

30th April 2008

Hon Snyder Rini  
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 2007 Annual Report and the audited Accounts of the Central Bank of Solomon Islands.

Yours sincerely,

A handwritten signature in dark 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

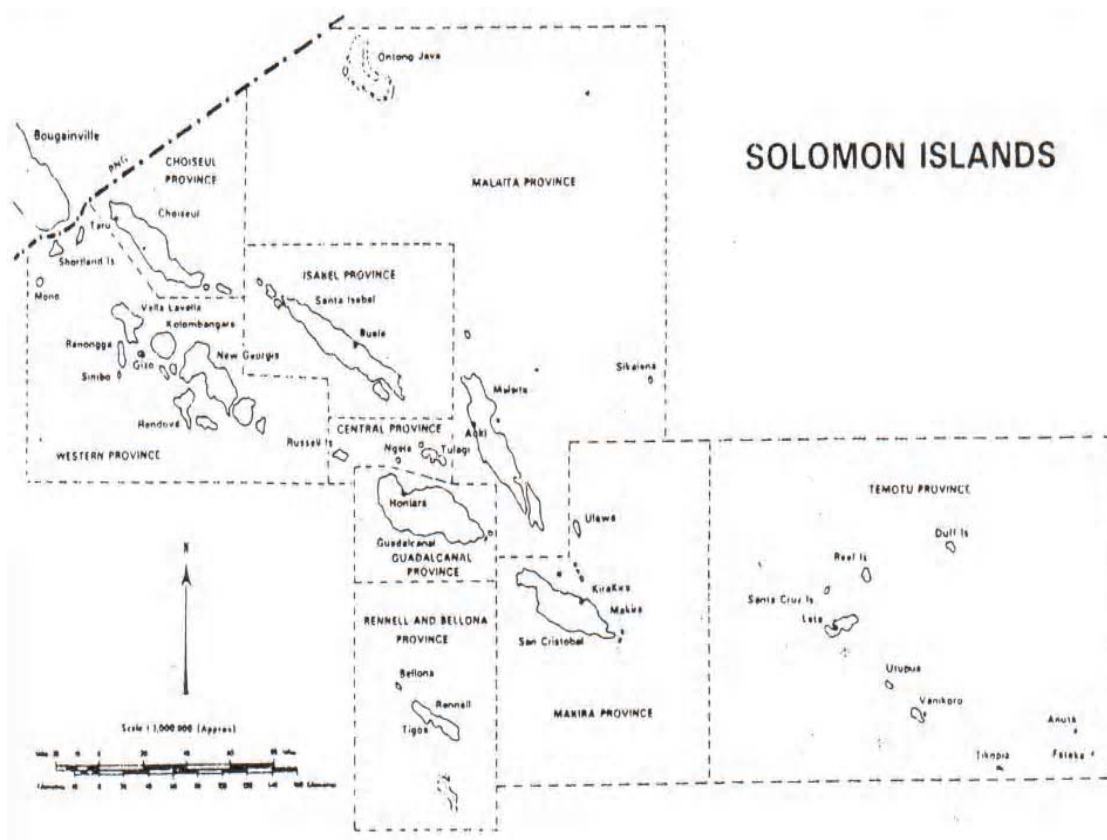
## Foreword

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

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

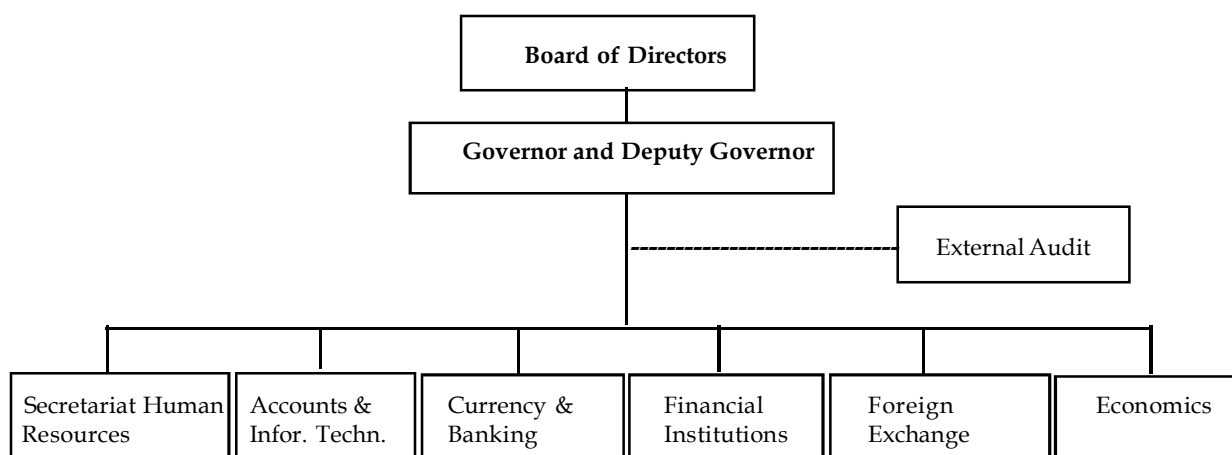
Data on the monetary system are derived from Central Bank records. The interpretations and conclusions in this report are entirely the responsibility of the Central Bank.

Central Bank of Solomon Islands  
May 2008



<u>Contents</u>	<u>Page</u>
<b>Central Bank Mission, Values and Objectives</b>	<b>2</b>
<b>Glossary</b>	<b>6</b>
<b>I. Overview, Policy Issues and Outlook</b>	<b>7</b>
<b>II. International Economic Developments</b>	<b>11</b>
<b>III. Domestic Economic Outcomes:</b>	<b>13</b>
Gross Domestic Product	13
Investment	14
Employment	14
Production	15
Forestry	16
Fisheries	17
Copra and Coconut Oil	18
Cocoa	19
Palm Oil	19
Honey	20
Rice	20
Minerals	20
Energy	21
Construction	21
Telecommunication	22
Tourism	22
Inflation	23
<b>IV. Balance of Payments</b>	<b>25</b>
<b>V. Money and Banking</b>	<b>34</b>
<b>VI. Government Finance</b>	<b>38</b>
<b>VII. Financial System</b>	<b>42</b>
<b>VIII. Central Bank Operations:</b>	<b>50</b>
Operations	50
Auditor's Report	58
Financial Statements	60
CBSI Calendar	88
<b>Annex : Statistical Tables (or Annex)</b>	<b>91</b>

## Organisation of the Central Bank



### Board of the Central Bank, at end 2007

Rick N Houenipwela	Chairman, ex-officio
Denton H Rarawa	Director, ex-officio
Shadrach Fanega	Permanent Secretary Ministry of Finance
Yoshiyuki Sato (Up to April 2007)	Director
George Kejoa	Director
Val Beniuk (Up to July 2007)	Director
Moses Pelomo	Director
Jack F Kairi	Director
George Kiriau	Director
Bruce Saunders (up to Sept. 2007)	Director
Edward Ronia	Secretary to the Board

### Management of the Central Bank, at end 2007

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 D Nomae
Manager (Acting) Accounts & Infor. Techn.	Edward Ronia

## 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 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.

**Liquid Asset Requirement:** Usually defined as a percentage of deposit liabilities of a commercial bank that shall be held as cash or as balances 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 commercial 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. OVERVIEW, POLICY ISSUES AND OUTLOOK

The Solomon Islands economy remained buoyant in 2007, continuing the trend noted for the past four years. Performance in the production sector improved over the previous year as the major commodities registered growth. Log production accelerated further and remained the single important driver for production growth hitting a new record in 2007. Palm oil products also recorded marked results since resumption of production in mid 2006. Cocoa and copra also complemented the growth in the agriculture sector. The fisheries sector, the second largest after the forestry sector, however, recorded sluggish output during the year.

Fiscal performance also improved, with robust revenues resulting in a surplus in 2007. At the same time the Balance of Payments (BoP) recorded a huge surplus, maintaining the trend seen since 2002, despite the trade account registering a deficit for the year. Inflation moved into double digits. Money supply accelerated further, reflective mainly of vigorous expansion in domestic credit. Excess liquidity in the banking system remained high despite a significant fall during the year.

The country's real gross domestic product (GDP) improved further in 2007. Estimated to be 10.3%, not only is the growth trend since 2003 being maintained, but 2007 registered one of the highest growth rates in almost two decades. While all sectors of the economy contributed to this growth, the real sector was the leading driver. This robust economic outturn is owed to several factors, including: further improvements in law and order, greater investor confidence, improvements in the business environment, Government's implementation of its reform policies; continued donor support, and positive developments in the country's major international trading partners.

Except for the fisheries sector which recorded a 28% fall, the biggest so far, all other sectors showed positive growth in terms of GDP. Agriculture sector up by 21%, was mainly from palm oil products, copra and cocoa. Accounting for 18.5% of GDP, these commodities were important to the high growth in 2007. In terms of production, copra rose by 31.2%, cocoa by 12.7% whilst palm oil and kernel registered a threefold and fourfold rise in outputs respectively. 'Other services' (including government spending on health, education etc) expanded further by 6.7%. This accounted for 18.5% of GDP compared to a 20% proportion in 2006. In addition, a 21% rise in both transport and communications was also an important contributor to the GDP growth in 2007.

On the external front, the global economy grew by 4.9% as compared to 5.0% in 2006. This reflected economic expansion in a number of regions, more importantly to the Solomon Islands economy was a notable 9.7% growth in the Asian region. As well, the Australian economy grew by 3.9%, and New Zealand up by 3.0%. Japan, another destination for Solomon Island's tuna products also grew by 2.1% during the year.

During 2007, fiscal developments in Solomon Islands remained positive recording an overall surplus of \$10.6 million as compared to a \$26.9 surplus in 2006. This was the result of a 28.2% improvement in revenues to \$1,206.7 million. The strong revenue collection was attributed to both improved economic conditions and stronger tax compliance. Total expenditures for the year also expanded by 30.8% to \$1,196.1 million, with 86.1% of this being accounted for by recurrent expenses.

The positive trend in the BoP noted in the past five years continued in 2007, with an overall surplus of \$127.6 million compared to \$73.5 million in 2006. The 2007 results were

attributable to strong performances in the current, capital and financial accounts. The current account recorded a \$63.6 million surplus, five times the level in 2006, whilst the capital and financial accounts recorded a \$61.4 million surplus, 58.8% below 2006. The export sector remained buoyant during the year with logs and timber export receipts rising substantially by 33.3% to \$857.7 million. Fish receipts grew sluggishly in light of a drop in production. However palm oil products, cocoa, copra and 'other' exports grew. Shortages of used oil drums and transport difficulties hampered copra and cocoa producers. Current transfers account also registered a 9.9% rise in surplus. These favourable developments drove the country's official foreign reserves up by 73.6% to \$918.0 million. This was worth 3.9 months of imports of goods and non-factor services.

Monetary growth accelerated further in 2007 in concert with increased domestic economic activities. Money supply expanded further by 23.9% to \$1,353.0 million, as compared to a 26.4% rise in 2006. Increases in both private sector credit and net foreign assets were the main drivers of this growth. Private sector credit expanded rapidly by 54.5% to \$976.9 million, whilst net foreign assets rose by 10.6% to \$852.5 million. On the other hand, net credit to government declined from a negative \$11.2 million to a negative \$30.9 million during the year. Total liquidity also declined by 22.3% to \$243.2 million, accompanied by a 34.7% drop in the excess liquidity due mainly to offshore investments by the Solomon Islands National Provident Fund. Open market operations in the domestic security market continued with over-subscriptions. Commercial banks' interest rate margins declined further in 2007.

The continued presence of the Regional Assistance Mission to Solomon Islands (RAMSI) and their activities helped foster investor confidence and created a conducive environment for more economic activities. On this front, actions taken so far by the government were helpful to forge a positive

business outlook during the year. In addition, the government's persistent support for major investment projects in the country such as the Gold Ridge Mine, the Guadalcanal Plains Palm Oil Limited and other upcoming investment projects are an important signal of the level of commitment by the government to enhance private sector development.

Based on the 2005 re-weighted basket, the Honiara Retail Price Index (HRPI) recorded an inflation rate of 10.0% in 2007, lower than 10.3% in 2006. The increasing international oil price, coupled with growing domestic demand and depreciation of the domestic currency are a major threat to domestic inflation in the months ahead. Furthermore, this will result in higher costs of production which would hurt the export sector.

Given that prevailing high fuel costs will remain for the foreseeable future, it would be prudent to take serious steps immediately to explore alternative energy sources such as bio-fuel, hydro and solar power. These have not only been proven viable but are also abundant in this country with far reaching positive benefits in the long run.

The economic advancement in 2007 sustained the growth trend for a fifth year. How long these achievements are maintained remains unpredictable. In addition, many challenging issues remain and must be addressed to ensure every opportunity to bolster further economic development is not wasted so that growth is sustainable in the long term. One important challenge for Solomon Islands is its narrow economic base. For years, the country has depended on a few commodities for its economic well being. With the price volatility in international markets, under pricing (exports) and more importantly, the bleak future for the forestry sector, it is important that the government takes serious steps to design and adopt policies that will diversify the country's economic base. The forestry sector, which accounts for about two thirds of the country's total exports, is forecast to decline



by 2010. This development has serious implications for foreign exchange earnings, government revenue and cash incomes in the rural sector, hence it cannot be ignored. Actions to avert this danger are long overdue. The Bank has in the past made suggestions that since this is a natural resource with a finite future, strong measures should be put in place to ensure Solomon Islands received maximum benefit from it. To this end it is encouraging to see the government finally implementing the changes to the determined prices for log exports which would ensure the resource owners, the government and this country benefit from its forest resources.

On monetary developments, commercial bank excess liquidity fell by 34.7% to \$156.6 million at the end of 2007. That is very encouraging as the persistent high excess liquidity in the past has had a dampening effect on efforts to contain pressures on domestic inflation. It is also a major reason why deposit interest rates are very low. The drop in the excess liquidity was due mainly to investments by the SINPF overseas during the year.

Employment opportunities rose markedly during the year with both the public and private sectors registering increases. However, with a high population growth rate, the country faces difficult challenges to create new jobs in the future. Nevertheless, the population is an important resource that can be harnessed to productive use and for increased economic activities throughout the country. Action should be taken to re-engage the increasing number of school drop-outs by teaching them practical and other technical skills which will not only be useful for their livelihood, but also support small and medium enterprises' development as expected under the Government's Rural Development Strategy. The strategy, supported financially by donors and the World Bank is a noble one. If channeled carefully, this should help increase employment opportunities especially in the rural areas where the majority of the population resides. Anecdotal information

suggests that employment in the informal sector is rising as evidenced by a variety of small scale income generating activities in the country.

That being so, it is imperative that the government implements its development policies. Economic activity cannot happen by itself and while it is heartening to note action is being taken in selected areas, some of the key areas to induce private sector growth rest entirely with government. For example, the government can and should take steps to ensure an efficient, affordable and reliable nation-wide transportation system, a reliable supply of utilities and more access to less costly telecommunications. The success of the rural development strategy will depend on these impediments being addressed as a matter of priority. On another policy matter, rising food prices globally have implications for domestic prices and food security for the population. While this country might boast self-sufficiency in food, it is worth noting that the Solomon Islands economy is not insulated against rising prices of imported food items such as rice, which has become a staple diet for the majority of the population.

The recent announcement by government of a raise in the legal minimum wage rate in the country has received mixed reaction from the community. While the workers generally welcomed the increase of \$3.20 per hour for agriculture and fisheries sectors and \$4.00 per hour for other sectors, certain sections of the business sector were critical of the alleged lack of consultation prior to the implementation of the policy.

Social and political stability are critical for the country's development prospects both in the medium and the long term. Whilst there have been significant improvements in social stability since the ethnic tensions of 2000, the political landscape in Solomon Islands remains fragile and has caused a knock-on effect on some important investment proposals. It is important to realize that Solomon Islands is

competing with other countries for the same investment dollars and a lot of effort is required to improve the country's image as an investment destination. On a positive note diplomatic tensions between Solomon Islands and Australia which dominated international relations last year, have since been resolved. This should pave the way for more active donor activities and increased foreign direct investments, which are critical not only for the current recovery process but also for the long term development of Solomon Islands.

### **2008 Economic Outlook**

The growth trend in the past few years is expected to continue in 2008, albeit, at a slower pace due mainly to an anticipated zero growth in logging activities. However, agricultural activities are expected to increase especially palm oil products. Production of other agriculture products, namely copra and cocoa, are also estimated to increase due to higher prices combined with increased output from existing plantations and new plantations particularly in Makira province. With the anticipated completion of additional storage capacity at Noro in June, better fishing conditions and improved international prices, the fisheries sector is expected to rebound in 2008. A 6.0% GDP growth is forecast for 2008 with the potential for positive, albeit lower growth, expected for the years immediately beyond. The successful implementation of the government's rural development policy will be an important catalyst to this drive not only to stimulate economic activity in the rural sector but, also to broaden participation in economic development and in so doing enhance sustainable rural economic development throughout the country. Given the bleak outlook for the forestry sector, this has become more urgent than before.

In 2008, money supply is also forecast to rise further between 25-30%, with private sector credit expansion continuing on the back of expected firm growth in domestic demand. Persistent high international oil prices and strong domestic demand will continue to pose a threat to domestic inflation. As envisaged in its 2008 monetary policy stance, the CBSI remains vigilant to developments in these indicators. The balance of payments outlook is positive as well. Increase in export receipts is expected to come from robust production in most commodities. The benefits from these improvements could be negated by a continued surge in imports. However, external donor assistance is forecast to continue at the current levels with the various on-going development projects as well as those in the pipeline. The gross external reserves are therefore forecast to remain strong in 2008.

With a positive outlook ahead, the Central Bank's 2008 Monetary Policy Stance (MPS) is designed to induce more sustainable economic activity and to mitigate threats to achieving this objective. It is aimed to contain domestic inflation, ensure stability in the domestic currency, to maintain a strong balance of payments position and achieve sustainable economic growth. The main goals in the policy are (a) guard against excessive inflation, (b) ensure adequate level of foreign reserves, and (c) raise interest rates on domestic deposits.

In its endeavour to achieve these goals, the Bank will remain vigilant to developments in the main economic indicators namely the exchange rate, gross external reserves, inflation and money supply. The Bank will take appropriate action should the movements in any of these key economic indicators be inconsistent with the monetary policy objectives of the Bank.

## II. INTERNATIONAL ECONOMIC DEVELOPMENTS

Global growth slowed moderately in 2007 to 4.9% following a strong growth of 5.0% in 2006. Much of this slowdown was attributable to the sluggish growth in developed economies, though this downturn was somewhat mitigated by the positive outcomes in the emerging and developing economies. Pressure on inflation rose during the year as a result of sharp increases in food and energy prices. Strong demand from emerging economies was the principal driver behind high commodity prices. Bio-fuel related demand, slow supply adjustments to high prices, and the depreciating US dollar that saw investors turning to commodities were other contributing factors. Oil prices further rose from under US\$60 per barrel in 2006 to above US\$90 per barrel at the end of 2007.

The US economy weakened from the 2.9% growth in the previous year to 2.2%, reflecting the slowdown in US domestic demand that was sparked by the sub prime mortgage crisis. This, among other factors, contributed to the notable depreciation of the US dollar against other major currencies. The events in the US economy had triggered flow-on-effects on other major economies. Growth in the Euro area slowed down to 2.6% for the year compared with 2.8% in 2006. The sluggish growth was partly due to weaker external demand associated with the US downturn and a stronger Euro, rising energy costs and continued financial market strains. Although Japan was considered to be more resilient to the downturn, growth fell to 2.1% from 2.4% in 2006.

However, emerging and developing economies grew strongly at 7.9% and crucially cushioned the world economy from sliding further. Heading the charge were China and India with respective growths of 11.4% and 9.2%. Productivity gains from global economic

integration, better terms of trade for commodity producers as prices of commodities such as oil and other raw materials soared, and the implementation of sound macroeconomic policy frameworks were the main drivers behind the surge in the emerging and developing economies. Australia and New Zealand also performed strongly in 2007, improving from 2.8% and 1.5% a year ago to 3.9% and 3.0% respectively. The two countries most notably Australia, were able to cash in on high commodity prices and buoyant demand from Asia, particularly China.

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

	2005	2006	2007	2008
<b>World Output:</b>	4.4	5.0	4.9	3.7
Advanced economies	2.6	3.0	2.7	1.3
Developing Economies	7.1	7.8	7.9	6.7
or which: Asia	9.0	9.6	9.7	8.2
<b>World Trade Volume</b>	7.6	9.2	6.8	5.6
Imports of goods and services				
Advanced economies	6.3	7.4	4.2	3.1
Developing countries	12.0	14.4	12.8	11.8
<b>Exports of goods and services</b>				
Advanced economies	6.0	8.2	5.8	4.5
Developing countries	11.1	10.9	8.9	7.1
<b>World Inflation</b>				
Advanced economies	2.3	2.4	2.2	2.6
Developing countries	5.7	5.4	6.4	7.4

Source: IMF World Economic Outlook (April 2008)

Recent inflation trends particularly in the emerging and developing economies were more prominent because of buoyant food and energy prices, strong demand, and credit growth. In some of these economies, food was more heavily weighted than other items in the consumption basket.

## 2008 Growth Prospects

The global economic growth is expected to fall further in 2008 to 3.7%, as a result of the housing recession in the USA that triggered a financial crisis across some of the major economies, rising commodity prices, credit market turmoil, and inflation pressures. USA is expected to grow by only 0.5% as fallout from the sub-prime mortgage crisis continues to be a dampening factor. Growth in the euro area is expected to fall to 1.4% from 2.6% in 2007, the United Kingdom to 1.6% from 3.1% in 2007, while Japan may see growth decline from 2.1% to 1.4%. Australia and New Zealand economies are expected to register subdued growths of 3.2% and 2.0% from 3.9% and 3.0% in 2007 respectively.

The emerging and developing economies however, are expected to grow rapidly at 6.7% with China and India taking the lead at 9.3%

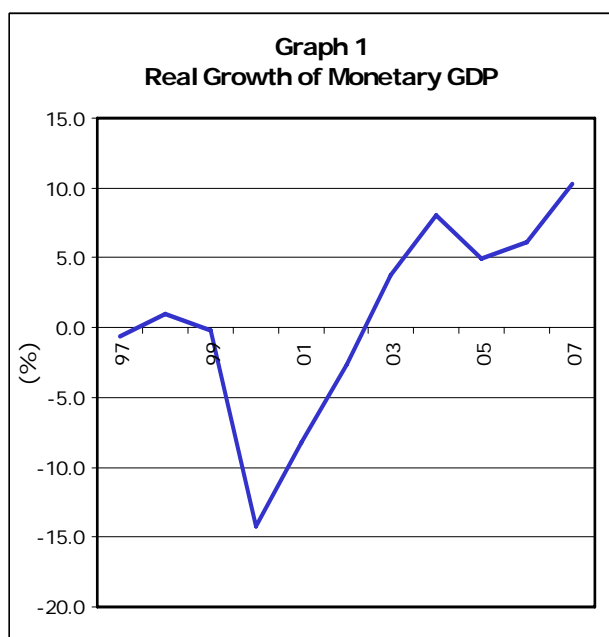
and 7.9% respectively. Although some emerging economies forecast subdued growths, these will still be above the global trend. This is encouraging for the domestic industries in Solomon Islands that export mainly to the Asian markets. Other emerging and developing economies in Latin America and Africa are also expected to maintain strong growth in 2008.

Inflation is expected to remain uncomfortably high in 2008 given the strong trend in food and energy prices. Anticipated inflation for emerging and developing economies will increase to 7.4% from 6.4% a year ago while that for Australia is expected at 3.4%. These developments could fan domestic inflation in Solomon Islands which is already hovering above 10% in early 2008. Nevertheless the medium term inflation should ease in 2009 in the wake of anticipated slowdown in global growth and food prices.

### III. DOMESTIC ECONOMIC OUTCOMES

#### Gross Domestic Product

Estimated real gross domestic product (RGDP) grew by 10.3% in 2007 to \$368 million (at 1985 constant prices), the highest rate of growth since 1992 consolidating consecutive growth rates of over 5% in the previous four years. The economic expansion in 2007 was a substantial increase from the 6.1% growth in 2006, a manifestation of a strong performance achieved by most sectors of the economy. In terms of current prices, nominal gross domestic product grew by 18.8% to \$3,264 million during the year.



Most notably the forestry sector, which is the major foreign exchange earner for the country, expanded by 25% over the previous year and contributed 3.9% of the overall economic growth. The forestry sector represented about 16% of RGDP in 2007. Agricultural production also performed well, growing substantially by 21% on the back of steep improvements in palm oil activities. Complementing the resurgent palm oil sector were copra and cocoa which

benefited from strong export prices. Other services, of which government services is the major component, is the largest formal sector category at around 18.5% of RGDP and grew by 6.7% over the year. Transport & Communication category had again recorded another sharp increase in 2007, expanding by 21% though this was a slight decline from the higher growth of 28% in 2006. In terms of the overall growth, other services category accounts for 1.2% and the Transport and Communications contributed 1.1%.

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

Industry	2004	2005	2006	2007
Agriculture	106.2	118.1	120.5	146.4
Forestry	263.6	288.3	306.3	381.5
Fishing	115.5	104.4	130.6	110.8
Mining & Exploration	-3.3	-3.3	-3.3	-3.3
Manufacturing	135.8	137.1	141.0	147.6
Electricity & Water	213.2	250.6	255.0	285.6
Construction	45.6	52.9	70.6	94.6
Retail & Wholesale Trade	140.9	143.3	143.3	152.6
Transport & Communication	143.9	146.7	187.6	225.9
Finance	229.4	231.7	236.0	257.8
Other Services	126.4	135.4	144.2	153.8
Index of Monetary GDP Prod.	139.8	147.5	158.3	178.2
Annual % movement	9.5	5.6	7.4	12.5
Index of Primary Prod. (Min)	141.7	151.2	162.4	188.4
Annual % movement	16.9	6.7	7.4	12.5
Non-Monetary : Food	165.0	169.6	174.3	179.2
Non-Monetary : Constr.	160.0	164.4	169.0	173.8
Non-Monetary : GDP Index	164.6	169.2	173.9	178.8
Index of Total GDP Prod.	144.6	151.8	161.1	177.6
Annual % movement (Real)	8.0	5.0	6.1	10.3

Source: Central Bank of Solomon Islands

The fisheries sector was the only sector that experienced a decline in production in 2007. Output weakened by 15% following 25% growth in the previous year. The negative outcome was largely influenced by the sharp decline in fish catches, though this was offset

by a shift in focus towards cannery production that expanded significantly.

### Investment

The Foreign Investment Division received 265 investment applications at the value of \$4.57 billion in 2007. This comprised 125 new foreign investment applications with an estimated value of \$2.79 billion and 140 re-registration applications worth \$1.78 billion. Of these approved applications, it is likely that only a portion will actually eventuate. The re-registration was necessary because of a legal hiccup with the new Investment Act that has now been rectified. The new investments, should they materialize, would generate about 9,700 job opportunities for Solomon Islanders. About 70% of the total proposed investments were intended for 'other services' category, forestry, wholesale & retail, fisheries, and transport & communication sectors. In terms of allocation by province, Guadalcanal attracted 21% followed by Honiara with 13%, while the other provinces accounted for equal proportions of around 9%.

The rise in investment applications was due in large part to the investment procedures that have been simplified to lessen the processing time, as well as the general improvement in investment conditions. Perceived security risk for the country has to some extent been downgraded, owing largely to the ongoing presence of the Regional Assistance Mission to Solomon Islands (RAMSI).

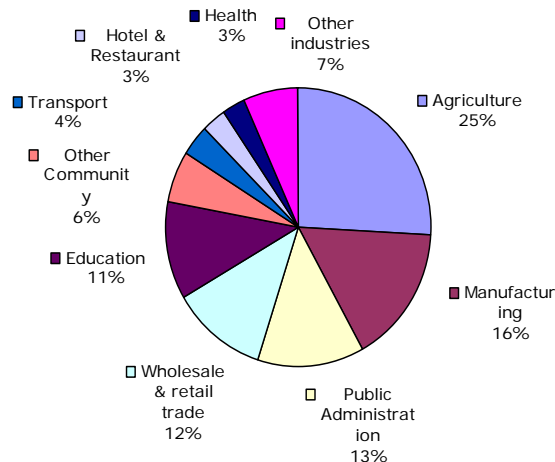
Despite these improvements, the investment climate is still fragile and the high turnover in political leadership greatly undermines investor confidence. Investment is also hampered by existing traditional structural impediments, most notably the complex land tenure system, which has also contributed to a lack of tangible progress in major projects. A cumbersome tax system that is counterproductive to business development, poor governance systems, and high utility costs are other issues that must be addressed to facilitate an increase in investment

projects in Solomon Islands. Recognizing these obstacles, the government has taken remedial actions over the years. These measures include legislative reforms of the Investment Act and Taxation Act, and establishment of a customary land recording office.

### Employment

The domestic labour market expanded significantly in 2007, with more job opportunities available in both the private and public sectors. Proxy employment data from Solomon Islands National Provident Fund (SINPF) suggests current formal sector employment increased from approximately 39,000 at the end of 2006 to 44,350 by the end of 2007, indicating the creation of 5,250 new jobs during the year.

**Graph 2**  
**NPF Active Contributors in 2007**  
**by Major ISIC Categories**



The figures quoted above basically represent active and non active contributors in the previous twenty four months. A CBSI survey on printed job advertisements in the local media showed similar trends. Total advertised positions increased to 1,837 in 2007 from 1,444 positions in 2006 with public administration, extra territorial organizations such as Foreign

Embassies, non governmental organizations, and other regional bodies and education accounting for more than half of the growth.

According to the International Standard Industrial Classification (ISIC), agriculture which includes logging remained the single largest employment sector with about 26% of the total workforce. This was closely followed by manufacturing with approximately 15%, public administration as well as wholesale and retail trade with 12% each, and education with 11%. Together these sectors provided about 75% of total formal sector employment in the country in 2007. Employment remains dominated by male workers who represent 70% of the total workforce, with female employees making up the remaining 30%. This is a slight improvement on the situation at the end of the previous year, however, when female workers constituted 28% of all workers. Seasonal employment schemes with New Zealand and Australia offer a possible window of opportunity for more Solomon Islanders to find jobs. A similar scheme the country may benefit from in 2008 was facilitated by the Forum Secretariat under the Pacific Plan that could see local nurses working in Canada.

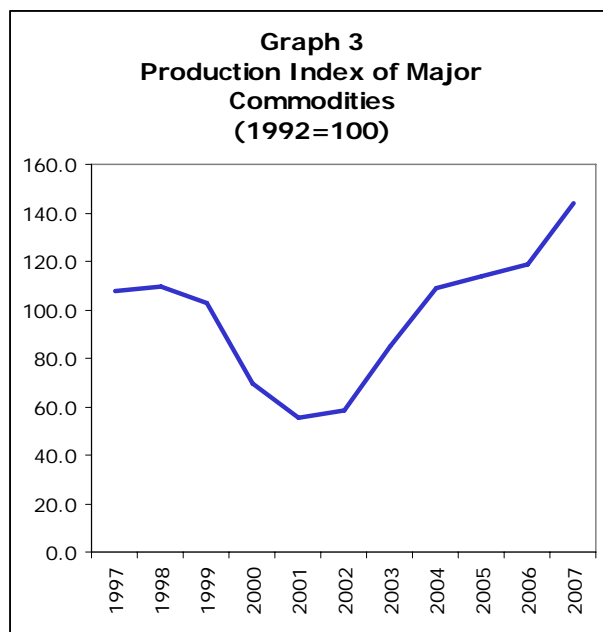
The entire government workforce represented just over 25% of the total formal sector workforce in 2007, and overall increased by 10% during the year to 11,350, from 10,315 workers a year ago, with health and education sectors absorbing the bulk of the new recruits. This figure could have been higher had all vacant positions been filled. According to the Public Service Division, the government workforce is expected to increase further to around 12,000 workers in 2008. Meanwhile a moratorium has been imposed on all promotions in 2008. While this should restrain payroll and address administrative concerns, such measures could lower the morale of public servants and hence overall productivity in this sector.

Despite these positive developments, the unemployment level in the country is

worsening each year as more youths are entering the labour market from the education system, and the inflow of jobseekers from the rural areas continues. One constraint to employment creation is a shortage of adequately skilled workers, which has resulted in some companies hiring workers from overseas. Relevant manpower development should be a priority for the country. In the mean time, it is imperative that approved investment applications materialize quickly so as to mitigate the rising unemployed population.

### Production

The productive sector as measured by the production index was more vibrant in 2007 than in the previous years. It rose sharply by 21% over the year to 144. The improvement stemmed mainly from a notable increase in logging activities, supported by marked production in copra, cocoa and palm oil products.



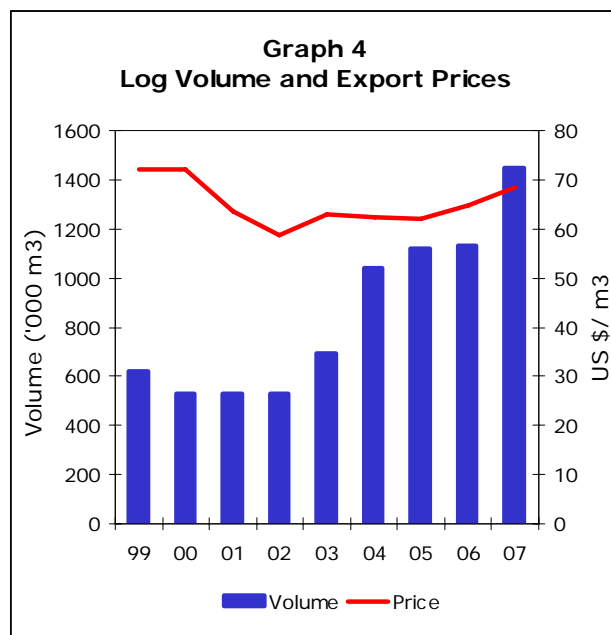
Underlining the positive outcome in the private sector were surging international commodity prices, sound economic conditions in Solomon



Islands major trading partners, and the drive by existing companies to utilize the spare domestic capacity. Despite the improvements, the fisheries sector weakened as a result of poor fishing conditions in the first half of the year, high fuel costs, and the contraction in fleet size mainly from Soltai Fishing & Processing Limited.

## Forestry

Logging activities accelerated further in 2007 following strong growth in recent years. According to Customs & Excise Division (CED), overall production increased dramatically by 28% to 1,446,003 cubic meters from 1,130,365 cubic meters in 2006. The harvested volume comprised mainly of natural logs that accounted for 93%, and plantation logs accounted for 7%.



The production reflected significant volumes in all quarters of the year except for the second quarter when international log prices were at their lowest for the year. As in previous years, most of the harvested logs in 2007 came from Western Province, although production activities in Choiseul, Malaita, Guadalcanal,

Isabel, and Makira Provinces also increased during the year.

The continuing boom in the forestry sector would be explained by a number of reasons. First, approved licenses for logging operations on Malaita, Guadalcanal, Choiseul, and Makira provinces increased markedly during the year. Secondly, in some provinces, licenses were issued to fell trees to allow the development of government supported projects such as palm oil and reforestation. A third major driving factor was the longstanding uncertainty over the government's decision to review the determined log prices upward. Finally, high log prices in the world market emanating from the strong demand for logs from Asian countries was a major incentive to accelerate production in order to cash in on high export prices.

Average international price from World Bank sources trends upward to US\$268 per cubic meter in 2007, from US\$239 in 2006. The growth in log production reflected a steady rise in log prices since August, which reached US\$275 per cubic meter by year-end. Although the average value of exported local logs showed a similar trend over the year by rising from US\$66 per cubic meter in 2006 to US\$79 per cubic meter, it was significantly lower than the average World Bank price. The huge price differential to a large extent reflects the cost of transportation, but also has sparked some concerns that logging companies may be engaged in transfer pricing and under-reporting of log values. The possible consequences include revenue losses to the government and landowners in terms of foregone log duties and royalties respectively; log extraction may remain high as companies aim to maximize profits under prevailing weak monitoring system; and the country loses potential foreign exchange. The government plans to introduce a higher price schedule in June 1<sup>st</sup> 2008. In the meantime, it has introduced an interim price schedule to allow



logging companies to make necessary adjustments.

The two forest plantation companies namely Kolombangara Forest Plantation Limited (KFPL) and Eagon Pacific Plantation Company Limited (EPPCL) increased the total planted area to about 1,620 hectares. The growth reflected a shift from operational activities to planting in 2007 as a result of weak prices that saw an increase in contracted planters as well as the introduction of productivity-based incentives for workers. Complementing these large scale reforestation projects were other pockets of smallholding initiatives in some parts of the country. In terms of plantation log exports, KFPL accounted for around 70% while EPPCL accounted for the remaining 30%.

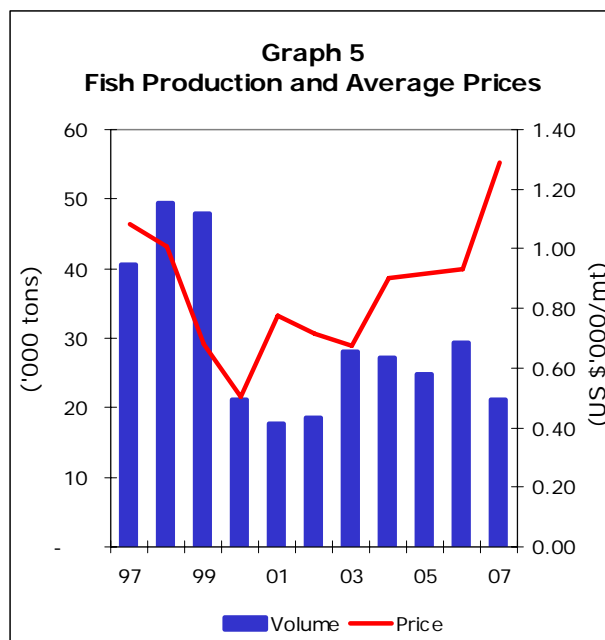
The current rate of log extraction is completely unsustainable. According to a study by the Forestry Department, the industry is expected to slow down after 2012; however the decline is now expected to start as soon as 2010 given the huge increase in extraction in the past couple of years. Urgent steps must now be taken to assist reforestation projects as well as to develop the non logging sector to cushion the economy from adverse effects from the imminent slowdown in logging activities in the coming years.

## Fisheries

Overall fish catch for 2007 dropped notably by 28% to 21,195 tons, reflecting sluggish production by the two major fishing companies, National Fisheries Development (NFD) and Soltai Fishing and Processing Limited (SFPL). The weak catch was in contrast to strong fish prices in the world market, and was due in large part to weak catches from SFPL. During the year, SFPL docked most of its ageing fleet. This was further compounded by high fuel cost that made it more inefficient to send pole and line boats. Other factors include unfavourable fishing conditions especially in the first half of the year and fishing

downtimes due to boat repairs and maintenance.

Cannery production increased significantly in 2007, producing 365,624 cartons of canned tuna. Most of these were absorbed domestically with only a small fraction (3.9%) exported to Melanesian neighbours under the Melanesian Spearhead Group Trade Agreement (MSGTA). Loin product, which was exported to the European market, was the chief income earner of SFPL generating about two thirds of its total income in 2007.



Average international fish prices saw a major upswing of 39% to an average of US\$1,289 per ton in 2007 from US\$930 per ton in 2006. In the course of the year the price steadily rose from US\$885 per ton in December 2006 to US\$1,550 in December 2007. The strong prices were due mainly to low supply from the Eastern Pacific and a general scarcity of fish worldwide.

In terms of other marine products, the national ban on beche de mer exports was lifted in the post-tsunami period to allow rural fishermen

(particularly in the Western Province) to earn income for rehabilitation purposes. However it was re-imposed again on April 1<sup>st</sup> 2008 to protect rapidly depleted stocks and to allow the Fisheries Division to develop a management plan that ensures sustainable harvesting in the future.

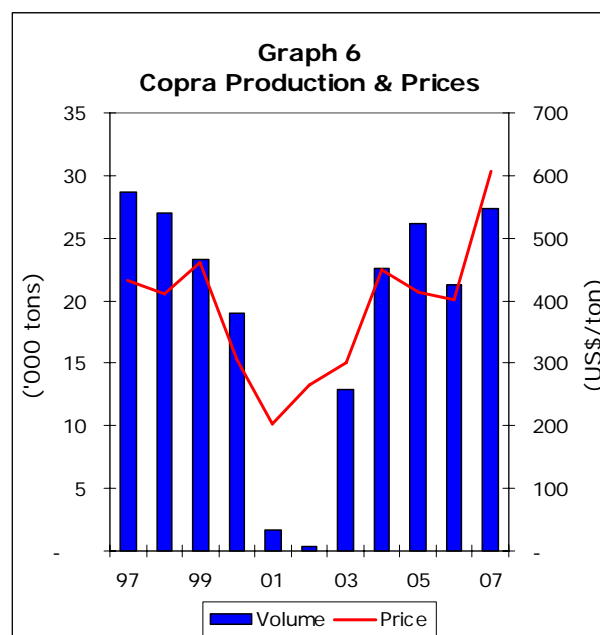
### Copra and Coconut Oil

Copra production bounced back in 2007, increasing by an impressive 31.2% to 27,903 tons, which reversed a decline of 19% to 21,214 tons in 2006. The chief driver behind the positive domestic production was the upward price trend in 2007 which saw the average domestic price increased from \$1.22 per kilo in 2006 to \$2.08 per kilo in 2007, while the end year price reached as high as \$2.40 per kilo. Relative improvements in transport links between copra-producing provinces and Honiara was another significant factor. Western, Guadalcanal, Makira, Malaita and Choiseul provinces all saw marked improvements in their output and were the main sources of growth in copra production during the year. Only Isabel and Central provinces experienced declines, with output falling by 16% and 1% respectively.

In terms of volumes by province, Guadalcanal Province was the largest producer with 7,959 tons (28%), followed by Western with 5,858 tons (21%), Central with 4,413 tons (16%), Malaita with 3,844 tons (14%), Makira at 2,494 tons (9%), Choiseul with 1,519 tons (5%), Isabel with 1,213 tons (4%), and finally Temotu with 604 tons (2%). Potential for further growth remains as there is still spare capacity in the country, in particular Central Province which hosts the inactive Russell Islands Plantation Estate Limited (RIPEL).

The export (contract) price for Solomon Islands copra climbed 47% to an average of US\$327 per ton in 2007, a sharp turnaround from the 13% fall in 2006 when the average price was US\$223 per ton. Global demand for coconut oil as well as the pressure from high fuel prices

which stimulated the demand for bio-fuel products was the main factor behind this increase. Notwithstanding the large growth, the price remained significantly lower than the average world price of US\$607 per ton quoted by the World Bank, which reflects the high transportation costs from Solomon Islands.



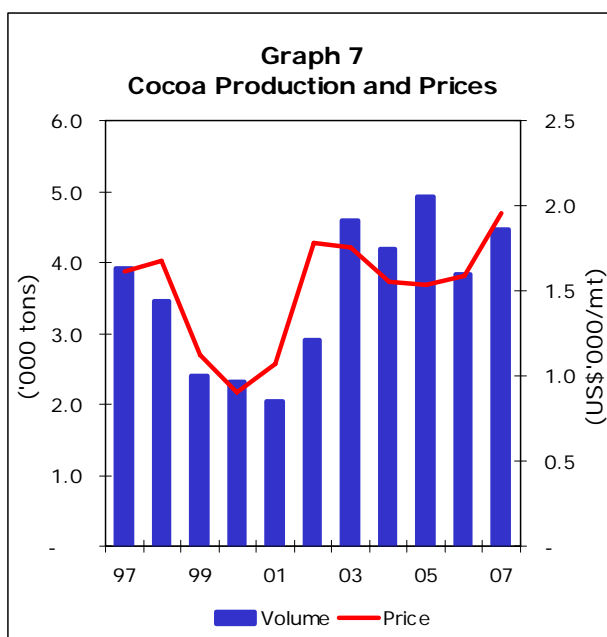
The industry is experiencing many limitations, including the issue of ageing palm trees that cause average yield per tree to fall; high transport costs and unreliable shipping services; lack of required materials such as nets and drums; and copra buyers' cash flow difficulties.

Total coconut oil production in 2007 rose substantially to 741 tons from 324 tons in the previous year. The high volume reflects the ongoing development of this infant industry, and also influenced by high international prices which rose 51% to US\$918 per ton from US\$509 per ton in 2006. The benefits of this price rise in terms of encouraging production, however, were offset significantly by the interrelated increase in price of copra which saw most copra ended up being exported than reaching coconut oil processing plants.

Although the local industry was able to export to niche markets in the United States, prevailing high government taxes not only seriously undermined its competitiveness but also posed a major disincentive to what could potentially be an important industry. There is also potential for this product to have a viable domestic market in the future if high oil prices further encourage demand for bio-fuel.

## Cocoa

Cocoa production in 2007 rose to 4,342 tons, a marked improvement of 13.4% over 3,828 tons in 2006. The growth resulted from exceptionally high yields in the second and third quarters, high cocoa prices that rose from \$6.80 per kilogram at the end of 2006 to \$9.50 per kilo in December 2007, and the coming on stream of new plantations in several provinces.



Estimates showed cocoa earnings for rural producers benefited from output and price gains to increase by 58% to \$38.6 million, reversing the 14% decline to \$24.5 million in 2006. In terms of production by province, Guadalcanal contributed the largest volume with 2,441 tons, followed by Malaita with

1,083 tons and Makira with 579 tons. Total approved licenses for cocoa buyers contracted by 50% from the 30 licenses a year ago to 15 cocoa buyers in 2007.

The export (contracted) prices for cocoa rose by 18% to an average of US\$1,546 per ton in 2007, suggesting that the industry earned about US\$6.8 million in 2007 as opposed to US\$5.0 million in 2006. Like the copra industry, the cocoa sector experiences the same structural problems in terms of irregular transport services, cash flow problems for buyers; and lack of inputs and materials to build cocoa driers. To exploit the full potential in this sector would require tangible support to both producers and buyers in terms of finance and materials, while at the same time logistic services such as transportation must improve.

## Palm Oil Products

2007 was Guadalcanal Plains Palm Oil Limited's (GPPOL) first full year of operation and this was shown when production rose markedly against the previous year. Crude palm oil increased more than threefold to 17,151 tons. Similarly palm kernel increased by almost fourfold over the year to 4,828 tons. The growth was due to improved efficiency and increased acreage output during the year. The sector was also boosted by the continued rapid increase in the international price of palm oil. The extraction rate for palm oil, which measures the volume of oil that is extracted as a ratio of the volume of fruit input, rose slightly to 22% from 21.6% in 2006, while the extraction rate for palm kernel improved to 24.5% from 21.6% in the previous year. The processing of 674 tons of kernel oil in the fourth quarter added extra value to the industry. The company exported palm oil and palm kernel oil to European and Asian markets.

GPPOL is the major source of employment on the Guadalcanal Plains, employing 2,000 workers in 2007, of which 70% were unskilled workers. Furthermore about 100 households

were engaged in the 'Out-grower' scheme, managing an estimated area of 500 hectares in 2007. There is optimism that the 'Out-grower' scheme has the potential to expand further in terms of production and acreage. The company forecasts production at around 24,000 tons of crude palm oil and 2,500 tons of kernel oil in 2008, representing an increase of around 40%. Plans are also in the pipeline to install a 25 ton boiler in 2008 to replace the existing but outdated boiler to raise the efficiency rating.

The Auluta Palm Oil project remains under discussion, and there have been no concrete developments in 2007. The Government has given considerable attention to this project, continuing negotiations with landowners. However, significant impediments remain with substantial capital investment in basic infrastructure still to be secured and an international investor yet to be identified. In 2008, the government aims to complete registration of the land titles and identify a potential investor. Even if all went smoothly, production is not likely to begin until 2013. The Vangunu project remains a disappointment.

### **Honey**

There is no available data on the total volume of honey purchased in 2007. However, Solomon Islands Honey Producers Cooperative Association (SIHPCA) reported an increase in membership to more than 30 members as compared to the 25 reported for 2006. Despite the growth in membership, SIHPCA cannot meet the insatiable demand from the local market. Most honey SIHPCA bought in 2007 came from Temotu, Malaita and Makira provinces. Farmers on Guadalcanal are still suffering from the effects of the introduced Asian bee that was first identified in 2004. The bee has now migrated further to the Florida Islands and Savo and could threaten operations in other nearby provinces. The industry is hoping that this problem can be eradicated sooner than later. SIHPCA reportedly purchased honey from its members

at \$20 per kilogram and sells it to business houses at \$30 per kilogram.

### **Rice**

The rising cost of rice and the burden it places on the import bill (valued at around \$140 million in 2007) has prompted the government to embark on a rice substitution initiative over the years though it remains on a very small scale. The National Rice Project (NRP), with assistance from the Republic of China (ROC) Taiwan, has been responsible for coordinating the task of encouraging local farmers to participate in this industry. However, NRP reported that production in 2007 fell by 14% to 2,800 tons, from 3,250 tons in 2006. Most of the harvested rice was consumed by producers, though small surplus amounts were sold domestically between \$5 and \$7 per kilo. In 2008, the NRP is planning to set up two commercial rice farms at Lungga and Metapona on the Guadalcanal Plains.

### **Minerals**

The mineral industry has a huge potential to develop further. Prospecting activities in four provinces (namely Guadalcanal, Isabel, Choiseul, and Western) continued in 2007. Most of these focused on gold deposits, though there were also interests in other minerals such as nickel, silver and copper. Applications for exploration licenses to operate on Rennell and Bellona and Malaita provinces are in the pipeline and could be issued in 2008. Exploration of offshore areas particularly in Temotu, Makira and Western province are some of the potential activities in the future.

The re-development of the Gold Ridge Mine on Guadalcanal has always been a priority project of successive governments. However, unresolved issues such as land acquisition, resettlement scheme, the tailings dam, landowners' demands, and political risk have led to continued delays in a return to production. The Government is expected to take the leading role on most issues for

meaningful progress to take place. In 2007, the company concentrated mainly on constructing housing and security infrastructure, resolving outstanding landownership issues and raising finance overseas. Significant progress has been made, and production is now forecast to begin in 2010. Most of the workforce was local and expatriates accounted only for a very small fraction.

The Ministry of Mines and Energy reported informal alluvial panning activities continues to occur in 2007 mainly at the Gold Ridge area on Guadalcanal though limited activities may also have occurred in the Western province. Statistical information on this particular activity was not readily available due to two reasons; first gold dealers are not complying with reporting requirements and secondly there is inadequate manpower at the Mines Division. The latter was explained by high staff turnover in recent years, most of which took up jobs with prospecting companies that offered more attractive remuneration packages than the public sector. This trend combined with the government's aim to develop non logging sectors such as the minerals sector suggest the country must train more people in these highly technical areas.

### **Energy**

The Solomon Islands Electricity Authority (SIEA) produced 77,100 Kilowatt Hours (KwH) of electricity during the year, a significant increase of 13% from 2006. Similarly total units sold rose from 55,660 KwH to 59,231 KwH. Despite the increase in sales, the ratio of sold units to generated units declined from 82% in 2006 to 77% in 2007, suggesting that more units were possibly lost through leakages via illegal connections, and non payments. Therefore, uncollected potential revenue from unsold units was higher in 2007 than in the previous year.

Classifying units sold by major categories, commercial and industrial customers raised their consumption volume by 6.7% to 34,535

KwH. This was expected in view of the rise in commercial activities particularly within Honiara. Households' increased their share by 1,224 KwH to 14,801 KwH while the 'Others' category also recorded a substantial increase of 21% to 2,320 KwH, following a sharp growth of 26% in the previous year. The government sector saw a slight contraction of 3% to 7,576 KwH, reversing the sharp growth of 26% in 2006.

The energy sector continued to benefit from funding from multilateral and bilateral agencies. The Japanese Government funded the installation of an electricity transformer in West Honiara in 2007 which became operational in the first quarter of 2008. Solomon Islands was among a number of regional countries selected to be recipients of a World Bank funded scheme under the Sustainable Energy Financing Program (SEFP). The scheme intends to support the financing of renewable energy to supply electricity in the rural communities. The project is expected to commence in 2008.

### **Construction**

Construction activities soared again in 2007, although most development was concentrated in Honiara. According to the Honiara City Council, approved building permits rose by 12% to 203 permits and the corresponding estimated value for the approved permits increased more than twofold against the previous year to \$193 million. Residential permits accounted for 38% of the \$193 million and increased more than threefold to \$74 million. Similarly, the estimated value of permits for commercial properties increased from \$31 million in 2006 to \$65 million in 2007. The positive events were primarily driven by the increasing demand for homes from the working citizens mainly in the public service; higher rental rates from RAMSI, donor agencies, and corporate tenants; the growing demand for office space from the business sector; and the building of more donor-funded government offices.

During the year, commercial banks recorded a massive spike of about 63% in their lending portfolio for property development to \$189 million from \$116 million in 2006. Of the \$189 million, residential properties accounted for 72% (\$135 million) and commercial properties and others accounted for the rest. The significant growth suggests that property developers were not deterred by high interest rates which varied between 5.9% - 9.75% for residential property loans and 6% - 14% for commercial property loans as returns on these investments were high.

### **Telecommunication**

Activities in the telecommunication sector strengthened again in 2007 following positive performances in the previous years. This was consistent with Solomon Telekom Company Limited's expectation for the year. The positive outcome was influenced by the vibrant economy combined with the growing presence of expatriates including the Regional Assistance Mission to Solomon Islands (RAMSI) that significantly contributed to the massive growth in international calls. International calls accounted for about a third of Telekom's total income.

In terms of infrastructure development, in 2007 the company rolled out mobile network coverage into the urban centres of Western and Malaita provinces in addition to existing coverage on Guadalcanal and Central Islands provinces. Mobile services on Isabel, Makira, and Rennell & Bellona provinces are expected to be developed in 2008. However, Honiara generates most of the company income, with almost all other provincial stations yielding negative returns.

The push to deregulate the telecommunication sector remained a prominent issue throughout the year. Digicel International showed interest to invest particularly in the mobile phone network but was denied following a court judgment that ruled against deregulation on

the basis that Telekom has obtained an exclusive license from the government. The Telekom licence is subject to a five year review process in 2008 that may result in an opportunity for Digicel. During the annual report consultations the Central Bank of Solomon Islands conducted in 2008, most business houses regarded the cost of communication in the country as being expensively high and a major disincentive to private sector expansion. Lack of competition in the industry has been cited as the primary cause. On the other hand, Telekom has highlighted the government's multiple taxes such as sales tax, company tax, and goods & services tax as a major reason for the high telephone charges.

### **Tourism**

Continuing last year's positive performance, visitor arrivals went up by 19.6% to 15,167 in 2007 from the revised 12,680 visitors in 2006. The 2007 total consisted of 13,748 air visitors and 1,419 sea arrivals. The former grew by 20% after recording a 22% growth in 2006, while the latter rebounded from the 4% decline a year ago to expand by 18%. The large increase in visitors came mainly from Australia, New Zealand, Japan, USA and Papua New Guinea which accounted for 61% of the overall growth. Categorizing air visitors by major countries, Australia accounted for 43%, followed by New Zealand, Papua New Guinea, and USA with 7% apiece. Estimates revealed visitors spent a total of about \$144 million within the country in 2007, a slight increase from \$143 million in 2006.

The berthing of large passenger boats and improved relations with our Pacific neighbours were the underlining reasons behind the positive outcome in 2007. The devastating April tsunami proved to be somewhat of a blessing in disguise for the tourism sector in the country, at least in 2007. Hotels, especially in the Western province, saw major increases in occupancy rates with the influx of

rehabilitation workers. Surfing in the Western province is a growing attraction and gained popularity in 2007. Western province tourism may not be able to compete with other world surf spots, but the Solomon Islands Visitors Bureau (SIVB) is banking on the fascination of a new surf spot.

However, the tourism industry in Solomon Islands continued to suffer from high travel costs, lack of proper infrastructure, flight cancellations, and lack of funds for tourism-related businesses in 2007. Solomon Islands is also suffering from the impact of the social conflict in the first years of the millennium and the riots in April 2006, which have deterred many tourists from visiting. Improvements in infrastructure are in the pipeline, with the Government setting aside a substantial budgetary allocation of \$24.3 million for the improvements to the international and domestic terminals. Shortage in the housing sector remains a strain in the accommodation market, with many expatriates having to live in hotels rather than residential homes. Meanwhile, major hotel developments continued during the year which should ease the pressure on hotel rooms.

The tourism sector anticipates an increase in visitor arrivals in the future. Sky Air World has scheduled 5 flights per week with a promise to offer cheaper fares. This has prompted Solomon Airlines to re-shuffle operations and embarked on an aggressive campaign to promote its services. At the end of 2007 Solomon Airlines added a third twin otter which should help to improve the reliability of its services and range of domestic operations. The Government has committed funds in its 2008 budget for the tourism sector, most notably are an allocation of \$2 million for eco tourism, \$1 million assistance towards the redevelopment of Anuha tourist resort, and \$0.75 million for the formulation of a tourism course at the Solomon Islands College of Higher Education (SICHE).

## **Inflation**

In 2007, the Statistics Division shifted to a new base period (fourth quarter of 2005) and updated the consumption basket to accurately reflect current consumer patterns. As a result of the shift, published inflation figures from October 2005 to July 2007 changed dramatically.

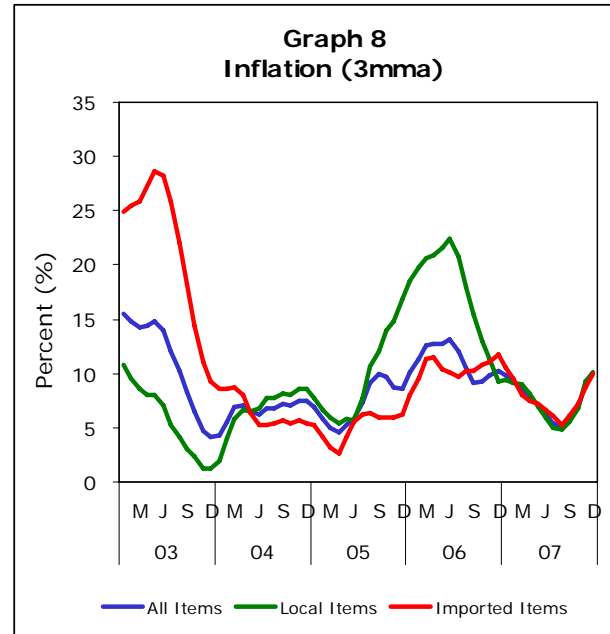
The annual inflation rate for 2007 was 10.0%, as measured by the three months moving average, which represents a small decline from 10.3% in 2006. Inflation in the price of domestic items (representing 58% of the consumption basket) was 10.1% and inflation in imported items was 10.0%. Inflation fluctuated widely in the course of the year, and was highest at the beginning and the end of the year due to annual price increases by certain companies including utilities producers and high consumer demand during the Christmas holiday period. In particular, inflation towards the end of the year was driven by a surge in the international price of oil.

A decline in the rate of inflation was observed in several categories. In particular, the index for 'Drinks & Tobacco', 'Clothing & Footwear' and 'Recreation & Others' recorded the largest drops, falling from 14.8%, 18.1% and 12.8% in December 2006 to 2.3%, 0.9% and 1.4% in 2007 respectively. Inflation in 'Transport & Communication' index also eased, to 4.7% from 7.7% in 2006. However, upward inflationary pressures during the year remained strong in other categories. Food inflation increased slightly to 10.6% from 10.2% in December 2006. Likewise, 'Housing & Utilities' inflation went up from 9.1% to 18.7% and 'Household & Operations' inflation increased from 14.3% to 17.5%.

The rising international price of oil in 2007 was a major underlying source of inflation in most categories, particularly the cost of freight and therefore imported items. According to the World Bank, the international price of oil



increased from US\$58 per barrel at the end of 2006 to US\$91 per barrel at the end of 2007. Other factors that contributed to high inflation in 2007 were the huge expansion in domestic demand related to expanding domestic credit and money supply; exchange rate depreciation of the Solomon Islands dollar against certain foreign currencies; and inflation in international food prices, most notably rice and wheat.

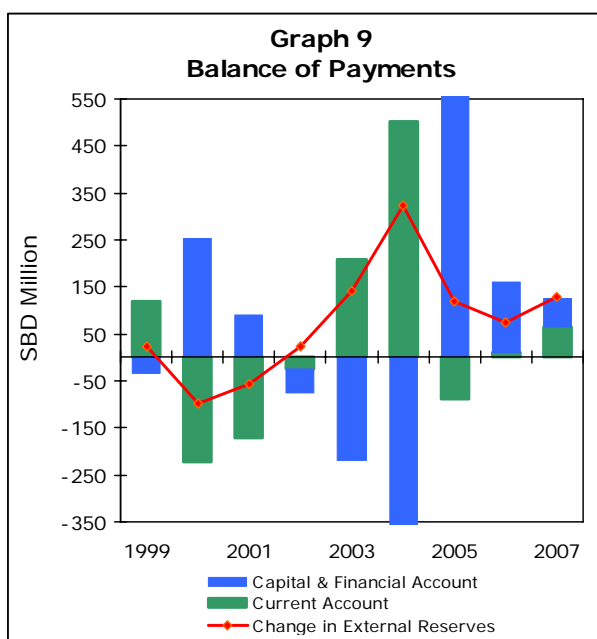




## IV. BALANCE OF PAYMENTS

### Overall Balance

The overall Balance of Payments (BoP) performance in 2007 showed a significant improvement, with a surplus of \$127.6 million recorded for the year, compared with a surplus of \$73.5 million registered in 2006. This improved performance was the outcome of positive outturns in both the current account and the overall capital and financial account, reflecting the continuous strong external donor support as well as significant expansion in private sector activities. As a result of this significant BoP position, the level of Solomon Islands gross external reserves rose considerably by 16.1% to \$918.0 million in 2007. This level is equivalent to a forecasted import cover of 3.9 months of imports of goods and non-factor services.



### Current Account

The current account posted a surplus of \$63.6 million in 2007, extending further the \$10.7 million surplus in 2006. This outcome is

mainly attributed to a significant improvement in the current transfers account, which outweighed an increase in the deficits in the trade account and services account. The current transfers account posted a surplus of \$383.6 million compared to a surplus of \$349.1 million in 2006. Meanwhile, the trade account posted a deficit of \$182.9 million, with Services and income accounts registering net deficits of \$108.9 million and \$28.0 million respectively during the year.

### Trade Account

The trade account posted a deficit of \$182.9 million in 2007 as compared to a deficit of \$201.2 million in the previous year. The deficit was the result of a 31.3% surge in imports (excluding cost of insurance and freight-c.i.f) to \$1,469.1 million, which outweighed a 40.2% rise in exports in 2007 to \$1,286.1 million. However total imports (including c.i.f) amounted to \$1836.3 million resulting to a trade balance deficit of \$550.6 million. Increases in import payments were observed in all import categories. In particular, increased fuel imports and the high international price of oil led to an increase in payments for fuel imports by 5% to \$434.3 million. The high fuel prices also contributed to rising prices of raw and packaged materials and increased freights costs (\$86.8 million), which combined with the depreciation in the Solomon Islands dollar contributed to rising price and payments for imports in most other categories. Most notably, food imports increased by 45.3% (\$74.6 million) while 'Other imports' increased 44.4% (\$251.4 million). Meanwhile, the positive outturn in export receipts in 2007 was underpinned by the strong production performance in copra and coconut oil, cocoa, palm oil and kernels, and most importantly forest products. Overall, total imports and exports accounted for 90.9% of the Gross Domestic Product in 2007, compared to 86.7% in the previous year.

Table 3  
Balance of Payments Trade Account  
(SBD million)

	2004	2005	2006	2007
Exports fob	727.7	778.8	917.6	1286.1
Imports fob	-540.0	-910.1	-1118.7	-1469.1
Trade Balance	187.7	-131.2	-201.1	-183.0
Trade Balance % of total trade	14.8	-7.8	-12.1	-8.1

Source: Central Bank of Solomon Islands

**Forest Products** from both round logs and sawn timber continue to be the leading export earner for Solomon Islands and accounted for 66.6% of total export earnings in 2007. Export receipts from these products increased by a massive 33.3% compared with 2006, to \$857.7 million for the year. The bulk of these export receipts came from round logs which accounted for 96.0% (\$823.0 million) of total forest products while sawn timber accounted for only 4.0% (\$34.7 million). This positive outcome resulted in part from the 27.9% increase in log export volumes and also upward movement in international market prices by 12.1% due mainly to high demand in East Asia. The major export destinations for Solomon Islands logs are China with 67.7% share of the total log exports, Korea 8.8%, Japan and Philippines with shares of 5.5% each, Vietnam 3% and Thailand with 2%. For sawn timber, the major export destinations are Australia with 53% share of the total timber exports, followed by New Zealand 16%, China 14%, Philippines 10%, New Caledonia 8%, and Malaysia 5%. One major concern for BoP in Solomon Islands is the forecast decline of log exports which is expected to begin as soon as 2010. Given the importance of logs as the major foreign currency earner in the country, it will be a significant challenge to fill the gap left by the decline of this sector.

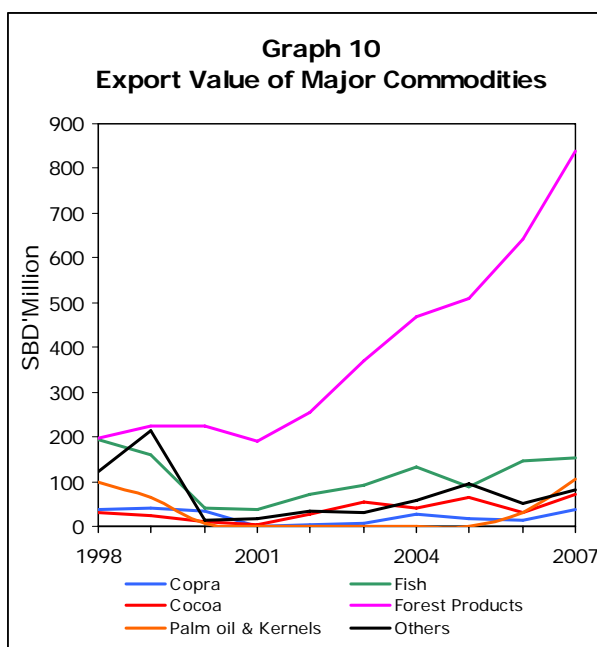
Earnings from **Fish Products** rose moderately by 8.4% to \$158.1 million, extending further

the 67.8% growth in 2006. In 2007 receipts from fish exports contributed 12.3% of the total export earnings. This result came despite a large fall in production this year, and was therefore attributed to substantial improvement in international market prices. The increase in price was associated with high demand overseas combined with low supply due to poor fishing conditions in large areas of the Pacific. Although total fish catch fell drastically to 21,195 metric tons in 2007 from 29,364 metric tons in 2006, the effect on export receipts was partially offset by an increase in the volume of fish loin and canned tuna. Of the total fish export earnings, canned tuna accounted for \$43.4 million compared to \$15.1 million in 2006, frozen tuna \$102.1 million, frozen tuna for sashimi \$7.4 million and other fish products \$5.2 million. In terms of markets, the major export destinations are Europe, USA, Thailand, Australia, China, Japan, Hong Kong and other Pacific region countries.

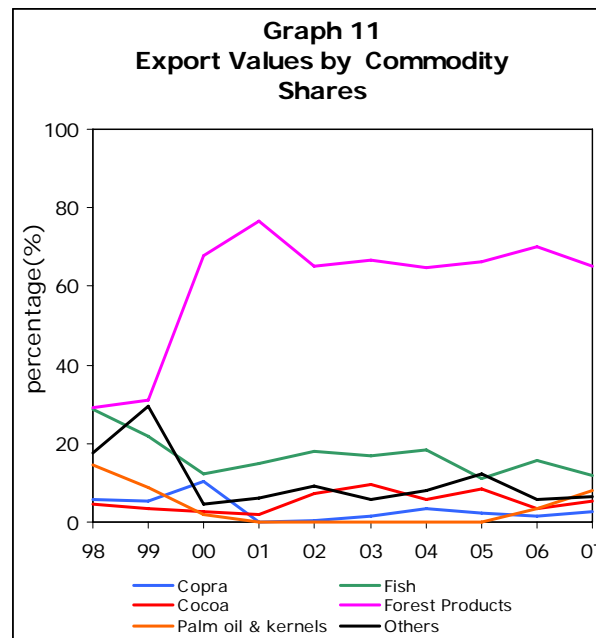
GPPOL's first full year of production in 2007 as expected saw **Palm Product** receipts earnings rise dramatically to \$77.5 million from \$30.7 million in the previous year. This was due not only to vastly improved domestic production but also to continued rapid increases in international market prices. The down-stream processing of palm kernels (previously exported to Papua New Guinea for processing) further boosted the earnings from palm products. GPPOL's first crushed palm kernel oil exports occurred towards the end of the fourth quarter and resulted in a total value of \$4.2 million. In terms of export markets, Europe is the major destinations for Solomon Islands palm oil exports in 2007.

Export receipts from **copra and coconut oil** rose dramatically by 137.9 % to \$33.5 million in 2007 as compared to only \$14.1 million in the previous year. This increase stemmed from both improved production and high market prices overseas. Copra production rose by 31.5% to 27,903 metric tons, coconut oil up by 121.7% to 741 metrics tons while market prices rose significantly to US\$607 per metric

ton and US\$918 per metric ton respectively. The increase in coconut oil production and downstream processing of bio-fuel in 2007 not only boosted export earnings but have also set a milestone in the country by supplying alternative fuel to SIEA. In terms of markets, the major destinations for copra products are Philippines, Singapore and Australia. Demand for copra and coconut oil is high in the Philippines because of bio-fuel interest. During 2007, copra and coconut oil exports contributed 2.6% of the total earnings, up from 1.5% in the previous year.



As expected, earnings from **cocoa products** reversed the fall in 2006 and posted a 128.9% increase to \$72.0 million in 2007. This positive outcome stemmed largely from increased production, further bolstered by high export prices. In 2007, cocoa accounted for 5.6% of total export earnings. With positive growth forecast for both cocoa export prices and production in 2008, cocoa export receipts are expected to increase further. In terms of export markets, Malaysia and Singapore were the major destination for Solomon Islands cocoa exports in 2007.



Earnings from **mineral export** receipts remained restricted to informal sector alluvial panning in 2007, but rose considerably by 81.9% to \$11.3 million in 2007, from \$6.2 million registered in the previous year. This outcome resulted mainly from increased panning activities in the Gold Ridge Area, but also from minor activities in other areas of the country. Gold Ridge Mining Company will provide a major boost to the BoP once operations begin; however, production is now not anticipated until 2010.

Receipts from the 'other exports' category posted a 68.9% surge to \$77.1 million in 2007 compared to a 50.6% drop in the previous year. This outcome stemmed largely from large inflows in marine products which constituted about 16.9% of the total 'other exports' category. The high inflow in marine products was due to increased export receipts from beche de mer following the lifting of the ban on harvesting of the product last year to assist provinces affected by the Tsunami.

Total import payments(including c.i.f) rose steadily and posted a 31.3% surge to \$1,836.3 million in 2007. This outcome was

underpinned by substantial increases in most categories. Fuel, which constituted 23.7% of total import payments in 2007, rose considerably by 9.9% to \$455.4 million in 2007 from \$414.3 million in 2006. This outcome stemmed largely from the rising international price of oil and increased domestic economic activities. The Solomon Islands Electricity Authority (SIEA), logging companies, fishing companies, GPPOL, aviation companies, RAMSI and shipping companies were the major fuel consumers in 2007. In 2008, with a new diesel tank to be completed by end of April by one of the major oil companies, it is expected that fuel import payments will rise significantly, especially if foreign fishing vessels are given approval to purchase fuel in Solomon Islands. The possibility of Sky Air World purchasing fuel in the country would also lead to a large increase in fuel imports, while Gold Ridge fuel consumption would be far higher still.

Payments for non-fuel imports constitute 75.9% of total import payments and dramatically increased by 37.1% to \$1,438.3 million in 2007. This outcome reflected high demand for imported food items, machineries and equipment and building and construction materials, as economic growth in the country moved into double digits. Increased prices for overseas goods also contributed to the rise in the import bill, with food prices in particular rising towards the end of the year.

Food imports, which constituted 12.6% of total import payments, rose dramatically by 45.3% to \$239.1 million compared to \$164.6 million in 2006. The growth in food items was related to increases in basic consumption items such as rice, wheat, cooking oil and other tinned goods. Plants, vehicles, machineries and transport equipment constituted 12.3% of total import payments, and also rose considerably by 17.7% to \$232.2 million, extending further the 89.3% growth in the previous year. This outcome was associated with a significant expansion in

business activities and investments in the country, in particular relating to growth in logging activities. Building and construction materials, which constituted 4.9% of the total import payments, also increased dramatically by 48.1% to \$94.4 million in 2007 from \$63.7 million in the previous year. This result reflected the increase in construction related to the boom in the housing rental market and business related activities that thrived this year. Meanwhile, import payments for beverages and tobacco rose substantially by 76.1% to \$23.3 million in 2007, reversing the 26.1% fall in the previous year. The upswing in this import category was mainly associated with rising production costs in raw and packaging materials. Chemical products doubled its 2006 import payments of \$16 million to register a 101.3% surge to \$32.2 million in 2007. This outcome in part reflected high demand for chemical products such as fertilizers and pesticides due to increased economic activities in the agriculture sector, as well as high demand for powder detergents and other chemicals by manufacturing companies. The 'other imports' category constituted 43.9% of total import payments and rose dramatically by 38.0% to \$806.0 million.

### **Services Account**

The services account posted a net deficit of \$108.9 million in 2007, slightly higher than the deficit of \$100.3 million last year. This was the outcome of a 21.3% surge to \$773.0 million in services payments which outweighed the 23.3% increase to \$664.0 million in services receipts. The high outflow in the services account stemmed largely from increased transportation payments which rose by 12.5% to \$478.3 million in 2007, from \$427.8 million in 2006. This increase in transportation payments reflected high freight and insurance costs due to the increase in imports, with outflows for freight and insurance rising by 31.3% to \$367.3 million in 2007, compared to \$279.7 million in 2006.

Meanwhile, the increase in service receipts over the previous year is reflected in the net inflows of \$5.0 million and \$267.4 million in travel services and other services categories respectively. Travel services receipts recorded \$76.9 million which exceeded payments of \$72.0 million. This reflected high inflows for both business and personal travel. The surplus in 'other services' resulted from increased inflows in communication, construction, insurance, financial, other business services and government services.

Table 4 Balance of Payments - Services Account (SBD million)				
	2004	2005	2006	2007
<b>1. Transportation</b>	<b>-131.8</b>	<b>-212.3</b>	<b>-336.3</b>	<b>-381.3</b>
1.1 air transport	-31.6	-78.8	-182.9	-200.1
receipts	0.5	34.9	63.7	70.0
payments	-32.1	-113.7	-246.6	-270.1
1.2 sea transport	-100.3	-135.5	-153.5	-181.1
receipts	7.8	16.2	27.7	27.1
payments	108.1	-149.5	-181.2	-208.2
<b>2. Travel</b>	<b>-40.8</b>	<b>28.5</b>	<b>36.1</b>	<b>5.0</b>
2.1 business	-2.3	30.1	26.5	12.3
receipts	16.7	43.7	47.0	45.7
payments	-19.0	-13.6	-20.5	-33.4
2.2 personal	-38.5	-1.5	9.7	-7.3
receipts	9.6	22.7	27.9	31.3
payments	-48.1	-24.2	-18.2	-38.6
<b>3. Other Services</b>	<b>94.0</b>	<b>-67.0</b>	<b>199.9</b>	<b>267.4</b>
receipts	195.9	265.8	358.8	490.1
payments	-101.8	-149.1	-158.9	-222.7
<b>Overall net</b>	<b>-78.6</b>	<b>-67.0</b>	<b>-100.3</b>	<b>-108.9</b>

Source: Central Bank of Solomon Islands

Communication services receipts rose dramatically to \$24.0 million in 2007, compared to \$7.7 million in the previous year, due to the improvement in telecommunication services witnessed during the year. The surge in construction services receipts, to \$25.4 million in 2007 from \$4.9 million in the previous year, reflected growth in the number of non-resident employees working in the construction sector. The growth in financial services receipts reflected increased financial

intermediary service fees associated with foreign exchange transactions, bank commissions and fees related to transactions in foreign notes by local commercial banks to replenish their stock of foreign currencies. The increase in government services receipts was associated with large inflows between the Solomon Islands Government and embassies, consulates, international organizations and RAMSI personnel working in Solomon Islands.

### Income Account

The Income Account posted a net deficit of \$28.1 million in 2007, following a deficit of \$36.9 million recorded in 2006. This outcome reflected an increase in income payments by 37.3% to \$276.1 million, which exceeded the increase in income receipts of 51.1% to \$248.1 million. The net deficit in income payments resulted from large outflows in investment income countering the high inflows in employees' compensation during the year.

Table 5 Balance of Payments - Income Account (SBD million)				
	2004	2005	2006	2007
<b>1. Employee Compensation</b>	<b>37.6</b>	<b>20.5</b>	<b>56.6</b>	<b>90.8</b>
credit	49.0	33.6	70.0	119.3
debit	-11.4	-13.1	-13.5	-28.5
<b>2. Investment Income</b>	<b>-21.2</b>	<b>-8.3</b>	<b>-93.5</b>	<b>-118.9</b>
2.1 Direct Investment	-50.9	-39.2	-135.7	-183.9
2.1.2 Income on equity	-42.2	-30.9	-120.2	-160.3
credit	-	0.9	48.0	60.3
debit	-42.2	-31.8	-168.2	-220.3
2.1.3 Income on debt (inter.)	-8.7	-8.4	-15.5	-23.6
credit	-	0.0	1.0	1.6
debit	-8.7	-8.4	-16.5	-25.2
2.2 Portfolio Investment	-	-	-0.8	-
credit	-	-	0.3	-
debit	-	-	-1.1	-
2.3 Other Investment	29.7	30.9	43.0	65.0
credit	29.7	30.9	44.8	67.1
debit	-	-	-1.8	-2.1
<b>Balance</b>	<b>16.4</b>	<b>12.2</b>	<b>-35.9</b>	<b>-28.0</b>

Source: Central Bank of Solomon Islands

Investment income posted a net deficit of \$118.9 million in 2007, following net deficits recorded in the previous years. The investment deficit was due to net outflows in direct investment income offsetting the net inflows in 'other investment' income. Income from direct investment posted a net deficit of \$183.9 million compared to \$135.7 million recorded in 2006. This resulted from large outflows of \$245.5 million in income on equity and debt interest. The outflows of \$220.3 million in equity income reflected increases in dividends payments to shareholders abroad and reinvested earnings while the outflow of \$25.8 million in income on debt interest mainly reflected increased payments on foreign loans. Meanwhile, other investment income recorded a net surplus of \$65.0 million, higher than the \$43.0 million surplus in 2006. This reflected mainly income earnings by CBSI on investment overseas and to lesser extent earnings by commercial banks and other private sector investors.

Income related to compensation of employees posted a net surplus of \$90.8 million in 2007, following a net surplus of \$56.6 million recorded in the previous year. This was attributed to higher inflows of \$119.3 million, reflecting the large presence of expatriate workers especially RAMSI personnel working in government and non-government organizations, while outflows increased by a smaller amount to \$28.5 million.

### Current Transfers

The surplus in the current transfers account increased from \$349.1 million in 2006 to \$383.6 million in 2007, a rise of 9.9%. This outcome resulted from higher inflows of \$721.5 million, relative to outflows of \$338.0 million. The higher inflows were mainly attributed to a surplus in official transfers which rose by 38.6% to \$389.2 million, outweighing the \$5.7 million net deficit in private transfers.

The surplus in official transfers was due to increased inflows which rose to \$372.4 million in 2007 from \$196.2 million in the previous year. This large increase of 89.8% was related to cash and in-kind transfers from external donors to fund various development projects and also towards Tsunami relief. Of this, official cash transfers posted a surplus of \$288.0 million as compared to \$149.5 million in the previous year, whilst transfers in-kind recorded \$101.2 million in 2007.

Table 6  
Balance of Payments - Current Transfers Account  
(SBD million)

	2004	2005	2006	2007
1. General Government	371.8	127.4	280.9	389.2
1.1 Cash	183.1	66.1	149.5	288.0
credit	196.9	96.8	196.2	372.4
debit	-13.8	-30.7	-46.7	-84.4
1.2 Non-cash-net	188.7	61.3	131.4	101.2
2. Other Sectors	5.1	-29.5	68.2	-5.7
2.1 Workers remittances	13.9	17.5	66.6	2.0
credit	16.1	20.3	72.6	8.0
debit	-2.2	-2.8	-6.1	-6.0
2.2 Other transfers	-8.8	-47.0	1.6	-7.7
credit	161.3	190.4	258.6	239.8
debit	-170.0	-237.5	-257.1	-247.5
Current transfers-net	377.0	97.9	349.1	383.6

Source: Central Bank of Solomon Islands.

Meanwhile, private transfers posted a net deficit of \$5.7 million, a large decline from the surplus of \$68.2 million posted in 2006. This was a result of a 25.2% fall in private transfer receipts to \$247.9 million, while outflows fell by just 3.6% to \$253 million.

### Capital and Financial Account

The capital and financial account registered a net surplus of \$61.4 million in 2007 following the net surplus of \$148.9 million in 2006. This positive development was due to increases in both donor-funded capital transfers and direct investments in the financial accounts.

The capital account recorded a surplus of \$275.2 million, a 23.1% increase from the previous year. This was caused by a 20.3% growth to \$257.1 million in capital transfers to the public sectors, which were related to government projects and reflected the continued high level of official donor assistance to the country. Transfers to the private sector also increased to \$18.1 million from \$10.1 million in 2006, reflecting the strong economic performance during the year.

Table 7 Balance of Payments - Capital Account				
(SBD million)				
	2004	2005	2006	2007
1.0 Capital Transfers	11.2	208.0	223.8	275.2
1.1 General government	11.5	208.8	213.7	257.1
1.1.1 Debit Forgiveness	-	60.6	-	23.4
credit	-	60.6	-	23.4
debit	-	-	-	-
1.1.2 Other capital transfers				
of general govt.	11.5	148.2	213.7	233.6
credits	11.5	148.2	213.7	233.6
monetary	11.5	148.2	213.7	233.6
non-monetary	-	-	-	-
debits	-	-	-	-
monetary	-	-	-	-
non-monetary	-	-	-	-
1.2 Other sectors	-0.4	-0.8	10.1	18.1
1.2.1 Migrant transfers-net	-0.9	-0.8	11.0	7.6
1.2.2 Debt forgiveness-net	-	-	-	-
1.2.3 Other transfers-net	0.6	-	-1.0	-
2. Non produced nonfinancial assets, net	-	-	-	-10.6
Balance	11.2	208.0	223.8	275.2

Source: Central Bank of Solomon Islands.

The financial account recorded a deficit of \$213.8 million, an increase on the deficit of \$74.9 million in 2006. A surge in foreign direct investment in Solomon Islands to \$322.8 million was responsible for an almost threefold increase in net 'direct investment' to a surplus of \$259.0 million. This was offset, however, by an increase in 'Other investment' liabilities, which rose to \$401.1 million in 2007 from \$93.8 million in 2006. These changes are reflective of a significant improvement in the

investment climate in Solomon Islands, as well as improved application processing on the part of the Investment Division in the Ministry of Commerce.

Table 8 Balance of Payments - Financial Account				
(SBD million)				
	2005	2006	2007	
1.0 Direct Investment				
1.1 In Solomon Islands	139.9	138.7	322.8	
1.1.1 Equity capital-net	138.5	59.9	84.0	
1.1.2 Reinvested earnings-net	1.1	138.7	238.8	
1.1.3 Other capital-net	0.3	-59.9	-	
1.2 Abroad	-1.3	-51.5	-63.8	
2.0 Other Investment	34.6	-208.7	-406.3	
2.1 Assets	-88.4	-114.8	-17.7	
2.2 Liabilities	41.0	-93.8	-388.6	
2.2.1 Trade credits	-5.5	-151.0	-20.3	
2.2.2 Loans	-158.8	-32.3	-223.2	
2.2.3 Currency & depos.	-	19.4	28.5	
2.2.4 Other liabilities-net	-	23.0	-132.0	
3.0 Reserve Assets	204.7	46.6	-54.1	
Balance	-376.0	-74.9	-213.8	

Source: Central Bank of Solomon Islands.

## External Debt

The total stock of external debt at the end of 2007, stood at \$1,313.4 million, a decrease of 2.3% from the end of 2006. This was a significant improvement compared with the previous year when the total stock of external debt increased by 5.8%.

The stock of private sector debt stood at \$184.8 million, a decrease of 2.2% from the previous year. External debt repayments by the private sector totalled \$4.9 million, compared to \$2.7 million in 2006. Meanwhile, total public sector external debt, which accounts for 86% of the total external debt stock, declined by 2.3% to \$1,128.6 million due to the repayment of debt principal and settlement of arrears by the Solomon Islands Government during the year. Thus, external government debt arrears stood

at \$79.2 million at the end of 2007, a 25% decrease from 2006 when debt arrears stood at \$105.6 million. These developments reflect the continued commitment of the Solomon Islands Government to meet its external debt obligations.

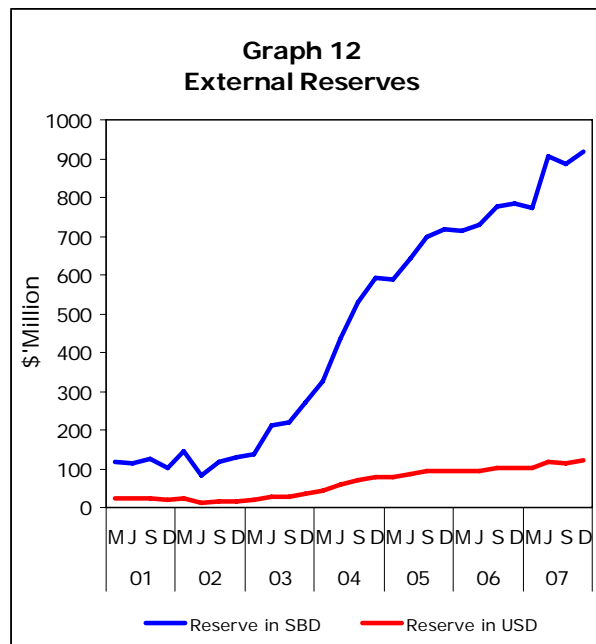
Table 9 External Debt (SBD million)				
	2004	2005	2006	2007
Private Sector	195.0	190.0	188.9	184.8
Government Sector	1149.3	1080.0	1155.3	1128.6
of which arrears	118.9	76.5	105.6	79.2
Total	1344.3	1270.0	1344.2	1313.4
Actual Debt Service	33.4	55.9	33.5	95.9
Principal	13.5	13.3	24.3	70.9
Interest	19.9	42.6	9.2	25.0

Source: Central Bank of Solomon Islands

## External Reserves

Solomon Islands' external reserves rose by 16.1% to \$918.0 million in 2007. This was the result of the overall balance of payments surplus of \$127.6 million. The increase includes revaluation gains due to the declining US dollar and therefore the Solomon Islands dollar.

Despite the increase in external reserves, the large increase in imports in 2007 resulted in a declining level of import cover. By year end, import cover had fallen to 3.9 months of imports of goods and non-factor services, from a level of 4.4 months at the end of 2006.



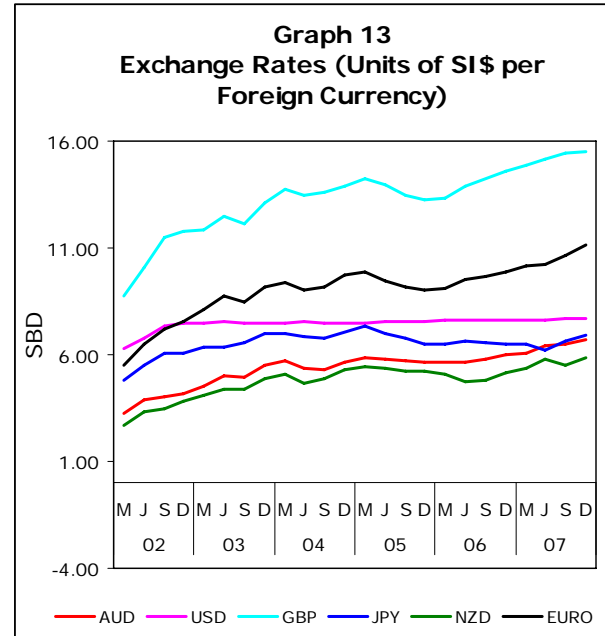
## Exchange Rates

The Solomon Islands Dollar is pegged to a trade-weighted basket of foreign currencies with a primary emphasis of stabilization against the US Dollar, the principal transaction currency used by the country in its trading relationship with the rest of the world.

The US dollar remained stable against the SBD in 2007 and at the year end, traded at an average \$7.66 per USD. This was a depreciation of 0.4% compared with one year ago when the SBD was trading at 7.63 per USD. However, the depreciation of the USD vis-à-vis other international currencies during



the year, resulted in the SBD depreciating against the basket of major tradable currencies. At year end, the SBD depreciated by 11.4% against the Australian Dollar to \$6.68 per AUD, by 11.1% against the New Zealand Dollar to \$5.89 per NZD, by 10.7% against the Euro to \$11.16 per Euro, by 5.8% against the Japanese Yen to \$6.90 per 100 JPY, and by 3.3% against the British Pound to \$15.32 per GBP.



## V. MONEY AND BANKING

### Overview

The key monetary aggregates maintained impressive growth rates in 2007, fuelled mainly by the continued expansion of private sector credit. Broad money grew by 23.9% to \$1,353.0 million, while total domestic credit increased by 54.3% to \$946.0 million. The rise in net foreign assets also contributed to monetary growth during the year.

In another positive development, excess liquidity fell by over \$80 million in 2007. In part as a consequence of this development, interest rates on deposits increased by 44 basis points during the year to an average of 1.63%. This was the main factor behind the narrowing of the interest rate spread to 10.97% in 2007.

### Monetary Policy in 2007

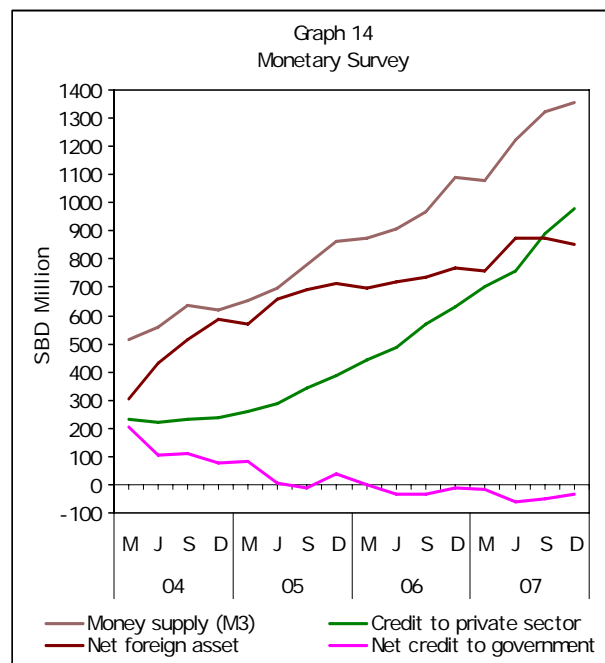
The central aims of monetary policy in 2007 remained the same as in the previous years: to main price stability, to achieve sustained and stable economic growth, a high level of employment, and to ensure a viable balance of payments position.

More specifically, the monetary policy stance focused on:

- Maintaining a level of inflation lower than 10%;
- Maintaining the adequacy of official foreign reserves at a level that is equivalent to at least three months of imports of goods and services; and
- Improving interest rates on deposits

In order to tackle the problem of high inflation and low interest rates on deposits, in 2007 CBSI implemented a policy to allow Solomon Islands National Provident Fund (SINPF) to invest \$150 million overseas, thus reducing the high level of excess liquidity in the banking system. The first disbursement of \$40 million was made in

August 2007. A further \$60 million was invested by the end of 2007, while another \$50 million is scheduled for payment during the first quarter of 2008. This helped to reduce surplus liquidity which fell from \$240.0 million in 2006 to \$156.6 million at the end of 2007. Interest rates on deposits also increased notably throughout the year. Other policy areas remained unchanged, with the Liquid Asset Ratio (LAR) at 7.5% of total deposit liabilities and exchange rate policy continuing to focus on stabilizing the Solomon Islands dollar against the US Dollar, the currency in which most of the country's exports and main import items are valued.

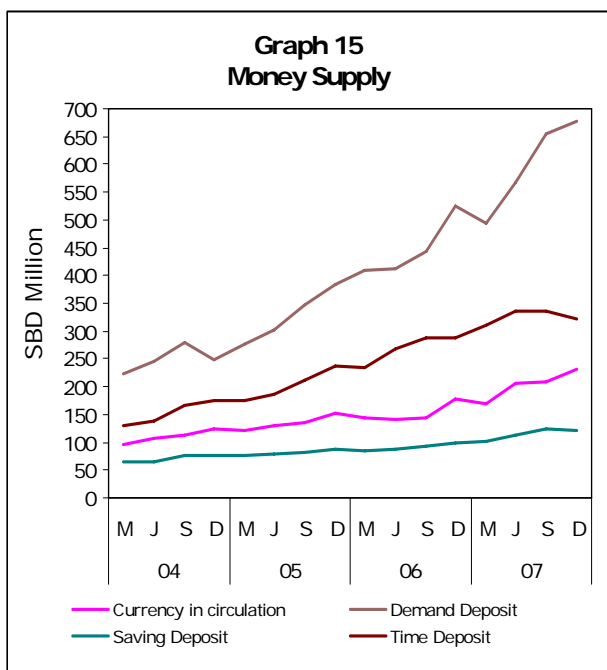


Inflation fell as low as 5.1% during the course of 2007, but rose to 10.0% by the end of the year. This rise, in large part, was due to the international price of oil sky-rocketing towards the end of the year. This is a critical concern, and CBSI will closely monitor further developments in the coming months. Foreign reserves remained sufficient at \$918.0 million,

equivalent to 3.9 months of imports of goods and non factor services. Interest rates on deposits showed signs of improving with the average deposit rate rising to 1.63% at the end of the year.

### Money supply

Broad money supply (M3) continued its strong growth from the previous year, increasing by 23.9% in 2007 to \$1,353.0 million, compared to 26.4% growth in 2006. The major factor behind this increase was the significant expansion in credit to the private sector which increased to \$976.9 million from \$632.3 million in 2006. An 13.0% increase in the net foreign assets of the Central Bank also contributed, rising from \$773.1 million to \$873.5 million during the course of the year.



Narrow money (M1), defined as currency in circulation and demand deposits rose significantly by 29.3% to \$909.7 million in 2007 compared to a 30.8% growth to \$703.4 million in 2006 (See Graph 15). Both components contributed to this increase, with currency in

circulation growing by its highest rate since the 1980s, rising by 30.6% to \$232.0 million in the course of the year. Demand deposits expanded by 28.9% to \$677.7 million. The growth in demand deposits and currency in circulation reflected the high GDP growth in the economy in 2007 and the expansion of private sector lending.

Demand deposits held by 'other depositors' was the largest component of total demand deposits, recording a 67.9% increase to \$313.1 million in 2007. Meanwhile, business firms also increased their demand deposits by 8.8% to \$273.5 million, while private individual deposits increased by 26.8% to \$32.2 million. Government and statutory corporations demand deposits on the other hand, decreased to \$38.3 million (by 38.5 %) and \$42.8million (a 10.3% drop) respectively during the year.

Interest-earning deposits also increased during the year with an expansion in both savings and time deposits. Savings deposits grew by 23.8% to \$122.4 million, while time deposits rose by 11.0% to \$320.9 million. Accordingly, quasi money increased by 14.2% to \$443.3 million compared with 19.1% growth in 2006. The 2007 slower growth was due in part to a \$100 million investment by SINPF overseas.

The rise in savings deposits was driven by an increase in private individual deposits of 22.4% to \$86.7 million. Business firms' saving deposits also increased by 27.1% to \$30.0 million at the end of the year. In contrast, business firms' holdings of time deposits fell by 22.4 % to \$64.2 million and private individuals holdings fell by 5.9% to \$16.2 million. Thus, the growth in time deposits was mainly the result of an increase in deposits held by 'other' depositors by 27.1% to \$230.8 million.

The growth in deposits and lending by the commercial banks was instrumental in the robust expansion in commercial activities. It also reflected greater confidence in the economy by the commercial banks. However,

the strong money supply growth and domestic demand are a cause for concern as these are a sources of inflationary pressures in the economy.

### Net Foreign Assets

Total net foreign assets (NFA) rose by 10.6% to \$852.0 million in 2007. This positive development was attributed mainly to an increase in the NFA holdings by the Central Bank which rose by 13.0% to \$893.5 million. The growth in NFA was in part the result of \$127.6 million. The positive BoP surplus of over \$70 million, of which while approximately over \$50 million was due to revaluation gains on foreign exchange. Holdings of commercial banks' foreign assets declined significantly from a minus \$3 million to a minus \$21.5 million at the year end.

### Domestic credit

Domestic credit expanded significantly in 2007 by 54.3% to \$946.0 million compared to a 45.9% increase in 2006. The increase was attributed to continued growth in credit to the private sector, which increased by 54.5% to \$976.8 million during the year. In contrast, net credit to government (NCG) fell from a minus \$11.2 million in 2006 to a minus \$30.9 million at the end of the year.

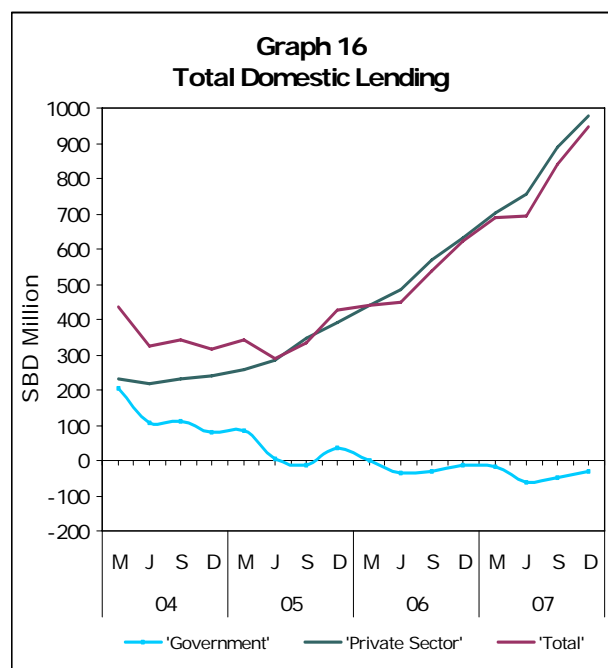
In a small economy like Solomon Islands, where capital markets generally do not exist, credit from the commercial banks is a crucial source of financing business and investment activities. The rapid expansion in domestic credit witnessed in the past three years indicates lending activities are buoyant due to improved economic activities and greater investment confidence.

In 2007 the Personal sector remained the largest recipient of bank private sector credit with 19.8% of total credit. Housing loan was the largest component of this category, representing approximately 12.4% of total

credit. The Distribution sector was the second highest recipient of commercial bank credit, accounting for 14.6% of total credit, followed by Forestry (13.8%), and Telecommunication (12.2%). Housing increased by 69% in 2007, owing to high demand in the housing sector. Manufacturing sector also rose significantly by over 100% due mainly to fuel import payments, and increased manufacturing of 'Food and Non-Alcoholic Beverages'.

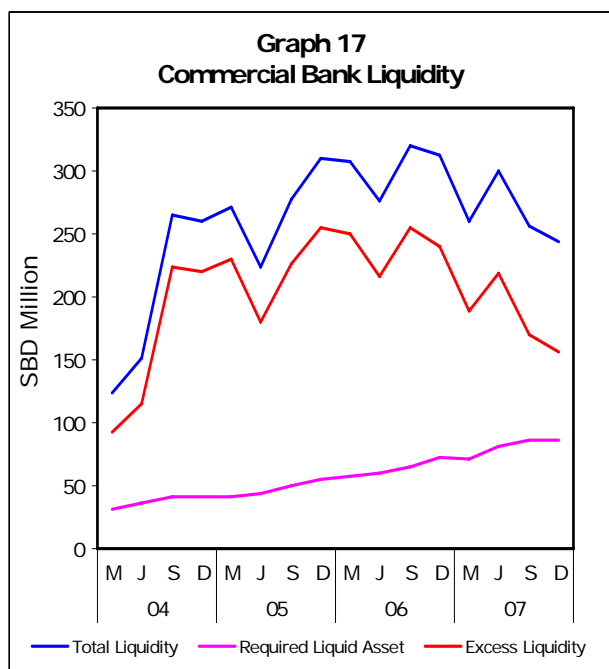
### Liquidity

In 2007, total liquidity in the banking system fell markedly by 22.3% to \$243.2 million, contrasting a 1.1% rise to \$312.2 million at the end of 2006. Similarly, excess liquidity fell from \$240.0 million to \$156.6 million at the end of 2007 (See Graph 17).



The fall in excess liquidity was in part explained by offshore investment by the SINPF, as part of monetary policy actions endorsed by the Central Bank. \$100 million was invested offshore in the latter part of the year, with a further \$50 million due for transfer in the first

half of 2008. A 30.6% increase in currency in circulation also contributed in reducing the excess liquidity as well as an increase in commercial banks' required reserves by 18.7% to \$86.6 million.



The interest rate spread, based on actual interest rates on deposits and earning assets, fell slightly in 2007 from 11.56% at the end of 2006 to 10.97% at the end of 2007. This was mainly due to an increase in interest rates on deposits, which rose from 1.19% to 1.63% over the year. This suggests that CBSI's policy to tackle excess liquidity in 2007 had an immediate impact on deposit interest rates. Average interest rates on earning assets also contributed to the narrowing of the interest rate spread, falling from 12.75% to 12.6% in the course of the year. Nevertheless, the interest rate spread remains high in Solomon Islands, reflecting various risks of doing business in the country. Despite the improvement in deposit interest rates this year, the high rate of inflation indicates that the real rate of return on deposits was minus 8.5%, which acts as a disincentive on savings from Solomon Islanders. On the open market activities, yields for the Auction Bills for 91 days ranged between 2.8% and 3.4% in 2007, lower than the range recorded in 2006.

## VI. GOVERNMENT FINANCE

### Broad Developments in 2007

The overall fiscal position in Solomon Islands in 2007 showed a surplus of \$10.6 million, 60.7% less than the overall surplus of \$26.9 million in 2006. This was the outcome of a very positive revenue performance combined with an even larger expansion in recurrent spending. Total revenue (including grants for budget support) increased by 28.2% to \$1,206.7 million, greatly exceeding forecasts. A very strong domestic revenue performance underpinned this increase, rising by 32.6% to \$1090.3 million. Total expenditure increased by 30.8% above 2006 to \$1,196.1 million. This was related to an increase in recurrent expenditure of 24.2% to \$1030.2 million, and also a 95% increase in consolidated development expenditure to \$165.9 million.

In 2007 SIG maintained its commitment to no further borrowing, and also upheld its debt repayment obligations for the year. Total debt servicing for 2007 reached \$138.4 million, 6.0% above the previous year, and as a result the external debt stock and debt arrears both contracted during the year.

Government domestic revenue is expected to grow strongly again in 2008 as a result of continuing economic growth, high log export volumes, business profitability, and improved administration of revenue collection. Nevertheless, appropriate tax reforms could further maximize revenue and improve the business environment. In particular, the issue of determined prices of logs remains unresolved and is losing the people of Solomon Islands over \$1 million per week according to CBSI calculations. Meanwhile, total expenditure forecasted for 2008 is expected to increase by 39.5% to \$1669.1 million, of which 23.0% is budgeted to be spent on development.

### Revenue

Domestic revenue collected during 2007 totaled \$1090.3 million, 28.6% above the previous year and 23.0% above the budget estimate. This consisted of \$937.9 million in tax revenue and \$152.4 million in non-tax revenue. Large increases were seen from most revenue sources.

**Table 10**  
Solomon Islands Government Operations

	(SBD million)	
	2006	2007
<b>Total Revenue and Grants</b>	<b>946.2</b>	<b>1206.7</b>
Recurrent Revenue	870.0	1118.6
Local Revenue	822.1	1090.3
Inland Revenue Division	426.1	595.2
Customs	264.1	342.7
Non-tax (including airspace fees)	131.8	152.4
Budget Support	47.9	28.3
Development Revenue	71.1	88.1
Grants for Consolidated Funds	71.1	88.1
SIG Surplus (Development Financing)		
<b>Total Expenditure</b>	<b>914.2</b>	<b>1196.1</b>
Recurrent Expenditure	829.2	1030.2
Payroll	248.9	351.9
Other Charges	382.8	533.8
Debt Servicing	131.1	138.4
Budget Support	37.4	32.5
Increased govt. debt arrears	29.1	-26.4
<b>Development Expenditure</b>	<b>85.0</b>	<b>165.9</b>
SIG-Funded Development Expenditure	13.9	71.7
Other	71.1	94.2
Recurrent Surplus	40.8	88.4
Overall Surplus (deficit)	26.9	10.6
Source: Ministry of Finance and CBSI		

Inland Revenue Division's (IRD) revenue increased by 39.7% compared with last year to \$595.2 million in 2007, 28.7% above the budget estimate for 2007. This reflected a rise in most of the revenue categories, with the exception of revenue from license fees. Most notably, revenue from Goods tax rose by 47.4%

to \$250.5 million, an increase of more than \$80 million that was related to the booming economy and high level of imports. Meanwhile, PAYE rose by 29.4% to \$144.7 million, Company tax rose by 33.7% to \$103.5 million, withholding tax rose by 45.8% to \$48.9 million, and sales tax increased by 41.1% to \$33.7 million. Improved business expansion and profitability, better tax administration (including improved operational procedures and audit and enforcement activity), and strong application of the exemption guidelines were the main factors behind these increases. Stamp duty also rose, by \$4.7 million (100%) to \$9.5 million. License fees collection, however, fell by \$0.2 million (5.1%) to \$4.5 million. Other important factors that led to the increase in revenue collection were improved administration in revenue collection, higher compliance by IRD officers and tax payers, and improved institutional measures to collect revenue, in particular relating to goods tax where a separate unit was established.

Customs and Excise Division (CED) revenue collection increased by 29.7% to \$342.7 million, a rise of \$78.5 million and above the budget estimate by 8.2%. This increase was mainly related to increased revenue from log exports and imported goods, though increases were seen in all categories. Revenue from log duties increased by 39.2% (\$50.4 million) to \$179.0 million, largely as a result of the huge increase in output from the forestry sector. Import duties increased by 19.8% (\$17.4 million) to \$105.1 million, while excise duties rose by 21.4% (\$9.3 million) to \$52.7 million. While the most important factor behind the CED revenue increase was high GDP growth and imports related to this, the reduction in exemptions and improved monitoring were also factors in the increase.

Revenue collection from non-tax sources rose by 15.6% to \$152.4 million in 2007. The largest contributor was the Ministry of Fisheries and Marine Resources, which generated \$93.8 million in non-tax revenue, 43.0% of which

was from overseas sources. Revenue from the Ministry of Communication and Aviation was also high at \$15.3 million, while revenue from the Ministry of Lands and Housing was the third largest contributor with \$14.6 million. Finally, the Civil Aviation Special fund remained at approximately the same level as in 2006 at \$9.7 million.

Revenue from overseas grants decreased slightly in 2007, from \$119.0 million in 2006 to \$116.4 million this year. Of this, \$28.3 million was in the form of recurrent budget support, a significant decline from \$47.9 million in the previous year. Budget support this year was entirely related to New Zealand funding for education. Other overseas grants for consolidated expenditure, on the other hand, increased significantly this year from \$71.1 million to \$88.1 million, due to increased funding from the Republic of China (ROC).

### **Expenditures**

Total government expenditure for 2007 increased by 30.8% compared with 2006, to \$1,196.1 million. This was composed of \$1030.2 million in recurrent expenditure and \$165.9 million in development expenditure. The recurrent expenditure consisted of \$351.9 million for payroll, \$533.8 million for 'Other charges', \$138.4 million for Debt Servicing, \$32.5 million for NZ Budget Support expenditure, and negative \$26.4 million related to increased arrears. Of the total development expenditure, \$71.7 million was funded by SIG, while the remaining \$94.2 million was funded from overseas grants.

Payroll, which represented 34.2% of total recurrent expenditure, increased by 41.4% compared with 2006, to \$351.9 million. This exceeded the budget estimate by 7.5%. Reasons for the increase were increased employment, payment of overdue allowances and the adjustment of salaries through the introduction of the realignment scheme for teachers.

'Other Charges' expenditure in 2007 (including civil aviation expenditure) totaled \$533.8 million, an increase of 39.5% from 2006. Expenditure on education was again the largest portion of the total spending with 20.4% (\$109.2 million), followed by the Ministry of Health and Medical Services (10.7%), Ministry of Infrastructure Development (8.9%) and Ministry of Provincial Government and Rural Development (7.9%).

SIG consolidated development expenditure in 2007 totaled \$165.9 million. Of this, \$71.7 million was SIG-funded, a large increase from \$13.9 million in 2006. The remaining expenditure came from overseas donors, predominantly ROC. Meanwhile, non-appropriated spending by donors in the country also increased significantly in 2007, rising by 7.2% to \$1723.2 million. To a large extent this reflected ongoing assistance relating to security and development in the country, though increased donor flows were also in part related to tsunami-relief aid funding.

### **Government Debt and Arrears**

Total formal government debt stock declined from \$1,612.6 million at the end of 2006 to \$1,557.0 million by the end of 2007. Of the total, \$1,128.6 million were external debts, which declined by 2.3% (\$26.7 million) from the previous year. The decline reflected significant debt repayment by SIG in 2007, including \$35.0 million to Kuwait and \$15.75 million to EFIC representing 30% of the total debt to EFIC, with the remaining 70% written off. In terms of creditor shares, the largest portion of debts at the end of the year was to the Asian Development Bank (38.2%), followed by the International Development Association (31.3%).

On the domestic front, formal domestic debt also declined by 6.3% to \$428.4 million. Of this, \$277.1 million is for redemption of Government securities, \$149.9 million is for SIG advances from the Central Bank and \$1.4

million is for other bonds. Of the total Government Securities, \$1.1 million is for frozen Treasury Bills, \$27.6 million (9.9% of total) is for auction bills, and \$248.5 million (89.7%) are for restructured bonds.

According to CBSI figures, debt repayment for 2007 totaled \$138.4 million, 6.0% higher than the previous year. This consisted of \$95.9 million repayment of external debt and \$42.5 million in domestic debt servicing. External repayments were mainly made to the Kuwait Fund for Arab Economic Development (KFAED), Export Finance and Insurance Corporation (EFIC Australia) and ADB. The scheduled repayment amount for external debts was \$60.1 million. Of the \$42.5 million repayment for domestic debt, \$6.3 million was paid to CBSI, \$22.7 million was repayment on restructured bonds and \$13.5 million was for other domestic debts.

External debt arrears at the end of 2007 declined by 25% to \$79.2 million. The decline was due to large debt repayment during the year. Debt arrears outstanding at end -2007 are owed to the European Union (\$24.5 million), the European Investment Bank (\$23.7 million), the Organisation of Petroleum Exporting Countries (OPEC) (\$12.4 million), Exim Bank (\$7.3 million) and KFAED (\$4.7 million).

### **Accounting and Audit**

The Office of the Auditor General continued its auditing of the government accounts this year, and by year-end the SIG 1998-2003 the national consolidated accounts had been finalized, as had all provincial government accounts up to 2007. Work is well progressed on the SIG National account audits for 2004, 2005 and 2006.

The auditing process has identified numerous and serious problems of non-compliance, malpractice and corrupt practices. Action against the individuals involved has been poor,



however, and the OAG emphasizes the importance of the responsible legal authorities taking measures in accordance with their recommendations, that will deter the continuation of these problems.

### **2008 Budget Outlook**

Following the vote of no confidence in the Grand Coalition for Change government on the 20th December 2007, the Coalition for National Unity and Rural Advancement (CNURA) came into power. Six main priorities of the CNURA government include: Reconciliation and Rehabilitation, National security and Foreign Relations, Infrastructure Development, Social Services Sector, Economic/Productive sector and Civic Affairs.

The recurrent expenditure budget is forecast at \$1,289.2 million, 38% higher than the forecast for 2007 and 25.1% higher than actual

expenditure in 2007. Of this, \$125.7 million will be funded by overseas donors as recurrent budget support, and the remainder funded from domestic revenue sources. With a forecasted \$1293.5 million from domestic revenue for 2008, this gives an overall recurrent budget surplus of \$130.6 million in 2008. IRD is expected to contribute \$721.0 million to domestic revenue in 2008, CED to collect \$417.2 million, and 'Other Ministries' to collect \$155.3 million.

The budget for development expenditure has increased massively in 2008 to \$380.5 million, from expenditure of \$165.9 million in 2007 (and a budget in 2007 of \$188.7 million). This will be funded by overseas consolidated grants (\$99.9 million) and the recurrent budget surplus (\$130.0 million). The remainder will be funded by a drawdown of approximately \$150 million of government's deposits with the banking system. Non-consolidated grant is estimated to be around \$1,612.0 million.

## VII. FINANCIAL SYSTEM

Comprising three commercial banks, a credit institution, a superannuation fund (the Solomon Islands National Provident Fund), the Solomon Islands Financial structure was the same as in the previous year. The Development Band of Solomon Islands was still under Court Administration during the year. In addition, the financial system had 10 active credit unions, 3 insurance companies and 6 intermediaries, a licensed Money Transfer Agency and a Licensed Currency Exchange Bureau both operated by the Solomon Postal Corporation.

### Commercial Banks

Commercial banks continued to provide financial intermediation for domestic and overseas clients. Whilst the number of commercial banks licensed to carry on banking business in Solomon Islands remained at three, there had been a change in ownership of one of the banks. The National Bank of Solomon Islands Limited (NBSI) was sold by its owners to the Bank of South Pacific Limited (BSP) of Papua New Guinea. As a result of the sale, all three commercial banks in Solomon Islands are now branches of overseas banks: two Australian banks and one Papua New Guinean.

Table 11 summarizes the number of bank branches and electronic banking terminals available to service the banking needs of the people in Solomon Islands. The increase in the number of ATMs and EFTPOS indicates a change in the delivery of banking services in Solomon Islands towards electronic banking rather than physical branch presence. It also suggests that in the not-too-distant future, shops and post-offices will become the 'bank branches'. However, to enhance the objective of greater accessibility to banking services to the majority of the population, it is pertinent that much needed expansion and improvement to existing telecommunication

infrastructures that support electronic banking platforms through out the country be made.

**Table 11**  
**Bank Branches and Electronic Banking Facilities**  
**2004-2007**

	(SBD'million)			
	2004	2005	2006	2007
Bank Branches	13	14	14	14
Bank Agencies	7	8	10	10
ATMS	2	3	12	16
EFTPOS	69	81	96	136
Mobile Bank Vehicles	-	1	1	4

Source: Central Bank of Solomon Islands

The commercial banks employed a total of 337 workers in 2007, an increase from 307 workers in 2006. Of the total employees, 8 were expatriates and 329 Solomon Islanders.

### Financial Performance in 2007

The year recorded one of the best results of the banking sector since the restoration of law and order in 2003. Net after tax profit was \$75.7 million, a 38% increase from 2006.

**Table 12**  
**Summary of Commercial Financial Statements**  
**2004-2007**

	(SBD'million)			
	2004	2005	2006	2007
<b>Income</b>				
Net interest income	39.6	44.7	73.9	103.5
Non interest income	66.9	68.9	82.6	115.2
<b>Expenses</b>				
Operating expenses	53.4	56.0	72.5	90.0
Bad and doubtful debts	0.2	0.9	3.5	11.5
<b>Profits</b>				
Net operating profit before tax	52.9	56.7	84.0	117.2
Net profit after tax	35.2	37.2	54.9	75.7

Source: Central Bank of Solomon Islands

The year also saw the banks' combined balance sheet totalled \$1.5 billion. This growth was driven by increases in loans and advances. Loans and advances rose to \$956.7 million up from \$617.2 million in 2006. Consequently bank liquidity fell by 22.7% to \$240.6 million as loan proceeds were used to finance imports of goods and services.

Lending was mainly in personal (including housing loans), distribution, forestry, telecommunication and manufacturing. These sectors accounted for 74% of total loans, advances and lease financing from the commercial banks.

### Financial Soundness Indicators (FSI)

Solomon Islands facilitated surveillance of the soundness of its financial sector by using 11 of the 12 Core indicators recommended by the International Monetary Fund. These 11 indicators relate to capital adequacy, asset quality, earnings and profitability, and liquidity. The trends in FSIs from 2004 to 2007 are summarized in Table 13.

These FSIs were compiled by simple aggregation without elimination of inter-bank balances. In terms of capital adequacy, Basel 1 methodology was adopted in the fourth quarter of the year, for the determination of total risk weighted assets. At the same time, capital adequacy ratio for prudential requirement was increased from 10% to 15%. Since all three banks operating in Solomon Islands are branches of overseas banks, the capital concept used in Solomon Islands differs from permanent capital concepts.

Solomon Islands is yet to compile its metadata for FSIs in line with the IMF's *Financial Soundness Indicators: Compilation Guide*.

**Table 13**  
**Solomon Islands: Financial Soundness Indicators**  
**2004-2007**

(percentages)

	2004	2005	2006	2007
<b>Capital Adequacy:</b>				
Regulated capital to risk weighted assets	26.1	30.7	21.8	17.8
Tier 1 Capital to risk weighted assets	17.7	23.7	17.0	14.2
Non-performing loans net of provisions to capital	3.3	1.7	0.8	2.0
<b>Asset Quality:</b>				
Non-performing loans to total gross loans	3.4	1.1	0.5	0.8
Sectoral distributions of loans to total loans				
Personal	17.0	16.3	19.0	20.1
Distribution	19.5	23.1	17.1	14.8
Forestry	17.5	15.5	13.3	12.4
Manufacturing	11.1	12.8	10.2	13.2
Telecommunication	17.7	15.5	13.3	12.4
Construction	6.2	5.4	6.9	6.3
Professional services	6.2	4.4	7.5	5.4
Others	4.7	6.7	11.5	13.5
<b>Earnings and Profitability:</b>				
Return on Assets	7.6	6.4	7.4	8.4
Return on equity	31.9	26.5	32.3	41.1
Interest Margin to gross income	37.2	39.3	47.2	47.3
Non-interest expenses to gross income	50.3	50.1	46.3	46.4
<b>Liquidity</b>				
Liquid assets to total assets (liquid asset ratio)	33.6	31.2	24.5	16.0
Liquid assets to short term liabilities	88.6	76.3	53.3	33.9

Source: Central Bank of Solomon Islands

### Licensing and Legislation

The Bank South Pacific [BSP] was issued a license under the Financial Institutions Act 1998 (FIA)(as amended) during the year. Its licence is to carry on banking business in the Solomon Islands as a branch of the BSP based in Papua New Guinea. The CBSI issued the license on 12 January 2007 and only became fully operational as BSP on 1 August 2007 after fully taking control of the operations of the local National Bank of Solomon Islands (NBSI) which ceased to operate as a bank in Solomon Islands since then.

In October 2007, the Prudential Statement on Capital Adequacy was implemented and enforced on all licensed financial institutions operating in the Solomon Islands. The Prudential Statement was issued in accordance with section 7 of the FIA. It requires all licensed financial institutions in Solomon Islands to calculate their total risk weighted assets using the Basel I Methodology. In addition the minimum capital risk ratio was increased from 10% to 15% of the total risk weighted assets.

Furthermore, the Prudential Statement on Asset Quality was implemented and enforced on all licensed financial institutions in December 2007. This requires all licensed financial institutions to identify their loan portfolio in accordance with the following classification: current; special mention; substandard; doubtful and loss. After having identified their loan portfolio, they are to ensure that they maintain a minimum provisioning, of 20% of the outstanding balance of all facilities classified as Substandard; 50% of all facilities classified as Doubtful and 100% of all facilities classified as Loss (unless already written off in full).

Under the Insurance Act, Cap 162 (as amended), a new corporate agent license was issued to OCTU Investments Pty Ltd. Three Insurer's Licenses and five Insurance Intermediary licenses were renewed including that for a corporate agent. A review of the Act was made which recommended that amendments be made to the Act. The actual drafting of the recommended amendments is pending the Bank securing TA and the appropriate expert for the assignment in 2008.

The Credit Unions Act, Cap 165 was in its early drafting stages. Consultation meetings with stakeholders on the new amendments were held in Honiara and will be extended to the provinces in 2008. The new changes covered issues on accountability and transparency, disclosure requirements, increase in start up membership and an upgrade of "fit

and proper" requirements. There were also draft amendments to the Credit Unions Regulations which the CBSI Board has approve and to be endorsed by the Minister. An important change in the Regulations was the removal of the interest rate ceiling on lending.

### **Credit Corporation (SI) Limited (CCL)**

The CCL realized a \$1.7 million after tax profit for the year. The positive growth reflected 54% growth in net interest income stemmed from its core activities of chattel mortgage, general financing and investments.

As the result of increased earnings, return on assets almost doubled to 10.2 % from 5.8% in 2006. Return on Equity, also rose to 15.1% from 6.4% in 2006. Given the nature of its business model, CCL's interest margin was higher than that of commercial banks to compensate for risks it takes in its principal activities.

CCL's balance sheet grew by 34.1% to \$22.9 million in 2007. This growth was largely due to growth in chattel mortgage portfolio by \$5.1 million to \$20.2 million. CCL held risk capital of 56% compared to the 15% required by the CBSI for prudential requirement purposes.

### **Microfinance and Inclusive Financial Initiatives**

The generally accepted definition of microfinance is the "supply of loans, savings, and other basic financial services to the poor in the rural areas.

In Solomon Islands existing institutions, including commercial banks, credit unions and savings clubs, provide microfinance services to targeted groups of customers. There are other informal credit providers, for example, trade-stores and money lenders, but there are no records on their activities and the impact of services to their customers.

In 2007, credit unions, savings clubs and the ANZ Microfinance Rural Banking unit were the key microfinance providers in Solomon Islands. ANZ's Mobile banking services also expanded during the year.

### Credit Unions

Credit Unions represent the ownership and management of financial institutions in the hands of Solomon Islanders. Subject to the quality of their management, the performance of each credit union varied. During the year, while some of the credit unions operated profitably and were paying dividends to their members, others needed assistance to overcome operational inefficiencies and management inadequacies. If managed properly however, credit unions could provide strong alternative means of savings and lending to their members.

<b>Table 14</b> <b>Summary of Credit Unions Financial Statements</b> <b>2005 - 2007</b> <b>(SBD million)</b>			
	2005	2006	2007
<b>Balance Sheet</b>			
Total Assets	27.6	33.4	41.0
Loans and Advances	17.6	24.9	30.3
Members share capital	21.6	31.6	38.7
<b>Income statement</b>			
Total Income	1.4	1.3	3.4
Total Expenses	1.5	2.6	1.8
Net Profit (Loss)	(0.1)	0.5	1.6
<b>Statistics</b>			
No. of members	5106	6474	6719
No. of reporting credit unions	7	10	10
Source: Central Bank of Solomon Islands			

As at end 2007 the financial returns from the 10 credit unions that regularly report to the Registrar's Office indicated positive growth in terms of total assets, financial performance and membership of the credit unions relative to 2006. Table 14 summarizes the financial position and result of the reporting credit unions in 2007.

Credit Unions self-sufficiency ratio, a measure of how effective the credit unions are covering their operational expenses from generated revenues, also indicates a remarkable improvement of 189% compared to 124% in 2006. This signifies that the 10 credit unions were able to generate enough revenues to cover their operational expenses.

The Registrar's Office continued to work on the proposed amendments to the Credit Unions Act, Cap 165 with the assistance of the World Council of Credit Unions and Credit Union Foundation of Australia (CUFA). Work is also in progress towards standardization of the credit unions accounting codes so that quality data can be generated for both prudential supervision and monitoring requirements.

### Solomon Islands Credit Union League

The Solomon Islands Credit Unions' League (SICUL) as the apex body of credit unions in the country continued to operate despite the lack of adequate resources to provide services to its members. SICUL is a non-government organization set up under Section 66(1) of the Credit Union Act, CAP 165 (the Act) in the interest of the credit union bodies. The League is owned by the credit unions that are registered under the Act (s.66 (2)). Member credit unions are required to support SICUL financially by paying their league dues each year. Member credit unions elect the Board of Directors to the SICUL and the Board appoints the Management to carry out the functions of the SICUL as required under the Act. These functions included assisting in the establishment of new credit unions, providing advisory services, promoting the credit union movement, and supervising of the credit unions.

To assist in promoting and developing the movement as an alternative provider of savings and credit to members, the Registrar's Office has for a number of years provided financial assistance to the League. In 2007, it assisted

the SICUL to recruit a new General Manager, with the intent that a strong SICUL is required to enhance the operations of the individual credit unions. A Memorandum of Understanding (MOU) was signed between the CBSI and the SICUL on the usage of the subvention funds to meet the SICUL's personnel and operational costs for 3 years commencing in 2007. Including non-cash elements the support amounts to \$310,000 per year. The disbursement of funds is provided quarterly subject to SICUL meeting the conditions stated in the MOU.

Apart from the Registrar's Office, CUFA has also contributed to the development of credit unions in Solomon Islands by providing direct financing and technical assistance to the SICUL during 2007. It is hoped that all these assistance will result in a better managed SICUL office that will effectively respond to the needs of its member credit unions.

### **Small Business Finance Scheme**

As part of its policy to encourage more Solomon Islanders to participate in economic activities and the development of Solomon Islands, the government re-introduced the Small Business Finance Scheme (SBFS) in June 2007. The government allocated \$10 million of its 2007 development budget for this purpose and deposited the funds with the CBSI to underwrite the risk taken on this facility.

The objective of the facility is to encourage commercial banks to give more support to the small and medium enterprise sector. This would be achieved through the provision of additional collateral to Small and Medium Enterprises (SMEs) which commercial banks regard as credit worthy but are unable to provide adequate collateral against their loan proposals.

Under the scheme, the borrower is covered by a guarantee, where the government through CBSI will underwrite 80% of the net unsecured

portion of the loan that a bank would grant to an SME. The maximum amount of guarantee that CBSI will cover for a borrower is \$300,000. Loans eligible under the scheme are from \$50,000 to \$1.0 million. Like, its preceding scheme, the duration of the guarantee is five years.

As at the end of 2007, the three participating banks have nominated 20 loans worth \$3 million under the scheme. CBSI guarantee stood at \$1.2 million.

In line with the government's priority, 55.8% of the approved loans under the scheme went to SMEs in the provinces. Honiara based SMEs accounted for the remaining 44.2 %.

In terms of sectoral distribution, transportation accounted for 44.9% of outstanding loans under the scheme, construction at 14.8%, agriculture at 13%, retailing at 12.5%, forestry at 11.4% and textile accounted for 3%.

Whilst the value of loans nominated under this scheme represented only 0.3% of total private sector lending by the commercial banks, the main objective of the scheme was to allow SMEs, owned by Solomon Islanders, to access additional financial assistance to fund their activities. This goal has been achieved as measured in terms of the value of loans granted to SMEs during the first 6 months operations of the scheme.

### **Rural Financial Services**

An important objective of the government, is to ensure that banking services are available to the rural population in Solomon Islands. To meet this goal, the government has initiated and provided budgetary support to a rural outreach scheme which would encourage providers of banking services to extend these services to rural parts of the country. Already the government has set aside \$5 million in the 2007 Budget to do this. Access to this fund was by competitive bidding.

In 2007, Australia and New Zealand Banking Group (ANZ) won the bid to provide this service. During the year ANZ expanded its banking services to rural areas by acquiring more mobile banking vehicles that served parts of Guadalcanal and Malaita Provinces. For the other provinces, ANZ, in partnership with Solomon Post, has set up ATMs and EFTPOS in provincial centres including Munda, Noro, Gizo, Auki, Tulagi, and Tetere. Soon to be linked through the electronic banking network are Kirakira, Buala, Tigoa and Taro.

### Financial Literacy Initiative

Global experience has found that a financially educated person can make better decisions for their families and enhance their economic security and well being. Secure families are better able to participate in and contribute to productive and thriving communities, further advancing national economic development.

Whilst the availability of banking services is important, it is crucial that people are educated on how to manage, use, and save money so that investment in banking services is viable. To enable rural people become financially literate, the United Nations Development Programme (UNDP) has piloted a Financial Empowerment Program in rural Guadalcanal in 2007. This was coordinated through UNDP's Sub-office in Honiara, in partnership with the Solomon Islands Government. The financial literacy program components included the designing of a financial literacy training module; training of trainers and delivering the training to communities that receive the ANZ rural banking services. The objective of this program is to provide rural communities with knowledge of money management, including recording their income and prioritizing expenses, preparing a household budget and savings plans, and how to use available financial services to achieve individual and family financial goals.

At the end of 2007, about 28,000 villagers have gone through this training program. The project will be evaluated in early 2008 with the aim of drawing lessons and determining how it can be rolled out into communities in other parts of Solomon Islands.

### Solomon Islands National Provident Fund

The Solomon Islands National Provident Fund (SINPF) is the only superannuation institution managing retirement savings for members.

**Table 15**  
**Summary of NPF's Financial Position**  
**2004-2007**  
(SBD million)

	2004	2005	2006	2007
<b>Balance Sheets</b>				
<b>Total Assets</b>	<b>474.9</b>	<b>529.9</b>	<b>605.1</b>	<b>756.9</b>
Current Assets	75.4	140.4	211.2	298.9
Claims on SIG	126.1	126.2	138.5	138.5
Claims on Statutory Corps	44.8	42.9	26.8	6.2
Claims on Provincial Govt.	19.4	18.5	-	-
Private Sector Borrowings	42.6	38.8	29.5	22.2
Equity Shares	90.4	90.9	123.1	188.7
Others	75.9	67.2	76.0	102.3
<b>Liabilities</b>	<b>474.6</b>	<b>524.9</b>	<b>605.1</b>	<b>756.9</b>
Contributions	410.1	459.2	525.0	668.8
Capital	11.9	10.7	37.9	73.7
Others	52.6	55.1	42.2	14.4
<b>Income Statements</b> <b>(up to June 2007)</b>				
Total Income	25.5	27.7	45.8	141.6
Operating Expenses	67.7	19.9	22.1	24.3
Net Profit	-42.2	7.8	23.7	117.3

Source: Central Bank of Solomon Islands

The SINPF's financial year ending June 2007 showed a record profit of \$117.3 million compared to \$23.7 million in the previous year. This increase was due mainly to dividends from the NBSI and other investment companies. Total income received in 2007 was \$141.6 million. Following the robust performance, the NPF Board was able to declare an 18% interest payout (highest paid for a number of years) to its members. For the year ended December 2007, the Fund's Balance Sheet stood at \$757

million driven by net contributions by members, which increased by \$144 million to \$669 million.

During the year, the Fund sold its shares in NBSI and purchased shares in Bank South Pacific Limited in exchange. The Fund Board also bought the majority shares in the former local Shell Company (Pacific Islands Limited), now renamed South Pacific Oil Limited.

In pursuance of diversifying its investment portfolio, and following the approval of Minister of Finance and the CBSI, the Fund was allowed to invest 30% (\$150 million) of its balance sheet overseas. About \$100 million of the amount had been transferred by the end of 2007.

### Insurance Industry

Insurance business in Solomon Island is still small but plays the vital role of reducing the risk of conducting business in the country.

In 2007, there were no changes to the number of non life and life insurance companies, while the number of insurance intermediaries had risen to 6 from 3 in 2006.

Financial results for non-life insurance companies showed a slight decline during the year. Net after tax profit was \$5.0 million, a 10.5% reduction from 2006. The drop was mainly due to a 63.6% increase in claims payouts and an increase in unpaid claim provisions related to the earthquake and tsunami in the Western and Choiseul provinces. Nonetheless, total gross premiums received for the year increased by 22.5% to \$38 million.

Total assets also increased by 15.3% to \$57.7 million in 2007. Of this, \$31.4 million were held in cash and receivables due from intermediaries, \$25.9 million in term deposits and \$0.5 million in fixed assets.

Total liabilities increased by 7.1% to \$33.1 million. A significant portion (86.4%) of the liabilities was derived from provisions made for unpaid claims to policyholders and unearned premium received from policy holders. The remaining liabilities were accounted for by provision for taxation, stamp duty, employee entitlements, and amounts payable to re-insurers and sundry credits to related parties.

Despite the reduction in 2007, net after tax profit and shareholders equity grew from \$19.2 million in 2006 to \$24.7 million in 2007.

### Development Bank of Solomon Islands

The Development Bank of Solomon Islands (DBSI) remained under the administration of the CBSI as the Court Appointed Manager, in term of the High Court Order of June 2004. The Order has been renewed for the seventh time to June 2008.

**Table 16**  
**Summary of DBSI's Financial Position**  
**2004-2007**

	(SBD' million)			
	2004	2005	2006	2007
<b>Balance Sheets</b>				
<b>Total Assets</b>	<b>30.9</b>	<b>18.1</b>	<b>11.9</b>	<b>7.6</b>
Loans & Advances	25.8	15.3	8.4	4.3
Others	5.1	2.8	3.5	3.3
<b>Liabilities</b>	<b>43.9</b>	<b>31.7</b>	<b>25.8</b>	<b>21.7</b>
Term Deposits				
(inclusive of accrued interests)	16.4	4.6	0.5	0.5
Others	27.5	27.1	25.3	21.2
<b>Net Assets</b>	<b>(13.0)</b>	<b>(13.6)</b>	<b>(13.9)</b>	<b>(14.1)</b>
<b>Income Statement</b> <b>(for 31 December)</b>				
Total Income	4.4	4.1	2.1	2.1
Interest Expenses	0.6	0.1	-	0.5
Operating Expenses	4.7	2.9	2.4	2.0
Net Profit (Loss)	(0.9)	1.1	(0.3)	(0.4)

Source: Central Bank of Solomon Islands



Under the mandate stipulated in the Court Order, CBSI has been able to recover loans and sell off DBSI's excess assets, which enabled the repayment of \$18.8 million of the \$19.1 million owed to depositors as at June 2004. CBSI has set-aside \$300,000 to meet deposits that remained unclaimed.

As at December 2007, the bank owes \$21.7 million to outside creditors. It has a negative net worth of \$14.1 million. As Table 16 show, DBSI remains an insolvent bank.

### **Anti-money Laundering and Combating the Financing of Terrorism (AML/CFT)**

Solomon Islands surveillance against money laundering and other illicit financial activities is mandated in the Money Laundering and Proceeds of Crime Act 2002 (as amended) (MLPCA). The MLPCA came into full force in 2006. An Anti-Money Laundering Commission (AMLC) has since been set up under the provisions of MLPCA as watchdog for AML/CFT activities that might surface in Solomon Islands. However, as the AMLC has no administrative staff to back up its work, an amendment to the MLPCA in 2005 provided for the setting up of the Financial Intelligence Unit in the CBSI. The unit which is now known as the Solomon Islands Financial Intelligence Unit (SIFIU) has been authorized by the AMLC to oversee the day to day administration of the Act. Money laundering and other illicit financial activities are detrimental to a sound financial system and international reputation of Solomon Islands.

In 2007, an additional officer was recruited to strengthen the capacity of the office. The officers are employees of CBSI but seconded to SIFIU to allow the ALMC to carry out its functions as provided for under the AMLPCA.

To enhance its role, SIFIU signed a series of Memorandum of Understanding (MOU) with the Royal Solomon Islands Police Force, the CBSI, the Comptroller of Customs and with the AMLC. The MOUs provide for sharing of

information and to foster cooperation between these agencies against money laundering and other financial crimes in the country.

Money laundering is an international crime that has no boundaries. As such, Solomon Islands needs to be a member of the AML/CFT group if it must access and share information with others. Toward this goal, Solomon Islands, after being an observer member of the Asia/Pacific Group (APG) on Money Laundering for a period, became a full member of the group in 2007. In this capacity, Solomon Islands is eligible to have access to training and partake in information sharing among the members in the fight against money laundering and related issues. Also as a member, Solomon Islands will be subject to periodical evaluation by the APG, the first being scheduled for late 2009.

In terms of legislations, the Financial Transactions Reporting Bill and the Counter Terrorism Bill are in draft and will be brought to the Parliament when they are ready.

During the year, 8 suspicious transactions were reported to the SIFIU. Five of these have been forwarded to the Royal Solomon Islands Police Force for further investigation.

In 2007, the operational budget of the SIFIU totalled \$465,000. Of this amount, the Australian Government financed \$265,000 while the rest came from the Solomon Islands Government, through the Ministry of Police and Justice. The budgetary support by the Australian Government to SIFIU will end in 2008; thereafter the full cost of the Unit will be met by the Solomon Islands Government.

In terms of training and attachments, Officers of SIFIU were accorded in-house training by the Anti-Money Laundering Assistance Team (AMLAT) of the Attorney General's office in Australia, and various anti-money laundering workshops and attachments overseas. Three awareness workshops were held for people in Gizo, Auki and Buala during the year.

## VIII. CENTRAL BANK OPERATIONS

### Finance and Accounts

The audited financial statements of the Bank are provided in the next section of this report. In 2007 the Bank applied stringent internal expenditure controls while maintaining a firm income source. At the same time, appropriate action was taken in enhancing the integrity of its accounts by clearing all outstanding amounts from past years. Despite an expenditure increase of 28% on the previous year, these were contained within budget. Total revenues for the year reached \$59.9 million an increase of 28% over \$46.8 million in 2006. This increase came particularly from interest earned on foreign investments, representing 87% of the total income, that have performed above the budget for the year.

The Bank's total assets stood at \$1,141.6 million at the end of 2007, an increase of 9.5% from \$1,042.3 million in 2006. This increase was mainly in the Bank's holdings of foreign assets which grew by 16.5% on 2006.

Since 2006, the Bank has experienced difficulties in recruiting suitably qualified people, especially for the Accounts and Finance Unit of the Accounts & Information Technology Department (AITD). Attempts to fill the departmental manager's position from the market have been unsuccessful leaving it vacant for the past two years. The Bank has since decided to fill the position (and other senior positions) by taking current staff through relevant skills and academic training and personal development.

Despite these manpower difficulties the 2007 financial statements were produced on time and in compliance with the International Financial Reporting Standards (IFRS) for the second year. The accounts have been reviewed for compliance with IFRS by an expert funded through IMF technical assistance.

Until the CBSI Act is amended the Bank will continue to present two net income figures to comply with both the IFRS and the CBSI Act. In compliance with IFRS the 2007 net income was \$78.4 million (2006: \$70.9 million). This amount was adjusted by the unrealized gains valued at \$48.9 million (2006: \$49.1 million) to arrive at the net income of \$29.4 million (2006: \$21.8 million) in terms of the CBSI Act. Under IFRS the unrealized gains/losses on foreign exchange transactions are treated as income while under Section 45 (1) of the CBSI Act these are accounted for in the Revaluation Reserve account in the balance sheet.

Following approval by the Minister of Finance, \$17.4 million was transferred in terms of Section 20 (c) of the CBSI Act from the General Reserve to the Paid-up Capital. This saw Paid-up Capital increasing from \$2.6 million to \$20.0 million at the end of 2007, greatly strengthening the equity base of the Bank.

Section 20 (1) & (2) of the CBSI Act requires that while the balance of the General Reserve remains below twice the Authorized Capital of \$50.0 million, half of the annual net operating profit would be allocated to the General Reserves. Accordingly, for 2007 \$14.7 million (half of the net operating profit of \$29.4 million in 2007) is transferred to the General Reserves. The net outcome from these transactions is that the General Reserves have declined by \$2.7 million from \$88.9 million in 2006 to \$86.2 million at the end of 2007. The Board has allocated \$10.0 million (\$8.0 million in 2006) of the operating profit to the Capital Asset Reserves increasing the balance from \$42.7 million in 2006 to \$52.7 million at the end of 2007. The remaining \$4.7 million (2006: \$2.9 million) was transferred to the Consolidated Fund in terms of the SIG/CBSI Deed of Settlement of Debts. Under this Deed of Settlement any amount due to SIG from CBSI net profit is to be paid directly to reduce

SIG Rolling Advance balances and the long term bonds with CBSI.

### **Audit**

The term of PriceWaterhouseCoopers (PWC) as the Bank's external auditors was renewed after it expired in 2006. A new contract will be awarded in 2008 in consultation with the Auditor General to ensure this important function continues to be performed by an international reputable auditing firm. And given that CBSI accounts are now IFRS compliant, an important consideration for the choice is that the Bank's external auditors should also be IFRS compliant.

Notwithstanding the need for separation of functions between the external auditors and internal auditor, PWC also provided internal audit services to the Bank. This not-so-ideal situation was further complicated with PWC having been taken over during the year by locally registered partners, which necessitates a review of their appointment in 2008. In the meantime, plans to have an in-house internal audit unit have been enhanced with the recruitment of a qualified accountant who is now undergoing training and development towards that objective.

### **Currency Operations**

In 2007, total currency in circulation increased by 29% to \$263 million compared to a rise of 21% in 2006. Of this, \$253.4 million was in currency notes and \$9.4 million in coins. With the increasing uptake of the \$100 denomination, the \$100 notes accounted for 50% of total notes in circulation by value whilst the \$5 and \$2 denominations registered 2% of total notes in circulation by value. However, in terms of volume, the \$50 and \$2 denominations together made up 54% of the total notes in circulation, which is a slight decrease compared to 2006. The steady uptake of the \$100 denomination after its introduction in September 2006 has reduced the pressure on the \$50 denomination.

During the year, a total of \$11.77 million worth of mutilated notes was destroyed compared to \$27.86 million in 2006. For the first time in many years, such a sharp decline was observed in the value of destroyed notes. This could be attributed to the introduction of the \$100 denomination. However, the cumulative value of notes destroyed rose to \$208.7 million at end-year. Of this total, 54% were in \$50 notes, 20% were \$20 notes, 14% were in \$10 notes and the remaining balance was accounted for by the two low denominations.

The introduction of cash dispensing machines in Solomon Islands, has contributed to a dramatic increase of \$100 notes in circulation during the period. Counterfeiting activities continued to pose a threat to the integrity of the security features in Solomon Islands banknotes, especially that counterfeiting techniques have improved in terms of print. To mitigate the potential risks, the Bank has issued warnings for the public to exercise due care when accepting higher denomination bank notes.

On the numismatic front, operations during the year were not active rendering total receipts only at \$0.76 million for royalties from overseas sales of commemorative coins. This represents a drop of 65% compared to 2006. This was largely attributed to a significant decline in the European collectors market. Commission received on the sale of circulation notes and coins also decreased significantly. The Bank has since joined exciting commemorative coin programs that included the New Seven Wonders of the World and re-minting of WWII commemorative coin programs in response to popular demand.

### **Securities Market**

In 2007, the securities market remained capped at \$30 million with maturities maintained at 91, 56, 28, 14 and 7-days maturities. However, most of the volume concentrated in the 91-day series. Given the low volume, activity was constrained to the usual market participants.

## Debt Management

SIG total outstanding debts stood at \$1,600 million at the end of 2007. Of that, domestic debts were \$428.4 million which was \$16 million lower than in 2006. Domestic debts comprised \$277.1 million in Government Securities, \$149.9 million in SIG loans and advances from CBSI and \$1.37 million in other SIG trade creditors.

In terms of the external debt portfolio, SIG continued to honour its commitments to regularize its debt situation with the repayments to Kuwait and OPEC loans in 2007. In addition, EFIC has had 70% of its outstanding debt balance written off following some significant repayment during the year. SIG has kept its side of the undertakings made under the Honiara Club Agreement in October 2005, by continuing to service all its debts as well as its policy not to make any new borrowings.

With the installation of the recently upgraded CS DRSM 2000+ v.1.2 software in 2006, the debt section is now able to validate and reconcile statements on a timely basis and to provide vital information to the government and stakeholders on the status of SIG debt situation. The Bank's debt office benefited from a number of training sessions and workshops aimed at enhancing local capacity.

## Exchange Control Operations

The primary objective of Exchange Control Regulations in Solomon Islands is to manage and control the country's foreign reserves, and ensure that the country benefits from the proceeds of all goods and services exported. This function is administered by the Bank on behalf of the Government under the Exchange Control Act (1976).

In 2007 the Bank maintained the commercial banks' authorized limits of \$30,000 for all overseas non-trade payments and \$50,000 for all trade imports payments respectively. The

commercial banks authorized overnight limit was also maintained at \$5.0 million. Despite the increase of authorized limits to commercial banks, the Bank noted an upward trend in the volume and value of applications for overseas remittances. In 2007 total applications received and approved by the Bank increased by 15.3% to 5,674 in volume and up by 29.4% to \$2.2 billion in value.

During the year, the Bank maintained its internal control and monitoring mechanisms to enhance the administration of overseas trade. There were improvements in clearance, collection and delivery of goods at the Customs and ware houses. These were owed to 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 export documentation, submissions and collections of shipping bills.

The Bank continues to monitor all exports to ensure all export proceeds are remitted back to Solomon Islands within 90 days from the date of export and foreign currency proceeds are sold to a commercial bank in Solomon Islands as required under Exchange Control (Foreign Exchange) Regulations 1977. Out of all the commodities, round log was exported under Specific Authority (SA), requiring specific assessment and approval for every consignment for exports. The approval is usually given by the Bank only after the exporter has obtained a market price certificate from the Commissioner of Forest. In 2007, 645 applications were approved for round log exports, totaling 1.506 million cubic metres worth \$842 million, an 8.8% increase in volume as compared to the previous year.

In 2007 the Customs Division introduced a new on-line clearing system to replace its old manual system. The introduction of this advanced system will hopefully reduce costs

and time lag for clearing of goods at the Customs. The system which will come on line in April 2008 is anticipated to be beneficial to business houses in terms of efficiency and effectiveness.

The Bank continued to maintain the foreign currency accounts mechanism which allows qualified exporters to hold 20% of export proceeds in foreign currency with the commercial banks to meet necessary import payments without incurring costs from unexpected volatility in the exchange rate. In 2007, 3 new applications were approved, adding to the total of 13 USD denominated foreign currency accounts maintained by commercial banks.

### **Management of Exchange Rates**

The Bank continued to maintain its exchange rate policy of stabilizing the SBD against the USD. Thus the SBD remained fairly stable vis-à-vis the USD. However, noticeable effects were felt on its value against other major trading currencies. On an annualized basis, the SBD depreciated markedly against the YEN, AUD, GBP, EUR, SGD and NZD by 5.7%, 5.1%, 0.8%, 2.8% and 4.1% respectively. The exchange rate was determined on the basis of a basket of foreign currencies, and the Bank provided the commercial banks with daily limits on the buying and selling rates for the USD in their transactions with the public.

The Bank continued to monitor daily limits between buying and selling rates and margins of the commercial banks for the USD and AUD. In addition, close monitoring was done on the commercial banks lists of trading currencies and exchange rates on daily basis.

### **Management of External Reserves**

In 2007 the Bank continued to manage the country's external reserves under the policy guidelines set 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.

In line with its investment guidelines, the Bank held 20% of the reserves in Liquid Funds and 80% in Investment Funds. With the 20% allocation of reserves in Liquid Funds, the Bank comfortably accommodated all the trading needs of the economy during 2007.

The level of external reserves by the end of 2007 was above the threshold limit of 3 months of imports cover. Total interest income from the Investment Fund contributed about 90% of the bank's total income in 2007. The currency compositions of reserves are mostly held in USD, AUD, GBP, EUR and NZD with authorized central banks and reputable financial institutions in accordance with the investment policy guidelines set by the Board.

Management of the external reserves is guided by an in-house Investment Advisory Committee or (IAC) to ensure that the reserves is invested and managed within a least risks investment environment to achieve best investment results. The main objective of the meeting of the Investment Committee is to assess the current conditions in the international economies and foreign exchange markets and to discuss strategies leading to investments of foreign reserves. The Investment Committee also approve appropriate investment recommendations for the coming months and discuss policy initiatives relating to the reserve management functions. The Investment Committee meets quarterly and reports to the Board on management and investment of the foreign reserves. One of the recommendations approved by the Investment Committee in 2007 was to allow the SINPF to invest off-shore.

In 2007 with the help of IMF TAs, the Bank revised the investment policy guidelines on reserve management and investment. The

revised guidelines will be introduced in 2008 and are anticipated to improve coverage of risk management and diversification of the foreign reserves.

### **Licensing and Legislative changes**

The Bank of South Pacific (BSP) Limited of Papua New Guinea was issued a licence to conduct banking business as a branch and approval was given for it to buy out the shareholders of the National Bank of Solomon Islands Limited. No other applications for banking licence were received during the year.

No changes had been made to the Financial Institutions Act during the year. However, during the year, the World Council of Credit Unions assisted by undertaking initial work in preparation for amendments to the Credit Union Act. This work will continue in 2008 until Parliament meets. Amendments to the Credit Union Regulations are heading for gazettal notice in 2008 by the Minister of Finance.

### **Supervision of Financial Institutions**

Off-site examination was ongoing in 2007 with assessments for safety and prudential management of financial institutions through analysis work based on regular call reports received by the Bank from supervised financial institutions.

The method of determining risk weighted assets for the calculation of regulatory capital requirements was changed during the year. As from October 2007, Basel 1 Methodology has been adopted to determine the total risk weighted assets. At the same time, capital ratio was increased to 15% from 10%. The change marked the implementation of CBSI's Capital Adequacy Policy which has been in draft form for some time.

The year saw the completion of the 7<sup>th</sup> term of appointment as the Court Appointed Manager (CAM) for DBSI since 2004. The Bank has

fulfilled its mandate under CAM and felt there is no justification to continue the assignment at DBSI. Besides, since 2004 this assignment has caused tremendous resources strains on CBSI. Consequently, the CBSI Board has resolved that CAM will not be renewed when the current appointment expires in June 2008.

### **Credit Union Development**

The weak management status of the Solomon Islands Credit Union League (SICUL) is cause for concern to the Office of the Registrar of Credit Unions as it has a dampening effect on the development of credit unions in general. Therefore CBSI through the Registrar has extended significant assistance to SICUL over the years. CBSI has signed a Memorandum of Understanding with SICUL under which direct budgetary support will be given to SICUL for 3 years. Apart from that, the Registrars office has been mandated to administer the Trust Fund established by the SIG purposely to support credit unions' promotional activities.

The Bank is disposing of its New China Town property where the SICUL was given free tenancy since 1986. This follows a review which showed the building had been subject to gross abuse and mismanagement by SICUL, not to mention the high maintenance costs to the Bank over the years. The Office of the Registrar may assist in finding alternative office space for SICUL. Only one training workshop (on strategic planning and budgeting; loan pricing and control of loan delinquency - specifically for the Central Malaita Credit Union Limited) was conducted in 2007.

### **Office of the Controller of Insurance and Insurance Supervision**

With the appointment of the Governor as Controller of Insurance, the Office of the Controller of Insurance (OCOI) is finally located in CBSI. Normal regulatory activities continued but in 2007 these were dominated by overseeing of the Solomon Mutual Insurance (SMI) court administration. By a High Court

order, SMI came under an appointed provisional liquidator to settle outstanding policy holders in terms of a Scheme of Arrangement in the winding up of SMI. The main task of the Provisional Liquidator is to manage this Scheme of Arrangement until all policy holders and creditors were paid. To ensure it works, the SINPF guaranteed \$5 million of the Scheme. The SINPF Board is to buy out other shareholders in the company and convert SMI into a property holding company, which is expected to be finalized in 2008. A report on an investigation by the Auditor General into the affairs of SMI is also expected to be available in 2008.

The OCOI also assisted in computerizing information on motor vehicle licensing at the Ministry of Finance and Treasury. When fully operational, the data base will enable authorities to maintain proper records and to effectively monitor vehicle licensing.

#### **Solomon Islands Financial Intelligence Unit (SIFIU)**

SIFIU was further strengthened with the recruitment of a Compliance Officer during the year. During the year SIFIU signed Memoranda of Understanding (MOU) with a number of departments and institutions, including CBSI, Solomon Islands Police Force, Customs & Excise and the Anti-money Laundering Commission. The unit also signed an MOU with the ROC FIU. These MOUs would facilitate the exchange of information between these bodies on matters relating to money laundering and other related financial crimes. In 2007 Solomon Islands was admitted as a member of the Asia Pacific Group (APG) on Anti-money Laundering. The SIFIU also conducted awareness programs in Auki and Gizo.

#### **Research Activities**

The Bank continued to collect, compile, analyse and publish economic and financial information for Solomon Islands. A number

of changes to improve the quality of data and analysis were made in 2007.

As a lot of the information collected by the Bank are from outside sources, it is important that CBSI continue to maintain excellent working relations with these data sources in 2007. These data were used to produce CBSI's Monthly Bulletin, Quarterly Review and Annual Report, and also to provide monetary policy recommendations to the CBSI Monetary Policy Committee (MPC). The Bank also consulted extensively with businesses and government ministries as part of the annual consultations. The Bank continued to host the Monthly Monetary Management Meetings (4Ms) in 2007, providing an invaluable avenue for discussions on macroeconomic management issues and developments and a forum for discussions on government policy issues.

A consultant funded by the IMF helped introduce surveys to help reduce the dependence on foreign exchange transactions (FET) data from the commercial banks. It is planned that these surveys will be fully operational by first quarter 2008. The Bank is undertaking a major reform of Monetary and Financial Statistics (MFS) data under the guidance of the IMF. New sources of information, including coconut oil production analysis, a survey of rental prices in Honiara, and in-depth analysis of government 'other charges' expenditure were introduced and analysis strengthened in 2007.

A number of research reports were undertaken to provide additional insights into specific issues in the country, such as the interest rate spread, the government's minimum wage proposal, currency in circulation, excess liquidity, revaluation effect on reserves and domestic credit.

#### **Properties**

The Bank's Head Quarters (HQ) building saw an internal re-configuration that gave the

ground floor a new facelift. Extensive work was also carried out to ensure the power supply to the Bank's computer systems was stabilized. The supply and installation of a new gas-fired air-conditioning system in the HQ building began during the year and is expected to be completed in 2008.

The two roller gates at the currency dock were replaced which improved physical security and greater efficiency in the operation of the gates. New security cameras and readers were installed and the security alarm system underwent regular maintenance.

Three contracts were awarded for the construction of three new management houses at the Mbokona Staff Housing Estate. A number of staff houses including management houses were repaired during the year. To alleviate the current need for staff housing, three houses at the Mbokona DBSI Staff Quarters were renovated by CBSI and rented for occupation by CBSI staff.

Work on the Rifle Range property has been slow except for the completion of the security fence around the entire compound. At the Aruligo Recreation site improvements continued with a completion of a foot bridge.

The major renovations to the New China Town property ended in 2007 with the completion of the disposal drainage.

### **Administration Personnel and Training**

At year end CBSI's total establishment was 86 comprising the two Governors, five contracted senior managers, seventy-three permanent staff and six ancillary employees. Of the total 62% were males and the remaining 38% were females. During the year, 10 new employees were recruited, eight of whom were to fill vacant positions while two were for newly created positions in the Financial Institutions Department.

Three officers left during the year: one resigned to take up an overseas appointment, the second left on early retirement while the third was made redundant for medical reasons.

The Bank engaged the services of a consulting company in human resources and organizational management which conducted a review of the staff terms and conditions of employment offered by the Bank during the year. This comprehensive survey made comparative analysis of the basic salaries and benefits offered by the CBSI against those offered in the market. Nine organizations including two regional organizations, one regional central bank, and six local companies participated in the survey. The final report on the survey has been considered by the Board and action on the recommendations is expected to be taken in 2008.

Three staff members returned at the end of 2007 after completing undergraduate studies at the University of the South Pacific (USP) in Suva, Fiji. Two senior staff are currently undertaking post graduate studies, one at USP and the other at the Australian National University (ANU). Both are expected to complete their study programs at the end of 2008.

The Bank's staff went through in-house trainings on leadership & management, professional communication and other personnel management skills training. Nearly 30% of the staff were engaged in part-time training in various fields at SICHE and at the Honiara-based USP Centre. More than 35% of the staff attended various short courses overseas, mostly with the IMF-Singapore Training Institute.

In terms of the staff loan schemes, six loans were approved under the Staff Housing Loan Scheme, three under the Management Vehicle Loan scheme and sixty-one loans were approved under the Personal and School Fees Loan Scheme.



## **Information Technology**

The Information Technology (IT) Section had successfully completed a number of projects during 2007. Early in 2007 the end-of-year roll-over was successfully implemented to reaffirm the integrity of the opening balances for 2007.

The CBSI website was upgraded from a static HTML design to a more robust and user-shared control design with new web design applications.

New computer hardware was acquired to replace dated ones. An overseas UPS expert was engaged to determine the regular faults with the central UPS system. The Bank's IT policy was reviewed and approved. The Production Server has been installed and re-configured according to SWIFT requirements and standards in alignment with the on-going mandatory SWIFT Migration Plan.

## **Board Secretariat**

The Board met seven times in 2007, two were special Board meetings. Only one Board meeting was held outside Honiara, at Taro in Choiseul Province.

Directors Bruce Saunders, Francis Kairi, Yoshiyuki Sato and Moses Pelomo terms of office expired in 2007. Director Mr. Pelomo's term was renewed for a further three years. Director Mr. Val Beniuk was appointed in 2007 only to resign before the year end because he was leaving the country. He has since been replaced by Director Dr Steve Aumanu. However, the other two vacancies remain unfilled at the end of the year.

The Board appointed a sub-committee of itself to carry out a review of the staff terms and conditions of the Bank in comparison with the market. As already discussed, that survey has

been completed and is now awaiting action in 2008.

## **Relations with International Organizations**

An Article IV consultation mission by IMF was held during the year. The Bank maintained close professional relationships with regional and international organizations. These relations have enabled the Bank to source technical assistance as well as tap training opportunities provided by these organizations or engage in policy dialogue.

During the year, the Bank benefited from the IMF regional training institute in Singapore and the Pacific Financial Technical Assistance Centre in Fiji for staff training. Central Bank staff attended specialized training in 2007 in the areas of debt management, financial markets, payment systems, macroeconomic management, resolving banking crisis, financial programming, reserves management, monetary and exchange rate policy and financial soundness indicators.

The IMF continued to fund a General Advisor on peripatetic basis and provided short-term TA's in accounting, insurance and monetary and financial statistics.

The Governor and manager CBO attended the annual meetings of the IMF and World Bank Group in Washington DC as part of the Solomon Islands delegation to these meetings. The Governor also attended the ADB annual meetings in Kyoto, Japan, and the South Pacific Central Bank Governors conference in Nukualofa, Tonga. Governor also attended the 2007 FEMM in the Republic of Palau as the lead speaker at the conference. These meetings provided important opportunities for networking and strengthening of relationship between the Bank and other central banks and international financial institutions.



## **REPORT OF THE AUDITOR-GENERAL**

To: Honourable Snyder Rini, MP  
Minister of Finance and Treasury  
Department of Finance and Treasury

I have audited the accompanying financial statements of the Central Bank of Solomon Islands ("Bank") which comprise the balance sheet as of 31st December 2007 and the profit and loss account and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 4 to 30.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements based on International Financial Reporting Standards and with the requirements of the *Central Bank of Solomon Islands Act* (Cap. 49). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audit. We conducted the audit in accordance with applicable Auditing Standards in Solomon Islands. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by my prior consent in writing.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion the accompanying financial statements are in agreement with the books of account kept by the Bank and are properly drawn up:

- (i) so as to give a true and fair view of the financial position of the Bank as of 31st December 2007, and of its financial performance and its cash flows for the year then ended;
- (ii) in accordance with the provisions of the *Central Bank of Solomon Islands Act* (Cap. 49); and
- (iii) in accordance with International Financial Reporting Standards as set out in Note 2(a) to the financial statements.

### ***Emphasis of Matter***

Without qualifying my opinion, I draw your attention to note 27 to the financial statements. 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.

Floyd Augustine Fatai  
Auditor-General

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

30<sup>th</sup> April 2008

CENTRAL BANK OF SOLOMON ISLANDS

TABLE OF CONTENTS

1.	Independent Auditor General's Report to the Solomon Islands Government	58-59
2.	Statement of Profit and Loss (IFRS) and Central Bank law profit distribution	61
3.	Statement of Transfers to Solomon Islands Government	62
4.	Balance Sheet	63
5.	Statement of Movements in Equity	64
6.	Statement of Cash Flows	65
7.	Notes to and forming part of the Financial Statements	66-87

## CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF PROFIT AND LOSS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

	Notes	2007 (SBD'000)	2006 (SBD'000)
<b>Operating revenue</b>			
Interest income	20(a)	52,201	39,734
Fees and commissions	20(b)	5,860	2,878
Royalties	-	759	2,217
Other income	20(c)	961	1,656
Net Gain on foreign currency exchange transactions		115	286
Net unrealized foreign exchange rate gains (losses)		48,904	49,076
<b>Total revenue</b>		<b>108,800</b>	<b>95,847</b>
<b>Operating expenses</b>			
Interest expense	20(d)	2,773	2,832
Fees and commissions	20(c)	89	27
Administrative expenses	20(f)	15,545	13,660
Other operating expenses	20(g)	12,011	8,459
<b>Total expense</b>		<b>30,418</b>	<b>24,978</b>
<b>Net operating profit in terms of IFRS</b>		<b>78,382</b>	<b>70,869</b>
<b>NET PROFIT DISTRIBUTION IN TERMS OF CBSI LAW</b>			
<b>Net operating profit in terms of IFRS</b>		78,382	70,869
Deduct (IFRS required items not included in CBSI law)			
Net unrealized gains (losses) on foreign exchange transactions		(48,904)	(49,076)
<b>Net operating profit in terms of CBSI Law</b>		<b>29,478</b>	<b>21,793</b>
Net profit transferred general reserve in terms of Section 20(1) of CBSI Act (CAP 49)		14,739	10,897
Transfer to special reserve (capital asset reserve) in terms of Section 20(2) of the CBSI Act (CAP 49)		10,000	8,000
Due to Solomon Islands Government Section 20(2) of the CBSI Act (CAP 49)		4,739	2,896

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 66 to 87.

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF TRANSFER TO SOLOMON ISLANDS GOVERNMENT  
FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2007

	Notes	2007 (SBD'000)	2006 (SBD'000)
Appropriation of profit in terms of Section 20(2) of the CBSI		4,739	2,896
<b>Total transfer to Solomon Islands Government</b>		<b>4,739</b>	<b>2,896</b>

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 66 to 87.

## CENTRAL BANK OF SOLOMON ISLANDS

## BALANCE SHEET AS AT 31ST DECEMBER, 2007

	Notes	2007 (SBD'000)	2006 (SBD'000)
<b>ASSETS</b>			
<b>Foreign Currency Assets</b>			
Money at Call	4	187,911	151,988
Accrued Interest		10,984	7,611
Term Deposits	4	719,124	628,510
Holding of Special Drawing Rights	5	22	75
<b>Total</b>		<b>918,041</b>	<b>788,184</b>
<b>Local Currency Assets</b>			
Cash on Hand		138	219
Loans and Advances	7	151,729	163,597
Property, Plant and Equipment	9	57,659	54,587
Other Assets	10	14,016	35,720
<b>Total</b>		<b>223,542</b>	<b>254,123</b>
<b>Total Assets</b>		<b>1,141,583</b>	<b>1,042,307</b>
<b>LIABILITIES</b>			
<b>Foreign Currency Liabilities</b>			
Demand Deposits	11	29,914	3,142
IMF Special Drawing Rights Allocations	5	7,916	7,522
Capital Subscriptions	5	6,690	6,690
<b>Total</b>		<b>44,520</b>	<b>17,354</b>
<b>Local Currency Liabilities</b>			
Demand Deposits	12	345,304	458,427
Currency in Circulation	13	262,938	203,376
SIG Monetary Operations Account	14	27,560	29,786
Fixed Deposits	15	103,027	50,761
Provision for transfer to SIG Consolidated Fund		4,739	2,896
Other Liabilities	16	8,354	8,209
<b>Total</b>		<b>751,922</b>	<b>753,455</b>
<b>Total Liabilities</b>		<b>796,442</b>	<b>770,809</b>
<b>NET ASSETS</b>		<b>345,141</b>	<b>271,498</b>
<b>EQUITY</b>			
<b>Capital and Reserves</b>			
Authorised Capital		50,000	50,000
Paid up Capital		20,000	2,597
General Reserve	17	86,247	88,911
Foreign Exchange Asset Revaluation Reserve	18(a)	141,153	92,249
Premises and Equipment Assets Revaluation Reserve	18(c)	44,968	44,968
Capital Asset Reserve	19	52,773	42,773
<b>TOTAL CAPITAL AND RESERVES</b>		<b>345,141</b>	<b>271,498</b>

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 66 to 87.

  
Rick N Houenipwela  
Governor

.....  
Edward Ronia  
Chief Accountant (Acting)  
Accounts and Information Technology

Signed in Honiara on..... April 2007

## CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF MOVEMENTS IN EQUITY  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2007

	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)	
<b>2006</b>						
Balance at the beginning of 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 CAP(49) Section 45(1) of CBSI Act	-	-	49,076	-	-	49,076
<b>At 31 December 2006</b>	<b>2,597</b>	<b>88,911</b>	<b>92,249</b>	<b>44,968</b>	<b>42,773</b>	<b>271,498</b>
<b>2007</b>						
Balance at beginning of the financial year	2,597	88,911	92,249	44,968	42,773	271,498
Transfer from General Reserve to Paid up Capital under Section 20(4) CBSI Act CAP(49)	17,403	(17,403)	-	-	-	-
Transfer of net operating profit/loss in terms of Section 20(1) and 20(2) of CBSI Act CAP(49)	-	14,739	-	-	10,000	24,739
Transfer of Foreign Exchange Revaluation Gains(losses) for the year in terms of Section 45(1) of CBSI Act CAP(49)	-	-	48,904	-	-	48,904
<b>At 31 December 2007</b>	<b>20,000</b>	<b>86,247</b>	<b>141,153</b>	<b>44,968</b>	<b>52,773</b>	<b>354,141</b>

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 66 to 87.



**CENTRAL BANK OF SOLOMON ISLANDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2007**

	Notes	2007 (SBD'000)	2006 (SBD'000)
<b>Cash flows from operating activities</b>			
Interest received		48,828	36,578
Cash received from other income		7,579	6,997
Interest paid		(2,773)	(2,605)
Cash payments in the course of operations		(4,188)	(36,206)
<b>Net cash provided by operating activities before movements in operating assets and liabilities</b>		<b>49,446</b>	<b>4,744</b>
Cash received on placement of deposits		(60,857)	(37,475)
Cash received/(paid) on IMF allocation of SDR		447	438
(Increase)/decrease in government finance provided		12,217	35,005
<b>Net cash provided by operating activities</b>	<b>6</b>	<b>1,253</b>	<b>2,712</b>
<b>Cash flows from investment activities</b>			
Payments for premises, plant & equipment		(5,027)	(1,928)
Proceeds from sale of premises, plant & equipment		116	60
(Increase)/decrease in foreign investments		(77,633)	(18,313)
<b>Net cash used in investment activities</b>		<b>(82,544)</b>	<b>(20,181)</b>
<b>Cash flows from financing activities</b>			
Net movement in issue of circulating currency		59,562	35,376
Net movement in foreign currency loan		26,771	(1,033)
Solomon Islands Government monetary operations		(2,226)	1,215
Dividend paid		(2,897)	(17,980)
<b>Net cash from financing activities</b>		<b>81,210</b>	<b>17,578</b>
<b>Net increase (decrease) in cash held</b>		<b>(81)</b>	<b>109</b>
<b>Cash at the beginning of the financial year</b>		<b>219</b>	<b>110</b>
<b>Cash at the end of financial year</b>		<b>138</b>	<b>219</b>

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 66 to 87.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2007

**1 THE LEGAL FRAMEWORK**

The Central Bank of Solomon Islands (CBSI) operates under the Central Bank of Solomon Islands Act (CAP 49) (1996 as amended). The CBSI is an independent legal entity wholly owned by, and reporting to, the Government of the Solomon Islands. 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 decided to publish a profit and loss statement with the annual accounts, which showed net profit determined in terms of IFRS (formerly IAS). A reconciliation statement 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 Bank are based on International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), 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 except where stated.

The accounting policies have been consistently applied over the reporting and comparative years. This has been possible with the accounts full compliance to IFRS in 2006. The CBSI does not hold foreign currency denominated securities, and there is no defined market for domestic Government securities.

The CBSI set up relevant additional provisions accounts in 2006 to cover likely end contractual gratuities and retirement scheme payments previously covered under equity reserve accounts. Note 16: Other Local Currency Liabilities has details of 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 31<sup>ST</sup> DECEMBER, 2007

2 BASIS AND FORMAT OF PRESENTATION (CONT'D)

(b) Comparatives

All necessary information has been classified and presented 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, 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 continues to include income calculated on the basis of IFRS until the appropriate law is amended. 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 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 Government to cover losses, in terms of Section 45 (3) of the CBSI Act.

As at 31 December 2007, there was a net revaluation surplus of \$48.9 million (2006 had a surplus of \$49.1 million).

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

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

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

*Treasury notes, bonds and bills*

At present CBSI only holds foreign currency denominated fixed interest bearing bank 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; any activity would reflect 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 are 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 31<sup>ST</sup> DECEMBER, 2007

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 the CBSI has revalued all of its land and buildings in 2006. 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 proposes to have such assets revalued every three years, which necessitates the next revaluation in 2009.

(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.

(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 21<sup>st</sup> 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 and 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 employment and qualify under requirements of the Funds Laws. Some 7.5% of salaries and staff entitlements are contributed to this Fund by the CBSI. This amounted to \$640,281 in 2007 (2006: \$553,219). CBSI staff made own contributions amount to \$257,483 calculated at 5% on 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 31<sup>ST</sup> DECEMBER, 2007

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

## (I) 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 portfolios.

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

Determined bad debts are written off against the respective provision account. Where such no prior provision has been made available 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 of Solomon Islands has been designated as the Government of the Solomon Islands' 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 Government of the Solomon Islands.

(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).

	2007 (SBD' 000)	2006 (SBD' 000)
Operating profit	29,478	21,793
<i>Non cash items:</i>		
Depreciation	1,955	1,143
Currency Amortization Expense	9,095	6,060
<i>Net (increase)/decrease in:</i>		
Interest receivables	(3,373)	(3,156)
Other receivables	(5,062)	7,562
Accrued expenses	(30,840)	(30,690)
<b>Net cash from operating activities</b>	<b>1,253</b>	<b>2,712</b>

## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

## 7. LOANS AND ADVANCES

	2007 (SBD'000)	2006 (SBD'000)
<b>a) Loans and Advances to Solomon Islands Government</b>		
Loans and Advances	24,321	29,915
Development Bonds	27	27
Treasury Bills	59	616
Other Securities	10,716	11,426
Amortizing Bonds	114,555	119,911
<b>Total Loans and Advances to Solomon Islands Government</b>	<b>149,678</b>	<b>161,895</b>

As detailed in the 2005 financial statements, on 17<sup>th</sup> 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 tranche 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 31<sup>st</sup> December 2007 was \$98.4m. (31<sup>st</sup> December 2006: \$ 98.4 m).

	2007 (SBD'000)	2006 (SBD'000)
<b>b) Staff Loans</b>		
Staff Housing Loans	1,335	1,069
Management Car Loans	116	87
Personal Loans	600	546
<b>Total Staff Loans</b>	<b>2,051</b>	<b>1,702</b>
<b>Total Loans and Advances to the Solomon Islands Government and CBSI Staff</b>	<b>151,729</b>	<b>163,597</b>

## 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 CBSI 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 ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

## 9. PROPERTY, PLANT AND EQUIPMENT

	Land & Building (SBD'000)	Equipment & Furniture (SBD'000)	Computer (SBD'000)	Work in Progress (SBD'000)	Total (SBD'000)
<b>At 1st January 2006</b>					
Cost or valuation	11,374	4,692	2,459	-	18,525
Accumulated depreciation	(4,205)	(3,341)	(2,146)	-	(9,692)
<b>Net book amount</b>	<b>7,169</b>	<b>1,351</b>	<b>313</b>	<b>-</b>	<b>8,833</b>
<b>Year ended December 2006</b>					
Opening net book amount	7,169	1,351	313	-	8,833
Additions	471	954	504	-	1,929
Disposals	-	-	-	-	-
Internal transfers	(831)	831	-	-	-
Depreciation charge	(272)	(670)	(202)	-	(1,144)
Revaluation surplus	44,969	-	-	-	44,969
<b>Closing net book amount</b>	<b>51,506</b>	<b>2,466</b>	<b>615</b>	<b>-</b>	<b>54,587</b>
<b>At 31st December 2007</b>					
Cost or valuation	51,506	8,591	2,380	2,224	64,701
Accumulated depreciation	(1,030)	(4,421)	(1,591)	-	(7,042)
<b>Net book amount</b>	<b>50,476</b>	<b>4,170</b>	<b>789</b>	<b>2,224</b>	<b>57,659</b>
<b>Year ended December 2007</b>					
Opening net book amount	51,506	2,466	615	-	54,587
Additions	-	2,536	267	2,224	5,027
Disposals	-	-	-	-	-
Depreciation charge	(1,030)	(832)	(93)	-	(1,955)
<b>Closing net book amount</b>	<b>50,476</b>	<b>4,170</b>	<b>789</b>	<b>2,224</b>	<b>57,659</b>

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:

	2007 (SBD'000)	2006 (SBD'000)
Cost	10,861	10,861
Accumulated depreciation	(4,691)	(4,324)
<b>Net book amount</b>	<b>6,170</b>	<b>6,537</b>



## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

<b>10</b>	<b>OTHER LOCAL CURRENCY ASSETS</b>	<b>2007</b> <b>(SBD'000)</b>	<b>2006</b> <b>(SBD'000)</b>
	Sundry Debtors & Other	1,439	20,071
	Solomon Islands Notes and Coins	11,357	16,050
	Advances and Repayments	2,708	1,087
	Less Provision for Doubtful Debts	(1,488)	(1,488)
		<b>14,016</b>	<b>35,720</b>
<b>11.</b>	<b>FOREIGN CURRENCY DEMAND DEPOSITS</b>		
	Demand Deposits	<b>29,914</b>	<b>3,142</b>
	Demand deposit of international organizations such as Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association.		
<b>12.</b>	<b>LOCAL CURRENCY DEMAND DEPOSITS</b>		
	Banks	200,749	287,247
	Solomon Islands Government	139,442	167,082
	Statutory Corporations	4,836	4,068
	Other	277	30
		<b>345,304</b>	<b>458,427</b>
<b>13.</b>	<b>CURRENCY IN CIRCULATION</b>		
	Notes	253,445	194,983
	Coins	9,493	8,393
		<b>262,938</b>	<b>203,376</b>
<b>14.</b>	<b>SECURITIES</b>		
	Solomon Islands Government Monetary Operations	<b>27,560</b>	<b>29,786</b>
<b>15.</b>	<b>SOLOMON ISLANDS GOVERNMENT (SIG) DEPOSITS</b>		
	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.		
<b>16.</b>	<b>OTHER LOCAL CURRENCY LIABILITIES</b>	<b>2007</b> <b>(SBD'000)</b>	<b>2006</b> <b>(SBD'000)</b>
	Unpresented Bank Cheques	5,625	5,772
	Provision for Employee Entitlements	969	768
	Other Liabilities	1,760	1,669
		<b>8,354</b>	<b>8,209</b>

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

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 or 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.

At end of 2007, the CBSI Board, with the Minister's approval and in the terms of Section 20(c) of the CBSI Act, increased the paid up capital of the Bank to \$20 million. This involved a transfer of \$17.4 million from the General Reserve.

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 elsewhere in these Notes, 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 31<sup>ST</sup> DECEMBER, 2007

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 interest 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 amounts to be recorded in such an asset revaluation reserve(s) covering foreign and 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 of 2005, a capital asset replacement reserve, small business finance scheme reserve, early retirements and gratuity reserve.

In 2007 \$10 million (2006: \$8 million) was transferred from operating profit in terms of section 20 (2) to further augment the capital asset reserve.

	2007 (SBD'000)	2006 (SBD'000)
Capital Asset Reserve	52,773	42,773

## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

20.	INCOME AND EXPENSES	2007 (SBD'000)	2006 (SBD'000)
(a)	<b>Interest income</b>		
	Interest received from foreign investments	49,042	36,360
	Interest received from local investments	3,159	3,374
		<b>52,201</b>	<b>39,734</b>
(b)	<b>Fees and commissions received</b>		
	Fees and commissions - foreign dealings	5,669	2,727
	Fees and commissions - local dealings	191	151
		<b>5,860</b>	<b>2,878</b>
(c)	<b>Other income</b>		
	Proceeds from disposal of fixed assets	116	60
	Rent received	628	566
	Sale of numismatic coins	84	630
	Others	133	400
		<b>961</b>	<b>1,656</b>
(d)	<b>Interest expenses</b>		
	Interest expense on foreign liabilities	317	258
	Interest expense on local liabilities	2,456	2,574
		<b>2,773</b>	<b>2,832</b>
(e)	<b>Fees and commissions paid</b>	<b>89</b>	<b>27</b>
(f)	<b>Administration expenses</b>		
	Staff costs	10,098	8,934
	Others	5,447	4,726
		<b>15,545</b>	<b>13,660</b>
(g)	<b>Other operating expenses</b>		
	Board of Directors remunerations and expenses	129	55
	Currency expenses	9,095	6,860
	Depreciation	1,955	1,143
	Auditors remuneration (Note 21)	241	256
	Provision for bad and doubtful debts	9	49
	Provision for deminution	582	96
	Others		
		<b>12,011</b>	<b>8,459</b>

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

**21. AUDITOR'S REMUNERATION**

	2007 (SBD'000)	2006 (SBD'000)
Amounts received or due and receivable by the Auditors of the Bank for:		
- Auditing the financial statements	175	210
- Other services	66	46
	<b>241</b>	<b>256</b>

**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.

	2007 (SBD'000)	2006 (SBD'000)
Total remuneration is included in 'personnel expenses' as follows		
Directors' fees and remuneration	71	55
Executive Directors	251	310
	<b>322</b>	<b>365</b>

**23. EMPLOYEES**

The number of full time permanent Central Bank employees as at 31<sup>st</sup> December 2007 was 86 (73 at end of 2006). This increase reflects staff new positions and the filling of old vacant positions within the Bank.

**24. CONTINGENT LIABILITIES**

The Bank has guaranteed staff housing loans at the original total value transferred to commercial banks to the sum of \$1.3 million in 2007 (2006: \$1.2 million). The guarantee is valid until the date the staff cease employment with the Bank.

In 2007, Solomon Islands Government introduced and provided \$10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31<sup>st</sup> December 2007 a total loan of \$1.2 million has been guaranteed under the scheme by the CBSI.

**25. COMMITMENTS**

**Capital Commitments**

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2007 (SBD'000)	2006 (SBD'000)
Property plant and equipment	2,288	-

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

**26. 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.

**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 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 31st December 2007 (and 2006 comparatives) grouped by remaining contractual maturity.

## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

## 2007 Liquidity Risk

	0-3 Months (SBD'000)	3-6 Months (SBD'000)	6-12 Months (SBD'000)	Over 1 Year (SBD'000)	Undefined Maturity (SBD'000)	Total (SBD'000)
<b>Foreign Currency Assets</b>						
Money at Call	187,911	-	-	-	-	187,911
Accrued Interest	8,125	2,859	-	-	-	10,984
Term Deposits	317,233	345,891	-	-	-	719,124
Holding of Special Drawing Rights	22	-	-	-	-	22
<b>Total</b>	<b>569,291</b>	<b>348,750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>918,041</b>
<b>Local Currency Assets</b>						
Cash on Hand	138	-	-	-	-	138
Loans and Advances	-	-	-	151,729	-	151,729
Premises and Equipment	-	-	-	-	57,659	57,659
Other Assets	14,016	-	-	-	-	14,016
<b>Total</b>	<b>14,154</b>	<b>-</b>	<b>-</b>	<b>151,729</b>	<b>57,659</b>	<b>223,542</b>
<b>Total Assets</b>	<b>583,445</b>	<b>348,750</b>	<b>-</b>	<b>151,729</b>	<b>57,659</b>	<b>1,141,583</b>
<b>LIABILITIES</b>						
<b>Foreign Currency Liabilities</b>						
Demand Deposits	29,914	-	-	-	-	29,914
IMF Special Drawing Rights Allocations	-	-	-	-	7,916	7,916
Capital Subscriptions	-	-	-	-	6,690	6,690
<b>Total</b>	<b>29,914</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,606</b>	<b>44,520</b>
<b>Local Currency Liabilities</b>						
Demand Deposits	345,291	-	-	-	-	345,291
Currency in Circulation	-	-	-	-	262,938	262,938
SIG Monetary Operations Account	27,560	-	-	-	-	27,560
Fixed Deposits	103,027	-	-	-	-	103,027
Provision for transfer to SIG Consolidated Fund	4,752	-	-	-	-	4,752
Other Liabilities	8,354	-	-	-	-	8,354
<b>Total</b>	<b>488,984</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>262,938</b>	<b>751,922</b>
<b>Total Liabilities</b>	<b>518,898</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>277,544</b>	<b>796,442</b>
<b>Net Liquidity Gap</b>	<b>64,547</b>	<b>348,750</b>	<b>-</b>	<b>151,729</b>	<b>-219,885</b>	<b>345,141</b>

## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

## 2006 Liquidity Risk

	0-3 Months (SBD'000)	3-6 Months (SBD'000)	6-12 Months (SBD'000)	Over 1 Year (SBD'000)	Undefined Maturity (SBD'000)	Total (SBD'000)
<b>Foreign Currency Assets</b>						
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
<b>Total</b>	<b>491,579</b>	<b>296,605</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>788,184</b>
<b>Local Currency Assets</b>						
Cash on Hand	219	-	-	-	-	219
Loans and Advances	2,919	2,085	4,192	154,401	-	163,597
Premises and Equipment	-	-	-	-	54,587	54,587
Other Assets	21,107	1,437	2,874	10,302	-	35,720
<b>Total</b>	<b>24,245</b>	<b>3,522</b>	<b>7,066</b>	<b>164,703</b>	<b>54,587</b>	<b>254,123</b>
<b>Total Assets</b>	<b>515,824</b>	<b>300,127</b>	<b>7,066</b>	<b>164,703</b>	<b>54,587</b>	<b>1,042,307</b>
<b>LIABILITIES</b>						
<b>Foreign Currency Liabilities</b>						
Demand Deposits	3,142	-	-	-	-	3,142
IMF Special Drawing Rights Allocations	-	-	-	-	7,522	7,522
Capital Subscriptions	-	-	-	-	6,690	6,690
<b>Total</b>	<b>3,142</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,212</b>	<b>17,354</b>
<b>Local Currency Liabilities</b>						
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
<b>Total</b>	<b>546,208</b>	<b>-</b>	<b>2,896</b>	<b>975</b>	<b>203,376</b>	<b>753,455</b>
<b>Total Liabilities</b>	<b>549,350</b>	<b>-</b>	<b>2,896</b>	<b>975</b>	<b>217,588</b>	<b>770,809</b>
<b>Net Liquidity Gap</b>	<b>-33,526</b>	<b>300,127</b>	<b>4,170</b>	<b>163,728</b>	<b>-163,001</b>	<b>271,498</b>



CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

**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
-----------------------	---	--

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 31<sup>ST</sup> DECEMBER, 2007

## 2007 Interest Rate Risk

	Up to 1 Month (SBD'000)	1-3 Months (SBD'000)	3-12 Months (SBD'000)	Over 1 Year (SBD'000)	Non Interest Bearing (SBD'000)	Total (SBD'000)
<b>Foreign Currency Assets</b>						
Money at Call	187,911	-	-	-	-	187,911
Accrued Interest	-	8,125	2,859	-	-	10,984
Term Deposits	-	373,233	345,891	-	-	719,124
Holdign of Special Drawing Rights	-	-	-	-	22	22
<b>Total</b>	<b>187,911</b>	<b>381,358</b>	<b>348,750</b>	<b>-</b>	<b>22</b>	<b>918,041</b>
<b>Local Currency Assets</b>						
Cash on Hand	-	-	-	-	138	138
Loans and Advances	-	-	-	140,927	10,802	151,729
Premises and Equipment	-	-	-	-	57,659	57,659
Other Assets	-	-	-	-	14,016	14,016
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>140,927</b>	<b>82,615</b>	<b>223,542</b>
<b>Total Assets</b>	<b>187,911</b>	<b>381,358</b>	<b>348,750</b>	<b>140,927</b>	<b>82,637</b>	<b>1,141,583</b>
<b>LIABILITIES</b>						
<b>Foreign Currency Liabilities</b>						
Demand Deposits	-	-	-	-	29,914	29,914
IMF Special Drawing Rights Allocations	-	-	-	-	7,916	7,916
Capital Subscriptions	-	-	-	-	6,690	6,690
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,520</b>	<b>44,520</b>
<b>Local Currency Liabilities</b>						
Demand Deposits	-	-	-	-	345,291	345,291
Currency in Circulation	-	-	-	-	262,938	262,938
SIG Monetary Operations Account	2,542	25,018	-	-	-	27,560
Fixed Deposits	-	-	-	-	103,027	103,027
Provision for transfer to SIG Consolidated Fund	-	-	-	-	4,752	4,752
Other Liabilities	-	-	-	-	8,354	8,354
<b>Total</b>	<b>2,542</b>	<b>25,018</b>	<b>-</b>	<b>-</b>	<b>724,362</b>	<b>751,922</b>
<b>Total Liabilities</b>	<b>2,542</b>	<b>25,018</b>	<b>-</b>	<b>-</b>	<b>768,882</b>	<b>796,442</b>
<b>Net Sensitivity Gap</b>	<b>185,369</b>	<b>356,340</b>	<b>348,750</b>	<b>140,927</b>	<b>-686,245</b>	<b>345,141</b>

## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

## 2006 Interest Rate Risk

	Up to Month (SBD'000)	3-6 Months (SBD'000)	6-12 Months (SBD'000)	Over 1 Year (SBD'000)	Non Interest Bearing (SBD'000)	Total (SBD'000)
<b>Foreign Currency Assets</b>						
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
Holdign of Special Drawing Rights	-	-	-	-	75	75
<b>Total</b>	<b>218,005</b>	<b>273,588</b>	<b>296,516</b>	<b>-</b>	<b>75</b>	<b>788,184</b>
<b>Local Currency Assets</b>						
Cash on Hand	-	-	-	-	219	219
Loans and Advances	616	-	-	151,528	11,453	163,597
Premises and Equipment	-	-	-	-	54,587	54,587
Other Assets	-	-	-	-	35,720	35,720
<b>Total</b>	<b>616</b>	<b>-</b>	<b>-</b>	<b>151,528</b>	<b>101,979</b>	<b>254,123</b>
<b>Total Assets</b>	<b>218,621</b>	<b>273,588</b>	<b>296,516</b>	<b>151,528</b>	<b>102,054</b>	<b>1,042,307</b>
<b>LIABILITIES</b>						
<b>Foreign Currency Liabilities</b>						
Demand Deposits	-	-	-	-	3,142	3,142
IMF Special Drawing Rights Allocations	-	-	-	-	7,522	7,522
Capital Subscriptions	-	-	-	-	6,690	6,690
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,354</b>	<b>17,354</b>
<b>Local Currency Liabilities</b>						
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
<b>Total</b>	<b>15,982</b>	<b>13,804</b>	<b>-</b>	<b>-</b>	<b>723,669</b>	<b>753,455</b>
<b>Total Liabilities</b>	<b>15,982</b>	<b>13,804</b>	<b>-</b>	<b>-</b>	<b>741,023</b>	<b>770,809</b>
<b>Net Sensitivity Gap</b>	<b>202,639</b>	<b>259,784</b>	<b>296,516</b>	<b>151,528</b>	<b>-638,969</b>	<b>271,498</b>

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

**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 31<sup>ST</sup> DECEMBER, 2007

## 2007 Currency Risk

	SBD	AUD	NZ	USD	EURO	GBP	OTHERS	TOTAL
<b>Foreign Currency Assets</b>								
Money at Call	-	19,116	-	56,449	79,267	33,075	4	187,911
Accrued Interest	-	3,124	2,961	2,641	1,146	1,076	36	10,984
Term Deposits	-	222,380	124,578	197,892	73,437	89,933	10,904	719,124
Holding of Special Drawing Rights	-	-	-	-	-	-	22	22
<b>Total</b>	<b>-</b>	<b>244,620</b>	<b>127,539</b>	<b>256,982</b>	<b>153,850</b>	<b>124,084</b>	<b>10,966</b>	<b>918,041</b>
<b>Local Currency Assets</b>								
Cash on Hand	138	-	-	-	-	-	-	138
Loans and Advances	151,729	-	-	-	-	-	-	151,729
Premises and Equipment	57,659	-	-	-	-	-	-	57,659
Other Assets	14,016	-	-	-	-	-	-	14,016
<b>Total</b>	<b>223,542</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>223,542</b>
<b>Total Assets</b>	<b>223,542</b>	<b>244,620</b>	<b>127,539</b>	<b>256,982</b>	<b>153,850</b>	<b>124,084</b>	<b>10,966</b>	<b>1,141,583</b>
<b>LIABILITIES</b>								
<b>Foreign Currency Liabilities</b>								
Demand Deposits	-	-	-	620	29,294	-	-	29,914
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	7,916	7,916
Capital Subscriptions	-	-	-	-	-	-	6,690	6,690
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>620</b>	<b>29,294</b>	<b>-</b>	<b>14,606</b>	<b>44,520</b>
<b>Local Currency Liabilities</b>								
Demand Deposits	345,291	-	-	-	-	-	-	345,291
Currency in Circulation	262,938	-	-	-	-	-	-	262,938
SIG Monetary Operations Account	27,560	-	-	-	-	-	-	27,560
Fixed Deposits	103,027	-	-	-	-	-	-	103,027
<b>Provision for transfer to SIG Consolidated Fund</b>	<b>4,752</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,752</b>
<b>Other Liabilities</b>	<b>8,354</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,354</b>
<b>Total</b>	<b>751,922</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>751,922</b>
<b>Total Liabilities</b>	<b>751,922</b>	<b>-</b>	<b>-</b>	<b>620</b>	<b>29,294</b>	<b>-</b>	<b>14,606</b>	<b>796,442</b>
<b>NET ASSETS</b>	<b>-528,380</b>	<b>244,620</b>	<b>127,539</b>	<b>256,362</b>	<b>124,556</b>	<b>124,084</b>	<b>-3,640</b>	<b>345,141</b>

## CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2007

## 2006 Currency Risk

	SBD	AUD	NZ	USD	EURO	GBP	OTHERS	TOTAL
<b>Foreign Currency Assets</b>								
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
<b>Total</b>	-	184,186	107,320	273,621	92,552	125,311	5,194	788,184
<b>Local Currency Assets</b>								
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
<b>Total</b>	254,123	-	-	-	-	-	-	254,123
<b>Total Assets</b>	254,123	184,186	107,320	273,621	92,552	125,311	5,194	1,042,307
<b>LIABILITIES</b>								
<b>Foreign Currency Liabilities</b>								
Demand Deposits	-	-	-	1,786	1,356	-	-	3,142
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	7,522	7,522
Capital Subscriptions	-	-	-	-	-	-	6,690	6,690
<b>Total</b>	-	-	-	1,786	1,356	-	14,212	17,354
<b>Local Currency Liabilities</b>								
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
<b>Provision for transfer to SIG Consolidated Fund</b>	2,896	-	-	-	-	-	-	2,896
<b>Other Liabilities</b>	8,209	-	-	-	-	-	-	8,209
<b>Total</b>	753,455	-	-	-	-	-	-	753,455
<b>Total Liabilities</b>	753,455	-	-	1,786	1,356	-	14,212	770,809
<b>NET ASSETS</b>	-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 ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2007

27 GOING CONCERN

The economy of the Solomon Islands has continued to recover from the effects of the recent local social unrest 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 restrictions on foreign exchange outgoings has been relaxed.

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

28 EVENTS OCCURRING AFTER BALANCE DATE

No material events have occurred since the balance sheet date which would require either disclosure or adjustments in the financial statements (2006: nil).

\*\*\*\*\*

**CENTRAL BANK OF SOLOMON ISLANDS  
2007 CALENDAR OF EVENTS**

**January**

- The CBSI Board approve an application for a license from the Bank of South Pacific Limited (BSP) to conduct banking business as a branch in Solomon Islands.
- The CBSI Board approve application from the Solomon Islands National Provident Fund (SINPF) to purchase shares in BSP in settlement for its shares in National Bank of Solomon Islands Limited (NBSI).
- Assistant Manager, Economics Department & Supervisor, Financial Institution Department went on a Two years Full-time Study leave in Australia & Fiji respectively.

**February**

- Asian Development Bank (ADB) Directors visit Solomon Islands.
- En-Rich Services Ltd of Brisbane conduct in-house leadership and customers services training for CBSI staff.
- Manager, Currency Banking & Operations (CBO) department attends preliminary discussions on the Global Environmental Facility – Sustainable Energy Financing Project (GEF-SEFP) at the World Bank Regional Office in Sydney, Australia.
- Manager, Foreign Exchange department (FED) and Supervisor Foreign Exchange Control attend a workshop on International Trade Finance and Treasury in Port Vila, Vanuatu.

**March**

- Deputy Governor and Assistant Manager FID attend a Central Banking seminar organised by the Bank of England in Apia, Samoa.
- Engaged an IMF TA, Bernie Thompson on IFRS compliance activities.
- Board Meeting held at Taro, Choiseul province.
- Manager, CBO attends a Debt Management Workshop organised by the Commonwealth Secretariat in Singapore.
- The Minister of Finance reappoints Moses Pelomo as Director on the CBSI Board for a further three years.

**April**

- Massive earth quake and tsunami hits Western and Choiseul provinces: CBSI participated in the relief efforts for the victims.
- \$50 note consignment received from Thomas De La Rue.
- Manager, Accounts and Information Technology (AIT) department resigns to join the University of Fiji.
- Mr Yoshie Sato's term as Director on the CBSI Board expires.
- BSP takes control of the NBSI.
- Assistant Manager FID attend APRA/BPNG course on Savings and Loans Society Supervision in Port Moresby, Papua New Guinea.
- Manager, CBO department attend a Domestic Debt Management Workshop in Singapore.
- Supervisor, FED attends Financial Markets Analysis Training in Singapore.
- Supervisor, FED attends the Payment System: Sound & Efficient National Payment & Settlement Infrastructure training in Singapore.



### May

- IMF Article IV mission visits Solomon Islands.
- CBSI wins the annual Inter Bank tournament.
- Governor attends ADB annual meeting in Kyoto, Japan.
- Mr Val Beniuk, GM of Gold Ridge Mine Ltd appointed as a Director on the Central Bank Board.
- The High Court of Solomon Islands approves the extension of CBSI as Court Appointed Manager of DBSI for another term of 6 months to December 2007.
- Manager, FED attends an advanced reserves management workshop in Macao SAR, China.
- Manager, ECOD attends macroeconomic management training in Singapore.
- Assistant Managers, AIT & FED attends SWIFT training in Port Vila, Vanuatu.

### June

- Douglas Ruhen, Vinstar (NZ) Consultant engaged to review the Bank's terms and conditions of service;
- Thomas De La Rue's Regional Manager, Maria Atkinson, visits the Central Bank.
- The Small Business Finance Scheme (SBFS) is re-launched by the Minister of Finance.
- Insurance Analyst, FID attends regional insurance supervision workshop in Port Vila, Vanuatu.
- En-Rich Services Ltd conducts an in-house Precision Gap Analysis for the Bank.

### July

- Signed Agreement with World Bank engaging CBSI as Executive Agency of the Sustainable Energy Financing Project (SEFP).
- Governor delivers the keynote address at the FEMM meeting in Palau.
- Governor and Head of SIFIU attend APG annual meeting in Perth, Australia.
- Governor appointed as Chairman of Solomon Airlines Board.
- Assistant manager, CBO and two debt officers in the CBO department attend training workshop on CS-DRMS in Port Moresby, PNG.
- SI Financial Intelligence Unit (SI FIU) joins APG as full member.
- SI FIU and Republic of China (ROC) FIU sign an MOU to enhance their cooperation.
- Mr. Val Beniuk resigns as a Director on the CBSI Board.
- Supervisor, CBO attend a regional workshop on external debt statistics in Perth, Australia.
- Supervisor, ECO attends macroeconomic management and financial sector issues training in Singapore.
- SIFU signed MOU with SI Police, CBSI and Customs and Exercise Division.

### August

- Legal/Compliance officer from FID attend seminar on designing effective legal frameworks for problem banks and resolving banking crises in Singapore.

### September

- Consultation with credit unions on the review of the Credit Union Act start.
- Officers from FID/Office of the Registrar of Credit Unions conduct training for the Board and Management of Central Malaita Credit Union Limited in Auki, Malaita Province.
- Managers of FED, FID and Manager Investment SINPF attend IMF/PFTAC-RBF workshop on foreign exchange reserves management framework for strategic allocation in Suva, Fiji.
- SINPF is granted Exchange Control approval to invest the first tranche of \$150 million overseas.

- Manager, ECO attends the regional heads of planning & heads of statistics conference in Noumea, New Caledonia.
- Supervisor, ECO attends monetary & exchange rate policy training in Singapore.
- Supervisor, FID attends the financial fragility and banking crises training in Singapore.
- Governor attends the second round of ADF negotiations in Sydney, Australia.
- En-Rich Services Ltd conducts in-house training on motivation for performance for CBSI staff.
- Directors Bruce Saunders and Francis Kairi's terms on the CBSI Board expire.

#### **October**

- Governor and manager, CBO attends the World Bank and International Monetary Fund (IMF) annual meetings in Washington DC.
- Assistant manager, FID joins the IMF as advisor to the Executive Director's Office.
- Deputy Governor and Bank Analyst in FID attend the Association of Financial Supervisors in the Pacific (AFSP) meeting in Apia, Samoa.
- Basel I methodology for determining total risk weighted assets come into effect for banks and credit institutions in Solomon Islands.
- Capital Adequacy Ratio is increased from 10 percent to 15 percent of total risk weighted assets.
- Supervisor, AIT department attend the Access 2003 Level 1 and the Administering a Microsoft SQL Server 2000 database training in Brisbane, Australia.
- Supervisor, ECO department attend financial programming and policies training in Singapore.
- Insurance Analyst, FID attends a Tower Insurance onsite attachment in Suva, Fiji.

#### **November**

- Governor attends third round of ADF negotiations in Vientiane, Laos PDR.
- Manager SHRD attends SEACEN training in Seoul, South Korea.
- Manager FID attends course on financial soundness indicators in Singapore.
- The High Court of Solomon Islands approves the extension of CBSI as Court Appointed Manager of DBSI for another term of 6 months to June 2008.
- The Minister of Finance appoints Dr. Steve Aumanu as a new Director on the CBSI Board.

#### **December**

- Governor attends the South Pacific Central Bank Governors meeting in Nukualofa, Tonga.
- Deputy Governor attends an IMF Seminar on Central Bank Safeguard Assessments in Washington DC
- CBSI Board approves the Bank's 2008 Budget and Work Plans.
- AIT officer attend Sun System training in Brisbane, Australia.
- Manager, SHRD attends a Company Secretary Forum 2007 in Singapore.
- Manager, ECO attends macroeconomic diagnostics training in Singapore.
- Three AIT officers return from fulltime study at the University of South Pacific (USP), Fiji
- Minister of Finance approves an increase in the Central Bank Paid-Up Capital from \$2.6 million to \$20.0 million.
- Change of Government in Solomon Islands.

## STATISTICAL ANNEX (or Tables)

<b>Tables</b>	<b>A. Money and Banking</b>	<b>Page</b>
1.1	Monetary Survey	92
1.2	Money Supply	93
1.3	Assets of Central Bank of Solomon Islands	94
1.4	Liabilities of Central Bank of Solomon Islands	95
1.5	Assets of Commercial Banks	96
1.6	Liabilities of Commercial Banks	97
1.7	Sectoral Distribution of Commercial Bank Credit Outstanding	98
1.7b	Sectoral Distribution of Commercial Bank Credit Outstanding (cont'd)	99
1.8	Commercial Bank Liquid Assets Position	100
1.9	Assets and Liabilities of Development Bank of Solomon Islands	101
	<b>B. External Trade and Payments</b>	
1.10	Balance of Payments	102
1.11	Foreign Exchange Receipts	103
1.12	Foreign Exchange Payments	104
1.13	Exchange Rates	105
1.14	Competitiveness & Relative Prices	106
	<b>C. Government Finance</b>	
1.15	Government Securities by Holder & Instrument	107
1.16	Summary of Government Accounts and Budget Forecasts	108
1.17	Government Revenues	109
	<b>D. Prices</b>	
1.18	Honiara Retail Price Index	110
1.19	International Commodity Prices	111
	<b>E. Domestic Economy</b>	
1.20	Production By Major Commodities	112
1.21	Real Gross Domestic Product	113

TABLE 1.1 - MONETARY SURVEY

(SBD'000)

End of Period	NET FOREIGN ASSETS			DOMESTIC CREDIT			NARROW MONEY (M1)				QUASI-MONEY			BROAD MONEY (M3)	OTHER ITEMS (NET)
	Monetary Authority	Banks	Total	Govern-ment(net)	Private Sector	Total	Currency in Circulation	Demand Deposit		Total	Savings Deposits	Time Deposits			
								Banks	CBSI						
2004	578167	5680	583847	77918	238593	316511	123235	247401	1203	371839	75988	173860	621687	278671	
2005	699698	12811	712509	36440	389115	425555	153012	383750	1140	537902	88078	237761	863741	274323	
2006	773110	(3067)	770043	(11235)	632272	621037	177647	521647	4152	703446	98936	289184	1091566	299514	
2007	873520	(21477)	852043	(30857)	976876	946019	232045	672561	5113	909719	122439	320855	1353013	445049	
2004															
Mar	303662	2634	306296	205238	230973	436211	95463	223463	798	319724	65947	130264	515935	226572	
Jun	409287	21698	430985	106869	219408	326277	106759	246432	535	353726	65820	137261	556807	200455	
Sep	507642	19391	517033	109941	232765	339618	113020	278181	558	391759	76804	167927	636490	220161	
Dec	578167	5680	583847	77918	238593	316511	123235	247401	1203	371839	75988	173860	621687	278671	
2005															
Mar	567337	1180	568517	84178	258949	343127	121821	276503	923	399247	76780	174780	650255	261389	
Jun	619798	36052	655850	4160	284809	288869	128905	300413	1911	431229	78751	185686	695666	249053	
Sep	680357	13804	694161	(12818)	345532	332714	135670	345879	1168	482717	82455	212589	777779	249096	
Dec	699698	12811	712509	36440	389115	425555	153012	383750	1140	537902	88078	237761	863741	274323	
2006															
Mar	695419	2058	697477	852	440733	441585	143564	407451	644	551659	85397	234607	871663	267399	
Jun	707022	11859	718881	(35328)	486105	450777	140205	410687	1578	552470	88792	267288	908550	261108	
Sep	757122	(21461)	735661	(32150)	569877	537727	145216	440320	2065	587601	93639	287198	968438	304950	
Dec	773110	(3067)	770043	(11235)	632272	621037	177647	521647	4152	703446	98936	289184	1091566	299514	
2007															
Jan	785537	14992	800529	(40505)	632756	592251	158128	485226	4397	647751	96849	303045	1047645	345135	
Feb	779815	(8467)	771348	(36143)	666418	630275	151960	485748	4797	642505	96189	302817	1041511	360112	
Mar	755218	451	755669	(15704)	703591	687887	170282	490452	4509	665243	101743	311863	1078849	364707	
Apr	847418	37643	885061	(66625)	690763	624138	180486	538437	5588	724511	106472	318065	1149048	360151	
May	862574	46321	908895	(51422)	689897	638475	191266	567808	3596	762668	110525	340475	1213668	333702	
Jun	882626	(6113)	876513	(60697)	755460	694763	206722	564518	3897	775137	112230	336063	1223430	347846	
Jul	920729	33846	954575	(53415)	783233	729819	200913	657585	3861	862359	112919	339331	1314609	369785	
Aug	820502	(877)	819625	(27184)	856314	829130	203447	617238	4342	825027	118800	358529	1302356	346399	
Sep	861081	15705	876786	(49159)	888265	839106	208761	650831	4598	864190	123406	334832	1322428	393464	
Oct	894597	4508	899105	(38571)	884677	846106	204919	649109	4351	858379	126293	350423	1335095	410116	
Nov	899764	18706	918470	(23641)	907501	883860	222911	676723	4544	904178	127120	355546	1386844	415486	
Dec	873520	(21477)	852043	(30857)	976876	946019	232045	672561	5113	909719	122439	320855	1353013	444049	

Source: Central Bank of Solomon Islands

TABLE 1.2 - MONEY SUPPLY

End of Period	(1) Currency In Active Circulation	(2) Demand Deposits		(3) Money Supply (M1) (1 + 2)	(4) Savings Deposits	(5) Money Supply (M2) (3 + 4)	(6) Time Deposits (adj)	(7) Money Supply (M3) (5 + 6)
		Commercial Banks (adj)	Central Bank					
2004	123235	247401	1203	371839	75988	447827	173860	621682
2005	153012	383750	1140	537902	88078	625980	237761	863741
2006	177647	521647	4152	703446	98936	289184	802382	1091566
2007	232045	672561	5113	909719	122439	320855	1032158	1353013
2004	95463	223463	798	319724	65947	385671	130264	515935
Mar	106759	246432	535	353726	65820	419546	137261	556807
Jun	113020	278181	558	391759	76804	468563	167927	636490
Sep	123235	247401	1203	371839	75988	447827	173860	621687
Dec								
2005	121821	276503	923	399247	76228	475475	174780	650255
Mar	128905	300413	1911	431229	78751	509980	185686	695666
Jun	132939	347072	1168	481179	81312	565190	212589	777779
Sep	153012	383750	1140	537902	88078	625980	237761	863741
Dec								
2006	143564	407451	644	551659	85397	234607	637056	871663
Mar	140205	410687	1578	552470	88792	267288	641262	908550
Jun	145216	440320	2065	587601	93639	287198	681240	968438
Sep	177647	521647	4152	703446	98936	289184	802382	1091566
Dec								
2007	158128	485226	4397	647751	96849	303045	744600	1047645
Jan	151960	485748	4797	642505	96189	302817	738694	1041511
Feb	170282	490452	4509	665243	101743	311863	766986	1078849
Mar	180486	538437	5588	724511	106472	318065	830983	1149048
Apr	191266	567806	3596	762668	110525	340475	873193	1213668
May	206722	564518	3897	775137	112230	336063	887367	1223430
Jun	200913	657585	3861	862359	112919	339331	975278	1314609
Jul	203447	617238	4342	825027	118800	358529	943827	1302356
Aug	208761	650831	4598	864190	123406	334832	987596	1322428
Sep	204919	649109	4351	858379	126293	350423	984672	1335095
Oct	222911	676723	4544	904178	127120	355546	1031298	1386844
Nov	232045	672561	5113	909719	122439	320855	1032158	1353013
Dec								

Source: Central Bank of Solomon Islands.

TABLE 1.3 - ASSETS OF CENTRAL BANK OF SOLOMON ISLANDS

(SBD'000)

End of Period	EXTERNAL ASSETS				SOLOMON ISLANDS GOVERNMENT										LOANS & ADVANCES			OTHER DOMESTIC ASSETS					GOVT * FOREIGN ASSETS
	Money at call	Deposits	Secs	SDR Holdings	Other	Total	Advances	O/D Account	T/Bills	Bonds	Dev	Other	Total	Banks	Non-Bank	Secs & Invt	Prem's Equip	Other	Total				
2004	140348	452434	-	21	3955	596758	174289	-	187	27	27	11075	185578	-	-	-	673	9145	13853	23671	806007	15	
2005	174576	537835	-	15	4463	716889	185680	-	118	27	27	11075	196900	-	-	-	-	8833	19528	28361	942150	17	
2006	151795	630984	-	74	7611	790464	29691	-	616	27	27	131337	161671	-	-	-	-	9924	41912	51836	1003971	16	
2007	186435	719115	-	21	10984	918040	24321	-	59	27	27	125271	149678	-	-	-	-	57659	17693	75352	1143070	17	
2004	151958	174136	-	13	836	326943	175983	-	40	27	27	11075	187125	-	-	-	1345	9197	12268	22810	536878	15	
Mar	197514	236031	-	23	8	433576	174289	-	29	27	27	11075	185420	-	-	-	1345	9907	13895	25147	644143	15	
Jun	146643	383873	-	9	8	530533	174289	-	118	27	27	11075	185509	-	-	-	1345	10022	16674	28041	744083	14	
Sep	140348	452434	-	21	3955	596758	174289	-	187	27	27	11075	185578	-	-	-	673	9145	13853	23671	806007	15	
Dec																							
2005	116206	470256	-	46	3955	590463	174283	-	325	27	27	11075	185710	-	-	-	673	9404	38041	48118	824291	16	
Mar	155979	485949	-	11	8	641947	174283	-	50	27	27	11075	185435	-	-	-	673	9128	16583	26384	853803	16	
Jun	198728	500278	-	31	8	699045	174283	-	615	27	27	11074	185999	-	-	-	673	9308	12382	22363	907407	15	
Sep	174576	537835	-	15	4463	716889	185680	-	118	27	27	11075	196900	-	-	-	-	8833	19528	28361	942150	17	
Dec																							
2006	161970	547182	-	5	4463	713620	50006	-	80	27	27	134490	184603	-	-	-	-	9577	29368	38945	937168	15	
Mar	153261	573264	-	70	8	726603	49091	-	30	27	27	133970	183118	-	-	-	-	9937	23745	33682	943403	15	
Jun	185319	589229	-	17	8	774573	30342	-	39	27	27	133386	163794	-	-	-	-	9945	22614	32559	970926	16	
Sep	151795	630984	-	74	7611	790464	29691	-	616	27	27	131337	161671	-	-	-	-	9924	41912	51836	1003971	16	
Dec																							
2007	165867	631454	-	74	6013	803408	29464	-	546	27	27	130185	160222	-	-	-	-	9648	25493	35141	998711	16	
Jan	158316	634774	-	16	3839	796945	29234	-	40	27	27	129742	159043	-	-	-	-	5480	27394	32874	988862	16	
Feb	125606	645177	-	16	1680	772479	29022	-	487	27	27	129299	158835	-	-	-	-	5322	22402	27724	959038	16	
Mar	217417	656660	-	86	720	874883	28801	-	30	27	27	128855	157713	-	-	-	-	5483	18131	23614	1056210	16	
Apr	230634	656454	-	25	255	887368	28586	-	40	27	27	128410	157063	-	-	-	-	5496	29812	35308	1079739	17	
May	215053	690223	-	25	203	905504	28359	-	79	27	27	127964	156429	-	-	-	-	5507	22083	27590	1089523	17	
Jun	231136	713526	-	143	859	945664	28159	-	537	27	27	127517	156240	-	-	-	-	55849	21328	77177	1179081	17	
Jul	171220	673708	-	79	859	845866	27946	-	158	27	27	127070	155201	-	-	-	-	55816	24683	80499	1081566	17	
Aug	168654	718418	-	80	12	887164	24844	-	79	27	27	126621	151571	-	-	-	-	56530	28766	85296	1124031	17	
Sep	188782	731743	-	80	12	920617	24844	-	79	27	27	126172	151122	-	-	-	-	56530	33657	90187	1161926	17	
Oct	192595	736266	-	22	8	928891	24456	-	69	27	27	125722	150274	-	-	-	-	58574	31044	89618	1168783	17	
Nov	186435	719115	-	21	10984	918040	24321	-	59	27	27	125271	149678	-	-	-	-	57659	17693	75352	1143070	17	
Dec																							

\* 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**

(SBD '000)														
End of Period	EXTERNAL LIABILITIES			CURRENCY IN CIRCULATION			DEPOSITS				CAPITAL FUNDS			
	S.D.R. Allocated	Other	Total	Notes	Coins	Total	Government			Banks	Other	Total	Paid-up Capital	Reval'n Res
							Euro-Loan	Other	Total					
<b>2004</b>	7610	14932	22547	130584	7108	137692	-	206121	206121	244559	1203	451883	2597	84743
<b>2005</b>	7085	10106	17191	160688	7313	168001	-	279436	279436	294659	1140	575235	2597	43173
<b>2006</b>	7522	9832	17354	194983	8393	203376	-	243543	243543	287145	4152	534840	2597	43173
<b>2007</b>	7916	36604	44520	253445	9493	262938	-	270016	270016	200749	5113	975878	2597	92249
<b>2004</b>	7221	16546	23767	97350	6613	103963	-	139672	139672	117845	798	258315	2597	76958
<b>2005</b>	7167	17122	24289	110629	6773	117402	-	214006	214006	143240	535	357781	2597	76958
<b>2006</b>	7209	15682	22891	116818	6950	123768	-	202514	202514	242154	558	445226	2597	76958
<b>2007</b>	7610	14932	22547	130584	7108	137692	-	206121	206121	244559	1203	451883	2597	84743
<b>2005</b>	7414	15712	13126	127656	7191	134847	-	219440	219440	261287	923	481650	2597	84743
<b>2006</b>	7199	14950	22149	133673	7255	140928	-	300937	300937	212086	1911	514834	2597	84743
<b>2007</b>	7162	11526	18688	140527	7277	147804	-	308634	308634	265383	1168	575185	2597	84743
<b>2005</b>	7085	10106	17191	160688	7313	168001	-	279436	279436	294659	1140	575235	2597	43173
<b>2006</b>	7189	11032	18201	151448	7774	159222	-	286521	286521	291936	644	579101	2597	43173
<b>2007</b>	7308	12273	19581	147878	8028	155906	-	317684	317684	257908	1578	577170	2597	43173
<b>2005</b>	7384	10067	17451	156338	8268	164606	-	283620	283620	301152	2065	586837	2597	43173
<b>2006</b>	7522	9832	17354	194983	8393	203376	-	243543	243543	287145	4152	534840	2597	43173
<b>2007</b>	7484	10387	17871	171049	8445	179494	-	267472	267472	284492	4397	556361	2597	43173
<b>2005</b>	7526	9604	17130	163440	8472	171912	-	280823	280823	272220	4797	557840	2597	94546
<b>2006</b>	7558	9703	17261	179681	8527	188208	-	258820	258820	242590	4509	505919	2597	94546
<b>2007</b>	7619	19846	27465	195873	8586	204459	-	296328	296328	249351	5588	551267	2597	92249
<b>2005</b>	7584	17210	24794	201576	8707	213883	-	284366	284366	300688	3596	588650	2597	92249
<b>2006</b>	7575	15303	22878	219087	8767	227854	-	280614	280614	285736	3897	570247	2597	92249
<b>2007</b>	7694	17241	24935	219934	8919	228853	-	275205	275205	300767	3861	579833	2597	92249
<b>2005</b>	7650	17714	25364	214311	8092	223303	-	261940	261940	265094	4342	531376	2597	92249
<b>2006</b>	7790	18293	26083	223316	9138	232454	-	292143	292143	233177	4598	529918	2597	92249
<b>2007</b>	7760	18260	26020	223385	9179	232564	-	289658	289658	261016	4351	555025	2597	92249
<b>2005</b>	8014	21113	29127	238552	9330	247882	-	265262	265262	264804	4544	534610	2597	92249
<b>2006</b>	7916	36604	44520	253445	9493	262938	-	270016	270016	200749	5113	975878	2597	92249

Source: Central Bank of Solomon Islands.

TABLE 1.5 - ASSETS OF COMMERCIAL BANKS

End of Period	(SBD'000)																
	S.I	DUE FROM CENTRAL BANK			SECURITIES				LOANS AND ADVANCES						OTHER		
		CASH	Call	Other	Treasury Bills	Dev/Tr Bonds	Restr. Bonds	Auct. T'Bills	CBSI Secur.	SIG	Prov Govt	Stat Corps	Other	Total	DOM ASSETS	FOR'N ASSETS	TOTAL ASSETS
2004	14457	245937	-	3969	-	141913	-	-	-	240	7	238833	238586	58609	71863	775581	
2005	14989	294556	-	6709	-	135083	-	-	-	-	-	389115	389115	74587	75601	990640	
2006	24079	287249	-	5002	-	128261	-	-	-	14	-	617164	617178	131935	79442	1273146	
2007	28374	212272	-	6737	-	121353	-	-	-	-	-	956714	956714	117061	62758	1505269	
2004	8399	115320	-	11886	-	149840	-	-	-	715	1123	229850	231688	61451	68048	646632	
Mar	10643	140655	-	12914	-	149840	-	-	-	710	-	219408	220118	72093	97862	704125	
Jun	10748	253918	-	4947	-	142148	-	-	-	250	5	232750	233015	51270	82158	778214	
Sep	14457	245937	-	3969	-	141913	-	-	-	240	7	238833	238833	58609	71863	775581	
Dec	2005	13026	258320	3952	-	140202	-	-	-	2	254	258695	258951	66764	67427	808642	
Mar	12023	211746	-	6696	-	138408	-	-	-	27	134	284675	284836	69849	112676	836234	
June	12134	265027	-	3483	-	136802	-	-	-	-	-	345532	345532	78927	84565	926470	
Sep	14989	294556	-	6709	-	135083	-	-	-	-	-	389115	389115	74587	75601	990640	
Dec	2006	13664	291798	3973	-	133354	-	-	-	-	349	431886	432235	85681	35092	995797	
Mar	13251	260538	-	2734	-	131638	-	-	-	23	1	476035	476059	96061	88878	1069159	
Jun	18302	301155	-	2929	-	129955	-	-	-	-	22	555105	555127	87524	64827	1159819	
Sep	24079	287249	-	5002	-	128261	-	-	-	14	-	617164	617178	131935	79442	1273146	
Dec	2007	20380	284722	8734	-	127694	-	-	-	-	-	617088	617088	118546	8551	1262675	
Jan	18336	271633	-	8410	-	127124	-	-	-	1	189	650117	650307	105658	71327	1252795	
Feb	15674	242589	-	6170	-	126553	-	-	-	-	564	687474	688038	100766	58332	1238122	
Mar	22416	248933	-	6384	-	125982	-	-	-	-	31	674241	674272	110797	95945	1284729	
Apr	20555	300428	-	6771	-	125408	-	-	-	3	-	673593	673597	103613	103232	1333604	
May	18893	278597	-	6772	-	124834	-	-	-	24	-	739111	739136	112374	64284	1344890	
Jun	25842	300712	-	8226	-	124257	-	-	-	6	-	766425	766433	121620	115706	1462796	
Jul	17094	263681	-	8210	-	123680	-	-	-	76	-	836875	836951	112720	116206	1478542	
Aug	22429	232703	-	7967	-	123101	-	-	-	-	-	867313	867313	105466	142038	1501017	
Sep	26101	265668	-	7398	20276	102243	-	-	-	-	-	863852	863852	97272	130288	1513098	
Oct	22730	263852	-	7995	-	121936	-	-	-	-	-	886610	886610	122522	96889	1522534	
Nov	28374	212272	-	6737	-	121353	-	-	-	-	-	956714	956714	117061	62758	1505269	
Dec																	

Source: Central Bank of Solomon Islands.



TABLE 1.6 - LIABILITIES OF COMMERCIAL BANKS

End of Period	(SBD'000)																				
	DEMAND DEPOSITS							SAVINGS DEPOSITS													
	DEMAND DEPOSITS				TIME DEPOSITS			TOTAL DEPOSITS				CAP & RES									
	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	DUE TO CBSI	FOR'N LIABS	TOTAL LIABS			
2004	42710	3712	18293	229108	293823	75988	806	433	3050	170810	175099	43516	4145	21343	475906	544910	-	121051	43437	66183	775581
2005	17789	4023	88078	367523	405562	88078	821	157	2063	235698	238765	18610	4206	18290	691299	732405	-	159161	36284	62790	990640
2006	57466	4910	50128	471519	584023	98936	84	180	2075	280850	283189	57550	5090	52203	851305	966148	-	180206	44283	82509	1273146
2007	36480	1864	45631	626930	710905	122439	85	180	1119	309620	311004	36565	2044	46750	1058989	1144348	-	188343	88343	84235	1505269
2004																					
Mar	1292	2971	5250	218213	227726	65947	310	83	3715	126549	130657	1602	3054	8965	410709	424330	-	106645	50243	65414	646632
Jun	23773	3910	10018	236414	274115	65820	24	302	2927	134334	137587	23797	4212	12945	436568	477522	-	102021	48418	76164	704125
Sep	12708	6979	8344	269837	297868	76804	82	630	3519	164408	168639	12790	7609	11863	511049	543311	-	121002	41134	72767	778214
Dec	42710	3712	18293	229108	293823	75988	806	433	3050	170810	175099	43516	4145	21343	465906	544910	-	121051	43437	66183	775581
2005																					
Mar	21304	3912	17710	258793	301719	76228	806	226	3050	171730	175812	22110	4138	20760	506751	553759	-	127836	60800	66247	808642
Jun	20515	4072	20578	279835	325000	78751	821	161	2051	183635	186668	21336	4233	22629	542221	590419	-	132073	37118	76624	836234
Sep	23926	5564	22265	323614	375369	82473	821	157	2051	210538	213567	24747	5721	24316	616625	671409	-	142718	41582	70761	926470
Dec	17789	4023	88078	367523	405562	88078	821	157	2063	235698	238765	18610	4206	18290	691299	732405	-	159161	36284	62790	990640
2006																					
Mar	28602	4954	30939	376512	441007	85397	822	179	2063	232109	235173	29424	5133	33002	694018	761577	-	156847	44339	33034	995797
Jun	29633	4511	16906	393781	444831	88792	834	179	2064	262724	265801	30467	4690	18970	745297	799425	-	151450	41266	77019	1069159
Sep	38946	5249	21865	418455	484515	93639	834	179	2064	279512	282589	39780	5428	23929	791606	860743	-	179651	33137	86288	1159819
Dec	57466	4910	50128	471519	584203	98936	84	180	2075	280850	283189	57550	5090	52203	851305	966148	-	180206	44283	82509	1273146
2007																					
Jan	63192	6225	32504	452722	554643	96849	85	181	2075	294792	297133	63277	6406	34579	844363	948625	-	187745	55786	70519	1262675
Feb	43464	6168	35565	450183	535380	96189	85	181	2075	294463	296804	43549	6349	37640	840835	928373	-	194609	50019	79794	1252795
Mar	43053	5162	19609	470843	538667	101743	85	181	2075	303454	305795	43138	5343	21684	876040	946205	-	186232	47804	57881	1238122
Apr	55296	4814	23351	515086	598547	106472	85	181	2075	309656	311997	55381	4995	25426	931214	1017016	-	146209	63202	58302	1284729
May	51921	4117	39501	528305	623844	110525	85	179	2075	332066	334405	52006	4296	41576	970896	1068774	-	155104	52815	56911	1333604
Jun	64118	3761	44736	519782	632397	112230	85	179	2276	327427	329967	64203	3940	47012	959439	1074594	-	161258	38641	70397	1344890
Jul	63724	2952	72740	584845	724261	112919	85	179	1108	331810	333182	63809	3131	73848	1029574	1170362	-	165510	45064	81860	1462796
Aug	49120	3027	23931	593307	669385	118800	85	179	1108	348058	349430	49205	3206	25039	1060165	1137615	-	177835	46009	117083	1478542
Sep	37957	1433	49816	601015	690221	123406	85	180	1108	324348	325721	38042	1613	50924	1048769	1139348	-	183496	51840	126333	1501017
Oct	27637	2050	61126	587983	678796	126293	85	180	1118	339903	341286	27722	2230	62244	1054179	1146375	-	176926	64017	125780	1513098
Nov	36285	2034	59538	617185	715042	127120	85	180	1118	344427	345810	36370	2214	60656	1088732	1197972	-	187272	69107	71183	1522534
Dec	36480	1864	45631	626930	710905	122439	85	180	1119	309620	311004	36565	2044	46750	1058989	1144348	-	188343	88343	84235	1505269

Source: Central Bank of Solomon Islands.

TABLE 1.7 - SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING \*

(SBD'000)

End of Period	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecommunications	Distribution	Tourism
<b>2004</b>	4535	42139	333	142	26794	14947	2016	42802	46941	2644
<b>2005</b>	4394	60466	9646	264	59962	21067	5377	60475	90052	2513
<b>2006</b>	8221	86776	22564	2	60992	42302	18692	71512	102969	15680
<b>2007</b>	88749	55480	24570	138	122132	60249	28051	119039	129409	43861
<b>2004</b>										
Mar	2899	41326	5024	-	27694	17969	1253	43163	33990	3438
Jun	3585	37357	5375	-	14832	13804	1722	50453	35744	3692
Sep	3468	31549	331	-	19246	17762	2050	55152	47544	1828
Dec	4535	42139	333	142	26794	14947	2016	42802	46941	2644
<b>2005</b>										
Mar	3212	42126	1196	138	32325	15365	2562	42364	47380	3536
Jun	3773	48860	6333	177	27249	18251	5139	43597	66873	2943
Sep	3844	59305	7126	529	43749	17834	5923	57430	76865	2573
Dec	4394	60466	9646	264	59962	21067	5377	60475	90052	2513
<b>2006</b>										
Mar	4609	78583	7422	250	55764	20855	4748	58465	88672	2752
Jun	6510	86828	14413	17	53846	23289	4863	59803	97740	4076
Sep	7544	93848	19164	3	69477	39943	7243	77689	87483	6608
Dec	8221	86776	22564	2	60992	42302	18692	82178	102964	15680
<b>2007</b>										
Jan	8430	77079	24280	2	59693	44034	20590	80676	100561	19906
Feb	7656	88224	24853	2	70645	45253	24182	73301	100710	20751
Mar	10853	87087	30719	2	63622	47733	27258	78167	106075	21219
Apr	10209	93131	29761	2	43507	45559	30269	75468	103173	27322
May	9355	92663	29921	3	50372	45974	23419	75064	101541	29502
Jun	12961	108839	31237	4	72160	48753	21944	78299	110731	30689
Jul	9708	98169	29473	-	70071	46728	31110	109076	115274	29535
Aug	9681	109808	33898	228	98048	45313	30560	109127	122585	39705
Sep	9497	126212	32320	278	97481	48993	29007	106753	122912	38564
Oct	13059	113723	24431	500	91134	54861	27874	105379	126751	43602
Nov	10243	116138	25302	134	84284	50869	28054	124034	123121	43620
Dec	88749	55480	24570	138	122132	60249	28051	119039	129409	43861

\* Part of this table is continued on the next page.  
Source: Central Bank of Solomon Islands

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

End of Period	Entertainment & Catering	Government	Statutory Corporations	Public Financial Institutions			Private Financial Institutions	Professional & Other Services		Personal	TOTAL	NON-RESIDENT
2004	1669	428	7	-	-	5	14971	40927	241300	1553		
2005	3916	-	-	-	-	40	17257	63232	398661	4464		
2006	3292	14	1041	-	-	228	45877	117123	607946	438		
2007	929	7	829	-	-	428	49811	191129	914811	1839		
2004	649	715	1123	2	1121	17366	34882	232620	1205			
Mar	593	710	-	-	302	16413	35536	220118	1401			
Jun	440	229	-	-	2	15955	40661	236217	1549			
Sep	1669	428	7	-	5	14971	40927	241300	1553			
Dec												
2005	3600	3	-	254	708	14455	43339	262563	1549			
Mar	3374	27	11	11	-	12957	44674	284361	475			
Jun	3511	61	-	-	-	12212	54114	345076	456			
Sep	3916	-	-	-	40	17257	63232	398661	4464			
Dec												
2006	4389	-	4	345	269	27748	76942	431817	418			
Mar	4375	23	1	-	315	35563	83997	475659	400			
Jun	3203	-	431	-	251	43976	91868	548731	445			
Sep	3292	14	1041	-	228	45877	117123	607946	438			
Dec												
2007	4151	1	1029	-	259	45486	122305	608482	427			
Jan	4119	2	985	176	273	48290	131688	641110	480			
Feb	4257	1589	923	769	309	54430	134883	669895	476			
Mar	307	1	1276	-	318	54871	140968	656142	465			
Apr	448	4	648	-	315	53091	143394	655714	434			
May	538	25	302	-	5869	49533	148513	720397	417			
Jun	556	8	298	-	347	48528	156046	744927	391			
Jul	634	76	294	-	350	49051	162285	811643	424			
Aug	572	6	672	-	325	48938	163664	826194	427			
Sep	522	4	816	-	434	50933	169053	822076	378			
Oct	742	13	471	-	340	51305	181587	840257	1863			
Nov	929	7	829	-	428	49811	191129	914811	1839			
Dec												

Source: Central Bank of Solomon Islands.

TABLE 1.8 - COMMERCIAL BANK LIQUID ASSETS POSITION

TABLE 13 - COMMERCIAL BANK LIQUID ASSETS POSITION										(SBD'000)
End of Period	Till Cash	ELIGIBLE RESERVE ASSETS			Total	REQUIRED RESERVE ASSETS		OTHER LIQUID ASSETS		SURPLUS/ (DEFECIT)
		Balances With CBSI	Government Securities					CBSI Securities		
2004	14457	245937	-		260394	40868	-	-		219526
2005	14989	294556	-		309545	54930	-	-		254615
2006	25729	287249	-		312978	72931	-	-		240047
2007	30893	212272	-		243165	86585	-	-		156580
2004	8399	115320	-		123719	31825	-	-		91894
Jun	10643	140655	-		151298	35814	-	-		115484
Sep	10748	253918	-		264666	40748	-	-		223918
Dec	14457	245937	-		260394	40868	-	-		219526
2005	13026	258320	-		271346	41532	-	-		229814
Jun	12023	211746	-		223769	44281	-	-		179488
Sep	12134	265027	-		277161	50356	-	-		226805
Dec	14989	294556	-		309545	54930	-	-		254615
2006	15658	291798	-		307456	57151	-	-		250305
Jun	15701	260538	-		276239	60144	-	-		216095
Sep	19390	301155	-		320545	64977	-	-		255568
Dec	25729	287249	-		312978	72931	-	-		240047
2007	21366	284722	-		306088	71610	-	-		234,478
Jan	19952	271633	-		291585	70099	-	-		221486
Feb	17926	242589	-		260515	71440	-	-		189075
Mar	23973	248933	-		272906	76751	-	-		196155
Apr	22617	300428	-		323045	80633	-	-		242412
May	21132	278597	-		299729	81072	-	-		218657
Jun	27940	300712	-		328652	88258	-	-		240394
Jul	19856	263681	-		283537	86023	-	-		197514
Aug	23693	232703	-		256396	86154	-	-		170242
Sep	27645	265668	-		293313	86683	-	-		206630
Oct	24971	263852	-		288823	89848	-	-		198975
Nov	30893	212272	-		243165	86585	-	-		156580
Dec			-				-	-		

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 LIAB.
	Fixed Deposits	Treasury Bills	Term Loans	Equity Holdings	Staff Loans	Fixed* Assets	Other+ Assets	Term Liabilities				Capital and Reserves	Other Liabs		
								S.I.G	C.B.S.I	Overseas#	N.P.F				
2004	2201	-	50918	97	2549	958	-27342	-	-	20235	3799	-14520	19867	29381	
2005	158	-	36472	-	723	2054	-21297	-	-	21054	3612	-13632	7076	18110	
2006	1752	-	17277	-	-	1038	-8159	-	-	21054	3528	-13884	1210	11908	
2007	150	-	8202	-	-	641	-1061	-	-	21055	-45	-14094	1016	7932	
2004	348	-	57448	97	3579	2079	-25173	7145	-	16813	2558	-15674	27536	38378	
Mar	172	-	57516	97	3363	1673	-29618	7145	-	20235	2558	-24208	27372	33103	
*Sep	1237	-	54668	97	3178	1272	-28574	-	-	20235	3815	-16261	24088	31878	
Dec	2201	-	50918	97	2549	958	-27342	-	-	20235	3799	-14520	19867	29381	
2005	830	-	49363	67	2524	2132	-27584	-	-	21054	3697	-14543	17124	27332	
Mar	388	-	46547	-	739	2119	-25877	-	-	21054	3640	-14811	14033	23916	
Jun	158	-	42032	-	733	1825	-24531	-	-	21054	3611	-14434	9986	20217	
Sep	158	-	36472	-	723	2054	-21297	-	-	21054	3612	-13632	7076	18110	
Dec															
2006	350	-	30821	-	451	1313	-17437	-	-	21054	3566	-13386	4264	15498	
Mar	430	-	28327	-	383	1416	-16626	-	-	21054	3551	-13301	2626	13930	
Jun	1154	-	19853	-	153	1175	-9949	-	-	21054	3545	-13481	1268	12386	
Sep	1752	-	17277	-	-	1038	-8159	-	-	21054	3528	-13884	1210	11908	
Dec															
2007	2252	-	15891	-	2	1038	-7358	-	-	21054	3528	-13962	1205	11825	
Jan	2502	-	14944	-	-23	1038	-6909	-	-	21054	3528	-14136	1106	11552	
Feb	2502	-	13093	-	-23	831	-5484	-	-	21054	3520	-14438	783	10919	
Mar	2522	-	12308	-	-23	831	-4723	-	-	21054	3520	-14464	805	10915	
Apr	2522	-	10452	-	-23	854	-3089	-	-	21054	3485	-14383	560	10716	
May	22	-	10000	-	-	1064	-4144	-	-	21054	-35	-14665	588	6942	
Jun	150	-	9920	-	-	1064	-4189	-	-	21054	-35	-14690	616	6945	
Jul	150	-	8848	-	-	1008	-3187	-	-	21054	-40	-14842	648	6820	
Aug	150	-	8738	-	-	607	-2626	-	-	21054	-45	-14802	662	6869	
Sep	150	-	8740	-	-	706	-1992	-	-	21054	-45	-14101	696	7604	
Oct	150	-	8451	-	-	641	-1626	-	-	21055	-45	-14078	684	7616	
Nov	150	-	8202	-	-	641	-1061	-	-	21055	-45	-14094	1016	7932	
Dec															

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

TABLE 1-10 - BALANCE OF PAYMENTS

(SBD'millions)

	2004	2005	2006	2007
<b>I. CURRENT ACCOUNT</b>	<b>502.5</b>	<b>-88.5</b>	<b>10.7</b>	<b>63.7</b>
<b>A. Goods</b>	187.7	-131.2	-201.2	-182.9
i) Exports f.o.b.	727.7	778.8	917.6	1286.1
ii) Imports f.o.b.	-540.0	-910.1	-1118.7	-1469.1
<b>B. Services</b>	-78.6	-67.6	-100.3	-108.9
(i) credit	230.5	383.3	525.2	664.1
(ii) debit	-309.1	-450.3	-625.5	-773.0
<b>C. Income</b>	16.0	11.9	-36.9	-28.0
i) credit	80.2	67.0	164.1	248.1
ii) debit	-64.2	-55.1	-201.1	-276.1
<b>D. Transfers 1/</b>	377.0	97.9	349.1	<b>383.6</b>
i) credit	563.3	368.9	658.9	721.5
ii) debit	-186.0	-271.0	-309.9	-338.0
<b>II. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>-467.8</b>	<b>584.0</b>	<b>-148.9</b>	<b>-61.4</b>
<b>A. Capital Account - net</b>	11.2	208.0	223.8	275.2
i) Transfers - net	11.2	208.0	223.8	264.6
ii) Acquisition/disposal of nonproduced, nonfinancial assets	0.0	0.0	0.0	10.5
<b>B. Financial Account</b>	-479.0	376.0	-74.9	-213.8
i) Direct Investment	42.4	136.7	87.2	259.0
a) Abroad	-0.1	-1.3	-51.5	-63.8
b) In Solomon Islands	42.5	138.0	138.7	322.8
ii) Portfolio investment	0.0	0.0	0.0	0.0
a) assets	0.0	0.0	0.0	0.0
b) liabilities	0.0	0.0	0.0	0.0
iii) Other investment	-337.5	34.6	-208.7	-418.8
a) assets	20.2	-6.4	-114.8	-17.7
b) liabilities	-357.7	41.0	-93.8	-401.1
<b>C. Reserve Assets</b>	-183.3	204.7	46.6	-54.1
<b>III. ERRORS AND OMISSIONS -NET</b>	<b>290.6</b>	<b>-375.4</b>	<b>-86.0</b>	<b>2.6</b>
<b>IV. OVERALL BALANCE</b>	<b>324.8</b>	<b>120.1</b>	<b>73.5</b>	<b>127.6</b>

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

Source: Central Bank of Solomon Islands

TABLE 1-11 - FOREIGN EXCHANGE RECEIPTS/1

(SBD'000)

	2002	2003	2004	2005	2006	2007
<b>Current Receipts</b>						
<b>Exports</b>						
Copra	2218	7821	25549	16418	14066	36768
Fish	70752	92869	132052	86921	145855	151392
Logs	254149	371394	468175	510162	643574	838693
Palm Oil & Kernels	-	-	-	-	30719	105281
Cocoa	27728	53186	40419	64329	31444	70838
Mineral	192	581	2857	1335	6235	6696
All Other	34970	31163	55075	92473	45415	75981
<b>Total Exports</b>	<b>390008</b>	<b>557013</b>	<b>724127</b>	<b>771638</b>	<b>971308</b>	<b>1285651</b>
<b>Services</b>						
Transportation	7017	7457	2972	8759	10956	15608
Travel	9914	17057	33282	24736	31377	26867
Insurance	253	757	799	315	53	971
Royalties & License Fees	805	808	1002	674	9729	13273
Communication	18579	409	1086	10739	30860	36244
Financial Services	561	6809	9074	4591	3486	89
Others	75655	126082	179211	223277	317945	467602
<b>Total Services</b>	<b>112784</b>	<b>159378</b>	<b>227427</b>	<b>273091</b>	<b>404406</b>	<b>560654</b>
<b>Income Account</b>						
Wages & Others	15061	20954	45035	32874	50766	22969
Interest, Dividends & Profits	11	192	12	33	974	1621
Official Interest	3280	5091	18493	23580	33604	52200
Other Income	-	77	-	7366	1617	3215
<b>Total Income</b>	<b>18352</b>	<b>26314</b>	<b>63540</b>	<b>63853</b>	<b>86962</b>	<b>80006</b>
<b>Transfers : Official</b>						
Cash Aid	42231	56868	165401	22331	12461	16776
Other Official	7111	23036	31471	31094	42954	60916
<b>Total Official Transfers</b>	<b>49342</b>	<b>79904</b>	<b>196872</b>	<b>53425</b>	<b>55415</b>	<b>77692</b>
<b>Transfers : Private</b>						
Gifts and Donations	23706	36166	82714	78336	67174	80774
Transfers by Temp. Res. & Immigrants	6703	8177	16107	20334	65737	8028
Churches & Charitable Institutions	18382	21606	38137	38986	48145	39270
Foreign Governments	24634	31541	99992	52656	55604	57225
International Organisations	34206	40699	40416	73120	144445	114940
Other transfers	1	2	1	185	617	267
<b>Total Private Transfers</b>	<b>107629</b>	<b>138189</b>	<b>277366</b>	<b>263432</b>	<b>381105</b>	<b>300503</b>
<b>Total Current Receipts</b>	<b>678116</b>	<b>960798</b>	<b>1489331</b>	<b>1425437</b>	<b>1845196</b>	<b>378195</b>
<b>Capital &amp; Financial Receipts</b>						
<b>Private</b>						
Investment Grants	954	-	2388	6828	6011	61907
Direct Investment	-	674	122	14193	53338	19231
Loans	3116	237	370	3252	2222	9528
Other Foreign Investment	6057	1	-	-	-	-
<b>Total Private Inflows</b>	<b>10126</b>	<b>912</b>	<b>2880</b>	<b>24273</b>	<b>61571</b>	<b>90666</b>
<b>Official</b>						
Investment Grants	20808	95405	4107	141156	86366	182270
Loans	40642	23179	2104	3828	45	-
CBSI	-	-	-	-	-	-
Euro \$ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
<b>Total Official Inflows</b>	<b>61451</b>	<b>118584</b>	<b>6211</b>	<b>144984</b>	<b>86411</b>	<b>182270</b>
<b>Total Capital Receipts</b>	<b>71577</b>	<b>119496</b>	<b>9091</b>	<b>169257</b>	<b>147982</b>	<b>272936</b>
<b>TOTAL RECEIPTS</b>	<b>749692</b>	<b>1080294</b>	<b>1498422</b>	<b>1594695</b>	<b>1993178</b>	<b>2577441</b>

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

TABLE 1.12 - FOREIGN EXCHANGE PAYMENTS /1

(SBD'000)

	2002	2003	2004	2005	2006	2007
<b>Current Payments</b>						
<b>Imports</b>						
Oil Imports	75589	87885	174766	323066	414331	434324
Food Imports	108840	112297	101492	153490	164578	231381
Beverages & Tobacco	11061	6937	7775	17959	13258	26223
Plants, Vehicles & Transport Equipt.	57452	64459	66421	104237	159522	206847
Building & Construction Mat.	23831	54051	48402	60005	63048	95429
Chemical	11513	14102	12605	15044	16075	36103
Other Imports	148047	167272	226232	409630	565581	806027
<b>Total Imports</b>	<b>436342</b>	<b>507004</b>	<b>637694</b>	<b>1083432</b>	<b>1396392</b>	<b>1836334</b>
<b>Services</b>						
Transportation	25567	23616	45061	65727	75018	132134
Travel	29295	33401	33213	35649	31369	58745
Insurance	9262	8975	7272	8507	3850	6903
Communication	12163	16720	11624	14268	12812	15401
Financial	11086	6130	11776	14209	21865	40382
Royalties & License Fees ectc.	16	72	43	1749	891	2074
Others	28350	25609	60964	81398	83923	147828
<b>Total Services</b>	<b>115740</b>	<b>114523</b>	<b>169953</b>	<b>221508</b>	<b>229728</b>	<b>403466</b>
<b>Income</b>						
Wages & Others	7641	11102	11367	11820	13700	28019
Interest Dividends & Profits	21175	17240	17781	32386	38323	60310
Official Interest	2256	4758	6679	7619	2520	23970
<b>Total Income Payments</b>	<b>31071</b>	<b>33100</b>	<b>35826</b>	<b>51824</b>	<b>54543</b>	<b>112299</b>
<b>Transfers</b>						
S I Govt Foreign Officers	-	4533	3086	7946	2432	7541
SI Govt Current Payments	4465	38877	14299	38654	44243	43022
Gifts & Donation	103541	93822	154493	218466	249432	222112
Transfers by Temporary Residents	74131	735	2186	2797	6220	6014
Other Transfers	11768	11922	14635	18263	11924	12947
<b>Total Transfers</b>	<b>193906</b>	<b>145356</b>	<b>185614</b>	<b>278179</b>	<b>314252</b>	<b>291637</b>
<b>Total Current Payments</b>	<b>777059</b>	<b>799982</b>	<b>1029088</b>	<b>1634943</b>	<b>1994915</b>	<b>2643737</b>
<b>Capital &amp; Financial Payments</b>						
<b>Private</b>						
Loan Repayments	3188	5732	3997	16013	2537	7542
Capital Repatriation	3	1356	-	-	-	-
Emigrant Transfers	1431	898	913	761	1295	456
Other Payments	2026	1212	1138	2004	35126	87877
<b>Total Private Outflows</b>	<b>6648</b>	<b>9198</b>	<b>6047</b>	<b>18779</b>	<b>38957</b>	<b>95875</b>
<b>Official</b>						
S I Government Loans	-	262	18824	68617	36485	65542
CBSI	-	-	-	-	-	-
IMF Transactions	-	-	-	1	-	-
<b>Total Official Outflows</b>	<b>-</b>	<b>262</b>	<b>18824</b>	<b>68618</b>	<b>36485</b>	<b>65542</b>
<b>Total Capital &amp; Financial Payments</b>	<b>6648</b>	<b>9461</b>	<b>24872</b>	<b>87397</b>	<b>75442</b>	<b>161417</b>
<b>TOTAL PAYMENTS</b>	<b>783707</b>	<b>809443</b>	<b>1053959</b>	<b>1722339</b>	<b>2070357</b>	<b>2805154</b>

1/ Derived from the banking system.

Source: Central Bank of Solomon Islands.



**TABLE 1-13 - EXCHANGE RATES**  
(UNITS OF S\$ PER FOREIGN CURRENCY)

Period Average	USD	AUD	Pound Stg	Yen (per 100)	NZD	EURO	S.D.R.
<b>2002</b>	6.97	3.84	10.53	5.62	3.32	6.43	8.75
<b>2003</b>	7.51	5.00	12.38	6.54	4.43	8.50	10.51
<b>2004</b>	7.49	5.45	13.74	6.93	4.98	9.31	11.09
<b>2005</b>	7.53	5.75	13.71	6.89	5.33	9.38	11.13
<b>2006</b>	7.61	5.73	14.01	6.54	4.94	9.55	11.20
<b>2007</b>	7.65	6.41	15.32	6.51	5.63	10.51	11.71
<b><u>2002</u></b>							
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
<b><u>2003</u></b>							
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
<b><u>2004</u></b>							
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
<b><u>2005</u></b>							
Mar	7.51	5.91	14.35	7.15	5.50	9.86	11.44
Jun	7.52	5.75	13.68	6.92	5.33	9.48	11.22
Sep	7.53	5.72	13.44	6.77	5.20	9.18	11.00
Dec	7.57	5.64	13.25	6.47	5.26	9.01	10.87
<b><u>2006</u></b>							
Mar	7.60	5.53	13.26	6.48	4.83	9.13	10.95
Jun	7.60	5.62	14.00	6.63	4.71	9.62	11.24
Sep	7.62	5.76	14.37	6.50	4.99	9.70	11.29
Dec	7.63	6.00	14.99	6.52	5.31	10.09	11.51
<b><u>2007</u></b>							
Jan	7.64	5.98	14.99	6.35	5.32	9.95	11.42
Feb	7.64	5.97	14.96	6.34	5.29	9.97	11.43
Mar	7.64	6.05	14.87	6.51	5.34	10.14	11.52
Apr	7.64	6.31	15.22	6.43	5.60	10.32	11.61
May	7.64	6.31	15.17	6.33	5.61	10.34	11.61
Jun	7.64	6.43	15.18	6.24	5.78	10.26	11.56
Jul	7.65	6.63	15.55	6.29	5.96	10.52	11.69
Aug	7.66	6.36	15.41	6.56	5.57	10.58	11.71
Sep	7.67	6.46	15.47	6.66	5.49	10.64	11.83
Oct	7.67	6.88	15.66	6.62	5.82	11.02	12.94
Nov	7.66	6.88	15.87	6.89	5.85	11.24	12.15
Dec	7.66	6.68	15.49	6.90	5.89	11.16	12.08

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 retail prices and foreign export prices	Term 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	
2007*	346.2	97.2	97.5	53.5	
2005					
Q1	349.3	415.4	341.5	65.2	
Q2	343.3	402.9	351.5	63.3	
Q3	335.3	371.7	309.4	66.0	
Q4	337.9	376.4	320.7	64.9	
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	0.9	2.0	0.2	-0.9	
2007					
Q1	0.6	1.0	1.0	-1.3	
Q2	1.5	3.6	3.0	-3.1	
Q3	1.7	1.9	2.8	-2.4	
Q4	-1.4	-1.8	-2.2	1.9	

- A. A rise in the nominal effective exchange rates implies a depreciation of the average exchange rate of SI dollar against a trade weighted basket of other currencies.
- B. A rise indicates a depreciation: average foreign retail prices increased faster than HRPI when all are expressed in a common currency.
- C. A rise indicates a depreciation: average foreign export prices increased faster than SI consumer prices, when all are expressed in a common currency.
- D. A rise indicates SI export prices increased relative to those countries from which it imports.

\* *Provisional estimates*

Source: Central Bank of Solomon Islands.

**TABLE 1-15 - GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT**

End of Period	DEVELOPMENT & TREASURY BONDS AMORTIZED							TREASURY BILLS					(SBD'000)	
	Commercial Banks	Central Bank	SINPF	Stat Corp'n	Public	Total	Commercial Banks	Central Bank	SINPF	Stat Corp'n	Public	Total	Central Bank	GRAND TOTAL
<b>2004</b>	141913	27	126426	-	1417	269783	3969	187	-	1190	24955	30301	11075	311159
<b>2005</b>	135083	27	120526	-	1343	256979	6709	118	1121	-	20762	29080	11075	297134
<b>2006</b>	128261	119937	133515	-	1275	382988	5002	616	4298	496	25059	34467	11426	428882
<b>2007</b>	121353	114582	116608	-	1206	353749	6737	59	5762	-	15589	28148	10716	392613
<b>2004</b>	149840	27	94721	-	1500	245638	11886	40	-	-	19552	31478	11075	288191
<b>2005</b>	149840	27	94271	-	1500	245638	12914	29	-	-	16565	29508	11075	286221
<b>2006</b>	142148	27	91910	-	1429	235514	4947	118	-	1129	24134	30240	11075	276828
<b>2007</b>	141913	27	126426	-	1417	269783	3969	187	-	1190	24955	30301	11075	311159
<b>2005</b>	140202	27	124962	-	1395	266586	3952	325	-	992	26292	31561	11075	309222
<b>2006</b>	138408	27	123491	-	1378	263304	6696	50	3664	-	20319	30729	11075	305107
<b>2007</b>	136802	27	122506	-	1361	260696	3483	615	5360	-	21447	30905	11075	302675
<b>2008</b>	135083	27	120526	-	1343	256979	6709	118	1491	-	20762	29080	11075	297134
<b>2006</b>	133354	123442	119230	-	1395	377421	3973	80	3377	299	23357	31086	11075	419513
<b>2007</b>	131638	122571	127008	-	1309	382526	2734	30	5712	338	23001	31815	11426	415854
<b>2008</b>	129955	121258	115616	-	1292	368120	2929	39	784	596	26509	30857	12155	411133
<b>2009</b>	128261	119937	133515	-	1275	382988	5002	616	4298	496	25059	34467	11426	428882
<b>2007</b>	126553	118610	131209	-	1258	377630	6170	487	2836	1488	21886	32867	10716	421214
<b>2008</b>	124834	117275	128941	-	1241	372291	6772	79	6676	-	17635	31162	10716	414169
<b>2009</b>	123101	115932	127024	-	1224	367280	7967	79	2355	-	19113	29514	10716	407511
<b>2010</b>	121353	114582	125371	-	1206	362511	6737	59	5762	-	15589	28148	10716	401375

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

-As of \*Qtr1/03 Commercial Bank SIG Bonds include Restructured only

\*Qtr4/04 NPF SIG Bonds include Restructured & Armotised

\*Qtr1/06 Central Bank SIG Bonds include Restructured & Armotised

Source : Central Bank of Solomon Islands.

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

(SBD million)

	2006 Est.	2006 Act.	2007 Est.	2007 Act.	2008 Est.
<b>Total Revenue and Grants</b>	<b>685.9</b>	<b>941.1</b>	<b>1217.2</b>	<b>1206.7</b>	<b>1519.1</b>
Recurrent Revenue	749.4	870.0	949.3	1118.6	1419.2
Local Revenue	688.1	822.1	886.7	1090.3	1293.5
Inland Revenue Division	386.1	426.1	462.6	595.2	721.0
Customs	227.5	264.1	316.8	342.7	417.2
Non-tax (including airspace fees)	74.5	131.8	107.4	152.4	155.3
Budget support	61.3	47.9	62.6	28.3	125.7
Development Revenue	546.9	71.1	267.9	88.1	99.9
Grants for Consolidated Funds	546.9	71.1	188.8	88.1	99.9
SIG Surplus (Development Financing)			79.1		
<b>Total Expenditure</b>	<b>1385.0</b>	<b>914.2</b>	<b>1728.2</b>	<b>1196.1</b>	<b>1669.7</b>
Recurrent Expenditure	784.6	829.2	934.9	1030.2	1289.2
Payroll	224.1	248.9	327.4	351.9	365.2
Other Charges	397.6	382.8	409.2	533.8	588.8
Debt Servicing (CBSI)	101.7	131.1	135.7	138.4	209.5
Budget Support	61.3	37.4	62.6	32.5	125.7
Increased Government Debt Arrears		29.1		-26.4	
<b>Development Expenditure/1</b>	<b>600.4*</b>	<b>85.0</b>	<b>793.3*</b>	<b>165.9</b>	<b>380.5</b>
SIG-Funded Development Expenditure	53.5	13.9	88.5	71.7	280.6
Other	546.9	71.1	704.8	94.2	99.9
Recurrent Surplus	-35.2	40.8	14.4	88.4	130.0
Overall Surplus (Deficit)	-88.7	26.9	-511.1	10.6	-150.6

Source: Ministry of Finance and Central Bank

Note : /1\* - This includes estimated government loan of \$53.5m (2006) and \$10.9m (2007)

TABLE 1.17 - GOVERNMENT REVENUES

(SBD'000)														
End of Period	Total Customs& Inland Revenue	Total Customs	Import Duty	Log Export Duty	Timber Levy	Other Exports	Other Customs	Total Inland Rev.	Company	Personal	Govt. PAYE	Goods & Sales	Other I.R.	Ministries & Other *
2003	340398	146232	68673	61017	-	1230	15311	194166	27887	27913	15924	96632	25810	33027
2004	472058	171300	81903	66279	-	1463	21654	300758	62332	45770	16143	141368	35146	37800
2005	564934	199786	82562	85061	-	2075	30087	365149	58624	68298	24756	172763	40708	56128
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**  
(1992 = 100)

Period	Food	Drink & Tobacco	Clothing & Footwear	Housing & Utilities	Household Operations	Transport & Commun.	Recreation & Others	Miscell.	Local Items	Imported Items	All Items	Annual % Change
<b>Weight</b>	<b>429</b>	<b>47</b>	<b>38</b>	<b>181</b>	<b>47</b>	<b>164</b>	<b>76</b>	<b>18</b>	<b>602</b>	<b>398</b>	<b>1000</b>	
<b>Annual Average (12mma)</b>												
<b>2005</b>	312.4	321.5	140.1	356.4	268.7	362.9	348.1	213.9	335.9	262.6	308.2	7.3
<b>2006</b>	343.0	352.7	161.1	398.6	295.0	424.5	394.5	236.1	367.8	283.6	342.8	11.2
<b>2007</b>	363.4	367.2	167.1	474.8	321.4	441.7	398.9	260.7	433.2	316.0	369.0	7.7
<b>Quarterly Average (3mma)</b>												
<b>2005</b>	300.5	326.5	140.0	336.5	260.5	322.9	343.1	209.9	324.0	254.9	295.3	5.0
Q1	310.2	317.4	140.1	350.4	267.6	328.3	348.2	213.7	330.5	263.7	302.7	5.8
Q2	322.4	319.7	140.1	366.4	273.1	398.9	350.5	215.3	353.1	269.1	318.2	10.0
Q3	316.6	322.5	140.1	372.6	273.7	401.5	350.7	216.5	372.0	270.7	316.6	8.5
Q4												
<b>2006</b>	326.8	335.5	159.4	391.5	293.0	415.0	394.7	232.0	390.8	283.8	332.4	12.5
Q1	345.4	340.6	159.5	397.0	293.4	422.9	393.8	231.9	404.6	290.2	342.4	13.1
Q2	351.0	364.3	160.0	399.6	295.3	427.9	393.8	233.2	407.9	296.8	347.1	9.1
Q3	348.7	370.2	165.4	406.3	298.2	432.3	395.7	247.5	406.6	302.6	349.2	10.3
Q4												
<b>2007</b>	349.9	369.9	166.9	471.5	304.7	436.2	397.2	248.9	425.8	306.5	360.8	8.6
Q1	355.9	371.3	167.9	470.4	307.8	438.5	398.0	246.2	429.0	309.4	363.8	6.3
Q2	362.0	349.1	166.6	475.2	321.8	439.3	399.0	257.1	430.5	315.1	367.3	5.8
Q3	385.7	378.5	166.9	482.2	351.2	452.6	401.4	290.7	447.5	332.9	384.3	10.0
Q4												
<b>2007</b>	353.9	369.6	165.8	470.7	308.3	441.2	398.0	245.6	429.3	307.5	363.1	9.8
Jan	347.4	370.9	167.5	471.9	301.3	433.7	395.8	252.5	423.5	305.9	359.4	9.2
Feb	348.6	369.2	167.5	471.9	304.6	433.7	398.0	248.7	424.7	306.0	360.0	8.6
Mar	353.4	372.9	167.3	470.7	305.1	436.9	398.0	247.3	428.8	306.7	362.5	7.8
Apr	356.6	371.3	168.3	469.9	309.0	437.5	398.0	245.6	428.8	309.9	364.0	7.0
May	353.3	369.6	168.3	470.7	309.2	441.2	398.0	245.6	429.3	311.6	365.0	6.3
Jun	359.1	348.9	168.3	472.7	309.6	437.5	398.0	245.6	428.2	311.0	364.2	5.4
Jul	368.5	353.0	163.9	475.8	309.7	438.5	398.0	245.5	429.0	311.7	364.9	5.1
Aug	374.6	345.5	167.6	477.1	345.9	442.0	401.0	280.3	434.4	322.5	372.7	5.8
Sep	374.6	360.8	167.6	477.6	348.0	449.2	401.4	280.3	440.0	325.9	377.1	6.9
Oct	397.6	361.0	166.7	483.6	352.6	450.4	401.4	295.9	457.4	331.5	388.7	9.0
Nov	385.0	413.8	166.4	485.4	353.0	458.2	401.4	295.9	445.3	341.2	387.0	10.0
Dec												

Source: Statistics Division, Ministry of Finance

\*\*The figures from Q4 2005 and onward have been revised as a result of the rebasing exercise that sees Q4 2005 as the new base period.

**TABLE 1-19 - INTERNATIONAL COMMODITY PRICES**

<b>End of Period</b>	<b>Copra (US\$/m.t)</b>	<b>Palm Oil (US\$/m.t)</b>	<b>Fish # (US\$/m.t)</b>	<b>Cocoa (US\$/m.t)</b>	<b>Logs * (US\$/M<sup>3</sup>)</b>
<b>2004</b>	450	471	902	1555	198
<b>2005</b>	414	422	915	1538	203
<b>2006</b>	402	477	930	1592	239
<b>2007</b>	607	780	1289	1952	268
<b><u>2003</u></b>					
Mar	304	445	622	2136	186
Jun	276	447	515	1744	182
Sep	276	409	763	1583	183
Dec	344	499	797	1541	197
<b><u>2004</u></b>					
Mar	418	524	837	1587	199
Jun	490	499	850	1421	195
Sep	444	432	975	1612	200
Dec	448	429	945	1599	197
<b><u>2005</u></b>					
Mar	448	413	872	1647	192
Jun	446	421	943	1545	200
Sep	381	415	973	1491	211
Dec	380	439	873	1470	209
<b><u>2006</u></b>					
Mar	385	440	1000	1545	225
Jun	387	437	925	1607	239
Sep	413	497	890	1569	247
Dec	477	574	885	1707	269
<b><u>2007</u></b>					
Mar	499	609	1068	1813	265
Jun	599	762	1162	2000	395
Sep	607	821	1418	1999	270
Dec	724	926	1508	1999	275
<b><u>2007</u></b>					
Jan	484	599	1075	1699	262
Feb	503	605	1075	1815	263
Mar	509	622	1055	1924	270
Apr	553	708	1075	1978	266
May	592	772	1110	2004	662
Jun	663	807	1300	2017	258
Jul	613	808	1380	2158	263
Aug	595	821	1425	1905	271
Sep	614	835	1450	1934	275
Oct	658	881	1475	1911	272
Nov	758	955	1500	1968	279
Dec	757	943	1550	2118	275

# Thailand Market prices. (C+F Bangkok)

Source: World Bank and Infofish.

**TABLE 1-20 - PRODUCTION BY MAJOR COMMODITY**

<b>Period</b>	<b>Copra (m.t)</b>	<b>Coconut Oil (m.t)</b>	<b>Palm Oil (m.t)</b>	<b>Palm Kernel (m.t)</b>	<b>Cocoa (m.t)</b>	<b>Fish Catch (m.t)</b>	<b>Timber Log Prodn. ('000M<sup>3</sup>)</b>
<b>2004</b>	21831	12	-	-	4181	27249	1043
<b>2005</b>	26182	28	-	-	4928	23853	1118
<b>2006</b>	21213	59	5427	1236	3835	29597	1130
<b>2007</b>	27903	741	17151	4829	4470	21196	1446
<b><u>2004</u></b>							
Mar	5105	-	-	-	521	4483	243
Jun	6454	-	-	-	1686	6491	293
Sep	5629	5	-	-	1203	9276	278
Dec	4644	7	-	-	771	6999	230
<b><u>2005</u></b>							
Mar	7004	-	-	-	597	6179	263
Jun	6372	14	-	-	1521	3343	280
Sep	7170	14	-	-	1722	6344	260
Dec	5637	-	-	-	1088	7987	314
<b><u>2006</u></b>							
Mar	5476	22	-	-	555	5807	272
Jun	5221	52	931	165	1342	6539	266
Sep	5098	98	2227	474	1393	7612	270
Dec	5419	163	2269	598	545	9639	323
<b><u>2007</u></b>							
Mar	5587	289	3417	829	353	4013	374
Jun	5700	236	4303	1052	1666	3778	283
Sep	7286	115	4991	1464	1517	5479	371
Dec	9330	101	4440	1484	935	7926	418
<b><u>2007</u></b>							
Jan	1682	83	1096	230	114	1631	143
Feb	1795	134	1093	280	107	1086	57
Mar	2111	72	1228	319	132	1296	174
Apr	1789	42	1089	279	339	1681	109
May	1924	129	1602	384	515	805	107
Jun	1987	65	1612	389	811	1292	67
Jul	2263	25	1800	573	548	1058	79
Aug	2641	46	1613	492	631	1807	214
Sep	2383	44	1578	399	338	2614	78
Oct	3030	44	1676	461	350	3283	123
Nov	2584	28	1472	775	369	2388	164
Dec	3718	29	1292	248	216	2255	131

Source: Central Bank of Solomon Islands



**TABLE 1-21 - REAL GROSS DOMESTIC PRODUCT**

(1985 = 100 )

<b>Industry</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Agriculture	77.3	102.7	106.2	118.1	123.1	146.4
Forestry, Logging, Sawmilling	136.8	188.3	263.6	288.3	306.3	381.5
Fishing	80.7	104.4	115.5	104.4	120.6	110.8
Mining & Exploration	-7.8	-3.2	-3.3	-3.3	-3.3	-3.3
Manufacturing	149.8	134.3	135.8	137.1	141.0	147.6
Electricity and Water	215.0	211.8	213.2	250.6	255.0	285.6
Construction	31.1	35.9	45.6	52.9	79.1	94.6
Retail and Wholesale Trade	131.5	136.6	140.9	143.3	143.3	152.6
Transport and Communications	130.7	139.2	143.9	146.7	213.2	225.9
Finance	228.3	223.5	229.4	231.7	236.0	257.8
Other Services	137.8	119.1	126.4	135.4	144.2	153.8
Index of Monetary GDP Production	118.5	127.6	139.8	147.5	158.6	178.2
Annual % movement	-4.2	7.7	9.5	5.6	7.5	12.5
Index of Primary Production	90.7	121.2	141.7	151.2	161.5	188.4
Annual % movement	6.6	33.7	16.9	6.7	6.8	16.0
Non-Monetary: Food	156.1	160.5	165.0	169.6	174.3	179.2
Non-Monetary: Construction	151.4	155.6	160.0	164.4	169.0	173.8
Non-Monetary GDP Index	155.7	160.1	164.6	169.2	173.9	173.8
<b>Index of Total GDP Production</b>	<b>125.7</b>	<b>133.9</b>	<b>144.6</b>	<b>151.8</b>	<b>162.1</b>	<b>177.6</b>
<b>Annual % movement</b>	<b>-2.8</b>	<b>6.5</b>	<b>8.0</b>	<b>5.0</b>	<b>6.1</b>	<b>10.3</b>

Source: Central Bank of Solomon Islands.