

30th April 201

Hon. Billy Hilly
Care Taker 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 2009 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

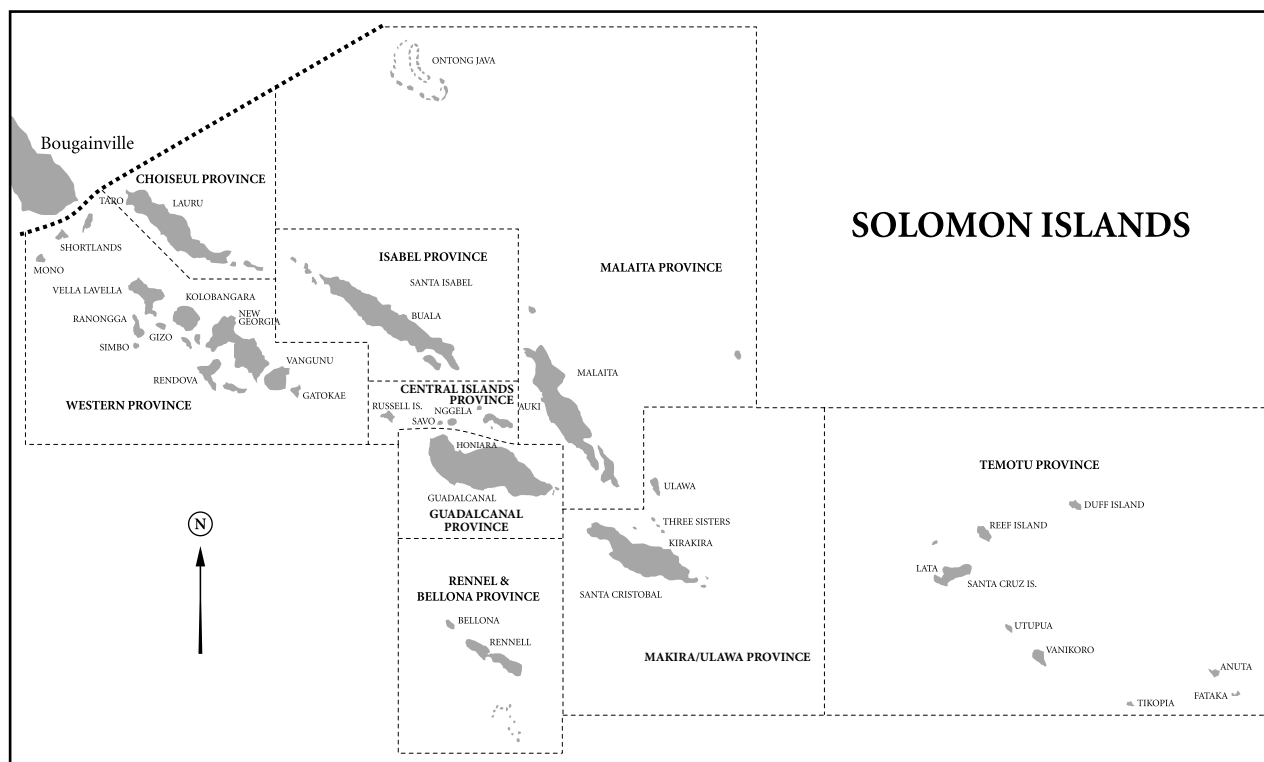
Foreword

This is the twenty seventh Annual Report issued by the Central Bank of Solomon Islands and the thirty second 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 2010



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BOARD OF THE CENTRAL BANK, at the end of 2009



Mr. Denton Rarawa
Chairman, ex-officio



Mr. Gane Simbe
Director, ex-officio



Mr. Shadrach Fanega
Permanent Secretary,
Ministry of Finance (ex-officio)



Mr. Leslie Teama
Director



Mr. Antonio Lee
Director
(as of December 2009)



Mr. Katalulu Maepioh
Director
(as of December 2009)



Dr. Steven Aumanu
Director



Sir Thomas Chan
Director
(up to August 2009)

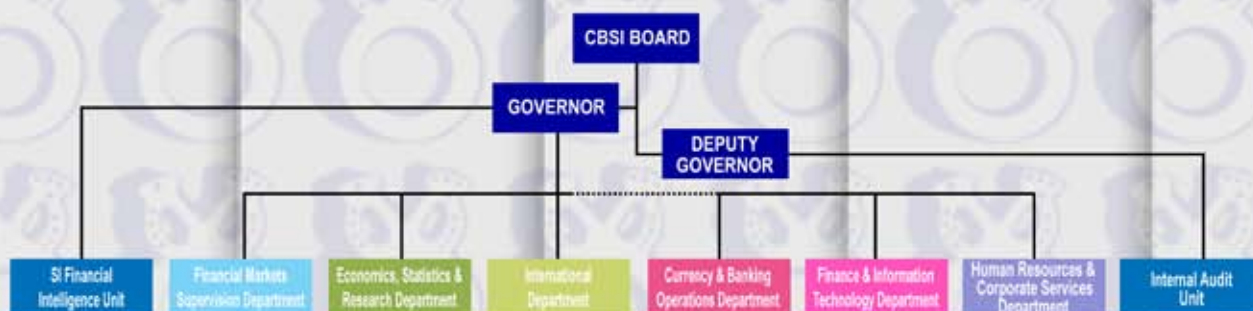


Mr. Moses Pelomo
Director



Mrs. Bella Simiha
Secretary to the Board

Organization of the Central Bank of Solomon Islands



MANAGEMENT OF THE CENTRAL BANK 2009



Mr. Denton Rarawa
Governor



Mr. Gane Simbe
Deputy Governor



Mr. Daniel Haridi
Chief Manager, Currency & Banking Operations



Mrs. Bella Simiha
Chief Manager, Human Resource & Corporate Services,
Secretary to the Board



Mr. Edward Ronia
Chief Manager, Finance & Information Technology, (Up to May 2009)



Mr. Raynick Aquillah
Chief Manager, International



Mrs. Linda S. Folia
Chief Manager (Ag), Financial Markets Supervision



Mr. Edward Manedika
Chief Manager (Ag), Finance & Info. Tech. (As of June, 2009)



Mr. Vincent Nomae
Chief Manager, Economics Research & Statistics

GLOSSARY

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

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

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

Capital & Financial account: records international transactions relating to capital and financial flows between a country and foreign countries, such as investment, loans and grants etc.

Current account: records international transactions relating to the flow of goods, services, income and transfers. 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 prescribed by the Central Bank.

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

Exports: goods that a country sells abroad.

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

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

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

Imports: goods that a country buys from abroad.

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

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

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

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

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

Quasi money: Total of time deposits and savings deposits.

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

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

I. ECONOMIC OVERVIEW, POLICY ISSUES AND ECONOMIC OUTLOOK

Economic conditions in the Solomon Islands economy deteriorated in 2009 with output performing below earlier predictions. The global economic crisis impacted strongly on the domestic economy. Solomon Islands' international trade was badly hit by the crisis as both exports and imports saw large falls. Weaknesses in export markets damaged the country's ability to export, which reduced production, government finances, credit growth and employment. The downturn would have been far more detrimental to the economy had it not been for the support of our development partners, and the reduction in World commodity prices, in particular lower fuel and rice prices. The subsistence economy continues to provide Solomon Islands some protection from international volatility and protect the incomes of our rural population.

The Solomon Islands economy shrank by 2.2% in 2009, compared to the 7.3% growth witnessed in 2008. This contraction stemmed from deterioration in the production of most commodities combined with subdued economic activities across many other sectors. In particular, the major drivers for the downturn were reductions in log production, fish catch, manufacturing, and electricity and water generation. Agriculture recorded no growth as a result of the rapid decline in copra offsetting the increases in cocoa and palm oil production.

Agriculture continued to be the most important sector of the economy in 2009 contributing 17.7% to growth. Forestry saw a 11.4% share, with other services 20.9% and non monetary food 18.4%. This share composition has not changed significantly since 2008.

Log production fell by 31% to 1.045 million cubic metres in 2009 from a record high of 1.523 million cubic metres in 2008. This drop reflected subdued demand from importers, in

particular from Asia, the country's main export market. The international price for logs also fell due to the decreased global demand. It is predicted that round log production has peaked and production is predicted to decline in the future. Should this be the case then the contribution from this industry will decline and this may seriously affect economic growth in the short to medium term, unless a viable substitute quickly emerges. Given the significance of forestry not only to growth but also to foreign exchange earnings and government revenues, this decline could have long term impacts on both the foreign reserves and the ability of the government to provide services, if no action is taken.

Total fish catch dropped 24% to 19,300 tons during the year. This was due to unfavourable fishing conditions, a 29% fall in world fish prices, and the cessation of fishing by one major company, as part of structural adjustment aimed at increasing efficiency in other areas of its operations. Despite this fall in catch, canned and loin production increased 40% and 9% respectively, due to inventories held over from the previous year.

Performance in the agricultural sector, the mainstay of the rural economy, was mixed during the year; with large falls in copra yields being offset by increased production of cocoa and palm oil. The high price elasticity of supply for copra mean large prices falls during the year translated to large falls in output by farmers. Cocoa prices and output on the other hand saw large increased during the year. Other smallholder commodities such as honey, coffee, kava, and vanilla all recorded growth. With the right and adequate assistance these smallholder commodities have the potential to make an important contribution to both rural incomes and economic growth.

After peaking at 23% in September 2008, inflation fell throughout 2009, ending the year

at only 1.3%. The tight monetary policy implemented by the Central Bank, combined with Government retrenchment, falling world commodity prices, in particular for fuel and food, and the rapid reduction of communication costs, in anticipation of competition, have all contributed to this successful reduction of the inflation rate.

The 2009 Government budget originally projected a deficit of \$128.1 million, with forecasted spending of around \$1953.0 million and revenues of \$1824.9 million. The reduction in trade as a result of the global economic recession badly impacted revenues and cash flows and so the Government was forced to reprioritise its focus away from its six key development policy areas, onto protection of frontline service delivery. To achieve this, the Government issued a revised budget, in which many projects were either scaled down or deferred and a supplementary appropriation bill of \$79.6 million was passed. The Government also took simultaneous action to improve revenue collection, concentrating in particular on increasing rates of tax compliance. As a result of these actions preliminary data indicates that the overall fiscal balance recorded a surplus of \$3.8 million in 2009, with revenue collections totalling \$1,704.8 million and total expenditure being constrained to \$1,701.0 million, with spending on goods and services kept 20% below initial budget figures.

The balance of payments recorded an overall surplus of \$361.1 million during the year compared to the revised \$128.4 million deficit in 2008. Underpinning this outcome was a large surplus in the financial account, due to continued donor inflows, and an increase in foreign direct investment from reinvested earnings. This surplus in the financial account more than offset the deficit in the current account, which remained in structural deficit due to imbalances in the trade, services, and income accounts.

As a result of these large financial inflows, an increase in Solomon Islands' IMF allocation of Special Drawing Rights (SDR), gains from foreign exchange revaluation and tight monetary policy; gross foreign reserves surged by 64% to a record level of \$1,179.2 million during the year. This represented around 6.0 months import cover. The IMF SDR allocation came as a result of the IMF's resolution to assist all member countries cushion the adverse impact of the global economic crisis.

The monetary sector saw a very subdued start to 2009, as tight monetary policy, adopted to both curb the high levels of inflation and to bolster the foreign exchange reserves, combined with the downturn in economic activity. The growth rate of broad money fell back as the Bank squeezed excess liquidity.

As inflation fell and economic conditions deteriorated the Bank loosened monetary policy. The supply of reserve money was allowed to increase as the Bank allowed large unsterilized inflows of funds, rapidly increasing net foreign assets. This generated a rapid increase in the free liquidity of the Banking sector and an increase in the growth rate of broad money, which increased by around 14%. Actions by the Bank could not however avert a decline in domestic credit, which fell by 8.9% across the year. Some evidence of recovery was however witnessed at the end of the year with private sector credit increasing in December.

Despite the financial meltdown in many parts of the world, the financial system in Solomon Islands remained solid in 2009. The banking sector maintained profitability throughout the year and remained well capitalized. Commercial banks' asset quality was high, and the bulk of their income continued to be received from non-interest sources. In the second half of 2009 bank liquidity became very strong. The interest rate margin remained one of the highest in the region.

Outlook for 2010

The Central Bank's projections for Solomon Islands' economy in 2010 are positive; with real GDP estimated to grow by around 5 %. Underpinning this growth is predicted to be strong performances from the agriculture and fishing sectors, construction, transport and communication. Other sectors like manufacturing, retail & wholesaling and other services are also projected to grow. Log production, which in the recent past accounted for more than 60% of foreign exchange earnings and a round 20% of government revenue, is projected to fall by 15% in 2010, due to the terminal depletion of loggable areas. This is expected despite an anticipated pick-up in the global demand for logs.

The balance of payments is projected to record a marginal surplus in 2010, despite the anticipation of large current account outflows from the trade balance. The structural deficit in the current account is expected to grow to around 35% in 2010, due to rapid increases in the country's trade deficit. Foreign reserves are projected to show little diminution across 2010 and remain well above the Bank's minimum threshold.

Broad money is estimated to experience moderate growth across the year, reflecting increases in both domestic credit and net foreign assets. Moderate growth is expected for domestic credit in anticipation of large constructions coming on line in 2010. NFA is anticipated to increase due in part to large donor inflows in late 2010.

Much uncertainty remains concerning this positive outlook for 2010, and potential upside and downside risks are both large. With this an election year any dramatic change in fiscal policy, relating to a new government, may bolster or undermine these efforts. The Bank has also made predictions for the year based on an orderly and peaceful election in 2010. The risk of a global double-dip recession seems to have diminished but remains a threat to growth in the Solomon Islands. Another potential risk is a return to fuel price inflation, which would undermine both economic growth and would threaten to bring a return to rapid inflation. A further threat to inflation comes from the possibility of fiscal dominance. Any large spending by the Government, that is not economically justifiable, may bring about increased inflationary pressure. A reliable and responsible budget is one that is easy to monitor and evaluate.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

In early 2009 the global economy was pointing to a severe collapse. Production and trade volumes were falling. The availability of credit dried up worldwide as asset prices and wealth evaporated. The global economy experienced a contraction for the first time since the Great Depression. Yet a crisis of the scale witnessed in the 1930s was averted and by the second quarter of 2009 the world economy bottomed out and begun its recovery. This recovery has been driven by massive fiscal and monetary stimuli enacted by many countries since late 2008.

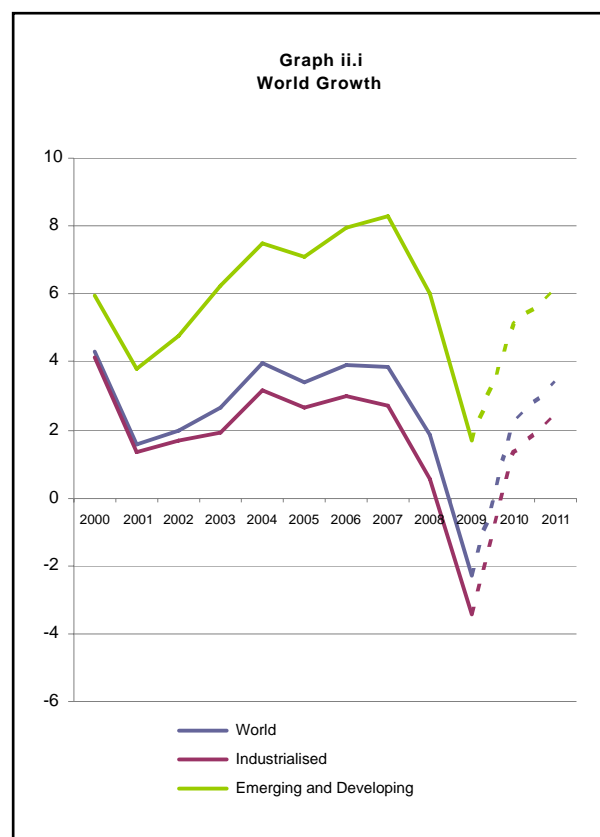
Growth

The world economy shrank by 0.8% in 2009 mainly due to the poor performances of the world's most advanced economies, whose GDP, on average, shrank by 3.2%. Of this group only Australia managed to avoid recession, growing 0.7% across the year, whilst the US (-2.5%), the Euro area (-3.9%) and Japan (-5.3%) were more typical of the industrialised nations.

The developing and emerging economies on average fared better in 2009, witnessing 2.1% growth across the year. This group was however highly heterogeneous with the emerging Asian giants China (8.7%) and India (5.6%) driving the growth of this group whilst Mexico (-6.8%) and Russia (-9%) were badly hit by the worldwide crisis.

The indications proclaiming the total collapse of the global economic system were proved wrong in the second quarter of the year when the effects of the massive fiscal stimulus packages many countries put into place took hold and the highly expansionary, and often unorthodox, monetary policies that many countries enacted filtered through. Many economies around the globe began to slowly pull themselves out of recession, and return to growth.

The recovery witnessed since the turnaround has proceeded at a pace exceeding most expectations. This policy driven recovery has been cemented by an upturn in the inventory cycle. Private sector spending has been boosted by increases in confidence; more than anticipated. The successful resistance against implementing protectionist barriers in response to the crisis has allowed a rapid recovery in trade volumes during the later part of the year; although across the year trade volumes fell 12.5%.



The recovery however has been unbalanced and remains fragile. Growth has been led by Asia and has returned sporadically and in staggered increments across the rest of the

world. Some economies are yet to emerge from recession.

A delicate balance must be reached and clear strategies drawn up by governments planning to withdraw fiscal stimulus packages. The risk of prematurely removing support from economies which are not yet self sustaining could force economies back into recession, whilst a delayed withdrawal could damage future growth and make exit from the recession both shallower and more painful than necessary.

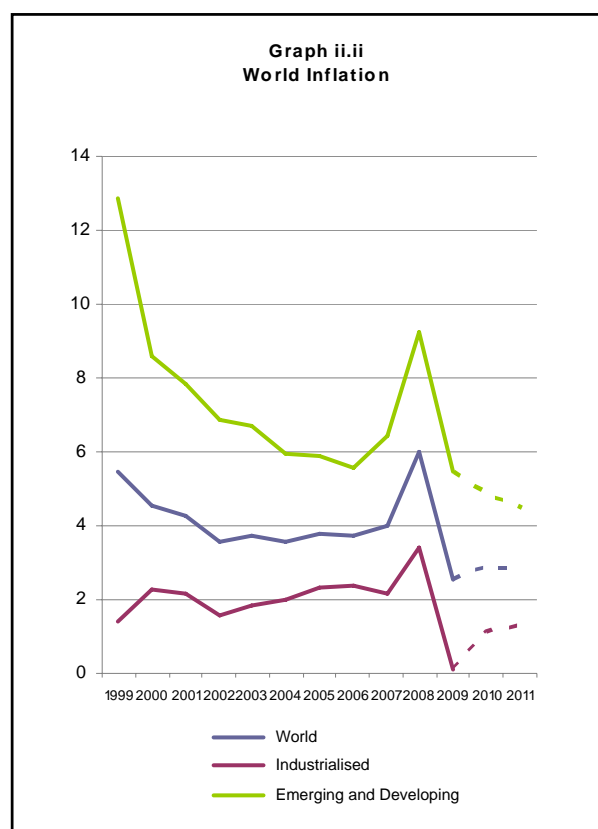
Persistent weaknesses in financial systems worldwide continue to hamper growth rates and even pose a threat to the recovery. Although the banking sector is becoming increasingly less reliant on central banks for its funding, the need to rebuild stocks of capital and the possibility of further write-downs is generating a very risk averse environment. High unemployment rates across the developed economies also provide a threat to growth. With the unemployment rate amongst advanced economies increasing to 8% in 2009, and the fear this will remain stubbornly high in 2010, despite the return to growth; this could seriously undermine confidence and public sector spending.

Inflation and Commodity Prices

The global economy experienced rapid disinflation in 2009 as annual consumer price rises fell from 6% in 2008 to 2.9% in 2009. This slowdown in price rises was most acute in the industrialised nations, who experienced an average inflation rate of just 0.1% in 2009. Some of these nations actually experienced deflation across the course of the year, for example, prices fell by 0.4% in the US and by 1.1% in Japan. Deflation was not just contained to the advanced economies, with some emerging economies also experiencing declines in the general price level, for example Chinese prices fell 0.06%. High inflation rates in certain countries, for example Russia where

prices increased by over 12%, meant that the average inflation rate for the emerging and developing countries remained relatively high, at 5.2%.

Inflationary pressures also remain low. Private sector demand growth although recovering remains very low and inflationary expectations remain anchored. Unemployment is high as is unused capacity. The output gap in the advanced nations is estimated to have been around -4.1% of GDP. There is a likelihood that fiscal pressures will ease across the year as many governments plan a degree of retrenchment.



The biggest threat to low and stable price rises in the near future comes from commodity price movements. Whilst commodity prices saw large falls in 2009, with non-fuel commodities on average declining by around 20% and oil prices falling by around 37%, a rebound began

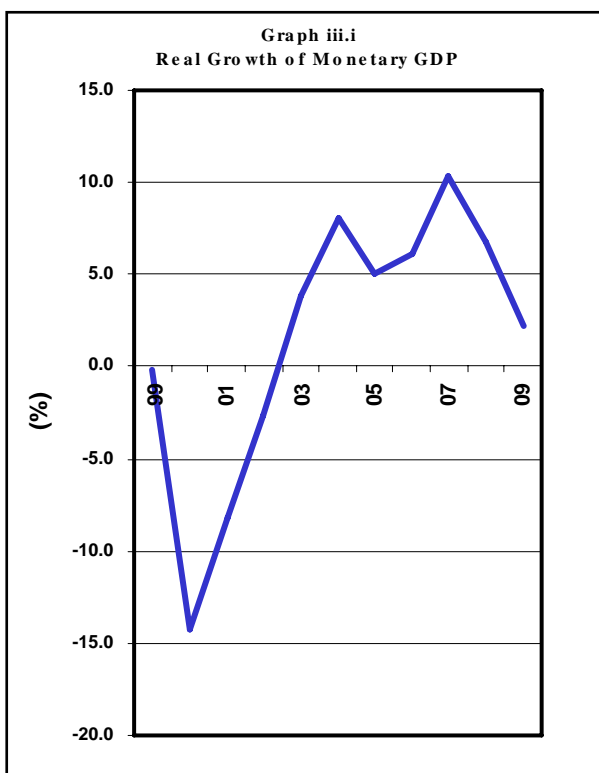
towards the end of the year, spurred by the buoyant recovery in Asia. It is predicted that commodity prices will continue to rise but is

expected that these rises will only be modest, due to continuing weaknesses in the world economy.

III. DOMESTIC ECONOMIC OUTCOMES

Gross Domestic Product

2009 was a turbulent year for Solomon Islands, as the economy felt the full impact of the global economic crisis. The effects of the global slump were evident in the deterioration in economic activities leading to a sharp contraction of 2.2% in real Gross Domestic Product (GDP) in 2009 as opposed to the 7.3% growth experienced in 2008.



Declines were recorded in most sectors except for **construction, transport & communications**, and the **other services** sectors which increased 1.3%, 3.5% and 7.6% respectively. The major drivers of the contraction in 2009 were the fall in production of logs, by 31%, and of fish, by 24%. Both sectors accounted for 11.4% and 4.9% of GDP

respectively, significant falls from the 15.5% and 5% contributions they made in the previous year. The **manufacturing** and **electricity & water** industries also showed declines; by 1.8% and 2.8% respectively by year-end.

Table iii.i
Estimated Real GDP
(Index 1985=100)

Industry	2006	2007	2008	2009
Agriculture	120.5	146.4	167.7	167.7
Forestry	306.5	381.5	398.6	287.0
Fishing	130.6	116.5	122.1	117.4
Mining & Exploration	-3.3	-5.0	-5.6	-55.7
Manufacturing	141.0	144.1	147.7	145.1
Electricity & Water	255.0	285.6	291.1	283.0
Construction	70.6	101.2	110.3	111.7
Retail & Wholesale Trade	143.3	152.6	165.0	164.3
Transport & Communication	187.6	225.9	250.9	259.6
Finance	236.0	257.8	262.6	267.5
Other Services	144.2	153.8	170.4	183.4
Index of Monetary GDP Prod.	158.3	179.1	194.3	188.1
Annual % movement	7.4	13.0	8.5	-3.2
Index of Primary Prod. (Min)	162.4	190.3	206.6	181.8
Annual % movement	7.4	17.2	8.5	-12.0
Non-Monetary : Food	174.3	179.2	184.2	189.4
Non-Monetary : Constr.	169.0	173.8	178.6	183.6
Non-Monetary : GDP Index	173.9	178.8	183.8	188.9
Index of Total GDP Prod.	161.1	178.4	191.5	187.3
Annual % movement (Real)	6.1	10.7	7.3	-2.2

Source: Central Bank of Solomon Islands

Nominal GDP on the other hand, rose by an estimated 10.5% to \$4,549.6 million compared to \$4,116.3 million in the previous year. This was a product of the high rate of inflation early in the year.

Nominal GDP per capita rose 7%, to \$8,439 (USD1,047) per head in 2009, following the 17%

growth recorded in 2008. Real GDP per capita (an indicator of the average standard of living of individual members of the population) however fell by around 5.1% reflecting a combination of the reduced economic output of the country in 2009 combined with continued population growth.

The Solomon Islands economy is expected to expand by 5% in 2010, despite the Bank's prediction that log production will fall in 2010. This growth is predicted to be generated by strong performances from agriculture, fisheries, construction, transport & communication, electricity production and water. Other sectors like manufacturing, retail & wholesaling and other services are also projected to grow.

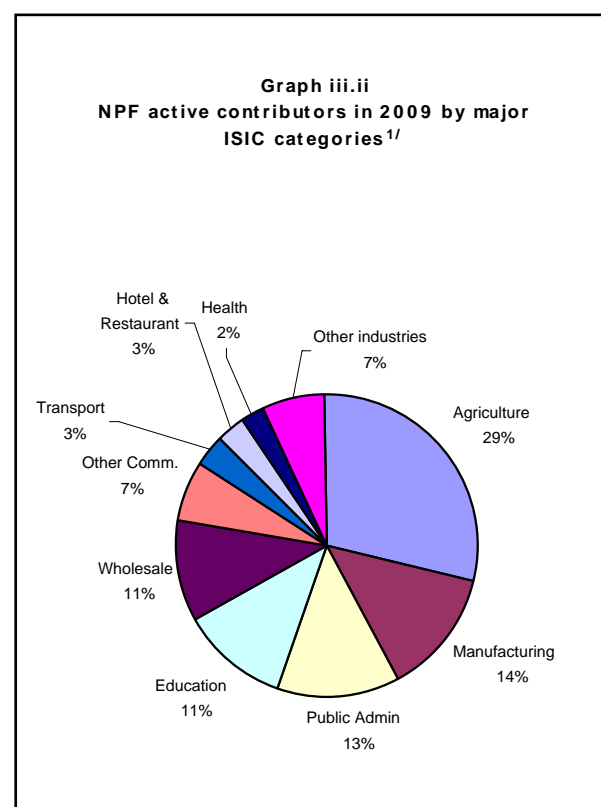
Employment

Growth in the employment slowed in 2009, due to subdued activity in both the private and public sectors.

The total public sector workforce grew only by 4% to 12,782 in 2009 compared to the 11% growth in 2008. This slowed growth reflected the Government's swift actions against the financial crisis, freezing new civil service recruitment except in priority areas; 38 workers were recruited to the Police & Prison service and 592 new teachers were employed.

Due to the recruitment measures taken by the Government, and the reduction in employment in the private sector due to the reduced economic output, employment indicators from the Solomon Islands National Provident Fund (SINPF)¹ showed only a 2% increase to 47,544 at the end of 2009 compared to the 6% growth in 2008. The CBSI job advertisement survey showed an 18% drop across the year to 1,288 positions compared to the 1,564 positions in

2008. In accordance with the international standard of classification by industry (ISIC), employment in the agricultural sector which includes logging was highest with 28%, followed by manufacturing (13%), public administration (12%) and education services, retail and wholesale & auto repair services with 11% each.



The Bank does not currently have a true picture of unemployment in Solomon Islands, due to the limitations of the data available and the difficulty in obtaining improved data. The other major issue highlighted concerning Solomon Islands' labour markets in 2009 was a continued shortage of skilled workers. This presents a serious constraint to higher productivity in the country and greatly inflates wage costs facing employers.

¹ It is also important to note that lower or higher employment figures shown by the fund do not necessarily reflect falls or pick-ups in employment level; rather they may indicate higher or lower unpaid contributions to the Fund by companies. This means SINPF data should be read with caution as data are not a reliable indicator for measuring and in monitoring developments in employment in the domestic economy.

^{1/} Percentages show a 1% increase compared to the text because of the nature of pie chart.

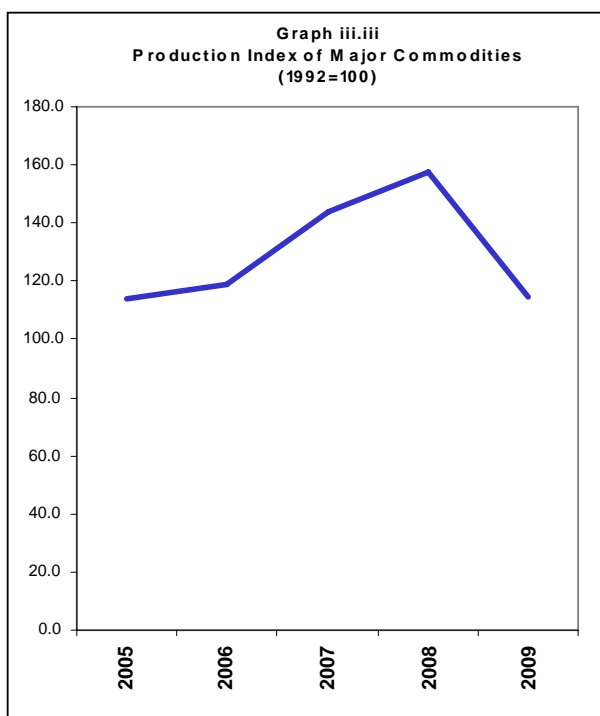
Investment

Investment applications recorded by the Foreign Direct Investment (FDI) registry saw a drop of 74% in 2009 to 122, compared to the 77% growth recorded in 2008. Despite a challenging year, several companies registered sizable profits, and the major source of FDI was through companies reinvesting earnings. Approved investments in 2009 totaled 92, valued at \$1.9 billion. Australia was the biggest source of FDI, followed by Malaysia and China. Local investors have also contributed a significant share of investment in the economy during the year.

Major impediments to increased investment into Solomon Islands remained security issues, the unavailability of land and high operation costs for businesses. The lack of infrastructure is also a constraint on investment.

Production

The overall production index fell by 27.2% to 114.1 in 2009 (See Graph iii.iii).



This fall was caused by declines in round logs by 31%, fish catch by 24% and copra production by 37%. This outweighed the growth observed in palm oil, and cocoa industries.

Forestry

Logging activity was weak in 2009, with falling exports due to low demand from external markets (See Graph iii.iv). Log export volumes² dropped by 31% to 1,044,854 cubic metres, following the 5% growth reported in 2008. Log export applications³ totalled 1.488 million cubic metres, with approved applications⁴ totalling over 1.3 million cubic metres, valued at USD 105 million (SBD 821 million). One major factor behind the large decline in export volumes was the weakness of Asian housing markets.

The average international price for logs began the year at USD 330 per cubic metre, but declined 1.7% across the year to end 2009 at USD 287 per cubic metre. This ended the upward trend that began in 2001. The domestic price for log, determined by grade and species, ranged between USD 43 per cubic metre (SBD 346) and USD 95 per cubic metre (SBD 685).

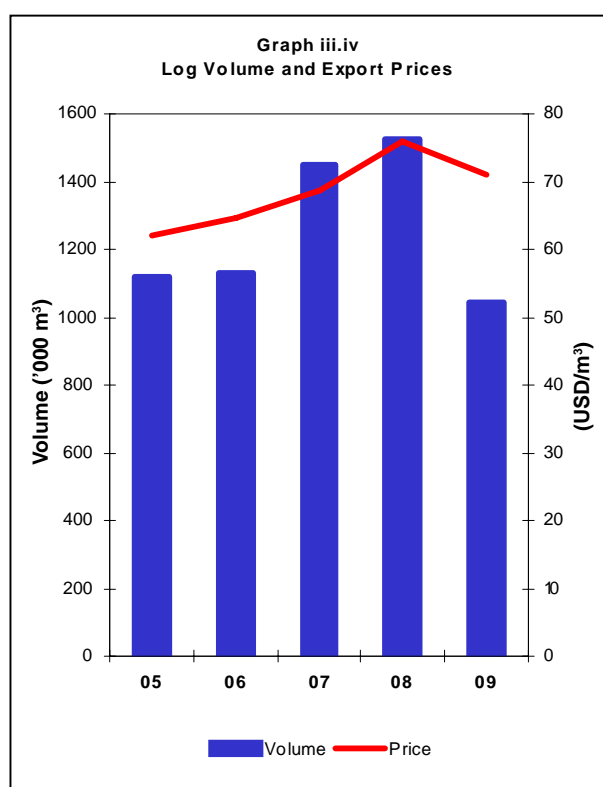
The Ministry of Forestry implemented two new policies during the year; the first policy enforced downstream processing by all logging companies; making it compulsory that 20% of all felled logs be milled locally. It is expected that this will mean that by the end of 2010 production of sawn timber and final timber products is expected to increase, but exports of round logs may drop. The second policy imposes a reforestation program; where one-third of logged areas must be replanted. Currently, two companies are engaged in plantation forestry, replanting 905 hectares in 2009 and a further 1,200 hectare by the end of

²Sourced from Customs & Excise, Ministry of Finance

³Sourced from Ministry of Forestry

⁴Sourced from International Department, CBSI

2010. The success of these policy objectives will depend on compliance and close supervision by the Ministry of Forestry, coupled with adequate budgetary and capacity support.

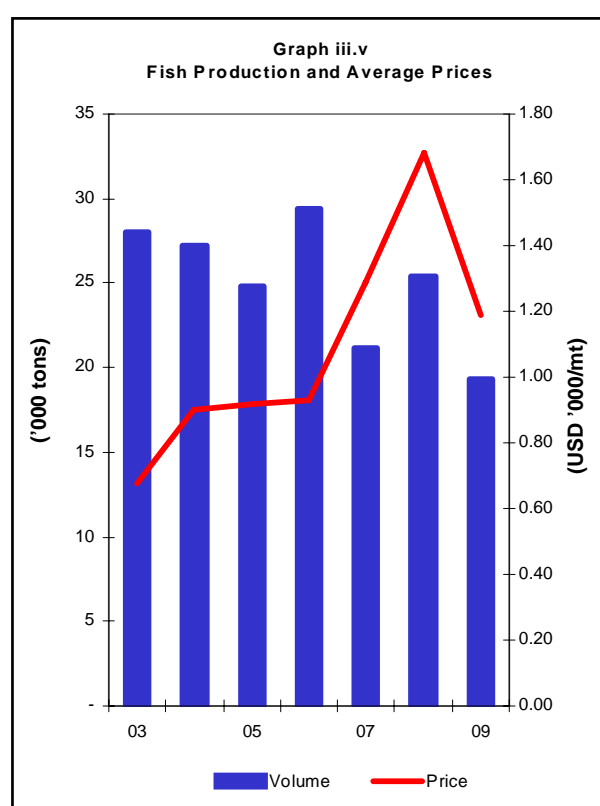


Fishing

Total fish catch plunged 24% to 19,300 tons in 2009, contrasting the improvement in 2008 (See Graph iii.v). This weak outturn is a combination of two factors; the first being that one major fishing company ceased its fishing operations as a restructuring strategy, and second high rainfalls during the high peak season made fishing condition unfavourable. Dwindling international prices also contributed to the decline. While improvements were seen after the management restructuring in both major companies in 2009, the increases were not large enough to offset the downward trend. Pump boat catches for the year, which fetch a premium price on the Japanese sashimi market, totalled 91 tons.

Despite the falls in fish catch, canning operations improved during the year, due to the management restructure of Soltai. Canned fish totaled 320,832 cartons, up 40% from 228,733 cartons in 2008. Fish loins processed also increased 9%, to 422,516 bags⁵. Total fishmeal grew 89% to 20,360 bags⁶.

The year's average international price for fish⁷ fell 29% to USD 1,189 per metric ton following five consecutive years of growth.



Unlawful use of cyanide and dynamite fishing, beech-de-mer harvesting, unsustainable yellow-fin and big eye tuna catching are creating serious long-term problems for Solomon Islands' fishing industry. The Ministry of Fisheries has taken action to try and rectify over-fishing through a reduction of raft fishing

⁵ Each loin bag weighing 7.5 kilogram per bag

⁶ Each bag weighing 25 kilogram per bag

⁷ Sourced from Info Fish

and enhancement of the observer coverage conducted by the Forum Fisheries Agency.

Copra and Coconut Oil

Copra output in 2009 plunged 37% to 24,740 tons (See Graph iii.vi). One major cause of this decline has been the reduction in the price of copra, which is estimated to have a very high price elasticity of supply in Solomon Islands. Another cause of the drop in production is the senility of coconut trees⁸, now amounting to around 60% of the country's plantations. This causes trees to produce greatly reduced yields. Unreliable shipping and the increase in coconut milling have also contributed to copra's decline.

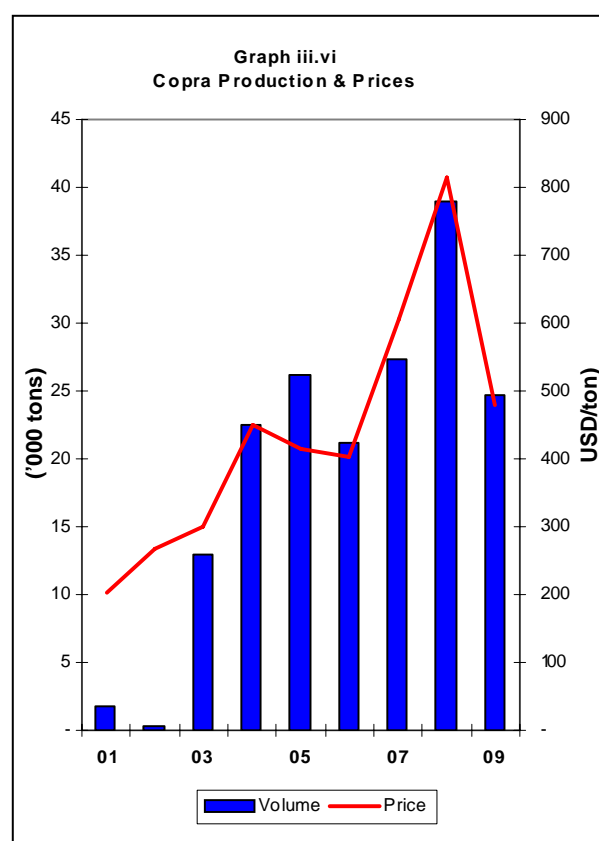
Coconut oil data collection improved in 2009 due to better cooperation by all producers. The volumes produced at the end of the year, rose 16% to 634 tons from the previous year's tonnage of 546 tons. The average world price for coconut oil fell 41% to USD 725 per ton from USD 1,226 per ton in 2008.

Malaita continued to be the largest producer of copra contributing 23% of total production (5,764 tons), followed by Guadalcanal and Western province contributing around 22% each (5,475 and 5,470 tons respectively). The remaining 33% was from Central, Choiseul, Makira, Isabel, and Temotu provinces.

The average international price for copra fell markedly by 41% to USD 480 per ton, contrasting growths seen in the last two years. Contracted export price for copra also fell, by 33% to USD 286 per ton from USD 428 per ton. The average domestic price dropped 30% to \$1.93 per kilogram from \$2.74 twelve months ago.

Copra production was harmed by weaknesses in the Commodities Export Marketing Authority (CEMA), which oversees the

country's commodity exports, which was constrained by financial and budget limitations in 2009. Unreliable and unavailable transport also remains a major impediment faced by farmers throughout the country. The franchise shipping scheme, aimed at encouraging economic development in non economic routes, is hoped to rectify the problem and provide a regular and reliable shipping service in the country. In part because of this scheme and despite the bleak year in 2009, the Bank is predicting increase in copra production in 2010.



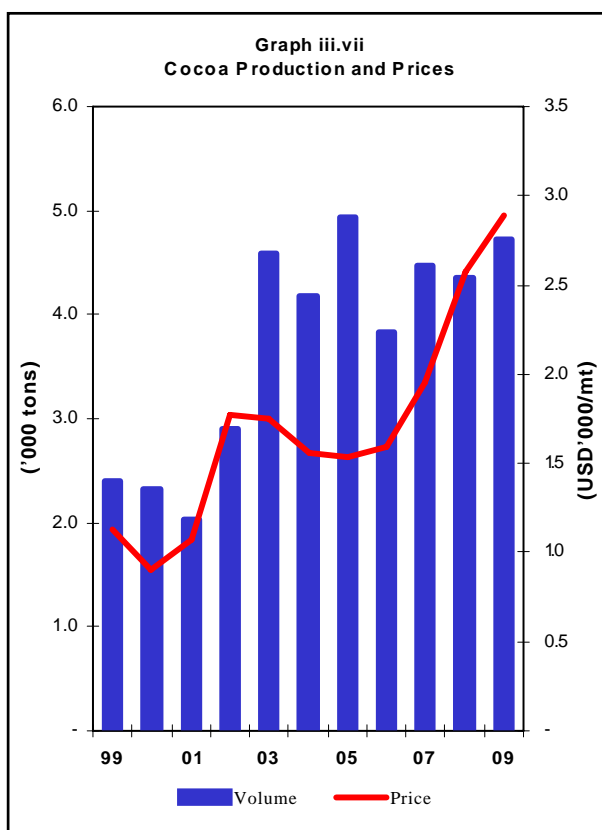
Cocoa

Cocoa production grew 5% to 4,553 tons in 2009, following 0.4% increase in 2008 to 4,326 tons (See Graph iii.vii). This outcome was due to a combination of the strengthening of the cocoa livelihood program and the relatively

⁸ Senile palms are those that are more than 20 years old

high international price for cocoa observed in the year.

Guadalcanal continued to lead in terms of production share producing 58% or 2,608 tons followed by Malaita with 1,041 tons (23%), Makira with 586 tons (13%), Central with 198 tons (4%), Temotu with 28 tons, Western with 21 tons, Isabel with 7 tons and Choiseul with 0.91 tons.



The average price for cocoa in the international market grew by 12% to USD 2,890 per ton. As a result of high international prices the average contracted export price for cocoa rose by 31% to GBP 1,417 per ton, continuing the upward trend seen since 2006. The average domestic price grew by 15% to \$13.91 per kilogram from the previous year.

Palm Oil

Production of palm oil products witnessed significant growth, with the exception of palm kernel oil. Crude palm oil (CPO) rose 14% to 25,123 tons, indicative of an extraction rate of 21%. Palm kernel increased by 15% to 7,083 tons. Palm kernel oil (PKO) processed a total of 3,098 tons, 187 tons below 2008 levels. Palm kernel expeller (meal) grew 21% to 3,632 tons from 2,993 tons reported in the previous year. The positive output resulted from improved yield of fresh fruit bunches, which rose by 15% to 119,377 tons.

The average international price for CPO fell by 28% to USD 682 per ton, following three consecutive years of increase. The reduction in the international price of CPO was caused by falls in the prices of many substitute goods, such as soya bean oil and peanut oil. Prices are projected to pick up in 2010.

Other Commodities

Honey production saw little growth in 2009, with around 24 tons produced. Honey wholesale price in Honiara was \$22.50 per kilogram while the retail price, grew by 53% to \$27.50 per kilogram. Funding secured from donors will help 60 beekeepers on Makira, Isabel and Temotu provinces to boost production in 2010.

Coffee production grew 78% to 133, 822 kilograms, up from 75,188 kilograms in 2008. The increase was caused by greater participation by farmers and improved sales and marketing by distributors. Coffee is grown by around 500 farmers throughout the country with around 200 based in Isabel and the rest on Guadalcanal and South Malaita. Prices for coffee in the local market are around \$149 per kilogram; these can be bought as roasted beans or as grounded coffee. Coffee production is expected to increase in 2010 after the completion of training for farmers and the implementation of a new higher-capacity

roaster which should improve the product to international standards and eventually export grades.

After two years of cultivation, **kava** processing grew 55% after improvements were made to its packaging, making it the biggest export item in the agriculture livelihood program. Kava is farmed mainly on Isabel and the finished product is exported to Fiji, Nauru and Kiribati. The price for kava in the local market is around \$150 per kilogram while the export price is about \$198 per kilogram.

Vanilla yields rose sharply from 2,144 kilograms in 2008 to 17,865 kilograms in 2009. This is a promising crop for rural farmers on the Guadalcanal plains. Future export markets in Australia and New Zealand have made known their interest in importing locally farmed vanilla. Vanilla prices ranged between \$10 and \$155 per kilogram and can be bought as beans or as an extract.

Domestic **rice** cultivation continued with 47 projects throughout the country. There is a push by the Ministry of Agriculture to cultivate 'paddy rice' instead of 'upland rice' because of its greater yields. The Government further strengthened rice projects with \$10 million budgeted for rice developments in 2010.

One major limitation of the Bank's data for Solomon Islands' economy is the limited ability to measure many aspects of the rural sector. Although it remains difficult to measure the subsistence economy and data remains unavailable, despite its substantial contribution to the livelihood of over 80% of the population, the addition of honey, coffee, kava, vanilla and rice production to this year's annual report is an important step in beginning to capture these important trends for rural incomes.

Minerals

Developments in the minerals sector in 2009 were dominated by activities relating to the

Gold Ridge project. The successful takeover of this project in late 2009 by Allied Gold Limited was a major step forward in the redevelopment of Gold Ridge, as the company brought with them a large amount of secured equity finance. Another important development was the approval of political risk insurance to cover mining equipment, power generation equipment and other mining facilities. The Bank expects mining operations to begin in the second quarter of 2011. Annual production is estimated at 136,000 ounces of gold in the first three years and 124,000 ounces thereafter over the seven-year life of the mine.

Small scale gold production by landowners around the Gold Ridge area continued last year. About 130.4 kilograms of alluvial gold worth \$29 million was produced and exported in 2009 compared to 141 kilograms in 2008. Ten alluvial gold mining permits and 21 licensed gold dealers were current in 2009.

Nickel prospecting activities are continuing on Isabel and Choiseul provinces where high occurrences of nickel ore have been confirmed. Arrangements are underway for SOPAC, the regional exploration agency to put together tender documents for further exploration on Isabel. Feasibility studies on the deposits are expected to continue for another three to four years.

Four new mineral prospecting licenses were issued in 2009, compared with 12 in 2008.

Energy

Total energy usage⁹ fell by 3.5% in 2009. The Solomon Islands Electricity Authority (SIEA) generated 75,580 mega watt Hours (MwH), compared to 78,360 MwH in the previous year. Electricity sales during the year fell 23%, totalling 70,669MwH. The electricity price in Honiara is \$3.80 per kilowatt for domestic use and \$4.80 per kilowatt for commercial usage.

⁹Sourced from SIEA

The SIEA improved its revenue collections, which allowed the Authority to repair its two main generators and repay outstanding loans. SIEA has launched projects to tighten up on wastage, strengthening capacity, and improve competency.

Tourism

The tourism industry continued to expand in 2009 despite weak developments overseas. Total visitor arrivals increased to 19,440 visitors in 2009, up 11% on the same period a year ago. Of this total, 18,260 were air arrivals and 1,180 sea arrivals.

Most of the visitors were from Australia (49%) and New Zealand (8%) and stayed on average for about 15 days in the country.

The rise in total arrivals was supported by increased and improved airline and hotelier services during the year. The relative strength of the Australian economy during the global financial crisis also contributed.

A key factor in tourism development has been the increase in competition on international routes, which has acted to reduce the price of travel and improve service provision. Importantly Pacific Blue has continued to provide competition on the important Honiara to Brisbane route. Solomon Airlines is now currently operating three weekly flights from Brisbane and three weekly flights to Nadi.

The long term lease of a Dash 8 aircraft, towards the end of 2008, has made an important improvement to domestic air services, enabling more flights and higher load factor.

Construction of new rest houses, motels, hotels, resorts and expansion of existing ones has expanded accommodation capacity. One major development was the opening of the high-end Heritage Park Hotel in the second half of 2009.

The Ministry of Culture and Tourism launched a document on 'Tourism Impediments Diagnostics', identifying potential areas and recommendations for development. The tourism sector in the Solomon Islands has potential to contribute towards overall economic development if adequately supported and carefully developed.

Telecommunication

The telecommunication industry was deregulated in 2009, meaning that the monopoly status was renounced and all players made answerable to a commissioner.

In an aggressive response to this new telecommunication bill, Our Telekom introduced services such as "Me top Up", increased existing services such as the doubling its internet capacity; increased handset users by 75% to 80,000; drastically reducing price of SIM cards and opening 30 new sites (8 on Malaita, 8 in the Western region, 4 on Makira, 2 on Temotu, 4 on Isabel, and 3 on Guadalcanal and 1 on Rennell) in the space of 3 months to reach 48.

The entry of a new mobile service provider, Bemobile, will increase competition in 2010, which it is hoped will improve communication services, lower telecommunication costs, and bring with it both direct and indirect employment. The company intends to focus on mobile telecommunications, and should open for business in mid 2010.

Construction

Despite the slowdown in economic activity, the construction sector remained buoyant as reflected in the increased investment in housing (both residential and commercial) during the year.

Commercial bank loans to the construction sector increased 40% to \$108 million during

2009, up \$31 million from the previous year. Loans for commercial properties increased 86% to \$52 million, while loans for land and development and other unspecified construction activities also rose 30% and 51% to \$43 million and \$65 million respectively. Loans to private residences on the other hand, dropped from \$15 million to \$13 million at the end of 2009.

Annual data on building permits for 2009 issued by the Honiara City Council (HCC) grew 38% to 202 compared to 146 in 2008. The increase was recorded in all categories of buildings but more in commercial properties. A wide range of construction activities are in progress in Honiara, some nearing completion and others to kick start in 2010. The construction sector is expected to grow in the coming years due to rising demand from a growing population. In particular, improved construction activity is expected in 2010; boosted by a recent pick up in building approvals as well as bemoile and Gold Ridge construction activities.

Inflation

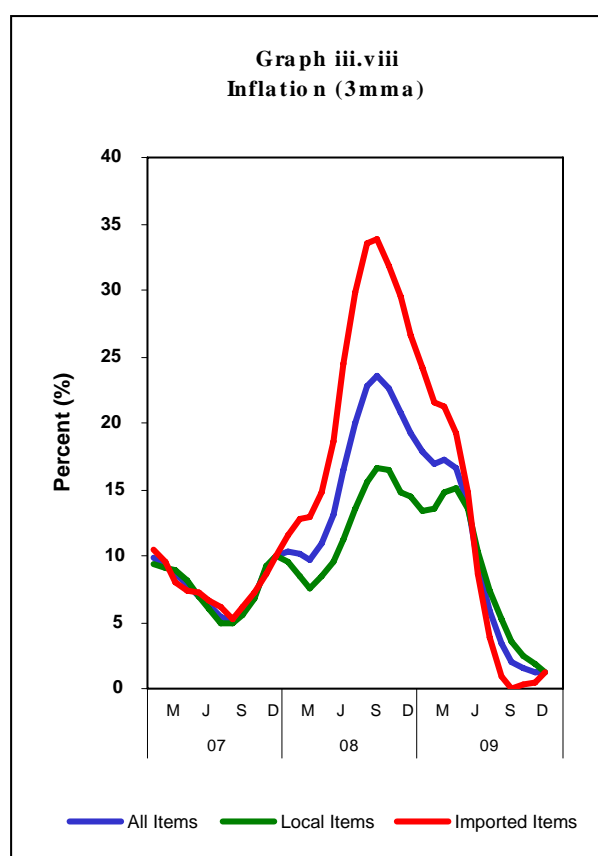
The annual rate of inflation as measured by the three months moving average stood at 1.3% in December 2009, compared to 19.4% in 2008. The drop in inflation was underpinned by falls in all categories of the Consumer Price Index except for the transport & communication category which recorded an increase of 5.5% over the year.

Domestic inflation dropped to 1.3% from 14.5% in 2008 reflecting mainly falls in the drinks & tobacco and housing & utilities categories

which fell to 7.9% and -7.6% respectively at year end.

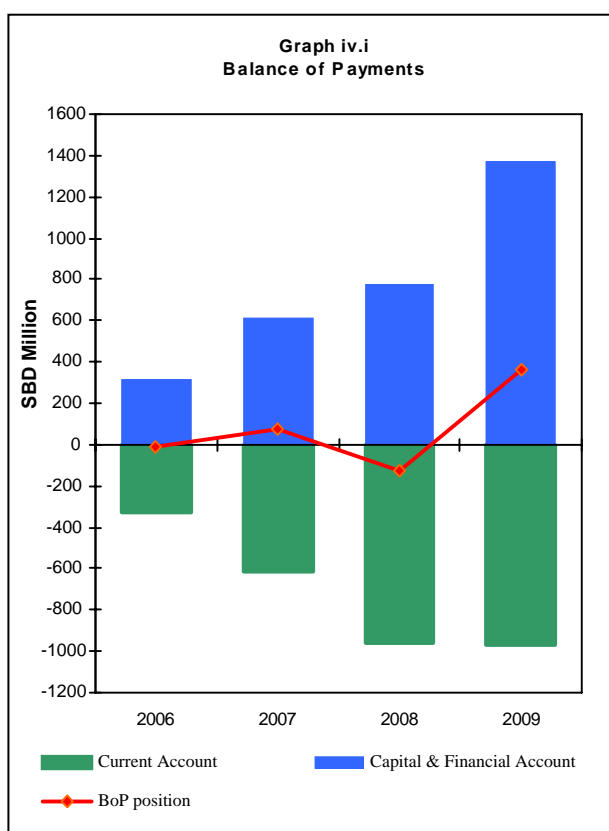
Similarly, imported inflation fell in 2009 to 1.2%, a significant drop from the 26.5% recorded in 2008. Price falls were recorded in the food category which fell to 2.2% and in household operations category which dropped to 5.7%.

Underlying inflation, (a measure of inflation excluding certain volatile items) was 1.2% in 2009, down from 19.5% in 2008.



IV. BALANCE OF PAYMENTS

The overall balance of payments (BoP) recorded a surplus of \$361.1 million in 2009, markedly reversing the (revised) \$128.4 million deficit registered in 2008. This outcome stemmed from two main sources; first, from donor inflows, and second, FDI inflows. This triggered an increase in the capital and financial account surplus which outweighed the deficit in the current account.



Gross foreign reserves surged from \$716.4 million at the end of 2008 to \$1,179.2 million at the end of 2009. This level of reserves is equivalent to 6.0 months of imports of goods and non-factor services, a vast improvement compared to the 2.5 months import cover in 2008.

Current Account

The **current account** deficit slightly widened to \$973.2 million in 2009 from the revised \$959.7 million in the previous year. This outcome emerged from structural deficits in the trade, services, and income accounts, outweighing the surplus in the current transfers account. Poor export performance across most primary commodities and the underdevelopment of other potential foreign exchange income generating sectors such as higher value added exports, manufacturing and services, contributed to the widening of the structural deficit.

Trade Account

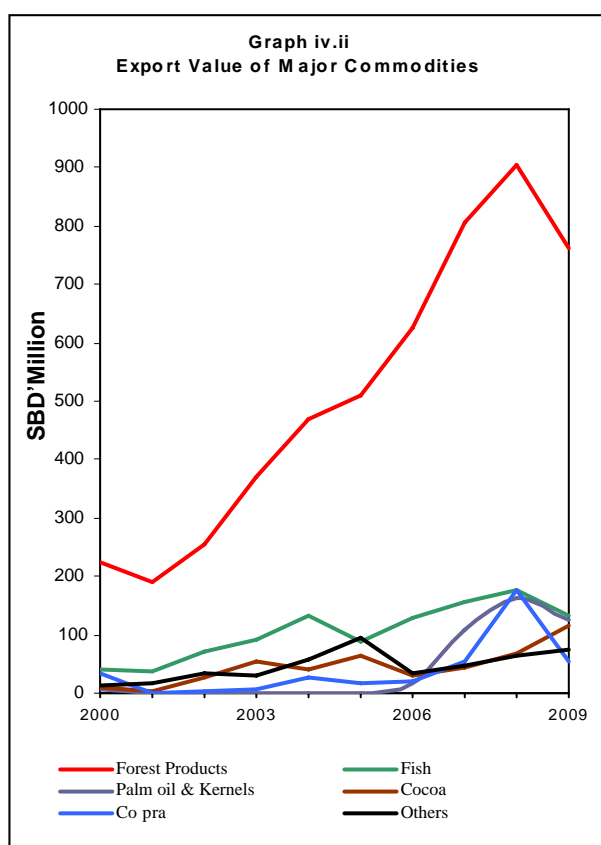
The **trade account (fob)** registered a deficit of \$610.3 million in 2009, a slight improvement from the revised \$635.6 million deficit in 2008. Generating this outcome was the relatively large declines in import payments which more than outweighed the drop in exports. Export receipts fell by 19.3% to \$1,316.3 million and import payments decreased by 15.0% to \$1,926.6 million. The fall in exports was due to drops in receipts from logs, fish, palm oil and kernel, 'copra and coconut oil', and re-exports. This more than offset the increase in receipts from cocoa, timber, minerals and other exports.

**Table iv.i
Balance of Payments Trade Account**

	(SBD million)		
	2007	2008	2009
Exports fob	1259.2	1631.4	1316.3
Imports fob	-2004.9	-2267.1	-1926.6
Trade Balance	-745.8	-635.6	-610.3
Trade Balance as % of total Trade	22.8	16.3	18.8

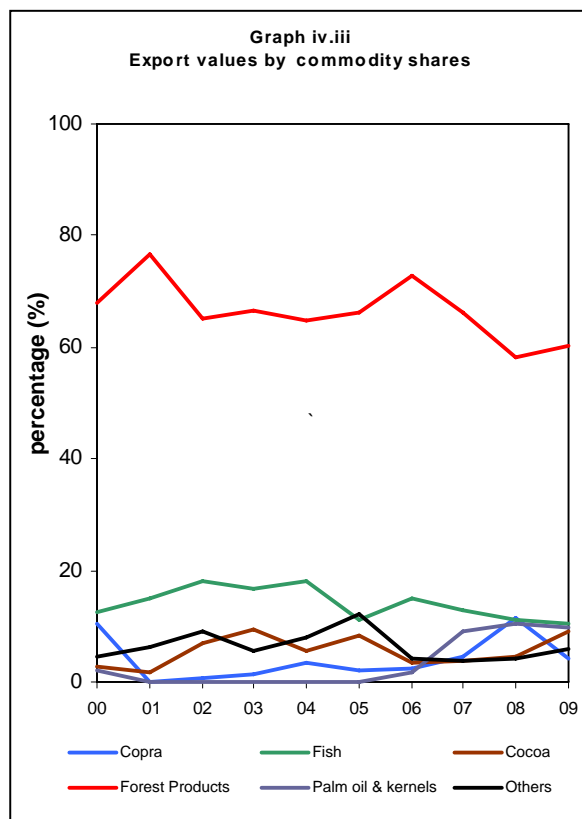
Source: Central Bank of Solomon Islands

Export earnings from **forest products (logs and timber)** fell by 16.9% to \$761.7 million during the year from \$905.5 million in 2008. Forest products accounted for 60.2% of the total export receipts, of which logs alone comprised of 56.1% (\$710 million) of total exports. Sawn timber receipts increased 4.1% to \$51.7 million. The decline in logs was caused by both low export volumes and prices as a result of weak external demand, in large part due to the poor performance of Asian housing markets. The major importer of Solomon Islands' logs continued to be the People's Republic of China, accounting for 87.9% of the logs exported, followed by Korea, Philippines, and Japan.



Given the continuous unsustainable harvesting of logs, and the decline in available and accessible stocks, it is predicted that log output will continue to decline across the medium term. Plantation logs are not

produced in sufficient volume to fill the gap left by the decline of natural forest logs.



Export earnings from **fish products** fell by 24.7% to \$132.6 million in 2009, owing to declines in both production and prices. International prices dropped by 29.3% to USD 1,189.4 per metric ton during the year. Loin tuna, mostly exported to Spain, accounted for 77.1% of these receipts, frozen tuna made up 15.5% and the remaining 7.4% was for other fish products including canned tuna. Total fish exports accounted for 10.5% of total export earnings, the second highest after logs.

Palm products export receipts, comprising mainly of palm oil and palm kernel oil, declined by 24.0% to \$124.8 million in 2009. The drop stemmed from unfavourable international prices for both palm oil and palm kernel oil, which dropped by 28.2% to USD 682.3 per metric ton and 38.1% to USD 699.7 per metric ton respectively. Export volumes

of palm products have continued to increase since the redevelopment of the industry in 2006. In 2009, export volume of palm oil increased by less than 10.0% to 23,800 tons and palm kernel by just less than 5.0% to 2,900 tons. The primary export destination of palm products is now the United Kingdom. Recovery in the international price and maximizing available capacity in 2010 is expected to boost total earnings from palm oil products.

Cocoa was the most promising export commodity of 2009, with receipts surging from \$69.1 million in 2008 to \$116.8 million. This positive outcome was due to export volumes increasing by 5.6% to 4,803.3 tons and favourable prices movements. International price increased by 12.1% to USD 2,890.7 per metric ton across the year. The main export markets for cocoa in 2009 were Indonesia, accounting for 44.3%, Malaysia with 32.3%, Singapore with 17.2 % and Germany with 6.2%.

Export earnings from **copra and coconut oil** fell in 2009 by 69.9% to \$53.4 million from \$177.4 million in 2008. The collapse of the global copra price, which fell 41.2% to USD 479.8 per metric ton, was the main factor behind this drop. The increasing senility of coconut plantations, and low prices resulted in a 45.0% drop in copra export volumes to 22,986tons. The major destination for Solomon Islands copra in 2009 was the Philippines.

Alluvial gold export receipts increased in 2009 by 44.1% to \$29.5 million from \$20.5 million in 2008, stemming from continued panning activities and rise in active gold dealers in 2009. **Other exports** comprising small export items such as kava, wild life and other marine products, increased by 18.1% to \$45.6 million in 2009. **Re-exports**, which include scrap metals however dropped from \$4.2 million to \$1.3 million.

Total import payments (c.i.f) declined by 15.0% to \$1,926.6 million in 2009. This outcome reflected the subdued economic activities in the country. Overall f.o.b payments were \$1,693.0 million in 2009, down 15.5% from \$2,004.6 million in 2008. The bulk of imports were key inputs to local production processes and therefore, future import levels are expected to grow and exacerbate the trade deficit. In 2009, 'Machinery and Transport equipment', 'Food and live animals', Mineral fuels, and basic manufactured goods were the four largest categories of import payments. Other imports such as Chemicals, 'Beverages & tobacco', and Crude Materials, each made up less than 10% of the total c.i.f payments.

'**Machinery and transport equipment**' which accounted for 28.3% of the total c.i.f payments slid by 1.6% to \$598.0 million during the year. The outcome reflected declining motor vehicle sales due to sluggish economic activity during the year. '**Food and live animals**' which accounted for 23.0% of the total c.i.f payments fell by 1.4% to \$486.2 million. This came as a result of easing prices and increasing competition particularly amongst rice importers for more competitive products in the market. **Mineral fuel**, which constituted 19.7% of total (c.i.f) payments, fell by 36% to \$417.6 million. Import payments for fuel declined during the second and fourth quarters of 2009. The slump in fuel import payments was due to declines in volumes and prices. Volumes fell as demand in the economy contracted, while, declines in Singapore fuel prices, was reflected in the Honiara retail fuel prices which on average fell 15.2% to SBD 7.95 per liter during the year.

Basic manufactured goods accounted for 14.2% of the total c.i.f payments and declined by 10.4% to \$301.0 million in 2009. **Chemicals** dropped by 54.4% to \$77.6 million reflecting the decline in major manufacturing in the economy. **Beverages & tobacco** however, rose by 11.4 % to \$31.3 million. **Crude Materials** increased more than two-fold to \$18.6 million.

Animal, vegetables and oil fats fell by 47.9% to \$7.1 million in tandem with the decline in manufacturing activities. **Other imports** declined by 9.2% to \$179.1 million in line with the general slowdown in the economy.

Services Account.

The **services account** deficit narrowed to \$212.9 million in 2009 from the revised \$440.5 million in 2008. The improvement came from increased receipts from transportation, and travel coupled with the declines in payments.

Table iv.ii Balance of Payments - Services Account				
(SBD million)				
	2007	2008	2009	
SERVICES -net	-289.1	-440.5	-212.9	
1. Transportation (net)	-139.7	-273.1	-169.5	
1.1 credit	132.2	54.6	119.0	
1.2 debts	-271.9	-327.6	-288.6	
2. Travel (net)	-12.9	22.6	99.5	
2.1 credit	209.2	286.4	354.9	
2.2 debts	-222.1	-263.7	-255.4	
3. Other Services (net)	-136.5	-190.1	-142.9	
3.1 credit	109.9	116.7	110.1	
3.2 debts	-246.4	-306.8	-252.9	

Source: Central Bank of Solomon Islands

Travel services recorded a surplus of \$99.5 million in 2009, treble the \$22.6 million surplus in the previous year. This was due to high inflows of \$354.9 million relative to outflows of \$255.4 million. This positive outcome was caused by an encouraging growth in visitor arrivals during 2009, combined with greater average lengths of stay and a rise in tourist spending. The deficit on **transportation services** narrowed from (revised) \$273.1 million in 2008 to \$169.5 million in 2009. This improvement came from increased receipts, which rose to \$119.0 million from \$54.6 million, whilst payments, especially on passenger's fares and freights, declined 11.9% to \$288.6 million. **Other Services** also

narrowed its deficit to \$142.9 million in 2009 from the revised \$190.1 million in 2008. This was due to a decrease in payments by 17.5% to \$252.9 million, whilst receipts moderately contracted, by 5.7%, to \$110.1 million. The decline in other service payments can be primarily attributed to other business services dropping 6.8% to \$117.5 million, and trade-related insurance payments falling by 15.5% to \$21.2 million. Other service receipts declined mainly due to telecommunications receipts decreasing to \$20.1 million from \$55.0 million, and government services n.i.e receipts dropping 20.0% to \$32.5 million.

Income Account

The **income account** posted a deficit of \$1,008.8 million in 2009, widening from the revised \$735.1 million deficit seen in 2008.

Table iv.iii Balance of Payments - Income Account				
(SBD million)				
	2007	2008	2009	
INCOME -net	-293.6	-735.1	-1008.8	
1. Compensation of employees	-13.5	-7.9	-17.8	
credit	14.5	11.9	17.7	
debit	-28.0	-19.8	-35.6	
2. Investment Income	-303.7	-800.1	-1033.0	
2.1 Direct investment	-298.0	-774.9	-990.0	
credit	15.9	27.3	20.4	
debit	-313.9	-802.2	-1010.4	
2.2 Portfolio investment	-	-	-	
credit	-	-	-	
debit	-	-	-	
2.3 Other investment	-5.7	-25.2	-43.1	
credit	55.2	45.9	23.8	
debit	-60.9	-71.1	-66.8	
3. Other Primary Income	23.6	72.9	42.1	
credit	23.6	72.9	42.1	
debt	-	-	-	

Source: Central Bank of Solomon Islands

This resulted from a 24.6% increase in income payments coupled with a 34.2% decrease in income receipts. The significant increase in income payments reflected the counter entry

of re-invested earnings in the financial account. Re-investment earnings accounted for 78.2% of the total income payments and rose by 35.7% to \$870.3 million in 2009. 'Compensation to employees' payments also increased during the year, rising to \$35.6 million from \$19.8 million. However, 'interest income' payments declined by 5.5% to \$64.4 million.

The decline in income receipts came mainly from other primary income receipts, notably fishing licenses which declined by 42.3% to \$42.1 million and accounted for 40.5% of the total income receipts. Interest income received also declined by 48.3% to \$23.7 million and dividend receipts declined 27.4% to \$13.1 million. The decline in interest income was due to lower interest returns from overseas investments as interest rates worldwide fell in response to the global downturn.

Current Transfers

The surplus in the current transfers account marginally rose by 0.8% to \$858.7 million in 2009 owing mainly to inflows rising slightly by 0.6% to \$957.6 million and outflows declining by 1.7% to \$98.9 million. The rise in the former was mainly due to 'other private sector' transfers, notably inflows from worker's remittances, other private transfers and churches that rose by 7.1% to \$255.6 million, as was technical assistance grants, by 12.3% to \$170.2 million. 'Aid in kind' and 'aid in cash' grants, however, declined by 5.0% to \$165.7 million and 5.4% to \$365.7 million respectively. Donor grants, comprising technical assistance, aid in cash and aid in kind made up 73.3% of total transfer inflows in 2009. The decline in outflows was due to government transfer payments reducing to \$3.1 million from \$12.4 million. Other sector payments, notably worker's remittances outflows, rose 8.6% to \$95.9 million in 2009.

Table iv.iv			
Balance of Payments - Current Transfers Account			
	(SBD million)		
	2007	2008	2009
CURRENT TRANSFERS-net	709.2	851.6	858.7
1. General Government	540.3	701.2	698.9
1.1 Cash	274.7	374.2	362.6
credit	278.6	386.6	365.7
debit	-3.8	-12.4	-3.1
1.2 Non-cash-net	265.6	326.9	336.4
2. Other Sectors	168.8	150.4	159.7
2.1 Workers remittances	-63.3	-86.9	-94.4
credit	1.4	1.4	1.5
debit	-64.6	-88.3	-95.9
2.2 Other transfers	232.1	237.3	254.1
credit	232.1	237.3	254.1
debit	-	-	-

Source: Central Bank of Solomon Islands

Capital and Financial Account

The capital and financial account recorded a surplus of \$1,372.8 million in 2009 compared to a revised surplus of \$771.6 million in 2008. This significant increase was due to surges in inflows in both capital and financial accounts, along with declines in outflows from these accounts.

The surplus in the capital account rose to \$218.2 million from the revised \$110.9 million in the previous year. The outcome came entirely from a surge in capital inflows, primarily donor funded 'aid in kind' capital projects from \$115.4 million to \$218.2 million. There was no capital outflow recorded in 2009 compared to \$4.5 million related to official capital project outflows in 2008.

The financial account registered a surplus of \$1,154.6 million in 2009, a marked increase from the revised \$660.7 million surplus in 2008. This owed to strong inflows during the year, especially foreign direct investment (FDI) in Solomon Islands which increased to \$947.8 million from the revised \$735.6 million.

Table iv.v
Balance of Payments - Capital Account

	(SBD million)		
	2007	2008	2009
CAPITAL - net	195.8	110.9	218.2
1. General Government	195.8	112.4	218.2
credit	195.8	113.9	218.2
debit	195.8	-1.5	-
Non-produced/non-financial assets	-	-1.5	-
acquisition	-	1.5	-
disposal	-	-3.0	-

Source: Central Bank of Solomon Islands

The substantial rise in FDI in the Solomon Islands mainly composed of reinvested earnings by foreign enterprises operating in the country. This represented an increase in investment in the country and could be an indicator of investor confidence. The rise in 'other investment liabilities' by 45.3% to \$119.4 million also contributed. This mainly comprised of the increase in the IMF Special Drawing Rights (SDR) allocations to Solomon Islands in the third quarter of 2009, and the sourcing of external loans by local companies.

Table iv.vi
Balance of Payments - Financial Account

	(SBD million)		
	2007	2008	2009
FINANCIAL - Net	416.4	660.7	1154.6
Assets			
Direct investment Abroad	-93.3	-29.1	-24.1
Other investments	-65.5	-127.9	111.4
Liabilities			
Direct investment in SI	493.0	735.6	947.8
Other investments	82.2	82.2	119.4

Source: Central Bank of Solomon Islands

Financial outflows declined during the year due to a decline in direct investment abroad, which fell 17.2% to \$24.1 million. This account comprises reinvested earnings, equity capital and other transactions by Solomon Islands' companies abroad. Other investment assets posted a net inflow of \$111.4 million in 2009 from a net outflow of \$127.9 million in the previous year, primarily due to currency and deposit transactions by financial institutions.

International Investment Position

The international investment position (IIP) is the country's balance sheet of the stock of external financial assets and liabilities. In 2009, the IIP recorded net liabilities of \$3,415.8 million, compared to (revised) net liabilities of \$2,750.1 million in 2008. The represented a rise in external liabilities by 22.5% to \$5,674.2 million, which more than offset the 20.0% rise in external assets to \$2,258.4 million. The increase in liabilities mainly resulted from 'direct investment liabilities' rising to \$3,339.7 million from \$2,391.8 million, and 'other investment liabilities' increasing by 4.2% to \$2,334.5 million. Meanwhile, the rise in external assets was due to 'direct investment assets' rising by 13.8% to \$197.8 million, and 'reserve assets' increasing to \$1,179.2 million from \$716.4 million in the previous year.

External Debt

The country's total stock of external debt at the end of 2009 slightly rose by 3.4% to \$2,913.1 million. The rise came as a result of the 7.0% increase in the revised private sector external debt stock to \$1,855.5 million, which more than offset the 2.4% reduction in Government external debt stock to \$1,057.6 million. Private sector debt repayments were estimated at \$120.7 million, while the government debt repayments totaled \$68.1 million. Meanwhile, government debt arrears saw a slight rise of 2.3% to \$25.7 million due to slight rescheduling of debt service payments and exchange rate movements during the year.

Table iv.vii
External Debt

(SBD million)

	2007	2008	2009
Private Sector	489.1	620.9	741.7
Government Sector	1128.6	1097.3	1057.6
of which arrears	79.2	25.1	25.7
Total	1617.8	1704.5	1799.3
Actual Debt Service by govt.	97.3	117.1	68.1
Principal	70.8	83.2	53.1
Interest	26.4	33.9	15.0

Source: Central Bank of Solomon Islands

External Reserves

Solomon Islands gross foreign reserves surged to a record high of \$1,179.2 million at the end of 2009 from (revised) \$716.4 million at the end of 2008.

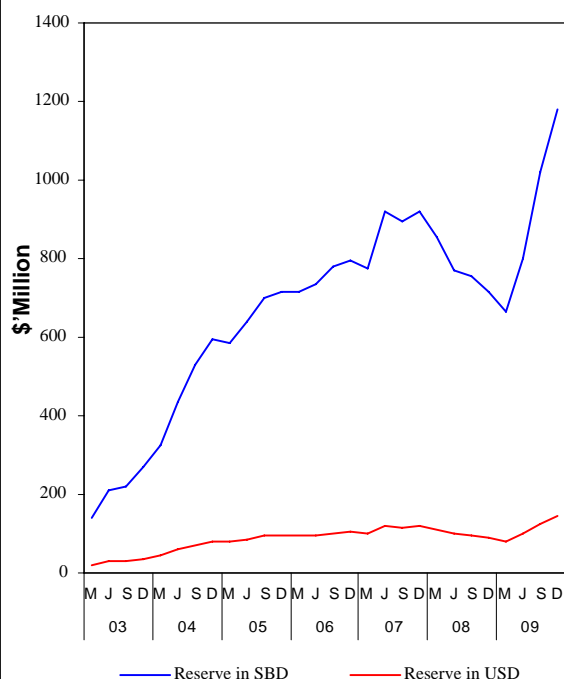
The considerable rise in reserves was due to the receipt of \$116.1 million in a special allocation of SDRs by the IMF, and consistent donor inflows throughout the year. Significant private sector loan inflows and foreign exchange revaluation gains also contributed to the large increase in reserves.

This healthy level of external reserves has generated a marked improvement in the level of import cover. At the end of 2009, the level of reserves was equivalent to 6.0 months of import cover of goods and non-factor services, compared to 2.5 months of import cover at the end of 2008.

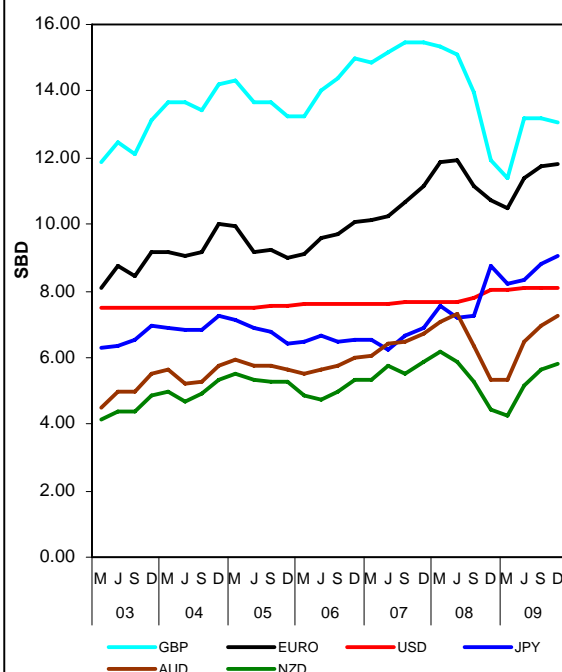
Exchange Rate

The Solomon Islands dollar (SBD) slightly depreciated against the US Dollar in 2009.

Graph iv.iv
External Reserves



Graph iv.v
Exchange Rates
(Units of SBD per Foreign Currency)



On average, the SBD depreciated by 4.0% against the US dollar while on a year on year basis, the SBD depreciated against the US dollar by 0.8% to \$8.06 per USD at end 2009 compared to \$8.00 per USD at end 2008.

The SBD however, appreciated against most of the major tradable currencies, during the year. On an annual average, the SBD appreciated against the British Pound by

12.2% to \$12.60 per pound, against the New Zealand dollar by 7.4% to \$5.12 per NZD, against the Australian dollar by 3.4% to \$6.37 per AUD, and against the EURO by 1.3% to \$11.23 per EURO. On the other hand, the SBD depreciated against the Japanese Yen by 15.2% to \$8.66 per 100 Yen during the year. The movements of the SBD during the year reflected the relative movement of the USD vis-à-vis the major tradable currencies.

V. MONEY AND BANKING

The monetary sector¹ saw a very subdued start to 2009. The need to bolster dwindling reserve levels and to curb the very high rates of inflation generated by the global commodity price 'super-cycle' of 2008, which threatened both rural incomes and long term economic growth, meant the Bank had to adopt a tight monetary stance. This combined with the downturn in economic activity at the start of the year, causing the growth rate of broad money to fall back as excess liquidity was squeezed.

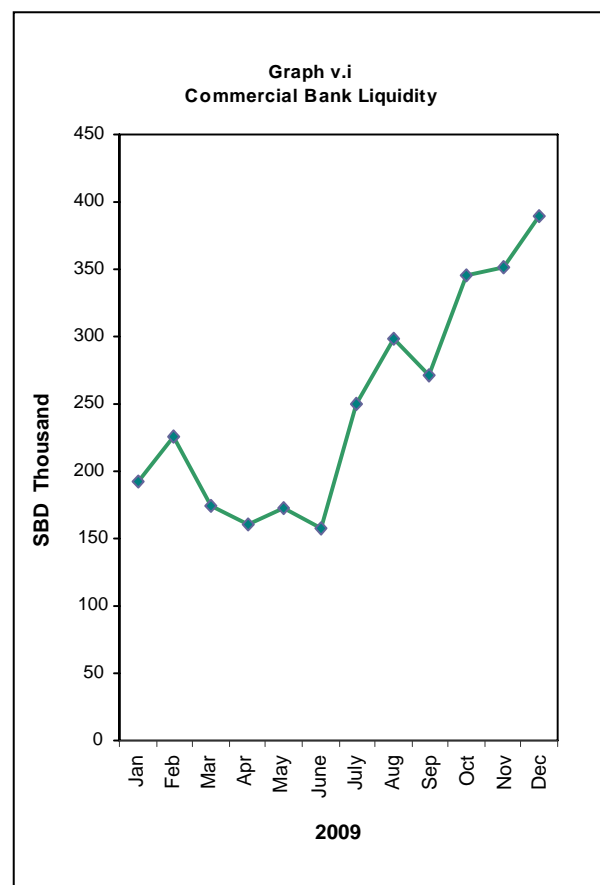
As the domestic and international economic situation changed the Bank loosened monetary policy, allowing large unsterilised foreign inflows. As a result broad money (M3) grew by 14.1% in 2009. Despite this loosening and the significant increase in liquidity in the market during the second half of the year, domestic credit contracted in 2009 with both credit to the private sector and net credit to government falling.

Liquidity

Liquidity in the markets fell by 18% in the first 6 months of the year. This decline occurred as the CBSI tightened monetary policy, through adjusting the definition of the liquid asset ratio (LAR) which acted as a *de facto* rise in this requirement, and through the issuance of securities.

In the second half of the year liquidity rose rapidly, increasing by 56%. This was mainly due to significant increases in inflows from abroad. Total net foreign assets (NFA) grew by 46.2% to \$1,234.8 million across 2009, reversing the 12.9% decline to \$844.6 million at end of 2008. These foreign inflows were left unsterilised by the Bank as it wished

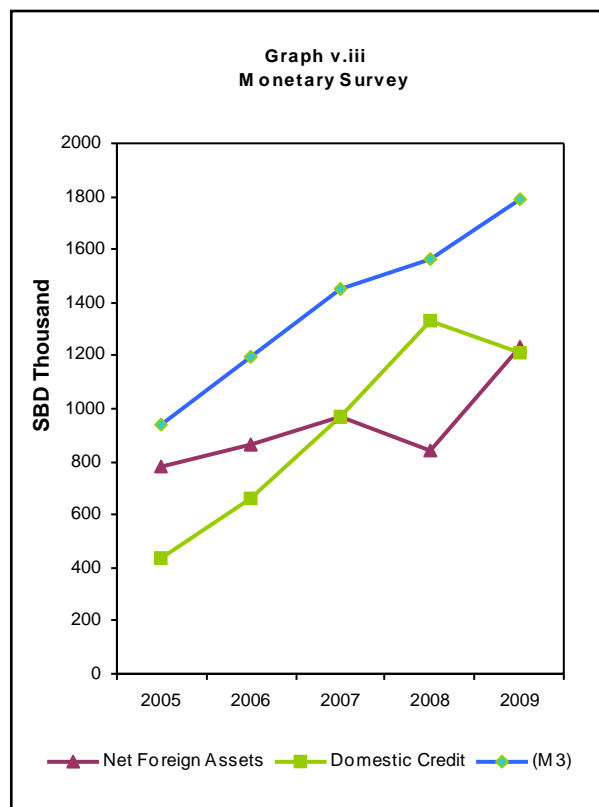
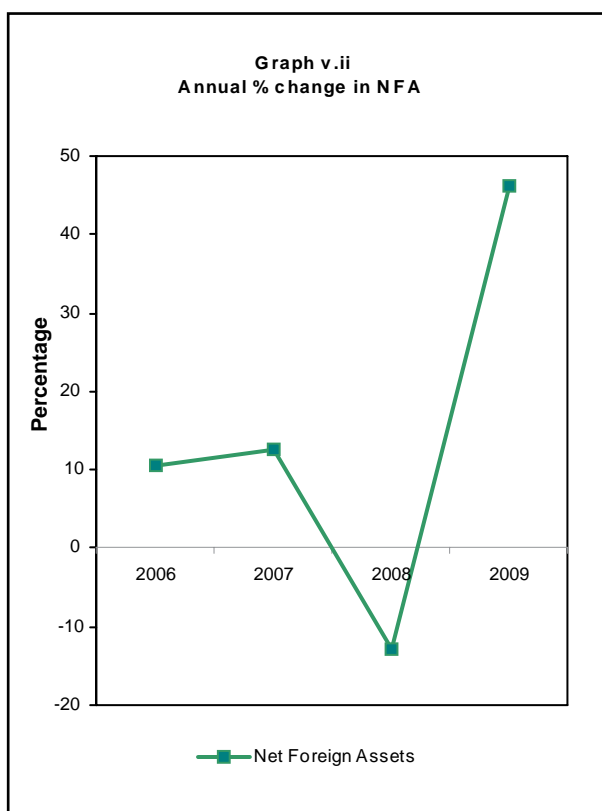
to loosen monetary policy and boost liquidity.



Falls in credit issued by the commercial banks, as risk aversion increased, also contributed to the rise in liquidity.

Over the year, liquidity increased by 134.7% to \$389.3 million compared to the 27.6% fall seen in 2008. This resulted in free liquidity reaching \$274.4 million in 2009 compared to \$67.8 million in 2008.

¹⁰ It is important to note that data discrepancies between the annual report and the monetary policy stance for March 2010 have been caused by a reclassification of data conducted by the Economics, Statistics and Research Department of the Bank. Analysis between these two sources remains consistent.



Narrow money

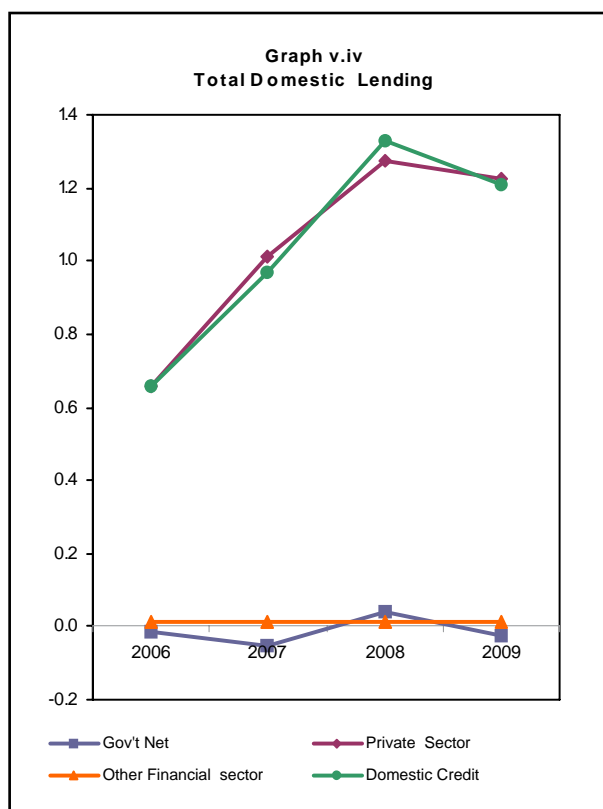
Narrow money (M1), which consists of currency in circulation and transferable deposits, saw a 17.0% fall in the first 6 months of the year before rallying in April, finishing the year 6% higher than in January, at 1,084.4 million in 2009. The increase in the latter part of the year was mainly generated by increases in the demand deposits of commercial banks, which rose 10.5% across 2009. This increase was generated by the lagged effect of the large increases in deposit rates across the first 9 months of the year. Currency in circulation also increased across the year, by 4.8%, to \$262.0 million.

Broad Money

Broad money (M3) saw sluggish rates of growth at the start of 2009, but recovered strongly in the second half of the year. Year on year, M3 grew by 14.1% to \$1787.6 million in 2009, continuing on from the 6.9% rise in the previous year. The increase in M3 was mainly driven by rapid rise in narrow money at the end of the year. This increase was boosted by rises in other deposits, which include savings and time deposits, which increased by 23.0% across the year, to \$703.2m. This increase owed mainly to a surge in time deposits of both the financial corporations and other residents, by 53% and 28% respectively, due to increases in available interest rates.

Domestic Credit

Total domestic credit declined by 8.7% to \$1211.3 million in 2009, ceasing the upward trend seen since 2005. Credit to both the private sector and net credit to Government fell across the year; with private sector credit falling by 4.1% to \$1223.9 million.

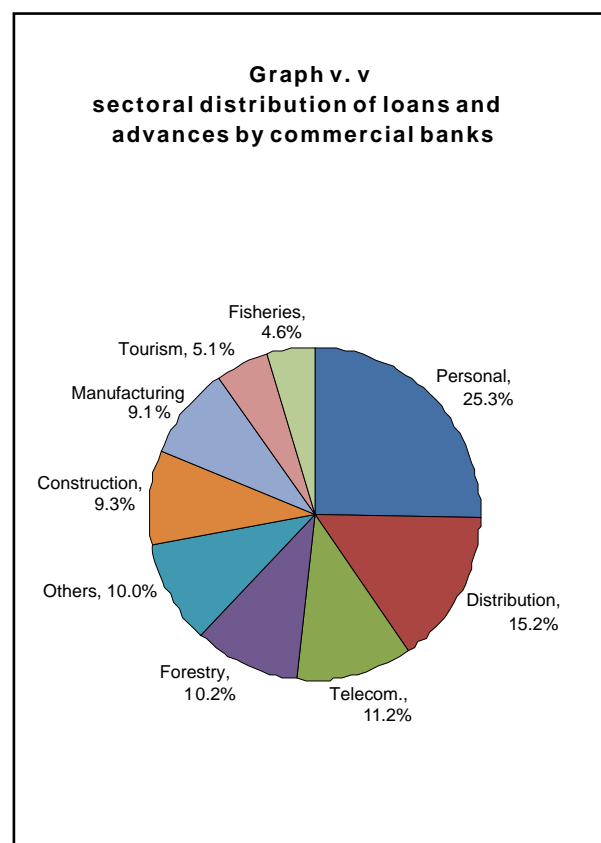


This fall in credit to the private sector was due to both demand and supply side weaknesses in the market, reflecting both the foreign and domestic economic problems. Increased risk aversion from the banks reduced the availability of credit in the market whilst poor economic performance from the real sector depressed demand.

The quantity of loans decreased to manufacturing, telecommunication, forestry and agriculture. Despite the decline in total

credit, personal loans saw an increase of 14.6% in 2009, to \$302.5 million, 67% of which went to the housing sector. Lending to both construction and fisheries also went up by 41.7% and 148.9% respectively. Commercial bank lending remains the main source of financing to the majority of businesses in the Solomon Islands.

Graph v.v illustrates the percentage share of the distribution of bank credit at the end of 2009. Personal loans accounted for 25.3%, of which housing loans accounted for 17%. Distribution accounted for 15.2%, Telecommunications 11.2%, Construction 9.3% and Manufacturing 9.1%.

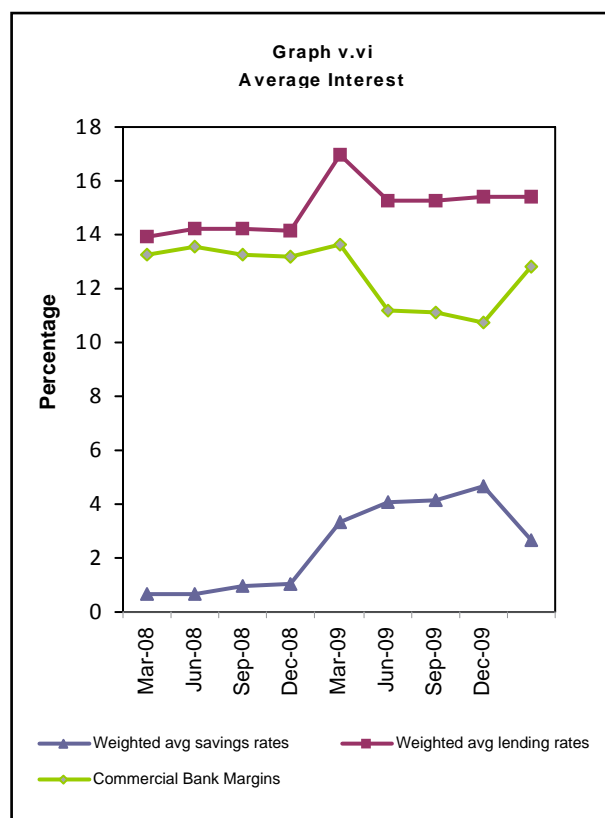


Interest rates

The commercial banks' indicative weighted average rate on deposits fell to 2.65% at the end of 2009, from 3.34% in 2008. During the

year, the average deposit rate peaked at 5.97% in September, before trending down in the final quarter. The indicative weighted average interest rate on lending rose constantly across the year. Year on year average lending rates, however, decreased by 152 basis point to 15.44% in 2009 from 16.96% in 2008. The weighted average interest rate on personal loans was 16.06%, whilst for other loans it was 15.09%, and overdrafts 15.55%.

The indicative commercial banks interest rate margin fell to 12.80% in 2009 from 13.62% in 2008 (See Graph v.vi).



VI. GOVERNMENT FINANCE

Preliminary data shows a surplus of \$3.8 million in the overall fiscal position for 2009, compared to the \$128.1 million deficit estimated in the initial budget. This reversed the \$152.8 million deficit recorded in 2008. The outcome in 2009 reflected the downward revision of the budget which saw revenue collections closely monitored and expenditure control policies applied. This outcome was also facilitated by increased tax compliance, particularly from businesses, which improved domestic revenue collection. Despite the improvement in revenue administration, pressure remained on government finances, especially for unbudgeted spending, due to cash flow problems. In 2009, the government introduced a 35% reservation on other charges, froze public service recruitment, and either postponed or scaled back implementation of domestically funded projects. The aim of the strategy was to spend only on key priority areas. As part of the strategy to deal with the adverse effects of the global economic crisis, the Government requested donors to bring forward implementation of funded projects and increase local content.

The Solomon Islands Government during the year maintained its commitment to the Honiara Club agreement since 2005 by not engaging in any new borrowing, as well as committed itself to normalizing its debt repayments. As a result, total government debt stock declined by 3.7% to \$1,442.6 million.

Revenue

Total revenue collected (including grants) in 2009 was \$1,704.8 million, 6.6% below the original budget estimates, but 8.3% above the collection in 2008. Of this total, \$1,488.9 million was revenue raised from domestic sources, whilst \$216 million was from overseas grants. Total domestic revenue represented 32.7% of GDP compared to 33.3% in 2008. Increased donors support, and increased tax compliance

combined with the early receipt of some revenue due in 2010 but collected in the final quarter of 2009, contributed to the year on year increase in collection. With the impact of the global economic crisis affecting government cash flows, starting in the first quarter of 2009, the Government revised its budget estimates in March, and again in September. These revisions were important to ensure that the delivery of front line services was not compromised during the difficult times faced by the country. Whilst the Government has made commendable improvement on its revenue collection, issues such as increasing level of exemptions, continued revenue leakages and uncollected revenues are areas yet to be addressed.

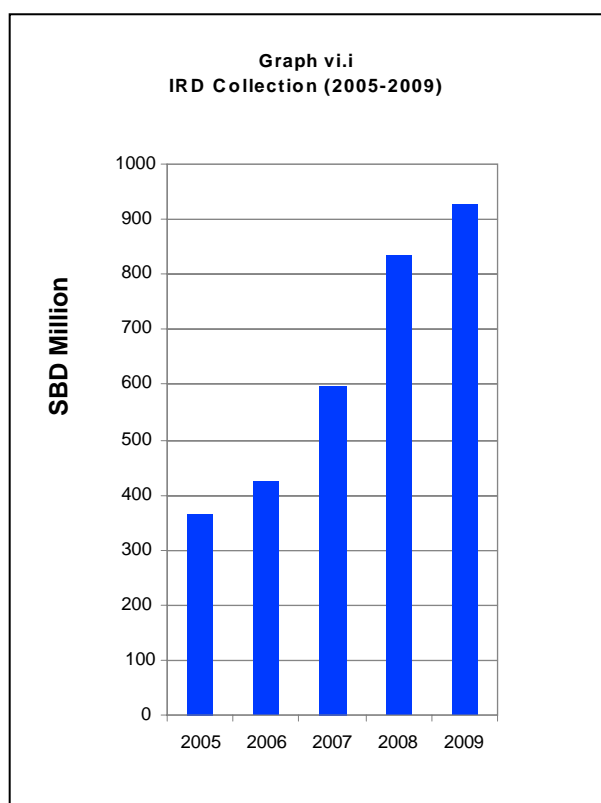
Table vi.i
Solomon Islands Government Operations
(SBD million)

	2008	2009
Total Revenue and Grants	1574.3	1704.8
Recurrent Revenue	1494.3	1603.2
Local Revenue	1370.0	1488.9
Inland Revenue Division	834.7	924.6
Customs	388.4	382.8
Non-tax (including airspace fees)	146.9	181.5
Budget Support	204.3	114.4
Unidentified Deposit		0.2
Development Revenue	71.4	118.3
Grants for Consolidated Funds	80.0	101.6
SIG Surplus (Development Financing)		
Total Expenditure	1727.1	1701.0
Recurrent Expenditure	1450.1	1426.6
Payroll	432.0	472.3
Other Charges	799.0	687.0
Debt Servicing	163.2	104.5
Budget Support	110.0	125.3
Increased Government Debt Arrears	-54.1	1.2
Suspense A/c		0.6
Imprest		3.0
		33.8
Development Expenditure	277.0	274.4
SIG-Funded Development Expenditure	220.3	182.6
Other	56.9	91.7
Recurrent Surplus (deficit)	-80.0	176.7
Overall Surplus (deficit)	-152.8	3.8

Source: Ministry of Finance and CBSI

Inland Revenue Division

Revenues collected by the Inland Revenue Division (IRD) during 2009 totaled \$924.6 million, 7.5% lower than original budget estimates, but 2.7% higher than the estimates in the revised budget. This represented a 10.8% rise on 2008 collection, and was the highest level achieved in the last five years.



Underlying this increase in collection was improved tax compliance by businesses, due to increased tax awareness programs undertaken, and institutional strengthening of the Division through capacity building. IRD continued to maintain its stance, adopted in 2004, against declaring tax holidays for businesses. Major sources of tax revenue in 2009 were from pay as you earn (PAYE), withholding tax, company and goods tax collections. Across 2009, PAYE collections increased by 20.2% to \$222.6 million, 4.3%

below the original budget, but up 3.4 % above the revised budget estimates. This occurred despite the government freeze on recruitment and poor performance of the private sector labour markets, and was mainly due to the cost of living adjustment (COLA) paid to public sector workers in October 2009.

Total withholding tax collection rose by 27% in 2009 to \$95.8 million, up 45% and 40.5% on the original budget and the revised budget respectively. This outcome was due to higher than expected dividends declared by some businesses, especially during the fourth quarter, the increased number of private businesses contracted by the government to provide services; and collection of about \$20 million of outstanding taxes related to previous years.

Company tax collection increased by 16.5% to \$221 million in 2009, owing to improved compliance and an increased number of businesses (both new and existing) entering the tax net. This collection was 16.9% above original budget estimates, but 5.0% below the revised budget as the final quarter performance fell below expectations.

Goods tax collection was expected to increase in 2009 with the installation of a new computer system in the Customs and Excise Division. Total collection was however 1.3% lower than in 2008, and 27% below the original budget estimates. This result was caused by two factors; firstly technical problems encountered with the new computer system, and second a fall in the general value of imports, especially for fuel and food. In the final quarter of 2009, however, collections slightly improved against the revised budget by 1.2% due to a joint operation between IRD and Customs officials to counteract illegal activities, such as false declarations for imported goods.

Sales tax revenue exceeded the 2008 collection by 5.4%, totaling \$38.9 million, due to improved compliance work and monitoring. Against the original budget, it was down by

11.5% reflecting falls in business activities by businesses to save costs due to the effects of the world economic crisis.

Revenue collected from vehicle and driving licenses exceeded 2008 collection by 14.7% to \$5.2 million reflecting the 25% increase in driver's and vehicle license fees. Collection however, was lower than the original budget by 5%, since there was expectation of higher collection from the increased rates. Against the revised budget the outcome surpassed the budget estimate by 8.3% due to increased compliance.

Customs and Excise Division

Revenue collected by the Customs and Excise Division (CED) in 2009 dropped by 1.5% to \$382.8 million. The decline was caused by falling international trades as a result of the global economic crisis. Total collection was lower than original estimate by 8.3%, but exceeded the revised budget estimates by 3.4%.

Log export duty revenue collection fell by 21.6% in 2009 to \$164.9 million, 9% below the original budget estimate. This followed a slow growth rate which started in 2007. The decline reflected both lower exports due to falling demand from overseas markets and a lower determined export price for logs in 2009. Collection however exceeded the revised budget by 6% as the log export level picked up in the final quarter. Revenues from logging accounted for 11% of local revenue in 2009 compared to 15% in 2008. A higher determined price for log exports has been set in the first quarter of 2010. If this new determined price is maintained or even improved, and overseas demand stabilizes, then revenue might slowly increase again. The low stock of natural logs remaining means that the contribution of log tax to government revenue is expected to decline in the years ahead.

Revenues collected from excise duties rose by 34.3% in 2009 to \$82.1 million. The imposition in June, of a new tax on premix alcoholic drinks

and increases in tax rates on tobacco and alcohol during the year, were the major drivers of this increase. As a result, collection exceeded the original budget estimates and the revised budget by 17% and 57.0% respectively. This increase came from volume increase in the production of alcohol and premix alcohol drinks in the final quarter of the year.

Revenue collection from import duties in 2009 was \$127.9 million, 15.6% higher than the previous year. The total collection reflected increase in the rates charged on imported tobacco, alcohol and vehicles. The increased tax rate on imported tobacco and alcohol was implemented to match the increased rates applied to locally manufactured products. Despite these increases, import duty collection was 19% below the original budget and the revised budget by 7.8% due to lower import volume and lower cost of imports, especially in the final quarter.

CED revenue collection during the year was undermined by increased level of exemptions. Total exemptions increased from \$24.8 million in 2008 to \$84.3 million in 2009. While the increase was below the peak level in 2007 (\$492.1 million), further increases will only constrain much needed revenues for the provision of government services. The majority of exemptions in 2009 were for statutory exemptions, accounting for 91.6% of the total, while remissions accounted for 8.4%. Exemptions given for aid projects related items accounted for 70.3% of the total exemptions. The total revenue forgone through exemptions was equivalent to 6.0% of the 2009 domestic revenue collection.

Non-tax government revenue

Total non-tax revenue collected in 2009 increased by 23.4% to \$181.5 million, following a 12.6% growth in 2008. This increase was due to the receipts from the sale of Home Finance Corporation, increased rates of charges, as well as a rise in the volume of license fees in the fisheries sector. The sale of Home Finance

Corporation to the Solomon Islands National Provident Fund in April raised \$13.8 million. License fees collected from overseas boats fishing in the SI economic exclusive zone (EEZ) rose from \$70.4 million in 2008 to \$90.9 million in 2009. This was due to an increase in the number of fishing boats in 2009 to more than 200, and prepayments of 2010 fees.

Other major sources of non-tax revenue were from the Forum Fisheries Agency (FFA) annual contribution of \$12 million under the multilateral fisheries agreement, and \$9.7 million from the Civil Aviation Special Fund. Land rental collection also increased during the year due to compliance. Implementation of the Land reform proposed by the government should boost the land rental collection in future. The under collection against budget, by 93% from premiums on land estates was a major constraint on collection during the year due to delays in transferring of estate titles to (potential) buyers and delays in registration of temporary occupied lands (TOL).

Overseas Grant

Total overseas grants received in 2009 were around \$216.0 million. These grants comprised of budgetary support and grant received through the government's consolidated account. There are however other grants managed and administered by various donor agencies for which data cannot be verified.

Budget support grants fell to \$114.4 million in 2009, from \$124.3 million in 2008. This support consisted of \$40 million from the New Zealand Government towards education, and \$74.3 million from the Australian government towards the health sector.

The Government also received a total of \$101.6 million from donors, through its consolidated account, up 46.1% from 2008. Of these funds, 64.4% (\$65.0 million) were directed at development in the rural areas, 0.5% was for the health sector, and 33.5% for the education

sector. Funding for the rural areas included \$51.8 million for the Rural Constituency Development Fund, \$10.8 million for rural electrification, and \$2.8 million for the Millennium Constituency Development Fund. Total non consolidated funding received during 2009 was around \$2,514.6 million, of which technical assistance accounted for 63.2%. Donor funding for 2010 development is expected to be around \$1.4 billion, 44.1% of which accounts for technical assistance.

Expenditure

Overall expenditure for 2009 fell by 1.5% to \$1,701.0 million, compared to increases in 2007 and 2008 by 40.5% and 44.5% respectively. Total government expenditure represented 37.4% of GDP. This outcome was 16.7% below the original budget, but 10.9% above the revised budget.

As with revenues, the Government revised its original budget and spending to ensure that cash flow was kept to a level that allowed for the continued delivery of frontline services and the implementation of key development projects.

Additionally, in April 2009, the Government took firm measures to control expenditures because of the deteriorating cash flow situation arising from subdued economic activities due to the global crisis; freezing public sector recruitment except for priority vacant positions within key ministries. The Government placed a 35% reservation on all non-payroll spending, except for debt servicing. In October the government was able to relax this reservation to 25% for most ministries, with the exception of the Ministries of Provincial Government, and Health & Medical Services, and the National Parliament for whom the reservation was removed.

The Government approved a supplementary appropriation bill in June that included expenditure on contingency warrants which amounted to \$21.5 million and supplementary

expenditure of \$58.1 million. The contingency warrants catered for unbudgeted and over spending on items incurred during the year. Of the supplementary expenditure, \$44.1 million was for recurrent expenditure and \$14.0 million for development expenditure.

Of the total spending, recurrent expenditure accounted for \$1,426.6 million and development expenditure \$274.4 million. Recurrent expenditure fell by 1.6% and development expenditure by 0.9% in 2009. The fall reflected government reprioritization of its spending amidst the cash flow crisis to maintain service delivery.

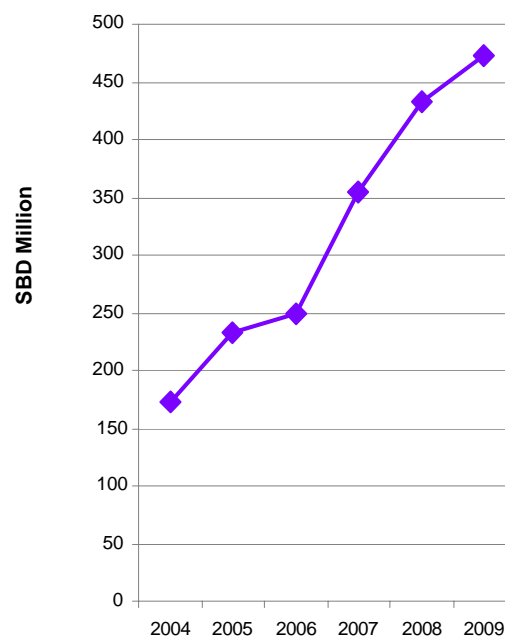
Payroll

Despite the freeze on recruitment last year, payroll spending rose by 9.3% to \$472.3 million. This was 15.9% above the original budget estimate, but 30.3% below the revised budget. This increase was caused by the increased employment of doctors, nurses, teachers and recruitment for priority positions within the ministries last year. The 4.5% cost of living adjustment (COLA) paid to public servants including teachers and police which were back dated to January 2009 also contributed.

As illustrated in the graph vi.ii, since 2006, spending on payroll has been escalating on average by around 21.8%. These increases have arisen mainly from public service pay rises, restructuring and upgrading of Members of Parliament (MPs) salaries, and increase in public sector recruitment.

Payroll expenditure in 2010 is expected to rise by 3%, in view of an across the board pay rise of 7.5% to public servants as of January 2010 and the continued recruitment of doctors, nurses and teachers. The 2010 budget, however, does not cater for the vacant established posts within the ministries, as the freeze on recruitment is expected to be maintained in 2010.

Graph vi.ii
Payroll Expenditure (2004-2009)

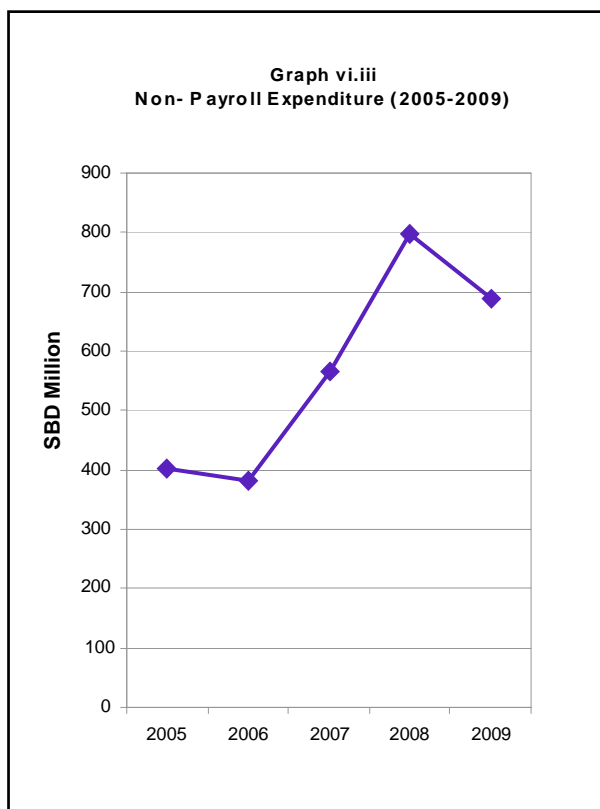


Non-Payroll Expenditure

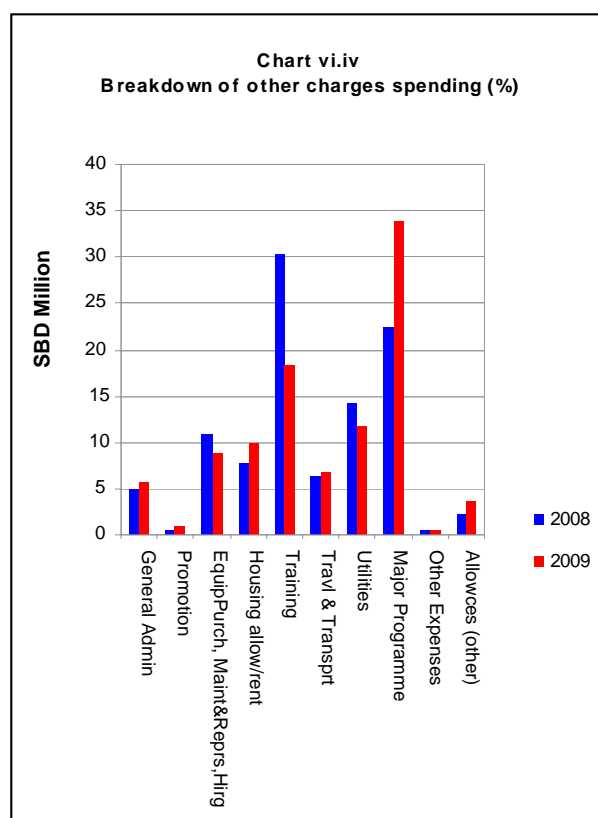
Non-payroll expenditure totaled \$687.0 million in 2009, 14.0% lower than the amount spent in 2008 and 9.1% below the budget allocation. As illustrated by the graph below, non-payroll expenditure has been on the upward trend up to 2008. The fall in 2009 was largely caused by the reservations implemented by the Government.

Major falls in non-payroll expenditure, compared to 2008, were reported by the Ministry of Education and Human Resources Development and the Ministry of Health and Medical Services. These departments reduced expenditure by 35.3% to \$142.9 million and 45.7% to \$76.3 million respectively. The Ministry of Home Affairs and Ministry of Communication and Civil Aviation also recorded declines in their spending on non-payroll items, by 78.0% and 74.1% to \$6.0

million and \$5.4 million respectively during the year.



Graph vi.iv illustrate that although there was a cut on non-payroll expenditure, the share of spending on major ministerial projects including disaster relief, provincial government debt restructuring, and micro-projects for MPs and rations for boarding school rose. House rentals also rose by 32.4% to \$63.5 million. Government reprioritized its spending patterns towards key programmes within the line ministries by cutting its spending on training by 18.3% to \$169.4 million and utilities by 2.2% to \$90.8 million last year. Purchasing of office equipment and repairs and maintenance of government properties were also slashed by 3.4% to \$65.0 million.



Development spending

Total development expenditure in 2009 fell by 0.9% to \$274.4 million, compared to a 67.0% growth in 2008. This was 26.1% less than the original budget, but 52% above the revised budget. Of the total development expenditure, \$182.6 million was funded by the Solomon Islands Government (SIG) and \$91.7 million was funded under donor partners' capital projects during the year. The decline in development spending meant that most Government projects were either scaled down or deferred to 2010.

Non-appropriated development expenditure for 2009 declined during the year by 26.8% to \$2514.6 million. Of the total, \$1574.0 million was spent on technical assistance (TA), and cash including operating costs and equipment accounted for \$940.6 million.

Of the total SIG funded development expenditure (\$182.6 million), the bulk (\$52.2 million) went towards the rural constituency livelihood (RCL), a 42.6% increase from 2008; and \$11.6 million was spent on the National Population and Housing Census. Funding for the rural rice projects and the replacement of navigational equipment dropped, by 63.0% and 37.8%, to \$6.8 million and \$6.2 million respectively. Strategic support for reforestation, in response to unsustainable logging practices, accounted for \$5.3 million. SIG contributed to fee free education and tsunami education rehabilitation, both accounting for around \$5.0 million. The remaining expenditure was spent on projects such as the rural road development, provincial water supply and sanitation, publishing of teaching materials, the domestic terminal, Auluta oil palm project, parliament house renovation and security, KGVI renovation and rehabilitation of provincial government offices and housing.

The Republic of China, Taiwan provided 93.2% of the total cash grants received from abroad, of which \$20.5 million was paid to the Millennium Constituency Development Fund; \$20.2 million for the Rural Constituency Development Funds (RCDF); \$16.6 million went towards the SIG Training Awards; and \$10.2 million for the Constituency Micro-projects. Of the other donor contributions; \$2.7m was provided by the European Union for the national population and housing census, and \$3.1 million was provided for rural electrification, of which \$2.0 million was funded by the Turkish Government and \$1.1 million by UNDP.

SIG Debt and Arrears

In 2009 the Solomon Islands Government continued to reduce its debts to both domestic and external creditors. The formal stock of government debt at the end of 2009 fell by 3.7% to \$1,442.6 million. This level of debt stock represents 31.7% of GDP, compared to 35.7%

of GDP in 2008. Of the total debt, \$1,057.6 million were external debts and \$366.2 million in domestic debt. External debt fell by 2.4% owing to debt repayment and movements in the exchange rate. Domestic debt also dropped; by 4.0% reflecting debt servicing, as well as the reduction of special securities from \$10.7 million to \$4.9 million.

Under the Honiara Club Agreement it is anticipated that there will be no borrowing to finance recurrent expenditure in 2010. The Government is expected to maintain a fully funded recurrent budget until the Government reaches a debt to GDP ratio of around 20%.

Total debt servicing for 2009 fell by 36.0% to \$104.5 million, 11.2% below the repayment schedule for the year. This represented 6.1% of SIG local collection (incl. grants) and 2.4% of total export of goods and services compared to 9.9% in 2008.

External debt servicing fell drastically by 41.9% to \$68.0 million in 2009, compared to a 15.4% increase in 2008. Major recipients of the repayment included EXIM bank (\$7.4 million), Kuwait (\$6.2 million), European Union \$3.4 million and \$2.1 million for the Organizational Petroleum Exporting Countries (OPEC).

Domestic debt servicing also fell during the year by 21.1% to \$36.5 million. Of this, \$21.6 million was paid for securities, of which the major ones were \$11.4 million for the restructured bonds, \$6.7 million for NPF amortized bonds and \$2.3 million for development bonds. On other debts, SIG advances to CBSI were reduced by \$6.0 million, and \$0.1 million to trade creditors.

Total external debt arrears at the end of 2009 rose by 2.3% to \$25.7 million, as opposed to a 68.3% fall in 2008. The moderate increase was due to exchange rate movements and a substantial drop in debt servicing in 2009. The large portion of these arrears was owed to the European Investment Bank (\$25.4million).

Accounting and Auditing

The Office of the Auditor-General made progress in 2009 in auditing of the SIG national accounts. The financial accounts for 2008 were audited by September 2009 and the audit opinion signed before the end of the year, meeting the required 12 months deadline for the first time in many years. The financial statements of all, except one, provincial governments for 2008 were audited and audit opinion issued. The financial accounts of most State-owned enterprises (SOEs) for 2008 or 2009 financial year were produced and audited. The Honiara City Council has now produced its 2008 financial report which is currently being audited. The Office continued to strengthen its capacity in terms of the workforce and control systems, as it works to achieve its five year corporate plan. A final copy of the National Audit Bill was sent to Cabinet for approval, after a draft was brought before parliament in 2008. The Auditor General's Office is working closely with the national Anti-Corruption Taskforce to produce a National Anti-corruption Policy in 2010.

2010 Budget Outlook

The Coalition for National Unity and Rural Advancement (CNURA) Government has drawn the 2010 budget based on the 2008 and 2009 outturn. Thus, the budget was created as a target for government to make allocations to key areas and to help the public to gauge government performance from the budget outcomes. The principal funding areas were identified as: reconciliation and rehabilitation, national security and foreign relations, infrastructure development, social services development, economic and productive sector development, and assistance for civic affairs. In 2010 the Government is expected to spend around \$1,997.0 million, of which the recurrent budget accounts for \$1,622.0 million and development budget \$375.0 million. In terms of financing, the recurrent budget is estimated to be financed by locally sourced revenue, of which Inland Revenue will account for \$1,018.9 million, Customs and Excise \$433.3 million and non- tax revenue from other ministries projected to collect \$211.9 million. Financing for the development budget is anticipated to come from both the SIG and Donor Partners. The Government has no intention to fund vacant established positions in the 2010 budget. This is to maintain payroll costs and allow additional funds available for non-payroll (other charges) operating costs. This may change given the results of the upcoming elections.

VII. FINANCIAL SYSTEM

The structure of the Solomon Islands financial system in 2009 comprised of three branches of foreign commercial banks, a branch of a foreign credit institution, a superannuation fund, a development bank (now under court administration) seventeen active credit unions, three insurance companies and six intermediaries, one licensed money transfer agency and eight currency exchange bureaus.

Commercial Banking

Despite the adverse effects of the global financial and economic crisis on the Solomon Islands economy in 2009, the commercial banks operating in the country were sound, profitable, liquid, and adequately capitalized. The consolidated net profit-after-tax (NPAT) was \$111.8 million, the same result as in 2008. Nonetheless, the result for the year was affected by growth in operational expenses and sluggish income flows. Consequently, the return on average assets (ROAA) fell from 10.4% in 2008 to 8.8% in 2009. Despite the fall, the 2009 ROAA remained well above the 7.5% average ROAA from 2004 to 2007. The return on average equity also fell: from 44.3% in 2008 to 36.1% in 2009, owing to a 4.3% decline in the consolidated capital and reserves of the banking system.

The consolidated capital of commercial banks amounted to \$303.1 million in 2009 compared to \$316.6 million in 2008. Despite the fall, the banks have adequate capital. The ratio of regulated capital-to-risk-weighted-assets stood at 22% at end-2009, well-above the 15% minimum requirement. In the same vein, Tier 1 capital-to-risk-weighted-assets were 15.6%, above the minimum requirement of 7.5%. The quality of the bank's assets as indicated by non-performing loans (NPL) came under pressure. In 2009 NPL, net-of-provisions-to-capital ratio, increased to 10.3% from 7.9% in 2008.

Table vii.i
Summary of Commercial Financial Statements
2007-2009

	(SBD'million)		
	2007	2008	2009
Income			
Net interest income	103.5	142.4	156.6
Non interest income	115.2	141.4	140.8
Expenses			
Operating expenses	90.0	97.3	111.6
Bad and doubtful debts	11.5	12.8	14.8
Profits			
Net operating profit before tax	117.2	173.6	170.9
Net profit after tax	75.7	111.8	111.8

Source: Central Bank of Solomon Islands

Liquidity in the banking sector was more than sufficient in 2009. The ratio of liquid assets to short-term liabilities increased from 27.8% in 2008 to 55.5% in 2009 while the ratio of liquid assets to total assets increased from 10.1% in 2008 to 20.5% in 2009 indicating that domestic banks have sufficient funds to meet their near-term obligations.

Although the banking sector is profitable, liquid, and has enough capital, risks remain. In particular, asset quality came under pressure with non-performing loans, expressed as a ratio of total gross loans, rising from 2.7% in 2007 to 3.8% in 2009 and NPL net-of-provisions to capital increasing from 7.9% in 2008 to 10.3% in 2009. The deterioration was driven in part by the unfavorable business conditions and land titling issues mainly in the agriculture and forestry sectors. Given persistent weaknesses in public finances and slow recovery in domestic economic conditions, the Central Bank will continue to closely monitor these conditions, and implement the new prudential guidelines, and further strengthen regulatory and supervisory oversight of domestic banks to enhance banking sector stability in 2010.

Table vii.ii
Solomon Islands: Financial Soundness Indicators
2007-2009

	(percentages)		
	2007	2008	2009
Capital Adequacy:			
Regulated capital to risk weighted assets	17.8	22.6	22.0
Tier 1 Capital to risk weighted assets	14.2	18.3	15.6
Non-performing loans net of provisions to capital	2.0	7.9	10.3
Asset Quality:			
Non-performing loans to total gross loans	0.8	2.7	3.8
Sectoral distributions of loans to total loans			
Personal	20.1	21.4	25.7
Distribution	14.8	15.1	15.2
Forestry	14.0	11.9	10.2
Telecommunication	12.4	13.5	10.1
Manufacturing	13.2	13.4	9.1
Construction	6.3	5.8	9.0
Tourism	4.6	5.0	5.1
Transport	4.7	5.0	5.0
Fishing	2.6	1.8	4.6
Professional Services	5.4	4.3	3.4
Others	1.9	2.8	2.5
Earnings and Profitability:			
Return on Average Assets	8.4	10.4	8.8
Return on Average Equity	41.1	44.3	36.1
Interest Margin to gross income	47.3	50.2	52.6
Non-interest expenses to gross income	46.4	38.8	42.5
Liquidity:			
Liquid assets to total assets (liquid asset ratio)	16.0	10.1	20.5
Liquid assets to short term liabilities	33.9	27.8	55.5
Source: Central Bank of Solomon Islands			

In terms of banking infrastructure, 2009 showed mixed results. On the positive side, bank branches and ATMs increased from 14 to 15 and from 20 to 22, respectively. On the downside, the number of bank agencies reduced from 10 to 9, EFTPOS from 139 to 127; and mobile bank vehicles from 4 to 2. These reduction in banking infrastructure, whilst may be due to commercial considerations, is a setback to financial inclusiveness for the unbanked in Solomon Islands.

Table vii.iii
Bank Branches and Electronic Banking Facilities
2007-2009

	(SBD'million)		
	2007	2008	2009
Bank Branches	14	14	15
Bank Agencies	10	10	9
ATMS	16	20	22
EFTPOS	136	139	127
Mobile Bank Vehicles	4	4	2
Source: Central Bank of Solomon Islands			

Licensing and Legislation

Upon the request of CBSI, the IMF provided technical assistance to review and draft amendments to the Insurance Act, [Cap 82]. Significant revisions were made to the current legislation with the draft Insurance Act incorporating the core insurance principles. The draft Insurance Act is now with CBSI for comments and will be submitted to the Ministry of Finance for consideration in 2010. Draft amendments to the Credit Union Act, [Cap 165] was not finalized in 2009 following the enactment of the new Companies bill, particularly on the solvency provisions, which will be required for incorporation into the Credit Union Act. The Registrars Office hopes to finalize the amendments in 2010.

The amendments to the Credit Union Regulations are yet to be gazetted. The Registrars Office hopes to see some progress in 2010 given the importance of the proposed amendments to enhance safety and soundness of credit union operations. One of the proposed changes to the current regulations is the lifting of the restriction on the interest rate on lending. Under the current legislation credit unions cannot cover their operational expenses because of the restriction on the lending rate. Allowing credit unions to determine their lending interest rates would assist them build capital and mitigate losses arising from NPL.

Prudential Guidelines

The prudential guidelines and the call reports were finalized and issued to commercial banks and credit institutions in August 2009. Prior to the effective implementation date of 1 January 2010, a 3-day consultation was held with the banks to explain the new guidelines and returns. The prudential guidelines issued are capital adequacy, asset quality, foreign currency open positions, large credit exposure, liquidity, external audit and prudential returns.

Credit Corporation (SI) Limited

The Credit Corporation (Solomon Islands) Limited (CCL) provides general business finance including chattel mortgage and investments.

CCL's after tax profits (unaudited) for 2009 was \$2.5 million, up from \$2.3 million in 2008. The increased profits was mainly due to controlled spending as the company's cost to income ratio fell to 45.5% from 53.4% in 2008. Return on average asset (ROAA) and return on average equity (ROAE) positions were about the same level as in 2008 at 9.0% and 19.2% respectively.

CCL's financial position contracted in 2009 with a total balance sheet of \$27.2 million compared with \$28.4 million in 2008. The fall stemmed from a decline in the lending portfolio of the company by 15% particularly from transport and construction sectors. In terms of capital, the company's total capital amounted to \$13.7 million representing 68.1% of risk weighted assets.

Credit Unions

As financial intermediaries, credit unions perform an important role in mobilizing financial resources between formal and informal sectors. Microfinance services provided by the credit unions allow members to save and participate in economic activities

by pooling together their contributions to meet their financial goals.

As at end December 2009, nine credit unions produced their December financial results with total membership of 4,010, an increase of 6% from the previous year. The results showed improved financial performances recording a net profit of \$1.5 million, an increase of 7% from the previous year.

Table vii.iv
Summary of Credit Unions Financial Statements
2007 - 2009
(SBD million)

	2007	2008	2009
Balance Sheet			
Total Assets	41.0	31.4	37.2
Loans and Advances	30.3	21.0	25.6
Members Share Capital	38.7	29.2	34.3
Income Statement			
Total Income	3.4	3.3	3.5
Total Expenses	1.8	1.9	2.0
Net Profit (Loss)	1.6	1.4	1.5
Statistics			
Number of Members	6719	3774	4010
Number of reporting Credit Unions	10	8	9
Self-sufficiency Ratio	189%	174%	175%

Source: Central Bank of Solomon Islands

The consolidated balance sheet for credit unions amounted to \$37.2 million, up by 18% from the previous year. The growth in the balance sheet reflected the increase in lending activities, which rose by 16% to \$25.6 million in 2009. Members Share Capital increased by 17% from \$29.2million in 2008 to \$34.3million in 2009 due to increases in share contributions by members and surpluses for the year.

The credit unions self-sufficiency ratio, an indicator of the ability of the credit unions to cover their operational expenses from the revenues generated indicated that credit unions are capable of covering 100% of their overhead costs and still have 75% as revenue surplus.

Table vii.v summarizes the financial position and results of the reporting credit unions.

As part of its supervisory role to strengthen the credit union movement in the country, the Registrars' Office conducted on-site examinations of the Royal Solomon Islands Police Credit Union Limited (RSIPCUL) and the Solomon Islands Public Employees Union Credit Union Limited (SIPEUCUL).

Solomon Islands credit union members celebrated and marked the "International Credit Unions Day" on 15th October 2009, along with other worldwide credit union members. The event enabled credit union members to reflect on their achievements, failures and, focus on alternatives for improvements. In addition, a half-day presentation session was arranged by the Registrars Office on the roles and functions of credit union members as shareholders of their credit unions. This was attended by the Solomon Islands Credit Union League (SICUL) and representatives from credit unions in Honiara. The event would be commemorated on an annual basis for credit unions in Solomon Islands. .

The SICUL as the umbrella body of the credit unions was unable to resolve challenges faced over the years and in 2009. Resources constraints and lack of support from member credit unions impeded SICUL from delivering the required services to credit unions. The CBSI and the Registrars' Office will continue to support the SICUL to ensure SICUL is financially capable and has the capacity to deliver the services to its member credit unions.

Solomon Islands National Provident Fund

The Solomon Island National Provident Fund (SINPF) is the only superannuation institution in Solomon Islands and a compulsory savings scheme for all employees. As at end December 2009, SINPF membership totaled 141,340, of

which 35,878 are active and 105,462 non-active members.

SINPF's financial performance contracted in 2009 as demonstrated by the fall in SINPF's operating profit from \$100.1 million in 2008 to \$33.1 million in 2009. The fall reflected the negative returns on offshore investments due to the depreciation in the value of foreign currency investments. Offshore investments performances were reported to have improved in the second half of 2009 with December results pointing to a welcome recovery. The interest payout credited to members' accounts in 2009 was 2.7% compared with 18% in 2007 and 2008.

Table vii.v
Summary of NPF's Financial Position
2007-2009

(SBD million)

	2007	2008	2009
Balance Sheets			
(Up to December 2009)			
TOTAL ASSETS	756.9	856.6	1050.0
Cash	51.6	35.9	24.5
Term Deposits	247.3	345.1	429.7
Bond Investments	138.5	142.7	127.1
Loans	31.6	26.0	23.9
Equity Shares	188.7	197.6	271.1
Fixed Assets	56.2	57.3	121.6
Others	16.4	19.5	52.1
Income Statements			
(Up to June 2009)			
NET PROFIT	117.3	100.1	33.1
Total Income	141.6	134.8	73.9
Operating Expenses	24.3	34.7	40.8

Source: Central Bank of Solomon Islands

SINPF expanded its investment portfolio in 2009 through equity investments in Home Finance Corporation and Heritage Park Hotel valued at \$38 million. As a result, SINPF's balance sheet reached \$1,050 million in December 2009. During the financial year, the Fund also received dividends from its domestic investments particularly from BSP PNG, Telekom and South Pacific Oil. The growth in

fixed assets at end-December was due to the revaluation of SINPF properties.

Insurance Sector

The Central Bank of Solomon Islands administers the Office of the Controller of Insurance and the Governor of CBSI is the Controller of Insurance. CBSI regulated and supervised the insurance industry under the Insurance Act [Cap 82] through offsite supervision on licensed insurers, brokers and corporate agents in 2009. The supervisory oversight ensures that insurance businesses operating in Solomon Islands are sound and at the same time, protect the interests of policyholders.

The market structure of the insurance industry remained unchanged with one life insurer, two general insurers, three brokers and three corporate agents.

The life insurance company continued to maintain its wantok' policyholders whilst the general insurance companies conducted general business including fire, house owners, workmen's compensation, contractors all risks, motor vehicles, marine hull, motor compulsory third party, marine cargo, general accident, public liability, personal accident and burglary. The licensed insurers underwriting risks in Solomon Islands continued to remain sound amidst the deepening global financial crisis in 2009. Overall, the industry is strong and maintains adequate net asset positions. All insurance companies comfortably met the statutory solvency requirement in 2009.

In terms of financial performance, the insurance sector made a profit of \$12.2 million in 2009 up from \$8.3 million in 2008. The outcome reflected the 20% growth in gross premiums to \$45.2 million largely driven by increases in premium rates as well as new business in some classes.

Table vii.vi
Summary of Insurance Companies Financial Statements
2007-2009

	\$million		
	2007	2008	2009
Income Statement			
Gross premium	38.2	37.7	45.2
Net claims paid	5.9	6.8	7.2
Operating expenses	5.7	6.4	4.7
Non underwriting income	1.2	(0.5)	3.1
Net surplus after tax	5.4	8.3	12.2
Balance Sheet			
Total assets	67.5	74.2	94.0
Total liabilities	41.5	35.4	45.0
Net assets	26.0	38.8	49.0

Source: Central Bank of Solomon Islands

The consolidated assets of the industry increased markedly by \$19.8 million in 2009 amounting to \$94 million with general insurers contributing 91% of the market share. The growth in total assets was driven particularly by increases in interest receivables from term deposits and increased investment portfolios.

Table vii.vii
Offshore Placement of Insurance Industry

Risk	2007		2008		2009	
(\$'000)	No.	Amt	No.	Amt	No.	Amt
Life	2	105	3	295	1	43
General	10	7128	21	4531	14	35482
Others	13	10651	6	11286	6	10100
Total	25	17884	30	16112	21	45625

Source: Central Bank of Solomon Islands

Similarly the consolidated liabilities of the industry registered a notable pick up in 2009 following a decline in the previous year, an

increase of 27.1% to \$45.0 million, attributed to increased underwriting provisions for the year.

Due to the size of the local insurance market and underwriting limitations to absorb certain risks, certain classes of risks have been approved and exempted under Section 11 of

the Insurance Act [Cap 82] to be placed with insurers overseas. The total funds transferred overseas in 2009 amounted to \$45.6 million from \$16.1 million in 2008. Of the total funds transferred in 2009, premiums paid for life business accounted for 0.1%, general business accounted for 77.8% and funds paid for others was 22.1%.

VIII. CENTRAL BANK OPERATIONS

Finance and Accounts

The audited financial accounts for 2009 showed different net operating results under the two sets of reporting requirements. Under the International Financial Reporting Standards (IFRS), the Bank made a profit of \$40.9 million. Under the Central Bank of Solomon Islands Act, the Bank made a loss of \$45.7 million.

As explained in previous CBSI annual reports, the difference in the two net operating profit or loss statements is the treatment of unrealized gains or losses on foreign currency movements. Under the IFRS the unrealized currency gains are recognized as income earned during the year. However in terms of Section 45(1) of the CBSI Act (CAP 49), the unrealized gains in foreign currency revaluation are treated as foreign asset revaluation reserves. Until the CBSI Act is amended, the \$86.6 million profit realized under the IFRS accounting treatment cannot be appropriated. Under the CBSI Act, no profit will be appropriated to the shareholder because of the loss made.

Total revenue for the year therefore under IFRS was \$114.9 million compared to negative \$30.9 million in 2008. In terms of CBSI Act revenue recognition provision, total revenue was 28.3 million down from \$50.3 million as for 2008.

The global financial and economic meltdown severely impacted on the financial outcome of the Central Bank in 2009, especially the interest income the Bank earned from its investment of reserves. Total interest income earned in 2009 from overseas investment was \$14.2 million, down from \$39.5 million in 2008.

As at the end of the financial year, the unrealized gain in foreign exchange revaluation was \$86.7 million reversing the loss of \$81.2 million made in 2008.

Earnings from domestic investments slightly improved to \$4.5 million from \$3.1 million in 2008. Fees and commissions received increased to \$6.3 million from \$5.6 million in 2008. Other income also increased to \$1.9 million from \$1.2 million in 2008.

Total operational expenses in 2009 were \$74.0 million, up from \$44.7 million in 2008. More than half of the increase came from other operating expenses of \$51.3 million from \$18.0 million in 2008. Of the \$51.3 million in other operating expenses, \$46.2 million represents the cost of production on printing and minting of currency notes and coins incurred in 2009 and 2008. In previous years the production cost of printing and minting of notes and coins were amortized over a period of time, however a change in accounting treatment under IFRS requires the costs to be expensed during the year when orders are received. Administration expenses accounted for 28% of the total operational expenses. The realignment of Staff terms and conditions of service during the year constituted a larger share of administration expenses.

The net loss incurred under the CBSI Act income recognition provision of \$45.7 million reduced the General Reserves from \$89.1 million in 2008 to \$43.3 million in 2009.

In terms of CBSI statement of Assets and Liabilities, total assets increased from \$956.8 million in 2008 to \$1,396 million in 2009. The increase largely reflected the significant boost in foreign assets which rose by 65% to \$1,170.2 million. Domestic assets fell by 8.5% to \$226.2 million.

Liabilities of the Bank also increased from \$688.6 million from previous year to \$1,080.8 million in 2009. Domestic liabilities, specifically demand deposit, currency in circulation and fixed deposits accounted for most of the increases.

Net Asset position of the Bank therefore stood at \$315.5 million up from \$268.2 million as at the end of 2008.

Total capital and Reserves increased during the year, reflecting the increases of \$47.7 million in net assets to \$315.5 million from \$268.2 million at end of 2008. The increase reflected \$86.7 million gain in foreign exchange revaluation, \$6.5 million in property revaluation which was offset by the loss of \$45.7 million made during the year.

The Cash Flow Statement recorded that there was net cash inflow of \$338.2 million on operating activities compared to a net cash outflow of \$112.4 million in 2008. There was also a net cash outflow of \$376.3 million in 2009 on investment activities compared to a net cash inflow of \$124 million in 2008. In the financing activities there was a net cash inflow of \$38 million compared to a net cash outflow of \$11.3 million in 2008.

The full set of audited financial accounts for the Bank is presented after this section of the report.

Information Technology

The Information Technology Unit (ITU) provided both technical and user support for other departments on the Bank's Computer Network System through its operational and developmental activities during the year.

New desktops and laptops were purchased to replace aging machines. A mandatory upgrade and maintenance was done on the Bank's SWIFT System to meet set requirements of the software and ensure compatibility with other SWIFT partners' applications. Also started in the year was the SWIFT Alliance Bronze Connectivity (ADSL Broadband Connectivity) as part of the upgrade. This upgrade will be completed in the early part of 2010.

The Bank launched its upgraded and redesigned website to improve the physical outlook of the site and its user-interface and enhance its internal design structure to cope with future changes on the website.

The Bank installed upgraded software applications such as the financial software (Sun System), reporting tool application software (Query and Analysis 10), and the additional modules for Bank accounts reconciliation as well as Advance Inquiry. It has been trialing the upgraded payroll application MicrOpay Meridian, to replace its old MicroPay version.

Currency Operations

Currency in circulation (CIC) rose by 17% to \$326.5 million at the end of December 2009. Of the total, banknotes accounted for \$315.7 million while coins accounted for \$10.8 million. The increase could partly be explained by the increasing need for currency notes or the increasing number of ATMs in the country.

In terms of the share of each note denomination in circulation, the \$100 denomination accounted for 73% of total notes in circulation followed by the \$50 denomination at 16%. Coins in circulation grew by 6% to \$10.8 million reflected by the high demand for \$1.00 denomination accounting for 38% of the new coin issues.

During 2009 new notes received from the note printer totalled \$614.5 million. Of this, \$100 notes represented 78.1% of the order, \$20 notes 11.4%, \$10 notes 6.5%, \$5 notes 3.7% and \$2 notes accounted for 0.3% of the total value of the order. About \$4.2 million worth of new \$1, 50 cents and 20 cents coins were also received in 2009.

The total value of old notes destroyed in 2009 was \$35.75 million; compared to \$39.18 million destroyed in 2008. In terms of volume, the \$2 notes made up 31% of notes destroyed compared to 1% for the \$100 denomination.

The cumulative value of destroyed notes totaled \$313.9 million from \$278.2 million in 2008.

Counterfeiting activities continued to threaten the integrity of the current Solomon Islands banknotes. Counterfeiting techniques have improved in terms of print and to some extent texture. The Bank had withdrawn from circulation a total of 94 pieces of counterfeited notes since 1994. In 2009, 39 pieces were confiscated and withdrawn from circulation. Of the 39 pieces, 11 were counterfeits of the \$100 banknote and 28 pieces were \$50 counterfeits. To warn the public of the potential risks of counterfeit notes, the Bank continued to raise awareness about the dangers of circulating counterfeit notes, via the radio and print media and encouraged the general public to habitually check currency notes. With the increased cost of printing notes and minting of coins, the awareness and education talks also emphasised the need to keep money in proper money bags or wallets to avoid exposing monies to harsh conditions that drastically reduces the life span of notes in circulation.

Numismatic business rebounded in 2009 as the Coin Collectors market turnaround with increased sales of new and exciting commemorative coin programs. The increase in sales was also the result of expansion of business operations of one of the Bank's major distributors of commemorative coins in Europe. Consequently, total royalties received from overseas sales of commemorative coins increased to \$0.33m from \$0.27m in 2008. Contracts for new commemorative coin programs entered into in 2009 included; the FIFA World Cup Finals in South Africa in 2010, the Olympics Games in London in 2012, the new 7 Wonders of the World and the three Archangels. Local sales of coin programs were relatively weak with only a few collectors active in the market.

Securities Market

Activities in the auction treasury bills market was satisfactory, despite the drop in stock to \$7 million in June 2009 as investors moved to higher interest bank deposits. The operational cap on the total auction treasury bills was maintained at \$30 million throughout the year. In the first half of the year, public and insurance companies holdings of the stock was almost 80% compared to commercial banks and other non banking financial institutions. As at end-year, 75% of the total auction treasury bills were held by one of the commercial banks. In terms of maturities profile, the stock was clustered in the 91-day, 56-day and 28-day terms.

The Bank sold its own Bokolo bills and Bokolo deposits to mop up the excess liquidity in the banking system during the year. The volume targeted was \$10 million for Bokolo Bills and offered investors options to invest in 6, 9 and 12 months maturities. For the Bokolo Deposit facility, the total floated was \$20 million and offered longer term investment windows for 1, 1.5 and 2 years maturities. Interest rates on these investment facilities ranged from 0.5% to 3.5% and 5% for 6 months to 2 years respectively. The exception is for 9 months Bokolo Bills with the interest rate at 3.75%.

Debt Management

Work on updating domestic debt instruments on the CS-DRMS domestic debt module hosted in the Bank, commenced in 2009. In addition, data input on the Securities Auction System (SAS) begun in 2009, which once completed, would assist in streamlining the securities auction process. However, updating of multicurrency loans on the CS-DRMS external debt database could not be progressed further due to lack of disbursement data. Nevertheless, new procedures are being investigated which would ensure that private external debt repayments are captured for reporting purposes.

The Debt Unit continued to liaise with the Debt Management Office in the Ministry of Finance on matters concerning the recording and administration of the Government's debt database. In terms of capacity building, two debt officers attended a Commonwealth Secretariat funded training workshop in Tonga in May 2009. The objectives of the trainings were to enhance knowledge and skills of the officers relating to the external debt module in the CS-DRMS and the CS-SAS. Another officer attended the Asian Regional Debt Management Summit jointly organised by ADB and Bank Negara in Malaysia in November 2009.

Exchange Control Operations

The Central Bank is mandated under the Exchange Control Act (1977) to administer and control foreign exchange transactions on behalf of the Government. The primary reason for exchange controls is to protect the country's foreign reserves, and to ensure that the country benefits from the proceeds of all goods and services exported. The Bank is required to monitor both inflows and outflows of foreign exchange and to ensure that all export proceeds are received by the country within a reasonable time.

In fulfilling this requirement, the Bank has appointed the commercial banks as authorized dealers in foreign exchange. This allowed the authorized dealers to deal in foreign exchange and facilitate trade receipts and payments.

In 2009, no change was made to Exchange Control policies. The current exchange control requirements include; the commercial banks are allowed to assess and approve non-trade and trade payments up to \$30,000 and \$50,000 respectively. All overseas payments above the required limits and all capital payments are assessed and approved by the Central Bank. Exporting of round logs requires a Specific Authority (SA) issued by the Central Bank. The authority is issued only upon issuance of a

market price certificate by the Commissioner of Forest. Every shipment of round logs must get the Specific Authority from the Central Bank before the shipment is cleared by Customs. All export proceeds must be remitted back to Solomon Islands within 90 days, except for those that have been given prior approval to hold 20% of their export proceeds in foreign currency accounts.

In 2009, the total number of applications for overseas payments received and approved by the Bank fell by 1.2% to 6,093, valued at \$2.4 billion. For round log exports, 597 applications were approved, totaling 1.4 million cubic meters and worth \$821.1 million, a 12.5% decrease in volume compared to the previous year. The Bank approved four new applications for foreign currency accounts bringing the total approved foreign currency accounts holders to 13. These accounts are denominated in US dollars and NZ dollars. During the year the Bank approved 2 foreign currency borrowings valued at \$102.76 million. In 2009 the Bank also approved another money changer at the Honiara International Airport and six in hotels bringing the total licensed money changers to eight.

Management of Exchange Rates

There was no change in the exchange rate policy in 2009 and that the Bank maintained exchange rate stability against the USD. Due to the effects of the global financial crisis, the Bank monitored closely the high volatility of currency movements and intervened where necessary. On annualized basis, the SBD depreciated against the USD, AUD, GBP, EUR, SDR, SGD and NZD by 0.6%, 30.0%, 11.6%, 2.0%, 3.0%, 1.8% and 25.5% respectively, however, it appreciated against the Yen by 1.8%. The Bank continued to monitor the limits and margins with the commercial banks on the USD and AUD only. In addition, close monitoring was done on the commercial banks lists of trading currencies and exchange rates.

Management of Foreign Reserves

The Bank continued to manage the country's foreign reserves under the policy guidelines approved by the Board under three broad objectives as follows:

- 1) To ensure and maintain the adequacy of foreign reserves to meet the trading needs of the economy;
- 2) To control and manage the liquidity portfolio to meet current account vulnerabilities; and
- 3) Subject to safety, to generate reasonable earnings from the funds invested in the international financial markets.

In 2009, the first two objectives took prominence given the adverse effects of the global economic crisis on the economy. However towards the third quarter of the year, the global financial crisis subsided to some extent, with the reserve level picking up. By year end, gross foreign reserves stood at \$1,170.2 million equivalent to 6 months of import cover. Solomon Islands received two tranches of IMF SDR allocation totaling \$116 million in September 2009. These allocations were paid out by IMF to all member countries to mitigate the effects of the global economic crisis. This contributed to the increase in gross foreign reserves level to the \$1 billion mark for the first time.

A net accumulated revaluation gain on foreign reserves of \$86.7 million was realized in 2009 due to exchange rate movements. This is compared to a revaluation loss of \$81.2 million incurred in 2008. The currency compositions of the international reserves are USD, AUD, GBP, EUR, SGD, SDR, JPY and NZD.

Total interest income earned from investment of the foreign reserves decreased to \$14.2 million in 2009, contributing to 76% of the Bank's total income. The reduction is attributed to low interest rates in the financial markets as a result of the financial crisis in 2008.

In line with prudential objectives of the Bank, the Board has established a list of authorized banks and financial institutions as depositories for the investment of the foreign reserves. These are usually central banks and AA+ rated banks and other financial institutions. The Reserve Management Policy sets out reserve management strategies and risk management framework that guides the management and investment of the foreign reserves.

The Chief Manager International department is guided by an in-house Investment Advisory Committee, and ensures that the foreign reserves are managed within the approved policy parameters. The Committee meets quarterly to review progress on the investment activities and where required new guidelines are set for the department to follow. A quarterly report is also submitted to the Board either for information or policy change if required.

The Middle Office (MO) continued to ensure that the risk management framework is in place and operational investments activities are monitored regularly to comply with the reserve management policy guidelines and internationally accepted best practice. The Back Office continued its roles and responsibilities for international payment settlements, ensuring that movements of reserves are settled promptly, reconciled and accounted for in the accounts of the Bank.

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). In 2009 the Unit was manned by a manager, a compliance officer and a financial analyst.

The SIFIU continued to perform its task as mandated by the Anti-Money Laundering

Commission. During the year the Unit together with the Director of Public Prosecutions successfully applied to the High Court for Orders to restrain assets of a suspected fraud and money laundering case. The Unit received 65 suspicious transaction reports from the banks and referred two other cases to the Royal Solomon Islands Force (RSIPF) which has led to serious investigations. On the compliance supervision side, the Unit conducted an anti-money laundering/counter financing of terrorism (AML/CFT) supervision on one commercial bank during the year.

In terms of budgetary support the Unit continued to be supported by the Government of Solomon Islands (GoSI) (\$311,647) and the Government of Australia (GoA) (\$354,529) to fund its operational cost of \$628,361 for the year. The two governments have renewed their agreement to co-fund the SIFIU for 2009 and 2010 operational budgets.

In terms of the AML/CFT legislative framework, the SIFIU together with the AMLC has seen the successful enactments of the Counter Terrorism Act (2009) and Currency Declaration Act (2009) by Parliament. Further reforms and legislative amendments to the AML/CFT regime legal framework in the country are in progress and should be finalized before the current house ends in mid 2010.

The Unit assisted as a lead agency in the preparation of the World Bank Detail Assessment onsite visit in December 2009. A team of legal, law enforcement and financial experts assessed Solomon Islands compliance to AML/CFT international standards. The final report on this assessment will be discussed at the Asia Pacific Group on Money Laundering Annual meeting in Singapore in July 2010.

Research

2009 was a busy year for the research unit, with major work done across a wide range of

fields. One major success across the year was the improvements in data quality and economic monitoring. The Monetary and Financial Statistics project, undertaken with help of IMF technical assistance, has greatly improved the quality of the monetary data available to the Bank. The Bank has used this improved data to construct a liquidity monitoring and forecasting framework, which will be vital for policy making in the future.

The improvements in data quality have also allowed for a greater range of forecasting to be undertaken on other monetary aggregates. Balance of payments data also saw improvements across the year with estimates and forecasting models put in place. In early 2010 this work should be advanced further with the assistance of PFTAC, which will enable further monitoring and evaluation of the external accounts. Improvements were also made to real sector data in 2009, with extension made on coverage, quality and analysis. Coverage was improved by extending the scope of data collection to include production of honey, kava, coffee and vanilla. Whilst the value added of these industries is not as yet high, they represent potential growth areas for the future and important sources of income to rural communities in Solomon Islands. Seasonally de-trending a range of series and introducing underlying inflation measures have been two important advances for our analysis and forecasting of the real sector of the economy in 2009.

Besides working on improving the data the research unit has been responsible for coordinating and assisting technical assistance and other external missions for the Bank and liaising with a range of organizations. The unit has implemented a range of in-house training in 2009, the most successful of which was the introduction to econometrics course. The research unit also continued to work on large projects throughout 2009, and the most notable ones were the revision to the Bank's monetary policy framework and the Bank's financial competency program.

Financial Literacy Initiatives

The Central Bank marked its Money Smart Day event by promoting financial literacy and awareness in the Western Provincial capital, Gizo, on the 22nd June 2009. The one-day public education program was conducted with the objective that participants acquire knowledge on the wise use of money to improve their welfare as well as promote awareness on the fundamental principles of personal financial planning and management for better financial decision making.

A seminar workshop on Personal Financial Management was conducted targeting women, students and the general public of the Western Province. In addition, an open forum on the Global Financial Economic Crisis and State of Solomon Islands Economy was arranged. This was broadcasted live on the Western Province Radio Station in Gizo, Lagoon Radio.

The commercial banks, Solomon Islands National Provident Fund (SINPF) and Solomon Island Credit Union League (SICUL) also participated in the program to reach out to the rural population, informing them of their institutions and, the services and products they offered.

During the year, CBSI Staff facilitators conducted three presentation sessions on Personal and Financial Management to SINPF officers.

Properties

The Bank in early 2009, due to the global financial climate, decided to postpone or halt some of its major building projects. This included the new Governor's residence, f new staff houses, re-configuration of the top floor of the main CBSI Office and developing the CBSI Aruligo recreational site.

The Bank continued to liaise with Kramer Ausenco (SI) Ltd on finalizing the concept

plans for the Governor's official residence at Vavaya Ridge and the residential houses at Riffle Range.

The Riffle Range housing project commenced in December 2009 with the clearing and construction of an access road to the building site and is expected to be completed in March 2010. This will be followed by the construction of eight (8) executive houses to be completed by July 2010.

A revaluation of all of the Bank's properties was undertaken at the end of 2009. This is in accordance with the Board approved accounting policy (within application of the International Financial Reporting Standard), that the Bank's land and buildings are to be valued every three (3) years.

Security

In 2009, the CBSI Security Unit received significant assistance, support and strengthening from Chubb New Zealand.

As a result of a serious case of theft in the Currency and Banking Unit, Chubb New Zealand during their onsite visit focused on training staff in the use of the electronic security cameras and the DVR recording technology to monitor cash handling operations in the department. Based on Chubb's assessment and recommendation an additional security officer was recruited. This has enhanced the general security of the Bank and especially monitoring of cash handling within the Currency and Banking Unit.

Human Resources

At year end, CBSI's total establishment was ninety-four (94) with additional eleven (11) ancillary employees. Of the total establishment, twelve (12) positions remained vacant as a result of staff resignation, promotion and positions not filled since the Board approved restructure in March 2009. The total number staff at year end comprised two (2) Governors,

five (5) contracted senior managers, seventy five (75) permanent staff and 11 ancillary employees. Of the total, more than half are males, and the rest females. During the year, two contracted senior managers and one officer resigned, with two other employees granted early retirement. To fill the two contracted positions, the Manager, Information Technology was appointed to act in the position of Chief Manager, Finance & Information Technology (CM/FIT) while the Manager, Economics, Statistics and Research, was promoted to the position of Chief Manager effective 1st January 2010. A total of six (6) new employees were recruited during the year.

As the result of the Board's engagement of a consultant to review the Bank's Staff performance appraisal and reward system, a revised salary structure was implemented early in the year. Following this, all staff job descriptions were reviewed and updated. The organisational structure was also reviewed with new changes to department names and management titles. Each department is headed by a Chief Manager assisted by a Manager, with the exception of the Human Resource & Corporate Services Department which has two Managers following the consultant's recommendation to create the Manager Human Resources position and keep the current Manager Corporate Services position. In addition to this and following the consultant's recommendation, a revised Staff Hand Book was completed and approved by the Board. It comprises a new Staff Disciplinary Policy, revised Staff Instructions, Terms and Conditions of Service, Security Policy, and Staff, Housing and Personal Loan Policy along with revised Housing, Telephone and Vehicle guidelines.

Three employees completed their studies with four (4) members still overseas (2 in Fiji and 2 in Australia) to complete their studies. Three of those on study leave are completing postgraduate programs in economics, accounting and information technology and

one is pursuing undergraduate studies in management and banking. The Bank continued to support staff development by encouraging employees to take part in the staff weekly in-house seminars, and by sponsoring employees to take up part-time studies at SICHE and at USP Solomon Islands Centre. The Bank also supported employees attend various short courses overseas including those offered by the IMF-Singapore Training Institute.

Board Secretariat

The Board met six times in 2009 with all Board meetings in Honiara.

Of the two new Directors appointed in 2008, Sir Thomas Chan resigned in August 2009. This left three (3) vacancies on the Board. The Minister of Finance appointed two new Directors, Mr. Antonio Lee and Mr. Katalulu Maepioh for a period of three (3) years effective December 2009. The Minister also reappointed Dr. Steve Aumanu for a further period of two (2) years.

The Board approved/endorsed the following major decisions in 2009, the Organizational Restructure, (following the approval of the new salary scale in December 2008), the 2008 Audited Financial Statement, the 2008 Annual Report, the 2009 Monetary Policy Stance, the revised Staff Hand Book, Communications Policy and Strategy, revised Prudential Guidelines, the CBSI Business Plan for 2010 and the Budget for 2010.

Relations with International Organizations

The Bank continue to value and foster its relationship and networking with its international partners and organizations.

During the year the Bank received technical assistance from the IMF on monetary and financial statistics, liquidity management and forecasting, monetary policy framework.

Several officers attended the IMF-Singapore Training Institute on financial programming and macroeconomic courses.

The IMF Regional Office, the Pacific Financial Technical Assistance Centre (PFTAC) provided technical support to the Bank in the areas of banking supervision and statistics.

The Australian Prudential Authority (APRA) provided technical assistance and funding under its APRA-Pacific Governance Support Program for training and attachments opportunities on on-site examinations techniques for banks, superannuation institutions, insurance companies, savings and loans societies, and credit unions.

The Commonwealth Secretariat provided funding and technical support in the operation and maintenance of the CS-DRMS system.

The Governor attended the annual meetings of the International Monetary Fund and the World Bank Group, the annual meetings of the Asian Development Bank, Coombs working committee meeting on Financial Literacy, Pacific Islands Forum Finance Economic Ministers meeting in Raratonga, and Pacifica Microfinance Week in Nadi.

CBSI for the first time hosted the South Pacific Central Bank Governor's Conference attended by the central bank governors from the region. The Governor and Deputy Governor met the Chancellor, Pro Chancellor and members of the University of Papua New Guinea Council who were in Honiara to open the UPNG Open College Centre.

Relationship with Local Organizations

CBSI assisted local organizations by making donations to various fundraising appeals including the National Disaster Appeal, Pacific Disaster Appeal, sporting bodies, church groups, Blind association, Women's groups like the Pink Ribbon and International women's breakfast.

CBSI also participated in the inter Bank sports competition with ANZ, BSP, and Westpac and came out as the overall winner.

In terms of keeping in touch with the families of the CBSI employees, the annual Easter picnic was organized by the Staff Association and held at the Aruligo recreational site.

Solomon Islands Office
of the Auditor-General



INDEPENDENT AUDITOR'S REPORT

To the Board of the Central Bank of the Solomon Islands

I have audited the accompanying Annual Statement of Accounts ("the Accounts") of the Central Bank of Solomon Islands ("the Bank") which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of transfers to the Government of the Solomon Islands, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' Responsibility for the Financial Statements

The members of the Board are responsible for the preparation and fair presentation of these Accounts in accordance with International Financial Reporting Standards, and with the requirements of the Central Bank of Solomon Islands Act (Cap. 49), and for such internal control as management determines is necessary to enable the preparation of the Accounts that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

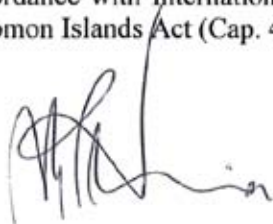
My responsibility is to express an opinion on these Accounts based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Accounts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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Accounts. The procedures selected depend on my judgment, including the assessment of the risks of material misstatement of the Accounts, whether due to fraud or error. In making those risk assessments, I consider internal control relevant to the Bank's preparation and fair presentation of the Accounts 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Accounts.

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

Opinion

In my opinion, the Accounts present fairly, in all material respects, the financial position of the Bank as at December 31, 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the provisions of the Central Bank of Solomon Islands Act (Cap. 49).



Edward Ronia
Auditor-General

11 May 2010

Office of the Auditor-General
Solomon Islands

CENTRAL BANK OF SOLOMON ISLANDS

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CENTRAL BANK OF SOLOMON ISLANDS

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2009**

	Notes	2009 (SBD 000's)	2008 (SBD 000's)
Operating revenue			
Interest income	19(a)	18,660	42,614
Fees and commissions	19(b)	6,331	5,620
Royalties		358	272
Other income	20(c)	1,872	1,170
Net Gain on Foreign Currency Exchange		1,047	649
Net unrealized foreign exchange revaluation gain (loss)		86,673	(81,207)
Total revenue		114,941	(30,882)
Operating expenses			
Interest expense	19(d)	1,936	2,131
Fees and commissions	19(e)	78	39
Administrative expenses	19(f)	20,737	24,432
Other operating expenses	19(g)	51,263	18,095
Total expense		74,014	44,697
Net operating profit/(loss)		40,927	(75,579)
NET PROFIT DISTRIBUTION ACCORDING TO CBSI ACT			
Net operating profit/(loss) in terms of IFRS		50,433	(75,579)
Add (IFRS required items not included in CBSI Law):			
Net unrealized loss/(gain) on foreign exchange Revaluation		(86,673)	81,207
Net operating profit/(loss) according to CBSI Act		(45,746)	5,628
Net Profit(loss) Transferred General Reserve according to section 20(1) of CBSI Act (CAP 49)		(45,746)	2,814
Transfer to Other Reserve in terms of Section 20(2) of the CBSI Act (CAP 49)		-	1,407
Due to Solomon Islands Government Section 20(2) of the CBSI Act (CAP 49)		-	1,407

This statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 65 to 87

CENTRAL BANK OF SOLOMON ISLANDS


STATEMENT OF TRANSFER TO GOVERNMENT OF SOLOMON ISLANDS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 (SBD 000's)	2008 (SBD 000's)
Appropriation of profit in terms of Section 20(2) of the CBSI Act (CAP 40)		-	1,407
Total transfer to Solomon Islands Government		-	1,407

The statement of transfer to Government Solomon Islands is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 65 to 87

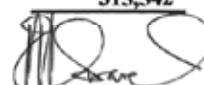
**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009**

ASSETS	Notes	2009 (SBD 000's)	2008 (SBD 000's)
Foreign Currency Assets			
Money at call	4	298,748	96,283
Accrued Interest		1,854	4,965
Term Deposits	4	752,670	608,152
Holding of Special Drawing Rights	5	116,927	117
		<u>1,170,199</u>	<u>709,517</u>
Local Currency Assets			
Cash on Hand		381	422
Loans and Advances	7	126,746	165,360
Property, Plant and Equipment	8	68,309	63,451
Other Assets	9	30,738	18,051
		<u>226,174</u>	<u>247,284</u>
Total Assets		<u>1,396,373</u>	<u>956,801</u>
LIABILITIES			
Foreign Currency Liabilities			
Demand Deposits	10	3,220	12,759
IMF Special Drawing Rights Allocations	5	125,105	8,116
Capital Subscriptions	5	917	6,342
		<u>129,242</u>	<u>27,217</u>
Local Currency Liabilities			
Demand Deposits	11	457,231	281,761
Currency in Circulation	12	326,445	279,861
SIG Monetary Operations Account	13	29,418	21,572
Fixed Deposits	14	125,199	65,015
Provision for transfer to SIG Consolidated Fund		-	1,407
Other Liabilities	15	13,296	11,814
		<u>951,589</u>	<u>661,430</u>
Total Liabilities		<u>1,080,831</u>	<u>688,646</u>
NET ASSETS		<u>315,542</u>	<u>268,155</u>
EQUITY			
Capital and Reserves			
Authorized Capital		50,000	50,000
Paid up Capital		20,000	20,000
General Reserve	16	43,314	89,060
Foreign Exchange Revaluation Reserve	17(a)	146,620	59,947
Premises and Equipment Assets Revaluation Reserve	17(c)	51,428	44,968
Capital Asset Reserve	18	54,180	54,180
TOTAL CAPITAL AND RESERVES		<u>315,542</u>	<u>268,155</u>



Denton. H. Rarawa
Governor

Signed in Honiara on 11th May 2010.



Edward Manedika
Chief Manager (Ag)
Finance and Information Technology

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2009

	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)	
2008						
Balance at the beginning of financial year	20,009	86,246	141,154	44,968	52,773	345,141
Revaluation of Bank Premises	-	-	-	-	-	-
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 (losses) for the year in terms of CAP(49) section 45(1) of CBSI Act	-	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	-	-	(18,207)	-	-	(81,207)
At 31 December 2008	20,000	89,060	59,947	44,968	54,180	268,155
2009						
Balance at beginning of the financial year	20,000	89,060	59,947	44,968	54,180	268,155
Revaluation of Bank Premises	-	-	-	6,460	-	6,460
Transfer of net operating profit/loss in terms of Section 20(1) and 20(2) of CBSI Act CAP(49)	-	(45,746)	-	-	-	(5,424)
Transfer of Foreign Exchange Revaluation Gains (loses) for the year in terms of CAP(49) Section 45(1) of CBSI Act	-	-	86,673	-	-	86,673
At 31st December 2009	20,000	43,314	146,620	51,428	54,180	315,542

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 65 to 87

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 (SBD 000's)	2008 (SBD 000's)
Cash flows from operating activities			
Interest received		18,660	37,649
Cash received from other income		9,566	7,610
Interest paid		(1,535)	(2,131)
Cash payments in the course of operations		(79,768)	(40,550)
Net cash provided by (used in) operating activities before movements in operating assets and liabilities		(53,077)	2,578
Cash received on placement of deposits		235,654	(101,555)
Cash received on IMF Allocation of SDR		116,989	200
(Increase)/Decrease in government finance provided		38,614	(13,631)
Net cash provided by (used in) operating activities	6	338,180	(112,409)
Cash flows from investment activities			
Payments for Premises, Plant & Equipment		(2,730)	(8,433)
Proceeds from sale of Premises, Plant and Equipment		458	151
(Increase)/Decrease in foreign investments		(374,009)	132,283
Net cash provided by (used in) in investment activities		(376,281)	124,001
Cash flows from financing activities			
Net movement in issue of circulating currency		46,585	16,922
Net movement in foreign currency loan		(14,964)	(17,503)
Solomon Islands Government Monetary Operations		7,846	(5,988)
Dividend paid		(1,407)	(4,739)
Net cash provided by (used in) financing activities		38,060	(11,308)
Net increase (decrease) in cash held		(41)	284
Cash at the beginning of the financial year		422	138
Cash at the end of financial year		381	422

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 65 to 87

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**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 somewhat outdated. Accordingly, as from the 2006 financial year, pending any update of the Central Bank Act, the Board has decided to publish a profit and loss statement with the annual accounts, which shows net profit determined in terms of IFRS (formerly IAS). A reconciliation statement then adjusts this net income figure to accord with CBSI Act 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.

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 CBSI 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 with the exception of Solomon Islands notes and coins. Up until 2008, the production costs of Solomon Islands notes and coins are initially capitalized under Other Local Currency Assets and later expensed when issued into circulation. As from 2009, the production cost of Solomon Islands notes and coins will be treated as an expense under Other Operating Expenses, as per note 3 (h).

This has been possible with the accounts full compliance to IFRS since 2006. The CBSI does not hold foreign currency denominated securities, and there is no defined market for domestic Government securities.

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

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

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009**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, and profit on foreign exchange dealing with commercial banks and sundry income.

Income presentation

As Discussed in Note 1, the Legal Framework, the Profit and Loss Statement continue to include income calculated on the basis of IFRS until such time the CBSI Law is amended. As an 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 2009, there was a net revaluation surplus of \$86.673 million (2008 a deficit of \$81.207 million).

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

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; such 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

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	-	4 - 55 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 three year periodical revaluation of its land and buildings was due and done in late 2009. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. The basis of this valuation is the open market value, that is, the highest and best value the property would expect to realize if put for sale on private treaty. The Board proposes to have such assets revaluation every three years. The next revaluation will be done in 2012.

(h) Notes and coins

The printing and minting production cost of Solomon Islands notes and coins, plus all other related costs are expensed.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

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 Solomon Islands National Provident Fund (Fund). The CBSI had contributed to the Fund on behalf of its staff at the rate of 7.5% per cent of salaries and other staff entitlements/ incomes. This amounts to \$492,730.14 in this financial year. CBSI staff in respect of income received, also contributed \$377,972.62 to the Fund at the range of 5 to 7.5%. The legal minimum employee's contribution rate is 5%.

(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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009**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 Islands dollars.
- (b) The Solomon Islands subscription to the IMF has been met by:
- (i) payment to the IMF out of Central Bank external assets which have been reimbursed by the Government of the Solomon Islands by issue of non-interest bearing securities;
 - (ii) the funding of accounts in favor of the IMF in the books of the Central Bank by the Government of the Solomon Islands
- (c) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 (\$0.889m) and IMF No.2 (\$0.027m) 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/ (USED) BY OPERATING ACTIVITIES

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

	2009 (SBD 000's)	2008 (SBD 000's)
Operating profit/(loss)	(45,746)	5,627
<i>Non cash items:</i>		
Depreciation	3,916	2,591
Currency & Coin minting production expenses	-	-
<i>Net (increase)/decrease in:</i>	-	-
Interest receivables	-	4,965
Other receivables	25,885	(27,697)
Accrued expenses	354,125	(97,895)
Net Cash from (used in) operating activities	338,180	(112,409)

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

7. LOANS AND ADVANCES

	2009 (SBD 000's)	2008 (\$BD 000's)
a) Loans and Advances to Solomon Islands Government		
Loans and Advances	15,544	17,830
Less Allowance for Doubtful Debts	-	-
Development Bonds	27	27
Treasury Bills	50	917
Other Securities	4,940	10,364
Amortising Bonds	103,475	109,077
Total Loans and Advances to Solomon Islands Government	124,036	138,215
b) Staff Loans		
	2009 (SBD 000's)	2008 (\$BD 000's)
Staff Housing loans	1,606	1,267
Less Allowance for Doubtful Debts	-	-
Management Car Loans	210	246
Personal Loans	894	732
Total Staff Loans	2,710	2,245
c) Commercial Banks		
Advances to ANZ	-	24,900
	-	24,900
Total Loans and Advances to the Solomon Islands Government CBSI Staff and Commercial Banks	126,746	165,360

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

8. PROPERTY, PLANT AND EQUIPMENT

	Land & Building (SBD 000's)	Equipment & Furniture (SBD 000's)	Computer (SBD 000's)	Work in Progress (SBD 000's)	Total (SBD 000's)
At 31st December 2008					
Cost	53,810	15,801	2,662	399	72,673
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)
Revaluation surplus	-	-	-	-	-
Closing net book amount	51,517	10,634	901	399	63,451
At 31st December 2009					
Cost	54,208	16,784	3,102	550	74,644
Revaluation	6,460	-	-	-	6,460
Accumulated depreciation	(3,539)	(7,173)	(2,083)	-	(12,795)
Net book amount	57,129	9,611	1,019	550	68,309
Year ended December 2009					
Opening net book amount	51,517	10,634	901	399	63,451
Additions	307	1,674	470	279	2,730
Disposals	-	(398)	(18)	-	(416)
Internal transfers	128	-	-	(128)	-
Depreciation charge	(1,283)	(2,299)	(334)	-	(3,916)
Revaluation Surplus	6,460	-	-	-	6,460
Closing net book amount	57,129	9,611	1,019	550	68,309

Apart from Equipment & Furniture, Computer and Work in Process, the Bank's land and buildings' written down value in 2009 reflects the impact of revaluation at 31st December 2009. Similar valuation on Land & Buildings will occur again in 2012 in compliance with IAS 16. The periodical (3 year period) valuation of Land & Buildings was approved by the Board of Directors on the 7th of September 2006.

	2009 (SBD 000's)	2008 (SBD 000's)
Cost	54,208	2,304
Revaluation	6,460	51,506
Accumulated depreciation	(3,539)	(2,294)
Net	57,129	51,517

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

9	OTHER LOCAL CURRENCY ASSETS	2009 (SBD 000's)	2008 (SBD 000's)
	Sundry Debtors & Other Cheques Held	30,897	9,875
	Solomon Islands Notes and Coins	40,322	9,507
	Advances and Repayments	1,329	157
	Less Allowance for Doubtful Debts	(1,488)	(1,488)
		71,060	18,051
10.	FOREIGN CURRENCY DEMAND DEPOSITS		
	Demand Deposits	3,220	12,759
	Demand deposit of international organizations such as Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association.		
11.	LOCAL CURRENCY DEMAND DEPOSITS		
	Banks	389,342	165,906
	Solomon Islands Government	63,102	110,229
	Financial Corporations	4,718	5,572
	Other	69	54
		457,231	281,761
12.	CURRENCY IN CIRCULATION		
	Notes	315,671	269,688
	Coins	10,774	10,172
		326,445	279,860
13.	SECURITIES		
	Solomon Islands Government Monetary Operations	29,418	21,572
14.	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.		
15.	OTHER LOCAL CURRENCY LIABILITIES	2009 (SBD 000's)	2008 (SBD 000's)
	Unpresented Bank Cheques	1,679	2,048
	Provision for Employee Entitlements	6,021	5,256
	Other Liabilities	5,596	4,510
		13,296	11,814

CENTRAL BANK OF SOLOMON ISLANDS**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009****16. 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 of the net profit shall be allocated to this General Reserve until the General Reserve is equal to twice the authorized capital of the Central Bank.
- (c) After such allocations, the Board, with the Minister's approval, may then direct such part of remaining net profit as it considers appropriate, be allocated to one or more Special Reserves, and after such allocations, the remainder of the net profit shall be transferred to the Solomon Islands Government Consolidated Fund.
- (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.

17. 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

17. 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

Also refer to Note 3(g)). This was established to cater for the 3 year periodical revaluation of the CBSI Land and Buildings. Overall, there is a revaluation surplus in 2009.

18. CAPITAL ASSETS RESERVE

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.

	2009 (SBD 000's)	2008 (SBD 000's)
Capital Asset Reserve	54,180	54,180

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

19. INCOME AND EXPENSES	2009 (SBD 000's)	2008 (SBD 000's)
(a) Interest income		
Interest received from foreign investments	14,172	39,522
Interest received from local investments	4,488	3,092
	18,660	42,614
(b) Fees and commissions received		
Fees and commissions - foreign dealings	5,914	5,306
Fees and commissions - local dealings	417	314
	6,331	5,620
(c) Other income		
Proceeds from disposal of fixed assets	94	61
Rent received	1,046	619
Sale of numismatic coins	53	39
Others	679	451
	1,872	1,170
(d) Interest expenses		
Interest expense on foreign liabilities	96	239
Interest expense on local liabilities	1,840	1,892
	1,936	2,131
(e) Fees and commissions paid	78	39
(f) Administration expenses		
Staff costs	12,620	16,788
Others	8,117	7,644
	20,737	24,432
(g) Other operating expenses		
Board of Directors remunerations and expenses	33	77
Currency expenses	46,243	13,924
Depreciation	3,916	2,591
Auditors remuneration (Note 21)	469	496
Others	602	1,007
	51,263	18,095

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

20. AUDITOR'S REMUNERATION

	2009 (SBD 000's)	2008 (SBD 000's)
Amounts received or due and receivable by the External Auditors of the Bank for:		
- Auditing the financial statements	440	376
- Other services - Morris and Sojancki - Internal Audit	29	120
	469	496

21. RELATED PARTIES DISCLOSURES

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 2009, this group comprises 12 in total (12 in 2008), 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:

	2009 (SBD 000's)	2008 (SBD 000's)
Total remuneration is included in 'personnel expenses' as follows:		
Short-term Employee Benefits	1,154	6,793
Post-Employment Benefits	196	887
Other Long-term Benefits	134	134
Total Compensation	1,484	7,814

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 2009 loans by the Bank to key management personnel are as follows:

	2009 (SBD 000's)	2008 (SBD 000's)
Housing Loan	61	68
Personal Loan	25	50
Management Car Loan	210	109
Total Loans	296	227

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009**22. EMPLOYEES**

The number of full time permanent Central Bank employees as at 31st December 2009 was 100 and 90 in 2008. This increase is eminent to staff new positions and to fill old vacant positions within the Bank.

23. CONTINGENT LIABILITIES

The Bank has guaranteed staff housing loans with the commercial banks to the sum of \$1.0 million as at 31 December 2009 (2008: \$1.1 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 2009 a total of 35 loans with a net guarantee of \$1.638 million have been administered under the scheme.

24. 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 has established an internal audit function 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.

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

2009 Liquidity Risk

	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 Year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD 000's)
Foreign Currency Assets						
Money at Call	-	-	-	-	298,748	298,748
Accrued Interest	-	-	-	-	1,854	1,854
Term Deposits	-	752,670	-	-	-	752,670
Holding of Special Drawing Rights	116,927	-	-	-	-	116,927
Total	116,927	752,670	-	-	300,602	1,170,199
Local Currency Assets						
Cash on Hand	381	-	-	-	-	381
Loans and Advances	-	-	-	126,746	-	126,746
Premises and Equipment	-	-	-	-	68,309	68,309
Other Assets	30,590	-	148	40,322	-	30,738
Total	30,971	-	148	167,068	68,309	226,174
Total Assets	147,898	752,670	148	167,068	368,911	1,396,373
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	3,220	-	-	-	-	3,220
IMF Special Drawing Rights Allocations	-	-	-	-	125,105	125,105
Capital Subscriptions	-	-	-	-	917	917
Total	3,220	-	-	-	126,022	129,242
Local Currency Liabilities						
Demand Deposits	457,231	-	-	-	-	457,231
Currency in Circulation	-	-	-	-	326,445	326,445
SIG Monetary Operations Account	29,418	-	-	-	-	29,418
Fixed Deposits	125,199	-	-	-	-	125,199
Provision for transfer to SIG Consolidated Fund	-	-	-	-	-	-
Other Liabilities	13,296	-	-	-	-	13,296
Total	625,144	-	-	-	326,445	951,589
Total Liabilities	628,364	-	-	-	452,467	1,080,831
Net Liquidity Gap	(480,466)	752,670	148	167,068	(83,556)	315,542

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

2008 Liquidity Risk

	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 Year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD 000's)
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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009**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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

2009 Interest Rate Risk

	Fixed Coupon 0-1 Month (SBD 000's)	1-3 Months (SBD 000's)	3-12 Months (SBD 000's)	Over 1 Year (SBD 000's)	Non Interest Bearing (SBD 000's)	Total (SBD 000's)
Foreign Currency Assets						
Money at Call	298,748	-	-	-	-	298,748
Accrued Interest & Bill Collectibles	1,854	-	-	-	-	1,854
Term Deposits	752,670	-	-	-	-	752,670
Holdign of Special Drawing Rights	-	-	-	-	116,927	116,927
Total	1,053,270	-	-	-	116,927	1,170,199
Local Currency Assets						
Cash on Hand	-	-	-	-	381	381
Loans and Advances	-	-	-	126,746	-	126,746
Premises and Equipment	-	-	-	-	68,309	68,309
Other Assets	-	-	-	-	30,738	30,738
Total	-	-	-	126,746	99,428	226,174
Total Assets	1,053,272			126,746	216,355	1,396,373
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	-	-	-	-	3,220	3,220
IMF Special Drawing Rights Allocations	-	-	-	-	125,105	125,105
Capital Subscriptions	-	-	-	-	917	917
Total	-	-	-	-	129,242	129,242
Local Currency Liabilities						
Demand Deposits	-	-	-	-	457,231	457,231
Currency in Circulation	-	-	-	-	326,445	326,445
SIG Monetary Operations Account	-	-	-	-	29,418	29,418
Fixed Deposits	-	-	-	-	125,199	125,199
Provision for transfer to SIG Consolidated Fund	-	-	-	-	-	-
Other Liabilities	-	-	-	-	13,296	13,296
Total	-	-	-	-	951,589	951,589
Total Liabilities	-	-	-	-	1,080,831	1,080,831
Net Sensitivity Gap	1,053,272	-	-	126,746	(864,476)	315,542

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

2008 Interest Rate Risk

	Fixed Coupon 0-1 Month (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 Year (SBD 000's)	Non Interest Bearing (SBD 000's)	Total (SBD 000's)
Foreign Currency Assets						
Money at Call	96,283	-	-	-	-	96,283
Accrued Interest	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	498,570	210,830	-	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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2009**

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

2009 Currency Risk

	SBD (SBD000's)	AUD (SBD000's)	NZD (SBD000's)	USD (SBD000's)	EURO (SBD000's)	GBP (SBD000's)	OTHERS (SBD000's)	TOTAL (SBD000's)
Foreign Currency Assets								
Money at Call	-	15,160	-	252,196	23,022	8,366	4	298,748
Accrued Interest	-	1,506	192	80	62	9	5	1,854
Term Deposits	-	279,785	74,800	238,994	103,895	49,018	6,178	752,670
Holding of Special Drawing Rights	-	-	-	-	-	-	116,927	116,927
Total	-	296,451	74,992	491,270	126,979	57,393	123,114	1,170,199
Local Currency Assets								
Cash on Hand	381	-	-	-	-	-	-	381
Loans and Advances	126,746	-	-	-	-	-	-	126,746
Premises and Equipment	68,309	-	-	-	-	-	-	68,309
Other Assets	30,738	-	-	-	-	-	-	30,738
Total	226,174	-	-	-	-	-	-	226,174
Total Assets	226,174	296,449	74,992	491,270	126,979	57,393	123,114	1,396,373
LIABILITIES								
Foreign Currency Liabilities								
Demand Deposits	-	-	-	1,213	-	-	2,007	3,220
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	125,105	125,105
Capital Subscriptions	-	-	-	-	-	-	917	917
Total	-	-	-	1,213	-	-	128,029	129,242
Local Currency Liabilities								
Demand Deposits	457,231	-	-	-	-	-	-	457,231
Currency in Circulation	326,445	-	-	-	-	-	-	326,445
SIG Monetary Operations Account	29,418	-	-	-	-	-	-	29,418
Fixed Deposits	125,199	-	-	-	-	-	-	125,199
Provision for transfer to SIG Consolidated Fund	-	-	-	-	-	-	-	-
Other Liabilities	13,296	-	-	-	-	-	-	13,296
Total	951,589	-	-	-	-	-	-	951,589
Total Liabilities	951,589	-	-	1,213	-	-	128,029	1,080,831
NET ASSETS	(725,415)	296,451	74,992	490,057	126,979	57,393	(4,915)	315,542

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009

2008 Currency Risk

	SBD (SBD000's)	AUD (SBD000's)	NZD (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	171,269	95,127	255,378	115,611	60,304	11,828	956,801
Total Assets								
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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2009**

25 GOING CONCERN

The global financial crisis that started in late 2008 has impacted very much on the Bank's foreign earnings in the first two quarters of 2009. The picture was however; reversed especially in the last quarter where there are huge favorable variances on the actual earnings compared to what is expected (budget). Both local and external investments are expected to improve to the Bank's favor in 2010.

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

26 EVENTS OCCURRING AFTER BALANCE DATE

As it was with the case in 2008, there were no events that have occurred after the balance sheet date (31st December 2009) which would require either disclosure or adjustments in the financial statements.

**CENTRAL BANK OF SOLOMON ISLANDS
2009 CALENDAR OF EVENTS**

MONTHS	EVENTS
January	<ul style="list-style-type: none">∞ The Bank's financial and reporting databases were updated to accommodate the 2009 financial transactions.∞ Harry Kevisi, Insurance Supervisor, farewelled after serving as Insurance Officer for many years with the Office of the Controller of Insurance.
February	<ul style="list-style-type: none">∞ Gordon Turner, consultant, reviewed the CBSI staff terms and conditions.∞ Chief Manager Currency & Banking Operations Department (CBOD), Daniel Haridi attended a Commemorative Coin Symposium in New Zealand organized by the World Coin Association (WCA)/ Münzhandelsgesellschaft mbH Deutsche Münze (MDM).∞ CBSI, as executing agency for the World Bank funded Sustainable Energy Financing Project (SEFP), organized a solar technical training for solar retailers in Honiara.∞ A World Bank Debt Management Performance Assessment (DeMPA) mission visited Solomon Islands.∞ Debt Advisors from the Debt Advisory Services Office in the Commonwealth Secretariat visited CBSI.∞ Engaged Deloitte (External Auditor) to audit the 2008 financial accounts.∞ The Bank is linked to Reuters Wealth Manager for extracting rates from Federal Reserve Bank of New York.∞ Mr. Marco Martinez, IMF TA reviewed and revised the Banks' Monetary and Financial Statistics (MFS).∞ Manager, Economics Research & Statistics department, Luke Forau and Senior Analyst, Tom Coward attended a course on Economic Modeling and Forecasting in PNG, co-sponsored by PFTAC and the Bank of England's Center for Central Banking Studies.∞ Mr. John Vaught, PFTAC TA, reviewed and revised the prudential guidelines and returns.
March	<ul style="list-style-type: none">∞ CBSI hosted roundtable discussions on a World Bank report on New Sources of Growth for Solomon Islands.∞ Dr Piero Ugolini, IMF TA reviewed CBSI's monetary policy framework.∞ Webmaster, Alfred Kituru attended hardware training in Australia.∞ CBSI Staff underwent fire drills at Rove.∞ Analyst, Donald Kiriau attended a course on Balance of Payments and International Investment Position at the IMF-STI in Singapore.

- ∞ CBSI conducted on-site examination of the Royal Solomon Islands Police (RSIP) credit union.
- ∞ Senior Analyst, Financial Markets Supervision Department (FMSD), Trevor Manemahaga attended a PFTAC organized course on Stress Testing at the Reserve Bank of Fiji.
- ∞ Manager FMSD, Linda Folia attended a joint APG/World Bank Training Workshop for jurisdictions undergoing Mutual Evaluation in 2009 at Brunei Darussalam.
- ∞ Manager Human Resources, Rose Sulu attended an Asia/Pacific Human Resource Summit in Malaysia.
- ∞ The CBSI Board approved the organisational restructure of the Bank with new titles of Chief Managers and Managers.

April

- ∞ Governor, Denton Rarawa attended a special South Pacific Central Bank Governors meeting on the Global Economic Crisis in Fiji.
- ∞ CBSI 2008 audited Annual Accounts were approved by the CBSI Board.
- ∞ Senior Analyst FMSD, Trevor Manemahaga and Analyst FMSD, Mary Magi attended a superannuation on-site examination attachment with the Bank of PNG.

May

- ∞ The Central Bank launched its 2008 Annual Report.
- ∞ CBSI issued its Monetary Policy Stances for 2009.
- ∞ Governor, Denton Rarawa attended the ADB annual meeting in Bali, Indonesia.
- ∞ The Bank farewelled Supervisor Property, David Gapirongo and Gardner, Penuel Saelea.
- ∞ Supervisor Debts, Doreen Monogari and CBOD officer, John Mark Na'amana attended a ComSec organized workshop on CS-DRMS external debt and CS-SAS modules in Tonga.
- ∞ The Bank engaged a Sun System Application Consultant to conduct training for the users and performed upgrades on some modules of the Sun System.
- ∞ The Chief Manager, Finance & Information Technology Department (FITD), Edward Ronia farewelled to take his new role as Auditor General.
- ∞ FMSD Insurance Officer, Samuel Warunima attended an Insurance on-site examination attachment with the Reserve Bank of Fiji.

June

- ∞ CBSI held its annual financial literacy program, "The Money Smart Day" at Gizo, Western Province.
- ∞ Governor, Denton Rarawa attended a PFTAC Tripartite meeting in Fiji.
- ∞ Chief Manager Economics, Research & Statistics Department, Vincent Nomae attended a course on Macroeconomic Forecasting

at IMF-STI in Singapore.

- ∞ CBSI conducted on-site examination on the Westpac Banking Corporation branch in Solomon Islands.

July

- ∞ Deputy Governor, Gane Simbe presented a paper on Recent Economic Developments and Outlook 2009 on the Solomon Islands economy to the first Australia and Solomon Islands Business Forum in Brisbane, Australia.
- ∞ Governor, Denton Rarawa attended the Pacifica Microfinance week in Nadi, Fiji.
- ∞ IMF Article IV Mission visited Solomon Islands.
- ∞ CBSI conducted an on-site examination of the Solomon Island Public Employees Union (SIPEU) Credit Union, jointly with regional supervisors and APRA TA, under the APRA-Pacific Governance Support Program.

August

- ∞ Savenaca Narube, former governor Reserve Bank of Fiji and now ADB Consultant, reviewed CBSI's monetary policy framework and management information system.
- ∞ A consignment of banknotes arrived from UK and Sri Lanka.
- ∞ Board endorsed the changes to the Prudential Guidelines.
- ∞ IMF TA, Fulvio Carbonaro updated the automated banking supervision system to process new prudential returns.
- ∞ Senior Analyst FMDS, Trevor Manemahaga attends an IMF-STI course on Financial Soundness Indicators in Singapore.

September

- ∞ Deputy Governor, Gane Simbe presented a paper on the "Challenges of the Current Environment" to the Pacific Public Service Commissioners Conference, at the Kitano Mendana Hotel, Honiara.
- ∞ Governor, Denton Rarawa presented the Keynote Address to an University of South Pacific Development Dialogue at the FFA Conference Hall, Honiara.
- ∞ Governor, Denton Rarawa attended the Coombs Working Committee on Financial Literacy meeting in Wellington, New Zealand.
- ∞ The Bank launched its upgraded website.
- ∞ Solomon Islands received two tranches of SDR allocation from IMF.
- ∞ Gross international reserves reached the one billion dollar mark
- ∞ Chief Manager International Department, Raynick Aquillah attended the Australia Investment summit at Goldcoast.
- ∞ Mr. John Vaught, PFTAC TA, assisted CBSI to implement the revised prudential guidelines and prudential returns and, formulated its off-site analysis framework.
- ∞ CBSI conducted a 3-day consultation with commercial bank representatives on the prudential guidelines and prudential returns.

- ∞ CBSI issued the finalized copies of the prudential guidelines.
- ∞ FMSD analyst, Lynne Suti attends a Banking on-site examination attachment with the Bank of PNG.

October

- ∞ Deputy Governor, Gane Simbe and FMSD Analyst Trevor Manemahaga, attended the annual AFSPC meeting in Nadi, Fiji.
- ∞ Governor, Denton Rarawa attended the annual meetings of the IMF and World Bank Group in Istanbul, Turkey.
- ∞ Governor, Denton Rarawa attended the Pacific Islands Forum Finance & Economic Ministers Meeting (PIF FEMM) meeting in Rarotonga, Cook Islands.
- ∞ Manager Corporate Services, John Bosco Houanihau attended a Compensation and Benefits conference in Singapore.
- ∞ The CBSI Board approved the revised CBSI Staff Hand Book & the Communications Policy & Strategy.
- ∞ FITD Programmer, George Dennis attended technical training on Networking organized by New Horizon Learning Centre in Brisbane.
- ∞ The CBSI Payroll team attended training on MicrOpay Meridian conducted by Payroll Solutions.
- ∞ CBSI approved initial foreign exchange transactions towards the upgrading of Our Telekom telecommunication services to meet world standards.
- ∞ The Registrar of the Credit Union Office marked the International Credit Union Day with SICUL and credit unions in Honiara.

November

- ∞ Deputy Governor, Gane Simbe presented a paper on the “Contribution of the Extractive Industry Sector to Economic Growth and Corruption” at a Workshop on Corruption held at Gizo, Western Province.
- ∞ Governor, Denton Rarawa presented a paper on “The Implications of Changing Population Age Structure on Public Finances, Labour and Monetary Policy” to an USP/UNFPA Seminar on Population and Development in Suva, Fiji
- ∞ Governor, Denton Rarawa presented an update on the Solomon Islands economy to the Parliamentary Public Accounts Committee (PAC).
- ∞ Governor, Denton Rarawa opened an UNDP presentation on mobile phone banking at the Heritage Park Hotel.
- ∞ Chief Manager CBOD, Daniel Haridi attended a Regional Debt Management Meeting jointly organized by ADB and Bank Negara Malaysia in Malaysia.
- ∞ The Bank farewellled Investment Officer, Jennifer Lakoa.
- ∞ CBSI conducted an on-site examination of the Credit Corporation (SI) Ltd.

December

- ∞ CBSI hosted the South Pacific Central Bank Governor's Conference, at the Kitano Mendana Hotel, Honiara.
- ∞ A World Bank/ APG Mutual Evaluation Team assessed Solomon Islands Anti-Money Laundering regime and compliance with International standards.
- ∞ CBSI revalued its properties to meet the IFRS requirement.
- ∞ Chief Manager Economics Research & Statistics, Vincent Nomae resigns from the Bank.
- ∞ The CBSI Board approved the 2010 Business Plan and Budget.
- ∞ The Board appointed Luke Forau as the new Chief Manager Economic, Research and Statistic department.
- ∞ CBSI approved a new money changer at the Honiara International Airport.
- ∞ CBSI signed a contract with Dalgro for the construction of the access road to the Riffle Range staff housing estate.

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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					
2007	915133	54789	96922	-54159	1009850	13227	8	-	968925	213238	750691	10819	974748	476255	1451003	487844		
2008	708533	136856	845389	37906	1276056	13149	95	-	1327205	250077	738168	7154	995399	571762	1567161	605433		
2009	1043369	181448	1234817	-25558	1223881	12919	50	-	1211292	262040	815869	6460	1084368	703197	1787565	658544		
2006	703304	28209	731513	-12001	466432	4	-	345	454780	126011	438489	644	565144	348829	913973	272320		
Mar	719820	78925	798745	-45364	512047	1	23	-	466707	123629	482264	1578	607471	384905	992376	273076		
Jun	770669	56970	827639	-30462	595287	431	-	-	565256	128988	524000	2067	655055	409662	1064717	328178		
Sep	786697	74461	861158	-12555	658538	13191	27	-	659200	161383	604085	9862	775330	416946	1192276	328082		
Dec	768685	51211	819896	-13134	730999	13073	1585	769	733292	154498	546374	7552	708424	443812	1152236	400952		
2007	914238	57272	971510	-71780	786206	12773	52	-	727251	189552	631664	8552	829768	479280	1309048	389714		
Mar	885248	132372	1017620	-29217	947156	13097	23	11	931069	183483	768931	7790	960204	490287	1450491	498198		
Jun	915133	54789	96922	-54159	1009850	13227	8	-	968925	213238	750691	10819	974748	476255	1451003	487844		
2008	835846	36820	868305	24906	1042722	13627	118	-	1081372	207756	773713	12093	993560	445889	1439449	510229		
Mar	764057	98231	862288	21321	1143504	12999	108	-	1177932	225329	740905	8031	974265	451130	1425395	614825		
Jun	748724	100012	848736	6577	1239131	13028	112	1181	1250030	217416	800968	9787	1028176	501641	1529817	578949		
Sep	708533	136856	845389	37906	1276056	13149	95	-	1327205	250077	738168	7154	995399	571762	1567161	605433		
Dec	659864	130903	790767	90857	1254781	13346	88	-	1359072	235171	777687	7246	1020104	591960	1602064	547776		
2009	649075	119252	768327	100205	1263713	12806	110	110	1376944	233552	739519	5330	978401	606717	1585118	560154		
Jan	654787	110620	765407	41916	1270633	12715	309	-	1325573	220062	684748	5311	910121	619506	1529627	561352		
Mar	685353	142099	827451	35400	1271261	12542	308	-	1319512	230729	636335	5192	872258	685352	1557608	589355		
Apr	739456	137919	877375	28962	1283668	12521	299	4	1325454	230873	711828	5983	948685	635564	1582248	620580		
May	789500	192702	982202	-19009	1298993	12499	321	6	1292810	230863	764348	6531	1001742	629008	1630750	644262		
Jun	866621	243865	1110485	14282	1194404	12493	160	-	1221339	233561	782966	6338	1022865	642822	1665687	666137		
Jul	876915	171521	1048436	14316	1191042	12403	176	-	1217938	209236	790959	1317	1001512	651399	1652911	613463		
Aug	895022	189953	1084975	30257	1207210	12387	134	-	1249988	211174	758675	995	970845	680167	1651012	683951		
Sep	930169	173999	1103767	75116	1217005	12365	54	1178	1305718	224981	759419	1396	985796	704360	1690158	719329		
Oct	956558	153290	1109848	52302	1203939	12354	126	-	1268721	235085	726887	1633	983605	710094	1673699	704869		
Nov	1043369	181448	1234817	-25558	1223881	12919	50	-	1211292	262040	815869	6460	1084368	703197	1787565	658544		
Dec																		

Source: Central Bank of Solomon Islands

TABLE 1-2 MONEY SUPPLY

Period	Currency i n Circulation	DEMAND DEPOSITS		M1 Money Supply	M3 M oney Supply
		Commercial Banks	CBSI		
2005	141580	445692	1140	588412	943080
2006	161383	604085	9862	775330	1192276
2007	213238	750691	10819	974748	1451003
2008	250077	738168	7154	995399	1567161
2009	262040	815869	6460	1084368	1787565
<u>2005</u>					
Mar	114905	331639	923	447467	727243
Jun	119543	376799	1912	498254	791498
Sep	127011	418752	1170	546933	870798
Dec	141580	445692	1140	588412	943080
<u>2006</u>					
Mar	126011	438489	644	565144	913973
Jun	123629	482264	1578	607471	992376
Sep	128988	524000	2067	655055	1064717
Dec	161383	604085	9862	775330	1192276
<u>2007</u>					
Mar	154498	546374	7552	708424	1152236
Jun	189552	631664	8552	829768	1309048
Sep	183483	768931	7790	960204	1450491
Dec	213238	750691	10819	974748	1451003
<u>2008</u>					
Mar	207756	773713	12091	993560	1439449
Jun	225329	740905	8031	974265	1425395
Sep	217416	800968	9792	1028176	1529817
Dec	250077	738168	7154	995399	1567161
<u>2009</u>					
Jan	235171	777687	7246	1020104	1602064
Feb	233552	739519	5330	978401	1585118
Mar	220062	684748	5311	910121	1529627
Apr	230729	636335	5192	872256	1557608
May	230873	711828	5983	948685	1582248
Jun	230863	764348	6531	1001742	1630750
Jul	233561	782966	6338	1022865	1665687
Aug	209236	790959	1317	1001512	1652911
Sep	211174	758675	995	970845	1651012
Oct	224981	759419	1396	985796	1690156
Nov	235085	726887	1633	963606	1673699
Dec	262040	815869	6460	1084368	1787565

Source: Central Bank of Solomon Islands

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

(SBD'000)	Dec-07	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
CENTRAL BANK														
Net Foreign Assets	915133	707714	659063	649016	654787	685322	739550	789595	866714	876915	895022	930169	956558	1053369
Claims on Non-residents	923606	716351	667381	657137	663057	693607	748099	798432	876887	983387	1022223	1057811	10085777	1179192
Liabilities to Non-residents	-8472	-8637	-8318	-8061	-8270	-8285	-8550	-8838	-10172	-106472	-127201	-127643	-129218	-125823
Claims on other Depository Corporation	2915	33271	4818	28009	46369	29386	28278	26098	15337	27072	-	5323	2365	29375
Net Claims on Central Government	-148154	-51908	-784	10003	-52861	-58732	-57920	-107377	-79501	-70388	-70021	-1259	-15742	-76526
Claims on Central Government	149822	138349	137846	137524	136306	135553	135065	133155	127155	126596	125660	126659	124632	144685
Liabilities to Central Government	-297976	-190257	-138631	-127521	-189167	-194285	-192985	-240532	-206656	-196984	-195681	-127918	-140374	-221212
Claims on Other Sectors	15920	16032	15972	16060	16090	16128	16145	16345	16348	15918	15856	16088	16087	16561
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	2	-	-	42	37	32	27	23	18	14	-	-	-	-
Claims on Public Non-Financial Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Private Sector	3768	3882	3822	3868	3903	3946	3969	4172	4180	3754	3706	3938	3937	4411
Monetary Base	451701	440638	449574	483592	414910	414267	427408	412355	503670	527796	504308	589376	608553	674001
Currency in Circulation	244545	272544	254572	255992	239001	251832	253577	252573	251989	228772	232466	242874	255184	282878
Liabilities to other Depository Corporations	200749	165906	192481	226443	174771	161266	172122	157684	249556	297886	271025	345284	351913	389342
Liabilities to other Sectors	6407	2187	2521	1157	1138	1169	1710	2098	2124	1138	817	1218	1455	1781
Other Liabilities to other Depository Corporations	931	808	836	867	764	778	836	791	836	820	838	821	823	824
Deposits and Securities other than shares excluded	4761	25598	25896	25322	26112	26032	26302	24550	24371	20396	20396	20096	20571	25121
Deposits included in Broad Money	4411	4967	4725	4173	4173	4023	4273	4433	4214	178	178	178	178	4678
Securities other than shares included in Broad Money	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits excluded from Broad Money	349	366	366	343	343	343	343	352	352	352	352	352	352	353
Securities other than shares excluded from Broad Money	11000	20265	20805	20805	21595	21665	21685	19765	19805	19865	19865	19565	20040	20090
Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares and other equities	354981	274856	238502	232136	262013	269863	310620	325104	331611	343113	356880	383820	373164	363665
Other items (net)	-26560	-36760	-35740	-38770	-39413	-38835	-39113	-38139	-41589	-42607	-41564	-43792	-43843	-40834

Included as memorandum item only; not part of CBSI assets.

Source: Central Bank of Solomon Islands

TABLE 1.4 - ASSETS AND LIABILITIES OF COMMERCIAL BANKS

(SBD'000)	Dec-07	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
OTHER DEPOSITORY CORPORATIONS														
Net Foreign Assets	54789	136856	130903	119252	110620	142099	137919	192702	243865	171521	189953	173599	153290	181448
Claims on Non-residents	62758	143171	137560	124712	111965	144214	139604	194040	245320	173389	191454	180461	155833	183591
Liabilities to Non-residents	-7969	-6315	-6657	-5460	-1345	-2115	-1685	-1338	-1455	-1868	-1501	-6862	-2543	-2143
Claims on Central Bank	232985	188710	212717	249750	194474	183147	195661	180185	268820	318241	23154	363998	372835	411005
Currency	31307	22467	19401	22440	18939	21103	22703	21710	18429	19536	21291	17893	20099	20830
Reserve Deposits and Securities than shares	200748	165436	19281	226443	174771	161266	172122	157684	249556	297886	271025	345284	351913	389342
Other claims on Central Bank	931	808	836	867	764	778	836	791	836	820	838	821	823	824
Net Claims on Central Government	93995	89813	91642	90202	94776	94132	86881	88368	93783	84704	100278	76375	68044	50968
Claims on Central Government	130560	116099	110355	107920	122713	116931	106405	105877	112322	114821	124542	123980	125444	12535
Liabilities to Central Government	-36565	-26286	-18713	-17718	-27937	-22799	-19524	-17509	-18539	-30117	-24264	-47605	-57400	-74391
Claims on Other Sectors	1007164	1274910	1252243	1260679	1267567	1267983	1280347	1295474	1190709	1187704	1203874	1214514	1200333	1220289
Claims on other Financial Corporations	1077	999	1196	656	565	392	371	349	343	253	237	215	204	769
Claims on State and Local Government	6	95	88	68	272	276	272	298	143	162	134	54	126	50
Claims on Public Non-Financial Corporations	-	-	-	-110	-	-	4	6	-	-	-	1178	-	-
Claims on Private Sector	1006082	1273816	1252579	1261421	1268269	1268859	1281240	1296356	1190223	1187289	1203503	1213067	1200002	1219470
Liabilities to Central Bank	2915	33271	4818	28009	46369	26086	28278	26098	15337	27072	-	5323	2365	29375
Transferable Deposits included in Broad Money	750691	738168	777687	739519	684748	636335	711828	769348	782966	790959	738675	759419	726887	813869
Other Deposits included in Broad Money	476255	571762	581960	606717	619506	685352	633564	629008	642822	651399	680167	704360	710094	703197
Securities other than shares included in Broad Money	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits excluded from Broad Money	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities other than shares excluded from Broad Money	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance Technical Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares and other equity	204289	335246	345893	347515	343640	351685	345318	353026	366853	349138	366740	373076	379392	322610
Other items (net)	-45216	-10671	-22853	-1876	-26852	-12096	-18178	-15751	-10802	-56398	-18322	-13693	-24236	-7340

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
2006	8221	86776	22564	2	60992	42302	18692	82178	102964	15680
2007	88749	55480	24570	138	122132	60249	28051	119039	129409	43861
2008	22702	145648	21960	369	162661	70133	33795	166412	173055	60880
2009	21230	121749	55020	1405	108101	110567	48714	134286	180925	60602
2006										
Mar	4609	78583	7422	250	55764	20855	4748	58465	88672	2752
Jun	6510	86828	14413	17	53846	23289	4863	59803	97740	4076
Sep	7544	93848	19164	3	69477	39943	7243	77689	87483	6608
Dec	8221	86776	22564	2	60992	42302	18692	82178	102964	15680
2007										
Mar	10853	87087	30719	2	63622	47733	27258	78167	106075	21219
Jun	12961	108839	31237	4	72160	48753	21944	78299	110731	30689
Sep	9497	126212	32320	278	97481	48993	29007	106753	122912	38564
Dec	88749	55480	24570	138	122132	60249	28051	119039	129409	43861
2008										
Mar	13243	127821	28291	377	114690	70891	31351	132958	133435	46315
Jun	15880	137168	11480	60	172706	69205	31961	142891	151224	47294
Sep	18890	157646	17681	730	180889	72629	38348	155754	158921	53702
Dec	22702	145648	21960	369	162661	70133	33795	166412	173055	60880
2009										
Jan	25178	134822	24905	2654	167584	70899	41155	188580	190461	54379
Feb	25291	145267	22361	2993	163110	57645	69529	161339	202490	57354
Mar	24922	128999	32219	3357	149085	63141	49436	189186	202638	62880
Apr	25982	115882	84809	2232	113662	71702	72082	159544	198389	66934
May	26347	128456	63558	2306	105570	74311	72161	164458	208041	72700
Jun	26111	126779	64170	1725	108829	78668	71204	177075	205158	76069
Jul	26294	126782	64458	1687	105583	84368	58431	95810	204518	58940
Aug	25969	119941	66022	1683	104248	94336	68300	91627	210950	59886
Sep	26414	113878	63966	1591	101868	102786	65407	94223	197452	61453
Oct	23256	120064	55085	1490	114580	117197	63636	96590	185564	61752
Nov	21782	118334	53431	1460	111174	114540	64614	102496	179394	60334
Dec	21230	121749	55020	1405	108101	110567	48714	134286	180925	60602

* 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)

(SBD'000)

End of Period	Entertainment and Catering	Government	Statutory Corporations	Public Financial Institutions	Private Financial Institutions	Professional and Other Services	Personal	TOTAL	NON-RESIDENT
2006	3292	14	1041	-	228	45877	117123	607946	438
2007	929	7	829	-	428	49811	191129	914811	1839
2008	5082	13	837	-	682	46666	263331	1174227	3173
2009	3747	203	769	-	62	44367	302510	1194259	3560
2006									
Mar	4389	-	4	345	269	27748	76942	431817	418
Jun	4375	23	1	-	315	35563	83997	475659	400
Sep	3203	-	431	-	251	43976	91868	548731	445
Dec	3292	14	1041	-	228	45877	117123	607946	438
2007									
Mar	4257	1589	923	769	309	54430	134883	669895	476
Jun	538	25	302	-	5869	49533	148513	720397	417
Sep	572	6	672	-	325	48938	163664	826194	427
Dec	929	7	829	-	428	49811	191129	914811	1839
2008									
Mar	1079	3	1279	-	1049	49843	211006	963630	1577
Jun	1499	10	651	-	969	52686	222452	1058138	2198
Sep	3867	18	690	1181	685	52792	237247	1151671	2422
Dec	5082	13	837	-	682	46666	263331	1174227	3173
2009									
Jan	1706	137	1196	-	740	61617	263654	1229667	3261
Feb	2422	122	656	110	682	61801	261554	1234725	6600
Mar	2212	279	565	-	641	59381	274548	1243488	3269
Apr	2617	283	392	-	605	57600	274345	1247060	3310
May	2533	274	371	4	555	58069	279700	1259415	3349
Jun	2578	298	349	6	561	54046	280026	1273652	3479
Jul	2411	148	343	-	522	49573	287487	1167355	3360
Aug	2389	208	253	-	47	47655	293013	1186528	3476
Sep	3478	205	237	-	361	49827	295726	1178874	3666
Oct	4360	202	215	1178	76	40928	296091	1190362	3638
Nov	2394	203	204	-	7	44661	301077	1176106	3626
Dec	3747	203	769	-	62	44367	302510	1194259	3560

Source: Central Bank of Solomon Islands.

TABLE 1.6 - COMMERCIAL BANK LIQUID ASSETS POSITION

End of Period	Till Cash ¹	Balance With CBSI	ELIGIBLE RESERVE ASSETS		Total	REQUIRED RESERVE ASSETS	OTHER LIQUID ASSETS	SURPLUS/ (DEFECIT)
			Government Securities	CBSI Securities				
2007	28374	200749	-	-	229123	92038	-	137084
2008	20369	165906	-	-	165906	98139	-	67768
2009	20176	389342	-	-	389342	114942	-	274399
2006								
Mar	13664	291798	-	-	305462	59329	-	246133
Jun	13251	260538	-	-	273789	65557	-	208232
Sep	18302	301155	-	-	319457	70791	-	248666
Dec	24079	287249	-	-	311328	78542	-	232786
2007								
Mar	15674	242590	-	-	258264	75226	-	183038
Jun	18893	283571	-	-	302564	85613	-	216951
Sep	22429	263171	-	-	285600	94436	-	191164
Dec	28374	200749	-	-	229123	92038	-	137084
2008								
Mar	20443	210755	-	-	231198	92394	-	138804
Jun	22431	104667	-	-	138321	89511	-	37581
Sep	26757	165278	-	-	181120	97384	-	94651
Dec	20369	165906	-	-	165906	98139	-	67768
2009								
Jan	17400	192481	-	-	192481	101345	-	91135
Feb	18853	226443	-	-	226443	100164	-	126280
Mar	15903	174771	-	-	174771	97369	-	77402
Apr	17252	161266	-	-	161266	98353	-	62913
May	16735	172122	-	-	172122	99866	-	72256
Jun	18101	157684	-	-	157684	103144	-	54540
Jul	13436	249556	-	-	249556	101714	-	147843
Aug	19233	297886	-	-	297886	106244	-	191642
Sep	18850	271025	-	-	271025	101714	-	166348
Oct	15999	345284	-	-	345284	105741	-	239543
Nov	18197	351913	-	-	351913	107669	-	244244
Dec	20176	389342	-	-	389342	114942	-	274399

¹ Note: As of November 2008, till cash no longer considered as liquid asset.

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 Liabil.	TOTAL ASSET= TOTAL LIABs.	
	Fixed Deposits	Treasury Bills	Term Loans	Equity Holds	Staff Loans	Fixed* Assets	Other* Assets	Term Liabilities			Capital and Reserves			
								S.I.G	CBSI	Overseas#				N.P.F
2006	1752	-	17277	-	-	1038	-8159	-	-	21054	3528	-13884	1210	11908
2007	150	-	8202	-	-	641	-1061	-	-	21055	-45	-14094	1016	7932
2006														
Mar	350	-	30821	-	451	1313	-17437	-	-	21054	3566	-13386	4264	15498
Jun	430	-	28327	-	383	1416	-16626	-	-	21054	3551	-13301	2626	13930
Sep	1154	-	19853	-	153	1175	-9949	-	-	21054	3545	-13481	1268	12386
Dec	1752	-	17277	-	-	1038	-8159	-	-	21054	3528	-13884	1210	11908
2007														
Mar	2502	-	13093	-	-23	831	-5484	-	-	21054	3520	-14438	783	10919
Jun	22	-	10000	-	-	1064	-4144	-	-	21054	-35	-14665	588	6942
Sep	150	-	8738	-	-	607	-2626	-	-	21054	-45	-14802	662	6869
Dec	150	-	8202	-	-	641	-1061	-	-	21055	-45	-14094	1016	7932
2008														
Mar	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Jun	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Sep	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Dec	na	na	na	na	na	na	na	na	na	na	na	na	na	n
2009														
Jan	539	-	2812	-	-	497	1236	-	-	40	-	-19225	24269	5084
Feb	539	-	2915	-	-	857	1355	-	-	40	-	-19767	25393	5666
Mar	2485	-	922	-	-	890	1466	-	-	40	-	-19384	25107	5763
Apr	2485	-	1221	-	-	890	1669	-	-	40	-	-18983	25208	6265
May	2485	-	1185	-	-	890	1776	-	-	40	-	-18957	25253	6336
Jun	2485	-	1098	-	-	890	1871	-	-	40	-	-18996	25300	6344
Jul	3966	-	881	-	-	890	599	-	-	40	-	-19026	25322	6336
Aug	90	-	846	-	-	890	698	-	-	40	-	-18979	21463	2524
Sep	90	-	797	-	-	890	800	-	-	40	-	-18946	21483	2577
Oct	na	-	na	-	na	na	na	na	na	na	na	na	na	na
Nov	na	-	na	-	na	na	na	na	na	na	na	na	na	na
Dec	na	-	na	-	na	na	na	na	na	na	na	na	na	na

* 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	2009
CURRENT ACCOUNT	-324.5	-619.3	-959.7	-973.2
Trade Balance (fob)	-621.6	-745.8	-635.6	-610.3
exports	867.7	1259.2	1631.4	1316.3
imports	-1489.3	-2004.9	-2267.1	-1926.6
Services (net)	-114.1	-289.1	-440.5	-212.9
services cr.	403.5	451.2	457.6	584.0
services dr.	-517.6	-740.4	-898.1	-796.9
Income (net)	-141.8	-293.6	-735.1	-1008.8
income cr.	95.8	109.2	158.0	104.0
income dr.	-237.5	-402.8	-893.1	-1112.8
Current transfers (net)	552.9	709.2	851.6	858.7
current trans cr.	631.1	777.6	952.2	957.6
current trans dr.	-78.2	-68.4	-100.7	-98.9
CAPITAL & FINANCIAL ACCOUNT	314.4	612.3	771.6	1372.8
Capital Account	148.6	195.8	110.9	218.2
capital account cr.	148.6	195.8	115.4	218.2
capital account dr.	-	-	-4.5	-
Financial Account	165.8	416.4	660.7	1154.6
Direct invest abroad (A)	-36.2	-93.3	-29.1	-24.1
Direct invest in SI (L)	259.4	493.9	735.6	947.8
Portfolio investment assets	-	-	-	-
Portfolio investment liabilities	-	-	-	-
Other investment assets	-138.0	-65.5	-127.9	111.4
Other investment liabilities	80.5	82.2	82.2	119.4
Overall BOP POSITION	-12.7	74.3	-128.4	361.1
Reserve transactions (- =increase)	12.7	-74.3	128.4	-361.1
Net Errors and Omissions	-3	81	60	-39
 International Investment Position				
Net Positon	-1236.2	-1502.8	-2750.1	-3415.8
Assets	1586.2	1929.3	1881.6	2258.4
Direct investment	51.4	144.7	173.8	197.8
Portfolio investment	-	-	-	-
Other investment	740.3	861.0	991.4	881.3
Reserves	494.5	923.6	716.4	1179.2
Liabilities	2822.4	3432.0	4631.7	5674.2
Direct investment	1163.2	1656.3	2391.8	3339.7
Portfolio investment	-	-	-	-
Other investment	1659.2	1775.8	2239.9	2334.5
*Revised data due to reclassifications, coverage and treatment as per BPM5 standards.				
Source: Central Bank of Solomon Islands				

TABLE 1-9 - FOREIGN EXCHANGE RECEIPTS/1

(SBD'000)

			2004	2005	2006	2007	2008	2009
Current Receipts	282	24736	31377	26867	27295			
Exports	799	315	53	971	2624			
Copra	302	674	9729	13273	11615	36768	177421	30778
Fish	386	10739	30860	36244	30762	151392	188489	132598
Logs	374	4591	3486	89	7687	838693	934366	773307
Palm Oil & Kernels	211	223277	317945	467602	560051	105281	233005	80176
Cocoa	427	273091	404406	560654	652398	70838	70166	116212
Mineral					5	6696	6062	13451
All Other					5	75981	29862	20383
Total Exports	335	32874	50766	22969	27531	1285651	1639372	1166905
	12	33	974	1621	540			
Services	493	23580	33604	52200	45976			
Transportation	-	7366	1617	3215	16066	15608	12365	13728
Travel	540	63853	86962	80006	90113			32690
Insurance								1753
Royalties & License Fee								15098
Communication	401	22331	12461	16776	10507			21816
Financial Services	471	31094	42954	60916	42859			8440
Others	872	53425	55415	77692	53366			653795
Total Services								747321
Income Account	714	78336	67174	80774	57514			
Wages & Others	107	20334	65737	8028	3842			31531
Interest, Dividends &	137	38986	48145	39270	60294			3120
Official Interest	992	52656	55604	57225	45445			16581
Other Income	416	77934	143828	114940	139895			239
Total Income	1	185	617	267	491			51471
	366	263432	381105	300503	307482			
Transfers : Official								
Cash Aid	238	316857	436520	378195	360848			28571
Other Official								75334
Total Official Transfers	331	1425437	1845196	2304505	2742730			103905
Transfers : Private								
Gifts and Donations								77834
Transfers by Temp. Res.	388	6828	6011	61907	112712			1926
Churches & Charitable	122	14193	53338	19231	2898			66291
Foreign Governments	370	3252	2222	9528	756			56572
International Organisations	-	-	-	-	-			192618
Other transfers	880	24273	61571	90666	116365			629
Total Private Transfers								395870
Total Transfers	107	141156	86366	182270	116447			499776
	104	3828	45	-	9654			
Total Current Receipts	-	-	-	-	-			2465472
	-	-	-	-	-			
Capital & Financial	211	144984	86411	182270	126101			
Private	091	169257	147982	272936	242466			
Investment Grants								62548
Direct Investment	422	1594695	1993178	2577441	2985196			160
Loans								100063
Other Foreign Investments								104
Total Private Inflows			2:					162875
Official								
Investment Grants			4					99794
Loans			2					42037
CBSI								-
IMF Transactions								116061
Total Official Inflows			6:					257892
Total Capital Receipts			9:					420767
TOTAL RECEIPTS			1498:					2886239

1/ Derived from the banking system.

Source: Central Bank of Solomon Islands.

TABLE 1-10 - FOREIGN EXCHANGE PAYMENTS /1

(SBD'000)

	2004	2005	2006	2007	2008	2009
Current Payments						
Imports						
Oil Imports	174766	323066	414331	434324	497933	315247
Food Imports /2	101492	153490	164578	231381	384295	387139
Beverages & Tobacco	7775	17959	13258	26223	56118	32441
Plants, Vehicles & Transport Equipmt.	66421	104237	159522	206847	212838	195307
Building & Construction Mat.	48402	60005	63048	95429	133367	125717
Chemical	12605	15044	16075	36103	43907	30120
Other Imports	226232	409630	565581	806027	757758	661583
Total Imports	637694	1083432	1396392	1836334	2086218	1747554
Services						
Transportation	45061	65727	75018	132134	124965	103212
Travel	33213	35649	31369	58745	66523	63816
Insurance	7272	8507	3850	6903	8676	19176
Communication	11624	14268	12812	15401	26015	18351
Financial	11776	14209	21865	40382	45361	35708
Royalties & License Fees ectt.	43	1749	891	2074	2487	434
Others	60964	81398	83923	147828	196963	245469
Total Services	169953	221508	229728	403466	470991	486166
Income						
Wages & Others	11367	11820	13700	28019	19797	36209
Interest Dividends & Profits	17781	32386	38323	60310	66575	125369
Official Interest	6679	7619	2520	23970	30466	14586
Total Income Payments	35826	51824	54543	112299	116838	176164
Transfers						
S I Govt Foreign Officers	3086	7946	2432	7541	10585	13665
SI Govt Current Payments	11213	30708	44243	43022	62695	40249
Gifts & Donation	154493	218466	249432	222112	273211	196081
Transfers by Temporary Residents	2186	2797	6220	6014	3156	6148
Other Transfers	14635	18263	11924	12947	16866	14015
Total Transfers	185614	278179	314252	291637	366512	270160
Total Current Payments	1029088	1634943	1994915	2643736	3040559	2680044
Capital & Financial Payments						
Private						
Loan Repayments	3997	16013	2537	7542	15716	11437
Capital Repatriation	-	-	-	-	50	3
Emigrant Transfers	913	761	1295	456	2278	252
Other Payments	1138	2004	35126	87877	19823	16234
Total Private Outflows	6047	18779	38957	95875	37866	27925
Official						
S I Government Loans	18824	68617	36485	65542	84529	50174
CBSI	-	-	-	-	-	-
IMF Transactions	-	1	-	-	3	-
Total Official Outflows	18824	68618	36485	65542	84532	50174
Total Capital & Financial Payments	24872	87397	75442	161417	122399	78099
TOTAL PAYMENTS	1053959	1722339	2070357	2805153	3162958	2758144

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	E URO
Annual							
2004	7.48	5.51	13.69	6.92	4.98	11.09	9.31
2005	7.53	5.77	13.71	6.89	5.33	11.13	9.38
2006	7.61	5.73	14.01	6.54	4.94	11.20	9.55
2007	7.65	6.41	15.32	6.51	5.63	11.71	10.51
2008	7.75	6.59	14.35	7.51	5.52	12.22	11.38
2009	8.05	6.37	12.60	8.66	5.12	12.38	11.23
Quarterly							
2004							
Mar	7.49	5.74	13.77	6.99	5.05	11.14	9.38
Jun	7.47	5.35	13.48	6.82	4.70	10.91	9.00
Sep	7.48	5.31	13.60	6.80	4.88	10.98	9.14
Dec	7.50	5.67	13.89	7.08	5.28	11.33	9.70
2005							
Mar	7.51	5.84	14.21	7.31	5.47	11.44	9.86
Jun	7.52	5.78	13.97	6.99	5.38	11.22	9.48
Sep	7.53	5.72	13.44	6.77	5.20	11.00	9.18
Dec	7.57	5.64	13.25	6.47	5.26	10.87	9.01
2006							
Mar	7.59	5.62	13.31	6.50	5.05	10.95	9.13
Jun	7.60	5.67	13.86	6.64	4.74	11.19	9.54
Sep	7.61	5.76	14.25	6.54	4.83	11.28	9.69
Dec	7.63	5.88	14.62	6.48	5.15	11.37	9.84
2007							
Mar	7.64	6.00	14.94	6.40	5.32	11.46	10.01
Jun	7.64	6.35	15.19	6.33	5.66	11.59	10.30
Sep	7.66	6.48	15.48	6.50	5.67	11.74	10.58
Dec	7.66	6.81	15.67	6.80	5.85	12.05	11.14
2008							
Mar	7.66	6.94	15.17	7.28	6.05	12.26	11.48
Jun	7.66	7.23	15.11	7.33	5.95	12.47	11.98
Sep	7.72	6.86	14.62	7.17	5.51	12.20	11.61
Dec	7.95	5.34	12.49	8.26	4.59	11.97	10.45
Monthly							
2009							
Jan	8.01	5.43	11.63	8.88	4.47	12.12	10.72
Feb	8.02	5.21	11.58	8.68	4.14	11.93	10.27
Mar	8.05	5.33	11.40	8.23	4.25	11.92	10.47
Apr	8.06	5.74	11.84	8.16	4.60	12.03	10.64
May	8.06	6.14	12.38	8.34	4.82	12.24	10.98
Jun	8.06	6.46	13.19	8.34	5.14	12.41	11.37
Jul	8.06	6.48	13.20	8.54	5.19	12.48	11.36
Aug	8.06	6.73	13.35	8.49	5.49	12.59	11.49
Sep	8.06	6.93	13.17	8.81	5.66	12.67	11.73
Oct	8.06	7.29	13.03	8.93	5.95	12.78	11.95
Nov	8.06	7.41	13.38	9.44	5.88	12.79	12.02
Dec	8.06	7.28	13.08	9.02	5.80	12.63	11.78

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)
2007	351.4	98.7	98.5	53.1
2008	361.1	105.2	114.1	46.1
<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				
2007	5.0	7.3	6.5	-7.7
2008	2.8	6.5	15.8	-13.3
% Change on quarter earlier				
<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
<u>2009</u>				
(data not yet available)				

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

Source: Central Bank of Solomon Islands.

TABLE 1-13 - GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

(SBD'000)															
DEVELOPMENT & TREASURY BONDS AMORTIZED															
End of Period	TREASURY BILLS					OTHER									
	Commercial Banks	Central Bank	SINPF	Statut. Corp.	Public	Total	Commercial Banks	Central Bank	SINPF	Statut. Corp.	Public	Total	Central Bank	GRAND TOTAL	
2006	128261	119937	133515	-	1275	382988	5002	616	4298	496	25059	35471	11426	430541	
2007	121353	114582	125155	-	1206	362295	6737	59	5762	-	15589	28148	10716	401159	
2008	109917	109104	115549	-	1095	335665	4953	917	5150	-	10797	21816	10364	367846	
2009	86660	103502	51567	-	-	241729	21940	50	-	-	5655	27645	4940	274314	
2006	133354	123442	119230	-	1395	377421	3973	80	3377	299	23357	31086	11075	419513	
Mar	131638	122571	127008	-	1309	382526	2734	30	5712	338	23001	31815	11426	425767	
Jun	129955	121258	115616	-	1292	368120	2929	39	784	596	26509	30857	12155	420810	
Sep	128261	119937	133515	-	1275	382988	5002	616	4298	496	25059	35471	11426	430541	
Dec															
2007	126553	118610	131209	-	1258	377630	6170	487	2836	1488	21886	32867	10716	421214	
Mar	124834	117275	128941	-	1241	372291	6772	79	6676	-	17635	31162	10716	414169	
Jun	123101	115932	127024	-	1224	367280	7967	79	2355	-	19113	29514	10716	407511	
Sep	121353	114582	125155	-	1206	362295	6737	59	5762	-	15589	28148	10716	401159	
Dec															
2008	119597	113224	123466	-	1880	358166	13188	40	5450	-	14451	33128	10716	402011	
Mar	117829	111858	121994	-	1171	352852	8265	278	5690	-	16356	30589	10364	393805	
Jun	116091	110485	119566	-	1153	347296	4428	139	4965	-	18475	28006	10364	385666	
Sep	109917	109104	115549	-	1095	335665	4953	917	5150	-	10797	21816	10364	367846	
Dec															
2009	89872	106784	112300	-	1079	310035	14963	582	-	-	7696	23241	10364	343640	
Mar	88976	106319	111118	-	1062	307474	4986	79	-	-	6021	11086	10364	328925	
Jun	87949	104914	116969	-	-	309833	19946	100	-	-	6002	26048	4940	340820	
Sep	86660	103502	51567	-	-	241729	21940	50	-	-	5655	27645	4940	274314	
Dec															

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 Act.	2008 Act.	2009 Rev. E st.	2009 Act.	2010 Est.
Total R evenue and G rants	1209.9	1574.3	1611.4	1704.9	1877.0
Recurrent R evenue	1121.8	1494.3	1521.4	1603.3	1797.0
Local Revenue	1093.2	1370.0	1420.4	1488.9	1664.0
Inland Revenue Division	596.1	834.7	900.0	924.6	1018.9
Customs	342.7	388.4	380.0	382.8	433.2
Non-tax (including a irspace fees)	154.4	146.9	140.4	181.3	211.9
Budget Support	28.6	124.3	101.0	114.4	207.0
Unidentified Deposit				0.2	
Development R evenue	88.1	80.0	90.0	101.6	80.0
Grants f or c onsolidated f unds	88.1	80.0	90.0	101.6	80.0
SIG Surplus (Development Financing)					
Total E xpenditure	1236.8	1727.1	1774.8	1701.6	2230.4
Recurrent Expenditure	1070.9	1450.1	1484.8	1426.6	1855.4
Payroll	354.1	432.0	455.5	472.3	486.7
Other Charges	566.4	799.0	755.9	687.0	1135.3
Debt Servicing (CBSI)	144.4	163.2	172.4	104.5	60.4
Budget Support	32.5	110.0	101.0	125.3	207.0
Increased G overnment D ebt A rrears	-26.4	-54.1		0.6	
Suspense A/c				3.0	
Imprest				33.8	
Development Expenditure	165.9	277.0	290.0	274.4	375.0
SIG-Funded D evelopment Expenditue	71.7	197.0	200.0	182.6	295.0
Other C onsolidated	94.2	80.0	90.0	91.7	80.0
Recurrent Surplus (deficit)	50.8	44.2	36.6	176.1	-18.4
Overall Surplus (deficit)	-27.0	-152.8	-163.4	3.8	-313.4

Source: M inistry of Finance and Central Bank of Solomon Islands

TABLE 1-15 - GOVERNMENT REVENUES

End of End of	Total Customs & Inland Revenue	Total Customs	Import Duty	Log Export Duty	Timber Levy	Other Exports	Other Customs	Total Inland Revenue	Company	Personal	Govt. PAYE	Goods & Sales	Other LR	Ministries & Others*
														(SBD'000)
2006	690224	264136	87708	128532	-	3471	44425	426088	77361	80552	31277	525767	115549	318966
2007	938248	348985	107192	180484	-	4669	110341	1110363	202482	172084	94482	525767	115549	318966
2008	1223112	388427	110600	210290	-	5532	62005	834685	189747	116799	68373	368449	91317	146917
2009	1307384	382767	127904	164903	-	6777	83183	924617	220995	143258	79300	366113	114951	181338
2006														
Q1	153614	63318	20317	29895	-	1246	11860	90296	15290	17646	5306	42848	9206	23462
Q2	151403	54066	21201	22898	-	396	9601	97337	19631	17387	5618	44177	10525	28784
Q3	168304	61785	20936	31972	-	274	8603	106519	20055	18743	8950	49948	8823	28399
Q4	216904	84968	25254	43797	-	1585	14362	131936	22385	26776	11403	56973	14398	51193
2007														
Q1	210326	76425	20006	41173	-	591	13180	133901	23295	22632	10637	63654	13682	32050
Q2	226527	80785	29912	37679	-	697	12224	145742	30261	22443	11253	67795	13991	28780
Q3	257981	93933	28150	48720	-	2552	14347	164047	26849	25342	13855	79461	18540	15103
Q4	1082627	415954	127669	214239	-	5371	16889	666673	122078	101667	58737	314856	69334	243033
2008														
Q1	262060	79313	23839	42621	-	747	12107	182747	40620	22876	14635	86267	18352	32551
Q2	292868	100725	30582	55957	-	1729	12457	192143	34636	32275	15667	91917	17648	37552
Q3	327143	121483	27391	56324	-	894	27873	214660	53306	31531	18335	92165	19323	23069
Q4	341041	95906	28787	55388	-	2163	9567	245135	61179	30126	19736	98100	35994	53746
2009														
Q1	279476	91945	34019	39624	-	2266	16036	187531	43432	31468	17482	77433	17717	42496
Q2	316647	95168	27040	49515	-	447	18165	221480	53643	32534	19024	84738	31540	51208
Q3	345399	103079	36751	43472	-	895	21961	242320	57801	43287	18399	100977	21856	21815
Q4	365862	92575	30094	32291	-	3169	27021	273287	66118	35970	24396	102966	43838	65819

Source: Central Bank of Solomon Islands

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

End of 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)												
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
2009	468.2	404.3	170.3	564.6	381.5	510.0	510.0	317.2	497.3	405.8	443.7	2.5
Quarterly Average (3mma)												
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
2009												
Mar	501.2	588.9	178.1	588.9	405.6	506.9	390.0	331.3	523.8	419.6	464.0	17.3
Jun	512.6	547.8	174.6	547.8	409.0	524.8	393.8	334.5	525.3	417.7	463.8	13.3
Sep	504.6	539.1	184.3	539.1	416.7	536.7	394.4	337.2	519.7	421.3	462.6	9.7
Dec	502.1	542.4	184.4	542.4	419.7	537.8	394.8	338.1	518.2	423.1	462.7	6.2
2009												
Jan	493.6	589.4	181.9	589.4	406.6	492.3	382.3	330.9	512.6	420.6	458.4	17.8
Feb	497.0	589.4	182.6	589.4	405.0	509.5	393.8	331.3	521.9	418.2	463.2	16.9
Mar	512.9	587.9	169.7	587.9	405.0	518.8	393.8	331.7	536.8	420.1	470.5	17.2
Apr	513.5	565.2	169.5	565.2	406.1	523.2	393.8	332.6	529.3	417.6	465.7	16.6
May	513.8	539.1	170.4	539.1	407.4	525.6	393.8	333.7	522.3	417.4	462.2	13.8
Jun	510.3	539.5	183.9	539.5	413.5	525.6	393.8	337.1	524.1	418.2	463.5	9.4
Jul	507.2	539.1	183.9	539.1	413.5	538.5	393.8	337.1	521.9	420.6	463.5	5.9
Aug	505.0	538.0	184.4	538.0	417.8	530.4	394.5	337.1	518.2	420.9	461.9	3.4
Sep	501.8	540.2	184.4	540.2	419.2	541.3	394.9	337.4	518.9	422.2	462.6	2.0
Oct	499.6	549.2	184.6	549.2	421.9	541.7	394.9	339.7	517.6	426.0	463.5	1.5
Nov	502.4	549.5	184.6	549.5	422.3	537.7	395.2	339.7	520.5	425.8	465.1	1.2
Dec	500.5	549.5	184.6	549.5	422.2	543.3	395.2	339.7	519.5	427.3	465.1	1.3

Source: National Statistics Office, 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 (USD/m.t)	Palm Oil (USD/m.t)	Fish # (USD/m.t)	Cocoa (USD/m.t)	Logs * (USD/M ³)
2006	402	477	930	1592	239
2007	607	780	1289	1952	268
2008	816	1006	1683	2577	292
2009	480	682	1189	2890	287
Quarterly					
<u>2006</u>					
Mar	385	440	1000	1545	225
Jun	387	437	925	1607	239
Sep	413	497	890	1569	247
Dec	477	574	885	1707	269
<u>2007</u>					
Mar	499	609	1068	1813	265
Jun	599	762	1162	2000	395
Sep	607	821	1418	1999	270
Dec	724	926	1508	1999	275
<u>2008</u>					
Mar	914	1384	1479	2477	293
Jun	1013	1198	1710	2764	282
Sep	817	928	1937	2826	278
Dec	520	515	1604	2241	316
<u>2009</u>					
Mar	447	577	1083	2597	314
Jun	513	742	1192	2587	285
Sep	469	678	1508	2955	280
Dec	491	732	974	3420	271
Monthly					
<u>2008</u>					
Mar	972	1468	1475	2726	305
Jun	1063	1213	1930	3001	272
Sep	724	771	1850	2696	285
Dec	495	503	1388	2394	327
<u>2009</u>					
Jan	479	562	900	2624	330
Feb	446	471	1100	2667	323
Mar	416	598	1250	2501	289
Apr	499	700	1275	2581	283
May	559	799	1100	2475	291
Jun	480	726	1200	2704	279
Jul	448	639	1550	2775	281
Aug	492	722	1550	2957	276
Sep	466	674	1425	3133	281
Oct	470	680	1138	3360	277
Nov	493	725	850	3385	272
Dec	509	792	935	3514	265
# Thailand Market prices. (C+F Bangkok) Source: World Bank and Infofish.					

TABLE 1-18 - PRODUCTION BY MAJOR COMMODITY

Period	C opira (m.t)	Coconut Oil (m.t)	Palm Oil (m.t)	Palm K ernel (m.t)	Cocoa (m.t)	Fish Catch (m.t)	Timber Log Prod. (^{'000} M ³)
2007	21805	741	17151	4829	4342	21196	1446
2008	38979	546	20811	20811	4259	25378	1619
2009	21973	634	23204	7083	4671	19300	1233
Quarterly							
<u>2007</u>							
Mar	5661	289	3417	829	793	4013	374
Jun	5257	236	4303	1052	614	3778	283
Sep	5109	115	4991	1464	580	5479	371
Dec	5271	101	4440	1484	1907	7926	418
<u>2008</u>							
Mar	8516	256	4867	4867	1261	5003	415
Jun	9990	228	4327	4327	556	4628	397
Sep	11189	54	5226	5226	527	7141	425
Dec	9285	8	6390	6390	1915	8607	382
<u>2009</u>							
Mar	2905	154	5340	1656	1136	3598	392
Jun	5849	161	5513	1914	909	4420	288
Sep	6323	160	5708	1783	792	4832	261
Dec	6896	159	6643	1730	1834	6450	292
Monthly							
<u>2009</u>							
Jan	1429	51	2060	561	520	1237	140
Feb	2075	51	1724	555	299	884	106
Mar	2169	51	1555	540	318	1477	146
Apr	1852	54	1578	598	395	1641	94
May	2039	54	1883	674	264	875	129
Jun	1958	54	2052	643	250	1904	65
Jul	2241	53	1836	631	210	1486	124
Aug	2148	53	1855	596	228	1461	56
Sep	1934	53	2016	557	355	1885	81
Oct	2587	54	2289	535	425	1791	91
Nov	1903	52	2194	654	755	2440	124
Dec	2406	53	2161	541	654	2219	77

Source: Central Bank of Solomon Islands

TABLE 1-19 - REAL GROSS DOMESTIC PRODUCT
(1985 = 100)

Industry	2004	2005	2006	2007	2008	2009
Agriculture	106.2	118.1	123.1	146.4	167.7	167.7
Forestry, Logging, Sawmilling	263.6	288.3	306.3	381.5	398.6	287.0
Fishing	115.5	104.4	120.6	110.8	122.1	117.4
Mining & Exploration	-3.3	-3.3	-3.3	-3.3	-5.6	-55.7
Manufacturing	135.8	137.1	141.0	144.1	147.7	145.1
Electricity and Water	213.2	250.6	255.0	285.6	291.1	283.0
Construction	45.6	52.9	79.1	101.2	110.3	111.7
Retail and Wholesale Trade	140.9	143.3	143.3	152.6	165.0	164.3
Transport and Communications	143.9	146.7	213.2	225.9	250.9	159.6
Finance	229.4	231.7	236.0	257.8	262.6	267.5
Other Services	126.4	135.4	144.2	153.8	170.4	183.4
Index of Monetary GDP Production	139.8	147.5	158.6	179.1	194.3	188.1
Annual % movement	9.5	5.6	7.4	13.0	8.5	-3.2
Index of Primary Production	141.7	151.2	161.5	188.4	206.6	181.8
Annual % movement	16.9	6.7	7.4	17.2	8.5	-12.0
Non-Monetary: Food	165.0	169.6	174.3	179.2	184.2	189.4
Non-Monetary: Construction	160.0	164.4	169.0	173.8	178.6	183.6
Non-Monetary GDP Index	164.6	169.2	173.9	178.8	183.8	188.9
Index of Total GDP Production	144.6	151.8	162.1	178.4	191.5	187.3
Annual % movement	8.0	5.0	6.1	10.3	7.3	-2.2

Source: Central Bank of Solomon Islands.