18 May 2001

Hon. Snyder Rini (MP)
Minister for Dept of Finance
Department of Finance
HONIARA

Dear Honourable Minister,

In accordance with the provisions of section 47(1) of the Central Bank of Solomon Islands Act, CAP 49, I have the honour to submit to you the 2000 Annual Report and the Accounts of the Central Bank of Solomon Islands.

Yours sincerely,

R N Houenipwela
Governor

The principal objects of the Central Bank shall be:

(a) to regulate the issue, supply, availability and international exchange of money;

(b) to advise the Government on banking and monetary matters;

(c) to promote monetary stability;

(cc) to supervise and regulate banking business;

(d) to promote a sound financial structure; and

(e) 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

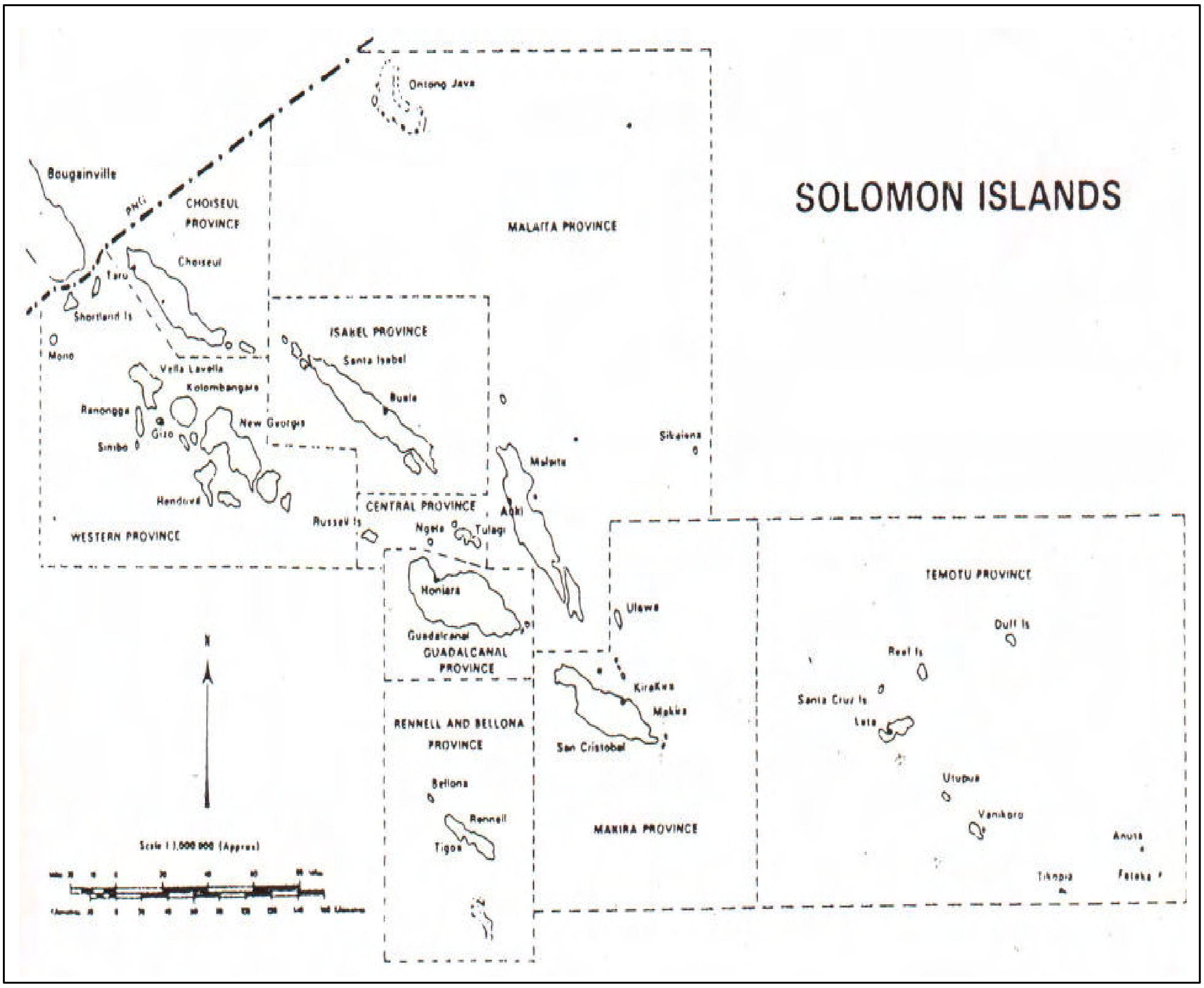
Foreword

This is the nineteenth Annual Report issued by the Central Bank of Solomon Islands and the twenty fourth 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 2001



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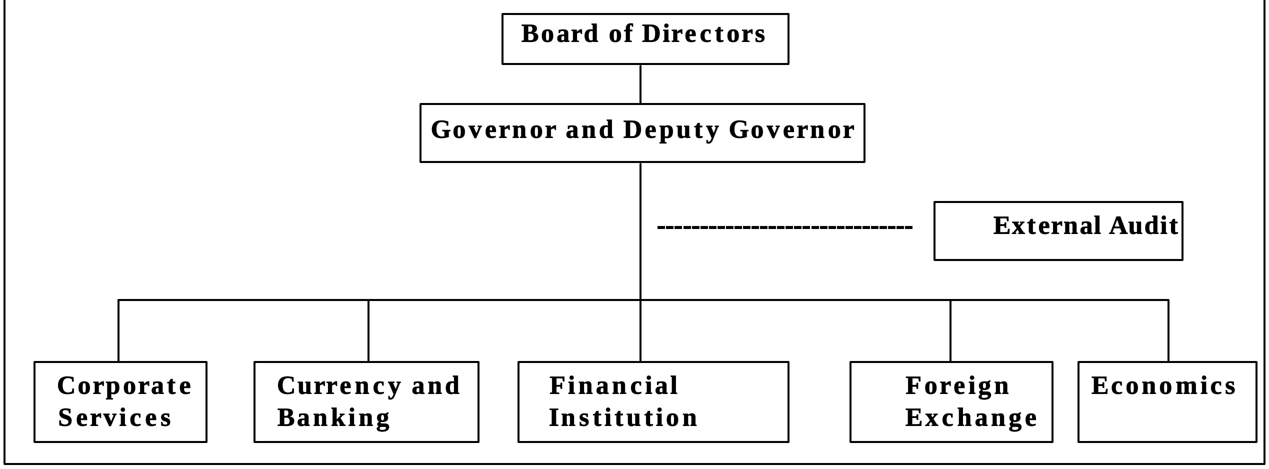
Organisation of the Central Bank



Board of the Central Bank, at end 2000		Management of the Central Bank, at end 2000	
R N Houenipwela	Chairman, ex officio	Governor	R N Houenipwela
D H Rarawa	Director, ex officio	Deputy Governor	D H Rarawa
G. Kiriau	Permanent Secretary, DoF Director, ex officio	General Advisor	M. Brown
R. Hilly	Director	Manager, Corporate Services	E Ronia
J. Radford	Director	Manager, Financial Institutions	G Simbe
		Manager, Currency and Banking Operations (up to October)	J. Pitisopa
Hon. A. Hairiu	Director	Manager, Currency and Banking Operations (wef November)	F Afu
S Ilala	Director	Manager, Foreign Exchange	R P Aquillah
		Manager, Economics (up to July)	P Terawasi
E Ronia	Secretary to the Board	Manager, Economics (Ag) (wef July)	V Nomae

I. POLICY ISSUES, PERFORMANCE, AND OUTLOOK

The Solomon Islands economy contracted further in 2000 following a decline of 0.5% in the previous year. The economy had only started to recover from the effects of the Asian financial crisis in 1997 when the social unrest erupted in late 1998. By mid 1999 the unrest had taken its toll on investment and in the second half of that year the outlook for the economic environment was pessimistic. Solomon Islands therefore entered 2000 with greater uncertainty and grim prospects.

Before the events of June 2000, however, there were prospects for some growth in the economy. The international economy, recorded strong growth in the first half of 2000. The resurgence in economic growth, particularly in the Asian economies [important markets for SI exports] provided favourable conditions for Solomon Islands. While maintaining a stabilized exchange rate policy, this provided the best opportunity for strengthening Solomon Islands export sector and the rebuilding of the international reserves. In addition, the government's reform program, embarked on two years earlier, established strong grounds for optimism. The program entailed three main elements: macro-economic stabilisation, public service restructure, and privatisation and reform of state-owned enterprises and joint venture companies. Under the program, some of the policy targets such as the restoration of government finances, clearance of debt arrears, debt restructuring and restoring of confidence in the government securities market, have been partially or fully achieved. By the end of the first quarter of 2000, inflation was definitely on its way down. With fiscal policy in check, and a tight monetary policy, allowing for private sector credit growth, the impetus was in place for renewed domestic investment and more economic activity. The Solomon Islands economy could have therefore reversed the growth path in 1999 and recorded positive developments in 2000, had it not been for the social unrest.

Given the deteriorating political and social environment after June 2000, economic management became a rather difficult balancing act. For most of the year, interplay between macro-economic policies was influenced to a large extent by the deteriorating security situation in Honiara and the growing law and order problems countrywide. Public finance management was impossible in view of the demands on the Treasury Division, and hence fiscal policy was out of anybody's control, except the militants.

One of the main building blocks for a favourable outcome in 2000 was the government's reform programs. These were showing some positive results. However, after June, it became very clear that the macro-economic policy settings earlier decided on in the context of the reforms, could not hold. Under the economic reform program pursued by the government, the macro-economic setting envisaged for 2000 were:

(i) Tight fiscal policy, aimed at maintaining market confidence in public finance management. Accordingly, the 2000 budget which was adopted by the former government, tried to balance revenues and expenditures of the re-current budget while allowing financing of capital expenditures from grants and other concessional external sources. The budget also allowed for the continuation of the wage freeze began in 1998.

(ii) Tight monetary policy designed to contain inflation under 10% while allowing for adequate credit expansion to the private sector to boost economic activities in the country. Following the revival of the government securities market, an auction process for treasury bills was introduced ultimately to be an instrument of monetary policy, but initially to restore confidence to the market.

(iii) Stabilisation of the exchange rate and,

(iv) Maintain the wage policy adopted in 1999, which was designed to encourage wage increases based on productivity rather than on increases in the cost of living.

The persistent social unrest during 2000, is the single most important event responsible for the deterioration in the economy during the year. In the beginning of the second half of the year, all major industries either closed or scaled down operations. Due to the prevailing security situation and the deterioration in law and order, business and general economic activity took a nose-dive. As a result government revenues dwindled. This decline coupled with on-going disbursement of large cash payouts, compounded on an-already precarious cash flow situation.

Nearly 8,000 jobs were lost either through redundancy, eviction or indefinite unpaid leave. As many as 30,000 people were displaced as a result of the social unrest. The social unrest has caused Solomon Islands to be much poorer than before, and has put back the social and economic infrastructure system of the country by many years.

Internationally, economic growth in 2000 was more robust than expected, with GDP growth rates accelerating above 4%. This growth was evenly shared across all the major regions of the world, but it was obvious that much of the buoyancy in economic performance was due mainly to the strong growth in the US economy. Despite some upward surge in oil prices during the year, global trade showed a stronger growth of 7%. Inflation rates in most of the advanced countries were maintained below 3%. Japan was fighting against deflationary effect.

Led by Korea, recording another year of consecutive growth rates above 10%, all of Asia saw a further resurgence in growth in 2000. Even in Japan, where the economy was expected to decline further, GDP growth figures were above 1% in 2000. Closer to home, the Australian economy outperformed expectations as well. With these economies, which are very important to Solomon Islands, experiencing high growth rates, opportunities in the export markets were favourable for Solomon Islands to use to its advantage. That the SI economy has contracted during a period of economic buoyancy in its export markets is primarily due to the self-inflicted social crisis. This crisis has caused far-reaching damages to the economy so that only a sound and decisive reform program would make any headway. Such a program requires two fundamentals: first, an unswerving political will, and secondly, the explicit support and sympathy of the international community.

Based on real GDP estimates, overall economic growth in 2000, declined further by 14%, following 0.5% in 1999. The decline reflected the subdued business activity as well as weak performance in Solomon Islands international trade. In nominal terms, GDP dropped by 18%. The closure of major companies, namely Solomon Islands Plantations Limited (SIPL), Gold Ridge mine, and Solomon Taiyo Limited (STL) primarily contributed to the decline. In addition, the scaling down of business operations especially after June has compounded the declining trend. All sectors of the economy recorded declines during the year.

Inflation data for the whole of 2000 are not available, although the second quarter figures indicated a deceleration in domestic inflation. However, given that for most of the year there was a general shortage of goods, inflation is expected to have risen to about the same levels as in 1999 (ie around 8%). Inflation data is a very important indicator of prices in the economy and every effort must be put into getting the Statistics Office to function effectively so that this data can be compiled again on a timely basis.

On the external front, the balance of payments deteriorated as the export sector shrank while import payments and capital flight continued. In 2000, the balance of payments recorded an overall deficit of $101 million compared to a $23 million surplus in 1999; while the current account recorded a $224 million deficit resulting largely from the significantly depressed export volumes and lower international commodity prices. The depressed export sector emanated from the closure and down sizing of the major export companies. The overall deficit in the balance of payments for the year led to the fall in the level of international gross reserves to $156 million at the end of the year, equaling one month of import cover.

Exchange rate policy maintained its stability target for most of the year. However, in most cases, the SI dollar had appreciated against other currencies. This is mostly due to these other currencies depreciating against the US dollar, rather than anything to do with the Solomon Islands economy. The exchange rate policy stance was targeted at containing inflation, an objective that was being achieved as has been demonstrated by the evidence until May, when the Statistics Division stopped producing the numbers. This policy stance is still being maintained, but keeping in mind the level of reserves as an important yard-stick.

The fiscal outturn for 2000 was estimated to post an overall deficit of $237.0 million as compared to the $41 million deficit in 1999. The deficit emanated from estimated expenditures of $625.1 million as against revenues of $388.1 million. However, actual total revenue collections for the year were only $277.4 million. Of that total, $258.8 million (93%) came from tax revenues. The year's outturn in revenue was below 1999 collections by $182.1 million. Data on expenditures for 2000 was available only up to September, standing at $265 million, averaging about $30 million per month. A substantial portion of these payments was funded through loans from the Central Bank, which began to increase from July. The government had breached its borrowing ceiling and has now been advised to discontinue further borrowing from this source.

The government securities market continued to function during the year, albeit at lower levels of participation. Already, there were signs of some restoration of confidence, one of the primary objectives of the auction market. In fact, exactly a year after its reopening, the value of Treasury Bills stock outstanding had grown to more than $80 million, with subscribers representing a relatively wider section of the community. However, after the events in June, and with government finances beginning to show signs of distress, the main players – the commercial banks and NPF – started restraining their participation in the weekly auctions. This continued into early 2001 when they eventually withdrew their participation entirely as they took a wait-and-see stance in the light of the government's deteriorating financial situation.

After the clearance of $77 million debt

arrears in 1999, there were strong prospects to rein in debt servicing in 2000. This proved successful for the most part of 2000 until towards the latter part of the year when government borrowings from the Central Bank exceeded the legal ceilings and the Bank had to suspend paying of external debt arrears on behalf of the government. At the end of the year, total arrears owing to the outside world was $23.5 million, of which $19 million was in respect of the Marubeni loan. Arrears owing to the other multilateral financial institutions were modest. Whilst re-scheduling of the Marubeni arrears is being negotiated, the EFIC (Export Finance and Insurance Corporation) loan arrears have been successfully re-scheduled.

Since 1998, Government borrowings from the Central Bank had been under control until mid 2000. During that period, on a net basis, the Bank's exposure to government had in fact been reducing. However, after June 2000, the government's advances from the Bank began to increase. It was obvious that government revenues would never support the expenditure levels being entertained. Given that all avenues for borrowing were closed, government turned to the Central Bank to finance this deficit. Since July domestic credit had risen dramatically, all attributable to government borrowing from the Central Bank. By October, the statutory ceiling had been reached, with the real risk of government contravening the Central Bank Act.

Monetary policy therefore has been inoperative due to the sudden laxity on the fiscal policy front. Without actually doing anything to the policy settings, except for domestic credit, monetary developments during the year had been relatively modest. The banks' withdrawal from the auction process had resulted in an upward surge of liquidity in the system. However, while some of this was being drained out through the balance of payments, it was evident that bank credit was not responsible for the fall in net foreign assets (NFA).

The Liquid Asset Ratio (7.5% of total deposits at the commercial banks) registered $28 million at the end 2000; unchanged from the level in the preceding year. The broad money supply edged up by 0.4% in 2000 as compared to 4.8% in 1999. The increase reflected strong offsetting movements in the NFA and domestic credit. The former dropped by 40.8% whilst the latter rose by 22.7%.

Due to the many setbacks caused by the social disturbances, international reserves fell while government borrowing continued to increase. Despite the large amounts of excess liquidity, the commercial banks scaled down on their lending activities dramatically, especially after June.

The reform programs, started in 1999, continued for the most part of 2000. In general terms, indications have been that not only had the government been on track with the reforms, but that they were producing some positive results. However, it was also obvious that there had been some reservations about taking the drastic measures that have to be implemented. Under the former government reform program, there were a number of sectoral reforms that were envisaged. Most, if not all, of these have not been fully implemented. In the financial sector reforms for example, there are a number of outstanding areas, namely reforms in DBSI; review of NPF; bringing both DBSI and NPF under the supervision of the Central Bank; reorganising the Office of the Controller of Insurance; strengthening the capabilities of the Central Bank to supervise NPF and DBSI as well as reviewing the credit union legislation. Most of these tasks have been suspended due to the social disturbances. The new government has attached great importance to the matter, hence the creation of a new ministry to deal specifically with economic reforms and structural adjustment. Hopefully, the new ministry would pick up where the various task forces estabished by the previous government have left.

Outlook for 2001

This year opened with the disruptions to the primary production sector still unresolved and continuing depressed investor confidence. The economic plight of Solomon Islands looks gloomy and very precarious both for the immediate and medium term while the peace process remains fragile. Economic revival can only be achieved with a strong private-sector led growth. However, the private sector cannot start reinvesting until investor confidence is restored. Investor confidence can only be restored if the security situation is restored and the public regains confidence in the rule of law. A consolidated program to regain normalcy and to put the economy back on track is paramount. In addition, it is important that all policy arms of government operate in cohesion. This would entail for example, a macro-economic policy framework that includes a realistic (fully) financed budget; continued tight monetary policy; exchange rate stability and wage restraint. This would require decisive and determined actions at the political level. Part of the confidence building includes ensuring political stability. A stable political environment is an important determining factor in investment decisions. As well, it provides an avenue for social harmony among ethnic groups in a country with diverse social backgrounds.

Emphasis should therefore be put on strategies and policies, that would enhance the revival of the export sector; restore confidence in the security situation, law and order, enhance investment, and policies aimed at resolving the issues surrounding the social unrest.

The latest available figures for inflation were for May 2000, which stood at 6%. In comparison to the out-turn in 1999, this indicates a positive trend. Despite the unavailability of more recent data, given that there have been shortages of market produce and some rise in fuel and other prices, it is expected that inflation for the remainder of the year would have accelerated. But for 2001, inflation is targeted to below 10%, while there needs to be a concerted effort towards achieving lower rates of inflation in the years ahead.

The balance of payments developments in the first quarter of 2001 have indicated a continuation of the trend in 2000 where there is a steady decline in both exports and imports. In recent weeks, there has been some stability in the external reserves level. This was mainly due to receipt of some foreign exchange, and stalling measures through the exchange controls. More importantly, the fact that government borrowing from the Central Bank has been stalled means that a major source of fuelling imports has ceased. The falling import cover may have therefore slowed, but it is important to bear in mind that the underlying trend is still precarious. The exchange control measures applied by the Bank are only administrative controls which are very difficult to police. Besides, given that the Bank has only been spacing out approval of applications and actual payments, if all the approved applications were paid at the same time, the reserves would have been some what lower than their current levels.

This demonstrates how fragile the reserve position is, and the need to resort to more longer term and sustainable means of rebuilding the external reserves. The exchange control measures are not intended to stay indefinitely. But for the time being, they are a helpful tool until the balance of payments position can be sustained. This sustainability can only come with private sector-led growth. It is expected that external assistance would provide the impetus for a return to normalcy. It is therefore very crucial that the authorities should encourage development partners to assist immediately in the process of rebuilding the economy. In the coming months, if this assistance is not forthcoming, and exports remain weak as they are now, the external reserves would decline further to more dangerous levels.

The Budget for 2001 estimated domestic revenues at $339.0 million and recurrent expenditures at $448.9 million. Given the recent track record in spending revenues, and given that the tax base has been eroded, it is crucially important that improvements in revenue collection be instituted urgently. Besides, it is important that revenue enhancement measures be undertaken as a matter of urgency. These would include discontinuation of granting of discretionary tax remissions, widening the tax base, removing impediments to collection processes and ensuring efficiency in tax administration. The revenue losses as a result of this foregone tax are enormous. The government would ease the situation by taking decisive steps to re-establish law and order and to reopen the exporting companies, which were closed in 2000. Moreover, it should strictly adhere to its intentions as outlined in the 2001 Budget Speech on aspects relating to revenue enhancement and expenditure controls and it should adhere to the commitment to revoke the adhoc granting of remissions.

In 2001, monetary policy is expected to focus on measures to reduce current government borrowings and to restrict expansion in Central Bank credit. This would be done through securitisation of the government's advances with the Central Bank. The securities market, in particular the auctions market, therefore would remain active and broadened to attract wider community participation. While there is no intention to change current statutory reserve requirements, the Bank would be looking at influencing interest rates through the auction market. The Bank will also continue its mediator role in negotiations between the government and holders of government papers on maturing stocks during this year. These negotiations have started in early April in respect of some $56 million of Restructuring Bonds that matured in mid April.

Development partners will play a very vital role in assisting to rebuild the Solomon Islands economy. The development partners have expressed readiness to assist Solomon Islands. Indeed there is still a lot of goodwill by the international community to assist Solomon Islands but their assistance would be subject to certain conditions, such as the return of law and order and change of government policy especially in terms of recruitment and tax remissions and exemptions. On the other hand, the government must set its priorities and agree to the conditions set by the development partners. This unnecessary impasse has taken more than ten months already. Meanwhile, the economy, infrastructure and the people of Solomon Islands continue to suffer. It is time that the two parties converge so as to allow the needed assistance to contribute to the rehabilitation and rebuilding of the economy.

The return of law and order is crucial to the rehabilitation and rebuilding process. This will allow the government to continue with its privatisation process and reform programs as well as deal with rural development issues and the proposed state government system. The restoration of law and order should restore the private sector confidence to reactivate business and economic activity.

In the short to medium term, a policy framework for setting the path towards economic recovery should be implemented. These policies should form part of a reform agenda that includes:

- restoration of law and order especially public confidence in the rule of law and associated legal machinery;
- creation of a conducive environment where the private sector can resume their activities and investment in the country to enable the economy to grow;
- reopening the closed or suspended export industries.
- restoration of sound government finances that entails fiscal responsibility, transparency and accountability;
- pursue tight monetary and stable exchange rate policies;
- rebuild the external reserves to 3 months import cover;
- engage Solomon Islands development partners in the rehabilitation process and maintain their confidence, goodwill and support;
- maintain debt servicing as a priority;
- contain inflationary pressures;
- continue with economic and structural reforms;
- establish a wages and incomes policy, and
- restore the role of government;

Any incoming government formed after the general elections should seriously consider pursueing these policy directions to ensure the Solomon Islands economy is rehabilitated, rebuilt and allowed to grow after the damaging events of the last two years. It is important to note that without a reform program in place, actions in some of these areas may be difficult to achieve.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy enjoyed its strongest growth in more than a decade during the first half of 2000 with growth rising by some 4.7% compared to 3.4% in the previous year. This growth had been broad-based and recorded in all the major regions of the world. Even the transitional economies and most developing countries have generally performed well in 2000.

World growth in 2000 was led by the US economy, which enjoyed strong growth in output, high employment and relative success in keeping inflation well under control. The US economy grew by an estimated 5.2% in 2000 compared to 4.2% in 1999. In Europe a growth rate of 3.3% was recorded in 2000 up from 2.4% in the previous year. Growth was strong in the first half of the year but the slow pace of economic reforms soon led to weak output growth in the euro zone.

The Japanese economy grew by 1.9% compared to 0.2% in 1999. Despite this improvement Japan continues to struggle from the recession that has plagued its economy for the last decade and there are fears that Japan could easily slide back into recession. Other Asian economies have bounced back strongly since the financial crisis in 1997 and reported growth of 7.3% in 2000 bettering the 6.4% recorded in the preceding year.

The Australian and New Zealand economies grew by 4.5% and 4.2% respectively. Growth in the Australian economy was buoyed largely by special international events like the Sydney Olympics. Towards the end of 2000, however, business confidence had waned, unemployment increased, housing approvals weakened considerably and the construction sector remained depressed. As a result, the economy recorded its first negative quarterly growth rate in as many years in the fourth quarter. The New Zealand economy also performed strongly in 2000 on the back of strong export growth, assisted largely by buoyant commodity prices and a stimulatory exchange rate.

World inflation fell to 4.6% in 2000 compared to 5.4% in the previous year while inflation in the industrial countries rose to around 2.5% up from 2.0% in the previous year.

The following table summarizes the movements in the key indicators in 2000 and projections for 2001.

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

	1999	2000	2001 (Proj)
World Output:	3.3	4.8	3.2
Advanced economies	3.1	4.3	3.0
Developing countries:	3.8	5.4	5.3
of which: Asia	6.1	7.8	5.9
World Trade Volume	4.6	12.4	6.7
Imports of goods & services	3.8	11.6	6.5
Exports of goods & services	5.4	4.7	4.2
World Inflation	5.4	4.7	4.2

Source: IMF World Economic Outlook & OECD Economic Outlook No.68

Outlook

The overall growth outlook for 2001 is expected to slow down to around 3.2%. The uncertainty about the severity and duration of the slow down in 2001 renders predicting the outlook difficult. Six months ago, the general view was one of continued growth, albeit at lower rates. Now most commentators are somewhat more pessimistic and are predicting recession in the major economies at least for most of 2001.

In the United States the slowdown had been faster than envisaged and there are serious risks of an outright recession in the economy. So far this has not happened but if it did, the flow on effect on the rest of the world is imminent and a global recession could follow.

It is expected that growth in the US economy would fall to around 1.5% in 2001 down from around 5% last year. The fear that the slow down may be larger than expected has forced the Federal Reserve to cut interest rates on several occasions since January 2001. The Euro zone is expected to slowdown to around 2.4% in 2001 although demand in Europe had been somewhat firmer than the other regions. In Japan, growth seemed to have faltered and is projected to be barely over 0.5%.

The outlook for growth in the Asian region is also pointing to a slowdown. Most countries in Asia would be affected if US spending on technology decline and if the Japanese economy slides back into recession. This is because a significant part of Asian exports represent information technology hardware and accessories. In addition, many Asian economies have not fully addressed the structural problems highlighted by the 1997-98 financial crises. Inherent problems with domestic financial institutions and large corporations still render Asian economies vulnerable to external shocks. Growth in output for the Asian region in 2001 is expected to slowdown to around 6%.

The Australian economy has also slowed down and is expected to remain weak for most of 2001 despite the interest rate cuts in February and March. The Australian dollar has weakened against the US dollar in April to its lowest levels in many years. This is expected to reverse as the US dollar moderates in the latter part of the year.

World inflation is expected to decline to 4.2% in 2001. However, what happens to oil prices represents the biggest threat to stability in global inflation. In 2000, oil prices hovered between US$30-35 a barrel. This increase in oil prices came largely from strong demand for energy emanating from the high growth in economic activity and not from the supply side.

There are two major threats to the growth and inflation outlook for 2001 and beyond. First, the rise in oil prices to over US$30 per barrel could slow down growth further. The recent OPEC decision to reduce production has important bearing on how oil prices move. High oil prices would increase the pressure on world inflation and dampen economic growth. Although the oil price hike this time is not as big as it was in the 1970's what happens to oil prices would affect world economic growth. Historically, whenever there was an increase in oil prices, it has had negative impact on world demand for goods and services leading to depressed overall economic activity and output. The critical issue is whether this increase is much more permanent or simply a transitory phenomenon.

Second, weaker and volatile equity prices could also threaten world economic growth. Equity markets have declined in 2000 particularly the technology-based markets. A decline in share markets would have a negative impact on global growth. The current tranquil mood in the financial markets has shifted to one of anxiety and panic about the impending recession.

Implications for SI

As a small and very open economy, Solomon Islands economic performance is strongly influenced by developments in the rest of the world. The current slowdown in the world economy and depressed outlook could have negative impact on the Solomon Islands economy in several ways. First, depressed economic activity in the major industrial economies lead to lower demand for raw materials and inputs and hence a decline in commodity prices. International commodity prices are likely to weaken in view of the downward trends in global output. Solomon Islands exports will inevitably fall resulting in the deterioration in the country's terms of trade.

Second, the prospect of higher imported inflation would push up overall inflation in Solomon Islands. This may exert further downward pressure on the exchange rate and lead to loss of competitiveness in the traded goods sector. Third, a depressed international investment environment is bad news for Solomon Islands. With the economy still grappling with the effects of the social unrest, the injection of new foreign investment is critical to the long-term recovery of the country. And the slowdown in the economies of Solomon Islands development partners could adversely affect the level of assistance provided to the country. In the present domestic environment, a decline in external assistance would put back the process of rebuilding and rehabilitating the Solomon Islands economy by several years.

III. DOMESTIC ECONOMIC ACTIVITY

Gross Domestic Product

Solomon Islands nominal gross domestic product (GDP) in 2000 is estimated to have fallen by an estimated 18.8%. In real terms, however, GDP dipped by 14.3% as a result of falls in all sectors except the finance sector. Sectors with major falls are; fisheries (42.4%), mineral (51.4%), construction (31.5%), agriculture (25.2%) and electricity and water (32%), transport and communication (20%) and manufacturing (19.8%). Other sectors recorded drops less than 14%.

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

Industry	1997	1998	1999	2000
Agriculture	56.4	54.3	42.3	31.7
Forestry	30.1	20.8	23.6	20.4
Fishing	25.4	28.6	27.7	15.9
Mining & Exporation	(1.9)	6.8	19.2	9.3
Manufacturing	16.8	17.4	17.4	13.9
Electricity and Water	5.4	5.7	6.0	4.1
Construction	11.3	6.2	4.5	3.1
Retail and Wsale Trade etc.	30.3	33.1	31.0	27.8
Transport & Comm.	13.0	14.6	15.3	12.3
Finance	18.7	16.2	16.4	15.9
Other Services	75.7	80.6	77.8	76.6
GDP at 1985 Prices (Mntry)	281.3	284.2	281.1	230.9
Index (1985 = 100)	169.2	170.9	169.1	138.9
Annual % movement	(1.6)	1.0	(1.1)	(17.9)
Omitting Mining Explo.	283.2	277.3	261.9	221.6
Index (1985 = 100)	168.8	165.3	156.1	132.1
Annual % movement	(1.3)	(2.1)	(5.6)	(15.4)
Primary Prodn (Mntry) - 1985 Prices	111.9	103.6	93.6	68.0
Annual % movement	3.7	(7.4)	(9.7)	(27.4)
Non-Monetary : Food	51.3	52.7	54.1	55.5
Non-Monetary : Constr.	4.4	4.5	4.6	4.7
GDP at 1985 Prices (all Prodn) in SI$)	337.0	341.3	339.7	291.1
Annual % movement (Real)	(0.9)	1.3	(0.5)	(14.3)

Source: Central Bank of Solomon Islands

Underlying falls in the fisheries sector were the closure and suspension of the major fishing companies namely Solomon Taiyo Ltd and Solgreen Ltd and downscaling of NFD operations. The agricultural sector was affected with the slowdown in cocoa and copra production that resulted from the social unrest and financial plight of Commodity Exports and Marketing Authority (CEMA). The decline registered by the mineral sector was attributable to the closure of Gold Ridge Mining Ltd (GRML).

The return of peace has, to a certain degree, paved some way for more optimism for economic development in 2001 and beyond. However, based on current forecasts, it is likely that a further decline would be recorded in 2001, albeit at a slower rate of decline than in 2000.

Investment

Year 2000 saw a turbulent time for investment in Solomon Islands as investment opportunities were seriously impaired by the two years old social unrest. As a small developing nation, to have its fragile economy indiscriminately torn apart and in dire need for immediate rehabilitation, it underscores the need for Solomon Islands to strengthen and diversify its investment base. Investment as the engine for economic growth can be funded through domestic savings or foreign sources. An environment conducive to investment must be created to retain current investors as well as attracting new investors to increase employment opportunities for the growing population. Various obstacles namely traditional land tenure system, tight government taxation policies, lack of skilled labour, law and order problem, and political instability have seriously flawed investment opportunities in Solomon Islands. Furthermore the process of screening and approving of investment applications is too bureaucratic and to some degree not transparent enough. In this context, it is a requirement on the part of the government to ensure that such impediments are removed.

During the course of 2000, the Investment

Board (IB), the board responsible for the screening and approving of foreign investments received 49 applications (worth $2,864 million) of which 63% of the applications came from Forum Island countries, 20% from Asia, and Europe, America and other countries accounted for the rest. The Board approved 40 investment proposals ($1,852 million), rejected 6 ($380 million), and deferred 3 ($632 million).

Of the 40 applications approved, 23 ($355 million) were new ones, 7 ($473 million) were additional activities, 7 ($1,011 million) were share transfer, and 3 ($12 million) technology agreements. The sectoral distribution of the approved applications were, 54% to the mining sector; agriculture 20%; fisheries 9%; forestry 8%; other services 7%; and tourism, manufacturing and transport accounted for the rest. However, it is difficult to ascertain which, if any, investment proposals materialised during the year.

Employment and Industrial Relations

Employment figures for 2000 are not available. However, the employment sector was hard hit by the social unrest, with the unprecedented closure of most companies in 2000. Many workers left their workplace either voluntarily or were sent home on unpaid leave or through redundancy. The closures of Gold Ridge Mining Ltd and Solomon Taiyo Ltd in mid 2000 laid off more than 2,200 employees from formal employment. Furthermore, the national government sent about 800 public servants on unpaid leave in October 2000 to relieve its strained finances. However most of them were reinstated in February 2001. A preliminary survey conducted by the Central Bank towards the end of 2000 revealed that nearly 8,000 employees have lost their jobs in 2000 through redundancies or by being sent home on unpaid leave.

The wage freeze began in 1999, continued into 2000 and was adhered to by the Public Sector and the private sector to some degree. The shift in government policy towards performance related remuneration was also adopted by the private sector. In the post peace months of 2000, various companies/institutions including the Public Service Commission (PSC) succumbed to demands from their respective employees for danger allowances that ranged between $10 - $60 per day for the period, June 5th to October 15th 2000. Nevertheless, some danger allowance cases are still unresolved. One example is the case between the wholesalers/retailers association and their employees, represented by Solomon Islands National Union of Workers (SINUW).

Production

Forest

Unlike other industries, the logging sector was not really adversely affected by the social unrest. The economy became heavily dependent on the logging sector following the closure of other major industries after June 2000. The log export volumes for the year showed that log exports declined by 13.6% to 536,000 cubic meters, reversing the marginal increase of 3% recorded in 1999. Most logging operations were carried out in other provinces other than Guadalcanal. Of the total log exports, Western province accounted for 59.7%, Isabel 20.7%, Choiseul 10%, and the rest by the other provinces.

The decline in log production during the year resulted from disruptions to logging companies' activities, notably Earthmovers Ltd and Pacific Timbers Ltd operations on Guadalcanal and Eagon Resources Development Ltd operation in Choiseul province. Furthermore, owners of log boats had either postponed or cancelled trips to Solomon Islands as a result of imminent security risks in the country. At the same time, there was subdued demand for Solomon Islands logs in the Asian markets.

The average price for Solomon Islands natural logs dropped to US$72 per cubic meter in 2000 from US$73 per cubic meter in 1999 whilst the average price for plantation logs increased to US$64 per cubic meter as against US$58 per cubic meter in the previous year. As had been the case in past years, only two companies namely Kolombangara Forest Products Ltd (KFPL) and Eagon Pacific Plantation Limited (EPPL), engaged in the planting and harvesting of plantation logs.

Table 3
Log Species Prices, 1998-2000 (US$m3)

Species	1999	2000	2001/1
Amoora	82	75	-
Burkela	74	77	66
Calophyllum	86	88	81
Campnosperma	65	61	
Canarium (Ngali)	78	71	
Celtis	70	52	
Dillenia	70	68	
Dysoxyllum	71	-	
Endospermum	-	55	-
Eucalyptus deglupta	-	77	77
Eugenia (Water Gum)	69	64	52
Maranthes	59	56	57
Mixed Red	57	60	59
Mixed White	55	59	51
Neonauclea	-	50	55
Octomeles Sumatrana	-	86	-
Others Species (mix)	70	63	51
Palaguim	77	80	71
Paraserianthes Falcateria	-	82	-
Parinari	59	55	55
Planchonella	73	81	-
Pometia (Taun, Akwa)	90	83	70
Schizomeriaq (Beabea)	71	68	61
Teak (Tectona grandis)	-	150	156
Terminalia	83	76	55
Terminalia (others)	72	71	50
Terminalia brassii	91	76	67
Vitex (Vasa)	101	-	111

1/Jan-Mar period

Source: Central Bank of Solomon Islands

Other licensed logging companies - twenty-six in all, concentrated mainly on the harvesting of natural logs. Hence, of total log exports in 2000, plantation logs constituted 62,038 cubic metres (12%) and natural logs 474,019 cubic metres (88%).

The current rate of log extraction is still considered to be at a level that is not sustainable as against the previously estimated sustainable volume of 350,000 cubic metres. In view of the current level of dependency that the economy has on the logging sector, a slow down in the rate of felling is not foreseen in the near future and as such, long-term sustainability of the resource base is under immense pressure.

Fish

Total fish production plunged by 55.9% to 21,163 tons in 2000 to register the lowest catch ever. Of the total catch, Solomon Taiyo caught 11,528 tons and NFD caught 9,635 tons. Of the five fishing companies registered locally during the year, only three companies namely Solomon Taiyo Limited (STL), National Fisheries Development (NFD), and Solgreen Limited were actively fishing.

STL's canned tuna production dipped from 997,300 cartons in 1999 to a low of 274,000 cartons in 2000. Of these, 86% was sold domestically and the remaining 14% were exported, mainly to regional countries like Fiji, Vanuatu and American Samoa. During the year, the company converted only 2,437 tons of frozen tuna into smoked fish as against 4,900 tons in 1999. Likewise, fishmeal production fell remarkably by 63% to 404 tons.

Average world price for frozen skipjack tuna in 2000 nose-dived to US$326 per ton as against US$980 a ton and US$550 a ton for 1998 and 1999 respectively. This was attributed to the dramatic increase in global fish supply, particularly from the Eastern Pacific. The world price in

December 2000 was the lowest in forty years. The fish prices had since recovered modestly in early 2001 after world boat owners agreed at a meeting in the Philipines to cut back fishing in a bid to balance the market and push up prices from the prevailing rock-bottom levels. However the price of tuna is susceptible to fluctuations, as it is highly vulnerable to changes in the market and fishing conditions.

The significant slump in the world price for tuna and the security situation in the country have posed serious problems for the fishing industry. STL effectively suspended fishing operations in August 2000, though it continued processing of canned products from reserve stocks at its Noro cannery for both domestic consumption and export to some regional countries. However, towards the end of the year, Maruha Corporation of Japan decided to terminate its partnership with SIG in the company. Concurrently, SIG established a new company - Soltai Fishing and Processing Ltd (SFPL), to succeed STL. In the new venture, SIG through the Investment Corporation of Solomon Islands (ICSI) holds the majority share of 51% while the Western province owns the remaining 49%. A redundancy exercise was effected in February 2001 involving STL's total workforce of more than 1,900 employees - both active (170) and inactive (1,730) employees.

Having discarded pole and line fleets in 1999, NFD further downsized its scale of operation this year by making redundant 175 of its 240 employees. NFD's purseining fleet of three boats was later reduced to two in September after the expiry of the charter agreement with SIG. Of about 9,635 tons caught by NFD during the year, 57% were caught in the local waters and 43% caught outside Solomon Islands Exclusive Economic Zone (EEZ).

Solgreen Enterprises Ltd, a locally based longline fishing company, halted its fishing operations in the latter half of the year. It however continued exporting Shashimi tuna from its Ranadi storage coolers. Of its 14 boats, nine were chilled boats and five were freezer boats. The company has a total workforce of 120, of which 50 were expatriates. The average export price was US$7 a kilo (SI$35 a kilo) for big eye and US$5 a kilo (SI$25 a kilo) for yellow fin. Damaged and unexportable fish were sold locally at SI$3 per kilo.

Fishing companies with onshore infrastructures were very concerned about the tax regime in Solomon Islands. An ADB funded study conducted in 1999 on the tax regime in the fishing industry concluded that locally registered companies were shouldering more tax through import and export duties than foreign fleets. As a result, locally based fishing companies became less competitive in the international arena. It is recommended that a level playing field be established in the fishing industry to ensure its survival in the long term.

Research and development works in the fisheries sector recorded major setbacks in 2000 as research facilities at two establishments - ICLARM farm and USP's newly built Institute of Marine Resources (IMR), at Aruligo on west Guadalcanal were extensively damaged during the unrest. However, ICLARM farm was eventually relocated at Nusatupe in the Western province whilst the future of IMR remain uncertain. The possibility of the USP council relinquishing IMR's establishment in Solomon Islands and relocate it in another member country is inevitable. Therefore, the government, in its bid to retain IMR in the country, is looking at various options including the possibility of securing alternative sites in other provinces that are willing to host the institute. On the positive front, the first harvest of black pearls that were bred at Nusatupe was auctioned on the Internet and had received encouraging bidders worldwide.

Phase three of the inshore rural fishing enterprises project received 1.9 million euros (SI$8.6 million) funding from European Union (EU) at the end of 2000. Of thirty-two rural fishing centres established in the country over the last two phases, only three bases in Isabel province remain functional. The duration of the third phase is three years (2000 to 2003) and its scope covers seven centres in the following provinces; Western (Seghe), Isabel (Bahana and Tataba), Malaita (Afio), Central Islands (Yandina and Semega), and Guadalcanal (Marau). The Marau centre however is quite doubtful because of substantial damage done to the facilities.

Copra and Coconut Oil

Copra production for 2000 totalled 19,004 tons, as against 23,242 tons in 1999. In the first six months, production remained stable, averaging at 2,635 tons a month as against the 2,095 tons per month for the comparable period in 1999. However, in the second part of the year, copra production began taking a sharp downturn. This was largely reflective of the liquidity crisis CEMA experienced in 2000 and the repercussions of the social unrest. Fortunately, the European Union (EU) under the Stabex arrangement provided SI$2 million to CEMA in two tranches over the fourth quarter, purposely to purchase copra. Also in March 2001, SIG injected SI$3.0 million into CEMA and thus, it is envisaged copra production would increase again in 2001, provided there are increases in the prises.

The world copra price during the year averaged US$280 per ton as against US$462 per ton in the preceding year. The average price for coconut oil likewise fell dramatically from US$737 per ton in 1999 to US$450 per ton in 2000. In the first half of 2000, the domestic prices for first and second grade copra were $1.00 per kilo and $0.65 cents per kilo respectively. However, the prices were reduced in the latter half to $0.80 cents per kilo for first grade and $0.55 cents per kilo for second grade. In February 2001 domestic prices were sliced again to $0.40 cents per kilo for first grade and $0.36 cents per kilo for second grade.

Underlying the CEMA serious cash flow problem in 2000 were several factors. These were persistent low export prices, CEMA's continuance to purchase copra at the highly subsidised prices especially during the first half of 2000, and that a $6 million imprest handed out to Guadalcanal copra agents to purchase copra was spent without collection of copra due to the unrest. In addition, CEMA's debtors, particularly RIPEL which owed $8.0 million, failed to repay their debts as they too experienced liquidity crisis.

Coconut oil production declined by 17.3% to 8,553 tons. Deterioration of RIPEL's milling activities was reflective of general slowdown in copra cutting by smallholders around the country and CEMA's decision to export all its copra instead of selling them to RIPEL for downstream processing as in 1999. Non accessibility to RIPEL's Tenaru plantation (on Guadalcanal) and vandalizing of mill facilities there, also contributed to the shortage of copra for oil crushing purposes.

In 2000 CEMA and RIPEL incurred losses of about $9.8 million and $14.0 million respectively from the social unrest. Of the CEMA's $9.8 million losses, $5.6 million were in crop losses and $4.2 million in asset losses. Of RIPEL's $14.0 million losses, 50% were in crop and the other 50% in asset losses. Claims on the losses were filed with respective insurance companies and the national government under the compensation claims but no positive responses have yet been received.

A review of CEMA operations done by European Union consultants was finalised in March 2001. The thrust of the review is to liberalise the marketing function of the authority leaving CEMA to involve itself only in a regulatory role.

Cocoa

Total cocoa production for 2000 was 2,315 tons, a fall of 33% and 3.3% from 1998 and 1999 respectively. The fall was attributable to the effect of the social unrest especially on Guadalcanal province, the main producer of cocoa. Production in 2001 is projected to rebound as the situation on Guadalcanal gradually returns to normal.

Cocoa development on RIPEL's 3,000 hectares coconut plantation was very slow with only 5 hectares of the 10 hectares projected for 2000 being planted, as against the average 8 hectares per year for the two preceding years. Underlying this slowdown was the financial plight that RIPEL experienced during the year.

The average world price for cocoa in 2000 was US$861.49 (SI$4,385) per ton as against US$1,307.27 (SI$6,654) per ton in 1999. On the domestic front, prices paid to rural farmers varied between $0.50 - $0.80 cents per kilo for wet beans and $2.00 - $2.50 for dried beans. Besides CEMA, a total of eight private companies were licensed to export cocoa in 2000. Solomon Islands exported most of its cocoa to the Asian region particularly Malaysia and Singapore.

Palm Oil and Kernel

Solomon Islands Plantation Limited (SIPL) remained closed in 2000. A cost assessment team from the CDC headquarters in UK asserted that the total cost of damages and thefts done to SIPL properties is estimated about US$20 million (SBD100 million), implying that to revitalise SIPL will require more than US$20 million.

In its submission this year, the landowners association stated prerequisite conditions for the reopening of SIPL. Some of the major issues were employment composition, administrative and recruitment procedures, composition of company shares, settling of outstanding claims during the unrest, and a new management team. SIG, in conjunction with the company, established a revitalization committee to liase with representatives of the landowners association and the Guadalcanal provincial government on the set of demands. Unless a compromise on these demands is reached and the security situation on the island improves, the restart of palm oil production is not likely in the immediate future.

Rice

Smallholder farmers in other provinces than Guadalcanal continued rice farming in 2000. The 100 hectares rice farm at Metapona, Northeast Guadalcanal was closed in 1999 as a result of the unrest. From the projected 1,000 hectares targeted for rice cultivation throughout the country in 2000, only 300 hectares was achieved with 50% of the annual SI$0.5 million fund allocated by the Republic of China (ROC) utilised. The variety of rice farmed in the provinces is upland rice, and is preferred to other varieties because of its suitability to local climatic conditions.

The Ministry of Agriculture and Primary Industries is optimistic that phase three of the national rice farm project will commence in 2001 with funding from

ROC. The Metapona rice project has six phases to be implemented in six years (1999–2004) and it has the capacity to absorb domestic demand for locally milled rice once fully developed. There is a growing demand for locally milled rice especially amongst the rural populace because it is relatively cheap compared to imported rice.

Honey

Total honey production in 2000 was about 10 tons, half the production in 1999 and a third of the level registered in 1998. Production of honey during the year was seriously affected because 70% of the 976 honey producers, were located on Guadalcanal. Malaita had the second largest proportion of honey farmers, accounting for 15% of the total. Of the total honey production in 2000, the Solomon Islands Honey Producers Cooperatives Association Limited (SIHPCAL) purchased about 3 tons at $3.64 per kilo. Total number of hives in 2000 was estimated at 1,300 as compared to 3,000 in 1999.

Energy

Interruptions to the power supply in Honiara continued in 2000, albeit less frequently than the previous year. This was attributed to the full operation of the two 4.2 megawatts generators installed in 1999 by the Solomon Islands Electricity Authority (SIEA) and the reduced demand for electricity as a result of the contraction in the economy. Another 4.2 megawatts generator funded by World Bank in 2000 is yet to be installed. This was not possible in 2000 because of financial and technical constraints.

The Authority's financial difficulties, inherited from previous years were further compounded by the general slowdown in economic activities in the country. Sale of electricity, being the Authority's sole source of revenue plunged as a consequence of low demand for electricity and the Authority's inability to collect overdue bills. In total, the Authority recorded outstanding bills between $15.0 - $16.0 million in 2000. On several occasions, the government had to assist the Authority meet its fuel costs. Fuel cost constituted 59% of the total operating cost of SIEA with repair/ maintenance and spares accounting for 17%.

In the latter half of 1999, SIEA introduced a new prepayment electricity metering system branded as 'Cashpower 2000'. From mid 1999 to December 2000, the authority installed 152 single-phase meters in residences and small businesses, and 5 three phase meters in some large commercial complexes within Honiara. The Authority anticipated that 250 meters would be issued within the first quarter of 2001. Ultimately, the Authority is hoping to extend this product to the provinces in the long run, after the old meters in Honiara are replaced. With the new system in place, the Authority is optimistic that its cash flow would improve, as there would be reductions in the number of bad debtors and bill-meter reading personnel.

Major studies and projects earmarked for 2000 by the Department of Energy were delayed twelve months as a result of the social unrest. Included were a three months study on the proposed national fuel farm that would enable an uncomplicated relocation of the two fuel depots away from Honiara, and a Japanese funded study on rural electrification in the provinces. In 2001 the department intends to review the level of private sector participation in the energy sector and set clear demarcation lines between regulatory and operating roles.

Minerals

The sudden closure of Gold Ridge Mining Ltd (GRML) in June had affected gold and silver production in 2000. Total gold poured by the time of the closure of the mine declined by 55.4% to 49,954 ounces, contrasting the marked rise of 147.4% in 1999. Total silver poured in 2000 was 20,744 ounces, a notable drop of 69.2% from the preceding year. Comparing the first five months of 2000 to the corresponding period in 1999, gold pour increased by 1.6% to 49,029 ounces whilst silver pour reversed the upward trend in 1998 and 1999 by falling 34.1% to 20,086 ounces.

GRML injected $15.2 million into the local economy in the form of royalities, taxes, duties, salaries and other payments in 2000 as compared to $21 million in 1999, and $9.6 million in 1998. In 2001, while the mining operations remain suspended, the company only expects to inject minimal level of cash into the Solomon Islands economy.

The average world price for gold in 2000 increased from SI$1,390 per ounce in 1999 to SI$1,419 per ounce whilst that for silver levelled off at SI$25 per ounce.

The prospect for reopening the mine is being delayed by new demands from landowners for a revised agreement to replace the current agreement. This has prompted the government to set up a ministerial committee comprising representatives from the Attorney General's chamber, relevant government departments (Mines, Lands, and Police), and landowners association, with the task of enabling the company resume operations as soon as possible. The company continues to activily monitor developments in Solomon Islands. However, until security improves and an environment is created that will allow the safe and economically viable resumption of operations, the company will not reopen the mine. Matters to be resolved include; the return of stolen weapons to the appropriate authorities, the return of stolen property and mining equipment to the company, the repair of the Ngalimbiu bridge, and maintenance of the road between the Alligator creek and Ngalimbiu. Until such matters are resolved, the company will be unable to obtain the necessary funding to restart the mine. The cost to restart, rebuild and equip the mine for the next phase of operations is expected to be in excess of $100 million.

Other mineral developments such as exploration and prospecting in some parts of the country were on a standstill in 2000. The Department of Mines revealed that prospecting and mining works on the Nickel deposit at San Jorge Island in Isabel Province would resume in 2001 after a successful bidder is taken. Tenders for this were scheduled for the first quarter of 2001. The Nickel deposit reserve, approximated at 43 million tons, has a life span of 15 years once developed. There are indications that this reserve has the potential to increase.

Prior to the tension, the Department of Mines was embarking on a plan to revise the Mines and Minerals Act 1990 so as to enable it to be compatible with international standards. However, relevant bodies such as the Department of Mines and Attorney General's Chamber lacked the manpower and the technical capacity to do the review. According to the Mines Department, a foreign legal expert in mineral legislation would be employed in 2001 to assist with the review.

Tourism

The tourism sector in Solomon Islands was substantially reduced in 2000. Already plagued by numerous obstacles such as lack of supporting infrastructures, poor promotions, inadequate facilities, lack of qualified personnel, and lack of funds, the onslaught of the social unrest dealt a severe blow to the progress of this sector. The slow down in tourism activities was directly related to the social unrest. This is a setback for tourism development in Solomon Islands and a lot of effort is now required to restore the damaged image of the country abroad.

Up to December 2000, total visitor arrivals were 9,432 of which 92% came by air and 8% by sea. Of the total visitors travelling by air, 49% were tourists, 35% were on business trips, and 'other purposes' category accounted for the rest. According to the Solomon Islands Visitors Bureau (SIVB), a notable 73% of the visitors travelling by air arrived between January and May, reflective of the special international events that SI hosted during that period like the Commonwealth Youth Ministers Meeting (CYMM) and the Olympic torch relay. The latter half of the year recorded a substantial decline in visitor arrivals as a result of the suspension of regular international flights for almost five months. The ensuing charter of Air Vanuatu by Solomon Airlines to service international routes on a once a week basis was however proven insufficient. Subsequently, the level of occupancy rate in hotels and motels declined to their lowest in many years, one as low as 12%. This reinforces the importance and urgency to have a second international airport to compliment the Henderson terminal.

Timely and reliable information on the tourism sector remains an area of concern. The initiative undertaken by the SIVB in 1999 to improve its data systems by collecting information from hotels and immigration department was thwarted by lack of proper coordination and cooperation from these institutions.

Efforts by the SIVB to organise promotional events in 2000 was seriously impeded by financial constraints and the social unrest. Concerted effort by the various stakeholders in the country like churches, cultural groups, and sports federations is required to develop and promote tourism in Solomon Islands. It is recognised that tourism has the potential to contribute more to the economy once niche attractions such as WWII sea and land wreckages, world heritage sites (Marovo Lagoon and Lake Tenganno), game fishing, scuba diving, and natural research areas are fully developed and effectively promoted.

A notable positive development in this sector was the successful completion of the RIPEL owned Yandina Plantation resort at Russell Islands in November. The estimated cost of building this upmarket resort was $1.8 million. It has twelve bedrooms with private facilities.

Telecommunications

Telecommunication development in Solomon Islands during the year was stagnant. This was attributable to the security problem in the country and its effect on the revenue of Solomon Telekom Ltd, the sole provider of telecommunication services in the country. During the year, militants sabotaged transmitting equipments owned by Solomon Telekom Ltd worth about $26 million. Consequently communication between Honiara and Auki was severed temporarily. This was later restored with the installation of an interim link but at a higher cost to consumers.

Telekom's revenue base was substantially eroded in 2000 as a result of the massive evacuation of foreigners and locals from Honiara in June. The Solomon Islands government, a major client, owed the company about $4 million in overdue bills during 2000. A revision on current tariff charges was submitted to the national government in early 2001 for cabinet endorsement. It was anticipated that there would be marked improvement in Telekom's revenue base in 2001 should the revised tariff charges be introduced.

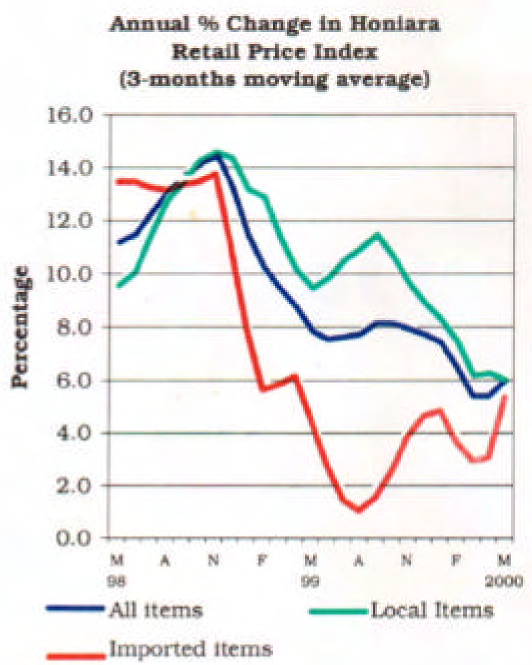
Major undertakings like Unity Blong Community, installation of a microwave link between Honiara and Yandina, and a new television service scheduled for 2000 and 2001 were put on halt for an indefinite period due to the fragile situation in the country and the company's weak financial position. A long-term program being envisaged by the company is the possibility of establishing alternative international links at Gizo and Auki to ensure that international communication is not disrupted again. The cost of establishing the Gizo station link is estimated to be much cheaper than the $17 million estimated for the Auki station.

In other communication developments, SIDAPP launched a new web site in early 2001 with the intention of making rural dwellers more information conscious. In March, it availed Internet facilities in Honiara for the general public with a minimal usage fee of $12 per minute.

Prices

The annual inflation rate at the end of December (three-month average) as measured by Honiara retail price index (HRPI) was not available. This was due to the Statistic's Division inability to compile the required data as a result of the loss of its computers at the height of the unrest. However, the latest inflation rate available was the 6.1% that was calculated for May 2000. The rate of inflation in the months of July to September was expected to be higher due to shortage of supply in market produce. However, in October up to now, supplies in the markets have increased substantially, and inflation may have dropped again to less than 10%.

Graph 1



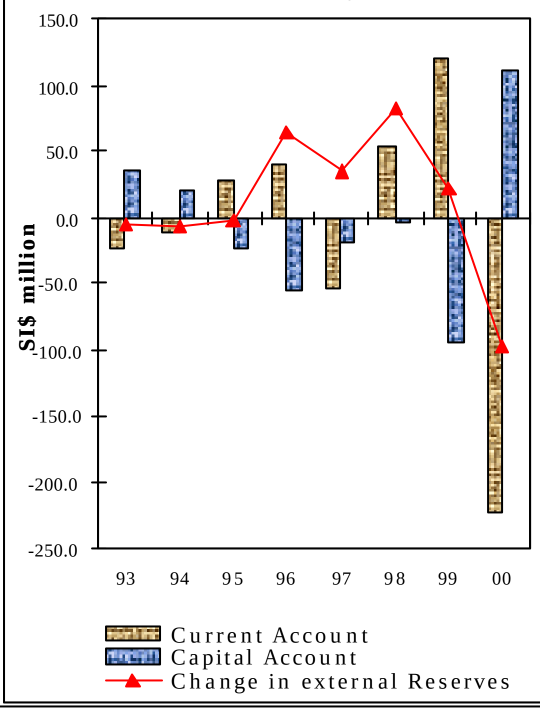
IV. BALANCE OF PAYMENTS

Overall Balance

The overall balance of payments, driven by the contraction in the economy and weak international commodity prices, swung sharply from a $23.0 million surplus in 1999 to a staggering $97.2 million deficit in 2000. The outturn not only represented the largest deficit balance ever recorded in the Solomon Islands post independence period, but reversed all the positive performances recorded since 1996, significantly reduced the external reserves by 38%, to about 2 months import cover.

Graph 2

Balance of Payments



The cause was the current account, deficit of $223.6 million, the biggest since Balance of Payment statistics were kept. The deficit, reversed surpluses of the previous two years. The turnaround in the current account during the year was triggered by an adverse trading performance as most export activities were crippled in the face of the social unrest that beset the country for the last two years plus weak international commodity prices. This, in addition, was supported by the notable upswing in the private transfer payments and persistent income payments imbalances during the year. These adverse developments, overwhelmed the net inflows of non-factor services as well as more than outweighed the net surplus in the capital and financial accounts during the year.

Trade Account

Solomon Islands international trade performance swung sharply from a robust performance in 1999 to a precarious situation in 2000 with imports outstripping exports throughout the year and the trade position plunging by 39% to a massive $117.4 million deficit.

Table 4
Balance of Payments Trade Account

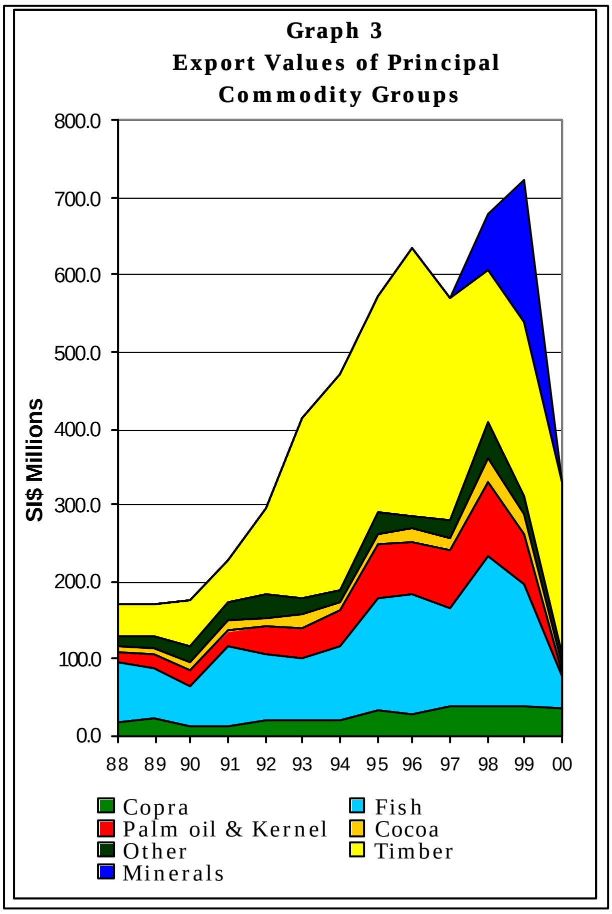
($Millions)

	1996	1997	1998	1999	2000
Exports fob	576.6	581.5	683.0	724.0	352.6
Imports fob	421.0	548.7	616.0	532.4	469.9
Trade Balance	155.6	32.8	67.0	193.4	-117.4
Trade Balance as % of total trade	15.6	2.9	5.2	15.2	-14.3

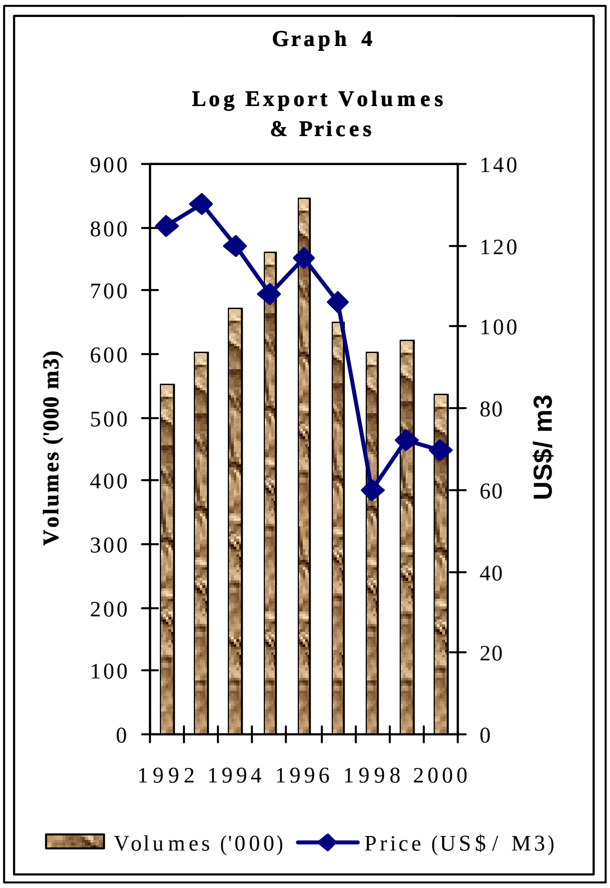
Source: Central Bank of Solomon Islands

Total export earnings, which had been declining steadily in the first two quarters but more sharply in the third and fourth quarters, receded significantly by 51% to $352.6 million, the lowest in 7 years. The drop was led by depressed export volumes as major export firms in the country were crippled by the social unrest. This, together with weak international commodity prices, caused the Solomon

Islands terms of trade to deteriorate further by around 3% during the year. Revenues from all export categories fell during the year.



Exports of forest products declined in 2000 by 11% to $199.9 million, the lowest in 7 years. This was due primarily to a 15% slide in export volumes to 536,000 cubic meters during the year. The volume of logs exported, driven by the social-unrest-induced infrequency of shipment, showed negative growth during the first half of the year but picked up strongly towards the end of the third quarter. The upswing reflected the gradually improving security and business situation in the country as well as the government proposition during the latter half of the year for logging operators to quickly resume operation and assist resuscitate the economy. These positive developments were against the backdrop of weak international log prices that resulted in the export earnings from logs remaining unchanged from the first half of the year. The export price for logs, which hovered around the 1999 level (graph 4), largely, reflected subdued demand for hardwood during the year.



This follows the shift in demand by the Japanese plywood mills from tropical hardwood to Russian and Scandinavian softwood as well as the slowdown in import demand from the Korean plywood mills. The export destinations for Solomon Islands logs in 2000 were skewed towards the Asian region with Korea accounting for 26% of volumes exported, Japan with 22%, Philippines with 20%, China with 15% and the remainder was shared among other Asian economies. Forest products contributed 57% of total export revenues during the year, 25 percentage points more than in 1999 and 27 percentage points above 1998. Log exports constituted 95% of the total export earnings from forest products in 2000 while sawn timber accounted for the remaining 5%.

Provisional data for mineral exports for the first three months of 2000 registered only $79.3 million, 58% down from the previous year. The drop largely reflected the cessation of Gold Ridge mining operation in June following the escalation of violence and lawlessness on Guadalcanal. The international price for gold edged up to an average of US$279.0 per troy ounce in 2000 from US$278.8 per troy ounce in 1999 but this was 5% lower than the annual average for 1998. The international price for silver, conversely, declined from US$5.25 per troy ounce in 1999 to US$4.99 per troy ounce in 2000. The total export earnings from minerals, of which gold contributed 99% and silver the remainder, accounted for 26% of the total export earnings in 2000. This sector has the potential of increasing its share in the coming years when and if the Gold Ridge mine is reopened.

The export of coconut products in 2000 declined sharply by 47% to $21.0 million reversing the growth recorded in 1999. The drop was led primarily by depressed export volumes in the face of unprecedented supply-side disruptions, the liquidity crisis encountered by CEMA and the bearish sentiments in the international markets. The international price for copra plunged by 34% to a 9-year low of US$305 a ton, while coconut oil prices declined by 40% to US$450 a ton. Coconut products constituted 6% of the export share during the year.

Fish exports declined sharply by 77% to $36.6 million during the year, the lowest in more than 7 years, due primarily to the closure of Solomon Taiyo and the scaling down of commercial fishing activities of NFD and Solgreen during the year underpinned by the depressed world market prices for tuna. These adverse developments extended further the declining trend of fish exports witnessed since the second quarter of 1999. The reverse of this trend will, to a far greater degree, depend on the sustainability in the recovery of the world prices for tuna as well as on how quickly domestic fishing activities and production resume and advance towards their full capacity levels. The depressed world market prices for tuna largely reflected the high inventories in major cold storages overseas. This follows the exceptional catches especially in the Eastern Pacific. The export share of fish in 2000 fell by 10 percentage points to 12% and was 16 percentage points lower than in 1998.

Cocoa export slipped back by 58% to $10.3 million in 2000, the lowest in 8 years. This adverse performance was driven by depressed export volumes as production on Guadalcanal, the main production center of this commodity in the country, halted during the unrest on the island. The persistent weak international market prices for cocoa during the year also contributed to the export decline. This was driven by the notable output from the dominant producers in Africa and Asia, which saw the export price for cocoa drop by 20% to a more than 30-year low of US$900 per ton during the year. About 2,978 metric tons of cocoa were exported during the year, well below their pre-conflict levels, of these CEMA and RIPEL accounted for 40% and the rest were shared by other exporters. Cocoa exports continued to lean towards the Asian region. In 2000, cocoa constituted 2% share of the total exports during the year.

There were no exports of palm oil products during the year following the cessation of SIPL in June 1999. Export earnings under the “Other” category fell markedly by 39% to $15.1 million during the year.

On the payments side, total imports surged by 15% in the March quarter but declined more sharply by around 19% in the June quarter. They increased moderately during the third quarter before plunging by around 14% in the fourth quarter.

Imports form a critical part in the overall macroeconomic assessment of a small open developing economy like Solomon Islands. Not only because it depends heavily on imported consumption and capital goods for growth and development but also because of the economy's ability to respond promptly to domestic demand pressures stemming from expansionary policies and the implications of the nominal exchange rate. Hence, regular assessment of its implications on the current account is important.

During 2000, imports ebbed by 12% to $469.9 million, the lowest in 6 years. This is due primarily to the scaling down of import activities by major importers in the face of a deteriorating law and order situation in the country, the precarious fiscal situation, the subdued credit expansion in the banking system and the tighter exchange control regulations enforced during the latter half of the year. Total imports could have been much higher in the light of the soaring world oil prices, increasing government advances and the windfall of compensation payments.

Fuel imports, despite the closure of Gold Ridge, rose sharply from the 1999 level by 24% to $93.4 million. The surge was triggered by the run-up in the spot oil prices by 56% to an average of US$28 per barrel during the year as a result of buoyant global demand.

The import of non-fuel items was on the downside in 2000 with imported capital goods recording the largest drop of 31% to $88.2 million. This was the lowest in 5 years and largely reflected the suspension of many investment plans as well as the cessation of Gold Ridge mining operations. The import of chemical and medical products as well as other pharmaceutical goods contracted by 39% to $9.0 million during the year, reflecting the liquidity situation of the government during the year. The import of intermediate goods declined by 23% during the year while imports of consumption goods remained almost unchanged.

Services Account

The services account deficit narrowed by 50% to $118.9 million in 2000. The sharp contraction in net transportation outflows and positive developments in the "other services" set off the improvement during the year. These developments more than outweighed the deterioration in net travel position during the period.

Table 5
Balance of Payments - Services Account

($Millions)

	1998	1999	2000
Transportation	**-100.1**	**-240.8**	**-175.1**
air transport	-29.1	-43.1	-54.9
receipts	3.5	20.1	3.3
payments	32.6	63.2	58.2
sea transport	-71.1	-197.7	-120.2
receipts	4.9	3.2	2.5
payments	76.0	200.9	122.7
Travel	**4.0**	**-7.2**	**-29.4**
business	5.8	-11.5	-1.5
receipts	12.3	1.7	15.7
payments	6.5	13.2	17.2
personal	-1.8	4.3	-27.9
receipts	19.6	25.8	3.9
payments	21.4	21.5	31.8
Other services	**31.3**	**15.2**	**85.7**
receipts	225.1	221.7	225.7
payments	193.8	206.5	140.0
Overall net	**-64.8**	**-232.8**	**-118.8**

Source : Central Bank of Solomon Islands.

The net transportation deficit narrowed from $240.8 million in 1999 to $175.1 million in 2000. This change was brought on by the sharp decline in freight payments as most importers significantly scaled down import activities during the year because of the deterioration of law and order in the country.

The deficit in the travel account, however, worsened further to $29.4 million in 2000 from a $7.2 million deficit in 1999. Travel payments, reflective of the insecurity situation in the country which prompted the mass departure of non-residents, soared from $34.7 million in 1999 to $49.0 million in 2000. Travel receipts, conversely, declined to $19.6 million from $27.5 million in 1999 because of fewer visitors into the country.
Developments in the "other service" component, which comprises communication, construction, insurance, financial, computer and information services, royalties and license fees and other business services, registered an $85.7 million surplus as against the $15.2 million surplus in 1999. The increase was due primarily to robust developments in the financial services net inflows that rose remarkably by 42% to a $96.7 million surplus during the year.

Income Account

The deficit in the income account narrowed significantly from $81.1 million in 1999 to $21.3 million in 2000. The improvement was reflective of a sharp turnaround in the factor payments that saw wages earned by domestic residents rise by 93% to $22.0 million. The increase largely reflected the engagement of local journalists by foreign media organizations to report on the unrest in the country. Wages paid to non-residents, conversely, declined significantly by 42% to $16.0 million during the year. The improvement, furthermore, was driven by the notable reduction in the investment income deficit by around 68% to $27.4 million.

Table 6
Balance of Payments - Income Account

($Millons)

	1998	1999	2000
Employee Compensation	**-11.2**	**-16.3**	**6.0**
receipts	4.5	11.4	22.0
payments	15.7	27.7	16.0
Investment Income	**-35.7**	**-49.7**	**-27.4**
Income on equity	-35.7	-39.5	-15.0
receipts	1.9	-	0.4
payments	37.6	39.5	15.4
Income on debt (interest)	-	-10.2	-12.3
receipts		1.6	14.5
payments		11.8	26.8
Other Investment, net	**-2.3**	**-15.9**	**-**
Net Income	**-49.2**	**-81.9**	**-21.3**

Source: Central Bank of Solomon Islands

Current Transfers Account

Developments in the transfers account play an important role in the overall development of the Solomon Islands economy. Solomon Islands has been recording surplus balances in the transfers account over the past several years. This reflected the socio-economic characteristics of the economy where its development endeavors have to be supplemented by foreign savings.

Table 7
Balance of Payments - Current Transfers Account
($Millions)

	1998	1999	2000
General Government			
cash	102.7	85.8	108.7
receipts	102.7	103.1	110.7
payments	-	17.3	2.0
non-cash	110.1	180.7	6.8
Government net	212.8	266.5	115.5
Other Sectors			
workers remittances	-12.0	-11.4	-16.9
receipts	-	1.9	-
payments	12.0	-13.3	16.9
other transfers	-0.8	-12.9	-64.8
receipts	97.6	97.9	61.9
payments	98.4	110.8	126.7
Other sectors net	-12.8	-24.3	**-81.7**
Overall net	**200.0**	**242.2**	**33.8**

Source: Central Bank of Solomon Islands.

In 2000, the surplus balance in the current transfers account nose-dived from $242.2 million to $33.8 million due largely to faster-than-expected outflows from the private sector. The net outflow from the private sector during the year more than doubled to $81.7 million as workers remittance soared by 48% to $16.9 million during the year while "other" net outflows expanded by almost 403% to around $65.0 million. The latter was mainly for regular membership dues, gifts and other remittances.

Transfer receipts during the year amounted to $110.7 million, 27% more than the 1999 level. About 96% of these were for current expenditure financing while the reminder was for other purposes. Non-cash current transfers, however, slowed substantially during the year. This follows a slowdown in short term technical assistance and a decline in new scholarship awards during the year. The latter came on the back of the governments reform program which prompted development partners to channel bilateral assistance more towards the economic and structural reform programs of the previous government.

For 2001, current transfers are again projected to show a surplus balance with a substantial portion of it expected to emanate from official transfers. Cash grants for the 2001 fiscal year is estimated at $114.7 million.

Capital and Financial Account

The capital and financial account swung sharply from a $95.3 million deficit in 1999 to a $111.4 million surplus in 2000. The turnaround came on the back of robust capital inflows that rose from $44.3 million in 1999 to $67.5 million in 2000 as well as the sharp turnaround in financial flows that swung from a net outflow of $139.6 million in 1999 to a net inflow of $43.9 million in 2000.

On capital transactions, official cash assistance for development projects increased by 18% to $44.7 million while non-cash capital assistance rose to $19.3 million in 2000. (See Table 8). These capital injections occurred mostly during the first half of the year. For 2001, cash assistance for official development is estimated at $106.3 million. Capital transfers to other sectors, on the other hand, slowed during the year from $3.7 million in 1999 to $1.7 million in 2000 because of the uncertain environment.

Table 8
Balance of Payments - Capital Account

($Millions)

	1998	1999	2000
Capital Transfers	32.0	40.6	65.7
General government	33.3	36.9	64.0
Debt Forgiveness	-	-	-
Other transfers	33.3	36.9	64.0
Cash component	33.3	36.9	44.7
Non-cash component	-	-	19.3
Other Sectors	-1.3	3.7	1.7
Migrant transfers	-1.3	-	-
Debt Forgiveness	-	-	-
Other transfers	-	3.7	1.7
Non produced nonfinancial assets, net	-	-	0.5

Source: Central Bank of Solomon Islands.

On the financial side, direct investment in the economy moved sharply from a deficit of $89.8 million to a surplus of $7.1 million in 2000. (See Table 9). This follows an increase in net equity and other capital injections from investors to sustain the financial operations of the direct investment enterprises in the economy during the year. These investment inflows, though are likely to induce further outward transfers when profits and dividends on the investment are repatriated, signaled a glimmer of investor confidence in the economy despite the social unrest. Solomon Islands must continue to promote aggressively an environment conducive to investments as foreign direct investments not only act as a conduit to the transfer of technical and managerial skills from abroad, supplement the savings-investment gap in the economy, dispense a 'non-debt creating' benefit to the recipient economy, but also provides a catalyst to spur economic growth and development.

Table9
Balance of Payments - Financial Account

($Millions)

	1998	1999	2000
Direct Investment in SI	42.4	-89.8	7.1
Equity capital, net	23.7	7.6	10.4
Reinvested earnings	24.6	24.1	0.1
Other capital	-5.9	-121.5	-3.4
Other Investment	38.9	-48.3	55.5
Assets	-	5.8	2.9
Liabilities	38.9	-51.2	2.9
Trade credits	-	106.5	49.8
Loans	46.3	-156.2	21.1
General government	41.4	67.2	32.7
Long term, net	56.8	53.3	-29.9
Drawings	92.8	74.4	22.6
Repayments	-34.9	-21.1	-52.5
Short term, net	-17.8	13.9	62.6
Other sectors	5.2	-223.4	-11.6
Long term, net	5.2	-191.5	-9.1
Drawings	109.7	10.1	3.4
Repayments	-104.5	-201.6	-12.5
Short term, net	-	-31.9	-2.5
Other liabilities, net	-7.7	-1.5	18.4

Source: Central Bank of Solomon Islands.

Other investments also moved from a net outflow of $48.3 million to a net inflow of $55.5 million. This mainly reflected developments in the external loan liabilities because in spite of a significant slowdown in the long-term external borrowing there was an expansion in the short-term borrowing brought on by an increase in external arrears from all sectors during the year. Public sector drawings in 2000 amounted to $22.6 million as compared to $74.4 million in 1999. Private sector borrowing totaled $3.4 million during the year, compared to $10.1 million in 1999. For 2001, the public sector borrowing from external sources is estimated at $219.3 million. While external borrowing supplements domestic savings and provides foreign exchange, its appropriateness depends very much on which sector it is directed to because of its future implications on the current account.

External Debt

Government external debt remained the principle component of Solomon Islands overall external debts in 2000. This, therefore, underscores the importance of remaining current with official debt service obligations as this is becoming more important in light of the growing fiscal commitments related to the Townsville Peace Agreement. Since external debt sustainability correlates with fiscal sustainability, the external debt is regarded sustainable only if the fiscal sector perform its external obligations without rescheduling its debt, seeking debt relief or accumulating arrears at least over the medium term.

Table 10
External Debt

($millions)

	1996	1997	1998	1999	2000
Private Sector	212.8	248.5	253.7	236.9	234.5
Government Sector	370.3	507.5	574.0	596.9	617.2
of which: arrears	24.3	52.3	40.5	54.4	23.5
Total	583.1	756.0	827.7	833.8	851.7
Debt Service	75.4	91.4	186.9	271.7	21.9
Principal	70.8	79.6	138.7	222.7	11.1
Interest	4.6	11.8	48.2	49.0	10.8

Source: Central Bank of Solomon Islands

In 2000, the stock of external debts increased moderately by 2% to $851.7 million (See Table 10) due primarily to modest borrowings and reasonable expansion in official external debt arrears which led to an increase in short term borrowing during the year. The stock of external debt was equivalent to 292% of real GDP as against 251% of real GDP in 1999. The public sector debt, which comprised 72% of total debt outstanding, expanded by around 3% to $617.2 million (including arrears) and was equivalent to 212% of real GDP in 2000 as against 182% of real GDP in 1999. Public sector amortization amounted to $6.2 million or a full percent of the export of goods and services during the year as against $21.1 million or 2% of the export of goods and services in the previous year. Interest payments during the year amounted to $4.2 million of the export of goods and services. This compares to $30.2 million in 1999. The decline in debt service obligations during 2000 was influenced chiefly by an apparent slowdown in the amortization as well as the interest payments owing primarily to the precarious fiscal situation.

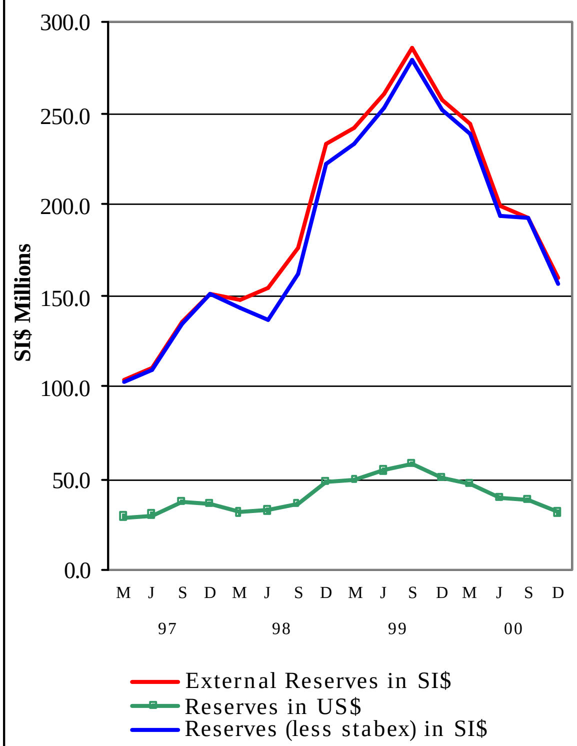
Private sector debt, which comprised 28% of the total debt outstanding, conversely, declined during the year from $236.9 million to $234.5 million equivalent to 81% of real GDP as against 69% of real GDP in 1999. Private sector amortization was $4.9 million during the year.

External Reserves

The level of gross external reserves moves in response to the overall balance of payments. In 2000, the external reserves declined sharply by 38% to $159.8 million, the lowest level in three years, derailing the surplus trend in motion since 1996.

The external reserves were declining at an average rate of 4% a month throughout the year. The decline could have been more dramatic but the combination of exchange control restrictions introduced by the Central Bank and resumption of logging activities later in the year eased the decline. The gross external reserves were $159.8 million at the end of the year equivalent to 2.0 months worth of imports of goods and non-factor services as against 3.0 months cover in 1999. The level of import cover is expected to decline further in 2001 if the export sector remains weak and no substantial external capital and financial injection occur.

Graph 5
External Reserves



Exchange Rates

There was no major alteration to the exchange rate policy in 2000. The administration of the exchange rate in 2000 was underpinned by the need to maintain adequate external reserves in terms of import cover and to stabilize domestic inflation through minimizing inflationary pressures from a depreciating currency. During the year, because of the ethnic conflict on Guadalcanal and the need to uphold investor confidence during the social unrest, the inflation concerns took more of the emphasis of the exchange rate policy. As a result, the domestic currency was temporarily fixed against the US dollar but was later allowed to fluctuate within a specified band against other currencies.

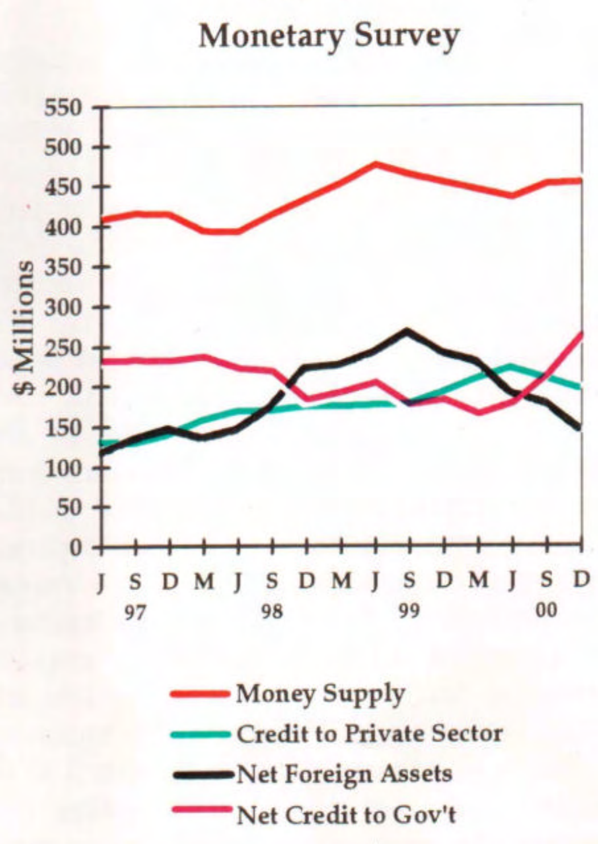
The Solomon Islands dollar depreciated moderately by 0.2% in nominal effective terms during 2000, but appreciated by 2% in real efffective terms. This caused a further loss of competitiveness in the Solomon Islands economy due to marked inflation differentials between Solomon Islands and its trading partners.

Movements in the Solomon Islands dollar against the bilateral trading currencies during the year were mixed. The Solomon Islands dollar depreciated against the US dollar by 4% and against the Japanese yen by 9% following respective depreciation of 2% and 18% in 1999. It strengthened, however, against the Australian dollar by 6%, 10% against the New Zealand dollar and 3% against the British Pound following moderate appreciations against these currencies in the previous year.

V. MONEY AND BANKING

The adverse performance in the external sector dominated developments in the monetary sector during 2000. Monetary growth slowed as a result of offsetting developments in net foreign assets and domestic credit. Net foreign assets declined reversing an increasing trend seen in the past five years. On the other hand, total domestic credit expanded due to the increase in net government domestic credit, emanating from increased borrowing from the Central Bank. Borrowing from CBSI overshot the legal limit by the end of the year, and since then confidence in the government securities market had been affected by the inability of government to service its debts. Credit from the banking system to the private sector slowed stemming primarily from the commercial banks' cautious approach to lending and lower demand for credit as the economy contracted.

Graph 6



Total liquidity in the banking system fluctuated significantly during 2000 owing to large monthly changes in the commercial banks call account balances with the Central Bank. However, the surplus liquidity in the banking system at the end of the year marginally increased by 0.9% from the 1999 position. The performance in the management of liquidity was mixed during 2000. In the first six months, the operations in the securities market were robust, but slowed down markedly in the second part of the year as a result of growing pressures on government's ability to service domestic debts.

Monetary Policy in 2000

Monetary policy in 2000, as in the previous years, was set essentially to compliment efforts aimed at reversing the trend of fiscal imbalances of previous budgets and restore financial stability, in particular the need to improve the government cash flow position. The Bank has placed emphasis on enhancing the operation of the government securities market for confidence building and with the aim to use it as an effective monetary policy tool.

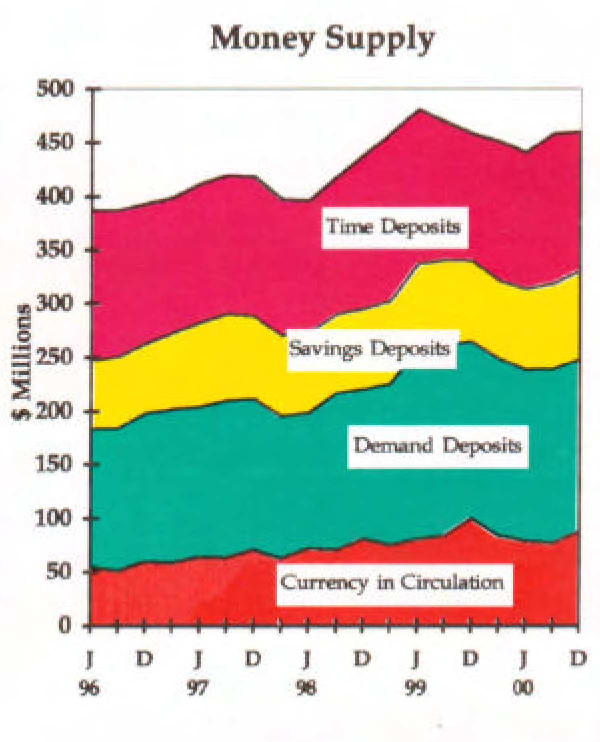
In the first six months of 2000 the Bank's monetary policy stance was complimented by the marked improvement in the government fiscal position. Central Bank Bokolo Bills were phased out and the operation of the securities market remained robust, as demonstrated by over subscriptions and wider participation by investors. These policy settings were maintained until June 2000.

In the wake of a worsening government fiscal position, (falling revenues, rising expenditures and mounting debt arrears), monetary policy eased in the second part of the year. The Central Bank was forced to support the financing of the recurrent budget through its lending to the government. The decline in finances, in particular the rapid increase in domestic debt arrears, set in motion strong sentiments among the major investors that weakened the securities market towards the end of the year. The Central Bank assumed responsibility for maturing bills, which further increased government borrowing from the Bank. This action, however, further hampered efforts to improve the effectiveness of the government securities market as a tool of financial and monetary management.

Money Supply

The broad money supply (M3) marginally grew by 0.4%, compared to increases of 4.8% and 4.5% in 1998 and 1999 respectively.

Graph 7



The slight growth was largely attributable to offsetting movements in net foreign assets and domestic credit. Net foreign assets dropped by 40.8% to $144.2 million while domestic credit rose by 22.7% to $456.9 million.

Narrow money (M1), which consists of currency in circulation and demand deposits, fell by 6.2% in 2000, in contrast to a growth of 20.0% in 1999. The decline was, in part, driven by 11.8% reduction in currency in circulation over the year.

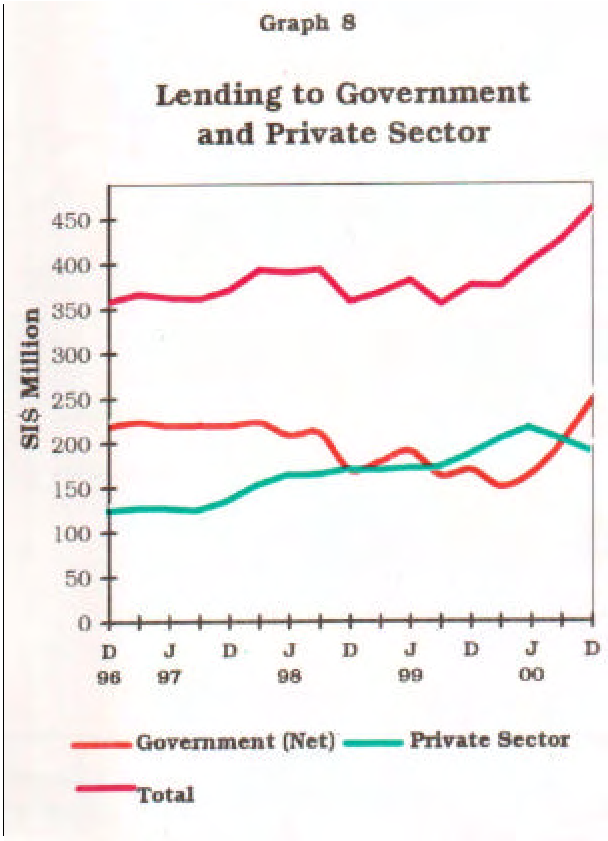
The component of broad money that registered the highest growth in 2000 was time deposits, rising by 9.9%, in contrast to a decline of 17.7% in 1999. The growth in time deposits was mainly attributable to a $18.9 million rise in "other" category and a $4.3 million increase in time deposits of "public financial institutions". Saving deposits increased further over the year by 8.5% following a 1.3% rise in 1999. The growth was mainly accounted for by a $3.8 million rise in respect of "business firms" and $4.5 million increase in "private individual" savings deposits.

Net Foreign Assets

Net foreign assets (NFA) declined rapidly over the year as against a projected growth for that period. By the end of the year, NFA declined by 40.8% to $144.2 million, following a period of continued growth since 1996. The sharp fall emanated from subdued economic activities and the significant rise in financial capital repatriated abroad as a result of the social unrest. The fall during the year was partially offset by an inflow of funds from overseas donors and the immediate steps taken by the Bank to limit imports and financial capital exiting the country. There were some modest inflows from the forestry sector. In January 2001 net foreign assets declined further by 10.2% to a low of $129.4 million which could barely support a month of imports, compared with 3 to 4 months in 1999. Available foreign reserves to service general imports, are precariously small. Currently, the rate of foreign currency approvals is about $8-10 million a week. This is not sustainable unless it is matched with similar inflows of foreign exchange through exports, aid grants from overseas and fiscal stringency. Failing that, the current downward trend in the international reserves would continue to a point where the importation of basic necessities such as food, medicines and fuel may be threatened.

Net Domestic Assets

The net domestic assets of the banking system (comprising net credit to government plus gross credit to the private sector and other items net), increased by 12.8% ($67.8 million) in 2000.



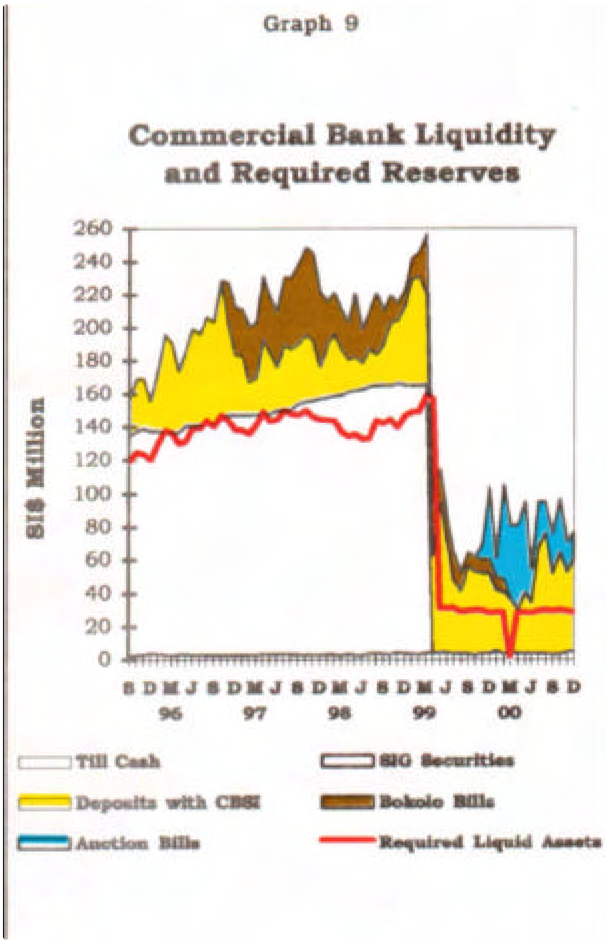
Total domestic credit grew further by 22.7% to $456.9 million, following a rise of 4.7% in 1999. The increase in domestic credit is explained by the sharp rise in government borrowing from the Central Bank, which grew by 44.8% over the year.

In the first quarter of 2000, government domestic credit declined, reaching a trough of $157 million in April. From May, however, it began to rise until it peaked at $258 million at the end of the year. The sharp increase in government domestic debt stemmed from a rise in advances from the Central Bank.

Private sector credit hardly grew, reflective of the prevailing not so conducive climate for investments. This is due to the fragile situation in terms of national security, law and order, as well as the general economic situation in Solomon Islands. Therefore, the trend in private sector credit has been declining in the past three years. In 2000, private sector borrowing grew by 15.7% in the first half of 2000, but slowed down to 2.3% in the second half of the year compared to a 9.3% growth in 1999.

Liquidity

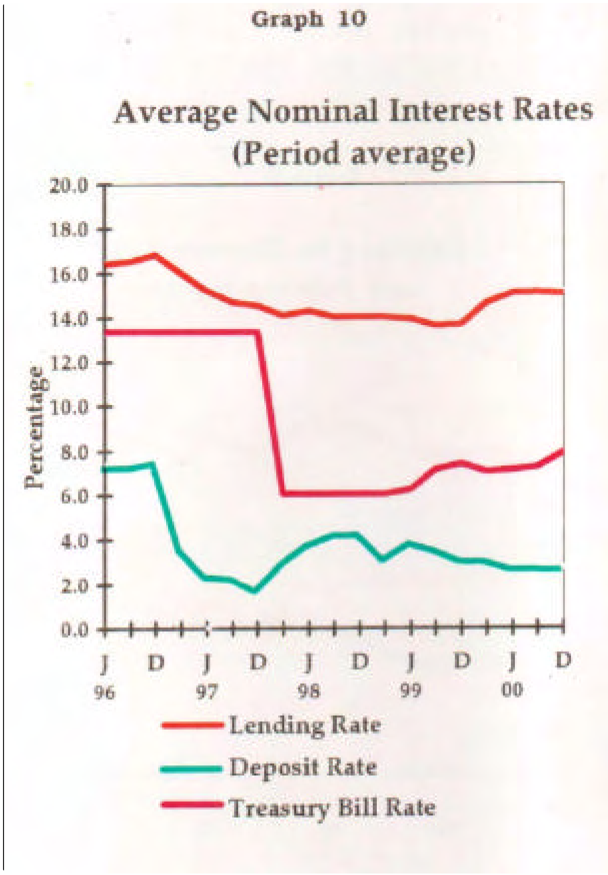
The management of liquidity in the banking system through the use of the government securities market was mixed in 2000. In the first half of the year, activities in the government securities market operation remained strong but began to falter in the second half of the year. By the end of February 2001, all commercial banks had stopped participating in the Treasury bill auction process as they took a ‘wait and see’ approach. Currently, only non-bank and individual investors are participating in the weekly auction process but the volume of subscriptions remain low. The growth of the government securities market may not be forthcoming unless the major players (commercial banks and NPF) return. However, their participation in the market hinges on how quickly the government can resolve its fiscal problems and guarantee debt servicing again. This will ensure the achievement of the original objectives for the auction market: to influence interest rates, provide an alternative savings instrument for the public; and an effective tool of monetary policy. Confidence in the governments ability to meet its debts is crucial to the revival of the Treasury Bills auction market.



During 2000 commercial bank total liquidity (consisting of till cash and deposits with the Central Bank) fluctuated significantly but reached $60.9 million at the end of the year. The banks also held $34.5 million of their assets in auction bills at the end of 2000. Treasury Bills holdings are not part of the reserve requirement.

Interest Rates

Interest rates charged by the commercial banks vary depending on factors such as the maturity structure and the risk profile of the loan or asset. The deposit rate continued to decline in response to the increased holdings of surplus funds by the banks. The average interest rate on deposits increased from 3.08% at the end of 1999 to 3.12% at the end of the first quarter of 2000. Then it declined to 2.80% in April 2000. Over the last 8 months it fluctuated between 2.81% and 2.74%. At the end of 2000 the rate was 2.74%, 34 basis points lower than in the same period last year. Meanwhile, the average lending rate increased to 15.09% from 14.12% in 1999, up by 97 basis points.



Data on real interest, or net of inflation proxied by the use of annual rates of inflation, as the ideal measure of expected inflation over the life of the loan or asset are not readily available. While the nominal interest represents compensation for anticipated inflation, real interest better reflects the economic cost of borrowing and return on lending. Real interest shows the difference between nominal interest rates and annual rates of inflation[1] (see Graph 10). The average real interest rate on lending at the end of the year was 9.11% from 6.3% in 1999. The average real interest on deposits improved to minus 3.4% from minus 5.5% in 1999. This means that in 2000 lenders benefited from real interest earning, while the depositors continued to realize the decline in the value of their financial assets.

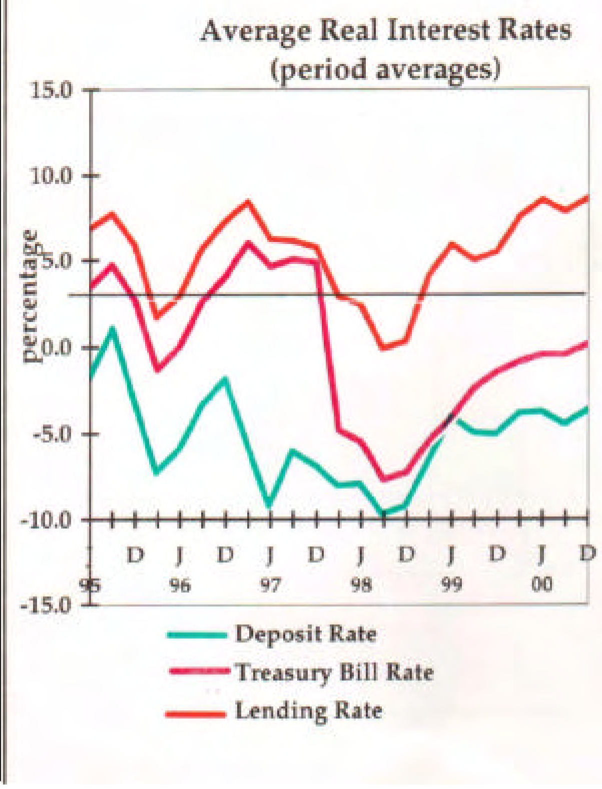
The yield on auctioned treasury bills provides an alternative investment avenue for potential investors. The yield on the 91-day Auction bill averaged 7.2% in 2000 as against the inflation rate of around 6.1%. In 1999 the 91–day Auction bill also averaged 7.2% with inflation at 7.8%.

Commercial Bank Margins

Commercial bank margins are defined as the difference between the average lending rate and deposit rate. Commercial bank margins in the Solomon Islands continued to remain high compared to regional and international standards. A major reason for this is the high cost of conducting banking business in Solomon Islands. The high margin was due to a small market resulting in low competition, high transaction costs, and the relative high risk of doing business in Solomon Islands.

Graph 12 shows two definitions of commercial bank margins. The first (the upper line) is the difference between average commercial bank lending and their deposit rates. The second (lower line) is the difference between the weighted average interest rate on all commercial bank assets and liabilities. Assets include lending to the private sector and government, call account deposits with the Central Bank, and holdings of Bokolo Bills. A much wider and complete indication of the contribution of lending and deposit interest differentials to commercial banks profitability is shown in the "all assets-deposit margin," as it includes a range of interest earning assets.

Graph 11

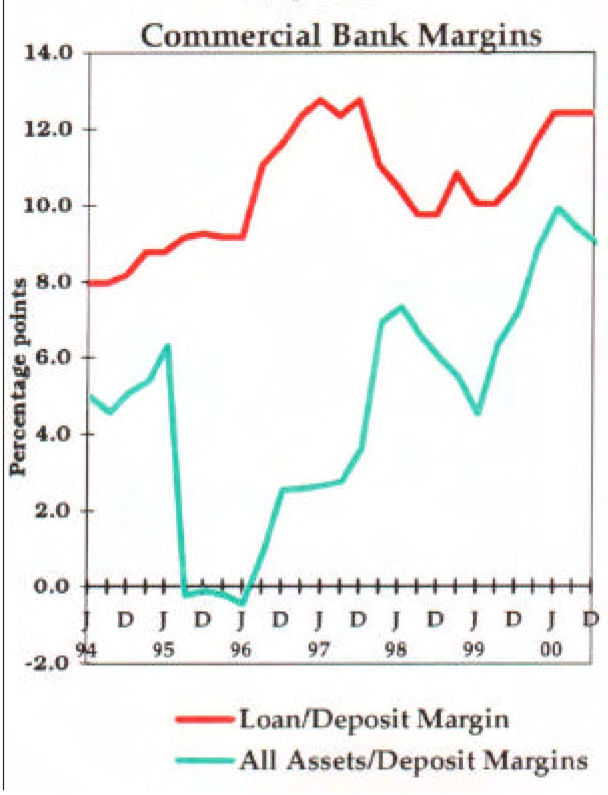


Interest rate margins increased by 175 basis points to 12.45% in 2000 from 10.7% in 1999. This reflects a combination of a rise in lending rates and a further decline in deposit rates. The sharp widening in margins as seen in 2000 provides an indication of changes in the banks' willingness to lend and a steady rise in excess liquidity or lendable funds.

Monetary Policy and Outlook for 2001

The main objectives of monetary policy are to ensure adequate foreign reserves are maintained for international trade, to promote monetary and price stability and to foster financial conditions conducive to the orderly and balanced development of Solomon Islands. Monetary policy can best achieve these objectives if it is integrated with sound fiscal policy, exchange rate policy and other policies of the government.

Graph 12



Monetary developments in 2001 will depend on the following factors:

- sound management of government finances,
- balance of payments developments,
- private sector demand for credit,
- banks and other financial institutions stance vis a viz developments on above areas and the,
- the level of confidence on the law and order situation in Solomon Islands.

With declining revenues and the inability to source funds in the domestic market and given that the 2001 current budget is to be maintained at 1999 levels, it is expected that a large share of government financing will have to come from overseas sources. It would be advisable that this should come in the form of concessional loans and aid grants. However, actual sourcing of these overseas funds hinges on how closely the government would adhere to their stringent conditions, which include applying expenditure restraint and revenue enhancement measures.

The Solomon Islands monetary conditions are very sensitive to the outcome of the balance of payments in any year, as was the case in 2000. As noted under the section on Balance of Payments, the turnaround in 2000 saw the external balance in deficit. The weak current account should be countered by tight monetary policy and active exchange rate policy to control the outflows of foreign exchange.

The Bank will seek to minimise the loss of current excess liquidity in the banking system through the balance of payments. Private sector lending should also remain moderate in 2001 as the commercial banks restrict lending amid growing concerns about the law and order problems in the country.

The government securities market will continue to rely on small individual investors, as the commercial banks' participation will depend on the credibility of government finances. The stock of maturing Restructuring Bonds is going to put even greater pressure on the government in terms of its debt service commitments.

[1] Annual inflation rate up to the end of 2000 is not available. We use the inflation rate for May 2000 at 6.1%. Actual inflation in the second half of 2000 was probably somewhat higher.

VI. GOVERNMENT FINANCE

Broad Developments and Out-turn in 2000

The fiscal budget in 2000 was formulated on a platform similar to that of the two preceding years, by matching recurrent expenditures with recurrent revenues. This however, did not eventuate, due in large part, to the social unrest on Guadalcanal. The new government was not able to continue with the macroeconomic policies of the previous government, as restoring peace, law and order became the priority policy objective of the government.

Increasingly, the net effect on government finances saw revenue collections from its major sources (namely Customs and Inland Revenue Divisions) decline substantially, as most companies either scaled down or closed their operations. Expenditures on the other hand, have exceeded the budget estimates, especially in the second half of the year. In large part, compensation claims (including danger allowances) accounted for a high percentage of government expenditures. Furthermore, government borrowing from the Central Bank (lender of last resort) exceeded the statutory ceilings under the CBSI legislation so that by the end of the year the government exceeded the normal ceiling by $43.8 million and $10.93 million above the enhanced ceiling. Government debt servicing became problematic, as it could no longer meet its weekly debt service commitments from its revenue collections.

Despite the setbacks, the government pressed on with efforts to end the two-year conflict. A peace agreement was signed between the warring parties, which laid the foundation for revitalizing the economy, and enabling companies to restart their operations.

In the 2000 budget, total revenues were estimated at $525.4 million while $642.9 million for expenditures, of which $30.0 million was allocated for capital expenditure. Up to September 2000, the total recurrent expenditures were recorded at $254.7 million. Total revenue was recorded at $277.3 million.

Revenues

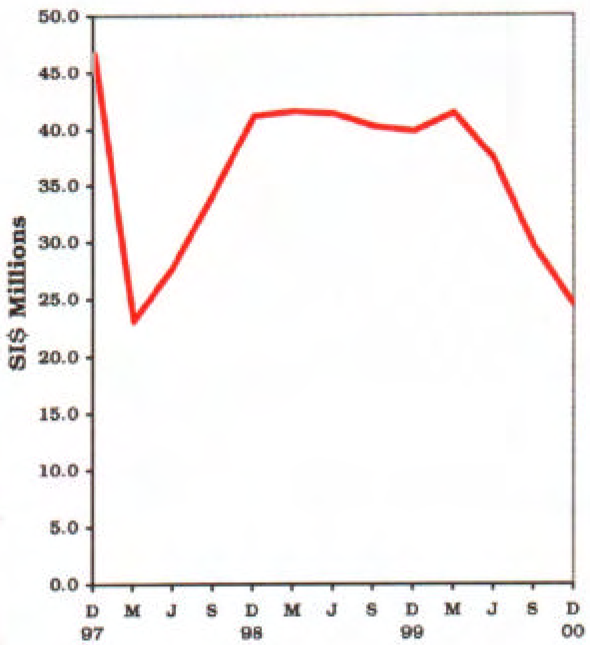
Total domestic revenues collected during 2000 amounted to $277.3 million, of which $258.8 million comprised of tax revenues and $18.6 million were non-tax revenues. This was below the 1999 collection by $122.4 million (30.7%). Grants totalled $117.5 million, consisting of $110.7 million in cash grants and the rest were in kind.

The Inland Revenue collection for the year totalled $159.06 million, comprising of $61.7 million from income tax and $97.4 million from tax on goods and services. This was below the previous year by 26.7% ($57.9 million). Under the income tax, personal tax accounted for $35.5 million and company tax totalled $26.2 million. The decline was attributed to the closure of or scaling down of operations by most major companies. Receipts from goods tax reduced from the previous year by 12.4% to $51.7 million. This was above the budget estimates by 35.7%.

Revenue collection from international trade dropped significantly by 30.7% ($44.2 million) to $99.7 million from the preceding year. This was attributable mainly to the slow down in trade as importers and exporters closed or scaled down their activities due to security concerns in the country. Receipts from logs fell by 9.5% to $36.8 million during the year. Revenues from Customs could have been higher had it not been for the remissions granted to importers and exporters.

Graph 13

Annualised Value of Exemptions and Remissions from Export Tax

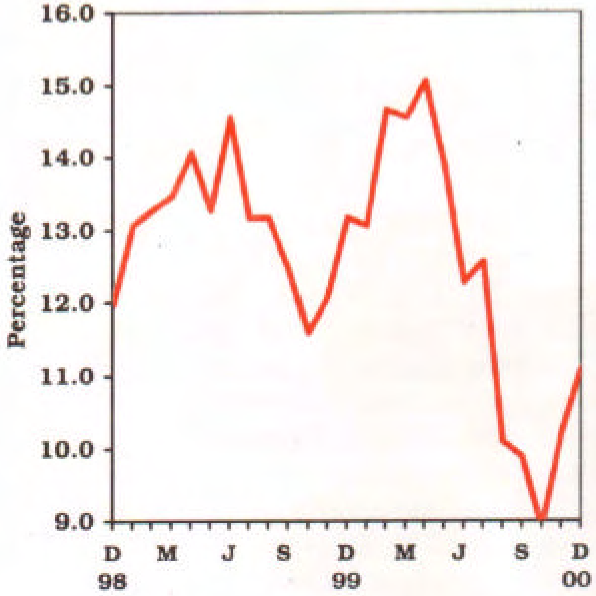


Log tax, which used to be one of the main sources of income, has been sluggish due to the social unrest and depressed world log prices. The log tax regime currently stipulates that the lowest rate of export tax of 25% is levied to logs valued up to $450 per cubic metre, while 40% for values between $450 to $700 per cubic metre. Beyond that, the official tax rate is 60% plus $212.50 per cubic metre.

Import duties, which account for more than 50% of Custom's revenues plummeted in 2000 to $51.7 million from $75.7 million in the previous year, attributable mainly to the drop in import volumes. Greater compliance with Customs requirements by importers and an improved budgeting system established under Australian technical assistance may have partially offset the fall in import collection. The effective rate of import taxation (as indicated by a six months moving average) at the end of 2000 was 11.1%, 1.9 percentage points below the preceding year (See graph 14).

Graph 14

Effective Rate of Import Taxation (6-month moving average)



Total collections of non-tax revenue amounted to $18.6 million, $80.0 million and $39.6 million below the previous year and as against the budget estimates respectively. Poor collection in non-tax revenue has been a long-outstanding issue and further deepened by the social unrest. Very little action has been taken to remedy the situation over the years. The government needs to look into this matter urgently. Poor internal control mechanisms over government funds led to different ministries administering separate bank accounts, which legally should be administered by the Treasury Division of the Ministry of Finance. This often leads to underestimating government revenues and expenditures.

Receipts from statutory bodies totalled $3.0 million as against $3.9 million in the budget estimates. In terms of development revenue, the government collected $12.8 million, 92% ($146.1 million) less than the budget estimates.

Expenditures

Total expenditures (up to September only) stood at $264.9 million, of which $254.7 million were for recurrent expenditure and $10.2 million were capital expenditure (domestically financed). The annual budget however, projected a figure of $642.9 million for total expenditures.

Table 9
Solomon Islands Government Operations
($Million)

	1998	1999	2000/1	2001 Budget
Total Revenues &Grants:	**613.3**	**562.6**	**388.1**	**704.3**
Total Revenue	342.2	459.5	277.4	598.0
Income Tax	132.9	145.8	99.7	117.4
Taxes on Goods & Services	64.4	71.2	59.4	67.4
Tax on International Trade	116.0	143.9	99.7	79.2
Total NonTax Revenue	28.9	98.6	18.6	334.0
Grant	271.0	103.1	110.7	106.3
Total Expenditures:	**420.4**	**493.3**	**625.1**	**704.2**
Recurrent Expend.	340.4	369.2	428.8	448.9
Wages and Salaries	156.4	149.7	150.5	155.0
Interest	36.4	44.4	49.20	70.0
Other	147.6	175.1	229.1	223.9
Capital Expend.	80.0	124.1	196.3	255.3
Domestically Financed	21.8	24.3	30.0	39.7
Externally Financed	58.2	99.8	166.3	215.6
Current Balance	1.8	90.3	-151.4	149.1
Overall Balance	192.8	69.3	-237.0	0.1
Financing	77.6	27.9	-	0.1
Foreign (net)	62.0	27.9	-	-
Domestic (net)	15.6	-	-	-
Privatization	-	-	-	-

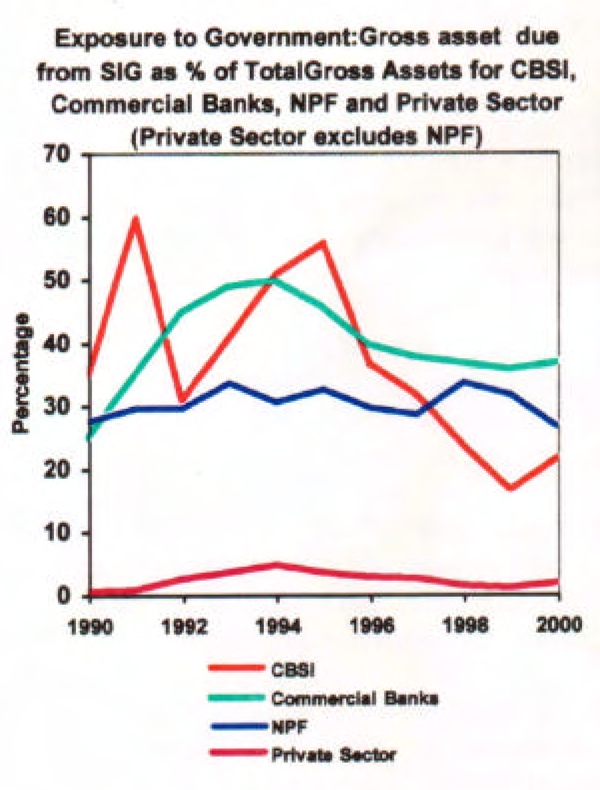
/1. Expenditure figures for 2000 were based on estimates

Source: Department of Finance & Central Bank of Solomon Islands

Payroll costs represented about 43.3% of total recurrent expenditure. This is estimated to increase by the end of the year, following unpaid and redundancy payments, as well as compensation claims and danger allowance payments. It is reported that some 800 public servants have been sent on unpaid leave during the year.

The government incurred $115.9 million on other recurrent expenditures. Figures for compensation payments and other claims by the two warring parties were not available, but these are believed to be substantial.

Graph 15



Capital expenditure, largely financed by external sources, totalled $24.3 million (provisional figure) at the end of September, of which $14.1 million came from external sources. External financing on capital expenditure fell substantially by $311.2 million from the previous year as a result of the worsened social unrest. The budgeted figure however, was $316.3 million, of which

$196.2 million were in cash. Of the cash component, $30 million was estimated from domestic sources. Of the total (estimated Development expenditure), only about 20% had been utilized during the year. This means that most projects, including on-going projects such as the Honiara road upgrading were either suspended or terminated.

Government Debt and Arrears

Government total debt was recorded at $1002.2 million at the end of December 2000, up by $89.3 million (9.7%) from the preceding year. The increase was mainly from the domestic market, especially from the Central Bank.

Of the total government debt, $617.3 million were accounted for by external debt, a rise of 3.4% from the previous year. The increase was mainly related to exchange rate movements, although some payments were made during the year. Of this, the Asian Development Bank, which accounted for most of the outstanding debt, holds about 39.6% of the total debt, followed by the World Bank at 39% of the overall debts.

External debt servicing in 2000 amounted to $10.4 million, of which $6.4 million were for principal payments and $4.2 million for interest payments.

Total domestic debt stood at $385.0 million at the end of 2000, an increase by 21.8% from the previous year. This comprised government securities ($302.5 million), advances ($41.0 million), and overdrafts (41.5 million). Of the total overdrafts, $29.1 million were accounted for by the monetary operations and $12.4 million were in the form of debt servicing, paid by the Central Bank on behalf of the government.

The first half of 2000 saw the government's prompt action in settling and rescheduling its arrears. This resulted in the successful rescheduling of the EFIC loan. At the end of May, arrears were recorded at $17.3 million, (for the Marubeni Loan only) down from $54.4 million at the end of 1999. However, due to financial constraints the government suspended debt servicing, which consequently led to the accumulation of more arrears. By the end of 2000, government total debt arrears stood at $23.5 million, of which $14.9 million were for principal and $8.6 million were for interest arrears. These arrears were owed to the Asian Development Bank (ADB) for $0.8 million; European Investment Bank (EIB) for $0.9 million; International Development Association (IDA) $0.2 million; Kuwait Fund for Arab Economic Development $1.7 million; Marubeni Hong Kong Ltd. $18.9 million; and OPEC $1.1 million.

Government Reforms

Government reforms under the previous SIAC government progressed in the first half of 2000, albeit slowly but the reforms were on track. One such exercise was the redundancy of some 700 to 800 public officers, which was only partially completed. The second component, and an important one, is the training of those officers to assimilate them into the private sector with the help of task forces and committees set up for this process.

The inception of the new government (Government of National Unity and Reconciliation) in late June saw a further 700 public servants sent on unpaid leave for an indefinite period as part of government's cost cutting measures. By the end of February 2001, these officers were reinstated, although their previous posts were abolished and considerations have been made for them to be made redundant. Should they be made redundant, then it is very likely that a substantial amount of money would be required for this package.

One other change made by the new government was the creation of an additional ministry-the Ministry of Economic Reform and Structural Adjustment (MERSA), increasing the total number of ministries to 20. This ministry is mandated to revive the reform program started by the previous government and to consider other measures that would rehabilitate and revive the Solomon Islands economy.

The privatization and reform of state-owned enterprises during the year came to a standstill as a result of the social unrest. Those state-owned enterprises that have been earmarked for privatization were Sasape Marina Ltd., Solomon Islands Plantation Limited (SIPL), Russell Islands Plantation Estate Limited (RIPEL), and Solomon Islands Printers. Potential investors were hesitant to invest in the country as the economic and investment environment deteriorated and became less conducive for investment.

Accounting and Audit

Under Section 38(1) of the Public Finance and Audit Act, it clearly stipulates that within a period of six (6) months after the end of each financial year, the Ministry of Finance shall cause to prepare and transmit to the Auditor General the financial statements for audit. In practice however, the timely auditing of government accounts has been greatly hampered by staffing and financial constraints to the extent that the auditing cycle is being performed with an unacceptable lag. For example, the public accounts for 1996 was transmitted for audit in 1999 and those for 1997 and 1998 were submitted in 2000. The audit of the accounts for 1996 to 1998 had started, but the social unrest had inevitably affected the progress of this work.

The efficient and effective stewardship of public finances is fundamental to good governance. Hence, to achieve this, Solomon Islands must have a strong Audit Office that is legally constituted and properly equipped with the necessary means to carry out its mandate effectively.

The Effects of the Social Unrest on Fiscal Policies

The social unrest on Guadalcanal has damaged the investment image of the economy and has adversely affected government finances. Fiscal policies drawn up at the beginning of the year if implemented would pave the path to economic recovery. These policies include revenue enhancement, restraining expenditures, debt servicing to be current, and the overall deficit to be financed externally. From this, other policies such as employment and improvements to the well-being of all Solomon Islands citizen would follow.

However, these policies did not materialize due to increased disturbance from the social unrest, which instead put pressure on and exhausted all government resources. The deterioration in the law and order situation drove most investors, both local and overseas, to close or suspend their business activities. This greatly affected government finances while at the same time the pillage and theft of government properties especially vehicles added additional constraints on the delivery of government services.

The repercussion from the social unrest had cost the government about $32.0 million, of which approximately, 90% were incurred during the period, June to December.

Consequently, delivery of goods and services to the rural dwellers had been badly affected. The principle of making workers to go on unpaid leave contributed towards the erosion of the government financial reasons.

2001 Budget and Outlook

The 2001 budget was passed in the National Parliament in May 2001. Total revenues and expenditures in the 2001 budget have been estimated at $189.5 million and $462.9 million respectively. Strictly speaking, these estimates seem to be on the low side. Income could have been more, had the remissions been forfeited and the major collection points strengthened. This however, should not deter the government's endeavour to bring back lasting peace and restoration of law and order, which if included would increase the expenditure estimates in the budget. Therefore, an additional $563.6 million is needed to finance its recurrent budget. This means that the government should now stop granting remissions to importers and exporters. The reduction in import tariffs rates to 20% should be sufficient. Furthermore, priorities of intended expenditures must be strictly scrutinized before expended. Better still, priority spending should be on the essential services such as health, education, national security, and infrastructures. This requires the government to implement stricter controls to reduce unnecessary spending.

With its current financial position, the government's 2001 budget will not be possible without external support. In order to ensure consistency with other policy objectives such as lower inflation, lower overall deficit, and increasing the level of external reserves, capital expenditure and the overall deficit, as much as possible, should continue to be financed from external sources.

VII. FINANCIAL SYSTEM

The Solomon Islands' financial system comprises the Central Bank (CBSI), three commercial banks (National Bank of Solomon Islands (NBSI), ANZ Bank and Westpac Banking Corporation), the Development Bank of Solomon Islands (DBSI), one finance company and over a hundred credit unions. Besides these, there are specialised financial institutions namely the National Provident Fund (NPF), Solomon Islands Home Finance Ltd (SIHFL), Investment Corporation of Solomon Islands (ICSI), and five insurance companies.

The Central Bank places high importance in the stability and soundness of these institutions ensuring there is an accurate information reporting by these institutions. This will enable the Bank, in its supervision activities, to ensure that they are consistently enhanced and maintained, in terms of efficient service delivery, the cost and accessibility of this service, safety of deposits and there is management accountability and transparency.

Commercial Banks

The commercial banks despite the unrest continued to provide banking services in Solomon Islands, albeit at reduced levels due to increased risks and insecurity. On several occasions the banks had to close down temporarily because of threats and harassment.

The total assets of the commercial banks dropped slightly by a percent to $496 million at the end of 2000. This contrasts an increase of 11 percent in 1999. This was attributable to some offsetting movements in their assets. The increase in total portfolio investments to $383 million over the previous year were insignificant. This was owed to slight increases in both loans and advances and holdings of government securities. This represented about 77% of their total assets. During the year, both the Government's Treasury bills and Central Bank Bokolo bills were fully redeemed. At the end of the year, the holdings of liquid assets represented 16% of their deposit liabilities as against the 7.5% minimum requirement.

Development Bank of Solomon Islands (DBSI)

DBSI's new lending in 2000 was $3.0 million, only a third of the level in 1999. This drop emanated from problems associated with the social unrest. The Bank's normal lending activities had been suspended since 1999. Only the Rural Constituency Development Fund Credit Scheme was continued in 1999 and the first half of 2000 but this was temporarily suspended since June 2000 and only re-opened towards the end of the year.

DBSI's lending was facilitated largely by a US$2 million credit line from the International Corporation Development Fund (ICDF) of Republic of China. Lending to Guadalcanal projects is on hold due to the high risk involved.

By December 2000, total outstanding arrears were $18 million as compared to $14 million in 1999. This was 30% of DBSI's total outstanding loan portfolio, compared with 23% in 1999. The increase was caused by damage to properties and dislocations of borrowers especially on Guadalcanal.

The total loan portfolio of the bank stood at $62 million, slightly up from $61 million in 1999. Of the total value, 45% went to the services sector, 23% to the commerce sector, 13% to agriculture, 9% to industry, and the rest to other sectors. Of the total, the bulk was accounted for by Honiara, Malaita and Guadalcanal Provinces with 37%, 11% and 12% respectively.

The *Mani-Grou* Savings (MGS) scheme continued in 2000, but the bank has extended the maturity profiles to 12-36 months and abolished the 3–6 month's maturities. Following the change, the interest rate on these savings has been raised from 8.5% to 10%. The total deposits under this scheme, reached $3.2 million at the end of 2000 as compared to $2.3 million in 1999.

Since the height of the social unrest in June 2000, the bank closed its Chinatown branch in Honiara which still remains non-operational. Its branches in other provinces operated during the unrest but could possibly be closed down in 2001 due to the small volume of lending there.

The move to bring DBSI under the supervision of the Central Bank is yet to be implemented. The move made by the former government as part of its financial sector reform program, followed a review of DBSI that identified the poor state of DBSI and at the same time made recommendations to alleviate the situation. DBSI is organising itself to ensure compliance with the CBSI requirements.

National Provident Fund (NPF)

The balance sheet of the NPF contracted marginally by 1% in 2000, following a 7% expansion in the previous year. On the asset side, NPF's holdings of government restructured bonds totalled more than $55 million whilst its holdings treasury bills and development bonds dropped by 28% and 21% respectively. In addition, its loans to statutory corporations increased by 4% whilst loans to the private sector (comprised staff loans, housing loans, and lending to provincial authorities) decreased by 4% over the year. The increase in the former followed a 16% decline in 1999 whilst the drop in the latter followed an increase in the previous year. The NPF fixed assets rose by almost 2% compared to a 7% increase in the previous year. Its other assets declined by $11 million, a turn around from a significant rise of $53 million in 1999.

On the liabilities side, members' contribution account dropped by almost 3% to $347 million, in contrast to a 6% expansion in 1999. The drop was, in large part, attributable to the government's redundancy exercise and the dislocation to the formal workforce caused by the unrest on Guadalcanal especially the closure of major companies such as SIPL, the Gold Ridge Mine, and Solomon Taiyo Limited. The NPF's accumulated funds rose by 22% to $27 million in 2000 following a 27% increase in the previous year. Its other liabilities increased by 4% over the year.

The major concern of the Fund is the mass withdrawal of members' contributions during the latter part of 2000 and earlier part of 2001. This was caused primarily by the loss of employment as the result of the unrest, withdrawal allowable under the 40 years criteria and the realisation of the two third security pledge on members' borrowings from the commercial banks. The Fund has began a review of the three qualification categories and would recommend amendments to appropriate sections in the NPF Act.

Solomon Islands Home Finance Limited (SIHFL)

The Home Finance Corporation, being earmarked for privatisation in 2000, was only in its preliminary stage when the unrest disrupted the progress. In the preliminary stage, it was planned that 60% of the 100% shares be sold to any interested private investors whilst the remaining 40% be retained by ICSI (Investment Corporation of Solomon Islands) on behalf of the government. The 60% was temporarily held by two senior officers in the Department of Finance, pending finalisation of matters for selling. The proposed sale was not successful during the year due especially to the events of June last year. The major change in the process, however, was the change of the company's name to Solomon Islands Home Finance Limited (SIHFL).

Despite the planned transformation, the institution will still retain its core function of ensuring and enhancing availability of houses for Solomon Islanders. These efforts however, have been hampered by lack of finance and in the last two years from factors emanating from the social unrest.

The suspension of SIHFL's lending activities in 1999 continued in 2000. However, only lending to incomplete existing projects continued. For 2000, this amounted to $0.2 million, slightly below the $0.3 million in 1999. The suspension of lending will continue in 2001 due to the uncertainty of the security problem in the Solomon Islands and the critical cash flow situation.

The social unrest continued to disrupt SIHFL efforts to pursue a Memorandum of Understanding agreed to in 1999 for the transfer of titles to some 1,100 lots in Honiara, as well as a follow up on legal actions against defaulting clients. The value of loans awaiting court decisions are worth $1.2 million representing, 10% of the total SIHFL loans.

Loan arrears due to SIHFL reached $1.5 million at the end of 2000, $0.5 million up on the arrears level in the previous year. This is about 13% of its gross outstanding loans compared with 10% in 1999. The gross outstanding loans for 2000 were $11.5 million

The financial accounts of SIHFL for 2000 are still pending audit. However, unaudited figures show an overall increase in assets by $0.2 million to $14 million. This increase came from additional loan approvals during the year. In 1999, assets were also up by another $0.2 million. On the other hand, liabilities fell by about 6% in 2000 due to the ability of SIHFL to settle previous borrowings and retention bonds.

Total income for 2000 was $1.9 million about 6% down from the previous year. Total expenditure was up by 27% to $1.5 million compared to $1.2 million in 1998.

Investment Corporation of Solomon Islands (ICSI)

ICSI's role in facilitating the divestment process under the former government's privatisation program continued in 2000. The only privatisation exercise completed in 2000 was the sale of 48.1% of government's stake in Solomon Telekom to NPF.

Another major event during the year was the liquidation of the government owned National Shipping Company Ltd. A private liquidator was engaged to complete the process on behalf of ICSI. All proceeds received as a result of this liquidation process were used to settle outstanding loans and bills.

Table 10
ICSI Portfolio of Companies
(Percent Share)

	2000
Solomon Islands Plantations Ltd.	30
Kolombangara Forest Plantations Ltd.	49
Solomon Taiyo Ltd.	51
Sasape Marina Ltd.	100
Solomon Airlines	100
Solomon Islands Printers Ltd.	100
Telekom	10

Source: Investment Corporation of Solomon Islands

Other portfolio companies earmarked for privatisation are the Solomon Island Printers, Sasape Marina Ltd and Kolombangara Forest Plantations Ltd (KFPL). However, the current economic crisis poses substantial difficulties in attracting potential buyers and investors.

The profitability of ICSI's portfolio companies was severely affected by the social unrest. Most of these companies were operating at reduced levels which forced them to incur losses during the year. With the closure of SIPL and Solomon Taiyo and the subsequent departure of its joint venture partners such as Maruha and CDC, ICSI had been adversely affected. The Corporation is assessing options to salvage its portfolio companies from financial disasters.

Credit Unions

The number of registered credit unions at the end of 2000 stood at 165, an increase of one over 1999. The distribution of credit unions at the end of the year was Honiara 42, Malaita 41, Isabel 25, Guadalcanal 18, Western 15, Makira 11, Temotu 7, Choiseul 4 and Central with 2. The total membership of registered credit was 16,290, more than 10% below the level (18,258) in 1999. It is believed that up to 50% of the rural based credit unions may be inactive. A majority, if not all, of the credit unions on Guadalcanal may have closed down because of the social unrest.

Despite the constraints related to the social unrest, the reported total financial resources (assets) available to the credit unions at the end of 2000 was $27 million, 20% above the 1999 level. Of the total resources available to the credit unions, $20 million was invested in loans to members, a 17% increase over the previous year. The financing of these assets came from member's shares that stood at $23 million at end of the year, $4 million up on the previous year. The loan to total share ratio was 87%, compared with 78% in 1999.

The Credit Unions continue to play an important financial intermediary role in the country, especially in the rural areas where the commercial banks have recently scaled down their presence. In recognition of the important functions of the credit unions, it is essential that adequate resources be given to SICUL (Solomon Islands Credit Union League) to strengthen and promote the credit union movement in Solomon Islands. There is potential for the credit unions to develop and provide greater benefits to the people of Solomon Islands especially those in the rural areas. In line with this aim is the need to review the present Credit Union Act to ensure that it provides for best standards in prudential supervision for this type of financial institution. In addition, restrictions in the present legislation that prevent the Credit Unions from identifying the full cost of their operations and the adoption of market interest rates should be removed while officers of credit unions who abuse the confidence vested in them by their members should be appropriately dealt with.

Realising the importance of SICUL, the Central Bank provided three (3) officers from its Financial Institutions Department to assist the SICUL in supervising those urban-based credit unions with assets more than $100,000. The next major task ahead for SICUL is the supervision of the rural-based credit unions.

Insurance Companies

At the end of 2000, there were three general insurance (non-life) companies and two life insurance companies operating in Solomon Islands. These included National Insurance Company, QBE (Queensland Bankers Equity) (Insurance Limited), Solomon Islands Family Assurance (SIFA) and Solomons Mutual Insurance (SMI) which holds a composite licence (ie both carrying out general insurance and life insurance). In addition, there are two insurance brokers. Insurance companies play important roles in the financial system in the country.

Total premiums collected by these companies during 2000 fell by 46.5% to $16.9 million from the preceding year. The level in 2000 has been the lowest since 1993. The marked drop emanated from declines in collected premiums during the year as a result of subdued business activities during the social unrest. Of the total $16.9 million collected, 94% were accounted for by the general insurance market and the remaining 4% by the life insurance market.

The social unrest significantly impacted on the local insurance industry by crippling its market capacity. The loss of some clients negatively impacted on revenue positions which forced the industry to cancel all applications for claims on all incidents relating to the unrest. The social unrest turned such claims from being fortuitous in nature to being inevitable and no longer apprehended as insurable risks. In 2000, the industry received the highest claims ever, worth $8.8 million.

The Office of the Controller of Insurance was relocated to the Central Bank in September 2000. The Office, which is mandated to regulate insurance business in the country, moved to the Central Bank following recommendations by the EPOC (ESCAP Pacific Operation Centre) for it to be consolidated with the Bank. However, certain legal issues arising from the transfers are still to be sorted out.

Other Financial Institutions

The balance sheet of other financial institutions fell by 1% to $4 million in 2000 as compared to 4% in the preceding year. Loans to the public dropped further by 45% to $0.2 million, the lowest level in six years. Other assets recorded another significant decline following the one recorded in the previous year. Other financial institutions dues from other banks rose substantially, however, by 11% to $3.6 million as compared to 95% increase in the previous year.

On the liabilities side, only other liabilities recorded a significant increase of 63% over the year. This contrasts a 72% decline in the previous year. Movements in the other components, namely time deposits and capital, were insignificant.

VIII. CENTRAL BANK OPERATIONS

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

To carry out these functions, the Bank is organized into departments, each one dealing with specific areas. This chapter is a description of the highlights of those activities during 2000.

Finance and Accounts

The 2000 audited financial statement of the Central Bank and explanatory notes are provided in the next section of this report.

The Bank's Balance Sheet contracted in 2000. It's net assets declined by 12.2% to $94.7 million. There was a substantial rise of 64% in Loans and Advances to the government and a 31.5% rise in Other Domestic Assets. However, this was more than offset by the decline in external assets, resulting in total assets having declined by 15% from $332.9 million in 1999 to $282.5 million in 2000. The rise in SIG loans and advances was in respect of two activities, namely the government security market and debt servicing. Based on latest unaudited accounts for DBSI the value of CBSI's share in DBSI was put at zero. Accordingly, provision for diminution for the full book value of $710,000 of those shares has been made. Provision for diminution has also been increased in recognition of the reduced value of the CBSI shares in ICSI. A similar treatment has been applied to properties acquired under the Staff Housing Loan Scheme, in recognition of prevailing reduced market values of properties in Honiara. Other domestic assets included $0.8 million in respect of payments by the Bank on behalf of the government in the IFAD project. Discussions would be pursued with government on how to resolve this outstanding obligation.

On the liabilities side, there were significant falls both on the domestic as well as on the external front. In terms of domestic liabilities, the movements were mainly in currency in circulation and domestic deposits which fell by 10.6% and 15.1% respectively. External liabilities declined by 20% to $12.0 million in 2000 from $15.0 million in 1999. Total liabilities therefore, fell by 16.5% from $225.0 million in 1999 to $187.8 million in 2000.

Total income for the year dropped by 7.7% to $13.1 million compared to $14.2 million in 1999. In keeping with its accounting policy the Bank did not account for $2.6 million interest derived from SIG loans as income. Consequently, Interest income dropped by 7.7% but interest expenses declined about 46% which resulted in net interest income of $10.6 million, a rise of 8.1% over the 1999 outcome. Non interest expenditures has increased by 6.3% from $13.5 million to $14.4 million in 2000. This increase is attributable mainly to two abnormal expenditure items which were incurred in 2000.

(a) Provision for diminution for the full amount of $710,000 on CBSI shares in DBSI. This is reflected in the substantial increase in administrative expenses in 2000 compared to 1999.

(b) A fraudulent amount of $376,864 resulting from inflated prices on computer equipment procured for the Bank in 2000. This has been expensed under Other Expenses.

With these adjustment, a net profit of $770,000 was made in 2000 compared to $2.1 million the previous year. Of this, $0.27 million was transferred to special reserves and $0.5 million to the SIG Consolidated Fund as provided for under section 20 (2) of the CBSI Act, Cap 49.

Currency Operations

Currency issued by the Bank in 2000 declined by 11% to $93 million compared to a rise of 21% in the previous year. Of the total stock issued, $88 million was in active circulation and $3 million in commercial banks' till holdings. Over the year, the Bank destroyed $10 million in mutilated notes compared to more than $14 million in 1999

Currency replenishment during the year totalled $0.5 million, constituting additional stock of 10 cents and 20 cents denominations.

Upgrading of the currency notes was carried out during the year on the $2 and $50 denominations. The new bank notes are expected to be issued by June 2001 to commemorate the Bank's Silver Jubilee. The upgrading work included the printing of the $2 denomination on polymer substrate to increase durability of the note, enhance security of the note and thereby reduce printing costs in the long run. As regards the $50 bank note, the upgrading work was mainly to introduce additional security features on the note. Besides, this is an initial step taken to standardise the size of the currency notes in Solomon Islands.

Securities Market

The securities market entered its second year of operation in 2000 with a lot of scope in terms of deepening its reach, as well as full restoration of confidence from the market participants. There were signs that the market was going to provide a competitive investment avenue especially for savers. In the first half of 2000, the securities market functioned satisfactorily, until after the June events when it started experiencing declining participations. This decline in the second part of the 2000, was attributed to the main players in the market, namely the commercial banks withdrawing their participation in the market due to concerns over the critical position in the government's finances. Accordingly, total government securities declined as the commercial banks progressively pulled out of the market. Of the total stock of securities, $207 million were in Restructured Bonds, $2 million in Development Bonds, $35 million in Treasury Bonds, $1 million in Frozen Treasury Bills, and $57 million in Auction Treasury Bills. The Auction Treasury Bills stocks rose to more than $80 million in May but declined to $57 million by the end of 2000. At the end of the first quarter of 2001, this level slid further down to about $28 million. Development Bonds, Treasury Bonds and Frozen Treasury Bills recorded declines during the year, as they were rolled into the Auction Treasury Bills.

About $3 million in Treasury Bonds and $53 million in Restructured Bonds plus interests matured at the beginning of the second quarter of 2001. This is the first lot of the $207 million frozen Treasury Bills which were restructured in 1999 as part of the government's debt restructuring exercise. This is a matter that would require careful attention by the government, bearing in mind its prevailing fiscal position.

Exchange Control Operations

The Exchange Control Act and Regulations for foreign exchange in Solomon Islands, are administered by the Central Bank of Solomon Islands on behalf of the government. Under these legislations the Central Bank has given authority to commercial banks to transact in foreign exchange. Commercial banks are required under the Regulations to process foreign exchange transactions up to a certain limit. Transactions with values beyond this limit will require approval from the Central Bank.

The Regulations are used to monitor and control foreign exchange transactions between Solomon Islands residents and those residing overseas. The main objective of Exchange Controls is to conserve the country's foreign reserves. The legislation empowers the Bank to control and monitor inflows and outflows of foreign exchange and the timely receipt of export proceeds into Solomon Islands. In a small and open economy like Solomon Islands, without such controls, the country can face more severe problems in terms of foreign exchange. At the height of the social unrest, and up to now, these controls have proved quite effective and very useful by cushioning fluctuations in foreign exchange flows. To that extent, they have ensured that the country's foreign reserves are not depleted by capital flight.

In June 2000, following fears of a foreign exchange crisis, the authorised limit was re-set at $5000, down from $25000. Commercial banks' limit to hold foreign currency overnight was also lowered to $1 million, down from $2 million. Despite these measures, residents can still repatriate capital, dividends and profits, provided there is a tax clearance from the Commissioner of Inland Revenue. Likewise, emigrating residents from Solomon Islands can transfer part or all of their savings, provided tax clearance is given by the Commissioner. Temporary residents may transfer part or all of their surplus earnings subject to approval from the Central Bank. An important determining factor in the process however, is availability of sufficient foreign exchange.

In addition, Central Bank approval is also required in the following circumstances:

(a) The sale or purchase by non-residents of shares in companies registered in Solomon Islands. This is for purposes of ensuring proper and updated records that will assist the Bank determine the new owners who may wish to remit capital funds, profits or dividends at a later date. Approval for such transactions is also required by the Investment Board (IB).

(b) When Solomon Islands residents borrow from overseas institutions.

(c) Approved investments by the IB for non-resident to invest in Solomon Islands, are also subject to the Exchange Control requirements.

The partial exchange control liberalisations which were effected in March 1999, continued to be applied for most of the year. This change in exchange controls was tailored towards promoting export growth, by way of reducing costs incurred by qualified exporters when making payments for imports. Applicants qualify under the following conditions:

(a) The exporter must not have any outstanding export proceeds against their name. Exporters who can prove they have always repatriated their export proceeds within 90 days after the date of export have a better chance to hold foreign currency accounts than those who cannot.

(b) The exporter must prove that they have been in the exporting business for a period of at least 24 months.

(c) The exporter must have a tax clearance from the Commissioner of Inland Revenue, indicating their compliance with tax obligations to the Solomon Islands government.

(d) The applicant is an exporter of goods and not services that they are not either individuals or importers.

Except for round logs - which require Specific Authority (SA) - all commodities are exported under the General Authority (GA). The SA is given by the Central Bank upon the exporter's presentation of a Market Price Certificate, issued by the Commissioner of Forests. In 2000, the Central Bank approved 288 applications under SA for exports of round logs. This was estimated at US$45 million compared to US$52 million in 1999. The Bank processed a total of 744 shipping bills, worth $225 million, during 2000. Both volumes and values were down by 32% and 46% respectively from 1999. However, about 9% of the total amount was outstanding at the end of the year. The Bank also approved 6,675 applications for overseas remittance of funds compared to 4,377 in 1999. In value terms, these were $643 million compared to $756 million in 1999.

Management of External Reserves

The external reserves are managed under guidelines set by the Board of Directors from time to time. The day-to-day management of the external reserves is conducted by the Bank's Foreign Exchange Department, through investment strategies sanctioned by an internal Investment Advisory Committee. The three fundamental objectives of reserves management are:

(a) to ensure the availability of liquidity to meet the trading needs of the economy with the rest of the world.

(b) to ensure safety of the external reserves, and

(c) to ensure there is a consistent flow of income from the investment of the external reserves

Given the current circumstances of the country, objectives (a) and (b) above take higher prominence. To achieve these objectives, the reserves are divided into two funds: a Working Capital Fund, to meet the liquidity needs of the economy, and an Investment Fund, which is invested for interest income. Currency risks are minimised through a diversified portfolio of reserves, which are held in seven currencies namely, US dollar, Pounds sterling, Australian dollar, Japanese Yen, Euro-Zone Currency Units (EUR), Singapore dollar and Special Drawing Rights (SDR). In line with Board guidelines, these are held mostly with the major central banks and with other reputable international financial institutions.

Supervision of Financial institutions

The number of commercial banks operating in Solomon Islands during 2000 remained at three. Of these, two are branches of overseas banks, while one is locally incorporated, a joint venture between an overseas bank and the Solomon Islands National Provident Fund. In terms of other financial institutions, the country has one development bank, a provident fund, a home finance company and 165 credit unions of which only 50% are in active operation. The only finance company in the country wound down its operations in 2000 with the view to withdraw its operations in Solomon Islands.

Under the financial sector reform program which began in 1999, activities to strengthen the Bank's supervisory capabilities continued during the year. The Financial Institutions Department continued with its staff training activities, with World Bank assistance. However, this had to be discontinued in mid 2000 due to the social unrest. It is envisaged that this assistance would be requested to resume once the situation returns to normal in Solomon Islands.

Supervision Activities and Prudential Policies

Activities during the first quarter of 2000 concentrated on staff recruitment and training. Two new officers were recruited to the department in January. With the World Bank funded Technical Assistant, intensive training was provided for staff for about eight weeks ending in early April. The course was aimed at assisting both new and old officers on banking supervision principles, techniques, and use of analytical methods to assess the soundness of supervised financial institutions.

Early in the year the Bank held discussions with commercial banks regarding the draft prudential statements that were circulated in 1999. These discussions were disrupted by the events in June, but it is planned that they will soon resume. The Bank also explained to the external auditors of the commercial banks their role as external auditors to financial institutions as required under the Financial Institutions Act. The draft prudential policies will be finalized with the commercial banks in 2001. The Prudential Supervision Manual for use by the banking supervision officers was also completed under the World Bank TA.

As envisaged under the Financial Institutions Act, the National Provident Fund and the Development Bank of Solomon Islands would come under the supervisory purview of the Central Bank. Work towards this has started early in the year through the World Bank TA with the drafting of the supervision policies and guidelines. However, this has had to be suspended in the second half of the year due to the f social unrest. This task will resume again as soon as the TA can be secured.

The Bank conducted supervision of the commercial banks during the year through offsite supervision mode to assess commercial bank soundness and safety in the areas of capital adequacy, liquidity management, asset quality and credit grading systems, large exposures and connected lending, and corporate governance. These assessments were made mainly through standard reports submitted to the Bank periodically.

Small Business Finance Scheme

As at the end of 2000, the total number of loans nominated under the scheme stood at 357, up by 1 percent from 1999. The commercial banks nominated 4 new loans during year. The gross value of loans nominated under the scheme at end of 2000 was $13.9 million. The total value of loans outstanding was $1.6 million. The value of the Central Bank guarantee outstanding at end 2000 was $0.4 million. This amount represented the potential loss that the Bank would incur if all the outstanding nominations under the scheme were to fail. In 2000, the Bank paid $302,788 towards claims under the scheme. Also during the year $2.5 million worth of nominations expired without renewal.

In 2000 the Scheme was extended to include loans nominated under the Rural Community Development Fund (RCDF), a loan scheme of the Development Bank of Solomon Islands. As result 10 nominations under the Rural Community Development Fund (RCDF), with a total of $319,956 were submitted. Most of these nominations were made in the first half of 2000. The value of CBSI's guarantee for the RCDF loans was $76,532 as at the year end.

Credit Unions and Rural Financial Services Development

The number of credit unions registered at end of 2000 was 165. The provincial distribution of credit unions as at end of year was as follows: Honiara 42, Malaita 41, Isabel 25, Guadalcanal 18, Western 15, Makira 11, Temotu 7, Choiseul 4 and Central 2. As at end of 2000, total membership fell to 16,290 from 18,258 in 1999. Judging from the lack of reporting received by the Registrar's office, it would be assumed that a large portion of rural-based credit unions might be inactive.

Credit union - especially urban-based credit unions - activities continued during the year. The reported combined total assets of the credit unions at end of 2000 were $27.0 million, an increase from $22.5 million in 1999. Urban credit unions accounted for $24 million of total assets, while the remaining came from the rural-based credit unions. The total urban credit unions loans stood at $18 million, which equalled the value of membership shares.

Of the total resources available to credit unions, $20 million was on-lent to members, an increase from $17 million in 1999. The financing of these resources came from shares that stood at $23 million, an increase from $19 million in 1999. The loans- to- shares ratio was 87 percent.

Due to financial difficulties, the Solomon Islands Credit Union League (SICUL) was unable to continue its outreach and visitation program to the rural-based credit unions. This is one of the contributing factors to the slow growth of credit unions in Solomon Islands. In order for the League to revive this undertaking again, it is essential that member credit unions remain committed to paying up their dues to the League. But the Board of SICUL needs to take a more proactive role in the decision-making process especially in terms of ensuring the League gets its financial situation under control, and its management staff are on top of their duties. It appears that since the winding down of the project phase about two years ago, SICUL is still trying to find its feet.

Faced with financial constraints which were compounded by the impact of the social unrest, SICUL put all, but two of its staff, on unpaid leave as of July 2000. SICUL's financial accounts, which had not been audited for the last 3 years, are now being audited and should be ready for presentation at its Annual General Meeting in May 2001.

In an effort to get all the large urban credit unions to be more accountable to their members, officers of the Central Bank, under instructions by the Registrar's Office, provided technical assistance to several credit unions to update and prepare their records and accounts for auditing.

SICUL received technical assistance from AusAid for a review of the existing Credit Union Legislation and Standard Byelaws. Progress towards completion of this project, however, came to a halt due to the social unrest. It is hoped that the project would resume soon, as the legislative review is important for strengthening the credit union movement in Solomon Islands.

A joint-study by the ESCAP office based in Vanuatu and the Bank was to have been conducted in August, but did not eventuate because of the social problems in Solomon Islands. The study was to have made an assessment of the existence of micro finance schemes in the rural areas of Solomon Islands. The results of the study would provide a base model for establishment of micro finance schemes in the rural areas of Solomon Islands.

During the year, the Bank produced forty (40) weekly Money Matters programs over the national radio, Solomon Islands Broadcasting Corporation. The subjects of the radio programs included the use of financial services, information on formation and management of credit unions, managing personal businesses and finance.

Insurance Supervision Unit

During the year, the Ministry of Finance and the Central Bank continued discussions on the government's intention to relocate the Office of the Controller of Insurance and its upkeep from the Ministry of Finance to the Bank. The suggestion is for the Insurance Office to become a unit in the Financial Institutions Department of the Bank. As a result of the discussions, the Controller of Insurance Office moved into the Central Bank but still continued to be administered under the Ministry of Finance. This matter will be finalized in due course.

Economic Research

The Bank's Economics Department is responsible for collecting, compiling and publishing economic information on a regular basis. These information and data are obtained from various domestic and external sources. Such information and data are used to analyse the state of the economy and form the basis of the Bank's advice to government and other financial institutions. Furthermore, these are used in monetary policy formulation in consultation with the Bank's internal Monetary Policy Committee (MPC). Information on the economy is published for public dissemination in the Bank's monthly, quarterly and annual reports.

During 2000, the Bank maintained active participation in the government policy related issues. It participated in Monthly Monetary Monitoring Meetings (4M's) that provides an avenue for the review of recent economic developments, as well as on other forums on economic and financial matters. Such forums allow the Bank to participate and contribute towards the government's reform process and overall policy development in the country.

Audit

Upon their appointment in 1998, Price Waterhouse Coopers were the Bank's external auditors in 2000. Since 1999 CBSI has engaged outside auditing firms to undertake the functions of the Internal Auditor to the Bank as part of its internal reorganization. In 2000 Sojnocki Chartered Accountants was engaged for a term of two years to provide this function.

Based on their terms of appointment, an internal audit report is produced every quarter on their regular checks on the procedures and accounting systems of the Bank. Management is required to respond, explain and attend to these queries and to rectify any matters needing correcting immediately.

Administration, Personnel and Training

Two management positions were vacant during the year following the resignation of the incumbent managers. One position had already been filled whilst the other would be filled in 2001. During the year, two assistant managers' terms and conditions of employment were changed to fixed term contracts. These changes were part of the internal reorganization process which began in 1999. The manager position in the Economics Department is filled on an acting basis.

During the year, CBSI sponsored three staff on full-time studies in Fiji and Australia. One officer completed training towards a Diploma in Business administration at the end of the year while the others are in their final year on Masters Degree programs in Australia. One of the assistant managers is doing a Masters Degree program in the United Kingdom under the British Council scholarship program. Three staff members attended full time studies at the Solomon Islands College of Higher Education (SICHE). Two should have completed their programs at the end of the year but were unable to do so due to disruptions to classes caused by the ethnic unrest. Eight staff members attended part-time studies at SICHE and USP Centre in 2000, and would continue in 2001. Eight (8) overseas short courses, seminars and conferences were attended by staff, managers, and Governors during 2000.

At the height of the social unrest, more than 10% of the total number of staff have had to leave Honiara for personal security reasons and were absent for most of the year. While most of them have resumed duties, a few have already left the Bank. By the end of year 2000 73 staff were employed by the Bank comprising 44 males and 29 females.

Properties

In 2000, much of the activities on properties concentrated on the immediate need to upgrade the physical security and systems in and around the Bank headquarters. The usual repairs and maintenance program on Bank properties was disrupted by the social unrest. The Bank's recreation site at Aruligo, west of Honiara is yet to be properly assessed for damage after some initial repairs were done early in the year: it has not been visited for more than twelve months.

During the height of the unrest, the Bank engaged caretakers to look after staff houses vacated at the Mbokona Staff housing estate. Some houses were vandalized and urgent repairs have been carried out, but thorough repairs and maintenance will be included in work schedules during 2001.

Upgrade of Security System

Given the prevailing security situation in Honiara, the physical security systems in and around the Bank headquarters have taken top priority. Following the report and recommendations by Norman Disney & Young (NDY) of Australia, the CBSI Security Consultants, a tender notice was in Australia and New Zealand for the installation of an upgraded electronic security system for the Bank. Chubb New Zealand was awarded the contract and installation was underway. This was, however, halted due to the social unrest, but would resume in 2001. Some of the physical work namely, erection of appropriate physical barriers to seal off the banking chambers from the lobby, construction of a security room, relocation of the UPS room and the installation of a roller gate were started during the year, but again the unrest halted the progress.

Board Activities

Six Board meetings were held in 2000. Due to the social unrest, no Board meetings were held in the provinces. There were no changes in Board membership during the year.

Relations with International Organisations

Solomon Islands, in 2000, maintained a cordial relationship with multilateral development agencies, in particular its development partners namely, Asian Development Bank (AsDB), the European Union (EU), International Monetary Fund (IMF) and the World Bank (WB). The relationship with these agencies is important as it provides useful and meaningful avenue for exchange of ideas on economic and financial matters. Besides, these agencies provide much needed financial resources and technical assistance for Solomon Islands development aspirations.

Following the events in June, discussions with these agencies intensified, mainly on the need to address the macroeconomic framework issues. Disbursement of the program loans which began in 1999 with AsDB and WB, were put on hold with the view to negotiating new arrangements appropriate to the country's prevailing circumstances. The AsDB Post Conflict Rehabilitation Loan of USD$10 million was approved in December while negotiations were ongoing with the World Bank for another loan of USD$5 million. Discussions with the EU on a substantial amount of Stabex transfers will be pursued in 2001. All of these agencies visited Solomon Islands during the year with follow-up visits early in 2001. In November, the IMF made an interim Article IV mission which has since reported to its board. It is obvious that these multilateral institutions fully recognize the prevailing situation and pressing needs of the country, hence they are ready to assist as soon as the government can determine where and how such assistance should be prioritized.

Dialogue with these organizations should be maintained. The Governor of the Bank was part of the Solomon Islands delegation which attended the annual meetings of the AsDB and the IMF/WB during the year.

PRICEWATERHOUSECOOPERS

CENTRAL BANK OF SOLOMON ISLANDS

AUDITORS' REPORT TO THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31ST DECEMBER 2000

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Solomon Islands
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PO Box 70
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Scope

We have audited the financial statements of Central Bank of Solomon Islands for the financial year ended 31st December 2000 as set out on accompanying pages. The Bank's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the Board of Directors.

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

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

Audit Opinion

In our opinion the financial statements of Central Bank of Solomon Islands are properly drawn up:

(i) so as to give a true and fair view of the Bank's state of affairs as at 31st December 2000 and of its surplus for the financial year ended on that date;

(ii) in accordance with the provisions of the Public Finance and Audit Act 1978; and

(iii) in accordance with the accounting standards and the disclosure requirements of the laws of Solomon Islands.

Emphasis

Without qualification to the opinion expressed above attention is drawn to the following matters. As discussed in note 10 to the financial statements about thirty-two percent of the Bank's total assets are in the form of advances to the Solomon Island's Government. The quality of this asset has been affected by difficulties faced by the government since 1995 in meeting its debt servicing obligations. No provision has been made for any loss that may occur if the Government is unable to meet the redemption of the advances. Attention is also drawn to note 18 to the financial statements. The operations of the Bank and those of other organisations 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 organistations operating in the Solomon Islands.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
Chartered Accountants

B PRINCE
PARTNER

Date: 18 May, 2001
Honiara

CENTRAL BANK OF SOLOMON ISLANDS - BALANCE SHEET
AS AT 31ST DECEMBER, 2000

	Notes	2000 ($'000)	1999 ($'000)
ASSETS			
DOMESTIC			
GOVERNMENT			
Loans and Advances	10	80,612	44,727
Development Bonds		27	27
Other Securities		11,074	11,074
		91,713	**55,828**
SECURITIES AND INVESTMENT (less provision for diminution)	15	3,360	4,198
FIXED ASSETS			
Premises & Equipment (less provision for depreciation)	9	7,391	7,211
OTHER DOMESTIC ASSETS	11	11,425	8,688
EXTERNAL			
Holding of Special Drawing Rights		13	52
Money at Call		39,123	103,618
Term Deposits	12	120,673	152,249
Other	13	8,836	1,092
		168,645	**257,011**
TOTAL ASSETS		**282,534**	**332,936**
LIABILITIES			
DOMESTIC			
CURRENCY ON ISSUE			
Notes		88,127	99,532
Coins		5,425	5,078
		93,552	**104,610**
FIXED DEPOSITS			
Solomon Islands Government	14	14,252	19,117
DEMAND DEPOSITS			
Banks		60,863	48,728
Solomon Islands Govenment		0	21,862
Financial Corporations		470	681
Other		192	1,201
		61,525	**72,472**
PROVISION FOR TRANSFER TO CONSOLIDATED FUND	6	500	1,253
OTHER DOMESTIC LIABILITIES	7	5,968	4,044
CBSI SECURITIES - Bokolo Bills	8	0	8,440
EXTERNAL			
Allocations of Special Drawing Rights by International Monetary Fund		4,340	4,563
Capital Subscriptions	4	6,435	6,435
Other External Liabilities	5	1,245	4,077
		12,021	**15,075**
TOTAL LIABILITIES		**187,817**	**225,011**
NET ASSETS		**94,717**	**107,925**
EQUITY			
CAPITAL AND RESERVES			
Paid up Capital	2	2,597	2,597
General Reserve	3(a)	6,000	6,000
Revaluation Reserve	3(b)	84,943	96,344
Other Reserves	3(c)	1,177	2,984
TOTAL EQUITY		**94,717**	**107,925**

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

Date: 18 May 2001 Signed: R. L. [signature] (Governor) Signed [signature] (Manager, Corporate Services Dept)

CENTRAL BANK OF SOLOMON ISLANDS

INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2000

	Notes	2000 ($'000)	1999 ($'000)
Interest income:			
Interest received on external investment		12,782	12,039
Interest received on domestic lending		134	1,955
Total Interest Income		**12,916**	**13,994**
Interest expenses:			
Interest expense on external liabilites		197	151
Interest expense on domestic liabilities		2,036	4,004
Total Interest Expense		**2,233**	**4,155**
Net Interest Income		**10,683**	**9,839**
Other income:			
Royalties		153	106
Fees and commissions		2,005	1,656
Other income		237	2,653
Total Other Income		**2,395**	**4,415**
Total Income		**13,078**	**14,254**
Non-Interest Expenses			
Salaries and staff benefits		5,260	5,736
Administrative expenses		4,482	3,201
Board expenses		52	113
Currency expenses		1,391	1,006
Investment and commission		107	102
Depreciation		1,217	1,284
Subventions		354	199
Losses on Investment		52	87
Small Business Finance Scheme losses		269	14
Other expenses		1,200	1,762
Total Non-Interest Expenses		**14,384**	**13,504**
Operating profit/(Loss)		**(1,306)**	**750**
Transfer from other Reserves			
Other Reserves	3(c)	576	1,362
Capital Reserves	3(c)	1,500	-
Total transfer from other Reserves		**2,076**	**1,362**
Net Profit		**770**	**2,112**
Transfers to other Reserves			
Other Reserves	3(c)	270	859
Total transfer to other Reserve		**270**	**859**
Transfer to SIG consolidated fund		**500**	**1,253**

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

CENTRAL BANK OF SOLOMON ISLANDS
STATEMENT OF CASH FLOWS FOR YEAR ENDED 31ST DECEMBER, 2000

	Notes	2000 ($000's)	1999 ($000's)
Cash flows from operating activities			
Interest received		12,916	13,280
Cash received from other income		2,395	3,052
Interest paid		(4,309)	(4,154)
Cash payments in the course of operations		(11,258)	(8,366)
Net cash from operating activities before movement in operating assets and liabilities		**(256)**	**3,812**
Cash received on placement of deposits		(15,812)	(21,428)
Cash received from sale of CBSI Securities		0	0
Cash received/(paid) on IMF allocation of SDR		(224)	100
(Increase)/decrease in government finance provided		(35,884)	25,791
Net cash provided by operating activities		**(52,176)**	**8,275**
Cash flows from investment activities			
Payments for Premises, Plant & Equipment		(1,205)	(1,515)
Proceeds from sale of Premises, Plant & Equipment		0	105
Decrease in government investments		0	0
(Increase)/decrease in foreign investments		76,631	(14,883)
Net cash used in investment activities		**75,426**	**(16,293)**
Cash flows from financing activities			
Net movement in issue of circulating currency		(11,058)	19,539
Net movement in foreign currency loan		(2,498)	5,762
Redemption of Bokolo Bills		(8,440)	(17,040)
Payments to Consolidated Fund		(1,253)	(231)
Net cash from financing activities		**(23,249)**	**(8,030)**
Net increase (decrease) in cash held		**1**	**12**
Cash at the beginning of the financial year		**68**	**56**
Cash at the end of financial year	16	**69**	**68**

Notes numbered 1 to 18 form part of these financial statements

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2000

1. STATEMENT OF ACCOUNTING METHODS

The financial statements of the Bank has been drawn up in accordance with the accounting standards and the disclosure requirement of the laws of Solomon Islands, in particular the Central Bank of Solomon Islands Act, CAP 49. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated current valuations of non-current assets. Except where stated, the accounting policies have been consistently applied.

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

(a) **Depreciation**

Depreciation is provided on all fixed assets so as to write-off the assets progressively over their estimated economic life. Fixed assets are first depreciated in the year of acquisition. The straight-line method of depreciation has been used. The estimated useful lives of non-current assets are: premises –30 years, furniture and equipment 3 – 5 years, motor vehicle – 4 years.

(b) **Foreign Currencies**

Transactions involving foreign currencies have been recorded in Solomon Islands dollars using the rates of exchange prevailing on the date of transaction.

Assets and liabilities in the foreign currencies have been translated into Solomon Islands dollars at the rate of exchange prevailing at the year-end.

(c) **Valuation of Overseas Assets and Liabilities**

The gains or losses arising from appreciation or depreciation of the Bank's overseas assets and liabilities due to movements in exchange rates have been accounted for in accordance with section 45 (1) of the Central Bank of Solomon Islands Act, CAP 49 and are not included in the determination of net profit. (See also notes 3 and 5).

(d) **Revenues and Expenditures**

Revenue and expenditures have been accounted for on accrual basis, except where assets are regarded by the Board of Directors as impaired. In such cases revenue is recognised only upon the receipt of income.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2000

	2000	1999
2 CAPITAL		
	($'000)	**($'000)**
Authorised Capital	3,000	3,000
3,000,000 ordinary shares @ $1 per share		
Paid up capital		
2,597,000 ordinary shares @ $1 per share fully paid	2,597	2,597
3 RESERVES		
(a) General Reserves		
Balance 1.1.00	6,000	6,000
Transfer of net operating profit/(loss) for year in terms of section 20 (1) of Central Bank of Solomon Islands Act, [CAP 49]	0	0
Balance 31.12.00	**6,000**	**6,000**
(b) Revaluation Reserves		
Balance 1.1.00	96,344	89,834
Transfer of portion of Gains/(losses) for year in terms of section 45(1) of Central Bank of Solomon Islands Act, [CAP 49]	(11,401)	6,510
Balance 31.12.00	**84,943**	**96,344**
(c) Other Reserves		
Small Business Finance Scheme		
Balance 1.1.00	1,062	398
Payment on CBSI Schemes during the year	(269)	(14)
Transfer from Profit and Loss Appropriation in terms of Sections 20(2) CBSI Act, [CAP 49]	56	678
Balance 31.12.00	**849**	**1,062**
Retirement Scheme		
Balance 1.1.00	241	1,589
Payment on CBSI Schemes during the year	(307)	(1,348)
Transfer from Profit and Loss Appropriation in terms of Sections 20(2) CBSI Act, (CAP 49)	170	0
Balance 31.12.00	**104**	**241**

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2000

3(c) Other Reserve cont'd

	2000	1999
	($'000)	**($'000)**
Capital Assets Reserve		
Balance 1.1.00	1,500	1,500
Transfer to Profit and Loss Account	(1,500)	0
Transfer from Profit and Loss Appropriation in terms of Section 20(2) CBSI Act, [CAP 49]	0	0
Balance 31.12.00	**0**	**1,500**
Gratuity Reserve		
Balance 1.1.00	181	0
Payment During Year	0	0
Transfer from Profit and Loss Appropriation in terms of Section 20(2) CBSI Act, [CAP 49]	43	181
Balance 31.12.00	**224**	**181**
Total - Other Reserves	**1,177**	**2,984**
Total Reserves	**92,120**	**105,328**

4 CAPITAL SUBSCRIPTION

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

5 OTHER EXTERNAL LIABILITIES

	2000	1999
Demand deposit of international organisations such as Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association (IDA)	1,210	4,035
Interest payable - accrued but not due (Interest payable on SDR allocations and other external liabilities)	35	42
Total other external liabilities	**1,245**	**4,077**

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2000

		2000 ($'000)	1999 ($'000)
6	**PROVISION FOR TRANSFER TO SIG CONSOLIDATED FUND**		
	Balance 1.1.00	1,253	231
	Payment during the year	(1,253)	(231)
	Transfer of portion of net profit in terms of section 20 (2) of Central bank of Solomon Islands Act, (CAP 49)	500	1,253
	Balance 31.12.00	**500**	**1,253**
7	**OTHER DOMESTIC LIABILITIES**		
	Other (sundry creditors, bank cheques, etc.)	5,968	4,044
8	**CBSI SECURITIES -** Bokolo Bills	0	8,440
9	**FIXED ASSET**		
	Fixed Assets less accumulated depreciation		
	Premises - at cost	8,520	8,005
	Accumulated depreciation	2,729	2,685
	Written down value	**5,791**	**5,320**
	Furniture and equipment - at cost	1,624	1,638
	Accumulated depreciation	1,378	1,200
	Written down value	**246**	**438**
	Computer - at cost	1,895	1,516
	Accumulated depreciation	944	485
	Written down value	**951**	**1,031**
	Motor Vehicle - at cost	733	694
	Accumulated depreciation	330	272
	Written down value	**403**	**422**

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2000

	2000	1999
9 Fixed Asset cont'd	**($'000)**	**($'000)**
Total Fixed Asset - at cost	12,772	11,853
accumulated depreciation	5,381	4,642
Written down value	**7,391**	**7,211**

2000	**TOTAL ($'000)**	**PREMISES ($'000)**	**FURNITURE EQUIPMENT ($'000)**	**COMPUTER ($'000)**	**MOTOR VEHICLE ($'000)**
Written down Value at 1st January 2000	7,211	5,320	438	1,031	422
Additions during the year	1,463	736	160	435	132
Disposal during the year at written down value	260	0	113	55	92
Depreciations for the year	1,023	265	239	460	59
Written Down Value at 31st December 2000	**7,391**	**5,791**	**246**	**951**	**403**

1999	**TOTAL ($'000)**	**PREMISES ($'000)**	**FURNITURE EQUIPMENT ($'000)**	**COMPUTER ($'000)**	**MOTOR VEHICLE ($'000)**
Written down Value at 1st January 1999	7,994	6,317	759	662	256
Additions during the year	1,515	176	209	825	305
Disposal during the year at written down value	1,015	741	186	88	0
Depreciations for the year	1,283	432	344	368	139
Written Down Value at 31st December 1999	**7,211**	**5,320**	**438**	**1,031**	**422**

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2000

10 CONCENTRATION OF CREDIT RISK

Loans and Advances to the government accounted for about thirty- two percent (32%) of the Banks total assets in comparision with seventeen percent (17%) in 1999. The quality of this asset has been affected by difficulties faced by the Government since 1995 in meeting its debt servicing obligations.

The current level of borrowings by the government is in breach of the limits set for such borrowings in the Central Bank of Solomon Islands Act, [CAP 49].

No provision has been made for impairment in the value of these advances at the balance date. Inline with note 1(d) to the accounts, the Bank has not accrued interest on these advances.

11 OTHER DOMESTIC ASSETS

	2000 ($000's)	1999 ($000's)
Accrued Interest	1	1
Staff loans	4,473	3,964
Other (SI cash, current assets etc.)	6,951	4,723
	11,425	**8,688**

12 MATURITY OF FINANCIAL ASSETS

All 2000 Term deposits mature within two months

13 OTHER EXTERNAL ASSETS

Accrued Interest - interest receivable but not due	1,222	1,092
Bills for collections	7,614	0
	8,836	**1,092**

14 SOLOMON ISLANDS GOVERNMENT (SIG) DEPOSITS

Represents funds received by Solomon Islands Government (SIG) under the Stabex scheme of the European Community, Asian Development Bank, Republic of China and Papua New Guinea Government. The corresponding foreign exchange funds form part of the external reserves. Interest is earned by the Bank on the external reserves, and interest is paid to SIG on the local currency deposit. SIG draws on these deposits as and when it is ready to use the fund in the manner approved by Stabex authorities.

15 SECURITY INVESTMENT

These Investments made by the Bank, at the request of SIG, in the share capital of Investment Corporation of Solomon Island (ICSI) and Development Bank of Solomon Islands (DBSI) are carried at the lower of cost and recoverable amount, being at the Directors valuation based on historical cost, less provision for diminution of the value to reflect the net asset value and trend in operating results indicated by the financial statement of each institution: - ICSI - 1997 qualified accounts and DBSI - 1999 final accounts.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2000

	2000 ($'000)	1999 ($'000)
Investment Corporation of Solomon Islands (ICSI)		
Investment at cost	10,000	10,000
Accumulated Provision for diminution	6,640	6,640
Net Equity Investment	**3,360**	**3,360**
Developement Bank of Solomon Islands (DBSI)		
Original investment at cost	2,150	2,150
Accumulated Provision for diminution	2,150	1,312
Net Equity Investment	**0**	**838**
TOTAL NET EQUITY	**3,360**	**4,198**

16. CASH AND CASH EQUIVALENT

Cash and cash equivalents in the statement of cash flows comprise the following amounts, included in the Balance Sheet caption "Other Domestic Assets'

Cash on Hand	69	68

17. DIRECTORS REMUNERATION

Remuneration includes income from monthly and sitting allowances as approved by the Minister of Finance.

Directors' fees and allowances	42	59

18. GOING CONCERN

During the year ended 31 December 2000 the economy of Solomon Islands was affected by social unrest on the island of Guadalcanal and the economy has entered a period of economic uncertainty. The impact includes, but is not limited to: a steep decline in exports and business activity, a decline in the country's foreign reserves and a restriction on foreign exchange payments, a decline in law and order causing increased risk of loss or damage to property, compounded by various new insurance policy exclusion clauses.

The operations of the Bank and those of other organisation in the Solomon Islands have been significantly affected by these factors during the year ended 31 December 2000 and will continue to be affected for the foreseeable future. Despite the economic conditions described above Board believes that the Bank will be able to continue as a going concern for the foreseeable future. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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

CENTRAL BANK OF SOLOMON ISLANDS

2000 CALENDER OF EVENTS

January

- Mr. S. Mamaloni, Leader of Opposition, passes away.
  World Bank (WB) Mission visits Solomon Islands (SI).

February

- Governor attends Forum Economic Ministers Meeting (FEMM) meeting in Sydney.

March

- International Monetary Fund (IMF) Mission visits SI.

April

- Mr. David Prees, WB TA on Banking Supervision completes his three months assignment with Bank.

May

- Governor attends Asian Development Bank (ADB) meeting in Manila.
  Launching of 1999 Annual Report.

June

- Governor attends Commonwealth Governors Symposium in London.
  CBSI introduces Exchange Control Measures.
  Change of Government in Solomon Islands. Mr. Manasseh Sogavare becomes new PM.

August

- Deputy Governor (D/Gov) atends Aid Donor's Meeting in Sydney.
  Manager Corporate Services Department (M/CSD) attends SEANZA course in Colombo.
  Accountant attends ANU course in Canberra.

September

- Governor attends WB and IMF Annual Meetings in Prague.
  M/CSD attends Asian Development Bank Institute (ADBI) course in Brisbane.

October

- Townsville Peace Agreement (TPA) signed.
  D/Gov attends UN sponsored Expert Group Meeting on SI Post-Conflict situation in Brisbane.
  Manager, Foreign Exchange Department (M/FRX) attend ADBI course in Singapore.

November

- Development Partners Mission led by WB visits SI.
  CBSI introduces internal clearing of foreign currency transactions.

December

- New manager appointed for Currency & Banking Operations Department (CBO).
  D/Gov and Manager CBO attend South Pacific Governor's Conference in Sydney.

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TABLE 1.1 MONETARY SURVEY

(SI$'000)

Period Average 1	NET FOREIGN ASSETS: Monetary Authority	NET FOREIGN ASSETS: Banks	NET FOREIGN ASSETS: Total	DOMESTIC CREDIT: Govern-ment(net)	DOMESTIC CREDIT: Private Sector	DOMESTIC CREDIT: Total	NARROW MONEY (M1): Currency in Circulation	NARROW MONEY (M1): Demand Deposit Banks	NARROW MONEY (M1): Demand Deposit CBSI	NARROW MONEY (M1): Total	QUASI-MONEY: Savings Deposits	QUASI-MONEY: Time Deposits	BROAD MONEY (M3)	OTHER ITEMS (NET)
1989	51003	-1891	49112	22634	98879	121513	22685	27362	309	50356	25017	51416	126789	43836
1990	37788	-6839	30949	60524	95767	156291	25289	38582	2220	66091	29001	46316	141408	45832
1991	14921	-1038	13883	119692	87772	207464	27802	50528	339	78669	36212	57731	172612	48735
1992	58905	1654	60559	131043	80913	211956	34763	71950	135	106848	41041	69660	217549	54966
1993	49233	1732	50965	170555	88276	258831	42152	80838	1019	124009	49705	75486	249200	60596
1994	46745	-4175	42570	214837	107971	322808	50280	109325	830	160435	60633	88286	309354	56024
1995	43991	-1816	42175	226937	123176	350113	54961	113556	1097	169614	64318	106135	340067	52221
1996	107728	-1352	106376	226024	130901	356925	59722	136773	1712	198207	64260	131001	393468	69834
1997	143846	7044	150890	226910	142021	368931	70840	139250	1278	211368	77104	129827	418299	101522
1998	225037	18	225055	177999	177768	355767	81340	135727	3507	220574	74790	143157	438521	142301
1999	240844	2570	243414	178267	194317	372584	100114	162764	1882	264760	75792	117778	458330	157668
2000	147720	-3531	144189	258170	198806	456976	88272	159351	662	248285	82240	129485	460010	141155
1998														
Mar	138965	-121	138844	231524	160240	391764	62893	131170	1239	195302	75048	127435	397785	132823
Jun	144344	4794	149138	217028	171259	388287	71748	126032	678	198458	75001	123043	396502	140923
Sep	165959	10329	176288	214304	172104	386408	70640	145581	700	216921	73634	127972	418527	144169
Dec	225037	18	225055	177999	177768	355767	81340	135727	3507	220574	74790	143157	438521	142301
1999														
Mar	228884	-74	228810	187819	177434	365253	75904	144702	4664	225270	77266	155770	458306	135757
Jun	245725	-2142	243583	199126	179288	378414	80890	175619	924	257433	79625	144052	481110	140887
Sep	271527	-1837	269690	172018	179995	352013	84416	171586	6068	262070	78616	128406	469092	152611
Dec	240844	2570	243414	178267	194317	372584	100114	162764	1882	264760	75792	117778	458330	157668
2000														
Jan	251608	57	251665	167378	192456	359834	90374	168867	1620	260861	72790	121274	454925	156574
Feb	238918	4612	243530	162980	202287	365267	83477	173208	1128	257813	72610	121088	451511	157286
Mar	229149	1680	230829	159910	211371	371281	83976	164100	566	248642	72539	129342	450523	151587
Apr	222569	3625	226194	157371	216368	373739	83609	164747	339	248695	73434	128757	450886	149047
May	208108	2856	210964	164123	225506	389629	81704	160714	290	242708	75994	130668	449370	151223
Jun	186367	3692	190059	174133	224873	399006	79520	158670	298	238488	75909	126559	440956	148109
Jul	191325	699	192024	191844	219859	411703	78314	167204	453	245971	76714	135935	458620	145107
Aug	182462	-931	181531	213534	208667	422201	73955	167634	461	242050	79145	138772	459967	143765
Sep	178188	-1218	176970	209025	212694	421719	77784	161146	465	239395	79800	139108	458303	140386
Oct	159788	-2103	157685	241369	207512	448881	83141	169891	406	253438	79810	140359	473607	132959
Nov	162274	-	162274	246970	198637	445607	82837	162443	416	245696	82041	138310	466047	141834
Dec	147720	-3531	144189	258170	198806	456976	88272	159351	662	248285	82240	129485	460010	141155

(1) End of period beginning January 1989
Source: Central Bank of Solomon Islands

TABLE 1.2 MONEY SUPPLY

(SI$'000)

Period Average 1/	(1) Currency In Active Circulation	(2) Demand Deposits Commercial Banks (adj)	(2) Demand Deposits Central Bank	(3) Money Supply (M1) (1 + 2)	(4) Savings Deposits	(5) Money Supply (M2) (3 + 4)	(6) Time Deposits (adj)	(7) Money Supply (M3) (5 + 6)
1989	22685	27362	309	50356	25017	75373	51416	126789
1990	25289	38582	2220	66091	29001	95092	46316	141408
1991	27802	50528	339	78669	36212	114881	57731	172612
1992	34763	71950	135	106848	41041	147889	69660	217549
1993	42152	80838	1019	124009	49705	173714	75486	249200
1994	50280	109325	830	160435	60633	221068	88286	309354
1995	54961	113556	1097	169614	64318	233932	106135	340067
1996	59721	136773	1713	198207	64260	262467	131001	393468
1997	70840	139250	1278	211368	77104	288472	129827	418299
1998	81340	135727	3502	220574	74790	295364	143157	438521
1999	100114	162764	1882	264760	75792	340552	117778	458330
2000	88272	159351	662	248285	82240	330525	129485	460010
1998								
Mar	62893	131170	1239	195302	75048	270350	127435	397785
Jun	71748	126032	678	198458	75001	273459	123043	396502
Sep	70640	145581	700	216921	73634	290555	127972	418527
Dec	81340	135727	3507	220574	74790	295364	143157	438521
1999								
Mar	75904	144702	4664	225270	77266	302536	155770	458306
Jun	80890	175619	924	257433	79625	337058	144052	481110
Sep	84416	171586	6068	262070	78616	340686	128406	469092
Dec	100114	162764	1882	264760	75792	340552	117778	458330
2000								
Jan	90374	168867	1620	260861	72790	333651	121274	454925
Feb	83477	173208	1128	257813	72610	330423	121088	451511
Mar	83976	164100	566	248642	72539	321181	129342	450523
Apr	83609	164747	339	248695	73434	322129	128757	450886
May	81704	160714	290	242708	75994	318702	130668	449370
Jun	79520	158670	298	238488	75909	314397	126559	440956
July	78314	167204	453	245971	76714	322685	135935	458620
Aug	73955	167634	461	242050	79145	321195	138772	459967
Sep	77784	161146	465	239395	79800	319195	139108	458303
Oct	83141	169891	406	253438	79810	333248	140359	473607
Nov	82837	162443	416	245696	82041	327737	138310	466047
Dec	88272	159351	662	248285	82240	330525	129485	460010

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

TABLE 1.3 ASSETS OF CENTRAL BANK OF SOLOMON ISLANDS

(SI$'000)

Period Average 1/	EXTERNAL ASSETS Money at call	Deposits	Secs	SDR Holdings	Total	SOLOMON ISLANDS GOVERNMENT Advances	O/D Account	T/Bills	Dev Bonds	Other Secs	Total	LOANS & ADVANCES Banks	Non-Bank	OTHER DOMESTIC ASSETS Secs & Invts	Prems & Equip	Other	Total	TOTAL ASSETS	GOVT * FOREIGN ASSETS
1989	12196	48425	-	160	60781	5735	-	12881	91	1333	20040	6760	5000	6650	4306	2067	13023	105604	154
1990	14747	27231	-	963	42941	21808	-	9107	110	1333	32358	63	5000	3803	4123	4615	12541	92903	-39
1991	15098	6450	-	287	21835	55031	-	2016	12	3819	60878	25	5600	4053	3962	4587	12602	100940	45
1992	28994	31888	6202	154	67238	29331	-	267	3	8527	38128	-	6909	2888	3718	3954	10560	122835	856
1993	30562	24538	6496	130	61716	43087	-	43	4	8527	51661	-	1336	2888	4105	3904	10897	125620	926
1994	20008	35115	-	41	55164	62408	-	-	25	8527	70960	-	-	4198	4885	3161	12244	138368	419
1995	26878	25605	-	19	52502	76108	-	-	3	8527	84638	-	-	4198	5689	3558	13445	150585	109
1996	67134	49397	-	35	116566	71217	-	-	25	7282	78524	-	-	4198	8238	7743	19179	214269	197
1997	34189	116184	-	17	150390	75139	-	-	25	6410	81574	-	-	4198	9121	8552	21871	254650	57
1998	128488	104914	-	2	233404	75183	-	-	27	6410	81620	-	-	4198	9118	9000	22316	337340	0
1999	103618	152248	-	52	255919	44727	-	-	27	11075	55829	-	-184	4198	7110	9778	21086	332834	22
2000	39098	120673	-	13	159784	43404	-	-	27	11075	54506	-	-	4198	8735	20316	33249	247539	8
1998																			
Mar	55587	90964	-	45	146596	75879	-	-	25	6410	82314	-	-	4198	7992	7972	20162	249072	61
Jun	60950	93029	-	10	154038	75058	-	-	27	6410	81495	-	-	4198	8317	9291	21806	257339	61
Sep	73556	101980	-	23	175559	75183	-	-	27	6410	81620	-	-	4198	8792	11395	24385	281564	64
Dec	128488	104914	-	2	233404	75183	-	-	27	6410	81620	-	-	4198	9118	9000	22316	337340	0
1999																			
Mar	102325	139145	-	11	241481	75183	-	-	27	11075	86285	-	-	4198	8730	9915	22843	350609	140
Jun	114754	138416	4903	47	258120	49014	-	-	27	11075	60116	-	-	4198	9074	8992	20264	340500	36
Sep	136738	148676	-	21	285435	20766	-	-	27	11075	31868	-	-	4198	9175	11673	25046	342349	34
Dec	103618	152249	-	52	255919	44727	-	-	27	11075	55829	-	-	4198	7110	9778	21086	332834	22
2000																			
Jan	110134	154095	-	3	264232	45686	-	-	27	11075	56788	-	-184	4198	7340	11462	23000	343836	22
Feb	100290	152816	-	13	253119	45686	-	-	27	11075	56788	-	-184	4198	7414	10145	21757	331480	9
Mar	83517	159165	-	18	242700	45686	-	-	27	11075	56788	-	-	4198	7529	9295	21022	320510	9
Apr	77348	158354	-	18	235720	45686	-	-	27	11075	56788	-	-	4198	7641	11467	23306	315814	9
May	44167	150210	25921	49	220347	37281	-	-	27	11075	48383	-	-	4198	7878	11416	23492	292222	9
Jun	28596	144530	25934	50	199110	35874	-	-	27	11075	46976	-	-	4198	7914	9488	21600	267686	8
Jul	60471	143832	-	51	204354	59195	-	-	27	11075	70297	-	-	4198	7971	11018	23187	297838	8
Aug	57867	137608	-	12	195487	67216	-	-	27	11075	78318	-	-	4198	8246	22582	35026	308831	8
Sep	53917	137657	-	13	191587	49701	-	-	27	11075	60803	-	-	4198	8254	10399	22851	275241	8
Oct	47823	124567	-	13	172403	36164	-	-	27	11075	47266	-	-	4198	8503	19623	32324	251993	8
Nov	41442	125009	7589	13	174053	38664	-	-	27	11075	49766	-	-	4198	8467	10142	22807	246626	8
Dec	39098	120673	-	13	159784	43404	-	-	27	11075	54506	-	-	4198	8735	20316	33249	247539	8

* Included as memorandum item only; not part of CBSI assets.
1/ End of period beginning January 1989.
Source: Central Bank of Solomon Islands.

TABLE 1.3 LIABILITIES OF CENTRAL BANK OF SOLOMON ISLANDS

(SI$'000)

Period 1/ Average	EXT. LIABILITIES S.D.R. Alloca.	EXT. LIABILITIES Other	EXT. LIABILITIES Total	CURRENCY IN CIRCULATION Notes	CURRENCY IN CIRCULATION Coins	CURRENCY IN CIRCULATION Total	DEPOSITS Government Euro-Loan	DEPOSITS Government Other	DEPOSITS Government Total	DEPOSITS Banks	DEPOSITS Other	DEPOSITS Total	CAPITAL FUNDS Paid-up Capital	CAPITAL FUNDS Reval'n Res	CAPITAL FUNDS Other Res	CAPITAL FUNDS Total	SEC Bokolo Bills	OTHER DOM LIABS	TOTAL LIABI-LITIES
1989	2078	7700	9778	22521	2209	24730	-	22942	22942	2314	309	25565	2597	32478	6708	41783	399	3349	105604
1990	2414	2739	5153	26026	2405	28431	-	8630	8630	2642	2220	13492	2597	35784	6562	44943	-	884	92903
1991	2614	4300	6914	29104	2584	31688	-	1672	1672	10559	339	12570	2597	35818	6503	44918	-	4850	100940
1992	2792	5541	8333	35003	2813	37816	-	5710	5710	3130	135	8975	2597	38037	6368	47002	17439	3270	122835
1993	2924	9569	12493	41565	3152	44717	-	5039	5039	2295	1019	8353	2597	40438	6355	49390	9866	801	125620
1994	3149	5270	8419	51388	3405	54793	-	10673	10673	6731	830	18234	2597	46194	5450	54241	1531	1150	138368
1995	3390	5121	8511	54973	3795	58768	-	4179	4179	16889	1097	22165	2597	47174	6251	56002	-	5119	150585
1996	3401	5437	8838	58539	4081	62620	-	3661	3661	37366	1712	42739	2597	50898	6850	60345	35000	4727	214269
1997	4195	2349	6544	68994	4430	73424	-	6492	6492	19094	1278	26864	2597	50898	6850	60345	47600	39873	254650
1998	4464	3903	8367	80307	4764	85071	-	59728	59728	49943	3507	113178	2597	85268	8198	96063	25480	9181	337340
1999	4563	10512	15095	98652	5078	103730	-	40979	40979	48728	1882	91589	2597	96344	8125	107066	8440	6934	332834
2000	4340	7724	12064	88127	5425	93552	-	-25480	-25480	60863	662	36045	2597	96344	2984	107925	-	-2047	247539
1998																			
Mar	4195	3436	7631	60774	4470	65244	-	8931	8931	27988	1239	38158	2597	85268	8199	96064	30500	11475	249072
Jun	4179	5515	9694	69323	4593	73916	-	25037	25037	14037	678	39752	2597	85268	8199	96064	35610	2303	257339
Sep	4407	5193	9600	69468	4684	74152	-	28201	28201	27395	700	56296	2597	85268	8198	96063	35070	10383	281564
Dec	4464	3903	8367	80307	4764	85071	-	59728	59728	49943	3507	113178	2597	85268	8198	96063	25480	9181	337340
1999																			
Mar	4252	8345	12597	74929	4786	79715	-	48459	48459	55746	4664	108869	2597	89834	9488	101919	52160	-4651	350609
Jun	4238	8157	12395	80175	4866	85041	-	58540	58540	66989	924	126453	2597	89834	9488	101919	18550	-3858	340500
Sep	4573	9335	13908	83132	4910	88042	-	55292	55292	53263	6068	114623	2597	89834	9488	101919	8800	15057	342349
Dec	4563	10512	15075	98652	5078	103730	-	40979	40979	48728	1882	91589	2597	96344	8125	107066	8440	6934	332834
2000																			
Jan	4532	8092	12624	90577	5130	95707	-	73319	73319	37198	1620	112137	2597	96344	8125	107066	8425	7877	343836
Feb	4473	9728	14201	81950	5178	87128	-	72113	72113	37068	1128	110309	2597	96344	8125	107066	8100	4676	331480
Mar	4473	9078	13551	82786	5178	87964	-	78524	78524	32701	566	111791	2597	96344	8125	107066	-	138	320510
Apr	4437	8714	13151	82332	5183	87515	-	82796	82796	26644	339	109779	2597	96344	8984	107925	-	-2556	315814
May	4413	7826	12239	80137	5204	85341	-	53092	53092	37034	290	90416	2597	96344	8984	107925	-	-3699	292222
Jun	4455	8288	12743	78273	5200	83473	-	36620	36620	31190	298	68108	2597	96344	8984	107925	-	-4563	267686
Jul	4389	8640	13029	76769	5195	81964	-	37007	37007	64640	453	102100	2597	96344	8984	107925	-	-7180	297838
Aug	4342	8683	13025	72279	5194	77473	-	35791	35791	72267	461	108519	2597	96344	8984	107925	-	1889	308831
Sep	4334	9065	13399	75868	5204	81072	-	33077	33077	48486	465	82028	2597	96344	8984	107925	-	-9183	275241
Oct	4308	8307	12615	81167	5241	86408	-	-4211	-4211	59367	406	55562	2597	96344	8984	107925	-	-10517	251993
Nov	4258	7521	11779	82157	5338	87495	-	2591	2591	49018	416	52025	2597	96344	8984	107925	-	-12598	246626
Dec	4340	7724	12064	88127	5425	93552	-	-25480	-25480	60863	662	36045	2597	96344	8984	107925	-	-2047	247539

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

TABLE 1.4 ASSETS OF COMMERCIAL BANKS

(SI$'000)

Period Average 1/	S.I CASH	DUE FROM CENTRAL BANK: Call	DUE FROM CENTRAL BANK: Other	SECURITIES: Treasury Bills	SECURITIES: Dev/Tr Bonds	SECURITIES: Restr. Bonds	SECURITIES: Auct. T'Bills	SECURITIES: CBSI Secur.	LOANS AND ADVANCES: SIG	LOANS AND ADVANCES: Prov Govt	LOANS AND ADVANCES: Stat Corps	LOANS AND ADVANCES: Other	LOANS AND ADVANCES: Total	OTHER DOM ASSETS	FOR'N ASSETS	TOTAL ASSETS
1989	2045	2368	-	14965	14997	-	-	-	660	61	8321	85558	96600	16586	1248	148809
1990	3142	2641	-	20254	16628	-	-	-	2478	636	8458	82309	93881	20913	3131	160590
1991	3886	10173	-	42776	27161	-	-	-	1	283	6532	75640	82456	24909	6501	197862
1992	3053	3582	-	80405	24831	-	-	15959	230	478	1783	72221	74712	26265	6696	235503
1993	2565	2295	-	107341	23131	-	-	8342	391	411	2717	84223	87742	29788	6908	268112
1994	4513	7987	-	128654	33289	-	-	-	700	1244	913	107058	109915	31485	11875	327718
1995	3807	18229	-	133644	23253	-	-	-	2101	223	1219	121957	125500	34625	4511	343569
1996	2898	37005	-	144243	14333	-	-	28000	1752	597	2705	128196	133250	28249	13136	401114
1997	2584	19059	-	154478	4500	-	-	45000	3726	309	753	141268	146056	34343	19208	425228
1998	3731	4773	-	162027	3500	-	-	10000	-	208	783	176985	177976	41479	6290	452776
1999	3616	48721	-	42473	27300	91040	19484	8000	-	219	2581	191736	194536	36277	30784	502231
2000	5280	55670	-	-	24800	125040	34512	-	-	157	3586	195220	198963	39523	12407	496195
1998																
Mar	2351	27567	-	156969	4500	-	-	23000	25	479	855	159385	160744	31652	22114	428897
Jun	2168	15415	-	160842	3500	-	-	20000	136	356	203	171056	171751	31393	14142	419211
Sep	3512	24909	-	161830	3500	-	-	20000	3	244	424	171680	172351	35814	12449	434365
Dec	2584	47773	-	162027	3500	-	-	10000	-	208	783	176985	177976	41479	6290	452776
1999																
Mar	3811	54688	-	162027	3500	-	-	36000	2	3	793	176641	177439	40470	10750	488685
Jun	4151	66998	-	86389	119340	-	-	16000	8	13	732	178556	179309	43619	6933	522739
Sep	3626	52882	-	42473	27300	91040	43501	8000	34	183	1654	178341	180212	40959	20027	510020
Dec	3616	48721	-	42473	27300	91040	19484	8000	-	219	2581	191736	194536	36277	30784	502231
2000																
Jan	5333	36736	-	16700	27300	125040	26673	8000	-	151	3009	189631	192791	39910	19792	498275
Feb	3651	37191	-	16702	27300	125040	18779	8000	-	253	3764	198707	202724	39672	29640	508699
Mar	3988	32950	-	16689	27300	125040	23471	-	-	142	4363	207008	211513	44618	32032	517601
Apr	3906	26969	-	8025	27300	125040	32248	-	-	168	3277	213091	216536	42205	27169	509398
May	3637	37170	-	7999	27300	125040	17419	-	-	173	4001	221505	225679	45128	26584	515956
Jun	3953	30794	-	6076	26800	125040	15454	-	-	99	4491	220382	224972	48651	19432	501172
Jul	3650	64590	-	4149	26800	125040	10599	-	-	125	4532	215327	219984	41133	17940	513885
Aug	3518	72614	-	1737	24800	125040	30536	-	-	147	3497	205170	208814	42773	21073	530905
Sept	3288	48486	-	721	24800	125040	39730	-	2	228	3399	209295	212924	45019	18031	518039
Oct	3267	61096	-	721	24800	125040	46791	-	-	194	3472	204040	207706	43165	18125	530711
Nov	4658	48164	-	-	24800	125040	55452	-	-	144	79248	119389	198781	46821	12821	516537
Dec	5280	55670	-	-	24800	125040	34512	-	-	157	3586	195220	198963	39523	12407	496195

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

TABLE 1.4 LIABILITIES OF COMMERCIAL BANKS

(SI$'000)

Period Average 1/	DEMAND DEPOSITS S.I.G	Prov Govt	Stat Corps	Other	Total	SAVINGS DEPOSITS	TIME DEPOSITS S.I.G	Prov Govt	Stats Corps	Other	Total	TOTAL DEPOSITS S.I.G.	Prov Govt	Stat Corps	Other	Grand Total	DUE TO CBSI	CAP & RES	OTHER LIABS	FOR'N LIABS	TOTAL LIABS
1989	2438	889	1708	25654	30689	25017	3573	247	19144	32272	55236	6011	1136	20852	82943	110942	5763	13619	15346	3139	148809
1990	2020	652	2095	36487	41254	29001	194	334	17509	28807	46844	2214	986	19604	94295	117099	63	16570	16888	9970	160590
1991	2427	1428	4512	46016	54383	36212	5509	371	26712	31019	63611	7936	1799	31224	113247	154206	29	18385	17703	7539	197862
1992	3214	2323	4863	67087	77487	41041	1098	684	25708	43952	71442	4312	3007	30571	152080	189970	-	25540	14951	5042	235503
1993	4015	1223	5784	75054	86076	49705	1159	944	26912	48574	77589	5174	2167	32696	173333	213370	-	32295	17271	5176	268112
1994	2825	3323	11072	98253	115473	60633	2410	779	26812	61474	91475	5235	4102	37884	220360	267581	-	30874	13213	16050	327718
1995	4364	2467	6820	106736	120387	64318	4956	956	23978	82157	112047	9320	3423	30798	253211	296752	-	28789	11692	6327	343569
1996	2588	1305	13690	123103	140666	64260	5246	625	15534	115467	136872	7834	1930	29204	302830	341798	-	32542	12286	14488	401114
1997	2973	2408	11926	127324	144631	77104	5250	554	25273	104554	135631	8223	2962	37199	308982	357366	-	38351	17347	12164	425228
1998	4205	4721	16402	119325	144653	74790	147	555	18491	124666	143859	4352	5276	34893	318781	363302	-	62394	20808	6272	452776
1999	12741	3711	9361	153403	179216	75792	142	505	26284	91494	118425	12883	4216	35645	320689	373433	-	72188	28396	28214	502231
2000	2186	3496	9456	149895	165033	82240	160	483	30707	98778	130128	2346	3979	40163	330913	377401	-	76349	26507	15938	496195
1998																					
Mar	1354	1693	12842	118328	134217	75048	345	440	18751	108684	128220	1699	2133	31593	302060	337485	-	43401	25776	22235	428897
June	1997	1512	15527	110505	129541	75001	415	340	30084	92959	123798	2412	1852	45611	278465	328340	-	57515	24008	9348	419211
Sep	2344	1564	15322	130259	149489	73634	423	361	20389	107583	128756	2767	1925	35711	311476	351879	-	57240	23126	2120	434365
Dec	4205	4721	16402	119325	144653	74790	147	555	18491	124666	143859	4352	5276	34893	318781	363302	-	62394	20808	6272	452776
1999																					
Mar	11441	3241	11191	133511	159384	77266	148	709	41132	114638	156627	11589	3950	52323	325415	393277	-	63236	21348	10824	488685
Jun	5391	1989	39982	135637	182999	79625	149	671	32710	111342	144872	5540	2660	72692	326604	407496	-	77637	28531	9075	522739
Sep	6293	1660	29895	141691	179539	78616	152	982	27317	101089	129540	6445	2642	57212	321396	387695	-	64144	36317	21864	510020
Dec	12741	3711	9361	153403	179216	75792	142	505	26284	91494	118425	12883	4216	35645	320689	373433	-	72188	28396	28214	502231
2000																					
Jan	7304	4002	13162	155705	180173	72790	143	506	16796	104478	121923	7447	4508	29958	332973	374886	-	76851	26803	19735	498275
Feb	3652	5421	12556	160652	182281	72610	147	549	16643	104445	121784	3799	5970	29199	337707	376675	-	77261	29735	25028	508699
Mar	7466	2944	13991	150109	174510	72539	147	439	15937	113405	129928	7613	3383	29928	336053	376977	-	80012	30260	30352	517601
Apr	6097	2678	19078	145669	173522	73434	201	426	16686	112071	129384	6298	3104	35764	331174	376340	-	82066	27448	23544	509398
May	5866	2606	12009	148705	169186	75994	374	253	16022	114646	131295	6240	2859	28031	339345	376475	-	78631	37122	23728	515956
Jun	6736	2349	13381	145289	167755	75909	361	246	16170	110389	127166	7097	2595	29551	331587	370830	-	76217	38385	15740	501172
Jul	5197	2354	12323	154881	174755	76714	361	247	12042	123893	136543	5558	2601	24365	355488	388012	-	79347	29285	17241	513885
Aug	3145	7486	15905	151729	178265	79145	159	463	10085	128687	139394	3304	7949	25990	359561	396804	-	78899	33198	22004	530905
Sep	4620	3971	12948	148198	169737	79800	159	472	10022	129086	139739	4779	4443	22970	357084	389276	-	79945	29569	19249	518039
Oct	2920	4100	13248	156643	176911	79810	160	474	30755	109604	140993	3080	4574	44003	346057	397714	-	78855	33914	20228	530711
Nov	2094	2912	10056	152387	167449	82041	160	475	30705	107605	138945	2254	3387	40761	342033	388435	-	80898	34383	12821	516537
Dec	2186	3496	9456	149895	165033	82240	160	483	30707	98778	130128	2346	3979	40163	330913	377401	-	76349	26507	15938	496195

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

TABLE 1.5A SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING *

(SI$'000)

End of Period	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecom-munications	Distribu-tion	Tourism
1989	6351	7071	7492	101	7716	6872	3635	1771	23059	1255
1990	6152	7677	5399	63	8686	5697	3415	3605	19742	1632
1991	6237	2442	6607	-	6953	5484	4695	2664	18786	1775
1992	6064	4053	4448	-	6792	3982	4094	1877	16787	1719
1993	4146	7213	5765	-	8155	6045	3537	789	18949	3169
1994	2899	6631	5260	-	5661	7977	4460	3894	27057	4254
1995	1448	3799	6370	3	8618	9576	5088	3180	27710	8617
1996	2043	4180	2494	-	12471	9604	4232	2041	36347	6554
1997	2962	5982	1970	-	22656	9244	3296	892	34762	5940
1998	5740	9331	597	-	26386	9294	3782	730	54256	5188
1999	6547	11936	1738	-	33897	8014	3245	6546	38714	3688
2000	4443	14262	13119	-	54130	10390	2894	382	27407	3966
1998										
Mar	2594	5794	637	-	28017	9102	3832	1818	50492	5220
Jun	5356	6556	1221	-	26012	10365	3780	2000	55358	5581
Sep	5137	5846	976	-	26318	9576	3808	164	56388	5480
Dec	5740	9331	597	-	26386	9294	3782	730	54256	5188
1999										
Mar	5611	11152	269	-	37025	9500	4985	1708	37587	5015
Jun	3855	11524	1296	-	33341	9355	2829	3471	41058	4038
Sep	5274	9248	2405	-	29970	8755	3704	3537	39777	3894
Dec	6547	11936	1738	-	33897	8014	3245	6546	38714	3688
2000										
Jan	4817	11780	2070	-	35433	8048	2712	3847	41050	3626
Feb	4985	8947	15508	-	40723	10516	2762	2503	35926	3805
Mar	5708	9474	15359	-	42782	10222	2657	4254	37566	3923
Apr	6295	10312	13750	75	44897	10335	3652	4764	39428	3818
May	4323	10776	11783	-	58460	10508	3834	868	39297	3944
Jun	4541	10275	11070	-	63525	10377	3821	2842	35747	3843
Jul	5607	11537	14349	-	55174	10411	4132	2543	33434	3887
Aug	4766	9540	12023	-	53349	10850	4145	2189	32557	3772
Sep	5156	10269	14898	-	58714	10838	3908	901	32176	3741
Oc	4826	11817	13005	-	57842	10347	3846	525	31861	3792
Nov	4317	12711	12919	-	54480	10301	4009	454	27833	3759
Dec	4443	14262	13119	-	54130	10390	2894	382	27407	3966

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

TABLE1.5B SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING (Cont'd)

(SI$'000)

End of Period	Entertainment & Catering	Government	Statutory Corporations	Public Financial Institutions	Private Financial Institutions	Professional & Other Services	Personal	TOTAL	NON-RESIDENT
1989	599	722	6212	1343	2007	7680	12636	96596	145
1990	245	3114	6885	1573	1941	7374	10780	93881	123
1991	378	284	6125	407	950	7583	11086	82456	118
1992	375	708	1398	383	1069	7004	13959	74712	88
1993	384	802	1768	949	667	5472	19932	87742	70
1994	1310	1944	682	231	951	8991	27713	109915	1291
1995	3450	2324	1194	25	823	8172	35103	125500	731
1996	3432	2349	1439	1266	1058	7536	36204	133250	168
1997	3583	4035	746	7	1037	8352	40592	146056	521
1998	3120	208	102	681	646	7903	50012	177976	551
1999	2926	219	2350	231	1088	7701	65696	194536	287
2000	2808	1057	3569	41	232	11345	48918	198863	165
1998									
Mar	3585	504	849	6	959	8221	39114	160744	625
Jun	3485	591	187	16	797	8021	42425	171751	510
Sep	3072	247	94	330	859	7851	46205	172351	485
Dec	3120	208	102	681	646	7903	50012	177976	551
1999									
Mar	3123	5	752	41	614	7825	52227	177439	470
Jun	3180	21	437	295	940	7559	56110	179309	452
Sep	3225	217	1237	417	992	7967	59593	180212	311
Dec	2926	219	2350	231	1088	7701	65696	194536	287
2000									
Jan	2907	151	3007	2	1114	8123	64104	192791	278
Feb	2972	253	3620	144	821	9638	59601	202724	365
Mar	2951	142	4312	111	631	10700	60721	211513	358
Apr	2985	214	3191	177	648	10724	61271	216536	90
May	2813	178	4046	2	587	11304	62956	225679	340
Jun	2832	103	4533	-	737	10876	59850	224972	336
Jul	2896	125	4548	21	366	10951	60003	219984	335
Aug	2800	434	3530	1	418	9988	58452	208814	290
Sep	2843	230	3423	4	176	10798	54849	212924	192
Oct	2775	194	3495	-	261	10605	52515	207706	189
Nov	2870	144	3436	-	266	10809	50473	198781	172
Dec	2808	1057	3569	41	232	11345	48918	198963	165

Source: Central Bank of Solomon Islands.

TABLE 1.6 COMMERCIAL BANK LIQUID ASSETS POSITION

(SI$'000)

Period Average 1/	Eligible Reserve Assets: Till Cash	Eligible Reserve Assets: Balances With CBSI	Eligible Reserve Assets: Government Securities	Eligible Reserve Assets: Total	Required Reserve Assets	Other Liquid Assets: CBSI Securities	Surplus/ (Defecit)
1989	2045	2368	29962	34375	33995	-	380
1990	3142	2641	36882	42665	36246	-	6419
1991	3886	10173	-	14059	11754	-	2305
1992	3053	3582	80405	87040	71239	15959	31760
1993	2565	2295	107341	112201	80014	8342	40529
1994	4513	7987	128654	141154	100343	-	40811
1995	3807	18229	133644	155680	118701	-	36979
1996	2898	37005	144243	184146	136719	28000	75427
1997	2584	19059	154478	176121	142946	45000	78175
1998	3731	47773	162027	213531	145321	10000	78210
1999	3616	47821	-	52337	28007	8000	32330
2000	5280	55670	-	60950	28305	-	32645
1998							
Mar	2351	27567	156969	186887	134994	23000	74893
Jun	2168	15415	160842	178425	131336	20000	67089
Sep	3512	24909	161830	190251	140752	20000	69499
Dec	3731	47773	162027	213531	145321	10000	78210
1999							
Mar	3811	54688	162027	220526	157311	36000	99215
Jun	4151	66998	-	71149	30562	16000	56587
Sep	3626	52882	-	56508	29077	8000	35431
Dec	3616	48721	-	52337	28007	8000	32330
2000							
Jan	5333	36736	-	42069	28116	8000	21953
Feb	3651	37191	-	40842	28251	8000	20591
Mar	3988	32950	-	36938	28273	-	8665
Apr	3906	26969	-	30875	28226	-	2650
May	3637	37170	-	40807	28236	-	12571
Jun	3953	30794	-	34747	27812	-	6935
Jul	3650	64590	-	68240	29101	-	39139
Aug	3518	72614	-	76132	29760	-	46372
Sep	3288	48486	-	51774	29196	-	22578
Oct	3267	61096	-	64363	29829	-	34534
Nov	4658	48164	-	52822	29133	-	23689
Dec	5280	55670	-	60950	28305	-	32645

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

TABLE 1.7 ASSETS AND LIABILITIES OF OTHER LOCAL FINANCIAL INSTITUTIONS

(SI$'000)

End of Period	ASSETS				LIABILITIESS				TOTAL ASSETS = TOTAL LIABIL-ITIES
	Due from Banks	Loans and Advances	Treaury Bills	Other Assets	Time Deposits	Due to Banks	Capital	Other Liabilities	
1989	117	4853	-	344	2713	1340	911	350	5314
1990	-	6347	-	1159	4389	1225	500	1392	7506
1991	60	4852	-	252	3269	354	1477	164	5264
1992	462	5439	-	285	3657	-462	2380	611	6186
1993	178	6418	-	952	4634	-	3329	-415	7548
1994	50	7592	-	1019	5040	-	3743	-122	8661
1995	535	7049	-	2404	5792	1750	2145	301	9988
1996	1200	6447	-	2652	7514	-	2631	154	10299
1997	-	3281	-	1118	764	357	2978	300	4399
1998	1672	1888	-	616	288	-	3321	567	4176
1999	3261	430	-	299	105	-	3727	158	3990
2000	3613	237	-	169	107	-	3654	258	4019
1998									
Mar	131	2685	-	1113	457	-	3200	272	3929
Jun	896	2283	-	848	374	-	3385	268	4027
Sep	1387	1899	-	576	356	-	3177	329	3862
Dec	1672	1888	-	616	288	-	3321	567	4176
1999									
Mar	2438	1255	-	307	247	-	3459	294	4000
Jun	2743	827	-	361	155	-	3581	195	3931
Sep	2986	533	-	415	100	-	3679	155	3934
Dec	3261	430	-	299	105	-	3727	158	3990
2000									
Jan	3311	375	-	255	105	-	3567	269	3941
Feb	3361	341	-	242	105	-	3571	268	3944
Mar	3386	319	-	244	106	-	3579	264	3949
Apr	3408	298	-	244	106	-	3579	265	3950
May	3539	247	-	189	106	-	3603	266	3975
Jun	3544	241	-	200	106	-	3614	265	3985
Jul	3548	238	-	211	106	-	3625	266	3997
Aug	3553	234	-	221	107	-	3636	265	4008
Sep	3563	241	-	212	107	-	3647	262	4016
Oct	3610	240	-	177	107	-	3657	263	4027
Nov	3610	240	-	184	107	-	3665	262	4034
Dec	3613	237	-	169	107	-	3654	258	4019

Source: Central Bank of Solomon Islands.

TABLE1.8 ASSETS AND LIABILITIES OF DEVELOPMENT BANK OF SOLOMON ISLANDS

(SI$'000)

End of Period	ASSETS: Fixed Deposits	Treasury Bills	Term Loans	Equity Holdings	Staff Loans	Fixed* Assets	Other+ Assets	LIABILITIES: Term Liabilities: S.I.G	C.B.S.I	Overseas#	N.P.F	Capital and Reserves	Other Liabs	TOTAL ASSETS = TOTAL LIABS.
1989	1009	-	13123	337	588	2186	-3383	100	-	4643	3098	5104	915	13860
1990	1232	800	14518	307	722	2176	-1574	2500	-	4205	2757	8112	607	18181
1991	2379	1800	14958	150	1248	2843	-4902	3747	-	1496	2397	9871	670	18476
1992	2950	3100	18139	150	1511	2686	-4810	3286	-	3185	3941	12421	893	23726
1993	1795	1600	24745	150	1746	2553	-7533	2856	-	4361	3385	13339	1115	25056
1994	1216	958	25021	97	1308	2765	-4033	2423	-	5019	3656	14128	2106	27332
1995	1385	780	29488	97	1578	2589	-4521	2369	-	6737	1020	14575	6695	31396
1996	3987	780	36461	97	2440	2658	-6178	1881	-	7944	905	14931	14584	40245
1997	4765	780	44614	97	3843	2844	-3565	1346	-	8069	703	15624	27636	53378
1998	2248	-	55609	970	2508	2852	-6839	1321	-	8069	2713	14583	30662	57348
1999	2573	-	60640	97	3817	5036	-8819	1320	-	13561	2647	14781	31035	63344
2000	374	-	61542	97	3578	4538	-14565	5117	-	12291	2515	4664	30977	55564
1998														
Mar	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jun	3827	780	48095	97	2481	2938	-4191	1321	-	8069	2713	13350	28574	54027
Sep	1438	780	54004	970	2508	2897	-6593	1321	-	8069	2713	15484	28417	56004
Dec	2248	-	55609	970	2508	2852	-6839	1321	-	8069	2713	14583	30662	57348
1999														
Mar	3292	-	57653	97	3353	3901	-9624	1320	-	12428	2647	11434	30843	58672
Jun	802	-	58424	97	3480	4371	-9369	1320	-	13361	2647	10709	29768	57805
Sep	1517	-	59844	97	3624	4321	-9915	4820	-	11511	2647	10166	30344	59488
Dec	2573	-	60640	97	3817	5036	-8819	1320	-	13561	2647	14781	31035	63344
2000														
Jan	1473	-	60957	97	3924	4889	-8672	5240	-	5961	2647	10364	38456	62668
Feb	1186	-	63766	97	4029	4934	-8891	7740	-	13561	2647	10262	30911	65121
Mar	620	-	61437	97	4177	6710	-8981	5117	-	13561	2592	12335	30455	64060
Apr	620	-	61920	97	4325	4914	-9119	5117	-	13561	2540	10410	31129	62757
May	322	-	61873	97	4384	4924	-9091	5117	-	13561	2540	10137	31154	62509
Jun	172	-	62276	97	4399	4816	-9229	5117	-	13561	2540	9910	31403	62531
Jul	172	-	62559	97	3420	4799	-15264	5117	-	13561	2515	4081	30509	55783
Aug	222	-	62364	97	3422	4765	-14885	5117	-	13561	2515	4239	30553	55985
Sep	253	-	62537	97	3463	4718	-14951	5117	-	13561	2515	4219	30705	56117
Oct	253	-	61178	97	3475	4117	-8331	5117	-	12813	2515	10005	30339	60789
Nov	324	-	60799	97	3488	4101	-15675	5117	-	12813	2515	5541	27148	53134
Dec	374	-	61542	97	3578	4538	-14565	5117	-	12291	2515	4664	30977	55564

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

Source: Development Bank of Solomon Islands.

TABLE 1-9 BALANCE OF PAYMENTS

(SBD Million)

	1996#	1997#	1998#	1999	2000
CURRENT ACCOUNT	**39.0**	**-54.3**	**53.4**	**120.8**	**-223.6**
Merchandise trade	155.6	32.8	67.0	193.4	-117.4
Exports fob	576.6	581.5	683.0	725.0	352.6
Imports fob	-421.0	-548.7	-616.0	-532.4	-469.9
Services	-214.8	-207.0	-96.4	-232.8	-118.9
Transportation	-104.4	-81.9	-106.8	-240.8	-175.1
credit	7.3	9.6	1.7	23.2	5.7
debit	-111.6	-91.6	-108.5	-264.1	-180.9
Travel	-4.8	-6.8	3.9	-7.2	-29.4
credit	49.2	26.4	31.9	27.5	19.6
dedit	-54.0	-33.2	-28.0	-34.7	-49.0
Other	-105.6	-118.3	6.5	15.2	85.7
credit	132.2	226.4	46.7	221.7	225.7
debit	-237.8	-344.7	-40.2	-206.5	-140.0
Income	-24.5	-30.8	-35.7	-82.0	-21.3
Compensation of employees	-	-	-	-16.3	6.0
credit	-	-	-	11.4	22.0
debit	-	-	-	-27.7	-16.0
Investment income	-24.5	-30.8	-35.7	-65.7	-27.4
credit	2.3	1.1	1.9	15.1	14.9
debit	-26.8	-31.9	-37.6	-80.7	-42.3
Current Transfers	**122.7**	**150.7**	**118.5**	**242.2**	**33.9**
General government	138.4	145.3	118.6	266.4	115.5
Cash	110.7	139.0	112.2	85.7	108.7
credit	110.7	139.0	115.8	103.1	110.7
debit	-	-	-3.6	-17.3	-2.0
Goods and services	27.7	6.3	6.4	180.7	6.8
Other sectors	-15.7	5.4	-0.1	-24.3	-81.7
credit	66.0	79.6	122.3	99.8	61.9
debit	-81.7	-74.2	-122.4	-124.1	-143.6
CAPITAL AND FINANCIAL ACCOUNT	**-56.5**	**-18.6**	**-3.8**	**-95.3**	**111.4**
Capital Account	**-19.1**	**-3.8**	**34.0**	**44.3**	**67.5**
Capital transfers, net	-9.6	-4.8	32.0	40.6	65.8
Other, net	-9.5	1.0	2.0	3.7	1.7
Financial Account	-37.4	-14.8	-37.8	-139.6	43.9
Direct Investment in reporting economy, net	21.1	33.9	8.8	-89.8	6.9
Other Investment	-66.9	-44.0	-38.9	-48.3	55.5
Assets	-	-	-	5.8	2.9
Trade credits	-	-	-	2.9	1.5
Loans	-	-	-	-	-
Currency and deposits	-	-	-	-	3.5
Other assets	-	-	-	-	-
Liabilities	18.8	44.0	38.9	-51.2	52.6
Trade credits	45.0	-	-	106.5	49.8
Loans	-34.6	48.6	46.6	-156.2	21.2
Monetary Authority, net	-	-	-	-	-
General Government	20.4	19.2	41.4	67.2	32.7
Long term	-7.5	-18.9	58.6	53.3	-29.9
drawings	9.2	9.7	92.8	74.4	22.6
repayments	-16.7	-28.6	-34.2	-21.1	-52.5
Short term	27.9	38.1	-17.2	13.9	62.6
Other Sectors	-55.0	29.4	5.2	-223.4	-11.6
Long term	-55.0	29.4	5.2	-191.5	-9.1
drawings	11.2	80.4	109.7	10.1	3.4
repayments	-66.2	-51.0	-104.5	-201.6	-12.5
Short term	-	-	-	-31.9	-2.5
Other Liabilities, net	8.4	-4.6	-7.7	-1.5	-18.4
NET ERRORS AND OMISSIONS	**80.7**	**106.7**	**33.4**	**-2.6**	**15.0**
Overall Balance	63.1	33.9	83.0	23.0	-97.2
Financing	**-63.1**	**-33.9**	**-83.0**	**-23.0**	**97.2**
Reserves (-=increase)	**-63.1**	**-33.9**	**-83.0**	**-23.0**	**97.2**
Monetary Gold	-	-	-	-	-
Special Drawing Rights	-	-	-	-	
Reserve Position in the Fund	-	-	-	-	-
Foreign Exchange	63.1	33.9	83.0	22.2	-96.1
Currency and Deposits	63.1	33.9	83.0	22.2	-96.1
with monetary authorities	40.2	-32.9	94.3	47.3	-64.5
with banks	22.9	66.8	-11.3	-25.1	-31.6
Other Claims	-	-	-	0.7	-1.1

Source: Central Bank of Solomon Islands.

\# The BOP figures are converted from the previous presentation format used by the Central Bank. They are provisional pending additional adjustments.

TABLE 1.10 FOREIGN EXCHANGE RECEIPTS 1/
(Year Ended) (SI$'000)

	1995	1996	1997	1998	1999	2000
Current Receipts						
Exports						
Copra	29165	27681	17713	39168	39290	34740
Fish	168344	157165	182403	194179	159045	41174
Logs	300940	366489	309393	196270	250658	224422
Palm Oil & Kernels	63318	66695	57410	97910	65144	6565
Cocoa	15723	17716	44504	30280	24394	9277
All Other	20753	20570	37278	50464	68836	15124
Total Exports	**598243**	**656316**	**648701**	**608271**	**607367**	**331302**
Services						
Transportation	4178	7318	9562	7632	5242	3209
Travel	53503	49415	26318	31932	27515	18404
Insurance	289	1425	213	599	177	2
Royalties & License Fees	-	-	-	538	343	1228
Communication	-	-	-	10835	10981	9051
Financial Services	-	-	-	92113	92757	110646
Others	63924	107814	202581	140751	116851	104725
Total Services	**121894**	**165972**	**238674**	**284400**	**253866**	**247266**
Income Account						
Wages & Others	-	-	-	4233	11410	21831
Interest, Divindends & Profits	1333	2344	1138	1726	1208	1202
Official Interest	3313	6056	8941	8287	13282	13712
Other Income	-	-	-	30	135	**7**
Total Income	**4646**	**8400**	**10079**	**14276**	**26035**	**36752**
Transfers						
Official						
Cash Aid	1875	5559	94351	14043	19776	1145
Other Official	41997	14059	19521	35762	4516	10103
Total Official Transfers	**43872**	**19618**	**28956**	**49805**	**24292**	11248
Transfers						
Private						
Gifts and Donations	49718	29608	30243	29425	16099	10323
Transfers by Temp. Res. & Immigrants	8687	17664	18733	1461	1926	2973
Churches & Charitable Institutions	16981	18768	16483	26487	21464	17313
Foreign Governments	28560	23560	22834	29225	23055	19254
Internatinoal Organisations	41997	14059	19521	35762	60256	**33879**
Total Private Transfers	**75386**	**66040**	**65459**	**57373**	**122800**	**83743**
Total Current Receipts	**844041**	**916346**	**991869**	**1014125**	**1034360**	**710310**
Capital & Financial Receipts						
Private						
Investment Grants	-	-	-	174	3743	1734
Direct Investment	2138	1621	2021	672	7563	10644
Loans	868	45742	80963	13431	3236	1868
Other Foreign Investment	-	21958	25	1316	1610	41
Total Private Inflows	**3006**	**69321**	**33009**	**15593**	**16152**	**14288**
Official						
Investment Grants	-	-	-	33303	3440	28180
Loans	4767	6149	9670	92822	47001	22604
CBSI	-	-	-	-	-	-
Euro $ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Inflows	**4767**	**6149**	**9670**	**126125**	**50441**	**50784**
Total Capital Receipts	**7773**	**75470**	**42679**	**141718**	**66593**	**65072**
TOTAL RECEIPTS	**851814**	**991816**	**1034548**	**1155843**	**1100953**	**775381**

1/ Derived from the formal banking system.

Source: Central Bank of Solomon Islands.

TABLE 1.11 FOREIGN EXCHANGE PAYMENTS 1/
(Year Ended) (SI$'000)

	1995	1996	1997	1998	1999	2000
Current Payments						
Imports						
Government	6000	16134	5604	-	-	-
Oil Imports	46752	78504	100718	103709	75162	93417
Food Imports 2/	42945	58645	86085	82138	83026	79363
Beverages & Tabacco	-	-	-	9170	6147	5105
Plants, Vehicles & Transport Equipt.	42945	58645	86085	121523	127544	88241
Building & Construction Mat.	371875	262208	261547	34050	33368	25489
Chemical	-	-	-	13297	14771	9018
Other Imports	371875	262208	261547	251514	198,489	198337
Total Imports	**882392**	**736344**	**801586**	**615401**	**538407**	**498970**
Services						
Transportation	13331	11662	21511	41130	38108	23177
Travel	45866	54164	33385	26860	34644	44317
Insurance	7685	6271	10147	5363	13310	4469
Communication	-	-	-	22448	26059	13799
Financial	-	-	-	41708	24940	13995
Royalties & License Fees etct.	362	262	245	517	264	981
Others	156426	167937	220796	185503	95838	72247
Total Services	**223670**	**240296**	**286084**	**323529**	**233163**	**172988**
Income						
Wages & Others	-	-	-	15676	26710	14850
Interest Dividends & Profits	23157	26833	31928	25366	19555	16829
Official Interest 1390	2398	1988	9750	9672	3042	
Total Income Payments	**24547**	**29231**	**33916**	**50792**	**55937**	**34721**
Transfers						
SI Govt Current Payments	3383	8307	6327	15778	17344	7655
Gifts & Donation	29520	21383	52910	79790	99570	126692
Transfers by Temporary Residents	37273	30157	10646	10098	13309	14387
Other Transfers	2854	9640	4785	10554	9662	10218
Total Transfers	**73030**	**69487**	**74668**	**116220**	**139885**	**158952**
Total Current Payments	**1203639**	**1075358**	**1196254**	**1105942**	**967392**	**865628**
Capital & Financial Payments						
Private						
Loan Repayments	25116	66161	39683	49900	49683	4368
Capital Repatraition	1374	2317	2603	2015	-	11
Emigrant Transfers	2854	9640	4785	1260	1470	2507
Other Payments	-	-	-	21	6047	849
Total Private Inflows	29344	78118	47071	53196	57200	7735
Official						
S I Government Loans	6032	6115	8211	34195	9836	6181
CBSI	-	-	-	66	-	-
IMF Transactions	-	-	-	-	-	
Total Official Outflows	**6032**	**6115**	**8211**	**34261**	9837	6181
Total Capital Payments	**35376**	**84233**	**55282**	**87457**	**67037**	**13916**
TOTAL PAYMENTS	**1239015**	**1159591**	**1251536**	**1193399**	**1034429**	**879505**

1/ Derived from the formal banking system.
2/ Includes beverages and tobacco up to 1997.

Source: Central Bank of Solomon Islands.

TABLE 1-12 EXCHANGE RATES

(UNITS OF SI$ PER FOREIGN CURRENCY)

Period Average	US$	Aus$	Pound Stg	Yen (Per 100)	NZ$	S.D.R.
1988	2.11	1.67	3.72	1.63	1.21	2.81
1989	2.34	1.83	3.76	1.67	1.39	3.00
1990	2.53	1.97	4.52	1.75	1.49	3.44
1991	2.72	2.12	4.79	2.03	1.56	3.72
1992	2.93	2.15	5.15	2.31	1.58	4.11
1993	3.18	2.17	4.79	2.87	1.72	4.47
1994	3.29	2.41	5.04	3.23	1.95	4.72
1995	3.41	2.52	5.38	3.64	2.24	5.17
1996	3.55	2.80	5.54	3.27	2.44	5.15
1997	3.73	2.76	6.13	3.07	2.46	5.12
1998	4.82	3.03	7.98	3.68	2.60	6.55
1999	4.93	3.18	7.99	4.36	2.61	6.75
2000	5.11	2.99	7.72	4.74	2.34	6.70
1995						
Q1	3.36	2.47	5.36	3.69	2.17	5.14
Q2	3.39	2.32	5.41	4.01	2.28	5.05
Q3	3.44	2.59	5.36	3.43	2.26	5.08
Q4	3.49	2.58	5.37	3.43	2.27	5.18
1996						
Q1	3.52	2.77	5.33	3.28	2.40	5.10
Q2	3.54	2.81	5.47	3.25	2.40	5.11
Q3	3.58	2.84	5.58	3.26	2.49	5.19
Q4	3.61	2.88	6.01	3.18	2.55	5.20
1997						
Mar	3.64	2.87	5.81	2.97	2.54	5.01
Jun	3.67	2.77	6.04	3.20	2.53	5.09
Sep	3.72	2.69	5.96	3.08	2.37	5.05
Dec	4.22	2.81	7.02	3.11	2.51	5.72
1998						
Mar	4.78	3.21	7.94	3.72	2.75	6.43
Jun	4.81	2.90	7.92	3.26	2.46	6.40
Sep	4.93	2.90	8.29	3.66	2.49	7.05
Dec	4.84	3.00	8.07	4.11	2.53	6.77
1999						
Mar	4.82	3.04	7.81	4.03	2.57	6.53
Jun	4.84	3.18	7.73	4.01	2.58	6.49
Sep	5.04	3.25	8.18	4.70	2.64	6.93
Dec	5.06	3.22	8.16	4.93	2.57	6.95
2000						
Jan	5.34	3.51	8.76	5.08	2.75	7.32
Feb	5.08	3.19	8.13	4.64	2.49	6.83
Mar	5.08	3.10	8.03	4.76	2.49	6.82
Apr	5.08	3.04	8.06	4.82	2.52	6.81
May	5.09	2.94	7.22	4.70	2.40	6.67
Jun	5.09	3.07	7.74	4.85	2.39	6.81
Jul	5.09	3.00	7.69	4.72	2.35	6.75
Aug	5.09	2.96	7.60	4.71	2.27	6.67
Sep	5.09	2.83	7.30	4.77	2.13	6.59
Oct	5.09	2.96	7.40	4.70	2.05	5.91
Nov	5.10	2.83	7.27	4.68	2.03	6.54
Dec	5.10	2.70	7.51	4.54	2.24	6.63

Source: Central Bank of Solomon Islands.

TABLE 1-13 COMPETITIVENESS AND RELATIVE PRICES

	A	B	C	D
	Exchange rates			
Period Average	**Nominal Effective**	**Real Effective 1** based on relative retail prices	**Real Effective 2** based on domestic retail prices and foreign export prices	**Term of Trade** export unit values relative to foreign export prices (in common currency)
1990	100.0	100.0	100.0	100.0
1991	110.7	103.0	94.5	98.8
1992	121.0	102.7	92.4	103.8
1993	134.2	103.2	90.3	149.4
1994	147.5	98.9	83.4	144.1
1995	160.8	98.7	83.5	125.7
1996	160.1	92.0	75.2	131.0
1997	161.4	85.0	69.2	140.8
1998	185.3	85.2	70.4	127.7
1999	205.4	85.0	65.4	125.2
2000 **1/**	205.9	83.6	66.7	121.3
1999 Q1	200.5	85.6	66.6	127.3
Q2	196.1	82.0	63.5	128.4
Q3	208.6	84.8	65.3	121.9
Q4	216.2	87.8	68.4	117.9
2000 1/ Q1	212.5	86.3	68.5	117.3
Q2	208.5	84.6	68.3	117.8
Q3	204.4	83.2	66.5	122.0
Q4	198.2	80.1	63.4	128.1
Annual Percentage Changes				
1990	9.7	8.6	2.8	-7.7
1991	10.7	-1.1	-9.3	-1.2
1992	9.3	-0.3	-2.3	5.1
1993	10.9	0.5	-2.2	43.9
1994	9.9	-4.2	-7.6	-3.5
1995	9.0	-0.2	0.1	-12.8
1996	-0.5	-6.8	-10.0	4.1
1997	0.9	-7.6	-8.0	-7.5
1998	14.8	0.3	1.8	-9.3
1999	10.8	-0.2	-6.4	-3.0
2000 **1/**	0.2	-1.7	1.1	-2.1
Quarterly Percentage Changes				
1999 Q1	3.7	-0.4	-2.9	0.4
Q2	-2.2	-4.2	-4.6	0.9
Q3	6.4	3.3	2.5	-4.8
Q4	3.6	3.6	4.5	-3.1
2000 1/ Q1	-1.7	-1.6	0.4	-0.7
Q2	-1.9	-2.1	-0.3	0.4
Q3	-2.0	-1.6	-2.7	3.6
Q4	-3.0	-3.8	-4.6	5.0

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

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

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

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

***1/ -** Figures for 2000 are provisional estimates*

Source: Central Bank of Solomon Islands.

TABLE 1.14 GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

(SI$'000)

	DEVELOPMENT & TREASURY BONDS						TREASURY BILLS						OTHER	
End of Period	Commercial Banks	Central Bank	National Provident Fund	Statutory Corporations	Public	Total	Commercial Banks	Central Bank	National Provident Fund	Statutory Corpora-tions	Public	Total	Central Bank	GRAND TOTAL
1989	14997	12	12200	1014	554	28856	14965	12881	-	-	469	28314	1333	58503
1990	16628	110	11050	514	554	28856	20254	9107	-	1250	753	31364	1333	61558
1991	27161	11	11050	59	593	38875	42776	2016	10082	1753	1639	58266	3819	100960
1992	24831	3	11050	59	3140	39083	80405	267	17250	3100	5799	106821	8527	154431
1993	23131	4	12650	-	4976	40761	107340	43	39000	1363	10439	158185	8527	207473
1994	33278	24	18504	-	8055	59861	128654	-	31787	958	15680	177079	8527	245467
1995	23253	25	17504	-	7979	48761	133644	-	41292	780	13453	189179	8527	246445
1996	14333	25	22204	-	5334	41896	144243	-	45595	780	14747	205365	7252	254513
1997	4500	25	16104	-	344	20973	154478	-	51672	780	18809	225739	6410	253122
1998	3500	27	53775	-	340	57542	162027	-	55804	-	11877	229708	6410	293760
1999	118340	27	110475	-	-	228842	61957	-	14648	-	10033	86638	11075	326555
2000	149840	27	92271	-	-	242138	34512	-	10594	-	15717	60823	11075	314036
1997														
Mar	14333	25	17704	-	4411	36473	144551	-	47086	780	15242	251414	7282	284414
Jun	12333	25	17305	-	2510	32173	146616	-	50472	780	16775	253226	6410	286226
Sep	8333	25	16104	-	510	24972	150612	-	51672	780	18719	221783	6410	253165
Dec	4500	25	16104	-	344	20973	154478	-	51672	780	18809	225739	6410	253122
1998														
Mar	4500	25	16104	-	344	20973	156968	-	52556	788	18758	229071	6410	256454
Jun	3500	27	11304	-	340	15171	160842	-	55219	-	12076	228137	6410	249718
Sep	3500	27	11304	-	340	15171	161830	-	55241	-	12055	229126	6410	250707
Dec	3500	27	53775	-	340	57542	162027	-	55804	-	11877	229708	6410	293760
1999														
Mar	1000	27	54975	-	324	56326	162027	-	54444	-	12054	228525	11075	295926
Jun	25800	27	110475	-	2339	139622	86389	-	1994	-	15421	103804	11075	254501
Sep	118340	27	104475	-	2339	225181	85974	-	14537	-	15964	116475	11075	352731
Dec	118340	27	110475	-	-	228842	61957	-	14648	-	10033	86638	11075	326555
2000														
Mar	151840	27	106318	-	339	258524	40160	-	21400	-	11533	73093	11075	342692
Jun	151840	27	103575	-	339	255781	21530	-	24185	-	9985	55700	11075	322556
Sep	149840	27	95221	-	37	245125	40451	-	21170	-	16453	78074	11075	334274
Dec	149840	27	92271	-	-	242138	34512	-	10594	-	15717	60823	11075	314036

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

Source : Central Bank of Solomon Islands.

TABLE 1-15 SUMMARY OF GOVERNMENT ANNUAL ACCOUNTS AND BUDGET FORECASTS *

($ Millions)

		1995	1996	1997	1998	1999	2000	91-2000 Ave
Budget Forecasts:								
Total Expenditure		**354**	**387**	**375**	**543**	**379**	**592**	**354.2**
A.	Recurrent Expenditure	328	358	337	523	349	396	315.8
	i. Pay	111	126	142	147	141	150	116.1
	ii. Other Charges	147	148	151	160	149	197	132.1
	iii. Debt Service	70	84	44	67	59	49	52.7
	iv. Policy & Struct. Reform				149	92	-	24.1
B.	Development Expenditure	26	29	38	20	30	196	38.4
Total Income		**309**	**336**	**315**	**534**	**559**	**443**	**329.14**
	i. Log Revenue	70	73	58	36	46	32	45.1
	ii. Non-Log Revenue	239	263	257	311	356	411	261.04
	iii. Policy & Struct. Reform Income				149	79	-	24.1
	iv. Grants				38	78	118	26.8
Fiscal Deficit (domestically financed)		**51**	**55**	**50**	**-44**	**-80**	**149**	**25.06**
Actual Government Accounts:								
Total Expenditure		**360**	**391**	**365**	**490**	**479**	**458.8**	**362.08**
A.	Recurrent Expenditure	328	362	307	471	458	428.8	337.28
i.	Pay	124	127	137	108	152	150.5	119.95
ii.	Other Charges	134	151	157	129	175	229.1	141.17
iii.	Debt Service	70	84	13	85	87	49.2	56.32
iii.	Policy & Struct. Reform				149	44	-	19.3
B.	Development Expenditure	32	29	58	19	21	30	24.8
Total Income		**309**	**336**	**315**	**534**	**559**	**449.9**	**333.06**
i.	Log Revenue	70	73	58	36	46	37	50.3
ii.	Non-Log Revenue	239	263	257	311	356	277	236.4
iii.	Policy & Struct. Reform Income				149	79	-	22.8
iv.	Grants				38	78	135.9	23.56
Fiscal Deficit (domestically financed)		**51**	**55**	**50**	**-44**	**-80**	**8.9**	**29.02**
Difference between Actual and Budget (%)								
Total Expenditure		**2%**	**1%**	**-3%**	**-10%**	**26%**	**-23%**	**6%**
A.	Recurrent Expenditure	0%	1%	-9%	-10%	31%	-8%	9%
i.	Pay	12%	1%	-4%	-27%	8%	-0%	6%
ii.	Other Charges	-9%	2%	4%	-19%	17%	-16%	9%
iii.	Debt Service	0%	0%	-70%	27%	47%	-0%	7%
iv.	Policy and Structural Reform				0%	-52%	-	-
	B. Development Expenditure	23%	0%	53%	-5%	-30%	-85%	13%
Total Income		**12%**	**0%**	**-29%**	**-12%**	**44%**	2%	3%
i.	Log Revenue	-7%	4%	-40%	-23%	35%	16%	51%
ii.	Non-Log Revenue	20%	-1%	-26%	-5%	4%	-33%	-7%
iii.	Policy and Structural Reform				0%	-14%	-	-
iv.	Grants				-53%	13%	15%	-16%
Fiscal Deficit (domestically financed)		**-35%**	**10%**	**-171%**	**-28%**	**-3177%**	-94%	-231%
Memorandum Items:								
Actual Change in Government Domestic Debt								
Change in Gross Domestic Debt		17	5	6	27	-10	-13.5	28.6
Change in Net Domestic Debt		19	7	3	-27	-10	30.5	24.2
Change in Foreign Debt		9	11	94	83	63	-34.1	38.1
Gross change in Total Debt		38	16	100	111	-5	-47.6	60.3
Net change in Total Debt		18	98	25	60	65	29.6	60.5

* Budget Forecasts are published in February or March of each year by the Ministry of Finance.
# In 1998 the government made a surplus budget of $44 million.

Source: Central Bank of Solomon Islands.

TABLE 1-16 GOVERNMENT REVENUES

(SI$'000)

End of Period	Total Customs& Inland Revenue	Total Customs	Import Duty	Log Export Duty	Timber Levy	Other Exports	Other Customs	Total Inland Rev.	Company	Personal	Govt. PAYE	Goods & Sales	Other I.R.	Ministries & Other *
1997	**285874**	140402	69060	50778	7407	7416	5741	**145472**	27592	33361	21611	42241	20667	**28820**
1998	**316047**	126093	71422	30702	5525	11839	6605	**189954**	55184	39703	16813	53657	24597	**31305**
1999	**365368**	148029	75660	45604	-	10790	15974	**217339**	51774	44101	18077	71318	32069	**32216**
2000	**260169**	101225	51986	37950	-	2869	8419	**158944**	26121	35334	18744	59355	19390	**18515**
1999														
Q1	**91916**	38338	17494	13829	0	3411	3604	**53578**	14925	10304	3464	16404	8481	16546
Q2	**86974**	36767	20753	8618	0	3761	3634	**50207**	11413	11274	3874	17724	5922	4152
Q3	**89175**	32340	15275	12194	0	1321	3550	**56835**	14797	11843	4345	16847	9003	5215
Q4	**95852**	39134	22138	9963	-	2197	4836	**56718**	10639	10680	6394	20343	8662	6303
2000														
Q1	**79264**	29365	15205	10852	-	966	2342	**49899**	8911	12884	3922	19110	5072	6397
Q2	**70357**	27402	14548	9208	-	1141	2507	**42955**	6966	8713	3945	17579	5752	5859
Q3	**50896**	18459	7002	9825	-	490	1142	**32437**	7484	8192	3359	10652	2750	3567
Q4	**59652**	25999	15231	8067	-	272	2428	**33653**	2760	5545	7518	12014	5816	2692
Percentage Change on year earlier														
1997	**-2%**	-8%	7%	-25%	-18%	18%	20%	**6%**	-32%	19%	74%	1%	-42%	**-38%**
1998	**11%**	-10%	3%	-40%	-25%	60%	15%	**31%**	100%	19%	-22%	27%	19%	**9%**
1999	**16%**	17%	6%	49%	-100%	-9%	142%	**14%**	-6%	11%	8%	33%	30%	**3%**
1999														
Q1	**25.6**	11.3	2.1	15.3	-100.0	35.0	203.9	**38.5**	119.9	6.7	-15.0	47.7	20.1	**188.0**
Q2	**34.8**	38.2	10.7	126.8	-100.0	28.8	245.8	**32.3**	25.7	27.6	-17.4	63.9	30.8	**-65.7**
Q3	**9.9**	10.5	-11.0	110.2	-100.0	-55.4	70.4	**9.6**	-7.5	23.7	12.5	16.3	13.6	**-9.5**
Q4	**-0.3**	12.8	20.5	15.0	-100.0	-34.4	122.8	**-7.7**	-54.4	-8.2	52.7	17.9	70.3	**7.9**
2000														
Q1	**-14.0**	-23.9	-13.1	-21.5	0.0	-71.7	-39.1	**-6.9**	-40.3	25.0	13.2	16.5	-40.2	-61.3
Q2	**-20.2**	-27.8	-29.9	-4.3	0.0	-70.4	-32.9	**-14.4**	-39.0	-22.7	1.8	-0.8	-2.9	41.1
Q3	**-42.9**	-42.9	-54.2	-19.4	0.0	-62.9	-67.9	**-42.9**	-49.4	-30.8	-22.7	-36.8	-69.5	-31.6
Q4	**-37.8**	-33.6	-31.2	-19.0	0.0	-87.6	-49.8	**-40.7**	-74.1	-48.1	17.6	-40.9	-32.9	-57.3
Percentage Contribution to Total Inland Revenue and Customs Revenue														
1997	**100.0**	49.1	24.2	17.8	2.6	2.6	2.0	**50.9**	9.7	11.7	7.6	14.8	7.2	**10.1**
1998	**100.0**	39.9	22.6	9.7	1.7	3.7	2.1	**60.1**	17.5	12.6	5.3	17.0	7.8	**9.9**
1999	**100.0**	40.5	20.7	12.5	0.0	3.0	4.4	**59.5**	14.2	12.1	4.9	19.5	8.8	**8.8**
2000	**100.0**	38.9	20.0	14.6	0.0	1.1	3.2	**61.1**	10.0	13.6	7.2	22.8	7.5	**7.1**

Source: Central Bank of Solomon Islands

* In 2000, other ministries monthly revenues were up to November only

TABLE 1-17 HONIARA RETAIL PRICE INDEX
(1985 = 100)

Period Average	Food	Drink & Tobacco	Clothing & Footwear	Transport	Housing & Utilities	Micellaneous	Local Items	Imported Items	All Items	Annual % Change (All Items)
Weight	**510.0**	**100.0**	**49.0**	**66.0**	**125.0**	**150.0**	**463.0**	**537.0**	**1000.0**	
Annual Averages										
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.0
1986	110.5	138.1	105.4	118.6	108.2	108.5	115.5	111.0	113.1	13.1
1987	120.4	178.6	110.8	136.6	111.6	120.7	131.1	121.9	126.1	11.5
1988	145.0	205.7	129.6	152.1	114.9	143.5	146.4	148.1	147.3	16.8
1989	170.6	241.6	146.4	164.7	120.3	162.3	166.9	171.2	169.3	14.9
1990	185.0	251.4	152.4	200.7	134.1	174.7	177.9	188.8	183.8	8.6
1991	216.0	275.9	182.8	256.9	147.2	193.0	203.6	218.8	211.8	15.2
1992	240.8	313.4	201.9	300.1	149.3	207.4	222.3	245.1	234.5	10.7
1993	262.7	354.3	210.3	350.0	159.0	226.7	245.5	264.2	256.0	9.2
1994	292.3	380.5	231.9	460.3	177.7	261.2	287.5	285.7	290.1	13.3
1995	313.4	437.1	253.8	486.1	188.7	278.8	313.7	304.4	317.9	9.6
1996	355.3	445.8	261.5	516.5	230.0	307.2	363.3	333.9	355.3	11.8
1997	394.8	534.0	265.2	537.1	237.8	314.3	399.8	350.5	384.0	8.1
1998	445.4	585.5	282.0	666.3	262.4	252.5	447.1	396.4	431.3	12.4
1999	493.7	576.2	284.0	709.4	291.2	371.8	494.1	412.7	466.1	8.0
2000*	518.6	641.5	286.7	725.0	301.8	392.5	521.8	436.3	492.5	6.1
Three months averages										
1998										
Mar	431.3	562.8	280.6	595.7	254.0	392.0	425.8	389.2	415.6	10.8
Jun	441.0	578.1	282.3	679.5	262.8	393.3	445.6	394.7	429.7	11.6
Sep	452.5	592.0	282.1	691.0	266.5	398.6	456.5	398.5	437.8	13.7
Dec	456.8	609.1	283.1	699.0	266.4	405.4	460.6	403.3	442.3	13.3
1999										
Mar	475.8	619.7	283.7	704.1	277.6	367.6	475.0	413.7	455.1	9.5
Jun	485.5	616.5	283.2	710.3	288.2	370.0	490.0	407.0	461.4	7.4
Sep	507.5	536.1	283.2	710.5	305.2	368.8	509.3	406.2	472.6	7.8
Dec	506.0	532.6	285.9	712.6	293.8	423.2	463.8	448.4	475.4	7.5
2000										
Jan	494.4	698.0	286.5	722.1	294.8	346.4	504.4	428.7	478.9	7.5
Feb	496.0	718.5	286.9	720.5	299.7	374.7	508.3	421.6	478.4	6.6
Mar	499.6	642.7	287.1	721.9	304.9	388.8	502.5	432.1	478.7	5.5
Apr	514.2	628.3	286.7	725.0	301.8	391.4	517.8	437.3	490.5	5.5
May	518.6	641.5	286.7	725.0	301.8	392.5	521.8	436.3	492.5	6.1

*Only up to May, the latest available.
Source: Statistics Division, Ministry of Finance and Central Bank of Solomon Islands

TABLE 1-18 INTERNATIONAL COMMODITY PRICES

End of Period	Copra (US$/m.t)	Palm Oil (US$/m.t)	Fish # (US$/m.t)	Cocoa (US$/m.t)	Logs * (US$/cu.m)
1985	386	501	713	2254	136
1986	198	257	698	2070	151
1987	309	343	964	1994	222
1988	398	437	800	1585	233
1989	348	350	847	1241	224
1990	229	290	674	1267	210
1991	287	339	594	1195	222
1992	380	394	578	1100	250
1993	296	379	682	1117	386
1994	418	532	1048	1391	310
1995	439	628	862	1432	256
1996	489	531	975	1455	253
1997	433	547	1082	1618	237
1998	411	671	1006	1676	163
1999	462	436	680	1127	187
2000	305	310	507	900	190
1996					
Mar	461	519	1068	1339	256
Jun	550	509	860	1538	256
Sep	475	545	948	1476	259
Dec	498	561	1025	1474	250
1997					
Mar	489	559	858	1524	237
Jun	415	534	1057	1688	264
Sep	403	523	1152	1766	235
Dec	394	566	1260	1739	211
1998					
Mar	378	671	1153	1721	191
Jun	414	633	1170	1723	137
Sep	409	703	1046	1686	150
Dec	474	663	912	1524	164
1999					
Mar	451	497	900	1314	173
Jun	530	392	625	1063	184
Sep	421	388	610	1061	203
Dec	434	354	470	919	199
2000					
Jan	420	348	710	919	193
Feb	411	332	710	857	184
Mar	399	349	710	926	191
Apr	353	372	575	912	194
May	324	324	420	922	190
Jun	295	315	400	948	194
Jul	284	311	400	900	191
Aug	274	306	430	887	191
Sep	222	288	440	883	194
Oct	210	255	445	878	189
Nov	237	257	415	880	188
Dec	228	262	415	893	180

Prior to 1995 Q1, average ATSA prices from INFOFISH was used, but from 1995 Q1 to present, data source has been changed to Thailand Market prices.

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

Source: World Bank and Infofish..

TABLE 1-19 REAL GROSS DOMESTIC PRODUCT

(1985 = 100)

Industry	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Agriculture	125.5	125.1	138.0	132.7	103.5	77.4
Forestry, Logging, Sawmilling	196.1	209.9	195.8	134.9	153.0	132.2
Fishing	205.7	151.4	156.7	176.6	170.9	98.5
Mining & Exploration	58.1	74.9	124.2	-449.7	-1262.5	-613.1
Manufacturing	227.7	235.1	237.8	245.7	246.0	197.2
Electricity and Water	235.2	232.4	249.7	263.4	276.9	188.0
Construction	218.3	289.8	189.5	103.9	75.1	51.4
Retail and Wholesale Trade	135.9	146.9	146.6	159.8	149.7	134.5
Transport and Communications	163.8	164.0	152.0	170.7	179.3	143.4
Finance	249.5	303.2	281.6	243.9	247.6	239.4
Other Services	169.6	170.7	171.2	182.2	175.9	173.1
Index of Monetary GDP Production	169.4	171.8	168.9	170.9	169.2	138.9
Annual % movement	11.5	1.4	-1.7	1.2	-1.0	-17.9
Index of Primary Production	158.5	149.0	154.5	143.0	129.1	93.8
Annual % movement	17.3	-6.0	3.7	-7.4	-9.7	-27.4
Non-Monetary: Food	129.4	132.8	136.3	139.0	143.6	147.4
Non-Monetary: Construction	126.3	128.7	131.1	133.7	136.2	141.6
Non-Monetary GDP Index	129.1	132.4	135.9	139.4	143.0	147.0
Index of Total GDP Production	**161.5**	**164.1**	**162.6**	**164.7**	**163.9**	**140.5**
Annual % movement	**10.1**	**1.6**	**-0.9**	**1.3**	**-0.5**	**-14.3**

* Provisional.
Source: Central Bank of Solomon Islands.

TABLE 1-20 PRODUCTION BY MAJOR COMMODITY

Period	Copra (m.t)	Coconut Oil (m.t)	Palm Oil (m.t)	Palm Kernel (m.t)	Cocoa (m.t)	Fish Catch (m.t)/1	Timber Log Prodn. ('000Cum) 2/
1985	41907	-	20000	4177	1713	31106	378
1986	31672	-	14560	3133	1874	44207	471
1987	27148	-	11999	2432	2667	32408	322
1988	29272	-	15227	3172	2639	41913	310
1989	33691	21	20091	4476	3299	36947	304
1990	34306	2693	22104	5051	3895	25986	442
1991	25133	2717	22518	4992	4615	50859	336
1992	29073	3879	30854	6781	4159	39996	640
1993	29057	4286	30986	7043	3297	32486	547
1994	22500	2827	29737	7183	3337	39005	267
1995	26148	4372	29562	6861	2482	56133	-
1996	21989	3520	28680	6834	2464	41199	-
1997	28679	5399	28863	7005	3907	40654	650
1998	26971	8339	29077	6821	3454	49390	604
1999	23242	10345	12877	3182	2395	47961	622
2000	19004	8553	-	-	2316	19653	536
1996							
Mar	4758	503	8417	1970	275	3782	n.a.
Jun	5120	769	8647	2085	948	8272	n.a.
Sep	6070	823	6629	1603	820	15321	n.a.
Dec	6041	1425	4987	1176	421	13804	n.a.
1997							
Mar	5915	1085	5904	1403	320	9535	168
Jun	7146	1171	7783	1864	1309	10702	181
Sep	7418	2612	7991	1864	1383	9165	195
Dec	8200	531	7185	1874	895	11251	107
1998							
Mar	6536	1619	8427	2088	726	6794	166
Jun	7666	2370	7976	1821	794	14209	150
Sep	6082	1857	6500	1553	1613	11832	120
Dec	6687	2493	6174	1359	321	16555	166
1999							
Mar	6528	2568	7041	1772	357	11628	150
Jun	5842	3256	5836	1410	902	13788	165
Sep	5202	2015	-	-	526	12132	164
Dec	5670	2506	-	-	610	10413	143
2000							
Jan	2019	896	-	-	352	1870	43
Feb	2610	1008	-	-	109	2220	48
Mar	2528	1267	-	-	273	3088	43
Apr	2607	903	-	-	244	3341	42
May	3414	852	-	-	480	4293	48
Jun	362	371	-	-	140	2638	40
Jul	606	731	-	-	218	2204	56
Aug	908	598	-	-	72	-	43
Sep	1085	844	-	-	68	-	48
Oct	1437	402	-	-	108	-	45
Nov	1008	132	-	-	118	-	52
Dec	420	549	-	-	135	-	27

1/ The catches reported here are those of Solomon Taiyo Ltd and National Fisheries Development only.
2/ Log production data has no sources, thus export data has been used since January 1997 as proxy.
Source: Central Bank of Solomon Islands.

TABLE 1-21 SELECTED ECONOMIC INDICATORS

		Unit	1998	1999				2000			
			Quarter IV	Quarter I	Quarter II	Quarter III	Quarrter IV	Quarter I	Quarter II	Quarter III	Quarter IV
A.	External Trade	SI$'000									
	i) Exports		138607	148109	151950	151549	117997	104201	92013	75646	59442
	ii) Imports c.i.f.		145963	119221	135377	153962	129847	149407	121660	95845	105120
B.	Gross External Reserves	SI$'000	233673	241481	258077	285435	255098	243625	199110	191587	156106
C.	Money Supply	SI$'000									
	i) Currency in active circulation		81340	75905	79867	84416	100994	83976	79520	77784	88272
	ii) Demand Deposits		139234	149366	176833	177654	163772	164666	158968	161611	160013
	iii) Money Supply (M1)		220574	225271	256700	262070	264766	248642	238488	239395	248285
	iv) M1 and Savings Deposits (M2)		295364	302537	336325	340686	340558	321181	314397	319195	330525
	v) M2 and Term Deposits (M3)		438521	458307	480377	469092	458336	450523	440956	458303	460010
D.	Domestic Credit	SI$'000									
	i) Government (net)		177999	187819	199126	172020	178267	159911	174133	209025	258170
	ii) Statutory Corporations		783	793	732	1654	2581	4363	4491	3399	3586
	iii) Other		176985	176641	178556	178341	191736	207008	220382	209295	195220
E.	Interest Rates (average)	%									
	i) Savings Deposits		1.9	1.3	1.9	1.5	2.7	1.3	1.3	1.3	1.3
	ii) Time Deposits (6-12 months)		6.0	6.5	5.0	3.7	4.8	4.7	3.4	3.4	3.4
	iii Lending		14.1	14.1	13.9	13.7	13.8	14.7	15.2	15.2	15.2
	iv) Bank Deposits with CBSI		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
F.	Exchange Rates										
	i) US$1.00 = SI$		4.9	4.9	4.8	4.9	5.1	5.2	5.1	5.1	5.1
	ii) AU$1.00 = SI$		3.0	3.1	3.2	3.2	3.3	3.3	3.0	2.9	2.8
G.	Honiara Retail Price Index (1985=100)		443.4	458.7	463.0	475.4	477.5	479.2	n.a	n.a	n.a
	Annual % change		13.3	9.5	7.5	8.2	7.8	5.5	n.a	n.a	n.a
H.	International Commodity Prices	SI$/per tonne									
	i) Copra		2221.1	2205.6	2524.6	2186.9	2195.8	2120.0	1649.2	1323.4	1145.3
	ii) Cocoa		7691.8	6716.5	5341.4	5332.0	4832.1	4657.0	4720.1	4530.1	4497.9
	iii) Palm Oil		3285.0	2714.9	2221.1	1783.5	1865.0	1773.5	1715.3	1535.5	1313.2
	iv) Fish		4428.7	3020.1	3180.0	3081.3	2354.4	3671.1	2366.9	2154.8	2163.3

Source: Central Bank of Solomon Islands