

30th April 2009

Hon. Snyder Rini
Minister of Finance
Department of Finance and Treasury
Honiara

Dear Honourable Minister,

In accordance with the provisions of section 47(1) of the Central Bank of Solomon Islands Act, CAP 49, I have the honour to submit to you the 2008 Annual Report and the audited Accounts of the Central Bank of Solomon Islands.

Yours sincerely,



Denton H Rarawa
Governor

CENTRAL BANK OF SOLOMON ISLANDS

CBSI Vision

“Facilitating economic growth and financial stability in Solomon Islands”

Central Bank Values

“Upholding integrity, excellence, professionalism, corporate governance, team spirit and friendly service.”

Central Bank Mission

- (a) Conduct monetary policy to foster balanced economic growth and financial stability;
- (b) Provide proactive and sound advice to government and people of Solomon Islands;
- (c) Develop and promote a reputable financial system;
- (d) Recruit and equip a professional team; and
- (e) Disseminate timely quality information.

THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK SHALL BE:

- (a) to regulate the issue, supply, availability and international exchange of money;
- (b) to advise the Government on banking and monetary matters;
- (c) to promote monetary stability;
- (d) to supervise and regulate banking business;
- (e) to promote a sound financial structure; and
- (f) to foster financial conditions conducive to the orderly and balanced economic development of the Solomon Islands.

Section 4

Central Bank of Solomon Islands Act. CAP 49

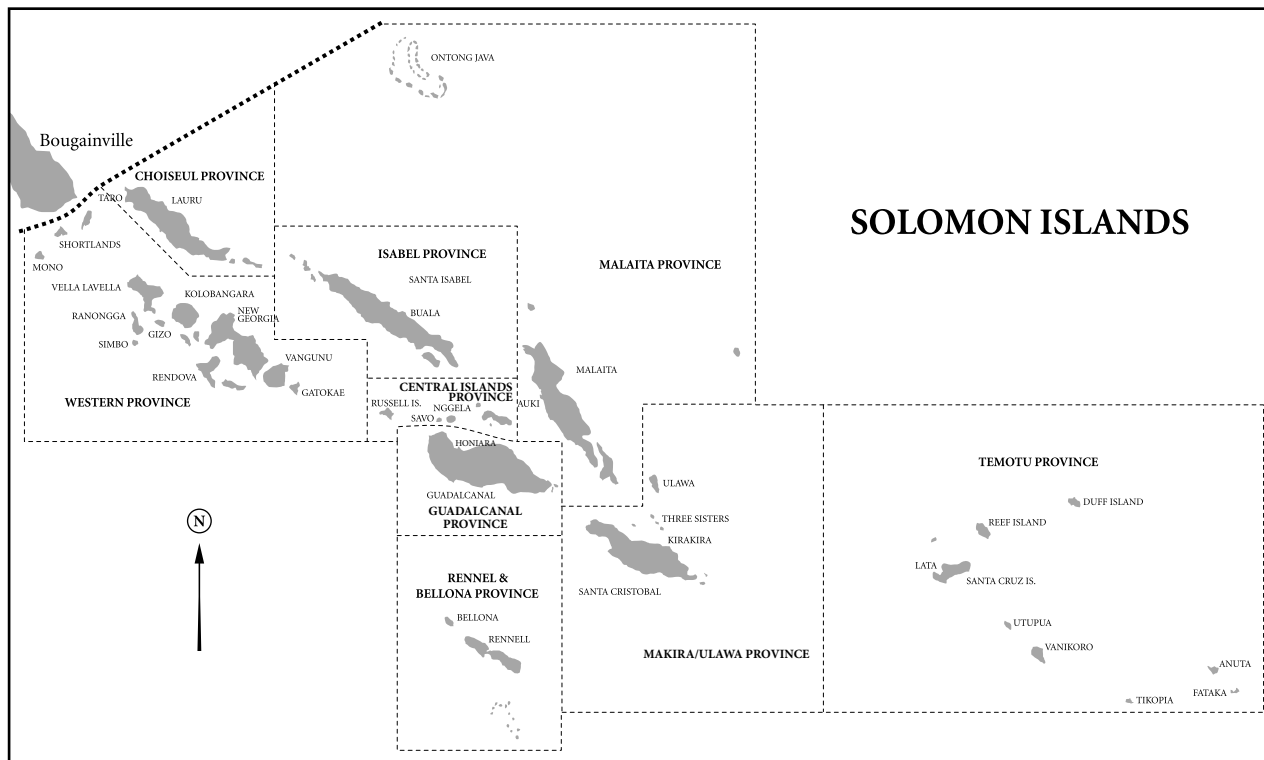
Foreword

This is the twenty sixth Annual Report issued by the Central Bank of Solomon Islands and the thirty first 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 2009



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BOARD OF THE CENTRAL BANK, at the end 2008



Mr. Rick N Houenipwela
Chairman, ex-officio
(up to Aug 2008)



Mr. Denton H Rarawa
Chairman,
(as of Aug 2008), ex-officio



Mr. Gane A Simbe
Director, ex-officio
(as of Sept 2008)



Mr. Shadrach Fanega
Permanent Secretary
Ministry of Finance



Mr. Moses Pelomo
Director



Mr. George S Kiriau
Director (up to Sept 2008)



Dr. Steve Aumanu
Director



Sir Thomas Chan
Director



Mr. Leslie Teama
Director

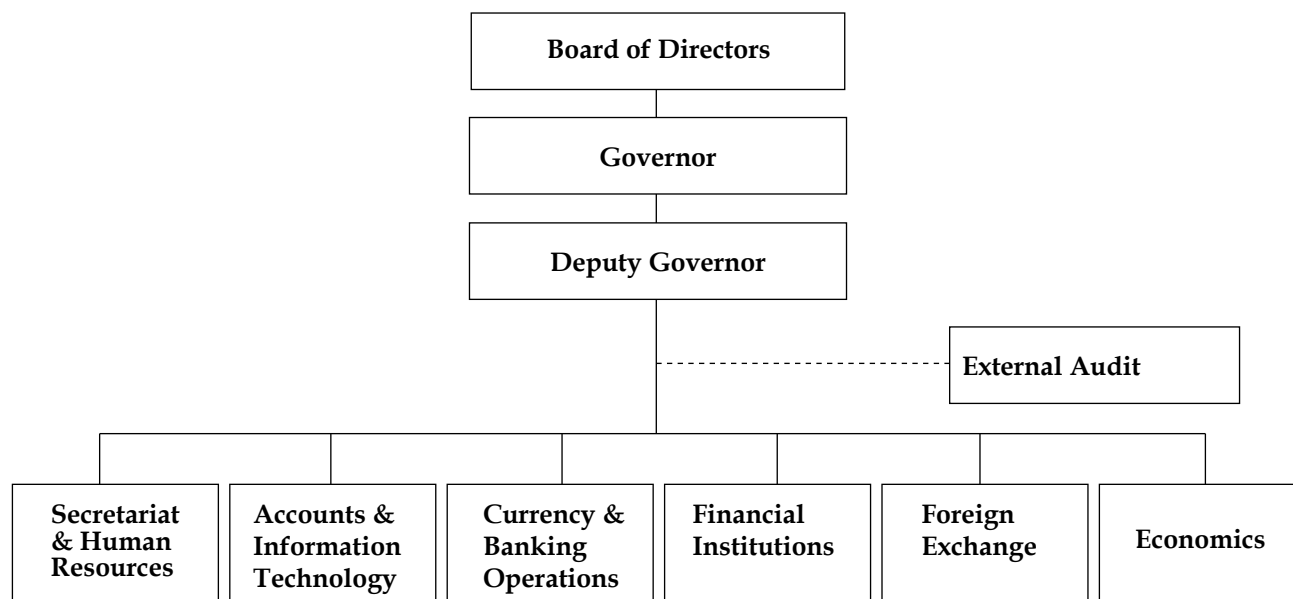


Mr. George Kejoa
Director
(up to Apr 2008)



Mr. Edward Ronia
Secretary to the Board

Organisation of the Central Bank



MANAGEMENT OF THE CENTRAL BANK 2008



Mr. Rick N Houenipwela
Governor
(up to Aug 2008)



Mr. Denton H Rarawa
Governor
(as of Aug 2008)
Deputy Governor
(up to Aug 2008)



Mr. Gane A Simbe
Deputy Governor
(as of Sept 2008)
Manager, Financial Institutions
Department
(up to Sept 2008)



Mr. Daniel Haridi
Manager, Currency
Operations Department



Mr. Edward Ronia
Manager, Secretariat &
Human Resources,
Manager, Accounts
& Information Technology (Ag),
Secretary to the Board



Mr. Vincent Nomae
Manager, Economics
Department



Mr. Raynick Aquillah
Manager, Foreign
Exchange Department

GLOSSARY

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

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

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

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

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

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

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

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

Exports: Goods that a country sells abroad.

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

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

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

Imports: Goods that a country buys from abroad.

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

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

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

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

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

Quasi money: Total of time deposits and savings deposits.

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

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

I. ECONOMIC OVERVIEW, POLICY ISSUES AND ECONOMIC OUTLOOK

The Solomon Islands economy began 2008 with the main economic indicators pointing towards another year of positive growth. As the rising energy and food prices in the international market that started in mid 2007 begun to filter into the economy, the country experienced an increasingly precarious and uncertain situation. This was exacerbated by the start of the global financial and economic crisis in September 2008.

Domestic production however, was buoyant in the first three quarters of 2008. Consequently this more than offset the negative outcome witnessed in the last quarter of the year. Production of all the major export commodities registered increases in 2008, owing to high prices in the international market which resulted in the overall annual production index increasing by around 10%.

The domestic economy was estimated to have grown by 6.7%, four percentage points below the revised growth witnessed in 2007. The subdued growth was driven largely by slow growth in most sectors. The sectors with significant sluggish growths were forestry, construction, utility, and transport and communication sectors. The forestry sector growth slowed to 4.5% compared to the 24.5% growth in 2007. Whilst this outcome was anticipated given the unsustainable rate of harvesting, its implication for both the foreign reserves and government revenue was serious. Construction grew by only 9% compared to the 43.4% growth in 2007. Electricity and water grew by only 1.9% compared to 12% growth seen in 2007. Transport and communication grew by 11.0% compared to the 20.5% growth in 2007.

In terms of sectoral contribution to Gross Domestic Product (GDP) growth, government services contributed 19.1%, while the agricultural sector and the forestry sector, contributed 17.4% and 15.6% respectively. The

non monetary sector is estimated to have contributed 19.1%. Nominal GDP per capita rose to a record high of US\$1019 in 2008 from US\$840 in 2007. In real terms, GDP per capita grew by 3.8% in 2008.

Inflation at the end of December 2008 based on the Honiara Retail Price Index (HRPI) was 19.4% (3 months moving average), compared to 10% in 2007. During the year inflation reached 23.5%, the highest ever recorded since the post ethnic tension period. The second round effect of high world oil price which passed through imports was the main driver of high inflation during the year.

The 2008 fiscal budget including development expenditure estimated an overall deficit of \$163.5 million. Expenditure was estimated at \$1.7 billion while revenues at \$1.5 billion. Provisional data indicate that the government made savings or recurrent surplus of \$234.2 million. This outcome reflects continuous improvements in compliance and institutional strengthening of the collecting agencies. The overall budget incurred a provisional deficit of \$1.1 million. The favourable outcome in the first nine months of 2008 far outweighed the deterioration seen in the last quarter. In light of the current global economic crisis, the government needs to reprioritize its spending and focus more on infrastructure development and productive sectors.

The outcome in government operations during the year stemmed from several factors. First, the revenue collecting agencies received assistance from donors, which strengthened and improved the institutional capacity of these agencies. Second, continued support from Regional Assistance Mission to Solomon Islands (RAMSI) enabled the Inland Revenue Division to uncover a number of registered companies that were not paying tax. This also contributed to the revenue enhancement effort of the government. Third, the combined effort

of the Customs and Inland Revenue Divisions to crack down on undervalued and undeclared items was a major success. It is hoped that the government continues to consolidate its revenue enhancing measures so that unscrupulous activities are disclosed and reduced.

The Balance of Payments (BoP) recorded an overall deficit of \$120.0 million in 2008, reversing the surpluses witnessed in the last six years. Export receipts rose 36% to \$1657.0 million while imports surged by 14.9% to \$2063.0 million, triggering a trade deficit of \$406.0 million. Nevertheless, the main drivers of the increase in export receipts were favourable prices especially for cocoa, copra, palm oil and kernel, and fish which soared export values by 53%, 228%, 62% and 19% respectively. Despite strong inflows stemming from exports and current transfers, the current account registered a deficit of \$573.5 million, owing to high outflows in imports of goods and services, as well as high income repatriation. The rise in the former was driven largely by high world oil price. The latter included income and profit repatriated by foreign individuals and companies working and living in the Solomon Islands. The capital and financial accounts although recorded surplus were outweighed by the deficit in the current account, hence the overall deficit. This outcome resulted in the gross official reserves recorded at \$716.1 million at the end of 2008, 22.5% lower than the previous year. This level of reserves is equivalent to 2.5 months worth of imports of goods and non-factor services.

Major revisions were made to the monetary and financial statistics (MFS) to comply with new international reporting standards; hence changes in some monetary aggregates. Based on this, money supply (M3) recorded a subdued growth of 7% to \$1471.0 million in 2008 compared to the 23% rise in 2007. This outcome was driven solely by an increase in domestic credit which rose by 26.3%. Of this, net credit to government surged significantly by 172.8% and private sector lending grew by

16.1%. On the other hand, total liquidity dropped by 31.3%, resulting in excess liquidity falling by 54.7%. This drop, in large part, reflected the redefinition of the liquid asset ratio (LAR) as a monetary policy instrument to curb high inflation in the country.

On the policy front, fiscal policy in 2008 was geared towards focusing on six priority areas. These include; reconciliation and rehabilitation; national security and foreign relations; infrastructure development; social services sector; economic and productive sector; and civic affairs. Some of these priority areas were achieved in the short term while others are long term objectives. Normalising foreign relations with Australia was achieved during the year. The government also managed to reduce its indebtedness to around 36% of GDP, giving space for the government to address other priority areas. Health and Education sectors continued to receive the bulk (around 40%) of the recurrent budget. These two sectors are considered necessary conditions for the sustainability of the long term development in Solomon Islands.

The Auluta Palm Oil and Bina Harbour projects on Malaita, have been very slow to get off the ground. Commitment to these projects should not be diminished. The only mining company in the country has yet to produce its first ounces of gold, and it was anticipated that production would commence in mid 2009, however the current global turmoil might delay its first production.

It is imperative that the government provides a conducive environment for investments. There has been expression from the private sector that this has not been so. This will only lead to unnecessarily prolonging business expansion or even repatriation of funds overseas from essential projects. Importantly, bureaucratic red tape and bottle necks in the set up process needs to be eradicated as the cost of doing business locally is considered high. It is hoped however, that the new Company's Act will address these problems.

The monetary policy implemented during the year by the Central Bank received mixed reactions from the public. During the year sufficient liquidity was available for lending by the commercial banks. The commercial banks however, have taken more stringent and careful assessment of applications given the high risks involved. The monetary policy stance for 2008 was very clear on its main objectives; to contain inflation at 10% or below; and to preserve adequate reserve level equivalent to at least 3 months import cover.

To mop up the excess liquidity, the Central Bank redefined the LAR, in the banking system to exclude till cash in the commercial banks. The only liquid assets counted in the LAR calculation are the commercial banks' balances held with the CBSI.

Furthermore the Central Bank introduced its own papers known as the Bokolo Bills (6 – 12 months maturity) and Bokolo deposits (12 – 24 months maturity) to complement the Treasury Bills. Experience has shown that there has been over subscription on the Treasury Bills. The \$30 million cap on the Treasury Bills is considered too low and therefore the government may wish to consider increasing the cap in the future and ensure that it learns from the lessons that led to the collapse of this market in 1995. Meanwhile, if this open market operation is well established, it can be an effective instrument for monetary policy.

The exchange rate policy in 2008 was aimed at stabilising against the U.S dollar. While the stabilization policy was aimed at encouraging exports, preserving the external reserves at three months of import cover was equally important. In the event that the external reserves fell below the desired three months cover, the Central Bank will take action. During the year the reserve level dropped below the desired level, hence some administrative measures were enforced to reduce the rapid depletion of the external reserves.

Economic Outlook for 2009

The global economic meltdown had caused major economies to project either low growth or recession. The Solomon Islands begun to experience the impact of the crisis towards the end of 2008 with the full extent of the impact anticipated to be felt in 2009 and beyond. Despite global attempts to address this, the crisis has continued to deepen and the extent of this catastrophe is not yet fully known. For Solomon Islands this means a slowdown in exports as the major markets, in particular the Asian region, began to feel the pinch thereby reducing demand for our export commodities. This also means further deterioration in the balance of payments causing reduction in the external reserves.

In light of the current global economic crisis, coupled with existing domestic constraints, production of logs, fish and copra are estimated to be lower in 2009. Cocoa production may increase, despite the drop in price in the international market. Although, contracted prices of cocoa with overseas buyers may fall, it is still high enough to attract local farmers to produce more. Furthermore, AUSAID is committing substantial amount of money to this sector commencing in 2009 which should eliminate some of the constraints faced by farmers. Production of palm oil is predicted to increase to pre-tension levels despite the global turmoil.

In terms of domestic business confidence and outlook¹, it is anticipated that major business expansion may be on halt until the economic situation improves. It is however hoped that the implementation of government programs will mitigate, complement and enhance private sector activities, increase employment across sectors and stimulate greater investments.

The economy is estimated to grow by 1.0% in 2009 and predicted to remain low in the next three years. Donors may consider bringing

¹Based on our consultations with major companies in Honiara

forward their committed funds for development projects to mitigate further deterioration. The Government plans to re-prioritize its expenditure to focus on developmental activities rather than on consumables. Attention is being focused on how to avert the short term effects of the global crisis but at the same time work on the long term strategies to grow the economy. One immediate response to this economic downturn is for consumers to change their consumption behavior by switching to locally produced goods. The current economic climate calls for concerted effort by all stakeholders to behave rationally.

Preliminary forecasts indicate that the logging sector will slow down and contribute less to real GDP growth in 2009. Since logging is one of the major contributors to GDP, a negative growth will mean a drop in foreign exchange earnings, government revenue, and employment.

There will be marginal growth in money supply in 2009, more likely to stem from

expansion in domestic credit as government continues to run down its deposits while lending to private sector may experience pockets of increase. The Central Bank however, will monitor the situation and act accordingly to contain inflation. Imports and exports are estimated to slowdown, and therefore a deficit in the overall balance of payments is predicted. The worst case scenario will be if the world price of oil increases again to above US\$90 per barrel then the current account will be severely affected.

The Central Bank will focus on price stability and adequate external reserves as key monetary policy objectives in 2009. The Bank will strive towards achieving lower inflation and ensure that external reserve levels are adequate to meet the country's obligations to the rest of the world. Furthermore, it will ensure that the Solomon Islands currency remains stable and enhances the competitiveness of the export sector. At the same time, it is imperative that Government put in appropriate policies that promote economic growth, both in the short and the long term.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

2008 will go down in history as the most turbulent year the global economy has witnessed since the end of the Second World War. The four years prior to 2008 had seen a rapid and sustained global growth combined with low and stable inflation. This year was to provide an end to both of these trends with the first three quarters seeing rapid increases in world prices and the final quarter witnessing a global economic crisis.

Pressures on financial systems that had begun with a collapse in the relatively small US sub-prime mortgage markets erupted in September 2008 as financial markets were pushed close to systematic failure. The crisis uncovered huge market and regulatory failures in global financial markets and a raft of bankruptcies, mergers and public interventions ensued as financial institutions across the US and Europe. It was originally hoped that the crisis would be manageable, resulting only in a slowdown across the major industrial countries. The impacts of the crisis are however proving far worse than originally expected as collapsing financial markets have eroded confidence, eliminated usual lines of credit and rapidly increased risk aversion.

By the end of 2008 some of the world's largest economies were in or entering recession. The US Department of Commerce reported a 3.8% annualised decline in GDP for the fourth quarter 2008 whilst US unemployment hit 7.2% in December, a 16 year high. The Euro area experienced a 3.8% decline in the fourth quarter and the UK officially entering recession following two quarters of negative growth.

The crisis has not been contained to the industrialised nations. Asia's rapid growth has been based on highly integrated export led production systems and is suffering as the markets for its products shrink. China recorded its biggest decline in exports for a decade with December export levels down

2.8% on December 2007 and South Korea witnessed a 17.4% fall in its exports across the same period. The high level of foreign reserves and sustained domestic demand has provided a cushion for many of the Asian economies but this has not proved enough and with domestic demand faltering the worst may be ahead. Whilst China continued to experience strong growth this is at a far lower level and other Asian economies recorded worse third quarter results than those directly hit by the financial turmoil. South Korea for example experiencing a quarter on quarter decline of around 20% in the fourth quarter and Taiwan experienced over a 25% decline for the same period. As the Solomon Islands major trading partner economic issues in Asia are bound to have knock-on effects to our domestic economy.

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

	2005	2006	2007	2008	2009
World Output:	4.45	5.101	5.153	3.203	-1.319
Advanced economies	2.58	3.011	2.706	0.85	-3.793
United States	2.939	2.779	2.028	1.111	-2.751
Euro Area	1.716	2.891	2.672	0.855	-4.225
United Kingdom	2.058	2.838	3.022	0.707	-4.086
Japan	1.934	2.039	2.392	-0.641	-6.197
Australia	2.768	2.839	4.021	2.061	-1.449
New Zealand	2.813	1.942	3.181	0.267	-1.977
Taiwan Province of China	4.161	4.799	5.703	0.123	-7.463
Newly industrialized Asia	4.689	5.585	5.68	1.55	-5.622
Emerging & developing economies	7.125	7.957	8.335	6.111	1.581
Developing Asia and the Pacific	9.034	9.844	10.606	7.74	4.816
China	10.403	11.606	13.012	9.047	6.52
India	9.211	9.817	9.295	7.288	4.523
World Inflation:	3.711	3.64	3.973	5.969	2.498
Advanced economies	2.322	2.352	2.152	3.381	-0.189
Emerging & developing economies	5.74	5.434	6.395	9.263	5.745
Developing Asia	3.805	4.167	5.394	7.416	2.805
World Trade:	7.661	9.175	7.217	3.329	-11.025

Source: Central Bank of Solomon Islands

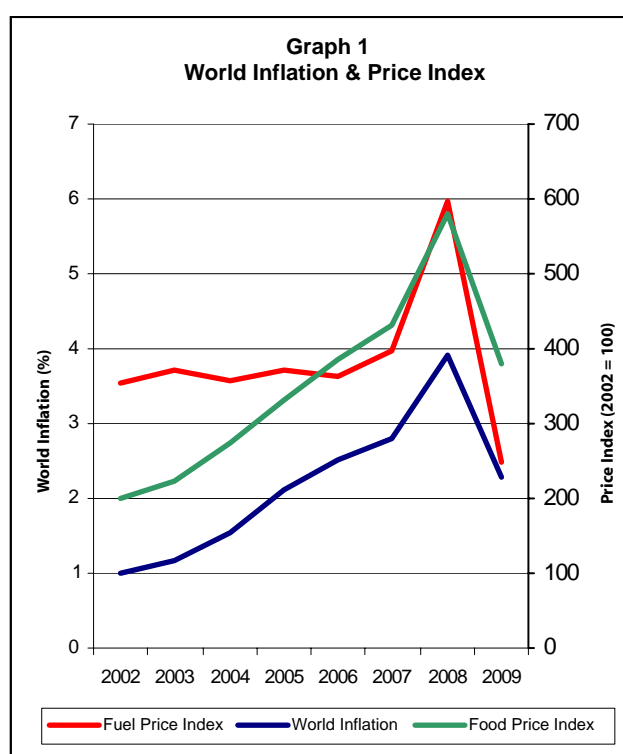
Australia also represents an important trade partner and aid donor for the Solomon Islands. The Australian economy did not fare as badly as many other industrialised nations in 2008 but it did witness a 0.5% contraction in the final quarter of the year, the first shrinkage the Australian economy has experienced in eight years. Falling price and demand for commodities have hit the economy badly, especially the mining sector. The dependence of the Australian financial system on offshore wholesale funding has meant that although not as exposed to toxic assets as many other countries it was vulnerable to the international financial market crisis. The housing bubble that had built up in Australia has burst which has also generated problems for the banking sector. Also of worry to the Australian authorities is the unemployment rate began to rise towards the end of the year.

The World Bank and the IMF are both predicting the first ever recorded fall in world output in 2009. The IMF is projecting a 1.3% contraction in world output in 2009 as the effects of the global financial crisis unfold. This recession is led by the industrialised nations who are predicted to decline by around 3.8% in 2009. Of these economies the United States is predicted to decline by around 2.8%, the Euro Area by around 4.2% and Japan by 6.2%. The World Bank is predicting that low income countries not including China and India are to stagnate in 2009.

Countries have responded to this with aggressive macroeconomic policy loosening monetary policy and proposing large fiscal stimulation packages. During December the US Federal Reserve slashed its key interest rate to 0.25% the lowest it has been since records began and other Central banks have also launched aggressive measures. Throughout 2009 these measures look set to be complimented with unconventional monetary policy and fiscal easing.

Inflationary pressures generated by rising commodity prices and asset bubbles began to

manifest in late 2007 but saw rapid acceleration in 2008. World inflation was pushed from around 4% in 2007 to over 6% in 2008. The OECD saw a doubling in the rate of inflation from 2% up to 4%, led by price increases in the US (4.9%) and the UK (5%). By the middle of the year it was estimated that over half of all developing nations had an inflation rate exceeding ten percent and the World Bank has predicted that rises in fuel and food prices pushed 130-155 million people into poverty in 2008.



Oil price rises were one major motivator for this inflation. In January 2008 world oil prices exceeded \$100 USD per barrel for the first time and continued to rise with light sweet crude prices in New York passing \$140 USD a barrel in August. These price rises represented a failure of supply to keep up with rapidly expanding and inelastic global demand. Upward pressure on prices was also due to political instability in Nigeria and the Middle East. Food prices worldwide were a major concern. In the 12 months to March world

wheat prices had risen 120% and the average world rice price jumped 74% in the same period. This was the result of large demand increases combined with supply shortfalls generated by poor weather conditions and the high price of fertilizer.

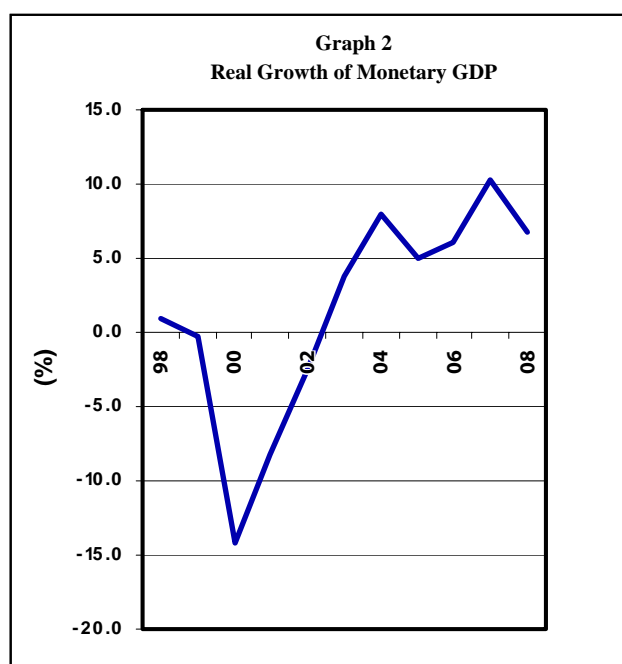
The global financial crisis sent commodity prices worldwide crashing and has led to a sharp negative correction to asset bubbles. Global oil prices have fallen to around \$50 per barrel and other commodity prices have tracked this trend. It is predicted that global inflation will be only 2.5% in 2009 with some of the world's major economies encountering periods of deflation.

Global food prices still prove a worry for some countries however. Whilst a large proportion of food prices have fallen some remain stubbornly high. An important case for the Solomon Islands has been the price of medium grain rice. Whilst the world price of long grain rice has fallen the impact of the failure in the Australian harvest and the continued export bans by China and Egypt has preserved medium grain rice prices at a high level. The continuation of high prices on certain key foods provides an important worry in the year to come.

III. DOMESTIC ECONOMIC OUTCOMES

Gross Domestic Product

The Solomon Islands economy grew by an estimated 6.7% in 2008, down compared to 10.8% (revised) growth reported in 2007. In real terms, Gross Domestic Product (GDP) totaled \$394.5 million up from \$369.9 million in the previous year. In nominal terms, GDP grew by an estimated 25% to \$4,092 million in 2008 up from \$3,278 million in 2007, driven by growth in all the major economic sectors during the year.



The agriculture sector grew by 14% to \$68.8 million in 2008 against the 22% growth witnessed in 2007. This outcome was due mainly to increased production in palm oil, cocoa and copra. In terms of sectoral contribution, the agriculture sector contributed around 17% to the overall real GDP.

The construction sector rose by 9% to \$6.6 million compared to the 43% growth registered in 2007. Although the pace slowed down,

construction activities continued reflecting the high demand in the housing market with more construction of private residences, offices, hotels and sports complexes.

Table 2
Estimated Real GDP
(Index 1985=100)

Industry	2005	2006	2006	2008 Est.
Agriculture	118.1	120.5	146.4	168.4
Forestry	288.3	306.3	381.5	398.4
Fishing	104.4	130.6	110.8	122.1
Mining & Exploration	-3.3	-3.3	-3.3	-3.3
Manufacturing	137.1	141.0	147.6	147.7
Electricity & Water	250.6	255.0	285.6	291.1
Construction	52.9	70.6	94.6	110.3
Retail & Wholesale Trade	143.3	143.3	152.6	152.6
Transport & Communication	146.7	187.6	225.9	250.9
Finance	231.7	236.0	257.8	262.6
Other Services	135.4	144.2	153.8	170.4
Index of Monetary GDP Prod.	147.5	158.3	178.2	192.9
Annual % movement	5.6	7.4	12.5	7.7
Index of Primary Prod. (Min)	151.2	162.4	188.4	207.0
Annual % movement	6.7	7.4	12.5	8.7
Non-Monetary : Food	169.6	174.3	179.2	184.2
Non-Monetary : Constr.	164.4	169.0	173.8	178.6
Non-Monetary : GDP Index	169.2	173.9	178.8	183.8
Index of Total GDP Prod.	151.8	161.1	177.6	190.1
Annual % movement (Real)	5.0	6.1	10.3	6.7

Source: Central Bank of Solomon Islands

The transport and communications sector increased by 11% to \$21 million. Growth in the transport and communications sector was accredited to expansion of Our Telekom facilities both in Honiara and the provinces. "Other" services registered another 11% growth to \$75 million in 2008.

Electricity and Water grew by 2% as compared to the 12% in 2007. The subdued activities were attributed to adverse impacts in high fuel prices for most part of 2008. Mining, retailing and wholesales activities remained unchanged.

Per capita income grew by 21% to \$7,803 in 2008 from \$6425 in 2007. This high level of growth needs to be maintained if the fast growing population in the country is to be sustained.

Investment

The Investment Division in the Ministry of Commerce received 469 investment applications, valued at \$4.9 billion in 2008, compared to \$4.6 billion registered in 2007. Investors from Australia accounted for 25% of the applications. This was followed by Malaysia with 23%; China and New Zealand with 15% and 14% respectively. Solomon Islands investors in joint-ventures with foreign partners made up the remaining 23.4%. If all approved investors successfully started their businesses, this would open up about 5,900 new employment opportunities in the country.

In terms of investment classes, more than 80% of all proposed investments were in the Forestry, Transport, Wholesale & Retail, Other Services, Mining and Fisheries sectors. The remaining 20% investments were in Agriculture, Tourism, Manufacturing, Construction, Consultancy and Electricity sectors. In terms of provincial allocations, 23% of the applications were for Guadalcanal (13% in Honiara) followed by Western Province with 12% and the other provinces accounted for the rest. The increase in the number of applications received in 2008 was largely due to investor confidence in the business environment and improvement in the Law and Justice situation in Solomon Islands.

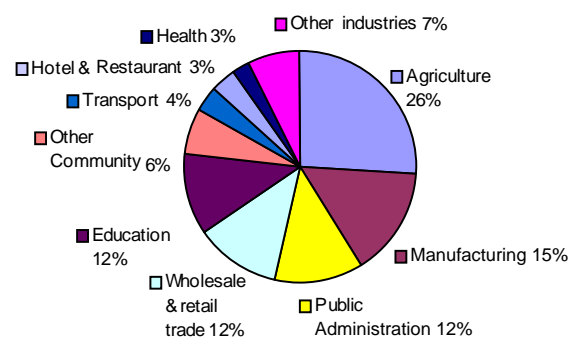
Despite the positive indicators of investments and business environment, the Solomon Islands can still improve by enhancing the social environment and employing the large unemployed youths seen in the urban areas. Skilled and trained manpower is still inadequate, compounded by lack of co-operation and support between the relevant government ministries, stakeholders and

investors which impinge on investment initiatives. Other constraints to investments in the country are land tenure issues and poor utilities services in Honiara. The Government also needs to address the multifaceted tax system that is creating a non conducive environment for investments.

Employment

The domestic labor market improved in 2008, reflecting positive developments in both the private and public sectors. The total government workforce grew to 12,323 from 11,100 (revised) in 2007. Employment indicators, using proxy data from the Solomon Islands National Provident Fund (SINPF) also indicated a growth in total number of people employed to 46,839, indicating 2,472 more new jobs were created during the year.

Graph 3
NPF active contributors in 2008
by major ISIC categories



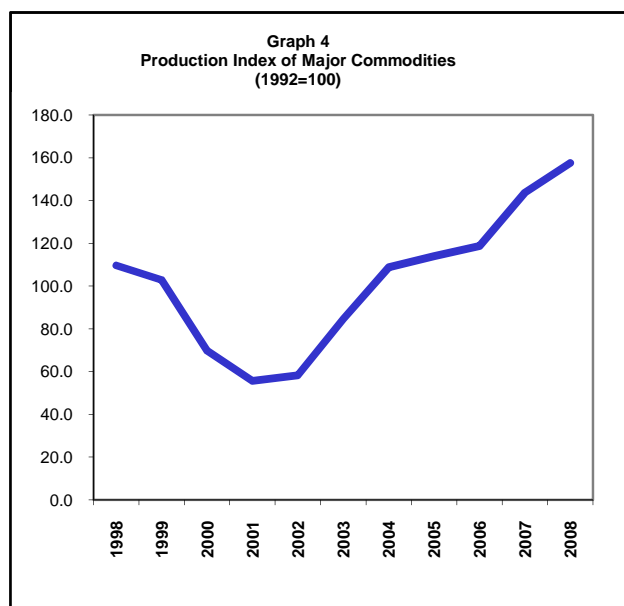
According to a CBSI job advertisement survey, advertised vacancies dropped from 1,837 positions to 1,564 positions in 2008. The bulk

of job vacancies were for technical and skilled positions indicating demand for more skilled labor.

In accordance with the International Standard Industrial Classification (ISIC), Labor demand from the agriculture sector which includes logging was the highest (26%), followed by manufacturing (15%), and public administration, education services as well as wholesale trade with 12% each.

Production

The production index for 2008 rose by 10% over the year to 158, reflecting expansion across key sectors of the economy. The key drivers were cocoa which grew by 22%, and the fisheries and oil palm sectors which grew by 8.6% and 13% respectively.

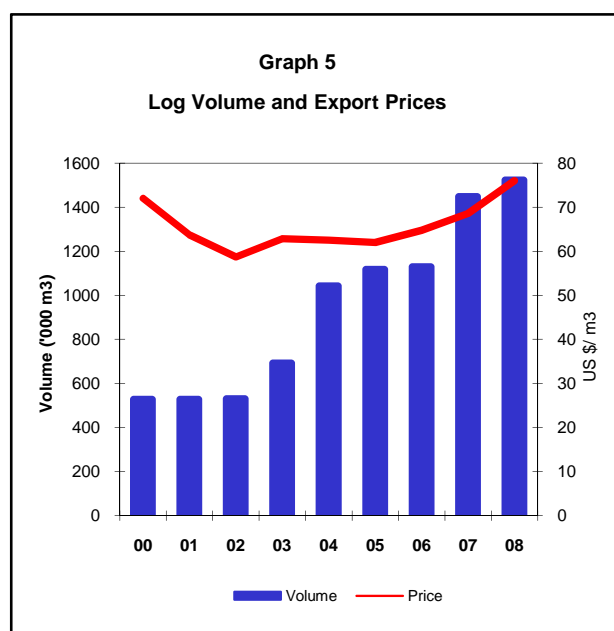


Forestry

Logging activities increased further in 2008, although at a slower rate than 2007. The volume of logs exported in 2008 hit a record

level of 1.5 million cubic meters compared to 1.4 million cubic meters a year ago. This accounted for 16% of GDP and \$974 million in export receipts, and 13% of government revenue. High prices during most part of the year also contributed to the high production. Western Province continued to lead the share of provincial production although logging activities in Isabel, Malaita, Choiseul, Makira and Guadalcanal provinces also increased during the year.

Demand for Solomon Islands logs has fallen in early 2009 due to the global economic crisis. Whilst anticipation for domestic log performance varies, it is projected that production will fall in 2009. The operations of logging companies in Solomon Islands will be affected like other exporting industries.



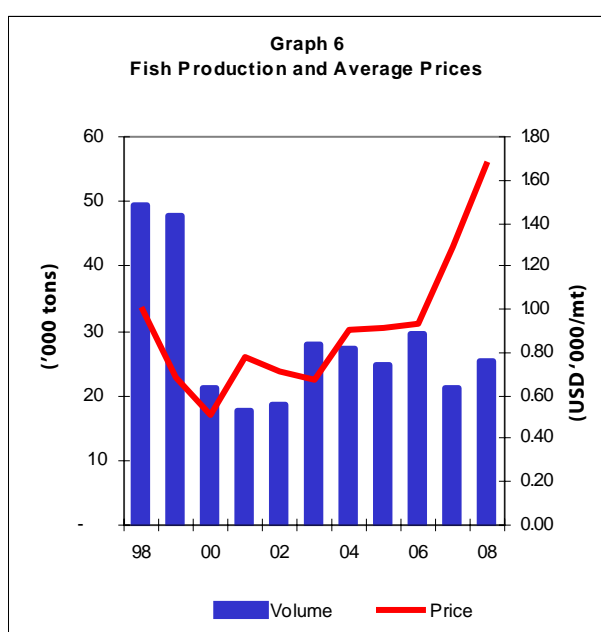
In ensuring sustainable forest management, the Forestry Department had implemented a reforestation program beginning in 2008 aimed at planting 500 hectares of smallholder forest plantations every year. The program targeted increase as well as improve the maintenance of small-scale, family owned, timber

plantations. Also, the Department had enhanced operational capacity for monitoring of compliance with environmental practices to ensure that remaining forests are harvested in a sustainable manner. A new program will be designed and implemented to encourage smallholders downstream processing of timber to create value added products to benefit resource owners.

In terms of prices, based on World Bank data, the average international price for logs rose by 9% over the year to US\$292 per cubic meter. The average export price of Solomon Islands logs remained unchanged at US\$79 per cubic meter.

Fisheries

The fisheries sector rebounded in 2008 to record a 20% rise in total catch to 25,378 tons. The buoyant performance was driven in particular by increased catch by one of the two major fishing companies National Fisheries Development Ltd (NFD), due mainly to better fishing conditions and high prices during the year.



Soltai Fishing and Processing Ltd (SFPL) on the other hand, recorded poor catch attributed mainly to the financial problems faced by the company during the year. As a result of this low catch; SFPL purchased raw materials from NFD to sustain its cannery operations. Production fell accordingly by 37% at the end of the year.

The average international fish price rose by 31% to US\$1,683 per ton in 2008 from an average of US\$1,289 per ton in 2007. However towards the end of 2008, fish prices fell but many forecasters predicted prices to slowly recover in 2009.

Copra and Coconut Oil

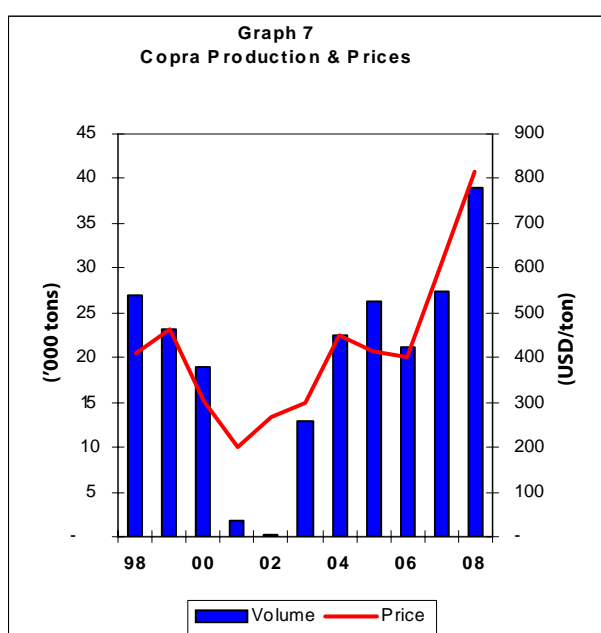
The copra industry recorded a strong growth of 40% to 38,979 tons during the year earning the country \$177 million in export receipts. The outcome was due to higher prices in the first half of 2008. The contracted price offered to exporters increased from US\$327 per ton in 2007 to US\$428 per ton in 2008. Consequently, domestic prices received by farmers increased to \$2.74 per kilo from \$2.08 per kilo a year ago. International prices for copra also increased during the year to US\$816 per ton from US\$607 per ton in 2007.

Leading the provinces in terms of production in 2008 was the Guadalcanal province with 10,140 tons (26%), followed by Western with 8,299 tons (21%), Malaita with 6,268 tons (16%), Central with 5,931 tons (15%), Makira with 3,691 tons (9%), Choiseul with 2,668 tons (7%), Isabel with 1,482 tons (4%) and Temotu with 501 tons (1%).

High transport costs, unreliable shipping services and lack of funds were the main constraints to operations in 2008.

Coconut oil production fell in 2008 by 33% to 499 tons from 741 tons in 2007. This reversed a 122% rise recorded a year ago. The decline reflected switching of one of the three coconut oil producing companies to transportation early

in 2008 and suspension of operation by another in late 2008, leaving only one company operating actively in the industry at the end of the year. Despite these difficulties, the two coconut oil producing companies have expansion plans for 2009, most notably increasing production and setting up in the provinces. In terms of prices, the average international price as reported by the World Bank for coconut oil rose by 34% to US\$1,226 per ton compared to US\$918 per ton in 2007.

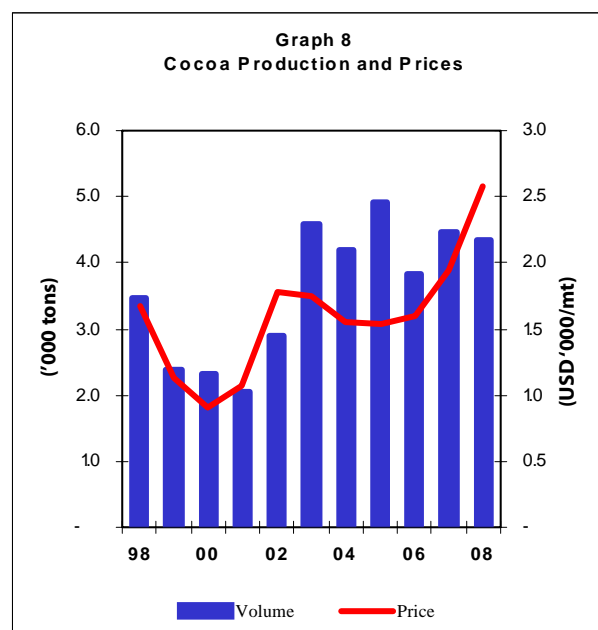


The demand for both coconut oil and for natural certified organic products are growing but this demand cannot be met by current operations.

Cocoa

Cocoa production fell slightly by 0.4% to 4,326 tons, following a 13.4% growth to 4,342 tons in the previous year. The decline was related to low yields in the first and fourth quarters which were typically the low seasons of the crop. The fall is however offset by higher cocoa prices during the year. In terms of production by province, Guadalcanal remained the largest

producer with 2,306 tons, followed by Malaita with 1,071 tons and Makira 618 tons. According to the World Bank, the average international price for cocoa peaked at US\$2,577 per ton in 2008. Contracted export prices also rose to £1,081 per ton from £772 per metric ton a year ago. Consequently, domestic prices increased to \$12.12 per kilo in 2008 from \$8.59 per kilo in 2007.



The industry continued to face the difficulties of irregular transportation, cash flow problems and lack of inputs and materials to process cocoa. Commodity Exports and Marketing Authority (CEMA) plans to be more aggressive in marketing cocoa in 2009 and increasing volumes will be a priority.

Oil Palm Products

Oil palm production remained buoyant in 2008. Crude palm oil (CPO) registered an increase to 21,981 tons in 2008 from 17,151 tons in 2007 whilst palm kernel rose to 6,139 tons from 4,828 tons in the same period. The growth was due to improved efficiency and increased acreage output during the year.

A major development was the sharp increase in crude palm oil and palm kernel prices during the first and second quarters of the year to historic highs of US\$951 per ton and US\$1,131 per ton respectively by the end of the year. This was driven by strong demand for palm oil, both for edible oil as well as for use as bio-fuel. Guadalcanal Plains Palm Oil Ltd (GPPOL) company is projecting 28,000 ton of CPO production in 2009. In a welcoming development, the ground breaking ceremony in March 2009 marked the start of the oil palm project in the Auluta basin on Malaita.

Rice

In 2008, rice prices in the country continued to climb despite falling world prices (Thai 100% B second grade white rice which is used as an approximation of global rice prices). This was claimed as a result of sourcing of Solomon Islands rice from the US (Californian calrose).

In line with this, the import bill on rice imports in 2008 rose to US\$28.6 million from US\$19.6 million in 2007. At the same time, imported rice volumes fell in 2008 to 28,377 tons from 33,229 tons in 2007, reflecting the high prices during the year.

The Government addressed the impact of higher prices by undertaking several short-term measures in 2008, including the removal of goods tax and import duty on rice, allowing competition in the importation of rice and continued support for local rice farming in rural areas.

Minerals

The Ministry of Mines and Energy issued 56 licenses for exploration activities in 2008. Most explorations were for gold, silver, nickel and other minerals. Prospecting licenses were approved for twelve new companies. Ten companies performed on-shore exploration on Guadalcanal, Isabel and Western provinces and two will conduct off-shore exploration in Western and Makira provinces.

The Gold Ridge Mining Limited (GRML) is still to secure needed funds to kick start its' operations in central Guadalcanal. It is anticipated that once funds are available and operation commences, actual gold production will start after 12 months. The company is undertaking further drilling operations and renovation and rebuilding of facilities at the mine site. While most impeding factors have been resolved, the relocation of villagers from the mine site is still outstanding. It is expected that the mine will reopen in 2010 with production of 136,000 ounces of gold per year. Most of the 173 staff currently at GRML are from Guadalcanal, working alongside 7 expatriate staff.

The number of gold dealers/exporters in the country increased to 27 from 20. Total alluvial gold output in 2008 was 141.4 kilograms, valued at \$28.9 million as compared to last years 93.2 kilograms.

Energy

The energy sector was upbeat in 2008 although the Solomon Islands Electricity Authority (SIEA) reported a slow progress in the year. The year saw a total of 78 Megawatt Hours (MwH) of electricity generated by all the stations in the country, a 1.6% increase from 2007. With assistance from the Japanese International Corporation Agency (JICA), SIEA was able to extend the 33 KV systems to cover the White River, Henderson, SIEA yard and Honiara power house with the aim to minimize power interruptions.

Domestic power usage fell 10% in 2008 to 13.3 MwH from 14.8 MwH in 2007. A total of 20,982 MwH (27%) was termed 'wasted', meaning it was obtained by unlawful connections and tempering with cash power boxes. This has led to revenue losses to the Authority. In addition, high costs of fuel, salaries, spare parts and repair & maintenance and uncollected revenues are concerns to the Authority. With the major spike in fuel prices, SIEA entered into dialogue with the World

Bank on setting up a hydro scheme proposed for the Tina River on Guadalcanal.

Construction

Activities in the construction sector continued in 2008 despite significant falls in building permits that issued in Honiara. Data received from the Honiara Town & Planning Board indicated that approved building permits fell 28% to 146 valued at \$61 million in 2008 from 203 permits in 2007. Of the 2008 total, 69% or 101 permits were for residential homes, estimated at \$33 million. This was due to the continued high demand in the housing market in Honiara. Twenty nine (29) approved permits were for commercial and industrial properties estimated at \$22.6 million.

In 2008, commercial banks reported a 30% increase in property loans to \$246 million. Of this, 74% (\$183 million) was for home loans and the rest were for commercial and industrial properties.

The Home Finance Corporation, a key contributor to the construction sector started its housing project at Koloale and Tasahe in 2008. Hopefully this will ease the pressure on the housing market in Honiara.

Telecommunication

The telecommunications sector in Solomon Islands was eventful and challenging in 2008. Our Telekom, the only service provider, went through major restructuring and continued improving its services and expanding its facilities both in Honiara and the provinces.

Distribution of services for international satellite grew slightly to 129 lines from 126 lines in 2007 while that of domestic satellite rose by 10% to 231 lines. As the sole provider of telecommunication services in the country Our Telekom plays a vital role in the overall development process of the country. The "transport & communication" sector, grew by

11% to \$21 million or a 6% contribution by the sector to estimated RGDP.

The service provider is optimistic that after the robust performance in 2008 with the extension in the GSM network, by the end of 2009 a total of 25 telecommunication stations would have been established throughout the country.

Tourism

Boosted by increased airline services as a result of additional international flights and increased hotel occupancy rates, visitor arrivals into the country in 2008 grew by 45% to 22,023 visitors. In particular, air arrival visitors increased markedly by 51% to 20,813. The increased arrivals resulted mainly from the introduction of additional flights into Honiara supported by the expansion of existing hotels both in Honiara and Western province. Western Province, the leading tourist destination in the country recorded higher influx of tourists and business travelers during the year.

The majority of visitors came for business (40%) and holiday (31%) with Australia and New Zealand accounting for 52% of total visitor arrivals, followed by the South Pacific region (21%) and South East Asia (12%). The average length of stay of visitors in 2008 was 14 days the same as last year.

Accommodation occupation rates remained buoyant both in Honiara and the provinces. Rooms increased by 6.9% to 1,324 and beds increased by 9% to 2,544. As a result, a total of 682 people were employed in the accommodation sector both in Honiara and the provinces at the end of 2008. Cruise ship visitors on the other hand dropped to 1,210 visitors from 1,419 visitors in 2007.

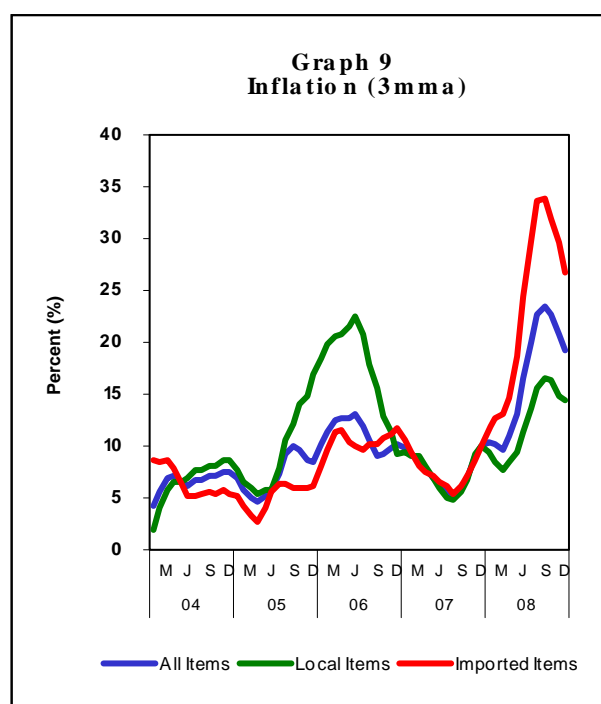
Whilst renovations of existing hotels continued, construction of the new Heritage Park Hotel in Honiara progressed well with its opening scheduled for mid 2009. The hotel, carrying

204 beds is anticipated to ease the bed-shortage currently experienced in Honiara.

Inflation

The annual rate of inflation as measured by the three months moving average surged to 19.4% in 2008 from 10% in the preceding year, led by higher food and fuel prices in the first half of 2008. Although the rate of inflation was high, it was an improvement on the inflation levels during the course of the year which ranged between 20%-23.5% well above the Central Bank's desired rate of 10%.

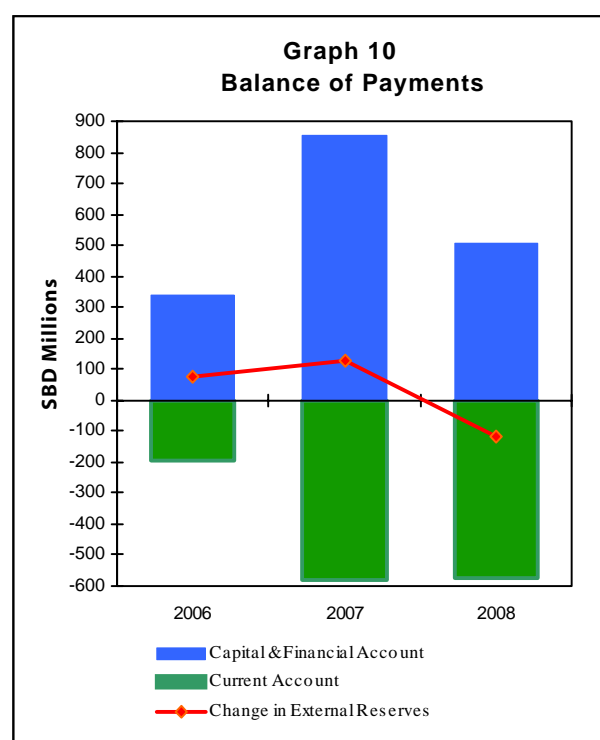
Domestic inflation rose to 14.5% by end 2008 whilst imported inflation rose to 26.6%. The surge in overall inflation was due mainly to price increases from four major categories including food which rose to 26.9%. Housing & utilities rose to 22.2%, transport & communication and drinks & tobacco categories increased to 13.3% and 7.2% respectively.



IV. BALANCE OF PAYMENTS

The overall balance of payments (BoP) performance in 2008 recorded a deficit of \$120 million, a reversal of the \$74 million surplus in 2007. This negative result came largely as the consequence of the current account deficit of \$573.5 million which nearly outweighed the \$507.2 million surplus outcome in the capital and financial accounts. Exchange rate losses and repayments of external debt also contributed to the overall deficit.

The current account posted a deficit of \$573.5 million in 2008 caused by deficits in trade, the services and income accounts that outpaced the surplus in the current transfers account. Meanwhile, the capital and financial accounts recorded a \$507.2 million surplus, driven largely by significant inflows to donor funded projects and increase in foreign direct investment into Solomon Islands.



As a result of these movements, Solomon Islands gross external reserves fell by 22.4%

to \$716.1 million in 2008. A revaluation loss of \$81 million due to exchange rate movements contributed to the decline. This level of reserves is equivalent to 2.5 months of imports of goods and non-factor services, down from 3.9 months of imports of goods and non-factor services in 2007.

Current Account

Despite registering an improvement, the current account recorded a deficit of \$573.5 million in 2008, compared to a \$578.5 million deficit in 2007. This was caused by deficits in the trade account, the income account and the services account which outweighed the surplus in the current transfers account. The current transfers receipts came from donor organizations including RAMSI posting a surplus of \$922.4 million in 2008 compared to a surplus of \$627 million in 2007. The trade account recorded a \$406.4 million deficit in 2008 while services and income accounts recorded deficits of \$513.4 million and \$581.5 million respectively.

Trade Account

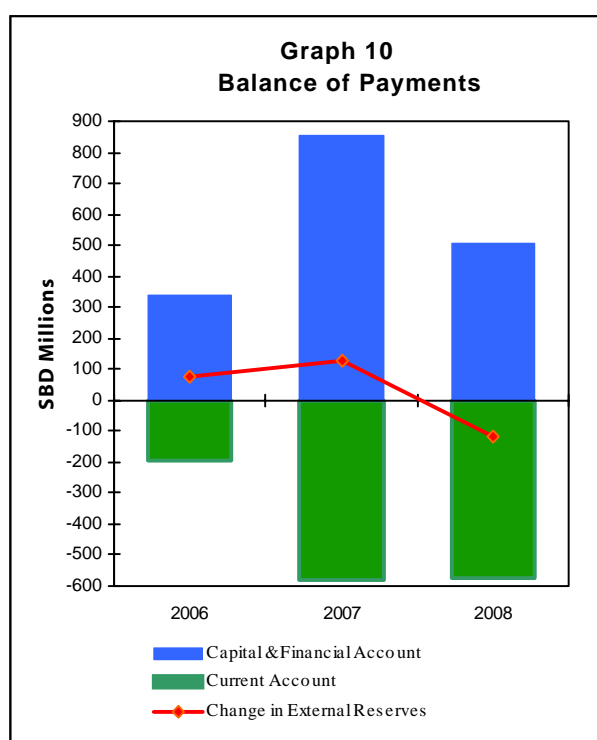
The trade account (fob) registered a reduced deficit of \$406.4 million in 2008 compared to \$577.4 million deficit in 2007. The narrowing of the trade deficit was the result of a 36% growth in export receipts to \$1,656.8 million in 2008 while payments rose by 15% to \$2063.1 million. Total imports and exports accounted for 91% of total Gross Domestic Product (GDP) in 2008 compared to 92% in 2007.

The positive performance in export receipts was reflective of strong production and high prices received for most part of the year. Export earnings from **forest products** which accounted for 59% of total export receipts rose further by around 20% to \$922.6 million. This owed to increases in both round logs and

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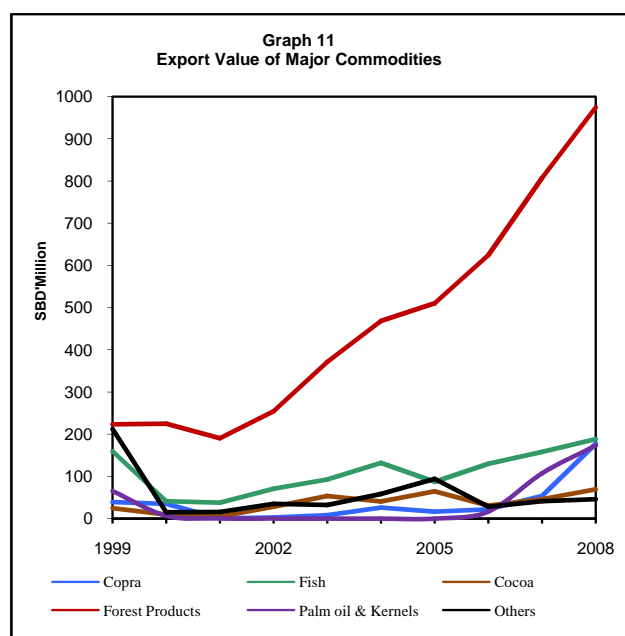
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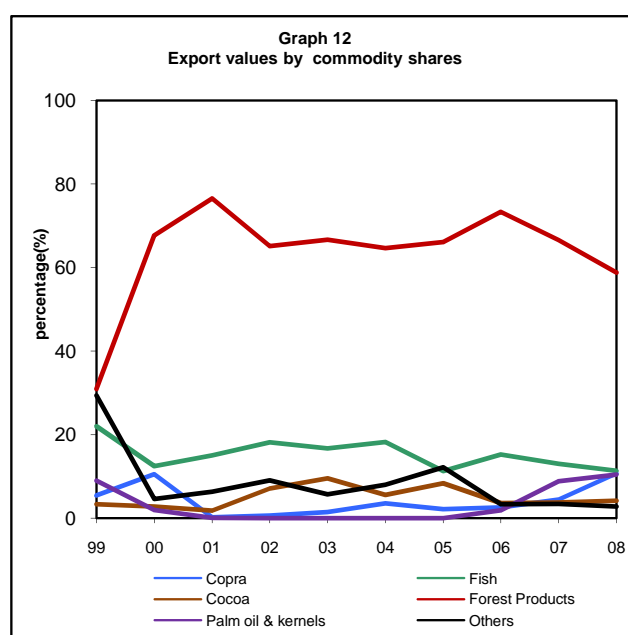
Earnings from mineral exports mainly from **alluvial gold** rose to \$28.9 million in 2008 from \$6.4 million in 2007. This outcome was mainly due to increases in the number of gold dealers and panning activities around the upper Balasuna River and Gold Ridge areas on Guadalcanal. Receipts from 'other exports' category rose by 5% to \$38.6 million in 2008. This outcome came from inflows for marine products, and other products such as kava, spices and wildlife. **Re-exports** mainly from scrap-metal also increased to \$6.9 million in 2008.



Total import payments (including c.i.f) rose by 16% to \$2,548.9 million in 2008. The increase in import payments was caused by large movements in international prices especially of fuel and food, freights and insurance costs about \$509.8 million, exchange rate movements and the global economic crisis in the latter part of 2008.

Fuel imports which constituted 26% of total import payments rose significantly by 21% to \$661.1 million as international fuel prices

peaked in the second quarter before sliding downward in the latter part of the year. The increase was also related to high volume of fuel imports associated with high demand during the Christmas festive season. **Food imports**, accounting for 22% of total import payments, rose by 42% to \$548.5 million in 2008. This was due to rising prices for rice and wheat, meat and other tinned food during the year.



Beverages and tobacco payments rose to \$91.0 million in 2008. This outcome was associated with increases in both production capacity and costs of imported raw materials during the year. The exchange rate movement also contributed to the increase in costs of the imported raw materials. Import payments for **animal, vegetable and oil fats** rose by 13% to \$10.8 million in 2008. The increase reflected high demand in the manufacturing sector. The rise to \$126.9 million in **chemical payments** was associated with high use of fertilizers and insecticides mostly in the agriculture sector. **Construction and building materials** increased by 2% to \$281.9 million

due to increased house construction; while “other imports” rose to \$26.3 million in 2008 from \$11.7 million in the previous year.

Services Account.

The services account posted a deficit of \$509.1 million in 2008, an increase of 51% from the previous year. This stemmed largely from the combined effect of an 18% surge to \$867.0 million in services payments and a 10% fall to \$358.1 million in services receipts. The high outflow in the services account resulted from deficits in transportation services and other services which more than offset the surplus in travel services. Transportation services posted a deficit of \$458.6 million in 2008, an increase of 30% from the previous year. This resulted from higher outflows in transportation services mainly passenger fares and freight costs to \$534.0 million relative to lower transportation inflows of \$75.4 million.

Table 4
Balance of Payments - Services Account

(SBD million)

	2006	2007	2008
1. Transportation	-191.1	-352.1	-458.6
1.1 credit	160.6	140.9	75.4
1.2 debt	-351.7	-493.0	-534.0
2. Travel	126.1	120.9	138.0
2.1 credit	143.1	144.6	164.4
2.2 debt	-17.0	-23.7	-26.4
3. Other Services	-60.1	-106.6	-188.5
3.1 credit	74.2	109.9	118.5
3.2 debit	-134.3	-216.5	-306.7
Services net	-125.1	-337.7	-509.1

Source: Central Bank of Solomon Islands

The higher outflows in passenger fares were due to the increase in the number of passengers traveling abroad. However, a 64% fall in passenger receipts reflected the decline in receipts to the local airline due to competition.

The deficit in other service was the result of higher outflows from construction, insurance, financial, information technology, royalties and license fees and personal services which more than offset the higher inflows from communication and government services. The increase in construction services payment to \$16.7 million in 2008 reflected increase in foreign workers in the construction sector while the 22% increase in insurance payments was due to increases in both trade and non-trade insurance payments. The surge in financial service payments by 64% to \$21.7 million was related to increased fees in commercial banks' services relating to foreign exchange transactions. The increase in information technology service payments to \$17.9 million was associated with high computer usage while rising royalties and license fees service payments to \$8.8 million relates to high demand for non-financial assets.

Meanwhile the surplus in travel services to \$138.0 million was due to high inflows of \$164.4 million relative to outflows of \$26.4 million. This outcome stemmed from increases in both business and education travel service receipts to \$164.2 million and \$0.1 million respectively. The surge in business travel service receipts reflected the increase in the number of incoming business travelers and RAMSI personnel. However, the 3.8% increase to \$55.0 million in communication receipts reflected improvement and installation of mobile sites and increases in postal and courier services during the year. The 73% surge in government service receipts to \$42.0 million reflected high inflows of funds to foreign embassies, international organizations and RAMSI personnel working in Solomon Islands.

Income Account

The income account posted a deficit of \$581.5 million in 2008. This deficit came following a 69% escalation of outward payments of income totaling \$728.5 million against income

receipts of \$147.0 million. Investment income posted a deficit of \$582.8 million in 2008. This reflected higher payments in direct investment income to \$614.3 million relative to receipts of \$92.8 million. The outcome was mainly from equity and reinvested earnings payments by private companies to \$589.3 million in 2008. This more than offset the net inflow of dividend receipts. Other investment income posted a deficit of \$61.3 million. This outcome stemmed largely from high outflows in external interest repayments by both the government and the private sector. External interest repayments from the government rose 19% to \$31.6 million whilst private sector rose 24% to \$73.5 million. Net outflows of \$2 million from "other" incomes also contributed to the increase in investment income outflows. Meanwhile, Central bank recorded a 9% drop to \$39.1 million on its foreign assets interest earnings.

Table 5
Balance of Payments - Income Account

(SBD million)

	2006	2007	2008
1. Compensation of employees	-1.4	0.6	1.3
credit	6.1	8.0	8.3
debit	-7.4	-7.3	-7.0
2. Investment Income	-109.8	-291.8	-582.8
2.1 Direct Investment	-106.1	-260.0	-521.5
credits	56.5	75.1	92.8
debit	-162.6	-335.1	-614.3
2.2 Portfolio Investment	0.0	0.0	0.0
credit	0.0	0.0	0.0
debit	0.0	0.0	0.0
2.3 Other Investment	-3.7	-31.8	-61.3
credit	49.8	55.2	45.9
debit	-53.5	-86.9	-107.2
Income Net	-111.1	-291.1	-581.5

Source: Central Bank of Solomon Islands

Income related to compensation of employees registered a surplus of \$1.3 million in 2008. This resulted from higher inflows of \$8.0 million relative to \$7.0 million in outflows in 2007. This reflected remittance inflows from Solomon Islanders working abroad, including

wages and contributions to Solomon Islands staff paid by diplomatic offices in Solomon Islands.

Current Transfers

The current transfers account posted a surplus of \$923.3 million in 2008 compared to \$627.0 million in 2007. This surplus was generated by higher inflows of \$959.3 million relative to outflows of \$36.0 million in 2008. The higher inflow was due to official transfers rising by 49% to \$957.1 million. Both official grants and other official transfers rose by 47.3% to \$908.6 million and 98% to \$48.5 million respectively.

Table 6
Balance of Payments - Current Transfers Account

(SBD million)

	2006	2007	2008
1. General Government	527.3	636.8	935.3
1.1 Cash	295.0	377.8	612.0
credit	302.3	381.6	633.0
debit	-7.3	-3.8	-21.8
1.2 Non-cash-net	232.2	259.9	323.3
2. Other Sectors	-4.6	-9.9	-11.9
2.1 Workers remittances	0.3	-4.7	-6.7
credit	1.3	1.4	1.4
debit	-1.0	-6.0	-8.1
2.2 Other transfers 1/	-4.9	-5.2	-5.2
credit	0.7	0.8	0.8
debit	-5.6	-6.0	-6.0
Current transfers-net	523.9	627.8	923.3

Source: Central Bank of Solomon Islands

The increase in official grants was attributed to an increase in cash transfers, aid in kind and technical assistances. Cash transfers rose by 64% to \$585.3 million in 2008 associated with high inflows from major donor partners and other NGO's to fund various development projects in the country. The increase in aid in kind by 22.7% to \$167.6 million was mainly related to increase in transfers of capital equipments and machineries. Transfers to both long and short term technical assistance mainly salaries and other benefits rose by 26.2% to \$155.7 million reflecting the high

number of TA's mostly RAMSI personnel working in various government departments. Other official transfers rose to \$47.6 million largely from fishing license fees that accounted for \$47.5 million, company registration fees and other licenses.

Capital and Financial Account

The capital and financial account posted a surplus of \$507.2 million in 2008 down from an \$857.9 million surplus in 2007. This was attributed to lower surpluses in both the capital and the financial accounts registering surpluses of \$53.3 million and \$453.9 million respectively. The surplus in the capital account was mainly driven by donor funded capital transfers to government infrastructure projects in the country. The capital surplus of \$53.3 million in 2008 was attributable to capital projects and other funded rural development projects not implemented during the year.

Table 7
Balance of Payments - Capital Account

(SBD million)

	2006	2007	2008
1. General Government	96.7	86.5	53.3
credit	100.9	94.2	66.8
debit	-4.2	-7.6	-13.5
Debit forgiveness net	0.0	23.4	0.0
Capital net	96.7	110.0	53.3

Source: Central Bank of Solomon Islands

The financial account recorded a surplus of \$453.9 million in 2008 compared to the \$747.0 million surplus in 2007. The lower net surplus was largely due to reserves assets and other investment assets registering a \$207.5 million \$140.4 million deficit respectively. However, foreign direct investment in Solomon Islands rose to \$707.4 million with a surplus of \$614.6 million. The increase in foreign direct investment was driven by an increase in foreign companies reinvesting earnings into

their businesses and also new foreign direct and capital investments. Net inflow from other investment liabilities accompanied an increase in private sector foreign borrowings and foreign currency transactions during the year.

Table 8
Balance of Payments - Financial Account

(SBD million)

	2006	2007	2008
Assets			
Direct Investment Abroad	-56.5	-75.1	-92.8
Other Investments	-596.3	-200.0	-140.4
Liabilities			
Direct Investment in SI	202.4	510.6	707.4
Other Investments	675.9	378.3	187.1
Reserve Assets	15.9	133.1	-207.5
Financial - Net	241.5	747.0	453.9

Source: Central Bank of Solomon Islands

International Investment Position

The international investment position of Solomon Islands posted a net asset of minus \$1,339 million in 2008, an improvement of 3.4% over 2007. This outcome was reflective of a rise in assets to \$2,911 million relative to the increase in liabilities to \$4250 million. The higher stock of assets was due to increase in both direct investment assets and other investments. Total liabilities in 2008 rose by 3.5% attributed mainly to a 8.2% increase in other direct investment liabilities.

External Debt

The total stock of external debt at the end of 2008 stood at \$1261.0 million, a decline of 2.9% from 2007. The reduction came from both the private and official external debt stocks. The stock of private sector debt fell to \$177.4 million while the government debt dropped to \$1083.6 million due to debt repayments during the year. Private sector external debt repayments totaled \$73.5 million

whilst government repaid \$117.1 million of its debts. Of the total Government repayments, \$83.2 million were for principal repayments and \$33.9 million for interest payments. Government debt arrears declined significantly to \$25.1 million. These developments reflected the government's continued commitment towards its loan obligations.

Table 9
External Debt

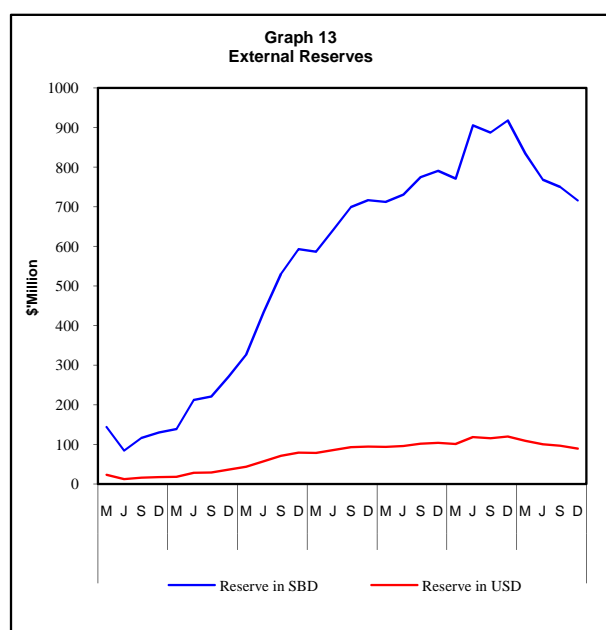
(SBD million)

	2005	2006	2007	2008
Private Sector	190.0	188.9	184.8	177.4
Government Sector	1080.0	1155.3	1128.6	1097.3
of which arrears	76.5	105.6	79.2	25.7
Total	1270.0	1344.2	1313.4	1274.7
Actual Debt Service	55.9	33.5	95.9	190.6
Principal	13.3	24.3	70.9	156.7
Interest	42.6	9.2	25.0	33.9

Source: Central Bank of Solomon Islands

External Reserves

The level of Solomon Islands external reserves fell to \$716.1 million at the end of 2008, 22.5% lower than in 2007.

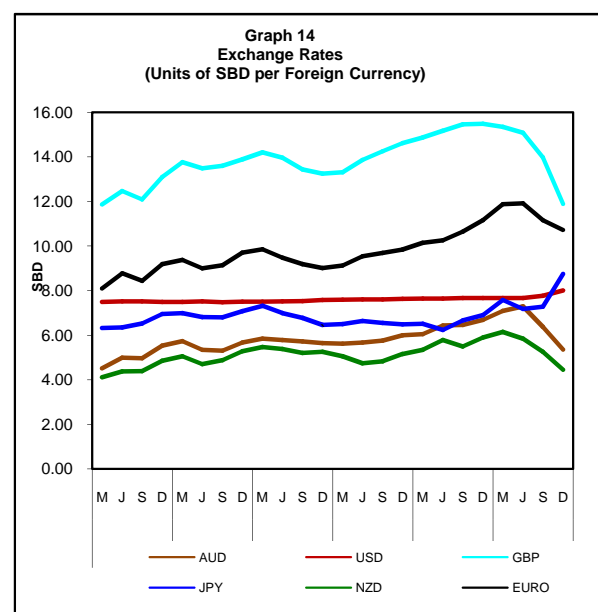


The decline in the external reserves was attributed to the overall deficit of \$120.3 million from the balance of payments, and revaluation losses of about \$70.2 million from exchange rate movements.

This level of reserves was equivalent to 2.5 months of import cover of goods and non-factor services, compared to 3.9 months at the end of 2007.

Exchange Rate

In 2008, the Solomon Islands dollar (SBD) marginally depreciated against the US dollar (USD). On an annual average, the SBD depreciated against the US dollar by 1.26% to \$7.75 per USD. On a year on year basis, the SBD depreciated by 4% to \$8.00 per USD at end year 2008 compared to \$7.66 per USD at end year 2007.



The SBD however fluctuated against the other major trading currencies, during the year. On an annual average basis, the SBD depreciated

against the Australian dollar by 2.78% to \$6.59 per AUD, against the Japanese Yen by 15.4% to \$7.51 per 100 Yen and against the Euro by 8.25% to \$11.38 per Euro. The SBD

however, appreciated against the British pound by 6.3% to \$14.35 per pound and against the New Zealand dollar by 1.8% to \$5.50 per NZ dollar.

V. MONEY AND BANKING

Overview

Growth in money supply continued in 2008, reflecting buoyant economic activity, and rising private sector demand for credit. Developments in the balance of payments (BOP), however, slowed due mainly to the impacts of the global economic meltdown mainly in the final quarter of the year. Movements in the components of money were mixed. Increases in some of the components in particular, credit to the private sector and currency in circulation, however, resulted in a rise in the broad money (M3). Net credit to government grew to \$37.9 million. Credit to the private sector expanded further by 26.5% to \$1270.5 million.

Activities in the auction treasury bills market (ATBM) continued throughout the year. This, however, slowed down towards the end of the year due mainly to investors switching to high yielding deposits with the commercial banks. Excess liquidity reduced in 2008 while commercial banks' interest rate margins increased. Real interest rates on deposits remained negative in 2008.

Monetary Policy in 2008

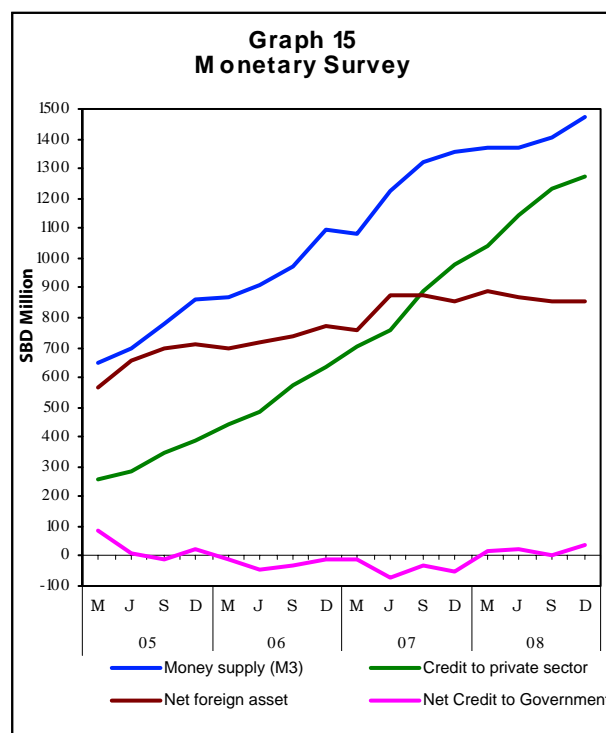
In undertaking monetary policy in 2008, the Central Bank announced the following key objectives aimed at fostering domestic economic conditions:

- Clamping inflationary pressures
- Maintaining appropriate levels of reserves; and
- Influencing commercial banks to raise their deposit rates

The Central Bank tightened monetary policy aimed at reducing excess liquidity in the banking system in order to tackle inflation and defend the external reserve levels. As part of this exercise, the Solomon Islands National Provident Fund was allowed to invest \$50

million abroad in the first quarter of 2008. Secondly, the Bank introduced Bokolo Deposits and Bills as well as redefine the liquid asset ratio (LAR). These measures have reduced excess liquidity in the banking system, contributed to the decline in the inflation rate to 19.3% at the end of year and stabilised the external reserves. The Bank will continue to closely monitor the current liquidity situation and will intervene should the need arise.

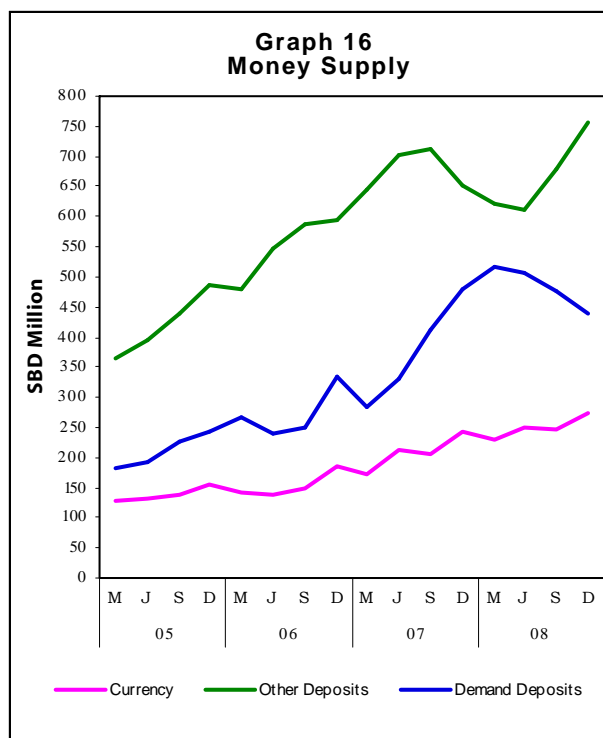
**Graph 15
Monetary Survey**



Money Supply

The broad money supply (M3) grew further in 2008 by 7.0% to \$1,470 million, following a stronger growth of 23.3% in 2007. Unlike in the previous years where growth in money supply was fundamentally driven by an increase in both net foreign assets and private sector credit, in 2008, this was attributable mainly to private sector credit growth as

commercial banks increased their lending activities.



Growth in narrow money supply (M1), slowed at 1.6% to \$713 million, following a 39.1% growth in 2007. The fall in M1 was attributable to a decline in demand deposits by 8.3% to \$440 million. Both demand deposits at the commercial banks and CBSI dropped. The former dropped by 7.7% to \$433 million and the latter more significantly by 33.9% to \$7 million. The drop in demand deposits reflected mainly monetary policy action by the CBSI that led to reduction in liquidity in the banking system. Of those recording declines, the public financial institutions recorded the largest drop of 60% to \$1.1 million. Others included statutory corporations with a 35.8% drop to \$27.5 million, government, by 23.0% to \$29.5 million and 'other' by 23.5% to \$239.5 million.

On the other hand, savings and time deposits increased by 6.7% and 9.4% to \$130.6 million and \$351.1 million respectively in 2008. The rise

in total savings deposits was due to increases in savings deposits of private financial institutions with a 78.1% rise and 'Other' with a 53.5%.

The (30.5%) growth in time deposits in 2008 was spurred mainly by public financial institutions, business firms and private individuals.

Net Foreign Assets

Total Net Foreign Assets (NFA) registered a fall of 12.8% to \$715.8 million in 2008, following a significant increase of 12.6% in 2007. The fall reflected the deterioration in the balance of payments.

Net Domestic Credit

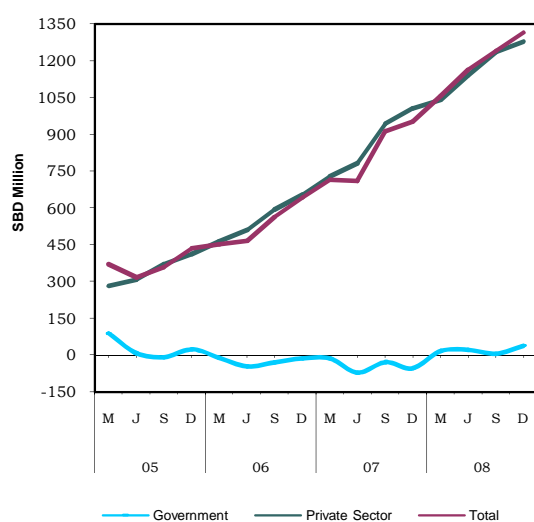
Total domestic credit (TDC) increased by 39% to \$1328.8 million in 2008. This was driven by increases in both credit to the private sector (CPS) and net credit to government (NCG). The CPS increased by 26.5% to \$128.8 million whilst the NCG rose to \$37.9 million. The increase in CPS reflected the banks' continued confidence in the economy and general increase in economic activities. On the other hand, the increase in NCG was attributable to government's drawdown of its deposits with the CBSI rather than actual borrowings.

For a small open economy like Solomon Islands, credit is vital for stimulating domestic investment and thus employment as well as generating future income and wealth. Thus, it is imperative that credit is targeted at investments projects in sectors that the country has comparative advantage in for purposes of strengthening and expanding the productive and export base. Nevertheless, the Bank is always mindful and cautious of the implications of rising credit on inflation and external reserve levels.

In 2008, commercial bank credit went largely to the Personal sector [21.1%], followed by the

Distribution sector [15%], Telecommunication [13.3%], Manufacturing [13.1%] and the Forestry sector [11.7%]. The increase in Distribution was attributed to high demand for imports. The increase in credit to Telecommunication was reflective of loans to communication projects undertaken during the year. The increase in the Personal sector was due mainly to an increase in loans for real estate project in the economy. The surge in the Manufacturing credit was owed to imports of oil and related products, building materials and metal products. The forestry sector lending reflected strong logging activities in the country resulting in a record log production that year.

Graph 17
Total Domestic Lending

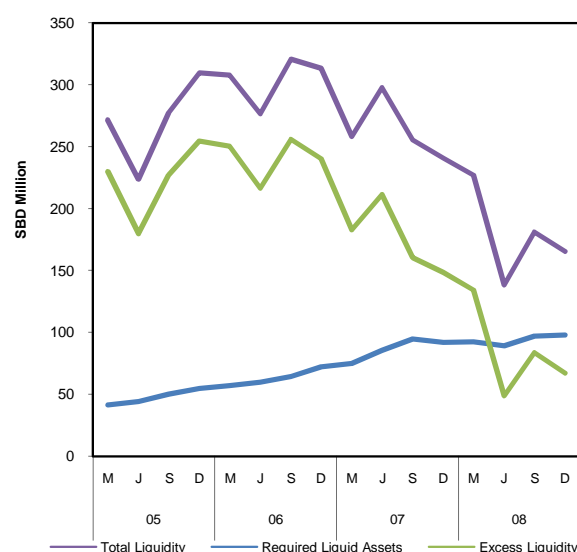


Liquidity

The banking system remained very liquid in 2008, though the level of excess liquidity was lower than 2007. The decline in excess liquidity was due to the monetary policy actions taken by the Central Bank in 2008. Despite some fluctuations during the year, the excess liquidity

dropped at the end of the year by 19.6% to \$67.3 million. The call accounts on which the LAR is determined recorded a drop of 22.1% to \$165.4 million at the end of the year.

Graph 18
Commercial Bank Liquidity

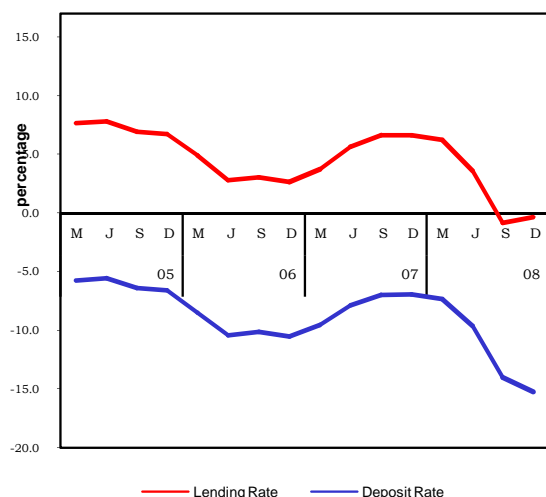


Interest Rates

The commercial banks' indicative weighted average deposit rate rose to 2.04% in 2008 from 0.65% in 2007. This was due to a 140 basis point rise in the indicative weighted average time deposits rate to 2.24%. The increase in deposit rates was in line with the monetary policy action implemented by the Bank.

At the same time, the indicative weighted average rate on lending rose by 274 basis points to 16.96%. This was driven by surges in the indicative weighted average rates on personal loans, 'other loans' and overdrafts. Personal loans weighted average rates rose from 14.42% to 16.35%, 'Other' loans from 14.27% to 17.91% and overdrafts from 14.04% to 15.59%.

Graph 19
Average Real Interest Rates
(period average)



The indicative commercial bank interest margin rose from 13.57% in 2007 to 15.06% in 2008. Compared to the regional standards, the Solomon Islands interest rate margin remains one of the highest. This not only undermines savings but also impedes private sector investment and growth.

The Auction Bills market rates for 91 days was generally on a upward trend during 2008. Although this fell to around 2.9% in June, the rate rebounded to 4.0% at the end of the year.

VI. GOVERNMENT FINANCE

Overview

The overall preliminary fiscal position in 2008 reported a deficit of \$1.12 million, \$38.5 million below the surplus in 2008. This resulted from an exceptional improvement in domestic revenue collections and increased budget support. Total revenue (including grants), exceeded budget to reach \$1550.8 million, an increase of 26.2% over 2007. Total expenditure also increased by 30.0%, of which recurrent spending accounted for 80.2%, while development expenditure took up the rest.

The commitment for no further borrowing by the SIG was maintained in 2008. The total debt stock declined as debt servicing exceeded the scheduled repayments by 85.9% to \$163.2 million.

Revenues

Total government revenue and grants increased by 26.2% to \$1,550.8 million, representing 37.9% of GDP. Of this total, recurrent revenue accounted for \$1,479.2 million (95.4%), while grants accounted for \$71.6 million. The total recurrent revenue comprised domestic collection of \$1,369.8 million and budget support of \$181.1 million. Both the main revenue sources, the Customs and Excise Division (CED) and the Inland Revenue Division (IRD) recorded increased collections during the year. Non-tax revenues fell during the period.

IRD collections rose by 39.2% and at the end of 2008 stood at \$834.7 million. Against the revised budget, this was up by 5%. Measures taken to improve compliance largely contributed to the increased collection. Two of the major drivers of the increase were goods tax and company tax collections. The former rose by 42.7% to \$331.5 million and the latter by 87.4% to \$189.7 million. Increase in goods

tax collection was owed to high fuel cost whilst that in company tax was due to increased company registration and improved tax compliance.

Table 10
Solomon Islands Government Operations

	(SBD million)	
	2007	2008
Total Revenue and Grants	1228.9	1550.8
Recurrent Revenue	1140.8	1479.2
Local Revenue	1112.2	1369.8
Inland Revenue Division	599.6	834.7
Customs	346.3	388.4
Non-tax (including airspace fees)	166.3	146.6
Budget Support	28.62	109.5
Development Revenue	88.1	71.6
Grants for Consolidated Funds	88.1	71.6
SIG Surplus (Development Financing)		
Total Expenditure	1193.7	1552.0
Recurrent Expenditure	1027.8	1245.1
Payroll	353.5	442.5
Other Charges	529.8	629.8
Debt Servicing	138.4	163.2
Budget Support	32.5	63.6
Increased govt. debt arrears	-26.4	-54.1
Development Expenditure	165.9	306.9
SIG-Funded Development Expenditure	71.7	220.5
Other	94.2	86.4
Recurrent Surplus	113.0	234.2
Overall Surplus (deficit)	35.2	-1.1
Source: Ministry of Finance and CBSI		

The PAYE collection totalled \$185.0 million, with 63.0% of that being from the private sector. Government PAYE revenue was \$68.4 million during the period. Other collections were from withholding tax (\$75.4 million), sales tax (\$37.0 million), Stamp duty (\$11.4 million) and license fees (\$4.6 million).

CED revenue collections in 2008 also registered an increase, maintaining the rising trend for the last five years. Total revenue collected was up by 12.2% to \$388.4 million. The increase was in spite of foregone revenue of \$47.0

million in duty exemptions. Against revised budget estimates, this was however lower by 7.0%.

Generally, revenue from most of the CED revenue categories recorded an increase over the previous year. In particular, revenue from log duties rose by 16.5% and accounted for 54.1% of the total CED collections. Log duty is expected to fall by more than 13% in 2009.

Import duty revenues, though fluctuated during the year, moderately increased by 3.2% to \$110.6 million, in 2008. This mostly reflected an increase in imports during the year. Collection of excise duties also contributed \$61.2 million during the period, a rise of 10.7% over 2007. Export duty collection also rose to \$5.5 million, up by 18.5%. Of these total duties, revenue from fish made up 46%, a trend maintained over the past years.

Non-tax revenue collection from other ministries (OM) totalled \$146.6 million, 11.8% below 2007. Of the total, revenue received by the Ministry of Fisheries and Marine Resources accounted for 65.1%. This composed of Forum Fisheries Agencies (FFA) receipts, fishing license and other receipts. The revenue received from fishing license from overseas fishing boats, made up the highest revenue collection in 2008. FFA receipts totalled \$12.0 million, overseas fishing license was \$23.5 million and the rest from domestic fishing license and other receipts. The Ministry of Communication, Civil Aviation and Meteorology recorded the next highest portion of \$17.2 million, which was 11.7% of the total non-tax revenues. Of these airspace fees accounted for 63.8%, telecom licence fees, 28.4% and the remaining 7.8% from other receipts. The Ministry of Commerce, Industry and Employment's, major collection was from permit fees.

Revenues from overseas grants increased by 55.1% to \$181.1 million in 2008. Of this, \$109.5 million were in the form of recurrent budget support that rose more than three times the

2007 collection. The budget support included \$45.3 million from New Zealand for education and \$64.2 million was from the Ausaid SWAP for health services. Other overseas grants however, declined from \$88.1 million in 2007 to \$71.6 million in 2008. Of the total, \$69.5 million was from ROC (Republic of China) while the rest from the UNDP and European Union.

Expenditures

Overall government spending stood at \$1,552.0 million, 30.0% above 2007, but was 10.5% below budget. This represents 37.9% of GDP. The spending comprised \$1245.1 million in recurrent expenditure and \$306.9 million in development spending. The recurrent spending composed of payroll, other charges, debt servicing, budget support spending and the increase in government arrears. Funding by SIG government and other overseas donors made up the development side of spending.

Payroll was \$442.5 million, 25.2% above the payroll spending in 2007. In general, additional allowance and increased employment during the year contributed to this increase. The increase in the minimum wage level to \$4.00 per hour has also contributed. Most of the payroll spending was by the Health and Education sectors.

The non-payroll spending (Other Charges) rose by 18.9% to \$629.8 million at end of 2008. Peak spending was observed around April, May and October. Against budget estimate, this was below by 8.7%. By ministerial sector, Ministry of Education and Human Resources Development (MEHRD) expended \$138.6 million, followed by Ministry of Health and Medical Services (MHMS) with \$70.4 million. Spending in these two ministries indicates enhancement in human capital. Spending related to projects made up 36.1% while the rest went towards 'others expenditure'. Spending on utilities made up 14.3%, whilst training and housing allowances accounted for 11.6% and 7.8%. Travel expenses and general

administration spending accounted for 6.2%. Repair and maintenance and purchases made up 5.5% and 4.8% of the total non payroll spending.

Development spending rose by 85.0% to \$306.9 million. Of the total, \$220.5 million was funded by the SIG, while \$86.4 million were from overseas donors, mainly from Republic of China (ROC). Grant to the provinces was about \$29.8 million. Non-appropriated spending by overseas donor in the country fell by 60.2% to \$86.0 million. Sectors with the large allocation for 2009 were, housing and community amenities sector with 22% of total, economic affairs with 35.4%, and public order and safety with 15.0%.

Government Debts and Arrears

Total government formal debt stock at the end of 2008 stood at \$1,468.6 million, 5.7% lower than 2007. This showed the government's commitment to its policy of no further borrowing in 2008. This level of debt represents 35.9% of Nominal Gross Domestic Product (NGDP), 5.6% higher than the International Monetary Fund's sustainable level of 30.0%. This also represents 93.8% of the SIG revenue (including grants), and 88.6% of total exports indicating very high risk of default.

Of the total, external debt stock accounted for \$1083.6 million, a 4.0% drop from the preceding year. The fall reflected continued commitment by the government on its loan obligations repaying \$163.2 million during the year. The major creditors are Asian Development Bank (ADB) with \$445.6 million, International Development Association (IDA) with \$349.8 million and Exim loan with \$159.1 million.

The domestic debt stock was reduced by 10.1% to \$385.0 million. Of this total, \$246.7 million was in the form of government securities, \$137.6 million in advances from the Central Bank and \$0.7 million in other bonds. Of the total government securities, \$0.3 million was

accounted for by Frozen Treasury Bills, \$21.6 million in Auction Treasury Bills and \$224.9 million (91.2%) were restructured bonds.

Debt repayment for 2008 rose by 17.9% to \$163.2 million. This represents 10.5% of total SIG revenue (incl. grants) and 9.9% of total exports. Total external debt repayment was \$117.1 million. This went mainly to the EU, Exim Bank, ADB and Opec.

Domestic debt repayment totaled \$46.2 million. Of this, \$30.6 million was repayment on government securities, \$0.6 million on SIG trade creditors and \$15.1 million being repayment of SIG advances from the Central Bank.

External debt arrears at the end of 2008 fell significantly from \$79.2 million in 2007 to \$25.1 million. The drop was due to significant repayment during the year. Creditors with higher arrears owed to by the end of the year were the European Investment Bank with \$23.6 million.

Accounting and Audit

By the end of the year, SIG National Accounts for 1999-2007 were audited and signed. All outstanding financial statements for Provincial Governments were also completed, and significant progress is being made to bring all accounts of State Owned Enterprises and Statutory Bodies to 2007-08. A draft of the National Audit Bill which provides for an expanded mandate was submitted to Cabinet and Auditor's General's report was tabled in Parliament. The office continued to strengthen its capacity and upgrading of SIG internal control systems.

The auditing process continued to identify serious problems of non-compliance and malpractice. Steps are being taken to help strengthen the OAG in addressing these issues. With the cooperation of the legal authorities, this will prevent future recurrence of these serious problems. The desired success of this

entirely depends on the commitment of the responsible public sector entity.

2009 Budget Outlook

The Coalition for National Unity and Rural Advancement (CNURA) remained committed to its six main priorities in 2008. Outstanding issues and challenges which the government will have to address in 2009 includes the increase in squatters settlements in the capital, increased unemployment, high crime rate, high transport cost in the country, and the rising population.

The recurrent expenditure for 2009 is budgetted to rise as well as the domestically sourced revenues. Development spending is forecast to increase to which the government has proposed to increase its contribution. But as the country faces the impact of the global economic crisis, government is preparing strategies to deal with the adverse effects of the crisis in the months ahead. These include re-prioritising of expenditures, revenue enhancement measures and soliciting support from development partners.

VII. FINANCIAL SYSTEM

The structure of the Solomon Islands financial system comprises of three branches of foreign commercial banks, a credit institution, a superannuation fund a development bank which is still under court administration, a small number of active credit unions, insurance companies and intermediaries, a licensed money transfer agency and a licensed currency exchange bureau that is operated by the Solomon Islands Postal Corporation.

Commercial Banks

The banking sector is dominated by the branches of foreign owned banks. They facilitate financial intermediation for both domestic and overseas clients. The Bank of South Pacific Limited (BSP) is a branch of the Bank South Pacific Limited of Papua New Guinea, the Australia and New Zealand Banking Group (ANZ) and Westpac Banking Corporation (WBC) are branches of Australian banks.

Table 11
Bank Branches and Electronic Banking Facilities
2005-2008

	(SBD'million)			
	2005	2006	2007	2008
Bank Branches	14	14	14	14
Bank Agencies	8	10	10	10
ATMS	3	12	16	20
EFTPOS	81	96	136	139
Mobile Bank Vehicles	1	1	4	4

Source: Central Bank of Solomon Islands

Table 11 shows the number of bank branches and electronic banking terminals that service the banking needs of the people in Solomon Islands. The increase in the number of ATMs and EFTPOS, since 2005, signifies the approach towards electronic banking rather than physical branch presence. The success of electronic banking services to achieve financial

inclusiveness for Solomon Islands however will require greater access to telecommunication infrastructures by the majority of the populace throughout the country.

The number of employees working in the commercial banking business increased to 349 in 2008 from 337 in 2007. Of this, 97% are Solomon Islanders.

Financial Performance in 2008

2008 recorded another exceptional result for the banking sector with a 48% increase in the net after tax profit (NPAT) to \$111.8 million. The result was driven by an upsurge in both net interest income from intermediation and non-interest income from service fees and gains in exchange rate movements.

Table 12
Summary of Commercial Financial Statements
2005-2008

	(SBD'million)			
	2005	2006	2007	2008
Income				
Net interest income	44.7	73.9	103.5	142.4
Non interest income	68.9	82.6	115.2	141.4
Expenses				
Operating expenses	56	72.5	90	97.3
Bad and doubtful debts	0.9	3.5	11.5	12.8
Profits				
Net operating profit before tax	56.7	84	117.2	173.6
Net profit after tax	37.2	54.9	75.7	111.8

Source: Central Bank of Solomon Islands

Table 12 provides a summary of the key components of the commercial banks' income statements for years 2005-2008.

The commercial banks consolidated balance sheet totaled \$1.8 billion in 2008 compared to \$1.5 billion in 2007. The growth in banks' balance sheet was attributed to a 28% increase

in lending during the year to \$1.2 billion. The large share of the commercial bank lending were to personal (including housing loans), distribution, telecommunication, forestry and manufacturing. These sectors accounted for 75% of total loans, advances and lease financing.

Financial Stability and Soundness

The Solomon Islands financial system remain relatively strong and stable in 2008, despite the global meltdown caused by toxic assets in United States and other countries. Nevertheless, as Solomon Islands is connected to the international markets the global recession has affected Solomon Islands financial sector indirectly especially through trade with the international community. The indicators of stability and soundness of the financial system in Solomon Islands show that the financial sector is relatively strong but with pressure from non-performing loans.

Asset Quality

Asset quality as the measure of the level of non-performing loans (NPLs), deteriorated in 2008 and as at year end amounted to \$33.5 million up from \$7.3 million in 2007. As a percent of gross loans, (NPLs) increased to 2.7% in 2008, from 0.8% in 2007. The increasing trend in NPLs indicates pressures in the economy. In 2008, \$13 million was written off as bad and doubtful debts in the commercial bank's financial accounts.

In terms of provisioning (specific & general), the banks allocated total provisioning of \$28.4 million as at end 2008, compared to \$19.2 million in 2007. This level of provisioning covers about 85 cents in every dollar of non-performing loans.

Capital Adequacy

The consolidated capital of the commercial banks stood at \$316.6 million in 2008 compared to \$188.3 million in 2007. The

growth in capital was underpinned by strong earnings recorded during the year. Tier 1 capital represented around 81.3% of capital while Tier 2 represented the remaining 18.8% of capital. Risk weighted assets (RWA) was dominated largely by loans and advances representing 65.5% of total RWA.

Regulated total capital to risk weighted assets stood at 22.6% in 2008, compared to 17.8% in 2007. NPLs net of provisions to capital ratio has been on a rising trend since 2006 from 0.8% to 2.0% in 2007 and 7.9% in 2008. The ratio is affected by growth in NPLs outpacing capital growth during the period.

Earnings and Profitability

Net profit after tax (NPAT) for the banking sector was up by 47.7% to \$111.8 million. The key driver to the increase in profit was the solid growth in net interest earnings. Net interest income represented 50.2% of total income, indicating that half of the commercial banks earnings come from their lending activities.

Consequently, the return on average assets (ROAA) has jumped to 10.4%, the highest recorded over the last three years. At the same time, the return on average equity (ROAE) rose to 44.3% in 2008 as compared to 41.1% in 2007. The growth in ROAA and ROAE indicates the robustness of the banking sector in Solomon Islands in 2008.

The banks efficiency ratio measured in terms of total operating cost to total income fell to 38.8% in 2008, indicating effective cost controls by bank management.

Liquidity

Liquidity is measured in terms of cash held by the commercial banks and deposits with CBSI. The stock of liquid assets in the banking system in 2008 fell to \$185.8 million compared to \$240.6 million in 2007 and \$311.3 million in 2006. The decline in liquid assets was caused by the increase in lending to the private sector.

Table 13
Solomon Islands: Financial Soundness Indicators
2005-2008

(percentages)

	2005	2006	2007	2008
Capital Adequacy:				
Regulated capital to risk weighted assets	30.7	21.8	17.8	22.6
Tier 1 Capital to risk weighted assets	23.7	17	14.2	18.3
Non-performing loans net of provisions to capital	1.7	0.8	2	7.9
Asset Quality:				
Non-performing loans to total gross loans	1.1	0.5	0.8	2.7
Sectoral distributions of loans to total loans				
Personal	16.3	19	20.1	21.4
Distribution	23.1	17.1	14.8	15.1
Telecommunication	15.5	13.3	12.4	13.5
Manufacturing	12.8	10.2	13.2	13.4
Forestry	15.5	14.4	14	11.9
Construction	5.4	6.9	6.3	5.8
Transport	1.4	3.1	4.7	5
Tourism	0.6	2.5	4.6	5
Professional Services	4.4	7	5.4	4.3
Others	4.8	6	4.4	4.6
Earnings and Profitability:				
Return on Assets	6.4	7.4	8.4	10.4
Return on Equity	26.5	32.3	41.1	44.3
Interest Margin to gross income	39.3	47.2	47.3	50.2
Non-interest expenses to gross income	50.1	46.3	46.4	38.8
Liquidity:				
Liquid assets to total assets (liquid asset ratio)	31.2	24.5	16	10.1
Liquid assets to short term liabilities	76.3	53.3	33.9	27.8

Source: Central Bank of Solomon Islands

The fall in the stock of liquid assets combined with the upward trend in total assets resulted in the ratio of liquid asset to total assets falling to 10.1% in 2008 from 16.0% in 2007. Liquid assets to short-term liabilities (liquid assets to total demand deposits) also plunged to 27.8% compared to 33.9% in 2007.

Despite the decline in the stock of liquid assets in the banking system, the banking sector continued to maintain a consolidated liquid assets ratio well above the required ratio of 7.5% of total deposits during the year.

Licensing and Legislation

The review of the Credit Unions Act, Cap 165 had consultation extended to the provinces during the year. A steering committee made up of officers from the Central Bank and the Solomon Island Credit Union League (SICUL) conducted one day consultation workshops in Auki for Malaita credit unions and Buala for Isabel credit unions. The consultation workshops discussed the new changes to the Credit Unions Act and the implications on both the existing and new credit unions. The review of the Act is in its final drafting stage and once finalized will be forwarded to the CBSI Board for endorsement before it is submitted to the Ministry of Finance to facilitate Cabinet approval and Parliament enactment. The Credit Unions Regulation was approved by the CBSI Board and has been forwarded to the Minister responsible for Cabinet endorsement and gazettal.

The other legislation currently in its early review stage is the Insurance Act, Cap 162. The revision of the Act is necessary to provide the framework for regulatory control, supervision and development of the insurance sector in Solomon Islands. The insurance industry has evolved overtime and the review is timely to ensure that international best practices are being applied and complied with to provide transparency and confidence in the regulatory system.

Prudential Guidelines

The Bank received technical assistance from the Pacific Financial Technical Advisory Centre (PFTAC) Banking Supervision Advisor, in October to review and update the prudential guidelines used by the Bank in performing its supervisory responsibilities since 1999.

Under the technical assistance, a number of draft guidelines were revised and formulated including (i) capital adequacy guideline, (ii) foreign currency open position guideline, (iii)

large credit exposures guideline, (iv) asset classification and provisioning guideline, (v) external audit requirements, (vi) liquidity management and the (vii) statement on prudential guidelines.

In conjunction with the new draft guidelines, the Technical Advisor also reviewed the prudential call reports and associated reporting instructions. The revision coincided with the preparation of new reporting requirements by the International Monetary Fund for reporting monetary data and collecting information's from financial institutions.

Credit Corporation (SI) Limited

Credit Corporation (Solomon Islands) Limited was licensed under the Financial Institution Act in 2005 to carry out general business finance including chattel mortgage, general financing and investments.

The company recorded a net unaudited after tax profit of \$2.3 million during the year. This result was largely owed to strong earnings from its core lending and business activities accompanied by a moderate growth in service charges and fees. The company's cost to income ratio posted at 56.9% , return on average assets (ROAA) and return on equity (ROAE) stood at 9.1% and 19.1% respectively.

The company's balance sheet grew by 24% to \$28.4 million. The increase was driven primarily by growth in loans and advances of 21.3% due to increased lending to four major sectors namely, manufacturing, agriculture, forestry and professional services. The company's total capital stood at \$16.37 million, representing 61.5% of risk-weighted assets.

Financial Literacy Initiatives

The initiative to enable rural people to become financially literate resulted in the persistent efforts by the United Nations Development Programme (UNDP) to expand their piloted project on Financial Empowerment Program

(FEP) into communities in Solomon Islands. An evaluation of the FEP Phase I on Guadalcanal which focused on Financial Literacy was completed successfully in 2008. Considerations are underway for FEP Phase II implementation. The FEP Phase II will be broadened to include livelihood development support programme in other provinces.

The Central Bank of Solomon Islands in its support for financial literacy launched a "Money Smart Day" program in Honiara on 23rd June 2008. The objective is to achieve a financially-literate population who can make informed financial decisions. This annual event will be expanded to the provinces in 2009.

The program included a workshop on Personal Financial Management targeting secondary school students, women and the general public. There were also activities such as student's quiz on financial literacy and question corners with CBSI staff explaining their roles within their respective departments and an in-house tour of CBSI premises. Pamphlets were also distributed on topics covering, CBSI Monetary Policy, Financial System in SI, Foreign Exchange Control requirements, Currency and Money Handling, the procedures to the SIG Auction treasury bills and the Small business finance scheme, Managing your family finances and teaching children about personal money management.

The commercial banks and the National Provident Fund also joined in the effort to inform the public about the roles of their institutions and the services they provide.

Credit Unions

The total number of credit unions registered as at the end of 2008 was 175, out of which only eight credit unions submitted their financial reports to the Central Bank. Credit unions achieved mixed financial results in 2008 but as a group, they achieved a profit before tax of \$1.4 million, a fall of \$0.2 million from the corresponding period in 2007.

Table 14 summarizes the financial position and result of the reporting credit unions.

The consolidated balance sheet of the eight reporting credit unions recorded total assets of \$31.4 million, down by \$10 million from last year.

The Credit Unions self-sufficiency ratio, an indicator of the effectiveness of the credit unions in covering operational expenses from the revenues generated indicated that credit unions would cover 74% of their overhead expenses from their income.

Table 14 Summary of Credit Unions Financial Statements 2006 - 2008 (SBD million)			
	2006	2007	2008
Balance Sheet			
Total Assets	33.4	41	31.4
Loans and Advances	24.9	30.3	21
Members Share Capital	31.6	38.7	29.2
Income Statement			
Total Income	3.1	3.4	3.3
Total Expenses	2.6	1.8	1.9
Net Profit (Loss)	0.5	1.6	1.4
Statistics			
No. of members	6474	6719	3774
No. of report credit unions	10	10	8
Self-sufficiency Ratio	119%	189%	174%
Source: Central Bank of Solomon Islands			

As part of the Registrar's Office's contribution to strengthen the credit union movement in the country, a two day workshop was conducted during the year, on legal responsibilities of credit union officers to enable them to understand and perform their statutory obligations required under the Credit Union Act. The Registrar's Office also conducted an on-site examination on the Solomon Island National Teachers Association Credit Union in 2008.

Solomon Islands Credit Union League

The Solomon Islands Credit Union League (SICUL) is the umbrella organization of Credit Unions established under Section 66(1) of the Credit Unions Act to serve the interests of credit unions in the country. However, SICUL has not been able to resolve many challenges it has faced over the years and in 2008 was unable to deliver supporting services required by its member credit unions.

The major problem facing the SICUL was the lack of sufficient financial support from its member credit unions that under the Credit Union Act are required to support the SICUL's activities. This problem was further compounded by lack of alternative sources of income to the League. Central Bank support to SICUL was also withheld due to non-compliance by the SICUL management to the conditions under a Memorandum of Understanding agreed to by the Bank and SICUL in 2007.

In 2008, the SICUL was largely supported by interest income from the Trust Fund set up by the government and held and managed by CBSI on its behalf. The total income earned on the trust fund amounted to \$30,400 of which \$27,200 was used to meet SICUL's operational expenses.

The League is also supported by the Credit Unions Foundation of Australia (CUFA) through the placement of a Technical Assistant with the League. Under the project, CUFA assisted the SICUL in training its staff and officials of credit unions. CUFA also provided a technical adviser to assist staff on how to update financial records of member credit unions and prepare financial statements.

Solomon Islands National Provident Fund

The Solomon Islands National Provident Fund (SINPF) was established in 1973 and become operational in 1977 as a compulsory retirement savings scheme for formal wage earners. At

the end of 2008, the total membership of the NPF stood at 142,944 members, with 40,100 active members, 6744 inactive and 96100 classified as dormant members.

Table 15 Summary of NPF's Financial Position 2005-2008 (SBD million)				
	2005	2006	2007	2008
Balance Sheets				
(Up to December 2008)				
Total Assets	524.9	605	756.9	856.6
Cash	8.9	26.7	51.6	35.9
Term Deposits	131.5	184.5	247.3	345.1
Bond Investments	121.3	138.5	138.5	142.7
Loans	97.4	59.7	31.6	26
Equity Shares	97.3	123.1	188.7	197.6
Others	68.6	72.6	72.7	76.8
Income Statements				
(Up to June 2008)				
Net Profit	7.8	23.7	117.3	100.1
Total Income	27.7	45.8	141.6	134.8
Operating Expenses	19.9	22.1	24.3	34.7
Source: Central Bank of Solomon Islands				

For the year ended June 2008, NPF made another record profit of \$100.1 million although the result was down by \$17.1 million on the 2007 result. As a result, member received dividend payouts of 18% the same as in 2007.

NPF's balance sheet as at end December 2008 stood at \$856.6 million, up from last year's \$756.9 million. The growth was driven by revaluation and capital gains from offshore investments reflected in the movement in the value of equity shares. During the year NPF has also increased offshore investments and purchased \$20 million worth of bonds from South Pacific Oil Limited. These new financial assets were funded by internal revenue and members contributions during the year.

Insurance Industry

The insurance market in Solomon Islands consists of two general and one life insurance companies and three insurance brokers.

Despite the small size of the insurance market these institutions assisted in the absorption of risk in the Solomon Islands in 2008.

The combined net premium income for both life and non-life insurance sector in 2008, increased by \$3.7 million to \$30.5 million. The rise in net earned premiums was aided by a decline in re-insurance costs. Similarly, net after tax profit has also increased marginally by 0.7% to \$8.1 million. This was largely underpinned by a decline in net policy and claims paid in 2008 in the general insurance sector.

The combined total assets of the insurance industry in 2008 grew by 9.9% to \$74.2 million. The increase in assets was underpinned by increase in Bokolo Bill investments amounting to \$7.8 million in the last quarter of 2008. The non-life insurance sector continued to dominate the combined market share of assets, at 90.0% in 2008.

Combined liabilities declined by 15.9% to \$35.4 million in 2008 compared to \$42.1 million in 2007. The decrease was underpinned by a fall in outstanding claims by 42.6% to \$4.9 million at the end of 2008 and a reduction in provisions for non-underwriting activities such as dividends; stamp duty, tax and employees benefits.

Rural Financial Services

The provision of microfinance services has been performed by the existing institutions in Solomon Islands including commercial banks, credit unions and savings clubs. There are other informal credit providers however there were no records on their activities. In 2008 credit unions, savings clubs and ANZ Microfinance Rural Banking unit remained the key microfinance providers in Solomon Islands.

Apart from the provision of microfinance, the availability of financial services to the rural populace remains a major objective. The

government budgetary support in 2007 for Rural Banking Scheme (RBS) provided by Australia and New Zealand Banking Group (ANZ) saw the expansion of financial services to rural areas in 2008. Apart from mobile units

that served parts of Guadalcanal and Malaita provinces, two new ANZ representations have been linked to electronic banking network including Taro and Lata.

VIII. CENTRAL BANK OPERATIONS

Finance and Accounts

The audited 2008 financial statements of the Bank are provided in the next section of this report. The 2008 financial statements are the third set of accounts prepared under the International Financial Reporting Standards (IFRS).

The impact of the financial and economic crisis experienced in 2008 affected the financial results of the Bank. Under IFRS the Bank made a net loss of (\$75.6 million) (2007: net profit \$78.4 million). Under the CBSI Act, the Bank made a net profit of \$5.6 million (2007: \$29.5 million). Until the CBSI Act is amended, the Bank will continue to produce its annual financial statements with two net operating profit/(loss) figures.

The difference is in the treatment of unrealized gains or losses on foreign exchange rate movements. While IFRS requires the recognition of net unrealized foreign exchange rate loss of (\$81.2 million) (2007: gain of \$48.9 million) as part of its income, under Section 45(1) of the CBSI Act, this amount is treated as a foreign exchange asset revaluation reserve at the end of the financial year.

Total income generated in 2008 was \$50.3 million (2007: \$59.9 million), a reduction of 16% from 2007. Interest income earned on investments of the external reserves fell by 19% to \$39.5 million in 2008. The reduced volumes of investible reserves together with lower interest rates on the investments were the main factors for the fall in interest incomes. The reduced volume of investible funds is reflected in the reduced foreign currency assets on the balance sheet.

Earnings from domestic investment fell \$3.1 million in 2007 to \$3.0 million in 2008. Fees and commissions received slightly fell from \$5.9 million to \$5.6 million. Other income also

slightly dropped from \$1.7 million to \$1.2 million.

In 2008 the Bank incurred total operating expenses of \$40.7 million compared to \$30.4 million in 2007. Of the total, administration expenses accounted for \$20.5 million whilst other operating expenses accounted for \$18.1 million. An increase in recruitment of additional staff in 2008 and salary adjustments were the main causes for the increase in administration expenses. In the other expenses, currencies expenses increased by 54% to \$14.0 million in 2008. This accurately reflects the change in treatment required under the IFRS to recognize as expense the cost of currency notes and coins as soon as they are placed into circulation. The introduction of ATMS has resulted in the increase in demand for quality currency notes. General price rises in the economy also increased the cost of goods and services used by the Bank in its operations in 2008.

The net profit of \$5.6 million has been appropriated by the Board according to the provisions of the CBSI Act. The existing balance on the General Reserve is \$86.2 million. Until the General Reserves is twice the amount of the authorized capital, under Section 20(2) of the CBSI Act, half of the net operating profit generated by the Bank is transferred to the General Reserves. In keeping with this requirement \$2.8 million, half of the operating profit is allocated to the General Reserves which would increase the existing balance from \$86.2 million to \$91.0 million at the end of 2008. Of the remaining half, \$1.4 million is allocated to the Capital Asset Reserves and the remaining balance of \$1.4 million (2007: \$4.7 million) is allocated to the SIG Consolidated Fund as required under Section 20(2) of the CBSI Act.

Under the provision of the signed Debt Settlement Agreement between CBSI and SIG

in February 2006, "... an amount equal to the dividends declared by CBSI in favour of SIG may be debited against the SIG Debt Servicing Account by CBSI within 2 working days of the initial payment of dividends by CBSI to reduce the Rolling Advance balance commencing in the year of declared dividends...." Accordingly, the remaining \$1.4 million to be transferred to the Consolidated Fund would be applied to offset the existing SIG loans and advances balance of \$17.8 million.

Total assets decreased by 16% to \$956.8 million in 2008. Net Assets declined by 21% to \$271.7 million in 2008.

Towards the end of the year CBSI advanced \$24.9 million to one of the commercial banks under the Secured Advance Facility to fund its liquidity needs.

On the liability side of the balance sheet, total liabilities to outside parties decreased by 14% to \$685.1 million in 2008.

Besides the General Reserves, the Bank also maintains three other reserves approved by the Minister of Finance and Treasury. They are the Foreign Exchange Asset Revaluation Reserves (FEARR), Premises and Equipment Assets Revaluation Reserves (PEARR) and Capital Asset Reserves (CAR). FEARR is required under Section 45 (1) of the CBSI Act. The transfer of the losses in foreign asset revaluations of \$81.2 million incurred during the year has reduced this reserve to \$60.0 million in 2008.

Whilst, the balance of PEARR remains unchanged at \$44.9 million, the CAR increased from \$52.8 million to \$54.2 million. The CAR strengthens the Bank's equity position in relation to future major capital investment in buildings and equipment.

The Statement of Cash Flow shows the movement of cash within various financial operations and activities of the Bank. The Bank realized a net cash outflow of \$112.4 million

on operating activities in 2008 compared to a mere \$1.3 million in 2007. In the investment activities of the Bank there was a net cash inflow of \$124.0 million compared to a \$82.5 million net cash outflow in 2007. The main contributing factor to the high cash inflow in 2008 was a decline in the foreign investment by \$132.8 million in 2008 compared to an increase of \$82.5 million in 2007. This would explain the reduction in the interest income due to reduction in investments in the international markets. In the financing activities of the Bank there was a net cash outflow of \$11.3 million compared to a net cash inflow of \$81.2 million in 2007. The main financing activities involved high cash outflows including movement in foreign currency loans and Solomon Islands Government Monetary operations.

Audit

CBSI's appointment of PriceWaterhouseCoopers (PWC) later locally registered as the Morris & Sojnoski Accountants (MSA) expired at the end of 2007. With the introduction of IFRS for the presentation of CBSI financial reports, professional advice was received to do an arms-length advertisement of the function of External Auditors service to the Bank for a term of five years.

The Office of the Auditor General (OAG) facilitated the bidding process and appointment of the External Auditor. Deloitte, PNG was appointed as the new External Auditors of CBSI for a term of five years. The appointment was done by the OAG who also signed the audit opinion on the 2008 accounts.

The Internal Audit function of the Bank was outsourced to the MSA in 2008. Their engagement expired at the end of 2008. A qualified officer has been appointed to the position of Manager, Internal Audit as from January 2009.

Information Technology

With technical assistance and guidance, the Bank completed the migration of the general ledger accounts from the Access to the SUN System. The completion of the migration of the general ledger module now leaves the Bank with the Sun System as the primary application for administering its accounts, payments and assets register.

The Bank performed a series of upgrades to its SWIFT system and completed the SWIFT migration program in early December. The new upgrade provides the Bank with more secure and reliable connectivity for exchanging of financial information with local and international clients.

The CS-DRMS system was also upgraded in 2008. The upgraded version equips the Bank with more features to perform debt recording and ease in managing and generating reports. Other additional functions for recording of auction bills are yet to be explored for use.

During the year an Insurance Database was developed in-house and completed. The program now enables the Bank to keep records of insurance businesses in Solomon Islands.

The year also marked the end of the centralized use of the large UPS with the adoption of a smaller UPS' for each PC to reduce maintenance cost. The Bank continued to maintain the safety, availability and reliability of its corporate data through upgrades and maintenance of hardware, software and other peripherals related to its local area network. New PCs and laptops were acquired to replace old ones during the year.

As a contingency measure, the Bank has also relocated its offsite server to a more secure location.

Currency Operations

Total value currency in circulation increased by 10.5% to \$290.7 million in 2008 albeit lower than the 29% rise in 2007. Of this, \$270.7 million was in currency notes and \$20.0 million in coins. The \$100 denomination accounted for 64% of total notes in circulation by value followed by the \$50 denomination at 24%. The \$2 and \$5 denominations accounted for 2% and 1.8%, respectively. The increase in the \$100 denomination was attributed to a rise in a number of ATMs in the country. In terms of volume of currency in circulation, the \$2 note (accounting for 34% of the total) rose by 32%, the \$100 denomination (accounting for 20%) was up by 15%, whilst the \$50 denomination (accounting for 15%) declined by 23%. The increase in both \$2 and \$100 denominations were attributable to both the nature of transactions and general price rises in the economy.

The use of the \$100 denomination has significantly reduced the pressure on the use of the \$50 denomination. In 2008, new notes and coins issued into circulation stood at \$74.9 million. Of this amount, \$74.2 million represented new currency notes. Of these new notes, 70% was for the \$100 denomination, 9% for the \$20 denomination, 8% for the \$50 denomination and the lower denominations accounted for the remaining 13% of the issued notes. For new coins issued, 50 cents and 20 cents made up 62% and the rest of the coins shared the remaining balance. During 2008 new notes received from the note printers were valued at \$207.5 million. Of this, \$100 bills represented 86.7%, \$10 bills represented 9.6% and \$5 bills represented 3.7%.

In 2008, \$39.2 million worth of mutilated notes were destroyed, compared to \$11.8 million in 2007. The level destroyed in 2008 was anticipated as more of the \$50 note was expected to return from circulation as the \$100 denomination replaced its position.

Interestingly, the cumulative value of destroyed notes rose to \$278.2 million from \$208.7 million in 2007. Of the total notes destroyed, 0.2% were in \$100 notes, 42% were in \$50 notes, 23% were \$20 notes, and 20% were in \$10 notes whilst the two low denominations accounted for the remaining balance. The increase in the number of cash dispensing machines in Solomon Islands partly contributed to the significant increase in the \$100 notes in circulation during the year.

While the CBSI has endeavoured to improve the security features of its bank notes, counterfeiting activities continued to pose a threat to the integrity of the current security features. Counterfeiting techniques have improved in terms of print and texture due to modern sophisticated machines used. The Bank confiscated one piece of \$100 counterfeit note in 2008 compared to four pieces (2 x \$100 note and 2 x \$50 notes) in 2007. In an attempt to mitigate this activity, the Bank continued to raise awareness programs via the radio and print media. This included informing the general public to habitually check currency notes. With the increased cost of printing notes and minting of coins, the awareness also emphasised the need to keep money in wallets to avoid exposing notes to harsh conditions that will drastically reduce their life in circulation.

Numismatic coins collections business fell in 2008 due to the global financial crisis. Consequently, total royalties received from overseas sales of commemorative coins was only \$0.27 million, a 64% drop from 2007. Commission received from sales of circulation notes and coins was at its lowest. Nevertheless, the Bank continued to participate in some exciting coin programs that included the New Seven Wonders of the World, the Antique Seven Wonders of the World, World War 1 commemorative coins series and re-minting of WWII commemorative coin programs.

The Bank remains positive that the commemorative coins market will rebound

after the temporary shocks and, anticipates participating in commemorating world sporting events like the FIFA World Cup Finals in South Africa in 2010 and the Olympic Games in 2012.

Securities Market

The Auction Treasury Bills market functioned satisfactorily during the year. However, the cap on the amount available was maintained at \$30 million. This was to keep interest payments cost to the minimum. The public dominated the weekly auctions with higher volume of the total stock in the 91-day maturity compared to the 56, 28, 14 and 7-days maturities. Interest rate spread was between 4% and 1.5% from 91-days to 7-days, respectively.

The Bank re-introduced the Bokolo Bills and Bokolo deposit facilities to mop up excess liquidity in the banking system. The volume targeted was \$10 million for Bokolo Bills that offered investors options to invest in 6, 9 and 12 months maturities while \$20 million was set aside for the Bokolo deposit facility which offered longer term investment windows for 1, 1.5 and 2 years maturities. Interest rate was fixed at increments of 0.5% between 3.5% and 5% from 6 months to 2 years respectively except for 9 months Bokolo Bills interest rate at 3.75%. Only SINPF participated in the Bokolo Deposit facility while insurance companies and the public participated in the Bokolo Bills market.

Solomon Islands Government (SIG) outstanding domestic debt (excluding provincial loans and SIG guarantees) equalled \$385.0 million as at end-December 2008. This represented 26% of SIG total debt outstanding and was \$43.4 million lower than what was outstanding at end-December 2007. This showed SIG's commitment to settle its debt obligations. The domestic debt outstanding comprised \$246.68 million in Government securities, \$137.58 million in SIG loans from CBSI and \$0.74 million in other SIG trade credits. Government securities comprised

\$224.86 million in Amortising Bonds, \$21.57 million in Auction Treasury Bills and \$0.25 million in Frozen Treasury Bills.

Debt Management

The External Debt Unit with the support of the IT unit successfully installed, configured and migrated the debt data to the newly upgraded CS-DRSM 2000+ v.1.3 software application in 2008. The upgraded version has additional reporting features as well as the auctioning module for Treasury Bills. The Unit was able to monitor, reconcile and conduct monthly processing runs on the external debt database using the new version of CS-DRMS 2000+ software application. A copy of the database is supplied to the Debt Management Unit in the Ministry of Finance and Treasury after the monthly processing runs. The Unit also made good progress in reconciling the external private loan database, although there were hurdles in monitoring debt repayments made by borrowers.

The Bank benefited from the Commonwealth Secretariat's local capacity building programs that included three off-shore training workshops in South Africa and UK in 2008. The objectives of the trainings were to enhance knowledge and skills relating to key debt related practices as well as ensuring that system administrators for the CS-DRMS 2000+ software were able to extract debt reports required by IMF, the World Bank and other users.

Exchange Control Operations

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

The Bank is required to monitor all inflows and outflows and ensure that all export proceeds are received within a reasonable time. In fulfilling this requirement, the Bank appointed the commercial banks as authorized dealers for processing non-trade and trade payments up to \$30,000 and \$50,000 respectively. All overseas payments above the required limits are assessed and approved by the Central Bank. The Bank also imposed on the commercial banks an overnight closing trade balance of \$5.0 million and any surplus funds above the required limit are sold to the Central Bank. In 2008 total applications for overseas remittance received and approved by the Bank increased by 8.7% to 6,168 in volume, valued at \$2.6 billion.

The Bank continues to monitor all exports to ensure all export proceeds are remitted back to Solomon Islands within 90 days from the date of export and foreign currency proceeds are sold to commercial banks in Solomon Islands as required under the Exchange Control (foreign exchange) regulations 1977. Out of all the commodities, round logs are exported under Specific Authority (SA), requiring specific assessment and approval for each export consignment. The approval is usually given by the Bank only after the exporter has obtained a market price certificate from the Commissioner of Forest. In 2008, 649 applications were approved for round log exports, totaling 1.6 million cubic metres and worth \$900 million, a 6.6% increase in volume as compared to the previous year.

The Bank, as part of ongoing efforts to promote domestic export growth, allows qualified exporters to hold 20% of export proceeds in foreign currency with the commercial banks. This is to assist exporters to be more efficient when making import payments for materials, parts and equipments that are needed for their exports activities. The account has a term of one year and subject to renewal. In 2008, 5 new applications were approved adding to the

total of 11 foreign currency accounts. These were denominated in USD and NZD.

Management of Exchange Rates

The Bank maintained its exchange rate regime of pegging the SBD to a basket of currencies. However, with the effect of the global economic crisis, the exchange rate has been very volatile and has shown significant movements in 2008. On an end period basis, the SBD depreciated markedly against the USD, YEN, and SGD by 4.6%, 31.0%, and 5.1% respectively. However, it appreciated against the AUD, GBP and NZD by 17.4%, 24.4% and 22.1% respectively. On a daily basis the Bank sets the USD/SBD exchange rate and determines trading limits before informing the commercial banks and the public. The commercial banks set daily exchange rates in terms of other trading currencies against the SBD. The Bank continues to monitor the limits and margins set by the commercial banks on the USD and AUD. In addition, close monitoring was done on the commercial banks lists of trading currencies and exchange rates on a daily basis.

Management of External Reserves

The Bank continues to manage the country's foreign reserves under the guidelines approved by the Board under three broad objectives:

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

The first two objectives took prominence in 2008 given the economic circumstances during the year. The global economic crisis has had adverse effects on the foreign reserves by reducing interest income due to reduction of deposit rates by depository institutions; and loss on foreign reserves due to exchange rate movements. By end of 2008 the average reserves level stood at \$670.7 million or equivalent to 2.5 months of import cover. The

reserves are held in USD, AUD, GBP, EUR, SGD and NZD.

The average annualized interest income as a percentage of average foreign reserves was 5.74% as compared to 5.49% in 2007. Interest income from investments of foreign reserves contributed to 90% of the Bank's total income in 2008.

In line with prudential management objectives of the Bank, the Board has established a list of banks and financial institutions as authorized depositories for the investment of the external reserves. These are usually central banks or AA+ rated financial institutions. The reserves and investment management policy limits the exposure that a depository institution can hold up to 25% of the total reserves expressed in terms of USD. The exceptions to this guideline are balances held with central banks or multi-national institutions.

The Manager Foreign Exchange Department is guided by an in-house Committee (Investment Advisory Committee) in ensuring that prudential management of the reserves is maintained and that risks are mitigated as much as possible to achieve best investment results. The Committee meets quarterly for reviews and further establishes guidelines for the Department to follow if required. A quarterly report is also submitted to the Board either for information or for further policy guidance.

In December of 2008, the Board approved a new Reserve Management and Investment Guidelines policy that replaced the existing policy and will be implemented in 2009.

The Middle Office (MO) continued to perform its roles and responsibilities in ensuring a risk management framework is in place and operational investments activities are monitored regularly. With the adoption of the new Reserve Management and Investment Guideline, the work of the MO will be greatly enhanced and effective.

Legislative Changes

The Bank continued to discuss amendments to the Credit Union Act, [Cap 165] with credit unions during the year. The draft amendments are awaiting submission to the CBSI Board for endorsement.

The Bank also made further amendments to the Credit Union Regulations for submission to the Minister of Finance for endorsement and gazettal in 2008.

The review of the Insurance Act, [Cap 162] that commenced in 2007 slowed down because of difficulties in finding an appropriate technical expert and legal draftsman for the task. The IMF has indicated that it will provide technical assistance towards this assignment in 2009.

Supervision of Financial System

The Bank conducted three (3) on-site examinations during the year. These were on two commercial banks and the SINPF. One of the examinations was led by the Bank of Papua New Guinea (BPNG) as 'home supervisor' to the branch of a PNG bank operating in Solomon Islands. CBSI as the 'host supervisor,' with technical assistance from the Australian Prudential Regulatory Authority (APRA) conducted the other two examinations. The recommendations from the examinations were submitted to the Board and management of the commercial banks and SINPF.

The Bank also reviewed the prudential guidelines and call reports focusing on capital adequacy, asset quality and foreign currency open positions.

Credit Union Development

As part of the Registrar's Office's contribution to strengthen the credit union movement in Solomon Islands, the Registrar's Office (RO) facilitated a two day workshop during the year. This focused on strengthening legal

understanding of credit union officers to perform their statutory obligations. This is a requirement under the Credit Union Act. The RO also conducted an on-site examination on the Solomon Islands National Teachers Association Credit Union.

Solomon Islands Financial Intelligence Unit

The Solomon Islands Financial Intelligence Unit (SIFIU) was set up under the provisions of the Money Laundering and Proceeds of Crime Act (2002). The Unit is attached to the CBSI but reports directly to the Anti-money Laundering Commission (AMLC).

The SIFIU made some notable achievement in its operation in 2008. A suspicious transaction report (STR) from one of the commercial banks led to an investigation by the Royal Solomon Islands Police Force (RSPPF) that resulted in a successful prosecution of two South Africans under the country's Anti-Money Laundering regime. This was noted as the first convicted case of money laundering in Solomon Islands.

Research Activities

The Bank has progressed in its task of collecting, compiling and analysing the economic and financial statistics of the Solomon Islands throughout 2008. The balance of payments survey has seen a significant improvement in responses following a short course for companies in early 2008. The involved officers continue to work with a wide range of companies to further improve the quality of information collected. A reserves revaluation project was undertaken aimed at accounting for the revaluation effects of currency movements on the level of external reserves. Further work on the reserves sought to improve the calculation of the import cover ratio calculation. Previously this had been calculated using 12 months of import cover but it was felt more appropriate and informative to reduce this to three. More work is however still needed on this key indicator. For instance, it is hoped that forecasting import levels will

allow for a better calculation of the protection the reserves provide. Government finance sector has sought to improve reported data on development expenditure by using monthly FET results for capital grants. This however has been found unreliable and efforts will be continued to improve reporting of development expenditure in 2009. The monetary sector has probably seen the greatest overhaul in data with the monetary and financial statistics project successfully aligning the Bank's reporting to international standards. Across all sectors a sustained effort has been made to reduce 'other' categories. In the past this has often been a large and unhelpful classification across sectors. Efforts have been made and will continue to be made to disaggregate the reporting and more usefully classify statistics.

Research work in 2008 mainly focused around logging, the high inflation suffered throughout the year and the effects, both realised and potential, of the global economic crisis on the Solomon Islands. An attempt was made by research department to quantify the loss in revenue from delaying the introduction of a new determined price on log exports. The results from this illustrated the major loss to government finances this delay had created concluding that estimated revenue losses were around \$47.5 million. Work on inflation was conducted evaluating the causes and potential trends for the high price of rice in the economy and research was also conducted on the effect of high fuel prices. The global economic crisis occupied the unit in the last part of the year although the impacts were slow to filter through to the Pacific by the end of the year they were being felt and have the potential to be very damaging to the region.

Properties

The internal re-configuration of the Bank's Head Office progressed in 2008 with the completion of the middle floor re-arrangement. Also completed in 2008 was the installation of

a new gas fired air-conditioning system for the Head Office and the former Monetary Authority Building. The former air-conditioning plant room was converted to a staff kitchen and launched at the end of December.

The Bank signed a tenancy agreement with the World Bank to lease the former Monetary Authority Building, Mud Alley for a period of two years, effective from August 2008.

Three new management residential houses were completed in 2008. A number of staff houses were repaired during the year.

The Bank engaged Kramer Group (SI) Ltd to provide concept plans for the Governor's official residence at Vavaya Ridge. The same group worked on concept designs for new staff housing and the alternative CBSI office at the Rifle Range. Work on these projects will continue in 2009.

In resolving its storage problems the Bank purchased 4 old shipping containers which would be used to store old records. Work to convert these old containers to proper storage facilities will begin in 2009 at the CBSI Mbokona property.

Administration, Personnel & Training

At year end CBSI's total establishment was 90 officers, comprising 2 Governors, 5 contracted senior managers, 66 permanent staff and 7 ancillary employees. Of the total, 59% were males and the remaining 41% were females. During the year, 7 new employees were recruited, 4 of whom were to fill vacant positions while one was for a newly created position with the Secretariat & Human Resources Department (SHRD) and two on a short term contract to relieve staff that are on full time overseas trainings. Two new contract management positions were filled during the year with the appointment of a new Manageress for SHRD and reappointment of

the former SHRD Manager to the position of Manager Accounts and Information Technology's department.

Two employees left the Bank during the year: one was given early retirement on medical grounds whilst former Governor Rick N Houenipwela completed his third term.

As follow up to the recommendations of the human resource consultant engaged in 2007 to review the Banks Terms and Conditions of employment, the Board engaged another consultant to undertake further work on the following terms of reference:

- Revise all job descriptions and write in a standard output focused format;
- Re-establish salary grade integrity with consistent grade relativities by means of a recognized job evaluation process;
- Undertake a salary survey in Honiara to establish a market rate;
- Establish a performance based remuneration policy giving recognition to merit job performance;
- Revise the job performance appraisal process with a mix of generic and job specific performance criteria.

The consultant completed the first part of his study at the end of 2008. The consultant is expected to return in the first half of 2009 to complete his assignment. At the completion of the study, the Bank will adopt a new approach to assess staff performance and a reward system that will be performance based.

Three staff members returned at the end of 2008 after completing their full time studies overseas. Two officers completed their undergraduate degree and post graduate diploma from the University of the South Pacific (USP) in Suva, Fiji, whilst the third graduated with a Masters degree from the Australian National University (ANU). Another staff member also completed his studies from the Solomon Islands College of

Higher Education (SICHE) graduating with a Diploma in Finance and Banking.

During the year, the Bank organized in-house trainings for officers, on subjects ranging from personnel viability, dynamic performance, leadership strategy, client relations management, strategic negotiation, dynamic assertive traits and conflict management strategies. Bank secretaries were given training on the use of "In-Design" software for desktop publishing skills. The Bank also sponsored staff to take studies at SICHE and USP Solomon Islands Centre on Distance Learning mode. Staff also attended various short courses overseas, offered by the IMF-Singapore Training Institute.

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

Public Education Program – Money Smart Day

The Bank decided to mark the anniversary date that established the Solomon Islands Monetary Authority (now the Central Bank of Solomon Islands) each June as a public education day called "Money Smart Day." The Minister of Finance, Honourable Snyder Rini, officially launched the first Money Smart Day event in June 2008. Officers from commercial banks, NPF and Personal Viability, provided information on financial services they offer and answered questions from the public. CBSI organized personal budgeting workshops for students, women, and the general public. The Central Bank also organized a public a tour of its Head Office building.

Board Secretariat

The Board met six times in 2008, three were special Board meetings. Only one Board

meeting was held outside Honiara, at the Aruligo recreational site.

Two new Directors, Sir Thomas Chan and Mr. Leslie Teama were appointed in 2008 for a period of three years. The Minister of Finance is yet to appoint two new Directors to replace Directors, Mr. George Kejoa and Mr. George Kiriau, whose terms expired in 2008. Former Governor Rick Nelson Houenipwela's term expired in August 2008. He was replaced in August for a period of five years by Mr. Denton H Rarawa, the then Deputy Governor. A new Deputy Governor, Mr. Gane A Simbe was appointed on the 18th September 2008 for a period of four years, leaving a vacant management position within the Financial Institutions Department (FID).

The Board endorsed the new CBSI salary scales that re-established salary grade integrity with consistent grade relativities by means of a recognized job evaluation process.

Relations with International Organizations

An IMF Article IV consultation mission was held during the year.

The Bank continued to maintain close professional relationships with regional and international organizations. These relations have enabled the Bank to source technical assistance as well as tap training opportunities provided by these organizations or engage in policy dialogue.

The Bank also hosted important guests during the year including World Bank Vice President, Mr James Adams who visited the East Asian and Pacific region, including Solomon Islands and IMF APD Executive Director, Mr. Richard Murray.

During the year, the Bank benefited from the regional IMF training institute in Singapore and the Pacific Financial Technical Assistance Centre in Fiji for staff training. Central Bank

staff attended specialized training in 2008 in the areas of debt management, financial markets, payment systems, macroeconomic management, resolving banking crisis, financial programming, reserves management, monetary and exchange rate policy and financial soundness indicators.

The Australian Prudential Authority sponsored officers from the Financial Institutions Department to participate in workshops in Papua New Guinea, Fiji, and Solomon Islands. The workshops mentored by APRA, were on on-site examinations of banks, credit unions and superannuation funds.

The IMF continued to fund a General Advisor on peripatetic basis and provided short-term TA's in exchange rate management, monetary and financial statistics, and review of the current CBSI Act.

In strengthening the manpower requirement of the department three officers undertook their degree studies at USP Suva, Fiji. They returned to re-join the department at the beginning of 2008 after completion of their study programs. Another officer of the department was approved to undertake his degree study at USP, Suva in 2008. The Board has endorsed another officer of the department to undertake a Masters degree in Accountancy in Australia in 2009 for two years. On his return he is earmarked to take up the Chief Manager position of the Department.

The Governor attended the Annual Meetings of the IMF and World Bank Group in Washington DC and the Commonwealth Finance Minister's meeting in St Lucia as part of the Solomon Islands delegation to these meetings. The former Governor also attended the ADB Annual Meeting in Madrid. The Governor and the Manager Economics Department attended the South Pacific Central Bank Governors conference in Sydney, Australia. These meetings provided important opportunities for networking and

strengthening of relationships between the financial institutions.
Bank and other central banks and international



REPORT OF THE AUDITOR-GENERAL

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

I have audited the accompanying financial statements of Central Bank of Solomon Islands ("Bank") which comprise the Statement of Profit and Loss, Statement of Transfers to Government of Solomon Islands, Balance Sheet as at 31 December 2008, Statement of Movements in Equity, Statement of Cash Flows, and Notes to and forming part of the financial statements for the year then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

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

- (a) so as to give a true and fair view of the financial position of Central Bank of Solomon Islands as at 31 December 2008, and of its financial performance and its cash flows for the year then ended;
- (b) in accordance with the provisions of the Central Bank of Solomon Islands Act (Cap. 49); and
- (c) in accordance with International Financial Reporting Standards as set out in Note 2(a) to the financial statements.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to note 27 to the financial statements. The operations of the Bank and those of similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for the foreseeable future by the global financial crisis and continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands.



ERIC MUIR
Acting Auditor-General

Office of the Auditor-General
P.O. Box G18
Honiara

28th April 2009

CENTRAL BANK OF SOLOMON ISLANDS

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CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

	Notes	2008 (SBD'000)	2007 (SBD'000)
Operating revenue			
Interest income	20(a)	42,614	52,201
Fees and commissions	20(b)	5,620	5,860
Royalties		272	759
Other income	20(c)	1,170	961
Net Gain on Foreign Currency Exchange transactions		649	115
Net unrealized foreign exchange rate gains (loss)		(81,207)	48,904
Total revenue		(30,882)	108,800
Operating expenses			
Interest expense	20(d)	2,131	2773
Fees and commissions	20(c)	39	89
Administrative expenses	20(f)	24,432	14545
Other operating expenses	20(g)	18,095	12011
Total expense		44,697	30,418
Net operating profit/(loss)		(75,579)	78,382
NET PROFIT DISTRIBUTION IN TERMS OF CBSI LAW			
Net operating profit in terms of IFRS		(75,579)	78,382
Add (IFRS required items not included in CBSI Law):			
Net unrealized loss (gains) on foreign exchange transactions		81,207	(48,904)
Net operating profit in terms of CBSI Law		5,628	29,478
Net Profit Transferred General Reserve in terms of Section 20(1) of CBSI Act (CAP 49)		2,814	14,739
Transfer to Other Reserve in terms of section 20(2) of the CBSI Act (CAP 49)		1,407	10,000
Due to Solomon Islands Government Section 20(2) of the CBSI Act (CAP 49)		1,407	4,739

This income statement is to be read in conjunction with the notes to and forming part of the financial statement set out on pages 64 to 86.

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF TRANSFER TO SOLOMON ISLANDS GOVERNMENT
FOR THE YEAR ENDED 31st DECEMBER 2008

	Notes	2008 (SBD'000)	2007 (SBD'000)
Appropriation of profit in terms of Section 20(2) of the CBSI Act (CAP 40)		1,407	4,739
Total transfer to Solomon Islands Government		1,407	4,739


This statement of transfer to Solomon Islands Government is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 64 to 86.

CENTRAL BANK OF SOLOMON ISLANDS


BALANCE SHEET AS AT 31ST DECEMBER, 2008

	Notes	2008 (SBD'000)	2007 (SBD'000)
ASSETS			
Foreign Currency Assets			
Money at Call	4	96,283	187,911
Accrued Interest		4,965	10,984
Term Deposits	4	608,152	719,124
Holding of Special Drawing Rights	5	117	22
Total		709,517	918,041
Local Currency Assets			
Cash on Hand		422	138
Loans and Advances	7	165,360	151,729
Property, Plant and Equipment	9	63,451	57,659
Other Assets	10	18,051	14,016
Total		247,284	223,542
Total Assets		956,801	1,141,583
LIABILITIES			
Foreign Currency Liabilities			
Demand Deposits	11	12,759	29,914
IMF Special Drawing Rights Allocations	5	8,116	7,916
Capital Subscriptions	5	6,342	6,690
Total		27,217	44,520
Local Currency Liabilities			
Demand Deposits	12	281,761	345,304
Currency in Circulation	13	279,861	262,938
SIG Monetary Operations Account	14	21,572	27,560
Fixed Deposits	15	65,015	103,027
Provision for transfer to SIG Consolidated Fund		1,407	4,739
Other Liabilities	16	11,814	8,354
Total		661,430	751,922
Total Liabilities		688,646	796,442
NET ASSETS		268,155	345,141
EQUITY			
Capital and Reserves			
Authorised Capital		50,000	50,000
Paid up Capital		20,000	20,000
General Reserve	17	89,060	86,247
Foreign Exchange Asset Revaluation Reserve	18(a)	59,947	141,153
Premises and Equipment Assets Revaluation Reserve	18(c)	44,968	44,968
Capital Asset Reserve	19	54,180	52,773
TOTAL CAPITAL AND RESERVES		268,155	345,141

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 64 to 88.



 Denton H Karawa
 Governor



 Edward Ronia
 Manager
 Accounts and Information Technology

Signed in Honiara on...24.. April 2009

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2008

	Issued and Paid up Capital	General Reserve	Foreign Exchange Assets Revaluation Reserve	Premises & Equipment Assets Revaluation Reserve	Capital Asset Reserve	Total
	(SBD'000)	(SBD'000)	(SBD'000)	(SBD'000)	(SBD'000)	
2007						
Balance at the beginning of financial year	2,597	88,911	92,249	44,968	42,773	271,498
Revaluation of Bank Premises	17,403	(17,403)	-	-	-	-
Transfer from General Reserve to Paid up Capital under Section 20 (4) of CBSI Act (CAP 49)	-	-	-	-	-	-
Transfer of net operating profit/loss in terms of Section 20(1) and 20(2) of CBSI Act CAP(49)	-	14,739	-	-	10,000	24,739
Transfer of Foreign Exchange Revaluation Gains (losses) for the year in terms of CAP(49) Section 45(1) of CBSI Act	-	-	48,904	-	-	48,904
At 31 December 2007	20,000	86,247	141,153	44,968	52,773	354,141
2008						
Balance at beginning of the financial year	20,000	86,247	141,153	44,968	52,773	345,141
Transfer from General Reserve to Paid up Capital under Section 20(4) CBSI Act CAP(49)	-	-	-	-	-	-
Transfer of net operating profit/loss in terms of Section 20(1) and 20(2) of CBSI Act CAP(49)	-	2,814	-	-	1,407	4,221
Transfer of Foreign Exchange Revaluation Gains (loses) for the year in terms of CAP(49) Section 45(1) of CBSI Act	-	-	(81,207)	-	-	(81,207)
At 31st December 2008	20,000	89,061	59,946	44,968	54,180	268,155

The statement of movements in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 64 to 86.

CENTRAL BANK OF SOLOMON ISLANDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2008

	Notes	2008 (SBD'000)	2007 (SBD'000)
Cash flows from operating activities			
Interest received		37,649	48,828
Cash received from other income		7,610	7,579
Interest paid		(2,131)	(2,773)
Cash payments in the course of operations		(40,550)	(4,188)
Net cash provided by operating activities before movements in operating assets and liabilities		2,578	49,446
Cash received on placement of deposits		(101,555)	(60,857)
Cash received/(paid) on IMF allocation of SDR		200	447
(Increase)/decrease in government finance provided		(13,631)	12,217
Net cash provided by operating activities	6	(112,409)	1,253
Cash flows from investment activities			
Payments for Premises, Plant & Equipment		(8,433)	(5,027)
Proceeds from sale of Premises, Plant & Equipment		151	116
(Increase)/decrease in foreign investments		132,283	(77,633)
Net cash used in investment activities		124,001	(82,544)
Cash flows from financing activities			
Net movement in issue of circulating currency		16,922	59,562
Net movement in foreign currency loan		(17,503)	26,771
Solomon Islands Government Monetary Operations		(5,988)	(2,226)
Dividend paid		(4,739)	(2,897)
Net cash from financing activities		(11,308)	81,210
Net increase (decrease) in cash held		284	(81)
Cash at the beginning of the financial year		138	219
Cash at the end of financial year		422	138

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statement set out on pages 64 to 86.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2008

1 THE LEGAL FRAMEWORK

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

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

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

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

2 BASIS AND FORMAT OF PRESENTATION

(a) Basis of preparation

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

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

The CBSI set up relevant additional provisions accounts in 2006 to cover likely end contractual gratuities and retirement scheme payments previously covered under equity reserve accounts. Note 16: Other Local Currency Liabilities has details of the relevant provision accounts covering these items

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

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

2 BASIS AND FORMAT OF PRESENTATION (CONT'D)

(b) Comparatives

All necessary information has been classified and presented to achieve consistency in disclosure with current financial year amounts and other disclosures.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition and Income presentation

Operating revenue

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

Income presentation

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

(b) Foreign currency assets and liabilities

Foreign currencies

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

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

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

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

As at 31 December 2008, there was a net revaluation deficit of \$81.2 million (2007 had a surplus of \$48.9 million).

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

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

(c) Impairment of other tangible and intangible assets

At each reporting date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(d) Foreign currency assets and liabilities

Treasury notes, bonds and bills

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

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

(e) Coins sold as numismatic items

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

(f) Non-current assets

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

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

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

(g) Property, plant and equipment

Acquisitions

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

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Disposal of assets

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

Depreciation

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

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

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

Periodic revaluations

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded at values approximating recoverable market values. With Board approval, a major review of the Bank's fixed asset accounting was completed in late 2006. This included a review of asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. As a result of this exercise the CBSI has revalued all of its land and buildings in 2006. The Board has sought input from external valuers, who have determined appropriate revaluation data. Positive revaluations have resulted in the establishment of a Premises and Equipment Asset Revaluation Reserve in the 2006 accounts. The Board proposes to have such assets revalued every three years, which necessitates the next revaluation to happen in 2009.

(h) Notes and coins

All purchases of notes and coins are initially capitalized. When currency is issued into circulation, the cost of producing such currency is then treated as current expenditure.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

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

(i) **Income Tax**

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

(j) **Employee entitlements**

Employee remuneration entitlements are determined by the Board in terms of Section 14 of the CBSI Act.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Bank in respect of services provided by employees up to reporting date.

(k) **Solomon Islands Pension /Provident Fund**

The CBSI and its employees make contributions to the National Provident Fund, which in turn makes payments to CBSI staff who finished employment and qualify under requirements of the Funds Laws. Some 7.5% per cent of salaries and staff entitlements are contributed to this Fund by the CBSI. This amounted to \$818,245 in 2008 (\$640,281 in 2007). CBSI staff made own contributions amount to \$333,604 calculated at 5.0 - 7.5 per cent of their respective salaries.

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

(l) **Cash and cash equivalents**

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

(m) **Solomon Islands Government bonds**

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

(n) **Allowance for Bad and Doubtful Debts**

Any allowance for bad and doubtful debts is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of receivables. Objective evidence that receivables are impaired includes observable data that come to the attention of the Bank about the following events:

- Significant financial difficulty to the debtor
- A breach of contract, such as default or delinquency in payments
- It becoming probable that the debtor will enter bankruptcy or other financial reorganization

The amount of allowance is the difference between the carrying amount and the recoverable amount of the asset being the present value of expected cash flows discounted at the market rate of interest for similar borrowers. The amount of the provision is recognized as a charge in the income statement.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

4. EXTERNAL ASSETS

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

5. INTERNATIONAL MONETARY FUND

- (a) The Solomon Islands is a member of the International Monetary Fund (IMF) and the Central Bank of Solomon Islands has been designated as the Government of the Solomon Islands' fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Solomon Island dollars.
- (b) The Solomon Islands subscription to the IMF has been met by:
 - (i) payment to the IMF out of Central Bank external assets which have been reimbursed by the Government of the Solomon Islands by issue of non-interested bearing securities;
 - (ii) the funding of accounts in favour of the IMF in the books of the Central Bank by the Government of the Solomon Islands.
- (c) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No.2 accounts. The IMF maintains such balances in their accounts in both SDR and Solomon Islands dollar equivalents; the Central Bank balances are maintained only in Solomon Islands dollars.

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

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

	2008 (SBD 000's)	2007 (SBD 000's)
Operating profit	5,627	29,478
<i>Non cash items:</i>		
Depreciation	2,591	1,955
Currency Amortisation Expense	-	9,095
<i>Net (increase)/decrease in:</i>		
Interest receivable	4,965	(3,373)
Other receivables	(27,697)	(5,062)
Accrued expenses	(97,895)	(30,840)
Net Cash from operating activities	(112,409)	1,253

ENTRAL BANK OF SOLOMON ISLANDS

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7. LOANS AND ADVANCES

	2008 (SBD'000)	2007 (SBD'000)
a) Loans and Advances to Solomon Islands Government		
Loans and Advances	17,830	24,321
Less Allowance for Doubtful Debts	-	-
Development Bonds	27	27
Treasury Bills	917	59
Other Securities	10,364	10,716
Amortizing Bonds	109,077	114,555
Total Loans and Advances to Solomon Islands Government	138,215	149,678

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

The current level of borrowings by the Government, however, is in breach of the limits set for such borrowings in the Central Bank. The statutory limit as at 31 December 2008 was \$98.4m. (31 December 2007: \$ 98.4 m).

	2008 (SBD'000)	2007 (SBD'000)
b) Staff Loans		
Staff Housing Loans	1,267	1,335
Less Allowance for Doubtful Debts	-	-
Management Car Loans	246	116
Personal Loans	732	600
Total Staff Loans	2,245	2,051
c) Commercial Banks		
Advances to ANZ	24,900	-
	24,900	-
Total Loans and Advances to the Solomon Islands Government CBSI Staff and Commercial Banks	165,360	151,729

8. EQUITY INVESTMENTS

These investments have been made by the CBSI, at the request of the SIG, in the share capital of the Investment Corporation of the Solomon Islands (ICSI) and the Development Bank of the Solomon Islands (DBSI), and are carried at the lower of cost and recoverable amount. This is based on the CBSI Board's valuation based on historical cost, less provision for diminution of the value to reflect the net asset value and trend in operating results indicated by the financial statements of each institution (ICSI: 2001 accounts; and DBSI : 2004 final accounts).

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

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

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

9. PROPERTY, PLANT AND EQUIPMENT

	Land & Building (SBD'000)	Equipment & Furniture (SBD'000)	Computer (SBD'000)	Work in Progress (SBD'000)	Total (SBD'000)
At 31st December 2007					
Cost or valuation	51,506	8,591	2,380	2,224	64,701
Accumulated depreciation	(1,030)	(4,421)	(1,591)	-	(7,042)
Net book amount	50,476	4,170	789	2,224	57,659
Year ended December 2006					
Opening net book amount	51,506	2,466	615	-	5,4587
Additions	-	2,536	267	2,224	5,027
Disposals	-	-	-	-	-
Internal transfers	-	-	-	-	-
Depreciation charge	(1,030)	(832)	(93)	-	(1,955)
Revaluation surplus	-	-	-	-	-
Closing net book amount	50,476	4,170	789	2,224	57,659
At 31st December 2008					
Cost	2,304	15,801	2,662	399	21,167
Revaluation	51,506				51,506
Accumulated depreciation	(2,294)	(5,167)	(1,761)	-	(9,222)
Net book amount	51,517	10,634	901	399	63,451
Year ended December 2008					
Opening net book amount	50,476	4,170	789	2,224	57,659
Additions	80	7,646	308	399	8,433
Disposals	-	(42)	(8)	-	(50)
Internal transfers	2,224	-	-	(2,224)	-
Depreciation charge	(1,263)	(1,140)	(188)		(2,591)
Closing net book amount	51,517	10,634	901	399	63,451

The Bank's land and buildings records in 2007 reflect significant influence of revaluation at 31st December 2006. Depreciation is charged for the first time after this revaluation. Other assets listed in this note did not subject to this revaluation. Similar revaluations will occur in 2009 to comply with IAS 16.

Land and buildings were stated at historical cost and revaluation in 2008 and at the revaluation amount in 2007 as follows:

	2008 (SBD'000)	2007 (SBD'000)
Cost	2,304	-
Revaluation	51,506	51,506
Accumulated depreciation	(2,294)	(1,030)
Net	51,517	50,476

CENTRAL BANK OF SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008**

10	OTHER LOCAL CURRENCY ASSETS	2008	2007
		(SBD'000)	(SBD'000)
	Sundry Debtors & Other Cheques Held	9,875	1,439
	Solomon Islands Notes and Coins	9,507	11,357
	Advances and Repayments	157	2,708
	Less Provision for Doubtful Debts	(1,488)	(1,488)
		18,051	14,016
11.	FOREIGN CURRENCY DEMAND DEPOSITS		
	Demand Deposits	12,759	29,914
	Demand deposit of international organizations such as Asian development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association.		
12.	LOCAL CURRENCY DEMAND DEPOSITS		
	Banks	165,906	200,749
	Solomon Islands Government	110,229	139,442
	Statutory Corporations	5,572	4,836
	Other	54	277
		281,761	345,304
13.	CURRENCY IN CIRCULATION		
	Notes	269,688	253,445
	Coins	10,172	9,493
		279,860	262,938
14.	SECURITIES		
	Solomon Islands Government Monetary Operations	21,572	27,560
15.	SOLOMON ISLANDS GOVERNMENT (SIG) DEPOSITS		
	This deposit represents funds received by the Solomon Islands Government (SIG) under the Stabex scheme of the European Community, Asian Development Bank, Republic of China, and Papua New Guinea Government. The SIG draws on these deposits as and when it is ready to use the funds in a manner approved by the funding agencies.		
16.	OTHER LOCAL CURRENCY LIABILITIES	2008	2007
		(SBD'000)	(SBD'000)
	Unpresented Bank Cheques	2,048	5,625
	Provision for Employee Entitlements	5,256	969
	Other Liabilities	4,510	1,760
		11,814	8,354

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

17. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

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

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

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

18. ASSET REVALUATION RESERVE ACCOUNTS

(a) Foreign Exchange Revaluation Reserve

Under Section 45 of the CBSI Act, gains arising from any change in the valuation of the Central Bank's assets or liabilities in, or denominated in, gold, foreign currencies or other units of account as a result of alterations of the external value of the currency of the Solomon Islands, or any change in the values, parities or exchange rates of such assets and liabilities with respect to the currency of the Solomon Islands other than gains arising from normal trading activity of the Central Bank, shall be credited to a Foreign Exchange Revaluation Reserve Account. Losses arising from any change other than losses from normal trading activity of the Central Bank shall be included in the computation of the annual profits or losses of the Central Bank. As discussed in the Notes, such treatment is inconsistent with IFRS. The CBSI provides additional disclosures in a profits distribution reconciliation statement accompanying the profit and loss account, which links IFRS net profit to profit distributable under the CBSI Law.

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

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
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18. ASSET REVALUATION RESERVE ACCOUNTS (CONT'D)

(a) Foreign Exchange Revaluation Reserve (Cont'd)

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

(b) Foreign Investment Revaluation Reserve

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

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

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

(c) Property, Plant and Equipment Asset Revaluation Reserve

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

19. CAPITAL ASSETS RESERVES

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

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

	2008 (SBD'000)	2007 (SBD'000)
Capital Asset Reserve	54,180	52,773

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

20.	INCOME AND EXPENSES	2008 (SBD'000)	2007 (SBD'000)
(a)	Interest income	42,614	52,201
	Interest received from foreign investments	39,522	49,042
	Interest received from local investments	3,092	3,159
(b)	Fees and commissions received	5,620	5,860
	Fees and commissions - foreign dealings	5,306	5,669
	Fees and commissions - local dealings	314	191
(c)	Other income	1,170	961
	Proceeds from disposal of fixed assets	61	116
	Rent received	619	628
	Sale of numismatic coins	39	84
	Write back bad debt allowance on SIG loans and advances	-	-
	Others	451	133
(d)	Interest expenses	2,131	2,773
	Interest expense on foreign liabilities	239	317
	Interest expense on local liabilities	1,892	2,456
(e)	Fees and commissions paid	39	89
(f)	Administration expenses	24,432	15,545
	Staff costs	16,788	10,098
	Others	7,644	5,447
(g)	Other operating expenses	18,095	12,011
	Board of Directors remunerations and expenses	77	129
	Currency expenses	13,924	9,095
	Depreciation	2,591	1,955
	Auditors remuneration (Note 21)	496	241
	Allowance for bad and doubtful debts	-	9
	Allowance for deminution	-	-
	Others	1,007	582

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

21. AUDITOR'S REMUNERATION	2008 (SBD'000)	2007 (SBD'000)
Amounts received or due and receivable by the Auditors of the Bank for:	496	241
- Auditing the financial statements	376	175
- Other services - Morris and Sojancki - Internal Audit	120	66

22. RELATED PARTIES

Related Party Disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Bank are members of the CBSI Board and senior staff who have responsibility for planning, directing and controlling the activities of the Bank. In 2008, this group comprises 12 in total (12 in 2007), including the Governor and Deputy Governor, 7 non-executive CBSI Board Members and 5 senior staff. Fees of the non-executive members of the CBSI Board are determined by the Minister of Finance. The Governor and Deputy Governor contracts are subject to mid-term review by the Minister of Finance in terms of CBSI policies. The CBSI Board of Directors determines the remuneration of other key executive.

The remuneration of the CBSI's key management personnel was as follows:

Total remuneration is included in 'personnel expenses' as follows:	2008 (SBD'000)	2007 (SBD'000)
Short-term employee benefits	6,793	5,077
Post-employment benefits	887	756
Other long-term benefits	134	142
Share-based payments	-	-
Termination benefits	-	-
Total Compensation	7,814	5,975

Short-term benefits include cash salary, and in the case of staff, annual leave, motor vehicle benefits, health benefits and the fringe benefits tax paid or payable on these benefits.

Post-employment benefits include superannuation benefits and in the case of staff, health benefits. Other long-term benefits include long service leave. The components of remuneration are reported on an accrual basis.

As at 31 December 2008 loans by the Bank to key management personnel are as follows:

	2008 (SBD 000's)	2007 (SBD 000's)
Housing Loan	68	76
Personal Loan	50	2
Management Car Loan	109	-
Total Loans	227	78

There were no other related party transactions with Board members; transactions with director-related entities which occurred in the normal course of the Bank's operations were conducted on the terms no more favorable than similar transactions with other employees or customers.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
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23. EMPLOYEES

The number of full time permanent Central Bank employees as at 31st December 2008 was 90 and 86 in 2007. This increase is eminent to staff new positions and to fill old vacant positions within the Bank.

24. CONTINGENT LIABILITIES

The Bank has guaranteed staff housing loans with the commercial banks to the sum of \$1.1 million as at 31 December 2008 (2007:\$1.3 million). The guarantee is valid until the date the staff ceases employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided \$10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31st December 2008 a total loan of \$1.62 million has been guaranteed under the scheme. No claims have been received against the Scheme.

25. FINANCIAL INSTRUMENTS

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

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

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

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

Credit risk

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

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

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

Liquidity risk

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

The table below shows assets and liabilities at 31 December 2008 (and 2007 comparatives) grouped by remaining contractual maturity.

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2008 Liquidity Risk

	0-3 Months (SBD'000)	3-6 Months (SBD'000)	6-12 Months (SBD'000)	Over 1 Year (SBD'000)	Undefined Maturity (SBD'000)	Total (SBD'000)
Foreign Currency Assets						
Money at Call	96,283	-	-	-	-	96,283
Accrued Interest	4,965	-	-	-	-	4,965
Term Deposits	608,152	-	-	-	-	608,152
Holding of Special Drawing Rights	117	-	-	-	-	117
Total	709,517	-	-	-	-	709,517
Local Currency Assets						
Cash on Hand	422	-	-	-	-	422
Loans and Advances	-	-	-	165,360	-	165,360
Premises and Equipment	-	-	-	-	63,451	63,451
Other Assets	18,051	-	-	-	-	18,051
Total	18,473	-	-	165,360	63,451	247,284
Total Assets	727,990	-	-	165,360	63,451	956,801
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	12,759	-	-	-	-	12,759
IMF Special Drawing Rights Allocations	-	-	-	-	8,116	8,116
Capital Subscriptions	-	-	-	-	6,342	6,342
Total	12,759	-	-	-	14,458	27,217
Local Currency Liabilities						
Demand Deposits	281,761	-	-	-	-	281,761
Currency in Circulation	-	-	-	-	279,860	279,860
SIG Monetary Operations Account	21,572	-	-	-	-	21,572
Fixed Deposits	65,015	-	-	-	-	65,015
Provision for transfer to SIG Consolidated Fund	1,407	-	-	-	-	1,407
Other Liabilities	11,814	-	-	-	-	11,814
Total	381,569	-	-	-	279,860	661,429
Total Liabilities	394,328	-	-	-	294,318	688,646
Net Liquidity Gap	333,662	-	-	165,360	(230,867)	268,155

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
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2007 Liquidity Risk

	0-3 Months (SBD'000)	3-6 Months (SBD'000)	6-12 Months (SBD'000)	Over 1 Year (SBD'000)	Undefined Maturity (SBD'000)	Total (SBD'000)
Foreign Currency Assets						
Money at Call	187,7911	-	-	-	-	187,911
Accrued Interest	8,125	2,859	-	-	-	10,984
Term Deposits	317,233	345,891	-	-	-	719,124
Holding of Special Drawing Rights	22	-	-	-	-	22
Total	569,291	348,750	-	-	-	918,041
Local Currency Assets						
Cash on Hand	138	-	-	-	-	138
Loans and Advances	-	-	-	151,729	-	151,729
Premises and Equipment	-	-	-	-	57,659	57,659
Other Assets	14,016	-	-	-	-	14,016
Total	14,154	-	-	151,729	57,659	223,542
Total Assets	583,445	348,750		151,729	57,659	1,141,583
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	29,914	-	-	-	-	29,914
IMF Special Drawing Rights Allocations	-	-	-	-	7,916	7,916
Capital Subscriptions	-	-	-	-	6,690	6,690
Total	29,914	-	-	-	14,606	44,520
Local Currency Liabilities						
Demand Deposits	345,291	-	-	-	-	345,291
Currency in Circulation	-	-	-	-	262,938	262,938
SIG Monetary Operations Account	27,560	-	-	-	-	27,560
Fixed Deposits	103,027	-	-	-	-	103,027
Provision for transfer to SIG Consolidated Fund	4,752	-	-	-	-	4,752
Other Liabilities	8,354	-	-	-	-	8,354
Total	488,984	-	-	-	262,938	751,922
Total Liabilities	518,898	-	-	-	277,544	796,442
Net Liquidity Gap	64,547	348,750	-	151,729	(212,885)	345,141

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

Interest rate risk

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

Financial assets:

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

Financial liabilities:

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

CENTRAL BANK OF SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008**

2008 Interest Rate Risk

	Fixed Coupon 0-1 Month (SBD'000)	1-3 Months (SBD'000)	3-12 Months (SBD'000)	Over 1 Year (SBD'000)	Non Interest Bearing (SBD'000)	Total SBD'000)
Foreign Currency Assets						
Money at Call	96,283	-	-	-	-	96,283
Accrued Interest & Bill Collectibles	4,965	-	-	-	-	4,965
Term Deposits	397,322	210,830	-	-	-	608,152
Holdign of Special Drawing Rights	-	-	-	-	117	117
Total	498,570	210,830		-	117	709,517
Local Currency Assets						
Cash on Hand	-	-	-	-	422	422
Loans and Advances	-	-	-	165,360	-	165,360
Premises and Equipment	-	-	-	-	63,451	63,451
Other Assets	-	-	-	-	18,052	18,051
Total	-	-	-	165,360	81,925	247,284
Total Assets	498,570	210,830		165,360	82,042	956,801
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	-	-	-	-	12,759	12,759
IMF Special Drawing Rights Allocations	-	-	-	-	8,116	8,116
Capital Subscriptions	-	-	-	-	6,342	6,342
Total	-	-	-		27,217	27,217
Local Currency Liabilities						
Demand Deposits	-	-	-	-	281,761	281,761
Currency in Circulation	-	-	-	-	279,860	279,860
SIG Monetary Operations Account	-	-	-	-	21,572	21,572
Fixed Deposits	-	-	-	-	65,015	65,015
Provision for transfer to SIG Consolidated Fund	-	-	-	-	1,407	1,407
Other Liabilities	-	-	-	-	11,814	11,814
Total	-	-	-	-	661,429	661,429
Total Liabilities	-	-	-	-	688,646	688,646
Net Sensitivity Gap	498,570	210,830		165,360	(606,604)	268,155

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

2007 Interest Rate Risk

	Fixed Coupon 0-1 Month (SBD'000)	3-6 Months (SBD'000)	6-12 Months (SBD'000)	Over 1 Year (SBD'000)	Non Interest Bearing (SBD'000)	Total (SBD'000)
Foreign Currency Assets						
Money at Call	187,911	-	-	-	-	187,911
Accrued Interest	-	8,125	2,859	-	-	10,984
Term Deposits	-	373,233	345,891	-	-	719,124
Holdign of Special Drawing Rights	-	-	-	-	22	22
Total	187,911	381,358	348,750	-	22	918,041
Local Currency Assets						
Cash on Hand	-	-	-	-	138	138
Loans and Advances	-	-	-	140,927	10,802	151,729
Premises and Equipment	-	-	-	-	57,659	57,659
Other Assets	-	-	-	-	14,016	14,016
Total		-	-	140,927	82,615	223,542
Total Assets	187,911	381,358	348,750	140,927	82,637	1,141,583
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	-	-	-	-	29,914	29,914
IMF Special Drawing Rights Allocations	-	-	-	-	7,916	7,916
Capital Subscriptions	-	-	-	-	6,690	6,690
Total	-	-	-	-	44,520	44,520
Local Currency Liabilities						
Demand Deposits	-	-	-	-	345,291	345,291
Currency in Circulation	-	-	-	-	262,938	262,938
SIG Monetary Operations Account	2,542	25,018	-	-	-	27,560
Fixed Deposits	-	-	-	-	103,027	103,027
Provision for transfer to SIG Consolidated Fund	-	-	-	-	4,752	4,752
Other Liabilities	-	-	-	-	8,354	8,354
Total	2,542	25,018	-	-	724,362	751,922
Total Liabilities	2,542	25,018	-	-	768,882	796,442
Net Sensitivity Gap	185,369	356,340	348,750	140,927	(686,245)	345,141

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

Currency risk

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

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

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

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

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

2008 Currency Risk

	SBD (SBD000's)	AUD (SBD000's)	NZ (SBD000's)	USD (SBD000's)	EURO (SBD000's)	GBP (SBD000's)	OTHERS (SBD000's)	TOTAL (SBD000's)
Foreign Currency Assets								
Money at Call	-	6,690	-	50,076	37,506	2,007	4	96,283
Accrued Interest	-	2,068	715	266	1,345	529	42	4,965
Term Deposits	-	162,511	94,412	205,036	76,760	57,768	11,665	608,152
Holding of Special Drawing Rights	-	-	-	-	-	-	117	117
Total	-	171,269	95,127	255,378	115,611	60,304	11,828	709,517
Local Currency Assets								
Cash on Hand	422	-	-	-	-	-	-	422
Loans and Advances	165,360	-	-	-	-	-	-	165,360
Premises and Equipment	63,451	-	-	-	-	-	-	63,451
Other Assets	18,051	-	-	-	-	-	-	18,051
Total	247,284	-	-	-	-	-	-	247,284
Total Assets	247,284	171,269	95,127	255,378	115,611	60,304	11,828	956,801
LIABILITIES								
Foreign Currency Liabilities								
Demand Deposits	-	-	-	770	10,605	-	1,384	12,759
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	8,116	8,116
Capital Subscriptions	-	-	-	-	-	-	6,342	6,342
Total	-	-	-	770	10,605	-	15,842	27,217
Local Currency Liabilities								
Demand Deposits	281,761	-	-	-	-	-	-	281,761
Currency in Circulation	279,860	-	-	-	-	-	-	279,860
SIG Monetary Operations Account	21,572	-	-	-	-	-	-	21,572
Fixed Deposits	65,015	-	-	-	-	-	-	65,015
Provision for transfer to SIG Consolidated Fund	1,407	-	-	-	-	-	-	1,407
Other Liabilities	11,814	-	-	-	-	-	-	11,814
Total	661,429	-	-	-	-	-	-	661,429
Total Liabilities	661,429	-	-	770	10,605	-	15,842	688,646
NET ASSETS	(414,145)	171,269	95,127	254,608	105,006	60,304	(4,014)	268,155

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

2007 Currency Risk

	SBD (SBD000's)	AUD (SBD000's)	NZ (SBD000's)	USD (SBD000's)	EURO (SBD000's)	GBP (SBD000's)	OTHERS (SBD000's)	TOTAL (SBD000's)
Foreign Currency Assets								
Money at Call	-	19,116	-	56,449	79,267	33,075	4	187,911
Accrued Interest	-	3,124	2,961	2,641	1,146	1,076	36	10,984
Term Deposits	-	222,380	124,578	197,892	73,437	89,933	10,904	719,124
Holding of Special Drawing Rights	-	-	-	-	-	-	22	22
Total	-	244,620	127,539	256,982	153,850	124,084	10,966	918,041
Local Currency Assets								
Cash on Hand	138	-	-	-	-	-	-	138
Loans and Advances	151,729	-	-	-	-	-	-	151,729
Premises and Equipment	57,659	-	-	-	-	-	-	57,659
Other Assets	14,016	-	-	-	-	-	-	14,016
Total	223,542	-	-	-	-	-	-	223,542
Total Assets	223,542	244,620	127,539	256,982	153,850	124,084	10,966	1,141,583
LIABILITIES								
Foreign Currency Liabilities								
Demand Deposits	-	-	-	620	29,294	-	-	29,914
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	7,916	7,916
Capital Subscriptions	-	-	-	-	-	-	6,690	6,690
Total	-	-	-	620	29,294	-	14,606	44,520
Local Currency Liabilities								
Demand Deposits	345,291	-	-	-	-	-	-	345,291
Currency in Circulation	262,938	-	-	-	-	-	-	262,938
SIG Monetary Operations Account	27,560	-	-	-	-	-	-	27,560
Fixed Deposits	103,027	-	-	-	-	-	-	103,027
Provision for transfer to SIG	4,752	-	-	-	-	-	-	4,752
Consolidated Fund	-	-	-	-	-	-	-	-
Other Liabilities	8,354	-	-	-	-	-	-	8,354
Total	751,922	-	-	-	-	-	-	751,922
Total Liabilities	751,922	-	-	620	29,294	-	14,606	796,442
NET ASSETS	(528,380)	244,620	127,539	256,362	124,556	124,084	(3,640)	345,141

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER, 2008

27 GOING CONCERN

The global financial crisis that started in late 2008 has created an environment of uncertainty in Solomon Islands. The Bank and other organizations in the country are affected. Already the Bank is experiencing reduction in its foreign reserves and interest income. If the situation persists the Bank will take measures to defend the foreign reserves.

The financial statements do not include any adjustments that might result from the outcome of these uncertainties but the Bank will review its budget and programs should the needs arise.

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

28 EVENTS OCCURRING AFTER BALANCE DATE

No events have occurred since the balance sheet date which would require either disclosure or adjustments in the financial statements (2007: nil).

**CENTRAL BANK OF SOLOMON ISLANDS
2008 CALENDAR OF EVENTS**

MONTHS	EVENTS
January	<ul style="list-style-type: none"> • CBSI conducts onsite examination of ANZ branch in Solomon Islands • CBSI renews Mr. Aquillah's contract as Manager Foreign Exchange Department for another two years. • Deputy Governor and Manager Foreign Exchange Department attend a Bank of England and PFTAC Seminar in Port Vila.
February	<ul style="list-style-type: none"> • World Bank President Mr. James Adams visits the East Asia and Pacific Region. • Mr. Russell Leigh, Credit Union Advisor, visits CBSI. • Mr. Mike Smith, ANZ CEO, Melbourne, and Mr. John Velegrinis, GM, ANZ Regional Marketing Pacific, visits CBSI. • Manager, Currency & Banking Operation (M/CBO) attends Banknote Conference in Kuala Lumpur, Malaysia.
March	<ul style="list-style-type: none"> • Governor Rick Hou attends ADFX negotiations meeting in Manilla.
April	<ul style="list-style-type: none"> • Deputy Governor attends Central Banking Publications seminars in London. • CBSI conducts workshop on- Legal Responsibility and Compliance for Credit Unions. • M/CBO attends CS-DRMS Workshop on Issuance of Government Securities and CS-Securities Auction Systems in Pretoria, South Africa.
May	<ul style="list-style-type: none"> • Governor launches the 2007 CBSI Annual Report. • IMF TA, Atilla Arda reviews the CBSI Act. • Governor accompanies the SI Delegation to attend the 41st ADB Annual Board of Governors meeting in Madrid, Spain and ADFX Donors meeting in Manila. • AM/AIT attends CS-DRMS 2000+ IT Administrators Workshop in London.
June	<ul style="list-style-type: none"> • Central Bank launches its public Financial Literacy Program called "Money Smart Day". • IMF APD Executive Director, Richard Murray visits the Central Bank. • General Ledgers accounts migration from the Access to Sun System completed. • Sustainable Energy Financing Project [SEFP] launched at the National Agriculture & Trade Show.

- | | |
|------------------|---|
| July | <ul style="list-style-type: none">• Deputy Governor and SIFIU officials attend APG annual meetings in Bali.• IMF Article IV Mission visits Solomon Islands.• CBSI conducts onsite review of Bank South Pacific.• Review of Exchange Rate Management by IMF TA David Mitchem. |
| August | <ul style="list-style-type: none">• Governor Hou ends his term as Governor of Central Bank.• Mr. Denton Rarawa appointed as the next Governor of CBSI for a term of 5 years.• Deloitte PNG appointed as new External Auditors of CBSI for 5 years.• National Parliament debates the 2007 CBSI Annual Report.• Launch of the Supplemental Equity Facility under the Rural Development Project funded by World Bank, European Union and AusAID.• Governor attends Financial Deepening Conference in Sydney. |
| September | <ul style="list-style-type: none">• Minister of Finance Honorable Snyder Rini, appoints Mr. Gane Simbe as new Deputy Governor for a term of 4 years.• CBSI conducts on-site examination on Solomon Islands National Teachers Association (SINTA), Credit Union.• Bokolo Bills introduced to mop up excess liquidity in the banking system.• Vinstar Consultant, Gordon Turner, reviews the CBSI Staff Terms and Conditions of Service. |
| October | <ul style="list-style-type: none">• Governor accompanies the SI Delegation to the Commonwealth Finance Ministers' meeting in St. Lucia and the IMF/World Bank Annual Meetings in Washington DC.• Redesigning of the middle floor of the Bank Head Office.• Completion of the new gas powered Air-conditioning System at the Head Office.• CBSI conducts an onsite review of SINPF.• Launch of the GEF-Sustainable Energy Financing Project (SEFP) 'Roadshow' in Gizo, Western Province.• Visit by De La Rue (DLR) officials – Mrs. Joyce Cluett, Sales Administration Manager, DLR - UK and Mrs. Maria Atkinson, Regional Manager, DLR-KL, Malaysia.• Vinstar Consultant, Gordon Turner conducts "Sore thumb" session for CBSI managers at Aruligo Recreational site. |
| November | <ul style="list-style-type: none">• World Bank opens Country Office in old CBSI building, Honiara.• Relocation of the off-site server to Forum Fisheries Agency.• GEF-SEFP Roadshow team visits Auki and surrounding communities.• Secured Advance Facility introduced to address short-term liquidity needs of the commercial banks. |

- December**
- Board meets at the CBSI Recreational Centre to approve the CBSI 2009 Business Plan and Budget.
 - SIFIU conducts anti-money laundering review of Westpac Bank.
 - Board approves new Reserves Management Policy for the Bank.
 - CBSI staff Kitchen officially opened by the Governor Rarawa.
 - Mr. Luke Forau successfully completes his studies at ANU, Australia.
 - Successful migration of the final stage of the SWIFT System.
 - Supervisor/ Debt Office attends seminar on External Debt Reporting in London.
 - Governor and M/ECOD attend the South Pacific Central Banks Governors Conference in Sydney.

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TABLE 1-1 MONETARY SURVEY

NET FOREIGN ASSETS										DOMESTIC CREDIT				NARROW MONEY				(SBD'000)	
End of Period	Monetary Authority	Banks	Total	Govern. Net	Private Sector	Other Financial Sector	State & Local Govern.	Public Non-Fin. Corpn.	Total	Currency in Circulation	Demand Deposits			Other Deposits	Broad Money (M3)	Other Items (Net)			
											Banks	CBSI	Total						
2005	714595	70731	785326	22665	388205	-	59	673	410870	156657	241174	1140	398971	486190	885161	311035			
2006	794213	74461	868674	-12555	622701	13191	27	-	610146	187200	323661	9862	520723	594025	1114748	364072			
2007	923058	54789	977847	-54159	1009850	13227	8	-	956690	244545	469095	10819	724460	650277	1374737	558800			
2008	715787	136856	852643	37906	1277699	13149	95	-	1328849	272544	433066	7154	712764	757236	1470000	714492			
2005	583356	52404	635760	88315	274641	1	244	709	362956	128018	182954	923	311895	364124	676019	322697			
Mar	639331	108366	747697	8366	308811	1	10	673	317177	131654	192026	1912	325592	393592	719184	345690			
Jun	700185	81113	781298	-9649	345930	1	3	673	336281	139233	224455	1170	364858	438631	803489	314089			
Sep	714595	70731	785326	22665	388205	-	59	673	410870	156657	241174	1140	398971	486190	885161	311035			
Dec	710468	28209	738688	-12001	455081	4	-	345	443080	141757	267507	644	409908	477981	887889	293868			
2006	727178	78925	806103	-45364	491593	1	23	-	446229	139418	238374	1578	379370	545940	925310	327022			
Mar	778027	56970	834997	-30462	556834	431	-	-	526372	148466	248172	2067	398705	587581	986286	375083			
Jun	794213	74461	868674	-12555	622701	13191	27	-	610146	187200	323661	9862	520723	594025	1114748	364072			
2007	776234	51211	827445	-13134	730999	13073	1585	769	717864	172642	274912	7552	455106	646370	1101476	443834			
Mar	921821	57272	979093	-71780	786206	12773	52	-	714426	211480	322950	8552	542982	702681	1245663	447856			
Jun	893060	132372	1025432	-29217	947156	13097	23	11	917939	207326	405531	7790	620647	713177	1333824	609546			
Sep	923058	54789	977847	-54159	1009850	13227	8	-	955690	244545	469096	10819	724460	650277	1374737	558800			
Dec	866654	43808	910462	3215	1015744	13493	1	-	1018959	221516	464648	11099	697263	637472	1334735	594687			
2008	868699	51728	920427	27937	1060521	13486	114	-	1088458	226906	500772	10840	738518	640104	1378623	630263			
Jan	852476	36820	889296	16722	1044425	13627	118	-	1061146	230651	505868	12093	748612	621413	1370026	580417			
Feb	802883	64557	867440	42666	1079696	13291	108	-	1122362	223515	486517	9030	719062	641854	1360916	628885			
Mar	786828	60047	846875	38350	1109767	12962	112	1022	1148117	247565	523059	9762	780386	615432	1395819	599173			
Apr	772249	98231	870480	21321	1145186	12999	108	-	1166507	250172	499563	8031	757766	609856	1367622	669364			
May	806014	170255	976269	-6683	1146849	12985	103	17	1140165	254723	445096	13212	713032	673286	1386318	730116			
Jun	760820	160969	921789	17498	1163025	12749	99	570	1180524	251327	440944	11113	703383	650468	1353851	748462			
Jul	756540	100012	856552	6444	1240791	13028	112	1181	1247235	247863	464933	9787	722583	678928	1401512	702276			
Aug	650656	117403	768059	48325	1240286	12915	89	5	1288611	236163	506490	7045	749699	657772	1407472	649198			
Sep	659859	131588	791447	73328	1243989	13149	87	156	1317317	245918	466760	7195	719874	713615	1433489	675275			
Oct	715787	136858	852643	37906	1277699	13149	95	-	1328849	272544	433066	7154	712764	757236	1470000	711492			
Nov																			
Dec																			

Source: Central Bank of Solomon Islands

TABLE 1-2 MONEY SUPPLY

Period	Currency in Circulation	DEMAND DEPOSITS		M1 Money Supply	M3 Money Supply
		Commercial Banks	CBSI		
2005	156657	241174	1104	398971	885161
2006	187200	323661	9862	520723	1114748
2007	244545	469096	10819	724460	1374737
2008	272544	433066	7154	712764	1471001
<u>2005</u>					
Mar	128018	182954	923	311895	676019
Jun	131654	192026	1912	325592	719184
Sep	139233	224455	1170	364858	803489
Dec	156657	241174	1140	398971	885161
<u>2006</u>					
Mar	141757	267507	644	409908	887889
Jun	139418	238374	1578	379370	925310
Sep	148466	248172	2067	398705	986286
Dec	187200	323661	9862	520723	1114748
<u>2007</u>					
Mar	172642	274912	7552	455106	1101476
Jun	211480	322950	8552	542982	1245663
Sep	207326	405531	7790	620647	1333824
Dec	244545	469096	10819	724460	1374737
<u>2008</u>					
Jan	221516	464648	11099	697263	1334735
Feb	226906	500772	10840	738518	1378623
Mar	230651	505868	12093	748612	1370026
Apr	223515	486517	9030	719062	1360916
May	247565	523059	9762	780386	1395819
Jun	250172	499563	8031	757766	1367622
Jul	254723	445096	13212	713032	1386318
Aug	251327	440944	11113	703383	1353851
Sep	247863	464933	9787	722583	1401512
Oct	236163	506490	7045	749699	1407472
Nov	245918	466760	7195	719874	1433489
Dec	272544	433066	7154	712764	1470000

Source: Central Bank of Solomon Islands

TABLE 1.3 - ASSETS AND LIABILITIES OF CENTRAL BANK OF SOLOMON ISLANDS

(SBD'000)	Dec-05	Dec-06	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
CENTRAL BANK															
Net Foreign Assets	714595	794213	923058	866654	868699	852476	802883	786828	772249	806014	760820	756540	650656	659859	-715787
Claims on Non-residents	718381	794493	923606	867019	869001	852778	806185	787259	772704	806469	761200	756920	653538	667839	716295
Liabilities to Non-residents	-3786	-280	-548	-365	-302	-302	-3302	-431	-455	-455	-379	-379	-2882	-7979	-508
Claims on other Depository Corporation	-	20355	2915	2764	4858	17854	31887	11333	11156	38014	45149	62881	13239	22237	50223
Net Claims on Central Government	-100516	-88349	-148154	-96827	-75655	-82848	-65299	-64378	-80232	-94092	-83964	-90208	-54616	-21598	51908
Claims on Central Government	196900	162040	149822	149178	148431	147777	147439	141862	141302	140415	139859	139220	138849	138349	138349
Liabilities to Central Government	-297416	-250389	-297976	-246004	-224087	-230625	-212738	-206240	-221534	-234507	-223823	-229428	-193465	-159997	190257
Claims on Other Sectors	2103	15552	15920	15939	15923	15845	15867	16005	15955	16133	16231	16163	16136	16123	16032
Claims on other Financial Corporation	-	12150	12150	12150	12150	12150	12150	12150	12150	12150	12150	12150	12150	12150	12150
Claims on State and Local Government	-	13	2	1	1	1	1	1	1	1	1	1	1	1	1
Claims on Public Non-Financial Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Private Sector	2103	3390	3768	3788	3772	3695	3717	3854	3804	3982	4081	4012	3985	3972	382
Monetary Base	452456	481220	451701	437185	458972	448031	416890	391452	357055	388228	406100	417609	360888	419547	440638
Currency in Circulation	156657	187200	244545	221516	226906	230651	223515	247565	250172	254723	251327	247863	236163	245918	272544
Liabilities to other Depository Corporations	294659	288136	200749	211383	227791	210602	189911	139940	104667	126107	149227	165278	122405	171160	165906
Liabilities to other Sectors	1140	5884	6407	4286	4275	6778	3465	3947	2216	7397	5546	4468	2321	2468	2187
Other Liabilities to other Depository Corporations	-	678	931	1114	1964	879	13482	916	448	17776	10996	785	10874	11305	0.808
Deposits and Securities other than shares excluded	-	4285	4761	7163	6915	5665	5916	6166	8167	17168	16921	16684	16655	19502	25598
Deposits included in Broad Money	-	3978	4411	6813	6565	5315	5565	5815	5815	5815	5567	5319	4725	4727	4967
Securities other than shares included in Broad Money	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits excluded from Broad Money	-	307	349	350	350	350	351	351	352	353	354	365	365	365	366
Securities other than shares excluded from Broad Money	-	-	-	-	-	-	-	-	2000	11000	11000	11000	11565	14410	20265
Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares and other equities	165864	282683	362906	372400	373910	378649	382107	385348	389822	382634	345013	348380	267659	267659	282890
Other items (net)	-2137	-27094	-26560	-29331	-27935	-29895	-33056	-34095	-36365	-39737	-40793	-38082	-38041	-41390	-36751

Source: Central Bank of Solomon Islands

TABLE 1.4 - ASSETS AND LIABILITIES OF COMMERCIAL BANKS

(SBD'000)	Dec-05	Dec-06	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
OTHER DEPOSITORY CORPORATIONS															
Net Foreign Assets	7031	74461	54789	43808	51728	36820	64557	60047	98231	170255	160969	100012	117403	131588	136856
Claims on Non-residents	75601	79442	62758	49536	55429	48306	68119	66262	103608	175955	165284	105443	123331	137837	143171
Liabilities to Non-residents	-4870	-4981	-7969	-5728	-3701	-11486	-3562	-6215	-5377	-5700	-4315	-5431	-5928	-6249	-6315
Claims on Central Bank	309633	313074	243658	232067	239274	228471	231191	161461	140761	165699	167581	184827	149121	194011	204910
Currency	15077	25817	31307	28556	24245	22050	26238	24297	24843	27532	28377	30448	17478	18785	22467
Reserve Deposits and Securities than shares	294556	287249	212272	203249	213917	206394	192357	137133	115890	121166	128983	154363	121531	165083	165436
Other claims on Central Bank	-	-	79	263	1112	27	12597	31	28	17001	10221	17	10112	10143	17008
Net Claims on Central Government	123181	75794	93995	100042	103592	99569	107964	102727	101553	87408	101463	96652	102940	94925	89813
Claims on Central Government	141792	133344	130560	132222	133324	135261	133666	129943	128578	131776	127155	120782	122823	119000	116099
Liabilities to Central Government	-18611	-57550	-36565	-32180	-29732	-35692	-25702	-27216	-27025	-44368	-25692	-24130	-19883	-24075	-26286
Claims on Other Sectors	413113	656203	1007164	1013299	1058198	1042324	1077228	1107858	1142338	1143820	1160212	1238949	1237159	1241257	1274919
Claims on other Financial Corporations	-	1041	1077	1343	1336	1477	1141	812	849	835	599	878	765	999	999
Claims on State and Local Government	-	14	6	1	113	117	107	111	107	102	98	111	88	86	95
Claims on Public Non-Financial Corporations	-	-	-	-	-	-	-	1022	-	17	570	1181	5	156	-
Claims on Private Sector	413113	655148	1006082	1011956	1056750	1040730	1075980	1105913	1141382	1142866	1158944	1236779	1236301	1240017	1273816
Liabilities to Central Bank	-	18579	313	162	4858	17854	31390	9547	11156	31227	24908	52108	12366	16160	25323
Transferable Deposits included in Broad Money	256251	349578	500403	493204	525017	527918	512755	547356	524406	472628	469321	495381	523968	485545	455533
Other Deposits included in Broad Money	486190	594025	650277	637472	640104	621413	641854	615432	609856	673286	650468	678928	657772	713615	757236
Securities other than shares included in Broad Money	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits excluded from Broad Money	57919	77528	76266	71109	67943	70271	55456	42597	57773	120891	137593	128300	91167	104071	97161
Securities other than shares excluded from Broad Money	4936	4149	3144	5488	6847	6784	4966	4374	5347	7818	6680	8807	12252	6573	20962
Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance Technical Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares and other equity	161635	192673	204289	212581	220557	228923	236563	243175	293817	308366	318257	321993	329031	330695	335246
Other items (net)	-50273	-116900	-35086	-30800	-12535	-45979	-2044	-30388	-19473	-47034	-17003	-65076	-19933	5123	15030

Source: Central Bank of Solomon Islands

TABLE 1.5 - SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING *

(SBD'000)

End of Period	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecommunications	Distribution	Tourism
2005	4394	60466	9646	264	59962	21067	5377	60475	90052	2513
2006	10081	90206	22715	1064	63955	44435	32865	82178	109445	15973
2007	11591	134050	24684	2179	127301	68176	52935	119221	142390	44270
2008	22969	145799	21960	1814	164988	98880	61274	166412	185938	61183
2005	3212	42126	1196	138	32325	15365	2562	42364	47380	3536
Mar	3773	48860	6333	177	27249	18251	5139	43597	66873	2943
Jun	3844	59305	7126	529	43749	17834	5923	57430	76865	2573
Sep	4394	60466	9646	264	59962	21067	5377	60475	90052	2513
2006	5031	78611	7422	250	56005	200950	8092	58465	89620	2855
Mar	7400	87069	14413	17	54107	23375	8281	59818	99081	4172
Jun	8601	94107	19164	3	70182	40361	14309	77699	88961	6782
Sep	10081	90206	22715	1064	63955	44435	32865	82178	109445	15973
2007	11968	89697	30786	273	66034	49268	43003	82212	110906	21324
Mar	13866	110327	31292	331	75424	50685	38660	78497	115985	31089
Jun	10063	127604	32362	2178	104468	55710	56395	106921	134866	38663
Sep	11591	134050	24684	2179	127301	68176	52935	119221	142390	44270
2008	14007	138125	26031	2136	118529	68062	51427	117980	145475	44516
Jan	12710	133117	26251	2044	127544	74246	52279	135119	147085	47064
Feb	14715	128446	28391	2176	120653	79101	55377	133138	145597	46870
Mar	14831	138629	26682	1814	157938	81262	54724	133238	155591	49282
Apr	18027	138847	15827	1803	153308	80002	59812	131977	157123	48903
May	17330	138148	11678	1739	177206	79056	58659	143060	163002	48069
Jun	17369	135767	20343	3243	157185	81103	58124	137867	161307	54299
Jul	18712	132772	36059	1764	158042	66479	56753	143308	166792	52097
Aug	20289	158552	17857	2292	184432	82438	62502	155754	173666	54646
Sep	21165	145763	14952	3340	177053	80757	67402	157176	182937	53792
Oct	23436	151058	14582	2311	164714	71398	66773	158421	190344	53901
Nov	22969	145799	21960	1814	164988	98880	61274	166412	185938	61183
Dec										

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

TABLE 1.5b - SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING (Cont'd)

End of Period	Entertainment & Catering	Government	Statutory Corporations	Public Financial Institutions	Private Financial Institutions	Professional & Other Services	Personal	TOTAL	NON-RESIDENT
2005	3916	-	-	-	40	17257	63232	398661	4464
2006	4601	95	1041	-	274	49937	119713	648578	438
2007	929	22	1077	-	434	53192	192754	975204	1839
2008	5082	97	999	-	682	50859	264993	1253929	-
2005	3600	3	-	254	708	14455	43339	262563	1549
Mar	3374	27	11	11	-	12957	44674	284361	475
Jun	3511	61	-	-	-	12212	54114	345076	456
Sep	3916	-	-	-	40	17257	63232	398661	4464
Dec									
2006	4389	-	4	345	269	30209	77798	440315	-
Mar	4375	23	1	-	315	38246	85035	485728	-
Jun	3203	43	431	-	251	46273	93111	563481	-
Sep	4601	95	1041	-	274	49937	119713	648578	-
Dec									
2007	5133	1628	923	769	329	56171	136748	707172	-
Mar	1343	56	623	-	5884	50733	150449	755244	-
Jun	572	30	947	11	1492	49409	166296	887987	-
Sep	929	22	1077	-	434	53192	192754	975204	-
Dec									
2008	3912	267	1343	-	312	52845	196605	981571	-
Jan	1078	128	1336	-	363	56520	208967	1025851	-
Feb	1118	191	1477	-	1049	54327	212477	1025101	-
Mar	1134	180	1141	-	1055	58077	216653	1092231	-
Apr	1223	177	812	1022	1000	60096	220717	1090676	-
May	1532	180	849	-	969	59494	223708	1124680	-
Jun	1463	2069	835	17	752	58035	238121	1127898	-
Jul	1531	152	599	570	834	65397	240006	1141869	-
Aug	3942	165	878	1181	685	59722	238638	1217641	-
Sep	4949	136	765	5	701	55365	252011	1218270	-
Oct	4980	136	999	156	620	62880	255661	1223370	-
Nov	5082	97	999	-	682	50859	265993	1253929	-
Dec									

Source: Central Bank of Solomon Islands.

TABLE 1.6 - COMMERCIAL BANK LIQUID ASSETS POSITION

TABLE 1.0 - COMMERCIAL BANK LIQUID ASSETS POSITION								(SBD'000)
End of Period	ELIGIBLE RESERVE ASSETS			Total	REQUIRED RESERVE ASSETS	OTHER LIQUID ASSETS	SURPLUS/ (DEFECIT)	
	Till Cash	Balances With CBSI	Government Securities					
2005	14989	294556	-	309545	59640	-	249905	
2006	24079	287249	-	311328	92144	-	232679	
2007	28374	212272	-	240646	92144	-	148502	
2008	20369	165436	-	165436	98139	-	67297	
2005	13026	258320	-	271346	41532	-	229814	
Mar	12023	211746	-	223769	44281	-	179488	
Jun	12134	265027	-	277161	50356	-	226805	
Sep	14989	294556	-	309545	54930	-	254615	
Dec								
2006	13664	291798	-	305462	59596	-	245866	
Mar	13251	260538	-	273789	65733	-	208056	
Jun	18302	301155	-	319457	71027	-	248430	
Sep	24079	287249	-	311328	78699	-	232679	
Dec								
2007	15674	242589	-	258263	75306	-	182957	
Mar	18893	278597	-	297490	85874	-	211616	
Jun	22429	232703	-	255132	94926	-	160206	
Sep	28374	212272	-	240646	92144	-	148502	
Dec								
2008	26110	203249	-	229359	89760	-	139599	
Jan	22167	213917	-	236084	91766	-	144318	
Feb	20443	206394	-	226837	92394	-	134443	
Mar	23805	192357	-	216162	90887	-	125275	
Apr	22013	137133	-	159146	90639	-	68507	
May	22431	115890	-	138321	89511	-	48810	
Jun	25187	121166	-	146353	96369	-	49984	
Jul	24916	128983	-	153899	94241	-	59658	
Aug	26757	154363	-	181120	97384	-	83736	
Sep	14580	121536	-	136116	94975	-	41141	
Oct	16540	165082	-	165082	97495	-	67587	
Nov	20369	165436	-	165436	98139	-	67297	
Dec								

Source: Central Bank of Solomon Islands.

TABLE 1.7 - ASSETS AND LIABILITIES OF DEVELOPMENT BANK OF SOLOMON ISLANDS

(SBD'000)

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

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

TABLE 1-8 - BALANCE OF PAYMENTS (SBD'millions)

	2006	2007	2008
CURRENT ACCOUNT	-190.3	-578.5	-573.7
Trade Balance (fob)	-477.9	-577.4	-406.4
exports	857.8	1218.3	1656.8
imports	-1335.6	-1795.7	-2063.1
Services (net)	-125.1	-337.7	-509.4
services cr.	377.9	395.4	358.0
services dr.	-503.0	-733.1	-867.0
Income (net)	-111.1	-291.1	-581.5
income cr.	112.4	138.2	147.0
income dr.	-223.5	-429.4	-728.5
Current transfers (net)	523.9	627.8	923.3
current trans. cr.	537.4	643.6	959.3
current trans. dr.	-13.5	-15.8	-36.0
CAPITAL & FINANCIAL ACCOUNT	338.2	856.9	507.2
Capital Account	96.7	110.0	53.3
capital account cr.	100.9	117.6	66.8
capital account dr.	-4.2	-7.6	-13.5
Financial Account	241.5	747.0	453.9
Direct invest abroad (A)	-56.5	-75.1	-92.8
Direct invest in SI (L)	202.4	510.6	707.4
Portfolio investment assets	-	-	-
Portfolio investment liabilities	-	-	-
Other investment assets	-596.3	-200.0	140.4
Other investment liabilities	675.9	378.3	187.1
Reserve assets	15.9	133.1	-207.5
Overall BOP Position (including Revaluation)	19	74	-120
Net errors and Omissions	-148	-278	66
 International Investment Position			
Net Position	-1167	-1386	-1339
Assets	2025	2721	2911
Direct Investment	72	147	240
Portfolio investment	-	-	-
Other investment	1163	1651	1955
Reserves	790	924	716
Liabilities	3192	4107	4250
Direct investment	1083	1593	1530
Portfolio investment	-	-	-
Other investment	2109	2514	2720
Source:	Central Bank of Solomon Islands		

TABLE 1-9 - FOREIGN EXCHANGE RECEIPTS/1**(SBD'000)**

	2003	2004	2005	2006	2007	2008
Current Receipts						
Exports						
Copra	7821	25549	16418	14066	36768	177,421
Fish	92869	132052	86921	145855	151392	188,489
Logs	371394	468175	510162	643574	838693	934,366
Palm Oil & Kernels	-	-	-	30719	105281	170006
Cocoa	53186	40419	64329	31444	70838	70166
Mineral	581	2857	1335	6235	6696	6062
All Other	31163	55075	92473	45415	75981	29862
Total Exports	557013	724127	771638	971308	1285651	1576373
Services						
Transportation	7457	2972	8759	10956	15608	12365
Travel	17057	33282	24736	31377	26867	27295
Insurance	757	799	315	53	971	2624
Royalties & License Fees	808	1002	674	9729	13273	11615
Communication	409	1086	10739	30860	36244	30762
Financial Services	6809	9074	4591	3486	89	7687
Others	126082	179211	223277	317945	467602	560051
Total Services	159378	227427	273091	404406	560654	652398
Income Account						
Wages & Others	20954	45035	32874	50766	22969	27531
Interest, Dividends & Profits	192	12	33	974	1621	540
Official Interest	5091	18493	23580	33604	52200	45976
Other Income	77	-	7366	1617	3215	16066
Total Income	26314	63540	63853	86962	80006	90113
Transfers : Official						
Cash Aid	56868	165401	22331	12461	16776	10507
Other Official	23036	31471	31094	42954	60916	42859
Total Official Transfers	79904	196872	53425	55415	77692	53366
Transfers : Private						
Gifts and Donations	36166	82714	78336	67174	80774	57514
Transfers by Temp. Res. & Immigrants	8177	16107	20334	65737	8028	3842
Churches & Charitable Institutions	21606	38137	38986	48145	39270	60294
Foreign Governments	31541	99992	52656	55604	57225	45445
International Organisations	40699	40416	77934	143828	114940	139895
Other transfers	2	1	185	617	267	491
Total Private Transfers	138189	277366	263432	381105	300503	307482
Total Transfers	218093	474238	316857	436520	378195	360848
Total Current Receipts	960798	1489331	1425437	1845196	2304505	2679731
Capital & Financial Receipts						
Private						
Investment Grants	-	2388	6828	6011	61907	112712
Direct Investment	674	122	14193	53338	19231	2898
Loans	237	370	3252	2222	9528	756
Other Foreign Investment	1	-	-	-	-	-
Total Private Inflows	912	2880	24273	61571	90666	116447
Official						
Investment Grants	95405	4107	141156	86366	182270	116447
Loans	23179	2104	3828	45	-	9654
CBSI	-	-	-	-	-	-
Euro \$ Loan	-	-	-	-	-	-
IMF Transactions	-	-	-	-	-	-
Total Official Inflows	118584	6211	144984	86411	182270	126101
Total Capital Receipts	119496	9091	169257	147982	272936	242466
TOTAL RECEIPTS	1080294	1498422	1594695	1993178	2577441	2922197

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

TABLE 1-10 - FOREIGN EXCHANGE PAYMENTS /1 (SBD'000)

	2003	2004	2005	2006	2007	2008
Current Payments						
Imports						
Oil Imports	87885	174766	323066	414331	434324	497933
Food Imports /2	112297	101492	153490	164578	231381	384295
Beverages & Tabacco	6937	7775	17959	13258	26223	56118
Plants, Vehicles & Transport Equipt.	64459	66421	104237	159522	206847	212838
Building & Construction Mat.	54051	48402	60005	63048	95429	133367
Chemical	14102	12605	15044	16075	36103	43907
Other Imports	167272	226232	409630	565581	806027	757758
Total Imports	507004	637694	1083432	1396392	1836334	2086218
Services						
Transportation	23616	45061	65727	75018	132134	124965
Travel	33401	33213	35649	31369	58745	66523
Insurance	8975	7272	8507	3850	6903	8676
Communication	16720	11624	14268	12812	15401	26015
Financial	6130	11776	14209	21865	40382	45361
Royalties & License Fees etc.	72	43	1749	891	2074	2487
Others	25609	60964	81398	83923	147828	196963
Total Services	114523	169953	221508	229728	403466	470991
Income						
Wages & Others	11102	11367	11820	13700	28019	19797
Interest Dividends & Profits	17240	17781	32386	38323	60310	66575
Official Interest	4758	6679	7619	2520	23970	30466
Total Income Payments	33100	35826	51824	54543	112299	116838
Transfers						
S I Govt Foreign Officers	4533	3086	7946	2432	7541	10585
SI Govt Current Payments	34344	11213	30708	44243	43022	62695
Gifts & Donation	93822	154493	218466	249432	222112	273211
Transfers by Temporary Residents	735	2186	2797	6220	6014	3156
Other Transfers	11922	14635	18263	11924	12947	16866
Total Transfers	145356	185614	278179	314252	291637	366512
Total Current Payments	799982	1029088	1634943	1994915	2643736	3040559
Capital & Financial Payments						
Private						
Loan Repayments	5732	3997	16013	2537	7542	15716
Capital Repatriation	1356	-	-	-	-	15
Emigrant Transfers	898	913	761	1295	456	2278
Other Payments	1212	1138	2004	35126	87877	19823
Total Private Outflows	9198	6047	18779	38957	95875	37866
Official						
S I Government Loans	262	18824	68617	36485	65542	84529
CBSI	-	-	-	-	-	-
IMF Transactions	-	-	1	-	-	3069
Total Official Outflows	262	18824	68618	36485	65542	84532
Total Capital & Financial Payments	9461	24872	87397	75442	161417	122399
TOTAL PAYMENTS	809443	1053959	1722339	2070357	2805153	3162958

1/ Derived from the banking system.

2/ Includes beverages and tobacco up to 1997.

Source: Central Bank of Solomon Islands.

TABLE 1-11 - EXCHANGE RATES

(Units of SBD per Foreign Currency)

Period Average	USD	AUD	Pound Stg	Yen (per 100)	NZD\$	SDR	EURO
2003	7.51	5.00	12.38	6.54	4.43	8.62	10.60
2004	7.49	5.45	13.74	6.93	4.98	9.36	11.12
2005	7.54	5.77	13.72	6.81	5.34	9.33	11.10
2006	7.61	5.73	14.01	6.54	4.94	9.55	11.20
2007	7.65	6.41	15.32	6.51	5.63	10.51	11.71
2008	7.75	6.59	14.35	7.51	5.52	12.22	11.38
<u>2003</u>							
Mar	7.48	4.43	11.99	6.29	4.09	8.02	10.23
Jun	7.52	4.79	12.19	6.33	4.27	8.57	10.50
Sep	7.52	4.95	12.10	6.40	4.39	8.47	10.47
Dec	7.51	5.42	12.80	6.90	4.69	8.93	10.85
<u>2004</u>							
Mar	7.49	5.74	13.77	6.99	5.05	9.38	11.14
Jun	7.47	5.35	13.48	6.82	4.70	9.00	10.91
Sep	7.48	5.31	13.60	6.80	4.88	9.14	10.98
Dec	7.50	5.67	13.89	7.08	5.28	9.70	11.33
<u>2005</u>							
Mar	7.51	5.91	14.35	7.15	5.50	9.86	11.44
Jun	7.52	5.75	13.68	6.92	5.33	9.48	11.22
Sep	7.53	5.72	13.44	6.77	5.20	9.18	11.00
Dec	7.57	5.64	13.25	6.47	5.26	9.01	10.87
<u>2006</u>							
Mar	7.60	5.53	13.26	6.48	4.83	9.13	10.95
Jun	7.60	5.62	14.00	6.63	4.71	9.62	11.24
Sep	7.62	5.76	14.37	6.50	4.99	9.70	11.29
Dec	7.63	6.00	14.99	6.52	5.31	10.09	11.51
<u>2007</u>							
Mar	7.64	6.05	14.87	6.51	5.34	11.52	10.14
Jun	7.64	6.43	15.18	6.24	5.78	11.56	10.26
Sep	7.67	6.46	15.47	6.66	5.49	11.83	10.64
Dec	7.66	6.68	15.49	6.90	5.89	12.08	11.16
<u>2008</u>							
Jan	7.66	6.75	15.09	7.11	5.91	12.13	11.27
Feb	7.66	6.98	15.06	7.15	6.10	12.15	11.29
Mar	7.66	7.09	15.36	7.58	6.15	12.50	11.87
Apr	7.66	7.12	15.19	7.48	6.05	12.55	12.08
May	7.66	7.27	15.07	7.35	5.96	12.45	11.93
Jun	7.66	7.29	15.08	7.17	5.84	12.41	11.92
Jul	7.67	7.37	15.25	7.18	5.79	12.27	12.09
Aug	7.72	6.83	14.62	7.06	5.48	12.25	11.58
Sep	7.77	6.38	13.98	7.27	5.25	12.09	11.17
Oct	7.88	5.43	13.35	7.85	4.80	11.97	10.51
Nov	7.96	5.24	12.22	8.20	4.50	11.79	10.13
Dec	8.00	5.35	11.90	8.75	4.45	12.14	10.72

Source: Central Bank of Solomon Islands.

TABLE 1-12 - 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)
2006	334.6	92.0	92.5	57.6
2007	351.4	98.7	98.5	53.1
2008	361.1	105.2	114.1	46.1
<u>2006</u>				
Q1	329.2	92.6	90.5	61.1
Q2	334.7	91.0	91.7	59.0
Q3	335.6	91.3	91.5	58.1
Q4	336.6	92.3	90.3	58.6
<u>2007</u>				
Q1	340.7	94.1	94.4	55.3
Q2	345.8	97.6	97.2	53.5
Q3	353.0	99.5	98.8	52.9
Q4	366.1	103.7	103.7	50.9
<u>2008</u>				
Q1	379.5	106.8	107.0	48.9
Q2	383.8	108.5	118.2	45.6
Q3	375.6	106.3	122.8	43.2
Q4	369.9	99.1	108.2	46.7
% Change on year earlier				
2006	-1.4	-6.6	0.6	-15.6
2007	5.0	7.3	6.5	-7.7
2008	2.8	6.5	15.8	-13.3
% Change on quarter earlier				
<u>2006</u>				
Q1	0.2	-2.0	0.6	-2.6
Q2	1.6	-1.8	1.3	-3.9
Q3	0.3	0.4	1.4	-2.6
Q4	0.9	2.0	0.2	-0.9
<u>2007</u>				
Q1	0.6	1.0	0.8	-1.0
Q2	1.5	3.6	2.9	-3.3
Q3	2.1	2.0	1.7	-1.0
Q4	3.7	4.3	4.9	-3.8
<u>2008</u>				
Q1	3.6	2.9	3.2	-3.9
Q2	1.1	1.6	10.4	-6.9
Q3	-2.1	-2.0	3.9	-5.3
Q4*	-1.5	-6.8	-11.9	8.1
<p>A. A rise in the nominal effective exchange rates implies a depreciation of the average exchange rate of SI dollar against a trade weighted basket of other currencies.</p> <p>B. A rise indicates a depreciation: average foreign retail prices increased faster than HRPI when all are expressed in a common currency.</p> <p>C. A rise indicates a depreciation: average foreign export prices increased faster than SI consumer prices, when all are expressed in a common currency.</p> <p>D. A rise indicates SI export prices increased relative to those countries from which it imports.</p>				
* Provisional estimates				
Source: Central Bank of Solomon Islands.				

TABLE 1-13 - GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

End of Period	(SBD'000)										
	DEVELOPMENT & TREASURY BONDS AMORTIZED						TREASURY BILLS				
	Commercial Banks	Central Bank	SINPF	Stat Corpn	Public	Total	Commercial Banks	Central Bank	SINPF	Stat Corpn	Public
OTHER											
Total											
Central Bank											
Grand Total											
2005											
Mar	135083	27	120526	-	1343	256979	6709	118	1121	-	20762
Jun	128261	119937	133515	-	1275	382988	5002	616	4298	496	25059
Sep	121353	114582	116608	-	1206	353749	6737	59	5762	-	15589
Dec	109917	109104	116403	-	1095	336518	4953	917	5368	-	10797
2006											
Mar	140202	27	124962	-	1395	266586	3952	325	-	992	26292
Jun	138408	27	123491	-	1378	263304	6696	50	3664	-	20319
Sep	136802	27	122506	-	1361	260696	3483	615	5360	-	21447
Dec	135083	27	120526	-	1343	256979	6709	118	1491	-	20762
2007											
Mar	133354	123442	119230	-	1395	377421	3973	80	3377	299	23357
Jun	131638	122571	127008	-	1309	382526	2734	30	5712	338	23001
Sep	129955	121258	115616	-	1292	368120	2929	39	784	596	26509
Dec	128261	119937	133515	-	1275	382988	5002	616	4298	496	25059
2008											
Mar	126553	118610	131209	-	1258	377630	6170	487	2836	1488	21886
Jun	124834	117275	128941	-	1241	372291	6772	79	6676	-	17635
Sep	123101	115932	127024	-	1224	367280	7967	79	2355	-	19113
Dec	121353	114582	125371	-	1206	362511	6737	59	5762	-	15589
2009											
Mar	119597	113224	123466	-	1880	358166	13188	40	5450	-	144 51
Jun	117829	111858	121994	155829	1171	508681	8265	278	5690	-	16356
Sep	116091	110485	120286	146166	1153	494181	4428	139	4965	-	18475
Dec	109917	109104	124656	144665	1095	489438	4953	917	5368	-	10797

Note: -NPF, Public and Statutory Corporations use data for the last Wednesday of the month. Commercial Banks and Central Bank use end month data.
 -As of *Qtr1'03 Commercial Bank SIG Bonds include Restructured only
 *Qtr4'04 NPF SIG Bonds include Restructured & Armotised
 *Qtr1'06 Central Bank SIG Bonds include Restructured & Armotised

Source : Central Bank of Solomon Islands.

**TABLE 1-14 - SUMMARY OF GOVERNMENT ANNUAL ACCOUNTS AND
BUDGET FORECASTS**

(SBD million)

	2007 Est.	2007 Act.	2008 Est.	2008 Act.	2009 Est.
Total Revenue and Grants	1132.4	1209.9	1569.7	1550.8	1823.1
Recurrent Revenue	948.9	1121.8	1501.9	1479.2	1742.6
Local Revenue	886.3	1093.2	1377.6	1369.8	1641.6
Inland Revenue Division	461.9	596.1	796.0	834.7	1000.0
Customs	316.8	342.7	417.2	388.4	448.0
Non-tax (including airspace fees)	107.6	154.4	164.4	146.6	193.6
Budget support	62.6	28.6	124.3	105.9	101.0
Development Revenue	183.5	88.1	67.8	71.6	80.5
Grants for Consolidated Funds	104.4	88.1	67.8	71.6	80.5
SIG Surplus (Development Financing)	79.1				
Total Expenditure	1186.3	1193.7	1733.6	1552.0	1991.1
Recurrent Expenditure	997.5	1027.8	1343.4	1245.1	1618.9
Payroll	327.4	353.5	445.2	442.5	562.2
Other Charges	471.8	529.8	686.1	629.8	854.5
Debt Servicing (CBSI)	135.7	138.4	87.8	163.2	101.2
Budget Support	62.6	32.5	124.3	63.6	101.1
Increased Government Debt Arrears	-	-26.4	-	-54.1	-
Development Expenditure	188.8	165.9	390.2	306.9	372.2
SIG-Funded Development Expenditure	88.5	77.8	322.4	220.5	291.7
Other	100.3	88.1	67.8	86.4	80.5
Recurrent Surplus	-48.6	94.0	158.5	234.2	123.7
Overall Surplus (Deficit)	-53.9	16.2	-163.9	-1.1	-168.0

Source: Ministry of Finance and Central Bank of Solomon Islands

TABLE 1-15 - GOVERNMENT REVENUES

TABLE 1.15 GOVERNMENT REVENUE																	(SBD'000)
Endof 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 *			
2005	566790	199801	82566	85028	-	2072	30135	366989	65041	64932	25151	171157	40708	56128			
2006	690224	264136	87708	128532	-	3471	44425	426088	77361	80552	31277	193945	42953	131838			
2007	938248	348985	107192	180484	-	4669	56640	589262	103324	91500	50014	282793	61631	166300			
2008	1223112	388427	110600	210290	-	5532	62005	834685	189747	116799	68373	368449	91317	149301			
2005																	
Q1	123008	41090	15529	16609	-	477	8474	81918	14349	16139	5167	37204	9060	9600			
Q2	134707	49145	22174	19130	-	413	7428	85562	12256	16204	5807	44331	6965	21100			
Q3	148887	53686	25117	24959	-	568	4191	94052	15733	18621	6852	45177	7669	14300			
Q4	158332	54716	19741	24364	-	617	9994	103617	16286	17335	6929	46052	17014	11128			
2006																	
Q1	153614	63318	20317	29895	-	1246	11860	90296	15290	17646	5306	42848	9206	20631			
Q2	151403	54066	21201	22898	-	366	9601	97337	19631	17387	5618	44177	10525	26609			
Q3	168304	61785	20936	31972	-	274	8603	106519	20055	18743	8950	49948	8823	26267			
Q4	216865	84929	25254	43797	-	1516	14362	131936	22385	26776	11403	56973	14398	48620			
2007																	
Q1	209217	85743	24343	47626	-	594	13180	123474	18442	19678	9288	63603	12462	23459			
Q2	225376	77912	25397	39749	-	542	12224	147465	35051	22968	11800	64305	13331	44654			
Q3	240469	85357	26408	43630	-	973	14347	155111	24550	25171	14191	74251	16940	16363			
Q4	263186	99973	31044	49480	-	2559	16889	163213	25281	23675	14735	80624	18898	81824			
2008																	
Q1	262060	79313	23839	42621	-	747	12107	182747	40620	22876	14635	86267	18352	30438			
Q2	292868	100725	30582	55957	-	1729	12457	192143	34636	32275	15667	91917	17648	39413			
Q3	327143	121483	27391	56324	-	894	27873	214660	53306	31531	18335	92165	19323	19838			
Q4	341041	95906	28787	55388	-	2163	9567	245135	61179	30126	19736	98100	35994	56958			

Source: Central Bank of Solomon Islands

TABLE 1-16 HONIARA RETAIL PRICE INDEX
(1992 = 100)

Period	Food	Drink & Tobacco	Clothing & Footwear	Housing & Utilities	Household Operations	Transport & Commun.	Recreation & Others	Miscell.	Local Items	Imported Items	All Items	Annual %Change
Weight	429	47	38	181	47	164	76	18	602	398	1000	
Annual Average (12mma)												
2005	312.4	321.5	140.1	356.4	268.7	362.9	348.1	213.9	335.9	262.6	308.2	7.3
2006	343.0	352.7	161.1	398.6	295.0	424.5	394.5	236.1	367.8	293.3	342.8	11.2
2007	363.4	367.2	167.1	474.8	321.4	441.7	398.9	260.7	433.2	316.0	369.0	7.7
2008	451.1	400.6	167.6	552.5	372.6	504.2	411.4	311.4	487.7	393.7	433.0	17.3
Quarterly Average (3mma)												
2006												
Q1	326.8	335.5	159.4	391.5	293.0	415.0	394.7	232.0	390.8	283.8	332.4	12.5
Q2	345.4	340.6	159.5	397.0	293.4	422.9	393.8	231.9	404.6	290.2	342.4	13.1
Q3	351.0	364.3	160.0	399.6	295.3	427.9	393.8	233.2	407.9	296.8	347.1	9.1
Q4	348.7	370.2	165.4	406.3	298.2	432.3	395.7	247.5	406.6	302.6	349.2	10.3
2007												
Q1	349.9	369.9	166.9	471.5	304.7	436.2	397.2	248.9	425.8	306.5	360.8	8.6
Q2	355.9	371.3	167.9	470.4	307.8	438.5	398.0	246.2	429.0	309.4	363.8	6.3
Q3	362.0	349.1	166.6	475.2	321.8	439.3	399.0	257.1	430.5	315.1	367.3	5.8
Q4	385.7	378.5	166.9	482.2	351.2	452.6	401.4	290.7	447.5	332.9	384.3	10.0
2008												
Q1	391.6	404.4	166.2	516.5	352.7	466.6	411.4	297.0	458.2	346.3	396.1	9.8
Q2	441.7	399.4	168.0	540.6	363.6	491.9	411.4	302.6	477.8	385.2	423.8	16.5
Q3	481.5	392.8	168.3	563.7	377.0	545.1	411.4	318.2	502.3	421.7	453.5	23.5
Q4	489.6	392.8	168.1	589.3	397.2	513.2	411.4	327.8	512.4	421.5	458.6	19.4
2008												
Jan	389.7	408.3	166.4	516.4	352.2	466.2	411.4	294.7	456.4	395.4	395.4	8.9
Feb	395.4	409.0	166.1	516.4	352.7	465.0	411.4	297.8	461.6	397.6	397.6	10.6
Mar	389.7	395.8	166.1	516.7	353.3	468.6	411.4	298.4	456.4	395.1	395.1	9.7
Apr	410.6	403.5	166.9	529.0	355.4	479.8	411.4	286.5	468.0	407.8	407.8	12.5
May	448.9	396.4	168.2	530.2	360.9	487.1	411.4	305.1	480.2	425.8	425.8	17.0
Jun	465.7	398.3	168.8	562.6	374.3	508.7	411.4	306.2	485.1	437.9	437.9	20.0
Jul	470.5	400.0	168.8	562.6	374.3	543.3	411.4	318.1	497.0	448.6	448.6	23.2
Aug	487.9	389.6	168.1	564.4	377.1	547.7	411.4	314.2	505.9	456.2	456.2	25.0
Sep	486.3	388.7	168.1	564.1	379.5	544.5	411.4	322.4	504.1	455.6	455.6	22.2
Oct	481.8	397.1	168.1	583.4	381.4	529.6	411.4	322.4	508.1	455.3	455.3	20.7
Nov	497.7	397.1	168.1	595.0	404.7	517.6	411.4	329.8	516.7	463.5	463.5	19.3
Dec	489.1	423.2	168.1	589.4	405.5	492.3	411.4	331.1	512.2	457.2	457.2	18.1

Source: Statistics Division, Ministry of Finance

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

TABLE 1-17 - 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\$/M³)
2005	414	422	915	1538	203
2006	402	477	930	1592	239
2007	607	780	1289	1952	268
2008	816	1006	1683	2577	292
Quarterly					
2005					
Mar	448	413	872	1647	192
Jun	446	421	943	1545	200
Sep	381	415	973	1491	211
Dec	380	439	873	1470	209
2006					
Mar	385	440	1000	1545	225
Jun	387	437	925	1607	239
Sep	413	497	890	1569	247
Dec	477	574	885	1707	269
2007					
Mar	499	609	1068	1813	265
Jun	599	762	1162	2000	395
Sep	607	821	1418	1999	270
Dec	724	926	1508	1999	275
2008					
Mar	914	1384	1479	2477	293
Jun	1013	1198	1710	2764	282
Sep	817	928	1937	2826	278
Dec	520	515	1604	2241	316
Monthly					
2008					
Jan	848	1285	1475	2201	287
Feb	921	1398	1488	2504	288
Mar	972	1468	1475	2726	305
Apr	963	1174	1550	2608	291
May	1014	1208	1650	2684	283
Jun	1063	1213	1930	3001	272
Jul	946	1128	1990	2967	276
Aug	780	885	1970	2816	273
Sep	724	771	1850	2696	285
Oct	585	564	1775	2274	304
Nov	479	479	1650	2055	316
Dec	495	503	1387	2394	327

Thailand Market prices. (C+F Bangkok)
Source: World Bank and Infofish.

TABLE 1-18 - PRODUCTION BY MAJOR COMMODITY

Period	Copra (m.t)	Coconut Oil (m.t)	Palm Oil (m.t)	Palm Kernel (m.t)	Cocoa (m.t)	Fish Catch (m.t)	Timber Log Prodn. ('000M ³)
2005	26182	-	-	-	4928	23853	1118
2006	21213	122	5427	1236	3835	29597	1073
2007	22249	741	17151	4829	3893	21196	1446
2008	39849	505	21981	6139	4326	25378	1523
Quarterly							
<u>2005</u>							
Mar	7004	-	-	-	597	6179	263
Jun	6372	14	-	-	1521	3343	280
Sep	7170	14	-	-	1722	6344	260
Dec	5637	-	-	-	1088	7987	314
<u>2006</u>							
Mar	5476	22	-	-	555	5807	272
Jun	5221	52	931	165	1342	6539	266
Sep	5098	98	2227	474	1393	7612	270
Dec	5419	163	2269	598	545	9639	323
<u>2007</u>							
Mar	5109	289	3417	829	793	4013	374
Jun	5271	236	4303	1052	614	3778	283
Sep	5694	115	4991	1464	580	5479	371
Dec	6174	101	4440	1484	1907	7926	418
<u>2008</u>							
Mar	8515	134	4440	1484	1261	7925	418
Jun	9684	175	4803	1295	556	5003	363
Sep	11161	229	6518	1853	527	4628	382
Dec	10489	9	5644	1607	1053	7141	410
Monthly							
<u>2008</u>							
Jan	2004	46	1676	461	533	3283	123
Feb	3161	44	1472	775	392	2388	164
Mar	3350	44	1292	248	336	2255	131
Apr	2927	28	1563	417	270	1915	102
May	3700	28	1469	422	197	1050	135
Jun	3057	118	1770	456	89	2038	126
Jul	3857	101	1987	556	138	1421	164
Aug	3535	37	2352	678	127	1860	171
Sep	3769	91	2180	620	261	1347	47
Oct	5198	3	1859	548	241	1758	164
Nov	2397	3	2060	566	497	2191	140
Dec	2894	3	1724	493	315	3192	106
Source: Central Bank of Solomon Islands							

TABLE 1-19 - REAL GROSS DOMESTIC PRODUCT

(1985 = 100)

Industry	2003	2004	2005	2006	2007	2008 Est.
Agriculture	102.7	106.2	118.1	123.1	146.4	168.4
Forestry, Logging, Sawmilling	188.3	263.6	288.3	306.3	381.5	398.6
Fishing	104.4	115.5	104.4	120.6	110.8	122.1
Mining & Exploration	-3.2	-3.3	-3.3	-3.3	-3.3	-3.3
Manufacturing	134.3	135.8	137.1	141.0	147.6	153.9
Electricity and Water	211.8	213.2	250.6	255.0	285.6	291.1
Construction	35.9	45.6	52.9	79.1	94.6	115.8
Retail and Wholesale Trade	136.6	140.9	143.3	143.3	152.6	152.6
Transport and Communications	139.2	143.9	146.7	213.2	225.9	250.9
Finance	223.5	229.4	231.7	236.0	257.8	262.6
Other Services	119.1	126.4	135.4	144.2	153.8	170.4
Index of Monetary GDP Production	127.6	139.8	147.5	158.6	178.2	193.9
Annual % movement	7.7	9.5	5.6	7.5	12.5	7.9
Index of Primary Production	121.2	141.7	151.2	161.5	188.4	207.0
Annual % movement	33.7	16.9	6.7	6.8	16.0	8.7
Non-Monetary: Food	160.5	165.0	169.6	174.3	179.2	184.6
Non-Monetary: Construction	155.6	160.0	164.4	169.0	173.8	178.6
Non-Monetary GDP Index	160.1	164.6	169.2	173.9	173.8	183.8
Index of Total GDP Production	133.9	144.6	151.8	162.1	177.6	190.7
Annual % movement	6.5	8.0	5.0	6.1	10.7	6.7

Source: Central Bank of Solomon Islands.