CENTRAL BANK of SOLOMON ISLANDS

The Governor

27 April 2012

Hon. Rick N Houenipwela
Minister of Finance
Ministry of Finance & Treasury
P O Box 26
Honiara

Dear Minister,

In accordance with Section 47 (1) of the Central Bank of Solomon Islands Act [CAP 49], I submit to you the report on the operations of the Central Bank of Solomon Islands, together with the audited annual accounts of the Bank for the twelve months period ending 31 December 2011.

Yours sincerely,

Denton H Rarawa
Governor

Mud Alley Street, P.O. Box, HONIARA, SOLOMON ISLANDS Phone: (677) 21791/23492 Facsimile: (677) 23513 SWIFT BIC: CBSISBSB Email: info@cbsi.com.sb

CENTRAL BANK OF SOLOMON ISLANDS

CBSI Vision

“Facilitating economic growth and financial stability in Solomon Islands”

Central Bank Value

“Upholding intergrity, excellence, professionalism, corporate governance, team spirit and friendly service.’

Central Bank Mission

(a) Conduct monetary policy to foster balance economic growth 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 internatinal 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 promte a sound financial structure; and
(f) to foster financial conditions conducive to the orderly and balanced economic develpment of the Solomon Islands.

Section 4
Central Bank of Solomon Islands Act. CAP49

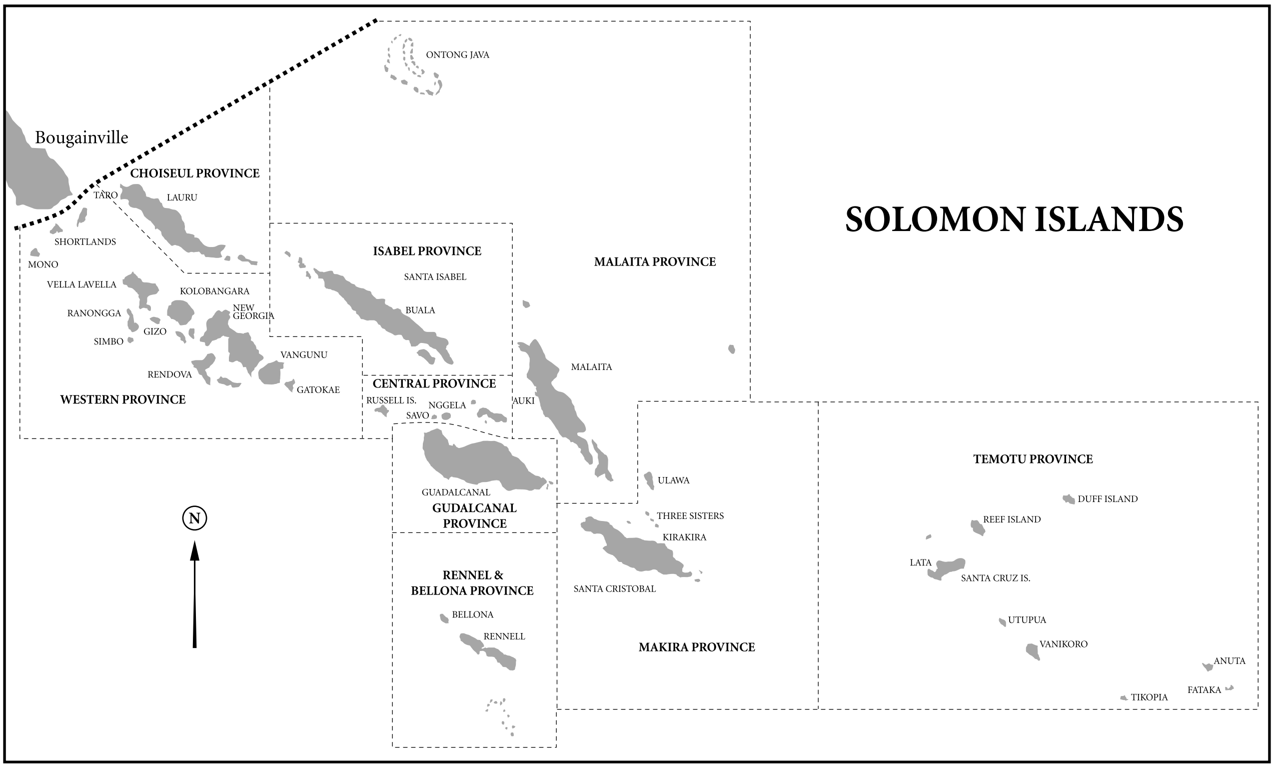
FOREWORD

This is the twenty ninth Annual Report issued by the Central Bank of Solomon Islands and the thirty four 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
April 2012



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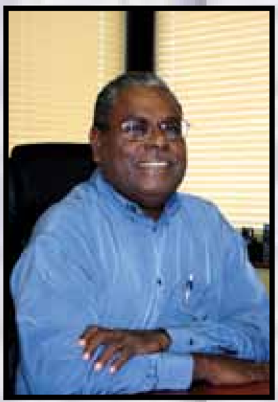
Mr. Denton Rarawa
Governor

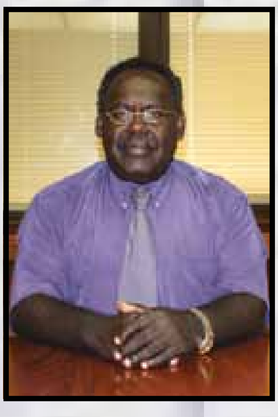


Mr. Gane Simbe
Director, ex-officio

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

Mr. Leslie Teama
Director

Mr. Loyley Ngira
Director



Mr. Katalulu Maepioh
Director

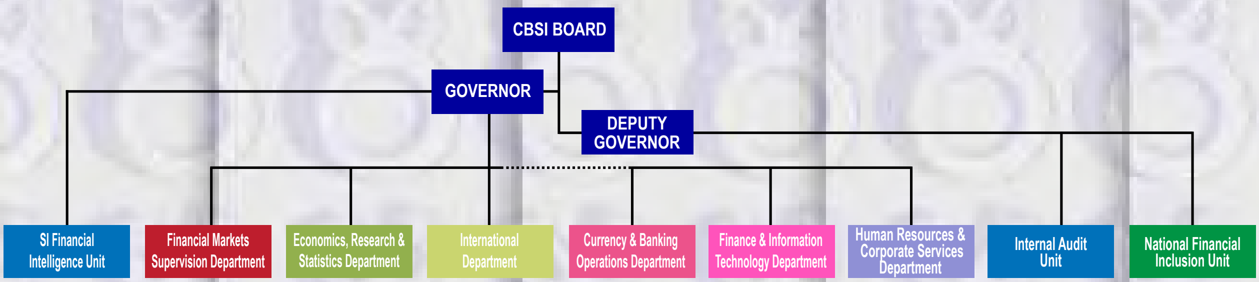
Dr. Steven Aumanu
Director

Mrs. Lily Lomulo
Director

Mr. Antonio Lee
Director

Mrs. Bella Simiha
Secretary to the Board

Organization of the Central Bank of Solomon Islands



MANAGEMENT OF THE CENTRAL BANK 2011

Mr. Denton Rarawa
Governor

Mr. Gane Simbe
Deputy Governor

Mr. Daniel Haridi
Chief Manager, Currency & Banking Operation Department

Mrs. Bella Simiha
Chief Manager, Human Resources & Corporate Services Department

Mr. Raynick Aquillah
Chief Manager, International Department

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

Mr. Emmanuel Gela
Chief Manager (Ag)
Finance and Information Technology Department

Mr. Luke Forau
Chief Manager, Economics, Research & Statistics Department

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 though 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.

1. ECONOMIC OVERVIEW, POLICY ISSUES AND ECONOMIC OUTLOOK

Despite subdued growth in the global economy, Solomon Islands economic performance registered another year of record growth. The economy grew in real term by 10.7% in 2011. This growth was driven primarily by strong performance in commodities particularly logs and minerals during the year. Non-forestry & non-mining sectors also contributed to the overall growth, boosted primarily by activities in the agriculture, telecommunications & transportation, construction and fisheries sectors. Strong international commodity prices across the year, especially in the first six months, generally lifted production levels in the agriculture, fishery and other commodities. Higher trade volumes boosted growth in the transport sector, whilst investment in development infrastructure projects contributed to growth in the construction and communication sectors.

The forestry sector recorded another exceptional year, with total production of 1.9 million cubic metres in 2011, surpassing the previous record of 1.5 million cubic metres in 2008. This outcome was attributed to firm external demand for logs and high international log prices during the year. The significant production boosted Government revenue with log revenue representing 17% of total domestically sourced revenue in 2011, compared to 14% in 2010.

The resumption in commercial mining in 2011, following the closing of the country's only mine in 2000 added to the export earnings of the country. This positive development diversified the export base, created employment in the country and reduced reliance on the logging sector. In terms of revenue generation, the level of contribution was still far below that of logging at 0.2% of domestic revenue in 2011. The mine, with an estimated 900 local staff was one of the major employers in the country during the year. In addition, activity at the mine has indirectly generated further economic "spin-offs" for small businesses and supported employment opportunities via increased demand for utilities, transport, food and other services.

High international commodity prices propelled the increase in production of other commodities for export. Palm oil production went up by 10%, cocoa production increased by 21%, copra production was up 40% and fish catch came in 32% above 2010 levels. Historically high export prices for cocoa and copra, which averaged $20,143 per ton and $6,051 per ton respectively led to historically high domestic prices for farmers to $15,750 per ton and $4,480 per ton for cocoa and copra. Total estimated income generated for local farmers in 2011 from cocoa was $102 million and $158 million for copra.

The communications sector improved further as major telecommunication companies continued to expand network coverage and services throughout the year. The construction sector was boosted both by donor and Government commitment to public projects during the year and included the completion of the Gizo Hospital and work on the new market and wharf at Auki.

Increases in fuel and food prices raised average annual inflation to 7.4% at the end of the year compared to 1.0% in 2010. The imported component of inflation averaged 6.9% whilst the domestic component averaged 8.2%. Imported inflation increased strongly across the first half of the year, reaching a peak of 9.0% in June 2011, driven by rising fuel and non-fuel commodity prices before easing in the second half of the year. The appreciation of the Solomon Islands dollar over the year to some extent helped to cushion imported inflation. However due to pass-through effects of the high fuel prices in the first half of the year into domestic prices, the second half of the year saw the domestic component of inflation rise to a peak of 12.8% in the final months of the year.

Solomon Islands foreign reserves position remained at a comfortable level in 2011. The total foreign reserves were $3,034 million representing 10 months of import cover, compared to 9.3 months at the end of 2010. The outcome came from high levels of inflows related to trade, fishing licences, donor capital grants and the proceeds of the IMF Standby Credit Facility.

On the balance of payments, the current account deficit narrowed markedly to $491 million from $1,694 million in 2010. This reflected the surge in the value of exports driven by exceptional log exports and the recommencement of mineral exports during the year, and to a lesser extent, increases in services income and primary income receipts. The level of inflows, however, were not enough to close the deficit completely due to rising outflows in the form of higher imports and structural deficits in the trade in services and primary income balances.

The Solomon Islands dollar (SBD) was revalued by 5% in June as part of measures to arrest inflationary pressures from imported items. As a result of the revaluation the SBD appreciated by 5.2% against the US dollar (USD) across 2011 averaging at $7.64 per USD during the year compared to $8.06 in 2010. It commenced as a gradual appreciation across the first five months of the year and then a one-off 5% appreciation in June 2011. As a result, the real effective exchange rate (REER) is estimated to have appreciated by 15%. An appreciation in the REER indicates a comparative worsening of competitiveness of the Solomon Islands exports. Nevertheless, rising global commodity prices in the first half of the year dominated the currency movements and improved export performance for Solomon Islands exporters in 2011 compared to 2010. Against the Australian dollar (AUD), the SBD initially depreciated by 6% due to a significant strengthening of the AUD. By the end of the year, however, following the appreciation exercise, the SBD had appreciated by 7% against the AUD, reversing the earlier falls against the currency.

The Government recorded a preliminary fiscal surplus of $353 million in 2011, about 6% of GDP. On the revenue side, the performance reflected strong collections from all domestic sources and, in particular, unexpectedly high log revenue during the year and higher than anticipated levels of grants. On the expenditure side, under spending in the capital budget outweighed cost overruns in the recurrent budget.

Total debt stock of the Government declined by 13% to $1,191 million by the end of the year, representing 19% of GDP. This positive outcome reflected continued debt servicing and the strengthening of the SBD against debt-denominated currencies.

Liquidity in the banking system increased in 2011, although at a slower pace than in 2010. This resulted, primarily, from a slower pace of growth in CBSI's net foreign assets which continued to be driven by trade receipts, donor inflows and foreign direct investment. Action taken by CBSI to re-issue Bokolo bills absorbed 25% of the excess liquidity in the banking system.

Growth in the money supply was driven by the same factors that drove liquidity in 2011. Real deposit rates turned negative in 2011, as a result of high headline inflation during the year and real lending rates fell to near-zero levels.

The CBSI's new liquidity management framework came into effect in 2011 which was designed to enhance CBSI's ability to influence the level of free liquidity in the banking system. In line with the framework, CBSI recommenced issuing its Bokolo bills in February. Market demand for the bills increased steadily across the year and by year-end the stock of Bokolo bills in the banking system stood at $240 million.

The Bank's monetary policy stances moved from a moderately accommodative stance in 2010 to a moderately contractionary stance in 2011 in light of rising international inflationary pressures early in the year which resulted in domestic price pressures later in the year. The contractionary stance was reflected in the gradual increase in the stock of Bokolo bills held by the banking system during the year and a one-off use of the exchange rate as a complementary tool of monetary policy, to contain inflation.

Labour market conditions improved slightly in 2011. this was shown by the number of active superannuation contributors that increased from 41,096 in 2010 to 43,014. However the growth was insufficiently low compared to the number of people looking for jobs. A total of 9,488 pupils were pushed out of the primary and secondary education system at the end of 2011, adding further pressures to the already high unemployment levels in the country. Moreover, lack of appropriate technical skills in certain sectors impacted negatively on labor productivity. Companies have to look offshore for workers with the right technical skills. To improve productivity levels of Solomon Islanders, national training programs must be geared towards producing skilled manpower that match the skill requirements of existing and upcoming industries.

Private sector has a major role to play in terms of job creation and it is of paramount importance that appropriate support is given not only to large scale projects but to small and medium scale entreprises as well. Access to finance has been cited as a major hurdle for small to medium sized enterprises over the years with stringent lending conditions and high interest rates as some of the impeding factors. There is obviously a need to work within or outside the current framework to initiate a financing vehicle that will support small to medium bankable projects. This will allow a greater involvement by locals in private sector investment.

Public investments particularly in infrastructure projects continued during the year with the assistance of donors. Such investment laid the foundation for long term growth and opens up a whole array of opportunities in terms of market access for rural produces, access to essential services, and business opportunities in some sectors. However the benefits of these infrastructure investments were quite limited under the current land tenure system. Support for land reform programs of the Government must continue unabated to attract more investments into the undeveloped areas.

Outlook for 2012

The Bank projects the Solomon Islands economy to grow by around 5 - 6% in 2012. This rate of growth is below the high levels recorded for the past two years due to the expectation that logging activity has peaked in 2011 but growth will be maintained at elevated levels due to expected strong performances in the mining and non-logging & non-mining sectors.

Although, 2012 is expected to be another good year for the logging industry in light of continued foreign direct investment and extension of licenses in the industry, production is not expected to surpass the level of production recorded in 2011. Behind this assumption is the expectation that international log prices are not expected to see the same pace of increase in 2012 as in 2011 although are expected to remain at high levels.

Mining activity, in line with the scaling up of production at the Gold Ridge mine is expected to contribute 2.3% of the growth in 2012. Non-logging & non-mining growth is expected to account for the remaining 3.2%. Sectors that are expected to lead the non-logging & non-mining growth in 2012 are construction, fisheries and transportation & communication.

In line with expected weakening of non-fuel commodity prices in 2012, production and export of agricultural commodities is expected to be lower than levels seen in 2011. Copra production which is sensitive to price movements is expected to be lower than 2011 levels on the back of lower domestic prices. Cocoa production in 2012 may be affected by the bad weather conditions earlier in the year.

Inflation in 2012 is anticipated to average in the range of 5 to 7%, below the average seen in 2011. The expected deceleration reflects easing global non-fuel prices although high global fuel prices may pose upside risks to this expectation.

The Government anticipates a $2 million budget surplus in 2012, with total revenue and grants reaching $3,032 million, and boosted by $108 million in grants already received in 2011 and $32 million from the National Transport Fund, against expected expenditure of $3,170 million. As a proportion of GDP, total spending is expected to increase to 50% compared to 41% in 2010. Of this, recurrent spending is expected to increase to 36% compared to 33% in 2011. Spending on appropriated development projects is expected to increase by $454 million in 2012, reflecting a $378 million increase in spending by SIG compared to a $57 million increase in donor spending on development projects. Moreover, donor partners remain committed to support ongoing development initiatives of the country.

In line with the 2012 budget, the public debt stock is expected to decline to $975 million by the end of the year. The Honiara Club Agreement, which was signed in 2005, is now due for review. The Government has put forward a Debt Management Strategy for endorsement by Cabinet. It is anticipated that the Debt Management Strategy will replace the Honiara Club Agreement.

National initiatives aimed at diversifying development activities at the provincial level must continue to be supported. Such initiatives not only harnesses provincial participation in growing the economy but could also ensure that benefits of development trickles down to the population in rural areas. Moreover, it is also very important to translate the growth levels seen in recent years into more job opportunities for the abundant labor supply coming through the formal and informal education systems to reduce the growing pressures on the country's limited resources.

2. INTERNATIONAL ECONOMIC DEVELOPMENTS

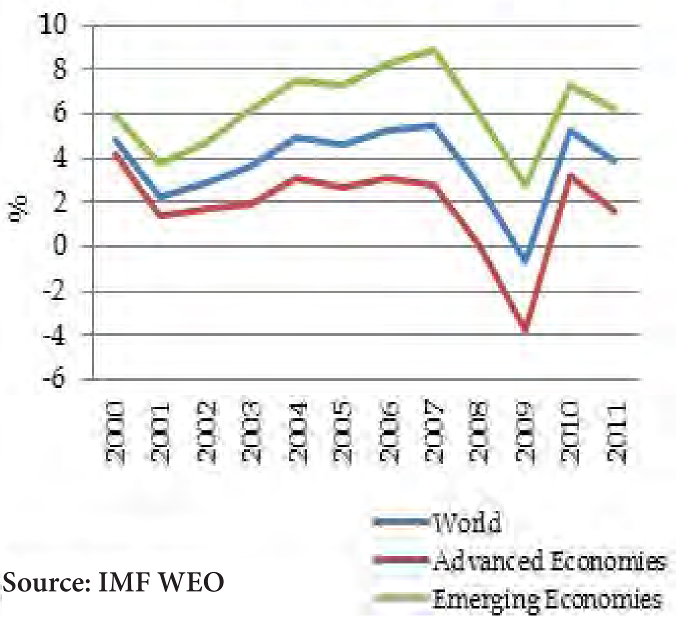
Optimism regarding a strong global economic recovery at the beginning of 2011 was tested towards the end of the year when indicators revealed that the recovery was faltering and uncertain. Estimates for growth in advanced and emerging economies were revised down during the year amidst persistent uncertainties in the Euro Area and the impact of economic and fiscal policies pursued in 2011. The level of growth in many emerging economies however remained robust despite the downward revisions.

Economic Growth

According to IMF estimates, global growth in 2011 was 3.8% with the main driver coming from emerging economies where growth was estimated at 6.2%. On the other hand developed countries struggled with growth of 1.6% (See Figure 2.1).

Advanced economies including, the United States, United Kingdom and Euro Area witnessed promising signs of strengthening recovery at the beginning of the year. This marginal improvement came on the back of the resilience of global trade following the financial crisis and the pursuit of expansionary monetary policy since the crisis. Interest rates remained at historically low levels and provided further stimulus to support economic activity. The second half of the year, in contrast, was characterised by less promising signs of economic activity as fiscal austerity measures implemented in response to the on-going European debt crisis to restrain rising debt levels began to take effect, coupled with continued trends in debt reduction by the private sector and households.

Figure 2.1: World Real GDP Growth



Source: IMF WEO

Across the whole year, the Euro Area was estimated to have grown by 3.0% in 2011, although this rate masks the divergence in growth in Euro Area countries. Germany, which had weathered the debt crisis better than others was estimated to have grown by 3.0%, whilst other countries such as Italy and Spain were estimated to have grown in 2011 by just 0.4% and 0.7% (including a negative final quarter of growth), respectively.

The US where growth in the second half of the year was positive resulted from an uptick in private sector investments and household spending. The US economy was estimated to have grown by 1.8% in 2011, reflecting sluggish growth during the year, but picked up in the final quarter.

The performance of emerging economies in 2011, like the year before, was more robust. In the first half of 2011, the resilience of global trade following the financial crisis supported economic activity. The historically high commodity prices supported higher export revenues in many export-oriented economies, but also squeezed incomes as domestic prices rose. With fears that many emerging economies were over-heating, steps were taken to tighten monetary policy across the first few months of the year. In the second half of the year, as these measures took effect, and as a result of weakening global demand in line with the slowdown in economic activity in advanced economies, many emerging economies recorded depressed economic outcomes. In response, in the second half of the year, steps were taken to loosen monetary policy again to support domestic economic activity going forward.

IMF estimates for global growth in 2012, have been revised downwards to 3.5% following weakening global economic activity in many economies towards the end of 2011 and continued uncertainties regarding the resolution of the European Debt Crisis.

Developed economies, in contrast, are expected to grow by a muted 1.2% in 2012 as fiscal austerity measures take effect and amidst continued trends towards debt reduction by the private sector and households.

Again, emerging economies are expected to lead global growth with forecasted real growth of 5.4% in 2012, anticipating policies which focus on supporting domestic demand in light of continued uncertainties over the strength of global demand.

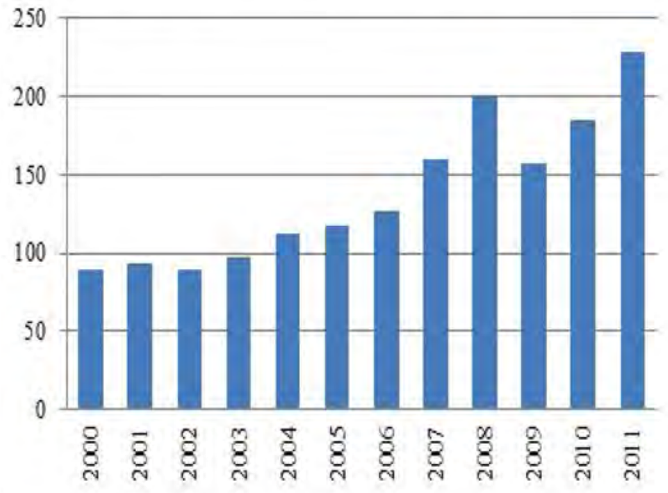
In some Solomon Islands' main trading partners, growth has been fairly robust. Australia, New Zealand and China are estimated to have grown by 1.8%, 2.0% and 9.2% respectively in 2011. The outlook for economic growth in 2012 remains fairly robust at 3.3%, 3.8% and 8.2% respectively. In China the forecast of lower growth than in 2011 reflects uncertainties regarding the ability for internal demand to fully replace declines in external demand as well as difficulties in estimating any further negative effects stemming from the European Debt Crisis on global trade.

Inflation and Commodity Prices

Average inflation in advanced economies during 2011 was estimated at 2.7% reflecting high international price pressures despite a degree of spare capacity in these economies and well anchored inflation expectations. Average inflation in emerging economies was estimated at 7.2% reflecting international price pressures across the first half of the year and resilient external demand.

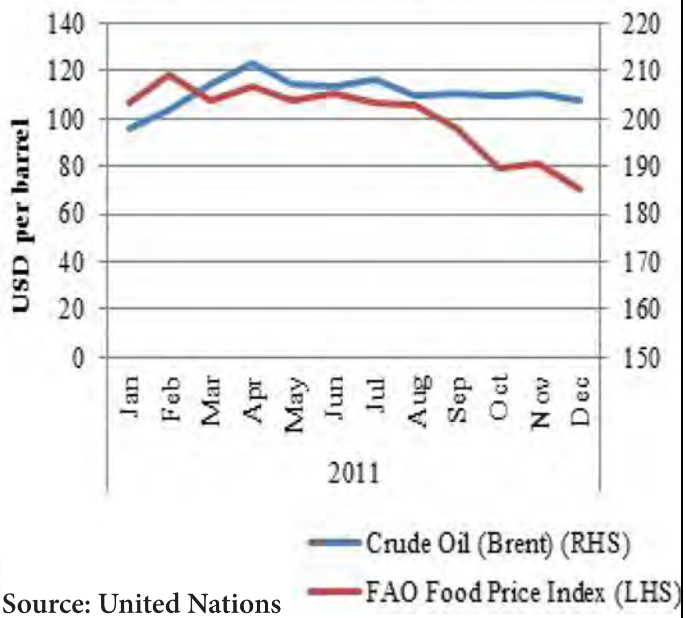
Commodity prices in 2011 were at historically high levels (See Figure 2.2). International food prices declined across the year due to improving supply conditions and slowing global demand. The food index published by the United Nation's Food and Agriculture Organization (UN FAO) indicated an 8% increase in food prices during the first half of the year followed by a 10% weakening of prices across the second half of the year (See Figure 2.2). Fuel prices in contrast remained strong in the face of supply disruptions. The average price of Brent Crude Oil was US$111 in 2011, 39% above the average price of US$80 in 2010 (See Figure 2.3).

Figure 2.2: FAO Annual Food Price Index



Source: United Nations

Figure 2.3: Monthly Food and Fuel Prices



Source: United Nations

Average inflation in 2012 is expected to fall to 1.6% in advanced economies due to ample spare capacity and well-anchored inflation expectations. In emerging economies inflation is expected to fall to 6.2% due to weaker economic activity and lower non-fuel commodity prices although the path of international fuel prices in 2012 further adds considerable uncertainty to inflation prospects in these economies.

Looking at the trading partners of the Solomon Islands, average inflation in China in 2011 was recorded at 5.5%, peaking at 6.5% in July (a three-year peak) but declined in the second half of the year. Initial fears that the Chinese economy was overheating dissipated as inflation eased following the decline in external price pressures. This was a familiar story for other export-oriented economies, including Australia, who witnessed rising inflation at the beginning of the year and easing of inflationary pressures in the last half of the year. Average inflation in Australia was 3.5% in 2011 and expected to be 3.3% in 2012, New Zealand average inflation was estimated at 4.4% in 2011 and estimated to be 2.7% in 2012. In China inflation is estimated to be 3.3% in 2012.

3. DOMESTIC ECONOMIC OUTCOMES

Gross Domestic Product

Preliminary estimates showed that the Solomon Islands economy grew by 10.7% in 2011 (See Figure 3.1). This robust growth reflected an exceptional performance from the forestry sector and the recommencement of commercial mining activity during the year (See Table 3.1).

Table 3.1: Estimated Real GDP

(Index 1985=100)

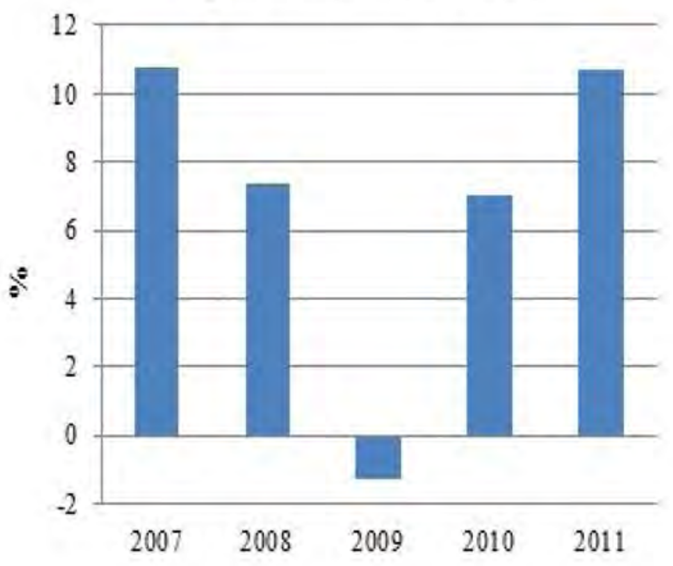
Industry	2007	2008	2009	2010	2011
Agriculture	148	168	168	178	198
Forestry, Logging	382	399	287	380	502
Fishing	117	122	117	128	140
Mining & Exploration	5	6	56	56	533
Manufacturing	144	148	145	141	147
Electricity and Water	286	291	283	296	316
Construction	101	110	115	192	212
Retail and Wholesale Trade	153	165	164	169	178
Transport and Comm.	226	251	302	275	328
Finance	258	263	268	273	283
Other Services	154	170	183	198	202
Index of Monetary GDP Prod.	179	194	193	207	228
Annual % movement	13.0	8.1	-0.6	7.7	9.8
Index of primary prod (Min)	190	207	182	210	250
Annual % movement	17	9	12	15	19
Non-Monetary: Food	179	184	189	194	189
Non-Monetary: Constr	174	179	184	187	182
Non-Monetary GDP Index	179	184	189	193	188
Index of Total GDP Prod.	178	192	189	203	226
Annual % movement Real)	10.7	7.3	-1.2	7.0	10.7

Source: CBSI

Of the 10.7% growth in 2011, 4.5% was attributed to the forestry sector, 1.7% to growth in the mining sector, leaving non-forestry & non-mining growth estimated at 4.5%. Sectors contributing significantly to the growth in the non-forestry & non-mining sectors were the agriculture sector, the telecommunications & transport sector, the fisheries sector and the construction sector.

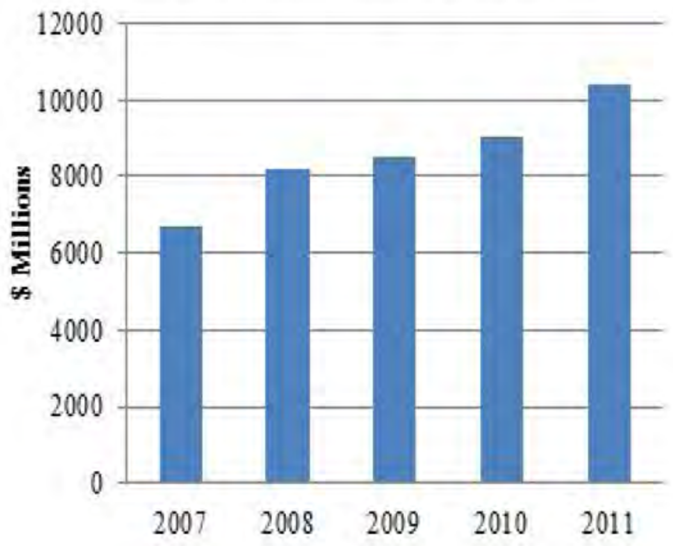
In nominal terms, GDP improved by 17% to $5,578 million from a revised $4,754 million in 2010. Subsequently nominal per capita income increased by 15% to $10,332 at end-2011 following muted growth in average incomes since 2008 (See Figure 3.2).

Figure 3.1: Real GDP Growth



Source: CBSI

Figure 3.2: Nominal GDP per capita



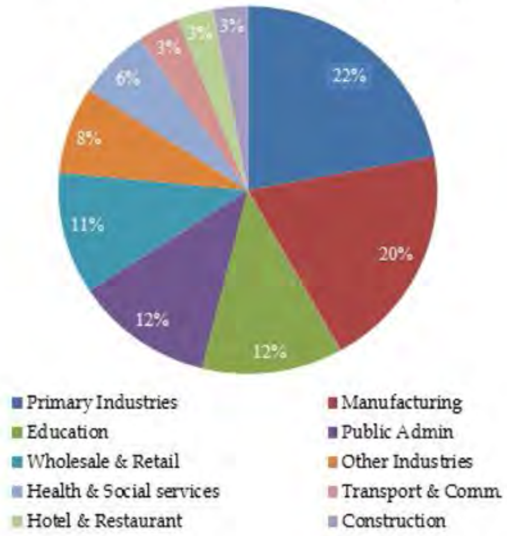
Source: CBSI

Employment

Labor market conditions moderated in 2011 when looking at public and private sector data sources. The CBSI Vacancy Survey, however, recorded an increase in vacancies during the year. The muted outcome shown by the data for public sector employment reflected continued control on Government recruitment whilst data for private sector employment may have underestimated employment in primary commodity production due to the subsistence nature of activity or remote locations of activities. It was these sectors which contributed significantly to growth in 2011.

Based on active contributors to the Solomon Islands National Provident Fund (SINPF), employment increased by 5% (1,918) to 43,014 contributors by the end of 2011. By sector, agriculture represented the largest employer accounting for 22% of contributors to SINPF[1]. The manufacturing sector came in second accounting for 20% of total contributors, public administration and education both accounted for 12% of contributors, followed by the wholesale & retail sector representing 11% of total contributors to SINPF (See Figure 3.3)[2].

Figure 3.3: SINPF Contributors by Industry



Source: SINPF

The number of contributors to the forestry sector increased by 4.1% however, using SINPF contribution data to proxy employment in the sector is thought to have underestimated the true number of employees due to the remote location of employment sites and casual nature of employment. Mining employment grew by 48%, following strong growth since 2009 when the refurbishment of the Gold Ridge mine commenced. Contributors corresponding to agricultural services increased by 8.8%, whilst contributors corresponding to agriculture & livestock production declined by 0.8%. Despite high levels of activity recorded in the agricultural sector due to the subsistence or casual nature of work in the sector, as in the forestry sector, using contributor numbers as a proxy for employment may not have accounted for all employment in the sector.

The number of contributors recorded for the fisheries sector declined by 19.7% despite strong growth in the industry, whilst contributors relating to the construction sector increased by 6.8% reflecting strong growth in the sector. Contributors in the transport & communication sectors saw an 8.3% increase in the communication sector and a 6.0%, 4.5% and 9.7% increase in transport services, air transport and water transport related contributors respectively despite a 5.3% decline in land transport related contributors.

According to the CBSI Job Advertisement Survey, job vacancies increased by 36% across the year to 1,674. As in 2010, vacancies were dominated by donor and public administration sector placements at 63% of total vacancies in 2011 and 2010[3]. In 2011, vacancies in the agriculture sector increased from 48 to 105, vacancies in the wholesale & retail sector rose from 36 to 100, vacancies in the mining sector increased from 23 to 46, whilst vacancies in the transport & communication sector rose from 56 to 88.

The 'Rapid Employment Scheme' initiated in 2008 through donor support, helped to curb some of the unemployment pressures experienced in Honiara. Additionally, the Seasonal Worker Schemes, although still on a small scale, provided additional employment opportunities for unemployed workers. In 2011, 400 workers went to New Zealand under the Seasonal Worker Scheme facilitated by the New Zealand High Commission, compared to 230 in 2010.

Investment

Foreign direct investment (FDI) applications received by the Foreign Investment Division (FID) of the Ministry of Commerce, Employment and Industries increased by 4% to 157 applications valued at $6.6 billion

1 This is despite the inability to capture all workers engaged in subsistence activity within the sector

2 SINPF data by sector is classified according to the International Standard of Classification by industry (ISIC)

compared to 151 applications, valued at $4.5 billion in 2010. Of the total applications; investment in the forestry sector accounted for $406 million (41 applications); wholesale &retail and other services sectors accounted for $41 million and $1 billion respectively; the mining sector received 16 registrations valued at $4 billion; and the tourism sector saw 12 applications worth $106 million.

In terms of the provincial distribution of these investment applications, Honiara accounted for 95 applications; Guadalcanal Province 19 applications; Western Province 15 applications; Malaita Province 7 applications; Makira Province 3 applications; Isabel Province 4 applications; and Central Province 2 applications.

According to the World Bank's Doing Business Report released in October 2011, Solomon Islands recorded a significant improvement in its "ease of doing business" ranking. The Solomon Islands was listed at 74 out of 183 countries in 2011, compared to 81 in 2010 on the back of improvements in the regulatory environment for starting and operating a business. Legislative reform programs, good governance, sound fiscal management and implementation of the Investment Act, Companies Act, Immigration Act and SOE Act in the recent years contributed to creating an environment more conducive for business.

Nevertheless, consultations with stakeholders and businesses revealed major impediments to FDI remain and include; land issues; poor utility services; political instability and excessive bureaucracy in the process for starting a business or registering a property. This may explain why a fair proportion of investment applications do not result in actual investment.

Production

The overall production index for major export commodities in Solomon Islands increased by 35% in 2011 to 120 points. The positive growth was generated by increases in all major export commodities during the year.

Forestry

Log production[4] rose from 1.4 million cubic meters in 2010 to an unprecedented 1.9 million cubic meters in 2011. This was 27% higher than the previous record of 1.5 million cubic meters in 2008 (See Figure 3.4). Of the 1.9 million cubic meters, 85,301 cubic meters came from plantation logs and the rest from natural forest. The increase in production during the year reflected sustained high international demand for logs, firmer log prices, more exported species, clear-felling and re-entry into secondary forests.

In terms of provincial contribution to logging activity, there had been a shift away from Western Province to other provinces. Isabel Province now leads with 35% of total production, followed by Western Province with 34%, Makira with 10%, Guadalcanal and Malaita with 7% each, Choiseul with 6% and Renbel with 1%.

Raw natural logs at a log point in Guadacanal
Source: CBSI

According to World Bank data sources, the average international price for logs went up by 40% to a record high of USD390 per cubic meter. This was 33% higher than the historical peak in 2008 (See Figure 3.4).

In 2011, the forestry sector attracted the largest number of foreign direct investment applications averaging around 10 applications per quarter. Most of these foreign investors were able to obtain logging licenses from the Ministry of Forest in the same year. The number of active operational licenses increased from 92 in 2010 to 97 in 2011.

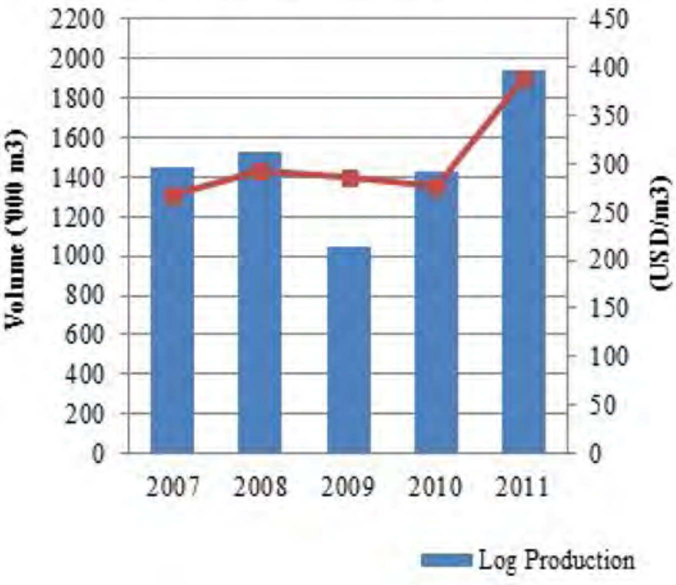
3 Donor sector refers to organizations such as UNICEF, World Bank, Save the Children, UNDP, Roughton International and other Regional bodies

4. Sourced from Customs & Excise Division

These 97 active licenses comprised of 62 existing licenses from 2010, 10 re-entry licenses and 25 new licenses. About 30 licenses that were operational in the previous year expired at the end of 2010. Most provinces recorded increases in active operational licenses except for Western and Malaita. Of the 97 active licenses in 2011, Isabel hosted 27, Western 25, Makira and Malaita at 13 apiece, Choiseul 9, Guadalcanal 8, and 1 new license each for Central and RenBel. All provinces recorded increases except for Western and Malaita.

During 2011, the Ministry of Forest continued working towards three main policy objectives in the medium to long term. The first priority is the reforestation program (mainly natural reforestation), the second is the promotion of downstream processing and the third is the continued improvement in monitoring of domestic logging activities in particular, improved monitoring of exported logs. Nevertheless, the Ministry faced numerous challenges in achieving its objectives due to inadequate capital and human resources.

Figure 3.4: Log Prices and Production



Source: MoFT, World Bank

Preliminary findings from a new forestry report commissioned by the Ministry of Finance indicated that previous estimates of potential production from re-entry into secondary forests were underestimated. The report estimated that if logging activities continue at its current pace, the stock of natural forest may be completely exhausted by 2036. The report indicated that a move to restrict logging production to 50% of the levels seen in recent years would extend the possibility of production for another ten years.

Minerals

Commercial mining activities recommenced in 2011, with the reopening of the country's gold mine which had ceased production in 2000. Total gold production for the year reached 51,054 ounces of which 39,429 ounces were exported in 2011. Total silver produced was 19,043 ounces for the year.

The international price for gold continued its upward trend in 2011, averaging USD1,568 per ounce in 2011, 28% up from the average price of USD1,225 per ounce in 2010.

In terms of employment, the mining company employed 1,166 workers in 2011, of which 900 were locals and 266 expatriates. This number represented 2.7% of the estimated Solomon Island workforce indicating that the new mine is a significant employer in the country and second only to the palm oil industry.

During 2011, operational problems encountered at the main pit affected production as well as landowner disturbances such as road blocks.

Other activities in the mineral sector included the extension of a new mining lease for nickel in 2011. In addition, FDI approvals for investment in the mining sector during the year totalled 15 applications for mineral prospecting. Western, Isabel and Guadalcanal provinces were the main target areas for mineral prospecting companies though some companies also showed interest in other provinces.

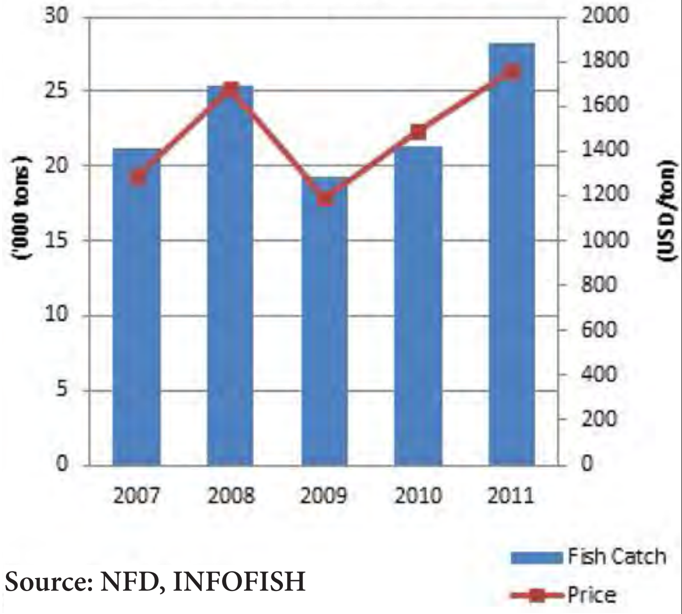
Fishing

Total fish catch in 2011, increased by 32% to 28,195 tons (See Figure 3.5). This rise reflected an increase in the number of effective fishing days in 2011 with a higher number of operational purse seine fishing boats during the year compared to 2010. Favorable weather conditions and high international fish prices during the year also contributed to the overall improvement in catch.

Consistent with the improved catch, production of canned fish increased considerably to 407,553 cartons, up 79% from 227,216 cartons in 2010 as a result of consistent fish supply and an increase in cannery capacity to process 80 tons per day. Of the total canned production in 2011, 82% was sold in the domestic market and 18% exported. In contrast, fish loin production fell by 10% to 14,736 tons because most of the catch was suited for canning than loining.

The average international fish price remained strong in 2011, increasing by 18% to USD1,763 per ton reflecting tight global supply conditions (See Figure 3.5).

Figure 3.5: Fish Prices and Catch



Source: NFD, INFOFISH

Soltai Processing workers unloading their catch - Source:CBSI

Government revenue from fishing activities increased by 25% to $133 million. This reflected a sharp decline in revenue from local and foreign fishing licenses, despite a surge in Forum Fisheries Agency (FFA) receipts. The increase in FFA receipts stemmed from higher revenue collected on behalf of Solomon Islands as a member of the Parties to the Nauru Agreement (PNA). Under the PNA, the enforcement of fishing limits through the Vessel Scheme Day and the imposition of reserve fees for fishing days have contributed to the boost in revenue.

Palm Oil

Production of palm oil and palm kernel oil in 2011 were up by 10%, to 31,592 tons and 3,537 tons respectively, reflecting a 9% increase in harvested fresh fruit bunches and higher milling productivity. The increase in harvested fresh fruit bunches resulted from earlier replanted areas now bearing fruit and to a lesser extent an increase in the number of small-holder farmers from 246 in 2010 to 268 in 2011. Farm gate prices offered to small-holder farmers increased significantly to average $1,036 per ton in 2011 compared to $767 per ton in 2010.

Export contract prices for crude palm oil averaged USD1,191 per ton during the year, mirroring high international prices which averaged USD1,125 per ton. Contract prices across the first half of the year averaged USD1,277 per ton whilst in the second half of the year they averaged USD1,139 per ton. Prices in both periods were above the average international price, but it was more pronounced in the second half of the year as export contract prices did not exhibit as much volatility as international prices.

Export contract prices for palm kernel oil averaged USD1,612 per ton in 2011. Contract prices fell from USD1,932 per ton in the first half of the year to USD1,421 in the second half. For the same period, average international prices moved from USD2,003 per ton to USD1,294 per ton suggesting that the falls in the international price were not fully reflected in domestic contract prices as Solomon Islands palm kernel oil exports were able to fetch a premium price

Fresh Bunches of palm oil - Source Mininstry of Agriculture & Livestock

in Europe. The high international prices for palm oil and palm kernel oil in 2011 helped to cushion the effects of the 5% appreciation in the SBD on export receipts.

Increased efficiency during the year came from initial upgrades for higher milling capacity at the palm oil and palm kernel oil production plants. The milling capacity is set to increase across 2012 to 45 tons per hour from the current 25 tons per hour. This would mean that there is a need to also acquire more plantation acreage to complement the increasing requirement for raw materials at the mill.

Total plantation area in 2011 was 6,318 hectares (ha), of which 5,347 ha comprised of mature trees whilst 971 ha comprised of immature plants. A total of 368 ha of mature trees were replanted in 2011, compared to 315 ha replanted in 2010. Productive small-holder land area was 1,010 ha, compared to 931 ha in 2010.

Copra and Coconut Oil

Copra production increased by 40% to 35,565 tons by the end of 2011, surpassing the annual production estimate of 30,000 tons (See Figure 3.6) . This level of production almost reached the record volumes of 38,979 tons in 2008 and was driven by favorable global demand conditions and high contracted export and domestic prices.

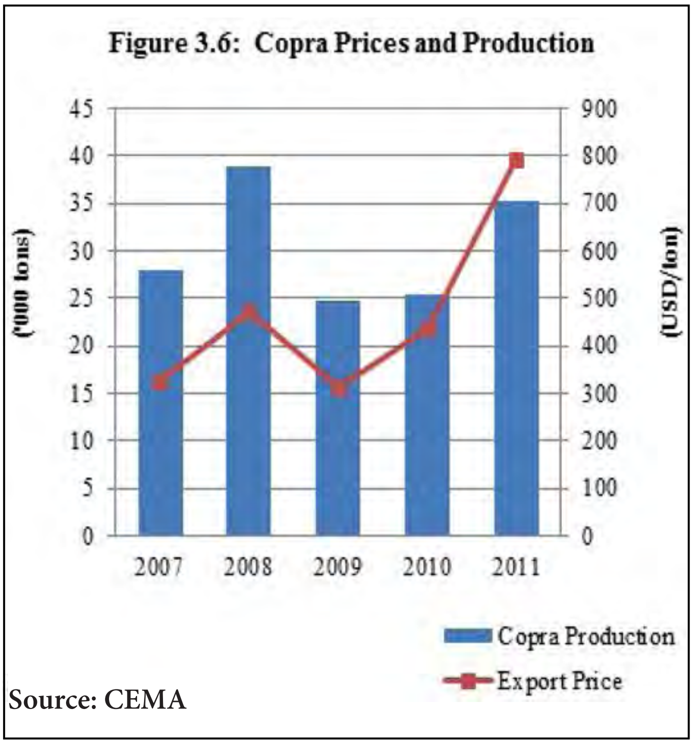
The improvement of inter-island transportation links partially contributed to the favorable production outcome. Four copra exporters were active in 2011.

Coconut flesh to be processed into oil - Source: Ministry of Agriculture & Livestock

The construction of a processing plant to mill coconut oil locally was a notable development. This value added initiative boosted coconut oil output to rise from 123 tons in 2010 to 470 tons, despite stiff competition for copra production. Programs to increase awareness amongst farmers to recognize the higher prices of value added products such as coconut oil compared to raw copra exports continued. The international price of coconut oil averaged USD1,173 per ton in 2011, compared to USD1,123 per ton in 2010.

Copra export contract prices were at historically high levels across the year averaging USD792 (see Figure 3.6). Prices reached a peak of USD1,057 per ton in February and remained above USD900 across the first half of the year. In the second half of the year export contract prices declined steadily to USD687 per ton by December 2011. Despite the downward trend, the December price was still comparatively higher than previous years' prices. This mirrored international price trends which also peaked in February and then declined steadily towards the end of the year.

Domestic prices offered to farmers averaged $4.48 per kilogram (kg) in 2011, a historic high and significantly above the $2.94 price in 2010. This firmer price was a major incentive behind the strong output levels; however, profits for farmers were depressed by higher costs of transporting goods to commercial centers during the year in the face of rising fuel costs.



Copra production by province indicated that Guadalcanal comprised the largest share of the output at 27%, followed by Western Province and Central Province with 20% and 17% respectively. The improvement in levels of production originating from Western Province reflected the commencement of buying operations by one major exporter in the region. In contrast, during the year production originating from Malaita declined.

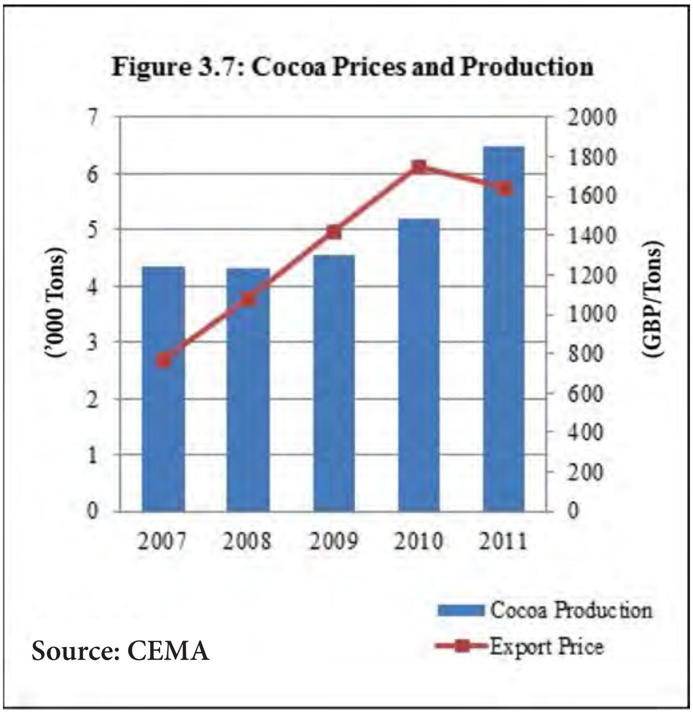
Copra production is expected to remain strong in 2012, assuming stable domestic prices. Risks to production could arise if domestic prices fall below $2.00 per kg in the face of high transportation costs.

Cocoa

Cocoa production had another exceptional year in 2011, increasing by 21% to a record high of 6,495 tons (see Figure 3.7). This positive performance was attributed not only to sustained international and domestic prices but also the impact of the Cocoa Livelihood Improvement Program (CLIP) and the support of the Ministry of Agriculture through farmer trainings, assistance and rehabilitation programs. The challenge for farmers now is to maintain and apply the knowledge and skills after CLIP wraps up its project phase in June 2012.

Dried cocoa beans for export from Direct Management Ltd - Source: CBSI

In terms of production by province, Guadalcanal remained the major contributor with 3,647 tons, followed by Malaita with 1,736 tons, Makira 898 tons, Central 183 tons and Western province only 73 tons.



Average international cocoa prices dropped by 5% from USD3,134 per ton to USD2,980 per ton in 2011 (see Figure 3.7). The cocoa price boomed at the beginning of the year as a result of the political turmoil in Ivory Coast, the second largest cocoa exporting nation. However the prices declined across the year as cocoa supply in the world market picked up. In line with this overall decline, average contracted export prices for cocoa dropped 6% to average GBP1,643 per ton for the year, compared to GBP1,750 in 2010. Domestic prices showed a similar trend in 2011 with a 13% decline to $15.75 per kg from $18.01 per kg in 2010.

Other Commodities

Coffee production reported another positive performance in 2011. Production increased by 9% to 2,107 kg encouraged by the increase in the price offered to farmers to $35 per kg. This was consistent with the 23% increase in export contract prices of $185 per kg. Guadalcanal and Isabel province remains the major coffee producing provinces. The industry has exhibited considerable potential with the quality of Solomon Islands produced coffee beans considered of high quality but investment to increase production levels is underexploited.

The major kava buying center in Honiara recorded a drop in sales to 11,322 kg in 2011 from 16,038 kg in 2010 due to the cessation of flights to Kiribati, its major export destination. Domestic sales were stifled by competition coming from imported kava from Vanuatu and Fiji. Despite regional contract prices for kava registering an increase to USD210 per kg compared to USD165 per kg in 2010 the domestic market price of kava declined due to increased competition from direct imports from Fiji and Vanuatu.

Vanilla Plant - Source: Ministry of Agriculture & Livestock

Vanilla production continued to decline in 2011. Vanilla exports by a major exporter were phased out in 2011 to focus on other commodities due to problems in securing sufficient quality for export. Since the expiration of the Community Sector Program in 2009 which provided support for vanilla producers, production has steadily declined as suppliers moved away from vanilla to other cash crops.

Seaweed production reached 888 tons in 2011, up by a ton from 887 tons in 2010[5]. Unfavorable weather conditions caused by La Niña hampered growth in production during the year. The majority of domestic seaweed produced was exported and the number of seaweed export licenses remained at 4, the same as in 2010. Production in 2012 is expected to pick-up with 2 new sites in Central and Isabel provinces coming into production.

Energy

Total energy generated by the country's main electricity provider slipped 6% to 74,669 megawatt hours (MWh) in 2011. In contrast, total units sold increased 9% to 60,918 MWh. The reduction in quantity produced and quantity sold indicated a decline in generation that was not paid for during the year. Electricity production associated with the new commercial mining operations in the country was estimated to have added an extra 50 MWh to total domestic electricity production in 2011.

By sector, the largest increase was in sales to the residential sector which increased 42% to 8,675 MWh. This was attributed to actions by the Solomon Islands Electricity Authority (SIEA) to minimize illegal connections and increase cash-power meters for residential customers. Sales to the commercial & industrial sectors increased by 5% to 39,078 MWh. The price of electricity for domestic users increased 27% across the year from $4.15 per kilowatt hour (kWh) to $5.25 per kWh. The price for commercial users increased 24% from $4.56 per kWh to $5.66 per kWh. The price movements reflected higher fuel costs in the first half of 2011.

The purchase of two new generators and measures introduced to reduce uncollected revenue through the increase in cash-power customers is expected to lead to further improvement in domestic electricity supply in 2012.

5 Aggregate production from sites listed under Ministry of Fisheries.

Longer-term projects to improve electricity supply services and reduce SIEA's dependence on fossil fuels include the Tina River Hydropower Project. Despite interruptions from landowners in the early half of the year, ground work for the feasibility study was completed in December 2011 and the findings will be presented to Cabinet in early 2012. The Tina River Hydropower Project Development Office is now working on the Land Identification Process before a formal acquisition of the site for the hydropower station by the end of 2012. Invitations for bids for the construction of the plant are anticipated to be issued in the second half of 2012. Completion of the project is anticipated to be in early 2016.

Tourism

Data on visitor arrivals registered 22,941 visitors in 2011, 12% higher than 2010. The increase in visitors was attributed to the improved economic conditions in the countries of origin of visitors and improved international flights to the country. Australians represented 50% of total visitors in 2011 compared to 52% in 2010. Visitors from Papua New Guinea overtook visitors from other Asian countries at 2,057 visitors from 1,361 visitors in the previous year. Visitors from other Asian countries followed closely with 2,056 visitors in 2011 against 1,825 visitors in 2010. Visitors from New Zealand remained the fourth highest at 8% of total visitors.

In the domestic arena, increases in domestic transport prices due to high international fuel prices earlier in the year, affected both passenger shipping and domestic airline services during the year. The cessation of domestic flights to Auki in June 2011 due to on-going landowner disputes has diminished accessibility despite improved sea transport links, and is expected to deter tourism, to the country's second largest city.

On a positive note, the country's national airline successfully acquired its own aircraft and began international flights to Brisbane using the new aircraft in September 2011. Work on upgrading Munda Airport in the Western Province to international standard commenced in 2011. When completed, the refurbished airport is expected to support growth in tourism in the province.

Of the 12 foreign direct investment applications registering interest to invest in the tourism sector during 2011, 2 were for investment in Western Province whilst the rest were for Honiara.

Transport and Telecommunication

The volume of cargo handled by the Solomon Islands Ports Authority [SIPA] at both the Honiara and Noro ports increased 25% to 847,034 tons. This increase was attributed to the strong trading activity in 2011.

On travel, the total number of domestic and international passengers uploaded by the national airline reached 98,726 passengers. This represented a 3% decline when compared to 2010. The likely explanation for the fall was the disruptions to some domestic flights and the closure of Auki airport during the year.

In 2011, the number of vehicle license renewals totalled 1,249, a 21% increase on the number renewed in 2010. The increase was attributed to the strong commercial and private demand for vehicles during the year.

On telecommunications, the total landline subscribers continued to fall, from 8,400 subscribers in 2010 to 8,391 subscribers in 2011. In contrast, the number of mobile phone subscribers totalled 274,872 in 2011, compared to 115,000 in 2010. The penetration rate as calculated by the Telecommunications Commission of Solomon Islands (TCSI) was estimated at 53% in 2011, a significant increase when compared against the 20% estimate in 2010. [6]Mobile internet usage increased from zero users in 2010 to 21,133 users on post-paid and pre-paid mobile internet services in 2011, with coverage increasing to 128 locations by the end of the year.

The average price of international calls to Australia fell by 44% to USD1.00 per minute from USD1.82 whilst the average price of international calls to the rest of the world fell by 46% reflecting increased competition in the industry.

Manufacturing

The manufacturing index rose by 39% to an average of 195 points in 2011 from 140 points in 2010.

6 The penetration rate is calculated as total number of subscribers divided by total population

The rise reflected strong consumer demand for locally manufactured items, especially food, alcohol and tobacco products. Of the four FDI applications expressing an interest to invest in the sector in 2011, three applications were for food manufacturing and one was for cocoa refining.

Construction

Construction activities nationwide increased in 2011, supported by increased public investment by the Government and donor partners in infrastructure projects. Construction activity in Honiara, proxided on the number of approved building permits appeared flat although the average cost of building activities increased.

Large Government and donor funded public projects during the year included the completion of Gizo Hospital, work on Auki jetty and market, work on upgrading Munda airport and continued spending on the improvement of the water supply in Honiara and Auki. Other projects consisted of the police housing program, spending on improving provincial water supplies, spending on rural transport infrastructure, the refurbishment of Honiara International Airport Terminal and spending on preparation for the 2012 Festival of Pacific Arts.

Auki market funded by Japannese Government - Source : Solomon Star Ltd

Total building permits approved in 2011 declined by 12% to 201 compared to 229 in 2010. However average permit values increased by 8% on residential properties taking the average value of an application for residential construction to $657,000 from $422,000 in 2010. The average value of applications for commercial buildings also increased from $1,286,000 to $1,447,000 in 2011 representing a 13% increase.

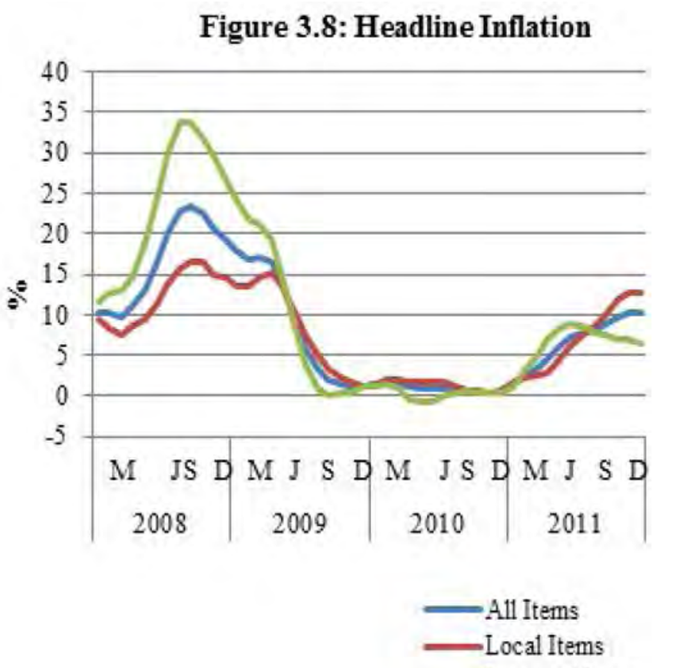
Commercial bank loans to the construction sector increased by 11% to $142 million from $127 million in 2010. Loans for commercial and industrial properties surged by 15% to $91 million while loans for other unspecified construction projects went up by 9% to $125 million. Loans for land development rose by 33% to $17 million. On the other hand, lending for private residences slightly dropped by 4% to $34 million. In line with this, it seems that funding for acquiring or building new houses were not only sourced through commercial bank credit but funded through other means as well. Many Solomon Islands businesses offer employee schemes to borrow funds for housing and credit unions offer credit on more favorable terms than commercial banks.

Inflation

The average annual inflation as measured by the twelve-months-moving-average (12mma) was recorded at 7.4% at the end of 2011. The imported component of inflation averaged 6.9%, whilst the domestic component averaged 8.2%. This reflected a steady increase in inflation across the year from 1.0% in 2010.

During the year, inflation as measured by the three-months-moving-average (3mma) started the year at historically low levels and steadily increased to reach a peak of 10.2% in November 2011. At the beginning of the year imported price pressures were fuelling inflation before domestic price pressures took over in the second half of the year (See Figure 3.8).

Imported inflation increased strongly across the first six months of 2011, peaking at 9.0% in June, driven by the pass-through effects of high global fuel and non-fuel commodity prices. Global non-fuel commodity prices increased steadily across this period averaging at a monthly increase of 3%, whilst fuel prices increased more strongly averaging a monthly increase of 5%. With global commodity prices passing through almost immediately with an estimated two month lag, the imported component of headline inflation increased steadily across the same period. Across the second half of the year the imported component declined to 6.4% by the end of the year on the back of declining non-fuel commodity prices and the impact of the 5% appreciation in the SBD in June which helped cushion domestic prices against high global fuel prices.



Source: CBSI

Looking further at imported inflation, the housing & utilities component and the transport & communications component exhibited the highest annual average price increases and volatility. Included in the former subcomponent were gas and kerosene prices whilst in the latter petrol and diesel prices were recorded. Both these sub-components have a weight of 13% each in the imported index and hence their combined movements have had a significant effect on the index.

The domestic component of inflation, largely followed developments in the imported component across the year. Developments in the imported component of inflation impacted on the domestic component due to second-round effects filtering almost immediately into domestic prices. For instance, it was estimated that rising transportation costs resulting from high international fuel prices were passed on quickly to domestic prices. The domestic component of inflation peaked at 12.8% in November/December 2011.

In terms of the sub-components of domestic inflation, the drinks & tobacco and housing & utilities components exhibited the greatest price increases and volatility. Leading the price rises and volatility were rises in tobacco and betelnut during the year.

Movements in the housing & utilities sub-component, however, had a greater effect on the domestic index with a weight of 21%. Driving the rises and volatility were price changes for water and electricity charges which highlighted the pass-through effects of high international fuel prices on domestic utility prices.

The food sub-component recorded an average annual increase of 5.4%, below the rise in the overall index. With a weight of 40% in the domestic index, volatility in this sub-component can considerably affect the overall volatility of the domestic component.

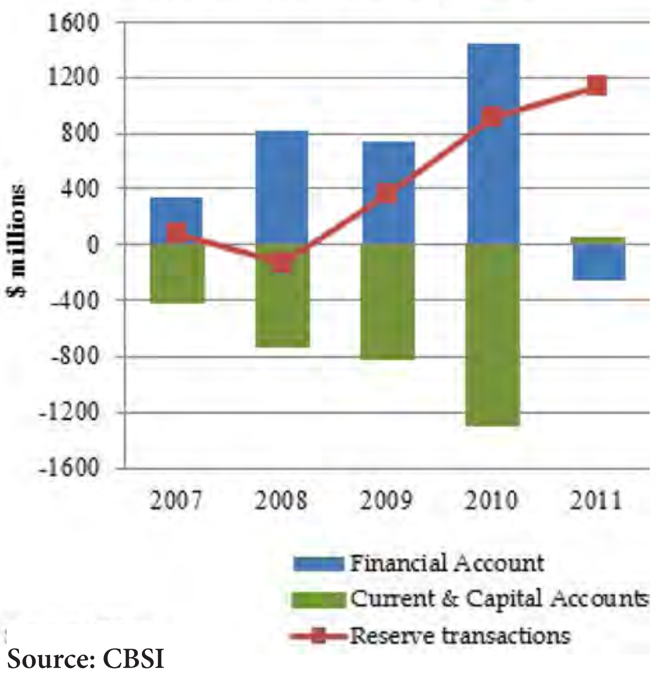
At the end of the year, inflation had dropped marginally to 10.1%, with the imported component falling to 5.2% and the domestic component reaching a peak in December at 12.8%. Inflation in 2012 is expected to decelerate from the levels in 2011 although imported price pressures are set to maintain inflation levels above the lows witnessed in 2010.

4. BALANCE OF PAYMENTS

Solomon Islands' balance of payment (BOP) position was favourable in 2011. This was reflected in the surge in gross foreign reserves from $2,144 million at the end of 2010 to $3,034 million at the end of 2011. The significant improvement in the country's external position was attributed to strong inflows from exports, services, income receipts and donor capital flows. This level of reserves was equivalent to 10 months of import cover, compared to 9.3 months at the end of 2010.

The net current and capital accounts achieved a 'net lending' of $48 million compared to a 'net borrowing' of $1,293 million in 2010. There were more inflows than outflows during the year as evident by rising export receipts and donor-funded capital projects. On the contra side, the financial account showed a 'net lending' of $253 million, compared to a 'net borrowing' of $1,445 million in the previous year. This outcome was the result of increasing financial assets and declining financial liabilities.
(See Figure 4.1).

Figure 4.1: Balance of Payments



Source: CBSI

Current Account

The deficit in the current account narrowed to $491 million from a deficit of $1,694 million in 2010. This marked improvement was due to the surge in the trade in goods account, as a result of a rise in export receipts, notably from mineral and log exports. Increases in services and primary income receipts also contributed to the positive outcome.

Trade in Goods

The balance in trade in goods recorded smaller deficit in 2011 of $23 million from $1,102 million deficit in 2010 (See Table 4.1). This improved result was attributed to the 75% growth in exports (f.o.b) to $3,156 million from $1,804 million. However the growth in export value was not sufficient to outdo total imports payments which totaled $3,179 million at the end of the year. Total goods trade for the year increased to $6,335 million from $4,710 million in 2010. Goods trade as a ratio of GDP rose 14 percentage points to 113% suggesting an increasing level of trade openness during the year.

Table 4.1: Balance of Payments - Trade in Goods

(SBD millions)

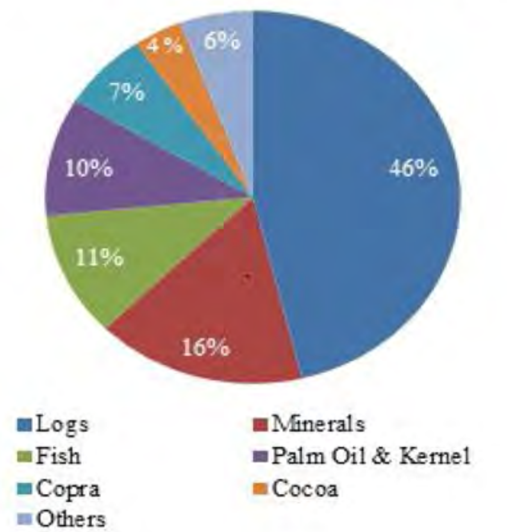
	2009	2010	2011
Balance on Trade in Goods	(597)	(1,102)	(23)
Exports FOB	1,329	1,804	3,156
Imports FOB	1,925	2,906	3,179
Total trade (Exports + Imports)	3,254	4,710	6,335
% Total trade to NGDP	74%	99%	113%

Source: CBSI

The surge in exports in 2011 was due to the mining sector recommencing commercial production. At the same time growth in traditional exports in the forestry, agriculture and fishery sectors responded to favourable international prices and demand.

Round log export receipts increased by 45% to $1,457 million and remained the dominant commodity making up 46% of total exports during the year (See Figure 4.3). This was due to higher export volumes, as well as firm international log prices. People's Republic of China was the main buyer of the logs exported. Sawn timber exports increased 59% to $74 million after a fall in 2010. Australia and New Zealand were the main destinations for sawn timber.

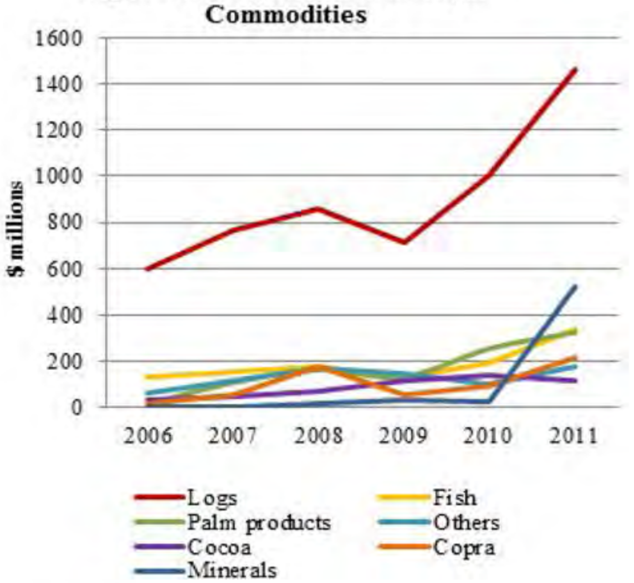
Figure 4.2: Commodity Export Share



Source: CBSI

Mineral exports totaled $518 million from $26 million in 2010 (See Figure 4.3). This was due to increase in export volume from the mining company which commenced commercial operations in the second quarter of 2011. In terms of share of total export, mineral exports has overtaken fish exports to become the second major export commodity in 2011 with an export share of 16%. It is expected that mineral exports will further increase in 2012 as production approaches the expected full production level.

Figure 4.3: Export Value of Major Commodities



Source: CBSI

Fish export receipts shot up by 73% to $341 million in 2011 (See Figure 4.3). The result was due to increased volumes of tuna loin exported and aided by positive international fish prices. Loin products were exported to Europe, while canned tuna and fish meal were exported to Pacific island countries and Australia respectively. Other frozen fish were exported to Thailand.

Soltai Processing containers of tuna loins for export - Source: CBSI

Palm oil and kernel oil export receipts increased by 27% to $326 million in 2011 (See Figure 4.3). This positive result benefited from firm crude palm oil prices that averaged around USD1,066 per ton and robust output. The volume of palm oil products shipped in 2011 was 34,071 tons compared to 33,349 tons in 2010. The volume exported has seen sustained growth each year since the resumption of palm oil operations in 2006.

Copra and coconut oil export receipts in 2011 doubled to $216 million from $98 million in 2010 (See Figure 4.3). This was the highest level of export receipts for the past five years. The reasons for the remarkable outcome were twofold; first there was a record jump in export volumes to 37,287 tons from 22,280 tons; which was responding to the soaring international prices. The average contract price for copra exports in 2011 rose to USD801 per ton compared to USD464 per ton in 2010. This followed the 54% surge in average international prices to USD1,151 per ton during the year. Copra was mostly exported to the Philippines for further milling and processing.

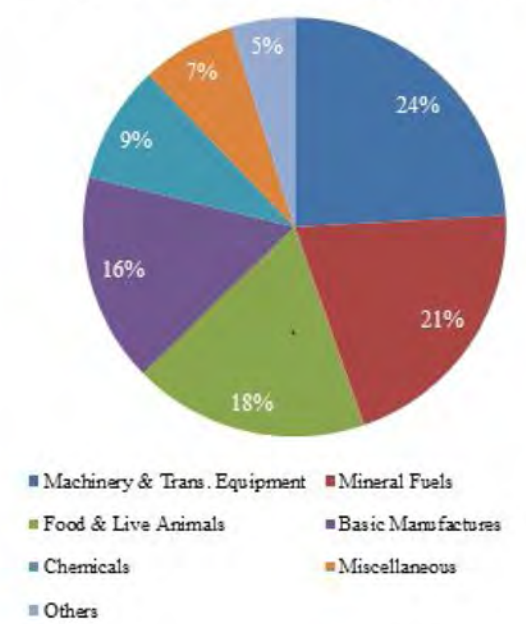
Due to weaker prices, cocoa export receipts only marginally increased by 1% to $119 million, during the year. The unfavorable movement in the cocoa price however, was compensated by a 13% increase in export volumes to 6,100 tons. The average contract price for cocoa exports fell by 6% to GBP1,643 per ton following the decline in international cocoa prices. The bulk of Solomon Islands cocoa was exported to Malaysia, Singapore and Indonesia.

Sacks of dried cocoa beans for export at Direct Management LTD warehouse - Source: CBSI

Other export receipts totaled $36 million, an increase from $26 million in the previous year. Other exports included marine products such as marine shells and sea weed, and other agricultural products like processed kava. Re-export receipts which included scrap metals earned $35 million, from $18 million received in 2010.

Total import (f.o.b) payments were $3,179 million in 2011, an increase from $2,906 million in 2010. The increase was largely due to the payments for mineral fuels, chemicals and basic manufactures. This more than offset the decline in imports of machinery and transport equipment. Mining production contributed to the additional imports of fuel and chemicals. The main sources of imports in 2011 were Australia, Singapore and the People's Republic of China.
Mineral fuel import payments increased from $458 million a year ago to $733 million. This accounted for 21% of total imports during the year. The rise in fuel import payments was attributed to the increase in international fuel prices with the Tapis Crude rising by 43% to an average USD117 per barrel in 2011. At the same time imported volumes increased to meet the requirements of the mining operations. Chemical import payments leaped by 80% to $326 million due to increasing imports of 'inorganic chemicals' used in the mineral sector, pharmaceutical medicines, and fertilizers. Basic manufactures import payments which comprised items such as 'iron and steel' and 'manufactures of metal' went up by 24% to $574 million. 'Food and live animals' import payments increased marginally by 2% to $643 million. The bulk of the food imports were 'cereal and cereal preparations' like rice and 'meat and meat preparations' 'Beverage and tobacco' imports also rose to $57 million from $41 million, crude material imports went up to $43 million from $17 million, and 'animal and vegetable oils and fats' imports increased to $23 million from $16 million.

Figure 4.4: Commodity Import Share



Source: CBSI

"Machinery and transport equipment" imports however, declined by 26% to $860 million. The fall was expected as there were large one-off capital investments in 2010 particularly for the mining and telecommunication sectors. Despite the fall, the sector still commanded 24% of total imports during the year. Miscellaneous items which included general goods and household items also declined by 1% to $257 million.

Trade in Services

The balance on trade in services remained in deficit in 2011. This reflected the country's dependence on various services from abroad. In terms of the amount, the deficit narrowed to $511 million from $653 million in 2010 on the back of the 15% growth in services receipts (credit) to $989 million and a 1% fall in services payments (debit) to $1,500 million.

Table 4.2: Balance of Payments - Service Account

		(SBD millions)	
	2009	2010	2011
Balance on Trade in Services	(283)	(653)	(511)
Services Credit	563	859	989
Transport	111	293	229
Travel	355	434	557
Other	97	132	203
Services Debit	846	1,512	1,500
Transport	287	362	384
Travel	256	381	494
Other	303	769	622

Source: CBSI

The rise in services credit was mainly from travel and other services credit which offset the fall in transport services credit. Travel credit rose by 28% to $557 million in 2011 compared to the previous year. This was due to a 12% increase in visitor arrivals in the country to 22,941 visitors. Other service credits rose by 54% to $203 million as a result of increases in services receipts from telecommunications, 'government goods and services n.i.e', 'personal, cultural and recreation services', and construction services. Transport credit fell 22% to $229 million on the back of a drastic fall in sea transport receipts by $108 million to $50 million as receipts from port services fell during the year. Meanwhile, the air transport receipts component of transport credit went up 33% to $179 million due to rising passenger fares from non-resident passengers.

The fall in services debit was due to the decline in other services debit by $147 million to $622 million. This cutback was associated with the large one off cost of refurbishing the country's only commercial gold mine in 2010. On the other hand, transport debits increased moderately by 6% to $384 million due to increasing freight payments relating to the high volume of goods imported during the year. Travel debits went up by 30% to $494 million due to the rise in residents travelling overseas.

Primary Income

The net primary income balance remained in deficit but slightly narrowed to $926 million in 2011 as shown in Table 4.3. This was due to the increase in primary income credits and a minor drop in primary income debits. The movements in the primary income account mirrored interest income from the assets and liabilities in the financial account.

Table 4.3: Balance of Payment - Primary Income Account

		(SBD millions)	
	2009	**2010**	**2011**
Balance on Primary Income	**(1,088)**	**(1,008)**	**(926)**
Credits	107	141	198
Compensation of Employees	19	10	8
Investment income	47	49	80
Direct investment	20	21	31
Portfolio investment	2	4	4
Other investment	6	0	3
Reserve assets	17	24	42
Other primary income	42	83	111
Debits	**1,195**	**1,149**	**1,124**
Compensation of Employees	36	28	37
Investment income	1,159	1,122	1,087
Direct investment	1,092	1,025	923
Portfolio investment	-	-	-
Other investment	67	97	164
Other primary income	-	-	-

Source: CBSI

Primary income credits rose to $198 million from $141 million. The favourable result was attributed to growth in both investment income inflows and other primary income inflows that more than offset the 20% drop in compensation of employees' inflows to $8 million. Investment income inflows increased to $80 million from $49 million. This growth came from interest income from reserve assets which rose by 73% to $42 million and direct investment which jumped $10 million to $31 million. Marginal contributions came from portfolio investment income by 19% to $4 million and other investment income to $3 million. Meanwhile, other primary income inflows went up by 34% to $111 million. This was on account of fishing licenses received from distant water fishing nations that accessed the country's Exclusive Economic Zone (EEZ).

Primary income debits meanwhile slid 2% in 2011 to $1,124 million. This reflected investment income outflows which dropped by 3% to $1,087 million. The decrease was attributed to lower direct investment income payments, including dividends which fell by 10% to $923 million. On the other hand, other investment income payments increased by 69% to $164 million. This included debt servicing and loan repayments by the Government and foreign owned enterprises made during the year, which also contributed to reducing the liabilities in the financial account. Outflows for compensation of employees also increased by 35% to $37 million during the year.

Secondary Income

The net balance on the secondary income account (current transfers) showed a surplus of $969 million compared to the surplus of $1,068 million in the previous year (See Table 4.4). The slowdown in 2011 was attributed to drops in secondary income credits and a slight rise in secondary income.

Table 4.4: Balance of Payment - Secondary Income

	2009	2010	2011
		(SBD millions)	
Balance on Secondary Income	**937**	**1,068**	**969**
Credits	**1,219**	**1,543**	**1,449**
General government	976	1,364	1,254
Deposit-taking corporations and other sectors	243	179	195
Personal transfers	82	92	97
Other current transfers	161	87	98
Debits	**283**	**475**	**480**
General government	3	5	2
Deposit-taking corporations and other sectors	280	470	478
Personal transfers	280	470	478.
Other current transfers	-	-	-

Source: CBSI

Secondary income credits fell by 6% to $1,449 million on the back of a fall in credits to general government. The fall however was offset by a rise in credit to 'deposit-taking corporations and other sectors'. General government credit fell by 8% to $1,254 million due to a decline in grants from donors. Despite a rise in technical assistance by 9% to $915 million, aid in cash fell by 28% to $285 million, and aid in kind decreased to $53 million during the year. While other donor assistance reflected capital account inflows, the drop in grants also reflected a one-off $161 million budgetary support from the European Union in December 2010. On the other hand, 'deposit-taking corporations and other sectors' credit rose by 9% to $195 million. This increase came from a 5% rise in personal transfers to $97 million, and a 13% jump in other current transfers to $98 million (which included transfers to Churches and Non-government Organizations).

Secondary income debits increased in 2011 by 1% to $480 million. This was attributed to 'Deposit-taking corporations and other sectors' transfer debits that rose by 2% to $478 million, notably from workers' remittances. However, general government debit transfers, in particular for international membership fees declined to $2 million from $5 million.

One of the Donor funded bridges under construction on West Guadalcanal - Source: CBSI

Capital Account

The capital account registered a surplus of $539 million in 2011, a 34% increase from the surplus of $401 million a year ago (See Table 4.5). This outcome stemmed from a corresponding increase in capital account credits with negligible capital account debits during the year. The jump in credits was attributed to capital transfers to general government of $539 million. These transfers took into account various donor funded capital projects around the country including the construction of wharves, bridges, hospitals and other facilities.

Financial Account

The financial account improved from a net borrowing of $1,445 million in 2010 to a 'net lending' of $253 million (See Table 4.6). The result reflected the rise in the flow of financial assets and a reduction of financial liabilities during the year.

Table 4.5: Balance of Payment - Capital Account

		(SBD millions)	
	2009	**2010**	**2011**
Balance on Capital Account	**216**	**401**	**539**
Credit	**216**	**406**	**539**
disposals of nonproduced nonfinancial assets	-	-	-
Capital transfers	216	406	539
General government	216	322	539
Private sector	-	84	-
Debit	**-**	**4**	**-**
acquisitions of nonproduced nonfinancial assets	-	-	-
Capital transfers	-	4	-
General government	-	-	-
Private sector	-	4	-

Source: CBSI

Table 4.6: Balance of Payments - Financial account

		(SBD million)	
	2009	**2010**	**2011**
Balance on financial account**	**(749)**	**(1,445)**	**253**
Asset	**399**	**1,004**	**1,385**
Direct investment abroad	24	19	29
Portfolio investment	(10)	21	(18)
Other investment	24	58	236
Reserve assets	361	907	1,139
Liabilities	**1,148**	**2,449**	**1,131**
Direct investment (FDI)	965	1,919	566
Portfolio investment	-	-	(4)
Other investment	183	531	569

*** (+) is net lending & (-) is net borrowing*
Source: CBSI

Financial assets increased to $1,384 million from $1,004 million. The rise in financial assets came on the back of jumps in direct investment, other investment and reserve assets. Reserve assets went up by 26% to $1,138 million from a surge in foreign reserve transactions, while other investment assets shot up to $236 million from $58 million, notably from currency and deposits abroad due in part to rising receipts from commodity exports. Direct investment assets abroad also rose by 55% to $29 million due to new equity investments and reinvested earnings. However, portfolio investment assets declined from $21 million to minus $18 million due to continued losses in the value of portfolio stocks abroad.

Financial liabilities, on the other hand, declined in 2011 by 54% to $1,131 million. The significant fall came from direct investment in the Solomon Islands which slid to $566 million from $1,919 million. This was due to the one-off surge in foreign direct investment flows in the mining and telecommunications sectors in 2010. On the other hand, other investment liabilities increased by 7% to $569 million. This was attributed to increases in currency and deposit liabilities, the International Monetary Fund's Standby Credit Facility (IMF SCF) with Solomon Islands, and rising trade credits.

International Investment Position

The International Investment Position (IIP) is the country's stock of financial assets and liability obligations with the rest of the world. Developing countries like the Solomon Islands regularly incur net borrowing or net liability positions because of the influx of foreign investment equity and loans required for capital development activities. Accordingly, Solomon Islands' IIP registered a net borrowing of $5,086 million at year-end 2011, compared to a net borrowing of $5,133 million at year-end 2010. The narrowing of the net liability position reflected the favourable BOP performance during the year.

In 2011 the stock of financial liabilities increased by 11% to $9,358 million. The rise in the stock of liabilities was attributed to the stock of other investment liabilities going up by 12% to $3,484 million, and direct investment liabilities rising by 11% to $5,841 million. Portfolio investment stock was relatively flat at $32 million.

The stock of financial assets in 2011, on the other hand jumped by 31% to $4,271 million. This favourable outcome stemmed from reserve assets surging by 42% to $3,034 million, and other investment assets rising by 12% to $894 million. Direct investment assets also increased by 13% to $245 million. However, portfolio investment assets declined by 16% to $99 million due to exchange rate losses on portfolio investments abroad.

External Debt

Total stock of external debt at the end of 2011 rose by 14% to $2,865 million (See Table 4.7). This was due to an increase in external debt stock from the private sector and 'credit and loans from IMF' which offset the decline in government external debt.

Private sector external debt went up to an estimated $1,887 million from a revised estimate of $1,459 million in 2010. This was due to a rise in external loans to the private sector that offset external repayments during the year. 'Credit and loans from the IMF' also increased to $149 million in 2011 from $76 million in 2010. This was mainly due to the remaining inflows of the IMF Standby Credit Facility.

Government stock of external loans in 2011 dropped to $829 million from $967 million in 2010. This was due to continued debt servicing by the Government in the tune of $50 million in principal repayments. Also contributing to the improvement was the total elimination of the $6 million external arrears during the year.

Table 4.7: External Debt

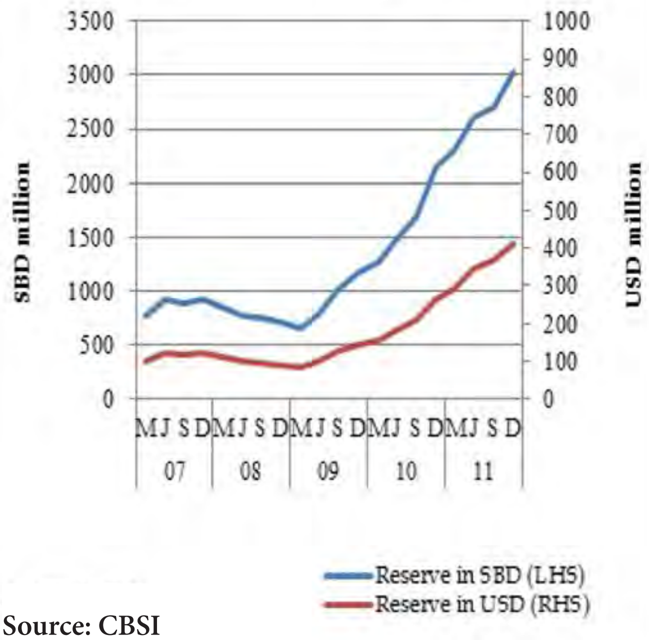
	2009	(SBD millions) 2010	2011
Total external debt stock	**1,887**	**2,502**	**2,865**
Private Sector	831	1,459	1,887
Government Sector	1,056	967	829
of which arrears	*26*	*6*	-
IMF credit and loans from the IMF	-	76	149
Govt actual external debt service	**68**	**84**	**63**
Principal	53	70	50
Interest	15	14	13

Source: CBSI

Foreign Reserves

Solomon Islands gross foreign reserves grew to a record $3,034 million (USD412 million) at the end of 2011, up from $2,144 million (USD266 million) in 2010 (See Figure 4.5). This significant outcome was due to high levels of receipts related to trade, fishing licenses, donor capital grants and the proceeds of the remaining tranches of the IMF SCF. These receipts more than offset the moderate increase in payments from the reserves.

Figure 4.5: Gross Foreign Reserves



Source: CBSI

This robust level of foreign reserves was equivalent to 10 months of import cover for goods and services at the end of 2011 compared to the 9.3 months at the end of 2010.

Exchange Rates

The Government revalued the Solomon Islands dollar (SBD) by 5% in June 2011 as part of measures to contain inflationary pressures in the economy. In terms of the real effective exchange rate (REER)[7], the adjustment saw the SBD appreciate year-on-year by 15% against the basket of tradable currencies (See Figure 4.6). The real effective appreciation indicated that Solomon Islands exports were comparatively less

7. REER is the exchange rate based on the trade weighted basket of currencies of trading partners and adjusted for inflation.

competitive. Imports on the other hand were relatively more competitive which helped minimize imported inflationary pressures during the year.

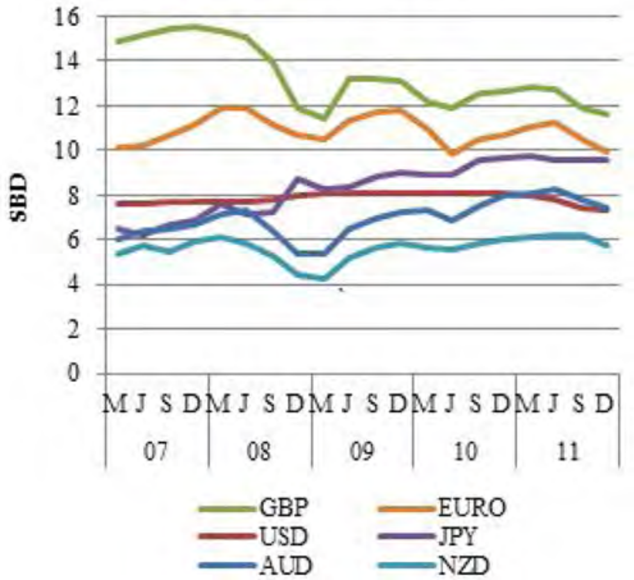
In nominal terms, the SBD appreciated by 5.2% against the US dollar to an annual average of $7.64 per USD compared to the previous year of $8.06 per USD. On a monthly basis, the SBD experienced incremental appreciation during the year. From $8.06 per USD in December 2010, it rose 6.3% to $7.55 per USD in June 2011. It ended the year at $7.36 per USD in December 2011; an appreciation of 8.8% from December 2010 (See Figure 4.7). The positive movement of the SBD stemmed from the 5% revaluation of the SBD against the USD in June along with a gradual average appreciation of 0.9% through the first three quarters of the year. The movement of the SBD against the USD is important to the economy given that the USD is the largest invoice currency for exports and major import items including rice and fuel.

Figure 4.6: Real Effective Exchange Rate (REER)

Source: CBSI

Compared to the AUD, the second largest invoicing currency, the SBD posted an annual average depreciation of 6.3% to $7.89 per AUD. On a monthly basis, the SBD depreciated by 5.6% from $7.97 per AUD in December 2010 to $8.42 per AUD in May 2011. This was reversed after the 5% revaluation in June with the SBD rising through the remaining part of the year to trade at $7.45 per AUD in December 2011; an appreciation of 7.1% from the same period the previous year.

Figure 4.7: Exchange Rates



Source: CBSI

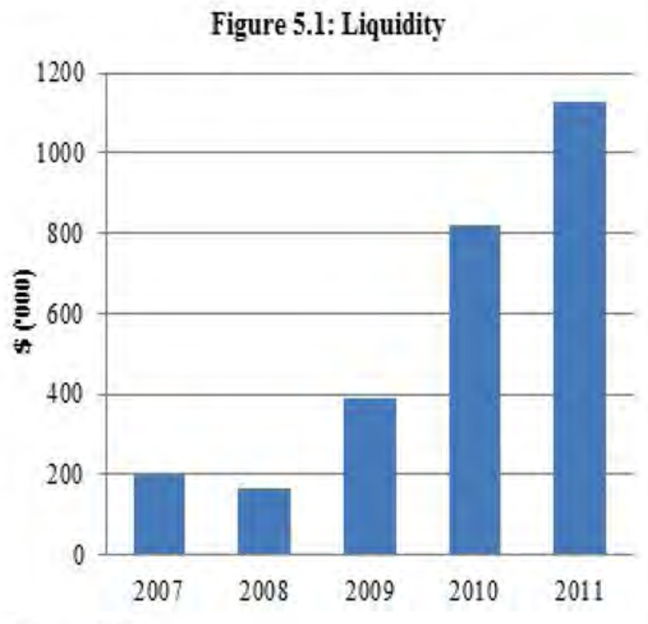
Against the other trading partner currencies, the SBD in 2011 on average appreciated by 1.8% against the British pound to $12.26 per GBP and by 0.5% against the Euro to $10.66 per EUR. However, the SBD depreciated by 4.6% against the New Zealand dollar to $6.05 per NZD, and by 4.2% against the Japanese yen to $9.59 per 100JPY during the year (See Figure 4.7).

5. MONEY AND BANKING

Liquidity in the banking system continued to increase across 2011, although at a reduced pace compared to 2010. Growth in the money supply was fuelled by the same movements which dictated the growth in liquidity by the end of the year. Meanwhile, the increase in domestic credit in the banking system remained subdued in 2011; however, a rise in the level of very short-term credit extension was recorded. Nominal deposit and lending rates fell during the year. Real deposit rates turned negative by the end of 2011 whilst real lending rates declined to near-zero levels.

Liquidity

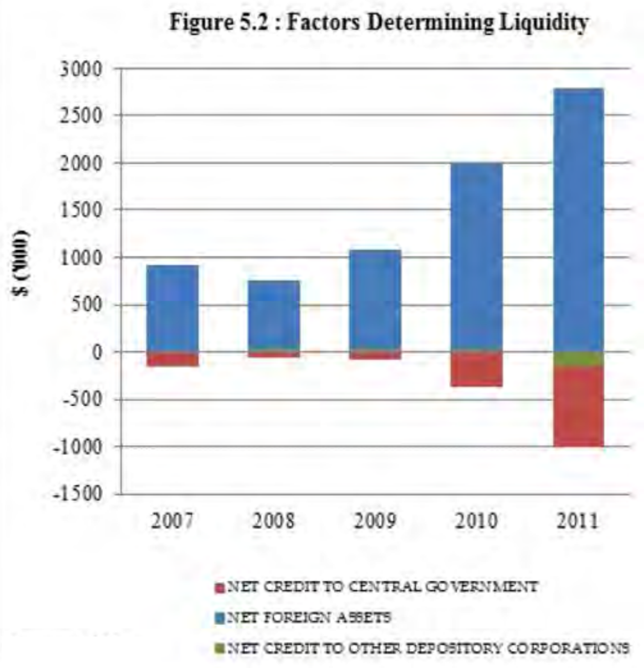
Total liquidity in the banking system increased by 37% to $1,126 million whilst in 2010 liquidity more than doubled during the year (See Figure 5.1). The comparatively restrained growth reflected slower growth in the net foreign assets (NFA) of the Central Bank of Solomon Islands (CBSI) and continued accumulation of assets by the Government as well as an increase in assets of financial institutions during the year.



Source: CBSI

The NFA of CBSI increased by 43% to $2,778 million at end-2011, compared to an 85% increase across 2010. In 2011, the increase in foreign reserves was driven primarily by inflows from trade receipts, donor inflows, foreign direct investment and proceeds of the IMF Standby Credit Facility.

During the year, the movement in net domestic credit reflected the position of net credit to Government. Government deposits held with CBSI more than doubled to $941 million reflecting the fiscal surplus recorded by year-end and the Government's commitment to maintain a buffer of at least two months of cash reserves. Credit to Government, as in 2010, declined marginally as the Government adhered to its commitment under the Honiara Club Agreement such that the accumulation of deposits dominated the position of net credit to Government (See Figure 5.2).



Source: CBSI

Net credit to other depository corporations moved from a positive position at end-2010 to a negative position in 2011 (See Figure 5.2). This reflected the build-up of liabilities by CBSI to domestic financial institutions with the stock of Bokolo bills increasing across the year.

Narrow Money

The narrow measure of money supply (M1) increased by 44% to $1,873 million. This reflected a 56% increase in transferable deposits to $1,392 million and, to a lesser extent, a 17% increase in currency in circulation.

Broad Money

Broad money (M3) recorded a 26% rise to $2,610 million. The rise in M3 was dampened by a 4% fall in 'other deposits' to $737 million reflecting a fall in term deposits when compared against end-2010. New classification of some deposits, however, was behind the large drop in 'other deposits' in January 2011. After the fall, 'other deposits' grew overall by the end of the year. Driving the growth in M3 was a significant rise in the NFA of the financial system which in turn, reduced net domestic credit in the system.

The NFA of CBSI represented 97% of the total NFA of the financial system by end-2011, so that the movement in the NFA of CBSI dictated the 44% increase in the NFA of the whole banking system.

The movement in net domestic credit was driven by the build-up of Government deposits in the banking system to $1,070 million by the end of 2011. Of this, $941 million was held with CBSI and $129 million was held with other depository corporations.

Domestic Credit

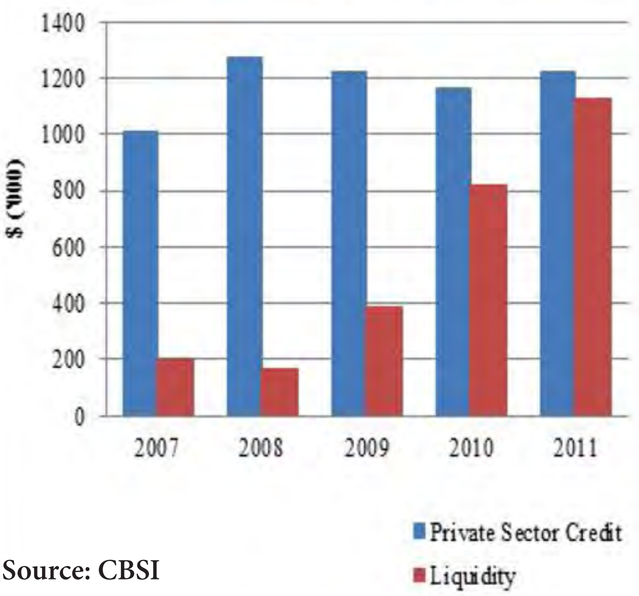
Credit to the Government was constrained in line with the Government's commitment to the Honiara Club Agreement. In accordance with the agreement, the level of net credit held by the Government from financial institutions declined from $238 million a year ago to $204 million in 2011, due to a reduction in credit from both CBSI and other depository corporations.

Despite the 40% increase in free liquidity, credit to the private sector rose by just 5% to $1,222 million in 2011 (See Figure 5.3). The rise reflected a 4% rise in credit to both the non-financial and resident sectors.

The rise in private sector credit was fuelled by an increase in short-term lending to the forestry sector in the form of export credit rather than normal term loans or overdraft facilities. This shorter-term lending accounted for 7% of total lending by the end of 2011 compared to 5% at the end of 2010. Excluding this short-term credit, private sector credit grew by a more muted 1.3% across 2011.

The sectors that registered increases in credit were the construction sector with a 13% rise to $169 million; the tourism sector with a 14% rise to $78 million; the transport sector with a 21% increase to $59 million; and credit to the personal sector increased by 4% to $310 million. In contrast, manufacturing, fisheries and communications sectors saw declines in credit.

Figure 5.3: Liquidity and Private Sector Credit



Source: CBSI

Total value of non-performing loans (NPLs), however, declined from $82 million at the start of the year to $67 million by end-2011. The fall was due mainly to restructuring NPLs and some secondary repayment through legal reenforcements.

Interest Rates

The nominal weighted average deposit rate offered by financial institutions declined to 1.4% from 2.6% at the end of 2010 (See Figure 5.4). The fall in deposit rates indicated the high levels of liquidity in the financial system. Similarly, the nominal weighted average lending rate offered on commercial and personal loans and advances fell to 11.5% by the end of 2011 from 13.4% a year back. Following the above movements in nominal deposit and lending rates, the interest rate margin declined, marginally, from 10.7% at end-2010 to 10.2% at the end of 2011 (See Figure 5.4).

In real terms[8], deposit rates went from a positive position at the end of 2010 to a negative position by the end of 2011 due to the increase in headline inflation in 2011 and, to a lesser extent, the fall in nominal rates. Similarly, real lending rates fell from 12.7% at the end of 2010 to 1.3% by the end of 2011, indicating the sharp decline in the real cost of borrowing across the year. Higher inflation and the fall in nominal lending rates were the main drivers behind the fall in real lending rates.

Figure 5.4: Nominal Lending and Deposit Rates

Source: CBSI

Monetary Policy

The CBSI's new liquidity management framework came into effect during 2011, which was designed to develop CBSI's ability to influence the level of free liquidity in the financial system and ultimately demand in the economy. In February, in line with the new framework to develop an indirect tool of monetary policy and develop the domestic debt market, CBSI began to re-issue Bokolo bills[9].

In light of high international fuel and non-fuel commodity prices at the beginning of the year and with a comfortable level of foreign reserves, CBSI used the exchange rate as a complementary tool of monetary policy to cushion domestic prices. In June the one-off 5% appreciation assisted to contain inflationary pressures from imported items.

Open Market Operations

By end-2011, the total stock of Bokolo bills stood at $240 million and the weighted average yield offered on the bills stood at 0.95%. As a proportion of liquidity, the stock of Bokolo bills accounted for 25% by the end of the year.

In 2011, CBSI continued to facilitate the auctioning of Treasury bills on behalf of the Government. Treasury bills with a total value of $110 million were floated, with $103 million accepted. The volume of Treasury bills has been raised from $30 million to $40 million. As in previous years, demand for Treasury bills significantly out-weighed the amount offered with a total value of bids of $262 million far surpassing the value of securities auctioned. The average weighted yield on Treasury bills with 56-day and 91-day maturities fell by the end of 2011 to 2.0% and 2.4% respectively when compared against end-2010. In contrast, the average weighted yield offered on 182-day Treasury bills increased marginally by the end of the year to 2.89% (See Table 5.1).

Table 5.1: Open Market Operations- Interest Rates

	2009	2010	2011
Bokolo bills			
28-day	-	-	1.00%
Treasury bills			
56-day	3.60%	2.50%	2.00%
91-day	4.00%	2.80%	2.40%
182-day	-	2.85%	2.89%

Source: CBSI

8 Real rates are calculated using headline inflation figures provided by the National Statistics Office. Negative real deposit rates indicate an erosion of purchasing power of savings

9 Bokolo bills with a 182-day, 273-day and 365-day maturities were issued in October 2008 and phased out in 2010. The issuance of Bokolo bills in 2011 refers only to the extension of 28-day bills to other depository corporations

6. GOVERNMENT FINANCE

Preliminary data from the Government showed an overall fiscal surplus of $353 million in 2011. This was much higher than anticipated and continued the positive results seen in the previous two years. This positive trend came from a combination of increases in domestic revenue collection and the ongoing budgetary support from donor partners. In addition, savings from the underspending in the capital budget also contributed to the overall surplus. The Government continued to build up its deposits in the banking system to meet its policy objective of maintaining cash reserves equivalent to two months of recurrent expenditure.

On debt, the Government maintained its policy to reduce public debt in line with the Honiara Club Agreement. This saw public debt falling by 13% over the year to $191 million.

Revenue

Total revenue and grants received in 2011 rose by 6% above the revised budget to $2,628 million. This was a year-on-year increase of 16% over actual revenue in 2010. The favourable outcome was attributed to donor grants that far exceeded the budgeted amount combined with marked improvements in domestic revenue.

Grants received from donors amounted to $395 million while domestic revenue increased by 28% to $2,233 million. Inland Revenue Division (IRD) contributed $1,338 million of the total domestic revenue. This was followed by the $700 million collected by the Customs and Excise Division (CED), and $195 million from other ministries. Domestic revenue as a proportion of GDP rose to 40% in 2011 from 37% in 2010, as a result of increases in major tax revenue categories (goods tax, PAYE, import duties, excise tax, and sales tax) and fishing licenses.

Inland Revenue Division (IRD)

The collections from IRD fell slightly against the revised budget by 2% to $1,338 million due to overly optimistic revised estimates in key categories except for total withholding tax which exceeded budget by $21 million to $143 million.

Of those revenue categories that underperformed against their budgets, goods tax recorded the largest share of the shortfall of $18 million to $553 million. This was followed by PAYE which was below budget by $15 million to $325 million. Similarly company tax was short against the budget by $7 million to $224 million. Stamp duty and sales tax were off budgets to $67 million and $7.8 million respectively.

However, year-on-year comparisons showed IRD collection in 2011 was 21% (or $231 million) higher than the collection in 2010. This positive outturn reflected significant increases in all major tax categories, indicating that domestic economic activities picked up substantially during the year. In addition, the tax agency had strengthened its monitoring and compliance mechanisms during the year that contributed to the strong year on year outcome.

Goods tax increased $147 million to $553 million, followed by private sector PAYE which increased by $40 million to $235 million. The increase in the latter category could be attributed to an increase in tax registrants resulting from rising employment numbers in some sectors as well as a general increase in income levels that pushed more people into higher PAYE tax brackets. Company tax revenue outperformed the previous year by $7 million to $224 million. Similarly sales tax increased by $16 million over 2010 to $67 million, indicating some growth in the services sector. Licenses posted a negligible increase of $1 million to $8 million.

Customs and Excise Division (CED)

CED collected $700 million in 2011. This was 11% above the 2011 revised budget and outperformed the 2010 actuals by 41%. The positive outcome was largely driven by import duties, log export duty and excise tax. Improvement in monitoring and compliance mechanisms at the trading ports in 2011 also contributed to positive results in revenue collections.

Import duties outperformed the revised budget by 20% (or $31 million) to $186 million. Year on year comparisons also saw import duty improving markedly by $45 million in 2011 from $141 million in 2010.

The major factors behind this positive development were increases in import volumes and values in certain categories. Additionally, there were cutbacks in the value of exemptions granted during the year which contributed partially to the rise in the effective tax rate to 7% from 6% in 2010. Thirdly effective policing by CED at the point of entries for imported goods also contributed positively to import duty collections.

Log export duty totaled $369 million during the year. This was 6% above budget reflecting exceptionally high log export volumes and the quarterly incremental adjustments in the log determined value to 97% of international log prices by year end. As in previous years, log duty dominated CED revenue. In 2011, log duty was 53% of total revenue collected by the CED from 48% in 2010. However the increasing ratio raises concerns over fiscal sustainability if log revenue declines in the medium term.

Revenue from excise duties increased by 11% (or $14 million) above budget to $132 million, benefiting largely from the upward revisions in excise rates in early 2011 and increased imported volumes for excised goods. This was an increase of $26 million over the excise collection of $106 million in 2010.

Export duties received from non-log exports increased from $5 million in 2010 to $11 million. Minerals made up $5.5 million of total non-log export duties followed by fish with $2.2 million and other marine products at $1.5 million. The remaining $1.7 million was accounted for by duties on other exports. On the other hand, agricultural commodities such as copra, cocoa, and palm oil continued to receive export duty exemptions in 2011.

Other Ministries

Non tax revenue received from other Government ministries was $195 million in 2011, 39% above 2010. Ministry of Fisheries was the largest contributor to non-tax revenue, mainly licenses fees from bilateral and multilateral fishing arrangements. Included in the fisheries receipts were funds channeled through the Parties to the Nauru Agreement.

Grants

A total of $395 million in donor grants were received by the Government through its consolidated account in 2011, an increase of $103 million over the budget. This comprised of $232 million in recurrent budget support and $164 million in development grants.

The recurrent budget support comprised of $140 million from AusAid of which 83% went to the health sector and 18% to the education sector. The remaining portion of the budget support came from New Zealand, $55 million and $37 million from the Asian Development Bank. The Government also received $164 million in development grants during the year. These funds were channeled through the normal Government's budget process and comprised mainly of $73 million from ROC Taiwan and $91 million from the European Union and other donor partners.

Donor partners also provided development assistance outside of the normal budget processes of the Government. These non-appropriated funds accounted for more than half of the Government's development budget.

Expenditure

Overall expenditure in 2011 exceeded the revised budget by 2% to $2,275 million. The budget overrun was associated with increases in payroll costs and spending on other goods and services. Comparing the actual expenditure performance in recent years, expenditure growth picked up momentum from 10% in 2010 to 22% in 2011.

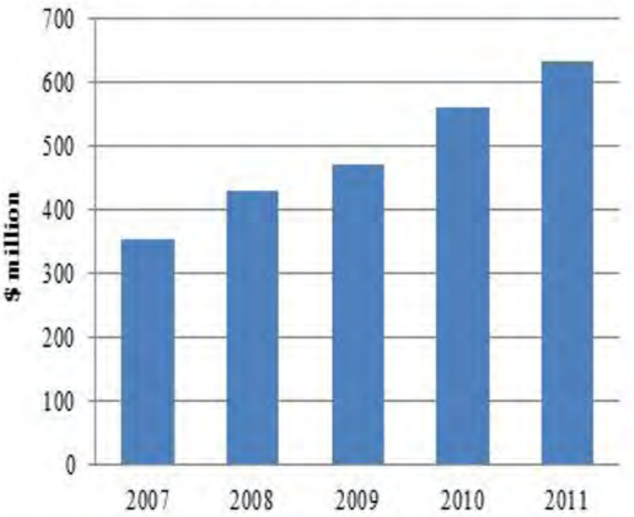
The overall expenditure comprised of $1,842 million in recurrent expenditure and $433 million in development expenditure. Recurrent expenditure rose by 8% while development expenditure rose by 18% in 2011.

The ratio of recurrent expenditure to locally sourced revenue continued to trend downward from 107% in 2008 to 82% in 2011. This trend implied that the Government has adequate fiscal space in the near term to wholly finance recurrent expenditure and still able contribute some resources towards productive capital expenditures. This positive outcome came on the back of ongoing reform programs the Government instituted with the assistance of RAMSI to harness the budgetary processes. However, some of the challenges posed were how the Government could contain unnecessary expenditures as well as raising the quality of expenditures.

Payroll

Payroll costs outpaced budget by 6% to $625 million (See Figure 6.1). The overspending in this category stemmed from a 4% cost of living adjustment (COLA) that was back-dated to the beginning of 2011 and a slight increase in the public sector workforce mostly in the essential services.

Figure 6.1: Payroll Expenditure



Source: Ministry of Finance and Treasury

Despite the increase in payroll costs in absolute terms, the ratio of payroll costs to recurrent expenditure fell from 37% a year ago to 34% suggesting that the Government was able to allocate more resources to non-payroll expenditure particularly towards the provision of goods and services, and debt repayment. Furthermore growth in payroll expenditure slowed down in 2011 comparative to the average annual growth of 23% in 2007 to 2010.

All Government ministries except for Ministry of Finance and Treasury, Auditor General, Ministry of Home Affairs, and National Judiciary overspent their payrolls. Major overspending were recorded in the Ministry of Education, Human Resources Development which outperformed budget by $18 million to $251 million, an increase of $26 million from 2010; Ministry of Health and Medical Services exceeded budget by $21 million to $140 million; Office of the Prime Minister by $15 million to $36 million; and National Parliament by $14 million to $27 million.

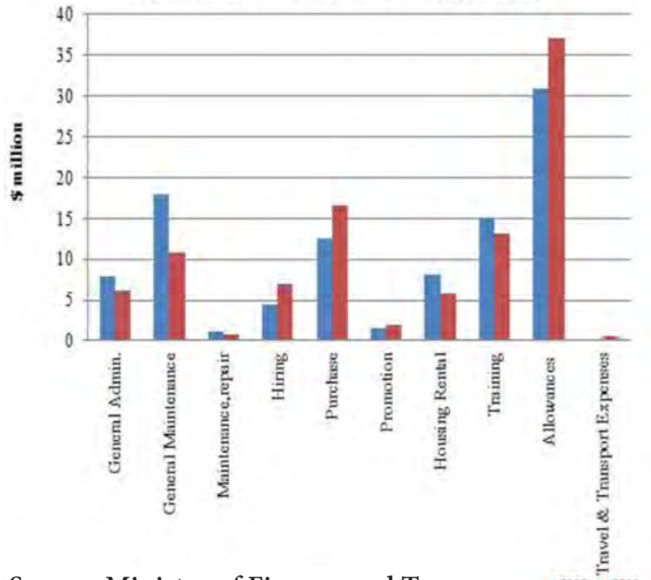
Non Payroll Expenditure

Non payroll expenditure in 2011 increased against budget by $30 million to $913 million. This was a growth of 22% or $185 million from 2010. The increase in non-payroll cost was expected as the Government increased service provision to compensate for the massive scale down in 2009.

In 2011, key services ministries were among those recording large expenditure increases. The Ministry of Education, Human Resources and Development accounted for the largest expenditure share at 22% after it increased by $65 million over the year to $200 million. This was followed by Ministry of Health and Medical Services with a $22 million increase to $109 million. Ministry of Finance and Treasury expended an extra $20 million over 2010 to $61 million. The Office of the Prime Minister also recorded expenditure growth of $16 million to $72 million. According to the Ministry of Finance and Treasury, $105 million was used to repay Government debt.

Other Ministerial programs which included grants from Government represented 35% of non-payroll expenditures (See Figure 6.2). Government grants to various stakeholders including but not limited to provincial governments, school authorities, health authorities, churches, and women groups accounted

Figure 6.2: Other Government Spending by Category



Source: Ministry of Finance and Treasury for almost one fifth of non-payroll costs. Training was the second highest at 17%, followed by utilities and equipment categories at 13% and 11% respectively.

Development Expenditure

According to the Ministry of Finance and Treasury, development expenditure including donor funded spending that came through the consolidated account fell by 18% the below revised budget estimates to $433 million. This overall outcome mirrored Solomon Islands Government (SIG) contribution which fell against budget by 22% to $347 million. On the other hand, donor funded expenditure was around $86 million, $6 million higher than the expected amount. Compared to a year ago, capital expenditure improved by 22%.

The SIG funded component was mostly to infrastructure projects followed by productive sector, general public service, and social projects. The majority of donor spending went towards economic and productive sector projects.

Gizo Hospital funded by Japanese Government - Source: Solomon Star Ltd

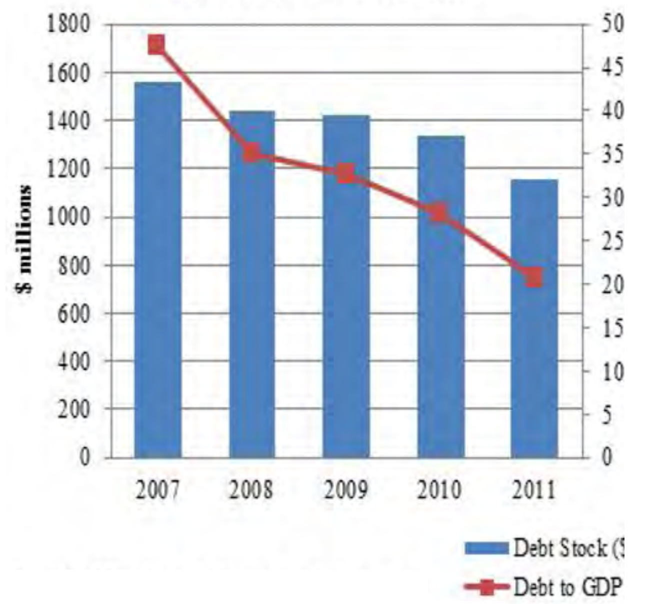
Non-appropriated capital expenditures that were administered by donor partners continued to be implemented outside of the normal government budgetary processes during the year. Of the non-appropriated estimates of $1,572 million, Ministry of Development Planning and Aid Coordination reported that $1,289 million was spent by donors during the course of the year. Some of the ongoing major projects that were financed under the non-appropriated sources were the Auki Jetty, Gizo hospital, provincial wharves and bridges, aviation works at the airports, and the police houses built across the provinces under RAMSI support. The education and health sectors also received significant assistance from donors during the year.

However, lack of absorptive capacity within implementing ministries and private sector was cited as a major hindrance that prevented most projects from being implemented fully during the year.

Public Debt

Public debt stock at the end of 2011 declined by 13% to $1191 million from $1,373 million in 2010. (See Figure 6.3). The drop was attributed to continued debt repayment and the appreciation of the SBD against debt denominated currencies during the year. This resulted in a debt-to-GDP ratio of 19% at end-2011 from 25% at end-2010[10]. This lower ratio highlighted the dramatic fall in debt-to-GDP from 53% in 2005 when the Honiara Club Agreement was signed[11].

Figure 6.3: Public Debt Stock



Source: Ministry of Finance and Treasury

10 Debt to GDP ratios calculated using CBSI GDP estimates for 2010 and 2011.

11 In 2005 the Government signed the Honiara Club Agreement. Under the conditions of the Agreement, the Government agreed to no further borrowing (both external and domestic) until the country reaches 'green light' status under the World Bank/IMF Debt Sustainability Framework.

The external debt stock at the end of the year was $866 million. The appreciation of the SBD against debt denominated currencies during the year was the major factor behind the fall. The domestic debt stock also declined to $324 million at the end of 2011, compared to an expected level of $333 million in the revised budget. This resulted from higher than expected repayments of Government's restructured bonds.

At the end of the year, Government contingent liabilities totaled $100 million compared to $66 million in 2010 due to a $35 million extension relating to the awarding of an additional telecommunication license in 2010.

Total debt service payments in 2011 were $105 million, higher than the revised estimated repayment of $94 million. The ratio of debt servicing to revenue declined to 4% in 2011 from 5% in 2010 suggesting that the government has fiscal space for non-debt related expenditures. Further, the ratio of total debt servicing to earnings from export of goods and services dropped from 6% in 2010 to 3% in 2011 on the back of exceptional export performance during the year.

Office of the Auditor General

The Office of the Auditor General (OAG) audited most of the accounts of the SOEs, Government ministries and public entities up to 2010. Most of the accounts were current, but auditing depended on submission of the reports to the OAG. In 2011, four of these accounts were outsourced, including Central Bank of Solomon Islands, Solomon Islands National Provident Fund, Solomon Islands Electricity Authority and the Solomon Islands Water Authority.

Budget Outlook

In the 2012 budget, the Government committed itself to a comprehensive financial management and budget reform program. The reform program aims at reducing expenditure wastages, ensuring ministries have adequate resources to deliver services, build infrastructures, and lay the foundations for economic growth. As part of the reform program, the Ministry had taken steps to improve the budgeting process in terms of consultations, accountability and expenditure analysis. To complement these budgetary processes, the Government will continue to develop a procurement reform program; review the Public Finance and Audit Act 1978; and upgrade the financial management information system.

The Government anticipates a fiscal surplus of $2 million in 2012 on the basis that the expected expenditure of $3,170 million will be financed from the $3,032 million in revenues generated in 2012 combined with a drawdown of $108 million from prepaid grants in 2011 and $32 million from the National Transport Fund for certain development projects.

Total revenue and grants[12] are expected to reach $3,032 million on the back of a 21% increase in tax revenue supported by a 39% increase in grants. Domestic revenue as a proportion of GDP is estimated to be 42% in 2012 compared to 40% in 2011. Overall expenditure is expected to reach $3,170 million on the back of a 23% increase in spending on Government goods and services and a significant increase in SIG contribution to development expenditure. As a proportion of GDP, total expenditure is anticipated to be 50% compared to 41% in 2011[13].

The public debt stock is anticipated to drop over 2012 to $975 million by the end of the year with $250 million expected to go towards debt servicing. Correspondingly, the debt-to-GDP ratio at end-2012 is projected to fall further to below 15%. In anticipation of the review of the Honiara Club Agreement, the Government has developed a Debt Management Strategy in 2011 that should be finalised in the first half of 2012.

12 2012 budget estimates are compared throughout against 2011 revised budget estimates

13 CBSI estimated 2011 GDP and forecasted 2012 GDP figures have been used in the calculation

7. FINANCIAL SYSTEM

Solomon Islands financial system in 2011 comprised of branches of three foreign commercial banks, a branch of a foreign credit institution, nineteen active credit unions, a superannuation fund, a development bank [under court administration], three insurance companies and seven intermediaries. Other financial services providers included licensed money transfer agencies, currency exchange bureaus and saving clubs.

Bank South Pacific & S I Credit Corporation Offices - Source: CBSI

Commercial Banking

The financial condition of the banking sector remained sound and profitable. Aggregated, profits after tax for 2011 was $84.7 million, a fall of $23.5 million against the $108.2 million recorded for 2010. The lower profit was due to a combination of increase in operating expenses, rise in bad & doubtful debts and decline in revenue earned. Consequently the return [pre-tax] on average assets (ROAA) fell to 5.1% from 7.8% in 2010 and the return [pre-tax] on average equity (ROAE) fell to 28.1% from 45.1% in 2010. These falling ratios were also aided by growths in the denominators, average asset and average capital, of around 20% and 25% respectively.

Major operating expenses were from personal, administration and outsourcing service fees and charges incurred by the branches, which rose by 14% to $142.6 million whilst bad & doubtful debt expenses increased from $4.9 million to $19.6 million. This resulted in the deterioration of cost to income ratio to 55% from 43% in 2010, indicating that for every dollar of income earned, the branches spent 55 cents in 2011; however, this ratio is still below the benchmark of 60%, which would be termed as an inefficient operation.

Table 7.1 Summary of Commercial banks financial performance [SBD million]

	2009	2010	2011
Income	**297.3**	**301.0**	**295.8**
Net interest income	156.5	132.2	135.2
Noninterest income	140.8	168.8	160.6
Expenses	**126.4**	**129.7**	**162.2**
Operating expenses	111.6	124.8	142.6
Bad and doubtful debts	14.8	4.9	19.6
Profits			
Net operating profit before tax	170.9	171.4	133.6
Net profit after tax	111.9	108.2	84.7

*Revised figures 2010

Source: CBSI

Combined banks overall assets posted an increase of 26.4% to $2989.0 million in 2011. The increase was largely due to increases in demand balances from depository institutions to $1308.0 million. Total lending remained fairly stagnant, however it picked up towards the end of 2011 by 3.3% to $1124.0 million reflected by increases particularly to the construction, transport, personal and tourism sectors.

Liquid assets remained high with total broad liquid assets [incl. currency notes & coins, net balances due from depository institutions and debt securities] held by the banks increased to $1611.3 million in 2011. In terms of the ratio of broad liquid assets to total assets, liquid assets made up 56.0% of the banks' total assets, The ratio of core liquid assets to short term liabilities was 70.6% in 2011, indicating the banks' ability to meet their near term obligations as they fall due.

Consolidated capital of the banks amounted to $528.7 million in 2011 compared to $435.3 million in 2010, driven mainly by retained earnings. As such, total regulated capital to risk weighted assets at 24.6%, exceeded the 15% minimum prescribed requirement, indicating that banks were adequately capitalized.

Bank's asset quality measured in terms of the level and severity of non-performing loans (NPL) defined as Loans Past Due 90 days or above as a ratio of total

NPLs, improved during the year to 5.9%. In terms of value, NPLs was $66.8 million in 2011 compared to $86.1 million in 2010. The overall improvement was mainly due to debt restructuring as well as settlements particularly from proceeds of sale of collateral. In terms of specific provisions to NPLs banks reported 44.3% coverage in 2011 compared to 19.0% in 2010.

Table 7.2 Solomon Islands Financial Soundness Indicators (in percent)

	2009	2010	2011
Capital Adequacy:			
Regulated capital to risk weighted assets	22.0	22.7	24.6
Tier 1 Capital to risk weighted assets	15.6	22.7	24.6
NPLs net of provisions to capital	9.3	15.0	6.7
Asset Quality:			
Non-performing loans to total gross loans	3.8	7.9	5.9
Sectoral distributions of loans to total loans			
Personal	25.7	27.4	27.4
Distribution	15.2	16.6	15.2
Forestry	10.2	12.5	11.5
Telecommunication	10.1	8.1	8.0
Manufacturing	9.1	6.3	5.5
Construction	9.0	13.1	14.2
Tourism	5.1	6.3	7.0
Transport	5.0	3.0	3.8
Fishing	4.6	0.6	0.2
Professional Services	3.4	4.7	4.7
Agriculture	1.7	0.6	0.8
All others	0.8	0.9	1.8
Earning and Profitability			
Return on Average Assets (before tax)	9.1	7.8	5.1
Return on Average equity (before tax)	52.6	45.1	28.1
Interest Margin to gross income	52.6	43.9	45.7
Non-interest expenses to gross income	42.5	43.1	54.8
Liquidity			
Liquid assets to total assets (liquid asset ratio)	33.4	47.7	56.0
Liquid assets (core) to short tem liabilities'	54.8	65.5	70.6

*** Revised indicators 2010**
Source: CBSI

During the year, banking services infrastructure in the country were reduced especially in the number of branches & agencies and mobile bank vehicles. Banks withdrew their presence from areas where their operations were considered uneconomical. Electronic banking facilities however, expanded in 2011 with increased number of Automatic Teller Machines [ATMs] to 36 and EFTPOS to 175 (See Table 7.3).

Table 7.3 Number of bank branches and electronic banking facilities

	2009	2010	2011
Bank Branches	14	14	13
Bank Agencies	*9*	*9*	*7*
ATMS	22	35	36
EFTPOS	127	137	175
Mobile bank Vehicles	2	3	2

Source: CBSI

Supervisory Developments and Legislation

The CBSI revised Prudential Guideline No.5 on Large Credit Exposures in November 2011. The revision to the definition of capital meant that foreign branches could include the consolidated capital of their parents for purposes of determining their credit exposure to a single borrower or group of related borrowers.

As part of its role to ensure that licensed financial institutions operate in a prudent manner, the Central Bank conducted four onsite examinations during the year on bank branches and Credit Unions with the assistance of the Pacific Financial Technical Assistance Centre [PFTAC] based in Fiji.

Progress on legislative reforms had been slow in 2011. As a result the Solomon Islands National Provident Fund [SINPF] draft bill is still with the Economic Reform Unit [ERU] of the Ministry of Finance and Treasury [MOFT] and consultations with stakeholders on the bill is pending. An internal taskforce has been established to support ERU to ensure the review and drafting of the bill is consistent with the 2005 SINPF draft bill. The new bill aims at enhancing the prudential supervision and management of SINPF and to protect the interests of the contributors to the Fund.

In addition, draft amendments of the Credit Union Act and changes to the Credit Union Regulations were put on hold subject to an Asian Development Bank's [ADB] funded Technical Assistance review during the year. The recommendations from the review would be considered and incorporated into the bill. The draft Insurance bill 2008 is also pending for consultation purposes.

Credit Institutions

Credit Corporation Solomon Islands Limited [CCSIL] posted an audited after tax profits of $5.3 million in 2011. Compared to 2010, this was an increase of $3.2 million driven by increased interest earnings from their core revenue, as reflected by their strategy to grow the loan book following a decline in 2010. This resulted in the increase in both return [after tax] on average asset (ROAA) and return [after tax] on average equity (ROAE) to 10.6% and 25.0% respectively from 7.7% and 14.7 % in 2010.

Growth in the balance sheet, which began in the fourth quarter of 2010 further expanded in 2011 recording a sharp growth to $69.3 million compared to $30.5 million in 2010. The increase was fueled by strong growth in lending, particularly to the personal sector by 180%, distribution and professional services by 140% and, transport and construction sectors by 50%.

CCSIL remained well capitalized with an additional $10 million capital injection by its parent company in December 2011, which boosted total capital to $27.2 million representing 45.2% relative to risk weighted assets.

Credit Unions

Nine credit unions, particularly those larger credit unions in Honiara continued reporting their activities to the Registrars' Office in 2011.

The consolidated balance sheet of credit unions increased by $8.5 million to $51.7 million in 2011 reflecting the $6.2 million increase in lending activities to $37.3 million (See Table 7.4). In terms of capital, members share capital also went up to $42.7 million in 2011 compared to $36.8 million in 2010. This result was mainly due to the increase in savings and share contributions by members.

Credit Unions profitability rose to $3.1 million in 2011 driven by increased interest income combined with a fall in operating expenses in 2011.

Consequently, their sustainability indicators improved over the year showing credit union performances with return on asset and return on equity of 6% and 7% respectively. The self-sufficiency ratio in 2011 stood at 241% indicating that credit unions were able to cover their overhead expenses and maintain surplus revenue.

During the year, two onsite examinations and ten follow-up visits were conducted for credit unions in Honiara. The onsite examinations were conducted for Royal Solomon Islands Police Credit Union Limited (RSIPCUL) and Bokolo Credit Union Limited (BCUL). The examination report found that the critical issues facing credit unions were the lax corporate governance practices and, compliance with relevant policies and procedures.

Table 7.4 Summary of Credit Union Financial Statement

			(SBD million)
	2009	2010	2011
Balance Sheet			
Total Assets	37.2	43.2	51.7
Total Loans	25.6	31.1	37.3
Members Share Capital	34.3	36.8	42.7
Income Statement			
Total Income	3.5	4.7	5.3
Total Expenses	2.0	2.4	2.2
Net Profit (loss)	1.5	2.3	3.1
Statistics:			
No. of Members	4,010	4,138	6,320
Indicators:			
Self Sufficiency ratio	175%	196%	241%
Return on Asset	4%	5%	6%
Return on Equity	4%	6%	7%

Source: CBSI

One of the major highlights in 2011 was the 'International Credit Union Day' commemorated on the 20th October 2011. The Registrars' Office and Solomon Islands Credit Union League [SICUL] jointly organized the one-day event and highlighted the important economic and social contributions credit unions make to their communities worldwide.

During the year, CBSI provided financial support to SICUL under a 3-year Memorandum of Understanding [MOU] signed in 2010, purposely to assist SICUL to perform its mandatory responsibilities to its member credit unions.

With the support, SICUL conducted various trainings for Honiara and rural based credit unions on the roles and responsibilities of the Board and supervisory committee as well as training on leadership, planning and financial management and, on formulation of Business plans, capital and financial planning. In addition SICUL conducted a financial education workshop during the Lagoon Festival at Munda in the Western Province and, made visits to Savings clubs in Makira/Ulawa Province. SICUL also assisted credit unions to update their financial accounts and preparation of financial reports to the Registrars' Office.

International Credit Union Day Meeting - Source : CBSI

Solomon Islands National Provident Fund (SINPF)
The SINPF recorded overall positive performance in 2011 despite some adverse impacts on its investment performance and earnings particularly, in relation to foreign currency movements on their offshore investments.

The SINPF balance sheet increased to $1324.9 million compared to $1180.7 million in 2010. This was reflected by increases mainly in cash and term deposits as well as its investment portfolio through loans and bonds to its subsidiary companies, Solomon Telekom Limited and Solomon Islands Home Finance Limited.

In terms of the Fund's liabilities, members' contributions, which accounted for 91.6% of its liabilities, reached $1213.6 million in 2011 compared to $1180.7 million in 2010.

For 2011 financial year end, the audited net profits of the Fund increased to $87.8 million attributed to dividends received from both quoted and unquoted shares (See Table 7.5). Gains on changes in fair market value on investment properties and foreign exchange from offshore investments also contributed to profitability.

Table 7.5 Summary of SINPF Financial Statements

Balance Sheet (Up to December 2011)			*(SBD Million)*
	2009	**2010**	**2011**
TOTAL ASSETS	**1050.0**	**1180.7**	**1324.9**
Cash	24.5	37.6	91.2
Term Deposits	429.7	436.0	460.4
SIG Debt Securities	107.1	108.3	104.3
Loans and Bonds	43.9	111.7	124.9
Equity Shares	271.1	313.6	300.6
Fixed Assets	121.6	124.1	187.2
Others	52.1	49.4	56.3
Income Statement (*Up to June 2011*)			***[SBD million]***
NET PROFIT	**33.1**	**32.9**	**87.8**
Total Income	73.9	64.4	135.5
Operating Expenses	40.8	31.5	47.6

Source: CBSI

Insurance Industry
At year-end 2011, the insurance industry recorded profits of $16.0 million marginally lower than $16.4 million recorded in 2010 (See Table 7.6). The lower profit margin was due to a decline of $0.6 million in gross premium income to $60.0 million in 2011 following the non-renewal of policies.

Net premiums earned or underwriting income however, rose to $45.9 million in 2011 due to a reduction in re-insurance costs to $14.3 million, which was partly due to delayed renewals of some re-insurances in December 2011. This was however offset by the increased premium and management expenses. Non-underwriting income also declined to $1.3 million in 2011 reflected by the low interest earned on domestic term deposits with domestic financial institutions.

The major policy covers for the industry included Aviation, Burglary; Cash in Transit, Contractors all Risks (CAR), Workers Compensation (WOC), Householder, Marine Cargo and Hull, Motor Vehicle Third party and Comprehensive Covers, Personal Accident, General Accident and Public Liability. Fire remained the dominant policy cover for policyholders, constituting around 30.8%.

Table 7.6 Summary of Insurance Companies Financial Statements

[SBD million]

	2009	2010	2011
Income Statement			
Gross Premium	45.1	60.6	60.0
Re-insurance	9.1	16.0	14.3
Net earned premium	**34.2**	**43.0**	**45.9**
Total premium expense [incl. Claims]	13.5	12.5	15.3
Underwriting Income	**20.6**	**30.4**	**30.5**
Management Expense	3.9	5.8	6.6
Non-underwriting income	**2.1**	**2.0**	**1.3**
Net profit after tax	**12.2**	**16.4**	**16.0**
Balance Sheet			
Total Assets	102.5	110.7	120.3
Total Liabilities	52.5	45.2	38.7
Net Assets	**50.0**	**65.5**	**81.6**

Source: CBSI

In terms of claims paid, the industry recorded an increase of $3.4 million to $9.3 million in 2011. This was fueled by increased claims for losses from catastrophic events particularly in the fourth quarter of 2011. The majority of claims were for fire and motor vehicle, which accounted for more than 60% of total claims in 2011. Other major claims were for Workers Compensation and Contractors All Risk.

The industry's balance sheet increased by $9.6 million over the year to $120.3 million, fueled largely by increases in investments with domestic depository institutions. Total liabilities however declined in 2011 to $38.7 million particularly due to no borrowings reported as of the third quarter of 2011, in addition to falls in other provisions and other liabilities. This resulted in a positive net asset position of $81.6 million in 2011.

8. CENTRAL BANK OPERATIONS

Finance and Accounts

The audited financial statements of the Central Bank of Solomon Islands (CBSI) for 2011 are attached at the end of this chapter. They provide the details on the financial performance and the financial status of CBSI for 2011. As a broad indicator, the changes in the assets and liabilities of CBSI during the year reflected how the economy performed over the 12 months period.

Central Bank of Solomon Islands Office - Source : CBSI

Statement of Financial Position

CBSI's balance sheet showed mixed financial results in 2011. Total assets grew by 37% to $3.3 billion, of which a significant portion of this growth came from the foreign assets. Total liabilities also grew by 55% to $3.1 billion. A large portion of the liabilities represented deposits held on behalf of the Government and commercial banks. In contrast, CBSI's equity declined by 61% to $141 million in 2011. This significant decline was due to foreign currency revaluation loss of $245.3 million realized during the year which exceeded the foreign currency revaluation reserves.

Statement of Comprehensive Income

At the end of 2011, CBSI made a net profit of $20.9 million according to the income recognition provision in the CBSI Act, and a loss of $224.4 million under the International Financial Reporting Standards (IFRS). The difference of $245.3 million between the two net profits was due to treatment of unrealized loss on foreign currency revaluation. The income recognition provision in CBSI Act does not recognize unrealized foreign exchange movements as distributable income or loss unlike under the IFRS.

The loss in foreign currency revaluation of $245.3 million was attributed to the overall appreciation of the Solomon Islands dollar against the major trading currencies across the year, including the one-off 5% appreciation in June. While this was shown as a loss in the Bank's financial accounts for 2011, the Central Bank balance sheet remain positive and the economy has benefited from the movement in the exchange rate in 2011.

Total income for 2011 was $70.5 million. This was made up of interest revenue of $52.2 million (74%), fees and commissions of $14 million (20%), royalties and foreign currency exchange gains of $3.1 million (4%) and other income of $1.2 million (2%).

Total expenses for 2011 under IFRS was $294.9 million while under CBSI Act it was $49.5 million. The difference represented the loss on unrealized foreign currency revaluation of $245.3 million (83%) of total expenses; administration expenses of $26.8 million (9%); other operating expenses of $19.5 million (7%); and interest expenses of $3 million (1%).

By comparison to 2010 results: CBSI's net profit for 2011 under the CBSI Act improved from $9.8 million to a net operating profit of $20.9 million. This positive performance was generated by the spread of external portfolio investments in 2011, which performed favorably in volatile investment markets. The results outperformed budgeted revenue by $4.7 million, together with cost savings on total operational expenses of $8.6 million.

Total capital expenditure for 2011 was $31 million; some $17.5 million below budget. The cross over nature of the major capital projects from 2011 to 2012 was the cause of the under spending in the capital budget.

Operational activities from the Finance and Accounts Department

The department maintained the accounts of the Banks' operation ensuring they are accurate and available on a timely basis for auditing and reporting. The Bank produced its 2010 audited financial accounts in May 2011.

The department also facilitated, controlled and monitored the approved budget and accounted for Bank resources to ensure reports on the operations of the Bank met the requirements of the CBSI Act and International Financial Accounting and Reporting Standards.

The department produced financial reports on weekly basis for Management, monthly reports for the Minister of Finance, Quarterly reports for Management and the Board and Annual reports for Management, Board and the Minister of Finance as require by the CBSI Act.

To enhance the functions of tje accounts and finance services of the Bank, the following projects were pursued with some success: Review of the Banks Chart of Accounts, Asset policy for fixed and movable assets and the Gating process policy which will continue in 2012.

Information Technology

CBSI completed one of its major projects - the upgrade of its network infrastructure (both hardware and software) to improve IT services such as enhanced network connectivity, data storage, access and security. The upgrade has enabled better network management and administration as well as keeping the system abreast of changing technology. The system will also accommodate future IT developments within the Bank.

CBSI acquired four (4) new servers, sixteen (16) new laptops, twelve (12) new desktops that replaced aging computer systems. The Bank also acquired new software - Microsoft Office Professional 2010, E-View, Sys Aid and Windows Server 2008. CBSI progressed on its in-house software development activities to meet its specific needs.

Currency and Banking Operations Department

As provided for under Section 24 and 25 of the CBSI Act (CAP49), the Bank has the sole right to issue the legal tender currency notes and coins in Solomon Islands. The department responsible for currency is the Currency and Banking Operations department of the Bank.

Currency notes and coins in circulations

For 2011, total currency in circulation increased by 21% to $527 million from $436 million in the previous year. This comprised of $515 million in currency notes and $12 million in coins. In terms of the types of notes in circulation by value, 81% of total notes in circulation were of $100 notes compared to $5 and $2 that made up only 2%. As a portion of total volume of notes in circulation, the $100 denomination increased by 3% to 33% in 2011, and closely followed by the $2 denomination at 30% with $5 and $10 denominations trailing at 11% and 10%, respectively. Importantly, these ratios reveal the high demand for these notes reflecting how they are used in business transactions: $100 and $50 notes being the 'payment' notes and $2, $5 and $10 notes the 'market' notes – notes that are used mainly for small payments in the produce and goods markets. In addition, these movements in total notes in circulation could be attributed to high demands for notes during festive seasons and increased usage of ATM facilities in Honiara where mostly $100 and $50 notes are dispensed via the ATM terminals.

There was a 10% increase in total coins in circulation to $12 million in 2011. A coin survey carried out by the Bank during the year revealed that most coins are kept in wooden boxes and containers in villages around the country as savings. To encourage the public to circulate the coins, the Bank conducted radio awareness and public education programs. Unfortunately the unavailability of bank agencies and branches in villages outside of the main urban centres contributes to coin hording or savings in the villages.

Total soiled and mutilated notes destroyed in 2011 amounted to $73 million. This more than doubled the total noted destroyed in 2009, but less than the $79 million of soiled and mutilated notes destroyed in 2010. Of the total destroyed in 2011, 85% were $100 and $50 notes. In terms of volume of soiled and mutilated notes destroyed, 54% were $50 and $2 notes reflecting the heavy use of these dominations as the market and payment notes. These statistics mirrored the corresponding increases in the value of notes in circulation during the year.

The Bank purchased a note sorting and destruction machine during the year. The 'Cobra' machine sorts out notes fit for re-issue into circulation and automatically counts and destroys the unfit notes. During the year, staff working in the Currency handling unit benefited from specialized training offered by De LaRue engineers. There were four post installation and maintenance visits to the Bank in 2011.

A total of $30,000 in notes and coins was sold to collectors both locally and overseas. This was a reduction by $178,000 from the total sold the previous year.

In its effort to address the minting cost of coins and the need to maintain the currency range of coins as a result of inflation over the years, the Bank carried out a nationwide coin survey to seek the people's opinion about the coins. Results from the survey revealed high preferences for lighter and smaller coins with about 63% of respondents saying that dimensions, shapes and metal compositions should be changed to reduce cost of production of the coins. 65% of respondents also agreed to introduce 'gold' $1 coins. About 78% of people interviewed agreed to the proposal to introduce a new $2 coin denomination. Overall, 65% of respondents wanted the coins to be introduced immediately. The Bank has taken up the views of the public and embarked on the coinage reform program that is expected to be launched in July 2012. The new coin range will be 10 cents, 20 cents, 50 cents, 1 dollar and 2 dollars. At the same time 1 cents, 2 cents and 5 cents coins will no longer be minted and will be demonetized from circulation.

Securities Market

The cap of $40 million in the stock of treasury bills sold in the market was maintained throughout 2011. Public confidence in the auction treasury bills was relatively intact and attractive as the interest rates on offer were competitive compared to term deposit rates offered by commercial banks.

The Bank introduced its Bokolo Bills as part of its monetary policy instruments to absorb excess liquidity in the banking system. The short term papers began with an initial offering of $40 million in February 2011; however the volume sold increased to $250 million by year-end.

In terms of total stock of securities, $114 million were in restructured bonds, $157 million in amortised bonds, $15 million in other securities and rolling advances, and $37 million in auction treasury bills as at year-end. As for auction treasury bills, the movement during the year was relatively stable with strong indication that there was appetite in the market for auction treasury bills. The Bank is determined to continue to strengthen confidence in the market for the conduct of monetary policy and liquidity management in the banking sector.

Debt Management

The External Debt Unit which compiles and maintains the data base for all Government and private sector debts continued to produce debt reports on the CS-DRMS and CS-SAS systems. During the year, a team from the Commonwealth Secretariat in London carried out a scoping mission to identify appropriate technical assistance required to formulate the country's debt management strategy. In terms of training, a bank officer attended the Asian Regional Forum on Public Debt Management in Thailand in March and the User Group Conference in London, UK in April.

Exchange Control Operations

The CBSI is mandated under the Exchange Control Act (Foreign Exchange Regulation) 1977 to administer and control foreign exchange transactions on behalf of the Solomon Islands Government. This regulatory mandate aims to protect the country's foreign exchange reserves. The primary goal for exchange control is to ensure that the country benefits from its resources and all goods and services exported. CBSI is also required to monitor both inflows and outflows of funds to and from the country and to ensure that all proceeds of exports of goods and services are remitted back into the country within a reasonable period.

In 2011 CBSI maintained its Exchange Control policies and regulations following a review in 2010 on the exchange control approval limits on trade and service payments (current accounts). The commercial banks' approval limit for trade and service payments remained up to $100,000 and the remittances of personal payments remained up to a maximum of $30,000 per person per month. Exchange control approval is required from the Central Bank for applications above the authorised dealers' limits.

For capital payments, all applications must be assessed and approved by the CBSI prior to sending funds offshore through the authorised dealers. These include loan repayments (principal & Interests), profit repatriation, sale of resident properties, sale of shares to non-residents, etc. The Exchange Control Unit maintained daily overnight holdings limits of $10 million with commercial banks. Any excess holding of foreign exchange above the daily limit is surrendered to CBSI before the end of each business day. Likewise authorised dealers that need additional funds to facilitate trade and services transactions have to purchase the required foreign exchange from CBSI.

The CBSI issues foreign currency account facility to eligible exporters in the country. In 2011, CBSI received seventeen new foreign currency account applications, of which five applications were approved and the rest were declined. Additionally, of the twelve foreign currency accounts that expired in 2011, nine were renewed while three were declined. There were twenty one foreign currency account holders at the end of the year.

External borrowings by resident companies require CBSI assessment and approval. This include intercompany soft loans or borrowing by existing local resident companies/firms and or new investments establishments by companies incorporated in Solomon Islands. In 2011 a total of nine (9) applications for external borrowings by local resident companies were received. Of the total external applications, five (5) were approved, whilst four (4) declined due to ineligibility and incomplete information. From the five approved external loans, three were US dollar denominated, one in Australian dollar and another in Japanese Yen.

The Exchange Control unit also regulates and issues restricted classified foreign exchange (FX) licenses to applicants interested to act as foreign exchange dealers. These restricted licenses are specific FX licenses issued to companies interested to engage in the business of foreign exchange dealings both as money transfer services and foreign exchange money changers. In 2011, three applications seeking classified foreign exchange dealers licenses were received specifically for foreign exchange Money changers services and money transfer agency services. One application was declined while the other was granted conditional approval to secure the Money transfer agency contract with Western Union money transfers services. Another application to operate as an agent for MONEYGRAM money transfer services was approved in July 2011.

In 2011, a total of 6,081 applications for overseas payments were received but only 5,922 applications were approved. The Exchange Control unit also assessed and issued Specific Authority (SA) approval for round log exports. The SA is a bona-fide approval issued by CBSI after assessing all round logs export consignment details prior to shipments. It ensured that all documents relating to round log exports were valid, attracted approved market prices for the commodity, and all export proceeds are secured by documentary Letter of Credit (LCs) before approval is granted. During 2011 a total of 819 round log applications for SA was received, of which 774 applications were approved and the rest were declined for non-compliance with SA Exchange Control procedures.

Administration of Exchange Rate

During 2011 the Bank reviewed the exchange rate trade weighted basket. In a move to realign the SBD to a new trade weighted basket of currencies, CBSI appreciated the SBD against USD on a gradual basis in the first five months of the year. In June 2011, the CBSI with the approval of the Minister of Finance undertook a one-off 5% appreciation of the Solomon Islands dollar against the USD to cushion inflationary pressures from imported fuel and food prices. The consideration to appreciate the dollar was made after analysis of the likely impact not only on prices but also on trade especially exports. The analysis concluded that Solomon Islands exported products have a high proportion of imported costs. The appreciation therefore was considered to have had a neutral impact on the export sector. While there were reduction in the value of exports in terms of Solomon Islands dollars, at the same time there have been savings in production costs. The US dollar and the Australian dollar continue to be the main trading currencies for Solomon Islands. In 2011 CBSI maintained the 2% exchange rate trading margins for USD and AUD while the rest of the currencies were liberalized.

Management of Foreign Reserves

The gross foreign reserves grew during the year to $3,034 million at the end of 2011, an increase of 42% over 2010. The management and investment of the foreign reserves were carried out in accordance with the approved investment guidelines set by the CBSI Board. The underlying goals of reserves management and investment are to ensure adequate liquidity for the trading needs of the economy and to preserve the capital value of the reserves. The reserves management policy objectives are: 1) To ensure and maintain adequate 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 approved investments portfolios as per the investment policy guidelines.

The level of gross foreign reserves in 2011 was more than adequate to meet Solomon Islands trading needs and finance any current account vulnerabilities. This enabled CBSI to diversify its portfolio investments into other instruments approved under the investment guideline to generate reasonable income. In 2011, the Central Bank purchased AUD10.0 million worth of Australian Commonwealth Government (ACG) Bonds in line with the approved allocation for investment in securities. A gold trading agreement was signed with ANZ Bullion Bank- Australia in December 2011. In February 2012 CBSI contracted and purchased its first ever Gold bullions as a reserve asset.

By the end of December 2011 the level of foreign reserves were equivalent to 10 months cover of import of goods and non-factor services. This was driven mainly from donor inflows, exports receipts and other current and capital inflows. The IMF Standby Credit Facility contributed $73.0 million (US$10.0 million) during the year. The other major donors were the Republic of China (ROC), AUSAID, IBRD, ADB, IDA EU and UNDP/EU funding. Net foreign exchange trading and other receipts through the commercial banks amounted to $910 million, 50% higher than 2010.

As a result of the SBD strengthening against the major investment currencies, the CBSI realized a net revaluation loss of $245.3 million. Total interest income earned from investments of foreign reserves in 2011 amounted to $49.6 million more than double the $22.3 million interest earned during 2010.

Back Office Operations

Back office (Settlement, payments and SWIFT) operations remained on par with international standards and requirements in terms of CBSI SWIFT payments and settlement facilities. SWIFT patch upgrading was completed during 2011. Following the Banks intention to diversify portfolio investment into fixed income securities, back office staff attended SWIFT settlement training in Sydney on securities markets messaging in early February 2011. This enabled the Bank to take out its first bond investment in 2011. A new Austral-Clear account with the Reserve Bank of Australia (RBA) was opened during the year to facilitate all AUD security investments and Gold transactions. During the year the Bank closed one of its EURO dollar accounts with the Bank of England. The Government also shifted some of its foreign payments through the commercial banks except for external debt repayments and payments of imprest accounts.

Middle Office Operations

The middle office continued to carry out its roles to identify, measure, analyse, monitor and report risks arising within the investment portfolios, reserves management and international settlements.

Supervision of Financial System

In its supervision of domestic financial institutions to ensure prudent and sound institutions, CBSI conducted four onsite examinations on depository institutions during the year. The reviews were conducted on commercial banks and credit unions including, Westpac Banking Corporation [WBC] and Bank South Pacific [BSP], Royal Solomon Islands Police Credit Union [RSIP CUL] and Bokolo Credit Union [BCUL].

The reviews of the commercial banks were conducted with the assistance of the Pacific Financial Technical Assistance Centre [PFTAC] whilst the RSIP CUL review was conducted jointly with regional supervisors under the APRA-Pacific Support Governance Program with technical assistance provided by the Australian Prudential Regulatory Authority (APRA) who participated in the onsite examinations.

CBSI Financal Market Supervision Analysts - Source : CBSI

The scope of the prudential reviews covered mainly governance, credit risk management, operations and liquidity risk management. In addition, the review scope for the commercial banks covered verification of the accuracy of data reported to the Central Bank in the new prudential reporting template as well as, compliance to the prudential guidelines. The recommendations from the examinations were submitted to the Board and Management of these institutions.

Credit Union Developments

As part of the Central Bank's support to credit union development in Solomon Islands, financial support was rendered to the Solomon Islands Credit Union League [SICUL] under a 3-year Memorandum of Understanding [MOU] signed in 2010.

In 2011, subvention of about $250,000 was provided to SICUL as assistance to perform its mandatory responsibilities to its member credit unions. To assess its performance under the MOU, SICUL is required to furnish quarterly reports to CBSI on the use of the subvention through the various activities conducted during the year. Major activities included trainings conducted for Honiara and rural credit unions particularly for Board and Committees including visits to savings clubs and, assistance rendered to update their financial accounts.

The Registrar's Office jointly with SICUL commemorated the International Credit Union Day on October 20, 2011.

Research and Statistics

The Economic, Research and Statistics Department (ERSD) embarked on in-house trainings that strengthened the research capacity of staff. These trainings were conducted with the assistance of PFTAC and ADB. Two areas covered were inflation analysis and econometric forecasting. The inflation analysis workshops provided extensive knowledge to staff on various measures of inflation, decomposing the drivers of inflation, and how to use various tool kits to forecast inflation. The macroeconometric forecasting workshop exposed staff to basic econometric skills that strengthened forecasting capacity of the department.

Work to imporve data quality was facilitated during the year. Under the monetary and financial statistics project, the money and banking sector unit of ERSD liaised with the Financial Markets Supervision department (FMSD) on the revised call report form for Other Depository Corporations. The department initiated the migration from the Balance of Payments Manual 5 to Balance of Payments Manual 6. Furthermore, the department explored new proxy indicators to better gauge the performance of sectors in the economy where data are not readily available.

National Financial Inclusion Unit

A National Financial Inclusion Unit (NFIU) was established in February 2011 to facilitate the activities of the National Financial Inclusion Taskforce (NFIT), a national body established in 2011 under Cabinet mandate to oversee financial inclusion activities in Solomon Islands. The membership of the NFIT comprised of the Government, NGOs, private sector, the commercial banks, Microfinance institutions, women groups, and development partners. NFIT is currently chaired by the Governor of the Central Bank.

The short-to-medium term focus of the NFIT are: (1) to use innovative channels to deliver and expand access to financial services such as the use of mobile phones and branchless banking, (2) improving the level of financial literacy in Solomon Islands through both the formal and the informal education systems, and (3) leveraging community based models in the rural and remote areas to provide basic financial services in the country.

In 2011, 5,256 people, of whom 72% were females, attended financial literacy trainings conducted by key stakeholders such as NGOs, private sector and the banks. CBSI continued to promote financial literacy through its weekly" Money Matters" (MM) Radio Program, and its annual "Money Smart Day" (MSD). During the year the Bank conducted nine community workshops attended by more than 500 participants.

Three major studies related to financial inclusion development were carried out in 2011. There were as follows: the first, a financial regulatory review was funded and conducted by ADB. A Technical Assistance (TA) was engaged to carry out a review of all financial laws and policies in Solomon Islands and to recommend ways to reform and encourage acceptable financial inclusion products in the country. The outcome of the study was provided to the Bank and NFIT.

The second study was funded by the Pacific Financial Inclusion Program (PFIP) and was carried out with the Ministry of Education, focusing on financial education and the possibility to integrate or strengthen financial education in the core school curriculum. The outcome of the study was made available and a committee comprising of the Ministry of Education, CBSI and PFIP, and chaired by the Under Secretary (Tertiary) in the Ministry of Education was established to work on the implementation of the report.

The third was a Financial Competency Survey. Financial competence comprises the financial knowledge and related skills and financial behaviours required to manage household cash flows effectively. The outcome of the survey should provide a baseline against which progress in improving the financial knowledge and skill of financial decision makers in low-income households can be measured. In addition, the outcomes from initiatives to increase participation in the formal financial system can also be measured against the baseline. This study is still in progress and should be completed in the first half of 2012.

The NFIU, in close consultation with the commercial banks and Solomon Islands Financial Intelligence Unit (SIFIU), has developed an agreed minimum KYC (Know Your Customer) requirements based on a 'risk and graduation process'. This is aimed at enabling more Solomon Islanders to open bank accounts with the commercial and other financial institutions. The proposed minimum KYC was endorsed by the Anti-Money Laundering Commission (AMLC) and would be included in the Anti-Money Laundering and Proceeds of Crime Regulations.

Human Resource and Corporation Services Department (HRCSD)

The HRCSD is responsible for all human resources matters, the management of CBSI properties and Bank security.

Properties

CBSI undertook several maintenance and Capital projects in 2011, some of which were carried forward from 2010. This included: internal repainting of CBSI's Head Office, completion of in-house studio room, Mbokona staff houses external painting, Vavaya ridge house renovation, installation of new fire extinguishers in the residences, and the completion of the six new executive houses at Rifle Range. A staff gym was completed as part of provisions of health and exercise facilitates for staff. The improvement of Mbokona staff residential area with three more 3-bedroom houses, proper road, fencing and drainage system are work in progress.

Security

Security of the head-office building and other bank properties is one of the key responsibilities of the Security unit of CBSI under the Human Resources and Corporate Services Department of the Bank.

In 2011, CBSI received assistance in security training and support from Chubb New Zealand. The training covered electronic security cameras, fire detectors and the DVR recording technology that monitors cash handling operations and movement within CBSI.

An emergency fire and evacuation drill for all staff was conducted during the year. Security training was held at Mbokona for the Mbokona neighborhood watch group and a fire drill was organized for the residence of Mbokona staff quarters to ensure that officers and their immediate family members know what to do in the event of a fire in their building. The Security unit also facilitated First Aid training for floor wardens and staff during the year.

The installation of additional PA systems for the Vault and loading bay area, replacement of DVR monitors and Challenger changed to version 8 software has also enhanced the general security of the CBSI and especially monitoring of cash handling within the Currency and Banking Operations Department. A new public address system was also set up on all levels to provide communication to staff during emergency situations.

Despite the installation of the new equipment, a security officer assisted by an accomplice breached security protocols and stole about $1.2 million of old and mutilated notes being prepared for destruction. The incident was recorded by the CBSI Security Cameras and the footage given to the police to help with their arrest of the officer. As a result of this incident, new security measures have been set up to prevent a repeat of such incident.

Staff Contingent

The total number of staff employed by the Bank in 2011 was 100, nine officers short of the approved staff establishments. This was an increase of almost 4% compared to the total establishment in 2010. Of the 9 vacant positions, five (5) remained vacant following internal staff transfers and promotions while four (4) were newly created positions pending recruitment in 2012.

The total establishment is comprised of two (2) Executives, seven (7) contracted senior managers, ninety six (96) permanent employees and five (5) ancillary staff. The gender composition of positions filled comprised of 58% males and 42% females. Seven (7) new recruits were hired during the year while 4 officers voluntary retired under the Banks early retirement scheme.

Three (3) officers attained higher qualifications during the year. One officer completed a Postgraduate diploma in Economics from Waikato University (New Zealand) while the other two completed Diplomas in Accounting and Administration from Gold Coast Institute (Australia) and SICHE (Honiara) respectively. Two (2) were recipients of the NZODA and the Australian Endeavour Scholarships while the other, was a recipient of a Bank scholarship under the Banks' Staff Development & Training program. Two (2) other officers are still overseas on study leave and are expected to complete their studies at the end of 2012.

Productivity Investment and Training

The Bank invests a good portion of its budget in the training and development of its human resources. This investment is aimed towards building knowledge and skills required to be competent employees of the Bank.

The training programs held included: in house training, staff studying part-time at local tertiary institutions, and attendance of short courses offered by other central banks and other training institution overseas.

In terms of in house training, 12 sessions were conducted by Management and attended by staff from the various departments of the Bank. The in house training topics ranged from Economics, Information and Technology, Legal (CBSI Act and Prudential Policy, Staff Policies and Procedures), Performance Management, Project Management, Corporate Events Management and Life Skills. Staff also attended thirty eight overseas short courses, seminars, workshops and attachments. Twenty nine (29) officers studied part-time at various local and overseas institutions. The total of $2.7 million was spent on staff training and productivity investments in 2011.

Legislation and Prudential Guidelines

As at the end of the year four draft bills were still outstanding. These bills are the CBSI Bill, Solomon Islands National Provident Fund Bill, Insurance Bill and the Credit Union Amendments Bill. These draft bills have been submitted to the Ministry of Finance and Treasury to facilitate through the legislative process. The new CBSI Bill has gone through Cabinet and much progress has been made to the draft bill in preparation for further submission to Cabinet. The Solomon Islands National Provident Fund Bill had gone through the Cabinet but stakeholders consultations are yet to be completed. The remaining bills are yet to go to Cabinet.

The Bank also revised Prudential Guideline Number 5 on commercial banks' large credit exposure to single or related borrowers. The change to the definition of capital now allows a licensed financial institution that is a branch of a foreign incorporated bank to use its parents' capital when determining its credit exposure to a single borrower or related borrowers.

Solomon Islands Financial Intelligence Unit (SIFIU)
The Solomon Islands Financial Intelligence Unit (SIFIU) carried out its functions as mandated under the Money Laundering and Proceeds of Crime Amendment Act 2010 (MLPCA). The Unit has three (3) officers, two CBSI seconded officers and one seconded officer from the Ministry of Police. In terms of operational functions, the SIFIU reports to the Anti-Money Laundry Commission (AMLC), established under the MLPCA.

SIFIU is a member of the Asia Pacific Group (APG) on Anti Money Laundering and also a member of the EGMONT Group. As a member of these international and regional organizations, the SIFIU and AMLC are committed to performing their responsibilities to meet the International AML/CTF standards and requirements.

During the year the SIFIU undertook an onsite inspection on one of the commercial banks in the country. It was encouraging to note that financial institutions in the country are taking necessary steps in meeting their legal requirements. The level of AML/CTF understanding of bank officers is rising.

SIFIU and AMLC were funded by the Solomon Islands Government through a budgetary provision from the Ministry of Justice. The financial support provided for 2011 was $507,306. This was a reduction to the Operational Budget of the SIFIU, by 51% from the 2010 budgetary allocation of $767,603. Due to the reduction in the government's financial support, the SIFIU has prioritized its activities for the year. There were no provincial awareness tours undertaken during the year and also trainings were limited to priority areas.

Board
The Board met ten times in 2011 with one Board meeting held at the Aruligo recreational site, and another one at Tulagi, Central Province.

The Minister of Finance re-appointed two Directors, Mr. Leslie Teama and Dr. Steve Aumanu for a further term of two years. This enabled the Board to maintain its full complement of nine Directors.

Apart from deliberating on the normal quarterly reports from each department, the Board approved the following issues in 2011; the 2011 Monetary Policy Stance, the 2010 Annual Report, the 2010 Audited Financial Statement, the Business Continuity Committee, Solomon Islands Coinage Review, report from the National Financial Inclusion Unit, re-organisation of the Currency Unit within the Currency and Banking Department, Riffle Range housing project, RIPEL related issues, CBSI Business Plan for 2012, Budget for 2012, appointment of 2 Chief Managers to two newly separated departments, and renewed the contracts for 3 Chief Managers.

Relationship with International Organizations
The Bank maintained a professional contacts and networking relations with international and regional organizations. These relationships were crucial to the Bank in terms of sharing of experiences, getting professional advice, and securing training opportunities for Bank staff.

In 2011, the Bank benefited from its relationship with the International Monetary Fund and related institutions. The Bank received trainings offered by the Singapore IMF Training Institute, which offered courses on macroeconomic management, balance of payments, government finance statistics, banking supervision and other topics relevant to central banking.

The Pacific Financial Technical Assistance Center in Suva, Fiji provided the CBSI with technical assistance and advice on inflation forecasting, balance of payments and banking supervision.

The Australian Prudential Authority [APRA], with the support of the Australian Government offered regional scholarships for staff of the Financial Market Supervision department on onsite examinations of banks, insurance companies, superannuation funds, credit unions and savings and loan societies. APRA also provided an internship for one officer to spend several months working with the APRA staff in Australia to gain experience on conducting onsite examinations.

ADB funded Technical Assistance to review the legislative framework affecting the provision of financial inclusion activities and services.

The Royal Australian Mint (RAM) provided Technical Assistance in the review of the Solomon Islands coins. Pacific Financial Inclusion Program [PFIP] assisted the Bank with Technical Assistance and funding in carrying out financial education survey and assisted in the establishment of the Financial Inclusion Task Force working group.

The Alliance for Financial Inclusion [AFI] to which CBSI is a member provided technical assistance and funding to allow the Bank to discuss issues and strategies for promoting financial inclusion and consumer protection.

Relationship with Local Organizations

The Bank assisted various local groups and non-government organizations in 2011. These included educational institutions, sporting bodies, church groups, and people living with disabilities, youth groups, women's groups, and charity events.

Central Bank also sit on various national Committees and Boards. These include the Anti-Money Laundering Commission (AMLC), Exemptions Committee, the Minerals Board, Integrity Forum Group, Solomon Islands Development Trust (SIDT), Solomon Islands Small Business Enterprise Center (SISBEC), Telecommunications Evaluation Committee, Solomon Airlines Board, Investment Corporation of Solomon Islands (ICSI) Board and Soltai Fishing and Processing Ltd Board.

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Solomon Islands Office
of the Auditor-General

Independent Auditor's Report

To the Board of the Central Bank of the Solomon Islands

Scope

I have audited the accompanying financial report of Central Bank of the Solomon Islands (the Bank), which comprises the Statement of Comprehensive Income, the Statement of Transfers to the Government, the Statement of Changes in Equity and the Statement of Cash Flows for the period ended 31 December 2011 and the Statement of Financial Position as at 31 December 2011, as well as a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Report

The Board and management of the Bank are responsible for the preparation and fair presentation of the financial report in accordance with the requirements of the CBSI Act (Cap 49) and other applicable laws and regulations and in accordance with the International Financial Reporting Standards. The responsibilities of the Board and management of the Bank include implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting estimates made by the Board and management, as well as evaluating the overall presentation of the financial report.

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

Audit Opinion

In my opinion, the report of Central Bank of the Solomon Islands (the Bank), presents fairly in all material respects of the Bank's financial position as at 31 December 2011 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Mr. Edward Jacob Ronia
Auditor-General

Office of the Auditor-General
Solomon Islands

23 April 2012

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Independent audit report to the members of Central Bank of Solomon Islands

We have audited the financial statements of Central Bank of Solomon Islands, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of transfers to Solomon Islands Government, statement of cash flows and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of Central Bank of Solomon Islands are responsible for the preparation and true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Central Bank of Solomon Islands Act (Cap. 49). This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Audit Approach

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

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

(a) so as to give a true and fair view of the financial position of Central Bank of Solomon Islands as at 31 December 2011, and of its financial performance and its cash flows for the year then ended;

(b) in accordance with the provisions of the Central Bank of Solomon Islands Act (Cap. 49); and

(c) in accordance with International Financial Reporting Standards as set out in Note 2(a) to the financial statements.

Port Moresby, Papua New Guinea, this 23rd day of April 2012.

DELOITTE TOUCHE TOHMATSU

By: Suzaan Theron

Partner, Chartered Accountants

Licentiate member of the Institute of Solomon Islands Accountants

CENTRAL BANK of SOLOMON ISLANDS

STATEMENT BY DIRECTORS

In the opinion of the Directors:

(a) The accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2011;

(b) the accompanying financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2011;

(c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in equity for the year ended 31 December 2011;

(d) the accompanying statement of cash flows statement is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2011;

(e) the financial statements have been properly prepared in accordance with International Financial Reporting Standards except as noted in note 3(b) to the financial statements. In accordance with the provisions of the section 45 CBSI Act (CAP 49) of 1976, foreign exchange gains and losses are credited or charged directly to the 'Foreign Currency Revaluation Reserve account and are not included in the annual profits or losses of the Bank for distribution.

This is at variance with International Financial Reporting Standard IAS 21 "Effects of Changes in Foreign Exchange Rates" which requires that exchange gains and losses be credited or charged to the profit and loss.

In the opinion of the Directors, the accounting treatment adopted is appropriate in view of the requirement of the CBSI Act (CAP 49) of 1976.

For and on behalf of the Board of Directors:

....	....
Denton H Rarawa	Mr Leslie Teama
Governor	Director
Date 20/4/2012	Date 20/04/012

Mud Alley Street, P.O. BOX 634, HONIARA, SOLOMON ISLANDS; Phone: (677) 21791/23492; Facsimile: (677) 23513; SWIFT BIC: CBSISBSB; Email: info@cbsi.com.sb

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 201

	Notes	2011 (SBD 000's)	2010 (SBD 000's)
Operating revenue			
Interest income	20(a)	52,171	26,736
Fees and commissions	20(b)	14,021	12,085
Royalties		831	464
Other income	20(c)	1,268	4,750
Net Gain on Foreign Currency Exchange		2,256	368
Net unrealized foreign exchange revaluation gain		-	47,723
Total revenue		**70,547**	92,126
Operating expenses			
Interest expense	20(d)	3,026	2,068
Fees and commissions	20(e)	224	117
Administrative expenses	20(f)	27,511	22,243
Other operating Expenses	20(g)	18,815	10,160
Net unrealized foreign exchange revaluation loss		245,344	-
Total expense		**294,920**	34,588
Net operating profit/(loss)		**(224,373)**	57,538
NET PROFIT DISTRIBUTION ACCORDING TO CBSI ACT			
Net operating profit/(loss) in terms of IFRS		(224,373)	57,538
Add (IFRS required items not included in CBSI Law): Net unrealized loss/(gain) on foreign exchange Revaluation		245,344	(47,723)
Net operating profit according to CBSI Act		**20,971**	9,816
Net Profit Transferred to General Reserve according to section 20(1) of CBSI Act (CAP 49)		10,486	4,908
Transfer to Other Reserves according to section 20(2) of the CBSI Act (CAP 49)		5,243	2,454
Due to Solomon Islands Government, section 20 (2) of the CBSI Act (CAP 49)		5,243	2,454

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 9 to 31.

CENTRAL BANK OF THE SOLOMON ISLANDS

STATEMENT OF TRANSFERS TO GOVERNMENT OF SOLOMON ISLANDS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 (SBD 000's)	2010 (SBD 000's)
Appropriation of profits according to Section 20 (2) of the CBSI Act (CAP 49)		5,243	2,454
Total transfer to Solomon Islands Government		**5,243**	**2,454**

The statement of transfers to Government of Solomon Islands 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 THE SOLOMON ISLANDS

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Notes	2011 (SBD 000's)	2010 (SBD 000's)
ASSETS			
Foreign Currency Assets			
Money at call	4	954,458	661,371
Accrued Interest		9,922	5,452
Term Deposits	4	1,958,415	1,355,164
Holding of Special Drawing Rights	5	104,741	114,481
		3,027,536	2,136,468
Local Currency Assets			
Cash on Hand		98	155
Loans and Advances	7	107,828	120,800
Property, Plant and Equipment	8	98,881	76,760
Other Assets	9	47,552	47,452
		254,359	245,167
Total Assets		**3,281,895**	**2,381,635**
LIABILITIES			
Foreign Currency Liabilities			
Demand Deposits	10	11,332	62,328
IMF Standby Credit Facility	11	141,942	76,181
IMF Special Drawing Rights Allocations	5	112,110	122,506
Capital Subscriptions	5	919	917
		266,303	261,932
Local Currency Liabilities			
Demand Deposits	12	1,487,513	964,833
Currency in Circulation	13	527,702	436,570
SIG Monetary Operations Account	14	37,547	37,953
Fixed Deposits	15	797,146	292,218
Provision for transfer to SIG Consolidated Fund		5,243	2,454
Other Liabilities	16	19,430	15,048
		2,874,582	1,749,076
Total Liabilities		**3,140,885**	**2,011,008**
NET ASSETS		**141,010**	**370,627**
EQUITY			
Capital and Reserves			
Authorized Capital		50,000	50,000
Paid up Capital		20,000	20,000
General Reserve	17	58,707	48,222
Foreign Exchange Revaluation Reserve	18(a)	(51,002)	194,343
Premises and Equipment Assets Revaluation Reserve	18(c)	51,428	51,428
Capital Asset Reserve	19	61,877	56,634
TOTAL CAPITAL AND RESERVES		**141,010**	**370,627**

Denton. H. Rarawa
Governor

Emmanuel Gela
Chief Manager
Finance and Accounts

Signed in Honiara on 20th April 2012.

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 THE SOLOMON ISLANDS

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Issued & Paid up Capital	General Reserve	Foreign Exchange Assets Revaluation Reserve	Premises & Equipment Asset Revaluation Reserve	Capital Assets Reserve	Total
2010	**(SBD 000's)**	**(SBD 000's)**	**(SBD 000's)**	**(SBD 000's)**	**(SBD 000's)**	**(SBD 000's)**
At 1 January 2010	20,000	43,312	146,620	51,428	54,180	315,540
Transfer of net operating profit/(loss) according to Section 20(1) and 20(2) of CBSI Act CAP(49)	-	4,908	-	-	2,454	7,362
Transfer of Foreign Exchange Revaluation Gains/(Losses) for the year according to CAP(49) section 45 (1) of CBSI Act	-	-	47,723	-	-	47,723
At 31 December 2010	**20,000**	**48,221**	**194,343**	**51,428**	**56,634**	**370,625**
2011						
At 1 January 2011	20,000	48,221	194,343	51,428	56,634	370,625
Transfer of net operating profit/(loss) according to Section 20(1) and 20(2) of CBSI Act CAP(49)	-	10,486	-	-	5,243	15,729
Transfer of Foreign Exchange Revaluation Gains/(losses) for the year according to CAP(49) section 45 (1) of CBSI Act	-	-	(245,344)	-	-	(245,344)
At 31 December 2011	**20,000**	**58,707**	**(51,002)**	**51,428**	**61,877**	**141,010**

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 9 to 31.

CENTRAL BANK OF THE SOLOMON ISLANDS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 (SBD 000's)	2010 (SBD 000's)
Cash flows from operating activities			
Interest received		52,171	26,736
Cash received from other income		18,448	17,888
Interest paid		(3,026)	(2,068)
Cash payments in course of operations		(36,175)	(42,135)
Net cash provided by operating activities before movement in operating assets and liabilities		**31,418**	**421**
Cash received in placement of deposits		1,027,606	674,621
Increase on IMF Allocation of SDR		(10,396)	(2,599)
Decrease in government finance provided		12,976	5,946
Net cash provided by operating activities	6	**1,061,604**	**678,389**
Cash flows from investment activities			
Payments for Premises, plant and equipment		(28,446)	(16,298)
Proceeds from sale of Premises, plant and equipment		159	2,280
Increase in foreign investments		(1,136,412)	(918,546)
Net cash used in investment activities		**(1,164,699)**	**(932,564)**
Cash flows from financing activities			
Net movement in issue of circulating currency		91,131	110,125
Net movement in foreign currency loan		14,767	135,289
Solomon Islands Government Monetary Operations		(406)	8,535
Dividend paid		(2,454)	-
Net cash provided by financing activities		**103,038**	**253,949**
Net decrease in cash held		(57)	(226)
Cash at the beginning of the financial year		155	381
Cash at the end of the financial year		**98**	**155**

The statement of cash flows 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 THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 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. 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 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 financial statements are expressed in the Solomon Islands dollar (SBD), rounded to the nearest thousand.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011, there was a net revaluation loss of $245.344 million (2010: $47.723 million).

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

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

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

(d) Foreign currency assets and liabilities

Treasury notes, bonds and bills

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

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

(e) Coins sold as numismatic items

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

(f) Non-current assets

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

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR 31 DECEMBER 2011

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 be realized 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 as and when it is incurred.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

(i) Income Tax

The Bank 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 Bank and its employees make contributions to the Solomon Islands National Provident Fund (Fund). The Bank 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 $0.69 million (2010; $0.57 million) in this financial year. CBSI staff in respect of income received, also contributed $0.49 million (2010; $0.43 million) 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 the receivable.

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 statement of comprehensive income.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

4. EXTERNAL ASSETS

Section 30 of the CBSI Act requires the 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 Island's fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Solomon Island dollars.

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

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

(ii) the funding of accounts in favor of the IMF in the books of the Central Bank by the Government of the Solomon Islands.

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

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

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

	2011 (SBD 000's)	**2010** (SBD 000's)
Operating profit/(loss)	20,971	9,815
Non-cash items:		
Depreciation	6,095	5,347
Net (increase)/decrease in:		
Other receivables	12,947	(10,548)
Accrued expenses	1,021,591	673,773
Net cash provided by operating activities	**1,061,604**	**678,389**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

7. LOANS AND ADVANCES

	2011	2010
a) Loans and Advances to Solomon Islands Government	**(SBD 000's)**	**(SBD 000's)**
Loans and advances	10,240	14,710
Development bonds	27	27
Treasury bills	20	-
Other securities	4,940	4,940
Amortizing bonds	88,029	97,745
Total Loans and Advances to Solomon Islands Government	**103,256**	**117,422**
b) Staff Loans		
Staff housing loans	3,532	2,437
Management car loans	212	211
Personal loans	828	730
Total Staff Loans	**4,572**	3,378
Total Loans and Advances	**107,828**	**120,800**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

8. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Land & buildings	Equipment & furniture	Computer	Work in progress	Total
	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)
At 31December 2010					
Cost	54,629	20,974	2,208	12,719	90,530
Accumulated depreciation	(1,603)	(10,339)	(1,828)	-	(13,770)
Net book amount	**53,026**	**10,635**	**380**	**12,719**	**76,760**
Year ended December 2010					
Opening net book amount	57,129	9,611	1,019	550	68,309
Additions	291	4,190	755	12,169	17,405
Disposals	(2,500)	81	(1,026)	-	(3,607)
Depreciation charge	(1,894)	(3,085)	(368)	-	(5,347)
Closing net book amount	**53,026**	**10,635**	**380**	**12,719**	**76,760**
At 31 December 2011					
Cost	54,629	21,854	4,609	37,653	118,745
Accumulated depreciation	(3,110)	(14,148)	(2,606)	-	(19,864)
Net book amount	**51,519**	**7,706**	**2,003**	**37,653**	**98,881**
Year ended December 2011					
Opening net book amount	53,026	10,635	380	12,719	76,760
Additions	-	1,100	2412	24,934	28,445
Disposals	-	(220)	(10)	-	(230)
Depreciation charge	(1,507)	(3,809)	(779)	-	(6,095)
Closing net book amount	**51,519**	**7,706**	**2,003**	**37,653**	**98,881**

The land and building is stated at its revalued amount that was determined in 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.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 (SBD 000's)	2010 (SBD 000's)
9. OTHER LOCAL CURRENCY ASSETS		
Sundry debtors & other cheques held	46,543	46,448
Advances and prepayments	1,009	1,004
Less allowance for doubtful debts		-
	47,552	**47,452**
10. FOREIGN CURRENCY DEMAND DEPOSITS		
Demand Deposits	**11,332**	**62,328**

Demand deposit of international organizations such as the Asian development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association.

11. IMF STANDBY CREDIT FACILITY

	2011	2010
IMF Standby credit facility	**141,942**	**76,181**

A Standby Credit Facility with IMF concluded in 2010 to assist in the promotion of fiscal and other reforms, reduce destabilizing imbalances and close financing gaps, including soliciting additional donor support. The country has fully drawn downs the facility in four installments (first in June and the second in November of 2010, and third in July and fourth in December 2011), totaling to the disclosed amount at year end.

	2011	2010
12. LOCAL CURRENCY DEMAND DEPOSITS		
Commercial banks	1,125,909	822,373
Solomon Islands Government	32,868	142,009
Financial Corporations	28,362	367
Other	374	84
	1,487,513	**964,833**
13. CURRENCY IN CIRCULATION		
Notes	515,271	425,302
Coins	12,431	11,268
	527,702	**436,570**
14. SIG MONETARY OPERATIONS ACCOUNT		
SIG Securities	**37,547**	**37,953**
15. FIXED DEPOSITS		
(a) Solomon Islands Government (SIG)	555,833	235,433

This deposit represents funds received by SIG under the Stabex scheme of the European Community, Asian Development Bank, Republic of China, Australia, New Zealand 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.

	2011	2010
(b) Central Bank of Solomon Islands (CBSI) Securities	241,313	56,785
	797,146	**292,218**

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

16. OTHER LOCAL CURRENCY LIABILITIES

	2011 (SBD 000's)	2010 (SBD 000's)
Unpresented bank cheques	6,495	4,473
Provision for employee entitlements	6,736	5,648
Other liabilities	6,199	4,927
	19,430	**15,048**

17. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

The general reserve is maintained to cover net losses incurred by the Bank and unforeseen events and contingencies.
The requirements of Section 19 and 20 of the CBSI Act are:

(a) When the Central Bank determines net profit for the year after meeting all current expenditures, and making allowance for bad and doubtful debts, depreciation in investments, and contribution to staff and pension funds; and such other purposes as the Board may deem necessary.
(b) The net profit shall then be allocated to a General Reserve each year until such time as the General Reserve is equal in amount to half the authorized capital of the Central Bank. After which, half 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.

18. 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.

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

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

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

(b) Foreign Investment Revaluation Reserve

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

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

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

(c) Property, Plant and Equipment Asset Revaluation Reserve

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

19. CAPITAL ASSET 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.

	2011 (SBD 000's)	2010 (SBD 000's)
Capital Asset Reserve	**61,877**	**56,634**

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	2011	2010
20. INCOME AND EXPENSES		
	(SBD 000's)	**(SBD 000's)**
(a) Interest income		
Interest received from foreign investments	49,644	24,061
Interest received from local investments	2,527	2,675
	52,171	**26,736**
(b) Fees and commissions received		
Fees and commissions – foreign dealings	13,708	11,765
Fees and commissions – local dealings	313	320
	14,021	**12,085**
(c) Other income		
Gain from disposal of fixed assets	72	(220)
Rent received	896	987
Sale of numismatic coins	191	3,543
Others	109	440
	1,268	**4,750**
(d) Interest expenses		
Interest expense on foreign liabilities	520	334
Interest expense on local liabilities	2,506	1,734
	3,026	**2,068**
(e) Fees and commissions paid	**224**	**117**
(f) Administration expenses		
Staff costs	17,794	13,934
Others	9,717	8,309
	27,511	**22,243**
(g) Other operating expenses		
Board of directors remunerations and expenses	186	161
Currency expenses	10,164	3,646
Depreciation	6,316	5,347
Auditors remuneration (Note 21)	413	408
Others	1,736	598
	18,815	**10,160**

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

21. AUDITOR'S REMUNERATION

	2011	2010
Amounts received or due and receivable by the	(SBD 000's)	(SBD 000's)
External Auditors of the bank for:		
- Auditing the financial statements	413	408
	413	**408**

22. 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 2010, this group comprises 12 in total (12 in 2009), including the two Governors, 5 non-executive CBSI Board of Directors and 5 Chief Managers. . 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 and annually in terms of CBSI policies. The CBSI Board of Directors determines the remuneration of the Chief Managers.

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

Total remuneration is included in 'personnel expenses' as follows:		
Short-term employee benefits	1,366	1,297
Post-employment benefits	-	-
Other long-term benefits	-	-
Total Compensation	**1,366**	**1,297**

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 2011 loans by the Bank to key management personnel are as follows:

Housing loan	1,171	1,032
Personal loan	117	61
Management car loan	212	60
Total loans	**1,500**	**1,153**

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.

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FOR THE YEAR ENDED 31 DECEMBER 2011

23. EMPLOYEES

The number of staff emmployed by CBSI as at 31st Decembers 2011 was 117, 102 on permanent status amd 10 in non-permanent (2010:91)

24. CONTINGENT LIABILITIES

The Bank has guaranteed staff housing loans with the commercial banks to the sum of $0.8 million as at 31 December 2011 (2010:$0.8 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 31 December 2011 a total of 44 loans with a net guarantee of $2.88million (2010: $1.87 million) have been administered under the scheme.

25. FINANCIAL INSTRUMENTS

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

Operating loss is the risk of loss from breakdown of internal controls. The CBSI has established the internal audit function (internally) reporting to the Board Audit Committee. It exercises monitoring and control over the 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.

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The table below shows assets and liabilities at 31 December 2011 (and 2010 comparatives) grouped by remaining contractual maturity.

2011 Maturity Analysis

	On Demand (SBD 000's)	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 on Demand	954,458	-	-	-	-	-	954,458
Accrued Interest	-	-	9,922	-	-	-	9,922
Term Deposits	-	752,441	1,205,974	-	-	-	1,958,415
Holding of Special Drawing Rights	-	104,741	-	-	-	-	104,741
Total	**954,458**	**857,182**	**1,215,896**	**-**	**-**	**-**	**3,027,536**
Local Currency Assets							
Cash on Hand	-	98	-	-	-	-	98
Loans and Advances	-	-	-	10,240	97,587	-	107,828
Property, Plant and Equipment	-	-	-	-	-	98,881	98,881
Other Assets	-	-	-	46,543	-	1,009	47,552
Total	**-**	**98**	**-**	**56,783**	**97,587**	**99,890**	**254,359**
Total Assets	**954,458**	**857,280**	**1,215,896**	**56,783**	**97,587**	**99,890**	**3,281,895**
LIABILITIES							
Foreign Currency Liabilities							
Demand Deposits		-	-	-	-	11,332	11,332
IMF Standby Credit Facility	-	-	-	-	141,942	-	141,942
IMF Special Drawing Rights Allocations	-	-	-	-	-	112,110	112,110
Capital Subscriptions	-	-	-	-	-	919	919
Total	**-**	**-**	**-**	**-**	**141,942**	**124,361**	**266,303**
Local Currency Liabilities							
Demand Deposits	-	-	-	-	-	1,487,513	1,487,513
Currency in Circulation		-	-	-	-	527,702	527,702
SIG Monetary Operations Account	-	12,602	24,945	-	-	-	37,547
Fixed Deposits	-	199,853	7,815	5,045	27,050	557,383	797,146
Provision for transfer to SIG Consolidated Fund		-	-	-	-	5,243	5,243
Other Liabilities		-	-	-	-	19,430	19,430
Total	**-**	**212,455**	**32,760**	**5,045**	**27,050**	**2,597,271**	**2,874,582**
Total Liabilities	**-**	**212,455**	**32,760**	**5,045**	**168,992**	**2,721,632**	**3,140,885**
Net Liquidity Gap	**954,458**	**644,825**	**1,183,136**	**51,738**	**(71,405)**	**(2,621,742)**	**141,010**

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2010 Maturity Analysis

	On Demand (SBD 000's)	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 on Demand	661,371	-	-	-	-	-	661,371
Accrued Interest	-	-	-	5,452	-	-	5,452
Term Deposits	-	-	1,355,164	-	-	-	1,355,164
Holding of Special Drawing Rights	-	114,481	-	-	-	-	114,481
Total	**661,371**	**114,481**	**1,355,164**	**5,452**	**-**	**-**	**2,136,468**
Local Currency Assets							
Cash on Hand	-	155	-	-	-	-	155
Loans and Advances	-	-	-	5,013	115,787	-	120,800
Property, Plant and Equipment		-	-	-	76,760	-	76,760
Other Assets	-	46,438	-	13	988	13	47,452
Total	**-**	**46,493**	**-**	**5,026**	**193,535**	**13**	**245,167**
Total Assets	**661,371**	**161,074**	**1,355,164**	**10,478**	**193,535**	**13**	**2,381,635**
LIABILITIES							
Foreign Currency Liabilities							
Demand Deposits	-	62,328		-	-	-	62,328
IMF Standby Credit Facility	-	76,181	-	-	-	-	76,181
IMF Special Drawing Rights Allocations	-	-	-	-	-	122,506	122,506
Capital Subscriptions	-	-	-	-	-	917	917
Total	**-**	**138,509**	**-**	**-**	**-**	**123,423**	**261,932**
Local Currency Liabilities							
Demand Deposits	-	-	-	899,377	-	65,456	964,833
Currency in Circulation	-	-	-	-	-	436,570	436,570
SIG Monetary Operations Account	-	-	-	37,953	-	-	37,953
Fixed Deposits	-	1,390	7,010	33,630	56,785	193,403	292,218
Provision for transfer to SIG Consolidated Fund	-	-	2,454	-	-	-	2,454
Other Liabilities	-	-	1,299	2,424	603	10,722	15,048
Total	**-**	**1,390**	**10,763**	**973,384**	**57,388**	**706,151**	**1,749,076**
Total Liabilities	**-**	**139,899**	**10,763**	**973,384**	**57,388**	**829,574**	**2,011,008**
Net Liquidity Gap	**661,371**	**21,175**	**1,344,401**	**(962,906)**	**136,147**	**(829561)**	**370,627**

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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.

All other financial assets or financial liabilities are non-interest bearing.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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.

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2011 Foreign Currency Risk

	Fixed Coupon 0-1	1-3 Months	3-12 Months	Over 1 Year	Non-Interest Bearing	Total
	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)
Foreign Currency Assets						
Money on Demand	77,163	877,295	-	-	-	954,458
Accrued Interest & Bill Collectibles	- -	- -	- -	- -	9,922	9,922
Term Deposits	-	752,441	1,205,974	-	-	1,958,415
Holding of Special Drawing Rights	-	-	-	-	- 104,741	104,741
Total Assets	**77,163**	**1,629,736**	**1,205,974**	**107,828**	**261,194**	**3,281,895**
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits					11,332	11,332
IMF Standby Credit Facility	-	-	-	141,942	-	141,942
IMF Special Drawing Rights Allocations	-	-	-	-	112,110	112,110
Capital Subscriptions	-	-	-	-	919	919
Total	**-**	**-**	**-**	**141,942**	**124,361**	**266,303**
Net Liquidity Gap	**77,163**	**1,629,736**	**1,205,974**	**(34,114)**	**136,833**	**3,015,592**

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2010 Foreign Currency Risk

Foreign Currency Assets	**Fixed Coupon 0-1 (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)**
Money on Demand	-	661,371	-	-	-	661,371
Accrued Interest	-	-	-	-	5,452	5,452
Term Deposits	-	1,355,164	-	-	-	1,355,164
Holding of Special Drawing Rights	-	-	-	-	114,481	114,481
Total Assets	**-**	**2,016,535**	**-**	**120,800**	**244,300**	**2,381,635**
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	-	-	-	-	62,328	62,328
IMF Standby Credit Facility					76,181	76,181
IMF Special Drawing Rights Allocations	-	122,506	-	-	-	122,506
Capital Subscriptions	-	-	-	-	917	917
Total Liabilities		**122,506**	**-**	**-**	**139,426**	**261,932**
Net Liquidity Gap		**1,894,029**	**-**	**120,800**	**104,874**	**2,119,703**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

26. GOING CONCERN

The impact of the global financial crisis has effect on the performance and financial status of the Bank however the level of reserves remains adequate for safe and secured facilitation of the Banks operation with the highest level of external reserves recorded. The improving confidence in the financial market makes anticipated returns' on both external and local investments to be in upward trend. The Bank is able to facilitate all international payments obligations including the external debts that are fall due in the next twelve months.

27. EVENTS AFTER THE REPORTING PERIOD

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Bank, the results of those operations, or the state of affairs of the Bank in future financial years.

CENTRAL BANK OF SOLOMON ISLANDS

2011 CALENDER OF EVENTS

MONTHS	EVENTS
February	• Human Resource and Corporate Services Department conducted staff in house workshop on Staff Performance Management System for staff. • Professor Paresh Narayan held a Macroeconometric Forecasting workshop for the Economics Department. • Office of the Registrar of Credit Union conducted onsite examination on Royal Solomon Islands Police Credit Union jointly with regional supervisors and APRA technical assistance under APRA-Pacific Support Governance Program. • Senior Programmer/Analyst, Mr. Knoxly attended a programming course held at New Horizon, in Brisbane, Australia. • Senior Analyst, Trevor Manemahaga, on attachment with Australian Prudential Regulation Authority [APRA] on internship program funded by APRA and the Bank.
March	• Deputy Governor and Financial Inclusion Officer, Denson Denni attended the Alliance for Financial Inclusion quarterly meeting held at the Central Bank of Samoa, Apia, Samoa. • Security Officer (Eddie Afia) attended a security training Attachment with CHUBB & Reserve Bank of New Zealand • Human Resource and Corporate Services office held staff in-house workshop on the preparation & management of Bank's corporate events. • Red Cross Solomon Islands staff, gave a First Aid Training to officers of the Bank. • Board Audit Committee held its first meeting since its formation. • Board appointed Mr. Michael Kikiolo as Manger Economics, Research and Statistics • Board approved the policy and remuneration decisions after a review mission from Vinstar consultant. • Research Analyst/BOP of Economics Department attended a Balance of Payments course at IMF STI Singapore • Manager Information Technology, Marlon Houkarawa attended the course on Windows Server 2008 at New Horizon, in Brisbane, Australia. • Analyst, Norman Vavaha, attended East New Britain Savings & Loans onsite examination with Bank of PNG [BPNG] under APRA Program. • A Coinage Review Steering Committee (CRSC) with membership consisted of CBSI, Royal Australian Mint and representatives from the Banking and Retail Industries held first meeting. • Coalition of Education Solomon Islands (COESI) was selected to carry out a public opinion survey on specific issues on the Solomon Islands circulating coin specifications.

April	• Manager Human Resources made a presentation on CBSI's Performance Management System at a Public Service Human Resource Managers Forum • Board approved the Annual Report, endorsed the Annual Accounts and approved the Monetary Policy Statement for the first half of the year, • 1H2011 Monetary Policy Statement published • CBSI conducted onsite examination on Westpac Banking Corporation (SI Branch) with assistance of Pacific Financial Technical Assistance Centre [PFTAC] • Manager FMS attended an IMF-STI course on Risk Based Banking Supervision, Singapore. • COESI commenced the country wide opinion survey • Peer Review of Currency Operations was conducted by David Lakatani, Manager Currency Department, BPNG.
May	• Chief Manager, HRCSD spent a week attachment with Reserve Bank of Fiji (RBF) • Governor launched the 2010 Annual Report launched at the Kitano Mendana Hotel with the theme "Fitem Solomon Islands syndrome". Mendana
June	• CBSI Board Audit committee members were briefed by Kramer Ausenco on the Bank's Riffle Range Housing Project. • Mbokona Staff Gym official opened. • CBSI published Money Smart Day Magazine on financial literacy and the Solomon Islands economy as insert in Solomon Star Newspaper. • CBSI Board held its Provincial Board meeting at Tulagi. • Professor Paresh Narayan conducted another follow up training on Macroeconomic Modeling and Forecasting to staff of the Economics Department staff • Jan Gottschalk of PFTAC held a training workshop on Inflation analysis for Economics Department at CBSI Honiara • Manager FMS attended an IMF-STI course on Monetary and Financial Statistics, Singapore. • The 2nd meeting of the CRSC was convened and the preliminary findings obtained from the opinion survey reviewed.
July	• Deputy Governor and Denson Deni, Officer from the Financial Inclusion Unit attended and presented a paper titled "*Developing a national strategy for Financial Inclusion, best practice and benefits, the Solomon Islands Experience*" at the Pacific Microfinance Week in Port Vila Vanuatu. • Kramer Ausenco's Management Contract renewed for Riffle Range Project. • Manager FMS visited Reserve Bank of Australia and APRA Head Office in Sydney to observe RBF & APRA's policies and procedures relating to the collecting, verification and use of statistics. • Analyst, Charles Rubaha attended Life Insurance Corporation of India onsite examination with Reserve Bank of Fiji [RBF] under APRA Program.

August	• Board approved Royal Australian Mint, to mint the new array of coins for Solomon Islands. • Manager Economics Department and Senior Analyst (Research), attended a PFTAC Central Bank training workshop on Output Gap Analysis in Suva, Fiji • CBSI IT System upgraded its networking environment. • Senior Analyst, Samuel Warunima, attended an IMF-STI course on Financial Soundness Indicators, Singapore. • Senior Analyst, Tom Ha'aute and Analyst, Millisidy Pita attended PFTAC/AFSPC workshop in Cook Islands. • Manager, National Financial Inclusion Unit, Caroline Kanoko attended a-three week microfinance training at Boulder Institute of Microfinance at Turin, Italy.
September	• Senior Analyst Monetary of Economics Department attended a Monetary and Financial Statistics course at Washington DC. • Security Training with Chubb NZ Technician on Commander Software (Challenger V8). • CBSI conducted onsite examination on Bank South Pacific (SI Branch) with assistance PFTAC. • Manager, NFIU, Director of the Curriculum Development Division and two staff of Curriculum Development Division went on a study mission on Fiji education Project (FinEd Fiji) in preparation for the Financial Education Scoping study in Solomon Islands. • The Coinage Opinion Survey Report finalized and discussed in the 3rd meeting of the CRSC. • Supervisor Currency Unit, Enoch Ilisia and, Snr Currency Officer, Primo Wafuni attached with BPNG Currency & Banking Departments.
October	• Deputy Governor and Manager Currency and Banking Operation attended Currency Conference 2011 held in Singapore. • Deputy Governor and Chief Manager, Economics Department, Luke Forau attend and presented a paper on *"Recent Economic Development and Outlook"* for the Solomon Islands economy to the Third Australia and Solomon Islands Business Forum, in Brisbane, Australia. • Deputy Governor and Manager, Financial Market Supervision Department attended the annual meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC), held in Nadi, Fiji. • Legal Officer attended Policy Drafting & Development Seminar in Australia • Board approved allocation of reserves to be placed in gold. • Board amended Prudential Guidelines No. 5 to change the exposure limit to a single borrower to25% total parent capital in case of overseas banks and total capital for the locally incorporated banks. • Jan Gottschalk of PFTAC conducted a second workshop on inflation forecasting to the Economics Department staff. • CBSI issued its second half of the year Monetary Statement • Office of the Registrar of Credit Unions with Solomon Island Credit Union League [SICUL] marked the International Credit Union Day in Honiara. • Analyst, Millisidy Pita, attended Vanuatu National Provident Fund onsite examination with RBV under APRA Program.

November	• Manager HR & Salary Officer attended Payroll Meridian Training in Australia. • Chief Manager Economics Department and three officers from the Department attended a Regional Central Banking Workshop in Apia Samoa • Governor and Chief Manager Economics, Research and Statistics Department attended the Governors Symposium held in Apia, Samoa • Programmer, Mr. Errol Kausimae attended a programming course held at New Horizon, in Brisbane, Australia. • Manager Human Resource, Senior Programmer and the Payroll Officer attended the MicrOpay Meridian Human Resources (HR) Training, held at Payroll Solutions, Brisbane Australia. • Chief Manager Human Resource & Corporate Services & Manager, Human Resources attended SEACEN Advanced Leadership Training in Malaysia • Office Registrar of Credit Union conducted onsite examination CBSI Bokolo Credit Union • Senior Analyst Tom Ha'aute and Analyst, Mary Loea attended Maybank onsite examination with BPNG under APRA Program • Senior Analyst, Trevor Manemahaga attended New India Assurance General Insurance onsite examination with RBF under APRA Program. • Governor and Chief Manager CBOD attended a Commemorative Coins Symposium in Auckland, New Zealand organized by MDM/World Coins Association. • The CRSC was officially dissolved and a Coin Reform Implementation Working Group established to monitor implementation of coin reform activities in 2012.
December	• Board approved CBSI Budget and Business Plan for 2012. • Board approved the splits of Finance and Information Technology into two separate departments as Finance and Accounts Department (FAD) and Information Technology Department (ITD). • Board appointed Mr. Emmanuel Gela as Chief Manager FAD, and Mr. Edward Manedika as Chief Manger ITD. • NFIU and SICUL officers ran workshops on the theme "promotion of micro finance, micro saving and managing personal finance" during the week-long Lagoon Festival, held at Munda, Western Province.

STATISTICAL ANNEX (or Tables)

Tables **A. Money and Banking** **Page**

B. Balance of Payments

C. Government Finance

D. Domestic Economy

TABLE 1.1 - DEPOSITORY CORPORATIONS SURVEY

(SBD'millions)	Dec - 09	Dec-10	Jan - 11	Feb - 11	Mar - 11	Apr - 11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Net Foreign Assets	1,233	1,994	2,040	2140	2243	2382	2383	2577	2748	2664	2635	2750	2658	2866
Claims on non-residents	1,361	2,284	2,328	2458	2502	2706	2709	2852	3033	2957	2921	3045	2960	3201
Liabilities to non-residents	-128	-291	-288	-318	-259	-323	-326	-275	-285	-293	-286	-295	-302	-335
Domestic Claims	1,210	871	827	801	761	749	647	493	420	532	417	417	463	368
Net Claims on Central Government	-26	-308	-322	-317	-380	-378	-476	-691	-715	-666	-732	-729	-717	-866
Claims on Central Government	249	238	237	232	236	235	230	229	225	217	213	210	207	205
Liabilities to Central Government	-276	-546	-558	-549	-616	-612	-705	-919	-940	-883	-946	-939	-924	-1070
Claims on other Sectors	1,237	1,179	1,149	1117	1141	1127	1122	1183	1135	1197	1149	1145	1180	1234
Claims on other financial corporations	13	12	12	12	12	12	12	12	12	12	12	12	12	12
Claims on state and local government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on public non-financial corpora-	0	0	0	0	0	0	0	0	0	0	0	0	0	0
tions	1,224	1,166	1,137	1105	1128	1114	1110	1171	1123	1185	1137	1133	1167	1221
Claims on private sector														
	1,831	2,075	2,086	2150	2217	2249	2196	2365	2402	2442	2433	2473	2499	2610
Broad Money Liabilities	305	412	390	399	418	429	426	439	445	427	434	434	439	481
Currency outside depository corporations	822	892	1,041	1077	1124	1123	1078	1239	1265	1352	1340	1343	1348	1392
Transferable deposits	703	771	656	673	675	697	692	687	692	663	659	696	712	737
Other deposits	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Securities other than shares														
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits excluded from broad money														
	20	57	57	50	44	44	42	42	42	44	44	43	42	42
Securities other than shares excluded from broad money														
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans														
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial derivativevs														
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance technical reserves														
	640	870	884	873	885	952	911	782	836	798	684	805	709	744
Shares and other equity														
	-48	-138	-160	-133	-142	-113	-119	-120	-112	-90	-109	-154	-130	-163
Other items (net)														

Source CBSI

TABLE 1.2 - CENTRAL BANK SURVEY

(SBD'millions)	Dec - 09	Dec - 10	Jan -11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Net Foreign Assets	1,051	1,942	1,926	2044	2104	2250	2349	2405	2539	2512	2480	2,611	2,553	2,778
Claims on Non-residents	1,177	2,144	2,130	2251	2309	2458	2552	2600	2770	2737	2702	2,838	2,773	3,034
Liabilities to non-residents	-126	-202	-205	-207	-205	-208	-203	-195	-231	-224	-222	-227	-221	-255
Claims on Other Depository Corporations	29	46	15	7	18	2	26	13	10	12	5	29	11	46
Net Claims on Central Government	-77	-361	-328	-322	-373	-380	-484	-639	-624	-600	-675	-664	-662	-838
Claims on Central Government	124	117	117	118	118	115	112	111	111	106	105	105	104	103
Liabilities to Central Government	-201	-479	-445	-440	-491	-495	-596	-750	-735	-706	-781	-769	-766	-941
Claims on other Sectors	17	16	16	16	16	16	16	16	16	16	16	17	16	17
Claims on Other Financial Corporations	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Claims on State and Local Government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on Public Non-financial Corporations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on Private Sector	4	4	4	4	4	4	4	4	4	4	4	4	4	5
Monetary Base	717	1,263	1,245	1340	1360	1405	1406	1410	1424	1466	1475	1,559	1,546	1,659
Currency in Circulation	326	436	418	433	449	464	462	475	482	464	470	477	481	526
Liabilities to Other Depository Corporations	389	822	822	902	908	936	941	928	933	999	1002	1,078	1,061	1,126
Liabilities to Other Sectors	2	5	5	5	4	6	3	8	8	3	3	5	5	7
Other liabilities to Other Depository Corporations	1	1	1	41	41	61	121	151	241	241	241	201	241	201
Deposits and securities other than shares excluded from monetary base	25	57	58	51	45	45	43	43	42	44	44	68	67	67
Deposits included in broad money	5	0	0	0	0	0	0	0	0	0	0	24	24	24
Securities othr than shares included in broad money	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits excluded from broad money	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Securities other than shares excluded from broad money	20	57	57	50	44	44	42	42	42	44	44	43	42	42
Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial derivatives	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shares and Equity	317	384	388	376	385	442	394	258	305	257	136	241	141	153
Other Items (net)	-40	-63	-63	-63	-65	-65	-57	-66	-71	-68	-70	-76	-77	-76

Source: CBSI

TABLE 1.3 OTHER DEPOSITORY CORPORATIONS SURVEY

(SBD'millions)	Dec-09	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Net Foreign Assets	181	51	114	96	138	133	34	172	209	151	155	138	105	87
Claims on Non-Residents	184	141	197	207	193	248	157	252	263	220	219	207	187	167
Liabilities to Non-Residents	-2	-89	-83	-110	-54	-115	-123	-80	-54	-69	-64	-68	-81	-80
Claims on Central Bank	411	848	851	976	980	1032	1099	1115	1212	1277	1279	1322	1343	1371
Currency	21	25	28	34	30	35	36	35	37	36	36	43	42	45
Reserve Deposits and Securities than Shares	389	822	822	902	908	936	941	928	934	999	1002	1078	1061	1126
Other claims on Central Bank	1	1	1	41	41	61	121	151	241	241	241	201	240	199
Net Claims on Central Government	51	53	6	6	-7	2	7	-51	-91	-65	-57	-64	-55	-28
Claims on Central Government	125	121	120	114	119	120	118	118	115	112	108	105	103	101
Liabilities to Central Government	-74	-68	-114	-109	-125	-117	-109	-169	-205	-177	-165	-170	-158	-129
Claims on Other Sectors	1,220	1163	1133	1101	1125	1111	1106	1167	1118	1181	1133	1129	1163	1217
Claims on Other Financial Corporations	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on State and Local Government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on Public Non-Financial Corporations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on Private Sector	1,219	1163	1133	1101	1124	1110	1106	1167	1118	1180	1132	1128	1163	1216
Liabilities to Central Bank	29	46	145	7	18	2	26	13	10	12	5	29	11	46
Transferable Deposits included in Broad Money	816	887	1035	1072	1119	1117	1075	1231	1256	1348	1336	1314	1319	1360
Securities other than shares included in Broad Money	703	771	656	673	675	697	692	687	692	663	659	696	712	737
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposits excluded from Broad Money	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Securities other than shares excluded from Broad Money	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial Derivatives	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance Technical Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shares and Other Equity	323	486	496	498	500	510	517	524	531	541	548	563	569	592
Other Items (net)	-7	-75	-97	-70	-76	-48	-62	-53	-40	-22	-38	-78	-53	-88

Source CBSI

TABLE 1.4a - SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING *

(SBD'000)

End of Period	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecommunications	Distribution	Tourism
2007	88,749	55,480	24,570	138	122,132	60,249	28,051	119,039	129,409	43,861
2008	22,702	145,648	21,960	369	162,661	70,133	33,795	166,412	173,055	60,880
2009	21,230	121,749	55,020	1,405	108,101	110,567	48,714	134,286	180,925	60,602
2010	7,305	84,079	6,677	1,376	70,169	148,841	48,848	93,313	182,508	68,854
2011	10,444	47,344	3,073	6,703	63,115	168,619	59,262	89,397	175,528	78,291
2007										
Mar	10,853	87,087	30,719	2	63,622	47,733	27,258	78,167	106,075	21,219
Jun	12,961	108,839	31,237	4	72,160	48,753	21,944	78,299	110,731	30,689
Sep	9,497	126,212	32,320	278	97,481	48,993	29,007	106,753	122,912	38,564
Dec	88,749	55,480	24,570	138	122,132	60,249	28,051	119,039	129,409	43,861
2008										
Mar	13,243	127,821	28,291	377	114,690	70,891	31,351	132,958	133,435	46,315
Jun	15,880	137,168	11,480	60	172,706	69,205	31,961	142,891	151,224	47,294
Sep	18,890	157,646	17,681	730	180,889	72,629	38,348	155,754	158,921	53,702
Dec	22,702	145,648	21,960	369	162,661	70,133	33,795	166,412	173,055	60,880
2009										
Mar	24,922	128,999	32,219	3,357	149,085	63,141	49,436	189,186	202,638	62,880
Jun	26,111	126,779	64,170	1,725	108,829	78,668	71,204	177,075	205,158	76,069
Sep	26,414	113,878	63,966	1,591	101,868	102,786	65,407	94,223	197,452	61,453
Dec	21,230	121,749	55,020	1,405	108,101	110,567	48,714	134,286	180,925	60,602
2010										
Mar	9,264	102,446	56,221	1,332	80,589	106,310	39,928	129,890	172,888	62,369
Jun	6,728	98,612	56,030	1,819	79,199	133,678	45,135	126,356	175,294	61,427
Sept	7,601	96,386	5,141	1,425	68,395	141,320	40,431	85,785	178,512	64,056
Dec	7,305	84,079	6,677	1,376	70,169	148,841	48,848	93,313	182,508	68,854
2011										
Jan	8,571	73,851	1,027	746	69,810	139,745	45,053	87,254	204,518	68,147
Feb	8,789	65,777	876	693	70,210	136,953	44,983	87,048	173,706	67,537
Mar	9,020	68,939	1,195	638	67,415	136,056	43,000	90,564	190,484	67,737
Apr	8,986	48,722	5,730	619	66,223	140,328	43,845	90,038	179,765	63,000
May	9,104	45,887	4,333	532	60,453	139,078	46,507	94,317	198,594	62,425
Jun	9,375	46,605	5,051	1,450	59,947	142,591	45,781	99,300	209,270	63,703
Jul	9,397	47,903	4,020	1,238	60,227	153,515	45,145	100,030	179,810	66,777
Aug	9,398	41,035	578	6,702	57,087	142,952	48,570	110,749	224,041	80,817
Sep	9,640	46,476	1305	6,038	57,086	143,617	51,117	108,010	173,324	81,159
Oct	10,014	45,208	1,822	5,933	52,557	138,292	50,667	108,872	188,874	80,162
Nov	9,881	46,550	1,235	5,782	54,053	147,962	59,756	104,596	187,466	78,707
Dec	10,444	47,344	3,073	6,703	63,115	168,619	59,262	89,397	175,528	78,291

* Part of this table is continued on the next page

Source: CBSI

TABLE 1.4b - SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING (Cont'd)

(SBD'000)

End of Period	Entertainment and Catering	Central Government	Provincial Assemblies & Local government	Corporations	Staturoty Institutions	Private Financial Other Services	Professional and Personal	TOTAL	NON-RESIDENT
2007	929	7	829	0	428	49,811	191,129	914,811	1,839
2008	5,082	13	837	0	682	46,666	263,331	1,174,227	3,173
2009	3,747	203	769	0	62	44,367	302,510	1,194,259	3,560
2010	8,450	0	1	1	82	55,724	299,080	1,075,460	152
2011	13,469	2	-	98	151	63,466	310280	1,089,391	151
2008									
Mar	1,079	3	1,279	0	1,049	49,843	211,006	963,630	1,577
Jun	1,499	10	651	0	969	52,686	222,452	1,058,138	2,198
Sep	3,867	18	690	1,181	685	52,792	237,247	1,151,671	2,422
Dec	5,082	13	837	0	682	46,666	263,331	1,174,227	3,173
2009									
Mar	2,212	279	565	0	641	59,381	274,548	1,243,488	3,269
Jun	2,578	298	349	6	561	54,046	280,026	1,273,652	3,479
Sep	3,478	205	237	0	361	49,827	295,726	1,178,874	3,666
Dec	3,747	203	769	0	62	44,367	302,510	1,194,259	3,560
2010									
Mar	8,358	2,446	42	-	42	71,355	330,560	1,174,202	164
Jun	7,295	392	-	-	93	65,891	308,229	1,166,306	128
Sep	8,329	1,128	162	-	93	62,797	305,298	1,067,018	158
Dec	8,450	0	-	1	82	55,724	299,080	1,075,460	152
2011									
Jan	8,391	759	-	10	1,436	59,373	300,060	1,068,965	215
Feb	9,199	15	118	139	88	60,934	304,835	1,032,096	195
Mar	8,816	168	194	182	76	67,278	304,413	1,056,386	211
Apr	9,007	3	292	130	93	65,962	304,181	1,027,131	207
May	8,957	15	49	126	469	63,113	305,306	1,039,497	232
Jun	8,700	1	8	269	2,493	63,848	306,929	1,089,193	220
Jul	9,521	19	10	117	108	62,854	308,332	1,049,198	176
Aug	9,704	0	10	113	378	58,841	304,386	1,095,514	155
Sep	14,246	0	-	108	154	59,330	310,110	1,061,860	140
Oct	13,897	0	9	436	1	62,228	311,561	1,070,727	194
Nov	13,596	0	-	96	245	63,255	312,031	1,085,365	154
Dec	13,469	2	-	98	151	63,466	310280	1,089,391	151

Source: CBSI

TABLE 1.5. - COMMERCIAL BANK LIQUID ASSETS POSITION

(SBD'000)

	ELIGIBLE RESERVE ASSETS				REQUIRED RESERVE ASSETS	OTHER LIQUID ASSETS	SURPLUS/ DEFECIT)
End of Period	Till Cash	Balance With CBSI	Government Securities	Total		CBSI Securities	
2007	28,374	200,749	-	229,123	92,038	-	137,084
2008	20,369	165,906	-	165,906	98,139	-	67,768
2009	20,176	389,342	-	389,342	114,942	-	274,399
2010	24,938	822,373	-	822,373	125,592	-	696,781
2011	44,836	1,125,909	-	1,125,909	159,355	-	966,554
2008							
Mar	20,443	210,755	-	231,198	86,900	-	144,298
Jun	22,431	104,667	-	127,098	85,386	-	41,712
Sep	26,757	165,278	-	192,035	89,147	-	102,889
Dec	20,369	165,906	-	165,906	90,872	-	75,034
2009							
Mar	15,903	174,771	-	174,771	95,541	-	79,230
Jun	18,101	157,684	-	157,684	101,923	-	55,761
Sep	18,850	271,025	-	271,025	104,677	-	161,642
Dec	20,176	389,342	-	389,342	114,942	-	274,399
2010							
Mar	23,277	443,693	-	443,693	120,710	-	322,983
June	36,096	562,559	-	562,559	126,152	-	436,408
Sep	25,538	768,942	-	768,942	121,510	-	647,432
Dec	24,938	822,373	-	822,373	125,592	-	696,781
2011							
Jan	27,938	822,449	-	822,449	132,998	-	689,450
Feb	33,383	901,852	-	901,852	136,437	-	765,415
Mar	30,205	907,775	-	907,775	134,046	-	773,729
Apr	34,565	935,548	-	935,548	144,348	-	791,201
May	36,140	941,032	-	941,032	141,272	-	799,761
Jun	34,977	927,606	-	927,606	151,329	-	776,277
Jul	36,506	933,280	-	933,280	158,558	-	774,723
Aug	36,012	999,301	-	999,301	158,143	-	841,158
Sep	35,998	1,001,749	-	1,001,749	157,706	-	844,043
Oct	42,244	1,077,805	-	1,077,805	159,216	-	918,589
Nov	41,424	1,060,565	-	1,060,565	162,063	-	898,502
Dec	44,836	1,125,909	-	1,125,909	159,355	-	966,554

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

Source: CBSI

TABLE 1.6 - ASSETS AND LIABILITIES OF DEVELOPMENT BANK OF SOLOMON ISLANDS

(SBD'000)

	ASSETS							LIABILITIES						
								Term Liabilities				Capital and		
End of Period	Fixed Deposits	Treasury Bills	Term Loans	Equity Holds	Staff Loans	Fixed* Assets	Other* Assets	S.I.G	CBSI	Overseas#	N.P.F	Reserves	Other Liabil.	TOTAL ASSET= TOTAL LIABs.
2006														
Mar	350	-	30,821	-	451	1,313	-17,437	-	-	21,054	3,566	-13,386	4,264	15,498
Jun	430	-	28,327	-	383	1,416	-16,626	-	-	21,054	-3,551	-13,301	2,626	13,930
Sep	1,154	-	19,853	-	153	1,175	-9,949	-	-	21,054	-3,545	-13,481	1,268	12,386
Dec	1,752	-	17,277	-	-	1,038	-8,159	-	-	21,055	-3,528	-13,884	1,210	11,908
2007														
Mar	2502	0	13093	0	-23	831	-5484	0	0	21054	3520	-14438	783	10919
Jun	22	0	10000	0	0	1064	-4144	0	0	21054	-35	-14665	588	6942
Sept	150	0	8738	0	0	607	-2626	0	0	21054	-45	-14802	662	6869
Dec	150	0	8202	0	0	641	-1061	0	0	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	na
2009														
Mar	2,485	-	922	-	-	890	1,466	-	-	40	-	-19,384	25,107	5,763
Jun	2,485	-	1,098	-	-	890	1,871	-	-	40	-	-18,996	25,300	6,344
Sep	90	-	797	-	-	890	800	-	-	40	-	-18,946	21,483	2,577
Dec	4,590	-	653	-	na	na	1,327	na	na	na	na	-14,527	21,097	6,570
2010														
Mar	230	0	602	0	0	0	801	0	0	0	0	-14448	16081	1633
Jun	230	0	600	0	0	0	935	0	0	0	0	-14407	16172	1765
Sep	13050	0	497	0	0	0	618	0	0	0	0	-2012	16177	14165
Dec	230	0	442	0	0	0	623	0	0	0	0	-2109	3404	1295
2011														
Jan	230	0	381	0	0	0	679	0	0	0	0	-2112	3402	1290
Feb	230	0	311	0	0	0	572	0	0	0	0	-2309	3422	1113
Mar	230	0	348	0	0	0	910	0	0	0	0	-1943	3431	1488
Apr	230	0	338	0	0	0	905	0	0	0	0	-1966	3439	1473
May	230	0	263	0	0	0	966	0	0	0	0	-1990	3449	1459
Jun	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Jul	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Aug	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
Oct	na	na	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	na	na
Dec	na	na	na	na	na	na	na	na	na	na	na	na	na	na

* Less provision for depreciation   # Intermediated by SI Government
Source DBSI

TABLE 1-7 - BALANCE OF PAYMENTS & INTERNATIONAL POSITION STATISTICS SUMMARY

(SBD'millions)

	2006	2007	2008	2009	2010	2011
BALANCE OF PAYMENTS SUMMARY*						
CURRENT ACCOUNT						
Balance on Trade to Goods	-620	-739	-530	-597	-1,102	-23
Exports f.o.b	868	1,259	1,628	1,329	1,804	3,156
Imports f.o.b	1,487	1,999	2,157	1,925	2,906	3,179
Balance on Trade in Service	-114	-288	-427	-283	-653	-511
Services credit	404	451	458	563	859	989
Services debit	517	740	885	846	1,512	1,500
Balance on Primary Income	-142	-295	-736	-1,088	-1,008	-926
Primary income credit	96	109	156	107	141	198
Primary income debit	238	404	895	1,195	1,149	1,124
Balance on Secondary Income	553	709	852	936	1,068	969
Secondary income credit	631	778	952	1,219	1,543	1,449
Secondary income debit	79	68	101	283	475	480
Balance on Current Account	-323	-614	-841	-1,031	-1694	-491
CAPITAL ACCOUNT	149	196	115	216	406	539
Capital account credit	0	0	5	0	4	0
Capital account debit						
Balance on Capital Account	149	196	111	216	401	539
Net Lending(+)/Borrowing(-) from Current & Capital Accounts	-174	-418	-730	-815	1,293	48
FINANCIAL ACCOUNT	158	247	-6	399	1,004	1,384
Financial assets	337	588	818	1,148	2,449	1,131
Fnancial liabilities						
Net Lending(+)/Borrowing(-) from Financial Account	-178	-341	-824	-749	-1,445	253
Net errors & ommissions	-4	77	-94	66	-152	205
NE&O as percent of goods trade						
Level of Official Reserves at end of period	794	924	716	1,177	2,144	3,034
INTERNATIONAL INVESTMENT POSITION						
Net Position	-1,260	-1,526	-2,208	-3142	-5,133	-5,086
Financial Assets	1,562	1,906	2,094	2815	3,272	4,271
Direct Investment	51	145	174	198	216	245
Portfolio Investment	0	0	106	96	117	99
Financial derivatives and employee stock options	0	0	0	0	0	0
Other Investments	716	837	1,098	1,344	795	894
Reserve Assets	794	924	716	1,177	2,144	3,034
Financial Liabilities	2,822	3,432	4,303	5,957	8,406	9,358
Direct Investment	1,163	1,656	2,392	3,357	5,275	5,841
Portfolio Investment	0	0	0	32	32	32
Financial derivatives and employee stock options	0	0	0	0	0	0
Other Investment	1,659	1,776	1,911	2,568	3,098	3484

*BPM6 classifications

Source: CBSI

TABLE 1-8 - TRADE IN GOODS STATISTICS

(SBD'000)

GOODS	2006	2007	2008	2009	2010	2011
TOTAL EXPORTS (f.o.b)	867,648	1,259,600	1,627,560	1,328,551	1,804,387	3,156,055
Copra & Coconut	21,802	53,513	177,422	53,446	98,164	215,854
Fish	129,847	157,755	176,052	134,.013	196,805	341,074
Logs	600,179	766,814	854,873	710,042	1,005,692	1,457,399
Cocoa	30,827	45,532	69,142	116,750	118,234	119,378
Timber	24,452	40,413	50,596	51,672	46,846	74,294
Palm Oil & Kernels	16,195	110,141	164,151	134,604	256,246	326,250
Minerals	6,236	6,424	20,500	29,545	25,729	518,002
Other Exports	16,049	37,586	38,648	45,645	25,912	35,666
Re-exports & unrecorded	22,061	40,882	76,176	52,834	30,758	68,138
TOTAL IMPORTS (f.o.b)	1,487,396	1,998,519	2,157,225	1,925,333	2,905,890	3,179,183
IMPORTS (c.i.f)						
Food and live animals	269,781	386,335	497,900	486,225	633,270	643,209
Beverages and tobacco	29,360	40,371	38,463	31,285	40,516	56,959
Crude materials, excl fuels	8,155	9,381	7,107	18,070	16,947	42,818
Mineral fuels	427,225	544,451	622,313	417,593	457,015	732,561
Animal, veg and oil fats	6,666	9,574	12,470	7,149	15,502	22,681
Chemicals	98,442	122,587	171,087	77,551	180,805	326,170
Basic manufactures	181,730	276,377	326,278	301,025	464,693	574,263
Mchinery and transport equipment	471,767	622,049	547,624	605,831	1,156,325	860,245
Miscellaneous	150,600	167,391	149,403	162,642	260,896	257,259
Goods not specified elsewhere	6,419	11,682	9,646	7,473	1,104	4
re-imported & unrecorded imports	18,768	49,242	36,985	43,121	33,793	49,792
'Frieght and Insurance'	181,516	240,922	262,052	354,978	354,978	386,779
TRADE IN GOODS BALANCE (f.o.b.)	619,748	739,459	529,665	1,101,502	1,101,502	23,128

*Imports f.o.b.=imports c.i.f - freights & insurance

Source: Customs Division - MOFT, National Statistics Office - MOFT & CBSI

TABLE 1-9 - FOREIGN EXCHANGE RECEIPTS*

(Year Ended)

(SBD'000)

	2005	2006	2007	2008	2009	2010	2011
Current Receipts							
Exports							
Copra	16,418	14,066	36,768	177,421	30,778	31,349	104,615
Fish	86,921	145,855	151,392	188,489	132,598	48,773	56,689
Logs	510,162	643,574	838,693	982,114	773,307	1,153,149	1,555,257
Palm Oil & Kermels	0	30,719	105,281	173,095	80,176	104,534	198,316
Cocoa	64,329	31,444	70,838	69,599	116,212	157,441	217,502
Mineral	1,335	6,235	6,696	28,883	13,451	18,722	13,852
All Other	92,473	45,415	75,981	18,521	20,383	30,298	60,556
Total Exports	**771,636**	**917,308**	**1,285,651**	**1,638,123**	**1,166,905**	**1,544,267**	**2,206,798**
Services							
Transportation	8,759	10,956	15,608	12,365	13,728	13,842	11,805
Travel	24,736	31,377	26,867	27,295	32,690	28,114	62,653
Insurance	315	53	971	2,624	1,753	20,766	5,608
Royalties and License Fees	674	9,729	13,273	11,615	15,098	25,076	9,685
Communication	10,739	30,860	36,244	30,762	21,816	5,790	11,623
Financial Services	4,591	3,486	89	7,687	8,440	142	1,511
Others	223,277	317,945	467,602	560,051	653,795	772,182	1,013,338
Total Services	**273,091**	**404,406**	**560,654**	**652,398**	**747,321**	**865,913**	**1,116,224**
Income Account							
Wages and Others	32,874	50,766	22,969	27,531	31,531	35,971	39,652
Interest, Dividends and Profits	33	974	1,621	540	3,120	5,333	11,219
Official Interest	23,580	33,604	52,200	45,976	16,581	26,710	43,419
Other Income	7,366	1,617	3,215	16,066	239	47,596	108,777
Total Income	**63,853**	**86,962**	**80,006**	**90,113**	**51,471**	**115,609**	**203,067**
Transfers: Official							
Cash Aid	22,331	12,461	16,776	10,507	28,571	0	10,305
Other Official	31,094	42,954	60,916	42,859	75,334	59,348	32,015
Total Official Transfers	**53,425**	**55,415**	**77,692**	**53,366**	**103,905**	**59,349**	**42,319**
Transfers: Private							
Gifts and Donations	78,336	67,174	80,774	57,514	77,834	85,477	94,598
Transfers by Temporary Residence and Immigrants	20,334	65,737	8,028	3,842	1,926	3,677	6,548
Churches and Charitable Institutions	38,986	48,145	39,270	60,294	66,291	58,808	61,720
Foreign Governments	52,656	55,604	57,225	45,445	56,572	72,345	85,779
International Organisations	72,934	143,828	114,940	139,895	192,618	203,778	217,085
Other Transfers	185	617	267	491	629	273	217
Total Private Transfers	**263,432**	**381,105**	**300,503**	**307,482**	**395,870**	**424,359**	**465947**
Total Current Receipts	**1,425,437**	**1,845,196**	**2,304,505**	**2,741,481**	**2,465,472**	**3,009,496**	**4,034,355**
Capital and Financial Receipts							
Private							
Investment Grants	6,828	6,011	61,907	112,712	62,548	115,107	200,133
Direct Investment	14,193	53,338	19,231	2,898	160	-	2,026
Loans	3,252	2,222	9,528	756	100,063	5,409	1,015
Other Foreign Ivestment	0	0	0	0	104	-	-
Total Private Inflows	**24,273**	**61,571**	**90,666**	**116,365**	**162,875**	**120,516**	**203,175**
Official							
Investment Grants	141,156	86,366	182,270	116,447	99,794	475,362	325,430
Loans	3,828	45	0	9,654	42,037	-	-
Central Bank	0	0	0	0	0	-	-
IMF Transactions	0	-	0	0	116,061	76,181	72,759
Total Official Inflows	**144,984**	**86,411**	**182,270**	**126,101**	**257,892**	**551,543**	**398189**
Total Capital Receipts	**169,257**	**147,982**	**272,936**	**242,466**	**420,767**	**672,059**	**601,364**
TOTAL RECEIPTS	**1,594,695**	**1,991,992**	**2,577,441**	**2,983,947**	**2,886,239**	**3,681,555**	**4,635,719**

***Derived from the banking system.**
Source: CBSI

TABLE 1-10 - FOREIGN EXCHANGE PAYMENTS*
(Year Ended)

(SBD'000)

	2005	2006	2007	2008	2009	2010	2011
Current Payments							
Imports							
Oil Imports	323,066	414,331	434,324	495,758	315,247	422,598	789,377
Food Imports	153,490	164,578	231,381	338,137	387,139	555,892	584,827
Beverages and Tobacco	17,959	13,258	26,223	52,404	32,441	61,338	63,766
Plants, Vehicles and Transport Equipment	104,237	159,522	206,847	212,838	195,307	247,765	253,591
Building and Construction Materials	60,005	63,048	95,429	133,367	125,717	127,400	172,261
Checmical	15,044	16,075	36,103	43,907	30,120	35,398	61,616
Other Imports	409,630	565,581	806,027	809,806	661,583	622,029	807,615
Total Imports	**1,083,432**	**1,396,392**	**1,836,334**	**2,086,218**	**1,747,554**	**2,072,422**	**2,733,053**
Services							
Transportation	65,727	75,018	132,134	124,965	103,212	89,808	124,965
Travel	35,649	31,369	58,745	66,523	63,816	73,452	70,163
Insurance	8,507	3,850	6,903	8,676	19,176	26,990	17,344
Communication	14,268	12,812	15,401	26,015	18,351	45,228	120,259
Financial	14,209	21,865	40,382	45,361	35,708	27,804	58,756
Royalties and License Fees etc.	1,749	891	2,074	2,487	434	3,915	18,822
Others	81,398	83,923	147,828	196,963	245,469	293,506	452,171
Total Services	**221,508**	**229,728**	**403,466**	**470,991**	**486,166**	**560,703**	**862,480**
Income							
Wages and Others	11,820	13,700	28,019	19,797	36,209	32,753	39,168
Interest Dividends and Profits	32,386	38,323	60,310	66,575	125,369	171,582	152,409
Official Interest	7,619	2,520	23,970	30,466	14,586	15,511	13,630
Other Income	-	-	-	-	-	2,032	38
Total Income Payments	**51,824**	**54,543**	**112,299**	**116,838**	**176,164**	**221,873**	**205,246**
Transfers							
SI Government Foreign Offices	7,946	2,432	7,541	10,585	13,665	39,893	24,513
SI Government Current Payments	30,708	44,243	43,022	62,695	40,249	68,963	91,659
Gifts and Donation	218,466	249,432	222,112	273,211	196,081	190,335	212,096
Transfers by Temporary Residents	2,797	6,220	6,014	3,156	6,148	3,372	8,577
Other Transfers	18,263	11,924	12,947	16,866	14,015	1,602	337
Total Transfers	**278,179**	**314,252**	**291,637**	**366,512**	**270,160**	**304,165**	**337,182**
Total Current Payments	**1,634,943**	**1,994,915**	**2,643,737**	**3,040,559**	**2,680,044**	**3,157,136**	**4,137,960**
Capital and Financial Payments							
Private							
Loan Repayments	16,013	2,537	7,542	15,716	11,437	58,091	46,424
Capital Repatriation	-	-	-	50	3	-	1,320
Emigrant Transfers	761	1,295	456	2,278	252	4,078	2,909
Other Payments	2,004	35,126	87,877	19,823	16,234	949	19,393
Total Private Outflows	**18,779**	**38,957**	**95,875**	**37,866**	**27,925**	**63,118**	**70,046**
Official							
S I Government Loans	68,617	36,485	65,542	84,529	50,174	72,196	54,002
CBSI	-	-	-	-	-	-	-
IMF Transactions	-	-	-	3	-	-	-
Total Official Outflows	**68,618**	**36,485**	**65,542**	**84,532**	**50,174**	**72,196**	**54,002**
Total Capital Payments	**87,397**	**75,442**	**161,417**	**122,399**	**78,099**	**135,313**	**124,048**
TOTAL PAYMENTS	**1,722,339**	**2,070,357**	**2,805,154**	**3,162,958**	**2,758,144**	**3,292,449**	**4,262,008**

***Derived from the banking system.**
Source: CBSI.

TABLE 1-11 - EXCHANGE RATES
(SBD per foreign currency)

Period Average	USD	AUD	POUND (sterling)	YEN (per 100)	NZD	EURO	S D R
Annual							
2006	7 61	5 73	14 01	6 54	4 94	9 55	11 20
2007	7 65	6 41	15 32	6 51	5 63	10 51	11 71
2008	7 75	6 59	14 35	7 51	5 52	11 38	12 22
2009	8 05	6 37	12 60	8 66	5 12	11 23	12 38
2010	8 06	7 42	12 48	9 20	5 78	10 71	12 32
2011	7 64	7 89	12 26	9 59	6 05	10 66	12 06
Quarterly							
2007							
Mar	7 64	6 00	14 94	6 40	5 32	10 02	11 46
Jun	7 64	6 35	15 19	6 33	5 66	10 30	11 59
Sep	7 66	6 48	15 48	6 50	5 67	10 58	11 74
Dec	7 66	6 81	15 67	6 80	5 85	11 14	12 05
2008							
Mar	7 66	6 94	15 17	7 28	6 05	11 48	12 26
Jun	7 66	7 23	15 11	7 33	5 95	11 98	12 47
Sep	7 72	6 86	14 62	7 17	5 51	11 61	12 20
Dec	7 95	5 34	12 49	8 26	4 59	10 45	11 97
2009							
Mar	8 03	5 33	11 54	8 60	4 28	10 49	11 99
Jun	8 06	6 11	12 47	8 28	4 85	11 00	12 23
Sep	8 06	6 72	13 24	8 61	5 45	11 53	12 58
Dec	8 06	7 32	13 16	9 13	5 88	11 92	12 73
2010							
Mar	8 06	7 29	12 61	8 89	5 72	11 118	12 46
Jun	8 06	7 13	12 04	8 75	5 51	10 28	12 04
Sep	8 06	7 28	12 50	9 39	5 79	10 41	12 22
Dec	8 06	7 96	12 76	9 76	6 11	10 96	12 59
Monthly							
2011							
Jan	8 06	8 04	12 71	9 82	6 23	10 98	12 61
Feb	8 02	8 08	12 92	9 70	6 12	10 94	12 53
Mar	7 97	8 05	12 89	9 77	5 91	11 16	12 59
Apr	7 94	8 36	12 95	9 51	6 23	11 43	12 66
May	7 88	8 42	12 88	9 71	6 26	11 30	12 59
Jun	7 55	8 01	12 25	9 38	6 15	10 87	12 08
Jul	7 42	7 99	11 98	9 34	6 27	10 61	11 84
Aug	7 41	7 79	12 12	9 62	6 21	10 62	11 89
Sep	7 38	7 57	11 67	9 61	6 02	10 18	11 65
Oct	7 36	7 43	11 58	9 61	5 80	10 08	11 75
Nov	7 36	7 45	11 65	9 49	5 69	10 00	11 34
Dec	7 36	7 45	11 48	9 46	5 66	9 71	11 31

Source CBSI

TABLE 1-12 - GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

(SBD'000)

	DEVELOPMENT & TREASURY BONDS AMORTIZED						TREASURY BILLS						OTHER	
End of Period	Commercial Banks	Central Bank	SINPF	Statut. Corpn.	Public	Total	Commercial Banks	Central Bank	SINPF	Statut. Corpn.	Public	Total	Central Bank	GRAND TOTAL
2007	121,353	114,582	125,155	-	1,206	362,295	6,737	59	5,762	-	15,589	28,148	10,716	401,159
2008	110,138	109,104	115,549	-	1,095	335,886	4,993	917	5,150	-	10,797	21,856	10,364	368,107
2009	86,660	103,502	107,060	-	1,028	298,249	21,940	50	-	-	5,655	27,645	4,940	330,834
2010	95,164	97,772	99,315	-	958	293,209	23,520	-	8,992	-	6,990	39,502	4,940	337,651
2011	82,927	88,057	89,532	-	1,028	261,544	16,627	50	14,754	-	7,004	38,435	4,940	304,919
2008														
Mar	119,597	113,224	123,466	-	1,880	358,166	13,188	40	5,450	-	14,451	33,128	10,716	402,011
Jun	117,829	111,858	121,994	-	1,171	352,852	8,265	278	5,690	-	16,356	30,589	10,364	393,805
Sep	113,918	110,485	119,566	-	1,153	345,123	4,457	139	4,965	-	18,475	28,035	10,364	383,522
Dec	110,138	109,104	115,549	-	1,095	335,886	4,993	917	5,150	-	10,797	21,856	10,364	368,107
2009														
Mar	107,790	107,714	112,300	-	1,079	328,883	14,963	0	-	-	7,696	22,659	10,364	361,907
Jun	88,976	106,319	111,117	-	1,062	307,474	-	79	-	-	6,021	6,100	10,364	323,938
Sep	87,949	104,914	109,091	-	1,045	303,000	19,946	10	-	-	6,002	25,958	4,940	333,898
Dec	86,660	103,502	107,060	-	1,028	298,249	21,940	50	-	-	5,655	27,645	4,940	330,834
2010														
Mar	100,415	102,081	104,992	-	1,011	308,499	8,885	10	13,070	-	7,755	29,719	4,940	343,159
Jun	98,411	100,653	102,898	-	994	302,956	13,675	40	9,240	-	5,834	28,789	4,940	336,685
Sep	96,848	99,216	101,307	-	976	298,347	17,773	335	9,893	-	7,243	35,244	4,941	338,532
Dec	95,164	97,772	99,315	-	958	293,209	23,520	-	8,992	-	6,990	39,502	4,940	337,651
2011														
Mar	94,851	96,319	97,269	-	1,500	289,939	21,557	198	10,262	-	6100	38117	4940	332,996
Jun	93,093	94,858	95,179	-	14,164	297,294	22,639	29	5,860	-	1030	29558	4940	331,793
Sept	86,058	89,470	92,432	-	13,270	281,230	19,913	50	8,859	-	8464	37286	4940	323,456
Dec	82,927	88,057	89,532	-	12,410	272,926	16,627	20	14,754	-	7004	38405	4940	316,271

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 Restsructured only
*Qtr4'04 NPF SIG Bonds include Restructured & Armotised
*Qtr1'06 Central Bank SIG Bonds include Restructured & Armotised

Source : CBSI

TABLE 1-13 - SUMMARY OF GOVERNMENT ANNUAL ACCOUNTS AND BUDGET FORECASTS

(SBD million)

	2009 Rev. Est.	2009 Act.	2010 Est.	2010 Act.	2011 Est.	2011 Act.	2012 Est.
Total Revenue and Grants	**1,611.4**	**1,705.7**	**1,961.3**	**2,261.4**	**2,483.5**	**2,628.3**	**3,032.4**
Recurrent Revenue	**1,521.4**	**1,604.1**	**1,881.3**	**2,150.6**	**2,398.0**	**2,464.6**	**2,925.4**
Local Revenue	1,420.4	1,489.8	1,708.3	1,743.3	2,191.0	2,232.9	2,625.2
Inland Revenue Division	900.0	925.5	1,070.0	1,106.8	1,360.0	1,338.1	1,700.0
Customs	380.0	382.8	426.4	496.3	633.5	699.9	718.0
Non-tax (including airspace fees)	140.4	181.5	211.9	140.3	197.5	194.9	207.2
Unidentified Deposit		0.2		3.6	-	-	
Budget Support	101.0	114.4	173.0	407.3	207	231.8	327.2
Development Revenue	**90.0**	**101.6**	**80.0**	**110.8**	**85.5**	**163.6**	**80.0**
Grants for consolidated funds	90.0	101.6	80.0	110.8	85.5	163.6	80
SIG Surplus (Development Financing)							
Total Expenditure	**1,774.8**	**1,701.1**	**2,114.8**	**1,871.8**	**2,236.1**	**2,275.5**	**3,170.0**
Recurrent Expenditure	**1,484.8**	**1,426.8**	**1,714.5**	**1,515.3**	**1,706.4**	**1,842.0**	**2,282.6**
Payroll	455.5	471.9	576.9	563.0	588.0	624.5	655.1
Other Charges	755.9	687.0	899.8	573.6	884.0	913.4	1,089.1
Debt Servicing (CBSI)	172.4	104.5	64.8	117.6	120.0	1,197.0	250.2
Budget Support	101.0	125.3	173.0	215.1	115.0	140.5	263.2
Increased Government Debt Arrears		1.2	-	-20.6	-	-	-
Suspense A/c		3.0	-	3.6	-	12.1	-
Imprest		33.8	-	63.0	-	31.7	-
Contigency warrant			-		26.5	-	25.0
Development Expenditure	**290.0**	**274.4**	**400.3**	**356.5**	**529.7**	**433.4**	**887.4**
SIG-Funded Development Expenditue	200.0	182.6	320.3	248.2	444.2	347.1	724.5
Donor Funded	90.0	91.7	80.0	108.3	85.5	86.3	142.9
Contigency warrant					26.5	-	20
Recurrent Surplus (deficit)	**36.6**	**177.4**	**166.8**	**635.3**	**691.6**	**622.6**	**669.8**
Overall Surplus (deficit)	**-163.4**	**4.6**	**-153.5**	**389.6**	**247.4**	**352.8**	**-137.6**

Source: Ministry of Finance and CBSI

TABLE 1-14 - GOVERNMENT REVENUES

(SBD'000)

End of period	Total Customs & Inland Revenue	Total Customs	Import Duty	Log Export Duty	Other Exports	Other Customs	Total Inland Revenue	Company	Personal	Govt. PAYE	Goods & Sales	Other I.R	Ministries & Others*
2007	924,954	334,557	98,960	173,899	7,794	53,905	590,397	103,323	91,983	50,097	282,839	62,155	138,156
2008	1,223,161	388,427	110,600	210,290	5,532	62,005	834,734	189,747	116,799	68,373	368,449	91,366	146,868
2009	1,308,244	382,767	127,904	164,903	6,777	83,183	925,477	220,995	143,261	79,300	366,971	114,951	181,490
2010	1,598,754	491,968	135,979	239,882	4,915	111,191	1,106,786	216,810	194,623	85,630	457,658	152,066	113,841
2011	2,037,988	699,874	186,349	369,066	10,890	133,569	1,338,114	223,714	234,485	90,725	619,946	168,384	194,906
2007													
Q1	210,332	85,794	24,343	47,626	645	13,180	124,538	18,442	20,155	9,300	63,653	12,987	26,123
Q2	225,613	78,078	25,563	39,749	542	12,224	147,535	35,051	22,968	11,870	64,315	13,331	46,839
Q3	240,484	85,375	26,408	43,630	973	14,364	155,709	24,549	25,179	14,191	74,251	16,939	18,720
Q4	248,526	85,311	22,646	42,895	5,634	14,137	163,215	25,281	23,681	14,735	80,620	18,898	46,473
2008													
Q1	262,099	79,313	23,839	42,621	747	12,107	182,786	40,626	22,867	14,635	86,267	18,391	32,551
Q2	292,880	100,725	30,582	55,957	1,729	12,457	192,155	34,636	32,275	15,667	91,917	17,660	37,536
Q3	327,138	112,483	27,391	56,324	894	27,873	214,655	53,306	31,531	18,335	92,165	19,318	23,063
Q4	341,045	95,906	28,787	55,388	2,163	9,567	245,139	61,179	30,126	19,736	98,100	35,998	53,718
2009													
Q1	279,476	91,945	34,019	39,624	2,266	16,036	187,531	43,432	31,468	17,482	77,433	17,717	41,979
Q2	316,647	95,168	27,040	49,515	447	18,165	221,480	53,643	32,534	19,024	84,738	31,540	51,713
Q3	345,401	103,079	36,751	43,472	895	21,961	242,322	57,801	43,289	18,399	100,977	21,856	21,791
Q4	366,720	92,575	30,094	32,291	3,169	27,021	274,145	66,118	35,970	24,396	103,823	43,838	66,007
2010													
Q1	319,062	98,153	27,993	48,235	654	21,272	220,909	37,992	41,393	21,074	94,345	26,104	18,336
Q2	374,310	116,911	33,221	54,319	1,414	27,956	257,399	66,806	45,195	20,322	105,463	19,614	21,248
Q3	421,045	122,233	35,402	56,852	659	29,319	298,812	55,727	52,144	23,609	125,873	41,459	20,214
Q4	484,337	154,671	39,363	80,476	2,188	32,644	329,667	56,284	55,891	20,625	131,977	64,889	54,043
2011													
Q1	445,361	152,494	39,479	82,570	627	29,818	292,867	55,919	51,062	22,230	129,298	34,358	43,902
Q2	493,351	170,211	39,939	97,377	1,705	31,189	323,140	49,329	58,909	22,526	154,109	38,268	24,939
Q3	530,809	187,229	54,377	93,979	4,508	34,365	345,580	59,097	62,966	21,979	167,844	31,694	26,254
Q4	568,467	189,939	52,553	95,140	4,049	38,197	378,527	59,369	61,547	23,990	168,695	64,065	99,811

Source: Ministry of Finance & Treasury

TABLE 1-15 HONIARA RETAIL PRICE INDEX
(2005 Q4 = 100)

	Food	Drink & Tobacco	Clothing & Footwear	Housing & Utilities	Houshold 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)												
2008	142.5	124.2	119.7	148.3	136.2	125.6	117.3	143.9	130.8	145.4	136.8	17.3
2009	159.5	132.0	128.8	149.3	151.1	131.3	112.2	155.1	140.0	155.6	146.5	7.1
2010	155.4	147.6	140.7	148.2	158.6	137.8	119.4	167.4	142.4	156.2	147.9	1.0
2011	162.8	169.4	141.6	176.0	166.8	144.0	122.8	177.5	153.5	166.9	158.9	7.4
Quarterly Average (3mma)												
2008												
Mar	123.7	125.4	118.7	138.6	128.9	116.2	117.3	137.2	123.2	127.93	125.07	9.7
Jun	139.53	123.83	119.93	145.10	132.87	122.50	117.30	139.83	128.40	142.30	133.87	16.5
Sep	152.10	121.77	120.17	151.20	137.77	135.77	117.30	147.07	135.00	155.80	143.23	23.5
Dec	154.63	125.80	120.00	158.17	145.17	127.73	117.30	151.47	136.70	155.60	144.87	19.4
2009												
Mar	158.30	135.27	127.17	158.07	148.20	126.23	111.20	153.10	139.60	155.03	146.57	17.2
Jun	161.90	126.03	124.67	147.05	149.47	130.70	112.30	154.57	140.97	154.33	146.50	9.4
Sep	159.40	129.93	131.57	144.69	152.30	133.67	112.47	155.83	139.90	155.63	146.13	2.0
Dec	158.20	136.73	131.77	147.47	154.31	134.70	112.67	157.00	139.57	157.53	146.73	1.3
2010												
Mar	159.80	147.17	139.70	146.88	153.43	136.43	119.20	159.67	143.90	156.37	148.87	1.6
Jun	155.83	150.40	140.37	147.00	154.77	138.67	119.20	166.40	144.27	153.50	147.93	1.0
Sep	152.80	145.43	141.10	148.93	161.67	138.10	119.20	171.27	140.80	156.63	147.13	0.7
Dec	152.97	147.20	141.63	149.80	164.33	137.87	120.00	172.30	140.57	158.20	147.57	0.6
2011												
Mar	157.37	157.60	141.73	165.47	165.53	142.93	122.57	177.33	147.43	163.83	154.00	3.4
Jun	163.73	174.50	141.23	169.83	165.77	146.03	122.90	176.80	153.20	167.27	158.80	7.3
Sep	165.00	172.57	141.27	176.43	167.30	144.30	122.90	176.27	154.97	168.23	160.23	8.9
Dec	164.97	173.07	142.27	192.20	168.50	142.70	122.80	179.53	158.57	168.33	162.47	10.1
Monthly Average (1mma)												
2011												
Jan	155.80	157.10	141.70	165.10	165.40	142.40	122.70	174.00	146.70	162.70	153.10	3.3
Feb	156.80	157.50	141.70	165.10	165.60	142.40	122.50	178.60	146.70	164.00	153.60	3.5
Mar	159.50	158.20	141.80	166.20	165.60	144.00	122.50	179.40	148.90	164.80	155.30	3.5
Apr	164.60	167.00	141.40	169.50	165.60	144.70	122.90	176.90	153.40	166.20	158.50	6.7
May	163.90	178.60	141.10	170.00	165.80	146.70	122.90	176.90	153.60	167.80	159.20	7.8
Jun	162.70	177.90	141.20	170.00	165.90	146.70	122.90	176.60	152.60	167.80	158.70	7.5
Jul	163.70	178.20	141.20	177.30	167.80	144.80	122.90	176.60	154.60	168.70	160.20	8.3
Aug	165.40	168.40	141.20	176.00	167.90	143.80	122.90	176.60	155.00	167.80	149.07	1.1
Sep	165.90	171.10	141.40	176.00	166.20	144.30	122.90	175.60	155.30	168.20	149.24	2.1
Oct	166.50	170.80	141.30	189.50	166.90	143.70	122.90	175.50	159.50	168.50	149.30	1.4
Nov	164.80	174.30	142.30	189.10	169.60	142.50	122.90	176.80	158.30	168.50	150.86	2.3
Dec	163.60	174.10	143.20	198.00	169.00	141.90	122.60	186.30	157.90	168.00	151.50	2.4

Source Statistics Division, Ministry of Finance

TABLE 1-16 - INTERNATIONAL COMMODITY PRICES

	Copra (US$/m.t)	Palm Oil (US$/m.t)	Fish # (US$/m.t)	Cocoa (US$/m.t)	Logs (US$/M^3)
2008	816	1,006	1,683	2,577	292
2009	.480	682	1,189	2,890	287
2010	.750	901	1,491	3,134	278
2011	1,157	1,125	1,763	2,980	390
2008					
Mar	914	1,384	1,479	2,477	293
Jun	1,013	1,198	1,710	2,764	282
Sep	817	928	1,937	2,826	278
Dec	520	515	1,604	2,241	316
2009					
Mar	447	577	1,083	2,597	314
Jun	513	742	1,192	2,587	285
Sep	469	678	1,508	2,955	280
Dec	491	732	974	3,420	271
2010					
Mar	557	808	1,092	3,299	254
Jun	636	814	1,533	3,210	254
Sep	769	875	2,150	3,062	294
Dec	1,038	1,108	1,188	2,966	312
2011					
Mar	1,379	1,251	1,509	3,343	326
Jun	1,342	1,147	1,709	3,074	380
Sep	991	1,079	1,889	3,035	445
Dec	917	1,025	1,943	2,468	409
2011					
Jan	1,354	1,281	1,425	3,165	315
Feb	1,503	1,292	1,585	3,393	335
Apr	1,421	1,149	1,563	3,134	337
May	1,419	1,159	1,675	3,071	385
Jun	1,186	1,133	1,888	3,016	418
Jul	1,121	1,088	1,925	3,167	431
Aug	985	1,083	1,725	3,064	450
Sep	867	1,065	2,017	2,874	454
Oct	804	995	1,875	2,680	436
Nov	980	1,053	1,871	2,527	403
Dec	968	1,027	2,084	2,197	388

\# Thailand Market prices. (C+F Bankgkok)
Source: World Bank and Infofish.

TABLE 1-17 - PRODUCTION BY MAJOR COMMODITY

Period	Copra (m.t)	Coconut Oil (m.t)	Palm Oil (m.t)	Palm Kernel (m.t)	Cocoa (m.t)	Fish Catch (m.t)	Timber & Log ('000M^3)	Gold (ounce)	Silver (ounce)
2008	38,979	520	21,981	6,139	4,326	25,378	1,523	-	-
2009	24,740	89	25,123	7,083	4,553	19,300	1,045	-	-
2010	25,389	123	28,615	7,532	5,376	21,385	1,428	-	-
2011	35,280	470	31,592	8,372	6,495	28,195	1,937	39428	19043
2008									
Mar	8,516	249	4,803	1,295	354	5,003	363	-	-
Jun	9,990	223	6,518	1,853	1,452	4,628	382	-	-
Sep	11,189	48	5,644	1,607	1,542	7,141	410	-	-
Dec	9,285	0	5,016	1,384	977	8,607	369	-	-
2009									
Mar	5,672	18	5,744	1,656	687	3,598	246	-	-
Jun	5,849	22	6,499	1,914	1,534	4,421	296	-	-
Sep	6,323	23	6,299	1,783	1,353	4,832	275	-	-
Dec	6,896	25	6,581	1,730	978	6,450	228	-	-
2010									
Mar	4,301	42	7,320	1,836	951	5,540	324	-	-
Jun	5,715	42	7,936	2,171	1,490	3,130	294	-	-
Sep	6,141	26	7,125	1,907	1,517	5,625	396	-	-
Dec	9,232	14	6,233	1,619	1,418	7,090	414	-	-
2011									
Mar	10,670	56	7,353	1,835	952	4,430	416	-	-
Jun	9,367	27	8,240	2,195	2,159	5,716	509	6660	3672
Sep	6,810	200	8,003	2,239	2,012	10,094	514	20028	8532
Dec	8,433	188	7,996	2,102	1,371	7,955	499	12741	6840
2011									
Jan	2716	33	2308	552	295	1910	93	-	-
Feb	3540	14	2329	566	283	1415	163	-	-
Mar	4414	8	2716	718	375	1105	160	-	-
Apr	2538	9	2429	638	515	1550	140	459	153
May	2925	9	3016	826	811	2261	203	2829	1547
Jun	3904	10	2795	731	834	1905	166	3372	1972
Jul	2002	22	2581	743	882	2595	219	2093	851
Aug	2283	146	2492	691	671	3355	113	4475	2086
Sep	2525	32	2929	806	459	4144	183	13459	5595
Oct	2734	95	2456	644	411	3281	149	5709	2612
Nov	2584	82	3093	858	617	2567	132	3360	1985
Dec	3115	12	2447	600	344	2106	217	3672	2242

Source: CBSI

TABLE 1-18 - REAL GROSS DOMESTIC PRODUCT

(1985 = 100)

Industry	2006	2007	2008	2009	2010	2011
Agriculture	120.8	147.6	167.7	167.7	176.1	197.7
Forestry, Logging, Sawmilling	306.5	381.5	398.6	287.0	379.5	501.9
Fishing	130.6	116.5	122.1	117.4	128.0	140.4
Mining & Exploration	-3.3	5.0	5.6	55.7	55.7	533.4
Manufacturing	141.0	144.1	147.7	145.1	161.5	146.7
Electricity and Water	255.0	285.6	291.1	283.0	296.1	316.1
Construction	70.6	101.2	110.3	115.3	115.2	212.3
Retail and Wholesale Trade etc	143.3	152.6	165.0	164.3	167.4	178.4
Transport and Communications	187.6	225.9	250.9	301.7	330.9	327.9
Finance	236.0	257.8	262.6	267.5	272.5	283.4
Other Services	144.2	153.8	170.4	183.4	187.0	201.7
Index of Monetary GDP Production	158.4	179.0	194.3	191.0	206.8	227.6
Annual % movement	7.4	13.0	8.5	-1.7	8.3	9.8
Index of Primary Production	162.4	190.3	206.6	181.8	208.6	249.5
Annual % movement	7.4	17.2	8.5	-12.0	14.7	19.1
Non-Monetary: Food	174.3	179.2	184.2	189.4	194.7	188.9
Non-Monetary: Construction	169.0	173.8	178.6	183.6	188.8	182.3
Non-Monetary GDP Index	173.9	178.8	183.8	188.9	194.2	188.4
Index of Total GDP Production	161.1	178.4	191.5	189.1	202.6	226.3
Annual % movement	6.1	10.7	7.3	-1.2	7.1	10.7

Source: CBSI