

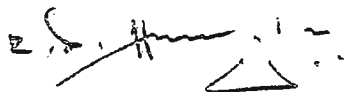
21st June 2007

Hon Gordon Darcy
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 2006 Annual Report and the audited Accounts of the Central Bank of Solomon Islands.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R N Houenipwela', with a stylized flourish at the end.

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 OBJECTIVES 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

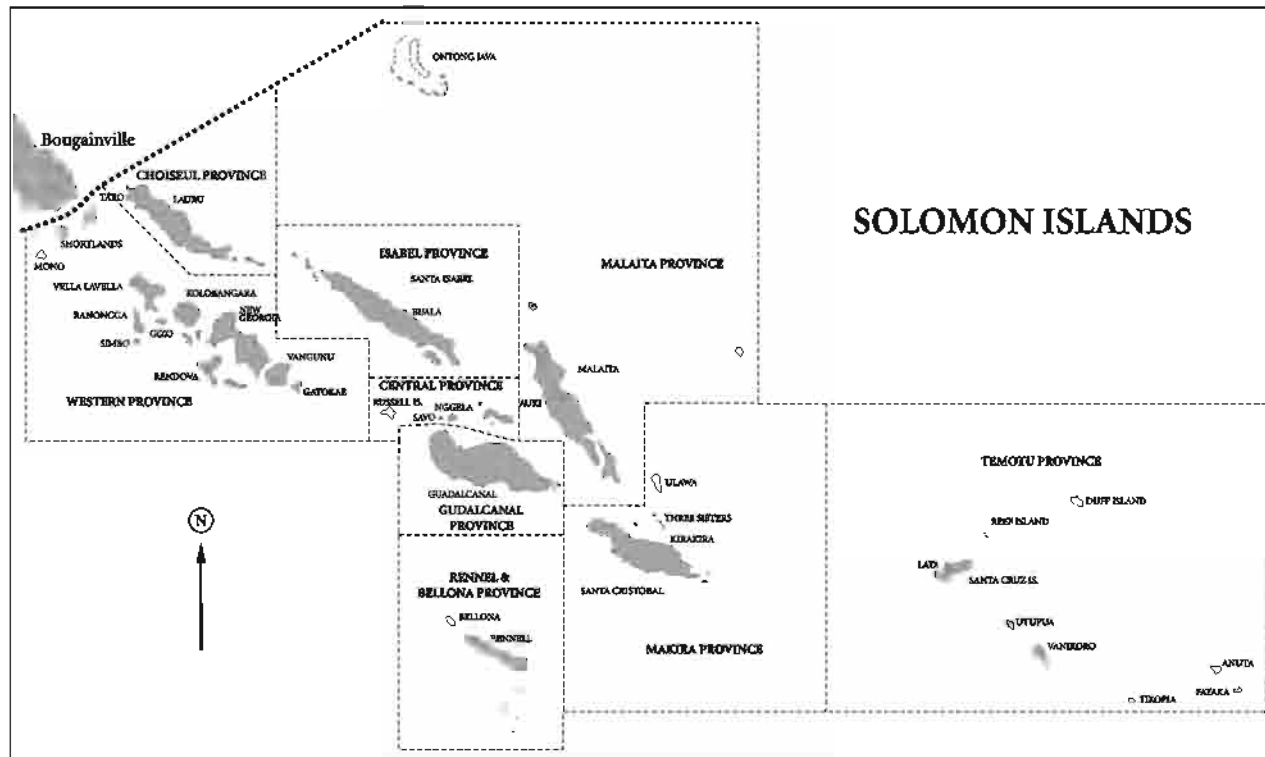
Foreword

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

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

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

Central Bank of Solomon Islands
June 2007



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CBSI BOARD OF DIRECTORS 2006



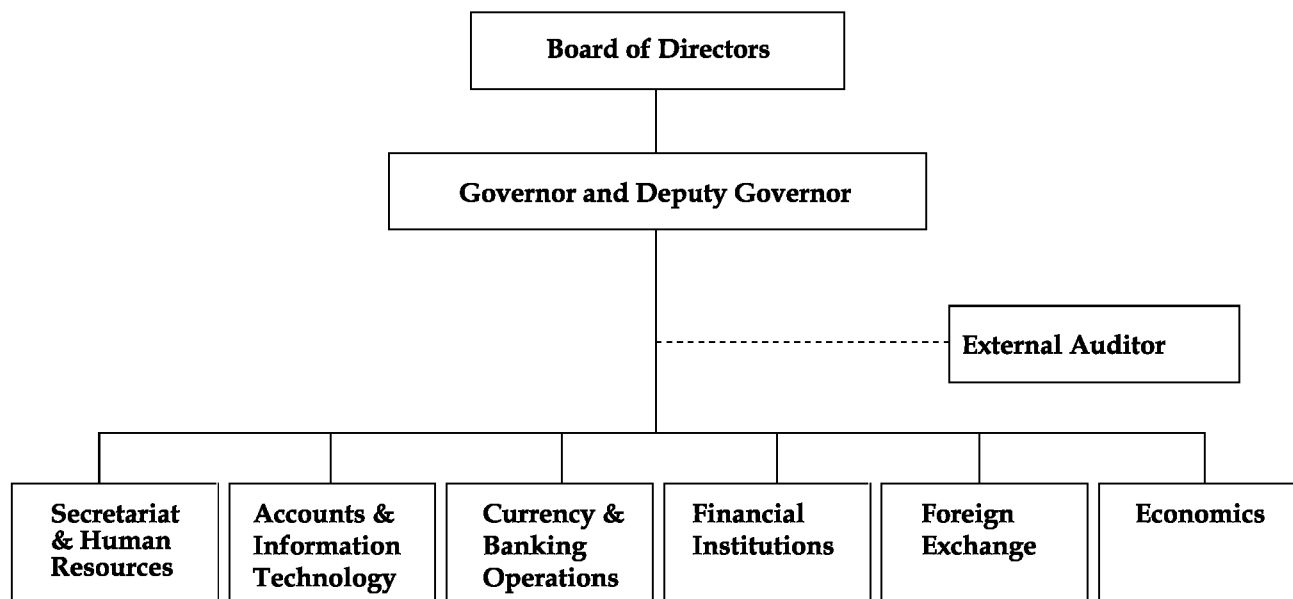
Front (L-R): Denton H Rarawa, Rick N Hounipwela, George Kiriau
Second Row (L - R): Moses Pelomo, Shadrach Fanega
Third Row (L-R): Yoshiyuki Sato, Jack F Kairi, George Kejoa
Back Row (L-R): Bruce Saunders, Edward Ronia

CBSI MANAGEMENT 2006



Front (L-R): Daniel Haridi, Raynick Aquillah, Gane Simbe
Middle Row (L-R): Edward Ronia, Rick N Hounipwela
Back Row (L - R): Denton H Rarawa, Vincent Nomae

Organisation of the Central Bank



Board of the Central Bank, at end 2006

Rick N Houenipwela	Chairman, ex-officio
Denton H Rarawa	Director, ex-officio
Shadrach Fanega	Permanent Secretary Ministry of Finance
Yoshiyuki Sato	Director
George Kejoa	Director
Moses Pelomo	Director
Jack F Kairi	Director
George Kiriau	Director
Bruce Saunders	Director
Edward Ronia	Secretary to the Board

Management of the Central Bank, at end 2006

Governor	Rick N Houenipwela
Deputy Governor	Denton H Rarawa
General Advisor	Michael Brown
Manager Secretariat & Human Resources	Edward Ronia
Manager Financial Institutions	Gane A Simbe
Manager Currency & Banking Operations	Daniel Haridi
Manager Foreign Exchange	Raynick P Aquillah
Manager Economics	Vincent Nomae
Manager Accounts & Information Technology	Rodney Rutepitu

GLOSSARY

The following terminologies are defined in the context of Solomon Islands.

Balance of Payments (BoP): records all payments and receipts relating to the movement of funds between a country and foreign countries.

Bank Liquidity: Total amount of cash held by banks and not used for investment or other transactions.

Capital account: Records international transactions relating to the flow of capital between a country and foreign countries, such as investment, loans etc.

Current account: Records international transactions relating to the flow of goods, services, income and gifts. A surplus indicates higher inflows than outflows and a deficit indicates the opposite.

Domestic credit: Value of loans and advances obtained from within the country.

Excess Liquidity: The liquidity that banks possess that is greater than the minimum proscribed by the Central Bank.

Exchange rate: The price of foreign currencies stated in terms of the local currency or the vice versa.

Exports: Goods that a country sells abroad.

External Reserves: Stock of foreign currency assets of the Central Bank. These assets are earned through exports, foreign aid and loans obtained from institutions abroad.

Gross Domestic Product (GDP): Total value of all final goods and services produced in an economy during the course of a year.

Honiara Retail Price Index (HRPI): A consumer price index which shows the price level and changes in price level of goods and services in Honiara over time. This information forms the basis for calculating inflation in the economy.

Imports: Goods that a country buys from abroad.

Liquidity Asset Requirement: Usually defined as a percentage of deposit liabilities of a commercial bank that shall be hold as cash or as balance with the Central Bank.

Money Supply: the total quantity of money in a country's economy at a particular time.

Narrow money: notes and coins in the hands of the public plus money held on demand deposits at the Central Bank.

Net Credit to Government: Value of borrowings by Government less its deposits at the banks and the Central Bank.

Private sector credit: Value of borrowings by private companies and individuals within the country.

Quasi money: Total of time deposits and savings deposits.

Trade balance: the difference between merchandise exports (goods sold overseas) and merchandise imports (goods purchased from overseas).

Trade surplus/deficit: a trade surplus is when the value of exports is higher than the value of imports, whilst a trade deficit is when receipts from exports are less than payments for imports.

I. ECONOMIC OVERVIEW, POLICY ISSUES AND ECONOMIC OUTLOOK

2006 was a positive year for the Solomon Islands economy, building on the progress made since 2003. Production performance, although mixed, was generally up on the previous year. A very encouraging development was the resumption of palm oil production and export during the year. On the downside, production of cocoa and copra (which provide the major source of income for the rural population) experienced large declines. Fiscal performance also continued to improve, with large increases in revenue and a budget surplus of \$35.1 million. A surplus was recorded in the Balance of Payments (BoP) for the fifth year in succession, despite the trade deficit increasing markedly during the year. Inflation remained at the relatively moderate level of 8%, while there was substantial expansion in domestic credit, and excess liquidity decreased slightly.

The riots and damage to properties that occurred in Honiara in April were a setback for the country but their impact on the economy was expected to be small. More harmful to the country's development prospects than the physical damage itself, however, was the erosion of investor confidence in the country, particularly from overseas investors. The diplomatic disagreement between Honiara and Canberra for most part of the year similarly created uncertainties that threatened the prospect of restoring investor confidence and encouraging business investment in the country.

Real Gross Domestic Product (GDP), was estimated to have grown by 6.1% to \$333.9 million in 2006, following 5.0% growth in 2005. This reflects continued improvements in law and order and growing confidence in the business environment, and was also assisted by favourable growth and strong demand in many of the country's major trading partners. Continued support by donors and the Government's implementation of its reform agenda also contributed towards this growth.

Low growth in agriculture of 2.3% was a result of a large decline in copra and cocoa production. The commencement of palm oil production mid-way through the year helped to bolster sector growth. Fish and log production were both important contributors to the high GDP growth, increasing by 25% and 6.3% respectively. Growth in 'other services' (which includes government spending on health, education etc) was also high at 6.5%, and was an important factor as this category accounts for around 20% of GDP. Finally, exceptionally high growth rates were recorded in the construction sector (49.6%) and in transport and communications (27.9%).

Buoyant growth in the world economy was an important stimulant to growth in the Solomon Islands, providing strong demand for the country's primary commodity exports. The world economy is estimated to have grown by 5.4% in 2006, reflecting growth in almost all regions. Particularly relevant to the Solomon Islands was strong growth in the Asian region. The Asian Developing Group, excluding Japan, collectively experienced 8.7% growth on average in 2006. Australia was estimated to have grown by 2.4% while New Zealand achieved slower growth of 1.5%.

Fiscal developments in the Solomon Islands were positive in 2006. The overall surplus of \$35.1 million was compared with a surplus of \$55.7 million in 2005. Improvements in revenue collection and enforcement, combined with improved economic activities, led to a 21.2% increase to \$946.2 million in total revenue collection. Total expenditure also increased to \$911.1 million, of which the majority was for recurrent expenses.

In a further positive result, the Balance of Payments (BoP) reported an overall surplus of \$73.5 million in 2006, the fifth year in succession. The surplus was however, significantly less than the surpluses of \$120.1 million and \$324.8 million in 2005 and 2004 respectively. This in part

reflects the large increase in the tradedeficit to \$254.7 million as a result of high imports, which were heavily influenced by the rise in the international price of oil. Nevertheless, positive growth was also recorded for exports, which grew by 18.8% to \$916.4 million. Improved receipts from fish, logs and palm oil products were the driving forces, while cocoa and copra exports slumped. As in previous years, a large surplus in the Transfers Account of \$341.4 million was a major factor in the overall BoP outcome. Official foreign reserves improved by 9.2% to \$782.9 million in 2006, equivalent to 4.3 months of imports of goods and services (based on the 3-month moving average).

Reflecting the growth in business activities and improved confidence in the business environment in the Solomon Islands, there was substantial growth in many of the key monetary indicators in 2006. Money supply increased by 26.4% to \$1091.6 million during the course of the year. This was the result of the positive rise in net foreign assets and, more significantly, a huge expansion in private sector credit which rose by 62.5% to \$632.3 million. Net credit to government, on the other hand, decreased in 2006. Total liquidity increased by only \$3.5 million in 2006 to \$313.0 million, a significant slowing of the upward trend in previous years. Furthermore, excess liquidity decreased slightly during the year to \$240.0 million. Activities in the Auction Treasury Bills Market remained relatively robust in 2006 with over-subscription being a regular feature in the domestic securities market. Commercial bank interest rate margins declined in 2006 as compared to no movement in 2005.

Assistance by the Regional Assistance Mission to Solomon Islands (RAMSI) remained firm in 2006, and the government remained committed to its reform programs (tax reforms, amendment of certain Acts etc) during the year. Apart from these, the Government continued to support the revival of the oil palm project (especially through participation in negotiation process) 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. The government also remained committed to the policy of not taking on any more new borrowings in the short to medium term. This policy is expected to continue in 2007.

According to the Honiara Consumer Price Index, inflation fell in 2006 to 7.6% from 8.5% in 2005 (3-months moving average). This was despite a significant increase in inflation on imported items which rose to 8.9%, from 6.2% in 2005, as a result of high oil prices and weakening of the SBD against several currencies. A decline in inflation on domestic goods more than offset this, falling to 9.6% in 2005.

The progress achieved in 2006, and in the previous three years, is a sign that the economy is more or less stabilized. Nevertheless, numerous problems still remain and much needs to be done to ensure sustainable development and growth in per capita income in the medium to long term is achieved.

The country's high dependence on a few major commodities is a major concern. The resumption of palm oil production in 2006 is therefore a positive step towards diversification of the economic base. In particular, heavy dependence on logging (which provides over 70% of export earnings) is of great concern, as current extraction rates are unsustainable and production is not expected to be viable for many more years. Moreover, an immediate revision of (and implementation of) the determined price mechanism for round logs is of utmost importance. Without it, the country is losing large amounts of revenue, apart from being under-compensated for the extraction of this valuable natural resource. Log production increased in 2006 due to increased issuance of felling licences, increase in international price and increased production in some provinces. The rising international price of oil in 2006 has also highlighted the vulnerability of the country to fluctuations in this commodity, and the impact it can have on the cost of imports. Alternative energy sources such as bio-fuel and solar power

should be explored with the view to reduce the country's heavy dependence on oil imports.

From a monetary perspective, excess liquidity remains very high, and is a concern in terms of the risk of future inflation. The large surplus liquidity is also the main factor behind the extremely low interest rates on savings, which are a problem for Solomon Islanders trying to save for the future. The limited depth and size of the Treasury Bills market limits the ability of the monetary authority to influence liquidity and interest rates, and measures to deepen the securities market will be important in the long-term.

Despite positive growth in employment during the year, job creation remains a big challenge for the country in the coming years. Given that a large proportion of the population is under the age of eighteen, a great number of school leavers are entering the labour market – without skills – each year. The public sector wage bill is already very high, so it will have to be the private sector that provides job opportunities. Similarly, providing income opportunities for the majority of the population that live in rural areas is a major challenge, and one of the key targets of the Government's Rural Development Strategy.

Above all, it is stability, both social and political, that is most important to the country's development prospects. Though substantial progress has been made since 2003, significant problems remain. The April riots were a stark reminder of the tension years at the beginning of the Millennium, and undermined the gradual improvement in investor confidence that had accompanied improved stability since the arrival of RAMSI. Confidence in the stability of the political system is also crucial to business and investment development, both for existing operators and new investors. Diplomatic tensions between the Solomon Island Government and the Australian Government, particularly relating to the role of RAMSI, are extremely damaging. This has resulted in some planned investment proposals being postponed or cancelled. Stability in these areas is crucial also

for the development and growth of the country's young tourism industry. Macroeconomic stability, in terms of moderate inflation, a stable currency and sufficient foreign reserves, is also important in business development. These form the main planks and aims of CBSI policy stance in 2007.

2007 Economic Outlook

Domestic economic activities are expected to expand further in 2007, at around the same levels as in 2006. Strong growth is expected in agriculture, with palm oil production in particular likely to increase markedly. But weak growth is forecast for some sectors. Fishing output is expected to decrease this year as a result of a reduced capacity by the largest company. Logging activities, are likely to increase due to forecast improved international prices and the likely imminent introduction of the determined price mechanism by the Government. Overall, GDP growth of 6.3% is forecast for 2007. Looking further ahead, the potential for further growth is positive. If the government's focus on rural development is successful, production of agricultural products such as copra, cocoa, palm oil and coconut oil has the potential to expand rapidly. Coping with the financial implications from a decline in forestry production, which will inevitably begin in the next few years, will be a major challenge for the country.

The April 2007 Tsunami that devastated the lives of thousands in the Western and Choiseul Provinces is another challenge in 2007. Though the human and social cost was immense, preliminary analysis suggests that the disaster will have only a minimal impact on growth and the overall economy.

Money supply is also expected to increase in 2007, forecast to rise by around 20%. As in 2006, this will largely be driven by rapid expansion in domestic private sector credit, which would be fuelled by a persistent domestic demand. Inflation is forecast to remain at approximately the same level as in 2006. The outlook for Balance of

Payments is also positive. Export receipts should remain strong on the back of production increases in the major export sectors, though the upward trend in import payments is also expected to continue. In particular, assistance from external donors is expected to be high in 2007 as development projects are implemented. Overall, foreign reserves are therefore expected to remain stable.

Given the positive outlook for the Solomon Islands economy in 2007, the Central Bank's monetary policy stance in 2007 is geared towards sustaining the economic growth trend witnessed to date, high level of employment, stability in the Solomon Islands dollar, and a viable Balance of Payments position.

The three main policy goals in 2007 would be to:

- Guard against excessive inflation;
- Maintain the adequacy of official foreign reserves;
- Improve interest rates on deposits and reduce the high levels of excess liquidity in the economy.

To achieve these goals, the Bank will continue to closely monitor developments in the economy especially the main indicators such as the exchange rate, inflation, external reserves, money supply and credit aggregates and will take appropriate action if and when necessary.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy is estimated to have grown by 5.4% in 2006 (See Table 1). This reflected positive growth in almost all regions. Though growth in the US economy slowed down, major economies in the Asian region, namely Japan, China and India, continued to register strong growths. The Asian developing group, excluding Japan, enjoyed an average 7.9% growth during the period. The Euro region recorded 2.6% growth during the year. In the Oceania region, the Australian economy, one of the key powerhouses in the region and a major trading partner of Solomon Islands, experienced a slight downturn in growth to 2.4% in part a result of the severe drought. New Zealand, another important trading partner of the Solomon Islands, experienced sluggish growth of 1.5% in 2006.

Table 1				
World Economy: Selected Indicators (Annual % Change)				
	2004	2005	2006	2007
World Output:	5.3	4.9	5.4	4.9
Advanced economy	3.3	2.5	3.1	2.5
Developing Economic	7.6	7.5	7.9	7.5
or which: Asia	8.8	9.2	9.4	8.8
World Trade Volume	10.4	7.4	9.2	7.0
Imports of goods and services				
Advanced economies	8.9	6.1	7.4	4.7
Developing countries	15.8	12.1	15.0	12.5
Exports of goods and services				
Advanced economies	8.5	5.6	8.4	5.5
Developing countries	14.6	11.2	10.6	10.4
World Inflation				
Advanced economies	2.0	2.3	2.3	1.8
Developing countries	5.7	5.4	5.3	5.4
Source: IMF World Economic Outlook				

The high rates of growth, however, have heightened inflationary concerns and have led to a monetary tightening and higher official interest rates in a number of the world's economies.

These inflationary concerns have been exacerbated by high oil prices. Oil prices spiked to record highs in August 2006, selling at US\$76 per barrel, as a result of strong demand and concerns over supply shortages emanating from the geopolitical tensions in the middle east; the West's deadlock with Iran over its nuclear program and the Israel-Lebanon conflict. Nevertheless, high oil prices did not have a particularly harmful impact on world growth, and global demand remained strong.

2007 Growth Prospect

The outlook for 2007 remains positive with global real GDP growth forecast to fall slightly to 4.9% compared with 2006 growth, as governments attempt to limit inflationary and oil price pressures. US economic growth is projected to slow down to 2.2% in 2007 as the housing market cools, dampening private consumption and residential investments. However, corporate investment should rebound, supported by high capacity use and strong profits. Growth in the EU area is expected to fall to around 2.3% in 2007, reflecting the possibility of currency appreciations that would weaken exports. Within the Japanese economy, real GDP growth is projected to grow at 2.3% in 2007, with expectations that household income growth will increase amidst the expansion. Finally, in China vibrant growth is expected to continue with further 10.0% growth forecast for 2007, reflecting the continued robust demand, although there is concern about its reliance on fixed asset investment.

Despite rapid economic growth over the past four years, there is a growing concern over large global imbalances especially on current account deficits, as well as the potential for heightened protectionist measures in the face of the stalemate over the Doha Round. There has also been a need to balance domestic demand growth in advanced economies and ensuring that developing economies reduce potentials for difficulties in utilizing capacity. Nonetheless, policy interest

rates will likely loosen in 2007, as inflation drops in the advanced economies in response to the earlier tightening of rates in 2006.

The oil price outlook for 2007 is that capacity will remain tight hence prices will remain high in the \$70 - \$75 range. Easing of geopolitical tensions in

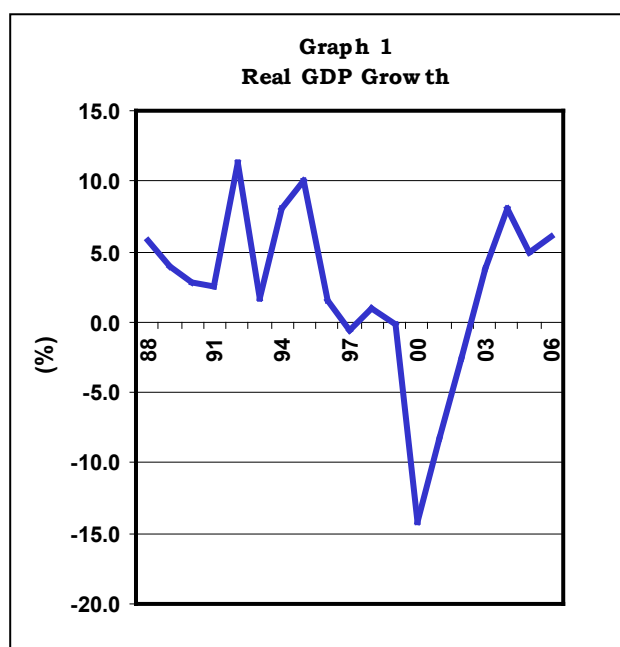
the Middle East and a slowdown in economic growth might reduce demand. However, continued concerns with supply-side developments such as production problems in Nigeria, and the heightened potential for supply problems in Iran and Venezuela could further push up prices.

III. DOMESTIC ECONOMIC OUTCOMES

The domestic economy recorded another firm year of growth in 2006. This came on the back of a resilient private sector and strong support from donor partners. The reopening of the palm oil plantation on the Guadalcanal plains in May 2006 showed the determination in the private sector to advance the economic rehabilitation in the country. The continuous presence of the Regional Assistance Mission to Solomon Islands (RAMSI) in the country remained a major driving factor behind the overall improvement.

National Income

Real Gross Domestic Product (RGDP) is estimated to have grown by 6.1% to \$334 million in 2006. This continued the positive growth performance achieved in the previous three years and was the outcome of positive developments in most sectors.



Forestry recorded 6.3% growth as a result of higher export volumes. Production in the agriculture sector also expanded, due in large

part to the opening of Guadalcanal Plains Palm Oil Limited in May 2006, which cushioned the downswings in copra and cocoa production that persisted during the year. Activities in the fisheries sector were buoyant, with positive reports from the two main fishing companies and an upturn in receipts collected from bilateral and multilateral fisheries treaties. The sizable growths of 33.5%, 27.9%, and 6.5% from the construction sector, transport & communication sector, and other services sector respectively, also contributed to the overall outcome.

Table 2
Estimated Real GDP
(Index 1985=100)

Industry	2003	2004	2005	2006
Agriculture	102.7	106.2	118.1	120.8
Forestry	188.3	263.6	288.3	306.5
Fishing	104.4	115.5	104.4	130.6
Mining & Exploration	-3.2	-3.3	-3.3	-3.3
Manufacturing	134.3	135.8	137.1	141.0
Electricity & Water	211.8	213.2	250.6	255.0
Construction	35.9	45.6	52.9	70.6
Retail & Wholesale Trade	136.6	140.9	143.3	143.3
Transport & Communication	139.2	143.9	146.7	187.6
Finance	223.5	229.4	231.7	236.0
Other Services	119.1	126.4	135.4	144.2
Index of Monetary GDP Prod.	127.6	139.8	147.5	158.4
Annual % movement	7.7	9.5	5.6	7.4
Index of Primary Prod. (Min)	21.2	141.7	151.2	162.4
Annual % movement	33.7	16.9	6.7	7.4
Non-Monetary : Food	160.5	165.0	169.6	174.3
Non-Monetary : Constr.	155.6	160.0	164.4	169.0
Non-Monetary : GDP Index	160.0	164.6	169.2	173.9
Index of Total GDP Prod.	133.9	144.6	151.8	161.1
Annual % movement (Real)	6.5	8.0	5.0	6.1

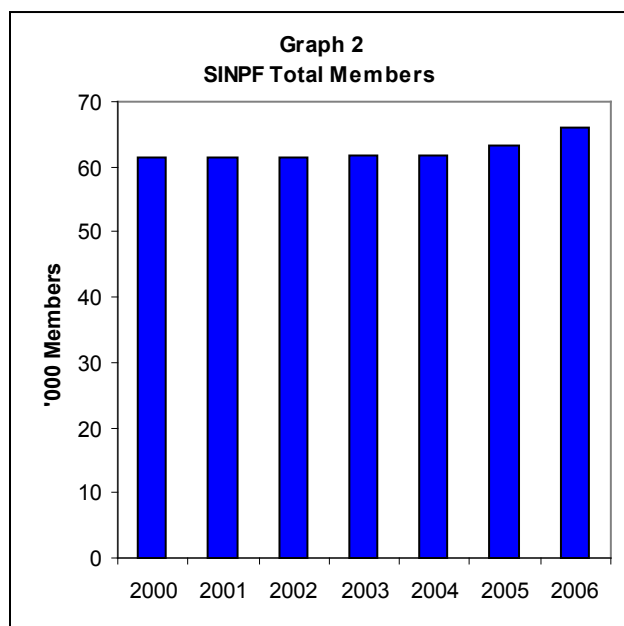
Source: Central Bank of Solomon Islands

Real economic output in 2006 outpaced the population growth rate (2.8%) of Solomon Islands to drive nominal income upward to US\$708 per capita from US\$641 per capita in

2005. However, the current per capita income remains lower than the pre-tension levels of US\$783 per capita in 1999, underlying the importance of sustaining higher economic growth into the future.

Employment

Labour market conditions during the year were vibrant, reflecting positive developments in both the private and public sectors. The total public service workforce at the end of 2006 was 10,315 people, compared with 9,668 at the end of 2005. This increase continues the recruitment policy the Government has pursued since 2004. Nevertheless, the Government managed to fill less than half of the budgeted 1,351 posts. Cumbersome recruitment procedures and a scarcity of appropriately-qualified individuals were the main obstacles to further expansion.



Employment indicators from the Solomon Islands National Provident Fund (SINPF) indicated a growth in total employment. The number of active workers, defined as those who have made contributions in the last 12 months, increased from 25,856 individuals at

the end of 2005 to 29,890 individuals by the end of 2006, an increase of 4,034 employees. Similarly, total registered members (including retirees and redundant) rose by 2,922 contributors (4.6%) over the previous year to 66,045 in 2006. In accordance with the International Standard of Classification by Industry (ISIC), the net increase was accounted for mainly by real estate & business services (24%), forestry (21%), retail & wholesale (11.3%), manufacturing (7%), transport & communication (6%), hotels & restaurants 4.3%, construction 4%, and 3.7% from health & social welfare services. The number of employers registered with SINPF also rose from 1,364 to 1,470 employers, owing to compliance measures taken by SINPF and the rise in small businesses.

Despite these positive developments, the labour market experienced some downside pressures in 2006. The retail & wholesale and hotel sectors saw about 2,000 employees lose their jobs in the wake of the April riots. Anti-RAMSI sentiments generated uncertainties that undermined business confidence to some degree and caused businesses to reschedule investment plans that would otherwise have led to further employment increases.

The acute shortage of highly skilled professionals in the domestic labour market has been a major concern to the private sector, as well as to Government. This situation has a negative effect on productivity standards, and has also contributed to an influx of foreign workers with the necessary skills, creating high labour costs for employers. These deficiencies can be addressed through a reprioritization of the manpower training in the country to match the range and level of skills required by different sectors.

Investment

Overall investment in the country continued to show gradual improvement despite events such as the April riots and the political standoff between Solomon Islands and Australia. The overall positive outcome was attributable to

measures taken by various agencies to harness the investment conditions in the country: the implementation of the new Foreign Investment Act during the year; sound fiscal discipline; amendments to taxation policies; and capacity-building on the judicial and law enforcement fronts all contributed to a better investment environment.

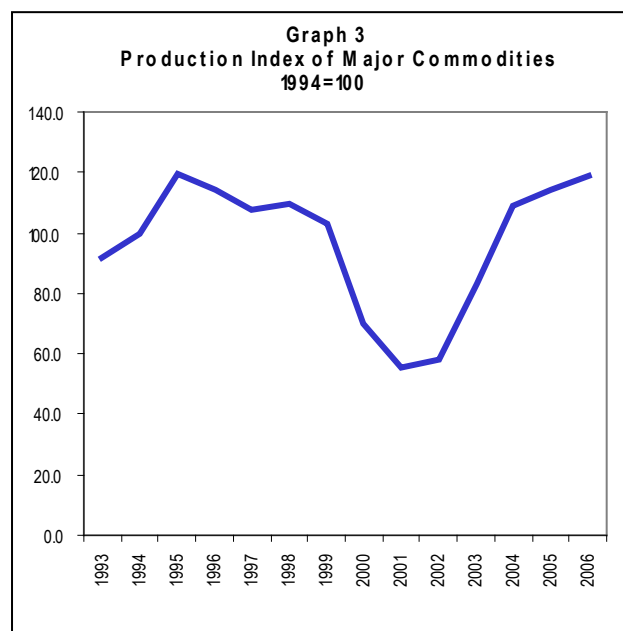
The 2006 Foreign Investment Act that was implemented in the second quarter of 2006 demonstrated the Government's commitment in addressing investment barriers. The legislation simplified screening procedures, reduces processing time, removes multiple preliminary fees, and strengthens the monitoring capacity of the Foreign Investment Division (FID) by obligating applicants to provide financial reports on a regular basis.

During the year, the FID approved 109 applications worth \$1,474 million as opposed to 90 applications valued at \$1440 million in 2005. Of these, the mineral sector accounted for \$907 million (7 applications), forestry for \$239 million (34 applications), fisheries for \$108 million (13 applications), energy for \$62 million (1 application) and tourism for \$53 million (11 applications). Other sectors shared the remainder of applications. However, the FID can only ascertain how much foreign investment is actually realized when they conduct a business survey twelve months after issuance of each registration certificate.

Production

Activities in the private sector during 2006 were resilient, on the back of the progress made during the previous three years. Improvement in the global economy was also an important factor. Although mixed, production performance was relatively stronger than the previous year. Of these, the resumption of palm oil production and export during the year was the most encouraging episode. Its production of both palm oil and kernel has been markedly rising on a monthly basis. Apart from that, logs, fish and coconut oil

productions also increased whilst cocoa and copra (which provide the major source of income for the rural population) significantly declined. Total production index rose from 113.9 to 118.7 in 2006. (See Graph 3).



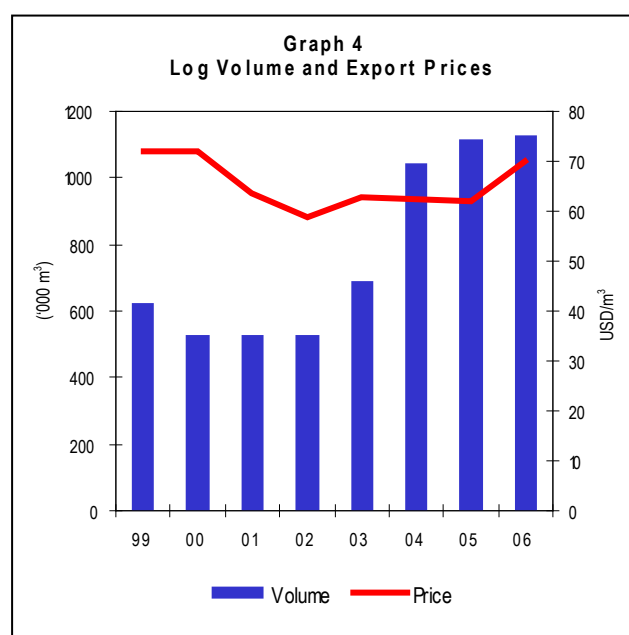
Forestry

Production in the forestry sector continued to expand in 2006, despite concerns over unsustainable rates of harvesting in recent years. Exported volume was estimated to have risen by 1.1% from 1,117,928 cubic meters in 2005 to 1,130,365 cubic meters.

There are three main explanations for this outcome. First, new logging licenses continued to be issued in 2006 despite the government's intention to impose a moratorium on new licenses, a situation that eventuated because of the lack of legal mandate on the part of the Department of Forestry to impose moratoriums. Secondly, logging activities in Isabel, Makira and Choiseul provinces doubled and were complimented by activities on Guadalcanal and Malaita that expanded on a gradual pace. The strong international demand for domestic logs from the Asian region was also another

contributing factor. (See Graph 4).

In terms of provincial share, Western province contribution reduced markedly from 70% in 2005 to about 60%, while Isabel and Makira provinces improved their shares to 16% and 11% respectively from their positions a year ago. Choiseul, Malaita, Guadalcanal, and Central Islands Province also gained ground but were still within the single digit zone. The composition structure above indicated a potential major shift in logging activities from the traditional logging spots of the Western province to the other provinces in the near future. On an upside, the compositional change poses less vulnerability risks to the domestic economy in the event that production activities in a particular province are disrupted.



According to the World Bank, the average international log price increased for the fifth consecutive year in 2006. It rose by US\$36 to US\$239 per cubic metre, owing to strong demands for logs from South East Asia and in particular from mainland China which accounts for more than 50% of total Solomon Islands log exports. However, average export prices for domestic logs remained stagnant at about US\$66 per cubic meter (SBD\$504 per cubic metre) in

2006. This large price differential has raised serious concerns that logging companies are employing transfer pricing tactics to ensure prices are not responding to the world market price trends to maximize their profits. The implications include revenue losses to the government; underpayment of benefits to local resource owners; deliberate siphoning of export receipts offshore; and foreign exchange losses. It is important that relevant authorities are provided with adequate manpower and financial resources to counteract such undesirable practices in the industry to ensure all local stakeholders are receiving their fair shares.

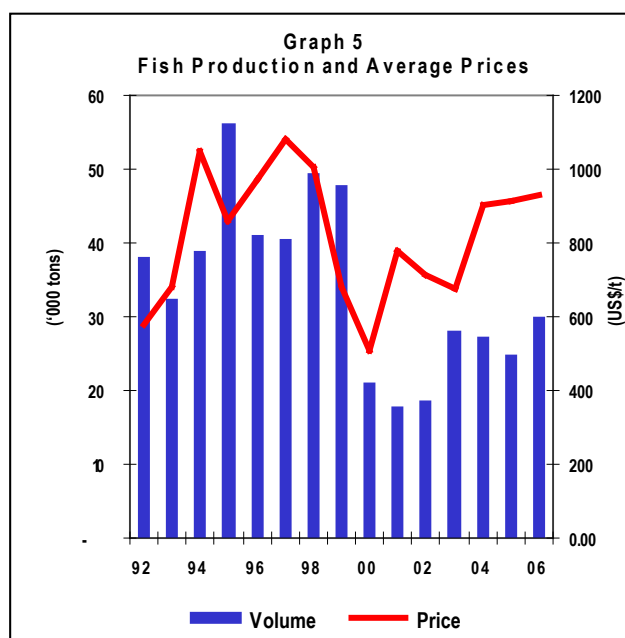
In November 2006 the Department of Forests, Environment, and Conservation reported that at current rates of extraction log production will rapidly decline from 2010. This assessment was based on recent harvesting trends that showed annual log volumes since 2004 have averaged above one million cubic meters. The expected implications are extremely damaging; these include a potential huge gap in foreign earnings; rising structural unemployment; a revenue gap in the fiscal budget; and reduced revenue sources for resource owners. Taking measures to slow the rate of extraction of the nation's forestry resources, and simultaneously implementing all possible measures to encourage growth in other sectors, are therefore urgently required in order to cushion any undesirable economic effects from a potential slowdown in the forestry sector in the coming years.

Fishing

Total fish catch for 2006 bounced back from declines during the previous two years to reach a post-tension high of 29,597 tons. (See Graph 5). This was 11.6% above the previous year but 40% lower than the level in 1999 when Solomon Taiyo Limited was operating. The positive outturn reflected catch trends from the National Fisheries Development Ltd (NFD) which rose by 18.8% to 22,343 tons and the Soltai Fishing and Processing Ltd (SFPL) that rose by 40.5% to 7,254 tons. The desirable warmer sea conditions in the latter half

of the year as a result of the El Nino effect, expansions in the two major companies' fleets, and strong export prices were the core driving forces behind the overall improvement.

During the year, the SFPL was still not able to provide sufficient raw materials (tons of fish) for its cannery operations despite the acquisition of two new boats in the early part of the year. As a result, SFPL purchased 5,611 tons of fish from NFD. The purchased volume is expected to triple in 2007 following the expansion of the cannery facilities. In terms of employment, the company has a total workforce of about 890 employees.



The first phase of the upgrading project on the production lines at Noro cannery began in the second half of 2006. The desired outcomes included an increase in throughput capacity and an increase in the storage capacity of the cooler, with the intention of improving supply capability and the financial position of SFPL. The upgrading work led to a temporary suspension of cannery operations which caused a short-term shortage in the supply of canned products domestically.

Besides being a member of the multilateral treaty the United States of America has with Pacific Islands, Solomon Islands also had five existing bilateral treaties with Korea, Japan, Taiwan, New Zealand, and the European Union. A total of 30 foreign boats were licensed under these treaties to fish in the Solomon Islands' Economic Exclusive Zone (EEZ) during the year. Compared to a year ago, this was a slight increase of four boats. The number of boats is expected to increase further in 2007. Fishing licenses from the foreign boats varied between US\$4,000 per boat to US\$10,000 per boat in accordance with the specifics of each bilateral treaty. Revenue from fishing licenses collected in 2006 rose from \$26 million in 2005 to \$32 million, owing to the increase in the number of boats as well as an upward revision of license fees at the beginning of the year.

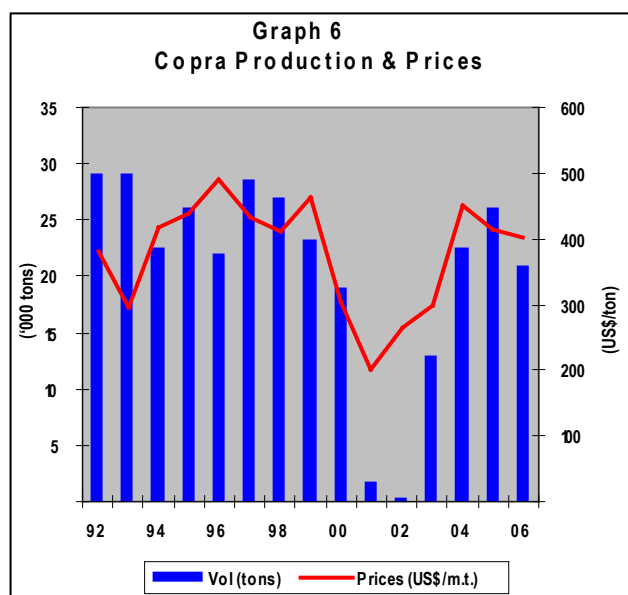
Seaweed

Seaweed production peaked in 2004 at 10 tons but has decreased since then for several reasons. These include logistical problems such as transportation and higher cost of obtaining the production materials; local prices that remained weak at below \$2 per kilo; and the effect of a fungal disease (Egyptis) that affected yield. Nevertheless, there is reason for optimism regarding the prospects for this infant sector. Seaweed activities at Rarumana village started to rise again in November 2006 after operating at very minimal level in 2005 and most part of this year, while seaweed farms could also be found in other areas such as Wagina, Vangunu, and Ontong Java. There is still potential for this industry to flourish to complement other marine activities.

Copra & Coconut Oil

Total copra production dropped by 19% to 21,214 tons in 2006. (See Graph 6). A decline in the contracted export price of copra, and consequently a decline in the domestic price received by farmers, were the main factors behind this outcome. A lack of copra driers, insufficient

funds to purchase copra and unreliable transportation continue to constrain copra production. Another significant factor was a shift from copra to coconut oil production in some areas.



The average domestic price for copra in 2006 was \$1.22 per kilogram, an 8.2% decline compared with the average of \$1.33 per kilogram in 2005. From a relatively low starting point at the beginning of the year, the domestic price increased slightly from \$1.20 per kilogram to \$1.33. This reflects an increase in the contracted price from US\$233 per metric ton at the end of 2005, to US\$255 per metric ton by the end of 2006. International prices for copra also rose during the year, from US\$373 per metric ton to US\$477 per metric ton.

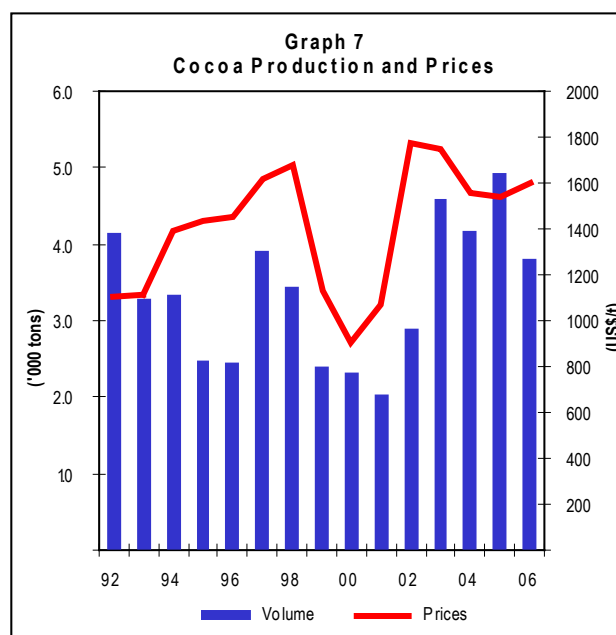
Contracted prices are determined by buyers overseas, and therefore reflect changes in the cost of transportation, freight charges and currency fluctuations, as well as international prices.

Coconut oil, in contrast to copra, experienced rising production in 2006, in part a response to positive demand both locally and overseas. Three main companies are currently producing coconut oil in the Solomon Islands, including one company which produces virgin coconut oil

exported for food production. Some coconut oil is sold domestically and some exported, for use in cosmetics. Output in 2006 totalled 316 tons, and is expected to increase further over the coming year. The product has a lot of potential due to strong demand and high prices in the world market due to its use in pharmaceutical and food products. On the domestic market there is scope for using coconut oil products to produce bio-diesel, which would be a significant development in helping to reduce payments for import of oil products, which are at present huge. International prices for coconut oil ended the year on a high note of US\$732 per metric ton, from US\$568 per metric ton in the beginning of the year.

Cocoa

After reaching a historic high of 4,928 tons in 2005, cocoa production fell significantly in 2006, falling by 22% to 3,828 tons. (See Graph 7). The decline in output compared with last year in part reflects the exceptionally high yield in 2005, but was also the result of poor weather conditions in 2006 with heavy rainfall during the flowering seasons. Cocoa production also remains hindered by irregular and costly transport services in many parts of the country, and ageing



trees in some areas. On a positive note, the average domestic price of cocoa in 2006 was \$6.46 per kilogram, a slight increase on the average of \$6.34 in 2005. Notably, prices in the second half of the year increased rapidly following a slump in the first two quarters. The contracted price received by exporters was also higher in 2006. Compared to an average of £631 per metric ton in 2005, the contracted export price averaged £654 per metric ton this year. This reflects a positive upward trend in the international price of cocoa.

Palm Oil & Kernels

The Guadalcanal Plains Palm Oil Limited (GPPOL) commenced actual production in May 2006, after re-opening the palm oil operation that Solomon Islands Plantations Limited closed in 1999. Prior to actual production, the company completed extensive rehabilitation of the plantations, including re-planting. Output in the first full month of production totalled 787 tons of palm oil and 138 tons of palm kernel. By the end of the year cumulative production was 5,427 tons of palm oil and 1,236 tons of palm kernel. Production is forecast to increase further in 2007, with GPPOL projecting total output of 13,000 tons of palm oil and 5,000 tons of kernel. Approximately 2,500 workers are currently employed, though this is expected to decrease as more of the plantations become rehabilitated. A strong upward trend in the international price of palm oil was a further positive development in 2006. From US\$429 per metric ton at the end of 2005 the price increased by over a third to US\$574 per metric ton by the end of the year.

As a means of increasing its production, the company has also launched an out-growers program, where interested landowners manage and harvest their own crops to supply inputs to GPPOL, with technical assistance provided by the company. At present, the operation is targeted at family units operating around 3 hectares.

Vangunu Palm Oil Company has not yet commenced production. One thousand hectares

have been planted in Western Province, holding one million seedlings and production is expected to begin later in 2007. Another prospective project is the Auluta Basin palm oil project in Malaita province. There has been significant progress in resolving a number of impeding barriers such as land issues, and an initial land survey of 7500 hectares has been completed. These developments, and in particular the launch of GPPOL, means that palm oil production would become a dominant sector in the Solomon Islands economy for many years.

Minerals

The Australian Solomons Gold Limited (ASG) conducted a feasibility study on the Gold Ridge mining project during the year. The outcome is vital for the company to solicit funds from potential financiers such as lending banks, insurance companies who will insure the mining project, as well as raising more funds in the overseas equities market. The feasibility study estimated the probable mine reserve at 1.15 million ounces of gold and the company expects to extract 870,000 ounces of gold over the expected life of the mine (7 years). Average annual production in the first three years is estimated at 136,000 ounces. The estimated total pre-production cost is US\$108 million, of which more than half is for plant refurbishments.

The company expects to finalise the project financing terms around May 2007 before proceeding onto the refurbishment phase. The other outstanding tasks that require urgent attention before any recommencement are the relocation program for villagers that are settling in the mining lease area and the discharging of the tailing dams. Both issues require close consultation between the Department of Mines, ASG, landowners, and other stakeholders.

During the year the Department of Mines registered seven mining and exploration companies, one mining lease for the Gold Ridge project, and ten prospecting licenses compared with nine in 2005. Furthermore, there are 26 more

prospecting applications currently being processed. The Department anticipated mineral exploration to intensify in the coming years in view of the forty three mining tenement areas in the other provinces that have been earmarked for prospecting.

Alluvial gold exports as certified by the Department of Mines fell from 61.6 kilograms in 2005 to 34.7 kilograms. Despite the decline, total value of gold exports increased from \$1.3 million to \$2.3 million as a result of an increase in world prices. There were 20 licensed gold dealers who made most purchases from miners at the Gold Ridge area. Local prices ranged from \$55 to \$85 per gram and have been moving in parallel with the strong international prices.

Honey

The Solomon Islands Honey Producers Co-operative Association (SIHPCA) reported it purchased approximately one ton of honey from farmers in 2006, a sharp decline from 2.6 tons in the previous year. By province, Malaita was the main producer although there were other pockets of honey producers in Isabel, Western and Choiseul provinces. High rainfall during the year and better prices from other honey buyers were the two main underlining reasons behind the decline in SIHPCA purchases.

In terms of prices, SIHPCA purchased honey at \$10 per kilo and sold it at \$16 per kilo in 2006. These prices will be revised upward in 2007 to \$15 per kilogram and \$20 per kilo respectively to regain confidence from local farmers in SIHPCA. SIHPCA whose facilities were badly damaged during the tension years is still rebuilding some of its facilities. During the year, it was also providing technical assistance and training for its members. Total membership rose to 1,049 people from 25 people in the previous year, indicating a potential expansion in the production base.

Although the honey industry recognizes the strong demand for honey products in the local

market, it has been unable to take advantage of the opportunity. This is due to limitations such as unreliable transport services to the provinces, lack of capacity at SIHPCA to produce more beehives for existing and potential farmers, and the existence of a honey disease on Guadalcanal and the Central Islands Provinces that restricted other provincial farmers from acquiring raw materials from these two provinces.

Rice

Rice has become Solomon Islands largest single food import, averaging around \$150 million per year in the recent three years. The National Rice Project intends to address the high dependency on imported rice through promoting semi-commercial rice farms (5 hectares) and commercial farms (10 hectares). In doing so, the Government in conjunction with Taiwan has provided capital subsidies for local farmers interested in cultivating semi-commercial rice farms. Critical to the success of these projects are appropriate irrigation systems; necessary capital equipments; accessibility to suitable arable land; and provision of technical support. The provinces that embarked on rice farming during the year were Guadalcanal, Western, Malaita, Temotu, Choiseul, and Makira. Most of the rice output was for subsistence consumption although very small amounts were also sold in local shops at prices averaging around \$4.50 per kilo, 50 cents cheaper than imported rice.

Energy

The Solomon Islands Electricity Authority (SIEA) generated 68.9 million kilowatt hours during the year, a small increase of 2.6% above 2005 levels. About 86% of this came from the two main stations in Honiara, with the Noro station producing 6.2%, Gizo 2.9%, Auki 2.3%, and other provincial stations accounted for the remainder. The provincial outstations were not financially viable and have always been subsidized by the Honiara stations. Until economic activities begin to expand in the provincial centers, the provision of electricity will struggle to be self-sustainable and financially viable.

The increase in domestic fuel prices in response to world oil price trends triggered SIEA to implement a large increase in tariff rates from \$1.89 per kilowatt hour to \$2.35 per kilowatt hour. While this measure should produce more revenue for SIEA, default payments and illegal connections also became more widespread. The new tariff also poses an additional obstacle to private sector growth and small businesses, because it raises the cost of operating in the country.

A small and open economy like Solomon Islands is highly susceptible to external shocks such as shifts in fuel prices. Given the natural resources of the country, it is highly advisable that the possibility of alternative domestically-produced energy sources such as solar energy, hydro dam, and bio diesel be explored. There have been some positive developments regarding this issue. GPPOL has successfully generated all its required energy from biomass wastes, and has been in discussions with Gold Ridge Mining about the possibility of transferring surplus energy to help power mining operations. Local coconut oil producers have also begun to produce bio-diesel fuels, and SIEA has trialed bio-diesel in provincial generators. The viability of bio-diesel to replace conventional fuel in the Solomon Islands is constrained at present by limited output and the lack of an available market.

Tourism

An estimated 7,000 overseas visitors landed in the country during 2006, a 35% decrease from the previous year. The country's attempts to attract greater numbers of foreign visitors have been set back by the Chinatown riots in April, and are also hindered by the strong travel advisory warning against the Solomon Islands that the Australian government currently has in place. There are hopes that with a recent improvement in diplomatic relations between the SIG and Australian government further progress can be made in attracting foreign arrivals in 2007. The Tsunami that struck Western and Choiseul provinces in April 2007 has the potential to further

damage visitor numbers to the country. While the immediate effect has been a high volume of overseas visitors to report and assist with the disaster, in the short- to medium-term it will potentially deter foreign visitors.

During the April riots the recently established Pacific Casino Hotel was destroyed. As one of the largest hotels in the country, this reduced accommodation capacity and contributed to very high occupancy rates in the other Honiara hotels, as well as to the scarcity of housing supply in the market. At least two new hotels were opened in the latter half of 2006, which should help to expand the accommodation capacity.

Solomon Airlines continued to grapple with high operational costs, and as a result reported an \$8.0 million loss during 2006. In a restructuring effort to earn more revenue, the company acquired a twin-otter aircraft to add to its domestic fleet, and terminated other leased aircrafts. Similarly, for the international operations which accounted for 65% of its total revenue, it has replaced its leased Boeing 737-300 aircraft with a new Embraer aircraft. In addition, the more aggressive sales and marketing strategies that the company has adopted offers positive prospects for greater passenger numbers and higher return in the future.

Solomon Islands currently lags behind most of its Pacific neighbors in terms of visitor arrivals, despite the abundance of natural beauty and rich cultural heritage which continues to offer hope for developing a thriving tourist industry. Continued social and political stability is the most important factor in attracting foreign visitors in the future. Improving transport infrastructure will also have a significant impact. Meanwhile, the Solomon Islands Visitors Bureau (SIVB) has an important role to play in enhancing the country's reputation, and helping to change regional perceptions about the country as a desirable tourist destination. In 2006 the SIVB participated in tourism shows in Australia and Hong Kong, and in 2007 another show is

planned in association with the Tourism Council of the South Pacific, to be staged in Europe.

Telecommunication

Telecommunication activities were robust in 2006, as the Solomon Telekom Limited (STL) continued to benefit from thriving business activities, strong consumer demand, and the continued presence of RAMSI in the country, one of the major clients of Telekom. This positive outcome is indicated by the company's high revenue turnover during the year. International calls, fixed exchange lines, internet services and mobile phones were the main revenue products of the company.

Consumer demand for mobile phones and internet services grew rapidly in 2006, threatening to outpace available capacities. This prompted the company to increase the subscriber capability for mobile phones to accommodate more users as well as introducing broadband internet access. The company also embarked on large-scale improvements to telecommunication infrastructures in the provincial centers. The launching of mobile phone services at Gizo in early 2007 demonstrated the company's intention to expand communication activities outside of Honiara.

There was an upward revision of telephone rates in 2006. International call rates for the lower band which include most Pacific Islands rose by 16% from a year ago to \$10.47 per minute. Local and trunk calls also grew, by 4.5% and 4.7% to \$0.70 cents per minute and \$3.10 cents per minute respectively. These charges were relatively high by Pacific standards and are identified by local companies as a major cost of doing business in the country. Improving competition in this sector will be a crucial and desirable step towards improving efficiency and reducing telecommunication costs to households and businesses. However, such a step should be introduced along with clarification and strengthening of the regulatory aspects of the sector.

Construction

Various building indicators have shown a buoyant construction sector during the year, owing to strong real estate activities in Honiara. Commercial bank loans to the construction sector more than doubled to \$43.3 million by the end of 2006, compared with \$21.1 million at the end of 2005. This comprised \$11.7 million in loans for commercial properties, \$13.4 million in loans for domestic residences, \$18.1 million for land development, and \$25.2 million for other unspecified construction activities. The housing loan portion of personal loans also increased to \$73 million during the year from \$46.2 million in 2005.

A similar trend was also depicted in the numbers of building permits that were issued in Honiara. Honiara Town Council approved a total of 186 applications (\$69.6 million) in 2006 compared with 90 applications (\$47.6 million) in 2005. Most notably permits for 'residential buildings' grew by 62.1% from the previous year to 94 approved permits. Despite the significant increase, its estimated value grew marginally by 14.3% to \$23.0 million. On the other hand, the 'commercial buildings' category recorded 60 approved permits but has the highest estimated value at \$31.1 million, as against \$19 million in the preceding year.

The housing boom was attributable to various factors. The large influx of expatriates into the country under various projects including RAMSI was one important factor in the growing demand for office space and accommodation. Employment expansion, including growth in the number of public sector workers, also added to the surging demand for accommodation. Another major driving force was a large increase in rental rates for executive residences, the major clients of which are RAMSI officials. However, there are concerns over the sustainability of this housing boom in the long-term, and there are risks that current inflated prices may lead to the inefficient allocation of scarce financial resources to the housing sector than to more productive investments.

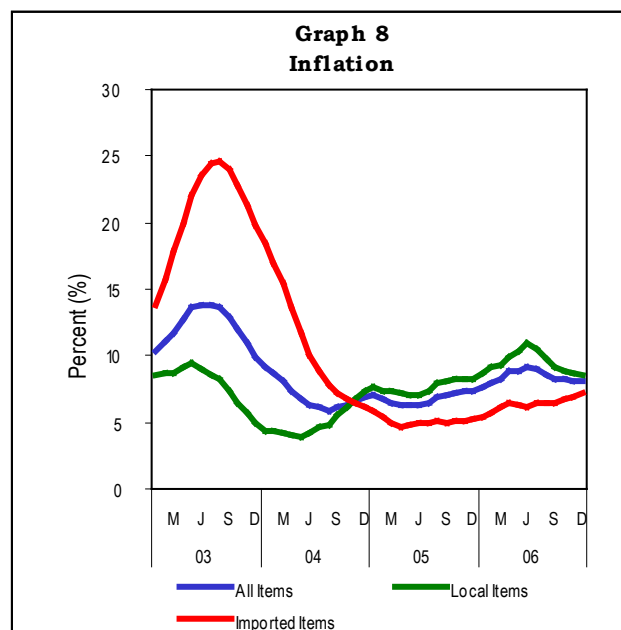
Inflation

The rate of inflation in the Solomon Islands declined in 2006, according to the Honiara Consumer Price Index. According to the 3-month moving average measure annual inflation fell to 7.6% compared with 8.5% in 2005, still within the targeted single-digit bounds for inflation. Inflation in the price of 'Food' and 'Drinks and Tobacco' increased compared with 2005, rising to 8.0% and 9.4% respectively (from 6.4% and 2.2%). On the other hand, inflation in 'Transport and Communication' and 'Recreational, Health and Other Services' fell markedly compared with 2005, the former decreasing to 3.6% (from 23.0% in 2005) and the latter to 6.6% (from 10.0%). (See Graph 8).

The year-on-year measure of annual inflation showed a similar result, recording a fall to 7.5% for 2006 compared with 8.4% in 2005. The 12-month moving average measure captures annual inflation less precisely, and showed an increase in inflation to 8.1% compared with 7.3% in 2005

In 2006, in contrast to 2004 and 2005, inflation in the price of imported goods was the main driver of overall price increases. Inflation on imported items rose to 8.9% in 2006, compared to 6.2% in 2005 (3-month moving average). In contrast, inflation on domestic items fell to 6.6%, from 9.6% in 2005. High oil prices were an important

factor in the high inflation for imported items, as was a weakening of the Solomon Island Dollar against several trading partners.

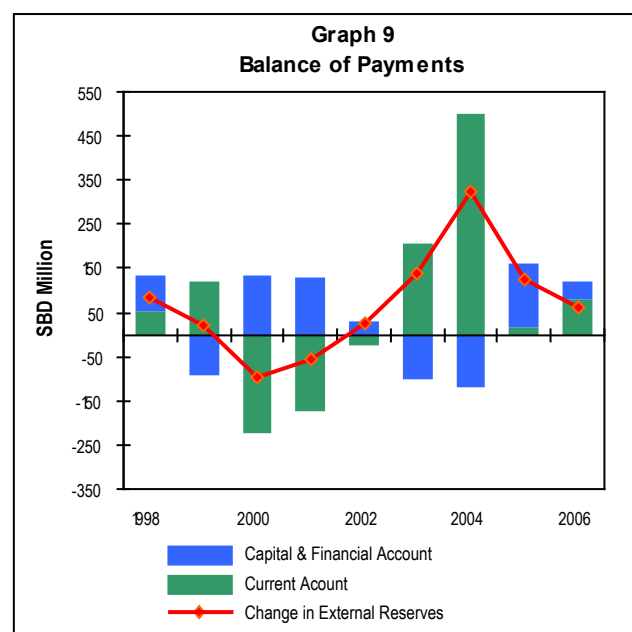


The Solomon Islands Statistics Office (SISO) in the Department of Finance is currently reviewing the HRPI (Honiara Retail Price Index) and is optimistic that revised weightings used to calculate inflation will be introduced in the second half of 2007. This review is essential in order to accurately capture the inflation situation in the country.

IV. BALANCE OF PAYMENTS

Overall Balance

The Balance of Payments (BoP) performance in 2006 showed an overall surplus of \$73.5 million, a significant decrease from the \$120.1 million surplus in the previous year. (See Graph 9). This decrease was mainly the result of a large deterioration in the trade balance, which outweighed positive improvements in the Income and Transfers Accounts. Government debt service payments of \$33.5 million on external debts also contributed to this performance. Both the Current and the Capital & Financial Accounts showed net surpluses over the year. The major driving forces in this performance were the continuous external donor support as well as positive expansion in private sector activities.



As a result of the positive overall BoP outcome, the level of Solomon Islands gross external reserves rose by 9.2% to \$782.9 million in 2006. Despite this increase, the rising level of imports in the country meant that the import cover provided by the external reserves deteriorated from 5.3 months at the beginning of the year, to 4.3

months by the end of December. The overall BoP position is expected to show a surplus balance in 2007 in view of continuous official inflows from bilateral partners to fund upcoming proposed development projects. Stronger exports and the anticipated inflow of assistance for tsunami relief are also expected to boost the level of reserves.

Current Account

The Current Account balance improved significantly in 2006, increasing to a surplus of \$80.7 million from a surplus of \$18.0 million in 2005. This outcome was achieved despite a large increase in the trade deficit to \$253.5 million from \$131.2 million last year, and a deficit in the Services Account of \$51.7 million. The improved overall outcome, however, was achieved due to the very large surplus of \$341.4 million in the Current Transfers Account, and to a lesser extent an increase in the Income Account surplus. The Current Account surplus accounted for 3.0% of the total Gross Domestic Product in 2006, compared to 0.8% in the previous year.

Trade Account

The Trade Account posted a deficit of \$253.5 million in 2006 as compared to a smaller deficit of \$131.2 million in 2005. (See Table 3). This outcome resulted from a large increase in import payments that outweighed positive growth in export receipts. Import payments increased by 35.1% to \$1,463.8 million in 2006, a rise that was largely influenced by high fuel prices, strong growth in domestic demand and high freight costs. Total export receipts, meanwhile, rose by 17.8% to \$917.6 million. The performance was underpinned by improved receipts from exports of fish, logs, and palm oil & kernels, the result of higher production and also partly due to improvements in prices. This more than offset the large fall in cocoa receipts, a small fall in copra receipts, and the decrease in inflows from 'other exports'.

Table 3
Balance of Payments Trade Account

(SBD million)

	2003	2004	2005	2006
Exports fob	557.0	727.7	778.8	917.6
Imports fob	-525.5	-540.0	-919.1	-1171.0
Trade Balance	31.6	187.7	-131.2	-253.5
Trade Balance % of total trade	2.9	14.8	-7.8	-112.1

Source: Central Bank of Solomon Islands

Forest products are Solomon Islands leading export earner and accounted for 70.2% of total export earnings in 2006. Receipts from these products continued the upward trend seen in the past years, registering a 26.2% increase to \$643.6 million. Receipts from exports of round logs rose by 23.0% to \$607.6 million, but there was also positive growth in receipts from sawn timber exports which rose 123.3% to \$36.0 million. This outturn stemmed mainly from improved market price for forest products in 2006 due to high demand in South East Asia for all species. This high demand in part related to reduction in illegal logging activities in the Asian region that usually drives down prices as well as forest fires that have hindered the supply of competitors.

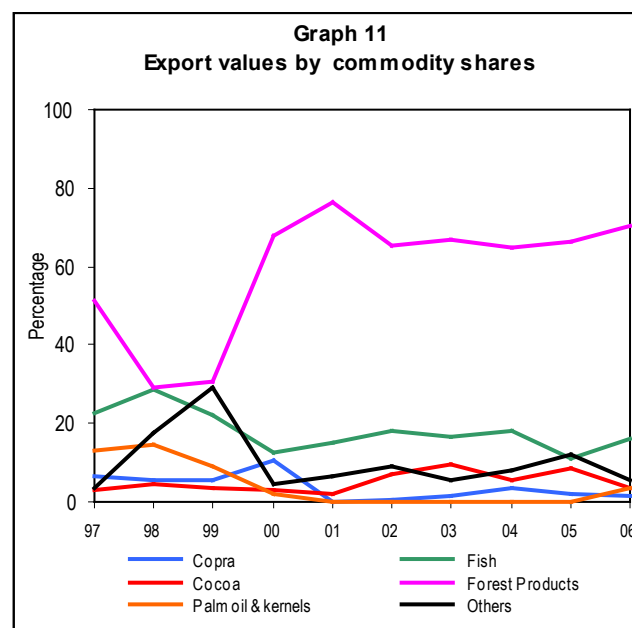
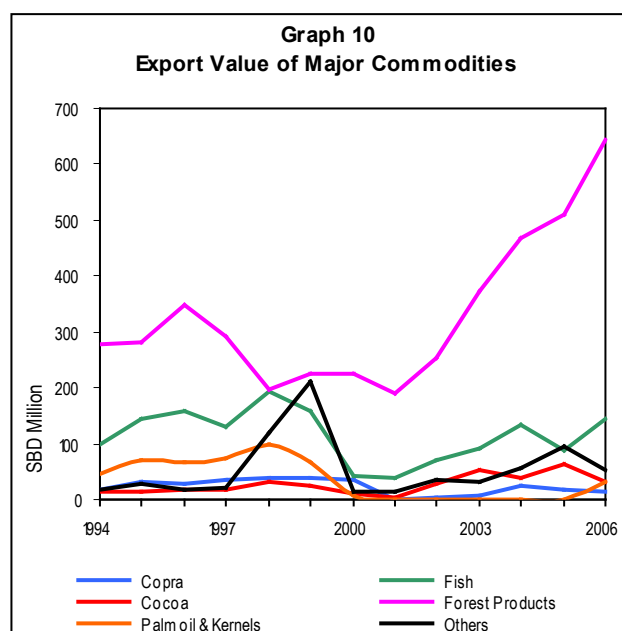
Solomon Islands average log export price was US\$70 per cubic metre in 2006 compared to US\$64 per cubic metre in 2005. In terms of export markets, China, Japan and Korea were the major destinations for Solomon Islands logs in 2006, with China accepting all species while the other countries preferred high grade species only. The international price for logs is expected to remain firm throughout 2007, with international demand remaining strong. The average export unit value is projected at US\$90.0 per cubic metre. Forest products will continue to be Solomon Islands leading export in 2007.

Fish export receipts rebounded from the 34.1%

fall in 2005 to register growth of 67.8% to \$145.9 million in 2006. This substantial turnaround was due to production increases resulting from improved fishing capacities, favourable weather conditions and improvement undertaken by the two major companies, National Fisheries Development (NFD) and Soltai Fishing Processing Limited during the year. A small increase in fish prices from US\$915 per ton in 2005 to US\$930 per metric ton in 2006 also contributed, and was the outcome of strong demand in Asian markets. This increase in receipts from fish exports raised the share of fish to 15.9% of total export receipts in 2006, from 11.3% in 2005. Of the total fish earnings, frozen tuna accounted for \$117.2 million, frozen tuna for sashimi \$12.2 million, canned tuna \$15.1 million while the remainder came from other fish products. Fish production is expected to fall significantly in 2007 due to reduction in the size of the fleet. The loss of receipts will be partially offset by an increase in the volume of fish that is processed and exported in cans. Overall, export receipts are forecast to decrease in 2007.

Substantial receipts of \$30.7 million from the export of **palm products** were received in 2006 following the launch of GPPOL production in May 2006. Before the outbreak of tensions, palm product exports were one of the major earners for Solomon Islands, but there has been no output for several years. The revival of this industry has not only generated revenue for the country but has also resulted in substantial rebuilding and provision of essential services like schools, clinics, roads, telecommunications and bridges. Receipts from palm products are expected to rise significantly in 2007, in GPPOL's first full year of production. In addition, the plans to expand mill operations and the export price increase that is forecast will further boost receipts.

Earnings from **copra exports** in 2006 dropped by 14.3% to \$14.1 million. This declining trend which started in 2005 was due to a fall in both export prices and volumes, which fell by 12.8% to US\$223 per metric ton and 19.0% to 21,214



metric tons respectively during the year. The fall in the international price of copra was due to high supply abroad as well as competition from other cheaper substitutes. Production was constrained by inaccessibility to driers, low local prices, and unreliable transportation and high freight costs. In 2006 copra accounted for only 1.5% of the total export receipts. With expected positive growth in both copra export prices and production, copra export receipts will increase accordingly in 2007.

Exports receipts from **cocoa products** fell dramatically by 51.1% to \$31.4 million in 2006. This downturn was the result of a 22.3% fall in production to 3,828 metric tons, which counteracted the positive effects of a higher average contracted price received by exporters, which was GBP654.3 per ton in 2006 compared with GBP630.6 per ton in 2005. Despite this outcome, cocoa production is expected to be significantly higher in 2007. This, along with the forecast for cocoa prices to increase further in the year, should result in higher receipts from cocoa exports next year. During 2006, cocoa exports contributed 3.4% of the total export earnings, down from 5.1% in the previous year.

Total **mineral export** receipts, mainly from

alluvial panning, rose to \$6.2 million in 2006 from \$1.3 million in the previous year, but remained a very small source of export earnings. The increase was the outcome of increased panning activities in the Gold Ridge area. Progress continues to be made towards the resumption of large-scale gold mining in the Gold Ridge mine. However, with production not anticipated to begin before June 2008, receipts from minerals are not expected to increase before then.

Receipts for "other exports" fell dramatically over the year by 50.6% to \$45.6 million reflecting a slow down in production of other marine products and other exported items.

Total import payments in 2006 rose dramatically by 35.1% to \$1,463.8 million, extending further the 69.9% increase in the previous year. This was the result of substantial increases in both fuel and non-fuel import items. Fuel imports accounted for 28.3% of total imports in 2006, and rose to \$414.3 million during the year from \$317.0 million in 2005. This rise was the result of high fuel prices and strong demand due to increased domestic economic activity. Payments of non-fuel items constituted 71.7% of total imports and rose by 37.9% to \$1,049.3 million in 2006. The increase was partly related to the

establishment of the GPPOL and other projects. Furthermore, major constructions and rehabilitation of infrastructures undertaken by some of the major logging companies and private business houses during the year also contributed to this significant growth.

Food imports rose by 7.2% to \$164.6 million, following the much larger 51.2% increase in the previous year, and were the third largest category of total imports with an 11.2% share. Imports of plants, vehicles, machineries and transport equipment rose dramatically by 91.6% to \$199.8 million in 2006, from \$104.3 million in the previous year. The upswing in this import category makes it the second largest, with a share of total imports of 13.6%. Building and construction materials rose by 6.3% to \$63.7 million in 2006, reflecting the increase in number of building permits and the large volume of major constructions and renovations undertaken by private companies during the year. Chemical products and 'other' imports also registered increases of 6.6% to \$16.0 million and 44.5% to \$591.9 million, respectively. On the other hand, import payments for beverages and tobacco fell considerably by 26.1% to \$13.3 million in 2006 from \$18 million in 2005. The decline in import payments for beverages is partly related to the effects of the April riot that saw many local shop outlets either being partly damaged or totally burned.

Services Account

The Services Account posted a significant deficit of \$51.7 million in 2006. (See Table 4). This was a result of an 84.2% surge to \$505.4 million in service payments countering the 45.5% rise to \$453.7 million in service receipts. The increase in services payments was an outcome of large outflows in all non-factor services categories. Transportation services posted a net deficit of \$2.4 million in 2006 due to a \$33.6 million net deficit in air transport services which more than outweighed the \$31.2 million net surplus in sea transport.

	2003	2004	2005	2006
1. Transportation	-8.7	-131.9	-8.3	-2.4
1.1 air transport	-17.4	-31.6	-12.2	-33.6
receipts	0.3	0.5	45.8	58.5
payments	-17.7	-32.1	-58.9	-92.1
1.2 sea transport	-8.7	-100.3	3.9	31.2
receipts	14.7	7.8	14.2	47.2
payments	-6.0	108.1	-10.3	-16.0
2. Travel	-21.8	-40.8	24.0	-46.3
2.1 business	-6.0	-2.3	-9.5	-10.5
receipts	6.2	16.7	2.0	4.1
payments	-12.1	-19.0	-11.5	-14.6
2.2 personal	-15.9	-38.5	-14.5	-35.8
receipts	5.4	9.6	9.6	8.1
payments	-21.3	-48.1	-24.2	-43.8
3. Other Services	-168.0	94.0	69.9	3.0
receipts	163.0	195.9	240.2	335.8
payments	-330.9	-101.8	-170.4	-338.8
Overall net	-198.4	-78.6	37.6	-51.7

Source: Central Bank of Solomon Islands

Travel services also posted a net deficit of \$46.3 million, reflecting high travel payments relative to low receipts in both business and personal items. Business and personal travels posted net deficits of \$10.5 million and \$35.7 million respectively.

The Other Services category comprises insurance, communication, financial services, royalties and license fees, computer and information services, government services and other business services. This category posted a slight \$3.0 million deficit in 2006. This was the result of outflow payments of \$338.8 compared to \$335.8 million in inflow receipts during the year. The large outflows for 'other services' were in large part explained by payments for technical services associated with the large number of donors and NGOs operating in the country. Communication services posted a net outflow of \$8.2 million, insurance of \$5.0 million, computer

and information a net outflow of \$15.2 million and royalties and license \$1.2 million.

Income Account

The Income Account registered a net surplus of \$44.6 million in 2006. (See Table 5). This surplus was the result of the large value of inflows associated with compensation of employees, that outweighed the overall deficit in terms of investment income flows.

The net surplus recorded for compensation to employees was \$56.6 million in 2006, the outcome of \$70.0 million in inflows and \$13.5 million in outflows. This compares with an overall surplus of \$20.5 million in 2005. This large volume of inflows is largely related to the strong presence of international organizations and NGOs in the country, which employ a large number of local employees. As in previous years, the value of remittances coming into the country from citizens overseas was very small.

Investment income recorded a net deficit of \$12.0 million in 2006, the outcome of high net outflows in 'direct investment' income only partially offset by a net surplus in inflows from 'other investment' income. This compares with an overall deficit for investment income of \$8.3 million in 2005. Income from direct investment posted a net deficit of \$44.8 million resulting from substantial outflows of \$83.9 million and smaller value of inflows of \$39.1 million. The large value of direct investment outflows was the result of \$67.4 million of outflows on equity income and \$16.5 million for payments of interest on debt. Flows for income from 'portfolio investment' remained small in 2006, with a net deficit of just \$0.8 million. 'Other investment' income recorded a surplus of \$33.6 million, slightly higher than the \$30.9 million surplus in the previous year. 'Other investment' income represents income earned by CBSI on investment overseas.

Current Transfers

The Current Transfers account, which comprises the value of direct monetary transactions for official and private sector development assistance, posted an overall surplus of \$341.4 million in 2006, a large rise compared with the surplus of \$99.4 million in 2005. (See Table 6). This outcome reflects strong inflows in both official and private sector transfers.

The \$280.9 million surplus in 'general government' transfers relates to the high level of development assistance currently being received by the Solomon Islands. The inflow of cash grants totaled \$196.2 million, and with \$46.7 million in outflows. Meanwhile, non-cash grants of goods and services totaled \$131.4 million.

Private transfers posted a net surplus of \$60.5 million in 2006 as compared to the net deficit of \$29.5 million in the previous year. This was accounted for by an increase in private inflows to \$331.3 million, which outweighed an 11.2% rise to \$270.8 million in outflows. The rise in inflows reflects a net surplus of \$66.6 million in worker

Table 5
Balance of Payments - Income Account

(SBD million)

	2003	2004	2005	2006
1. Employee Compensation	9.8	37.6	20.5	56.6
credit	21.0	49.0	33.6	70.0
debit	-11.1	-11.4	-13.1	-13.5
2. Investment Income	-35.6	-21.2	-8.3	-12.0
2.1 Direct Investment	-40.8	-50.9	-39.2	-44.8
2.1.2 Income on equity	-13.9	-42.2	30.9	-29.3
credit	0.2	-	0.9	38.1
debit	-14.0	-42.2	-31.8	-67.4
2.1.3 Income on debt (inter.)	-26.9	-8.7	-8.4	-15.5
credit	0.2	-	0.1	1.0
debit	-27.1	-8.7	-8.4	-16.5
2.2 Portfolio Investment	-	-	-	-0.8
credit	-	-	-	0.3
debit	-	-	-	-1.1
2.3 Other Investment	5.2	29.7	30.9	33.6
credit	5.2	29.7	30.9	33.6
debit	-	-	-	-
Balance	-25.7	16.4	12.2	44.6

Source: Central Bank of Solomon Islands

remittances from overseas. 'Other private transfers', in contrast, recorded a \$6.1 million deficit, though there was large growth in inflows from this category to \$258.6 million.

In 2006, as in previous years, Solomon Islands recorded surpluses in its current transfers which have been supported by external resources. For 2007 the Current Transfers Account is again projected to register a surplus.

Table 6
Balance of Payments - Current Transfers Account

		(SBD million)			
		2003	2004	2005	2006
1.	General Government	400.7	371.8	129.0	280.9
1.1	Cash	207.0	183.1	67.7	149.5
	credit	241.3	196.9	98.4	196.2
	debit	-34.3	-13.8	-30.7	-46.7
1.2	Non-cash-net	193.7	188.7	61.3	131.4
2.	Other Sectors	-0.7	5.1	-29.5	60.5
2.1	Workers remittances	7.4	13.9	17.5	66.6
	credit	8.2	16.1	20.3	72.6
	debit	-0.7	-2.2	-2.8	-6.1
2.2	Other transfers	-8.2	-8.8	-47.0	-6.1
	credit	98.5	161.3	190.4	258.5
	debit	-106.6	-170.0	-237.5	-264.8
Current transfers-net		400.0	377.0	99.4	341.4

Source: Central Bank of Solomon Islands.

Capital & Financial Account

The Capital and Financial Account posted a net surplus of \$41.4 million in 2006, which was lower than the surplus of \$144.6 million in the previous year. This lower surplus is attributed to the huge increase in the Financial Account net deficit to \$182.4 million, which outweighed a 7.6% increase in the Capital Account net surplus which rose to \$223.8 million.

Capital transfers to the public and the private sectors both rose in 2006. Capital transfers to government were \$213.7 million, with no

Table 7
Balance of Payments - Capital Account

		(SBD million)			
		2003	2004	2005	2006
1.0	Capital Transfers	94.5	11.2	208.0	223.8
1.1	General government	95.4	11.5	208.8	213.7
1.1.1	Debit Forgiveness	-	-	60.6	-
	credit	-	-	-	-
	debit	-	-	60.6	-
1.1.2	Other capital transfers				
	of general govt.	95.4	11.5	148.2	213.7
	credits	95.4	11.5	148.2	213.7
	monetary	95.4	11.5	148.2	213.7
	non-monetary	-	-	-	-
	debits	-	-	-	-
	monetary	-	-	-	-
	non-monetary	-	-	-	-
1.2	Other sectors	-0.9	-0.4	-0.8	10.1
1.2.1	Migrant transfers-net	-0.9	-0.9	-0.8	11.0
1.2.2	Debt forgiveness-net	-	-	-	-
1.2.3	Other transfers-net	-	0.6	-	-1.0
2.0	Non produced nonfinancial assets. net	-1.4	-	-	-
Balance		93.2	11.2	208.0	223.8

Source: Central Bank of Solomon Islands.

outflows recorded. Underlying this growth was the continuous inflow of external donor assistance. Capital transfers to the private sector rose from a net deficit of \$0.8 million in 2005 to a net surplus of \$10.1 million in 2006. This turnaround reflected the \$11.0 million from flow of goods and changes in financial items arising from the migration of non-residents to the Solomon Islands.

The Financial Account net deficit widened to \$182.4 million in 2006 from \$63.4 million in 2005. This was the result of a huge net deficit of \$326.9 million related to financial flows from 'other investment', and a \$144.5 million surplus in flows relating to 'direct investment'. In terms of flows from 'other investment', flows related to financial assets posted a net deficit of \$133.9 million following a net deficit of \$88.4 million in the previous year. This reflected large purchases resulting to increases in financial assets but at the same time it incurred financial liabilities. Accordingly, flows from 'other investment'

liabilities registered a net deficit of \$193.0 million. The increase in other investment liabilities was attributed to outflows in trade credits and for loans registering net deficits of \$151.0 million and \$65.1 million respectively. This significant outflow in trade credits reflected some of the major private companies making upfront payment for some of the capital goods not delivered immediately. Meanwhile, the loan outflow was attributed to repayments both by the general government and the private sector.

Table 8
Balance of Payments - Financial Account

	(SBD million)			
	2003	2004	2005	2006
1.0 Direct Investment in SI	-13.5	42.5	139.9	141.7
1.1 Equity capital-net	-5.3	62.5	138.5	192.8
1.2 Reinvested earnings-net	-8.2	12.5	1.1	8.7
1.3 Other capital-net	-	-32.5	0.3	-59.9
2.0 Other Investment	-182.3	-173.9	-191.5	-326.9
2.1 Assets	-	-	-88.4	-133.9
2.2 Liabilities	-182.3	-173.9	-103.1	-193.0
2.2.1 Trade credits	-166.7	-170.3	-5.5	-151.0
2.2.2 Loans	-58.6	-9.0	-97.6	-65.1
(a) General govt.				
(i) Long term	-33.6	-2.9	-64.8	-55.5
Drawings	23.2	15.9	3.8	-
Repayments	-56.8	-18.8	-68.6	-55.6
(b) Other sectors				
(i) Long term	-1.4	-4.6	1.5	52.5
Drawings	0.2	-	7.3	67.1
Repayments	-1.6	-4.6	-5.8	-14.6
(c) Short-term-net	-47.3	-1.5	-34.2	-62.0
2.2.3 Other liabilities-net	43.0	5.4	-	23.2
Balance	-196.0	-131.5	-63.4	-182.4

Source: Central Bank of Solomon Islands.

Official long term capital posted a net surplus of \$55.5 million as compared to \$68.6 million in 2005. This reflected the loan repayments made by the government during the year. Meanwhile, direct investment posted a higher net surplus of \$144.5 million in 2006, compared to a surplus of \$128.0 million in 2005. This was predominantly the outcome of flows related to direct investment in the Solomon Islands, which registered a net

surplus of \$141.7 million. Financial flows from direct investment abroad recorded a small net surplus of \$2.8 million. The large net surplus relating to direct investment in the Solomon Islands is explained by net inflows of \$192.8 million in equity capital, reflecting company equity claims on direct investors. Counteracting this was a net deficit of \$59.9 million from 'other capital' which reflected company equity capital liabilities to direct investors'.

International Investment Position

Solomon Islands International Investment position (IIP) widened from a net liability of \$376.1 million in 2005 to a net liability of \$457.2 million in 2006. External assets dropped considerably by 22.9% to \$440.1 million in 2006. This was due in part to an increase in claims to affiliated companies relating to foreign direct investment and also to an increase in trade credits. The main factor, however, was a decrease in assets relating to 'other investment'. In 2006, net reserve assets remained firm at \$706.3 million. Meanwhile, external liabilities fell slightly by 5.3% to \$897.3 million. This resulted from a 22.6% fall to \$660.6 million in 'other investment' liabilities counteracting a 151.9% increase to \$237.3 million in 'direct investment' liabilities in Solomon Islands.

External Debt

The country's external debt stock stood at \$1,552.6 million by end-2006, up from \$1,483 million at the end of the previous year. (See Table 9). This increase is greater than the 1.3% increase in 2005, but is still significantly less than in previous years. In 2002, for example, the stock of external debt increased by 33.4%.

In 2006, total private sector debt stood at \$187.4 million, 1.3% down from 2005. This outcome came from the \$2.7 million in debt repayments from the private sector. Meanwhile, the public sector debt, which comprises 87.9% of total debt stock rose moderately 5.6% to \$1,365.1 million, as a result of a decline in external debt repayments this year.

Table 9
External Debt
(SBD million)

	2003	2004	2005	2006
Private Sector	199.3	195.0	190.0	187.4
Government Sector	1181.0	1268.5	1293.0	1365.1
of which arrears	106.5	118.9	76.5	105.6
Total	1380.3	1463.5	1483.0	1552.6
Debt Service	39.9	33.4	55.9	33.5
Principal	16.6	13.5	13.3	24.3
Interest	19.4	19.9	42.6	9.2

Source: Central Bank of Solomon Islands

External government debt arrears stood at \$105.6 million, a significant 38% rise from \$76.5 million in 2005. Of this, interest arrears accounted for \$27.0 million while amortization arrears accounted for \$78.6 million. This reflects the decrease in external debt servicing which dropped by 40% to \$33.5 million. Of this, \$24.3 million went to amortization and the remaining \$9.2 million went to interest payments. Loan commitments are vital in maintaining good relationships with lenders, and the government must continue to remain committed to prudent debt management measures that allow the country to meet its external loan obligations.

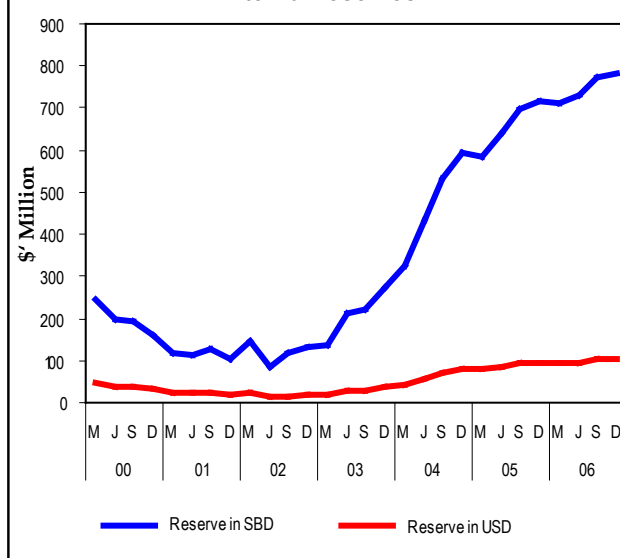
External Reserves

As a result of the positive overall BoP result, the level of Solomon Islands gross external reserves rose by 9.2% to \$782.9 million in 2006. This is a smaller increase than the 20.9% rise recorded in 2005, but is a positive performance particularly in light of high oil prices which have contributed to increasing payments for imports.

Despite this increase, the rising level of imports in the country meant that the import cover provided by the external reserves deteriorated from 5.3 months at the beginning of the year, to 4.3 months by the end of December. In addition, the level of reserves however has been kept

artificially high by \$105.6 million of arrears on government external debt. If this were taken into account, the external reserves could be lower by the same amount.

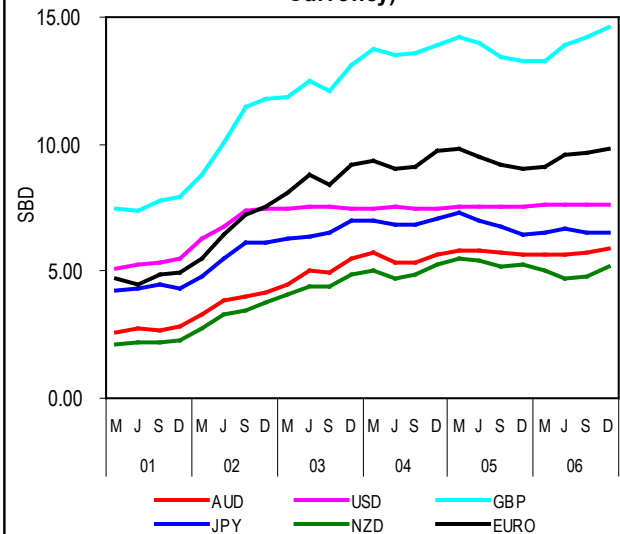
Graph 12
External Reserves



Exchange Rates

The Solomon Islands Dollar (SBD) is maintained under a managed crawling peg regime, with the

Graph 13
Exchange Rates (Units of SBD per Foreign Currency)



value derived from a basket of foreign currencies. In 2006, the Central Bank of Solomon Islands, agreed in conjunction with the government to maintain the peg with the important emphasis of stabilizing the SBD against the US Dollar (USD). (See Graph 13). This was to control inflation pressures and ensure that Solomon Islands exports would remain competitive.

The SBD, on average traded at \$7.63 against the

USD at the end of 2006, a slight 0.76% depreciation from an average rate of \$7.58 at end of 2005. Against other major currencies, the SBD depreciated by 0.69% against the New Zealand Dollar at \$5.31, 2.07% against the Japanese Yen at \$6.52, 6.69% against the Australian Dollar at \$6.00, 12.25% against the Euro at \$10.09 and, 13.34% against the British Pound at \$14.99. The result of SBD's trade with the other major currencies reflected the respective currencies' trading relationship against the USD during the year.

V. MONEY AND BANKING

Overview

2006 was an expansionary year in terms of many key monetary variables in the Solomon Islands, continuing the trend seen in recent years. Expansion in economic activities, improved investment confidence and favourable performance in the Balance of Payments continued to be key factors in producing this outcome. Money supply increased rapidly on the back of a positive rise in net foreign assets and, more significantly, a huge expansion in private sector credit. Net credit to government, on the other hand, decreased in 2006.

Excess liquidity receded slightly in 2006, reversing the upward trend recorded in the previous two years. Activities in the Auction Treasury Bills Market remained relatively robust in 2006 with over-subscription being a regular feature in the domestic securities market. Commercial bank interest rate margins declined in 2006 as compared to an unchanged movement recorded in 2005.

Monetary Policy in 2006

The overall objectives of CBSI monetary policy in 2006 remained unchanged from previous years: to establish the economic and financial conditions conducive to sustained and stable economic growth; to maintain price stability and minimise price volatility and distortions; and to ensure a viable balance of payments position.

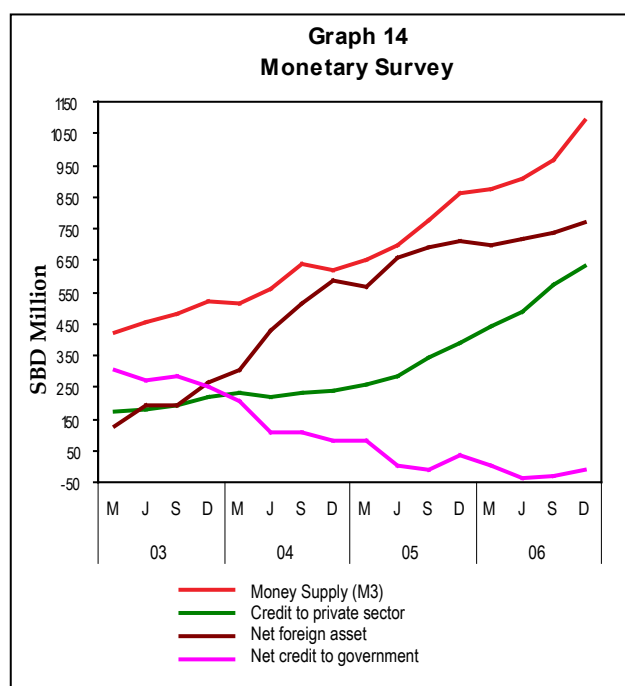
Specifically, the policy goals prioritised in 2006 were to achieve annual inflation of less than 10%, and to maintain official foreign reserves equivalent to at least 3 months of imports of goods and services. Both these goals were achieved this year, and CBSI was not required to take additional protective measures.

There were no significant policy changes implemented during the year. The total stock of Treasury Bills remaining at \$30 million. The Liquid

Asset Requirement (LAR) was also unchanged at 7.5% of total deposit liabilities. As in previous years, exchange rate policy in 2006 was aimed at maintaining price stability, and supporting the competitiveness of the country's major exports. Thus the SBD was held approximately stable against the USD, the currency in which most exports and several major import commodities are valued.

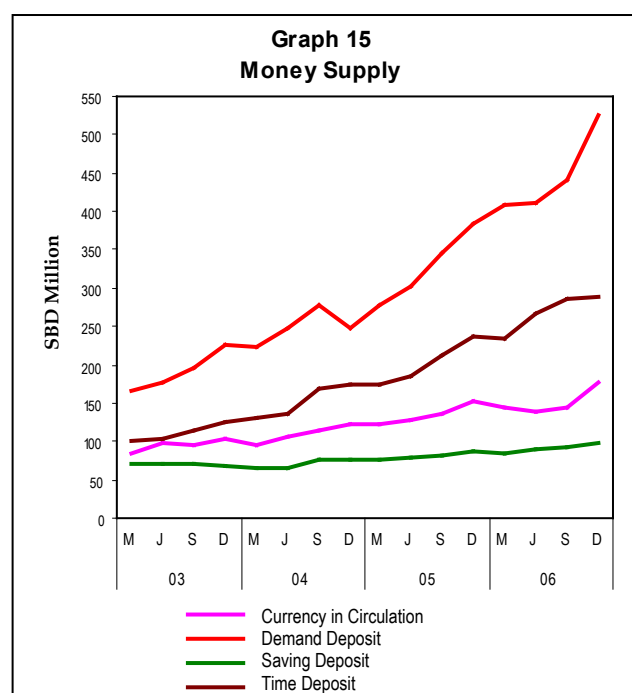
Money Supply

Money supply continued to grow rapidly in 2006, with broad money (M3) increasing by 26.4% to \$1091.6 million by the end of the year, compared to \$863.7 million at the end of 2005. (See Graph 14).



This follows strong growth of 38.9% in 2005, and is the fifth consecutive year of expansion in the money supply. Money supply growth in 2006 was predominantly driven by rapid acceleration in credit to the private sector, with a rise in net foreign assets also contributing.

Narrow money supply (M1), which consists of currency in circulation and demand deposits, rose by 30.8% to \$703.4 million in 2006, further expanding on growth of 44.7% in 2005. (See Graph 15). This largely consisted of rapid growth in demand deposits, though currency in circulation also increased by 16.1% to \$177.6 million in the course of 2006. Demand deposits grew by 36.6% to \$525.8 million in 2006, an outcome largely explained by growth in credit to the private sector.



Demand deposit growth also in part reflects robust domestic economic activities, which tend to induce firms to increase their cash holdings for transaction purposes. An increase in demand deposits held by private individuals was the largest source of the overall trend, increasing by 41.7% to \$253.9 million in 2006. Significant changes were also observed in demand deposits of business firms which increased by 19.0% to \$251.3 million, and the 'other' category which increased by 42.1% to \$186.5 million. Government demand deposits and Statutory Corporation demand deposits also increased, to \$62.4 million (a rise of 186%) and \$47.7 million (a 251.3% increase) respectively.

During the year, savings and time deposits also grew strongly. Savings deposits rose by 12.3% to \$98.9 million, whilst time deposits went up by 18.6% to \$283.2 million. Overall, quasi money rose by 16.9% to \$283.2 million in 2006. Savings deposits held by private individuals was again the strongest influence on the rise, increasing by 12.8% to \$70.9 million. Increases were also observed in savings deposits held by business firms and by 'other' depositors, which rose by 6.4% to \$23.6 million and 40.9% to \$4.1 million respectively.

The strong performance in time deposits during the year was largely the outcome of an increase in deposits held by business firms and by 'other' depositors. The former increased by 50.8% to \$82.8 million and the latter by 11.2% to \$181.4 million, in 2006. On the other hand, deposits held by private individuals fell slightly, by 5.9% to \$16.2 million.

In line with the strong growth in longer term deposits, commercial banks' loan portfolios and lending capacities remained buoyant, indicating increased lending for investment purposes, obviously the fundamental prerequisite for long-term growth.

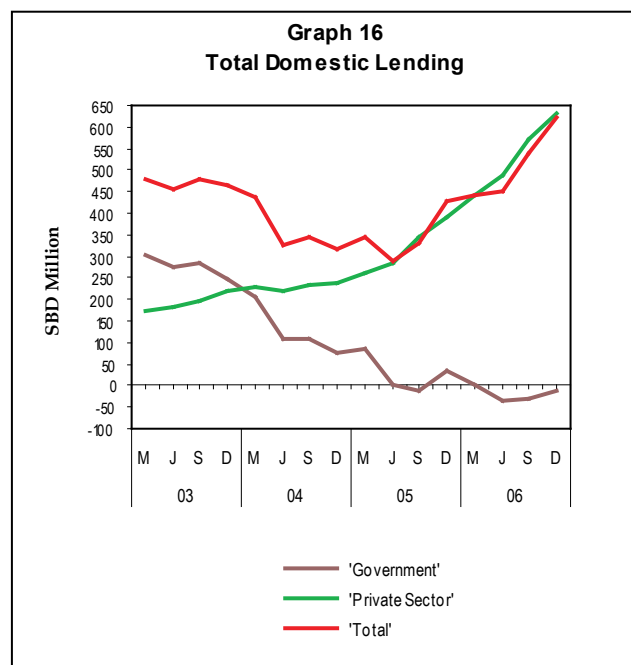
Net Foreign Assets

In 2006, total Net Foreign Assets (NFA) increased by \$57.5 million to \$770.0 million, a rise of 8.1% that was one factor contributing to the growth in money supply. This was a significant slowdown compared with growth in 2005 when NFA increased by \$128.7 million, a rise greater than the \$109 million increase in total domestic credit. As in previous years, the increase in NFA was largely attributed to increases in donor inflows and growth in export earnings.

Domestic Credit

In 2006, growth in total domestic credit was at its highest level since records began, increasing by 45.9% to \$621.0 million in the course of the year. (See Graph 16). This builds on positive growth

of 34.5% in the previous year. This increase was entirely the outcome of buoyant growth in credit to the private sector, which rose by 62.5% to \$632.3 million, following growth of 63% in 2005.



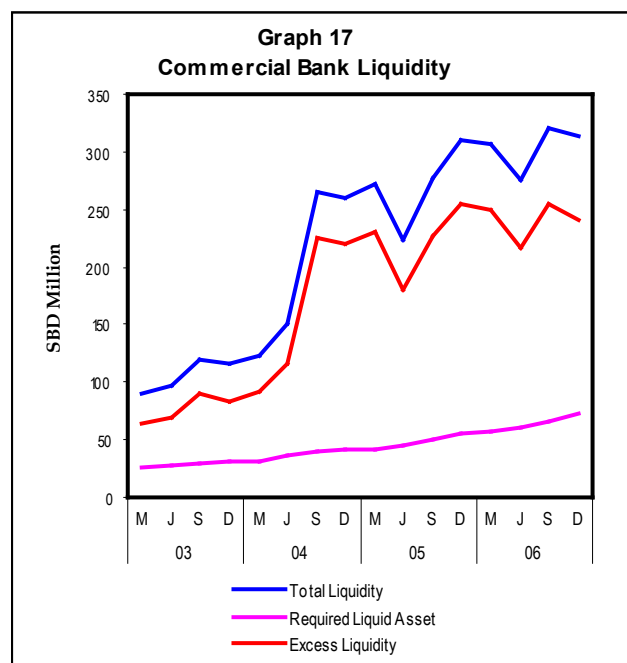
The dramatic increase in lending witnessed in the past two years has been the result of increasing investment opportunities in the country, and in particular improved commercial bank confidence in the stability of the economic and political environment. In contrast, net credit to government (NCG) fell significantly from \$36.4 million in 2005 to minus \$11.2 million in 2006. This build-up of government deposits was the outcome of strong revenue performance in the year, and improved fiscal discipline

Credit is a vital impetus for investment, and an important stimulant for long-term economic growth. Classification of loans and advances by sector during 2006 showed that the 'Personal' category overtook the Distribution sector as the single largest recipient of credit. The 'Personal' category accounted for 19.1% of commercial banks' loans and advances, followed by Distribution (16.9%), Forestry (14.1%), Communication (13.3%) and Manufacturing (9.9%). The increase in 'Personal' credit reflected

developments in real estate and property investments during the year. The increase in credit to Distribution was generally in line with the high demand for imported goods. In the Forestry sector, the increase in credit was due largely to rising logging activities in the country, whilst increase in domestic credit in the Communication sector reflected communication facility projects established during the year. Increase in credit in the Manufacturing sector was largely for "petrol-chemicals and plastic products" and "alcoholic beverages and tobacco".

Liquidity

Total liquidity in the banking system increased only slightly in 2006, reaching \$313.0 million at the end of the year compared with \$309.5 million at the end of 2005. Excess liquidity declined slightly over the same period, falling from \$254.6 million at the end of 2005 to \$240.0 million by December 2006. This compares with growth in total liquidity of 19.0% in 2005 and 125.8% in 2004.



The fall in excess liquidity despite a large expansion in domestic credit is partly explained by the rise in required reserves in 2006. It increased

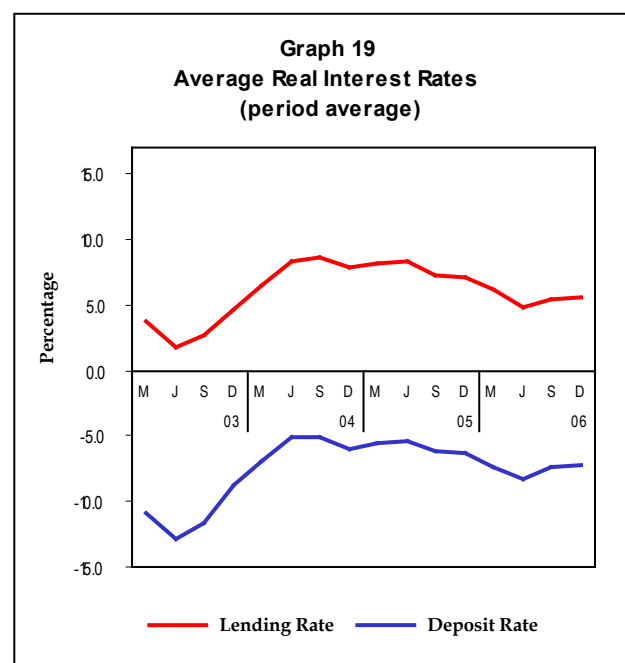
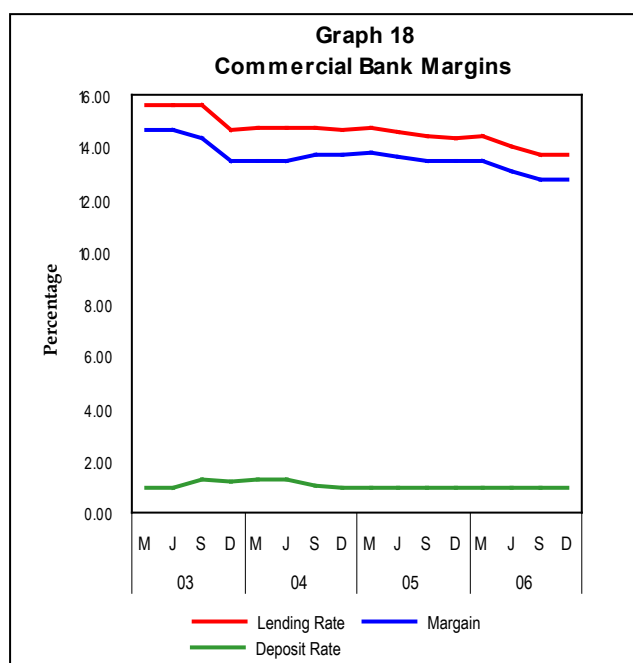
to \$72.9 million in 2006 from \$54.9 million in 2005, as deposits grew. The tightening of fiscal spending also helped to limit liquidity growth, with SIG building up balances with CBSI. The decrease in excess liquidity is explained by leakages from the system in terms of rising payments for imports and transfers. (See Graph 17).

Interest Rates

According to the average indicative interest rates reported by the commercial banks, the interest rate margin in the Solomon Islands contracted from 13.43% in 2005 to 12.80% in 2006. This was the outcome of a slight decline in the weighted average interest rates for lending by a basis point to 13.74% from 14.37% in 2005. The weighted average interest rate for deposits on the other

hand, remained unchanged at 0.94%, a trend seen since mid 2005.

Despite recording declines for two consecutive years since 2004, Solomon Island's interest rate margin remains high by regional standards. These current high rates are a reflection of high costs due to the small market size and perceived risks of doing business in the country. The negative real interest rate on deposits, which in 2006 was 6.66%, (See Graph 19) presents a particular problem for Solomon Islanders trying to save for the future. In the medium term, a reduction of the interest rate margin is desirable to encourage investment and maintain savings. The yields for Auction Bills Market rates (ABM) for 91 days ranged between 3.3% and 3.9% in 2006, at a very similar level to that in 2005. (See Graph 18).



VI. GOVERNMENT FINANCE

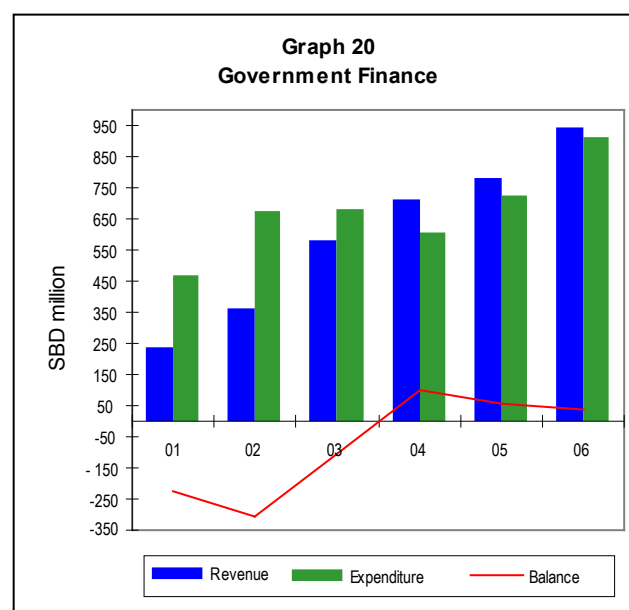
Broad Developments in 2006

Overall, the Solomon Islands Government (SIG) fiscal balance showed a surplus of \$35.1 million in 2006, including an estimated increase in government arrears of \$29.1 million during the year. The overall surplus in 2005 was \$55.7 million. Government revenue performance was very positive in 2006, with total revenue (including grants) increasing by 21.2% to \$946.2 million. This reflected the introduction of measures to improve the efficiency of collection, opening up of additional revenue sources within the country, economic reforms and improved administration in some key sectors, and an increase in business activities throughout the year. Total domestic revenue rose above budget estimates by 19.5% to \$822.1 million. Compared with 2005, total expenditure increased by 25.7% to \$911.1 million. Less than 10% of total government spending was on development expenditure, in large part due to many of the scheduled projects not being implemented. This was due to ministries not developing and submitting workplans for proposed projects, and consequently encountering problems accessing the development funds.

In 2006 the Solomon Islands Government maintained its stance of no new borrowing. The small upward movement in debt principal observed this year was due to disbursement of final installments of loans from the International Development Association and Asian Development Bank, which had been contracted years earlier. Total debt servicing for 2006 reached \$126.2 million, 56.6% above debt servicing payment in 2005. External debt arrears expanded by 38.1% to \$105.6 million at the end of 2006.

Government revenue collection is expected to expand further in 2007, as additional revenue sources become available and the collection and enforcement process improves. Combined with increased donor assistance, most notably towards health and education, improvements in

both the fiscal performance of the SIG and social benefits for the rising population are to be expected. Nevertheless, outstanding issues remain which need to be addressed by Government. These include the loss of government revenue from land rent associated with urban drift and illegal settlements; delays in implementation of the tax reform program; necessary improvement in a variety of infrastructure and utilities; ensuring the proper administration of grants allocated for the provinces; and rising social problems in particular related to high levels of unemployment. It is also essential that government maintains a good relationship with all donor partners in order to ensure positive assistance in the future.



Revenues

Total domestic revenue collected during 2006 amounted to \$822.0 million, 25.3% above the previous year and 19.5% above budget estimate. This consisted of \$690.2 million in tax revenue, and \$131.8 million in non-tax revenue.

Inland Revenue Division (IRD) increased their revenues by 16.1% to \$426.1 million in 2006, which was 10.4% above the budget estimate for

Table 10
Solomon Islands Government Operations

	(SBD million)	
	2005	2006
Total Revenue and Grants	780.4	946.2
Recurrent Revenue	685.9	870.0
Local Revenue	655.9	822.1
Inland Revenue Division	367.0	426.1
Customs	200.8	264.1
Non-tax (including airspace fees)	88.1	131.8
Budget Support	30.0	47.9
Grants (excl. NZ AID Budget Support)	94.5	76.2
Total Expenditure	724.6	911.1
Recurrent Expenditure	605.0	824.3
Payroll	232.9	248.9
Other Charges	304.7	382.8
Debt Servicing	80.6	126.2
Budget Support	26.6	37.4
Increased govt. debt arrears	39.8	29.1
Development Expenditure	119.6	86.8
Recurrent Surplus	80.8	45.7
Overall Surplus (deficit)	55.7	35.1
Memo Items:		
SIG Formal Debt		
Domestic Debt	520.2	457.3
External Debt	1080.5	1155.3
Total Debt	1600.6	1612.6

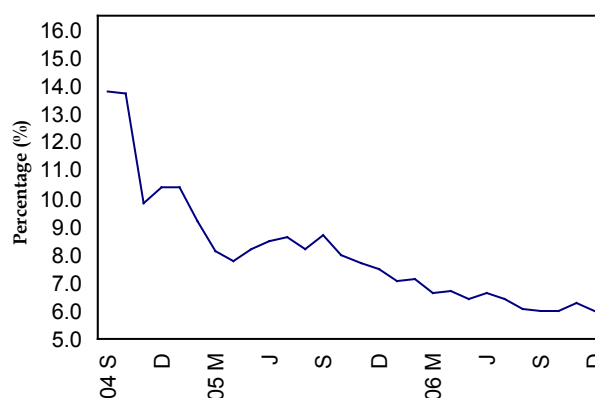
Source: Ministry of Finance and CBSI

the year. The increase was the result of rises in all revenue categories over the year. Revenue from goods tax increased by 12.3% to \$169.6 million, company tax revenue by 31.9% to \$77.3 million, PAYE tax revenue by 20.1% to \$55.9 million, withholding tax revenue by 7.8% to \$33.6 million and revenue from sales tax rose by 9.9% to \$23.9 million. Revenue from stamp duty and licensing also rose, but made smaller contributions of \$5.5 million and \$4.7 million respectively. Factors that contributed to this positive performance from IRD include improved revenue collection practices, pay increases and an expansion in the total employees in the country and increased consumer expenditure relating to an expansion in business activities and economic growth.

Revenue collected by the Customs and Excise Division (CED) increased by 32.2% to \$264.1 million, which was 16.0% above budget estimates. Again, there were increases in

revenue in all categories. Most notably, revenue from log duties increased by 51% to \$128.6 million and revenue from excise duty increased also by 51% to \$43.4 million. Revenue from import duties was also a large component, rising by 6% to \$87.7 million. Export duties and 'other' revenue made smaller contributions to total revenue of \$3.5 million and \$2.5 million respectively.

Graph 21
Effective Rate of Import Taxation



Non-tax revenue increased dramatically to \$131.8 million, a rise of 49.7%. Revenue from other ministries is the largest component in non-tax revenue, and increased by 39.2% to \$122.6 million. A large factor in this increase is greater revenue from license fees for overseas fishing vessels, which contributed \$59.9 million in 2006. In addition, \$18.0 million of other ministries revenue was from CBSI dividends and \$9.3 million from Telekom license fees. In 2006 there was one new category contributing to non-tax revenue: the Civil Aviation Fund from airspace fees, which contributed \$9.2 million.

Total revenue from grants fell in 2006 to \$76.2 million from \$94.5 million in 2005 according to Ministry of Finance (MoF) data. This is considerably less than the budgeted estimate of \$448.3 million, but is likely to be considerably understated as not all inflows are captured by the data. In addition, \$47.9 million in grants was from

New Zealand Budget Support and used for recurrent expenditure, up from \$30 million received in 2005.

Expenditures

Recurrent expenditure for 2006 was \$824.3 million. This consisted of \$248.9 million for payroll expenditure, \$382.8 million for 'Other charges', \$126.2 million for debt servicing, budget support expenditure of \$37.4 million and \$29.1 million in increased debt arrears (according to the MoF). Total expenditure (recurrent plus development expenditures) was \$911.1 million, 25.7% higher than the total in 2005.

Payroll, which represented 27.5% of the total recurrent expenditures, increased from 2005 by 6.9% to \$248.9 million, slightly lower than the budget estimate of \$250.6 million. Of this, Ministry of Education and Human Resources Development accounted for 38.8%, Ministry of Health and Medical Services for 19.9%, Ministry of Police and Justice 17.4% and the Office of the Prime Minister and Cabinet 5.0%. The increase was attributable to a broad pay rise for public servants and Permanent Secretaries, the restructuring of Members of Parliament (MP) salaries, and increased recruitment during the year.

Expenditure on 'Other charges' increased significantly by 25.6% to \$382.8 million during the year. In particular, a large portion of expenditure went to the Ministry of Education, to the Ministry of Provincial Government, Peace & Reconciliation, to the Ministry of Health, and for Infrastructure Development.

Development expenditures in 2006 totaled \$86.8 million. This comprised \$72.9 million from overseas development grants and \$13.9 million from the Solomon Islands Government (SIG). The Development Budget estimate for 2006 totaled \$546.6 million, including \$501.8 million budgeted from externally-funded expenditure and \$44.8 million from domestic sources.

Government Debt and Arrears

Total formal Government debt stock at the end of 2006 increased from \$1,600.6 million at the end of 2005 to \$1,612.6 million. Of the total, \$1,155.3 million were external debts, an increase of 6.9% from the previous year. The increase reflected slow disbursement of previous years' loans, inclusion of a new creditor in the debt portfolio and the weakening of the Solomon Islands dollar against the major trading currencies. In terms of creditor shares, the largest portions of debt are held by the Asian Development Bank (34.5%) and the World Bank (29.8%).

On the domestic front, total formal domestic debt declined by 12.1% to \$457.3 million. Of this, \$294 million is for redemption of Government securities, \$161.0 million is for SIG advances to Central Bank and \$2.3 million is for other bonds. Of the total Government securities, \$1.1 million (38%) is for frozen Treasury Bills, \$29.8 million (96.4%) for auction Treasury Bills and \$263.1 million for restructured bonds.

According to government figures, debt repayment for 2006 totaled \$126.2 million. This consisted of \$22.8 million repayment of external debt and \$103.4 million in domestic debt servicing. The scheduled repayment amount for external debts was \$101.7 million. Repayments were made mainly to the Asian Development Bank, World Bank, and the Exim Bank. As Government owed larger portion of its debt to ADB and World Bank, SIG has a higher obligation to repay those loans.

Of the \$103.4 million repayment for domestic debt obligations, \$17.98 million was paid to CBSI (from the dividend the government received from Central Bank profits in 2005), \$15.6 million was for debt restructured bonds and \$69.7 million was for other domestic debts.

External debt arrears at the end of 2006 rose by 38.1% to \$105.6 million. The largest portion of these arrears is owed to Kuwait (\$32.2 million), the European Investment Bank (\$21.0 million), European Union (\$18.9 million), Export Finance and Insurance Corporation (\$10.9 million),

Organization of Petrol Exporting Countries (\$10.5 million), and International Fund for Agriculture Development (\$5.8 million). Also \$7.4 million was due for payment in December to the EXIM Bank, financed by ROC. This was included in arrears for 2006 as payment was due in December, but delayed until January 2007.

Accounting and Audit

The Office of the Auditor General (OAG) continued to rebuild its capacity during 2006 to enable it to undertake its responsibilities as an auditor of all state owned enterprises and the Government Ministries. By 31st December, OAG had some twenty field audit staff who underwent major training and capacity building to become effective auditors.

During 2006, OAG finalized seven special audits within Ministries, the reports from which were tabled in Parliament along with the completion of the 1997 SIG consolidated accounts. These reports highlighted continued dysfunctional processes and malpractices within Government and indications of suspected fraudulent activities. The OAG is working closely with the Parliamentary Accounts Committee to review action taken by Ministries to address the many recommendations contained in the Auditor General's reports. Staff members are currently auditing the SIG accounts for periods 1998 to 2006.

The OAG continues to take responsibility for all of the audits within its mandate, and has developed policies to ensure the quality and standard of all audits undertaken by contracting firms and internal staff. The OAG continues to work closely with all Government entities to ensure timely completion of audited financial statements. It is also involved in Ausaid's initiatives to review all Provincial Governments in

ascertaining their current capacity and status of the preparation of all outstanding accounts.

2007 Budget and Outlook

The Grand Coalition for Change Government took power following the 2006 April National Election. The 2007 budget was formulated in accordance with their "bottom-up", rural development approach. Specifically, the SIG has identified three major components: community consultation and grass root policy development; effective sectoral strategies to improve access to economic opportunities for rural people; and capacity-building in provincial governments to improve delivery of services to the rural communities and promote business development. In addition, the Government has established and restructured core national institutions to expand their capacity to meet the increased responsibilities.

The recurrent expenditure budget is forecast at \$934.9 million (including debt servicing), and will be partially funded by a forecasted \$886.7 million from domestic revenue (7.9% above the actual 2006 domestic revenue collected). From the domestic revenue collection sources, the IRD is expected to collect \$462.6 million, CED to collect \$316.8 million and 'Other ministries' to collect \$107.4 million. The cash component of the development budget in 2007 is estimated at \$793.3 million, most of which is expected to be financed by donors. The Government laid out its long-term aims for the country in their Policy Framework document published in May 2006. This outlined a continued focus on provincial and rural development, ensuring easy access to better services, stabilized law and order, enhancing national institutions and services, and encouraging a vibrant private sector economy.

VII. FINANCIAL SYSTEM

The structure of the Solomon Islands financial system remained unchanged in 2006. It comprised three commercial banks, a credit institution, a superannuation fund known as the Solomon Islands National Provident Fund (SINPF), a Development Bank of Solomon Islands (DBSI) now insolvent and under court administration - a home finance corporation, 44 active credit unions and 7 insurance companies and intermediaries. There is also a licensed Currency Exchange Bureau and a licensed Western Union Money Transfer Agency. The latter are operated by the Solomon Postal Corporation.

Commercial Banking

The number of licensed commercial banks carrying on banking business in Solomon Islands in 2006 remained unchanged at three. The National Bank of Solomon Islands (NBSI) is a locally incorporated bank. The Australia and New Zealand Banking Group (ANZ) and the Westpac Banking Corporation are branches of Australian banks.

Whilst the number of bank branches remained unchanged at 14, bank agencies expanded to 10 from 8 in 2006. The new agencies were installed in Munda, Western Province and Tulagi in the Central Province respectively. Driven by favorable economic and socio-political conditions and competition, there was a marked increase in the use of electronic banking technology to provide services to customers during the year. Consequently this led to installation of additional Electronic Fund Transfer at Point of Sale (EFTPOS) terminals and Automatic Teller Machines (ATMs). Banks also sought partnership arrangements in delivering financial services to the people of Solomon Islands. This partnership is exemplified by an agreement between ANZ and Solomon Post in December of 2006 where ANZ intended to open its agency in premises of Solomon Post countrywide.

Following this agreement, the EFTPOS terminals

increased from 81 in 2005 to 96 in 2006 whilst ATM terminals tripled from 4 in 2005 to 12 in 2006. Honiara now has 9 ATMs and 79 EFTPOS whilst the provincial centers now have 3 ATMs and 17 EFTPOS terminals. Banks also introduced Internet Banking and Bill-pay facilities that enhance banking services options to their Honiara and provincial customers. ANZ was the only bank offering mobile banking services to the rural people in the Guadalcanal plains in 2006.

In terms of employment, the commercial banks employed 307 employees in 2006, up from 293 in 2005. Of the total, 11 were expatriates and 296 Solomon Islanders.

Financial Position of Commercial Banks

Commercial banks, enjoyed another strong growth in their net after tax earnings of \$54.9 million in 2006, 47.6% above 2005. (See Table 11). This was driven largely by increases in both net interest income and non-interest income.

Table 11
Commercial Banks Aggregate Annual Profits

	(SBD' million)			
	2003	2004	2005	2006
Income				
Net interest income	34.6	39.6	44.7	73.9
Non interest income	54.6	66.9	68.9	82.6
Expenses				
Operating expenses	89.2	53.4	56.0	72.5
Bad and doubtful debts	20.1	0.2	0.9	3.5
Profits				
Net operating profit before tax	47.2	52.9	56.7	84.0
Net profit after tax	31.8	35.2	37.2	54.9

Source: Central Bank of Solomon Islands

Since 2003, they have been recording rising annual growth rates averaging 20%. 2006 also saw the banks' combined balance sheet reaching the billion dollar mark. The favorable result was driven by significant growth in loans and

advances, growth in fee incomes, improved quality and high level of surplus liquidity that drove their cost of funds to insignificant levels relative to other operating expenses. Table [11] provides a summary of the key components of the commercial banks' income statements for years 2003-2006.

Net-interest income increased markedly by 65.3% (\$29.2 million) to \$73.9 million in 2006, reflecting the significant growth in lending in the last two years. But the high level of liquidity in the banking sector led to a fall in the banks' cost of funds by 11% to \$4.3 million, meaning that depositors received less for their savings in 2006 than in 2005. Non-interest income also increased by 19.9% to \$82.6 million as a result of stronger earnings from foreign exchange gains which represented 65.4% of total non-interest income. On the expenditure side, operational expenses increased by 27.3% to \$72.5 million in 2006 due to a 35.0% increase in building and equipment expenses and, a 30% increase in 'other operating expenses'. The year also recorded the highest bad and doubtful debts since 2004 of \$3.5 million compared to \$0.9 million in 2005.

The balance sheet of commercial banks grew by 28.5% to \$1.2 billion in 2006 due largely to growth in lending activities that increased almost twofold to \$617.1 million during the year. Lending was most pronounced for the Personal, Distribution, Forestry, Communication and Manufacturing sectors. These sectors together made up 74.0% of the total loans, advances and lease financing portfolio.

Licensing & Legislative issues

The Bank of South Pacific Limited (BSP) of Papua New Guinea, submitted an application for a license to conduct banking business as a branch of a foreign financial institution in Solomon Islands on 25 October 2006. At the same time, BSP also applied to take over the 100% interest in the NBSI after it had signed a share sale agreement with the shareholders of NBSI on 4 October 2006. CBSI processed the application

during November and December assessing mainly whether BSP is 'fit and proper' to be granted a license to conduct banking business in Solomon Islands and to take over the banking business of NBSI as well. Approval of the BSP application was granted by the CBSI Board in early February 2007.

The Court appointed administration of the DBSI, which was supposed to end in December 2006, was extended for a further term of 6 months to June 2007 by the High Court of Solomon Islands on the recommendation of CBSI. The decision for this extension was made to provide a window for the government to decide on the future of DBSI versus the recommendation of the CBSI to convert DBSI into a company and liquidate it under the provisions of the Conversions of Statutory Bodies to Companies Act 1999. CBSI as the Court Appointed Manager (CAM) of DBSI has successfully achieved its mandate under FIA and the Court Order. CAM has repaid \$18.2 million to depositors of DBSI since it took over the administration of the bank in mid-2004. CAM also has set-aside deposits with the CBSI to meet \$0.3 million still owed by DBSI to small depositors who have not come forward to claim their money. In the meantime, DBSI remains an insolvent institution and is not "fit and proper" to be deemed licensed under the FIA to continue carrying on banking business in Solomon Islands.

Financial System Soundness Indicators

The CBSI continued to compile Financial Stability Indicators (FSI) to measure the soundness of the domestic financial sector in line with international standards. These indicators are earnings, profitability, asset quality, capital adequacy and liquidity ratios. At present the FSI is calculated only for the commercial banks operating in Solomon Islands.

Earnings and Profitability

The return on asset (ROA) ratio of the banks improved in 2006 to 6.6% from 4.2% in 2005

while the return on equity (ROE) also rose to 30.4%, up from 23.3% in 2005. These positive developments were influenced by increased net earnings. Contributing to the increased returns was a rise in interest margin from 8.5% in 2005 to 9.9% in 2006. The cost to income ratio also improved during 2006 to 46.3% from 50.1% in 2005.

Asset Quality

The risk to bank assets, measured in terms of non-performing loans (NPLs) declined to \$3.1 million in 2006 from \$4.3 million in 2005. This resulted in the ratio of non-performing loans to total gross loans improving to 0.5% from 1.1% in 2005. The improvement was reflective of a 58.6% increase in lending to \$617.2 million during the year. Total loan provisioning for 2006 was \$6.8 million and, as a percentage of NPLs, showed a coverage ratio of 218.1%.

Capital Adequacy

Risk Capital ratio for 2006 was 16.5%, down from 24.1% in 2005, but 6.5% above the minimum level of 10% required by the CBSI. The decline in the ratio was attributed to an increase in total value of banks risk exposure from \$579.9 million in 2005 to \$977.2 million. The CBSI also set another risk capital requirement measured in minimum free financial capital ratio of 30%. On this measure, free capital ratio was 83.8% in 2006 compared to 81.3% in 2005. In other words, the commercial banks in Solomon Islands have adequate capital to cushion against losses on their risky assets during the review period.

Liquidity

The commercial banks, as in previous years, remained very liquid in 2006. Total liquidity at the end of 2006 was \$311.3 million, up from \$309.5 million in 2005. Measured in terms of ratio, liquid assets to total assets in 2006 was 24.5% compared to 31.2% in 2005. The decline in the ratio largely reflected growth in commercial banks' total assets from \$990.6 million in 2005 to

\$1,273.1 million in 2006. The ratio of liquid assets to short term liabilities was 53.3% in 2006, down from 76.3% in 2005. This signifies that commercial banks' have ample liquidity and capability to meet their short term obligations.

The above indicators show that the banking sector in Solomon Islands remains profitable and the risks to asset quality remains low. The rapid increase in lending however also signals potential risks to asset quality deteriorating in future if the economic environment of Solomon Islands suddenly deteriorates.

Credit Unions

Five new credit unions were registered in 2006, bringing the number of registered credit unions to 175. Despite this increase, data from the Registrar's Office revealed that 133 credit unions, representing 76% of the total registered credit unions in 2006, were deemed inactive. Of the 42 operating credit unions, only 10 were able to report regularly to the Registrars Office. Of the 10, 8 are in Honiara and the remaining two are in the provinces.

Table 12 provides a summary of the financial position of the 10 reporting credit unions as at the end of 2006.

Based on the financial accounts, some indicators of the financial soundness of the credit unions in Solomon Islands can be calculated to gauge the movement's sustainability and profitability, asset and liability management quality and financial structure.

In terms of sustainability and profitability, return on members share capital increased to 1.6% in 2006 from a negative 0.5% in 2005. Return on assets also improved to 1.5% in 2006 from negative 0.4% in 2005. The improvements in these ratios were driven by increased lending which resulted in an increase in net profit for the year. Self-sufficiency ratio, a measure of how effective the credit unions are in covering their operational expenses from generated revenue,

improved significantly to 119.2% in 2006 from 93.3% in 2005. The ratio indicates that credit unions were able to generate enough revenue to cover their operational expenses.

Table 12
Credit Unions Financial Account Summary
2005 and 2006

	(\$ Million)	
	2005	2006
Balance Sheet		
Total Assets	27.6	33.4
Loans & Advances	17.6	24.9
Members Share Capital	21.6	31.6
Income Statement		
Total Income	1.4	1.3
Total Expense	1.5	2.6
Net Profit (Loss)	(0.1)	0.5
No. of members	5106	6474
No. of reporting credit unions	7	10

Source: Central Bank of Solomon Islands

The yield on gross loans in 2006 was 10.8%, 1.2% below the potential return on lending of 12% authorized under the Credit Union Regulations. This indicates that in 2006, credit union managements have not been able to collect potential income from lending to their members.

In terms of financial structure, the capital to assets ratio went up to 94.6% from 78.3% in 2005. On the other hand, the loans to share capital ratio fell to 78.8% from 81.5% in 2005. The loans to total assets ratio also improved to 74.6%, up from 63.8% in the previous year.

As a result of increased lending, the average loan per member also rose to \$3,846 compared to \$3,447 in 2005. At the same time, capital shares per member increased to \$4,881 from \$4,230. The increase in the size of loans to members raised the financial status of the members as well.

Work is in progress at the Registrar's Office to standardize the reporting returns of the credit unions. This is to provide quality data to allow proper assessments of the financial soundness of credit unions in the country. The Office is also working on amendments to the Credit Union

Regulations aimed at removing the current ceiling on lending interest rates of the credit unions.

The Solomon Islands Credit Union League, (SICUL or the League) the parent body of the registered credit unions, continued to operate despite the lack of adequate resources (human and financial) to provide services to its members. The League was without a General Manager from April leaving just 3 officers working for the League office. To assist the League, CBSI assigned an officer on a temporary basis to work with the League to prepare its budget and business plan for 2007 and to assist in recruiting a new General Manager.

During the year, a representative from the Credit Union Foundation of Australia (CUFA) visited the League. With CUFA's financial support, a two day conference was held for the credit union officers mostly those located in Honiara. The League was also able to organize some training for savings clubs during the year, using funds from CUFA and income from investment of the Trust Fund managed by the CBSI.

In terms of financing, the League spent \$27,562 to meet its operational expenses in 2006. The expenditures were financed by \$12,308 from trust fund interest income and \$18,594 from internally generated funds.

According to the League, there were 178 savings clubs affiliated with the League in 2006. This means that apart from serving the needs of its member credit unions, the League is also responsible for providing training, monitoring and stocking of stationery supplies for savings clubs. Facilitating these services to its registered credit union members and the savings clubs has indeed strained the resources available to the League. The ability of the League to finance its services to members will require financial support of the members in 2007.

The biggest challenge of the League is to recruit a new General Manager to help the League Board

to facilitate serving the needs of its credit union members. It is hoped that a new manager will be recruited by mid 2007. CBSI has offered to pay for the remuneration of the general manager and provide some budgetary support to the League in 2007.

Office of the Registrar of Credit Unions

The Office of the Registrar of Credit Unions (ORCU) reported poor feedback from the 44 active credit unions. Only 10 of them have been regularly submitting their reports. The ORCU tested its new on-site legal compliance examination templates for the registered credit unions using four Honiara based credit unions. The result revealed only 50% of compliance by most of the credit unions. The Office also provided assistance to the League Office in preparing its 2007 budget.

With regards to the SICUL, the CBSI Board decided to retrieve its China Town building where the League had been using for a number of years. The building is currently under repairs and its future use is yet to be decided.

Rural Financial Services

Apart from the provision of microfinance by the credit unions and savings clubs, the ANZ devoted a lot of resources promoting and providing financial services via its mobile banking unit in Guadalcanal Plains. ANZ also worked with the Solomon Islands Postal Corporation to make electronic banking services available in rural areas where there is a Post Office.

The ANZ mobile banking service was established under a mobile banking and financial literacy partnership agreement between the ANZ bank and the United Nations Development Program (UNDP). The agreement is for ANZ to provide mobile banking services whilst UNDP will carry out financial literacy education programs to the communities of West Guadalcanal. Under this rural mobile banking scheme, people would make savings for six months to

qualify for micro loans. There would be no savings fees imposed except for a withdrawal fee of \$6.00 and there would be security measures set in place for the identification of customers. Since its inception in December 2005, ANZ has opened 5,832 rural savings accounts (as at 31 December 2006) for people in the Guadalcanal plains. To further expand these services to other rural areas in the country, ANZ is seeking partnership with the Government for funding to deliver financial services to the people in Solomon Islands.

Small Business Guarantee Scheme

Government has announced its intention to support a credit scheme for rural based businesses. Under this proposed scheme, the Government would provide a one-off guarantee payment of up to \$10 million to be used as collateral for loans incurred under the scheme. The guarantee scheme would be administered by the Central Bank on behalf of the government. It is envisaged under the proposed scheme that potential rural-based entrepreneurs would apply for loans directly to commercial banks. The commercial banks would assess the loan applications using their normal assessment criteria. The scheme would provide collateral to the commercial banks to enable the banks to lend to an enterprise short of collateral as required by the bank.

However, the success of the scheme will depend entirely on the commercial banks' perception about the scheme, particularly whether the scheme will be subject to political influence, level of confidence commercial banks will have on the government guarantee, and whether the commercial banks would generally accept the scheme when its targeted beneficiaries are rural-based entrepreneurs.

The Government meanwhile has pledged its support to work in partnership with registered financial institutions in the country to deliver financial services to rural areas on a cost sharing basis over the next three years. The registered

financial institutions will be invited to submit their proposals stating how they would be providing services to rural areas and the likely costs to be involved for providing such services through a public tender. This proposed partnership arrangement is yet to be finalized. From a policy perspective, this partnership initiative by the Government with financial institutions must provide financial products and services that are sustainable and meets the needs of rural people so that such a partnership can monetize rural economies.

Solomon Islands National Provident Fund

The Solomon Islands National Provident Fund (SINPF) continued with its reform program in 2006. With high liquidity during the year, the Fund had great potentials to invest more. However, it continued to face with investment barriers. These include uncertainty about their investment in the Solomon Mutual Insurance, lack of domestic investment opportunities and low yield rates. This situation magnified in 2006 due to increased liquidity owing to improvement in the Government's payment of

contributions and increase in businesses in the economy during the year. The Central Bank has announced that it will allow the Fund to invest some of its liquidity offshore. This is likely to commence in 2007 and will be done in installments over time, under the close supervision of the Bank.

The Fund's financial performance improved in 2006. Its total assets rose by 15.3% to \$605.1 million, most of which in current assets (35%), claims on the Government (22.9%) and equity shares (20.3%). Total income soared by 123.1% to \$45.8 million against a 11.1% increase in its operation expenses. As a result, its net profit tripled to \$23.7 million. On the liabilities, members' contributions, which account for 86.8% of the total liability increased by 14.3% to \$525.0 million.

Development Bank of Solomon Islands

The Development Bank of Solomon Island (DBSI) continued to be administered by the CBSI; the third consecutive year following the High Court decision in 2004. With this administration, the CBSI continued to repay depositors totaling \$4.1 million compared to \$11.8 million in

Table 13
Summary of NPF's Financial Position

	(SBD million)			
	2003	2004	2005	2006
Balance Sheet (up to Dec 2006)				
Total Assets	402.3	474.6	524.9	605.1
Current Assets	48.4	75.4	140.4	211.2
Claims on SIG	94.3	126.1	126.2	138.5
Claims on Statutory Corps	48.2	44.8	42.9	26.8
Claims on Provincial Govt.	19.3	19.4	18.5	0.0
Private Sector Borrowings	47.5	42.6	38.8	29.5
Equity Shares	64.4	90.4	90.0	123.1
Others	128.6	151.3	212.8	76.0
Liabilities	402.3	474.6	524.9	605.1
Contributions	340.1	410.1	459.2	525.0
Capital	45.0	11.9	10.7	37.9
Others	17.2	52.6	55.1	42.2
Income Statement (up to June 2006)				
Total Income	28.4	25.5	27.7	45.8
Operating Expenses	18.1	67.7	19.9	22.1
Net Profit	10.3	-42.2	7.8	23.7

Source: Central Bank of Solomon Islands

Table 14
Summary of DBSI's Financial Position
As at 31st December

	(SBD million)			
	2003	2004	2005	2006
Balance Sheet (31st December)				
Total Assets	38.9	30.9	18.1	11.9
Loans and Advances	35.3	25.8	15.3	8.4
Others	3.6	5.1	2.8	3.5
Liabilities	54.4	43.9	31.7	25.8
Term Deposits (inclusive of Accrued interest)	21.7	16.4	4.6	0.5
Others	32.7	27.5	27.1	25.3
Net Assets	-15.5	-13.0	-13.6	-13.9
Income Statement (31st December)				
Total Income	4.5	4.4	4.1	2.1
Interest Expenses	2.1	0.6	0.1	0.0
Operating Expenses	3.9	4.7	2.9	2.4
Net Profit	(1.5)	(0.9)	1.1	(0.3)

Source: Central Bank of Solomon Islands

2005. This led to the reduction in the balance of unpaid deposits to \$0.5 million at end 2006. The DBSI's net worth for 2006 was a negative \$13.9 million at the end of the year. Both revenues and operation expenses fell from \$4.1 million and \$2.9 million to \$2.1 million and \$2.4 million respectively.

The third renewal of the CBSI's administration over the DBSI should have expired by December 2006. However this was further extended to 10th June 2007. The AusAid provided advisors' contract will expire on 21st April 2007.

Insurance

There were 2 non-life insurance companies, 1 life insurance company, and 3 insurance intermediaries licensed to conduct insurance business in Solomon Islands at the end of 2006.

Financial Performance of Non-life Insurance Companies

Financial results for non-life insurance companies showed that 2006 was a turn around year for general insurance businesses. Net after tax profit was \$2.7 million, a turn around from a loss of \$0.73 million in 2005. (See Table 15). Table 15 provides a consolidated Income Statement of the non-life insurance companies in 2006.

The result was driven mainly by an increase in gross premium which rose by 69.4% in 2006. The increase in premium was attributed to revaluation of properties on which the gross premium is calculated.

Out of the total \$31.1 million received in gross premium, \$5.5 million was paid out as re-insurance overseas, an amount similar to that of 2005. The companies paid \$8.3 million of claims attributed to increased claims from the losses to properties following the China Town riots in April 2006. Commissions paid to the intermediaries also increased during the year to \$3.5 million from \$2.2 million in 2005.

Table 15
Summary of Non-Life Income Statements

	(SBD'000)	
	2005	2006
Total gross premium received	18356	31065
Less re-insurance	4970	5482
Premium net of re-insurance	13386	25583
Plus unearned premium at start of the year*	14348	25075
Less unearned premium at end of the year*	18008	28966
Net earned premium for the year	9726	21692
Underwriting payments:		
Claims paid	2509	8340
Commissioners to Brokers	2208	3479
Acquisition costs	1271	-
Total claims & underwriting payments	5988	11819
Net underwriting income	3738	9873
Plus non underwriting income	533	462
Total income after non-underwriting income	4271	10335
Less non-underwriting operational expenses	2801	4087
Gross operating income before tax	1470	6248
Less income tax payable	2201	3572
Net after tax profit (loss)	-731	2676

Source: Central Bank of Solomon Islands

Balance Sheet of Non-life Insurance Companies

The total asset of the non-life insurance companies increased to \$50.1 million in 2006, a 26.2% growth from 2005. In terms of the key components of the total assets, \$22.6 million was invested in term deposits with the banks, \$2 million in Solomon Islands government securities, \$9 million held as cash in hand and at bank and \$0.6 million in fixed assets.

Sections 12 and 29 of the Insurance Act prescribe minimum capital and solvency requirements of insurance companies that are incorporated in Solomon Islands and for foreign incorporated insurance companies. The prescribed capital for companies incorporated in Solomon Islands is \$500,000, and for foreign registered companies prescribed minimum capital is \$2.0 million. The two definitions of the minimum solvency margin are; (a) a surplus of assets over liabilities of \$200,000, or (b) one tenth of the net premium income which ever is greater.

The margin of solvency for non-life companies in terms of assets over liabilities was \$19.2 million compared to \$15.7 million in 2005, while one tenth of the net premium income was \$2.1 million (one tenth of \$21.6 million). Both solvency levels were above the minimum solvency margin requirements.

On the other hand, total liabilities increased to \$30.9 million from \$23.9 million in 2005. The bulk of liabilities comprised of unearned premium provision (\$15.9 million or 51.6% of total liabilities). The remaining liabilities were spread amongst a number of creditors and dues to re-insurers.

Shareholders equity at end-year grew from \$15.7 million to \$19.2 million due to an increase in retained profits. The increase in capital should help provide the industry with additional capacity to withstand any likely future catastrophe.

Overall, the non-life sector remained profitable and strong with increased efforts to preserve these growths.

Life Insurance companies

The net written premium in 2006 for the only life insurance company in the country was \$122,000. Annual investment income grew from \$279,000 in 2005 to \$375,000 in 2006. After tax profit for the year was \$1.0 million compared to a loss of \$749,000 in 2005. In terms of their balance sheet, total capital fell to \$1.10 million from \$1.14 million in 2005 due largely to a decline in retained profit. Total assets grew to \$9.2 million from \$8.2 million in 2005. About 79% of the total assets were in deposits in the banking system. Total liabilities increased by 14.4% to \$8.1 million in 2006, due largely to outstanding claims for the year.

Office of the Controller of Insurance

The Governor of Central Bank remained the Controller of Insurance during the year. In terms of licensing all the insurance companies and

intermediaries renewed their trading licenses for year.

Most of the preoccupation of the Controller's office however was with Solomon Mutual Insurance. SMI failed to comply with the requirements of the Insurance Act for a number of years, emanating from severe deficiencies in corporate governance of SMI that triggered the Controller to cancel its certificate of registration effective 31 August 2005. The Controller proceeded to petition the Court to wind up SMI in pursuant to Section 51(3) (ii) of the Insurance Act.

Following numerous consultations with the board members of Solomon Islands National Provident Fund (SINPF), the majority shareholder of the company and the SMI Board, the company allowed its general business to run off and in the interest of the life policy holders, offers were made to buy them out after an actuarial valuation of each life insurance policy was calculated.

The Actuarial estimated present valuation of payments for both with and without cash surrender value of the policyholders would be \$2.45 million. But under the proposed Scheme of Arrangement for the policy holders offered by the NPF Board, the total payout would be \$4.20 million. SINPF agreed to underwrite to a maximum of \$5.0 million (70% over the surrender value of the policies) to enable the Scheme Manager to make such payment as and when required.

On March 2006 the High Court of Solomon issued an order appointing a Provisional Liquidator of SMI. Following that appointment, a Scheme of Arrangement set out in a July 2006 Deed of Arrangement was sanctioned by the High Court in December, having passed the two conditions under the Companies Act: (a) to be approved by 76% of the policy holders and having 77% or more in value; (b) to be approved by the majority shareholders and by all unsecured creditors. The scheme was lodged with the Registrar of Companies.

The High Court further ordered the Scheme Manager to change and register a new company name, as SMI no longer reflect the business of the company; and for the Auditor General to carry out a full investigation into the past affairs of the company. The SMI policyholders are expected to be paid in April of 2007.

Solomon Islands Financial Intelligence Unit

The work of the Solomon Islands Financial Intelligence Unit (SIFIU) progressed during the year with several notable achievements.

Legislation and Policies

On the legislative front, the Minister of Police and Justice enforced Part II of the Money Laundering and Proceeds of Crime Act 2002 (MLPCA) on the 3rd April 2006. This criminalized money laundering activities in Solomon Islands. It also empowered the SIFIU to require all financial institutions and cash dealers to report any Suspicious Transaction Report [STR] within three working days following the identification of such transactions. The implementation of Part II of the Act also enabled the SIFIU to request further information from the reporting institutions about a STR under investigation.

With the enforcement of Part II of the MLPCA, the SIFIU received a total of 60 STRs from reporting institutions in 2006. Of this total, 10 were reported to the Solomon Islands Police Force [SIPF] for further analysis and investigation. Feedback from the SIPF on the status of the reports is yet to be received.

Changes to restrictions on the amount of cash or cash equivalent that can be brought in or taken out of Solomon Islands were also approved during the year. Following approval of the Minister of Finance, the amount allowed under the Exchange Control Regulations for an individual to take out or bring into the country was raised from \$250 to \$50,000. The change also required that an individual must at all times provide relevant documents with proper approvals of the

amount taken in cash or cash equivalent to facilitate verifications by Customs inspections. Failure to supply relevant documents would be taken as an attempt to launder money out of or into the country. A person could be liable for prosecution and if convicted, can face the charges under the Act. To implement this requirement, the SIFIU and the Solomon Islands Customs Division are working on necessary documents and trainings for Airport Security and Customs personnel to implement this policy in 2007.

Financing of the Unit

The financing of the SIFIU in 2006 was jointly provided by the Australian Government, through AusAid and the Solomon Islands Government through the Central Bank. In a Memorandum of Understanding signed between the two parties in March 2006, the Australian Government and the Solomon Islands Government will provide budgetary support to the SIFIU for a period of 3 years. Funding of the Unit will be fully absorbed by the Government after the 3 years.

The total operational cost of the SIFIU in 2006 was \$327,215. The Australian Government contributed 88% of the budget and the remaining balance was provided by the Central Bank. The major expenditures of the Unit included salary, telephone and training both locally and overseas. The budget also enabled the SIFIU to purchase capital equipment and furnishing of the office located within the Bank.

Training and awareness for Reporting Institutions and Public

In conjunction with the Anti-Money Laundering Assistance Team (AMLAT) of the Australian Attorney General's Chamber, the SIFIU conducted two awareness programs in February and November 2006. The workshops attracted more than 100 local and overseas participants. Speakers during the workshops included experts from Fiji, Cook Islands and Australia. Feedback

from the participants was positive and revealed that for some, it was the first time they were made aware of money laundering and why the MLPCA was enacted to protect Solomon Islands from money laundering and financing of terrorist activities.

Technical Assistance Rendered to the Unit

SIFIU received considerable assistance from the AMLAT during the year. The assistance came in the form of technical advice and mentoring of the SIFIU Analyst. AMLAT officers conducted four in-country mentoring sessions with the

SIFIU and during a one week workshop in Sydney, Australia.

Observer at Asian Pacific Group on Money Laundering (APG)

SIFIU attended for the second time as an observer the Asia Pacific Group (APG) meeting held in Manila, Philippines in July 2006. The APG welcomed Solomon Islands and approved it to become a permanent member of the Group. SIFIU will make a formal application for membership in 2007.

VIII. CENTRAL BANK OPERATIONS

The Bank is mandated under the Central Bank Act [CAP 49], the Financial Institutions Act and Exchange Control Act to carry out the following duties: to conduct monetary policy; to act as a banker to the government, banks and statutory corporations; to act as an advisor to the government on economic matters; to supervise financial institutions; to manage banking legislations and exchange control; and to conduct economic research and analysis. These are carried out by different departments of the Bank, whose activities during the year are summarised below.

Finance and Accounts

For the first time, the Central Bank's 2006 financial statements were presented in compliance with the International Financial Reporting Standards (IFRS). This followed technical assistance by an IMF expert during the year. There are, however, sections of the CBSI Act that need to be amended to ensure treatment of certain items of the accounts to fully comply with the IFRS requirement. As a result, the financial operation statement was produced with two net operating profit figures to comply with both the IFRS and the CBSI Act. Until the Act is amended, the Bank will continue to produce two net profit figures on its financial operations.

In 2006 the Bank made a net profit of \$70.9 million under the IFRS requirements. This amount was adjusted to comply with the CBSI Act resulting in a net operating profit of \$21.8 million. The accounting treatment of the net unrealized foreign exchange gain of \$49.1 million is the main cause for this difference. Under IFRS this amount would be recognized as revenue while under Section 45(1) of the CBSI Act it is treated as a foreign exchange revaluation reserve.

The allocation of the \$21.8 million net operating profit was derived according to the requirements of the CBSI Act. The existing balance on the General Reserve is \$78.0 million.

At this level the balance is above half of the Authorized Capital of \$50.0 million. Under section 20 (1) of the CBSI Act, while the General Reserves level is above half the authorized capital and below twice the Authorized Capital amount, half of the net operating profit generated by the Bank in any accounting period is transferred to the General Reserves. In keeping with this requirement \$10.9 million of the net operating profit was allocated to the General Reserves which increases the balance from \$78.0 million in 2005 to \$88.9 million at the end of 2006.

In preparation for certain major developments in building and equipment by the Bank, \$8.0 million of the net operating profit is allocated to Capital Asset Reserves. This undertaking is also provided for under Section 20 (2) of the Central Bank Act. The remaining balance of \$2.9 million is allocated to SIG Consolidated Fund as required under Section 20 (2) of the CBSI Act.

In February 2006, the CBSI and SIG signed a Deed of Settlement that dealt with SIG's outstanding debts with the Bank. The Deed provided for any declared dividend to be paid into the Government's Debt Servicing Account with the Central Bank. However, the same amount would serve to reduce the Rolling Advance balance and in future years the reduction of long-term bonds.

On the Balance Sheet total assets have increased by 10.8 % from \$940.3 million in 2005 to \$1042.3 million at the end of 2006. Property, Plant and Equipment substantively increased due to revaluation of all CBSI land and buildings in November 2006. The surplus on the revalued properties is represented in the creation of Premises and Equipment Assets Revaluation Reserves as part of the Equity on the Balance Sheet.

Audit

The current appointment of Pricewaterhouse-

Coopers (PWC) as the Bank's External Auditors expired after the audit of the 2006 financial statements. The Bank plans to consult the Auditor General for reappointment of PWC for a further two-year term.

The Bank has received a clean audit on its 2006 financial statements. As discussed earlier, two net operating profit figures were presented to comply with the requirements of the IFRS and the CBSI Act. The 2006 Financial Statements are presented in the next section of this report.

The Bank engaged PWC to also provide the internal audit services for the Bank for the three last quarters of 2006, provided that the officers engaged in the external audit function would not be the same officers involved in conducting internal audit services to the Bank. The engagement of PWC as Internal Auditors was done on one year basis. The Bank signed a new contract with PWC to undertake internal audit services to the Bank for a further two years.

With plans to have its own Internal Audit Unit (IAU) in the near future, the Bank has recruited an Internal Auditor. The appointee is working with PWC Internal Auditors as well as being exposed to other accounts related work in the Bank. The Bank plans to recruit another officer to assist the appointee after the Bank has set up its own IAU.

Currency Operations

In 2006, total currency in circulation increased by 21% to \$203 million compared to a rise of 24% in the previous year. This consisted of \$194.9 million in notes and \$8.3 million in coins. The \$50 denomination accounted for 61% of total value of notes in circulation whilst both the \$5 and \$2 denominations made up 2%. In terms of volume, both the \$50 and \$2 denominations made up over 60% of the total notes in circulation in 2006. The steady uptake of the \$100 denomination after it was introduced in September 2006 reduced the percentage composition of the \$50 denomination in circulation.

During the year, the Bank destroyed a total of \$27.86 million of mutilated notes compared to \$24.55 million in 2005. Of the total destroyed, 54% were \$50 notes and 22% were \$20 notes. In terms of notes destroyed by volume, more lower denominations - 29% of \$2 notes and 20% of \$5 notes - were destroyed in 2006. This indicated more transactions using the lower denominations compared to the higher denominations.

New notes introduced into circulation in 2006 totalled \$60.6 million. This comprised of 79% in \$100 denomination followed by \$50 denomination (7%) and the remaining fairly distributed between the lower denominations. In terms of volume, the \$100 and \$2 denominations made up 53% of the total new notes issued into active circulation during the year. The introduction of the \$100 denomination shifted the pressure on the \$50 denomination and the uptake by public was further enhanced by the installation of ATM machines in Honiara. The most outstanding features in the new \$100 denomination and upgraded \$2 paper notes included the hologram feature on the reverse side of the notes, cornerstone to strengthen the corners of the notes, the national flag and the patterned silver thread line woven onto the notes. More importantly, the introduction of the highest \$100 denomination in the country's family of banknotes was an historical event. The note's theme, being based on rural life in the Solomon Islands that featured economic activities surrounding the use of coconut, marked a milestone in the orientation of banknote designs in the country.

On numismatic operations, the Bank received \$2.2 million in royalties from overseas sales of commemorative coins. Commission on sales of circulation notes and coins also increased significantly compared to 2005. The Bank embarked on other exciting coin programs that included the 80th Birthday Anniversary of HM Queen Elizabeth II and HM Queen Elizabeth Diamond Wedding Anniversary. In addition, the Bank also commenced discussions with overseas minters for possible participation in other programs that included the legend of El Dorado and the 2008

Olympic Games in Beijing.

Securities Market

The securities market in the Solomon Islands continued to operate despite the non participation by major players in the market. In 2006, only one commercial bank and few other non banking institutions participated in the weekly auctions. Treasury bills sold in the primary market continued to be capped at SBD30 million with maturities maintained at 7, 14, 28, 56 and 91 days. However, most of the volume concentrated in the 91-day series.

Debt Management

Solomon Islands Government (SIG) total domestic debts outstanding stood at \$444.9 million as at end-December 2006. This represented approximately 28% of SIG total debt outstanding (SBD 1,600 million). The domestic debt outstanding comprised:

- CBSI Advances - SBD29.6 million;
- Treasury Bills - SBD29.9 million; and
- Amortising Bonds - SBD385.3 million.

SIG's policy not to take on new borrowings is part of the undertakings it made in October 2005 under the Honiara Club framework - a multilateral forum convened by SIG to seek debt relief from its external creditors.

SIG continued to honour its commitment to regularise its domestic debt portfolio with the signing of debt settlement deeds that included advances from the CBSI and other provincial loans guaranteed by SIG. On the whole, the SIG has continued to service all its domestic debt since the restructuring of domestic loans into amortising bonds in 2004.

The External Debt Section provided vital information to the government on the debt situation as well as reconciliations with lenders' records. The recently upgraded CS DRSM 2000+ v.1.2 software was installed in early 2006 with

technical assistance from the Commonwealth Secretariat and is now fully operational. The CBSI benefited from the Commonwealth Secretariat's capacity building programs that included off-shore training in Fiji and Malaysia. During the year, the Bank was also represented in a CS-DRMS User Group Meeting in London.

Exchange Control Operations

An important function of Exchange Control Regulations in the Solomon Islands is controlling foreign exchange transactions. The primary objective of this function is to protect the country's foreign reserves, and ensure that, the country benefits from the proceeds of all goods that are exported. This function is administered by the Bank on behalf of the Government under the Exchange Control Act (1977).

In 2006, a review was done on most Exchange Control mechanisms. This resulted in further easing of Exchange Control restrictions including raising the authorized limits given to the commercial banks to deal with their customers. The Bank, currently maintains the authorized limits of \$30,000 for all non-trade overseas payments and \$50,000 for all trade imports payments respectively. The commercial banks' authorized overnight limit of \$3.0 million was raised to \$5.0 million.

During the year, the Bank reviewed its internal control mechanisms to enhance the administration of overseas trade. These included partial liberalization of imports of goods on credit, withdrawal of certain restrictions on exchange control approvals and relinquishing of the administration of all "General Exports of Goods/Commodity". These changes were undertaken following improvements in the Customs Division's surveillance of general exports documentations, submissions and collections of shipping bills.

The Bank maintained partial exchange control liberalization as part of ongoing efforts to promote export growth. The mechanism allows

qualified exporters to hold 20% of export proceeds in foreign currency with the commercial banks. This allows the exporter to meet necessary import payments without incurring costs from unexpected volatility in the exchange rate.

Round logs are exported under Specific Authority (SA) and approval is usually given by the Bank to exporters only after the exporter has obtained a market price certificate from the Commissioner of Forestry. It is also an exchange control requirement that all export proceeds must be remitted back to Solomon Islands within 90 days from the date of export, and that all foreign currency proceeds should be sold to a nominated commercial bank in Solomon Islands.

In 2006, the Bank approved 711 applications under the SA for exports totaling 1,384,247 cubic meters of round logs worth SBD687.7 million (or USD92.3 million). This was higher than the average volume approved in the last four years. The increase in value of export proceeds was partly due to the depreciation of the Solomon Islands dollar. Other foreign exchange inflows through the commercial banks in 2006 totaled SBD1.23 billion.

The Bank processed 771 export shipping bills under the General Authority (GA) in 2006, valued at \$138.1 million compared to \$215.0 million processed in 2005. On import applications, the Bank approved 4,922 applications under A1 Approval worth \$1.7 billion as compared to 4,869 applications (worth \$1.4 billion) in 2005.

Management of Exchange Rates

The exchange rate policy of stabilizing the SI dollar (SBD) against the US dollar (USD) was maintained in 2006. As a result, the SBD remained broadly stable vis-à-vis the USD. The Bank determines the exchange rate of the SBD on the basis of a basket of foreign currencies, and provides the commercial banks with daily limits

on the buying and selling rates for the USD in transactions with the Central Bank and the public.

During the year, a review on all exchange rates daily limits and margins resulted in the Bank deregulating most trading currencies with the exception of the USD and the AUD. With regards to the USD and the AUD the Bank required commercial banks to maintain a specified margin between their buying and selling rates each business day. Commercial banks are also required to forward their lists of trading currencies and exchange rates to CBSI daily.

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 earn maximum income from the investment of these reserves

The first two objectives took prominence given the economic circumstances during the year. To achieve these objectives, the Board decided that 20% of the external reserves would be held in a Liquidity Fund and 80% in an Investment Fund. These allocations were set in line with improvements in the external reserves and a lesser need to maintain large amounts of liquid funds. Reserve management ensures there is flexibility to provide foreign exchange for the country's international transactions and income of the Bank.

In line with prudential management objectives the Board has established a list of banks and financial institutions as authorized depositories for the investment of the external reserves. These are usually central banks or AA+ rated financial institutions. The Foreign Exchange Department (FED) Manager is guided by an

in-house Committee in ensuring that prudential management of the reserves is maintained and that risks are mitigated as much as possible to achieve best investment results. The Committee meets quarterly for reviews and establishes guidelines for the Department to follow, for which it submits a quarterly report to the Board either for information, intended for further policy guidance.

The Middle Office position was filled in October 2006. The role of the Unit has changed and its responsibilities have increased over time, due to the growing emphasis on risk management and performance assessment in financial institutions. Its responsibilities are to:

- Monitor exposures within the limits of the operational investment guidelines;
- Approve counterparty lists, agreements, and other arrangements;
- Monitor compliances with operational and investment guidelines;
- Develop an information systems strategy and a business continuity plan;
- Conduct a monthly performance evaluation; and
- Ensure that a risk management framework is in place with clear separation of duties and internal control.

Banking Supervision

The Financial Institutions department (FID) concentrated its supervision of the financial institutions on off-site supervision rather than conducting its planned two on-site examinations during the year. Results from the analysis of returns of the reporting financial institutions showed that the financial institutions experienced a very successful year in terms of growth in their balance sheets, profitability and asset quality.

The Court appointed administration of the Development Bank of Solomon Islands (DBSI) took up a lot of resources of the department during the year. CBSI as the Court Appointed

Manager (CAM) was able to achieve its main objective of repaying a substantial portion of the amounts owed by DBSI to its depositors. This target was met by July 2006 when CAM had paid \$18 million to depositors. CAM also has deposits with CBSI to meet the \$300,000 still owed to small depositors that are yet to claim their funds. Plans for CAM to exit DBSI upon the expiry of its term on 10 December 2006, were not possible because the Government was not ready to assume responsibility over DBSI. Therefore, the Court Administration of the DBSI was extended for another term to June 2007.

During the year, FID received technical assistance from the Australian Government who funded a Financial Adviser that assisted the CBSI in the court administration of the DBSI. The International Monetary Fund also made available an insurance expert to assist the Office of the Controller of Insurance on insurance matters and conducted a review of the Insurance Act. The PFTAC regional Bank Supervisor based in Suva also provided training and advice to staff while on visits to the Solomon Islands.

Research Activities

The Economics Department (ECOD) of the Bank continued to collect, compile and publish economic and financial information during the year. With most of the data sources being from outside the Bank, ECOD continued to maintain excellent relationship with them. The Department also expanded these data sources for the purpose of improving the quality of data collected. These data, along with CBSI's internal data sources, are vital in providing both the latest economic update and also as the basis for formulating the Bank's monetary policies. These data are published in the Bank's regular reports, namely the Monthly Bulletin, Quarterly Review and Annual Reports.

During the year the Department hosted the Monthly Monetary Management Meetings (4M's), as well as participating in other inter-financial institutions meetings. The 4Ms is an

important avenue through which recent economic developments are reviewed and at the same time enable the Bank to participate in the discussions on government policy issues. Officers of the Department continued to participate in seminars, workshops and short courses both in the country and overseas on topics relevant to their official duties. This widened staff knowledge and improved analytic capabilities required for improved performance.

The Department expanded its activities by establishing a Research Unit during the year. This Unit is responsible for undertaking research on economic and financial matters or events that are of interest to the Bank. The Overseas Development Institute (ODI) in the United Kingdom provided an officer for two years to head this new Unit. Completed research papers will be published in the Bank's Quarterly Reviews. To improve the capacity and capability of the Department, three additional officers were also recruited, all of whom have now been confirmed as permanent officers.

Administration, Personnel and Training

Following a Board resolution for restructuring of the Corporate Services Department (CSD), two new departments, namely the Secretariat and Human Resources Department (SHRD) and the Accounts and Information Technology Department (AITD) were established in July 2006. Consequently a new Contracted Manager position, a new Assistant Manager position and a new supervisor position were created in the AITD.

The Contracted Manager of the AITD was filled by internal promotion. However, he has since resigned to take up employment elsewhere. A new Contracted Manager was recruited in November (2006) but he too resigned in early 2007 to join the University of Fiji, leaving the position currently vacant. The new AITD Assistant Manager position was filled through another internal promotion. The new supervisor (Financial Accountant) position of AITD was filled in early January 2007.

The position of Assistant Manager in the newly established Secretariat and Human Resources Department (SHRD) was also filled by means of internal promotion. The new Assistant Manager was also assigned with duties as Assistant to the Governors Office. The vacant Personnel and Training Officer position in SHRD was filled by outside recruitment.

The Head of Security Unit resigned at the beginning of the year, resulting in an internal promotion of a security officer to head that Unit. Two additional security officers were recruited. Four of the Bank's casual workers had their employment contracts renewed.

The Assistant Manager of the Economics Department (ECOD) was appointed Manager on a fixed term contract in January 2006. One of that Department's supervisors was promoted to Assistant Manager. Three new graduates were recruited to supervisory positions during the year. An ODI fellow from UK was also engaged on a two (2) years contract to head the Research Section within the ECOD.

Another supervisor in the ECOD was promoted to Assistant Manager in the Financial Institutions Department (FID). Two officers in the FID retired during the year; and two new officers were recruited as replacements. The Assistant Manager in the CBOD was promoted to head the Department as a Contracted Manager. A supervisor from the Foreign Exchange Department (FED) was promoted to take up the vacant Assistant Manager position. One supervisor in the Department was terminated. Two new officers were recruited and one internal transfer was made in the Department during the year. The Foreign Exchange Department (FED) recruited three new officers, one of whom filled a newly created position as Middle Office Supervisor. There was also an internal transfer of an officer from ECOD to take up a supervisory position in FED.

Six staff members continued their full time undergraduate studies at the University of South

Pacific (USP) in Suva, Fiji. Three successfully graduated with degrees in Economics, Banking and Financial Administration. A total of nine officers took Undergraduate and Post Graduate courses at the USP Centre and four took Diploma courses at the Solomon Islands College of Higher Education (SICHE) during the year.

Bank staff attended short courses, seminars, workshops and attachments during the year. Most of these training were in areas related to the work of the Bank such as financial programming, central banking, microfinance, anti money laundering, insurance, and information technology and were held in Fiji New Zealand, Singapore and Australia.

The Manager CBOD attended a Commonwealth Secretariat Debt Recording Management meeting in London while the Assistant Manager attended debt management workshop in Malaysia. The Manager of the Secretariat, Human Resources Department attended a workshop on Avian Flu in Mumbai, India.

The Bank hosted a regional meeting of the Association of Financial Supervisors Pacific Island Countries (AFSPIC) in November 2006. Sixteen (16) participants from eight Pacific countries and four (4) resource persons mainly from Australia attended the workshop.

The CBSI Medicare Scheme continued to be operated by the Bank. New accounts were opened with certified providers of health and medical services in Honiara.

Information Technology

The Bank, in 2006, continued to support its computer network system under the management of the Information Technology (IT) Section within the Accounts and Information Technology Department (AIT).

On hardware, the bank purchased 22 new Computer Systems, 17 of which were replacements and the other 5 were for internal training. Five

laptops were also purchased to replace managers' old laptops and for borrowing by staff for official duties. One new laser Printer was also purchased to replace an old printer. Old and used computer items were disposed through normal tender process.

The Bank also upgraded some of its software applications especially computer systems that included Windows XP, MS Office 2003, and Symantec Anti-Virus Corporate Edition. Three other Information Systems, CS-DRMS 2000+, Sun System, Attache and SWIFT were also upgraded. IT section also undertook other IT projects such as Sun System Migration, Enhancement of the existing Ticketing System and documentation of IT Disaster Recovery Plan as part of the Bank's IT developments.

With one of the IT officers continuing his overseas studies, only two IT officers along with the outgoing AIT Manager managed the Bank's entire computer system. Various IT trainings and seminars both locally and overseas were attended to enhance skills and knowledge on the assigned responsibilities.

Properties

Major repairs and renovations on the Bank's property were completed in 2006. These included repairs to the Governor and Deputy Governor's residences and management and staff houses at the Bank's Bokona quarters.

Renovations to the CBSI property at China Town that houses the Solomon Islands Credit Union League started in the latter months of 2006 and were completed in January 2007. In the Head Office building, the Boardroom kitchen and stairway carpets were replaced.

Mounting concerns over the Bank's aging air-conditioning system led the Bank to seek technical advice on an efficient and health-friendly alternative. The Kramer Group in Fiji was engaged to look at the old system and recommend an alternative system. Their report was

received in early 2007 and it is expected that the air-conditioning system in the Bank will be replaced in 2007.

The Bank's Aruligo Recreation Site was renovated, with new facilities and was connected with a VHF two-way radio for contact with the Head Office. The Bank also bought a tent for outdoor use.

Following a Board resolution, a revaluation exercise was conducted on all the Bank's properties in line with IFRS requirements. Other activities include the Bank's participation in the 2006 National Trade Show and DBSI property related activities under the CAM.

Board Activities

In 2006 the Bank was guided and directed by a full Board of nine Directors. One of the Director's term expired in March and was renewed by the Minister of Finance for another term of two years. Seven Board meetings, two special and five normal meetings, were held during the year, all of which were hosted in Honiara.

The Board deliberated on 31 papers covering a wide range of businesses. Early in the year the Board approved the appointment of two Contracted Managers for the Economics and Currency and Banking Operation Departments. Other major businesses discussed included reports on the banking sector; management of external reserves and external investments of the Bank; the CAM administration of the DBSI; the 2005 audited financial statements; the 2006 Monetary Policy Stance; the reorganization of the Bank's Corporate Services Department into two departments; mid-year review of the Bank's budget and work programs; the Settlement Deed between the CBSI and the SIG; the revision of the Staff Housing Loan scheme; the approval of 2007 budget and work programs; and Exchange Control Policies on offshore investments.

The Board, in addition, deliberated on reports by the IMF TA, who helped to develop a framework

for the presentation of the CBSI financial reports in compliance to the IFRS..

Relations with International Organizations

In 2006, the Central Bank maintained professional relationships with regional central banks, multilateral financial agencies such as the World Bank, International Monetary Fund, the Asian Development Bank and the Commonwealth Secretariat. The Bank also worked closely with its commercial partners like the De La Rue, the Royal Mint and SWIFT as well as the many depository financial institutions that hold the Bank's foreign reserves like the Federal Reserve of New York, Bank of England, Rothschild, Crown Agents and Royal Bank of Scotland.

These relations have enabled the Bank to tap vital training opportunities provided by these organizations. In 2006, CBSI staff attended training programs offered by the IMF Institute in Singapore and PFTAC in Suva in the areas of bank supervision, reserves management, anti-money laundering, financial analysis, and balance of payments. The Commonwealth Secretariat sponsored training in debt recording and management, and the AMLAT group in the Australian Attorney General's Office provided training for the Solomon Islands Financial Intelligence Unit (SIFIU) on anti-money laundering and attachments with FIU's in Fiji and Cook Islands.

The Bank benefited from this close association by drawing on the technical expertise of these organizations. During the year, the Bank engaged short-term technical assistance from various organizations in the areas of reserves management, international financial reporting standards (IFRS), insurance, anti-money laundering, debt management, prudential supervision and statistics. The IMF continued to sponsor Mr. Michael Brown as General Advisor to the Bank on a peripatetic basis in 2006.

The Governor attended the annual meetings of

the IMF and World Bank group in Singapore as part of the Solomon Islands delegation to these meetings led by Minister of Finance, Mr. Gordon Darcy Lilo. He also attended the ADB annual meeting in Hyderabad, India, the BIS annual meeting in Basel, Switzerland, and the South Pacific Central Bank Governors' conference in Wellington. The Deputy Governor attended the

annual SWIFT SIBOS conference in Sydney. These meetings provide added opportunities for interaction and dialogue between senior officials of the Bank and key representatives of those institutions thereby further strengthening the relationship between the Bank and the international financial community.



REPORT OF THE AUDITOR-GENERAL

Scope

The accompanying financial statements of the Central Bank of Solomon Islands (herein referred to as the "Bank") has been audited under my directions pursuant to the provisions of section 47(2)(b) of the Public Finance and Audit Act [Cap.20]. 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 carried out in accordance with International Standards on Auditing to provide a reasonable assurance as to whether the financial statements are free of material misstatement. The procedure includes examination on test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the 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.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to the going concern as the operations of the Bank and those of similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for the foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands

Audit Opinion

In my opinion,

- a) the financial statements of the Central Bank of Solomon Islands and the appended notes present a true and fair view of the financial position of the Bank at 31st December 2006, and of its financial performance and its cash flows for the year ended.
- b) the accounts are drawn up in accordance with the International Accounting Standards, the provisions of the Central Bank of Solomon Islands Act of 1976 and the Public Finance and Audit Act [Cap. 120] and relevant laws of Solomon Islands.



Floyd Augustine Fatai
Auditor General

Office of the Auditor General
PO Box G18
Honiara
Solomon Islands

26th June 2007

CENTRAL BANK OF SOLOMON ISLANDS

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CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Notes	2006 (SBD'000)	2005 (SBD'000)
Operating revenue			
Interest income	20(a)	39,734	36,913
Fees and Commissions	20(b)	2,878	3,733
Royalties		2,217	1,867
Other income	20(c)	1,656	174,899
Net Gain on Foreign Currency Exchange transactions		286	351
Net unrealized foreign exchange rate gains		49,076	(41,569)
Total revenue		95,847	176,194
Operating expenses			
Interest expense	20(d)	2,832	180
Fees and Commissions	20(c)	27	42
Administrative expenses	20(f)	13,660	11,804
Other operating expenses	20(g)	8,459	3,939
Total expense		24,978	15,965
Net operating profit in terms of IFRS		70,869	160,229
NET PROFIT DISTRIBUTION IN TERMS OF CBSI LAW			
Net operating profit in terms of IFRS		70,869	160,229
Deduct/add (IFRS required items not included in CBSI Law)			
-Net unrealized gains/loss on foreign exchange transactions		(49,076)	41,569
Net operating profit in terms of CBSI Law		21,793	201,798
Net Profit Transferred General Reserve in terms of Section 20(1) of CBSI Act (CAP 49)		10,897	149,818
Transfer to other reserves in terms of Section 20(2) of the CBSI Act (CAP 49)		8,000	34,000
Due to Solomon Islands Government Section 20(2) of the CBSI Act (CAP 49)		2,896	17,980

This statement of profit and loss is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 68 to 90.

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF TRANSFER TO SOLOMON ISLANDS GOVERNMENT
FOR THE YEAR ENDING 31ST DECEMBER, 2006

	Notes	2006 (SBD'000)	2005 (SBD'000)
Appropriation of profits in terms of Section 20(2) of CBSI Act (CAP 49)		2,896	17,980
Total transfers to Solomon Islands Government		2,896	17,980

This statement of transfer to Solomon Islands Government is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 68 to 90.

CENTRAL BANK OF SOLOMON ISLANDS
BALANCE SHEET AS AT 31ST DECEMBER, 2006

	Notes	2006 (SBD'000)	2005 (SBD'000)
ASSETS			
Foreign Currency Assets			
Money at call		151,988	174,576
Accrued Interest		7,611	4,463
Term Deposits	4	628,510	537,835
Holding of Special Drawing Rights	5	75	15
		788,184	716,889
Local Currency Assets			
Cash on Hand		219	110
Loans and Advances	7	163,597	198,752
Property, Plant and Equipment	9	54,587	8,833
Other Assets	10	35,720	15,727
		254,123	223,422
Total Assets		1,042,307	940,311
LIABILITIES			
Foreign Currency Liabilities			
Demand Deposits	11	3,142	3,722
IMF Special Drawing Rights Allocations	5	7,522	7,084
Capital Subscriptions	5	6,690	6,320
		17,354	17,126
Local Currency Liabilities			
Demand Deposits	12	458,427	487,750
Currency in Circulation	13	203,376	168,000
SIG Monetary Operations Account	14	29,786	28,571
Fixed Deposits	15	50,761	58,976
Provision for transfer to SIG Consolidated Fund		2,896	17,980
Other Liabilities	16	8,209	3,351
		753,455	764,628
Total Liabilities		770,809	781,754
NET ASSETS		271,498	158,557
EQUITY			
Capital and Reserves			
Authorised Capital		50,000	50,000
Paid Up Capital		2,597	2,597
General Reserve	17	88,911	78,014
Foreign Exchange Asset Revaluation Reserve	18(a)	92,249	43,173
Premises and Equipment Assets Revaluation Reserve	18(c)	44,968	-
Capital Asset Reserve	19	42,773	34,773

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CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Issued and Paid up Capital	General Reserve	Foreign Exchange Assets Revaluation Reserve	Premises & Equipment Assets Revaluation Reserve	Capital Asset Reserve	Total
	(SBD'000)	(SBD'000)	(SBD'000)	(SBD'000)	(SBD'000)	(SBD'000)
2005						
Balance at the beginning of financial year	2,597	(71,804)	84,742	-	776	16,311
Transfer of net operating profit/loss in terms of Section 20(1) and 20(2) of CBSI Act (CAP 49)	-	149,818	-	-	34,000	183,818
Transfer of Revaluation Gains/(losses) for the year in terms of Section 45(1) of CBSI Act (CAP 49)	-	-	(41,569)	-	-	(41,569)
Security Notes Issued By the Solomon Islands Government in terms of Section 44 of CBSI Act (CAP 49)	-	-	-	-	(3)	(3)
At 31 December 2005	2,597	78,014	43,173	-	34,773	158,557
2006						
Balance at beginning of the financial year	2,597	78,014	43,173	-	34,773	158,557
Revaluation of Bank Premises	-	-	-	44,968	-	44,968
Transfer of net operating profit/loss in terms of Section 20(1) and 20(2) of CBSI Act (CAP 49)		10,897	-	-	8,000	18,897
Transfer of Foreign Exchange Revaluation Gains/(losses) for the year in terms of Section 45(1) of CBSI Act (CAP 49)	-	-	49,076	-	-	49,076
At 31 December 2006	2,597	88,911	92,249	44,968	42,773	271,498

The statement of movements in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 68 to 90.

CENTRAL BANK OF SOLOMON ISLANDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Notes	2006 (SBD'000)	2005 (SBD'000)
Cash flows from operating activities			
Interest received		36,578	36,415
Cash received from other income		6,977	6,514
Interest paid		(2,605)	(180)
Cash payments in the course of operations		(36,206)	(17,643)
Net cash provided by operating activities before movements in operating assets and liabilities		4,744	25,106
Cash received on placement of deposits		(37,475)	123,957
Cash received/(paid) on IMF allocation of SDR		438	(526)
(Increase)/decrease in government finance provided		35,005	(11,323)
Net cash provided by operating activities	6	2,712	137,214
Cash flows from investment activities			
Payments for Premises, Plant & Equipment		(1,929)	(1,000)
Proceeds from sale of Premises, Plant & Equipment		61	147
(Increase)/decrease in foreign investments		(18,313)	(160,192)
Net cash used in investment activities		(20,181)	(161,045)
Cash flows from financing activities			
Net movement in issue of circulating currency		35,376	30,308
Net movement in foreign currency loan		(1,033)	(5,831)
Solomon Islands Government Monetary Operations		1,215	(605)
Dividend paid		(17,980)	-
Net cash from financing activities		17,578	23,872
Net increase (decrease) in cash held		109	41
Cash at the beginning of the financial year		110	69
Cash at the end of financial year		219	110

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statement set out on pages 68 to 90.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

1 THE LEGAL FRAMEWORK

The Central Bank of the Solomon Islands (CBSI) operates under the Central Bank of the Solomon Islands Act (CAP 49) (1996 as amended). The CBSI is an independent legal entity wholly owned by, and reporting to the Solomon Islands Government. The CBSI is responsible for ensuring:

- Regulation of the issue, supply, availability and international exchange of the currency of the Solomon Islands;
- Advising the Solomon Islands Government on banking and monetary matters;
- Promoting monetary stability;
- Supervision and regulation of banking business;
- Promoting a sound financial structure;
- Fostering economic conditions conducive to the orderly and balanced economic development of the Solomon Islands.

Section 19 of the CBSI Act states that the Board shall determine the net profit of the Bank for the current financial year after meeting current expenditures and making such provisions as it views appropriate for bad and doubtful debts, depreciation in investments and other assets; contribution to staff and pension funds, and such other purposes as the Board may deem necessary. Section 43 states that any capital profit or loss resulting from the sale or maturity of Central Bank investments in securities, shall represent an accrual or charge against the General Reserve, as the case may be, and shall not be deemed a profit or loss for the purposes of the calculation of net profits of the Central Bank in accordance with Section 19. Section 45 requires that gains arising, other than from normal trading activity shall be allocated to a Revaluation Reserve Account and neither, they nor similar losses (other than from trading activity) shall be included in the computation of annual profits and losses of the Central Bank.

The Board is also aware, in terms of current best central bank practice, and International Financial Reporting Standards (IFRS), that the CBSI Act is now somewhat dated. Accordingly, in the 2006 accounts, pending any update of the Central Bank law, the Board has decided to publish a profit and loss statement with the annual accounts, which shows net profit determined in terms of IFRS (formerly IAS). A reconciliation statement then adjusts this net income figure to accord with CBSI profit distribution requirements. The latter remain the basis for determination of net profits, and their distribution, in terms of Section 19 and 20 of the CBSI Act. A review of the current law is on the Board's agenda.

2 BASIS AND FORMAT OF PRESENTATION

(a) Basis of preparation

The financial statements of the Central Bank of Solomon Islands are based on International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and interpretations issued by the Standing Interpretations Committee of the IASB except where the Central Bank of Solomon Islands Act (CAP 49) requires different treatment in which case the Act takes precedent. They are prepared under the historical cost basis and do not take into account changing money values or, except where stated, current valuations of non-current assets.

The accounting policies have been consistently applied over the reporting and comparative years. This has necessitated restatement of the Bank premises balances as at 31st December 2006 to reflect revaluation at fair market values. The CBSI does not hold foreign currency denominated securities, and there is no defined market for domestic Government securities.

To fully conform to IAS 37, the CBSI has now set up relevant additional provisions accounts to cover likely end contractual gratuities and retirement scheme payments previously covered under equity reserve accounts. Note 16: Other Local Currency Liabilities now details the relevant provision accounts covering these items

The financial statements are expressed in the Solomon Islands dollar, rounded to the nearest thousand.

CENTRAL BANK OF SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006**

1 THE LEGAL FRAMEWORK

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The financial statements are expressed in the Solomon Islands dollar, rounded to the nearest thousand.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

2 BASIS AND FORMAT OF PRESENTATION (CONT'D)

(b) Comparatives

Where necessary, comparative information has been reclassified, this is to achieve consistency in disclosure with current financial year amounts and other disclosures.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Revenue recognition and Income presentation

Operating revenue

Operating revenue is generally recognized on an accrual basis and includes interest income, fees and commissions, and profit on foreign exchange dealing with commercial banks and sundry income.

Income presentation

As Discussed in Note 1, the Legal Framework, the Profit and Loss Statement now includes income calculated on the basis of IFRS. As additional disclosure, CBSI presents net income restated in terms of the CBSI Act, which continues to be the basis for Central Bank profit distribution.

(b) Foreign currency assets and liabilities

Foreign currencies

Transactions in foreign currencies are converted to Solomon Islands dollars at the rates of exchange prevailing on transaction dates. Year-end assets and liabilities denominated in foreign currencies are converted at the rates of exchange ruling at the year-end.

All unrealized gains and losses, arising from the conversion of foreign currencies are taken to the Foreign Exchange Asset Revaluation Reserve Account in accordance with the provisions of Section 45 of the CBSI Act (CAP 49). These amounts are not included in the computation of the annual profits or losses of the Bank, calculated in terms of the CBSI Act.

Net losses arising from the conversion of foreign currencies and net adverse changes in the fair value of securities are set off against any credit balance in the Foreign Exchange Asset Revaluation Reserve Account, on the basis set out in the previous paragraph. If the balance of this account is insufficient to cover such losses, they are set off against any net profit remaining after the transfer to the General Reserve Account has been made in terms of Section 20 of the CBSI Act (CAP 49). If these transfers are not adequate to cover such losses, the Solomon Islands Government is required to transfer to the ownership of the Bank non-negotiable non-interest bearing securities to the extent of the deficiency in terms of Section 44 of the CBSI Act.

Any credit balance in the Foreign Exchange Asset Revaluation Reserve Account at the end of each year is applied first to the redemption of any non-negotiable non-interest bearing securities previously transferred to the Bank by the Solomon Islands Government to cover losses, in terms of Section 45 (3) of the CBSI Act.

As at 31 December 2006, there was a net revaluation surplus of \$49.08 million compared with 2005 a loss of \$41.6 million.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Foreign currency assets and liabilities (Cont'd)

Treasury notes, bonds and bills

At present the CBSI only holds foreign currency with fixed interest bearing deposits. If held in the future, Treasury notes, bonds and bills denominated in foreign currencies would be valued at fair value ('market value'). In terms of IAS 39, as a central bank, the CBSI would classify such portfolios within the residual "fair value option" through profit and loss category. Central banks do not actively trade in such securities for profit maximization purposes; activity reflects monetary policy considerations.

Under Section 43 (2) of the CBSI Act, such associated net unrealized gains and losses must accrue to the General Reserve. Section 19 also states that depreciation of such investments would accrue to profit and loss. In terms of IFRS, unrealized amounts would be accumulated in an appropriate Foreign Investments Asset Revaluation Reserve, prior to conformity with the existing dated legislation.

(c) Coins sold as numismatic items

The Bank sells, or receives royalties on, coins which are specially minted or packaged as numismatic items. These coins have not been accounted for as currency in circulation as they were not issued for monetary purposes.

(d) Non-current assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

(e) Property, plant and equipment

Acquisitions

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. All items of property, plant and equipment are carried at the lower of cost less accumulated depreciation, and any recoverable amount.

Disposal of assets

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the result in the year of disposal.

Depreciation

Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

· Central Bank buildings	- 50 years
· Computers	- 3 years
· Furniture, Plant and Equipment	- 3 - 5 years
· Motor vehicles	- 4 years

Assets are depreciated from the date of acquisition. Expenditure on repairs or maintenance of property, plant and equipment incurred which does not add to future economic benefits expected from the assets is recognised as an expense when incurred.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Property, plant and equipment (Cont'd)

Periodic revaluations

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded at values approximating recoverable market values. With Board approval, a major review of the Bank's fixed asset accounting was completed in late 2006. This included a review of asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. As a result of this exercise CBSI has revalued all its land and buildings. The Board has sought input from external valuers, who have determined appropriate revaluation data. Positive revaluations have resulted in the establishment of a Premises and Equipment Asset Revaluation Reserve in the 2006 accounts. The Board resolved to have such assets revalued every three years.

(f) Notes and coins

All purchases of notes and coins are initially capitalized. When currency is issued into circulation, the cost of producing such currency is then treated as current expenditure. Previously the Bank adopted amortization of the cost of notes and coins over period of three to four years. The 2005 figure of \$11.24 million was obtained under the amortization policy and it was not possible to restate it retrospectively.

(g) Income Tax

The Central Bank of Solomon Islands is exempted from income tax under The Income Tax (Central Bank of Solomon Islands) (Exemption) Order of 21st June 1976 as provided for under Section 16 (2) of the Income Tax Act (CAP 123).

(h) Employee entitlements

Employee remuneration entitlements are determined by the Board in terms of Section 14 of the CBSI Act. Provisions for employee entitlements comprises severance allowance, gratuity, annual leave and long service leave and represent the present liability resulting from employees' services to the balance sheet date. Provisions have been calculated at nominal amounts based on current wage and salary rates.

(i) Solomon Islands Pension /Provident Fund

The CBSI and its employees make contributions to the National Provident Fund, which in turn makes payments to CBSI staff who finished and qualify under the Funds laws. Some 7.5% per cent of salaries and staff entitlements are contributed to this Fund by the CBSI. This amounted to \$553,219 in 2006 (\$501,119 in 2005). CBSI staff own contributions amount to \$221,238 calculated at 5 per cent of their respective salaries.

None of the assets of the National Provident Fund are held in the CBSI's balance sheet.

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash held at the Bank as till money.

(k) Solomon Islands Government bonds

Solomon Islands Government bonds are valued at cost. Due to the present very thin secondary market for such securities in the Solomon Islands, they are held to maturity by the Central Bank. Accordingly in terms of IAS 39, they are classified as "held to maturity" and recorded at cost in the Bank's accounts.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Provision for Bad and Doubtful Debts

Provisions for bad and doubtful debts are appraised and established at the end of each year to cover estimated potential risks which could emerge in the following year on the overall loan portfolio.

Movements in the provision for bad and doubtful debts are charged to the income statement.

Known bad debts are written off against the respective provision account. Where no prior provision has been made against a bad debt it is charged directly to the income statement.

4. EXTERNAL ASSETS

Section 30 of the CBSI Act requires the Central Bank to maintain a reserve of external assets, and lists the various ranges of assets which can be held. For a central bank, such assets would include all internationally recognised reserve assets. In these financial statements, external assets also include fully convertible foreign currency balances.

5. INTERNATIONAL MONETARY FUND

(a) The Solomon Islands is a member of the International Monetary Fund (IMF) and the Central Bank has been designated as the Solomon Islands Government fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Solomon Island dollars.

(b) The Solomon Islands subscription to the IMF has been met by:

- (i) payment to the IMF out of Central Bank external assets which have been reimbursed by the Government of the Solomon Islands by issue of non-interest bearing securities;
- (ii) the funding of accounts in favor of the IMF in the books of the Central Bank by the Solomon Islands Government.

(c) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No.2 accounts. The IMF maintains such balances in their accounts in both SDR and Solomon Islands dollar equivalents; the Central Bank balances are maintained only in Solomon Islands dollars.

6. RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand at bank (till money).

	2006 (SBD'000)	2005 (SBD'000)
Operating profit	21,793	201,798
<i>Non cash items:</i>		
Depreciation	1,143	1,199
Currency Amortisation Expense	6,060	1,407
<i>Net (increase)/decrease in:</i>		
Interest receivables	(3,156)	(499)
Other receivables	7,562	(17,733)
Accrued expenses	(30,690)	(48,958)
Net Cash from operating activities	2,712	137,214

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

7. LOANS AND ADVANCES

	2006 (SBD'000)	2005 (SBD'000)
a) Loans and Advances to Solomon Islands Government		
Loans and Advances	29,915	185,680
Development Bonds	27	27
Treasury Bills	616	118
Other Securities	11,426	11,075
Amortising Bonds	119,911	-
Total Loans and Advances to Solomon Islands Government	161,895	196,900

As detailed in the 2005 financial statements, on 17th February 2006 a Deed of Settlement was signed between the Solomon Islands Government and the Central Bank to convert Government amounts owing into a rolling tranches and three new tranches of amortizing bonds at 2.25 % interest rate and repayable over 15 to 25 years.

The current level of borrowings by the Government, however, is in breach of the limits set for such borrowings in the Central Bank. The statutory limit as at 31st December 2006 was \$98.4 million (31 December 2005 : \$98.4 million).

	2006 (SBD'000)	2005 (SBD'000)
b) Staff Loans		
Staff Housing loans	1,069	1,353
Less Provision for Doubtful Debts	-	(251)
Management Car Loans	87	74
Personal Loans	546	676
Total Staff Loans	1,702	1,852
Total Loans and Advances to Solomon Islands Government and CBSI Staff	163,597	198,752

8. EQUITY INVESTMENTS

These investments have been made by the CBSI, at the request of the SIG, in the share capital of the Investment Corporation of the Solomon Islands (ICSI) and the Development Bank of the Solomon Islands (DBSI), and are carried at the lower of cost and recoverable amount. This is based on the Board's 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 statements of each institution (ICSI: 2001 accounts; and DBSI : 2004 accounts)

As at end of 2005, the investment in ICSI had been fully written down over five years, given lack of availability of up to date accounts. The investment in the DBSI had been fully written down by the end of 2001.

These equity investments are now recorded in off balance sheet records of the Bank.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2006

9. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Furniture	Computer	Motor Vehicles	Total
Cost or valuation	11,374	3,464	2,617	720	18,175
Accumulated depreciation	(3,905)	(2,317)	(2,345)	(463)	(9,030)
Net book amount	7,469	1,147	272	257	9,145
Year ended December 2005					
Opening net book amount	7,469	1,147	272	257	9,145
Additions	-	487	247	266	1,000
Disposals	-	-	-	(113)	(113)
Depreciation charge	(300)	(556)	(206)	(137)	(1,199)
Closing net book amount	7,169	1,079	313	272	8,833
Year ended December 2005					
Cost or valuation	11,374	3,951	2,459	741	18,525
Accumulated depreciation	(4,205)	(2,872)	(2,146)	(469)	(9,692)
Net book amount	7,169	1,079	313	272	8,833
Year ended December 2006					
Opening net book amount	7,169	1,079	313	272	8,833
Additions	471	461	504	493	1,929
Disposals	-	-	-	-	-
Internet transfers	(831)	831	-	-	-
Depreciation charge	(271)	(515)	(202)	(155)	(1,143)
Revaluation surplus	44,968	-	-	-	44,968
Closing net book amount	51,506	1,855	615	611	54,587
Year ended December 2006					
Cost or valuation	51,506	5,395	2,114	1,053	60,068
Accumulated depreciation	-	(3,540)	(1,499)	(442)	(5,481)
Net book amount	51,506	1,855	615	611	54,587

The Bank's land and buildings were revalued at 31 December 2006 by independent valuers. Valuations were made on the basis of open market value. The revaluation surplus was credited to premises and equipment asset revaluation reserve in the shareholders equity. Similar revaluations will occur every three years.

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2006 (SBD '000)	2005 (SBD '000)
Cost	10,861	11,374
Accumulated depreciation	(4,324)	(4,205)
Net book amount	6,537	7,169

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

10 OTHER LOCAL CURRENCY ASSETS

	2006 (SBD'000)	2005 (SBD'000)
Sundry Debtors & Other	20,071	1,610
Solomon Islands Notes and Coins	16,050	11,235
Advances and repayments	1,087	4,471
Less Provision for Doubtful debts	(1,488)	(1,588)
	35,720	15,728

11. FOREIGN CURRENCY DEMAND DEPOSITS

Demand Deposits	3,142	3,722
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Demand deposit of international organizations such as Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association.

12. LOCAL CURRENCY DEMAND DEPOSITS

Banks	287,247	294,659
Solomon Islands Government	167,082	191,888
Financial Corporations	4,068	864
Other	30	339
	458,427	487,750

13. CURRENCY IN CIRCULATION

Notes	194,983	160,687
Coins	8,393	7,313
	203,376	168,000

14. SECURITIES

Solomon Islands Government Monetary Operations	29,786	28,571
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15. SOLOMON ISLANDS GOVERNMENT (SIG) DEPOSITS

This deposit represents funds received by the Solomon Islands Government (SIG) under the Stabex scheme of the European Community, Asian Development Bank, Republic of China and Papua New Guinea Government. The SIG draws on these deposits as and when it is ready to use the funds in a manner approved by the funding agencies.

16. OTHER LOCAL CURRENCY LIABILITIES

Unpresented Bank Cheques	5,772	2,275
Provision for Employee Entitlements	768	220
Other Liabilities	1,669	856
	8,209	3,351

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

17. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

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

The requirements of Section 19 and 20 of the CBSI Act are:

- (a) When the Central Bank determines net profits for the year after meeting all current expenditures, and making provision for bad and doubtful debts, depreciation in investments, and contribution to staff and pension funds; and such other purposes as the Board may deem necessary.
- (b) The net profit shall then be allocated to a General Reserve each year until such time as the General Reserve is equal in amount to half the authorized capital of the Central Bank after which half the net profit shall be allocated to the General Reserve until the General Reserve is equal to twice the authorized capital of the Central Bank.
- (c) After such allocations, the Board, with the Minister's approval, may then direct such part of remaining net profit as it considers appropriate, be allocated to one of more Special Reserves. Any residual net profit would then accrue to Government.
- (d) If there is a net loss in any year that exceeds the amount of the General Reserve at end year, then such excess shall be paid to the Bank from the Consolidated Fund.
- (e) With approval of the Minister, the Board may direct that a proportion, not exceeding half, of the General Reserve may at any time after the General Reserve has reached an amount equal to half the authorized capital of the Central Bank be converted into issues and fully-paid capital; provided such amounts do not cause paid up capital to exceed authorized capital.

18. ASSET REVALUATION RESERVE ACCOUNTS

(a) Foreign Exchange Asset Revaluation Reserve

Under Section 45 of the CBSI Act, gains arising from any change in the valuation of the Central Bank's assets or liabilities in, or denominated in, gold, foreign currencies or other units of account as a result of alterations of the external value of the currency of the Solomon Islands, or any change in the values, parties or exchange rates of such assets and liabilities with respect to the currency of the Solomon Islands other than gains arising from normal trading activity of the Central Bank, shall be credited to a Foreign Exchange Revaluation Reserve Account and neither they nor the losses arising from any such change other than losses arising from normal trading activity of the Central Bank, shall be included in the computation of the annual profits or losses of the Central Bank. As discussed in Note 1, such treatment is inconsistent with IFRS. The CBSI provides additional disclosures in a profits distribution reconciliation statement accompanying the profit and loss account, which links IFRS net profit to profit distributable under the CBSI Law.

The losses arising from any such valuation changes other than losses arising from normal trading activity shall be set off against any credit balance in the Foreign Exchange Asset Revaluation Reserve Account and, notwithstanding any other provision of the Act, if such balance is insufficient to cover such losses, the Solomon Islands Government shall issue to the Central Bank non-negotiable non-interest bearing securities to the extent of the deficiency. Any credit balance at the end of each financial year in the Foreign Exchange Asset Revaluation Reserve Account shall be applied first, on behalf of the Solomon Islands Government, to the redemption of all securities issued and outstanding under this Section of the CBSI Act.

In addition, under Section 44, if at any time the total assets of the Central Bank shall be less than its total liabilities, notwithstanding any other provisions of this Act, the Government shall cause to be transferred to the Central Bank non-negotiable non-interest bearing securities issued by the Government to the extent of the deficiency.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

18. ASSET REVALUATION RESERVE ACCOUNTS (CONT'D)

(b) Foreign Investment Asset Revaluation Reserve

As discussed in Note 3 (b) the CBSI does not presently hold foreign currency denominated investments other than fixed term bank deposits. In addition, because of the very limited market for Solomon Islands Government securities, holdings of such assets are recorded at cost. Accordingly, there are currently no changes in amounts to be recorded in such an asset revaluation reserve covering domestic Central Bank investments.

Under Section 43 (2) of the CBSI Act, any valuation changes in the Central Bank's holdings of securities, together with any capital profit or loss resulting from sale or maturity of such assets shall represent an accrual to, or a charge against the General Reserve and shall not be deemed profit or loss for the purpose of calculating net profits under the CBSI Act.

Section 43 is not consistent with current IFRS, specifically IAS 39, which would require such valuation changes to be included in the profit and loss account.

(c) Property, Plant and Equipment Asset Revaluation Reserve

Following revaluation of the Central Bank's land and premises assets in 2006, the CBSI has established an appropriate Premises and Equipment Assets Revaluation Reserve (refer also Notes 3 (e)).

19. CAPITAL ASSETS RESERVES

Other retained earnings reserves can be established under the CBSI Law (Section 20(2)) out of net profits, with the approval of the Minister. These reserves included, as at end 2005, a capital asset replacement reserve, small business finance scheme reserve, early retirements and gratuity reserve.

With the separate establishment of provision accounts in 2006 to meet IFRS requirements in relation to early retirement and gratuity payments, the Board has determined that the relevant reserve balances be transferred to the capital asset replacement reserve to strengthen the Central Bank's equity position in relation to future major capital investment in buildings and equipment.

	2006 (SBD'000)	2005 (SBD'000)
Capital Asset Reserve	42,773	34,773

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

20.	INCOME AND EXPENSES	2006 (SBD'000)	2005 (SBD'000)
(a)	Interest income		
	Interest received from foreign investments	36,360	25,394
	Interest received from local investments	3,374	11,519
		39,734	36,913
(b)	Fees and commissions received		
	Fees and commissions - foreign dealing	2,727	3,652
	Fees and commissions - local dealings	151	81
		2,878	3,733
(c)	Other income		
	Proceeds from disposal of fixed assets	60	47
	Rent received	566	412
	Sale of numismatic coins	630	107
	Write back bad debt provision on SIG loans and advances	-	174,289
	Others	400	44
		1,656	174,899
(d)	Interest expenses		
	Interest expense on foreign liabilities	258	180
	Interest expense on local liabilities	2,574	-
		2,832	180
(e)	Fees and commissions paid	27	42
(f)	Administration expenses		
	Staff costs	8,934	7,224
	Others	4,726	4,580
		13,660	11,804
(g)	Other operating expenses		
	Board of Directors remunerations and expenses	55	78
	Currency expenses	6,860	1,474
	Depreciation	1,143	1,199
	Auditors remuneration (Note 21)	256	219
	Provision for bad and doubtful debts	49	-
	Provision for deminution	-	673
	Others	96	296
		8,459	3,939

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

21. AUDITOR'S REMUNERATION

	2006 (SBD'000)	2005 (SBD'000)
Amounts received or due and receivable by the Auditors of the Bank for:		
- Auditing the financial statements	210	159
- Other services	46	60
	256	219

22. RELATED PARTIES

Ultimate parent entity

The Bank's ultimate parent entity is the Solomon Islands Government.

The directors were paid transport subsistence and a sitting allowance for services rendered. The Bank also provides non-cash benefits to the Executive Director and Executive Officers in addition to their allowances.

	2006 (SBD'000)	2005 (SBD'000)
Total remuneration is included in 'personnel expenses' as follows		
Directors' fees and remuneration	55	78
Executive Directors	310	314
	365	392

23. EMPLOYEES

The number of full time permanent Central Bank employees as at 31 December 2006 was 73 and 60 in 2005. This increase is eminent to staff new positions and to fill old vacant positions within the Bank.

24. CONTINGENT LIABILITIES

The Bank has guaranteed staff housing loans transferred to commercial banks to the sum of \$1.2 million in 2006 (2005: \$1.3 million). The guarantee is valid until the date the staff ceases employment with the Bank.

25. FINANCIAL INSTRUMENTS

Exposure to operational, credit, liquidity, interest rate, and currency risk arises in the normal course of the Bank's operations. The structure of the CBSI's balance sheet is primarily determined by the nature of its statutory functions, rather than commercial considerations. At the same time CBSI continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the CBSI is regulated by internal instructions and closely monitored by the Board.

Operating loss is the risk of loss from breakdown of internal controls. The CBSI is in the process of establishing an internal audit function (either internally or outsourced) which will exercise monitoring and control over accounting policies and procedures, and the effective functioning of the system of internal controls at the CBSI. Operating risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operating risk.

The material financial instrument to which the bank has exposure includes:

- (i) External assets
- (ii) Other liabilities.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

25. FINANCIAL INSTRUMENTS (Cont'd)

Credit risk

The CBSI takes on exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The CBSI's maximum credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Bank does not require collateral in respect of financial assets except in respect of loans to staff.

Management has a credit policy in place. Credit risk on transactions in foreign currency reserves is managed through the approval of transactions and placement of funds, the establishment of limits restricting risk and constant monitoring of positions. Counter party limits are set based on credit ratings and are subject to regular review. Currency risk and the exposure in the local currency portfolio is also monitored and managed.

Credit risk on financial assets is minimized by dealing with recognized monetary institutions. At balance sheet date, there were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk is defined as the risk of loss arising due to the mismatch of the maturities of assets and liabilities. The maturities of assets and liabilities is the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the CBSI and its exposure to changes in interest and exchange rates.

The table below shows assets and liabilities at 31December 2006 (and 2005 comparatives) grouped by remaining contractual maturity.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

Liquidity Risk 2006

	0-3 Months	3-6 Months	6-12 Months	Over 1 Year	Undefined Maturity	Total
Foreign Currency Assets						
Money at Call	151,988	-	-	-	-	151,988
Accrued Interest	5,939	1,672	-	-	-	7,611
Term Deposits	333,577	294,933	-	-	-	628,510
Holding of Special Drawing Rights	75	-	-	-	-	75
	491,579	296,605	-	-	-	788,184
Local Currency Assets						
Cash on Hand	219	-	-	-	-	219
Loans and Advances	2,919	2,085	4,192	154,401	-	163,597
Premises Equipments	-	-	-	-	54,587	54,587
Other Assets	21,107	1,437	2,874	10,302	-	35,720
	24,245	3,522	7,066	164,703	54,587	254,123
Total Assets	515,824	300,127	7,066	164,703	54,587	1,042,307
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	3,142	-	-	-	-	3,142
IMF Special Drawing Rights Allocations	-	-	-	-	7,522	7,522
Capital Subscriptions	-	-	-	-	6,690	6,690
	3,142	-	-	-	14,212	17,354
Local Currency Liabilities						
Demand Deposits	458,427	-	-	-	-	458,427
Currency in Circulation	-	-	-	-	203,376	203,376
SIG Monetary Operations Account	29,786	-	-	-	-	29,786
Fixed Deposits	49,786	-	-	975	-	50,761
Provision for transfer to SIG Consolidated Fund	-	-	2,896	-	-	2,896
Other Liabilities	8,209	-	-	-	-	8,209
	546,208	-	-	975	203,376	753,455
Total Liabilities	549,350	-	2,896	975	217,588	770,809
Net Liquidity Gap	-33,526	300,127	4,170	163,728	-163,001	271,498

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

Liquidity Risk 2005

	0-3 Months	3-6 Months	6-12 Months	Over 1 Year	Undefined Maturity	Total
Foreign Currency Assets						
Money at Call	174,576	-	-	-	-	174,576
Accrued Interest	3,238	1,225	-	-	-	4,463
Term Deposits	236,225	301,610	-	-	-	537,835
Holding of Special Drawing Rights	15	-	-	-	-	15
	414,054	302,835	-	-	-	716,889
Local Currency Assets						
Cash on Hand	110	-	-	-	-	110
Loans and Advances	215	241	186,046	12,250	-	198,752
Premises Equipments	-	-	-	-	8,833	8,833
Other Assets	5,927	1,434	2,868	5,498	-	15,727
	6,252	1,675	188,914	17,748	8,833	223,422
Total Assets	420,306	304,510	188,914	17,748	8,833	940,311
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	3,722	-	-	-	-	3,722
IMF Special Drawing Rights Allocations	-	-	-	-	7,084	7,084
Capital Subscriptions	-	-	-	-	6,320	6,320
	3,722	-	-	-	13,404	17,126
Local Currency Liabilities						
Demand Deposits	487,750	-	-	-	-	487,750
Currency in Circulation	-	-	-	-	168,000	168,000
SIG Monetary Operations Account	28,571	-	-	-	-	28,571
Fixed Deposits	58,976	-	-	-	-	58,976
Provision for transfer to SIG Consolidated Fund	-	-	17,980	-	-	17,980
Other Liabilities	3,351	-	-	-	-	3,351
	578,648	-	17,980	-	168,000	764,628
Total Liabilities	582,370	-	17,980	-	181,404	781,754
Net Liquidity Gap	-162,064	304,510	170,934	17,748	-172,571	158,557

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

Interest rate risk

The Bank's exposure to interest rate risk and the effective interest rates of financial assets and liabilities at the balance sheet date are as follows:

Financial assets:

Cash and current accounts	-	floating interest rates
Short term deposits	-	fixed interest rates, maturing in 90 days or less
Treasury notes and bonds	-	fixed interest rates, maturing in 9 years or less
Solomon Islands Government Bonds	-	fixed interest rates, maturing as detailed in note 3(k)
Staff loans	-	fixed interest rates, maturing in 20 years or less
Statutory bodies/bank	-	fixed interest rates, maturing in 30 days less
Solomon Islands Government	-	fixed interest rates, payable in 30 days or less
	-	Account No.1
	-	Redemption of bonds

Financial liabilities:

Domestic Institutions	-	fixed interest rates, payable in 30 days or less
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All other financial assets or financial liabilities are non-interest bearing.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

Interest Risk 2006

	Up to 1 Month	1-3 Months	3-12 Months	Over 1 Year	Non Interest Bearing	Total
Foreign Currency Assets						
Money at Call	151,988	-	-	-	-	151,988
Accrued Interest	1,614	4,414	1,583	-	-	7,611
Term Deposits	64,403	269,174	294,933	-	-	628,510
Holding of Special Drawing Rights	-	-	-	-	75	75
	218,005	273,588	296,516	-	75	788,184
Local Currency Assets						
Cash on Hand	-	-	-	-	219	219
Loans and Advances	616	-	-	151,528	11,453	163,597
Premises Equipments	-	-	-	-	54,587	54,587
Other Assets	-	-	-	-	35,720	35,720
	616	-	-	151,528	101,979	254,123
Total Assets	218,621	273,588	296,516	151,528	102,054	1,042,307
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	-	-	-	-	3,142	3,142
IMF Special Drawing Rights Allocations	-	-	-	-	7,522	7,522
Capital Subscriptions	-	-	-	-	6,690	6,690
	-	-	-	-	17,354	17,354
Local Currency Liabilities						
Demand Deposits	-	-	-	-	458,427	458,427
Currency in Circulation	-	-	-	-	203,376	203,376
SIG Monetary Operations Account	15,982	13,804	-	-	-	29,786
Fixed Deposits	-	-	-	-	50,761	50,761
Provision for transfer to SIG Consolidated Fund	-	-	-	-	2,896	2,896
Other Liabilities	-	-	-	-	8,209	8,209
	15,982	13,804	-	-	723,669	753,455
Total Liabilities	15,982	13,804	-	-	741,023	770,809
Net Interest Sensitivity Gap	202,639	259,784	296,516	151,528	-638,969	271,498

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

Interest Risk 2005

	Up to 1 Month	1-3 Months	3-12 Months	Over 1 Year	Non Interest Bearing	Total
Foreign Currency Assets						
Money at Call	174,576	-	-	-	-	174,576
Accrued Interest	1,491	1,747	1,225	-	-	4,463
Term Deposits	78,227	162,785	296,823	-	-	537,835
Holding of Special Drawing Rights	-	-	-	-	15	15
	254,294	164,532	298,048	-	15	716,889
Local Currency Assets						
Cash on Hand	-	-	-	-	110	110
Loans and Advances	118	-	-	187,532	11,102	198,752
Premises Equipments	-	-	-	-	8,833	8,833
Other Assets	-	-	-	-	15,727	15,727
	118	-	-	187,532	35,772	223,422
Total Assets	254,412	164,532	298,048	187,532	35,787	940,311
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	-	-	-	-	3,722	3,722
IMF Special Drawing Rights Allocations	-	-	-	-	7,084	7,084
Capital Subscriptions	-	-	-	-	6,320	6,320
	-	-	-	-	17,126	17,126
Local Currency Liabilities						
Demand Deposits	-	-	-	-	487,750	487,750
Currency in Circulation	-	-	-	-	168,000	168,000
SIG Monetary Operations Account	10,342	18,229	-	-	-	28,571
Fixed Deposits	-	-	-	-	58,976	58,976
Provision for transfer to SIG Consolidated Fund	-	-	-	-	17,980	17,980
Other Liabilities	-	-	-	-	3,351	3,351
	10,342	18,229	-	-	736,057	764,628
Total Liabilities	10,342	18,229	-	-	753,183	781,754
Net Interest Sensitivity Gap	244,070	146,303	298,048	187,532	-717,396	158,557

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2006

Currency Risk

Currency risk is the risk the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Bank incurs foreign currency risk on holdings of financial assets (principally external assets) that are denominated in a currency other than the Solomon Islands dollar. The currencies giving rise to this risk are primarily Australian dollars, New Zealand dollars, British pounds, Euro and United States dollars.

The Bank does not hedge its exposure to exchange fluctuations in these currencies.

In accordance with the CBSI Act, the task of maintaining the safety and liquidity of foreign reserve assets, as well as the returns from reserves asset management, are achieved through diversification of investment by entering into transactions in international capital and money markets. Analysis of risks is the process of managing the currency reserves by comparing factual risk levels with set limits. Credit risk is additionally limited by the separate minimum acceptable credit ratings and operational limits.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

Currency Risk 2006

	SBD	AUD	NZ	USD	EURO	GBP	OTHERS	TOTAL
Foreign Currency Assets								
Money at Call	-	6,043	-	83,805	38,444	23,693	3	151,988
Accrued Interest		2,089	1,762	2,460	550	681	69	7,611
Term Deposits		176,054	105,558	187,356	53,558	100,937	5,047	628,510
Holding of Special Drawing Rights	-	-	-	-	-	-	75	75
		184,186	107,320	273,621	92,552	125,311	5,194	788,184
Local Currency Assets								
Cash on Hand	219	-	-	-	-	-	-	219
Loans and Advances	163,597	-	-	-	-	-	-	163,597
Premises and Equipment	54,587	-	-	-	-	-	-	54,587
Other Assets	35,720	-	-	-	-	-	-	35,720
	254,123	-	-	-	-	-	-	254,123
Total Assets	254,123	184,186	107,320	273,621	92,552	125,311	5,194	1,042,307
LIABILITIES								
Foreign Currency Liabilities								
Demand Deposits	-	-	-	1,786	1,356	-	-	3,142
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	7,522	7,522
Capital Subscriptions	-	-	-	-	-	-	6,690	6,690
	-	-	-	1,786	1,356	-	14,212	17,354
Local Currency Liabilities								
Demand Deposits	458,427	-	-	-	-	-	-	458,427
Currency in Circulation	203,376	-	-	-	-	-	-	203,376
SIG Monetary Operations Account	29,786	-	-	-	-	-	-	29,786
Fixed Deposits	50,761	-	-	-	-	-	-	50,761
Provision for transfer to SIG Consolidated Fund	2,896	-	-	-	-	-	-	2,896
Other Liabilities	8,209	-	-	-	-	-	-	8,209
	753,455	-	-	-	-	-	-	753,455
Total Liabilities	753,455	-	-	1,786	1,356	-	14,212	770,809
Net Position	-499,332	184,186	107,320	271,835	91,196	125,311	-9,018	271,498

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2006

Currency Risk 2005

	SBD	AUD	NZ	USD	EURO	GBP	OTHERS	TOTAL
Foreign Currency Assets								
Money at Call	-	10,257	-	65,968	98,348	-	3	174,576
Accrued Interest	-	1,317	1,217	1,082	234	586	27	4,463
Term Deposits	-	126,986	99,004	152,568	56,509	98,216	4,552	537,835
Holding of Special Drawing Rights	-	-	-	-	-	-	15	15
	-	138,560	100,221	219,618	155,091	98,802	4,597	716,889
Local Currency Assets								
Cash on Hand	110	-	-	-	-	-	-	110
Loans and Advances	198,752	-	-	-	-	-	-	198,752
Premises and Equipment	8,833	-	-	-	-	-	-	8,833
Other Assets	15,727	-	-	-	-	-	-	15,727
	223,422	-	-	-	-	-	-	223,422
Total Assets	223,422	138,560	100,221	219,618	155,091	98,802	4,597	940,311
LIABILITIES								
Foreign Currency Liabilities								
Demand Deposits	-	-	-	1,084	2,638	-	-	3,722
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	7,084	7,084
Capital Subscriptions	-	-	-	-	-	-	6,320	6,320
	-	-	-	1,084	2,638	-	13,404	17,126
Local Currency Liabilities								
Demand Deposits	487,750	-	-	-	-	-	-	487,750
Currency in Circulation	168,000	-	-	-	-	-	-	168,000
SIG Monetary Operations Account	28,571	-	-	-	-	-	-	28,571
Fixed Deposits	58,976	-	-	-	-	-	-	58,976
Provision for transfer to SIG Consolidated Fund	17,980	-	-	-	-	-	-	17,980
Other Liabilities	3,351	-	-	-	-	-	-	3,351
	764,628	-	-	-	-	-	-	764,628
Total Liabilities	764,628	-	-	1,084	2,638	-	13,404	781,754
Net Position	-541,206	138,560	100,221	218,534	152,453	98,802	-8,807	158,557

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

26. GOING CONCERN

The economy of the Solomon Islands has continued to recover from the effects of the recent social unrest in the Solomon Islands in early 2006 but the recovery process remains fragile. The situation has generally stabilized and there has been an improvement in the country's foreign reserves and the restriction on foreign exchange has been relaxed.

The operations of the Bank and those of other organizations in the Solomon Islands have been affected by these factors and will continue to be affected 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.

27. EVENTS OCCURRING AFTER BALANCE DATE

No events have occurred since the balance sheet date which would require either disclosure or adjustments in the financial statements (2005: nil).

**CENTRAL BANK OF SOLOMON ISLANDS
2006 CALENDAR OF EVENTS**

January

- Mr Vincent Nomae is appointed as Manager, Economics Department [ECOD] for a two-year term;
- Mr Daniel Haridi is appointed as Manager, Currency & Banking Operations Department [CBOD] for a three-year term.
- Mr Raynold Moveni is appointed as Assistant Manager, Financial Institutions Department (FID).

February

- Ms Jennifer Lakoa, Investment Officer, Foreign Exchange Department (FED) and Mr Luke Forau, Assistant Manager, ECOD attend a Bank of England course on central banking in Auckland, New Zealand;
- The Solomon Islands Financial Intelligence Unit [SIFIU] and [AMLAT] organize a workshop on Anti-money laundering in Honiara;
- CS-DRMS Regional Advisor, Dr. H. Pradhan, fields a mission to the Bank to review and validate loan data on the external debt recording module on CS-DRMS 2000+ software application.

March

- The Bank receives consignment of coins from the Royal Mint of UK;
- Governor, Rick Hou attends the Pacific Financial Technical Assistance Centre [PFTAC] tripartite meeting in Nadi, Fiji;
- Mr Daniel Haridi, Manager CBOD, Mr Primo Wafuni, Supervisor (Ag) Debt Unit and Mr Marlon Houkarawa, IT Officer (CS-DRMS) attends the Commonwealth Secretariat Regional Workshop on Using CS-DRMS 2000+ for Proactive Debt Management in Suva, Fiji
- Mrs Linda Folia, Financial Analyst FID attends an Australian Prudential Authority (APRA) and Bank of Papua New Guinea, training on superannuation regulations in Port Moresby, PNG.

April

- The Central Bank releases its Monetary Policy Stance for 2006;
- Deputy Governor, Denton Rarawa attends a Commonwealth Secretariat/Pacific Islands Forum Secretariat meeting on Financing of Small & Medium Enterprises [SME] in Suva, Fiji;
- National Elections held in Solomon Islands;
- IMF TA, Bernie Thompson visit the Bank to review CBSI compliance to the International Financial Reporting Standards [IFRS];
- Mr Michael Ha'apio, FIU Analyst attends attachment training with the Cook Islands Financial Intelligence Unit in Rarotonga, Cook Islands.

May

- The 2005 CBSI Annual report is launched;
- Governor Rick Hou attends the Asian Development Bank [ADB] Annual Meeting in Hyderabad, India and Pacific 20/20 consultations in Sydney;
- The Bank appoints Ms Caroline Kanoko as Assistant Manager, CBOD and Mr Luke Forau as Assistant Manager, ECOD.

June

- The High Court extends the Central Bank's Court Appointed Management [CAM] of DBSI for a further six months to December 2006;
- CBSI wins the annual Interbank Tournament;
- IMF Article IV Mission visits Solomon Islands;
- Governor Rick Hou attends the Bank of England Central Bank symposium in London, and BIS annual meeting in Basel, Switzerland.
- Mr Daniel Haridi, Manager CBOD attends the CS-DRMS User Group Meeting in London;
- Mr Samuel Warunima and Mr Kevisi Harry, Insurance Officers, FID attend a Regional Insurance Supervision Workshop organized by AFSPC in Sydney;
- Mr Raynold Moveni, Assistant Manager, FID joins a Government Delegation on a study tour of Small and Medium Enterprises policies and operations in Samoa and Fiji.
- Mr Michael Ha'apio, FIU Analyst, attends a Pacific Workshop in Sydney.

- The former Corporate Services Department was split into two departments, namely the Human Resources and Secretariat Department and Account and Information Technology Department.

July

- Mr Edward Ronia, Manager, Secretariat, Human Resources Department [SHRD] attends an IMF conference on the financial implications of a Bird Flu Pandemic in Mumbai;
- Mr Michael Ha'apio, FIU Analyst attends APG Annual Meeting in Manila.

September

- Governor, Rick Hou, Assistant Manager SHRD, John Bosco Hou, and Michael Brown, IMF Adviser, attend the IMF and World Bank Joint Annual Meetings in Singapore;
- Chief Accountant, Rodney Rutepitu resigns from the Bank to join the South Pacific Forum Fisheries Agency [FFA];
- CBSI launches a \$100 note denomination and revised \$2 note.
- The Bank participates in the Solomon Islands Trade and Cultural Show in Honiara.
- Ms Carolyn Kanoko, Assistant Manager CBOD attends a Workshop on Debt Management in a Liberalising Environment in Kuala Lumpur, Malaysia.
- Mr Gane Simbe, Manager FID attends an International Law Organization Workshop on Microfinance in Sydney.

October

- Deputy Governor, Denton Rarawa and Mr Joe Vasuni, Assistant Manager, FED attend the SWIFT SIBOS in Sydney;
- Bank of South Pacific [BSP] of PNG, submits an application to take over the NBSI banking business in Solomon Islands;
- Governor, Rick Hou, attend a regional UNDP Workshop on Good Governance in Nadi, Fiji as a resource person;
- IMF TA on IFRS, Mr Bernie Thompson, pays a second visit to the Bank;
- IMF TA on Reserves Management, Mr John Dalton, visit the Bank;
- Deputy Governor of the Bank of PNG, Mr Loi Bakani and Deputy Governor of the Reserve Bank of Vanuatu, Mr Peter Tari visit the Bank.
- The FIU Analyst, Mr Michael Ha'apio, attends attachment training with the Fiji FIU in Suva, Fiji.

November

- The Central Bank hosts the Association of Financial Supervisors of the Pacific Countries [AFSPC] annual meeting in Honiara;
- SIFIU organise a second anti-money laundering workshop in Honiara;
- CS-DRMS Regional Advisor, Dr. H. Pradhan, fields a second mission to the Bank to assess the feasibility of domestic debt recording.
- World Coin International General Manager, Mr. Johann Heeren, visits the Bank.
- Mr Emmanuel Iyabora is appointed as Chief Accountant and Manager, Accounts & Information Technology [AIT] department.
- The CBSI Board approves the Bank's 2007 Work Programs and Budget;
- The FIU Analyst, Mr Michael Ha'apio attends an APG typology workshop in Jakarta.
- An officer from the Overseas Development Institute in the United Kingdom, Mr. William Baron takes up employment with the Bank on a two-year contract.
- The Economics Department added a new unit called the Research Unit.

December

- Governor Rick Hou and IMF General Advisor, Michael Brown attend the South Pacific Central Bank Governors' meeting in Wellington, NZ;
- The High Court extends the CAM arrangement for another six months to June 2007;
- The High Court approves a new scheme of arrangement for the Solomon Mutual Insurance [SMI] company;
- The Bank recall its staff studying at the University of South Pacific [USP] in Fiji following the military coup;

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TABLE 1.1 MONETARY SURVEY

(SBD'000)													
End of Period	NET FOREIGN ASSETS			DOMESTIC CREDIT			NARROW MONEY (M1)				QUASI - MONEY		
	Monetary Authority	Banks	Total	Government (Net)	Private Sector	Total	Currency in Circulation	Demand Deposit		CBSI	Savings Deposits	Time Deposits	BROAD MONEY (M3)
								Bank	Other				
2003	250402	16481	266883	249170	217345	466515	102691	224987	228	228	327906	124825	520184
2004	578167	5680	583847	77918	238593	316511	123235	247401	1203	1203	371839	173860	621687
2005	699698	12811	712509	36440	389115	425555	153012	383750	1140	1140	537902	237761	863741
2006	773110	(3067)	770043	(11235)	632272	621037	177647	521647	4152	4152	703446	289184	1091566
2003	124612	5446	130058	305064	172775	477839	84133	166027	27	27	250187	100019	421475
Mar	181177	8415	189592	306735	181616	488351	97490	177891	33	33	275414	103909	450960
June	185573	6632	192205	284332	195040	479372	94156	194530	175	175	288860	114065	475052
Sep	250402	16481	266883	249170	217345	466515	102691	224987	228	228	327906	124825	520184
Dec	303662	2634	306296	205238	230973	436211	95463	223463	798	798	319724	130264	515935
2004	409287	21698	430985	106869	219408	326277	106759	246432	535	535	353726	137261	556807
Mar	507642	19391	517033	109941	232765	339618	113020	278181	558	558	391759	167927	636490
Jun	578167	5680	583847	77918	238593	316511	123235	247401	1203	1203	371839	173860	621687
2005	567337	1180	568517	84178	258949	343127	121821	276503	923	923	399247	174780	650255
Mar	619798	36052	655850	4160	284809	288869	128905	300413	1911	1911	431229	185686	695666
Jun	680357	13804	694161	(12818)	345532	332714	135670	345879	1168	1168	482717	212589	777779
Sep	699698	12811	712509	36440	389115	425555	153012	383750	1140	1140	537902	237761	863741
Dec	710909	9555	720464	18361	404357	422718	140407	393222	1177	1177	534806	235125	853382
2006	699091	7548	706639	6767	431366	438133	131469	397154	785	785	529408	235452	847185
Jan	695419	2058	697477	852	440733	441585	143564	407451	644	644	551659	234607	871663
Feb	705449	12849	718298	(992)	444094	443102	129645	386546	785	785	516976	263708	868033
Mar	727985	12826	740811	(20672)	465711	445039	130209	413036	1001	1001	544246	261243	895156
Apr	707022	11859	718881	(35328)	486105	450777	140205	410687	1578	1578	552470	267288	908550
May	728900	16222	745122	(27785)	515258	487473	136444	437410	2093	2093	575947	271673	937107
Jun	737735	20395	758130	(32690)	531078	494388	138786	437773	1932	1932	574491	281821	951629
Jul	757122	(21461)	735661	(32150)	569877	537727	145216	440320	2065	2065	587601	287198	968438
Aug	728999	(4163)	724836	(16822)	579651	562829	143449	437255	3107	3107	583811	290529	969654
Sep	762842	15261	778103	(14691)	597858	583167	160945	466393	4139	4139	631477	278270	1009071
Oct	773110	(3067)	770043	(11235)	632272	621037	177647	521647	4152	4152	703446	289184	1091566
Nov													
Dec													

Source: Central Bank of Solomon Islands

TABLE 1.2 MONEY SUPPLY

(SBD'000)						
End of Period	(1) Currency In ctive Circulation	(2) DEMAND DEPOSITS		(3) Money Supply (M1) (1 + 2)	(4) Saving Deposits	(5) Money Supply (M2) (3 + 4)
		Commercial Banks (adj)	Central Bank			
					(6) Time Deposits	(7) Money Supply (M3) (5 + 6)
2003	102691	224987	228	327906	67453	395359
2004	123235	247401	1203	371839	75988	447827
2005	153012	383750	1140	537902	88078	625980
2006	177647	521647	4152	703446	98936	289184
2003	84133	166027	27	250187	71269	321456
Mar	97490	177891	33	275414	71637	347051
Jun	94156	194530	175	288860	72127	360987
Sep	102691	224987	228	327906	67453	395359
Dec						
2004	95463	223463	798	319724	65947	385671
Mar	106759	246432	535	353726	65820	419546
Jun	113020	278181	558	391759	76804	468563
Sep	123235	247401	1203	371839	75988	447827
Dec						
2005	121821	276503	923	399247	76228	475475
Mar	128905	300413	1911	431229	78751	509980
Jun	132939	347072	1168	481179	81312	565190
Sep	153012	383750	1140	537902	88078	625980
Dec						
2006	140407	393222	1177	534806	83451	235125
Jan	131469	397154	785	529408	82325	235452
Feb	143564	407451	644	551659	85397	234607
Mar	129645	386546	785	516976	87349	263708
Apr	130209	413036	1001	544246	89667	261243
May	140205	410687	1578	552470	88792	267288
Jun	136444	437410	2093	575947	89487	271673
Jul	138786	433773	1932	574491	95317	281821
Aug	145216	440320	2065	587601	93639	287198
Sep	143449	437255	3107	583811	95314	290529
Oct	160945	466393	4139	631477	99324	278270
Nov	177647	521647	4152	703446	98936	289184
Dec						

Source: Central Bank of Solomon Islands

TABLE 1.3 ASSETS OF CENTRAL BANK OF SOLOMON ISLANDS

TABLE 1.3 ASSETS OF CENTRAL BANK OF SOLOMON ISLANDS																		(SBD'000)		
EXTERNAL ASSETS				SOLOMON ISLANDS GOVERNMENT					LOANS ADVANCES			OTHER DOMESTIC ASSETS				GOVT* TOTAL FOREIGN ASSETS				
End of Period	Money at call	Deposits	Secs	SDR Holdings	Other	Total	Advances	O/D Account	T/Bills	Bonds	Other	Total	Banks	Non-Bank	Secs & Invs	Prems & Equip.	Other	Total		
2003	131135	139945	-	2	832	531914	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
2006	151795	630984	-	74	7811	790464	29691	-	616	27	11075	161671	-	-	-	9924	41912	51836	1003971	16
2003	40536	97845	-	14	487	138882	175774	-	372	27	11075	187248	-	-	2017	8315	12873	23205	349335	12
Mar	105269	16511	-	12	-15120	106672	178448	-	235	27	11075	189783	-	-	2017	8831	18062	28910	325365	14
Jun	95671	124885	-	29	-15142	205443	181158	-	69	27	11075	192329	-	-	2017	8898	12021	22936	420708	13
Sep	131135	139945	-	2	832	1531914	174289	-	59	27	11075	185450	-	-	1345	8860	18502	28707	1746071	13
Dec	151958	174136	-	13	836	326943	175983	-	40	27	11075	187125	-	-	1345	9197	12268	22810	536878	15
2004	197514	236031	-	23	8	433576	174289	-	29	27	11075	185420	-	-	1345	9907	13895	25147	644143	15
Mar	146643	383873	-	9	8	530533	174289	-	118	27	11075	185509	-	-	1345	10022	16674	28041	744083	14
Sep	140348	452434	-	21	3955	596758	174289	-	187	27	11075	185578	-	-	673	9145	13853	23671	806007	15
Dec	116206	470256	-	46	3955	590463	174283	-	325	27	11075	185710	-	-	673	9404	38041	48118	824291	16
2005	155979	485949	-	11	8	641947	174283	-	50	27	11075	185435	-	-	673	9128	16583	26384	853803	16
Mar	198728	500278	-	31	8	699045	174283	-	615	27	11074	185999	-	-	673	9308	12382	22363	907407	15
Sep	174576	537835	-	15	4463	716889	185680	-	118	27	11075	196900	-	-	-	8833	19528	28361	942150	17
Dec	175291	549132	-	48	4463	728934	185687	-	128	27	11075	196917	-	-	-	9202	21909	31111	956962	15
2006	154712	557759	-	5	4463	716939	174289	-	30	27	11075	185421	-	-	-	9559	21149	30708	933068	15
Jan	161970	547182	-	5	4463	713620	50006	-	80	27	134490	184603	-	-	-	9577	29368	38945	937168	15
Feb	164590	556325	-	116	4463	725494	50006	-	79	27	134490	184602	-	-	-	9769	21406	31175	942271	15
Mar	171794	572386	-	714	4463	748714	49340	-	69	27	134406	183842	-	-	-	9852	22706	32558	965114	16
Apr	153261	573264	-	70	8	726603	49091	-	30	27	133970	183118	-	-	-	9937	23745	33682	943403	15
May	164763	583416	-	69	8	748256	48834	-	30	27	133533	182424	-	-	-	9398	19652	29050	959730	15
Jun	174586	580743	-	17	8	755355	30589	-	20	27	133825	164461	-	-	-	9500	19444	28944	948760	16
Jul	185319	589229	-	17	8	774573	30342	-	39	27	133866	163794	-	-	-	9945	22614	32559	970926	16
Aug	150660	595962	-	129	8	746759	30113	-	29	27	132947	163116	-	-	-	10023	22045	32068	941943	16
Sep	162463	617577	-	75	8	780123	29883	-	60	27	131778	161748	-	-	-	10067	22846	32913	974784	16
Oct	151795	630984	-	74	7611	790464	29691	-	616	27	131337	161671	-	-	-	9924	41912	51836	1003971	16

* 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

EXT. LIABILITIES		CURRENCY IN CIRCULATION		DEPOSITS					CAPITAL FUNDS					SEC		OTHER DOM LIABILITIES		(SBD'000)
End of Period	S.D.R. Allocated	Other	Total	Notes	Coins	Total	Euro-Loan	Government	Banks	Other	Total	Paid up Capital	Reserve	Other	Total	Bokolo Bills	Other DOM LIABILITIES	
2003	7258	14254	21512	104660	6534	111194	-	91898	110689	228	202815	2597	76997	-107980	-28386	-	178935	486070
2004	7610	14932	22547	130584	7108	137692	-	206121	244559	1203	451883	2597	84743	-71029	16311	-	177574	806007
2005	7085	10106	17191	160688	7313	168001	-	279436	294659	1140	575235	2597	43173	112787	158557	-	23166	942150
2006	7522	9832	17354	194983	8393	203376	-	243543	287145	4152	534840	2597	43173	112787	158557	-	89844	1003971
2003	6706	7563	14269	84032	6017	90049	-	37774	82385	27	120186	2597	42617	-103230	-58015	-	182846	349334
Mar	6948	8547	15495	97898	6142	104039	-	74882	89183	33	164097	2597	42617	-103231	-58016	-	183886	409502
Jun	6948	12922	19870	96942	6331	103273	-	58451	110326	175	168952	2597	42617	-103230	-58015	-	186628	420708
Sep	7258	14254	21512	104660	6534	111194	-	91898	110689	228	202815	2597	76997	-107980	-28386	-	178935	486070
2004	7221	16546	23767	97350	6613	103963	-	139672	117845	798	258315	2597	76958	-107941	-28386	-	179219	536878
Mar	7167	17122	24289	110629	6773	117402	-	214006	143240	535	357781	2597	76958	-107941	-28386	-	172817	644143
Jun	7209	15682	22891	116818	6950	123768	-	202514	242154	558	445226	2597	76958	-107941	-28386	-	180584	744083
Sep	7610	14932	22547	130584	7108	137692	-	206121	244559	1203	451883	2597	84743	-71029	16311	-	177574	806007
2005	7414	15712	13126	127656	7191	134847	-	219440	261287	923	481650	2597	84743	-71031	16309	-	168359	824291
Mar	7199	14950	22149	133673	7255	140928	-	300937	212086	1911	514834	2597	84743	-71029	16311	-	159581	853803
Jun	7162	11526	18688	140527	7277	147804	-	308634	265383	1168	575185	2597	84743	-71029	16311	-	149419	907407
Sep	7085	10106	17191	160688	7313	168001	-	279436	294659	1140	575235	2597	43173	112787	158557	-	23166	942150
2006	7232	10793	18025	148085	7555	155640	-	288433	297878	1177	587488	2597	43173	112787	158557	-	37252	956962
Jan	7118	10730	17848	143089	7646	150735	-	287048	286491	785	574324	2597	43173	112787	158557	-	31704	933068
Feb	7189	11032	18201	151448	7774	159222	-	286521	291936	644	579101	2597	43173	112787	158557	-	22087	937168
Mar	7268	12777	20045	139507	7818	147325	-	293670	287018	785	581473	2597	43173	112787	158557	-	33871	941271
Apr	7433	13296	20729	140792	7972	148764	-	306163	277514	1001	584678	2597	43173	112787	158557	-	52386	965114
May	7308	12273	19581	147878	8028	155906	-	317684	257908	1578	577170	2597	43173	112787	158557	-	32189	943403
Jun	7336	12020	19356	152020	8092	160112	-	298669	277945	2093	578707	2597	43173	112787	158557	-	42998	959730
Jul	7402	10218	17620	150640	8205	158845	-	280300	293410	1932	575642	2597	43173	112787	158557	-	38096	948760
Aug	7384	10067	17451	156338	8268	164606	-	283620	301152	2065	586837	2597	43173	112787	158557	-	43475	941943
Sep	7337	10423	17760	156656	8275	164931	-	271972	276353	3107	551432	2597	43173	112787	158557	-	49263	974784
Oct	7515	9766	17281	172568	8342	180910	-	266753	279811	4139	550703	2597	43173	112787	158557	-	67333	974784
Nov	7522	9832	17354	194983	8393	203376	-	243543	287145	4152	534840	2597	43173	112787	158557	-	89844	1003971
Dec																		

Source: Central Bank of Solomon Islands

TABLE 1.5 ASSETS OF COMMERCIAL BANKS

End of Period	(SBD'000)														
	S.I			LOANS AND ADVANCES											
	DUE FROM CENTRAL BANK			SECURITIES											
	CASH	Call	Other	Treasury Bills	Dev/Tr Bonds	Restr. Bonds	Auct. T-Bills	CBSI Secur.	SIG	Prov Govt	Stat Corps	Other	Total	OTHER DOM ASSETS	FORN ASSETS
2003	8503	106841	-	14377	-	149840	-	-	-	715	1359	215986	218060	59448	55170
2004	14457	245937	-	3969	-	141913	-	-	-	240	7	238833	238586	58609	71863
2005	14989	294556	-	6709	-	135083	-	-	-	-	-	389115	389115	74587	75601
2006	24079	287249	-	5002	-	128261	-	-	-	14	-	617164	617178	131935	79442
2003	5916	83577	-	9989	-	149840	-	-	-	669	1916	170859	173444	53346	30123
Mar	6549	89973	-	14964	-	149840	-	-	-	663	1875	179741	182279	54402	70981
Jun	9117	110120	-	8910	-	149840	-	-	-	728	1445	193595	195768	61221	63732
Sep	8503	106841	-	14377	-	149840	-	-	-	715	1359	215986	218060	59448	55170
Dec															
2004	8399	115320	-	11886	-	149840	-	-	-	715	1123	229850	231688	61451	68048
Mar	10643	140655	-	12914	-	149840	-	-	-	710	-	219408	220118	72093	97862
Jun	10748	253918	-	4947	-	142148	-	-	-	250	5	232750	233015	51270	82158
Sep	14457	245937	-	3969	-	141913	-	-	-	240	7	238833	238833	58609	71863
Dec															
2005	13026	258320	-	3952	-	140202	-	-	-	2	254	258695	258951	66764	67427
Mar	12023	211746	-	6696	-	138408	-	-	-	27	134	284675	284836	69849	112676
June	12134	265027	-	3483	-	136802	-	-	-	-	-	345532	345532	78927	84565
Sep	14989	294556	-	6709	-	135083	-	-	-	-	-	389115	389115	74587	75601
Dec															
2006	14569	297395	-	7706	-	134507	-	-	-	4	153	400888	401045	76407	71336
Jan	15043	284707	-	7466	-	133931	-	-	-	-	12	425705	425717	78108	52580
Feb	13664	291798	-	3973	-	133354	-	-	-	-	349	431886	432235	85681	35092
Mar	14098	287020	-	3479	-	132775	-	-	-	5	448	435055	435509	68850	92630
Apr	15214	278966	-	2738	-	132195	-	-	-	61	23	456611	456696	85034	90752
May	13251	260538	-	2734	-	131638	-	-	-	23	1	476035	476059	96061	88878
Jun	19460	277974	-	3235	-	131078	-	-	-	8	149	503742	503899	79670	94481
Jul	16864	292236	-	2531	-	130518	-	-	-	2	59	518524	518585	89133	111796
Aug	18302	301155	-	2929	-	129955	-	-	-	-	22	555105	555127	87524	64827
Sep	19899	276356	-	3575	-	129392	-	-	-	-	-	564702	564702	91547	79620
Oct	18721	279824	-	3232	-	128828	-	-	-	-	-	582524	582524	83736	84479
Nov	14079	287249	-	5002	-	128261	-	-	-	14	-	617164	617178	131935	79442
Dec															

Source: Central Bank of Solomon Islands

TABLE 1.6 LIABILITIES OF COMMERCIAL BANKS

End of Period	DEMAND DEPOSITS						SAVINGS DEPOSITS		TIME DEPOSITS						TOTAL DEPOSITS						DUE TO & CASH		OTHER LIAB		TOTAL LIAB
	S.I.G	Prov Govt	Stat Corps	Other	Total		S.I.G	Prov Govt	Stat Corps	Other	Total	S.I.G	Prov Govt	Stat Corps	Other	Grand Total	CBSI	RES	CAP	OTHER LIAB	FORM LIAB	TOTAL LIAB			
2003	3822	5107	7167	217820	233916	67453	112	273	6219	118606	125210	3934	5380	13386	403879	426579	-	99569	-	99569	47402	38689	612239		
2003	42710	3712	18293	229108	293823	75988	806	433	3050	170810	175099	43516	4145	21343	475906	544910	-	121051	-	121051	43437	66183	775581		
2004	17789	4023	88078	367523	405562	88078	821	157	2063	235698	238765	18610	4206	18290	691299	732405	-	159161	-	159161	36284	62790	990640		
2006	57466	4910	50128	471519	584023	98936	84	180	2075	280850	283189	57550	5090	52203	851305	966148	-	180206	-	180206	44283	82509	1273146		
2003																									
Mar	1941	2788	7946	158081	170756	61269	99	80	7694	92325	100198	2040	2868	15640	321675	342223	-	92069	-	92069	47266	24677	506235		
Jun	3183	3448	7318	170573	184522	71637	93	297	7706	96203	104299	3276	3745	15024	338413	360458	-	96222	-	96222	49742	62566	500988		
Sep	5734	2898	7798	186732	203162	72127	94	297	7706	106359	114456	5828	3195	15504	365218	389745	-	100122	-	100122	51741	57200	603808		
Dec	3822	5107	7167	217820	233916	67453	112	273	6219	118606	125210	3934	5380	13386	403879	426579	-	99569	-	99569	47402	38689	612239		
2004																									
Mar	1292	2971	5250	218213	227726	65947	310	83	3715	126549	130657	1602	3054	8965	410709	424330	-	106645	-	106645	50243	65414	646632		
Jun	23773	3910	10018	236414	274115	65820	24	302	2927	134334	137587	23797	4212	12945	436568	477522	-	102021	-	102021	48418	76164	704125		
Sep	12708	6979	8344	269837	297868	76804	82	630	3519	164408	168639	12790	7609	11863	511049	543311	-	121002	-	121002	41134	72767	778214		
Dec	42710	3712	18293	229108	293823	75988	806	433	3050	170810	175099	43516	4145	21343	465906	544910	-	121051	-	121051	43437	66183	775581		
2005																									
Mar	21304	3912	17710	258793	301719	76228	806	226	3050	171730	175812	22110	4138	20760	506751	553759	-	127836	-	127836	60800	66247	808642		
Jun	20515	4072	20578	279835	325000	78751	821	161	2051	183635	186668	21336	4233	22629	542221	590419	-	132073	-	132073	37118	76624	836234		
Sep	23926	5564	22265	323614	375369	82473	821	157	2051	210538	213567	24747	5721	24316	616625	671409	-	142718	-	142718	41582	70761	926470		
Dec	17789	4023	88078	367523	405562	88078	821	157	2063	235698	238765	18610	4206	18290	691299	732405	-	159161	-	159161	36284	62790	990640		
2006																									
Jan	26249	5087	22513	370709	424558	83451	821	183	2063	233062	236129	27070	5270	24576	687222	744138	-	164340	-	164340	23706	617811	1002065		
Feb	26371	5626	13485	383669	429151	82325	822	184	2063	233189	236258	27193	5810	15548	699183	747734	-	169233	-	169233	35553	45032	997552		
Mar	28602	4954	30939	376512	441007	85397	822	179	2063	232109	235173	29424	5133	33002	694018	761577	-	158847	-	158847	44339	33034	995797		
Apr	22232	4940	20371	366175	413718	87349	833	179	2063	259210	262285	23065	5119	22434	712734	763352	-	162153	-	162153	29075	79781	1034361		
May	27556	4776	16295	396741	445368	89667	835	179	2063	256745	259822	28391	4955	18358	743153	794857	-	160819	-	160819	27993	77926	1061595		
Jun	29633	4511	16906	393781	444831	88792	834	179	2064	262724	265801	30467	4690	18970	745297	799425	-	151450	-	151450	41266	77019	1069159		
Jul	39674	5173	21925	415485	482257	89487	835	179	2064	264032	267110	40509	5352	23989	769004	838854	-	166539	-	166539	26145	78259	1109797		
Aug	44756	4883	18035	415738	483412	95317	84	179	2064	274150	276477	44840	5062	20099	785205	855206	-	172887	-	172887	42169	91401	1161663		
Sep	38946	5249	21865	418455	484515	93639	834	179	2064	279512	282589	39780	5428	23929	791606	860743	-	179651	-	179651	33317	86288	1159819		
Oct	34025	6645	22901	414354	477924	95314	84	180	2074	282307	284645	34108	6825	24975	791975	857883	-	171154	-	171154	52271	83785	1165091		
Nov	37317	4165	24385	442008	507875	99324	84	180	2074	270096	272434	37401	4345	26459	811428	879633	-	177824	-	177824	54669	69218	1181344		
Dec	57466	4910	50120	471519	584203	98936	84	180	2075	280850	283189	57550	5090	52203	851305	966148	-	180206	-	180206	44283	82509	1273146		

Source: Central Bank of Solomon Islands

TABLE 1.7 SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING

End of Period	(SBD'000)									
	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecommunication	Distribution	Tourism
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
2006	8221	86776	22564	2	60992	42302	18692	71512	102969	15680
2003	1963	23196	448	2612	38201	10453	1864	15081	31290	3212
Mar	2247	28120	1619	1102	33354	13494	2202	21848	30919	3129
Jun	2525	42839	415	637	32932	12568	1677	25672	29422	3177
Sep	2912	41131	4033	-	31890	13658	2114	37362	30046	3777
2004	2899	41326	5024	-	27694	17969	1253	43163	33990	3438
Mar	3585	37357	5375	-	14832	13804	1722	50453	35744	3692
Jun	3468	31549	331	-	19246	17762	2050	55152	47544	1828
Sep	4535	42139	333	142	26794	14947	2016	42802	46941	2644
2005	3212	42126	1196	138	32325	15365	2562	42364	47380	3536
Mar	3773	48860	6333	177	27249	18251	5139	43597	66873	2943
Jun	3844	59305	7126	529	43749	17834	5923	57430	76865	2573
Sep	4394	60466	9646	264	59962	21067	5377	60475	90052	2513
2006	4479	63405	9517	267	58017	19946	5538	59814	88741	2761
Jan	5541	67900	5404	271	71338	18731	5103	59151	89738	2754
Feb	4609	78583	7422	250	55764	20855	4748	58465	88672	2752
Mar	4064	82821	8123	254	50373	21534	5289	59498	89925	2701
Apr	4561	90625	13163	258	45012	22217	4421	62369	93896	3748
May	6510	86828	14413	17	53846	23289	4863	59803	97740	4076
Jun	7681	92417	18493	32	50573	31206	5376	74116	90051	5024
Jul	8495	94724	14873	-	55972	34542	5066	74805	90681	5807
Aug	7544	93848	19164	3	69477	39943	7243	77689	87483	6608
Sep	7664	80441	15036	2	55255	39690	6996	80305	90497	8028
Oct	8183	100310	21347	2	56101	37432	7080	80265	93313	14147
Nov	8221	86776	22564	2	60992	42302	18692	82178	102964	15680
Dec										

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

Source: Central Bank of Solomon Islands

TABLE 1.8 COMMERCIAL BANK LIQUID ASSETS POSITION

(SBD'000)

Period Average	Till Cash	ELIGIBLE RESERVE ASSETS		Total	REQUIRED RESERVE ASSETS		OTHER LIQUID ASSETS	CBSI Securities	SURPLUS/ (DEFECIT)
		Balances With CBSI	Government Securities						
2003	8503	106841	-	115344	31993		-		83351
2004	14457	245937	-	260394	40868		-		219526
2005	14989	294556	-	309545	54930		-		254615
2006	25729	287249	-	312978	72931		-		240047
2003									
Mar	5916	83577	-	89493	25667		-		63826
Jun	6549	89973	-	96522	27034		-		69488
Sep	9117	110120	-	119237	29231		-		90006
Dec	8503	106841	-	115344	31993		-		83351
2004									
Mar	8399	115320	-	123719	31825		-		91894
Jun	10643	140655	-	151298	35814		-		115484
Sep	10748	253918	-	264666	40748		-		223918
Dec	14457	245937	-	260394	40868		-		219526
2005									
Mar	13026	258320	-	271346	41532		-		229814
Jun	12023	211746	-	223769	44281		-		179488
Sep	12134	265027	-	277161	50356		-		226805
Dec	14989	294556	-	309545	54930		-		254615
2006									
Jan	15233	297395	-	312628	55810		-		256818
Feb	19266	284707	-	303973	56095		-		247878
Mar	15658	291798	-	307456	57151		-		250305
Apr	17680	287020	-	304700	57434		-		247266
May	18555	278966	-	297521	59797		-		237724
Jun	15701	260538	-	276239	60144		-		216095
Jul	23668	277974	-	301642	63332		-		238310
Aug	20059	292236	-	312295	64561		-		247734
Sep	19390	301155	-	320545	64977		-		255568
Oct	21482	276356	-	297838	64802		-		233036
Nov	19965	279824	-	299789	66430		-		233359
Dec	25729	287249	-	312978	72931		-		240047

Source: Central Bank of Solomon Islands.

TABLE 1.9 ASSETS AND LIABILITIES OF DEVELOPMENT BANK OF SOLOMON ISLANDS

(SBD'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 & Reserves	Other Liabs	
								S.I.G	CBSI	Overseas#			
2003	685	-	57543	97	3587	2271	-25240	7145	-	16813	2558	27954	38944
2004	2201	-	50918	97	2549	958	-27342	-	-	20235	3799	19867	29381
2005	158	-	36472	-	723	2054	-21297	-	-	21054	3612	7076	18110
2006	1752	-	17277	-	-	1038	-5045	-	-	21054	3528	1210	11908
2003													
Mar	530	-	60566	97	4117	2773	-26003	7145	-	10589	2558	29396	42080
Jun	513	-	59641	97	4116	2641	-41796	10151	-	10589	2558	26513	40622
Sep	1026	-	58202	97	3432	2549	-25694	7145	-	16813	2558	28850	39613
Dec	685	-	57543	97	3587	2271	-25240	7145	-	16813	2558	27954	38944
2004													
Mar	348	-	57448	97	3579	2079	-25173	7145	-	16813	2558	27536	38378
Jun	172	-	57516	97	3363	1673	-29618	7145	-	20235	2558	27372	33103
*Sep	1237	-	54668	97	3178	1272	-28574	-	-	20235	3815	24088	31878
Dec	2201	-	50918	97	2549	958	-27342	-	-	20235	3799	19867	29381
2005													
Mar	830	-	49363	67	2524	2132	-27584	-	-	21054	3697	17124	27332
Jun	388	-	46547	-	739	2119	-25877	-	-	21054	3640	14033	23916
Sep	158	-	42032	-	733	1825	-24531	-	-	21054	3611	9986	20217
Dec	158	-	36472	-	723	2054	-21297	-	-	21054	3612	7076	18110
2006													
Jan	200	-	36209	-	451	1496	-20719	-	-	21054	3612	6547	17637
Feb	350	-	33887	-	455	1459	-19194	-	-	21054	3566	5707	16957
Mar	350	-	30821	-	451	1313	-17437	-	-	21054	3566	4264	15498
Apr	351	-	30369	-	440	1303	-17441	-	-	21054	3561	3675	15022
May	351	-	30131	-	393	1415	-17386	-	-	21054	3561	3467	14904
Jun	430	-	28327	-	383	1416	-16626	-	-	21054	3551	2626	13930
Jul	430	-	26510	-	239	1419	-16014	-	-	21054	3551	1314	12584
Aug	830	-	20036	-	215	1272	-9690	-	-	21054	3551	1316	12663
Sep	1154	-	19853	-	153	1175	-9949	-	-	21054	3545	1268	12386
Oct	1502	-	19185	-	129	1038	-9545	-	-	21054	3544	1276	12309
Nov	1502	-	17999	-	120	1038	-8591	-	-	21054	3528	1179	12068
Dec	1752	-	17277	-	-	1038	-8159	-	-	21054	3528	1210	11908

* Less provision for depreciation. + Include provisions for doubtful debts. # Intermediated by SI Government
Source: Development Bank of Solomon Islands.

TABLE 10a - Balance of Payments

(SBD Million)

	2002	2003	2004	2005	2006
I. CURRENT ACCOUNT	-24.3	207.4	502.5	18.0	81.0
A. Goods	67.9	31.6	187.7	-131.2	-253.5
i) Exports f.o.b.	390.1	557.0	727.7	778.8	917.6
ii) Imports f.o.b.	-322.3	-525.5	-540.0	-910.1	-1171.0
B. Services	-175.6	-198.4	-78.6	37.6	-51.7
(i) credit	107.7	189.6	230.5	311.9	453.7
(ii) debit	-183.3	-388.0	-309.1	-274.3	-505.4
C. Income	-50.6	-25.7	16.4	12.2	44.9
i) credit	18.4	26.5	78.7	65.4	143.3
ii) debit	-69.0	-52.2	-62.2	-53.2	-98.4
D. Transfers 1/	134.0	400.0	377.0	99.4	341.4
i) credit	196.0	348.0	374.3	309.2	527.5
ii) debit	-137.0	-141.7	-186.0	-271.0	-317.6
II. CAPITAL & FINANCIAL ACCOUNT	28.9	-102.9	-120.3	144.6	41.4
A. Capital Account - net	51.0	93.2	11.2	208.0	223.8
i) Transfers - net	51.0	94.5	11.2	208.0	223.8
ii) Acquisition/disposal of nonproduced, nonfinancial assets	0.0	-1.4	0.0	0.0	0.0
B. Financial Account	-22.1	-196.0	-131.5	-63.4	-182.4
i) Direct Investment	-34.6	-13.7	42.4	128.0	144.5
a) Abroad	-7.6	-0.2	-0.1	-11.9	2.8
b) In Solomon Islands	-27.0	-13.5	42.5	139.9	141.7
ii) Portfolio investment	0.0	0.0	0.0	0.0	0.0
a) assets	0.0	0.0	0.0	0.0	0.0
b) liabilities	0.0	0.0	0.0	0.0	0.0
iii) Other investment	12.5	-182.3	-173.9	-191.5	-326.9
a) assets	-33.3	0.0	0.0	-88.4	-133.9
b) liabilities	45.8	-182.3	-173.9	-103.1	-193.0
Errors and Omissions - net	19.1	36.5	-57.3	-42.4	-48.9
III. OVERALL BALANCE	23.7	141.0	324.8	120.1	73.5

1/ The differences in the transfers balances are accounted for by non-cash

Source: Central Bank of Solomon Islands

TABLE 1-10b - International Investment Position

(SBD'000)

	2002	2003	2004	2005	2006
Assets	93.2	231.3	545.0	571.1	440.1
Direct Investment Abroad	-11.4	-11.6	-11.7	-23.6	-20.8
Portfolio Investment	0.1	0.2	0.2	0.2	0.2
Other Investment	-23.3	-23.3	-23.3	-111.7	-245.5
Reserves (net)	127.8	266.1	579.9	706.2	706.3
Liabilities	1141.7	1000.8	913.1	947.3	897.3
Direct Investment in Solomon Islands	-76.2	-89.7	-47.2	94.2	237.3
Portfolio Investment	-0.5	-0.5	-0.5	-0.5	-0.5
Other Investment	1218.4	1091.0	960.7	853.6	660.6
Net Posisiton	-1048.5	-769.5	-368.0	-376.1	-457.2

Source: Central Bank of Solomon Islands

TABLE 1-11 FOREIGN EXCHANGE RECEIPTS /1

(SBD '000)

	2001	2002	2003	2004	2005	2006
Current Receipts						
Exports						
Copra	432	2218	7821	25549	16418	14066
Fish	37336	70752	92869	132052	86921	145855
Logs	190457	254149	371394	468175	510162	643574
Palm Oil & Kernels	237	-	-	-	-	30719
Cocoa	4536	27728	53186	40419	64329	31444
Mineral	354	192	581	2857	1335	6235
All Other	15334	34970	31163	55075	92473	45415
Total Exports	248685	390008	557013	724127	771638	971308
Services						
Transportation	6139	7017	7457	2972	8759	10956
Travel	11574	9914	17057	33282	24736	31377
Insurance	747	253	757	799	315	53
Royalties & License Fees	630	805	808	1002	674	9729
Communication	127	18579	409	1086	10739	30860
Financial Services	41580	561	6809	9074	4591	3486
Others	69570	75655	126082	179211	223277	317945
Total Services	130368	112784	159378	227427	273091	404406
Income Account						
Wages & Others	20994	15061	20954	45035	32874	50766
Interest, Dividends & Profits	2021	11	192	12	33	974
Official Interest	5934	3280	5091	18493	23580	33604
Other Income	3694	-	77	-	7366	1617
Total Income	32644	18352	26314	63540	63853	86962
Transfers						
Official						
Cash Aid	49244	42231	56868	165401	22331	12461
Other Official	3662	7111	23036	31471	31094	42954
Total Official Transfers	52906	49342	79904	196872	53425	55415
Transfers Private						
Gifts and Donations	17333	23706	36166	82714	78336	67174
Transfers by Temp. Res. & Immigrants	16582	6703	8177	16107	20334	65737
Churches & Charitable Institutions	20546	18382	21606	38137	38986	48145
Foreign Governments	34870	24634	31541	99992	52656	55604
International Organisations	37307	34206	40699	40416	73120	144445
Total Private Transfers	126638	107629	138189	277366	263432	381105
Total Current Receipts	594636	678116	960798	1489331	1425437	1845196
Capital & Financial Receipts						
Private						
Investment Grants	521	954	-	2388	6828	6011
Direct Investment	2845	-	674	122	14193	53338
Loans	153	3116	237	370	3252	2222
Other Foreign Investment	2050	6057	1	-	-	-
Total Private Inflows	5568	10126	912	2880	24273	61571
Official						
Investment Grants	23062	20808	95405	4107	141156	86366
Loans	88621	40642	23179	2104	3828	45
CBSI	-	-	-	-	-	-
Euro \$ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Inflows	111683	61451	118584	6211	144984	86411
Total Capital Receipts	117251	71577	119496	9091	169257	147982
TOTAL RECEIPTS	708492	749692	1080294	1498422	1594695	1993178

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

TABLE 1.12 - FOREIGN EXCHANGE PAYMENTS ^{1/}

(SBD'000)

	2001	2002	2003	2004	2005	2006
Current Payments						
Imports						
Oil Imports	75750	75589	87885	174766	323066	414331
Food Imports	108448	108840	112297	101492	153490	164578
Beverages & Tobacco	9298	11061	6937	7775	17959	13258
Plants, Vehicles & Transport Equipmt.	53320	57452	64459	66421	104237	159522
Building & Construction Mat.	22577	23831	54051	48402	60005	63048
Chemical	13745	11513	14102	12605	15044	16075
Other Imports	148799	148047	167272	226232	409630	565581
Total Imports	431937	436342	507004	637694	1083432	1396392
Services						
Transportation	17239	25567	23616	45061	65727	75018
Travel	34332	29295	33401	33213	35649	31369
Insurance	5059	9262	8975	7272	8507	3850
Communication	8527	12163	16720	11624	14268	12812
Financial	32858	11086	6130	11776	14209	21865
Royalties & License Fees ect.	759	16	72	43	1749	891
Others	65255	28350	25609	60964	81398	83923
Total Services	164030	115740	114523	169953	221508	229728
Income						
Wages & Others	9119	7641	11102	11367	11820	13700
Interest Dividends & Profits	7543	21175	17240	17781	32386	38323
Official Interest	2820	2256	4758	6679	7619	2520
Total Income Payments	19482	31071	33100	35826	51824	54543
Transfers						
SI Govt Current Payments	2022	4465	38877	14299	38654	446675
Gifts & Donation	4104	103541	93822	154493	218466	249432
Transfers by Temporary Residents	93206	74131	735	2186	2797	6220
Other Transfers	2785	11768	11922	14635	18263	11924
Total Transfers	102117	193906	145356	185614	278179	314252
Total Current Payments	717566	777059	799982	1029088	1634943	1994915
Capital & Financial Payments						
Private						
Loan Repayments	6395	3188	5732	3997	16013	2537
Capital Repatriation	-	3	1356	-	-	-
Emigrant Transfers	634	1431	898	913	761	1295
Other Payments	4162	2026	1212	1138	2004	35126
Total Private Outflows	11191	6648	9198	6047	18779	38957
Official						
SI Government Loans	3445	-	262	18824	68617	36485
CBSI	-	-	-	-	-	-
IMF Transactions	-	-	-	-	1	-
Total Official Outflows	3445	-	262	18824	8618	36485
Total Capital & Financial Payments	14636	6648	9461	24872	87397	75442
TOTAL PAYMENTS	732202	783707	809443	1053959	1722339	2070357

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

**TABLE 1-13 EXCHANGE RATES
(UNITS OF SBD PER FOREIGN CURRENCY)**

Period Average	USD	AUD	Pound Stg	Yen (Per 100)	NZD	Euro	S.D.R
2002	6.97	3.84	10.53	5.62	3.32	6.43	8.75
2003	7.51	5.00	12.38	6.54	4.43	8.50	10.51
2004	7.49	5.45	13.74	6.93	4.98	9.31	11.09
2005	7.53	5.75	13.71	6.89	5.33	9.38	11.13
2006	7.61	5.73	14.01	6.54	4.94	9.55	11.20
2002							
Mar	6.97	3.09	8.48	4.59	2.54	5.23	7.46
Jun	6.53	3.56	9.53	5.15	3.03	6.03	8.36
Sep	6.35	4.00	11.30	6.12	3.45	7.18	9.42
Dec	7.33	4.09	11.72	6.99	3.63	7.29	9.74
2003							
Mar	7.48	4.43	11.99	6.29	4.09	8.02	10.23
Jun	7.52	4.79	12.19	6.33	4.27	8.57	10.50
Sep	7.52	4.95	12.10	6.40	4.39	8.47	10.47
Dec	7.51	5.42	12.80	6.90	4.69	8.93	10.85
2004							
Mar	7.49	5.74	13.77	6.99	5.05	9.38	11.14
Jun	7.47	5.35	13.48	6.82	4.70	9.00	10.91
Sep	7.48	5.31	13.60	6.80	4.88	9.14	10.98
Dec	7.50	5.67	13.89	7.08	5.28	9.70	11.33
2005							
Mar	7.51	5.91	14.35	7.15	5.50	11.44	9.70
Jun	7.52	5.75	13.68	6.92	5.33	11.22	9.15
Sep	7.53	5.72	13.44	6.77	5.20	11.00	9.24
Dec	7.57	5.64	13.25	6.47	5.26	10.87	9.01
2006							
Jan	7.59	5.69	13.39	6.57	5.21	9.18	10.99
Feb	7.59	5.64	13.28	6.44	5.12	9.07	10.91
Mar	7.60	5.53	13.26	6.48	4.83	9.13	10.95
Apr	7.60	5.59	13.40	6.49	4.72	9.31	11.03
May	7.60	5.81	14.18	6.79	4.80	9.70	11.31
Jun	7.60	5.62	14.00	6.63	4.71	9.62	11.24
Jul	7.60	5.71	14.00	6.56	4.69	9.63	11.22
Aug	7.60	5.80	14.39	6.57	4.81	9.75	11.34
Sep	7.62	5.76	14.37	6.50	4.99	9.70	11.29
Oct	7.63	5.75	14.29	6.43	5.04	9.62	11.24
Nov	7.63	5.88	14.58	6.51	5.10	9.82	11.36

Source: Central Bank of Solomon Islands

TABLE 1-14 COMPETITIVENESS AND RELATIVE PRICES

	A	B	C	D
	Exchange Rates			
Period Average	Nominal Effective	Real Effective 1 based on relative retail prices	Real Effective 2 based on domestic retailed prices and foreign export prices	Terms of Trade export unit values relative to foreign export prices (in common currency)
2005	339.3	98.5	92.5	68.3
2006*	334.0	91.8	91.0	59.2
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
2006				
Q1	329.2	92.6	90.5	61.1
Q2	334.7	91.0	91.7	59.0
Q3	335.6	91.3	91.5	58.1
Q4	336.6	92.3	90.3	58.6
Annual Percentage Changes				
2005	1.3	-3.4	-0.6	-2.6
2006	-1.5	-6.8	-1.0	-13.3
Quarterly Percentage Changes				
2005				
Q1	1.7	0.8	0.3	-1.4
Q2	-1.7	-2.7	0.2	-4.0
Q3	-2.1	-7.3	-4.1	-1.6
Q4	-2.3	0.5	0.3	0.5
2006				
Q1	0.2	-2.0	0.3	-1.9
Q2	1.6	-1.7	1.3	-3.6
Q3	0.3	0.3	-0.2	-1.4
Q4	0.3	1.1	-1.3	0.8
<p>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.</p> <p>B. A rise indicates a depreciation: average foreign retail prices increased faster than HRPI when all are expressed in a common currency.</p> <p>C. A rise indicates a depreciation: average foreign export prices increased faster than SI consumer prices, when all are expressed in a common currency.</p> <p>D. A rise indicates SI export prices increased relative to those countries from which it imports.</p>				
* Provisional estimates				
Source: Central Bank of Solomon Islands.				

TABLE 1-15 - GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

(SBD'000)

End of Period	DEVELOPMENT & TREASURY BONDS						TREASURY BILLS					OTHER		GRAND TOTAL
	Commercial Banks	CBSI	NPF	Statutory Corporations	Public	Total	Commercial Banks	CBSI	NPF	Statutory Corporations	Public	Total	Central Bank	
2003	149840	27	94271	-	1500	245638	14377	-	-	-	18351	32728	11075	289441
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
2006	128261	119937	133515	-	1275	382988	5002	616	3294	496	25059	34467	11426	428882
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	94271	-	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
2006														
Mar	133354	123442	119230	-	1395	377421	3973	80	3377	299	23357	31086	11075	419513
Jun	131638	122571	127008	-	1309	382526	2734	30	5712	338	23001	31815	11426	415854
Sep	129955	121258	115616	-	1292	368120	2929	39	784	596	26509	30857	12155	411133
Dec	128261	119937	133515	-	1275	382988	5002	616	3294	496	25059	34467	11426	428882

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

TABLE 1.16- SUMMARY OF GOVERNMENT ANNUAL ACCOUNTS AND BUDGET FORECAST

(SBD Million)

	2005	2006	2007
Budget Estimates:			
Total Revenue and Grants	1143.8	1296.0	1742.6
Recurrent Revenue	590.0	749.4	949.3
Local Revenue	550.0	688.1	886.7
Inland Revenue Division	306.9	386.1	462.6
Customs	178.4	227.5	316.8
Non-tax (including airspace fees)	64.6	74.5	107.4
Budget Support	40.0	61.3	62.6
Development Revenue (Cash only)	553.9	546.6	793.3
Grants (excl. NZAID Budget Support)	38.9	501.8	704.8
SIG Contribution	15.0	44.8	88.5
Total Expenditure	1240.6	1384.7	1728.2
Recurrent Expenditure	655.0	784.6	934.9
Payroll	226.8	224.1	327.4
Other Charges	310.1	397.6	409.2
Debt Servicing	78.0	101.7	135.7
Budget Support	40.0	61.3	62.6
Development Expenditure /1	585.6	600.1	793.3
Recurrent Budget Surplus (Deficit)	-65.0	-35.2	14.4
Overall Budget Surplus (Deficit)	-96.8	-88.7	14.4
Latest Budget Actuals			
Total Revenue and Grants	780.4	946.2	-
Recurrent Revenue	685.9	870.0	-
Local Revenue	655.9	822.1	-
Inland Revenue Division	367.0	426.1	-
Customs	200.8	264.1	-
Non-tax (including airspace fees)	88.1	131.8	-
Budget Support	30.0	47.9	-
Development Grants (excl. NZAID Budget Support)	94.5	76.2	-
Total Expenditure	724.6	911.1	-
Recurrent Expenditure	605.0	824.3	-
Payroll	232.9	248.9	-
Other Charges	304.7	382.8	-
Debt Servicing	80.6	126.2	-
Budget Support	26.6	37.4	-
Increased Govt. Debt Arrears	-39.8	29.1	-
Development Expenditure	119.6	86.8	-
Recurrent Surplus	80.8	45.7	-
Overall Surplus (deficit)	55.7	35.1	-
Memo Items (SIG Formal Debt)			
Domestic Debt	520.2	457.3	-
External Debt	1,080.5	1,155.3	-
Total Debt	1,600.6	1,612.6	-
Source: Ministry of Finance and Central Bank			
Note : /1 - This includes estimated government loan of \$31.8 m (2005), \$53.5m (2006) and \$10.9 m (2007)			

TABLE 1.17 - GOVERNMENT REVENUES

(SBD'000)

End of Period	Total Customs & Inland Revenue	Total Customs	Import Duty	Log Export Duty	Timber Leve	Other Exports	Other Customs	Total Inland Revenue	Company	Personal	Govt. PAYE	Goods & Sales	Other I.R.	Ministeries & Other*
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	41368	35146	37800
2005	564934	199786	82562	85061	-	2075	30087	365149	58624	68298	24756	172763	40708	56128
2006	694687	268978	87708	128562	-	3371	49328	425709						
2003														
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
2004														
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
2005														
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
2006														
Q1	153614	63318	20317	29895	-	1246	11860	90296	15290	17646	5306	42848	9206	20631
Q2	151403	54066	21201	22898	-	366	9601	97337	19631	17387	5618	44177	10525	26609
Q3	168304	61785	20936	31972	-	274	8603	106519	20055	18743	8950	49948	8823	26267
Q4	216865	84929	25254	43797	-	1516	14362	131936	22385	26776	11403	56973	14398	48620

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	Miscellaneous	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										
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
2006	825.5	1037.4	298.6	1374.7	599.9	464.7	843.8	710.3	798.4	8.1
Three months averages										
2004										
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
2005										
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
2006										
Mar	784.0	995.7	291.2	1372.3	579.5	458.1	817.6	682.0	771.0	8.8
Jun	827.6	1006.8	291.2	1378.2	594.4	458.8	847.4	700.1	796.3	9.6
Sep	847.9	1055.9	291.2	1369.5	605.6	460.0	856.7	720.6	810.4	7.4
Dec	842.5	1091.2	320.8	1379.0	619.9	482.0	853.5	738.4	815.8	6.9
2006										
Jan	778.7	1005.4	291.4	1375.8	579.8	459.1	814.7	680.8	768.8	8.7
Feb	780.7	995.5	291.0	1368.6	575.9	459.1	815.2	678.8	768.2	8.8
Mar	792.7	986.1	291.2	1372.4	582.7	456.2	823.0	686.3	776.0	8.8
Apr	814.7	970.6	291.2	1376.2	590.9	456.8	837.7	693.6	787.8	9.2
May	821.4	1025.3	291.2	1375.7	592.3	459.6	846.4	694.8	793.5	9.1
Jun	846.6	1024.3	291.2	1382.6	600.2	460.0	858.3	711.8	807.7	9.6
Jul	845.9	1057.5	291.2	1385.7	601.3	459.3	857.2	718.1	809.6	8.5
Aug	856.9	1058.9	291.2	1361.5	607.8	460.0	863.3	721.4	814.7	7.6
Sep	840.8	1051.2	291.2	1361.4	607.8	460.6	849.6	722.4	806.8	6.2
Oct	845.0	1105.4	304.1	1378.7	615.2	466.9	856.9	731.4	814.9	6.3
Nov	843.7	1095.0	329.2	1378.9	620.8	488.0	854.4	741.1	817.5	7.0
Dec	838.7	1073.1	329.2	1379.3	623.6	491.0	849.1	742.7	814.9	7.5

Source: Central Bank of Solomon Islands

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\$/m ³)
2003	300	450	674	1751	187
2004	450	471	902	1555	198
2005	414	422	915	1538	203
2006	402	477	930	1592	239
2003					
Mar	304	445	622	2136	186
Jun	276	447	515	1744	182
Sep	276	409	763	1583	183
Dec	344	499	797	1541	197
2004					
Mar	418	524	837	1587	199
Jun	490	499	850	1421	195
Sep	444	432	975	1612	200
Dec	448	429	945	1599	197
2005					
Mar	448	413	872	1647	192
Jun	446	421	943	1545	200
Sep	381	415	973	1491	211
Dec	380	439	873	1470	209
2006					
Jan	373	424	925	1573	221
Feb	393	445	925	1546	223
Mar	385	440	1000	1545	225
Apr	372	440	1000	1548	229
May	390	440	1000	1598	244
Jun	387	437	925	1607	239
Jul	384	470	925	1679	236
Aug	404	510	900	1621	240
Sep	413	497	890	1569	247
Oct	411	506	890	1530	245
Nov	434	547	890	1581	256
Dec	477	574	885	1707	269
# Thailand Market prices. (C+F Bangkok)					
Source: World Bank and Infofish.					

TABLE 1-20 PRODUCTION BY MAJOR COMMODITIES

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. ('000 m ³)
2003	14848	-	-	-	4587	28955	714
2004	21831	-	-	-	4181	27249	1043
2005	26182	-	-	-	4928	23853	1118
2006	21213	59	5427	1236	3835	29597	1130
2003							
Mar	1939	-	-	-	238	8006	208
Jun	2814	-	-	-	1672	6200	200
Sep	4774	-	-	-	1649	8470	135
Dec	5320	-	-	-	1028	5395	171
2004							
Mar	5105	-	-	-	521	4483	243
Jun	6454	-	-	-	1686	6491	293
Sep	5629	5	-	1203	9276	278	
Dec	4644	7	-	771	6999	230	
2005							
Mar	7004	-	-	-	597	6179	263
Jun	6372	14	-	-	1521	3343	280
Sep	7170	14	-	-	1722	6344	260
Dec	5637	-	-	-	1088	7987	314
2006							
Mar	2594	-	-	-	555	5807	272
Jun	2286	41	931	165	1342	6539	266
Sep	1851	-	2227	474	1393	7612	270
Dec	1742	18	2269	598	545	9639	264
2006							
Jan	1597	-	-	-	200	1901	95
Feb	1872	-	-	-	107	1431	84
Mar	2007	-	-	-	248	2476	93
Apr	1783	9	-	-	482	2861	67
May	1769	16	144	26	489	2597	58
Jun	1669	16	787	138	372	1081	142
Jul	1819	-	770	204	651	1951	71
Aug	1492	-	659	136	352	1899	102
Sep	1787	-	798	134	390	3762	96
Oct	1830	-	620	211	51	3038	114
Nov	1916	18	844	192	367	2800	89
Dec	1673	-	805	195	127	3801	120

Source: Central Bank of Solomon Islands

**TABLE 1- 21 - REAL GROSS DOMESTIC PRODUCT
(1985 = 100)**

Industry	2001	2002	2003	2004	2005	2006
Agriculture	71.0	77.3	102.7	106.2	118.1	120.5
Forestry, Logging, Sawmilling	135.8	136.8	188.3	263.6	288.3	306.5
Fishing	72.2	80.7	104.4	115.5	104.4	130.6
Mining & Exploration	-6.3	-7.8	-3.2	-3.3	-3.3	-3.3
Manufacturing	158.1	149.8	134.3	135.8	137.1	141.0
Electricity and Water	206.8	215.0	211.8	213.2	250.6	255.0
Construction	31.9	31.1	35.9	45.6	52.9	70.6
Retail and Wholesale Trade	119.8	131.5	136.6	140.9	143.3	143.3
Transport and Communications	118.5	130.7	139.2	143.9	146.7	187.6
Finance	231.4	228.3	223.5	229.4	231.7	236.0
Other Services	172.4	137.8	119.1	126.4	135.4	144.2
Index of Monetary GDP Production	123.7	118.5	127.6	139.8	147.5	158.4
Annual % movement	-11.0	-4.2	7.7	9.5	5.6	7.4
Index of Primary Production	85.1	90.7	121.2	141.7	151.2	162.4
Annual % movement	-8.8	6.6	33.7	16.9	6.7	7.4
Non-Monetary: Food	151.9	156.1	160.5	165.0	169.6	174.3
Non-Monetary: Construction	147.2	151.4	155.6	160.0	164.4	169.0
Non-Monetary GDP Index	151.5	155.7	160.1	164.6	169.2	173.9
Index of Total GDP Production	129.3	125.7	133.9	144.6	151.8	161.1
Annual % movement	-8.0	-2.8	6.5	8.0	5.0	6.1

Source: Central Bank of Solomon Islands.