

## **Solomon Islands: Selected Issues and Statistical Appendix**

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SOLOMON ISLANDS

**Selected Issues and Statistical Appendix**

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Approved by the Asia and Pacific Department

September 13, 2005

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## I. RECENT BUDGET DEVELOPMENTS AND MEDIUM-TERM ISSUES<sup>1</sup>

### A. Introduction

1. **Like several other Pacific island countries (PICs), the Solomon Islands has often experienced fiscal imbalances.** In the past decade, budget deficits emerged because of revenue erosion through extensive exemptions and difficulties in containing the wage bill. The deficit worsened after the eruption of civil strife in mid-1999 and the government accumulated large domestic and external arrears as financing sources dried up. After the Regional Assistance Mission to Solomon Islands (RAMSI) arrived in mid-2003, the fiscal position has improved markedly due to increased budget support from donors, a significant rebound in tax collection, the termination of payments to ex-militants, and enhanced budgetary controls. Nevertheless, medium-term prospects remain challenging.
2. **This chapter reviews budget trends in the past decade, assesses medium-term budget prospects, and discusses fiscal reforms to support the adjustment required to achieve a sustainable fiscal outlook.** Although the recent improvements are welcome, the underlying fiscal position for 2003–04 was not as strong as it appears, partly due to temporary factors: collection of tax arrears under an amnesty; large Australian budget support which has since ended; and under-spending due to capacity constraints. The 2005 Budget projects a return to a modest deficit as the government allocates more resources to priority sectors, some of which replace scaled-down donor programs.
3. **In the medium term, pressures on the budget will remain large.** Aid flows and revenue from import tariffs and logging are projected to decline. Spending pressures are likely to pick up considerably, owing to the need to increase spending on infrastructure and operations and maintenance. Demands for higher wages and greater public employment opportunities are likely to persist. As aid flows are scaled back, the government will need to provide at least some of the services currently provided by donor programs. Without adjustment, budget deficits could reemerge in the medium term.
4. **Given likely limited sources of financing and the need to reduce public sector debt, the budget will have to adjust considerably.** On the revenue side, the authorities will need to replace declining tariffs and logging revenue with increased domestic tax collection and also address the structural weaknesses in the tax system by (i) modernizing the tax administration; (ii) limiting or eliminating the costly tax incentives/exemptions; (iii) introducing a VAT-type consumption tax, coupled with selected excises, to replace the present distortionary sales and goods taxes; (iv) making the income tax rates simpler and more competitive; and (v) reforming the logging tax. On the expenditure side, spending should be re-oriented away from the wage bill toward infrastructure, operations and maintenance, and primary education and health care. In addition, effective and sustained

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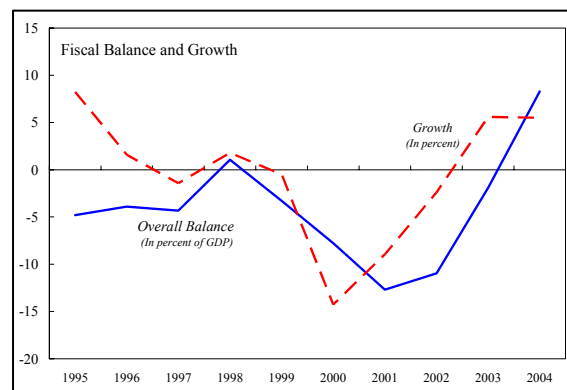
<sup>1</sup> Prepared by Edimon Ginting (ext. 38733).

fiscal adjustment requires institutional reforms in public expenditure management; this would enable the government to carry out a comprehensive evaluation of its spending. The authorities should strengthen the budgetary process further and develop a medium-term fiscal framework and a combined-source budget.

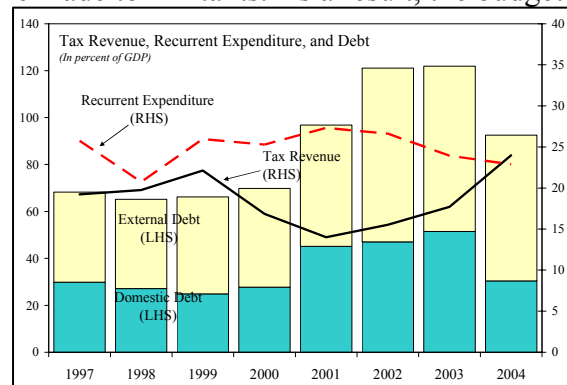
5. The rest of the chapter is organized as follows. The next section reviews recent fiscal developments. Section C discusses medium-term fiscal pressures, and section D outlines the required medium-term fiscal adjustment. The final section offers concluding remarks.

## B. Fiscal Developments

6. **The Solomon Islands has had a weak budget position in almost every year since mid-1990s.**<sup>2</sup> Despite a respectable real GDP growth rate in the mid-1990s, the budget deficit increased and averaged 4¼ percent of GDP during 1995–97 due to a high civil service wage bill and revenue erosion through extensive tax exemptions. Government revenue came under pressure after the decline of timber exports during the 1997–98 Asian crisis. The fiscal position deteriorated further after civil strife started in mid-1999. The crisis led to a sharp reduction in government revenue as real GDP declined by 25 percent and exports halved. At the same time, the government failed to restrain expenditure and substantial payments were made to militants. As a result, the budget deficit increased to over 12 percent of GDP by 2001. The deficit was largely financed by expenditure arrears and borrowing from the central bank. The arrears buildup together with the contraction in real GDP and the depreciation of the Solomon Islands dollar led to a sharp increase in the debt-to-GDP ratio to over 120 percent by 2002 from around 65 percent in 1999.



7. **Years of fiscal mismanagement were turned around following the arrival of RAMSI.** With the assistance of the RAMSI's budget stabilization team, the government ceased payments to ex-militants, carried out a payroll audit thus eliminating ghost workers, and tightened expenditure controls. The government also introduced a tax amnesty and significantly strengthened tax administration. These efforts led to a sharp increase in the collection of all taxes and the 2004 tax-to-GDP



<sup>2</sup> The analysis is limited to the central government budget only due to data availability.

ratio jumped by about 4¾ percent of GDP compared to its precrisis level (1997). Donors' direct budget support, amounting to 4½ percent of GDP in 2004, also helped stabilize the budget. With recurrent expenditure 3 percentage points below its precrisis level, the budget recorded a surplus of 8¼ percent of GDP in 2004. The restructuring of domestic debt and payment of some domestic expenditure arrears, together with strong growth, helped the debt-to-GDP ratio decline to 93 percent of GDP.

8. **The large surplus of 2004, however, was partly due to temporary factors.**

Australia provided sizable budget support amounting to 3.3 percent of GDP, which was terminated in 2004. Part of the revenue improvement was attributable to a tax amnesty and the payment of back taxes (1 percent of GDP). Also the logging tax was based on an unsustainable rate of deforestation, estimated at four times the sustainable rate. In addition, capacity constraints in education, health, development outlays, and procedural difficulties in filling vacant positions caused underspending. Therefore, the underlying surplus was about 4¾ percent of GDP compared to 3 percent deficit in 2003.<sup>3</sup>

9. **The 2005 Budget projects a 1½ percent of GDP deficit.** Government expenditure increases by 5 percent of GDP in 2005 and a half of the increase is allocated to basic service delivery in the health and education sectors, some of which replace scaled-down donor programs. The budget also allows for capital outlays, for the first time in a decade, even though in the first half of 2005 nothing had actually been spent. An increase in the wage bill is also envisaged, part of which is expected to be temporary. In 2005, the government awarded a 16 percent one-off increase in civil service wages for 2002 and 2003 cost-of-living adjustment allowance (COLA). In addition, the government provided a 2½ percent salary increase and re-leveled the salaries for police and prison employers. Domestic revenue are projected to be ¼ percent of GDP lower than in 2004, and budget support 2¼ percent of GDP lower.

10. **The 2005 budget outcome could be better than budgeted.** So far this year, revenue has overperformed, increasing by 3 percent in real terms in the first half of the year and underspending due to capacity constraints has continued albeit to a smaller degree compared to last year. Besides capital spending, the wage bill is below budget because of the slow progress in filling vacancies. Nevertheless, there are some areas of overspending, especially in administrative and representation costs, and spending pressures are emerging, although not necessarily in priority areas. Provided that the authorities resist these pressures, the fiscal outturn could be better than budgeted; staff project a deficit of about ½ percent of GDP. The deterioration in the underlying fiscal balance between 2005 and 2004 is estimated to be 4½ percentage points of GDP, lower than the 8¾ percent of GDP for the overall balance.

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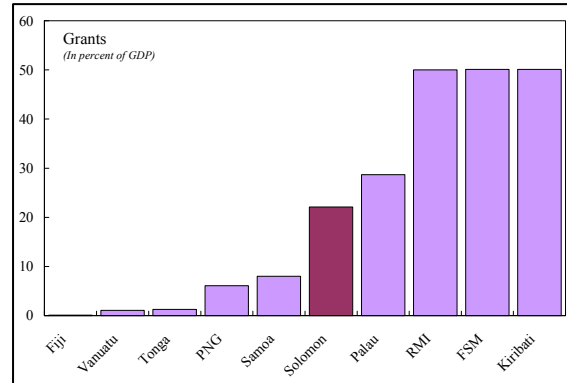
<sup>3</sup> The underlying balance is defined as domestic primary balance—domestic revenue net of recurrent expenditure and nongrant financed development spending—excluding one-off items, such as collection of tax arrears under an amnesty and civil service bonus.

### C. Medium-Term Fiscal Issues

11. **Despite recent improvements, pressures on the budget going forward will remain large.** These pressures are expected to arise from a number of sources.

- **External grants are projected to decline in the medium term as the economic situation improves.** Following the arrival of RAMSI in 2003, revenue from grants is estimated to have jumped to about 18 percent of GDP in 2003 compared to

2.6 percent of GDP in 2002. The contribution of grants to the budget increased further in 2004 and is estimated at 22 percent of GDP in 2005, larger than in most PICs. Grants included budget support and so-called development grants. From 2005, only New Zealand's budget support, which, however, is tied to education, is available: these are the only grants that are spent via the government's budget

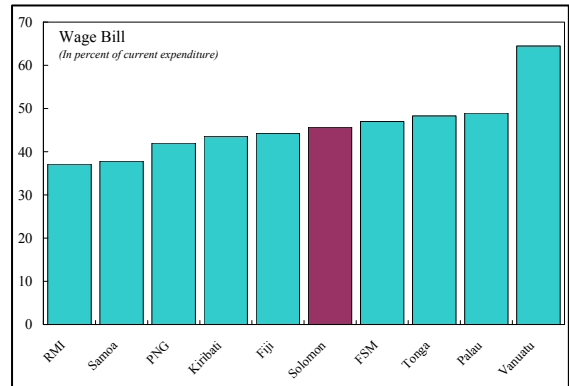


and hence under the authorities' direct control. Currently, all but a small proportion of development spending is financed by external grants. However, data on development grants, which are administered directly by donors, are not available and these are staff's estimates on the basis of discussions with donors. Donors have also provided large recurrent spending support in the education, health, police, and law and justice sectors, which is classified under development grants. As aid flows going forward will not remain at such high levels, the government will need to absorb at least part of the cost of development spending and other services currently provided by donors. Spending reprioritization will become increasingly important to ensure delivery of basic government services.

- **The country's commitment to trade liberalization will reduce revenue from import duties.** Currently, more than 18 percent of domestic tax revenue (4½ percent of GDP) comes from taxes levied on imports. The reduction in tariffs to take place under Pacific Island Countries Trade Agreement (PICTA), from 20 percent to zero over a seven-year period, will steadily erode this source of revenue.
- **Export duties on logging are expected to fall as logging declines.** In 2004, export duties on logging contributed about 14 percent of domestic tax revenue (3¼ percent of GDP). The government estimates that, at the current rate of logging, forests will be exhausted by 2015, hence logging is bound to decline in the coming years and so is this revenue source.
- **Demand for wage increases could add pressure to the budget.** The Solomon Islands faces a tension between the need to contain the wage bill and the need to increase pay for skilled employees. Also, to improve the machinery of government,



several critical vacancies need to be filled. On the one hand, civil service has a history of poor service delivery. On the other hand, their real wages have been eroded by few years of high inflation during the crisis. After the recent increase, the wage bill absorbs 46 percent of the current expenditure, larger than in most PICs. Further considerable wage increases without meaningful civil service reform could generate pressure on the budget.



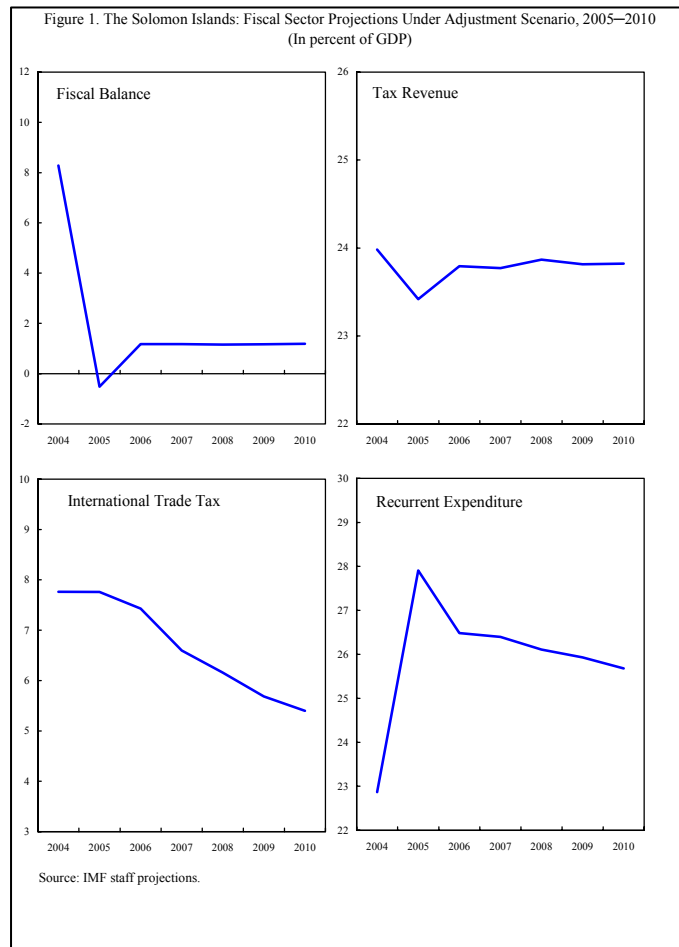
- **The budget needs to allocate more domestic resources to meet infrastructure needs.** Infrastructure, which is crucial to economic growth, is obsolete, poorly maintained, and was damaged during the civil strife. *The National Economic Recovery, Reform and Development* (NERDP) has put infrastructure redevelopment as an important priority to support growth of the productive sector. Currently, the budget covers only a very small part of infrastructure spending. In the medium term, the government will need to take over at least some infrastructure spending from donors.
- **The budget also needs to provide additional funding for operations and maintenance costs of capital projects.** Currently, the budget does not allocate sufficient resources for operations and maintenance. These outlays are projected to rise in the medium term following increased donor-financed public infrastructure.
- **A plan to establish a federal government structure, which includes a significant degree of budget decentralization, is currently under discussion.** As the experience of many countries suggests, implementing such a plan without imposing hard budget constraints could weaken the country's fiscal position.

#### D. Medium-Term Adjustment

12. **Given that financing sources are limited and public debt is high, it will be difficult to finance deficits in the medium term.** Better-than-expected budgetary outcomes in the last two years allowed the government to accumulate large deposits at the central bank, which currently amount to 12 percent of GDP. However, these deposits will only cover the financing needs for the next two years at most. For the outer years, financing a large deficit from domestic sources would be problematic given little investor appetite for government bonds and limited privatization opportunities. It would also not be advisable given that domestic debt at 30 percent of GDP is already sizable. External sources of financing are also expected to be limited due to the high debt burden and the government's poor credit history. Finally, the government's current debt policy does not envisage new borrowing as the debt burden is high, with the NPV of public debt to GDP projected at 73 percent of GDP by end-2005.

13. **The government will also need resources to service its debt.** Most of external debt (67 percent) is on concessional terms and the recent restructuring of domestic debt has reduced the interest burden and extended the maturity by about 10 years. However, the projected debt service is estimated to average 9 percent of domestic revenue in 2006–10. The government also needs to allocate resources to pay for its domestic expenditure arrears (7¾ percent of GDP). Finally, the government is also likely to be required to absorb contingent liabilities, originating from debt contracted by state enterprises and provincial governments whose finances reportedly are in a sorry state.<sup>1</sup> Contingent liabilities are currently estimated at 10 percent of GDP, but more are likely to be uncovered.

14. **The limited financing sources and the debt service to dictate the medium-term fiscal stance.** Staff estimates that the government needs to maintain an average surplus of about 1¼ percent of GDP (adjustment scenario in Figure 1).<sup>2</sup> This will require a number of fiscal adjustment measures. Not only declining revenue from tariffs and logging needs to be offset by domestic taxes in the medium term, the tax system also needs to be modernized to



improve competitiveness and reduce its distortionary effects. On the expenditure side, not only the 2005 bonus to civil servants should not enter future years' base salaries as planned, but also a comprehensive civil service reforms is badly needed. The savings obtained from the wage bill should be re-directed toward infrastructure, operations and maintenance, and

<sup>1</sup> The accounts of state enterprises are being prepared, but are not currently available. Similarly, data for the provinces do not exist.

<sup>2</sup> The adjustment scenario corresponds to the baseline scenario in the staff report.

primary education and health care. A reevaluation of the composition and level of public spending is also essential over the medium term.

## Revenue Reforms

15. **The tax-to-GDP ratio in the Solomon Islands is broadly in line with other PICs.** The tax ratio increased to 23 percent in 2004, owing to improved tax administration.<sup>1</sup> Nevertheless, the high tax ratio also reflects high tax rates. With the exception of excises, tax rates in the Solomon Islands are among the highest in the region. While the contribution of income tax to total domestic revenue is broadly in line with other PICs, revenue from international trade taxes is relatively large, due to logging duties and higher tariff rates.

	Income taxes	Consumption tax and Excises	International trade taxes	Other taxes	Total
<b>Solomon Islands</b>	<b>7.7</b>	<b>8.5</b>	<b>7.8</b>	<b>2.8</b>	<b>24.0</b>
Fiji	6.2	6.2	4.5	0.0	21.0
FSM	3.1	3.1	3.2	2.2	11.1
PNG	14.6	5.8	2.5	0.0	22.3
Palau	5.3	5.3	7.2	4.7	21.9
RMI	8.9	8.9	5.8	0.9	23.3
Samoa	4.4	14.0	3.6	0.6	18.7
Vanuatu	0.0	0.0	7.9	0.3	22.6

Sources: IMF staff reports

16. **The tax system, however, has a number of shortcomings.** The existing indirect tax system (goods tax and sales tax) suffers from cascading effects. Recent authorities' estimates indicate that the effective total tax rates for some imported products are around 2 to 4 times the statutory duty rates. Tax exemptions and incentives are extensive in all major taxes. The Custom and Excise Division records suggest that revenue forgone from import duty exemptions alone is about 4 percent of GDP. The Forestry Department Audit Report indicated that revenue forgone from log duty exemptions alone in 2004 was 1½ percent of GDP. The corporate income tax (CIT) discourages foreign investment as the system taxes nonresidents at higher rates (35 percent) than for residents (30 percent). Moreover, the income tax rates distort investor choices, as the top marginal rate of the CIT (30 percent) is lower than the top marginal rate of the personal income tax (40 percent). Finally, many medium and small taxpayers fail to comply with the tax laws, due to their complexity.

	Personal Income Tax 1/	Corporate Income Tax	Sales Tax or VAT
Solomon Island	40	30 2/	15 3/
Fiji	32	30	12.5
Kiribati	35	25	0
PNG	47	30	10
Samoa	29	29	12.5
Vanuatu	...	...	12.5
Tonga	10	30	15

Sources: Fund staff reports.  
 1/ Highest income bracket.  
 2/ Corporate tax rate for non-residents is 35 percent.  
 3/ Sales tax rate for rice is 5 percent and other consumption goods is 10 percent.

<sup>1</sup> This tax ratio is net of one-off gains from the 2004 tax amnesty amounting to 1 percent of GDP.

17. **The authorities have recognized the problems of the tax system and recently conducted a scoping study on tax reform options.**<sup>2</sup> The study pointed out that the preferred option is to broaden the tax base by limiting or eliminating exemptions coupled with lower and uniform tax rates. In addition, a broad-based VAT–type consumption tax, coupled with selective excises, should replace the sales and the goods taxes. Building on the government’s preferred option, Pacific Financial Technical Assistance Centre (PFTAC) made recommendations to be implemented within the next two years, which the government is considering (Box. I.1).

18. **The proposed tax reform package is in line with regional and international good practice.** In response to the need to increase domestic revenue to compensate for declining tariffs revenue, Samoa and Fiji reformed their tax system with the VAT as a cornerstone. Successful experience of other developing countries that have recovered lost trade revenue from domestic sources also suggest that revenue recovery requires a committed and continued effort, over several years, to broaden the tax base by purging exemptions, simplifying the tax structure, and improving tax administration. The strengthening of the domestic consumption tax system by using a broad-based VAT and excises has a crucial role to play.

19. **The proposed tax reform includes the following main measures:**

- **Strengthen tax administration.** Even before work on the tax policy reform started, the authorities had initiated efforts to strengthen tax administration. Progress has been made in implementing PFTAC’s earlier recommendations by introducing a large taxpayer office (LTO), implementing the Revenue Management System (RMS) to computerize the Inland Revenue Division, and designing an audit program.<sup>3</sup> Further improvements on tax administration are a prerequisite for deeper tax reform. These steps include: the greater use of self-assessment procedures for income taxes; improved coordination between the Inland Revenue and Customs and Excises Division by implementing a reliable Taxpayer Identification Number (TIN); development of modern computer systems to cover all basic customs and tax administration functions; and finally, the introduction of a Revenue Administration Act to provide more effective power to the tax authorities and penalties.

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<sup>2</sup> For further discussion on the problems of the existing tax system, see The Solomon Islands’ Department of Finance and Treasury, 2005, *Scoping Possible Tax System Reforms*; and Christophe Grandcolas, 2005, *Solomon Islands: Modernizing the Tax System*, PFTAC Report.

<sup>3</sup> Grandcolas, Christophe, and Stephen Muller, 2004, *Solomon Islands: Tax and Customs Modernization Projects and Selected Tax Issues*, PFTAC Report.

### **Box I.1. PFTAC Main Recommendations**

In response to a request from the authorities, a PFTAC mission visited Honiara in May 2005 to help design a strategy and action plan to modernize the Solomon Islands' tax system. To remove the shortcomings of the current tax system, PFTAC made the following recommendations to be implemented within the next 24–30 months:

#### **Consumption taxes**

Replace the goods tax, sales tax, and progressively import duties, with a broad-base VAT-type consumption tax with a single rate and high threshold. Required legislation should be enacted at least 12 months before implementation.

#### **Tax incentives and exemptions**

In the short term, remove all discretionary powers of granting income tax incentives and duty exemptions. Do not renew income tax holidays, stop granting new ones, and convert all tax holidays into tax credits or investment allowances. At the time the SCT is introduced, remove exemptions of tax and duties on all government imports. In the medium term, review the present tax incentive regime.

#### **Excises**

Introduce appropriate rate of excises on selected imported goods and apply the same rate to locally produced goods.

#### **Customs duties**

Apply a flat single rate of duty to all imports from countries out of the Melanesian Spearhead Group Trade Agreement and PICTA. Remove exemptions of custom duties for government, statutory bodies, and any other persons. Redraft the Custom and Excises Act to make it in line with WTO requirements.

#### **Export duties**

Retain existing export duties, but simplify the rates based on f.o.b. value. In addition, remove extensive duty exemptions and improve control.

#### **Personal income tax**

Reduce the top marginal rate to 30 percent and simplify the number of progressive rates in line with regional norms. Apply the same rate of personal income tax on residents and nonresidents and expand its base by taxing fringe benefits. Introduce a final withholding at source on wages and salaries, and consider imposing final tax on all other income.

#### **Corporate income tax**

Amend the income tax law to introduce self-assessment. Lower corporate income tax rate for nonresident companies to that of the resident companies (30 percent). Harmonize the withholding tax rate on dividends for both residents and nonresidents. Apply presumptive taxation based on estimated turnover to certain small businesses.

#### **Revenue administration**

Design and implement a Revenue Administration Act (RAA) that provides enforcement procedures for all direct and indirect taxes. The act also needs to provide the tax administration with more effective enforcement power and penalties to recover unpaid tax.

Source: Christophe Grandcolas, 2005, *Solomon Islands: Modernizing the Tax System*, PFTAC Report.

- **Broaden the tax base by reducing tax exemptions and incentives.** Although most PICs use tax incentives and exemptions to compensate for location and smallness, international experience suggests that tax exemptions are not the most efficient way of attracting investment. Tax relief is seldom the main factor guiding business investment decisions. Other considerations, such as the business environment, skills of the labor force, property rights, infrastructure, and market opportunities, are often more important. Tax incentives and exemptions erode the tax base, distort resource allocation, complicate tax administration, and undermine the credibility of the tax system as it opens opportunities for corruption. If necessary, more transparent alternatives, such as accelerated depreciation and capital allowances, have been found to be more cost effective.<sup>4</sup>
- **Introduce a VAT-type consumption tax to replace the sales tax and the goods tax coupled with selective excises.** A broad-based consumption tax such as a VAT provides a sustainable revenue base for the government, and it will do so in a manner that minimizes economic distortions such as the cascading effects found in the current system. This tax will help external competitiveness, as it will free exports from taxes; at present, export activities are subject to the goods tax.
- **Reduce and simplify income tax rates.** The top marginal rates for personal income tax (PIT) should be reduced in conjunction with measures to broaden the tax base and improve compliance. To avoid distortions, it is desirable to align the top marginal rate of PIT with the CIT. The unequal treatment between resident and nonresident companies under the current CIT discourages investment by nonresidents. Harmonization of CIT and withholding tax rates between resident and nonresident companies would eliminate the existing negative incentives. In addition, to improve compliance for small businesses, a more efficient presumptive taxation could be introduced to replace the income tax.
- **Consider a reform of the logging tax.** The current logging tax rates are complex and include extensive exemptions. Given that the current level of logging is significantly above the sustainable level, a policy to reduce logging tax exemptions along with higher but simpler tax rates based on values that are closely related to market values could help reduce the rate of logging without a significant reduction in revenue. At present, posted prices for timber are reported to be significantly below market prices, as they have not been updated since 2003. The posted prices of timber should be updated regularly, or the export duties based on FOB prices. In addition, revenue collection will benefit from better control and audit.

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<sup>4</sup> See Zee, Howell H., Janet G. Stotsky, and Eduardo Ley, 2002, "Tax Incentives for Business Investment: A Primer for Policy makers in Developing Countries," *World Development*, Vol. 30, pp. 1497–1516.

20. **The modernized tax system with the new tax-mix would be more efficient.**

Although it is difficult to estimate the gain from the proposed measures given all the changes, PFTAC suggest that, with fewer exemptions, VAT at a uniform rate of 12½ percent (lower than the current sales taxes) coupled with selective excises would be sufficient to compensate for declining tariffs revenue and reduction in income tax rates. The elimination of cascading should also reduce the need to provide tax incentives and exemptions. In addition, as the proposed VAT rate is lower than the existing sales tax rate, it will provide room for further revenue increases to compensate for declining logging duties as needed.

**Expenditure Reforms**

21. **The level of current expenditure in the Solomon Islands is high.**

Like in most PICs, the wage bill absorbs a large part of current expenditure. Currently, only a small amount of current expenditure is used for operations and maintenance. A cross-country comparison of public investment spending is not possible due to data availability. But in the Solomon Islands investment outlays are almost entirely carried out by donors.

Current Expenditure Composition in Selected PICs (In percent of GDP)						
	Wages	Goods	Interests	Subsidies	Other	Total
<b>Solomon Islands</b>	<b>10.5</b>	<b>10.9</b>	<b>1.8</b>	<b>0.0</b>	<b>1.4</b>	<b>23.2</b>
Fiji	11.4	...	2.9	...	8.6	23.5
Micronesia	25.0	25.7	0.0	0.6	1.9	53.1
Kiribati	36.6	22.7	0.2	21.7	2.7	83.8
PNG	9.2	4.8	5.6	0.0	2.3	21.9
Palau	24.1	21.0	0.9	3.2	0.0	49.2
Marshall Islands	22.4	27.7	0.7	5.3	4.2	60.4
Samoa	8.1	15.1	0.5	0.0	0.0	23.7
Vanuatu	12.8	4.1	1.1	0.0	0.7	19.8
Average PICs	17.8	13.7	1.7	3.9	2.4	39.8

Sources: IMF staff reports.

22. **Expenditure controls have been tightened, but deeper reforms are needed in the medium term.** Improvements in expenditure controls and monitoring introduced in 2003–04 have helped to control spending. In particular, the requirement for all departments to publish monthly reports, quarterly budget reviews, and the strengthening of the Auditor General Office has yielded greater scrutiny of public spending. The 2005 budget framework used a baseline budget approach by which all expenditures were increased by 3 percent (hence, below the inflation rate), and the rest of the projected revenues above baseline expenditures were allocated to higher priority sectors, mainly education, health, and capital outlays. This new budgetary framework adopted in 2005 has helped the government allocate more resources to priority sectors, but deeper expenditure reforms and changes to the budgetary process are needed to address medium-term challenges. These reforms could include:

- **Comprehensive public expenditure review.** The current expenditure allocation has not been based on a review of the government’s functions. A better expenditure allocation would benefit from a comprehensive public expenditure review. Nevertheless, such a review is only meaningful once the current level of government-like services is known. At present, donors also provide government-like services in a number of areas, but data on these do not exist. Once the donors scale back their programs, the government will need to decide on the services that should be provided and at what standards based on what it can afford. Under the baseline budgetary framework, even nonproductive spending still received the baseline expenditure

growth of 3 percent. A comprehensive public expenditure review should rethink the level and composition of government spending ex-novo.

- Introduce a combined-source budget.** With large aid flows, budget preparation would benefit from a combined-source budget, as has been implemented in Timor Leste. This would help cost the present level of services which are partly provided by the government and partly by donors. It is estimated that the total cost of services in health, education, police, and law and order provided by donors is greater than the government spending on these sectors. However, at present donors are providing these services with a large number of expatriates and using, at times, sophisticated technology; hence, the costing of services to be provided by the government in the future will require significant adjustments. Further, spending on some services, such as law and justice and police, is particularly high in the present postconflict situation and should decline as the security situation improves and the backlog of court cases is cleared. A combined-source budget would also improve the fit between government priorities and donors' projects, benefit donor coordination, and reduce duplication in donor activities.
- Multi-year budgetary framework.** Given the on going nature of budget pressures, budget preparation should be placed in a medium-term context. The development of a multi-year budget framework could allow for a closer link between the annual budgeting exercise and medium-term development strategies. It would also enable the authorities to identify medium-term pressures and prepare required measures to prevent large swings in the budget balance and in the provision of services.

23. In the near term, the government should start redirecting spending away from the wage bill and nonproductive spending toward infrastructure, operations and maintenance, and primary education and health care. These reforms are elaborated below:

- Contain the wage bill.** At 10½ percent of GDP, the wage bill in the Solomon Islands is high. The comparison with Samoa, the best practice in PICs, suggests that savings of about 2 percentage points of GDP might be attained from a comprehensive civil service reform. In the short run, the authorities should prevent the 16 percent payment granted in 2005 from entering the salary base, as they have initially envisaged. In addition, the government may need to decompress the wage scale to attract skilled professionals, while avoiding generalized wage increases, and

Selected Wage Indicators			
	Ratio of Government Employment to Population	Ratio of Central Government Wage Bill to GDP	Ratio of Average Central Government Wage to per capita GDP
<b>Solomon Islands</b>	<b>2.1</b>	<b>10.5</b>	<b>5.0</b>
Fiji	2.9	11.4	3.6
Samoa	...	8.1	...
Papua New Guinea	1.4	9.2	6.5
Asia	2.6	4.7	3.0
Africa	2.0	6.7	5.7
Eastern Europe and CIS	6.9	3.7	1.3
Latin America and Caribbean	3.0	4.9	2.5
Middle East and North Africa	3.9	9.8	3.4

Source: IMF staff reports.



streamline recruitment procedures.<sup>5</sup> In the medium term, after a comprehensive review of employment functions and wage scales is conducted, and in combination with an expenditure review, the government will need to cut some of its redundant functions, and develop a comprehensive civil service reform plan.

- **Require funding of contingency warrants.** Current legislation allows cabinet to make additional spending (amounting to 1 percent of GDP each for recurrent and developing spending this year) without further parliamentary approval. Given the medium-term pressures, these spending contingencies should be in line with medium-term priorities, and should be required to be fully funded.
- **Obtain better outcomes for social expenditure.** While some social indicators including life expectancy, literacy, and infant mortality have improved in recent years, overall standards remain below other countries in the region. After a large increase in 2004, spending in the social sectors is high relative to other PICs and other developing countries. Successful efforts to reduce less productive expenditure could enhance the scope for redirecting spending toward primary education and health care, and infrastructure rehabilitation. This is important to promote longer-term sustainable growth, raise the skills of the workforce, and support private sector activities.
- **Improve budget planning at the departmental level and compliance.** Departments need to improve their ability to plan expenditure, enabling programs to be implemented, and cutting down on low-return outlays. Compliance with procurement procedures could be strengthened, so that public money is more efficiently spent. Advancing fiscal transparency, for example, by publishing the Auditor General Report, should also lead to improved economic governance.

	Education Spending	Health Spending	Wage Bill
<b>Solomon Islands 1/</b>	<b>8.5</b>	<b>4.0</b>	<b>10.6</b>
Fiji	5.6	2.7	10.4
PNG	2.3	3.9	9.2
Samoa	4.8	4.7	7.9
Other PICs average	6.4	5.2	17.7
East Asia and Pacific	3.2	1.9	...
Low-income countries	3.2	1.5	5.7

Sources: World Bank, 2005 World Development Indicators, IMF Staff Reports  
1/ Budget figures for 2005

## E. Concluding Remarks

24. **The recent improvement in the fiscal position and large donor inflows provide a good opportunity to address medium-term fiscal challenges.** The proposed revenue reforms include central components of reforms that have been successfully implemented in several developing countries. Expenditure reforms are equally important, especially given the

<sup>5</sup> The compression ratio in the Solomon Islands' public service salaries is 9.8. A ratio lower than 12 suggests that salaries are overly compressed, according to Abed, George, and Sanjeev Gupta, 2002, *Governance, Corruption and Economic Performance* (Washington, DC, International Monetary Fund).

already high level of spending. Resources should be more focused on priority sectors, including infrastructure, operations and maintenance, and primary education and health care. Further reforms in the budgetary process and public expenditure management would help the government better address the medium-term challenges. The timely implementation of fiscal reform in the Solomon Islands, not only will help offset future budgetary pressures, but a more efficient tax system and more productive public sector expenditure will also facilitate stronger private sector growth.

Table I.1. Solomon Islands: Central Government Operations, 2004–10  
(In percent of GDP)

	Estimate 2004	Budget 2005	Projected					
			2005	2006	2007	2008	2009	2010
Total revenue and grants	48.9	45.1	48.5	42.8	40.9	40.6	39.7	37.8
Total revenue	26.8	25.6	26.6	27.0	27.0	27.1	27.0	27.0
Tax revenue	24.0	22.3	23.4	23.8	23.8	23.9	23.8	23.8
Income and profits	7.7	6.5	7.2	7.5	7.9	8.0	8.0	8.0
Goods and services	8.5	8.4	8.5	8.9	9.3	9.7	10.1	10.4
International trade and transactions	7.8	7.4	7.8	7.4	6.6	6.2	5.7	5.4
Tax on logging	3.3	2.7	3.0	2.4	2.1	1.9	1.6	1.3
Other revenue	2.8	3.4	3.2	3.2	3.2	3.2	3.2	3.2
Stamp duty	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Licenses and fees	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Miscellaneous revenue	2.3	3.0	2.7	2.7	2.7	2.7	2.7	2.7
Grants	22.1	19.5	21.8	15.8	14.0	13.5	12.7	10.8
Development grants 1/	17.6	17.6	19.5	13.7	12.0	11.6	10.9	9.1
Recurrent budget grants	4.5	1.9	2.3	2.2	2.0	1.9	1.8	1.7
Expenditure 2/	40.6	46.5	49.0	41.6	39.8	39.4	38.6	36.6
Recurrent expenditure	22.9	27.0	27.9	26.5	26.4	26.1	25.9	25.7
Compensation of employees	8.9	10.5	10.1	9.9	9.6	9.2	8.8	8.5
Goods and services	7.9	10.9	11.6	11.0	11.0	11.0	11.0	11.0
Interest	1.8	1.8	2.3	1.7	1.6	1.4	1.3	1.2
Grants to provinces	2.6	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Employer social benefits	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	1.4	1.0	1.1	1.0	1.0	1.0	1.0	1.0
Development expenditure	17.7	19.5	21.1	15.2	13.4	13.3	12.6	10.9
Grant financed 1/	17.6	17.6	19.5	13.7	12.0	11.6	10.9	9.1
Concessional loan financed	0.1	1.2	1.2	1.1	0.6	0.0	0.0	0.0
Domestically financed	0.0	0.7	0.3	0.4	0.8	1.7	1.7	1.8
Recurrent balance (above the line) 3/	8.4	0.4	1.0	2.7	2.6	2.9	2.9	3.0
Domestic balance (above the line) 4/	3.8	-3.3	-2.8	-1.0	-0.8	-0.7	-0.6	-0.5
Overall balance (above the line)	8.3	-1.5	-0.5	1.2	1.2	1.2	1.2	1.2
Discrepancy (neg. are net expenditures)	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (below the line)	10.6	-1.5	-0.5	1.2	1.2	1.2	1.2	1.2
Financing	-10.6	1.5	0.5	-1.2	-1.2	-1.2	-1.2	-1.2
Foreign (net)	-1.6	...	-0.6	-0.5	-1.0	-1.9	-1.7	-1.7
Disbursements	0.1	...	1.2	1.1	0.6	0.0	0.0	0.0
Amortization (accrual)	1.7	...	1.8	1.6	1.6	1.9	1.7	1.7
Debt forgiveness	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Domestic bank and nonbank (net)	-6.7	...	1.3	-0.5	-0.2	0.6	0.5	0.4
Banking system (accrual)	-8.7	...	1.6	-0.3	0.0	0.8	0.6	0.6
Central bank	-5.9	...	2.1	0.0	0.3	1.1	0.9	0.8
Commercial banks	-2.8	...	-0.5	-0.3	-0.3	-0.2	-0.2	-0.2
Nonbank (accrual)	2.0	...	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
National Provident Fund	1.7	...	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Other	0.3	...	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts	0.0	...	0.4	0.0	0.0	0.0	0.0	0.0
Increase in expenditure arrears 5/	-5.2	...	-0.9	-0.1	0.0	0.1	0.1	0.1
Principal debt arrears	-10.1	...	0.3	0.0	0.0	0.0	0.0	0.0
External	0.5	...	0.3	0.0	0.0	0.0	0.0	0.0
Domestic	-10.7	...	0.0	0.0	0.0	0.0	0.0	0.0
Restructured Bonds	13.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Underlying balance (above the line) 6/	4.7	-0.9	0.3	0.7	0.7	0.7	0.7	0.7

Sources: Data provided by the authorities; and Fund staff estimates.

1/ Estimated by staff as currently only limited data exist. Development grants and grant-financed development spending are currently administered by donors, and hence are not under the direct control of the government.

2/ On an accrual basis.

3/ Includes domestic revenue, recurrent expenditure, and recurrent budget grant support.

4/ Defined as domestic revenue net of recurrent expenditure and nongrant financed development spending.

5/ Includes interest arrears.

6/ Defined as domestic primary balance excluding one-off items.

## II. MONETARY POLICY AND GOVERNMENT SECURITIES MARKET DEVELOPMENT<sup>1</sup>

### A. Introduction

1. **Monetary policy has been subordinated to a de facto exchange rate target in recent years, but might need to become more active in the future.** The Central Bank of the Solomon Islands (CBSI) has maintained a de facto peg to the U.S. dollar since the beginning of 2003. Inflation has moderated from its conflict peak and reserves have increased to a record level. However, with high excess liquidity in the banking system, the CBSI might need to conduct a more active monetary policy in the near future. Consequently, the authorities might find it useful to expand the instruments at the central bank's disposal, and begin the transition to indirect instruments. Developing a deeper Treasury-bill (T-bill) market is an important step toward adopting indirect monetary policy instruments and will, over time, enhance the central bank's ability to manage liquidity.
2. **Fiscal dominance and sovereign defaults have hampered the development of indirect monetary policy instruments.** The government's weak fiscal position—reflected in persistent deficits through much of the 1990s—led to defaults on its domestic (and external) obligations in the late 1990s and again earlier this decade. The domestic securities market has been effectively closed since then, but currently the government issues a limited revolving stock of T-bills used for purposes of liquidity management. Nevertheless, the recent fiscal stabilization and domestic bond restructuring could lead to the further reopening of the T-bill market, albeit for limited issuance. This new issuance should not be allowed to undermine budget discipline, and should be consistent with sustainable public debt.
3. **This chapter discusses the considerations that the authorities might wish to entertain in developing the securities market and indirect monetary policy instruments.** Following a discussion of the implications of securities market development for monetary policy (section B), the recent history of the domestic securities market is reviewed (section C), along with a description of the current T-bill auction process (section D). The chapter then outlines the underlying macroeconomic prerequisites (section E) as well as the operational (section F) and market structure (section G) issues the authorities will likely face as they seek to develop the bond market, before concluding (section H).

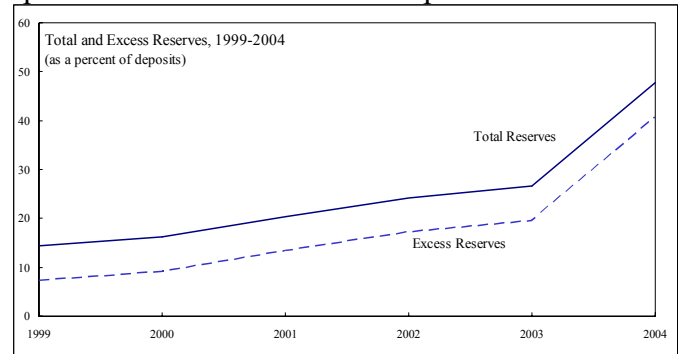
### B. Monetary Policy and Securities Market Development

4. **The de facto exchange rate peg has provided an effective nominal anchor over the past 2½ years, but future monetary policy may have to be more active.** Against the background of large aid inflows, the de facto peg has led to a steady moderation in inflation and rapid foreign reserve accumulation (which have almost tripled in terms of import cover). This rapid accumulation of foreign reserves has been sterilized automatically by a buildup in

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<sup>1</sup> Prepared by Nathan Porter (ext. 37316).

government deposits and a rapid increase in the excess reserves held by commercial banks, which increased from around 13 percent of deposits in December 2001 to 40 percent of deposits in December 2004. However, the factors that helped sterilize the foreign inflows are progressively expected to reverse. This year, renewed lending opportunities have led banks to reduce their (unremunerated) excess reserves; private sector lending increased by 14.5 percent in the first five months of 2005. Government deposits at the CBSI are expected to fall by 22 percent during 2005 as the government uses its 2004 surplus to finance its greater spending needs. These pressures might require a more active monetary policy.



5. **Although the CBSI has a number of monetary policy/sterilization instruments at its disposal, at present the use of indirect instruments is limited.** In recent times, reliance has been mainly on its liquid assets ratio (LAR), set at 7.5 percent of deposits, and a limited primary T-bill issuance to manage liquidity. Although not currently in use, the CBSI has both refinance and deposit standing facilities, and has also issued its own bills (so-called Bokolo bills) in the past.<sup>1</sup>

6. **Structural excess liquidity complicates monetary policy.** Periods of structural excess liquidity typically require rules-based instruments.<sup>2</sup> In such cases, withdrawing sufficient liquidity through indirect instruments can result in interest rates overshooting and excessive volatility in markets with a small number of participants.<sup>3</sup> Moreover, as rules-based instruments directly affect the volume of liquidity, they are typically better than market instruments when dealing with structural liquidity surplus in “shallow markets.” In the case of the Solomon Islands, there are insufficient market instruments for liquidity management. Current excess reserves are still almost six times the stock of T-bills, and almost twice the total T-bill issuance permitted under the current prospectus (SIS100 million).

7. **Experience of other countries suggests the use of direct instruments to deal with structural excess liquidity.** In the Pacific islands region, the central banks of Tonga and

<sup>1</sup> “Bokolo” is the name for the Solomon Islands’ traditional currency. These bills were first issued in 1989, and then reintroduced between 1996 and 2000.

<sup>2</sup> See International Monetary Fund, 2004, “Monetary Policy Implementation at Different Stages of Market Development,” (October).

<sup>3</sup> In such cases, volume auctions are unlikely to withdraw sufficient liquidity from the market, making price auctions the only option.

Vanuatu faced such a problem.<sup>1</sup> Although the source of excess liquidity was the same, ultimately the fiscal position, the handling of the issue was different. In Vanuatu, as in the Solomon Islands, prudent commercial bank lending stopped excess liquidity from becoming money, while in Tonga the central bank eventually had to reverse its reliance on money market operations and resort to bank-by-bank credit ceilings. Even more developed markets have been forced to resort to the use of regulatory instruments to deal with structural liquidity surpluses. Examples include the use of reserve requirements (Spain), mandatory deposits (Mexico and the Netherlands), and moving government deposits from commercial banks to the central bank (Malaysia and Thailand).<sup>2</sup>

8. **Direct instruments are likely to play a significant role in liquidity management in the near term.** In recent monetary policy statements, the CBSI has suggested that, while it may consider issuing Bokolo bills, credit ceilings, changes in the LAR, and standing facilities are likely to be the most expedient measures if money growth jeopardizes its objectives in the near term.<sup>3</sup> Each of these instruments could contribute to reducing excess liquidity, although a combination may be superior. The required increase in the LAR would be very large (currently to around 35 percent) and, especially if unremunerated, would impose a significant tax on intermediation. Bank-by-bank credit ceilings could be used to reduce liquidity in a precise manner, but would also distort intermediation, although tradable credit ceilings could alleviate some distortions. The use of a deposit facility will have quasi-fiscal implications and may affect liquidity less directly, but it should be less distortionary than the other options. Issuing Bokolo bills runs the risk of fragmenting the limited sovereign-debt market in the Solomon Islands, and would also entail costs.

9. **Standing facilities, combined with existing direct instruments, offer the most realistic option for the CBSI to manage liquidity until the securities market is further developed.** Currently in the Solomon Islands, there is limited potential for the development of an interbank money market. With only three commercial banks, anticompetitive pressures may mean that during times when individual banks face liquidity shortages, they may not be able to borrow from the other banks. Without a robust interbank market, indirect monetary policy instruments will be limited to primary issuance, and so open-market operations are unlikely to be a reliable monetary policy instrument for some time. Standing facilities can first be reintroduced. Initially, these could take the form of a discount facility—where banks

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<sup>1</sup> See “Monetary Policy Implementation at Different Stages of Market Development,” ([www.imf.org](http://www.imf.org)).

<sup>2</sup> See “Monetary Policy Implementation at Different Stages of Market Development—Country Cases and Appendices,” ([www.imf.org](http://www.imf.org)).

<sup>3</sup> See Central Bank of the Solomon Islands, 2005, “Shallow Financial Markets—Solomon Islands,” paper presented at IMF and PFTAC seminar on monetary policy in shallow markets, Suva (March); and *Monetary Policy Stance for 2005* (Honiara).

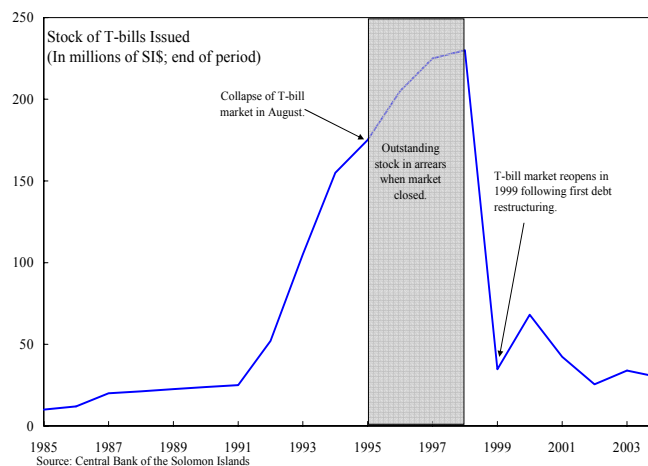
could borrow from the CBSI, either uncollateralized, or preferably by rediscounting T-bills over their maturity—and a deposit facility.

10. **Like most central banks, the CBSI would like to make the transition toward indirect (market-related) instruments.** Direct instruments typically distort financial intermediation and are less flexible than indirect instruments. Indirect instruments are also typically better at achieving small changes in interest rates or money supply than direct instruments, can be implemented quickly and, since they occur at the central bank's initiative, give greater control to the authorities than standing facilities. Deepening the T-bill market will be essential for the development of indirect instruments. A deeper market is also likely to foster competition among banks and create incentives for the development of an interbank market. Some considerations underlying further development of the government securities market are discussed in sections E-H, while we now turn to the history of this market.

### C. The History of Government Borrowing

11. **The government accessed the securities market heavily in the early-1990s.** The Solomon Islands' government has had a weak fiscal position in most of the past decade.<sup>4</sup> To fund these deficits, the government has relied heavily on two main sources: external concessional financing and borrowing from the domestic financial sector.<sup>5</sup>

Government securities were first issued in the mid-1980s, and issuance peaked immediately before the collapse of the T-bill market in August 1995. The government's domestic debt has traditionally been concentrated among a few parties, although the composition of creditors changed during the crisis. Traditionally, commercial banks have held close to half of government domestic debt. However, during the crisis the share of domestic debt held by commercial banks fell dramatically as the government tapped the

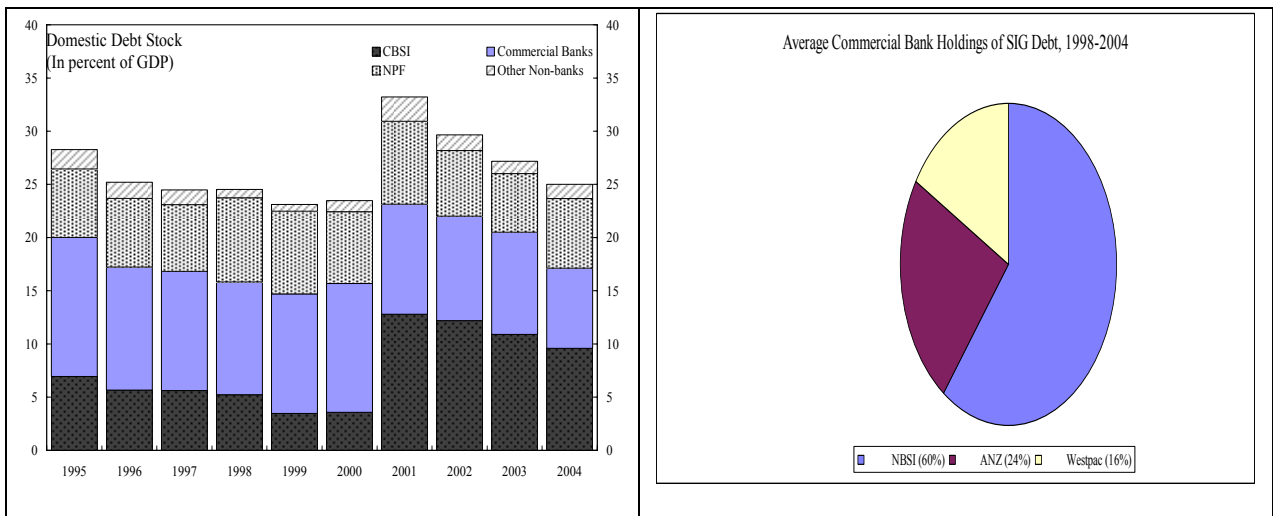


<sup>4</sup> See Chapter I.

<sup>5</sup> The financial sector of the Solomon Islands was reviewed in the *Solomon Islands—Selected Issues and Statistical Appendix*, IMF Country Report No. 04/255. It comprises the Central Bank of the Solomon Islands (CBSI), one domestic (the National Bank of Solomon Islands (NBSI)) and two foreign commercial banks (Westpac and the ANZ), the National Provident Fund (NPF), as well as some other nonbank institutions.

central bank's advance facility excessively.<sup>6</sup> Commercial bank financing of the government in the early 1990s was facilitated by the CBSI's liquid assets requirement, which until 1998 required commercial banks to hold 40 percent of their assets in cash, deposits at the CBSI, and T-bills.

**12. High levels of public debt led the government to default on its domestic and external obligations in the mid-1990s.** Domestic securities were restructured in 1999 with the first payments scheduled for mid-April 2001. However, the onset of civil conflict in mid-1999 increased pressure on the budget and made it impossible for the government to meet even these restructured obligations. Following the government's initial domestic default and collapse of the T-bill market in 1995, the CBSI issued its Bokolo bills to manage liquidity. They were withdrawn to better coordinate T-bill sales in the primary market shortly after the reopening of that market after the debt restructuring in 1999.



**13. Following the end of the conflict, the government restructured domestic bonds in 2004.** These bonds were owned by the commercial banks and the National Provident Fund (NPF), with the NPF holding slightly more than a quarter of them. In July 2004, an agreement was reached with the commercial banks and the NPF, rescheduling government obligations—worth around SI\$200 million (around 10 percent of GDP)—by issuing restructured bonds which will be repaid over 14 years attracting an average interest rate of

<sup>6</sup> Under the Central Bank of Solomon Islands Act, the CBSI may grant loans and advances for periods not exceeding one year, and temporary advances to cover temporary revenue shortfalls, which should be repaid within six months. Such advances are not meant to exceed “thirty percent of the average annual ordinary revenue for the Government,” although they could reach 40 percent for a period of six months. Current outstanding advances and securities are around 70 percent above the statutory limit.



2¼ percent. In December 2004, the government reached a similar agreement to restructure its remaining obligations to the NPF. These obligations—mainly comprising development bonds and contribution arrears—were restructured into amortizing bonds with a face value of SI\$75 million (around 4 percent of GDP), payable over 15 years at an average rate of 2¼ percent. The government paid SI\$8.2 million up front, and the NPF agreed to waive surcharge arrears of around SI\$32 million, or 1.7 percent of GDP. While these restructured bonds are, in principle, tradable, under the restructuring agreement any trades require agreement of all the bondholders (i.e., the commercial banks and the NPF), and as a result they are not traded. The government has remained current on these obligations.

#### **D. The Government’s Current T-Bill Auction Program**

14. **Despite the absence of financing needs during the last two years, a revolving stock of T-bills worth SI\$30 million (around 1.6 percent of GDP) is currently issued.** Although the prospectus authorizes the CBSI to issue T-bills up to SI\$100 million, issuance has been limited by the Ministry of Finance to SI\$30 million since mid-2003. With no immediate financing needs, the motivation for auctioning securities has been exclusively the development of monetary policy instruments, with funds raised held in a “Monetary Operations Account,” which the government cannot access.<sup>7</sup>

15. **The CBSI auctions T-bills ranging in maturity from 7 to 91 days weekly.** The T-bills are issued under the Government Loans and Securities Act, with the CBSI acting as agent for the government. The market is open to both competitive and noncompetitive bidders (mainly individuals) with the yields determined by the competitive bids. The minimum tender is currently SI\$10,000 (around US\$1,300) with tenders being taken in multiples of SI\$10,000.<sup>8</sup> Sealed tenders must be lodged before 11:00 a.m. on the day of the tender, with accepted tenders allocated by noon that day. Settlement requires a check by 11:00 a.m. the first business day following allocation. Although the CBSI auctions several maturities, the 91-day maturity makes up almost 90 percent of the holdings. The interest rate on the 91-day bill remained at 6 percent throughout 2004; although following a brief period of declining inflation, it fell to 3½ percent in the July 2005 auctions, with *ex post* real yields remaining negative.

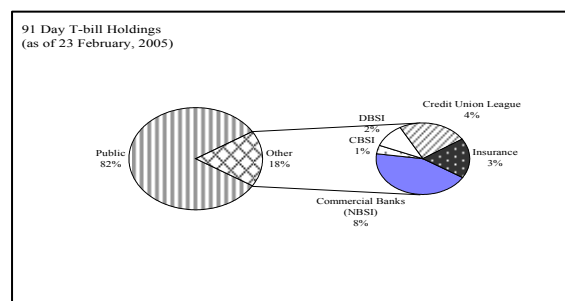
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<sup>7</sup> These funds are, however, recorded as part of credit to the government.

<sup>8</sup> Noncompetitive bids are only accepted for the 91-day maturity and for amounts up to SI\$50,000.

16. **The current T-bill system is paper-based and costly.** The cost of these auctions has been absorbed by the CBSI. The CBSI has indicated that it could consider moving to paperless T-bills when the current stock of paper certificates is depleted. This would require a change in prospectus and the creation of security accounts where T-bills would be registered. Nonetheless, such a move would reduce the costs of operating the market and may allow for participation by smaller investors.

17. **The general public currently holds around 80 percent of T-bills.** Individuals are attracted to T-bills, as their yields were almost 5 percentage points above deposit rates in 2004. In spite of the government's poor credit history, weekly auctions are typically oversubscribed, with a coverage ratio of almost two for the 91-day maturity and 2½ over all maturities. This reflects the limited options that both individual and institutional investors face in the Solomon Islands.



18. **Within the financial sector, the National Bank of the Solomon Islands (NBSI) has almost half of the T-bill holdings.** Credit unions and insurance companies are the next largest holders. In spite of significant excess reserves holdings, and the stabilizing influence of RAMSI, the two foreign banks have not participated in this market since its collapse in 1995.<sup>9</sup> This suggests that the government's defaults in the 1990s (and an unsuccessful restructuring earlier this decade) have damaged its reputation as a creditor.

#### E. Underlying Macroeconomic Factors to Deepen the T-Bill Market<sup>10</sup>

19. **A stable economic and financial environment, supported by sound monetary and fiscal policy, is essential to the development of any bond market.** Since the end of civil conflict and the arrival of RAMSI, progress has been made on this front. The restructuring of public debt has improved the soundness of the banking system and the financial sector more generally. By managing its restructured debt stock in a prudent manner, the government will provide an important signal to investors.

20. **As part of ensuring sound fiscal policy, the government should abstain from central bank financing.** Progress toward reducing fiscal dominance has already begun, but more is needed. A negotiated settlement between the government and the central bank on the

<sup>9</sup> Reflecting the 2004 debt restructuring, the foreign banks hold restructured government bonds, making their exposure to the government just over 10 percent of assets.

<sup>10</sup> This section draws on the World Bank and International Monetary Fund, 2001, *Developing Government Bond Markets: A Handbook* (Washington).

stock of central bank advances, and a commitment to fill any financing gaps through fiscal measures or by noninflationary sources of financing would be a step forward. In particular, the CBSI should not become a “residual” bidder for T-bills. Negotiations to clear the current stock of outstanding advances are ongoing. Amending the Central Bank Act to further limit possible advances would also be desirable.

21. **Market participation should be voluntary.** It should not be generated by investment requirements on financial sector participants, such as a LAR satisfied by treasury securities. Even though this may initially mean fewer market participants, it is likely to enhance the government’s efforts at rebuilding its reputation. Looking ahead, a freer market will provide a sounder base for further development of money and government securities markets, and the development of market-based monetary policy instruments.

22. **Increasing the transparency and forward-looking nature of fiscal policy should also increase the appetite for government securities.** The government has already taken steps in this direction by issuing monthly press releases on the current fiscal situation (although these fiscal accounts do not conform to *GFS* methodology), but aside from the budget no comprehensive fiscal reports are released to the public. While the government’s current no borrowing policy provides reassurance to market participants, the government should be prepared to outline detailed borrowing plans if this policy changes. Preparing and publishing future borrowing needs would guide the market when formulating its demand for securities. Information on the strategy for debt management should also be published together with an issuance calendar and the terms of securities to be offered. These changes are likely to have a number of advantages, including allowing potential investors to monitor the government’s fiscal management and creditworthiness, as well as better plan their portfolio allocation.

#### F. Operational Factors to Deepen the T-Bill Market

23. **The pace of bond market development also depends on the government and the CBSI agreeing on a number of operational issues.** The major operational issues are: (i) what arrangements (including the frequency) should govern T-bill sales, (ii) who should participate in the auction, and (iii) what maturities should be sold.

24. **T-bills may be sold in many ways.** These include auctions, syndication (underwriting), tap sales, or direct public offering. Whichever approach is taken, its legal basis should be well established, including whether and how securities may be traded.

- **Auctions:** Typically the most cost effective and transparent method of borrowing. The government should continue the practice of auctioning the majority of its debt according to a predefined schedule. If the government were to consider selling longer-term bonds, less frequent (although still regular) auctions may be desirable. Moreover, reflecting the CBSI’s possible interest in influencing yields, the authorities could consider volume auctions, although they may be less effective at controlling

liquidity.<sup>11</sup> At the current stage of development, they should focus on quantities, leaving the price determined by the market.

- **Syndication (underwriting):** Syndication refers to the practice of appointing a group of institutions to subscribe to the government's bond issue and, for a negotiated fee, then sell them to other, smaller, investors. It can be a cost-effective way to issue securities when the potential number of participants in an auction market makes collusion a risk. However, finding suitable underwriters could be difficult in view of the government's poor credit history and, given that securities are direct competition for deposits, the banks are unlikely to be willing underwriters.
- **Tap sales:** With tap sales, the government taps the market on an ad hoc basis when it needs funds. Tap sales can be at fixed or minimum prices, and can be timed to meet liquidity needs and demand for securities. Nonetheless, as auctions are more transparent and dynamic they are likely to be superior to tap sales in terms of pricing and credibility building. Moreover, if used too extensively in conjunction with auctions, they may fragment the market.
- **Direct public offerings:** Many governments offer bonds directly to the public. Major advantages of such issues are that they diversify the potential investor base, reduce the concentration of public debt in the financial sector, and promote competition for retail funds with the banks. The current holding of T-bills suggests there is considerable demand for such assets among the general public in the Solomon Islands. However, retail instruments often have higher distribution and administration costs than securities sold at auction. Nonetheless, if priced appropriately—reflecting market returns and their higher costs—they can form part of overall prudent debt management and monetary policy strategies.<sup>12</sup> Since tapping the retail market will increase competition for the banks, the post office (or possibly the NPF) may be more appropriate and willing institutions for the distribution of bonds.<sup>13</sup> These instruments should also be tradable, so that they could be bought by financial institutions if they wish. The installation of the book-entry system at the CBSI is likely to reduce the costs of issuing marketable retail instruments. Given that significant secondary trading is unlikely to develop in the near term, the differences in the outcomes achieved through auctions or direct sales are likely to be small.

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<sup>11</sup> Volume auctions allow the seller (the government) to choose the price (yield), and buyers to specify the amount of bonds they are willing to buy at that price.

<sup>12</sup> Securities sold directly to the public also directly influence the monetary base.

<sup>13</sup> The NPF, with branches in Honiara, Gizo, and Auki, may be another possibility. When, in 1998, the CBSI (Bokolo) bill market was opened to the general public, the additional competition forced banks to increase their term deposit rates significantly.

25. **Participation should be as open as possible.** This is especially important for a country with a limited number of financial institutions. As can be seen by the surprisingly large participation by individual investors, participation in the current market is fairly open and in the future should be allowed to expand in line with technical capacity. For example, implementation of a new automated book-entry system should allow more bidders and smaller minimum bids. Ultimately, efficient settlement requirements may be the main constraint on the size and number of participants.

26. **Given the nascent development of the Solomon Islands' securities market, the government should concentrate on relatively few popular maturities.** Selling too many maturities can lead to fragmentation of the market. With little demand or competition for individual maturities and consequently uninformative (and noncompetitive) prices, government borrowing and monetary policy operations could become more expensive and interest rates less informative. Market fragmentation has also been an issue even in relatively developed government securities markets. With the government currently auctioning relatively small amounts across five maturities, rationalization is likely to be beneficial. Some considerations for rationalizing maturities are:

- Given the extent of excess liquidity in the market, the very short maturities provide limited liquidity management.
- As the 91-day maturity currently has the deepest market, this may be the cheapest maturity for the government and CBSI to concentrate on. By concentrating on a relatively short maturity, the government is reducing the risk faced by lenders, but is increasing its own rollover and market risks. Nevertheless, this is likely to be inevitable, as shorter-term securities need to be issued first.
- As confidence builds, the government could consider auctioning another, slightly longer maturity, say six (as was once offered) or twelve months. By gradually introducing longer maturities, the government would reduce roll-over risk and also allow institutions to access longer-term Solomon dollar assets, which would be particularly useful for the NPF and insurance companies.

### **G. T-Bill Market Structure and Technical Factors**

27. **Recent technical assistance has alleviated some technical constraints, setting the stage for further development of the T-bill market.** Until recently, the Solomon Islands' T-bill market has been constrained by the lack of automation, comprehensive database of the government's debt, and an efficient tender and settlement system. However, recent initiatives are changing this.

- The Commonwealth Secretariat's Debt Management Recording and Management System (CS-DRMS) is now operational in both the Ministry of Finance and the CBSI. This will make fiscal planning and being able to share information with the public much easier, thereby increasing transparency.

- The IMF is providing the CBSI with technical assistance regarding the establishment of a book-entry system for the recording of T-bill transactions. This will enhance the CBSI's current capacity to act as the depository for government securities, and enable it to reduce the minimum requirements for participation in T-bill auctions. Moreover, as it keeps accurate records of ownership of government securities, secondary trading will become easier. It will also assist the CBSI in operating standing facilities, such as an overnight deposit window or repurchase facility. Looking even further forward, this system provides a necessary prerequisite for the development of interbank and secondary securities markets.
- The introduction of this book-entry system is also likely to allow greater participation by reducing operating costs through automation and dematerialization. Specifically, by making securities paperless, participation could be expanded through on-line banking through an UN-inspired and solar-powered e-mail network in the Solomon Islands.
- An efficient settlement system is essential for the smooth operation of the market. One way for the CBSI to minimize the transactional risk would be to require participants to hold cash accounts for settlement at the depository (CBSI) or allow electronic transfers of funds, so that the settlement period could be minimized. While the costs of managing cash accounts at the CBSI may be considerable, the prospects of on-line banking opportunities may reduce the settlement time.

## H. Concluding Remarks

28. **Future macroeconomic challenges are likely to require more active monetary policy.** The recent fiscal and economic stabilization presents the government with an opportunity to strengthen the T-bill market. The CBSI can then begin the transition toward greater use of indirect monetary policy instruments. Standing facilities are a likely first step. This should improve the demand for securities, and eventually lead to some interbank trading. These developments would lay the groundwork for the CBSI to use indirect instruments to manage liquidity.

29. **For securities market development to succeed, it is essential the authorities maintain a sound economic environment and policy, and also undertake some technical reforms.** The government needs to abstain from tapping central bank financing, and ensure that all future market borrowing takes place in an open and transparent setting. To reduce the cost of future borrowing operations, the government should continue concentrating on a few popular maturities. Further operational cost savings would follow from improving the efficiency of settlement and depository functions of the CBSI.

### III. TAX SUMMARY<sup>1</sup>

#### A. Direct Taxes

##### **Taxation of Individuals**

*Nature of tax:* Residents are taxed on their worldwide income. Taxable income includes income from any business, employment, services rendered, rents, dividends, interest, pensions, and alimony. The values of housing and vehicle subsidies supplied by employers and education allowances paid by employers are taxable. The tax year is the calendar year, although businesses may adopt an alternative accounting period. Tax returns are to be filed within three months of the balance date. Wages and salaries are taxed under the PAYE system.

*Exemptions and deductions:* Personal exemptions and deductions apply to residents only. When an individual is resident for only part of a year, the exemptions are subject to apportionment on a pro-rata basis. The basic exemption is SI\$7,800 per taxpayer, with no distinction between single and married taxpayers. Otherwise deductions are: the cost not reimbursed by the employer for travel related to medical treatment of the taxpayer or of his/her family, the cost of overseas education not reimbursed by the employer for up to four single trips a child, and alimony payments. Interest income of less than SI\$5,000 from savings deposits with any bank in the Solomon Islands is exempt. Residents qualify for double taxation relief when they are liable for overseas income tax.

<u>Resident Individuals</u>	<u>Percent</u>
Up to \$15,000	11
SI\$15,001–\$30,000	23
SI\$30,001–60,000	35
SI\$60,001 and up	40

##### **Taxation of Companies**

*Nature of tax:* Payable on resident company income accruing in, derived from, or receivable in the Solomon Islands or elsewhere. Companies incorporated in the Solomon Islands are residents. Nonresident companies pay tax on income accruing in, or derived from, the Solomon Islands. Under the provisional tax system, companies and businesses are required to make quarterly payments of taxes that will be payable for the current year. Such payments are credited against the tax for the year when the annual assessment is made.

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<sup>1</sup> Prepared by Edimon Ginting (ext. 38733).

*Exemptions and deductions:* The Commissioner of Inland Revenue, acting on the recommendation of the Foreign Investment Board, may grant any company (resident or nonresident) that commences a business in the Solomon Islands a tax holiday. The total income during the tax holiday is exempt from tax for periods of five years. Dividend contributions may also be exempt, subject to certain restrictions. In addition, the Minister of Finance may grant an income tax exemption to new business operations conducted by Solomon Islanders or Solomon Islands companies. The first SI\$25,000 of profits is exempt; this limit can be raised to a maximum of SI\$100,000 upon the Minister's discretion and cabinet approval. The exemption can exceptionally be extended to 10 years with cabinet approval. Profits of public enterprises and of any religious, charitable, benevolent, or educational institution are exempt.

Resident companies are required to deduct withholding tax from dividends paid to residents and nonresidents. The tax is final for nonresidents and for residents whose income (including dividend income) is less than SI\$10,000. When the income of a resident exceeds SI\$10,000, credit is given for the tax withheld on dividends. Losses may be carried forward for five years and be set off against future profits if majority shareholding remains unchanged. Bond issues are exempt until the amount capitalized is distributed. Business license fees paid to provinces may be claimed as a deduction or treated as prepayments of income tax. Accelerated depreciation is provided for capital expenditure in timber and mining operations, while certain expenditures on agricultural development, including for coconuts, palm oil, and cocoa, can be written off in full in the year they are incurred.

Rates (in percent):

Companies incorporated in the Solomon Islands	30
Other companies	35

Withholding taxes (in percent):

Residents:

Income from contracting	7.5
Royalties	10
Fishing operations	10
Lease of property	10
Sale of marine products	10
Stevedoring services	15

Nonresidents:

Interest	15
Royalties	15
Income from contracting	7.5
Income from ships and aircraft	5
Insurance premiums	15
Film rental	5
Remuneration to pole and line or long-line fishermen	15
Lease income	15



Interest paid overseas by a mining company	As provided by the Minister
Management services	35
Dividend taxes (in percent):	
Residents	20
Nonresidents	30

### **Social security Contributions**

*Nature of tax:* Compulsory social security scheme for all public and private employees. A total of 7.5 percent of earnings is paid by the employer, and 5 percent by the employee.

### **Capital Gains Tax**

None, except for business assets.

### **Estate, Gift, and Death Duties**

None.

## **B. Indirect Taxes**

### **Excise Duties**

*Nature of tax:* An excise duty is levied on plugs, twist, fig, stick, cake, and coarse-cut tobacco, and on beer and cigarettes produced in Solomon Islands. Imported 'like excisable' goods pay import duties.

Beer	SI\$4.00 per litre
Tobacco	SI\$40.00 per kg.
Cigarettes	SI\$0.185 per stick or SI\$277.00 per kg. for cigarettes containing tobacco with a tar content of more than 16 milligrams per cigarette.

### **Goods Taxes**

*Nature of tax:* Imposed and levied on the final wholesale price of goods that are produced domestically or imported, whether new or used. Manufacturers and wholesale merchants are required to register with the Inland Revenue and are obliged to calculate the tax payable, charge, and collect the tax from customers, and pay the tax to the Inland Revenue Division each month. Nonregistered importers, or those that choose not to quote their registration on import documentation, pay goods tax before goods are cleared by Customs. The value for goods tax in these cases is 130 per cent of the sum of the Cost-in-Freight Customs value and the Customs duty.

*Exemptions and deductions:*

- Drugs and medicine, and surgical tools;
- Educational, scientific and religious goods, works of art and antiques;
- Goods for use by governments, representatives of governments, and public bodies;
- Goods manufactured and sold by small businesses;
- Miscellaneous: contraceptives, goods designed for use by disabled people, secondhand goods, goods purchased for export, coffins, bird food, aquatic and marine food, coins, goods used as aids to manufacture, safety equipment, aircraft, buses, flags, awards, fire equipment.

Rates (in percent):

Imported goods	15
Locally manufactured goods	10
Rice	5

**Sales Taxes**

*Nature of tax:* A sales tax is levied at the retail level for specified services.

Rates (in percent, unless otherwise noted):

Local and overseas telecommunications	10
Restaurant services	10
Tickets for overseas travel	SI\$10
Tickets for domestic air travel	SI\$10
Tickets for domestic sea travel	10
Hire of video	SI\$2 per tape
Movie tickets	SI\$0.50 per ticket
Accounting, legal, and security services	10
Motor vehicle rental	10
Real estate agency services	10
Professional services	10
Petroleum and diesel	SI\$0.1 per liter
Video equipment hires	10
Computer equipment hires	10
Hire of vessel and aircraft	10
Hire of plant machinery and equipment	10
Electricity repairs and equipment	10
Barber and beauty saloon services	10
Casinos	SI\$5 per entrance
Laundry services	10
Tire services	10

## Import Taxes

*Nature of tax:* Levied at an *ad valorem* rate on the c.i.f. value of imports, although specific rates apply on alcoholic beverages, tobacco products, and fuel.

*Exemptions and deductions:* The following imports are exempt:

- Goods for all levels of government but excluding certain consumable goods;
- Goods imported under diplomatic and similar privileges, or under memoranda of understanding or agreements with foreign governments and international organizations or between the Solomon Islands Government and private companies;
- Aircraft parts and equipment, aircraft fuel, and lubricants for use in foreign aircraft;
- Containers, coverings, packages, etc;
- Cultural and educational articles, health goods for relief work and charity, fire-fighting equipment, goods for volunteer organizations, marine and port equipment, fuel and life-saving equipment, religious goods, scientific and meteorological equipment, goods for telecommunications systems;
- Commercial fishing gear and equipment;
- Most capital goods and agricultural equipment;
- Raw materials and industrial imports used in manufacturing;
- Goods imported for Rural Community Development Projects that are fully funded from Rural Community Development funds;
- Goods for tourism or imported under investment incentives;
- Goods imported by armed forces, demolition explosives and machinery, clothes and accessories required for civil servants;
- Medals and decorations; uniforms and insignias of youth organizations; advertising samples; portraits, films, recordings for personal use.

Partial exemptions (where the duty rate is reduced to 2 percent) applies to goods for direct use in agriculture, horticulture, fishery, forestry and mining, and to certain inputs to particular processing operations.

In addition to the above, applications for *ad hoc* exemptions from import or export duty are considered by a committee that makes recommendations to the Minister for Finance for decision.

Rates (in percent):

Foodstuff	0–20
Minerals, fuels	0–20, plus specific rates

Chemicals	5–15
Machinery and transport equipment	5–20
Domestic products	0–20
Beer	SI\$10 per litre
Cigarettes	SI\$0.42 per stick
Tobacco and cigars	SI\$500.00 per kg.

### **Export Taxes**

*Nature of tax:* Levied only on various land and marine fauna shells, gold, metal scrap, logs and lumber, fish, and various agricultural products. The valuation base is the f.o.b. price or value of the export, except in the case of timber and some fish where the value for duty is a “determined value” adjustable from time to time.

*Exemptions and deductions:* Spices, coconut, palm oil, canned fish, rice, some shells, copra, biscuits, beer, manufactured tobacco. Exemptions for export taxes on logs are granted on a case-by-case basis.

Rates (in percent, unless otherwise noted):

Trochus, greensnail, and blacklip shells	30
Gold	5
Metal scrap—nonferrous	SI\$1.5 /metric ton
Metal scrap	15
Timber logs:	
If valued up to SI\$550/m <sup>3</sup>	25 percent (of the determined value)
If valued between SI\$ 550–850/m <sup>3</sup>	SI\$137.50 plus 40 percent of difference
If valued more than SI\$850/m <sup>3</sup>	SI\$257.50 plus 60 percent of difference
Fresh, chilled, or frozen fish (some)	5
Dried, salted, smoked or cooked fish	20
Various other agricultural, forest, marine products	2.5–10

### **C. Other Taxes and Charges**

#### **Business Licenses**

*Nature of tax:* Annual levy payable by retail traders at various rates.

#### **Other Licenses**

*Nature of tax:* Licenses on motor vehicles, driving permits, fishing vessels, work permits, and firearms.

Motor vehicles: specific rates according to engine displacement and weight varying from SI\$150 to SI\$2,500.

Driving license: SI\$75

Dealer license: SI\$10,000

Work permits application: SI\$200, and upon approval SI\$500 for two years.

### **Stamp Duties**

*Nature of tax:* Levied on agreements, insurance policies, bills of sales and exchange, promissory notes, and various property and title transfers. Some *ad valorem*, some specific.

*Exemptions and deductions:* Bills of exchange by any bank for government purposes.

The duty varies from SI\$50 on any instrument, and between 2.0–4.0 percent depending on the value of property.

Table 1. Solomon Islands: Summary of Real Sector Indicators, 2000–04

	2000	2001	2002	2003	Est. 2004
Real GDP 1/ Percentage growth	-14.3	-9.0	-2.4	5.6	5.5
(Contribution to growth; in percent)					
Primary	-6.0	-1.3	0.7	4.8	2.6
Agriculture	-0.7	-0.5	0.3	1.2	0.2
Forestry	-0.6	0.0	0.2	1.6	2.5
Fishing	-4.6	-0.8	0.3	2.0	-0.1
Secondary 2/ Tertiary 3/ Nonmonetary sector	-1.2	-1.0	0.2	0.2	0.3
Indirect taxes and subsidies	-2.4	-2.3	-2.4	-1.5	0.9
	0.5	0.7	0.7	-0.1	0.4
	-5.2	-5.0	-1.7	2.1	1.3
(In 1,000 metric tons, unless otherwise specified)					
Production of major commodities					
Timber (1,000 cubic meters)	536.0	534.0	550.0	714.1	1043.2
Fish	21.2	17.7	18.5	29.0	27.2
Copra	19.0	1.7	1.7	14.8	21.8
Cocoa	2.3	2.0	2.9	4.6	4.2
Palm oil	...	...	...	...	...
(Annual percentage change)					
Consumer prices (average)	6.9	7.6	9.4	10.1	6.9
Consumer prices (end-of-period)	7.6	6.5	15.4	3.8	7.8

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ Estimates at 1992 factor cost.

2/ Includes mining and exploration, manufacturing, electricity and water, and construction.

3/ Includes retail and wholesale trade, transportation and communications, finance, and other services.

Table 2. Solomon Islands: Real GDP by Sectoral Origin, 2000–04

(In millions of Solomon Islands dollars; estimates at 1992 prices)

	2000	2001	2002	2003	Est. 2004
Primary sector	90.6	81.7	86.3	114.9	131.0
Agriculture	22.2	18.9	20.6	27.6	28.6
Forestry	32.2	32.1	33.1	42.7	58.8
Fishing	36.2	30.7	32.6	44.6	43.7
Secondary sector	39.1	32.3	33.6	35.1	37.2
Mining and exploration	-2.3	0.1	0.1	0.0	0.0
Manufacturing	23.6	18.9	17.9	16.1	16.3
Electricity and water	14.3	11.3	13.3	15.8	16.6
Construction	3.5	1.9	2.3	3.2	4.3
Tertiary	264.8	249.6	235.2	226.1	232.0
Retail and wholesale trade	67.6	60.2	66.1	68.1	74.7
Transportation and communications	29.1	23.3	26.3	28.0	28.2
Finance	31.0	30.0	29.6	29.1	29.7
Other services	137.1	136.2	113.2	100.9	99.4
Monetary GDP at factor cost	394.5	363.7	355.1	376.1	400.2
Nonmonetary GDP at factor cost	207.3	211.7	216.1	215.8	218.2
Food	170.0	175.1	179.8	179.9	181.7
Construction	4.7	4.9	5.0	5.0	5.0
Real GDP at factor cost	601.8	575.4	571.2	591.8	618.5
Memorandum item:					
Nominal GDP at current market prices	1,523	1,447	1,527	1,710	1,932

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

Table 3. Solomon Islands: Real GDP Growth Rates by Sectoral Origin, 2000–04

(Annual percentage change)

	2000	2001	2002	2003	Est. 2004
Primary sector	-34.1	-9.8	5.6	33.1	14.1
Agriculture	-19.8	-14.6	9.0	33.6	3.6
Forestry	-13.6	-0.4	3.0	29.1	37.6
Fishing	-50.1	-15.2	6.2	36.8	-2.0
Secondary sector	-19.2	-17.3	4.0	4.3	6.1
Mining and exploration	-51.4	...	...	...	...
Manufacturing	-19.8	-19.8	-5.2	-10.3	1.3
Electricity and water	-16.4	-20.6	16.9	19.4	5.0
Construction	-46.6	-45.6	19.7	37.5	36.2
Tertiary	-6.6	-5.7	-5.8	-3.8	2.6
Retail and wholesale trade	-10.2	-10.9	9.7	3.0	9.7
Transportation and communications	-20.0	-20.0	13.2	6.5	0.8
Finance	-3.3	-3.3	-1.3	-1.7	2.2
Other services	-2.0	-0.7	-16.9	-10.8	-1.6
Monetary GDP at factor cost	-16.0	-7.8	-2.4	5.9	6.4
Nonmonetary GDP at factor cost	1.8	2.2	2.1	-0.2	1.1
Food	2.6	3.1	2.6	0.1	1.0
Construction	4.0	4.0	2.0	0.1	0.0
Real GDP at market prices	-14.3	-9.0	-2.4	5.6	5.5

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.



Table 4. Solomon Islands: Honiara Retail Price Index, 2000–05

(1992 = 100)

Weight	Food 468	Drink and Tobacco 50	Clothing and Footwear 57	Transport and Commun. 99	Housing and Utility 110	Household Operation: 109	Recreation and Health 79	Miscel- laneous 28	Local Items 571	Imported Items 429	All Items 1,000
2000	213.4	231.1	137.4	213.1	208.9	199.1	211.9	176.3	233.1	171.9	206.9
2001	232.9	240.4	136.9	220.3	224.4	197.3	237.5	178.1	257.3	176.6	222.7
2002	258.1	282.3	138.3	254.5	248.4	206.6	256.6	181.7	278.0	197.6	243.5
2003	270.2	314.1	139.3	288.7	310.9	242.8	294.6	198.7	291.6	236.7	268.1
2004	293.8	328.1	139.9	316.9	261.5	316.5	315.4	206.1	313.0	251.5	286.6
2000											
January	201.0	226.7	137.7	211.3	194.7	193.7	205.3	174.7	219.9	168.2	197.7
February	201.6	232.8	137.9	210.9	198.1	197.7	204.5	176.2	221.5	169.2	199.1
March	201.3	208.2	138.0	211.3	198.1	196.2	204.4	175.9	218.6	169.5	197.6
April	209.0	203.6	137.8	212.2	199.5	196.8	209.4	176.0	225.7	169.9	201.8
May	210.8	207.9	137.8	212.2	199.5	197.0	209.6	176.3	227.4	170.2	202.9
June	211.3	207.9	137.8	212.2	199.5	197.1	209.6	176.5	227.4	170.7	203.1
July	221.9	262.4	137.8	214.4	212.9	200.3	214.4	176.6	244.6	171.9	213.4
August	222.1	262.4	137.3	214.6	219.8	201.2	214.5	176.6	244.6	174.2	214.4
September	220.7	261.2	137.0	214.5	220.0	201.2	217.8	176.7	243.8	174.3	214.0
October	221.4	232.4	137.0	214.5	220.0	202.5	217.8	176.7	241.5	175.1	213.0
November	220.2	233.6	136.4	214.5	222.0	202.5	217.9	176.8	241.1	175.0	212.8
December	219.7	233.6	136.6	214.6	222.4	203.3	217.9	176.8	240.9	175.1	212.7
2001											
January	225.9	233.3	136.7	220.6	226.1	196.4	235.8	177.2	251.3	175.8	218.9
February	227.0	233.4	136.7	220.6	226.1	196.4	235.7	178.8	252.4	175.7	219.5
March	228.4	233.4	136.7	220.6	226.1	196.8	236.4	180.4	253.0	176.6	220.2
April	234.0	229.7	136.7	220.6	226.0	200.5	237.0	180.1	258.7	176.0	223.2
May	233.0	245.7	136.7	220.6	224.9	198.7	237.0	180.0	259.0	176.0	223.4
June	229.6	232.2	136.7	222.0	226.1	201.1	237.1	180.0	255.8	176.0	221.6
July	234.9	245.3	136.7	220.4	226.1	193.3	237.5	180.0	259.8	176.0	223.8
August	232.7	232.3	136.7	218.0	226.1	196.6	237.8	180.0	256.8	176.0	222.1
September	235.6	230.9	137.2	220.9	221.3	197.1	238.9	175.4	257.6	177.2	223.1
October	236.4	250.3	137.2	220.0	221.3	197.1	238.9	175.1	259.8	177.2	224.4
November	238.3	255.5	137.3	218.6	221.3	197.1	238.9	175.1	260.9	178.2	225.4
December	239.3	262.9	137.3	220.4	221.3	197.1	238.9	175.1	262.7	178.2	226.4

Sources: National Statistical Office; and Central Bank of Solomon Islands.

Table 4. Solomon Islands: Honiara Retail Price Index, 2000–05 (continued)

(1992 = 100)

Weight	Drink		Clothing	Transport	Housing	Recreation		Miscel- laneous	Local Items	Imported Items	All Items
	Food	and Tobacco	and Footwear	and Commun.	and Utility	Household	and Health				
	468	50	57	99	110	109	79	28	571	429	1,000
2002											
January	240.0	267.4	137.3	227.7	221.5	202.8	250.2	176.5	264.0	179.3	227.7
February	244.4	267.8	137.6	227.7	221.5	202.5	250.5	176.6	266.4	181.0	229.8
March	247.4	268.4	137.6	227.7	221.5	202.9	250.5	176.8	269.0	181.0	231.2
April	245.7	270.0	137.6	230.0	232.6	203.6	250.6	178.5	269.7	182.0	232.1
May	248.6	274.0	137.6	232.8	232.6	204.1	250.7	178.9	271.7	183.7	233.9
June	256.4	259.9	139.5	268.3	234.9	204.5	251.4	178.4	279.1	190.0	240.9
July	260.5	274.9	139.5	268.3	234.9	205.0	254.4	179.8	279.6	196.0	243.7
August	265.1	283.7	139.5	268.3	234.9	206.5	255.7	182.5	279.6	202.7	246.6
September	269.8	298.7	138.5	267.1	280.0	210.3	264.9	186.6	288.8	211.5	255.6
October	272.5	303.8	138.5	276.6	285.2	211.6	266.6	188.3	289.3	218.8	259.0
November	273.4	307.8	138.5	279.4	289.7	212.5	267.1	188.6	289.7	221.9	260.6
December	273.9	311.7	138.5	280.3	291.0	212.9	266.4	189.3	289.5	223.6	261.2
2003											
January	273.2	312.3	138.5	281.2	295.6	212.3	290.4	190.6	292.9	223.9	263.3
February	268.1	312.8	138.6	283.8	299.5	213.6	290.4	192.1	286.8	228.4	261.7
March	269.4	299.1	138.6	283.8	299.5	223.6	290.5	193.7	288.0	229.3	262.8
April	268.4	304.7	139.5	289.9	323.8	249.6	292.3	196.5	294.7	234.7	269.0
May	271.8	301.5	139.5	288.9	321.1	250.1	293.8	198.1	293.1	239.5	270.1
June	267.9	306.4	139.5	288.6	315.8	250.8	294.1	200.9	290.4	238.0	267.9
July	267.5	307.4	139.5	288.4	316.0	251.9	297.7	201.9	290.0	239.2	268.2
August	270.7	311.3	139.6	289.8	319.6	252.1	296.9	201.7	292.4	241.2	270.4
September	269.9	311.3	139.6	291.4	318.1	252.1	296.9	201.7	291.9	240.9	270.0
October	272.0	332.0	139.6	292.4	307.1	252.2	297.0	201.8	293.1	241.7	271.0
November	271.8	334.5	139.6	292.4	307.1	252.5	298.1	202.7	293.3	241.8	271.2
December	271.3	336.3	139.6	294.2	307.1	252.5	296.9	202.7	292.8	242.3	271.1
2004											
January	281.3	341.2	139.5	308.5	258.0	293.9	306.2	202.8	302.6	243.1	277.1
February	289.1	345.1	139.7	310.5	259.5	305.8	307.2	204.3	308.2	248.1	282.4
March	288.5	345.4	139.7	309.6	260.8	310.0	309.7	203.4	307.0	250.0	282.6
April	295.3	327.4	139.7	306.8	261.6	309.0	309.7	205.2	311.8	249.4	285.0
May	295.8	327.4	140.0	307.6	261.7	309.6	319.5	205.2	314.0	249.3	286.2
June	295.4	328.8	140.1	307.6	261.7	309.6	319.5	205.9	312.5	251.0	286.1
July	296.9	329.0	140.0	314.2	261.4	320.1	319.1	207.2	314.7	253.7	288.5
August	294.8	320.8	140.0	312.1	262.1	318.9	318.7	207.4	312.8	252.3	286.9
September	298.3	335.3	140.0	324.0	262.3	326.2	318.7	207.9	317.6	255.9	291.1
October	297.1	313.8	140.1	330.9	262.7	330.8	318.8	207.1	317.9	254.9	290.9
November	296.8	313.7	140.1	333.0	262.8	330.1	319.0	208.5	318.3	254.9	291.1
December	296.2	309.5	140.1	337.5	263.3	333.7	319.0	208.5	318.3	255.1	291.2
2005											
January	293.8	316.9	140.1	337.5	263.3	333.7	319.0	209.0	320.7	255.3	292.6
February	298.7	317.1	140.1	330.3	263.4	331.3	343.1	209.4	323.8	253.6	293.7
March	304.5	317.1	140.1	331.7	264.4	330.0	343.1	211.4	327.6	255.9	296.8
April	302.6	317.0	140.1	331.7	264.4	342.9	344.3	214.2	326.2	257.7	296.8
May	313.314	302.8	140.1	341.6	276.4	337.5	350.2	213.4	332.6	266.0	304.0

Sources: National Statistical Office; and Central Bank of Solomon Islands.

Table 5. Solomon Islands: Formal Employment, 2000–04

(Number of employees)

	2000	2001	2002	Est. 2003	Est. 2004
Total	43,910	42,631	41,067	41,723	42,297
Classification by industry					
Agriculture	7,381	7,102	6,691	6,510	6,342
Forestry	3,226	3,192	3,132	3,285	3,482
Fishing	5,315	5,179	5,030	5,015	5,114
Manufacturing 1/	1,480	1,452	1,424	1,444	1,476
Electricity and water	524	507	482	470	469
Construction	1,569	1,498	1,427	1,400	1,397
Trading 2/	3,309	3,213	3,111	3,124	3,274
Transportation and communications	1,385	1,348	1,287	1,254	1,246
Finance	826	823	805	798	806
Administration	6,659	6,435	6,138	6,800	6,758
Other services	12,236	11,882	11,540	11,623	11,933

Sources: National Provident Fund; and Central Bank of Solomon Islands.

1/ Manufacturing includes mining.

2/ Trading includes retail, wholesale, restaurants, and hotels.

Table 6. Solomon Islands: Central Government Operations, 2000–04  
(In percent of GDP)

	2000	2001	2002	2003	Est. 2004
Total revenue and grants	22.1	23.5	18.8	37.6	48.9
Total revenue	18.3	15.3	16.2	19.5	26.8
Tax revenue	16.9	14.0	15.5	17.7	24.0
Income and profits	6.3	5.1	4.8	3.9	7.7
Goods and services	4.4	4.4	4.6	6.5	8.5
International trade and transactions	6.1	4.5	6.1	7.3	7.8
Tax on logging	...	...	...	3.2	3.3
Other revenue	1.5	1.3	0.7	1.8	2.8
Stamp duty	0.1	0.1	0.2	0.2	0.2
Licenses and fees	0.1	0.1	0.2	0.1	0.3
Miscellaneous revenue	1.3	1.0	0.3	1.5	2.3
Grants	3.7	8.2	2.6	18.1	22.1
Development grants 1/	14.4	8.0	2.2	14.3	17.6
Recurrent budget grants	0.7	0.3	0.5	3.8	4.5
Expenditure 2/	29.9	36.2	29.8	39.5	40.6
Recurrent expenditure	25.3	27.3	26.6	23.9	22.9
Compensation of employees	13.1	13.0	11.6	9.4	8.9
Goods and services	5.0	5.3	4.7	5.8	7.9
Interest	3.6	1.3	3.3	2.8	1.8
Grants to provinces	2.7	2.3	0.9	2.0	2.6
Employer social benefits	0.3	0.0	0.2	0.2	0.2
Other	0.6	5.4	5.8	3.8	1.4
Development expenditure	4.6	8.9	3.2	15.6	17.7
Grant financed 1/	3.1	8.0	2.2	14.3	17.6
Concessional loan financed	1.5	0.9	1.0	1.4	0.1
Domestically financed	0.0	0.0	0.0	0.0	0.0
Recurrent balance (above the line) 3/	-6.3	-11.8	-10.0	-0.5	8.4
Domestic balance (above the line) 4/	-8.4	-12.9	-11.4	-5.7	3.8
Overall balance (above the line)	-7.8	-12.7	-11.0	-1.9	8.3
Discrepancy (neg. are net expenditures)	2.6	0.6	1.2	0.5	2.3
Overall balance (below the line)	-5.1	-12.1	-9.8	-1.4	10.6
Financing	5.1	12.1	9.8	1.4	-10.6
Foreign (net)	0.6	5.0	3.8	0.4	-1.6
Disbursements	1.5	6.1	5.4	1.4	0.1
Amortization (accrual)	0.9	1.1	1.6	1.6	1.7
Debt forgiveness	0.0	0.0	0.0	0.7	0.0
Domestic bank and nonbank (net)	4.2	-1.4	-3.0	-9.0	-6.7
Banking system (accrual)	5.2	-3.3	-1.1	-8.8	-8.7
Central bank	4.3	2.9	2.4	-3.9	-5.9
Commercial banks	1.0	-6.2	-3.5	-5.0	-2.8
Nonbank (accrual)	-1.1	1.9	-1.9	-0.2	2.0
National Provident Fund	-1.4	0.7	-1.2	0.0	1.7
Other	0.4	1.2	-0.7	-0.2	0.3
Privatization receipts	0.0	0.0	0.0	0.0	0.0
Increase in expenditure arrears 5/	1.6	3.8	3.7	4.1	-5.2
Principal debt arrears	-1.2	4.7	5.3	5.8	-10.1
External	-1.2	0.8	1.9	0.1	0.5
Domestic	0.0	3.9	3.4	5.7	-10.7
Restructured Bonds	0.0	0.0	0.0	0.0	13.0
Memorandum items:					
Nominal GDP (in millions of S.I. dollars)	1,523	1,447	1,527	1,710	1,932

Sources: Data provided by the authorities; and Fund staff estimates.

1/ Estimated by staff as currently only limited data exist. Development grants and grant-financed development spending are currently administered by donors, and hence are not under the direct control of the government.

2/ On an accrual basis.

3/ Includes domestic revenue, recurrent expenditure, and recurrent budget grant support.

4/ Defined as domestic revenue net of recurrent expenditure and nongrant financed development spending.

5/ Includes interest arrears.

Table 7. Solomon Islands: Central Government Revenue and Grants, 2000–04

(In millions of Solomon Islands dollars)

	2000	2001	2002	2003	Est. 2004
Total revenue and grants	336.3	340.3	287.6	673.5	944.0
Total revenue	279.3	220.9	247.2	364.0	516.9
Tax revenue	256.7	202.6	237.1	332.7	463.4
Income and profits	96.3	73.6	73.2	96.1	149.4
Individuals	54.1	42.7	37.6	50.5	61.7
Corporations	42.2	30.9	35.6	45.6	87.7
Goods and services	66.9	63.3	70.1	112.0	164.0
Sales taxes	59.4	56.8	63.0	96.7	143.3
Excises	7.6	6.5	7.1	15.3	20.7
International trade	93.5	65.7	93.8	124.6	150.0
Customs and import duties	52.7	42.7	54.5	67.8	82.4
Export taxes	40.8	23.0	39.3	56.8	67.6
Other revenue	22.6	18.3	10.1	31.3	53.5
Stamp duty	1.7	1.9	3.0	3.7	3.9
Licenses and fees	1.6	2.0	2.9	2.5	5.6
Miscellaneous revenue	19.3	14.4	4.2	25.1	44.0
Grants	57.0	119.4	40.4	309.5	427.1
Development grants 1/	46.9	115.7	33.3	243.7	340.0
Recurrent budget grants	10.1	3.7	7.1	65.8	87.1

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ Estimated by staff as currently only limited data exist. Development grants and grant-financed development spending are currently administered by donors, and hence are not under the direct control of the government.

Table 8. Solomon Islands: Central Government Expenditure, 2000–04  
(In millions of Solomon Islands dollars)

	2000	2001	2002	2003	Est. 2004
Expenditure 1/	454.7	523.9	455.0	676.1	784.0
Recurrent expenditure	385.2	395.4	406.4	409.3	441.9
Compensation of employees	199.6	187.5	177.4	160.2	172.9
Salaries and wages	178.8	177.0	158.4	135.8	159.7
<i>Of which:</i> Arrears	6.5	6.5	-1.4	-1.4	0.0
Social contributions	20.8	10.5	18.9	24.4	13.2
<i>Of which:</i> Arrears	7.4	9.3	9.3	9.3	0.0
Goods and services	76.3	76.2	72.3	99.0	153.1
<i>Of which:</i> Arrears	18.9	30.0	30.0	30.0	0.0
Interest	54.9	19.1	50.6	48.3	35.7
To nonresidents	8.9	16.2	32.5	37.6	24.3
<i>Of which:</i> Arrears	0.0	4.7	14.2	19.1	0.0
To residents other than government	10.2	0.2	18.1	10.7	6.7
<i>Of which:</i> Arrears	0.0	0.0	0.0	0.0	1.9
Grants	43.0	33.2	14.2	37.5	52.5
To international organizations	2.0	0.0	0.0	3.3	3.2
To other government units	41.0	33.2	14.2	34.2	49.3
<i>Of which:</i> Arrears	0.0	0.0	0.0	9.5	0.0
Employer social benefits	4.4	0.6	2.8	3.0	3.0
Other expenses	3.4	77.3	89.0	59.0	22.5
Property expense other than interest	1.6	0.3	0.3	1.8	1.8
Miscellaneous other expenses 2/	1.9	77.0	88.7	57.2	20.7
Nonfinancial assets	3.7	1.3	0.0	2.3	2.3
Purchase	3.1	1.3	0.0	2.3	2.3
Sale	0.6	0.0	0.0	0.0	0.0
Development expenditure	69.5	128.6	48.7	266.9	342.1
Grant financed 3/	46.9	115.7	33.3	243.7	340.0
<i>Of which:</i> Cash	29.3	72.3	20.8	152.3	170.0
Loan financed	22.6	12.9	15.4	23.2	2.1
Domestic	0.0	0.0	0.0	0.0	0.0
Foreign	22.6	12.9	15.4	23.2	2.1
Current balance	-95.8	-170.8	-152.1	-9.3	162.1
Overall balance (above-the-line)	-118.4	-183.7	-167.5	-32.5	160.0

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ All expenditures are presented on an accrual basis.

2/ Including compensation payments.

3/ Estimated by staff as currently only limited data exist. Development grants and grant-financed development spending are currently administered by donors, and hence are not under the direct control of the government.

Table 9. Solomon Islands: Central Government Budget Financing, 2000–04 1/

(In millions of Solomon Islands dollars)

	2000	2001	2002	2003	Est. 2004
Total financing	78.3	174.6	149.6	24.7	-205.2
Foreign (net)	8.7	72.5	58.1	7.5	-30.4
Disbursement	22.6	88.6	82.8	23.2	2.1
Amortization	13.9	16.1	24.7	26.9	32.5
Debt forgiveness	0.0	0.0	0.0	11.2	0.0
Domestic bank and nonbank (net)	63.6	-20.5	-45.1	-153.2	-129.3
Banking sector	79.9	-47.7	-16.1	-150.6	-168.0
Central bank (net)	65.1	42.3	37.3	-65.9	-114.1
Securities	0.0	0.0	0.2	-0.1	0.1
Lending	-1.3	130.7	0.9	0.2	-0.9
Drawdown in deposits	66.5	-88.4	36.2	-66.0	-113.3
Commercial banks (net)	14.8	-90.0	-53.3	-84.7	-53.9
Securities	4.1	-91.2	-51.5	-83.7	-18.3
Lending	0.0	0.0	0.0	0.0	0.0
Drawdown in deposits	10.7	1.2	-1.8	-1.0	-35.5
Nonbank sector	-16.3	27.2	-29.1	-2.6	38.7
Development Bank	0.0	0.0	0.0	0.0	0.0
National Provident Fund	-22.0	9.8	-18.4	0.0	32.2
Other	5.7	17.4	-10.7	-2.6	6.5
Privatization receipts	0.0	0.0	0.0	0.0	0.0
Increase in expenditure arrears	24.2	54.5	56.2	70.5	-101.1
Interest	-8.6	8.7	18.3	23.2	-11.4
External	-12.7	4.7	14.2	19.1	4.8
Domestic	4.1	4.1	4.1	4.1	-16.2
Other expenditure	32.8	45.8	37.9	47.4	-89.7
Increase in principal debt arrears	-18.2	68.1	80.5	99.8	-196.1
External	-18.2	11.4	29.0	1.8	10.2
Domestic	0.0	56.7	51.5	98.1	-206.3
Restructured Arrears	0.0	0.0	0.0	0.0	251.7

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ All debt servicing is presented on an accrual basis.

Table 10. Solomon Islands: Central Government Gross Domestic Debt, 2000–04

(In millions of Solomon Islands dollars)

	2000	2001	2002	2003	2003	Est. 2004
Total	357.4	480.8	452.8	467.3	464.8	484.4
Securities	302.9	295.6	266.8	281.0	278.4	298.8
Bonds	257.8	275.8	265.1	265.1	262.5	293.2
Bills	45.1	19.9	1.7	15.9	15.9	5.6
Loans	54.5	185.2	186.1	186.3	186.4	185.6
(Distribution by holder)						
Central bank	54.5	185.2	186.3	186.4	186.5	185.8
Securities	0.0	0.0	0.2	0.1	0.1	0.2
Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Bills	0.0	0.0	0.2	0.1	0.1	0.2
Loans	54.5	185.2	186.1	186.3	186.4	185.6
Commercial banks	184.4	149.8	149.8	164.2	164.2	145.9
Securities	184.4	149.8	149.8	164.2	164.2	145.9
Bonds	149.8	149.8	149.8	149.8	149.8	141.9
Bills	34.5	0.0	0.0	14.4	14.4	4.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0
National Provident Fund	102.9	112.7	94.3	94.3	94.3	126.4
Securities	102.9	112.7	94.3	94.3	94.3	126.4
Bonds	92.3	94.3	94.3	94.3	94.3	126.4
Bills	10.6	18.4	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0
Statutory corporations	0.0	0.0	0.0	0.0	0.0	0.0
Securities	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Bills	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
Others	15.7	33.1	22.5	22.5	19.9	26.3
Securities	15.7	33.1	22.5	22.5	19.9	26.3
Bonds	0.0	1.5	1.5	1.5	1.5	1.4
Bills	15.7	31.6	21.0	21.0	18.4	24.9

Sources: Central Bank of Solomon Islands; Ministry of Finance; and Fund staff estimates.



Table 11. Solomon Islands: Equity Investment of the  
Investment Corporation of Solomon Islands, 2000–04

(Percent share)

	2000	2001	2002	2003	2004
Nonfinancial sector					
Agriculture/agro-industry sectors					
Solomon Islands Plantation Ltd.	30	30	30	30	30
Kolombangara Forestry and Plantation	49	19	19	19	19
Solomon Taiyo Ltd.	51	...	...	...	...
Soltai Fishing Company 1/	...	51	51	51	51
Others					
Sasape Marina Ltd.	100	100	100	100	100
Solomon Airlines	100	100	100	100	100
Solomon Telekom	10	7	7	7	7
Air Pacific	0.7	...	...	...	...
Pacific Forum Line Ltd.	0.5	...	...	...	...
Solomon Islands Printers	100	100	100	100	100
Financial sector					
Development Bank of Solomon Islands	84	10	10	10	10
Central Bank of Solomon Islands	100	100	100	100	100

Source: Central Bank of Solomon Islands *Annual Report*.

1/ Incorporated to take over Solomon Taiyo's assets. The remaining 49 percent is owned by the Western Province government.

Table 12. Solomon Islands: Summary Accounts of the Banking System, 2000–04  
(In millions of Solomon Islands dollars, end of period)

	2000	2001	2002	2003	Est. 2004
<b>I. Central bank</b>					
Net foreign reserves	147.7	91.0	117.5	248.3	570.3
Assets	159.8	103.0	130.4	271.1	592.8
Liabilities	-12.1	-12.1	-12.9	-21.4	-22.5
Net domestic assets	6.6	56.8	49.8	-57.4	-186.6
Net credit to central government	80.0	122.3	159.5	63.8	-20.5
Credit	54.5	185.2	186.3	186.4	185.6
Deposits	25.5	-62.9	-26.8	-91.8	-206.1
Credit to rest of NFPS	0.0	-0.1	-0.2	0.0	0.0
Other items (net)	-73.4	-65.4	-109.6	-121.2	-166.1
<i>Of which:</i> Central bank bills	0.0	0.0	0.0	0.0	0.0
Base money	154.4	149.4	174.0	220.7	383.6
Currency outside banks	88.3	84.7	91.5	102.7	123.2
Banking system reserves	66.1	64.7	82.5	118.0	260.4
Currency in vault	5.3	7.3	6.3	8.5	14.5
Deposits at Central Bank of Solomon Islands	60.9	57.4	76.1	109.5	245.9
<b>II. Commercial banks</b>					
Net foreign assets	1.2	10.6	14.8	24.7	5.7
Monetary reserves and CBSI securities	60.9	64.6	79.1	115.3	260.4
Reserves	60.9	64.6	79.1	115.3	260.4
CBSI bills	0.0	0.0	0.0	0.0	0.0
Net domestic assets	313.5	243.0	233.8	285.4	287.7
Net credit to central government	182.2	148.8	147.0	160.4	106.3
Credit	184.4	149.8	149.8	164.2	145.6
Deposits	-2.2	-1.0	-2.8	-3.8	-39.4
Net credit to local government	-3.3	-1.1	-8.3	-4.4	-3.9
Credit	0.2	0.2	0.8	0.7	0.2
Deposits	-3.5	-1.3	-9.0	-5.1	-4.1
Credit to rest of NFPS	3.6	2.0	2.0	1.4	-21.3
Credit to private sector	195.2	152.7	171.3	216.0	238.9
Other items (net)	-64.1	-59.5	-78.2	-87.9	-32.2
Deposits	375.6	318.1	327.7	425.5	553.8
<b>III. Banking system</b>					
Net foreign assets	148.9	101.6	132.2	273.0	575.9
Net domestic assets	315.6	301.6	287.1	255.4	101.1
Net domestic credit	457.6	424.7	471.4	467.9	299.4
Net credit to central government	262.2	271.1	306.5	255.0	85.8
Credit	238.9	335.0	336.1	350.6	331.2
Deposits	23.3	-63.9	-29.6	-95.6	-245.5
Net credit to local government	-3.3	-1.1	-8.3	-4.4	-3.9
Credit	0.2	0.2	0.8	0.7	0.2
Deposits	-3.5	-1.3	-9.0	-5.1	-4.1
Credit to rest of NFPS	3.6	1.9	1.8	1.4	-21.3
Credit to private sector	195.2	152.7	171.3	216.0	238.9
Other items (net)	-142.0	-123.0	-184.3	-212.5	-198.3
M2	464.5	403.2	419.3	528.4	677.0
Narrow money	248.3	246.4	247.1	327.9	427.2
Currency outside banks	88.3	84.7	91.5	102.7	123.2
Demand deposits	160.0	161.6	155.6	225.2	303.9
Quasi-money	216.2	156.8	172.2	200.5	249.8
Savings deposits	82.2	79.6	67.4	67.5	76.0
Time deposits	134.0	77.2	104.8	133.1	173.9

Source: Central Bank of Solomon Islands.

Table 13. Solomon Islands: Assets and Liabilities of the Central Bank  
of Solomon Islands, 2000–04

(In millions of Solomon Islands dollars, end of period)

	2000	2001	2002	2003	2004
<b>Assets</b>	247.5	320.3	340.6	486.7	806.0
External	159.8	103.0	130.4	271.1	592.8
Domestic	87.8	217.3	210.2	215.6	213.2
Central government	54.5	185.2	186.3	186.4	185.6
Loans	43.4	174.1	175.0	175.2	174.3
Securities	11.1	11.1	11.3	11.2	11.3
Other domestic assets	33.2	32.1	23.9	29.2	27.6
Securities and investments	4.2	3.4	2.0	1.3	0.7
Other	29.1	28.7	21.9	27.9	27.0
<b>Liabilities</b>	247.5	320.3	340.6	486.7	806.0
External	12.1	12.1	12.9	21.4	22.5
Domestic	235.4	308.2	327.7	465.3	783.5
Currency issued	93.6	92.0	97.8	111.2	137.7
Deposits	36.0	120.5	103.0	202.7	451.9
Banks	60.9	57.3	76.1	110.7	244.6
Central government	-25.5	62.9	26.8	91.8	206.1
Other	0.6	0.3	0.1	0.2	1.2
Central bank bills	0.0	0.0	0.0	0.0	0.0
Other (including provisions)	-2.0	-0.2	177.9	178.9	177.6
Capital	107.9	95.9	-51.0	-27.6	16.3

Source: Central Bank of Solomon Islands.

Table 14. Solomon Islands: Assets and Liabilities of Commercial Banks, 2000–04

(In millions of Solomon Islands dollars, end of period)

	2000	2001	2002	2003	2004
<b>Assets</b>	495.3	452.6	493.8	612.2	775.6
External	12.4	30.7	39.9	55.2	71.9
Domestic	482.9	422.0	453.9	557.1	703.7
Cash	5.3	7.3	6.3	8.5	14.5
Deposits at central bank	60.9	57.3	75.0	106.8	245.9
Securities	184.4	149.8	149.8	164.2	145.9
Treasury bills	34.5	0.0	0.0	14.4	4.0
Other government securities	149.8	149.8	149.8	149.8	141.9
Central bank securities (Bokolo bills)	0.0	0.0	0.0	0.0	0.0
Loans and advances	192.9	154.7	174.1	218.1	238.8
Central government	0.0	0.0	0.0	0.0	0.0
Provincial governments	0.2	0.2	0.8	0.7	0.2
Statutory corporations	3.6	2.0	2.0	1.4	0.0
Other	189.1	152.5	171.3	216.0	238.6
Premises, equipment, and other	39.5	52.9	48.7	59.4	58.6
<b>Liabilities</b>	495.3	452.6	493.8	612.2	775.6
External	11.2	24.0	29.5	38.7	66.2
Domestic	484.1	428.6	464.2	573.5	709.4
Deposits	381.2	316.7	335.5	426.5	544.9
Central government	2.2	1.1	2.9	3.9	43.5
Provincial governments	3.5	1.5	9.3	5.3	4.1
Statutory corporations	40.2	13.3	17.3	13.4	21.3
Other	335.4	300.8	306.0	403.9	475.9
Capital and reserves	76.3	87.9	95.8	99.6	121.1
Other	26.5	24.1	32.9	47.4	43.4

Source: Central Bank of Solomon Islands.

Table 15. Solomon Islands: Commercial Bank Advances and Loans, 2000–05  
(In millions of Solomon Islands dollars)

End of Period	Agriculture	Forestry	Fisheries	Mining and Quarrying	Manu- facture	Con- struction	Transport	Commu- nication	Distribu- tion	Tourism
2000	4.4	14.3	13.1	...	54.1	10.4	2.9	0.4	27.4	4.0
2001	3.0	16.1	0.3	...	41.7	9.6	3.7	...	29.4	3.9
2002	2.1	20.4	0.4	1.3	42.8	10.4	1.4	14.2	31.6	3.1
2003	2.9	41.1	4.0	0.0	31.9	13.7	2.1	37.4	30.0	3.8
2004	4.5	42.1	0.3	0.1	26.8	14.9	2.0	42.8	46.9	2.6
2003										
January	2.2	25.1	0.3	0.1	39.4	10.5	1.6	13.5	33.0	3.1
February	1.9	17.5	0.3	...	39.8	10.7	1.9	14.4	32.1	3.3
March	2.0	23.2	0.4	2.6	38.2	10.5	1.9	15.1	31.3	3.2
April	2.2	26.3	0.8	1.1	39.4	10.5	2.2	14.4	31.5	3.3
May	2.2	29.4	0.7	0.0	36.9	11.1	2.3	18.1	32.1	3.2
June	2.2	28.1	1.6	1.1	33.4	13.5	2.2	21.8	30.9	3.1
July	2.4	29.2	1.1	0.0	33.9	13.4	1.8	23.6	30.4	3.2
August	2.4	32.2	1.3	1.9	32.7	12.4	1.6	24.3	30.9	2.9
September	2.5	42.8	0.4	0.6	32.9	12.6	1.7	25.9	29.4	3.2
October	2.9	37.2	1.1	0.0	33.5	13.7	1.7	32.9	29.8	3.6
November	2.9	39.6	1.8	0.0	30.4	13.7	1.9	31.8	28.6	3.9
December	2.9	41.1	4.0	0.0	31.9	13.7	2.1	37.4	30.0	3.8
2004										
January	2.9	58.7	4.2	0.0	30.7	10.1	1.9	38.3	31.1	3.9
February	2.9	50.2	3.5	0.0	28.1	12.5	1.7	41.9	33.7	3.6
March	2.9	56.9	5.0	0.0	27.7	17.9	1.3	43.2	33.9	3.4
April	3.2	38.4	5.5	0.0	29.9	17.6	1.8	43.8	34.9	2.7
May	3.5	33.1	4.9	0.0	11.7	16.9	1.8	47.6	35.4	2.9
June	3.6	37.4	5.4	0.0	14.8	13.8	1.7	50.5	35.7	3.7
July	3.7	37.4	1.2	0.0	15.1	15.5	1.8	51.8	36.0	3.7
August	3.9	30.2	1.5	0.0	18.2	16.1	1.9	53.3	35.7	3.5
September	3.5	31.5	0.3	0.0	19.2	17.8	2.1	55.2	47.5	1.8
October	3.7	34.3	0.4	0.0	27.1	15.9	2.0	56.1	42.9	2.0
November	4.2	33.3	0.7	0.0	26.9	14.4	2.0	56.5	42.3	2.5
December	4.5	42.1	0.3	0.1	26.8	14.9	2.0	42.8	46.9	2.6
2005										
January	3.0	42.4	2.2	0.2	28.4	15.6	2.4	42.6	51.9	2.5
February	3.4	45.4	1.0	0.1	29.7	14.1	2.5	42.5	52.0	2.6
March	3.2	42.1	1.2	0.1	32.3	15.4	2.6	42.4	57.4	3.5
April	3.4	51.7	2.3	0.2	32.6	16.0	5.6	44.0	65.3	3.3
May	3.9	45.2	5.1	0.1	22.0	16.0	5.6	44.0	65.3	3.3

Source: Central Bank of Solomon Islands.

Table 15. Solomon Islands: Commercial Bank Advances and Loans, 2000–05 (continued)  
(In millions of Solomon Islands dollars)

End of Period	Entertainment and Catering	Government	Statutory Corps	Public Fin. Institutions	Private Fin. Institutions	Prof. and Other Serv.	Personal	Total	Non-Resident
2000	2.8	1.1	3.6	0.0	0.2	11.3	48.9	199.0	0.2
2001	2.4	0.2	1.8	0.2	0.4	6.6	35.6	154.9	0.0
2002	1.2	0.8	2.0	0.0	0.3	8.5	33.7	174.0	0.1
2003	0.8	0.7	1.4	0.0	0.3	13.9	34.1	218.1	0.2
2004	1.7	0.4	0.1	0.0	0.1	15.0	40.9	241.3	1.6
2003									
January	0.9	0.8	2.0	0.0	0.4	8.6	33.4	175.1	0.1
February	1.0	0.7	2.0	0.0	0.4	9.0	32.8	168.0	0.0
March	1.0	0.7	1.9	0.0	0.3	8.4	32.7	173.4	0.0
April	1.0	0.7	1.9	0.0	0.2	8.0	32.3	175.8	0.0
May	1.0	0.7	1.9	0.0	0.3	8.7	31.1	179.7	0.0
June	0.9	0.7	1.9	0.0	0.3	9.0	31.4	182.3	0.0
July	1.0	0.8	1.8	0.0	0.3	8.6	31.2	182.7	0.0
August	0.9	0.7	1.6	0.0	0.3	9.0	30.2	185.3	0.0
September	0.9	0.7	1.7	0.0	0.2	9.2	31.0	195.8	0.0
October	0.9	0.7	1.7	0.0	0.2	12.2	31.8	203.8	0.0
November	0.8	0.7	1.4	0.0	0.3	13.6	33.2	204.8	0.0
December	0.8	0.7	1.4	0.0	0.3	13.9	34.1	218.1	0.2
2004									
January	0.8	0.7	1.5	0.0	0.3	15.3	34.5	235.1	0.0
February	0.7	0.7	1.4	0.0	0.3	16.5	36.3	234.1	0.6
March	0.6	0.7	1.1	0.0	0.3	17.4	34.9	247.4	1.2
April	0.7	0.7	0.9	0.1	0.3	17.1	34.0	231.6	1.3
May	0.6	0.7	0.0	0.0	0.3	16.2	34.5	210.1	1.3
June	0.6	0.7	0.0	0.0	0.3	16.4	35.5	220.1	1.4
July	0.5	0.4	0.0	0.0	0.0	16.9	35.4	219.7	1.4
August	0.4	0.4	0.0	0.0	0.0	16.3	36.3	217.7	1.4
September	0.4	0.2	0.0	0.0	0.0	16.0	40.7	236.2	1.5
October	1.7	0.2	0.0	0.0	0.0	17.2	40.7	244.5	1.6
November	1.6	0.2	0.0	0.0	0.0	17.1	40.6	242.3	1.5
December	1.7	0.4	0.1	0.0	0.1	15.0	40.9	241.3	1.6
2005									
January	1.6	0.2	0.0	0.0	0.0	16.7	41.0	250.9	1.6
February	1.7	0.0	0.0	0.1	0.0	15.6	42.2	252.8	1.6
March	3.6	0.0	0.0	0.3	0.7	14.5	43.3	262.6	1.5
April	3.2	0.0	0.0	0.0	0.0	13.8	43.6	281.0	1.5
May	3.8	0.0	0.0	0.0	0.0	12.4	45.1	271.9	1.5

Source: Central Bank of Solomon Islands.

Table 16. Solomon Islands: Commercial Bank Interest Rates on Savings and Time Deposits, 2000–05  
(In percent, end of period)

End of Period	Time Deposits									Weighted Avg Rate of Interest On Deposits
	Savings Deposits		Up to 3 months		3–6 months		6–12 months		Over 12 Months	
	From	To	From	To	From	To	From	To		
2000	0.50	2.00	2.25	3.00	2.25	4.00	2.75	6.00	4.00–6.50	2.95
2001	0.25	2.00	0.50	2.50	0.50	3.00	0.50	3.50	0.00–4.50	1.55
2002	0.25	0.51	0.50	0.76	0.50	1.01	1.00	1.51	0.00–1.51	0.64
2003	0.25	0.50	0.50	1.00	0.50	1.50	0.50	2.25	0.50–3.00	0.94
2004	0.25	2.00	0.25	1.00	0.50	1.25	0.50	1.50	0.00–2.00	0.95
2003										
January	0.25	0.50	0.50	0.75	0.50	1.00	1.00	1.50	0.00–1.50	0.64
February	0.25	0.50	0.50	0.75	0.50	1.00	1.00	1.50	0.00–1.50	0.63
March	0.25	0.50	0.50	0.75	0.50	1.00	1.00	1.50	0.00–1.50	0.63
April	0.25	0.51	0.50	0.75	0.50	1.00	1.00	1.50	0.00–1.50	0.64
May	0.25	0.51	0.50	0.75	0.50	1.00	1.00	1.50	0.00–1.50	0.64
June	0.25	0.51	0.50	0.75	0.50	1.00	1.00	1.50	0.00–1.50	0.63
July	0.25	0.51	0.50	0.75	0.50	1.00	1.00	1.50	0.00–1.50	0.64
August	0.25	0.52	0.50	0.76	0.50	1.01	1.00	1.51	0.00–1.51	0.64
September	0.25	0.50	0.50	1.00	0.50	1.50	1.00	2.25	0.00–3.00	0.99
October	0.25	0.50	0.50	1.50	0.50	2.00	1.25	3.00	0.00–3.50	1.13
November	0.25	0.50	0.50	1.50	0.50	2.00	0.50	3.00	0.50–3.50	1.10
December	0.25	0.50	0.50	1.00	0.50	1.50	0.50	2.25	0.50–3.00	0.94
2004										
January	0.25	2.00	0.50	1.00	0.50	1.50	1.50	2.25	0.00–3.00	1.29
February	0.25	2.00	0.50	1.00	0.50	1.50	1.50	2.00	0.00–2.25	1.29
March	0.25	2.00	0.50	1.00	0.50	1.50	1.50	2.00	0.00–3.00	1.29
April	0.25	2.00	0.50	1.00	0.50	1.50	1.50	2.25	0.00–3.00	1.29
May	0.25	2.00	0.50	1.00	0.50	1.50	1.50	2.25	0.00–3.00	1.29
June	0.25	2.00	0.50	1.00	0.50	1.50	1.50	2.25	0.00–3.00	1.29
July	0.25	2.00	0.50	1.00	0.50	1.50	1.50	2.25	0.00–3.00	1.30
August	0.25	2.00	0.50	1.00	0.50	1.50	1.50	2.25	0.00–3.00	1.30
September	0.25	2.00	0.50	0.75	0.50	1.00	1.25	1.50	0.00–1.75	1.00
October	0.25	2.00	0.50	0.75	0.50	1.00	0.50	1.50	0.00–1.75	0.86
November	0.25	2.00	0.25	1.00	0.50	1.25	0.50	1.50	0.00–2.00	0.95
December	0.25	2.00	0.25	1.00	0.50	1.25	0.50	1.50	0.00–2.00	0.95
2005										
January	0.25	2.00	0.25	1.00	0.50	1.25	0.50	1.50	0.00–2.00	0.95
February	0.25	2.00	0.25	0.75	0.25	1.00	0.25	1.50	0.00–1.50	0.80
March	0.25	2.00	0.25	1.00	0.25	1.25	0.25	1.50	0.00–2.25	0.95
April	0.25	2.00	0.25	1.00	0.25	1.25	0.25	1.50	0.00–2.25	0.95
May	0.25	2.00	0.25	1.00	0.25	1.25	0.25	1.50	0.00–2.25	0.98

Source: Central Bank of Solomon Islands.

Table 17. Solomon Islands: Commercial Bank Interest Rates on Loans and Overdrafts, 2000–05  
(In percent, end of period)

End of Period	Residential Property	Commercial Property	Personal Loan	Other Loans	Overdrafts	Weighted Avg. Rate of Interest on Loans & Overdrafts
2000	14.00 - 17.50	10.00 - 21.50	14.00 - 17.50	10.00 - 21.50	10.00 - 18.00	15.09
2001	14.00 - 17.50	10.00 - 21.50	14.00 - 17.50	10.00 - 21.50	10.00 - 20.50	15.65
2002	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.59
2003	14.00 - 17.50	5.80 - 21.50	14.00 - 17.50	5.80 - 21.50	10.00 - 20.50	14.68
2004	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.69
2003						
January	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.58
February	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.59
March	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.58
April	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.58
May	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.58
June	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.58
July	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.60
August	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.59
September	14.00 - 17.50	10.50 - 21.50	14.00 - 17.50	10.50 - 21.50	10.00 - 20.50	15.39
October	14.00 - 17.50	10.00 - 21.50	14.00 - 17.50	10.00 - 21.50	10.00 - 20.50	15.53
November	14.00 - 17.50	5.80 - 21.50	14.00 - 17.50	5.80 - 21.50	10.00 - 20.50	14.72
December	14.00 - 17.50	5.80 - 21.50	14.00 - 17.50	5.80 - 21.50	10.00 - 20.50	14.68
2004						
January	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.73
February	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.72
March	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.75
April	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.75
May	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.74
June	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.74
July	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.73
August	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.73
September	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.72
October	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.71
November	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.71
December	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.69
2005						
January	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.70
February	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.69
March	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.71
April	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	10.00 - 20.50	14.72
May	14.00 - 17.50	5.90 - 21.50	14.00 - 17.50	5.90 - 21.50	9.50 - 20.50	14.59

Source: Central Bank of Solomon Islands.



Table 18a. Solomon Islands: Assets of the National Provident Fund, 2001–05  
(In millions of Solomon Islands dollars)

End of Period	Assets											Total Assets					
	Banks		Bokolo		Loans to Government		Res		Total to		Other Loans		Equity Shares	Fixed Assets	Other Assets	Total Assets	
	Cash	Term Dep	Bills	T. Bills	Dev Bonds	Bonds	SIG	To Members	Prov Govts	Loans to Stat Authorities	Private						Staff Loans
2001	5.2	8.8	14.0	-	18.4	38.8	55.5	112.7	50.2	14.5	26.1	16.0	5.3	66.4	39.7	11.8	356.7
2002	6.7	25.3	32.0	-	-	38.8	55.5	94.3	49.5	16.8	29.7	15.9	5.4	66.4	40.1	19.9	369.9
2003	4.6	43.8	48.4	-	-	38.8	55.5	94.3	47.5	19.3	32.5	15.7	4.1	66.4	40.7	33.6	402.3
2004	2.1	73.3	75.4	-	-	74.2	51.9	126.1	42.6	19.4	28.7	16.1	3.7	90.4	58.2	14.1	474.7
2003																	
January	4.7	27.3	32.0	-	-	38.8	55.5	94.3	49.1	16.8	30.0	15.9	5.6	66.4	39.7	21.0	370.9
February	4.3	27.3	31.6	-	-	38.8	55.5	94.3	48.8	17.2	30.3	15.9	5.6	66.4	39.7	20.5	370.3
March	4.8	27.8	32.6	-	-	38.8	55.5	94.3	49.2	17.4	30.6	15.9	5.6	66.4	39.9	20.3	372.1
April	4.3	29.8	34.1	-	-	38.8	55.5	94.3	48.9	17.6	31.0	15.9	5.4	66.4	39.8	22.7	376.0
May	3.3	31.8	35.1	-	-	38.8	55.5	94.3	48.6	17.8	31.4	15.9	5.6	66.4	39.8	23.1	377.8
June	4.6	32.8	37.4	-	-	38.8	55.5	94.3	48.8	18.0	31.7	15.8	5.5	66.4	39.7	23.7	381.3
July	4.1	33.8	37.9	-	-	38.8	55.5	94.3	48.7	18.2	32.0	15.7	5.1	66.4	40.0	28.3	386.6
August	7.0	33.8	40.8	-	-	38.8	55.5	94.3	48.5	18.4	31.9	15.7	5.1	66.4	40.1	30.2	391.4
September	5.4	37.8	43.2	-	-	38.8	55.5	94.3	48.2	18.6	32.1	15.7	5.1	66.4	40.6	30.6	394.8
October	3.5	41.8	45.3	-	-	38.8	55.5	94.3	49.5	18.8	32.0	15.7	4.0	66.4	40.7	31.7	398.3
November	3.0	42.8	45.8	-	-	38.8	55.5	94.3	48.0	19.1	32.2	15.7	4.0	66.4	40.7	32.7	398.8
December	4.6	43.8	48.4	-	-	38.8	55.5	94.3	47.5	19.3	32.5	15.7	4.1	66.4	40.7	33.6	402.3
2004																	
January	3.5	45.8	49.3	-	-	38.8	55.5	94.3	47.0	19.5	32.9	15.7	4.1	66.4	40.7	35.5	405.2
February	5.0	47.8	52.8	-	-	38.8	55.5	94.3	46.5	19.8	33.2	15.8	4.1	66.4	40.9	36.8	410.7
March	2.8	51.3	54.1	-	-	38.8	55.5	94.3	47.1	21.0	33.6	16.0	4.1	66.4	40.9	37.2	414.6
April	3.2	54.3	57.5	-	-	38.8	55.5	94.3	47.4	21.3	34.0	16.0	4.0	66.4	40.9	37.0	418.8
May	3.6	56.8	60.4	-	-	38.8	55.5	94.3	46.8	21.5	34.4	15.8	4.0	66.4	41.0	38.5	423.0
June	4.6	58.8	63.4	-	-	38.8	55.5	94.3	45.4	21.9	34.7	16.0	4.1	64.9	59.7	39.4	443.7
July	3.6	69.3	72.9	-	-	38.8	55.5	94.3	45.8	21.9	34.7	16.0	4.0	64.9	59.5	33.4	447.4
August	3.4	73.3	76.7	-	-	38.8	53.4	92.3	45.4	22.0	34.6	16.0	3.8	64.9	59.2	35.2	449.9
September	3.3	78.3	81.7	-	-	38.8	53.1	91.9	44.9	22.0	34.5	15.9	3.6	64.9	58.9	35.1	453.4
October	2.3	80.3	82.6	-	-	38.8	52.8	91.6	43.4	19.3	29.6	16.0	3.6	64.9	58.8	33.2	442.9
November	2.2	85.3	87.6	-	-	74.2	52.6	126.8	43.0	19.3	29.2	15.9	3.6	64.9	58.5	27.3	476.2
December	2.1	73.3	75.4	-	-	74.2	51.9	126.1	42.6	19.4	28.7	16.1	3.7	90.4	58.2	14.1	474.7
2005																	
January	3.7	78.3	82.0	-	-	74.2	51.2	125.4	42.4	19.4	28.3	16.1	3.7	90.4	57.9	13.9	479.5
February	3.8	82.3	86.1	-	-	74.2	50.4	124.6	41.8	19.4	28.3	16.0	3.7	90.4	57.7	14.0	481.9
March	6.6	84.3	91.0	-	-	74.3	49.8	124.1	40.9	19.4	28.1	16.0	3.6	90.4	57.4	10.5	481.4

Source: National Provident Fund.

Table 18b. Solomon Islands: Liabilities of the National Provident Fund, 2001-05  
(In millions of Solomon Islands dollars)

End of Period	Liabilities											Total Liabilities
	Members	Accumulated Funds					Other Liabilities					
	Cont Acct	SDB Reserves	Reval Reserves	General Reserves	Others	Creditors	Prov/debits	Others				
2001	313.3	1.5	2.1	31.8	1.4	0.3	4.5	1.9			356.7	
2002	316.9	2.0	2.1	38.2	2.6	0.2	5.9	1.9			369.9	
2003	340.1	2.2	2.1	42.9	1.1	0.2	11.6	2.1			402.3	
2004	410.1	2.3	21.1	-7.0	-4.5	0.4	50.1	2.1			474.7	
2003												
January	317.5	2.0	2.1	38.3	2.8	0.3	6.0	1.9			370.9	
February	318.0	2.1	2.1	38.3	1.5	0.3	6.1	1.9			370.3	
March	319.7	2.1	2.1	38.3	1.8	0.1	6.2	1.9			372.1	
April	321.7	2.1	2.1	38.3	3.5	0.1	6.3	1.9			376.0	
May	323.3	2.1	2.1	38.4	3.4	0.2	6.4	2.0			377.8	
June	326.1	2.1	2.1	38.8	3.4	0.3	6.5	2.0			381.3	
July	328.0	2.1	2.1	42.7	-0.5	0.4	10.0	1.6			386.6	
August	330.8	2.2	2.1	42.7	1.0	0.5	10.4	1.7			391.4	
September	334.4	2.2	2.1	42.9	0.4	0.3	10.7	1.8			394.8	
October	336.4	2.2	2.1	42.9	0.7	0.2	11.0	1.8			397.3	
November	337.8	2.2	2.1	42.9	0.4	0.3	11.3	1.9			398.8	
December	340.1	2.2	2.1	42.9	1.1	0.2	11.6	2.1			402.3	
2004												
January	341.6	2.2	2.1	43.0	2.4	0.2	11.9	1.9			405.2	
February	344.7	2.2	2.1	43.0	4.3	0.3	12.2	1.9			410.7	
March	347.3	2.3	2.1	45.0	3.2	0.4	12.4	2.0			414.6	
April	351.1	2.3	2.1	43.0	5.3	0.3	12.7	2.0			418.8	
May	354.0	2.3	2.1	43.1	6.2	0.2	13.0	2.1			423.0	
June	357.8	2.2	21.1	42.9	1.0	0.4	16.4	1.8			443.7	
July	362.3	2.2	21.1	43.9	-1.0	0.4	16.5	1.8			447.4	
August	366.1	2.3	21.1	44.0	-2.4	0.4	16.6	1.9			449.9	
September	370.0	2.3	21.1	44.0	-2.9	0.3	16.7	1.9			453.4	
October	369.6	2.3	21.1	33.2	-2.4	0.3	16.8	2.0			442.9	
November	408.8	2.3	21.1	33.2	-8.5	0.3	16.9	2.1			476.2	
December	410.1	2.3	21.1	-7.0	-4.5	0.4	50.1	2.1			474.7	
2005												
January	415.2	2.3	21.1	-7.0	-5.0	0.4	50.2	2.2			479.5	
February	418.3	2.4	21.1	-7.0	-5.8	0.4	50.2	2.3			481.9	
March	421.5	2.4	21.1	-10.0	-6.6	0.3	50.3	2.4			481.4	

Source: National Provident Fund.

Table 19. Solomon Islands: Income Statement of the National Provident Fund, 2000–04 1/

(In millions of Solomon Islands dollars)

	2000	2001	2002	2003	2004
Interest income	27.2	23.8	22.2	22.4	12.3
Non-interest income	12.3	8.3	6.0	5.9	13.0
Dividends received	6.9	3.9	0.9	0.9	7.1
Rentals	4.2	3.4	4.2	3.9	4.5
Surcharges	1.0	1.0	0.9	0.9	1.2
Sundry income	0.1	0.0	0.0	0.1	0.1
Profit on sales of assets	0.1	0.0	0.0	0.1	0.1
Operating income	39.5	32.1	28.2	28.3	25.5
<i>Less:</i> Operating expenses	16.1	13.7	16.0	18.1	14.6
Administration	14.3	11.8	15.6	17.8	
Members	1.8	1.9	0.4	0.3	0.2
Net operating income	23.4	18.4	12.2	10.2	-42.2
Interest appropriated to members	19.7	7.4	8.2	6.8	7.8
Transfer to reserves	3.7	11.0	4.0	3.4	-50.1

Sources: Central Bank of Solomon Islands; and NPF Off-Site Supervision Report.

1/ Financial year ending in June.

Table 20. Solomon Islands: Assets and Liabilities of the Development Bank of Solomon Islands, 2000-05

(In millions of Solomon Islands dollars)

End of Period	Assets					Liabilities					Total Assets and Liabilities	
	Fixed Deposits	Term Loans	Equity Holdings	Staff Loans	Fixed Assets	Other Assets	S.I.G	Liabilities Overseas	3/ N.P.F	Capital & Reserves		Other Liabilities
2000	0.4	61.5	0.1	3.6	4.5	-14.6	5.1	12.3	2.5	4.7	31.0	55.6
2001	0.6	62.4	0.1	4.1	4.1	-20.4	7.1	10.0	2.6	0.7	30.5	50.9
2002	0.5	61.1	0.1	4.3	3.6	-26.1	7.1	10.6	2.6	-6.8	30.0	43.5
2003	0.7	57.5	0.1	3.6	2.3	-25.2	7.1	16.8	2.6	-15.5	28.0	38.9
2004	2.2	50.9	0.1	2.5	1.0	-27.3	0.0	20.2	3.8	-14.5	19.9	29.4
2003												
January	0.5	50.6	0.1	4.2	3.5	-26.1	7.1	10.6	2.6	-7.0	29.6	42.9
February	0.5	60.7	0.1	4.2	2.4	-26.0	7.1	10.6	2.6	-7.5	29.1	41.9
March	0.5	60.6	0.1	4.1	2.8	-26.0	7.1	10.6	2.6	-7.6	29.4	42.1
April	0.5	60.5	0.1	4.1	2.7	-26.0	7.1	10.6	2.6	-7.9	29.5	42.0
May	0.5	59.9	0.1	4.1	2.7	-45.3	6.6	10.6	2.6	-9.1	11.2	21.9
June	0.5	59.6	0.1	4.1	2.6	-41.8	10.2	10.6	2.6	-9.2	11.1	25.2
July	0.5	59.6	0.1	4.1	2.6	-26.4	7.1	10.6	2.6	-9.3	29.6	40.6
August	1.4	58.3	0.1	3.4	2.6	-25.7	7.1	16.8	2.6	-15.5	29.0	40.1
September	1.0	58.2	0.1	3.4	2.5	-25.7	7.1	16.8	2.6	-15.8	28.8	39.6
October	1.1	57.5	0.1	3.5	2.5	-25.7	7.1	16.8	2.6	-5.9	18.4	39.0
November	1.0	58.2	0.1	3.4	2.5	-25.6	7.1	11.6	2.6	-15.6	34.0	39.7
December	0.7	57.5	0.1	3.6	2.3	-25.2	7.1	16.8	2.6	-15.5	28.0	38.9
2004												
January	0.7	57.4	0.1	3.6	2.4	-22.9	7.1	16.8	2.6	-15.6	28.0	38.9
February	0.6	57.7	0.1	3.6	1.8	-25.3	7.1	16.8	2.6	-15.9	27.9	38.5
March	0.3	57.4	0.1	3.6	2.1	-25.2	7.1	16.8	2.6	-15.7	27.5	38.4
April	0.2	57.3	0.1	3.4	2.0	-29.9	7.1	20.2	2.6	-23.9	26.9	32.9
May	0.2	57.4	0.1	3.5	1.8	-29.8	7.1	20.2	2.6	-24.0	27.2	33.1
June	0.1	57.5	0.1	3.4	1.7	-29.6	7.1	20.2	2.6	-24.2	27.4	33.1
July	0.5	56.4	0.1	3.3	1.5	-30.0	7.1	20.2	2.6	-25.1	27.0	31.9
August	0.7	55.2	0.1	3.2	1.5	-28.8	0.0	20.2	3.8	-17.3	25.2	32.0
September	1.2	54.7	0.1	3.2	1.3	-28.6	0.0	20.2	3.8	-16.3	24.1	31.9
October	2.3	51.8	0.1	3.0	1.1	-27.7	0.0	20.2	3.8	-16.7	23.3	30.6
November	1.7	51.5	0.1	2.6	1.0	-26.9	0.0	20.2	3.8	-17.0	23.0	30.0
December	2.2	50.9	0.1	2.5	1.0	-27.3	0.0	20.2	3.8	-14.5	19.9	29.4
2005												
January	1.7	50.8	0.1	2.5	1.9	-28.1	0.0	21.1	3.7	-14.6	18.8	29.0
February	1.7	50.0	0.1	2.5	1.9	-27.9	0.0	21.1	3.7	-14.7	18.3	28.4
March	0.8	49.4	0.1	2.5	2.1	-27.6	0.0	21.1	3.7	-14.5	17.1	27.3

Source: Central Bank of Solomon Islands.

1/ Less provision for depreciation.

2/ Includes provisions for doubtful debts.

3/ Intermediated by the Solomon Islands government.

Table 21. Solomon Islands: Income Statement of the Development Bank of  
Solomon Islands, 2000–03

(In millions of Solomon Islands dollars)

	2000	2001	2002	2003
Interest income	7.9	6.4	4.5	4.1
Interest on loans	7.9	6.3	4.5	4.1
Interest on short-term deposits	0.0	0.0	0.0	0.0
Less: borrowing costs	2.2	2.6	2.2	2.1
Net interest income	5.7	3.8	2.2	2.0
Noninterest income	0.3	0.4	0.6	0.6
Fees	0.2	0.1	0.1	0.0
Dividends	0.0	0.0	0.0	0.0
Rents received	0.0	0.0	0.0	0.0
Other income	0.1	0.3	0.4	0.6
Profit from sale of fixed assets	0.0	0.0	0.1	0.0
Operating income after borrowing costs	6.0	4.3	2.9	2.6
Noninterest expenses	9.1	11.8	5.3	8.6
General operating costs	5.1	5.1	3.9	4.2
Director fees	0.1	0.0	0.1	0.0
Audit fees	0.2	0.1	0.3	0.0
Depreciation	0.7	0.7	0.6	0.0
Doubtful debt provision	3.1	5.8	0.4	4.4
Net operating income				
Before foreign exchange gains/losses	-3.1	-7.5	-2.5	-5.9
Foreign exchange gains/losses	2.3	0.0	-5.0	-3.4
Net profit/loss for current year	-0.9	-7.5	-7.5	-9.4
Retained profits/losses brought forward	-10.5	-9.1	-16.6	-24.0
Transfer from reserve	2.3	0.0	0.0	0.0
Net profit/loss for current year	-0.9	-7.5	-7.5	-9.4
Retained profits/losses at end-year	-9.1	-16.6	-24.0	-33.3

Sources: Central Bank of Solomon Islands; DBSI Onsite Examination Report;  
and DBSI Audited Profit and Loss Accounts.

Table 22. Solomon Islands: Balance of Payments, 2000–04

(In millions of Solomon Islands dollars)

	2000	2001	2002	2003	Est. 2004
Current account balance	-161.2	-185.1	-109.9	23.1	241.9
Trade balance	-167.7	-229.5	-30.1	-82.5	-14.6
Merchandise exports, f.o.b.	331.3	248.7	390.0	557.0	724.1
Timber	224.4	190.5	254.1	371.4	468.2
Fish	41.2	37.3	70.8	92.9	132.1
Minerals	1.3	0.4	0.2	0.6	2.9
Palm oil	6.6	0.2	0.0	0.0	0.0
Copra	34.7	0.4	2.2	7.8	25.5
Cocoa	9.3	4.5	27.7	53.2	40.4
Other	13.8	15.3	35.0	31.2	55.1
Merchandise imports, c.i.f.1/	499.0	478.1	420.1	639.5	738.7
<i>Of which:</i> Petroleum	93.4	75.8	75.6	87.9	174.8
Services and income (net)	70.4	-33.1	-42.8	5.1	67.7
Nonfactor services (net)	74.3	-33.7	-3.0	44.9	57.5
Factor income from abroad (net, accrual)	-3.8	0.6	-39.9	-39.7	10.2
Net current transfers	-64.0	77.4	-36.9	100.4	188.8
Private sector	-67.6	26.5	-81.8	31.7	106.0
Public sector	3.6	50.9	44.9	68.7	82.8
Capital account balance	43.5	90.8	42.5	83.4	60.5
Government sector	36.9	96.4	39.1	91.7	63.6
Monetary authorities (net)	0.0	0.0	0.0	0.0	0.0
Medium and long-term lending	8.8	73.4	18.2	-3.7	-30.3
Inflows	22.6	88.6	40.6	23.2	2.1
Amortization (accrual)	13.8	15.3	22.4	26.9	32.4
Investment flow (project)	28.2	23.1	20.8	95.4	93.9
Private sector	6.6	-5.6	3.5	-8.3	-3.2
Investment activities	12.4	5.4	7.0	-0.7	2.5
Medium and long-term lending	-2.5	-6.2	-0.1	-5.5	-3.6
Inflows	1.9	0.2	3.1	0.2	0.4
Amortization	4.4	6.4	3.2	5.7	4.0
Other flows	-3.4	-4.8	-3.5	-2.1	-2.1
Overall balance (accrual)	-117.7	-94.3	-67.4	106.5	302.3
Commercial bank holdings (increase)	-18.4	18.2	9.3	15.2	16.7
Errors and omissions	-10.3	-14.8	70.7	32.2	21.2
Exceptional financing	13.6	72.2	38.8	15.7	16.5
Interest arrears	5.9	13.4	30.2	22.2	17.6
Amortization arrears	7.7	12.6	24.7	11.1	10.3
Pending foreign exchange import requests	0.0	46.2	-16.2	-17.5	-11.5
Debt forgiveness	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	-96.1	-55.1	32.9	139.1	323.3

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ Including pending foreign exchange import requests; value for 2003 reflects customs clearance data.

Table 23. Solomon Islands: Balance of Payments, 2000–04

(In millions of U.S. dollars)

	2000	2001	2002	2003	Est. 2004
Current account balance	-31.7	-35.1	-16.3	3.1	32.3
Trade balance	-32.9	-43.5	-4.5	-11.0	-2.0
Merchandise exports, f.o.b.	65.1	47.1	57.8	74.2	96.7
Timber	44.1	36.1	37.7	49.5	62.6
Fish	8.1	7.1	10.5	12.4	17.6
Minerals	0.3	0.1	0.0	0.1	0.4
Palm oil	1.3	0.0	0.0	0.0	0.0
Copra	6.8	0.1	0.3	1.0	3.4
Cocoa	1.8	0.9	4.1	7.1	5.4
Other	2.7	2.9	5.2	4.2	7.4
Merchandise imports, c.i.f. 1/	98.1	90.6	62.3	85.2	98.7
<i>Of which:</i> Petroleum	18.4	14.4	11.2	11.7	23.3
Services and income (net)	13.8	-6.3	-6.3	0.7	9.0
Nonfactor services (net)	14.6	-6.4	-0.4	6.0	7.7
Factor income from abroad (net, accrual)	-0.8	0.1	-5.9	-5.3	1.4
Net current transfers	-12.6	14.7	-5.5	13.4	25.2
Private sector	-13.3	5.0	-12.1	4.2	14.2
Public sector	0.7	9.6	6.6	9.2	11.1
Capital account balance	8.5	17.2	6.3	11.1	8.1
Government sector	7.3	18.3	5.8	12.2	8.5
Monetary authorities (net)	0.0	0.0	0.0	0.0	0.0
Medium- and long-term lending	1.7	13.9	2.7	-0.5	-4.0
Inflows	4.4	16.8	6.0	3.1	0.3
Amortization (accrual)	2.7	2.9	3.3	3.6	4.3
Investment flow (project)	5.5	4.4	3.1	12.7	12.5
Private sector	1.3	-1.1	0.5	-1.1	-0.4
Investment activities	2.4	1.0	1.0	-0.1	0.3
Medium- and long-term lending	-0.5	-1.2	0.0	-0.7	-0.5
Inflows	0.4	0.0	0.5	0.0	0.0
Amortization	0.9	1.2	0.5	0.8	0.5
Other flows	-0.7	-0.9	-0.5	-0.3	-0.3
Overall balance (accrual)	-23.1	-17.9	-10.0	14.2	40.4
Commercial bank holdings (increase)	-3.6	3.5	1.4	2.0	2.2
Errors and omissions	-2.2	-4.5	7.2	3.3	1.1
Exceptional financing	2.7	13.0	3.1	3.0	3.7
Interest arrears	1.2	2.4	4.1	3.0	2.3
Amortization arrears	1.5	2.3	3.3	1.5	1.4
Pending foreign exchange import requests	0.0	8.3	-4.3	-2.4	-1.5
Debt forgiveness	0.0	0.0	0.0	1.0	1.5
Overall balance (cash)	-19.1	-12.8	-1.0	18.5	43.0
Memorandum item:					
Exchange rate (SIS/US\$, average)	5.09	5.28	6.75	7.51	7.48

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ Including pending foreign exchange import requests; value for 2003 reflects customs clearance data.

Table 24. Solomon Islands: Trade Indicators, 2000–04

	2000	2001	2002	2003	Est. 2004
(Percentage change)					
Terms of trade	-15.0	-12.9	16.3	-24.2	-13.5
Export indices					
Value	-48.1	-27.6	22.6	28.4	30.4
Volume	-41.0	-13.2	6.8	57.1	34.9
Unit price	-12.0	-16.7	14.8	-18.3	-3.4
Import indices					
Value	-11.9	-7.6	-31.3	36.9	15.8
Volume	-14.9	-3.5	-30.4	27.0	3.6
Unit price	3.5	-4.3	-1.3	7.8	11.8
(In percent of GDP)					
Current account balance					
Including public transfers	-10.6	-12.8	-7.2	1.3	12.5
Excluding public transfers	-10.8	-16.3	-10.1	-2.7	8.2

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.



Table 25. Solomon Islands: Composition of Exports, 2000–04

(Total values in thousands of U.S. dollars; unit values in U.S. dollars; volumes in metric tons unless noted otherwise)

	2000	2001	2002	2003	Est. 2004
<b>Timber, logs (cubic meters)</b>					
Value	44,100	36,085	37,659	49,480	62,551
Unit value 1/	82	68	68	69	60
Volume	536,000	534,000	550,000	714,100	1,043,150
Unit value change	-1.2	-17.9	1.3	1.2	-13.5
<b>Fish</b>					
Value	8,091	7,074	10,484	12,373	17,643
Unit value 1/	382	400	566	427	647
Volume	21,163	17,699	18,520	28,955	27,249
Unit value change	-44.2	4.5	41.6	-24.5	51.5
<b>Copra</b>					
Value	6,827	82	329	1,042	3,413
Unit value 1/	359	48	190	70	156
Volume	19,004	1,701	1,731	14,848	21,831
Unit value change	2.8	-86.6	294.6	-63.0	122.8
<b>Cocoa</b>					
Value	1,823	859	4,109	7,086	5,400
Unit value 1/	787	422	1,413	1,545	1,292
Volume	2,316	2,038	2,907	4,587	4,181
Unit value change	-62.6	-46.4	235.2	9.3	-16.4
<b>Palm oil</b>					
Value	1,290	...	...	...	...
Unit value 1/	1,021	...	...	...	...
Volume	1,263	...	...	...	...
Unit value change	-2.3	...	...	...	...
Other (value)	2,972	3,017	5,210	4,229	7,740
Total exports, f.o.b.	65,102	47,118	57,790	74,210	96,747

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ Unit values reported are implied by data on the total volume and value of exports.

Table 26. Solomon Islands: Composition of Imports, 2000–04

	2000	2001	2002	2003	Est. 2004
(In thousands of U.S. dollars)					
Oil imports	18,357	14,352	11,426	11,717	23,350
Food imports	15,595	20,547	16,224	14,969	13,560
Beverages & tobacco	1,003	1,762	1,660	924	1,039
Plants, vehicles & transport equipment	17,340	10,102	8,451	8,591	8,874
Building & construction materials	5,009	4,278	3,489	7,201	6,467
Chemical	1,772	2,604	1,716	1,879	1,684
Other imports	38,974	28,192	22,292	22,294	30,226
Total imports (c.i.f.) 1/	98,050	81,837	65,257	67,575	85,199
(In percent of total imports)					
Oil imports	18.7	17.5	17.5	17.3	27.4
Food imports	15.9	25.1	24.9	22.2	15.9
Beverages and tobacco	1.0	2.2	2.5	1.4	1.2
Plants, vehicles, and transport equipment	17.7	12.3	12.9	12.7	10.4
Building and construction materials	5.1	5.2	5.3	10.7	7.6
Chemical	1.8	3.2	2.6	2.8	2.0
Other imports	39.7	34.4	34.2	33.0	35.5
(Annual percentage change)					
Import value (in U.S. dollar terms)	-11.9	-7.6	-31.3	36.9	15.8
Import volume	-14.9	-3.5	-30.4	27.0	3.6
Import unit value (in U.S. dollar terms)	3.5	-4.3	-1.3	7.8	11.8

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ The total imports value shown does not incorporate pending foreign exchange import requests and the 2003 figure is based on banking rather than customs clearance data.

Table 27. Solomon Islands: Exports by Country of Destination, 2000–04

(Percent of total)

	2000	2001	2002	2003	Est. 2004
Industrial countries	37.7	32.0	24.6	20.8	21.4
<i>Of which:</i>					
Japan	22.1	21.5	20.8	13.9	9.7
European Union	11.3	5.3	2.0	2.4	7.4
Australia	2.8	1.7	0.9	2.8	2.2
New Zealand	0.7	0.3	0.3	0.5	0.3
Other	0.7	3.2	0.7	1.1	1.8
Asia: 1/	62.1	67.4	75.0	78.9	78.3
<i>Of which:</i>					
Korea	17.4	19.4	16.0	18.4	17.1
China 2/	14.9	11.5	21.8	26.6	28.2
Philippines	10.3	9.2	10.2	8.5	4.8
Thailand	5.4	9.3	7.4	6.4	15.7
Singapore	0.9	1.2	4.0	5.7	2.9
Malaysia	1.7	1.6	2.4	2.1	1.1
Papua New Guinea	1.2	1.6	1.6	1.5	1.4
Other	20.6	22.8	21.8	18.2	11.9
Other countries	0.2	0.6	0.4	0.3	0.3

Source: IMF, Direction of Trade Statistics.

1/ Excluding Japan.

2/ Including Hong Kong SAR and Macao SAR.

Table 28. Solomon Islands: Imports by Country of Origin, 2000–04

(Percent of total)

	2000	2001	2002	2003	Est. 2004
Industrial countries	46.3	47.5	43.3	39.6	40.9
<i>Of which:</i>					
Australia	27.5	29.3	31.8	27.8	24.6
Japan	5.4	3.6	2.3	2.8	3.8
New Zealand	5.6	5.0	5.1	4.7	7.7
United States	5.2	7.2	2.0	1.5	1.8
Other	2.6	2.4	2.1	2.8	3.0
Asia: 1/	50.3	48.6	51.8	55.9	54.3
<i>Of which:</i>					
Singapore	25.2	18.6	20.0	21.0	23.1
China 2/	3.1	3.9	2.8	3.3	3.1
Fiji	3.1	3.8	4.7	4.3	4.8
Papua New Guinea	3.1	3.7	4.5	4.2	4.7
Korea	0.7	0.5	0.9	0.7	0.8
Thailand	1.1	2.7	0.6	0.9	1.6
Malaysia	1.8	1.2	1.0	1.8	1.5
Other	12.2	14.4	17.2	19.6	14.8
Other countries	3.4	3.9	4.9	4.5	4.8

Source: IMF, *Direction of Trade Statistics*.

1/ Excluding Japan.

2/ Including Hong Kong SAR and Macao SAR.

Table 29. Solomon Islands: Services, Income, and Transfers, 2000–04

(In millions of U.S. dollars)

	2000	2001	2002	2003	Est. 2004
Services and income	13.8	-6.3	-6.3	0.7	9.0
Nonfactor services (net)	14.6	-6.4	-0.4	6.0	7.7
Exports	48.6	24.7	16.7	21.2	30.4
Transportation	0.6	1.2	1.0	1.0	0.4
Travel	3.6	2.2	1.5	2.3	4.4
Communications	1.8	0.0	1.2	0.1	0.1
Financial services	21.7	7.9	1.8	0.9	1.2
Other	20.8	13.4	11.2	17.0	24.2
Imports	34.0	31.1	17.1	15.3	22.7
Transportation	4.6	3.3	3.8	3.1	6.0
Travel	8.7	6.5	4.3	4.4	4.4
Communications	2.7	1.6	1.8	2.2	1.6
Financial services	2.8	6.2	1.7	0.8	1.6
Other	15.3	13.5	5.5	4.6	9.1
Factor income (net)	-0.8	0.1	-5.9	-5.3	1.4
Credit	7.2	6.2	2.7	3.5	8.5
Official interest	2.7	1.1	0.5	0.7	2.5
Other	4.5	5.1	2.2	2.8	6.0
Debit	8.0	6.1	8.6	8.8	7.1
Official interest (accrual)	1.8	2.9	4.4	5.0	3.2
Other	6.2	3.2	4.3	3.8	3.9
Current transfers (net)	-12.6	14.7	-5.5	13.4	25.2
Private sector	-13.3	5.0	-12.1	4.2	14.2
Receipts	16.5	24.0	15.9	18.4	37.1
Payments	29.7	19.0	28.1	14.2	22.9
Public sector	0.7	9.6	6.6	9.2	11.1
Receipts	2.2	10.0	7.3	14.3	13.0
Payments	1.5	0.4	0.7	5.2	1.9

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

Table 30. Solomon Islands: Medium- and Long-Term Government External Debt and Disbursements, 2000–04

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004 Est.
Total debt outstanding at year-end 1/	125.6	134.3	151.6	160.8	159.9
Total multilateral	92.2	87.9	89.8	96.7	100.1
Asian Development Bank	47.0	44.7	45.2	48.1	49.5
International Development Association	40.1	38.5	40.0	43.9	46.4
OPEC	2.1	1.9	1.8	1.6	1.1
International Fund for Agricultural Development	3.0	2.8	2.9	3.1	3.1
Total bilateral	19.1	30.5	42.3	41.9	37.0
European Community	6.1	5.8	6.2	7.3	5.1
European Investment Bank	3.3	3.0	3.3	3.9	2.4
United Kingdom	2.5	2.0	1.7	0.0	0.0
Kuwait	6.3	5.8	5.3	4.9	4.4
CDC	0.9	0.9	0.8	0.7	0.6
Taiwan Province of China	0.0	13.0	25.0	25.0	24.4
Commercial creditors	9.7	8.8	8.4	8.4	7.1
EFIC (Australia)	7.8	7.3	7.4	7.8	6.9
Marubeni (Hong Kong SAR)	1.9	1.5	1.1	0.6	0.2
Arrears	4.6	7.1	11.1	13.8	15.8
Total disbursements	0.8	13.0	12.0	3.1	1.6
Multilateral	0.8	0.0	0.0	3.1	1.6
Asian Development Bank	0.0	0.0	0.0	0.0	0.8
International Development Association	0.8	0.0	0.0	3.1	0.8
OPEC	0.0	0.0	0.0	0.0	0.0
International Fund for Agricultural Development	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	13.0	12.0	0.0	0.0
European Community	0.0	0.0	0.0	0.0	0.0
European Investment Bank	0.0	0.0	0.0	0.0	0.0
United Kingdom	0.0	0.0	0.0	0.0	0.0
Kuwait	0.0	0.0	0.0	0.0	0.0
CDC	0.0	0.0	0.0	0.0	0.0
Taiwan Province of China	0.0	13.0	12.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0
EFIC (Australia)	0.0	0.0	0.0	0.0	0.0
Klockner (Germany)	0.0	0.0	0.0	0.0	0.0
Marubeni (Hong Kong SAR)	0.0	0.0	0.0	0.0	0.0

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ Includes arrears.

Table 31. Solomon Islands: Medium- and Long-Term External Government  
Debt-Service Payments, 2000–04

(Accrual basis; in millions of U.S. dollars)

	2000	2001	2002	2003	Est. 2004
Amortization	2.7	2.9	3.3	3.6	4.3
Total multilateral	1.2	1.3	1.4	2.0	2.4
Asian Development Bank	0.9	1.0	1.0	1.2	1.3
International Development Association	0.2	0.2	0.3	0.5	0.8
OPEC	0.0	0.0	0.0	0.2	0.2
International Fund for Agricultural Development	0.1	0.1	0.1	0.1	0.1
Total bilateral	1.0	1.2	1.5	1.1	1.6
European Community	0.1	0.1	0.3	0.4	0.4
European Investment Bank	0.1	0.1	0.1	0.1	0.2
United Kingdom	0.4	0.4	0.4	0.0	0.0
Kuwait	0.4	0.6	0.6	0.6	0.4
CDC	0.0	0.0	0.1	0.1	0.1
Taiwan Province of China	0.0	0.0	0.0	0.0	0.6
Commercial creditors	0.5	0.4	0.4	0.4	0.4
EFIC (Australia)	0.1	0.0	0.0	0.0	0.0
Klockner (Germany)	0.0	0.0	0.0	0.0	0.0
Marubeni (Hong Kong SAR)	0.4	0.4	0.4	0.4	0.4
Interest payments	1.8	2.1	2.4	2.5	2.6
Total multilateral	0.9	0.8	0.8	0.9	1.0
Asian Development Bank	0.5	0.4	0.5	0.5	0.6
International Development Association	0.3	0.3	0.3	0.3	0.3
OPEC	0.1	0.1	0.1	0.0	0.0
International Fund for Agricultural Development	0.0	0.0	0.0	0.0	0.0
Total bilateral	0.5	0.9	1.3	1.3	1.3
European Community	0.1	0.0	0.1	0.1	0.1
European Investment Bank	0.1	0.1	0.1	0.1	0.1
United Kingdom	0.1	0.1	0.1	0.0	0.0
Kuwait	0.2	0.2	0.2	0.2	0.2
CDC	0.0	0.0	0.0	0.0	0.0
Taiwan Province of China	0.0	0.5	0.9	0.9	0.9
Commercial creditors	0.4	0.4	0.3	0.3	0.3
EFIC (Australia)	0.3	0.3	0.3	0.3	0.3
Klockner (Germany)	0.0	0.0	0.0	0.0	0.0
Marubeni (Hong Kong SAR)	0.1	0.1	0.1	0.0	0.0
Memorandum items:					
Arrears	4.6	7.1	11.1	13.8	15.8
Principal	2.9	4.7	7.4	7.6	9.0
Interest	1.7	2.4	3.7	6.2	6.9

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

Table 32. Solomon Islands: Medium- and Long-Term  
External Debt Indicators, 2000–04

	2000	2001	2002	2003	Est. 2004
(Accrual basis; in millions of U.S. dollars)					
Total debt service	...	...	...	...	...
Amortization	3.6	4.1	3.8	4.3	4.9
Interest payments	...	...	...	...	...
Public sector	4.5	5.0	5.8	6.1	6.9
Amortization	2.7	2.9	3.3	3.6	4.3
Interest payments	1.8	2.1	2.4	2.5	2.6
Private sector	...	...	...	...	...
Amortization	0.9	1.2	0.5	0.8	0.5
Interest payments	...	...	...	...	...
Total debt service	...	...	...	...	...
Amortization	3.1	5.7	5.1	4.6	3.8
Interest payments	...	...	...	...	...
Public sector	3.9	6.9	7.7	6.3	5.4
Amortization	2.4	4.0	4.5	3.8	3.4
Interest payments	1.5	2.9	3.3	2.6	2.0
Private sector	...	...	...	...	...
Amortization	0.8	1.7	0.6	0.8	0.4
Interest payments	...	...	...	...	...
Memorandum items:					
Exports of goods and non-factor services (in millions of U.S. dollars)	113.7	71.8	74.5	95.4	127.1
External government debt (percent of GDP) 1/	42.0	49.0	67.0	70.6	62.0
Implied interest rate on stock of external debt (percent)	1.3	1.6	1.8	1.6	1.6

Sources: Data provided by the Solomon Islands authorities; and Fund staff estimates.

1/ Includes external debt arrears.



Table 33. Solomon Islands: Bilateral Exchange Rates, 2000–05

(In Solomon Islands dollars; per unit of foreign currency, end of period)

	Australian Dollar	Japanese Yen 1/	New Zealand Dollar	U.S. Dollar	U.K. Pound Sterling	SDR
Annual averages						
2000	2.93	4.70	2.31	5.09	7.71	6.70
2001	2.72	4.34	2.21	5.30	7.63	6.73
2002	3.82	5.63	3.27	6.99	10.58	9.10
2003	4.94	6.50	4.40	7.51	12.37	10.57
2004	5.51	6.95	4.97	7.49	13.72	11.11
2002						
January	2.97	4.40	2.43	5.85	8.26	7.26
February	3.12	4.51	2.53	6.04	8.56	7.50
March	4.08	5.76	3.35	7.67	10.92	9.57
April	3.42	4.95	2.83	6.34	9.23	8.03
May	3.70	5.24	3.10	6.51	9.56	8.41
June	4.06	6.01	3.54	7.18	11.04	9.56
July	3.98	6.06	3.40	7.27	11.38	9.61
August	4.06	6.22	3.44	7.34	11.39	9.74
September	3.95	5.98	3.41	7.27	11.36	9.61
October	4.13	6.09	3.60	7.46	11.64	9.86
November	4.18	6.10	3.70	7.46	11.57	9.87
December	4.22	6.22	3.93	7.46	12.02	10.14
2003						
January	4.39	6.27	4.08	7.46	12.32	10.27
February	4.53	6.35	4.20	7.48	11.84	10.25
March	4.54	6.26	4.15	7.52	11.88	10.33
April	4.68	6.29	4.20	7.52	12.00	10.41
May	4.90	6.35	4.34	7.52	12.39	10.68
June	5.01	6.27	4.37	7.51	12.40	10.52
July	4.91	6.26	4.38	7.52	12.11	10.47
August	4.82	6.43	4.31	7.53	11.90	10.37
September	5.11	6.76	4.46	7.51	12.57	10.74
October	5.29	6.91	4.59	7.51	12.71	10.76
November	5.41	6.86	4.81	7.51	12.92	10.88
December	5.62	6.99	4.87	7.49	13.37	11.13
2004						
January	5.75	7.10	5.03	7.52	13.62	11.14
February	5.77	6.87	5.14	7.49	13.84	11.08
March	5.68	7.17	4.91	7.48	13.72	11.07
April	5.40	6.79	4.65	7.48	13.26	10.86
May	5.33	6.76	4.71	7.47	13.70	10.97
June	5.14	6.89	4.71	7.46	13.52	10.94
July	5.22	6.66	4.72	7.47	13.56	10.89
August	5.25	6.83	4.87	7.49	13.43	10.94
September	5.36	6.76	5.02	7.50	13.49	11.02
October	5.59	7.06	5.12	7.50	13.73	11.24
November	5.83	7.27	5.36	7.50	14.30	11.51
December	5.85	7.21	5.39	7.51	14.50	11.66
2005						
January	5.81	7.22	5.33	7.51	14.11	11.45
February	5.93	7.17	5.42	7.51	14.43	11.50
March	5.80	7.00	5.32	7.51	14.14	11.35
April	5.87	7.10	5.47	7.51	14.37	11.40
May	5.68	6.96	5.35	7.52	13.67	11.09
June	5.74	6.81	5.26	7.51	13.47	10.94
July	5.71	6.71	5.14	7.52	13.21	10.92

Sources: IMF, *International Financial Statistics*; and Fund staff estimates.

1/ Solomon Islands dollar per 100 yen.

Table 34. Solomon Islands: Exchange Rate Indicators, 2000–05  
(Index: 1990=100)

		Real Effective Exchange Rate	Nominal Effective Exchange Rate	Relative Price Index 1/	Exchange Rate Index 2/
Annual averages					
2000		123.2	65.3	188.3	49.7
2001		133.9	67.4	198.5	47.9
2002		111.5	52.4	213.8	37.8
2003		96.8	41.8	231.4	33.7
2004		94.8	39.0	243.2	33.8
2000	I	114.4	62.9	181.8	49.8
	II	119.8	64.6	185.3	49.7
	III	127.4	65.8	193.5	49.6
	IV	131.1	68.1	192.5	49.6
2001	I	133.6	67.9	196.7	49.4
	II	136.4	68.6	198.6	48.2
	III	133.4	67.4	197.9	47.7
	IV	132.1	65.8	200.7	46.3
2002	I	126.1	62.0	203.2	43.0
	II	111.7	53.9	207.2	38.7
	III	102.3	47.0	217.5	34.8
	IV	105.8	46.5	227.4	34.5
2003	I	99.5	43.7	227.7	33.8
	II	97.9	42.0	232.7	33.6
	III	97.0	41.8	232.2	33.6
	IV	92.7	39.7	233.2	33.7
2004	I	92.5	38.5	240.2	33.7
	II	96.7	39.8	243.0	33.8
	III	96.8	39.6	244.2	33.8
	IV	93.0	37.9	245.2	33.7
2005	I	92.3	37.2	247.8	33.7
	II	95.7	37.9	252.7	33.6

Sources: IMF, *Information Notice System*; and Central Bank of Solomon Islands.

1/ Consumer price index in the Solomon Islands relative to a weighted average of consumer price indices in major trading partners.

2/ U.S. dollar/Solomon Islands dollar exchange rate index.