the recovery process all contributed towards this growth.

Cocoa and copra production, the mainstay of rural incomes was resilient. Production of these commodities continued to increase despite inadequacies of transportation and the infrastructure in the rural areas and lack of access to working capital by copra and cocoa exporters and traders.

There were remarkable contributions from the services sector, particularly financial services, transport and communication. The Balance of Payments (BOP) outcome was also positive reflecting resilience in the export sector and other services. This resulted in a higher level

of external reserves with an accompanying rise in the money supply and commercial bank liquidity.

World economic growth in 2005, estimated at 4.8% was broad based. There was strong growth in the US and China. Other major economies such as Japan that had trended downwards in recent years have benefited from stronger and more buoyant domestic and external demand. The Euro area rebounded after weak performances in recent years. The surge in global oil prices didn't appear to have a significant negative impact on world growth as happened in the 1970s because global demand for oil paralleled world growth. Furthermore, the combination of strong economic growth, low inflation, and low interest rates contributed to buoyant conditions in world financial markets. This positive performance triggered economic growth in the domestic economy.

As law and order was re-established and the world economy flourished, the domestic economy became more active. Export prices for most of Solomon Islands major commodities stabilized during the year. Log exports remain the major foreign exchange earner for the country and continued to increase unabated, although prices contracted for Solomon Islands logs were lower, normally ranging between 30% – 35% of the international prices. Over reliance on one commodity magnifies the country's susceptibility to external shocks.

In light of high oil prices and Solomon Islands heavy dependence on imported consumer goods and oil for energy, the 2005 projection for the trade account was for a trade deficit. Preliminary estimates indicate a trade deficit of \$131.2 million in 2005. Imports doubled due mainly to oil imports at higher prices. However, the surpluses in the services, income, and current transfer accounts more than offset the trade deficit to record a current account surplus

of \$16.7 million. The services account registered a \$36.3 million surplus, reversing the negative trend seen since 1996. The income and current transfer accounts recorded surpluses of \$12.2 million and \$99.4 million respectively, during the year. External reserves rose to \$717.0 million, representing approximately 5.1 months worth of imports of goods and non-factor services or 6.1 months worth of imports of goods only.

The positive BOP outcome was felt in the monetary aggregates, resulting in increases in deposits. Credit to the private sector rose by 63.1% to \$389.1 million during the year as commercial banks lent more vigorously. Money supply rose from \$621.7 million in the previous year to \$863.7 million by the end of 2005. As a result of the positive BOP outcome and growth in private sector credit, liquidity in the banking system rose to \$309.5 million from \$260.4 million in the previous year. The Central Bank continued to monitor these developments as the persistent growth in both bank liquidity and private sector credit could trigger upward inflationary pressures and downward impact on the external reserves. The Bank was prepared to mitigate these potential risks by taking appropriate monetary policy action, if necessary.

Government finances consolidated and stabilized in 2005 with continued assistance from the Regional Assistance Mission to Solomon Islands (RAMSI). Despite the overall budget deficit - on an accrual basis - the recurrent budget was closely monitored to avoid unbudgeted expenditures. This resulted in a recurrent surplus of \$3.0 million as opposed to a projected deficit of \$149.0 million. Strict budget compliance and other stringent measures put in place saw domestic revenues exceeding budget estimates by 0.5%. Revenues were 22.7% above the previous year. The government, although slow moving, remained committed to its reform programs. Major government achievements during the year include the revival of the oil palm project now operated by Guadalcanal Plain Palm Oil

Limited (GPPOL), the passing of the Foreign Investment Bill (FIB) and the successful negotiations with external and most of its domestic creditors. As a first of its kind, the government initiated its own multi-lateral debt negotiating mechanism with its external creditors, known as the 'Honiara Club', resulting in the provision of some significant debt relief for the country. It also discussed debt restructuring with the Export Finance and Insurance Corporation (EFIC). An agreement was reached with one of the bilateral creditors, Marubeni (Hong Kong) that agreed to a 75% forgiveness of principal and interest arrears. Marubeni received \$19.5 million equivalent to 25% of its debt. On the domestic front, the government also made progress. Except for outstanding loan guarantees in favour of the NPF, most of the official debts have been regularized. In February 2006 the government signed a Deed of Settlement with the Central Bank to restructure over \$183.7 million of its long outstanding debts. These developments have spread out the Government's debt burden and permit greater focus on other priority areas of expenditure. The government's policy not to borrow in the short to medium term remained and will continue in 2006.

The annual inflation rate for 2005 as measured by the twelve months moving average of the Honiara Retail Price Index (HRPI) was recorded at 7.2% compared to 6.9% in the previous year. This rise is explained by the pass-through effect of the high global oil prices, which adversely affected most sectors, particularly the transport, communication and utilities services sectors. Apart from the effect of higher fuel prices, local produce at the Honiara main market also increased attributed to the activities of middle-men. Furthermore, there is a large RAMSI effect on domestic prices especially on rental accommodation. The Statistics Division in the Department of Finance is currently carrying out a nation-wide Household and Expenditure Survey (HIES) that should see the HRPI re-based on a national level. The survey is expected to be completed by mid 2006.

Solomon Islands is heavily reliant on oil for energy and projections are for oil prices to remain high at above US\$60 per barrel. The government need to consider other energy alternatives such as hydro, solar, and bio diesel as the country cannot continue to depend on oil which is increasingly becoming more expensive. Oil imports cost \$323.1 million in 2005, an 85% increase over 2004 and now comprise 30% of Solomon Islands total imports.

Monetary policy is formulated and decided on in close consultation with the government and implemented by the Central Bank with some degree of operational autonomy through its influence on money, credit, exchange rates and administrative measures.

The conduct of monetary policy in a small highly open economy with a shallow financial market such as Solomon Islands is not easy. The use of any single conventional monetary instrument is unlikely to succeed. The open market operations (OMO) which use government auction T-bills continued with a threshold of \$30.0 million, though this level is inadequate given the rising public demand and the need to mop up the liquidity overhang in the system. With the restoration of confidence in the management of public finances and the improvement in government revenues there could be an opportunity to increase this threshold to accommodate the growing interest in Treasury Bills. The funds collected in this way remain sterilized by the Central Bank and serve to reduce the liquidity overhang in the banking system. The Central Bank foresees commercial banks' lending growing by around 29% in 2006.

Developments in the commercial banks' interest rates were marginal over the year with the indicative deposit rate declining by one percentage point to 0.94%. The indicative lending rate also dropped two percentage points to 14.37%. These movements resulted in the indicative interest margin dropping by two percentage points to 13.43%. Local businesses complain that this interest rate

structure inhibits new ventures. The current low rate of interest on savings is a disincentive to depositors. However, as long as the high liquidity overhang remains the problem of low deposit interest rates will persist.

The level of external reserves in 2005 was supported by the stabilization of the exchange rate against the U.S dollar. With improved foreign reserves the Bank was able to relax most exchange controls. The Bank increased the delegated authority of the commercial banks to approve applications for foreign exchange payments to \$50,000 for goods and \$30,000 for services. The Bank will continue to closely monitor the economic circumstances and conduct a further review of exchange controls if necessary.

Nevertheless, the recovery in the economy so far and the progress made in 2005 were predominantly private sector led. This, points to the need for Government to provide the right stimuli for the private sector to grow and expand. The government should get out of business undertakings and concentrate on the business of governing. The Government therefore must seek to remove the major impediments the country has suffered from over the years. These include inadequate infrastructure, inefficiency and ineffectiveness in public institutions, cronyism and corruption in the public sector. There are serious concerns over the current unsustainable harvesting of the country's natural forest. In 2005, total harvested volumes reached a record high of 1.1 million cubic meters. The government continues to issue new logging licences despite calls to reduce the rate of harvest to sustainable levels.

Providing job opportunities for both school dropouts and new graduates remains a crucial task for the government. The successor to the National Economic Recovery, Reform and Development Plan (NERRDP) which expires at the end of 2006 must articulate precisely the development needs and priority of the country

so that it becomes more focused, targeted and measurable.

2006 Economic Outlook

The prospects for the Solomon Islands economy are positive given the current economic conditions. Based on the assumption that the current strong global expansion will continue with a projection of strong pick up in domestic economic activities, the Bank forecasts a real GDP growth of around 6.2% in 2006. Given its abundant natural resources, there is potential for the economy to grow at rates higher than the population growth. It needs to exceed the growth levels in the pre-crisis period for at least two decades to enable per capita incomes to catch up. Improving and enhancing further economic growth depends on the new government's commitment towards reforms and putting in place appropriate policies. There is still spare capacity available for the country to utilize. The onus is on the government to give the right messages and take appropriate action.

The recent riots in Honiara is a set back for Solomon Islands. Two immediate and apparent impacts are loss of employment (estimated at 2,600) and rise in prices. Apart from these, impacts on government revenues (through taxes and duties), external reserves and domestic credit are assessed to be minimal. The impact on the wholesale and retail sector is believed to be insignificant as most major wholesalers are not affected. Rebuilding of the destroyed businesses will certainly take time depending on the morale and motivation of

the owners. The government may consider forms of assistance where possible.

In spite of this, the current global economic conditions provide an opportunity for the Solomon Islands economy to realise its potential. Productive sector activities should increase and broaden the export base. Palm oil production is expected to return this year after a seven year absence. Imports, on the other hand, are also expected to rise in light of high oil prices and greater economic activities in 2006. The BOP outlook is also expected to be positive. Given a likely 29% growth in bank credit, the monetary aggregates are expected to increase. The Bank will continue to closely monitor the situation to make sure any inflationary pressures or a run down on the foreign reserves are mitigated. The fiscal performance has improved considerably over the last two years with strong revenue growth. The 2006 budget strategy spells out some of the measures and areas of priority on which the government would focus its spending. New Zealand budget support of \$61.3 million is promised for education. Elsewhere the Government should stick to its good intentions outlined in the 2006 budget strategy. Apart from education and health, a prerequisite to growing the economy hence improving the standard of living of all citizens is the development and sustainability of a good infrastructure system. Identifying and seriously addressing the root cause of the recent ethnic tension and the maintenance of law and order is also important for lasting peace in the country and to provide a basis for future prosperity.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

The global expansion in 2005 was broad based, led by strong growth in the US and China, with an estimated real GDP growth of 4.8%, (See Table 1) owing largely to accommodative macroeconomic policies and benign financial market conditions. The Japanese economy rebounded in the latter half of 2004, and continued to grow strongly in 2005. Performance in the rest of East Asia also picked up as global demand for information technology and communication (ITC) sector gained momentum. Growth in the Euro area also began to show signs of picking up following disappointing performance in recent years. Official interest rates have generally trended upwards in the major economies. Commodity prices therefore, were somewhat stable during the year apart from oil prices that rose to match strong global demand and as a result of limited spare refining capacity. There were also concerns over possible supply shocks.

After peaking at US\$70 per barrel in September 2005 due to the damage done by hurricanes Katrina and Rita on the production and refinery infrastructure, oil prices dropped to below US\$60 per barrel towards the end of the year as capacity was gradually restored in the Gulf of Mexico. However, recent events in the Middle East could cause possible disruptions to oil supplies and could trigger a further oil price hike

Economic growth in North America remained strong and resilient in 2005. In the US, growth was sustained by high productivity, buoyant house prices, and fiscal and monetary stimulus. The two hurricanes that disrupted life in the Gulf States did slow down economic growth somewhat. However, the subsequent recovery process was fast. There was an estimated real GDP growth of 3.5% in 2005 compared to the 4.2% in 2004. The Canadian economy also performed strongly with near full capacity despite the marked appreciation of the currency. Hence real GDP growth for 2005 was

estimated at around 2.9% equal to the 2004 growth. It is expected that economic activity will grow at rates close to potential capacity in two years time.

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

	2003	2004	2005	2006
World Output:	4.0	5.3	4.8	4.9
Advanced economies	2.0	3.3	2.7	3.0
Developing countries	6.4	7.6	7.2	6.9
of which: Asia	8.1	8.8	8.6	8.2
World Trade Volume	4.9	10.4	7.3	8.0
Imports of goods & services				
Advanced economies	3.6	8.9	5.8	6.2
Developing countries	8.9	15.8	12.4	12.9
Exports of goods & services				
Advanced economies	2.8	8.5	5.3	6.6
Developing countries	14.6	11.5	10.9	10.3
World Inflation				
Advanced economies	1.8	2.0	2.3	2.3
Developing countries	6.0	5.7	5.4	5.4

Source: IMF World Economic Outlook
April 2005

In the Euro area, activity picked up in mid 2005 after experiencing sluggish growth in recent years. This saw an end year growth of 1.3% with economic activity more broad based as domestic demand and net exports contributed to growth.

Economic recovery in Japan, one of the Solomon Islands main export destinations, continued underpinned by strong corporate profits and a reversal in the declining trend of employment and wages. The recovery that was initially driven by exports and fixed investment has recently broadened, as household spending and residential investment gathered pace. This led private domestic and external demand to expand. Hence, GDP growth was estimated at 2.7% in 2005 compared to 2.3% in 2004. In

other parts of Asia, growth expansion continued the upward trend reflecting the general global economic conditions. China, one of the main drivers behind the global expansion grew by 9.9%, buoyed by strong contribution from domestic demand and the external sector with fiscal and monetary policies easing to a more neutral stance while the effective exchange rate appreciated slightly. India also contributed with a strong growth of 8.3% in 2005, stemming from strong domestic demand, particularly for services and manufacturing industries.

Closer to our shores, Australia and New Zealand continued their positive performance as they recorded 3.0% and 2.7% growth in 2005 respectively. This reflected both the spill over effects of the global expansion and rising commodity prices.

2006 Growth Prospect

Looking ahead, prospects for global growth remain firm. Real GDP growth therefore is projected to be around 4.9%. As the US and

China are expected to continue their strong lead, other economies such as India and other East Asian countries are also in the picture. Improvement in corporate profits and strong domestic and external demand will underpin this growth. Small and vulnerable economies including Solomon Islands should benefit from this global expansion.

The concern about a geographically uneven expansion has gradually been eased as broad based economic growth becomes more evident. Policy interest rates have also generally been raised to near neutral levels to accommodate the current economic conditions.

Current events in the Middle East especially the continuing conflict in Iraq and international unease over Iran's nuclear ambitions have the potential to restrict the supply of oil and prolong the persistence of high oil prices. In that case, projected global growth may be affected. However, assuming that a supply shock is avoided, the current strong demand for oil could lead to a higher equilibrium price level.

III. DOMESTIC ECONOMIC OUTCOMES

The domestic economy grew in 2005 as a result of buoyant private sector activities, upbeat investor confidence and strong donor assistance. This was despite the adverse effects of higher fuel prices on economic activities. Real GDP rose 5% in 2005 following consecutive similar growths in the past two years. Underlining the growth were buoyant activities in all major sectors except for fisheries that was subdued as expected during the year. The reforms that the government undertook in conjunction with RAMSI on the legal, fiscal, and governance fronts further boosted business confidence in the government machinery.

National Income

National Accounts data from the Statistics Division of the Department of Finance is unavailable. Notwithstanding that, the Central Bank of Solomon Islands has been using preliminary figures to determine the performance of the local economy. Accordingly real economic growth in 2005 was estimated to be 5.0%, following a revised growth rate of 8.0% for 2004. (See Table 2 and Graph 1). Subsequently, real income per capita improved by 9.6% to \$4825 which is higher than the income level in the pre tension period.

The positive growth reflected strong outcomes in all major sectors except fisheries that fell 9.6%. The agricultural sector rose 11.2%, consistent with firm cocoa and copra production and exports. This was due to government's liberalization of copra exports and the coming into fruit bearing of recently planted cocoa in some parts of the country. Construction activities remained buoyant with a growth rate of 16%, continuing the upswing that started two years ago.

The forestry sector continued to drive economic activities by posting a 9.4% growth, owing mainly to record export volumes of 1.1 million

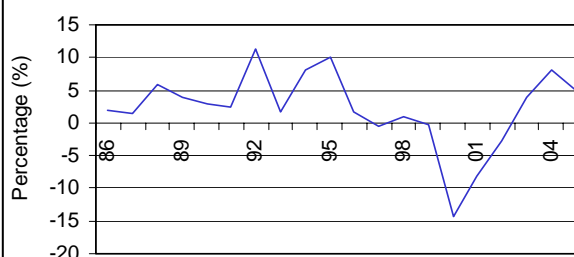
cubic meters. However, it is essential that other sectors are developed to compensate the expected decline in the logging sector in the medium term.

Table 2
Estimated Real GDP, (Index 1985=100)

Industry	2002	2003 Rev.	2004 Est.	2005 Est.
Agriculture	77.3	102.7	106.2	118.1
Forestry	136.8	188.3	263.6	288.3
Fishing	80.7	104.4	115.5	104.4
Mining & Exploration	-7.8	-3.2	-3.3	-3.3
Manufacturing	149.8	134.3	135.8	137.1
Electricity and Water	215.0	211.8	213.2	250.6
Construction	19.1	35.9	45.6	52.9
Retail and W/Sale Trade etc.	131.5	136.6	140.9	143.3
Transport & Commun.	130.7	139.2	143.9	146.7
Finance	228.3	223.5	229.4	231.7
Other Services	137.8	119.1	126.4	135.4
Index of Monetary GDP Prod	118.5	127.6	139.8	147.5
Annual % movement	-4.2	7.7	9.5	5.6
Index of Primary Prodn (Min)	90.7	121.2	141.7	151.2
Annual % movement	6.6	33.7	16.9	6.7
Non-Monetary : Food	151.4	160.5	165.0	169.6
Non-Monetary : Constr.	155.7	155.6	160.0	164.4
Non-Monetary : GDP Index	125.7	160.0	164.6	169.2
Index of Total GDP Prodn.	125.8	133.9	144.6	151.8
Annual % movement (Real)	-2.8	6.5	8.0	5.0

Source: Central Bank of Solomon Islands

Graph 1
Real Growth of Monetary GDP



Investment

Investment activities during the year were buoyant with foreign direct investment in large capital projects a major driver. Several companies' that registered sizable profits in recent years also added further impetus through capital investments. Solid investment outturn was evidenced when capital imports grew markedly by 42.6% in nominal terms to \$164 million.

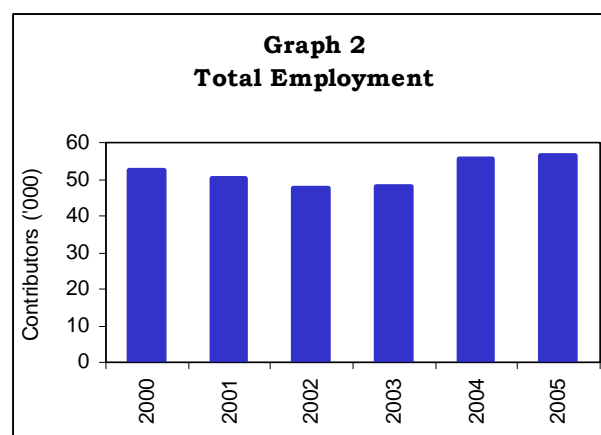
The Foreign Investment Board (FIB) received 133 investment applications from potential investors during the year. The applications were valued at \$1,570 million. Of the 133 applications, FIB approved 90 applications worth \$1,440 million, declined 11 applications worth \$31m, and deferred the rest. The applications were predominantly in the agriculture, forestry, fisheries, and services sectors. Solomon Islands must not only continue to attract new investment but diversify investment resources and effort into non-logging sectors to sustain the strong economic growth seen in the post-tension years.

Major obstacles such as over bureaucratic investment procedures, unfair tax incentives, complicated regulations, unskilled workforce, white collar corruption, and unfavorable land tenure arrangements, must be genuinely addressed to accelerate not only big investments such as the Gold Ridge Mine on Guadalcanal province and Bugotu Nickel on Isabel province but also other smaller scale viable business operations in other provinces. On the upside, an initiative to review the Foreign Investment Act with the aim of simplifying investment procedures has been completed and the new Act has been passed by the Parliament last December. This should come into force in May 2006. This is expected to encourage investors, though it should be noted that there are still weaknesses that need to be addressed if the new law is to effectively achieve its objectives. Another positive development was that the World Bank funded a project that aimed at improving the general

database of foreign investment applications in the country.

Employment

Labor market conditions continued to improve since they hit rock bottom in 2002. This was shown by the increase in new business establishments of which Guadalcanal Plains Palm Oil Limited (GPPOL) was the most prominent. According to Solomon Islands National Provident Fund, the total number of active contributors - a proxy for employment - in 2005 rose by 1.6% (915 contributors) to 56,559, following a substantial increase of 15.5% (7,467 contributors) in 2004. (See Graph 2). The majority of this rise in membership, which began since 2002, originated from the private sector. The public sector workforce rose from 8,446 a year ago to 9,668 at the end of 2005, owing to the recruitment exercise undertaken by the government since 2003 to fill key positions.

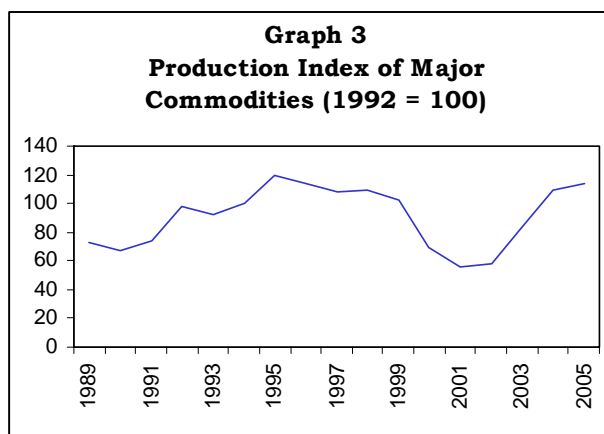


Notwithstanding these positive developments, there is still insufficient capacity within the labor market to absorb all the young people that are coming through the education system. Therefore the government has to take appropriate policy measures to promote private sector development in order to address the rising employment demand and to mitigate increasing problems associated with unemployment. Equally important is the need

to match training with required manpower skills to avoid a lopsided qualified workforce.

Production

Private sector activities were upbeat in 2005 following positive gains made since 2002. The production index of major commodities rose by 4.1% to 113, continuing the marked increase of 30.9% in 2004. (See Graph 3). Positive performance on the international front combined with export oriented exchange rate regime boosted export volumes, and together with government subsidies to some of the major commodities all underlined the overall improvement in the production index.



Forest products

Forestry, the mainstay of the economy performed strongly during the year by continuing the upward trend that started since 2002. (See Graph 4). This was evidenced when log production overran volumes in 2004 by 7.1% to 1.1 million cubic meters, the highest ever. Log exports generated \$510 million in foreign exchange earnings during the year, 9% above that in 2004 and accounted for two thirds of total exports. In terms of government revenue, log exports contributed about \$86.6 million – 13.8% of total local revenue - in export duties to the government coffers.

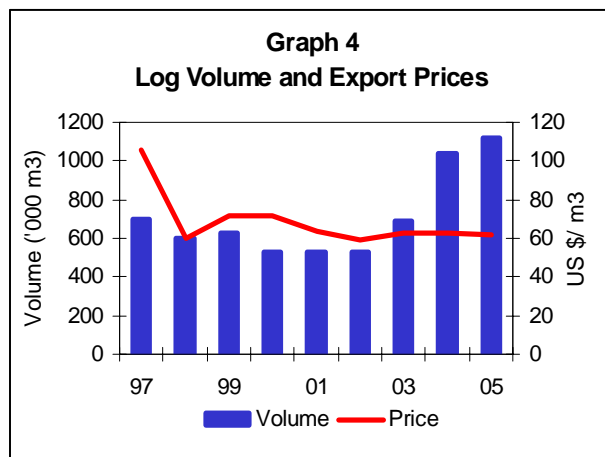
The domestic log prices ranged between US\$40 (SI\$301) per cubic meter to US\$90 (SI\$678) per

cubic meter depending on the species and grades. However, the rigidity of domestic prices to move in parallel with international prices due to transfer pricing means that resource owners in Solomon Islands are not receiving a fair return from their forest resources. Furthermore, deliberate infringements by logging operators such as non declaration of imported machineries, understatement of exported volumes and values, fuel smuggling, and bribing of corrupt officials, is costing the country millions of legitimate revenue. Donor agencies recognized these shortcomings and tried to rectify the problem by funding programs that aim to harness the capacity of the responsible government division, but benefits are still not apparent.

Log exports by provinces show that Western Province continued to dominate with an output of 794,171 cubic meters or 71% of annual output. This was expected as it still hosts most of the major logging operations in the country. Isabel Province followed with 7.9%, Choiseul 6.8%, Makira 6.4%, Malaita 3.9%, Central 3.1%, and Guadalcanal province 0.9%. The unbalanced production base coupled with the unsustainable rate of log extraction is a major cause of concern to the Bank because not only does it undermines the long term viability of the sector, but also it may cause downside second round effects on government finances and the trade balances.

Plantation logs accounted for 91,148 cubic meters (8.2%) of annual log output, generating about SI\$43.6 million in foreign earnings. Of this total, 47,406 cubic meters came from the Kolombangara Forest Plantation Limited (KFPL). This was 6.1% lower than its 2004 production level and 37% short of its year target. Lack of overseas market for Gmelina species, high transport and maintenance costs, financial constraints and the declining stock of Eucalyptus Deglupta stands were the major factors behind the negative trend. On the upside, the company tapped a niche market for Gmelina species in Japan and this was in

line with its aim to expand output to 60,000 cubic meters in 2006.



The timber mill on North Guadalcanal which closed down during the ethnic tension will be rehabilitated in 2006. Pacific Timber Company Limited, a subsidiary of the Earthmovers Group of companies, expects to rebuild the mill at an estimated cost of \$40 million. The government has pledged support through granting of tax incentives. If the mill is re-opened, it will be an important step forward in downstream processing of logs into sawn timber and other value added products.

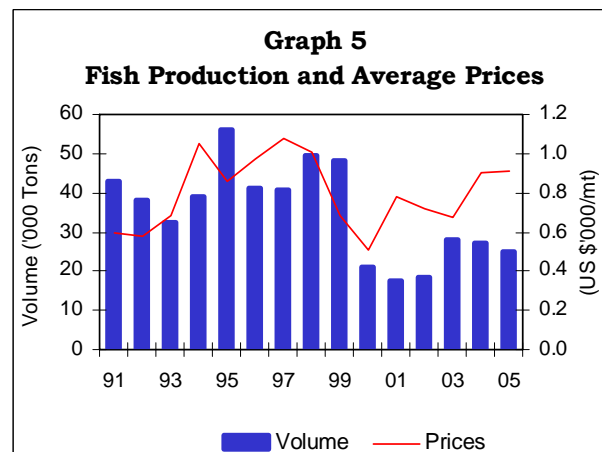
Fish

The fishing industry continued to perform below capacity in 2005. Fish catch further contracted by 3,396 metric tons (12.5%) to 23,853 tons, following a 2.9% decline in 2004. (See Graph 5). The sluggish performance was attributed to lack of capacity at Soltai Fishing and Processing Limited (SFPL) to expand its output and weak catches by the two major companies (SFPL and the National Fisheries Development Limited – NFD) due to poor fishing conditions, ageing boats and high competition for fish from purseining fleets in the high seas.

SFPL accounted for 5,164 metric tons of the annual tonnage. The company's catch declined by 25.6% from 2004 and remained less than

half of the 2003 output. The low catch compelled the company to purchase raw materials from NFD to sustain its cannery operations. The company acquired two new fishing boats under the Japanese government's bilateral aid program and this is expected boost its catches for 2006. SFPL has a total workforce of 800, 90% of which are females, the majority of whom are in the cannery section. The workforce may rise to 1,000 in view of the proposed plan to expand the processing facilities at the end of September 2006.

Total catch by National Fisheries Development (NFD) Limited fell by 7.4% to 18,803 metric tons to reverse the 17.5% gain seen in 2004. The poor catch was due to unfavourable water conditions and high fuel costs that impacted negatively on fishing operations.



The country has still not been able to fully realize the benefits of its abundant marine resources. Heavy tax burdens, persistent high fuel prices, highly regulated labor laws, and high cost of transporting the products to the distant markets in Europe and Asia have pushed production costs up and undermined the competitiveness of local products. In this connection, it is imperative that appropriate policies must be formulated to ensure not only that the industry returns to producing at full capacity but also at least cost to maximize the potential flow on benefits in employment

opportunities, increased foreign earnings and government revenue.

Seaweed

Seaweed farming trials in Western and Choiseul provinces continued in 2005 with total production of 321.6 tons compared to 213.9 tons in 2004 (50.4% up). Of the total, 89.4% was produced by the Wagina seaweed farm which remained active during the year. Its production more than doubled to 287.7 tons. Low prices and lack of support from the Fisheries department/EU also contributed to poor farmer morale and low production. This resulted in Rarumana production slumping by 73.7% to 23.4 tons in the year. The European Union pumped \$0.8 million into seaweed farming in Solomon Islands during 2005 and expects to allocate more funding and technical assistance in 2006.

Copra

Total copra output in 2005 outstripped that of 2004 by 20.4% to 26,279 metric tons, almost equaling the output in the pre-tension period. This came in spite of continuing industrial problems at Russell Islands Plantation Estate Limited (RIPEL). Favorable domestic prices at around \$1,200 per metric ton, coupled with slight improvements in transport services contributed to the persistent upswing.

The average international price of copra fell from \$3,366 (US\$450) per metric ton to \$3,116 (US\$414) per metric ton. The downturn was the result of excessive supply from major copra producing countries as well as stiff competition from cheap substitutes such as soya beans and peanuts. Local prices fared around \$1,500 per metric ton for most part of the year but fell to \$1,200 per metric ton in line with sluggish international prices. Despite the weak prices, local output remained strong.

With the temporary closure of RIPEL operations, only five major copra exporters operated in 2005. In terms of production by

province, Guadalcanal province accounted for about a third of total production owing largely to improvements in road infrastructures that enabled producers easier and quick access to Honiara, followed by Central Islands, Malaita, and Western provinces at around 16% apiece. The remaining 22% came from Makira (8%), Choiseul (5%), Isabel (4%), and Temotu (1%).

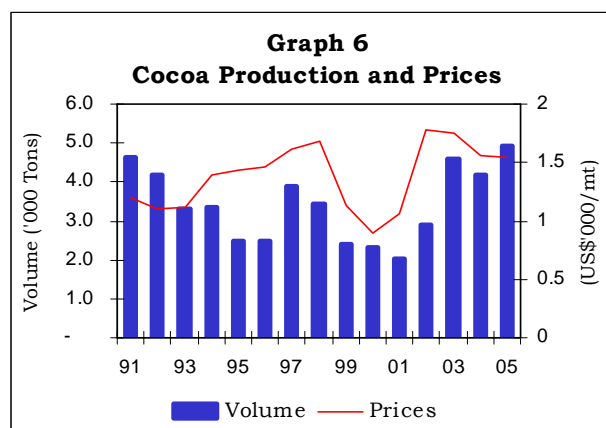
During the year, the government continued to provide 100% export subsidy to copra and cocoa exports. This was because of their importance to rural livelihood. There were however counterarguments that this policy distorts market forces and promote inefficiency and resource misallocation in the sector.

Cocoa

Cocoa production bounced back from the 8.8% fall in 2004 to rise 17.9% to a record output of 4,928 metric tons in 2005. (See Graph 6). The sharp turnaround resulted mainly from yields of new crops that were planted in 2001 in response to favorable prices then, stable domestic prices in the reviewed period (even when international prices trended downward), and some improvements in transport infrastructures especially roads in parts of Guadalcanal province, the major producer of cocoa. The sharp growth in production boosted cocoa export earnings by \$24 million to \$64 million, accounting for 8.3% of total exports - the third highest behind logs and fish.

According to the World Bank, average cocoa prices deteriorated from \$11,631 (US\$1,555) per metric ton a year ago to \$11,581 (US\$1,538) per metric ton, continuing the weak price trend witnessed since 2003. This decline came as a result of high inventories in the main cocoa producing countries as well as increasing demand for substitute crops in the world market. On the domestic front, cocoa exports attracted prices ranging from \$8,214 (£600) per metric ton to \$9,323 (£680) per metric ton. Dry cocoa beans were purchased at \$6,500 per metric ton and wet beans at \$2,000 per metric ton. These prices have trended upward to

\$7,000 per metric ton and SI\$2,500 per metric ton respectively.



Some aid donors had jointly funded projects aimed at improving agricultural output during the year because of the strong link between rural development and agricultural production. It is essential that appropriate policies are formulated to promote and enhance output expansion in the sectors, where the majority of the population is involved. However inherent problems such as lack of marketing opportunities; output rigidity; high transport costs (in some rural parts); imperfect information; unfavorable land tenure system, lack of finance and unskilled workforce remain. The government needs to address these weaknesses by ensuring that responsible authorities such as the Agriculture Division, Commodity Export Marketing Authority (CEMA) and other stakeholders are adequately supported.

Palm Oil

The re-opening of the former SIPL (Solomon Islands Plantation Limited) in May 2005, marked a vital step towards the revival of this once-a-vital industry in the economy. Now called the Guadalcanal Plains Palm Oil Plantation Limited (GPPOL), the new company continued with tasks involving clearing, seed nurseries (350,000 seedlings planted so far), replanting (2,000 ha) and reconstruction of the mills, offices and staff

houses. The company expects palm oil production to resume around June 2006 with production of around 70,000 tons of fruits in 2006 and further 100,000 tons in 2007. Oil production, however, is estimated around September 2006. Current plantation stands at 6,000 ha but this will increase to 15,000 in 8 to 9 years' time. Despite some land related issues, the company is determined to press ahead with its operations. The company currently employs around 2,000 workers, of which 60% are women, but this will drop to 1,500 once the clearing phase is completed. The total reconstruction cost would be between \$370 - 400 million, of which \$140 million will be for offices and staff houses. Work is underway to install a steam turbine as backup for generating electricity for the mill in the event of power failure.

The Vangunu Oil Palm project took a step further with the signing of a Memorandum of Understanding (MOU) between the company and the landowners in early 2006. Under the new agreement, the company leased 10,000ha of which 1,000ha have been planted and now ready for harvest. The rest will be planted in the next 3 years. However, the company continues to grapple with high operational and transportation costs. Nevertheless, the company is installing a new oil processing mill with a capacity of 5 tons an hour. A larger mill is expected for installation in 2007. The company employs around 500 workers and expects to increase this in 2006, especially when the mill is ready for operation. There are also plans by the company to diversify its activities into other agricultural areas such as cocoa, vanilla and teak plantations.

Preparatory work on the proposed Aluta Basin Oil Palm (ABOP) on Malaita progressed further in 2005. The Task Force appointed to spearhead this project, is now working on the land recording phase of the project. Signing of agreements between landowners and the Government is expected at the end of 2006. Actual work on infrastructure will begin when at least 3,000 - 4,000 ha of land is formally

identified and acquired. Total area of the proposed project stands between 15,000 – 20,000 ha.

Honey

Despite its size, the bee keeping industry in Solomon Islands progressed in 2005. Financial and technical assistance were also received from the European Union during the year, apart from other aid donors.

Despite unavailability of data, honey production in the country was estimated to have increased during the year. Solomon Islands Honey Producers Cooperatives Association (SIHPCA), the umbrella body looking after bee keeping farmers in the country, also recorded a rise in its purchase of honey in 2005. It purchased a total of around 3 tons of honey worth \$0.3 million. Of this, 42.6% came from Temotu, 26.4% from Isabel, 23.0% from Central and 8.2% from Makira provinces.

SIHPCA's buying price in 2005 remained at \$10 per kilogram but a change to this price for 2006 is pending the Board's decision. Retail honey prices in Honiara were priced at \$12.00 per 250 gram and \$18.00 per 500 gram.

Energy

Capacity of electricity services in Honiara increased in 2005, following the installation of a 4.2 Megawatt diesel generator at Lunga by the Japanese government. This led to improvements in the reliability of electricity services in Honiara. Following the installation of the additional generator, the Solomon Islands Electricity Authority (SIEA) proceeded to repair its transformer which was completed in early 2006.

The financial performance of the monopoly supplier of electricity in the country, improved during 2005 as its revenue rose notably by 41.4% to \$98.0 million. This improvement reflected improved revenue collections, SIG

payment of their bills, reduction in arrears, and general improvement in the domestic economy.

Financial restructuring of the Authority undertaken by the World Bank project was completed in 2005. One of the options recommended by the review, is to amalgamate SIEA and Solomon Islands Water Authority (SIWA) under one management contract. However, SIWA is still undecided about the proposal and the appointment of organizations to take on the new management contract is still to be completed.

Minerals

Activities in the mining sector grew in 2005. Following the Foreign Investment Board's approval in early 2005 of a new consortium to operate the Gold Ridge Mine (GRM), actual ground work at the mine site began. The company, Australia Solomon Gold (ASG) began its feasibility study which included revaluation of the mine, further drilling and conduct of community awareness programs and environmental impact assessments of the mine. The first phase is expected to complete in the final quarter of 2006 after which the re-construction phase is expected to start. The company spent US\$25.0 million in 2005 on GRM activities and is expecting to spend a further US\$15.0 million in 2006.

Prospecting activities on the Bugotu Nickel Project was affected when the prospecting company, Pacrim Resources Limited (PRL) failed to renew its prospecting licence. An independent report by a South Pacific Applied Geoscience Commission (SOPAC) consultant recommended certain conditions before renewal of the prospectors licence or cancellation. The issue is before the courts pending a decision.

Another nine (9) licenses were issued in 2005 to foreign companies to carry out mineral prospecting in the country, especially on Guadalcanal and Choiseul Provinces.

Furthermore, one (1) mining license was issued and 40 – 45 mining tenements were earmarked around the country for potential future prospecting. This has already attracted many foreign mining investors.

Alluvial panning, especially around the Gold Ridge Mine continued in 2005. In terms of export, 61,634.5 grams of gold were exported in 2005 as compared to 61,395 grams in 2004. This earned around \$1.3 million.

Tourism

The tourism sector in Solomon Islands continues to grapple with all hurdles identified in previous reports, namely inadequate facilities and infrastructures, poor transportation, lack of qualified human resources, inadequate accommodation and lack of financial and technological assistance from government. The aggregate impact of all these factors has made this industry lagging far behind in the region. The level of tourist arrivals in Solomon Islands out of the total number of tourists entering the Pacific region remains insignificant. Despite all these negative elements, there are huge potentials for this industry in the future.

Another constraint to proper assessment and planning of tourism operations and development in Solomon Islands is the lack of reliable and timely data on tourist arrivals and their spending in the economy. The availability of such information is crucial for planning and policy making purposes for this industry and the country. Official data on visitors' arrivals in the country in 2005 is unavailable although estimates put this around 8,000 compared to 5,000 in 2004.

In 2005, the Solomon Islands Visitor Bureau (SIVB), which is responsible for marketing and promotion of tourism in the country continued with its road shows in Australia and New Zealand where most tourists to Solomon Islands originate. However, much of this effort was constrained by lack of funds and adverse

exchange rate movements. Furthermore, the impact of these promotions is difficult to assess due to lack of data and reports.

In Honiara, however, construction and expansion of accommodation continued leading to an expected 33% increase in hotel beddings to 2,306. This should ease the problem of inadequate accommodation in Honiara. The burning down of the Pacific Casino during the Honiara riot will, however, have some impact. In the provinces, especially the Western Province which is the country's leading tourism destination, continued to experience moderate growth in visitors and revenue during the year. Investments and expansions in properties and other vital facilities are expected for main operators in the province.

On the whole, for the next 3 – 5 years, the industry is optimistic to progressively increase tourist arrivals to 16,000, achieve 3% - 5% market share of the region, increase hotel beds to 3,000 and to secure government funding between \$3 - \$5 million per annum for its programs.

Telecommunication

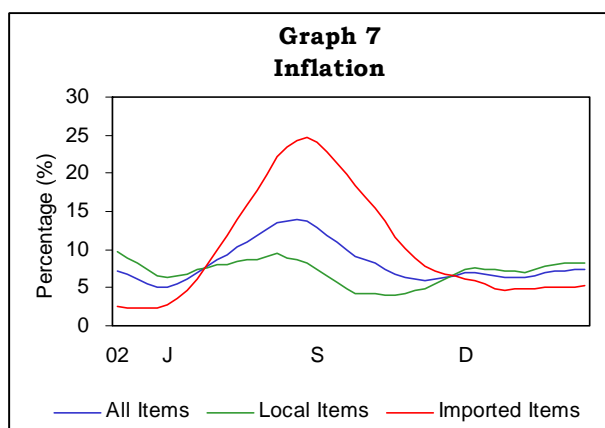
Solomon Telekom Limited (STL), the monopoly provider of telecommunication services in Solomon Islands, reported positive results in 2005. For the year ending March 2005, the company recorded an after tax profit of \$26.7 million, doubling the level in 2004.

The company undertook further developments in its services during the year. One of these was a partnership arrangement with the Westpac Bank to introduce online bill payments in the country. Another undertaking involved the installation of dial-up internet services for the public in most of its provincial offices.

As part of its Unity Blong Community Project, the company installed a VIASAT facility in Yadina, Central Province and one at Atoifi, Malaita. It also set up a GSM backup at Tetere on the Guadalcanal plains.

Inflation

The inflation rate, as measured by the twelve months moving average of the Honiara Retail Price Index, rose from 6.9% last year to 7.2% in 2005. (See Graph 7). This was driven by the sharp rise in fuel prices as well as highly volatile items such as fruits and vegetables at the Honiara main market. The inflation has remained well within the single digit band targeted by the Central Bank in its Monetary Policy Stance for 2005. The current policy of pegging the local currency to the US dollar, combined with low inflation in major trading partners, were the main factors for this outcome.



In terms of major categories of the index, the imported component of inflation was 6.2%, reflecting increases in all categories except for drinks and tobacco which plunged 1.2%. Food imports rose notably from 1.9% a year ago to 7.8%, owing to the large increase in basic items such as rice, noodle, and flour. Housing & utilities recorded a rise of 12.5% following a 29.3% increase in 2004. Similarly transport & communications went up 8.9% as opposed to 21% increase a year ago. Other import categories also recorded increases ranging from 1.5% to 4.2%.

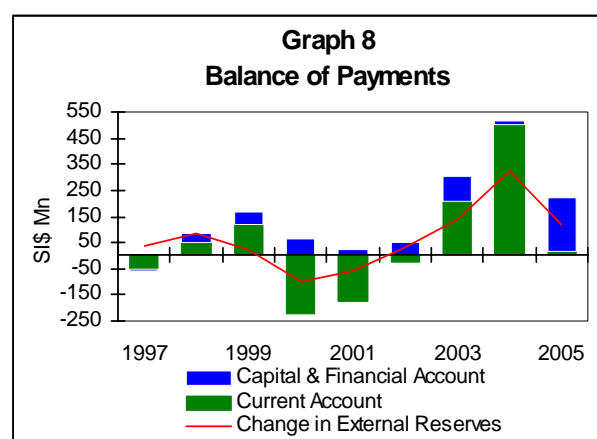
The inflation in respect of the local component rose from 7.3% to 8.3%, reflecting increases in all major categories. The prices of local food, which accounted for 27.3% of total weight, of the consumption basket rose 6.5% during the year. Price volatility in fruits and vegetables at the Honiara Central Market was the primary reason behind the rise in inflation. Transport & communication, recreational health & services, housing & utilities, and household operations went up 17.8%, 14%, 7%, and 5.3% as opposed to increases of 5.4%, 8.1%, -0.7%, and 4.9% respectively a year ago.

The movements in these categories were associated mainly with the second round effects of the surge in fuel prices.

IV. BALANCE OF PAYMENTS

Overall Balance

The balance of payments (BOP) registered an overall surplus of \$120.1 million in 2005, continuing the positive trend recorded in the previous three years. This outcome came on the back of strong performances in exports and continuous donor assistance, which saw surpluses both in the current, capital and financial accounts. As a result, the gross external reserves rose further by 20.9% to \$717.0 million at the end of the year. The current account balance posted a surplus of \$16.7 million although this was lower than that in 2004.



This lower surplus stemmed primarily from high oil prices which triggered an increase in the fuel import bill. The capital and financial account recorded a net surplus of \$138.2 million, triggered primarily by inflows from donors. (See Graph 8). The external reserves at year-end was equivalent to 5.1 months worth of imports, down from 7.1 months at the end of 2004.

Current Account

The current account posted a surplus of \$16.7 million in 2005, continuing the positive trends

recorded in the past two years. The favourable outcome reflected surpluses in the services, income and current transfer accounts. These surpluses largely reflected the country's earnings of extra assets as well as reduction in liabilities with its trading partners during the year.

Trade Account

The trade account reversed the upward trends seen in the past three years by registering a deficit of \$131.2 million in 2005. This was owed mainly to higher imports due to high oil prices, although export receipts also increased. On a year-on-year basis, total export receipts rose by 7.0% to \$778.8 million in 2005 as compared to 30.6% to \$727.7 million in 2004. Although growth in export receipts slowed last year it is the highest over the last ten years. The increase in export receipts came mainly from increased receipts from logs, cocoa and "other" exports reflecting higher production of these commodities. (See Table 3).

Table 3 Balance of Payments Trade Account (\$Millions)				
	2002	2003	2004	2005
Exports fob	390.1	557.0	727.7	778.8
Imports fob	321.3	525.5	540.0	910.1
Trade Balance	68.8	31.5	187.7	-131.3
Trade Balance as % of total trade	9.7	2.9	14.8	-7.8
Source: Central Bank of Solomon Islands				

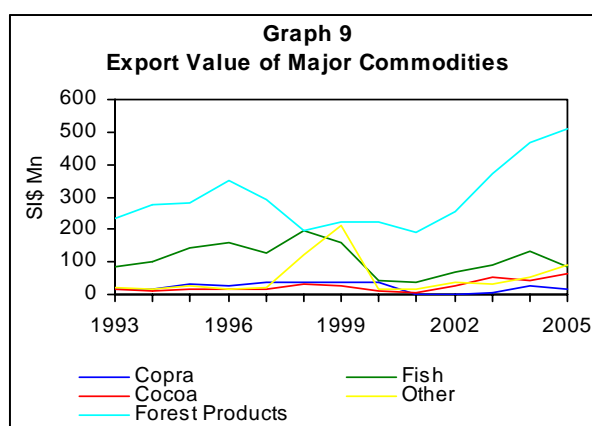
Receipts from **copra exports**, dropped markedly by 35.7% to \$16.4 million during the year. The drop was largely due to a fall in the international price of copra to USD\$414.0 per metric ton from USD\$450.0 per metric ton in 2004. Despite this, copra production

of total export earnings in 2005.

increased 20.4% to 26,279 tons during the year. Copra receipts represented only 2.1%

Export earnings from **fish products** declined by 34.1% to \$87.0 million in 2005 despite an increase in the international fish price to US\$915 per metric ton. The subdued earning level was caused primarily by lower export volumes arising from poor catch as a result of unfavorable fishing conditions and stiff competition from foreign fishing vessels granted fishing licenses to fish in Solomon Islands waters during the year. Fish production fell by 12.5% to 23853 tons in 2005 and 15.0% down on a year earlier. Fish products contributed 11.3% of total exports in 2005, 1.4% lower than the preceding year. Of the total fish export earnings last year, 72.0% went to Soltai Fishing & Processing Limited. (See Graph 9).

Total export receipts from **forest products** continued the upward trend seen in the past years, and registered a 10.9% increase to \$510.2 million during the year, \$16.1 million of which accounted for timber exports. This rise stemmed from increases in both prices and export volumes during the year. The issue of unsustainable harvesting remains a concern and the continuous issuance of new licenses by the government only worsens the situation.

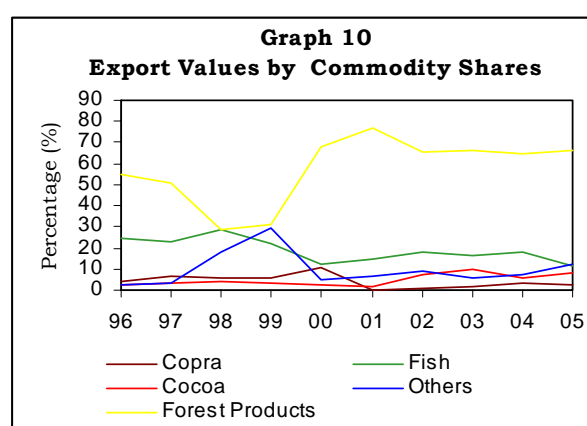


Solomon Islands average log export price, on the other hand, was around US\$64.0 per cubic meter, about 31.5% of the average international price. In terms of export markets,

China and South Korea were the key destinations for Solomon Islands logs in 2005 with both markets accounting for 77.4% and 75.4% of total log export volumes and revenues respectively in 2005. Forest products continue to account for the bulk (66.1%) of total exports in Solomon Islands.

Export receipts from **cocoa** rose dramatically by 59.2% to \$64.3 million from the previous year. The increase was the highest since 1997, and due primarily to the rise in output from non traditional cocoa producing areas in the country. Although the international prices for cocoa dropped from US\$1555 per metric ton in 2004 to US\$1538 per metric ton in 2005, cocoa prices were generally stable during the year. About 4,928 tons of cocoa were exported during the year, 17.9% higher than in the previous year. Cocoa accounted for 8.3% of total export revenues in 2005, compared to 5.6% in the previous year.

Mineral exports reached \$1.3 million in 2005 and significantly 53.3% lower than 2004. The international price of gold rose to US\$445.0 per ounce in 2005 from US\$409.0 per ounce in 2004. All other exports rose dramatically to \$92.5 million in 2005 from \$55.1 million in 2004. (See Graph 10).



The trade data derived from foreign exchange transactions (FET) through the banking system showed that **total imports** rose 69.9% to \$1083.4 million. After adjusting for freight

and insurance, imports soared by 68.5% to \$910.1 million during the year.

The substantial increase in imports as derived from FET was attributed largely to increases in both fuel and non-fuel items during the year. Fuel imports which constituted 29.8% of total imports rose to \$323.1 million in 2005, owing to high fuel prices and increased volumes in the face of buoyant domestic demand.

Payments of non-fuel items which constituted 70.7% of total imports rose by 62.4% to \$760.3 million in 2005 as compared to \$468.1 million in 2004. Food imports rose markedly by 51.2% to \$153.5 million in 2005, reversing a 9.6% drop in the previous year. Beverages and tobacco leapt by 131.0% to \$18.0 million. Imports of plants and heavy transport equipment also surged significantly by 56.9% to \$104.2 million. Building and construction materials rose by 23.9% to \$60.0 million and chemical products and "other" imports went up by 19.3% to \$15.0 million and 77.0% to \$409.6 million respectively in 2005.

Services Account

The services account reversed a series of deficits seen since 1996 to register a surplus of \$36.3 million during the year. The favourable outcome stemmed mainly from positive performance in "other" services, which more than offset the negative performances in transportation and travel.

The rise in "other" services to \$68.5 million following growth in the previous year was mainly attributed to increased receipts from communication services (\$10.7 million), construction (\$7.7 million) and other businesses (\$167.2 million) during the year. However, on a year-on-year basis, net transportation payments narrowed by 93.7% to \$8.3 million and net travel payments also reduced by 41.2% to \$24.0 million from \$40.8

million in 2005 reflecting an increase in personal and business inward travel especially from RAMSI personnel during the year. (See Table 4).

Table 4 Balance of Payments - Services Account (\$Millions)				
	2002	20003	2004	2005
1. Transportation	-29.6	-8.7	-131.8	-8.3
1.1 air transport	-27.8	-17.4	-31.6	-12.2
receipts	0.8	0.3	0.5	45.8
payments	-28.6	-17.7	-32.1	-58.0
1.2 sea transport	-1.8	8.7	-100.3	3.9
receipts	6.3	14.7	7.8	14.2
payments	-8.1	-6.0	-108.1	-10.3
2. Travel	-34.5	-21.8	-40.8	-24.0
2.1 business	-17.2	-6.0	-2.3	-9.5
receipts	2.2	6.2	16.7	2.0
payments	-19.4	-12.1	-19.0	-11.5
2.2 personal	-17.2	-15.9	-38.5	-14.5
receipts	2.6	5.4	9.6	9.6
payments	-19.9	-21.3	-48.1	-24.2
3. Other services	-111.4	-168.0	94.0	68.5
receipts	95.9	163.0	195.9	238.9
payments	-207.3	-330.9	-101.8	-170.4
Overall net	-175.5	-198.5	-78.6	36.3

Source : Central Bank of Solomon Islands.

Income Account

The income account posted a net surplus of \$12.2 million in 2005 strengthening further the positive growth recorded in the previous year. (See Table 5).

The surplus was attributable to a positive outcome in the compensation to employees which more than offset the deficit in the investment income.

Compensation to employees posted a surplus of \$20.5 million reflecting increases in wages and salary receipts during the year. On investment income, a deficit of \$8.3 million was recorded in 2005 largely as a result of a

deficit in direct investment income of \$39.2 million.

	2002	2003	2004	2005
1. Employee Compensation	7.4	9.9	37.6	20.5
credit	15.1	21.0	49.0	33.6
debit	-7.6	-11.1	-11.4	-13.1
2. Investment Income	-43.9	-35.6	-21.2	-8.3
2.1 Direct Investment	-47.1	-40.8	-50.9	-39.2
2.1.2 Income on equity	-27.0	-13.9	-42.2	-30.9
credit	0.0	0.2	0.0	0.9
debit	-27.0	14.0	-42.2	-31.8
2.1.3 Income on debt (interest)	-20.1	26.9	-8.7	-8.4
credit	-	0.2	0.0	0.01
debit	-20.1	-27.1	8.7	-8.4
2.2 Portfolio Investment	-	-	-	-
credit	-	-	-	-
debit	-	-	-	-
2.3 Other investment	3.3	5.2	29.7	30.9
credit	3.3	5.2	29.7	30.9
debit	-	-	0.0	-
Balance	-36.4	-25.7	16.4	12.2

Source: Central Bank of Solomon Islands

Current Transfers

The current transfers account registered a further surplus of \$99.4 million in 2005 (4.3% of real GDP) following reclassification of certain official transfers. The outcome reflected growth in official transfers (both cash and non cash) for recurrent operations during the year. (See Table 6).

	2002	2003	2004	2005
1. General Government	161.9	400.7	371.8	129.0
cash	86.9	207.0	183.1	67.7
credit	108.7	241.3	196.9	98.4
debit	-21.8	-34.3	-13.8	-30.7
1.2 Non-cash-net	75.0	193.7	188.7	61.3
2. Other Sectors	-27.8	-0.7	5.1	-29.5
2.1 Workers remittances	5.0	7.5	13.9	17.5
credit	6.7	8.2	16.1	20.3
debit	-1.7	0.7	-2.2	-2.8
Other transfers	-36.3	-8.2	-8.8	-47.0
credit	77.1	98.5	161.3	190.4
debit	-113.4	-106.6	-170.0	-237.5
Current transfers-net	134.1	400.0	377.0	99.4

Source: Central Bank of Solomon Islands.

Transfer received by inflows of non-monetary assistance to the public sector totaled \$61.3 million compared to \$188.7 million in the preceding year. Official transfer payments totaled \$30.7 million, up from \$13.8 million in the previous year, reflecting an increase in partial settlement of SI government membership contributions to international organizations including SI government embassies and consulate offices abroad.

Transfers to the private sector rose by 18.8% to \$210.8 million, the highest ever recorded in the last ten years. Transfer payments also increased by 39.5% to \$240.3 million from \$172.2 million in 2004 resulting in a net deficit of \$29.5 million.

Capital & Financial Accounts

The capital and financial accounts registered a surplus of \$138.2 million following two consecutive years of deficits. This remarkable turnaround was driven entirely by continuous donor assistance that more than outweighed the deficit in the financial account.

Capital transfers to the public sector rose to a net surplus of \$208.8 million in 2005 from \$11.2 million in 2004. The higher surplus reflected substantial increase in capital transfer receipts and lower capital transfer payments during the year. The surplus in capital transfer in part also reflected a \$60.6 million debt write-off on the Marubeni loan towards the end of 2005.

By contrast, capital transfers to the private sector fell to a net inflow of \$0.8 million in 2005 continuing the declining trend witnessed since 2001. As a result, the surplus in the capital account balance of the capital and financial account rose significantly to \$208.0 million in the year.

The major driving force behind this significant growth was the resumption and implementation of many externally funded projects especially the construction and rehabilitation of infrastructure and the

strengthening of law and order during the year. (See Table 7 and 8).

Table 7 Balance of Payments - Capital Account (\$Millions)				
	2002	2003	2004	2005
1. Capital Transfers	51.0	94.5	11.2	208.0
1.1 General government	53.2	95.4	11.5	208.0
1.1.1 Debt Forgiveness	-4.0	-	-	60.6
credit	-	-	-	-
debit	-4.0	-	-	60.6
1.1.2 Other capital transfers				
of general govt.	57.2	95.4	11.5	148.2
credit	57.2	95.4	11.5	148.2
monetary	57.2	95.4	11.5	148.2
non-monetary	-	-	-	-
debit	-	-	-	-
monetary	-	-	-	-
non-monetary	-	-	-	-
1.2 Other Sectors	-2.2	-0.9	-0.4	-0.8
1.2.1 Migrant transfers-net	2.1	-0.9	-0.9	-0.8
1.2.2 Debt forgiveness-net	-	-	-	-
1.2.3 Other transfers-net	-4.3	-	-	-
2. Non produced nonfinancial assets, net	-	-1.4	-	-
Balance	51.0	93.1	11.2	208.0

Source: Central Bank of Solomon Islands.

Table 8 Balance of Payments - Financial Account (\$Millions)				
	2002	2003	2004	2005
1. Direct Investment in SI	-27.0	-13.5	42.5	77.9
1.1 Equity capital-net	-17.5	-5.3	62.5	77.6
1.2 Reinvested earnings-net	-3.5	-8.2	12.5	0.01
1.3 Other capital-net	-6.0	0.0	-32.5	0.3
2.0 Other Investment	12.4	-182.3	-173.9	-146.4
2.1. Assets	-33.3	-	-	-
2.2 Liabilities	45.7	-182.3	-173.9	-146.4
2.2.1 Trade credit	-7.0	-166.7	-170.3	-7.5
2.2.2 Loans	48.8	58.6	-9.0	-138.9
(a) General government				
(i) Long term	18.4	-33.6	-2.9	-64.8
Drawings	73.9	23.2	15.9	3.8
Repayments	-55.5	-56.8	-18.8	-68.6
(b) Other sectors				
(i) Long term	1.3	-1.4	-4.6	-5.6
Drawings	3.1	0.2	-	0.2
Repayments	-1.8	-1.6	-4.6	-5.8
(c) Short-term-net	-14.7	47.3	-1.5	-68.5
2.2.3. Other liabilities-net	3.9	43.0	5.4	-
Balance	-14.6	-195.8	-131.4	-69.8

Source: Central Bank of Solomon Islands.

On the financial account side, the deficit narrowed to \$69.8 million from \$131.5 million in 2004. This was owed mainly to reduction in government debts and as a result of a sharp increase in direct investment in Solomon Islands that amounted to \$77.9 million. This follows from a net inflow of \$42.5 million posted in 2004. The upward trend seen over the past two years was attributed to increases in private investment, rising corporate revenues and generally the improvement in the economy.

Official long-term net capital inflows plummeted to \$3.8 million from \$15.9 million in 2004 reflecting some of the loan repayments made by the government during the year. On the payment side, total amortization to both the public sector and the private sector rose to \$42.6 million and \$4.6 million respectively.

International Investment Position

The international investment position (IIP) which records the country's financial assets and financial liabilities was estimated to be a net liability position of \$291.4 million in 2005 from a net liability of \$458.8 million in the previous year. The drop was mainly due to marked improvements in two of the components, that is, a moderate increase in net foreign reserves by 21.8% to \$706.2 million and a 6.0% decline in external debts. As a result, assets rose to \$670.1 million in 2005 from \$545.1 million in 2004 while the liabilities fell to \$963.0 million from \$999.9 million in 2004.

External Debt

The stock of external debt or the amount of outstanding contractual liabilities to non-residents rose slightly by 1.3% to \$1483.0 million in 2005. This was attributable largely to public debts which rose slightly by 1.9% to \$1293.0 million during the year. Private sector debt, on the other hand, declined by 2.6% to \$190.0 million during the period. (See Table 9).

Table 9
External Debt
(\$Millions)

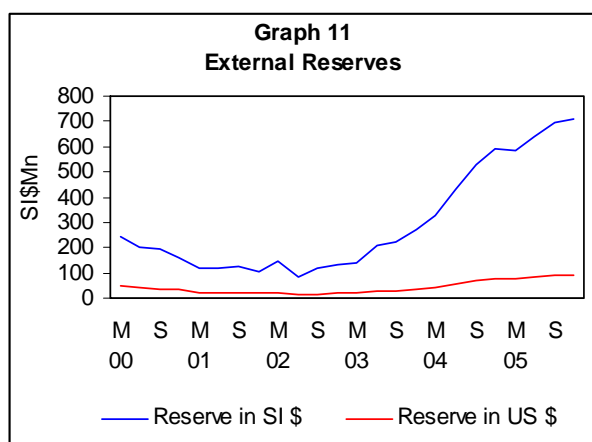
	2002	2003	2004	2005
Private Sector	198.9	199.3	195.0	190.0
Government Sector	1087.3	1181.0	1268.5	1293.0
of which: arrears	82.8	106.5	106.5	76.5
Total	1286.2	1380.3	1463.6	1483.0
Debt Service	32.2	39.9	38.0	61.1
Principal	5.6	21.9	23.9	47.2
Interest	26.6	18.0	14.1	13.9

Source: Central Bank of Solomon Islands

Total debt service rose dramatically to \$61.1 million as compared to \$38.0 million in 2004 reflecting the government servicing some of its debts and debt arrears obligations. Of the total debt service \$47.2 million went to principal payments while \$13.9 million were interest payments.

External Reserves

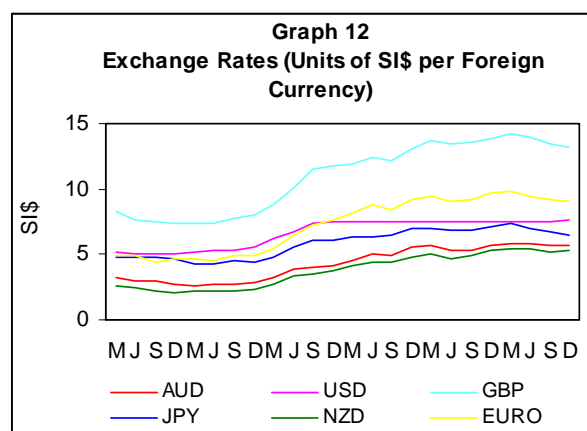
The level of gross reserves continued the upward trend seen since 2002 as it rose by 20.9% to \$717.0 million during the year. This positive growth reflected improvements in export receipts, net services and official inflows during the year. (See Graph 11).



The level of external reserves was equivalent to 5.1 months of imports of goods and non factor services compared to 7.1 months cover in the preceding year. This level of reserves although is lower than last year remains comfortable and adequate to meet the country's international trade payments and other outflows.

Exchange Rates

The Solomon Islands Dollar (SBD) is pegged to a trade-weighted basket of currencies that are important to the country's trade and policy guidelines agreed between the Central Bank and the government. The exchange rate policy stance adopted in 2004 that was geared towards relative price stability was maintained in 2005. On average, the Solomon Islands dollar stabilized around \$7.5 against the US dollar throughout the year. (See Graph 12).



However, in 2005, the SBD depreciated against most major trading currencies with the exception of the Japanese Yen. It lost ground by 0.6% against the US dollar, 4.2% against the Australian dollar, 0.2% against the pound sterling, 7.0% against New Zealand dollar and 0.8% against the Euro dollar.

Movements in the SBD exchange rate reflected more on the movements of the USD against the other major currencies rather than any SI induced factors. The SBD, however, appreciated against the Japanese Yen by 0.5% at the end of the year.

V. MONEY AND BANKING

Overview

The upturn in monetary aggregates that began in mid-2002 persisted in 2005. The 2005 outcome reflected buoyant economic activities, rising private sector demand for credit, and favourable developments in the balance of payments (BOP). All components of money trended upwards resulting in an increase in broad money (M3) emanating from increases in net foreign assets of the banking system and credit to the private sector. Net credit to government eased as a result of a write-off of the Marubeni loan towards the end of the year.

Activities in the Auction Treasury Bills Market (ATBM) continued throughout the year with over-subscription being a regular feature in the domestic securities market. Excess liquidity increased further in 2005 while interest rate margins remained at the same level recorded in 2004. Real interest rates on deposits continued to remain in negative territory in 2005 as in previous years.

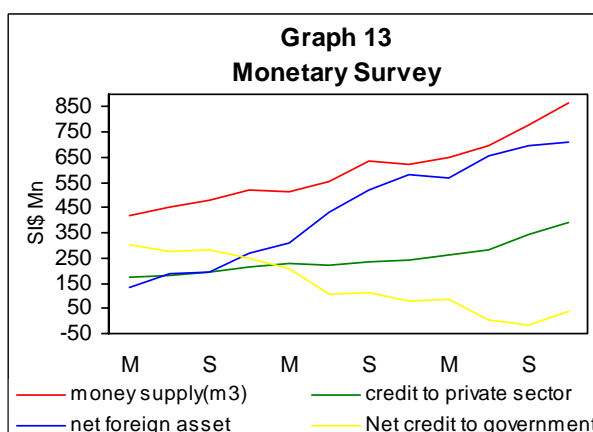
Monetary Policy in 2005

The Central Bank maintained the 2004 monetary policy stance in 2005. This decision was taken despite the improvement in domestic economic activity and the increase in external reserves position and surge in inflationary pressures.

In undertaking its monetary stance in 2005, the Bank announced the following key objectives:

- Continue to foster conditions conducive for economic growth by capping inflationary pressures, and
- Continue to maintain appropriate level of reserves whilst encouraging private sector led growth

In implementing the policy, the Bank maintained the securities market to influence the liquidity position in the financial system, although this instrument is currently constrained by a cap on the amount floated. During the year, however, the Government built up deposits in the banking system that helped to reduce the liquidity level in the system. If the Government had spent more, this could have been a source of further bank lending that had already grown by 63.1% and could have fueled higher inflation that had reached 7.2% at the end of the year. The Bank continues to closely monitor the current liquidity situation and will intervene should the situation demand.



In light of the positive developments in the domestic economy, and the need to enhance and sustain the growth process, the Bank further relaxed exchange controls by raising the delegated authority of the commercial banks to approve applications for foreign exchange payments to \$50,000 for imports and \$30,000 for services. So far, the pressure on the foreign reserves has eased. However, the Bank continues to closely monitor the situation against unexpected shocks.

In enhancing the reform process further, the Bank has to ensure that exports remain competitive. Thus, the Solomon Islands dollar

was stabilised against the U.S dollar, the currency in which most of the country's exports are denominated.

In 2006, the Bank will continue to monitor all the major macro indicators namely the exchange rate, external reserves, inflation, monetary aggregates, level of donor assistance and developments in the global economy and will adjust its policies accordingly where and when necessary.

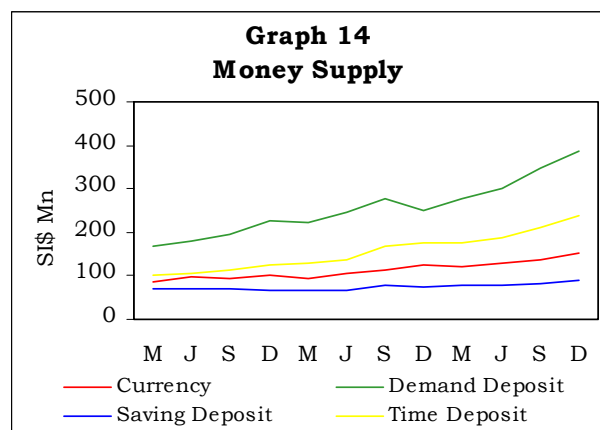
Money Supply

The broad money supply (M3) grew further in 2005 by 38.9% to \$863.7 million, following a growth of 19.5% in 2004. This growth, which began in mid 2003, had been fundamentally driven by an increase in net foreign assets and growth in credit to the private sector during the year.

Narrow money supply (M1), defined as currency in circulation and demand deposits, increased by 44.7% to \$537.9 million in 2005, extending on the 13.40% growth posted in 2004. The increase in M1 was attributable to growth in both currency in circulation and demand deposits. The former grew by 24.2% to \$153.0 million, whilst the latter registered an increase of 54.8% to \$384.9 million. The increase in demand deposits was due to improved economic activities that resulted in firms increasing their cash balances for transaction purposes. Firms' demand deposits with commercial banks increased by 63.9% to \$211.2 million whilst those of statutory corporations, private individuals and "other" increased by 28.9%, 34.7% and 71.9% respectively. Demand deposits of public and private financial institutions, by contrast, fell by 66.0% and 32.4% respectively during the year.

Savings and time deposits also increased by 15.9% and 36.8% respectively in 2005. Consequently, quasi-money rose by 30.4% to \$325.8 million during the year. The rise in savings deposits was due to increases in

savings deposits of business firms and private individuals. Savings deposits of business firms increased by 13.2% while private individual savings deposits increased by 32.7%.



The strong growth of time deposits in 2005 was spurred by business firms and "other" depositors while Government, statutory corporations, private financial institutions and private individuals time deposits fell by 19.0%, 32.7%, 11.2% and 27.3% respectively. The overall growth in longer-term deposits provides more funds to commercial banks to increase their loan portfolios and lending capacities. This, in the medium term should increase investment in capital goods and should diversify the production base of the economy, which are fundamental for longer-term growth.

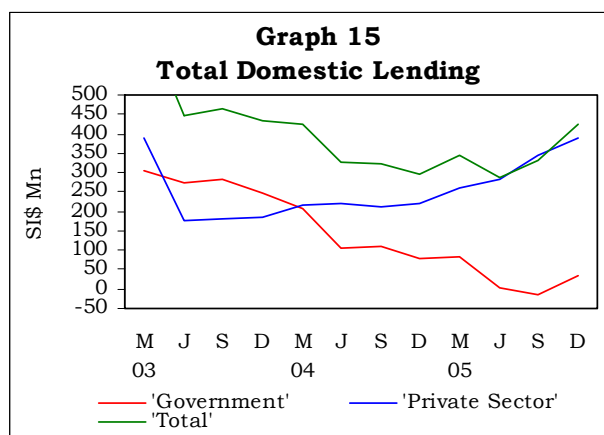
Net Foreign Assets

Total Net Foreign Assets (NFA) registered an increase of 22.0% to \$712.5 million in 2005, following a significant increase of 118.8% in 2004. The increase was reflective of higher donor inflows, export earnings, and financial capital inflows

Net Domestic Credit

Total domestic credit (TDC) from the banking system increased by 34.5% to \$425.6 million, reversing a fall of 32.2% in 2004. The increase was due to a rise in credit to the private sector

by 62.9% to \$389.1 million. Net credit to government (NCG), by contrast, fell markedly by 53.2% to \$36.4 million at the end of the year, attributed mainly to the build up of government deposits in the system which was slightly offset by a partial repayment of the Marubeni loan and write-off of the remaining balance at the end of 2005. (See Graph 15).



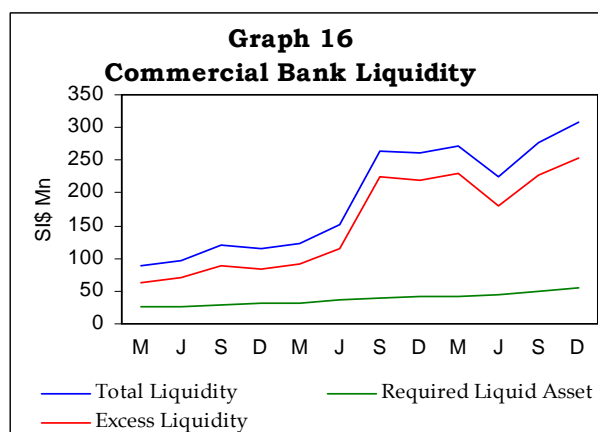
For a small open economy like Solomon Islands, credit is a vital catalyst for stimulating domestic investment and generating future income and wealth. Accordingly, growth in credit is vital so long as it does not endanger inflation and external reserve levels. In addition, it is more beneficial to the economy if that credit is targeted at new investments especially in those sectors in which the country has comparative advantage for purposes of strengthening and expanding the productive and export base.

In 2005, commercial bank credit went largely to the distribution sector (22.6%), followed by the personal sector (15.9%), telecommunication and forestry with (15.2%) each and manufacturing sector (15.0%). The increase in the distribution sector was due to the high demand for imported goods while the increase in telecommunication reflected communication facility projects instituted during the year. The forestry sector lending reflected strong logging activities in the country while the manufacturing sector credit was generally for imports of oil and related products

as well as for building materials and metal products.

Liquidity

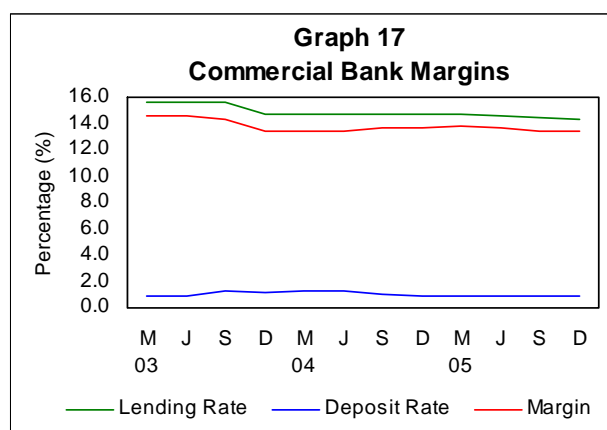
The banking system remained very liquid in 2005 as a result of BOP surpluses and credit expansion. During the year, movement was mixed, though. During the first quarter, liquidity increased by 4.2% but declined 17.5% in the second quarter and jumped again by 23.9% at the end of the third quarter. By the end of the year, total liquidity reached \$309.5 million, an increase of 18.9% over the previous year. (See Graph 16).



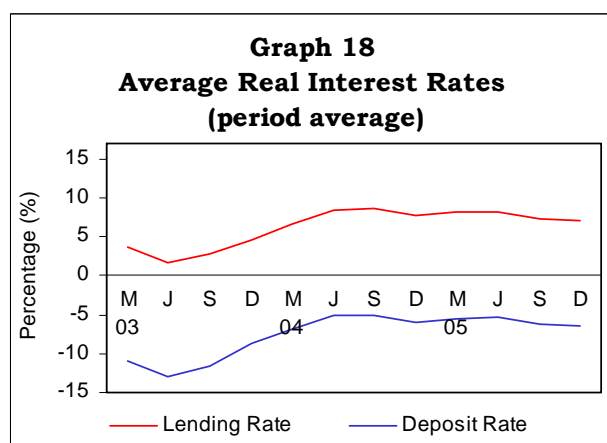
The required reserves that commercial banks hold from their depositors' funds, also increased during the year by 34.4% to \$54.9 million. As a result, excess liquidity increased further by 16.0% to \$254.7 million.

Interest Rates

The commercial banks' indicative weighted average deposit rate fell to 0.94% in 2005 from 0.95% in 2004. This was due to a 4 basis points decline to 0.30% in the indicative weighted average savings rate. At the same time, the indicative weighted average lending rate fell by 32 basis points to 14.37%. The indicative weighted average rate on overdrafts, however, increased by 5 basis points to 6.34% at the end of the year.



The indicative commercial bank interest margin declined to 13.43% in 2005 from 13.74% margin recorded in 2004.



By regional standards, the Solomon Islands interest rate margin is high, undermining savings as well as impeding private sector investment and growth. (See Graph 17). The high interest rate margin in Solomon Islands is attributable to the small market size, high costs and risk of doing business in the country. As the economy grows, investor confidence restored and reforms are put in place, the interest margins should narrow further.

Real interest rate shows the difference between nominal interest rates and the annual rate of inflation. In 2005, the average real interest rate on lending was 7.2% as compared to 7.8% in 2004. (See Graph 18). On the other hand, the average real interest rate on deposit was negative 6.3% in 2005 compared to a negative 6.0% in 2004. The negative real interest has been an existing phenomenon for some time and is a concern because of its adverse consequences on savings, physical investments and long-term economic growth of the country. The Auction Bills Market rates for 91 days during the year has declined. From January to Mid-May, the average yield was recorded at 6.0% but declined to around 3.5% and remained at that level throughout the year.

VI. GOVERNMENT FINANCE

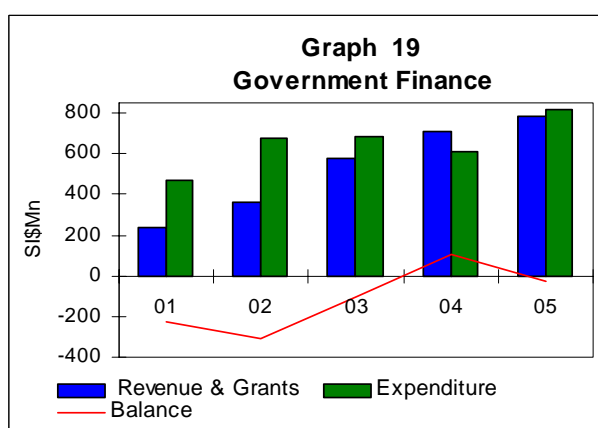
Broad Developments in 2005

Government's revenue performance in 2005 was robust. This mirrored the strong pickup in the economy during the year as well as the positive outcomes arising from technical assistance provided by RAMSI in government finance management. Total domestic revenue overshot budget by 13.7% whilst recurrent outlays were below budget by 2.7%. Increased capacity and robust performance in all ministries allowed the government to expand its fiscal stimulus towards reinvigorating the economy further through increased expenditure. The bulk of Government increased spending was on the social sector. The implementation of projects in the development budget was relatively slow partly in response to the lengthy bureaucratic process in disbursement of grants by donors.

On the debt side, the Government reduced its indebtedness by 4.5% chiefly by reaching agreement with Marubeni to repay 25% and write-off 75% of their debt and debt arrears. However, debt servicing was slow resulting in a build up of other arrears, albeit lower than in 2004. In addition, the government reorganized its loans and advances from CBSI, thereby allowing government to use its revenues for other worthwhile commitments.

Despite the positive fiscal performance, there are still chronic hurdles that government needs to address with appropriate policies. It needs to pay greater attention towards improving the current infrastructures and utilities, healthcare, police and education. It must also tackle the rising unemployment, urban drift and other undesirable social problems that are taking root in many local communities. The current government level of financing is still insufficient to provide quality and adequate social services to the people, let alone providing grants for income generating activities. Therefore it is vital that the government continue its dialogue

with donor agencies and development partners to obtain their support for financing such projects throughout the country. Moreover, the government needs to provide and secure a stable social and economic environment that is conducive to investments.



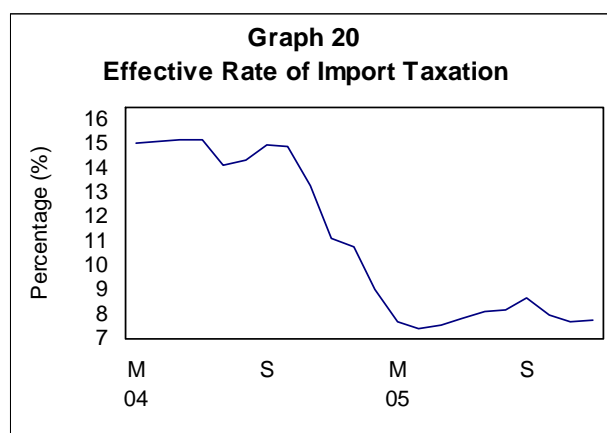
The government has taken a proactive approach towards reforming the tax system to be more accommodative and provide a level playing field for all the players in the economy. In that, the government has set the stage to introduce the Value added tax (VAT) system. VAT is a general tax charged on all commercial activities involving production and distribution of goods and services. The advantage of the VAT is that of widening of the tax base by bringing all the transactions into the tax net. The VAT gives the government an opportunity to include into the tax system all those persons and entities who were given tax exemption in one form or another. Tax exemptions cost the government \$104.2 million in lost revenues in 2005, and thus the VAT should reduce the risk of tax evasion – a common problem in the country. It appears the government lost millions from tax evasion through schemes like double invoicing in the past several years. However, the VAT system is regressive in that its burden falls disproportionately on the poor since the poor are likely to spend more of their income than the rich. Thus the government

needs to address this issue carefully.

Revenues

Total domestic revenues grew by 22.7% to \$625.5 million, \$75.5 million or 13.7% above the budget estimates. The strong revenue performance was due mainly to robust performance in both the private and the public sectors. Total revenue could have been higher had it not been for the \$104.2 million foregone through duty exemptions.

The Inland Revenue Division (IRD) remained the primary source of government revenue, accounting for 44.5% of total revenues including grants. Revenues grew by 23.0% to \$370.0 million, \$63.1 million or 20.5% above budget. The sharp rise was mainly due to improved tax compliance, strong collection measures and increased capacity and robust business activities. (See Graph 19).



Goods tax revenue was above budget by \$8.3 million or 5.9%, which amounted to \$149.8 million, and \$23.7 million or 18.8% higher than in 2004. PAYE tax grew sharply by 45.6% or \$28.3 million to \$90.2 million and 47.1% or \$29.0 million above the budget. Of the total, private sector contributed \$65.0 million and \$25.2 million from the public sector. Total withholding tax rose by 26.5% or \$6.8 million to \$32.5 million, reflecting growth in the private sector. Against the budget, withholding tax was higher by \$11.0 million,

or 26.5%. Sales tax increased by \$6.1 million or 40.2% to \$21.4 million, \$3.1 million or 16.8% above the budget, consistent with the broadened tax base that now captured business activities that were previously excluded. Company tax rose by 4.4% to \$65.1 million.

Revenues from international trade in 2005 contributed 23.9% of total revenue including grants. Revenues from the Customs and Excise Division (CED) grew by \$27.9 million or 16.3% to \$199.3 million, reflecting the strong pickup in the domestic activities. Total revenue was \$20.9 million or 11.7% above budget. Growth in import duties, slowed down by 1.1% in 2005 compared to 19.2% in 2004 and 28.6% in 2003. Import duties collection amounted to \$82.8 million, \$14.5 million or 14.9% below the budget. The Bank is concerned about tax evasion activities by some local businesses which resulted in government losing millions in revenue through import duties in 2005. This is shown by the decline in the effective rate of import taxation (6 months moving average), to 8.2%, from 14.5% (See Graph 20) in 2004. This indicator is calculated as actual total imports duties received divided by the total value of imports based on foreign exchange transaction (FET) data through the banking system. The fall reflected continued granting of import duty remission and exemptions and double invoicing by importers to avoid paying higher duties.

Revenues from log export duty rose significantly by \$20.4 million to \$86.8 million and 51.2% or \$29.3 million above the budget. Log export revenue continued to be the major source of revenues for the government during the year. In the 2004 Annual Report, the Bank highlighted the need for the government to take strong measures to monitor the way in which the granting of log export tax exemptions and remissions to timber resource owners for the purposes of replanting commercial trees. Total revenue foregone during the year in terms of log remission and exemptions was \$20.9 million; \$9.0 million lower than in 2004. It is encouraging to see

that the government has suspended the granting of log export duty remissions. Past experiences have shown that most of these funds were not utilized for their granted purpose.

Revenues from excise duty grew significantly by 34.8% to \$26.3 million, 34.5% above budget. Export duties received from non-log commodities also rose markedly by 30.8% to \$2.0 million. (See Table 10).

Table 10 Solomon Islands Government Operations (\$Million)				
	2003 Actuals	2004 Actuals	2005 Actuals	2006 Budget
1. Total Revenue & Grants	579.0	710.9	784.6	1250.4
(A) Total normal revenue	373.4	509.9	621.1	688.1
(a) Income Tax	90.0	149.9	182.9	190.1
(b) Taxes on Goods & Services	104.1	150.9	182.3	195.9
(c) Tax on International Trade	146.3	171.3	199.3	227.6
(d) Total NonTax Revenue	33.0	37.8	56.1	74.5
(B) Cash Grants /1	110.0	74.3	22.3	61.3
(C) Capital Grants /1	95.4	126.7	141.2	501.0
2. Total Expenditures:	682.8	608.8	864.6	1286.4
(D) Recurrent Expend.	564.2	506.2	665.2	784.6
(a) Wages and Salaries	170.3	173.5	217.9	225.0
(b) Debt Service /2	121.5	80.1	106.6	101.7
(c) Other Charges /3	272.4	252.6	340.7	457.9
(E) Capital Expenditure	118.6	102.6	199.4	501.8
3. Overall Balance	-104.0	102.1	-29.8	-36.0
4. Financing:	103.9	14.5	40.0	21.8
(i) Domestic	57.0	-	-	-
(a) Domestic debt arrears	57.0	-	-	-
(b) Arrears on other charges	-	-	-	-
(ii) External	46.9	14.5	40.0	21.8
(a) Debt arrears	23.7	12.4	36.1	-
(b) Loans	23.2	2.1	3.8	21.8

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.

Non tax revenue surged markedly by 48.5% to \$56.1 million though was 13.1% below the budget. This was due mainly to a sharp growth in revenues from fisheries department under multilateral and bilateral fishing arrangements.

The government has been relying on donor's financial and non-financial assistances to fund most of the development projects in the past several years. Accordingly, the country's aid-per-capita is estimated to be one of the highest in Oceania. Total grant receipts from overseas

were estimated to have declined in 2005, though. It is difficult to measure the exact value because nearly all of the grants were managed and disbursed by the donor agencies either in their offices in Honiara or from overseas. Total budget for 2005 was \$578.9 million. The impact of these aid grants in various development projects especially in education, health and police and infrastructures services were evident in rural communities around the country. However, the government needs to address pressing concerns regarding benefits of these aid monies and how directly they can reach the intended people and purposes. Misallocations of such funds should be discouraged at all times. In 2005 the FET sources indicated that total grant inflows declined by 18.7% to \$163.5 million in 2005 from 2004.

Expenditures

Government recurrent outlays for 2005 rose sharply by 29.0% to \$637.1 million, 2.7% below budget. This was mainly due to an increase in payroll expenditure, which increased by 25.3% to \$217.9 million. This was 3.9% below budget, though. The increase in payroll reflected increase in recruitment. Payroll represented 34.2% of the total recurrent expenditures.

Other charges increased notably by 34.9% to \$340.8 million. These other charges were higher than budget by \$30.7 million or 9.9%, reflecting mainly increased spending in education, health, police and other services.

Government Debt and Arrears

Government debts stock at the end of 2005 declined by 4.5% to \$1.6 billion. The external component of the debt declined by \$69.0 million to \$1.1 billion, owing primarily to a partial repayment and write-off of the Marubeni loan. The total external debt shows that each citizen of Solomon Islands owes \$2,000 to the international financial institutions. Domestic debt declined by 1.5% to \$597.6 million due to declines in both

restructured bonds by 4.8% to \$186.4 million and amortized bonds by 4.6% to \$70.5 million. Debt repayment for the year totaled \$20.7 million, of which overseas debt accounted for \$13.3 million and domestic debt accounting for \$7.4 million. The improvement in debt servicing led to a sharp decline in the debt arrears from \$118.9 million in 2004 to \$76.5 million in 2005.

Audit and Accounting

The effort of the Office of Auditor General (OAG) to audit the state owned enterprises, government departments, and provincial governments was boosted by the recruitment of new officers plus installation of new equipments and technical assistance from donors in 2005. The OAG was able to complete the audit of the national government accounts for 1997 to 1999, fisheries department, and the forestry department in 2005. The OAG also completed the audit of the EXIM loan account. The proceeds of the EXIM loan were used to pay for lost properties and compensations to those who were affected by the ethnic unrest. These audit reports were presented in Parliament in 2005. The audit of the Immigration Department is almost complete and is expected to go to Parliament in mid 2006. The audit of the Civil Aviation Department, Health Department, Education Department and the Central Pay System of the National Government are still in progress and should be completed in 2006.

The OAG also completed a special audit of the Guadalcanal Provincial Government in 2005. The OAG has yet to audit other provinces. It is interesting to note that certain provinces have never been audited since 1987. The government needs to take a proactive role in ensuring that the financial accounts of the provincial governments are prepared for audit purposes. There have been allegation of malpractices and misappropriation of provincial grants in all provincial governments in the past years, therefore there is need to

speed up the process of preparing the accounts so that it can be audited to verify these serious claims.

2006 Budget Outlook

The 2006 Budget was formulated against the sound and balanced fiscal performances in 2005. The main focus of the budget is to increase basic service delivery especially in health and education; ensure safer communities; support the public sector; strengthen responsible government; build national wealth; support the provinces; maintain critical infrastructure; revitalize the productive sector and promote Solomon Islands internationally. Overall the Budget strategy reinforced the fiscal stimulus adopted in 2005 in line with the plan to revitalize the economy as set out in the government's National Economic Recovery Development Plan 2003-2006.

The recurrent budget is forecast at \$829.4 million and will be financed chiefly from \$749.4 million in domestic revenue, \$61.3 million in budget support from the New Zealand government and the budget surplus in 2005. In terms of domestic revenue, the government expects to collect \$749.4 million, 19.8% above the 2005 collections. In terms of domestic revenues sources, the IRD is projected to collect \$386.0 million, CED to collect \$227.6 million and other ministries \$74.5 million. The development budget in 2006 was estimated at \$585.7 million against \$538.9 million in 2005. Most of the development programs are expected to be funded by external grants.

In the beginning of 2006 the government was committed to streamline and account for payments in all ministries by reintroducing local purchase orders (LPO). This measure aims to centralize all payments so that all government recurrent spending is in line with the government expenditure policy and financial instructions.

VII. FINANCIAL SYSTEM

The Solomon Islands financial system comprises of three commercial banks, the Solomon Islands National Provident Fund (SINPF), the Development Bank of Solomon Islands (DBSI), Credit Unions, insurance companies, and the newly licensed Credit Corporations (SI) Limited.

Commercial Banking

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

The number of banking services centers has increased to 14 branches and 8 agencies in 2005 from 13 branches and 7 agencies in 2004 following the establishment of 1 branch in Honiara and 1 agency in one of the provinces. The number of Electronic Fund Transfer at Point of Sale (EFTPOS) terminals has increased from 69 in 2004 to 101 in 2005, whilst the number of Automatic Teller Machines (ATMs) remained unchanged from previous year. However, an additional ATM was installed in Honiara which became operational in early 2006. The increase in electronic banking reflected the initiatives taken by commercial banks during the year to introduce electronic banking facilities to customers in Honiara. In November, ANZ introduced its mobile bank to the people of Guadalcanal Plains enabling them to enjoy banking services right in their villages. An agreement signed with the UNDP has also enabled officers of UNDP to go with the ANZ Mobile bank to teach the people about money and financial education.

Total number of commercial banks employees increased to 293 from the 230 in 2004. Of the total employees Solomon Islanders were 281 and expatriate staff 12.

Financial Position of Commercial Banks in 2005

Licensed commercial banks recorded growth in their balance sheet, very strong growth in loans and advances, experienced low level of non-performance assets, and basking in high level of liquidity in the system.

Table 11
Commercial Banks Aggregate Annual Profits
(SI\$ millions)

	2002	2003	2004	2005
Income				
Net interest income	31.0	34.6	39.6	44.7
Non interest income	40.1	54.6	66.9	68.9
Expenses				
Operating expenses	71.1	89.2	53.4	56.0
Bad and doubtful debts	19.4	20.1	0.2	0.9
Profits				
Net operating profit before tax	32.9	47.2	52.9	56.7
Net profit after tax	22.2	31.8	35.2	37.2

Source: Central Bank of Solomon Islands

Aggregate net after tax profit of the three commercial banks was \$37.2 million in 2005, an increase of \$2.1 million from 2004. This was due largely to increases in net interest income which rose by \$5.1 million to \$44.7 million. Driving this result was the growth of loans and advances by 62.9% year on year to \$389.1 million. At the same time the cost of funds fell from \$7.5 million to \$4.8 million in 2005 as result of a rise in the level of liquidity in the financial system. Interest margin on earning assets fell to 8.5% during the year from 10.3% but the decline can be explained by the rise in the level of earning assets. Non-interest income was \$68.9 million up 3% from the previous year. Operational expense was up 39% to \$56.9 million from the previous year.

Aggregate balance sheet for the three commercial banks grew 27.7% to \$990.1 million in 2005. Aggregate non-performing

loans fell to \$4.3 million from \$8.1 million at end of 2004. Aggregate surplus liquid funds after required reserves were \$254.6 million in 2005 compared to \$219.5 million in 2004.

Licensing and Legislative Issues

Pursuant to Section 5 of the Financial Institutions Act 1998 (as amended), the Central Bank of Solomon Islands issued a license to 'Credit Corporation (SI) Limited' (CCSIL) to carry out banking business as a credit institution in July 2005. The CCSIL is a subsidiary of a licensed financial institution in Papua New Guinea, the Credit Corporation (PNG) Limited. CCSIL's approved business activity is in the Chattel Mortgage Financing. At end-December 2005, total balance sheet of CCSIL stood at \$10.0 million with total mortgage loans valued at \$1.7 million.

In terms of the Court administration of the DBSI, the High Court of Solomon Islands granted the Court Appointed Manager (CAM) an extension of another 6 months to June 2006. This extension was necessary to enable CAM to continue the Court mandate to realize asset and repay the depositors in DBSI. As at end-December 2005, DBSI's total deposit liabilities stood at \$4.6 million, down from \$16.3 million a year earlier. CAM repaid \$11.7 million to depositors during the year. Efforts to ensure the remaining depositors are repaid in full would continue in 2006.

Following a request from CBSI, in June 2005, the World Bank provided Technical Assistance to review and revise the SINPF Act. This review was necessary to realign SINPF to the changing investment environment, operational and regulatory environments for a superannuation institution. The new draft legislation is now being studied by the NPF Board of Trustees, the Ministry of Finance and the CBSI with the intention to discuss the new law with other stakeholders before the draft is delivered to the government for enactment.

Financial System Soundness Indicators

The CBSI, in line with international standards, compiles Financial Stability Indicators (FSI) to measure the soundness of the financial sector in Solomon Islands. These indicators are capital adequacy, asset quality, earnings and profitability ratios and liquidity.

Asset Quality

The Bank uses two key ratios to assess the quality of commercial banking sector assets (specifically quality of the loans held by the commercial banks). These are ratio of non-performing loans to total gross loans and the ratio of non-performing loans net of provisions to capital.

As at end of year the ratio of nonperforming loans to gross loans fell from 3.4% in 2004 to 1.1% in 2005. This means that for every \$100 held as loan, \$1.10 represents loans that are not performing. In 2002 the ratio of nonperforming loan to every \$100 loan held was \$11.90. The trend in ratio of nonperforming loans revealed the extent of the recovery of non-performing loans but at the same time indicates the growth in the loan portfolio of commercial banks from \$238.8 million in 2004 to \$389.1 million in 2005, a growth of 62.9%. The total amount of provisions (specific and general) set aside by the banks in 2005 was \$4.2 million compared to the total non-performing assets of \$4.3 million.

Capital Adequacy

Risk capital ratio at the end of 2005 was 21.10 % compared to 23.9% in 2004. The fall in the ratio although still above the minimum required ratio of 10% was caused mainly by accumulation of capital by one of the banks. In terms of value, total capital - including fixed asset revaluation reserves - of the banking system stood at \$159.2 million up from \$121.1 million in 2004. Free capital (total capital less fixed assets) ratio was 81.3% compared to

83.6% in 2004. The Central Bank requires commercial banks to maintain minimum free capital ratio of 30%.

The Bank hopes to calculate capital adequacy using the Basel 1 methodology. A prudential statement on this methodology is published in the Bank's website.

Earnings and Profitability

The after tax earnings of the banking sector in 2005 was up \$2.1 million to \$37.2 million. In terms of ratio, the return on average assets was 4.2% down from 5.0% in 2004 attributing to a growth in the total asset of 27.7% in 2005 compared to 24.8% in 2004. Return on equity was 26.5% compared to 31.9% in 2004 again the ratio is affected by the effect of growth in retained earnings. Interest margin was 8.5% down from 10.3% in 2004. Efficiency ratio was 50.1% compared to 50.3% in 2004.

Liquidity

The level of liquidity in the banking sector remained very high in 2005 at \$309.5 million compared to \$260.4 million in 2004. The ratio of liquid assets to total assets was 31.2% compared to 33.6%. Again the effect of the growth in total asset affected the calculation of the ratio. The ratio of liquid assets to short term liabilities (liquid assets to total demand deposit) was 76.3% compared to 88.6% in 2004. These two indicators signify that the banking sector in Solomon Islands was cashed up in 2005, therefore having no liquidity problem.

Credit Unions

The number of active registered credit unions at end of the year was 14 down from the 27 reported at end of 2004. As at December 2005, only 7 credit unions submitted their financial returns to the Registrars Office revealing total assets of \$27.6 million. Members' share contributions amounted to \$21.6 million. Amount of loans given out to members was

\$17.6 million representing 81.1% of the members share contributions or 63.8% of the total assets. In terms of financial performance the seven (7) credit unions earned revenue amounting to \$1.4 million. However, total expenses were \$1.5 million resulting in a loss of \$0.1 million. The level of expenses for the year reflected high write-offs of bad debts.

The official register shows a total of 170 credit unions registered in Solomon Islands. Unfortunately the inability of the Solomon Islands Credit Union League (SICUL) to perform its functions under the Credit Union Act has not been helpful to the training, revival of dormant credit unions and promotion of the credit union movement. During the year, the SICUL board commissioned an external auditor to perform an audit of the financial accounts of the SICUL which were left unaudited for some years. The external auditor's finding, however, revealed serious weaknesses in the management of the SICUL. The Registrars office carried out a special assessment on the use by SICUL of the Trust Fund interest income and funds generated from renting of offices and accommodation at the CBSI's property used by SICUL in New China town. The assessment also revealed serious weaknesses in the financial management by SICUL. With the assistance of the Registrar of Credit Union, actions are now being taken to rectify the poor management of the SICUL with a view of strengthening the body to perform its required mandate.

In 2005, the investment of the SICUL Trust Fund by the Registrar's office earned interest income of \$60,082. This income was paid to the SICUL to assist in meeting its operational expenses.

The study undertaken by the Pacific Enterprise Development Facility (PEDF) on reviving the credit union movement in Solomon Islands was temporarily halted during the year after reaching stage 2 of the 5 stage study. It is

expected that the project might be resumed after reassessment of the terms of the study.

Rural Financial Services

The Bank organized a conference in April 2005 to examine options that would stimulate financial services in Solomon Islands particularly outside of Honiara. Preceding this conference two focused workshops were held in Honiara and Gizo. These preparatory workshops brought together indigenous Solomon Islands business operators. The key objective of the conferences was to solicit the help of experts and practitioners in making recommendations to the Solomon Islands Government on how to overcome the many impediments to rural financial services delivery.

The conference held in April invited several participants from regional countries to share their experiences in the provision of financial services in their respective countries. The output from the conference is a report which has several recommendations to address the provisions of financial services to the rural people in Solomon Islands.

The conference was funded jointly by AusAid, PEDF of the World Bank and the Central Bank of Solomon Islands.

The Economic Reform Unit of the Ministry of Finance and the Bank are working together to coordinate implementation of the recommendations in the conference report. A copy of the report is available on the Central Bank website site: www.cbsi.com.sb

Solomon Islands National Provident Fund

Following the Central Bank's recommendation in 2004, the Solomon Islands National Provident Fund (SINPF) continued with its organizational restructuring and reform programs in 2005. These occurred both within

the Head Office and its branches. In addition, the Fund continued with its recapitalization plan to improve its investments base.

Table 12
Summary of NPF's Financial Position
(SI\$ million)

	2002	2003	2004	2005
Balance Sheet				
(up to Dec 2004)				
Total Assets	369.9	402.3	474.6	524.9
Claims on SIG	94.3	94.3	126.1	126.2
Claims on Statutory Corps	45.7	48.2	44.8	42.9
Claims on Provincial Govern.	16.8	19.3	19.4	18.5
Private Sector Borrowings	49.5	47.5	42.6	38.8
Equity Shares	64.4	64.4	90.4	90.9
Others	99.2	128.6	151.3	212.8
Liabilities	369.9	402.3	474.6	524.9
Contributions	316.9	340.1	410.1	459.2
Capital	40.3	45.0	11.9	10.7
Others	12.7	17.2	52.6	55.1
Income Statement				
(up to June 2005)				
Total Income	28.5	28.4	25.5	27.7
Operating Expenses	15.9	18.1	67.7	19.9
Net profit	12.6	10.3	-42.2	7.8

Source: Central Bank of Solomon Islands

Despite its high liquidity, the Fund continued to wrestle with investment hurdles during the year. These include scarce investment opportunities in the country, low return on bank deposits; low yield on investment and issues relating to withholding taxes. From its three major domestic equity investment companies, it was only able to receive 10% dividends from one of them. The Court's ruling on the future of the SMI (in which the Fund has 75% share) would mean uncertainty to future of this equity investment.

The financial performance of the Fund remained weak as expenditures continued to rise against declining investment income. It also continued with provisioning for doubtful debts and write-off of non-performing loans. The Fund made \$1.1 million loss during the year. This was however an improvement over 2004. (See Table 12).

Development Bank of Solomon Islands

Following the High Court Judgment and Order granted in June 2004, the administration of the DBSI by the CBSI continued successfully in 2005. The CBSI was able to repay \$14.8 million to the bank's depositors, mostly the small depositors. At the end of 2005, outstanding unpaid deposits were \$4.3 million.

Table 13 Summary of DBSI's Financial Position (SIS millions)				
	2002	2003	2004	2005
Balance Sheet				
(31st December)				
Total Assets	43.5	38.9	30.9	18.1
Loans and Advances	39.2	35.3	25.8	15.3
Others	4.3	3.6	5.1	2.8
Liabilities	50.3	54.4	43.9	31.7
Term Deposits (inclusive of Accrued interest)	22.4	21.7	16.4	4.6
Others	27.9	32.7	27.5	27.1
Net Assets	-6.8	-15.5	-13.0	-13.6
Income Statement				
(31st December)				
Total Income	4.9	4.5	4.4	4.1
Interest Expenses	2.3	2.1	0.6	0.1
Operating Expenses	4.6	3.9	4.7	2.9
Net profit	-2.0	-1.5	-0.9	1.1
Source: Central Bank of Solomon Islands				

The Court has also extended its appointment of the CBSI for a third term to continue its administration of the bank to June 2006. AusAid, through its RAMSI assistance program, provided a financial adviser to the Bank to assist in the administration of the DBSI during the year. (See Table 13).

DBSI's net worth was a minus \$13.6 million at the end of 2005.

Insurance

The number of licensed insurance companies declined to 3 in 2005, comprising of two general Insurance companies and one life company. There are also two licensed insurance brokers.

The licensed insurance companies are branches of foreign companies, one having its head office in New Zealand and two with head offices in Australia.

Premium received from the general business policyholders grew by 42.8% to \$21.7 million in 2005. Lines of general business include all risks: aviation, burglary, cash in transit, constructors all risk (CAR), workers compensation, common fire, house owners, marine cargo, marine hull, miscellaneous, motor vehicles, compulsory third party, personal accident and public liability. Fire and motor vehicles recorded 56.7 % of the total gross premium received from policyholders in 2005.

Part of the gross premium received from Solomon Islands policyholders is reinsured with overseas insurance companies. In 2005, the most heavily reinsured classes were fire and marine cargo with \$3.6 million and \$0.88 million, respectively.

At end of 2005, total premium retained in Solomon Islands Insurance Industry amounted to \$16.4 million. This represented 75.9% of the total gross premium received for the year.

Underwriting profit for the general business has also increased from \$1.7 million in 2004 to \$3.5 million in 2005.

Total assets of the industry grew from \$34.5 million in 2004 to \$45.3 million in 2005. This was due to a significant increase in the current assets. In terms of market share for 2005, general business constituted 82.0% while life business held 18.0% of the total assets of insurance business in Solomon Islands.

Despite a decline in the number of licensed insurance companies, Solomon Islands Insurance market is expected to grow in future in terms of premium volume, especially from fire and motor vehicles. Credit facilities have allowed for growth in industrial and residential properties as well as transportation of vehicles.

With approval of Minister of Finance, insurance brokers operating in Solomon Islands are allowed to place policies covering Solomon Islands risks with overseas insurance companies. These approvals would normally be granted where insurance coverage is not available in the domestic market. The total premiums approved and placed with offshore insurance companies were estimated at \$6.0 million in 2005 compared to \$2.8 million in 2004.

Insurance Unit

At the close of the year, the office received one application for an insurance broker business. This was approved in early 2006. The COI, however, refused to renew the operating license to Solomons Mutual Insurance (SMI) due to its chronic and serious non-compliances with the provisions of the Insurance Act. To protect the interests of the policyholders, especially the life policyholders of SMI, the COI applied to the Court under the provisions of the Insurance Act for an appointment of Provisional Liquidator to administer the SMI. The Court decided in favour of the COI in March 2006.

During 2005, the Insurance Unit received technical assistance from the IMF for training. Apart from the training of the insurance officers, the IMF provided an advisor who assisted in the supervisory work, particularly in relation to the SMI situation. The adviser has been helping the COI in identifying areas of weaknesses in the present Insurance Act with the aim of updating the legislation to be in line with current best international practices. This work will continue in 2006.

The government policy is to transfer the functions of the COI to the Central Bank. This exercise, which started in 2004, could not be completed because the insurance officer remained a public service officer. By the end of the year, the insurance officer was still on the Solomon Islands Public Service payroll. This matter has now been resolved early in

2006 when he was finally made redundant and now becomes a full-time employee of the Central Bank.

Solomon Islands Financial Intelligence Unit

The SI Financial Intelligence Unit (SIFIU) was established in the Central Bank following the publication of a gazette notice by the Minister of Justice on the coming into force of the Part 1 of the Money Laundering and Proceed of Crime Act (MLPC) 2002 as amended in April of 2005.

As a result, CBSI assisted the Anti-Money Laundering Commission (AMLC) established under the MLPC to recruit a Financial Analyst for the FIU who commenced employment with the Bank since September 2005. Under section II (2) of the MLPC, the AMLC is empowered to inter alia:

- receive reports of suspicious transactions issued by financial institutions and cash dealers pursuant to section 14(1) of the Money Laundering and Proceeds of Crime Act 2002 (No. 5 of 2002);
- send reports to the appropriate law enforcement authorities, if having considered the report, the AMLC has reasonable grounds to believe the transaction is suspicious;
- enter the premises of any financial institution or cash dealer to inspect any record kept pursuant to section 14(1) of the Money Laundering and Proceeds of Crime Act 2002 (No. 5 of 2002) (requirement to report suspicious transactions) and ask any questions relating to such record and to make notes and take copies of the whole or any part of the record; and
- send any information derived from such an inspection to the appropriate law enforcement authorities if the AMLC has reasonable grounds to suspect that a transaction involves proceeds of crime.

The Second Part of the MLPC Act 2002 will subject all the financial institutions and cash dealers to report all suspicious transactions report (STR) to the FIU. This is anticipated to be in force in 2006 therefore the FIU task now is to educate all stake holders and especially the reporting entities in the economy on their various responsibilities under this legislation (MLPC Act) 2002. It is planned that the FIU will conduct two workshops in 2006 for this purpose, one staged in February and the other in October. The target attendees of these two awareness workshops will be the commercial banks, insurance companies, Immigration, Customs, Forestry, Fisheries, Department of Finance, casino's and the Royal Solomon Islands Police.

The initial funding of the FIU will be provided by the Australian Government under the RAMSI assistance and Solomon Islands Government through the Central Bank of Solomon Islands. The funding will be for three years beginning in 2006. The Solomon Islands Government will fund the FIU after 2009.

In October a team from the IMF legal department and a representative from the Australian Government's Attorney General's Department, Anti-Money Laundering

Assistance Team (AMLAT) visited the FIU. During this visit a member of the IMF team gave initial training to the FIU Analyst on how to set up his office and presented a general overview of the officer's duties. While in Honiara, the representatives of IMF and AMLAT developed a coordinated approach to the technical assistance to develop the SIFIU. The proposed training program along with the budget was submitted to AMLC for approval.

In terms of reporting, the FIU Analyst reports directly to the AMLC on operational matters. CBSI only provides administrative support to the Unit. The Pacific Forum Secretariat also contributed to the training of the FIU Analyst by sponsoring his travel and upkeep while attending the Asia/Pacific Group on Money Laundering (APG) Typologies Workshop held in Nadi in late October 2005. The FIU Analyst also attended a training workshop held in Sydney on the use of a software program that would be used to store and analyze the Suspicious Transactions Reports (STR) conducted by AUSTRAC. Now that the AMLC is formally established, the Unit is expected to begin its work in 2006 after some necessary office renovations are completed and the office equipment is installed.

VIII. CENTRAL BANK OPERATIONS

Under the Central Bank Act [CAP 49], the Bank is empowered to carry out the following functions: to conduct monetary policy; to act as banker to banks, government and statutory bodies; to act as adviser to the government on economic and financial matters; to issue currency notes and coins; to manage the external reserves; to administer exchange control and banking legislation; to supervise commercial banks and credit unions; to manage the Small Business Finance Scheme; to act as a liaison institution between the Solomon Islands and international financial institutions and to carry out economic research and analysis. The Bank has different departments that carry out these functions. This chapter summarises the activities of the Bank in 2005.

Finance and Accounts

During the year the Bank made a profit of SI\$202.0 million (2004: \$8.5 million) and declared a dividend of \$18.0 million for the year. The significant profit is largely due to the impact of the restructuring of the Solomon Islands Government Loans and Advances which were previously classified as impaired and fully provided for. The Solomon Islands Government and the Central Bank were able to sign a Deed of Settlement. The total provision for doubtful debts (\$174.3 million) was written back and recognized as income for the year together with payment of accrued interest of \$11.9 million.

Total income for the year increased from \$20.8 million in the previous year to \$217.8 million which is explained by better returns on foreign assets resulting from improved interest rates and availability of more investment funds. Income from fees and commissions and royalties also performed better than in the previous year and the positive impact the Deed of Settlement signed with the Solomon Islands

Government provided a big windfall which also strengthened the Bank's financial position.

In terms of expenditures, the overall expenditure increased by 30% on previous year. Total expenditure represented 7% of the Bank's income earned for the same period as compared to 59% recorded for the previous year. The increase in expenses is attributed to additional costs of responsibilities and functions the Central Bank of Solomon Islands had to shoulder and increases in costs of goods and services in the market.

The financial position of the Bank continues to improve from a net worth of \$16.3 million in the previous year to \$152.2 million in 2005. The improvement in the net worth of the Bank is pegged down to improved financial performance in 2005 and increases in the Bank's total assets.

Total assets grew by \$310 million (49%) compared to a growth of 103% in the previous year. The increase in assets is reflected by increases in external reserves of \$120 million, and \$190 million in domestic assets.

Total liabilities of the Bank also rose from \$613.6 million in the previous year to \$781.8 million in 2005, an increase of 27%. Domestic liabilities, in demand deposit, currency in circulation and fixed deposits accounted for most of the increases which was slightly offset by decreases in monetary operation account and other domestic liabilities. The Banks' external liabilities dropped by 24% to \$17.1 million.

The Bank's net equity recorded a significant improvement on the previous year's position. The equity position improved by \$135 million due to the strong financial performance recorded for the year and increases in total assets offset by increases in liabilities. Through

the appropriation of net profit General and Other Reserves recorded increases. The General Reserves which recorded negative figures in the previous years reached positive territory. Currency Revaluation Reserves however, declined by \$14.6 million (49%) compared to a revaluation gain of \$36.2 million in the previous year.

Audit

PriceWaterhouseCooper's [PWC] five-year engagement as External Auditor of CBSI expired after the audit of 2004 annual accounts, but the Auditor General has reappointed PWC for another two year term as auditor of CBSI. CBSI received a clean audit report on its accounts and financial operations in 2005: the 2005 Financial Statement is provided in the next section of this report.

The two-year term of CBL Certified Practicing Accountant as the Internal Auditor of CBSI also expired at the end of 2005. The Board resolved to cease outsourcing the Internal Auditor's function in the Bank. The Bank will fill the Internal Auditor's position in 2006.

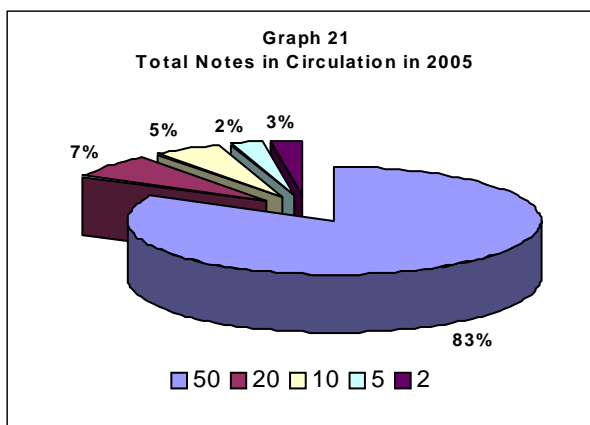
Currency Operations

Total currency in circulation in 2005 increased by 22% to \$168 million compared to a rise of 24% in the previous year. This consisted of \$161 million in currency notes and \$7 million in coins. The \$50 denomination accounted for 83% of the total circulated notes, an increase of 3% over 2004. (See Graph 21).

The value of \$20 denomination represented only 7% of the total circulation, edging down by 1% from the previous year. In terms of volume, the \$50 and \$2 denominations increased by 10% bringing a total of 5 million pieces of both in circulation in 2005.

Total notes destroyed in 2005 amounted to \$24.5 million compared to \$22.9 million in 2004. The rise however was only 7% compared

to 127% in the previous year. The reduction in notes destroyed was attributed to ongoing efforts to educate the general public through awareness talks and media about money handling issues.



The Bank continues to place great emphasis on currency management aiming to address operational and cost factors that would enable the country to progress towards achieving efficiency in handling currency.

In 2005, new notes introduced into circulation totalled \$55.8 million: 76% constituted \$50 denomination followed by \$20 denomination at 11% and the remaining fairly distributed between the other low valued denominations.

In terms of volume, the \$50 and \$2 denominations constituted 60% of total new notes issued during the year. There is pressure on the \$50 and \$2 denominations as a result of the pricing system and the volume of transactions between business houses and individuals. This also explains the positive correlation between the increase in the volume of notes destroyed during the year and notes dispensed to the public via the banking system. The Bank is confident that the introduction of a new \$100 denomination in 2006 will help absorb the current pressure on the \$50 denomination.

During the year, the Bank decided to revert the printing of the \$2 note from polymer to cotton paper. The decision was taken in response to public complaints about the quality of the \$2 polymer note. Both the new \$100 and \$2 denominations will include upgraded security features to counter increasing threats of digifeiting. The inclusion of the national flag and coat of arms on both notes is in line with Bank policy to portray minor design elements in Solomon Islands banknotes.

On numismatic coins, the Bank received \$1.8 million in royalties from overseas sales of commemorative coins. This is an increase of \$0.6 million from previous year sales. A bulk of this amount came from sales of commemorative coins by Royal Mints and World Coins to its European market. The Bank also approved minting of coin programmes in silver proof and cupro nickel sets depicting battle ships. A coin programme depicting HM The Queen's 80th Birthday had also been approved for minting and sales. While commissions on sales of circulation notes and coins improved substantially in recent years, local sales of commemorative coins remained relatively weak. The only coin programme aside from the World War II commemorative coins that attracted local sales was the RAMSI silver proof, which became available for sale in mid-2005.

Securities Market

The \$30 million cap in the Auction Treasury Bills market was maintained in 2005. There was increasing participation of individuals and other financial institutions, as investor confidence continued to increase. The public, however, continued to dominate the weekly auctions of Treasury Bills with higher preferences for the 91-day maturity at return yields between 3% and 4%. The amount floated at each auction is determined largely by the difference between the amount maturing during the week and the approved cap of \$30 million. It was observed that the

majority of bidders preferred the 91 days competitive and non-competitive maturities, although other maturity terms namely the 56 days, 28 days, 14 days and 7-days offered competitive prices as well.

Holders of Amortising Bonds continued to receive interest and principal repayments in line with their respective Deeds of Settlement with the Government. Consequently, there were significant decreases in the level of domestic debt obligations at end-year. Total government securities at year-end 2005 equalled \$286 million: this consisted of \$257 million in Amortising Bonds, \$1 million in Frozen Treasury Bills and \$28 million in Auction Treasury Bills.

Debt Management

The External Debt Section of the Bank finally installed and operated its upgraded CS-DRMS 2000+ v.1.0 software application following the successful migration of debt data to the upgraded system by a technical expert from the Commonwealth Secretariat. A back-up system was also installed in the Department of Finance. Although the system is dependant on data provided by the Bank, it would still provide the opportunity for debt managers and users in the government to use the various analytical tools available in the system. The Public Debt Unit in the Department continued to provide vital information to the government as well as reconcile statements as and when received from overseas creditors and other financial institutions. The Commonwealth Secretariat recognised the need to support system administrators and users with local capacity building given the specialist and technical nature of the CS-DRMS 2000+ system, thus it's commitment to training of local administrators. The Bank benefited from such support during the onsite visit of Commonwealth Secretariat experts in early March 2005. An upgraded version of v.1.0 that would include the domestic debts module is expected to be released in early 2006.

Exchange Control Operations

As in some 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 ensure that all export proceeds are received within a reasonable time. In fulfilling this requirement, the Bank has appointed commercial banks as authorized dealers for processing transactions up to a specified limit as directed by the Central Bank from time to time. All transactions with values above this limit, however, require the approval of the Bank.

In 2005, the Bank reviewed all exchange control mechanisms introduced during the ethnic crisis in June 2000. This resulted in the easing of exchange control restrictions including raising the authorized limits allowed to commercial banks to deal with their customers. The Bank further eased the authorized limits from \$25,000 to \$30,000 for all non-trade overseas payments and from \$25,000 to \$50,000 for all imports payments. The commercial banks overnight limit of \$3 million per commercial banks remained unchanged in 2005.

The Bank also reviewed its own internal control mechanisms to accommodate improvement in overseas trade during the year. These included withdrawal of certain restrictions of the rationing of exchange control approvals, and monitoring of all export proceeds and import payments. In fact, with the improvement of the social and economic environment during the year and general improvement of the external reserves, the Bank continued to ease its exchange control measures. A further review of certain monitoring measures on exports and imports will be made in 2006.

The flexibility of controls is intended to facilitate settlements of foreign exchange transactions. The Bank also lifted restrictions on capital transactions to resume normal business operations. All capital payments require tax clearances from the Commissioner of Inland Revenue. This procedure also is applied to emigrants wanting to transfer part or all of their savings. For temporary residents, however, transfer of surplus funds requires the Bank's prior approval.

The Bank's approval is still 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 residing in Solomon Islands. Such transactions require prior approval by the Investment Board (IB) and are further subject 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 meet import payments without incurring costs from 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 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 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) which is given by the Central Bank only after the exporter has obtained a market price certificate from the Commissioner of Forestry. In 2005, the Bank approved 693 applications under the SA for the exports worth 1,261,823 cubic meters of round logs estimated at US\$82.1 million or SBD\$585.5 million. This was higher than the average volume approved in the last three years. The value was affected by changes in the value of the Solomon dollar. Overall foreign exchange receipts reported in 2005 totalled SI\$ 2.9 billion.

Under the General Authority (GA), the Bank processed 1013 export shipping bills valued at \$215.0 million, compared to 4,869 import applications approved by the Bank valued at \$1.4 billion in 2005.

Management of External Reserves

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

- 1) To ensure the availability of reserves to meet the trading needs of the economy;
- 2) To ensure the safety of the reserves; and
- 3) 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 20% of the reserves and an Investment Fund (80%) 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 has been reduced due to improved foreign currency receipts for the settlement of trade. Reserve management ensures flexibility to provide foreign exchange for the country's international transaction and income of the Bank.

Most of the liquid funds are kept with foreign central banks and other major clearing banks for ease of international transactions. This portion of the reserves earns very little or no interest. When the liquid funds are low and there are impending imports and other payments to be made, the Bank shifts funds from the investment portion to the liquid portion by reducing term deposits.

In line with prudential management objectives the Board has established a list of banks and financial institutions that are deemed suitable as depositories for the external reserves. 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 that risks are mitigated as much as possible. The committee meets quarterly for reviews and establishes guidelines for the department to follow. The committee makes a quarterly report to the Board for information and sometimes requests further policy guidance.

Banking Supervision

In terms of supervision of licensed financial institutions, the Bank conducted two on-site examinations during the year. The first one involved the appraising of the Customer Due Diligence policy (CDD) of a bank and the other on the assessment of the operational risk

management of the SINPF. The findings from these examinations were discussed with the managements of the respective financial institutions, and where required the examiners made recommendations to remedy weaknesses in the policies identified.

Technical Assistance

The Bank received technical assistance from various sources during the year to provide advice on specific issues related to the Banks' responsibilities and operations.

In February, an IMF supplied IT consultant installed the Financial Reporting Database Program (FRED). This software has enabled the department to convert its excel tables into a database.

A Banking Supervision adviser based at the PFTAC (Pacific Financial Technical Assistance Centre) in Suva visited the FID Department twice in 2005. The first visit was to carry out an assessment of the Bank's work in the supervision of the SINPF, assess the Bank's prudential statement on CDD for its supervised financial institutions and advise the Bank in the set up of an FIU. As a result of the visit the Bank issued its CDD Guidelines to the commercial banks in May 2005. These guidelines set the Bank's minimum standard that licensed financial institutions are required to meet to identify their customers as they develop banking relationships with them. At the same time new supervisory returns were issued to NPF for prudential supervision purposes. On his second visit, the Adviser joined the FID team for an on-site examination team to assess the Anti-Money Laundering Policy and CDD of one of the banks. A set of recommendations was given to that commercial bank to incorporate into its Anti-Money Laundering Policy.

Other technical assistance were engaged in the areas of reserves management, statistics, anti-money laundering, debt recording management and insurance.

Research Activities

The Economics Department remained committed to the Bank's responsibility of collecting, compiling and publishing economic and financial information during 2005. Whilst some of the data were collected from within the Bank, most were obtained from outside the Bank, both from domestic and external sources. These reports are vital in providing the basis for carrying out the followings: first for advising the government and other interested parties; secondly, for formulating monetary policy by the Bank and thirdly for generally informing the public on latest economic conditions of the country. These are published on a regular basis in the Bank's Monthly, Quarterly and Annual Reports.

As well, during the year the Bank continued to host the Monthly Management Monitory Meetings (4M's). The 4M's is vital in providing an avenue through which recent economic developments can be reviewed. Further, it allows the Bank to participate in other government policy issues. Department staff continued to participate in a number of seminars, workshops and short courses that were relevant to their respective official duties. This enhanced improvement in staff performance and also allowed the Bank to contribute in the government reform process and policy formulation during the year.

Administration, Personnel and Training

There were several changes to management staff in 2005 as a result of early retirement and termination. The employment contracts for Manager, Financial Institutions department; Manager, Economics department; Manager, Corporate Services department; Manager, Foreign Exchange department and Manager, Currency and Banking Operations department expired at different times during 2005.

The Manager CBO, Mr. Frank Afu retired from the Bank at the end of the year and was replaced by Mr. Daniel Haridi in January 2006.

Three other management contracts were renewed on terms ranging from two to four years. While Manager Economics Department, was terminated by the Board for misconduct in office and was replaced by Mr. Vincent Nomae in early 2006. Mr. Joe Vasuni was appointed Assistant Manager of Foreign Exchange Department, replacing Mrs. Helen Beck who resigned from the Bank to join the Solomon Islands Mission in New York. The Assistant Manager of FID Mr. Christian Salini resigned in September to join the University of South Pacific and was replaced by Mr. Raynold Moveni who was transferred from the Economics department.

The CBSI Medicare Scheme with SMI expired at the end of August, at the same time the SMI license to operate as an insurance company expired and was not renewed by the Controller of Insurance.

The Bank successfully hosted a National Conference on Revitalising Rural Financial Services in Solomon Islands in April 2005. A report on the conference was launched by the Minister of Finance in November 2005.

The Training policy was revised in 2005. Under the new policy only 4 staff members would be allowed to attend full time overseas training at one time. Other major changes included opportunities for secondment of CBSI staff to other organizations and emphasis on post graduate training up to Phd level.

Opportunities for contracted managers to undertake full time, long term training and sabbatical break for long serving Executive and Management staff at the Board's approval are also provided for in the new training policy.

In 2005 nine staff members of the Bank undertook studies at the University of the South Pacific in Suva, Fiji: six doing first degree studies and three post graduate studies. The three staff that did post graduate studies returned at the end of the year. Of the six remaining students one is sponsored by the

Bank and five are partly sponsored by the SI Government. Three staff are expected to complete their studies in 2006.

The Assistant Manager for Corporate Services continued his CPA studies through correspondence. Short courses and seminars held locally and overseas were attended by selected officers of the Bank. Eleven staff members of the Bank undertook part-time courses at SICHE and USP Centre, Honiara.

Staff from the FID Department attended a number of funded courses overseas in areas specific to their work. IMF sponsored the Manager to attend a course on Anti-Money Laundering and Combating the Financing of Terrorism for Supervisors and Regulators in May, in Singapore – IMF Regional Training Institute. The Australian Prudential Supervisory Authority (APRA) partially funded the cost for two Officers on attachment training on Superannuation fund supervision with APRA and the Bank of Papua New Guinea (BPNG) in Port Moresby. In October two officers attended the annual Association of Financial Support of Pacific Centre (AFSPC) training hosted by the BPNG in Port Moresby, which was fully funded by the PFTAC.

In terms of CBSI funded trainings, one officer attended a Capacity Building in Prudential Regulations and Risk Management Training Program in life and pension investment and retirement program conducted by the Australian APEC Study Centre in Melbourne in February 2005. The Manager attended the Seventh SEACEN Conference of Directors of Supervision for Asia-Pacific Economies held in Kuala Lumpur, Malaysia and also the APG Typologies Workshop held in Fiji in October 2005.

Information Technology

The Information Technology Unit (ITU) within the Corporate Services Department undertook a number of projects and activities aimed at enhancing efficiency and effectiveness of the

information systems in the Bank and staff productivity.

With the availability of Broadband technology in the Solomon Islands, the Bank was able to switch from the slower but expensive dial-up-connection to the recently introduced Asymmetric Digital Subscriber Line (ADSL) connection.

During the year the Bank also benefited from IMF technical assistance, in developing and implementing a Financial Reporting Engine Database (FRED) and the Book Entry system to manage domestic debts including treasury bills and bonds.

The Information Technology Unit was involved in the implementation, upgrading of the Swift system and the Commonwealth Secretariat Debt Reporting Management System (CS-DRMS). Other activities undertaken included replacement and upgrading of old desktop computers, development of staff attendance reporting database system, assisted with the general ledger conversion project testing and re-looked at the current FET ticketing system through the banks with the view of enhancing or developing an integrated system that would capture relevant and timely data to meet the information needs of the Bank.

Properties

The CBSI site at Aruligo, West Guadalcanal was rebuilt in 2005 after it was abandoned following the civil unrest in 2000. The site is back in use and is becoming popular with CBSI staff and other organizations in Honiara.

Security fencing around the CBSI Community at Mbokona was improved with the front entrance secured with lockable gates. Water supply to the management houses at Mbokona was greatly improved to ensure a constant flow.

The CBSI properties at Skyline Ridge were treated for white ant infestation. Both properties are rented out to RAMSI.

The Isuzu pick-up truck was disposed in late 2005 and a new Toyota pick-up truck purchased in January 2006. The Governor's vehicle was also replaced during the year.

Chubb (NZ) installed a new time recording system to record staff attendance and movements in and out of the Bank.

A new fire alarm system and indicator panel was installed to replace the old fire alarm system in the Bank. A new digital recording system for control of the electronic security system was also installed.

Board Activities

The term of four Directors on the CBSI Board expired in 2005. Three (Mr. Yoshiyuki Sato, Mr. George Kiriau and Mr. Francis Kairi) were reappointed, for terms ranging from two to three years and the other (Mr. Tony Hughes) was replaced by Mr. Bruce Saunders as Director for two years.

Seven Board meetings were held in 2005 against six planned meetings. One of the Board Meetings was held at Kirakira in Makira/Ulawa Province. Thirty-three Board papers were presented by Management for the Board deliberations at the meetings. Major businesses discussed at the meetings included the 2004 financial statements, the 2004 annual economic report; Quarterly Investment Management and External Reserves Reports, Progress reports on the CAM administration of DBSI, Monetary Policy Stance for 2005, Appointment of Contracted Managers, Commercial Bank Performance Reports, the hosting and the Report on the Conference on Revitalising Rural Finance; Mid-year review of Work Programs for 2005, Work Programs for 2006, Mid-year Review of 2005 Budget, 2006 Budget, Onsite Inspection reports on a number of financial institutions.

Relations with International Organizations

The Bank continued to maintain close professional relations with central banks in the region and other international organizations like the International Monetary Fund, World Bank, Asian Development Bank, Ausaid and the Pacific Financial Technical Assistance Center. Regular operational contact was maintained with the Bank's note printers De La Rue, coin producers Royal Mint, and the Commonwealth Secretariat for the CS-DRMS debt recording and management system. These contacts enabled the Bank to benefit from training opportunities offered by these organizations or engage their technical experts for specific activities in the Bank.

In 2005, the Bank received TA from the Commonwealth Secretariat on CS-DRMS issues; the IMF provided a general advisor to

the Bank on a peripatetic basis and several TA's were engaged to look at issues related to insurance, bank supervision, anti money laundering, reserves management and statistics. The World Bank provided TA to review the SINPF investment guidelines and legislation and the Pacific Enterprise Development Facility (PEDF), an offshoot of the World Bank funded a five-phase study of the credit union movement in the country.

A US\$0.25 million grant package from the World Bank earmarked for institutional strengthening was received in 2005. The first tranche was received during the year and would be used in the areas of bank supervision and statistical collection and analysis. Ausaid and the PEDF also made cash contributions towards the cost of the National Conference on Revitalizing Rural Financial Services in April.



REPORT OF THE AUDITOR-GENERAL

TO: Minister for Finance
Department for Finance and Treasury

Scope

The accompanying financial statements of the Central Bank of Solomon Islands (*herein referred to as **the "Bank"***) has been audited under my direction pursuant to the provisions of section 47(2)(b) of the Public Finance and Audit Act [Cap. 120]. The Bank's directors are responsible for the preparation and presentation of the financial statements and the information they contain. The independent audit of these financial statements has been conducted in order to express an opinion on them.

The audit has been conducted in accordance with the International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free of material misstatement. The procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the International Accounting

Standards and statutory requirement of the Central Bank of Solomon Islands Act and other laws of Solomon Islands so as to present a view which is consistent with my understanding of the Bank's financial operations, and its sources and application of funds.

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

Audit Opinion

In my opinion the financial statements of the Central Bank of Solomon Islands, which has drawn up in accordance with the International Accounting Standards, the provisions of the Central of Solomon Islands Act 1976 and the Public Finance and Audit Act [Cap. 120] and relevant laws of Solomon Islands, gives a true and fair view of the Bank's state of affairs as at 31 December 2005 and its results for the financial year then ended.



Floyd Augustine Fatai
Auditor-General

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

May 1, 2006

CENTRAL BANK OF SOLOMON ISLANDS

BALANCE SHEET
AS AT 31ST DECEMBER, 2005

	Notes	2005 (\$'000)	2004 (\$'000)
ASSETS			
<u>Foreign Currency Assets</u>			
Money at Call		174,576	140,348
Accrued Interest & Bills Collectibles	14	4,463	3,956
Term Deposits	13	537,835	452,434
Holding of Special Drawing Rights		15	21
Total Foreign Currency Assets		716,889	596,759
<u>Local Currency Assets</u>			
Cash on Hand	17	110	69
Loans and Advances	11	198,752	14,034
Equity Investments	16	0	673
Premises & Equipment (less provision for depreciation)	10	8,833	9,145
Other Assets	12	15,727	9,200
Total Local Currency Assets		223,422	33,121
TOTAL ASSETS		940,311	629,880
LIABILITIES			
<u>Foreign Currency Liabilities</u>			
Accrued Interests			
Demand Deposits	5	3,722	8,554
IMF Special Drawing Rights Allocations		7,084	7,610
Capital Subscriptions	4	6,320	6,320
Total Foreign Currency Liabilities		17,126	22,484
<u>Local Currency Liabilities</u>			
Demand Deposits	6	487,750	396,920
Currency In Circulations	9	168,000	137,693
SIG Monetary Operations Account	8	28,571	29,176
Fixed Deposits	15	58,977	25,850
Provision for transfer to SIG Consolidated Fund		17,980	0
Other Liabilities	7	3,350	1,446
Total Local Currency Liabilities		764,628	591,085
TOTAL LIABILITIES		781,754	613,569
NET ASSET/(LIABILITIES)		158,557	16,311
EQUITY			
<u>Capital and Reserves</u>			
Authorised Capital		50,000	50,000
Paid up Capital		2,597	2,597
General Reserves	3(a)	78,014	(71,804)
Revaluation Reserve	3(b)	43,173	84,742
Other Reserves	3(c)	34,773	776
TOTAL EQUITY		158,557	16,311

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

Date:

25 April 2006

Signed:

(Governor)

Signed:

(Manager, Corporate Services Dept)

CENTRAL BANK OF SOLOMON ISLANDS

INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2005

	Notes	2005 (\$'000)	2004 (\$'000)
INCOME			
Interest Income	2(a)	36,913	14,536
Fees and Commissions	2(b)	3,733	4,459
Royalties		1,867	1,213
Net Gain on Foreign Currency Exchanges		351	0
Other Income	2(c)	174,899	592
Total Income		217,763	20,800
<u>EXPENSES</u>			
Interest expense	2(d)	180	107
Fees and Commissions		42	34
Administrative Expenses	2(e)	11,804	9,178
Other operating Expenses	2(f)	3,939	2,955
Total Expense		15,965	12,274
Operating Profit/(Loss)		201,798	8,526
Transfer from Reserves			
Other Reserves	3(c)	0	0
Total transfer from Reserves		0	0
Net Profit		201,798	8,526
<u>Appropriation of Net Profit</u>			
Net Profit Transferred to General Reserves in terms of section 20(1) of CBSI Act [CAP 49]		149,818	8,526
Transfer to Other Reserves in terms of section 20(2) of CBSI Act [CAP 49]		34,000	0
Transfer to Solomon Islands Government Consolidated Fund in terms of section 20(2) of CGSI Act [CAP 49]		17,980	0

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

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2005

	Authorised Capital (\$'000)	Paid Up Capital (\$'000)	General Reserve (\$'000)	Revaluation Reserve (\$'000)	Other Reserve (\$'000)
Balance at 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 of section 45(3) of CBSI Act (CAP49)	0	0	0	(28,386)	0
Balance - 31 December 2004	50,000	2,597	(71,804)	84,742	776
Transfer of net operating profit/ (loss) in terms of Section 20(1) of CBSI Act (CAP49)	0	0	149,818	0	34,000
Transfer of Revaluation Gains/(losses) for the year in terms of section 45(1) of CBSI Act (CAP49)	0	0	0	(41,569)	0
Payments during the financial period in terms of section 45(3) of CBSI Act (CAP 49)	0	0	0	0	(3)
Balance - 31 December 2005	50,000	2,597	78,014	43,173	34,773

CENTRAL BANK OF SOLOMON ISLANDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2005

	Notes	2005 (\$'000)	2004 (\$'000)
Cash flows from operating activities			
Interest received		36,415	11,416
Cash received from other income		6,514	6,202
Interest paid		(180)	(107)
Cash payments in the course of operations		(17,643)	(7,013)
Net cash from operating activities before movement in operating assets and liabilities		25,106	10,498
Cash received on placement of deposits		123,957	251,488
Cash received/(paid) on IMF allocation of SDR		(526)	352
(Increase)/decrease in government finance provided		(11,323)	(127)
Net cash provided by operating activities		137,214	262,211
Cash flows from investment activities			
Payments for Premises, Plant & Equipment		(1,000)	(1,527)
Proceeds from sale of Premises, Plant & Equipment		147	62
(Increase)/decrease in foreign investments		(160,192)	(285,549)
Net cash used in investment activities		(161,045)	(287,014)
Cash flows from financing activities			
Net movement in issue of circulating currency		30,308	26,498
Net movement in foreign currency loan		(5,831)	747
Solomon Islands Government Monetary Operations		(605)	(2,486)
Net cash from financing activities		23,872	24,759
Net increase (decrease) in cash held		41	(44)
Cash at the beginning of the financial year		69	113
Cash at the end of financial year	17	110	69

Notes numbered 1 to 18 form part of these financial statements

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2005

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 2007.

(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.

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.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2005

2. INCOME AND EXPENSES

	2005 (\$'000)	2004 (\$'000)
(a) Interest Income		
Interest Received from foreign investment	25,394	14,396
Interest received from local investment	11,519	140
	36,913	14,536
(b) Fees and Commissions		
Fees and commissions - foreign dealings	3,652	4,382
Fees and commissions - local dealings	81	77
	3,733	4,459
(c) Other Income		
Proceeds from disposal of fixed assets	47	62
Rent Received	412	396
Sale of Numismatic coins	107	97
Provision for Doubtful Debt on SIG loans and advances written back	174,289	0
Others	44	40
	174,899	592
(d) Interest Expenses		
Interest expenses on foreign liabilities	180	107
Interest expenses on local liabilities	0	0
	180	107
(e) Administration expenses		
Staff Costs	7,224	6,147
Others	4,580	3,031
	11,804	9,178
(f) Other Operating expenses		
Board of Directors Renumérations & expenses	78	73
Currency expenses	1,474	773
Depreciation	1,199	1,206
Auditors Renumérations	219	212
Provisions for Bad and Doubtful Debts	0	2
Provision for Diminution	673	673
Others	296	16
	3,939	2,955

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2005

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 and Capital Asset Reserves. 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

	2005 (\$'000)	2004 (\$'000)
Demand deposit of international organizations such as Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association (IDA)	3,722	8,554

6. LOCAL CURRENCY DEMAND DEPOSITS

Banks	294,659	244,559
Solomon Islands Government	191,888	151,051
Financial Corporations	864	1,188
Other	339	79
	487,750	396,920

7. OTHER LOCAL CURRENCY LIABILITIES

Unpresented Bank Cheques	2,275	590
Provisions for employee entitlements	221	245
Other	854	611
	3,350	1,446

8. SECURITIES

Solomon Islands Government Monetary Operations	28,571	29,176
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9. CURRENCY IN CIRCULATION

Notes	160,687	130,584
Coins	7,313	7,109
	168,000	137,693

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2005

10. FIXED ASSET

2005	TOTAL (\$'000)	PREMISES EQUIPMENT (\$'000)	FURNITURE (\$'000)	COMPUTER (\$'000)	MOTOR VEHICLE (\$'000)
Written down Value at 1st January 2005	9,145	7,469	1,147	272	257
Additions during the year	1,000	0	487	247	266
Disposal during the year at written down value	(113)	0	0	0	(113)
Depreciations for the year	(1,199)	(300)	(556)	(206)	(137)
Written Down Value at 31st December 2005	8,833	7,169	1,078	313	273
2004	TOTAL (\$'000)	PREMISES EQUIPMENT (\$'000)	FURNITURE EQUIPMENT (\$'000)	COMPUTER (\$'000)	MOTOR VEHICLE (\$'000)
Written down Value at 1st January 2004	8,860	7,769	481	353	257
Additions during the year	1,527	0	1,047	316	164
Disposal during the year at written down value	(37)	0	0	0	(37)
Depreciations for the year	(1,205)	(300)	(381)	(397)	(127)
Written Down Value at 31st December 2004	9,145	7,469	1,147	272	257

11. LOANS AND ADVANCES

	2005 (\$'000)	2004 (\$'000)
(a) Loans and Advance to Solomon Islands Government		
Loans and Advances	185,680	174,289
Less Provision for Doubtful Debts	0	(174,289)
Development Bonds	27	27
Treasury Bills	118	187
Other Securities	11,075	11,075
Total Advances to Solomon Islands Government	196,900	11,289
(b) Staff Loans		
Staff Housing Loans	1,353	2,156
Less Provision for Doubtful Debts	(251)	(251)
Management Car Loans	74	37
Personal Loans	676	803
Total Advance to Staff	1,852	2,745
Total Loans and Advances	198,752	14,034

CENTRAL BANK OF SOLOMON ISLANDS**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2005****(c) Concentration of Credit Risk**

Loans and Advances to the government of \$185.7m accounted for twenty percent (20%) of the Bank's total assets in comparison with twenty two (22%) in 2004.

On 17th February 2006, a Deed of agreement was signed between the Solomon Islands Government and the Central Bank of Solomon Islands. Under the agreement both parties agreed to convert the amount owing to Central Bank of Solomon Islands into a rolling advance and three new tranches of amortizing bond at 2.25% interest rate and repayable over 15 to 25 years.

<u>Tranches</u>	<u>Face Value</u>	<u>Maturity</u>	<u>Rate</u>	<u>Installment</u>
Rolling Advance	50,000,000.00		2.25%	
Amortizing Bond 1	41,427,688.23	1 Feb 2021	2.25%	271,386.23
Amortizing Bond 2	41,427,688.23	1 Feb 2026	2.25%	214,516.00
Amortizing Bond 3	41,427,688.23	1 Feb 2031	2.25%	180,678.23

The parties also agreed that the Government repay 25% of total interest accrued and owed on loans and advances up to 31st March 2005 and the remaining 75% of total interest accrued be forgiven. Based on this arrangement, the Central Bank of Solomon Islands on 17th February 2006 received \$11,397,217.81 representing 25% of total interest while the remaining \$34,191,653.44 representing 75% forgiveness was written off on 31st December 2005.

With the execution of the deed; receipt of accrued interest and repayment arrangements put in place the Directors of the Bank reviewed the status of these assets and are of the opinion that the total sum of \$185.7m owing from Solomon Islands Government in rolling and amortising bonds as at 31st December 2005 are unimpaired and fully recoverable. Provisions previously made against these debts were therefore written back at 31 December 2005.

The current level of borrowings by the government, however, 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 2005 was \$98.4m (2004 - \$98.4m).

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2005

12. OTHER LOCAL CURRENCY ASSETS	2005	2004
	(\$'000)	(\$'000)
Current Assets	1,610	1,853
SI Notes and Coins	11,234	6,689
Advances and prepayments	4,471	2,246
Less Provision for Doubtful Debts	(1,588)	(1,588)
	15,727	9,200
13. MATURITY OF FINANCIAL ASSETS		
All 2005 Term deposits mature within five months		
14. ACCRUED INTEREST AND BILLS COLLECTIBLES		
Accrued Interest - interest receivable but not due	4,455	3,948
Bills for collections	8	8
Total	4,463	3,956
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.		
	2005	2004
	(\$'000)	(\$'000)
Investment Corporation of Solomon Islands (ICSI)		
Investment at cost	10,000	10,000
Accumulated Provision for diminution	10,000	(9,327)
Net Equity Investment - ICSI	0	673
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	0	673

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2005

17. CASH AND CASH EQUIVALENT

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

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
2005 CALENDAR OF EVENTS**

January

- Mr Ishmael Wore is re-appointed as Manager Economics department (ECO) for a four-Year term;
- The President of the Republic of China (ROC) visits Solomon Islands.

February

- A workshop on rural finance is organised by the Bank in Honiara for provincial small and medium sized businesses;
- An ACP/EU joint mission visits the Bank as part of a review mission to Solomon Islands;
- A Bank of South Pacific (BSP) team visits the Central Bank to discuss their interest in the National Bank of Solomon Islands (NBSI).

March

- A technical mission from the Commonwealth Secretariat visits the Bank to hold discussions on CS-DRMS issues;
- Another workshop on rural finance is organised by the Bank in Gizo for small and medium sized businesses from Western and Choiseul provinces;
- Governor, General Advisor and a senior analyst, Economics department attend an IMF Seminar on Monetary Policy in Shallow Financial Markets in Suva;
- Two staff of the Settlement Unit, Foreign Exchange (FRX) department, Mr Joe Vasuni and Mr Denson Denni attends Swift training in Sydney.

April

- Exchange Control mechanisms introduced since 2000 were relaxed;
- The Central Bank releases its Monetary Policy Stance for 2005;
- The Bank hosts a National Conference on Revitalising Rural Financial Services in Solomon Islands;
- Governor re-appointed as acting Controller of Insurance for another 12 months;
- SIG and CBSI start negotiations to normalise SIG debts to the Bank;
- An IMF provided TA arrives to investigate SMI activities;
- Mr. Yoshiyuki Sato is re-appointed as Director on the Board for another two-year term.

May

- The 2004 CBSI Annual report is launched;
- Governor attends the Asian Development Bank (ADB) Annual Meeting in Istanbul;
- A Pacific Islands Forum Eminent Persons Group led by the Fijian Foreign Minister, visits the Central Bank as part of their review of RAMSI activities in Solomon Islands;
- An IMF Article IV mission visits Solomon Islands for annual consultations;
- Ms Helen Beck, Assistant Manager, FRX department resign from the Bank.

June

- The High Court extends the Central Bank's Court Appointed Management (CAM) of DBSI for a further six months to December 2005;
- Deputy Governor, Mr Denton Rarawa, attends a Microfinance Conference in Port Moresby.

July

- ANZ Chief Executive Officer visits Solomon Islands;
- Deputy Governor attends the annual meeting of the Asia Pacific Group (APG) on Money Laundering in Cairns;
- Credit Corporation of PNG is given a licence to operate in Solomon Islands;

- Mr. Gane Simbe, is re-appointed as Manager Financial Institutions department (FID) for another four-year term;
- Solomon Islands experience a shortage of coins;
- Mr Sotere Tuaveku, Export Officer, FRX department went on attachment with the Reserve Bank of Fiji (RBF) to look at exchange control issues;
- Governor attends a “Winds of Change” conference in Brisbane;
- Governor attends the “Pacific 2020” roundtable discussions in Sydney.

August

- The Central Bank Board holds its board meeting at Kirakira, Makira Ulawa Province;
- An expert from IMF and another from OECD visit CBSI to provide technical advice on reserves management.

September

- The World Bank Country director based in Sydney, Mr Xian Zhu visits Solomon Islands;
- Governor, Mr Rick Hou and Mr Luke Forau, Assistant Manager, ECO attends Commonwealth Finance Minister’s meeting in Barbados and the IMF and World Bank Joint Annual Meetings in Washington DC where they were joined by the IMF Adviser, Mr Michael Brown;
- The Bank appoints Mr Michael Ha’apio as Financial Analyst to man the Solomon Islands Financial Intelligence Unit (SIFIU);
- Mr George Kiriau and Mr Francis Kairi are re-appointed as Directors and Mr Bruce Saunders appointed as a new Director on the Board replacing Mr Tony Hughes;
- CBSI approves the establishment of the Western Union Money Transfer in Solomon Islands.

October

- Mr Edward Ronia, Manager Corporate Services Department (CSD) is re-appointed for another three-year term;
- The Solomon Islands Government meets with its international creditors under the “Honiara Club” framework;
- Two Bank Analysts in FID, Mr Samuel Warunima and Ms Barret Kome attend the meeting of the Association of South Pacific Financial Supervisors in Port Moresby;
- Mr Joe Vasuni appointed as Assistant Manager, FRX department.

November

- The report on National Conference on Revitalising Rural Financial Services in Solomon Islands is launched by the Minister of Finance, Hon Peter Boyers;
- ANZ launches its mobile banking operations on Guadalcanal;
- Solomon Islands Government meets with its Development Partners;
- The Bank terminates the contract of Mr Ishmael Wore as Manager Economics department;
- World Bank Executive Director Mr Joong Kyung Choi visits Solomon Islands.

December

- The Solomon Islands Government agrees to restructure its debts with the Central Bank;
- Deputy Governor and Manager CSD attend the annual meeting of South Pacific Central Bank Governors in Port Vila;
- The High Court extends the CAM arrangement for another six months to June 2006;
- Mr Frank Afu, Manager Currency and Banking Operations department retires from the Bank at the end of his contract;
- The Controller of Insurance applies to the High Court to liquidate the Solomon Mutual Insurance (SMI) company;
- The Bank receives consignment of coins from the Royal Mint of UK;
- Mr Raynick Aquillah, Manager FRX department is re-appointed for another two-year term.

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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	Govern-ment(net)	Private Sector	Total	Currency in Circulation	Demand Deposit Banks	CBSI	Total	Savings Deposits	Time Deposits		
2002	102623	10351	112974	297939	173282	471221	91302	155478	116	246896	67375	100440	414711	168388
2003	250402	16481	266883	249170	217345	466515	102691	224987	228	327906	67453	124825	520184	213214
2004	578167	5680	583847	77918	238593	316511	123235	247401	1203	371839	75988	173860	621687	278671
2005	699698	12811	712509	36440	389115	425555	153012	383750	1140	537902	88078	237761	863741	274323
2002														
Mar	129412	3740	133152	289293	165732	455024	85392	155075	331	240798	76367	83053	400218	187958
Jun	129412	13212	142624	303583	175690	479273	78017	144055	173	222245	67626	88572	378443	243454
Sep	70411	608	71019	298534	190412	488946	86399	139586	136	226122	74297	97335	397754	162211
Dec	102623	10351	112974	297036	173282	470318	91502	155478	109	247089	67375	100440	414904	168388
2003														
Mar	124612	5446	130058	305064	172775	477839	84133	166027	27	250187	71269	100019	421475	186422
June	181177	8415	189592	306735	181616	488351	97490	177891	33	275414	71637	103909	450960	226983
Sep	185573	6632	192205	284332	195040	479372	94156	194530	175	288860	72127	114065	475052	196525
Dec	250402	16481	266883	249170	217345	466515	102691	224987	228	327906	67453	124825	520184	213214
2004														
Mar	303662	2634	306296	205238	230973	436211	95463	223463	798	319724	65947	130264	515935	226572
Jun	409287	21698	430985	106869	219408	326277	106759	246432	535	353726	65820	137261	556807	200455
Sep	507642	19391	517033	109941	232765	339618	113020	278181	558	391759	76804	167927	636490	220161
Dec	578167	5680	583847	77918	238593	316511	123235	247401	1203	371839	75988	173860	621687	278671
2005														
Jan	554783	12110	566893	90791	247627	338418	118454	272405	1684	392543	73112	172247	637902	267409
Feb	571382	14926	586308	89134	249202	338336	118084	285689	1390	405163	75146	177128	657437	267207
Mar	567337	1180	568517	84178	258949	343127	121821	276503	923	399247	76780	174780	650255	261389
Apr	575542	9395	584937	68742	282162	350904	127114	285888	917	413919	73397	176787	664103	271738
May	624288	23856	648144	828	273090	273918	125940	286603	1397	413940	77676	183445	675061	247001
Jun	619798	36052	655850	4160	284809	288869	128905	300413	1911	431229	78751	185686	695666	249053
Jul	605757	45455	651212	1905	319590	321495	129110	313933	3371	446414	76869	192451	715734	256973
Aug	635079	28642	663721	(2888)	311526	308638	128116	321360	2943	452419	81455	198967	732841	239518
Sep	680357	13804	694161	(12818)	345532	332714	135670	345879	1168	482717	82455	212589	777779	249096
Oct	682465	13037	695502	(7551)	362041	354490	131906	348497	921	481324	82470	225074	788868	261124
Nov	675010	13153	688163	7307	383878	391185	139171	365422	876	505469	84389	235739	825597	253751
Dec	699698	12811	712509	36440	389115	425555	153012	383750	1140	537902	88078	237761	863741	274323

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					
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
2005	153012	383750	1140	537902	88078	625980	237761	863741
2002								
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
2003								
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
2004								
Mar	95463	223463	798	319724	65947	385671	130264	515935
Jun	106759	246432	535	353726	65820	419546	137261	556807
Sep	113020	278181	558	391759	76804	468563	167927	636490
Dec	123235	247401	1203	371839	75988	447827	173860	621687
2005								
Jan	118454	272405	1684	392543	73112	465644	172247	637902
Feb	118084	285689	1390	405163	75146	480309	177128	657437
Mar	121821	276503	923	399247	76228	475475	174780	650255
Apr	127114	285888	917	413919	73397	487316	176787	664103
May	125940	286603	1397	413940	77676	491616	183445	675061
Jun	128905	300413	1911	431229	78751	509980	185686	695666
Jul	129110	313933	3371	446414	76869	523283	192451	715734
Aug	128116	321360	2943	452419	81455	533874	198967	732841
Sep	132939	347072	1168	481179	81312	565190	212589	777779
Oct	131906	348497	921	481324	82470	563794	225074	788868
Nov	139171	365422	876	505469	84389	589858	235739	825597
Dec	153012	383750	1140	537902	88078	625980	237761	863741

Source: Central Bank of Solomon Islands.

TABLE 1.3 ASSETS OF CENTRAL BANK OF SOLOMON ISLANDS

(SI\$'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	Other	Total	Advances	O/D Account	T/Bills	Dev Bonds	Other Secs	Total	Banks	Non-Bank	Secs & Invt	Premis & Equip	Other	Total		
2002	51759	78638	-	39	487	130923	174985	-	186	27	11075	186272	-	-	2017	7997	14329	24343	342036	12
2003	131135	139945	-	2	832	1531914	174281	-	59	27	11075	185450	-	-	1345	8860	18502	28707	486070	13
2004	140348	452434	-	21	3955	596758	174289	-	187	27	11075	185578	-	-	673	9145	13853	23671	806007	15
2005	174576	537835	-	15	4463	716889	185680	-	118	27	11075	196900	-	-	-	8833	19528	28361	942150	17
2002																				
Mar	53095	90741	-	25	1433	145294	186808	-	477	27	11075	198386	-	-188	3361	8786	8232	20379	363881	9
Jun	43945	40011	-	4	1434	85394	189502	-	563	27	11075	201166	-	-188	2689	8864	3993	15546	301918	11
Sep	48659	67066	-	26	1433	117184	192214	-	253	27	11075	203569	-	-188	2689	8984	2275	13948	334513	12
Dec	51759	78638	-	39	487	130923	174082	-	186	27	11075	185370	-	-	2017	7997	14329	24343	340636	12
2003																				
Mar	40536	97845	-	14	487	138882	175774	-	372	27	11075	187248	-	-	2017	8315	12873	23205	349335	12
Jun	105269	16511	-	12	-15120	106672	178448	-	235	27	11075	189783	-	-	2017	8831	18062	28910	325365	14
Sep	95671	124885	-	29	-15142	205443	181158	-	69	27	11075	192329	-	-	2017	8898	12021	22936	420708	13
Dec	131135	139945	-	2	832	1531914	174289	-	59	27	11075	185450	-	-	1345	8860	18502	28707	1746071	13
2004																				
Mar	151958	174136	-	13	836	326943	175983	-	40	27	11075	187125	-	-	1345	9197	12268	22810	536878	15
Jun	197514	236031	-	23	8	433576	174289	-	29	27	11075	185420	-	-	1345	9907	13895	25147	644143	15
Sep	146643	383873	-	9	8	530533	174289	-	118	27	11075	185509	-	-	1345	10022	16674	28041	744083	14
Dec	140348	452434	-	21	3955	596758	174289	-	187	27	11075	185578	-	-	673	9145	13853	23671	806007	15
2005																				
Jan	131004	443120	-	78	3955	578157	174283	-	197	27	11075	185582	-	-	673	9178	14104	23955	787694	15
Feb	138757	451871	-	46	3955	594629	174283	-	187	27	11075	185572	-	-	673	9342	13633	23648	803849	15
Mar	116206	470256	-	46	3955	590463	174283	-	325	27	11075	185710	-	-	673	9404	38041	48118	824291	16
Apr	116601	477592	-	46	3955	598194	174283	-	307	27	11075	185692	-	-	673	9401	18918	28992	812878	16
May	157803	489007	-	11	8	646829	174283	-	845	27	11075	186230	-	-	673	9672	17876	28221	861280	16
Jun	155979	485949	-	11	8	641947	174283	-	50	27	11075	185435	-	-	673	9128	16583	26384	853803	16
Jul	150458	476492	-	65	8	627023	174283	-	80	27	11075	185465	-	-	673	9162	15731	25566	838054	14
Aug	161633	491945	-	31	8	653617	174283	-	60	27	11074	185444	-	-	673	9216	16140	26029	865090	15
Sep	198728	500278	-	31	8	699045	174283	-	615	27	11074	185999	-	-	673	9308	12382	22363	907407	15
Oct	174026	526839	-	53	8	700926	174283	-	961	27	11075	186346	-	-	673	9309	16109	26091	913363	17
Nov	160230	532608	-	15	8	692861	174283	-	1148	27	11075	186533	-	-	673	9302	21625	31600	910994	17
Dec	174576	537835	-	15	4463	716889	185680	-	118	27	11075	196900	-	-	-	8833	19528	28361	942150	17

* 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 LIABILITIES
	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	
							Euro-Loan	Other	Total										
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
2005	7085	10106	17191	160688	7313	168001	-	279436	279436	294659	1140	575235	2597	43173	112787	158557	-	23166	942150
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																			
Mar	7221	16546	23767	97350	6613	103963	-	139672	139672	117845	798	258315	2597	76958	-107941	-28386	-	179219	536878
Jun	7167	17122	24289	110629	6773	117402	-	214006	214006	143240	535	357781	2597	76958	-107941	-28386	-	172817	644143
Sep	7209	15682	22891	116818	6950	123768	-	202514	202514	242154	558	445226	2597	76958	-107941	-28386	-	180584	744083
Dec	7610	14932	22547	130584	7108	137692	-	206121	206121	244559	1203	451883	2597	84743	-71029	16311	-	177574	806007
2005																			
Jan	7470	15994	23464	124540	7142	131682	-	194030	194030	255721	1684	451435	2597	89890	-79555	12932	-	168271	787784
Feb	7483	15764	23247	122678	7162	129840	-	194551	194551	265269	1390	461210	2597	84982	-79555	8024	-	181528	803849
Mar	7414	15712	13126	127656	7191	134847	-	219440	219440	261287	923	481650	2597	84743	-71031	16309	-	168359	824291
Apr	7452	15200	22652	129664	7214	136878	-	233799	233799	225289	917	460005	2597	84743	-71029	16311	-	177032	812878
May	7335	15206	22541	130102	7237	137339	-	304726	304726	215499	1397	521622	2597	84743	-71029	16311	-	163467	861280
Jun	7199	14950	22149	133673	7255	140928	-	300937	300937	212086	1911	514834	2597	84743	-71029	16311	-	159581	853803
Jul	7125	14141	21266	131798	7270	139068	-	303454	303454	208417	3371	515242	2597	84743	-71029	16311	-	146167	838054
Aug	7195	11343	18538	133517	7277	140794	-	298679	298679	239398	2943	541020	2597	84743	-71029	16311	-	148427	865090
Sep	7162	11526	18688	140527	7277	147804	-	308634	308634	265383	1168	575185	2597	84743	-71029	16311	-	149419	907407
Oct	7172	11289	18461	137378	7284	144662	-	303619	303619	271196	921	575736	2597	85743	-71032	16308	-	158196	913363
Nov	7071	10780	17851	146354	7284	153638	-	300427	300427	273292	876	574595	2597	84743	-71032	16308	-	148602	910994
Dec	7085	10106	17191	160688	7313	168001	-	279436	279436	294659	1140	575235	2597	43173	112787	158557	-	23166	942150

Source: Central Bank of Solomon Islands.

TABLE 1.5 ASSETS OF COMMERCIAL BANKS

(SI\$'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
2005	14989	294556	-	6709	-	135083	-	-	-	-	-	389115	389115	74587	75601	990640
<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>																
Mar	8399	115320	-	11886	-	149840	-	-	-	715	1123	229850	231688	61451	68048	646632
Jun	10643	140655	-	12914	-	149840	-	-	-	710	-	219408	220118	72093	97862	704125
Sep	10748	253918	-	4947	-	142148	-	-	-	250	5	232750	233015	51270	82158	778214
Dec	14457	245937	-	3969	-	141913	-	-	-	240	7	238833	238833	58609	71863	775581
<u>2005</u>																
Jan	13228	252298	-	5933	-	141348	-	-	-	244	37	247590	247590	62051	77829	800558
Feb	11756	265102	-	4952	-	140783	-	-	-	1	96	249106	249203	63225	75009	810030
Mar	13026	258320	-	3952	-	140202	-	-	-	2	254	258695	258951	66764	67427	808642
Apr	9764	225202	-	989	-	139634	-	-	-	10	1	282173	282173	60037	64826	782625
May	11399	215515	-	3720	-	138978	-	-	-	12	1	273089	273102	68034	100552	811300
June	12023	211746	-	6696	-	138408	-	-	-	27	134	284675	284836	69849	112676	836234
Jul	9958	208699	-	6696	-	138015	-	-	-	3	1	319589	319593	56621	108627	848209
Aug	12678	234473	-	3734	-	137374	-	-	-	-	-	311526	311526	87187	94154	881126
Sep	12134	265027	-	3483	-	136802	-	-	-	-	-	345532	345532	78927	84565	926470
Oct	12756	273818	-	3483	-	136707	-	-	-	-	-	362041	362041	72965	88130	949900
Nov	14467	278544	-	5964	-	135656	-	-	-	14	-	383878	383878	73525	63645	955693
Dec	14989	294556	-	6709	-	135083	-	-	-	-	-	389115	389115	74587	75601	990640

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 Govt	Stat Corps	Other	Total		S.I.G	Prov Govt	Stats Corps	Other	Total	S.I.G	Prov Govt	Stat Corps	Other	Grand Total					
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
2005	17789	4023	88078	367523	405562	88078	821	157	2063	235698	238765	18610	4206	18290	691299	732405	-	159161	36284	62790	990640
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																					
Mar	1292	2971	5250	218213	227726	65947	310	83	3715	126549	130657	1602	3054	8965	410709	424330	-	106645	50243	65414	646632
Jun	23773	3910	10018	236414	274115	65820	24	302	2927	134334	137587	23797	4212	12945	436568	477522	-	102021	48418	76164	704125
Sep	12708	6979	8344	269837	297868	76804	82	630	3519	164408	168639	12790	7609	11863	511049	543311	-	121002	41134	72767	778214
Dec	42710	3712	18293	229108	293823	75988	806	433	3050	170810	175099	43516	4145	21343	465906	544910	-	121051	43437	66183	775581
2005																					
Jan	39831	7204	18257	254148	319440	73112	808	443	3050	169197	173498	40639	7647	21307	496457	566050	-	118453	50336	65719	800558
Feb	40862	5730	16052	269637	332281	75146	907	124	3050	174078	178159	41769	5854	19102	518861	585586	-	123878	40483	60083	810030
Mar	21304	3912	17710	258793	301719	76228	806	226	3050	171730	175812	22110	4138	20760	506751	553759	-	127836	60800	66247	808642
Apr	18688	4100	17889	267999	308676	73397	821	176	3050	173737	177784	19509	4276	20939	515133	559857	-	130461	36876	55431	782625
May	18523	3866	19616	266987	308992	77676	821	176	3050	180395	184442	19344	4042	22666	525058	571110	-	128971	34523	76696	811300
Jun	20515	4072	20578	279835	325000	78751	821	161	2051	183635	186668	21336	4233	22629	542221	590419	-	132073	37118	76624	836234
Jul	19710	4132	18004	295929	337775	76869	821	157	2051	190400	193429	20531	4289	20055	563198	608073	-	142943	34021	63172	848209
Aug	25738	4045	22135	299225	351143	81455	821	157	2051	196916	199945	26559	4202	24186	577596	632543	-	138328	44743	65512	881126
Sep	23926	5564	22265	323614	375369	82473	821	157	2051	210538	213567	24747	5721	24316	616625	671409	-	142718	41582	70761	926470
Oct	23926	5564	22265	326232	377987	82470	821	157	2051	223023	226052	24747	5721	24316	631725	686509	-	145554	42744	75091	949900
Nov	14863	4592	16285	349137	384877	84389	821	157	2061	233678	236717	15684	4749	18346	667204	705983	-	152777	46441	50492	955693
Dec	17789	4023	88078	367523	405562	88078	821	157	2063	235698	238765	18610	4206	18290	691299	732405	-	159161	36284	62790	990640

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	Telecommunications	Distribution	Tourism
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
2005	4394	60466	9646	264	59962	21067	5377	60475	90052	2513
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										
Mar	2899	41326	5024	-	27694	17969	1253	43163	33990	3438
Jun	3585	37357	5375	-	14832	13804	1722	50453	35744	3692
Sep	3468	31549	331	-	19246	17762	2050	55152	47544	1828
Dec	4535	42139	333	142	26794	14947	2016	42802	46941	2644
2005										
Jan	3008	42425	2242	175	28370	15575	2404	42592	51890	2527
Feb	3418	45356	958	148	29690	14094	2486	42498	52049	2553
Mar	3212	42126	1196	138	32325	15365	2562	42364	47380	3536
Apr	3408	51684	2301	187	32588	15550	4018	45441	61806	3346
May	3903	45150	5113	127	22026	16023	5602	44017	65309	3271
Jun	3773	48860	6333	177	27249	18251	5139	43597	66873	2943
Jul	4294	55302	6888	178	40635	19541	3964	47037	72395	2725
Aug	4087	51871	3970	168	38774	19634	6147	42942	73608	2625
Sep	3844	59305	7126	529	43749	17834	5923	57430	76865	2573
Oct	3972	60510	9031	881	55234	18565	5544	62669	77496	2707
Nov	3797	65333	9725	314	49841	20702	5552	62479	83820	2774
Dec	4394	60466	9646	264	59962	21067	5377	60475	90052	2513

* 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)

(SI\$'000)

End of Period	Entertainment & Catering	Government	Statutory Corporations	Public Financial Institutions	Private Financial Institutions	Professional & Other Services	Personal	TOTAL	NON-RESIDENT
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
2005	3916	-	-	-	40	17257	63232	398661	4464
2002									
Mar	1482	791	2008	2	459	8105	36308	166708	39
Jun	1433	715	2047	1	486	7601	35592	176593	36
Sep	1352	757	2079	1	346	8776	34198	191358	33
Dec	1169	775	1965	-	268	8466	33734	174022	59
2003									
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
2004									
Mar	649	715	1123	2	1121	17366	34882	232620	1205
Jun	593	710	-	-	302	16413	35536	220118	1401
Sep	440	229	-	-	2	15955	40661	236217	1549
Dec	1669	428	7	-	5	14971	40927	241300	1553
2005									
Jan	1638	245	36	1	2	16707	41019	250856	1562
Feb	1658	1	-	96	2	15594	42188	252789	1563
Mar	3600	3	-	254	708	14455	43339	262563	1549
Apr	3210	11	-	1	-	13773	43642	280966	1395
May	3784	12	-	1	-	12440	45093	271871	1401
Jun	3374	27	11	123	-	12957	44674	284361	475
Jul	3722	3	1	-	-	14563	47876	319124	469
Aug	3296	-	-	-	-	14644	49298	311064	-
Sep	3511	61	-	-	-	12212	54114	345076	456
Oct	3585	59	-	-	-	14229	57498	371980	453
Nov	3683	14	-	-	-	14847	60568	383449	443
Dec	3916	-	-	-	40	17257	63232	398661	4464

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/ (DEFECIT)
	Till Cash	Balances With CBSI	Government Securities			
				Total	CBSI Securities	
2001	7271	57317	-	64588	-	40837
2002	6311	75023	-	81334	-	56172
2003	8503	106841	-	115344	-	83351
2004	14457	245937	-	260394	-	219526
2005	14989	294556	-	309545	-	254615
<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>						
Mar	8399	115320	-	123719	-	91894
Jun	10643	140655	-	151298	-	115484
Sep	10748	253918	-	264666	-	223918
Dec	14457	245937	-	260394	-	219526
<u>2005</u>						
Jan	13228	252298	-	265526	-	223072
Feb	11756	265102	-	276858	-	232939
Mar	13026	258320	-	271346	-	229814
Apr	9764	225202	-	234966	-	192977
May	11399	215515	-	226914	-	184081
Jun	12023	211746	-	223769	-	179488
Jul	9958	208699	-	218657	-	173052
Aug	12678	234473	-	247151	-	199710
Sep	12134	265027	-	277161	-	226805
Oct	12756	273818	-	286574	-	235086
Nov	14467	278544	-	293011	-	240062
Dec	14989	294556	-	309545	-	254615

1/ End of period beginning January 1989.

Source: Central Bank of Solomon Islands.

TABLE 1.9 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				
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	
2005	158	-	36472	-	723	2054	-21297	-	-	21054	3612	-13632	7076	18110	
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															
Mar	348	-	57448	97	3579	2079	-25173	7145	-	16813	2558	-15674	27536	38378	
Jun	172	-	57516	97	3363	1673	-29618	7145	-	20235	2558	-24208	27372	33103	
*Sep	1237	-	54668	97	3178	1272	-28574	-	-	20235	3815	-16261	24088	31878	
Dec	2201	-	50918	97	2549	958	-27342	-	-	20235	3799	-14520	19867	29381	
2005															
Jan	1730	-	50795	97	2530	1906	-28061	-	-	21054	3714	-14615	18844	28997	
Feb	1730	-	49986	97	2526	1931	-27877	-	-	21054	3714	-14681	18276	28363	
Mar	830	-	49363	67	2524	2132	-27584	-	-	21054	3697	-14543	17124	27332	
Apr	830	-	48105	67	766	2162	-25836	-	-	21054	3681	-17506	18765	25994	
May	338	-	47575	-	764	2081	-25445	-	-	21054	3681	-15060	15638	25313	
Jun	388	-	46547	-	739	2119	-25877	-	-	21054	3640	-14811	14033	23916	
Jul	258	-	43325	-	739	1984	-24798	-	-	21055	3635	-14600	11418	21508	
Aug	308	-	42595	-	738	1967	-24609	-	-	21054	3612	-14600	10933	20999	
Sep	158	-	42032	-	733	1825	-23241	-	-	21054	3611	-14434	9986	20217	
Oct	158	-	40381	-	718	1997	-23837	-	-	21054	3612	-14345	9096	19417	
Nov	158	-	39065	-	732	2073	-23102	-	-	21054	3612	-14220	8480	18926	
Dec	158	-	36472	-	723	2054	-21297	-	-	21054	3612	-13632	7076	18110	

* Less provision for depreciation. + Include provisions for doubtful debts. # Intermediated by SI Government

Source: Development Bank of Solomon Islands.

TABLE 1-10a BALANCE OF PAYMENTS

(SIS Million)

	2001	2002	2003	2004	2005
I. CURRENT ACCOUNT	-172.3	-23.4	207.4	502.5	16.7
A. Goods	-74.9	-67.9	31.6	187.7	-131.2
i) Exports f.o.b.	248.6	390.1	57.0	727.7	778.8
ii) Imports f.o.b.	-323.5	-322.3	-525.5	-540.0	-910.1
B. Services	-156.2	-175.6	-198.3	-78.6	36.3
(i) credit	272.2	107.7	189.6	230.5	310.6
(ii) debit	-428.6	-283.3	-388.0	-309.1	-274.3
C. Income	0.6	-50.6	-25.7	16.4	12.2
i) credit	37.5	18.4	26.5	78.7	65.4
ii) debit	-37.0	-69.0	-52.2	-62.2	-53.2
D. Transfers	58.2	134.0	400.0	377.0	99.4
i) credit	163.0	196.0	348.0	374.3	309.2
ii) debit	-110.5	-137.0	-141.7	-186.0	-271.0
II. CAPITAL & FINANCIAL ACCOUNT	131.6	28.9	-102.9	-120.3	138.2
A. Capital Account - net	23.0	51.0	93.2	11.2	208.0
i) Transfers - net	22.9	51.0	94.5	11.2	208.0
ii) Acquisition/disposal of nonproduced, nonfinancial assets	0.1	0.0	-1.4	0.0	0.0
B. Financial Account	108.6	-22.1	-196.0	-131.5	-69.8
i) Direct Investment	-53.0	-34.0	-13.7	42.4	76.6
a) Abroad	-3.8	-7.6	-0.2	0.1	-1.3
b) In Solomon Islands	-49.2	-27.0	-13.5	-42.5	77.9
ii) Portfolio investment	-0.4	0.0	0.0	0.0	0.0
a) assets	0.1	0.0	0.0	0.0	0.0
b) liabilities	-0.5	0.0	0.0	0.0	0.0
iii) Other investment	162.0	12.5	-182.3	-173.9	-146.4
a) assets	10.0	-33.3	0.0	0.0	0.0
b) liabilities	152.0	45.8	-182.3	-173.9	146.4
Errors and Omissions - net	-16.1	22.9	36.2	-60.5	-36.1
III. OVERALL BALANCE	-56.8	27.4	140.6	321.7	118.8

Source: Central Bank of Solomon Islands

TABLE 1-10b INTERNATIONAL INVESTMENT POSITION

(SIS Million)

	2001	2002	2003	2004	2005
Assets	103.8	93.2	231.3	541.1	670.1
Direct Investment Abroad	-3.8	-11.4	-11.6	-11.7	-13.0
Portfolio Investment	0.1	0.1	0.2	0.2	0.2
Other Investment	10.0	-23.3	-23.3	-23.3	-23.3
Reserves (net)	97.5	127.8	266.1	576.0	706.2
Liabilities	773.3	1141.7	1085.8	999.9	963.0
Direct Investment in Solomon Islands	-49.2	-76.2	-89.7	-45.3	34.0
Portfolio Investment	-0.5	-0.5	-0.5	-0.5	-0.5
Other Investment	823.0	1218.4	1176.0	1045.7	929.5
Net Position	-669.5	-1048.5	-854.5	-458.8	-290.0

Source: Central Bank of Solomon Islands

TABLE 1-11 FOREIGN EXCHANGE RECEIPTS/1
(Year Ended)

(SI\$'000)

	2000	2001	2002	2003	2004	2005
Current Receipts						
Exports						
Copra	34740	432	2218	7821	25549	16418
Fish	41174	37336	70752	92869	132052	86921
Logs	224422	190457	254149	371394	468175	510162
Palm Oil & Kernels	6565	237	-	-	-	-
Cocoa	9277	4536	27728	53186	40419	64329
Mineral	1315	354	192	581	2857	1335
All Other	13809	15334	34970	31163	55075	92473
Total Exports	331302	248685	390008	557013	724127	771638
Services						
Transportation	3209	6139	7017	7457	2972	8759
Travel	18404	11574	9914	17057	33282	24736
Insurance	2	747	253	757	799	315
Royalties & License Fees	1228	630	805	808	1002	674
Communication	9051	127	18579	409	1086	10739
Financial Services	110646	41580	561	6809	9074	4591
Others	104725	69570	75655	126082	179211	223277
Total Services	247266	130368	112784	159378	227427	273091
Income Account						
Wages & Others	21831	20994	15061	20954	45035	32874
Interest, Dividends & Profits	1202	2021	11	192	12	33
Official Interest	13712	5934	3280	5091	18493	23580
Other Income	7	3694	-	77	-	7366
Total Income	36752	32644	18352	26314	63540	63853
Transfers						
Official						
Cash Aid	1145	49244	42231	56868	165401	22331
Other Official	10103	3662	7111	23036	31471	31094
Total Official Transfers	11248	52906	49342	79904	196872	53425
Transfers Private						
Gifts and Donations	10323	17333	23706	36166	82714	78336
Transfers by Temp. Res. & Immigrants	2973	16582	6703	8177	16107	20334
Churches & Charitable Institutions	17313	20546	18382	21606	38137	38986
Foreign Governments	19254	34870	24634	31541	99992	52656
International Organisations	33879	37307	34205	40697	40415	72934
Total Private Transfers	83743	126638	107629	138189	277366	263246
Total Current Receipts	710310	591241	678116	960798	1489331	316857
Capital & Financial Receipts						
Private						
Investment Grants	1734	521	954	-	2388	6828
Direct Investment	10644	2845	-	674	122	14193
Loans	1868	153	3116	237	370	3252
Other Foreign Investment	41	2050	6057	1	-	-
Total Private Inflows	14288	5568	10126	912	2880	24273
Official						
Investment Grants	28180	23062	20808	95405	4107	141156
Loans	22604	88621	40642	23179	2104	3828
CBSI	-	-	-	-	-	-
Euro \$ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Inflows	50784	111683	61451	118584	6211	144984
Total Capital Receipts	65072	117251	71577	119496	9091	169257
TOTAL RECEIPTS	775381	708492	749692	1080294	1498422	1594695

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

TABLE 1.12 FOREIGN EXCHANGE PAYMENTS /1
(Year Ended) (SI\$'000)

	2000	2001	2002	2003	2004	2005
<u>Current Payments</u>						
Imports						
Oil Imports	93417	75750	75589	87885	174766	323066
Food Imports 2/	79363	108448	108840	112297	101492	153490
Beverages & Tobacco	5105	9298	11061	6937	7775	17959
Plants, Vehicles & Transport Equipt.	88241	53320	57452	64459	66421	104237
Building & Construction Mat.	25489	22577	23831	54051	48402	60005
Chemical	9018	13745	11513	14102	12605	15044
Other Imports	198337	148799	148047	167272	226232	409630
Total Imports	498970	431937	436342	507004	637694	1083432
Services						
Transportation	23177	17239	25567	23616	45061	65727
Travel	44317	34332	29295	33401	33213	35649
Insurance	4469	5059	9262	8975	7272	8507
Communication	13799	8527	12163	16720	11624	14268
Financial	13995	32858	11086	6130	11776	14209
Royalties & License Fees ectc.	981	759	16	72	43	1749
Others	72247	65255	28350	25609	60964	81398
Total Services	172988	164030	115740	114523	169953	221508
Income						
Wages & Others	14850	9119	7641	11102	11367	11820
Interest Dividends & Profits	16829	7543	21175	17240	17781	32386
Official Interest	3042	2820	2256	4758	6679	7619
Total Income Payments	34721	19482	31071	33100	35826	51824
Transfers						
SI Govt Current Payments	7655	2022	4465	33534	11213	30708
Gifts & Donation	126692	4104	103541	93822	154493	218466
Transfers by Temporary Residents	14387	93206	74131	735	2186	2797
Other Transfers	10218	2785	11768	11922	14635	18263
Total Transfers	158952	102117	193906	145356	185614	278179
Total Current Payments	865628	717566	777059	799982	1029088	1634943
Capital & Financial Payments						
Private						
Loan Repayments	4368	6395	3188	5732	3997	16013
Capital Repatriation	11	-	3	1356	-	-
Emigrant Transfers	2507	634	1431	898	913	761
Other Payments	849	4162	2026	1212	1138	2004
Total Private Inflows	7735	11191	6648	9198	6047	18779
Official						
S I Government Loans	6181	3445	-	262	18824	68617
CBSI	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	558
Total Official Outflows	6181	3445	-	262	18824	68618
Total Capital Payments	13916	14636	6648	9461	24872	87397
TOTAL PAYMENTS	879505	732202	783707	809443	1053959	1722339

1/ Derived from the banking system.

2/ Includes beverages and tobacco up to 1997.

Source: Central Bank of Solomon Islands.

TABLE 1-13 EXCHANGE RATES

(UNITS OF S\$ PER FOREIGN CURRENCY)

Period Average	US\$	Aus\$	Pound Stg	Yen (Per 100)	NZ\$	EURO	S.D.R.
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
2005	7.53	5.75	13.71	6.89	5.33	9.38	11.13
<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	6.97	3.09	8.48	4.59	2.54	7.46	5.23
Jun	6.53	3.56	9.53	5.15	3.03	8.36	6.03
Sep	6.35	4.00	11.30	6.12	3.45	9.42	7.18
Dec	7.33	4.09	11.72	6.99	3.63	9.74	7.29
<u>2003</u>							
Mar	7.48	4.43	11.99	6.29	4.09	10.23	8.02
Jun	7.52	4.79	12.19	6.33	4.27	10.50	8.57
Sep	7.52	4.95	12.10	6.40	4.39	10.47	8.47
Dec	7.51	5.42	12.80	6.90	4.69	10.85	8.93
<u>2004</u>							
Mar	7.49	5.74	13.77	6.99	5.05	11.14	9.38
Jun	7.47	5.35	13.48	6.82	4.70	10.91	9.00
Sep	7.48	5.31	13.60	6.80	4.88	10.98	9.14
Dec	7.50	5.67	13.89	7.08	5.28	11.33	9.70
<u>2005</u>							
Jan	7.51	5.76	14.12	7.27	5.54	11.45	9.87
Feb	7.51	5.86	14.14	7.53	5.36	11.39	9.77
Mar	7.51	5.91	14.35	7.15	5.50	11.48	9.93
Apr	7.51	5.81	14.25	7.00	5.41	11.35	9.72
May	7.51	5.77	13.99	7.06	5.42	11.29	9.56
Jun	7.52	5.76	13.68	6.92	5.33	11.04	9.15
Jul	7.52	5.66	13.18	6.72	5.11	10.91	9.06
Aug	7.52	5.73	13.49	6.80	5.23	11.04	9.25
Sep	7.54	5.77	13.64	6.79	5.27	11.06	9.24
Oct	7.58	5.71	13.37	6.60	5.29	10.95	9.12
Nov	7.57	5.57	13.14	6.40	5.22	10.81	8.93
Dec	7.58	5.62	13.23	6.39	5.27	10.83	8.98

Source: Central Bank of Solomon Islands.

TABLE 1-14 COMPETITIVENESS AND RELATIVE PRICES

A		B Exchange rates		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	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)
2002	259.3	369.0	282.3		94.4
2003	309.4	395.4	289.9		78.7
2004	334.9	411.9	331.5		70.0
2005*	341.5	391.6	330.8		68.1
2003					
Q1	297.1	325.2	280.3		79.3
Q2	304.8	335.4	278.5		79.9
Q3	308.0	343.1	276.8		80.1
Q4	327.7	424.5	323.9		75.2
2004					
Q1	339.2	425.7	327.5		72.8
Q2	327.7	400.5	320.9		72.4
Q3	329.6	405.7	337.9		68.5
Q4	337.6	415.7	339.8		66.5
2005					
Q1	349.3	415.4	341.5		65.2
Q2	343.3	402.9	351.5		63.3
Q3*	335.3	371.7	309.4		66.0
Q4*	337.9	376.4	320.7		64.9
Annual Percentage Changes					
2002	33.0	74.5	69.5		-25.1
2003	19.3	7.2	2.7		-16.7
2004	8.3	4.2	14.4		-11.0
2005*	1.9	-4.9	-0.2		-2.7
Quarterly Percentage Changes					
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
2005					
Q1	1.7	-0.1	0.5		-2.0
Q2	-1.7	-3.0	2.9		-2.9
Q3*	-2.3	-7.7	-12.0		4.3
Q4*	0.8	1.3	3.6		-1.8

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

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

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

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

* *Provisional estimates*

Source: Central Bank of Solomon Islands.

TABLE 1-15 GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

(SI\$'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	
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
2005	135083	27	120526	-	1343	256979	6709	118	1491	-	20762	29080	11075	297134
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
2005														
Mar	140202	27	124962	-	1395	266586	3952	325	-	992	26292	31561	11075	309222
Jun	138408	27	123491	-	1378	263304	6696	50	3664	-	20319	30729	11075	305107
Sep	136802	27	122506	-	1361	260696	3483	615	5360	-	21447	30905	11075	302675
Dec	135083	27	120526	-	1343	256979	6709	118	1491	-	20762	29080	11075	297134

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 1-16 SUMMARY OF GOVERNMENT ANNUAL ACCOUNTS AND BUDGET FORECASTS*

(\$ Millions)

	2002	2003	2004	2005	2006
<u>Budget Forecasts:</u>					
Total Revenue and Grants	418.4	500.3	967.8	1,128.9	1,251.1
i. Total Recurrent Revenue	250.0	259.0	441.9	550.0	688.0
ii. Tax Revenue	224.6	235.0	413.1	485.4	613.5
iii. Non-Tax Revenue	25.4	24.0	28.8	64.6	74.5
iv. Grants	168.4	241.3	525.9	578.9	563.1
Total Expenditure	493.6	509.8	1,012.2	1,240.6	1,286.4
A. Recurrent Expenditure	250.0	259.0	586.8	654.9	784.6
i. Pay	120.0	123.0	188.8	226.8	225
ii. Other Charges	102.0	97.0	308.7	350.1	457.9
iii. Debt Service	28.0	39.0	89.3	78.0	101.7
B. Development Expenditure	243.6	250.8	425.4	585.7	501.8
Fiscal Surplus (Deficit)	(75.2)	(9.5)	(44.4)	(111.7)	(35.3)
<u>Actual Government Accounts /1:</u>					
Total Revenue and Grants	365.0	578.9	710.9	784.6	-
i. Total Recurrent Revenue	256.3	373.5	509.9	621.1	-
ii. Tax Revenue	243.5	340.5	472.1	564.9	-
iii. Non-Tax Revenue	12.8	33.0	37.8	56.1	-
iv. Grants	108.7	205.4	201.0	163.5	-
Total Expenditure	674.1	682.8	608.8	814.4	-
A. Recurrent Expenditure	547.3	564.2	506.2	673.2	-
i. Pay	167.1	170.3	173.5	217.9	-
ii. Other Charges	249.9	272.4	252.6	340.8	-
iii. Debt Service	130.3	121.5	80.1	114.5	-
B. Development Expenditure	126.8	118.6	102.6	141.2	-
Fiscal Surplus (Deficit)	(309.1)	(103.9)	102.1	(29.8)	-
<u>Memorandum Items:</u>					
SIG Formal Debt					
Domestic Debt	469.6	494.3	526.8	597.6	-
External Debt	1,087.3	1,108.6	1,149.3	1,080.5	-
Total Debt	1,556.9	1,602.8	1,676.2	1,678.0	-

/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 1.17 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
2005	564934	199786	82562	85061	-	2075	30087	365149	58624	68298	24756	172763	40708	56128
<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
<u>2005</u>														
Q1	123008	41090	15529	16609	-	477	8474	81918	14349	16139	5167	37204	9060	9600
Q2	134707	49145	22174	19130	-	413	7428	85562	12256	16204	5807	44331	6965	21100
Q3	148887	53686	25117	24959	-	568	4191	94052	15733	18621	6852	45177	7669	14300
Q4	158332	54716	19741	24364	-	617	9994	103617	16286	17335	6929	46052	17014	11128

Source: Central Bank of Solomon Islands

TABLE 1-18 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										
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
2005	765.0	969.4	291.4	1241.0	534.4	454.9	778.0	662.8	739.4	7.2
Three months averages										
<u>2003</u>										
Mar	664.7	950.8	288.3	966.7	451.0	408.7	663.6	569.1	632.2	14.4
Jun	662.7	938.8	290.2	987.8	484.3	422.2	671.6	594.6	647.5	14.2
Sep	662.6	956.9	290.3	990.3	480.9	429.1	668.6	602.2	648.9	8.4
Dec	668.3	1031.6	290.4	1000.9	464.5	430.6	672.4	606.0	652.7	4.2
<u>2004</u>										
Mar	704.3	1061.4	290.5	1025.8	468.2	432.8	701.9	618.8	675.7	6.9
Jun	726.9	1012.0	291.1	1048.0	464.8	436.9	717.5	625.9	688.0	6.2
Sep	729.8	1013.5	291.3	1080.5	480.0	441.4	722.8	636.1	695.3	7.2
Dec	729.9	963.9	291.4	1105.1	507.2	442.5	730.0	638.6	700.6	7.3
<u>2005</u>										
Mar	735.5	978.5	291.4	1105.3	506.2	446.6	743.4	638.5	708.7	4.9
Jun	759.7	954.6	291.4	1123.8	524.6	454.6	758.3	660.6	726.6	5.6
Sep	789.2	966.9	291.4	1362.9	550.9	458.1	810.0	674.1	763.2	9.8
Dec	775.4	977.6	291.4	1372.0	555.9	460.5	800.3	678.9	759.0	8.3
<u>2005</u>										
Jan	722.8	978.1	291.4	1109.1	513.3	444.6	735.8	639.5	704.5	6.9
Feb	734.9	978.8	291.4	1104.7	501.4	445.4	742.9	635.2	707.0	5.8
Mar	749.0	978.7	291.4	1102.2	503.8	449.8	751.6	641.0	714.6	5.0
Apr	744.4	978.3	291.4	1126.1	503.8	455.6	748.4	645.5	714.5	4.5
May	770.7	934.4	291.4	1119.5	520.1	453.9	763.1	666.3	731.9	5.3
Jun	764.0	951.1	291.4	1125.8	550.1	454.1	763.3	670.0	733.6	5.5
Jul	778.6	951.1	291.4	1361.8	548.0	456.8	801.4	670.8	756.7	7.0
Aug	802.8	975.5	291.4	1360.8	551.4	457.9	820.4	675.0	769.8	8.8
Sep	786.2	974.1	291.4	1366.1	553.4	459.4	808.3	676.5	763.2	9.8
Oct	779.9	973.9	291.4	1366.1	553.4	460.4	803.5	675.8	760.0	9.8
Nov	770.3	975.7	291.4	1385.2	553.4	460.4	796.4	678.8	757.0	8.8
Dec	775.9	983.3	291.4	1364.7	560.8	460.8	801.2	679.5	760.2	8.5

TABLE 1-19 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\$/)
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
2005	414	422	915	1538	203
<u>2001</u>					
Mar	193	249	675	1004	171
Jun	189	246	917	1045	164
Sep	223	330	743	1007	158
Dec	203	313	768	1218	143
<u>2002</u>					
Mar	228	335	712	1490	137
Jun	265	377	708	1610	153
Sep	283	410	720	1997	181
Dec	288	438	719	2015	182
<u>2003</u>					
Mar	304	445	622	2136	186
Jun	276	447	515	1744	182
Sep	276	409	763	1583	183
Dec	344	499	797	1541	197
<u>2004</u>					
Mar	418	524	837	1587	199
Jun	490	499	850	1421	195
Sep	444	432	975	1612	200
Dec	448	429	945	1599	197
<u>2005</u>					
Mar	448	413	872	1647	192
Jun	446	421	943	1545	200
Sep	381	415	973	1491	211
Dec	380	439	873	1470	209
<u>2005</u>					
Jan	430	402	850	1552	191
Feb	440	403	815	1634	191
Mar	474	435	950	1755	194
Apr	460	428	950	1586	194
May	446	417	950	1508	203
Jun	433	419	930	1540	203
Jul	425	417	930	1488	206
Aug	371	407	1000	1481	212
Sep	346	421	990	1505	217
Oct	384	442	970	1457	211
Nov	384	445	825	1443	205
Dec	373	428	825	1509	211

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 1-20 PRODUCTION BY MAJOR COMMODITY

Period	Copra (m.t)	Coconut Oil (m.t)	Palm Oil (m.t)	Palm Kernel (m.t)	Cocoa (m.t)	Fish Catch (m.t)	Timber Log Prodn. ('000Cum) /1
2000	19004	8553	-	-	2316	21163	541
2001	1701	117	-	-	2038	17720	493
2002	1731	-	-	-	2907	18520	550
2003	14848	-	-	-	4587	28955	714
2004	21831	-	-	-	4181	27249	1043
2005	26182	-	-	-	4928	23853	1118
<u>2000</u>							
Mar	7157	3171	-	-	734	7178	134
Jun	6383	2126	-	-	864	10272	130
Sep	2600	2173	-	-	357	2954	148
Dec	2865	1083	-	-	360	760	124
<u>2001</u>							
Mar	636	-	-	-	222	1337	140
Jun	438	-	-	-	881	3073	137
Sep	229	-	-	-	599	7092	109
Dec	398	-	-	-	335	6217	148
<u>2002</u>							
Mar	292	-	-	-	168	4190	110
Jun	28	-	-	-	1276	3900	128
Sep	133	-	-	-	1091	5050	162
Dec	1278	-	-	-	372	5380	150
<u>2003</u>							
Mar	1939	-	-	-	238	8006	208
Jun	2814	-	-	-	1672	6200	200
Sep	4774	-	-	-	1649	8470	135
Dec	5320	-	-	-	1028	5395	171
<u>2004</u>							
Mar	5105	-	-	-	521	4483	243
Jun	6454	-	-	-	1686	6491	293
Sep	5629	-	-	-	1203	9276	278
Dec	4644	-	-	-	771	6999	230
<u>2005</u>							
Mar	7004	-	-	-	597	6179	263
Jun	6372	-	-	-	1521	3343	280
Sep	7170	-	-	-	1722	6344	260
Dec	5637	-	-	-	1088	7987	314
<u>2005</u>							
Jan	2358	-	-	-	201	2928	84
Feb	2051	-	-	-	149	1695	60
Mar	2594	-	-	-	247	1555	119
Apr	1839	-	-	-	311	666	57
May	2247	-	-	-	477	1172	122
Jun	2286	-	-	-	734	1504	100
Jul	2615	-	-	-	917	1623	91
Aug	2704	-	-	-	255	2255	73
Sep	1851	-	-	-	550	2466	95
Oct	1740	-	-	-	234	2800	121
Nov	2155	-	-	-	386	2982	101
Dec	1742	-	-	-	467	2205	92

Source: Central Bank of Solomon Islands

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

TABLE 1-21 REAL GROSS DOMESTIC PRODUCT

(1985 = 100)

Industry	2000	2001	2002 Est	2003 Est	2004 Est	2005
Agriculture	80.3	71.0	77.3	102.7	106.2	118.1
Forestry, Logging, Sawmilling	135.8	135.8	136.8	188.3	263.6	288.3
Fishing	85.7	72.2	80.7	104.4	115.5	104.4
Mining & Exploration	-613.1	-6.3	-7.8	-3.2	-3.3	-3.3
Manufacturing	197.2	158.1	149.8	134.3	135.8	137.1
Electricity and Water	231.0	206.8	215.0	211.8	213.2	250.6
Construction	39.7	31.9	31.1	35.9	45.6	52.9
Retail and Wholesale Trade	135.7	119.8	131.5	136.6	140.9	143.3
Transport and Communications	143.4	118.5	130.7	139.2	143.9	146.7
Finance	239.4	231.4	228.3	223.5	229.4	231.7
Other Services	172.8	172.4	137.8	119.1	126.4	135.4
Index of Monetary GDP Production	138.9	123.7	118.5	127.6	139.8	147.5
Annual % movement	-17.8	-11.0	-4.2	7.7	9.5	5.6
3						
Index of Primary Production	93.3	85.1	90.7	121.2	141.7	151.2
Annual % movement	-28.4	-8.8	6.6	33.7	16.9	6.7
Non-Monetary: Food	147.4	151.9	156.1	160.5	165.0	169.6
Non-Monetary: Construction	141.6	147.2	151.4	155.6	160.0	164.4
Non-Monetary GDP Index	147.0	151.5	155.7	160.1	164.6	169.2
Index of Total GDP Production	140.5	129.3	125.7	133.9	144.6	151.8
Annual % movement	-14.2	-8.0	-2.8	6.5	8.0	5.0

Source: Central Bank of Solomon Islands.