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December 14, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Solomon Islands - Recent Economic Developments

This paper provides background information to the staff report on the 1983 Article IV consultation discussions with Solomon Islands, a review under the stand-by arrangement and a request for modifications of performance criteria, which was circulated as EBS/83/261 on December 2, 1983.

This subject has been tentatively scheduled for discussion on Wednesday, January 4, 1984. If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Hyong C. Kim, ext. (5)7609.

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INTERNATIONAL MONETARY FUND

SOLOMON ISLANDS

Recent Economic Developments

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Approved by the Asian and the Exchange and
Trade Relations Departments

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Solomon Islands

Basic Data

Area:	27,556 square kilometers
Population (1983):	249,000
Population growth rate (1976-82):	3.5 percent per annum
GDP per capita (1983):	SDR 574

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Est.
<u>GDP (in millions of SI\$)</u>				
GDP at 1977 market prices	87.6	88.9	88.6	90.6
<u>Prices (annual average percentage change)</u>				
Retail price index	12.6	16.4	13.0	8.0
<u>Central Government budget (in millions of SI\$)</u>				
Revenue (excluding grants)	23.7	31.8	35.7	37.8
Expenditure	40.7	49.8	51.0	55.4
Overall surplus or deficit	-17.0	-18.0	-15.3	-17.6
<u>Money and credit (percentage change) 1/</u>				
Domestic credit	...	20.5	14.5	...
Broad money	...	-14.1	22.5	...
Velocity (GDP/liquidity) 2/	...	4.1	4.5	...
<u>Balance of payments (in millions of SDRs)</u>				
Exports	56.3	56.2	52.7	56.6
Imports	-56.9	-64.4	-53.5	-54.6
Current account balance	-24.0	-37.4	-19.8	-19.4
Overall balance	-5.2	-8.9	4.6	1.9
<u>External debt (in millions of SDRs)</u>				
Public debt	5.9	15.5	29.2	37.0
Public debt service payments 3/	--	0.8	2.5	2.0
(As a percentage of exports of goods and services)	(--)	(1.2)	(3.3)	(2.7)
<u>Gross official reserves (end of period)</u>				
In millions of SDRs	23.2	18.5	33.7	41.2
In months of imports of goods and services	3.1	2.6	4.7	5.0
<u>Ratios to GDP (in percent)</u>				
Government domestic revenue	19.8	22.6	22.5	21.6
Government expenditure	34.1	35.4	32.1	31.7
Government overall deficit (-)	-14.2	-12.8	-9.6	-10.1
Exports	51.1	40.9	35.6	40.0
Imports	-51.7	-46.6	-36.2	-38.3
Current account deficit (-)	-21.9	-27.2	-13.4	-13.6
Public sector external debt	5.3	11.4	21.3	26.5
Interest payments on external public debt	--	0.6	1.7	1.4

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

1/ Percentage changes in relation to stock of liquidity at beginning of period.

2/ Based on the annual average stock of broad money.

3/ Interest plus amortization on public debt.

I. Introduction and Summary

Following relatively rapid economic growth in the late 1970s, when real GDP grew by an annual average rate of about 5 percent, Solomon Islands faced a difficult period in the early 1980s. Real GDP fell by more than 5 percent in the two-year period 1980-81, in part because a sharp deterioration of the terms of trade eroded the profitability of many enterprises and adversely affected aggregate demand, especially private investment. In 1982, real GDP declined slightly. This was partly due to a fall in output of some primary products, particularly fish and copra, and to the continued deterioration in the external terms of trade. In 1983, real GDP is estimated to have increased by about 2 percent. A significant recovery in fish catch, mainly owing to the return of warm ocean temperatures and a normal fishing season, and some pickup in private investment, stemming from the improvement of the terms of trade, contributed to the resumption of economic growth.

The rate of inflation fell from 16 percent in 1981 to 13 percent in 1982, reflecting a sharp decline in prices of major food imports, including rice and sugar. During the first nine months of 1983, the rate of inflation decelerated further to 7 percent on average, partly due to declines in prices of main local agricultural output and some imported food items. The rate of inflation for the year as a whole is estimated at 8 percent, or about 5 percent during the 12-months ending December 1983.

Fiscal operations in 1982 were characterized by a balance in current operations and a substantial decline in capital expenditure and net lending. The overall budget deficit was SI\$15.3 million, equivalent to 9.6 percent of GDP, a slight improvement over 1981. Domestic revenue increased by 12 percent, reflecting increased import duties. Current expenditure rose by 11 percent, with the main growth stemming from wages and salaries. Capital expenditure and net lending decreased by 13 percent. This was partly because of a shortage of skilled personnel for project identification and implementation and partly because donor countries switched from the system of disbursing aid funds in advance to one in which aid was reimbursed after expenditures were made. Overseas grants declined substantially as a proportion of the financing of the overall budget deficit, and the Government's recourse to the banking system rose more than budgeted.

In 1983, the overall budget deficit is expected to rise to SI\$17.6 million (10.1 percent of GDP). While domestic revenue increased by 6 percent, largely due to increases in export duties, current expenditures rose by 12 percent, reflecting further large increases in wages and salaries. Capital expenditure and net lending is projected to remain unchanged from the depressed level of 1982, implying a decline in real terms. Delays in project implementation and in claiming aid reimbursement have continued, despite measures taken by the Government to improve the financing and implementation of

projects. The Government's recourse to the banking system was again more than envisaged in the budget. Foreign borrowing is expected to constitute the largest part of the financing of the overall budget deficit.

Monetary and credit developments in 1982 mirrored a sharp turnaround in the balance of payments and in the Government's position vis-a-vis the banking system. The stock of broad money increased by about 23 percent on a year-end to year-end basis, following a substantial contraction in 1980-81. The rapid growth in broad money was associated with a large increase in net foreign assets and with an expansion in domestic credit of about 19 percent during the year. The increase in total domestic credit largely represented a rise in credit to the Government, which made the Government a net borrower from the banking system for the first time. In the first nine months of 1983, total liquidity expanded by 10 percent, compared with a rise of 16 percent during the same period of the preceding year. A large part of the increase in liquidity in 1983 came from an expansion of net credit to the Government. Credit to the private sector remained virtually unchanged, reflecting the sluggish economic activity in the private sector.

The balance of payments position in 1982 and 1983 was considerably stronger than in previous years. In 1982, the recession contributed to a 17 percent decline in the SDR value of imports, which in turn led to a sharp reduction in the trade deficit. The terms of trade deteriorated slightly, after a steep drop in 1981. In 1983, there has been an estimated rise in import volumes of 4 percent as real growth has resumed. However, this has been accompanied by an increase in export volumes and an improvement in the terms of trade. The current account deficit of the balance of payments declined sharply to SDR 19.8 million (13.4 percent of GDP) in 1982, and is estimated to have narrowed slightly to SDR 19.4 million (13.6 percent of GDP) in 1983. Official transfers amounted to about the same in 1982 and 1983, at about SDR 11 million. This represented a reduction of almost one third from the level of official grants at the beginning of the decade. However, larger inflows of official and private nonmonetary capital have offset the decline in grants and, consequently, the overall balance of payments moved to a surplus of SDR 4.6 million in 1982 and an estimated SDR 1.9 million in 1983. At the end of 1982, gross international reserves amounted to about SDR 34 million. Such reserves are expected to rise to SDR 41 million by the end of 1983, equivalent to five months of imports of goods and services.

Debt service payments remain low, as much of the external public debt is on highly concessional terms. A US\$20 million Eurocurrency loan contracted in 1981 is the only nonconcessional public debt, other than trade credits. The debt service ratio is projected to rise from its present level of about 3 percent to about 8 percent in 1985-87 before declining again to less than 1 percent in 1990. Private sector debt service payments are expected to amount to about 3 percent of exports of goods and services in 1983.

In the year following a 10 percent devaluation in August 1982, the Solomon Islands dollar depreciated by about 11 percent in nominal terms and 10 percent in real terms measured against a basket of four currencies comprising the Japanese yen, the U.S. dollar, the Australian dollar, and the U.K. pound.

II. Real Economy

1. Overall developments

After a modest rise in 1981, real GDP declined marginally in 1982, largely due to a reduction in fish catch and in the production of copra and rice (Table 1 and Appendix Table I). ^{1/} On the demand side, total fixed investment declined from 30 percent of GNP in 1981 to 20 percent in 1982 (Appendix Table II). A deterioration in the external terms of trade of close to 40 percent during the three years 1980-82 eroded the profitability of many enterprises and contributed to the postponement or curtailment of much new private fixed investment. Public fixed investment also declined, reflecting delays in project formulation and implementation partly as a result of shortages of skilled manpower. Total consumption fell slightly as a result of a fall in income from primary production and stagnant real wages.

After stagnation in the first half of 1983, economic growth resumed in the second half, with the growth of real GDP estimated at 2 percent for the year as a whole. Fish catch rose significantly due to a return of normal ocean temperatures and the normal fishing season. However, output of other primary products, including copra, rice, and timber, declined. Total fixed investment is estimated at 22 percent of GNP for the year, about 2 percentage points higher than the 1982 level. With the improvement in the terms of trade, private fixed investment is estimated to have increased in the second half of the year, more than offsetting a small decline in public fixed investment.

2. Production in 1982-83

Major products in Solomon Islands comprise copra, palm oil, rice, fish, and timber. More than 90 percent of the output of these products are exported. ^{2/}

^{1/} Data on GDP by sector are not available, but developments in primary production may be used as indicators for real economic growth.

^{2/} Except for copra and rice, most of these products are produced by joint-venture companies: oil palm cultivation and palm oil production by the Solomon Islands Plantation Limited (SIPL) and fishing by the Solomon Taiyo Limited (STL). Timber production is mainly by foreign companies, while copra is produced by plantations and indigenous small-holders. Rice, which was produced by a joint-venture company, the Brewer Solomons Inc. (BSI) until 1981, is currently produced by the wholly government-owned Brewer Solomons Agricultural Limited (BSAL).

Table 1. Solomon Islands: Output and Prices, 1979-83

(Annual percentage change)

	1979	1980	1981	1982	1983 Est.
Real GDP at market prices	22.6	-6.7	1.5	-0.3	2.0
Primary products					
Fish (total catch)	36.7	-4.0	11.3	-19.2	26.2
Timber (logs)	9.0	--	22.0	6.5	-8.8
Copra	22.2	-13.1	15.4	-4.5	-16.2
Palm oil	19.2	9.4	27.1	6.4	2.4
Rice	34.2	35.9	-10.1	-11.9	-12.5
Consumer prices (average) <u>1/</u>					
Overall	8.0	12.6	16.4	13.0	8.0
Food	8.3	15.0	19.5	12.8	6.0
Memorandum item:					
GDP at current market prices (in millions of S.I. dollars)	112.7	119.1	140.8	158.5	175.0

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

1/ Based on the 1977 Honiara retail price index.

a. Agricultural production

Copra production declined by about 5 percent in 1982 from a record level of 33,700 metric tons realized in 1981 (Table 2). The fall in output reflected a reduction in the smallholders' production, which accounted for about 70 percent of the total in 1982. A reduction in domestic buying prices set by the Copra Board in response to the depressed world prices of copra encouraged smallholders to shift from copra production to other activities, including fishing.

In the first half of 1983, total production was 32 percent lower than a year earlier due to low domestic buying prices and a severe cyclone in April. 1/ In the second half of the year, however, copra production picked up as smallholders responded to a surge in domestic buying prices. The Copra Board raised its buying prices by 14 percent in June and by 44 percent in August, following a sharp increase in international prices partly as a result of a severe drought in the Philippines, a major copra producer. Total production for the year as a whole is expected to decline by 16 percent to 27,000 metric tons. The share of smallholders in total production is estimated to have declined by 4 percentage points to about 66 percent.

The Copra Board has a monopoly over buying and marketing copra, and administers a price-support scheme to protect domestic producers from large fluctuations in international prices. Under this scheme, the Board accumulates reserves when international prices are high and depletes them when the prices are low. 2/ In 1982, when international

1/ Copra production during the second quarter of the year usually accounts for about 30 percent of annual production.

2/ The Copra Board sets buying prices, including freight compensation for three different grades. The buying prices are determined on the basis of the London c.i.f. export price adjusted for freight and other costs, including fees and administration expenses. Average domestic buying prices and the London export prices during the first nine months of 1983 were:

	1983		
	Jan.	June	Sept.
	(SI\$/metric ton)		
London c.i.f. export price	321	623	757
Freight	7	82	84
Shrinkage and breakage (5 percent and 0.5 percent of f.o.b., respectively)	14	30	37
Operating costs of Copra Board	19	24	24
Duty	--	--	50
Net receipts of Copra Board	214	487	562
Average domestic buying price	238	273	393
Implicit price support (-)/profit	-24	214	169

Table 2. Solomon Islands: Production, Exports, and Prices of Copra, 1977-83

(In thousands of metric tons unless otherwise indicated)

	Marketed Production				Exports	Prices 1/	
	Small- holder	Plantation	Total	Smallholder Share (percent)		Copra Board Buying Price 2/	Export Unit Value 3/
1977	18.1	11.1	29.2	62.0	26.9	191	297
1978	17.6	9.9	27.5	64.1	32.1	233	301
1979	23.1	10.5	33.6	68.9	31.6	332	494
1980	20.5	8.7	29.2	70.1	31.7	318	304
1981	23.7	10.0	33.7	70.4	31.8	273	255
1982	22.5	9.7	32.2	69.9	33.9	239	231
1983 (est.)	17.8	9.2	27.0	66.0	27.0	325	473

Sources: Statistics Office, Ministry of Finance, Statistical Bulletin; and data provided by the Solomon Islands authorities.

1/ In Solomon Islands dollars per metric ton.

2/ Average price for first grade copra, including the average freight equalization payment.

3/ Honiara export price (f.o.b.).

prices remained depressed, the Board lost its reserves by SI\$0.6 million. In 1983, as international prices rose substantially in the second half, the Board is expected to accumulate reserves of SI\$3.8 million to more than SI\$8 million by the end of the year.

Production of palm oil rose by only 6 percent in 1982, reflecting a small fall in the productive area and the declining marginal effect on yield of the weevil-pollination technique introduced in 1981. Production of palm kernel, a by-product, increased by 14 percent (Table 3). The developments in 1982 represented a considerable slowdown from the trend of the period 1977-81, when production of palm oil and palm kernel increased by an average annual rate of 27 percent and 22 percent, respectively, as a result of an increase in the productive area and the introduction of a weevil pollination technique to help natural pollination of oil palms. Palm oil and palm kernel production are estimated to have risen by only 2 percent and 6 percent, respectively, in 1983, as the marginal effect of the new pollination techniques on palm fruit production continued to diminish. New plantings have been under way since 1981, with total cultivated area rising from 3,335 hectares in 1981 to 3,800 hectares in 1983. Such area will rise further to 4,200 hectares in 1984. This new planting effort is expected to bring about a large increase in production of palm oil and palm kernel in 1985-86.

Rice production declined by more than 10 percent for the second year in a row, after an annual average growth of 36 percent during 1977-80. ^{1/} While the decline in 1981 was mainly due to severe pest problems, that in 1982 resulted mainly from a reduction in area harvested of about 21 percent. This followed a large loss incurred by a joint venture company (Brewer Solomons Inc.) in 1981 as a result of high production costs, reduced yield, and depressed world prices of rice. In 1983, the area harvested was further reduced to a level equivalent to about 60 percent of the peak level reached in 1981. This is expected to reduce rice production further by 13 percent in 1983; the decline is somewhat smaller than the reduction in the area harvested, as the recent introduction of a new pest-resistant variety is expected to increase the average yield.

Following an annual average rate of growth of 38 percent during the period 1977-81 (Appendix Table IV), the growth of total cocoa production slowed to 13 percent in 1982. Production by smallholders declined sharply, partly offsetting an increase in production by plantations. Smallholder production was adversely affected by a steady decline in cocoa prices in recent years, as some smallholders switched their production from cocoa to more profitable crops. Production by

^{1/} More than 40 percent of locally produced rice was exported until 1982, while about 40 percent of domestic consumption was met by popular varieties of rice imported mainly from Australia.

Table 3. Solomon Islands: Oil Palm Area, Production, and Exports, 1977-83

(In thousands of metric tons unless otherwise indicated)

	Acreage at End of Period 1/ <u>Cultivated</u> <u>Productive</u> <u>area</u> <u>area</u>		Palm Fruit Collected	Production 2/ <u>Palm</u> <u>Palm</u> <u>oil</u> <u>kernel</u>		Exports <u>Palm</u> <u>Palm</u> <u>oil</u> <u>kernel</u>	
1977	3,335	2,464	32.09	7.04	1.44	6.23	1.30
1978	3,335	2,994	47.62	10.91	1.96	11.58	2.05
1979	3,335	3,286	55.91	13.01	2.26	13.46	2.29
1980	3,335	3,335	64.77	14.23	2.35	13.73	2.30
1981	3,335	3,335	82.97	18.08	3.16	16.91	2.90
1982	3,600	3,332	89.42	19.24	3.60	18.56	3.44
1983 (est.)	3,800	3,332	91.60	19.70	3.80	19.60	3.60

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

1/ In hectares.

2/ Extraction rates are 22.5 percent for palm oil and 4.5 percent for palm kernel.

plantations appears to have been less responsive to price changes as a shift to other crops is difficult and costly. In 1983, total production is estimated at 900 metric tons, 35 percent higher than in the preceding year, since more plantings by plantation owners came to maturity. Smallholders' production is not expected to rise because of low prices of cocoa, thereby further reducing the share of smallholders in total production. The authorities are considering the introduction of a price support scheme for cocoa, similar to the one applied to copra, to provide sufficient price incentives when world prices of cocoa are excessively low.

b. Livestock

The number of cattle in 1982 is estimated at 23,700, only 2 percent higher than in 1981. The size of herds owned by the Government increased markedly but that in private plantations declined. The Government is planning to raise the number of cattle to 33,000 by the end of 1988, in line with its plan to achieve self-sufficiency in beef production and exploit the potential for exporting beef to neighboring islands.

c. Fisheries

In 1982, total fish catch declined by almost 20 percent, following an increase of 11 percent in 1981 (Table 4). Ocean temperatures were unusually cold and prices of bonito and skipjack fell substantially due to weak demand, particularly in the United States. As a result, the Solomon Taiyo Limited (STL), the sole operator of the fishing fleet, shortened the fishing season by one month. The reduced fish catch, together with the sluggish demand for fish, led to a 35 percent decrease in exports of fresh and frozen fish in 1982. In 1983, the total catch is estimated to have reached a record level of 26,000 metric tons, an increase of 26 percent over 1982. Exports of fresh and frozen fish totalled an estimated 23,000 metric tons, a rise of 50 percent. With a return of warm ocean temperatures and a modest recovery in world fish prices, the STL brought the fishing season back to the normal length (April-December). Exports were also helped by a partial recovery in demand in the U.S. market for low-salt-content tuna from Solomon Islands.

Most of the fish is caught by the STL and the National Fisheries Development Corporation (NFDC). ^{1/} All fish exports are managed by the STL. At present, 27 vessels are in operation, of which 14 are owned by Okinawa fishermen, 7 by the NFDC, and 6 by the STL. The NFDC purchased two locally built boats in 1983 and will buy two more in 1984, increasing the number of fishing boats to 29. These boats are based at Noro in the Western Province and Tulagi in the Central

^{1/} STL holds 25 percent of the equity in NFDC.

Table 4. Solomon Islands: Fish Catch and Utilization, 1977-83

(In metric tons)

	Total Catch <u>1/</u>	Utilization				Other Uses
		Fresh and Frozen		Canned	Smoked	
		Exports	Domestic sales			
1977	12,056	9,773	195	1,745	964	--
1978	17,453	14,518	132	2,056	1,003	--
1979	23,859	21,918	136	2,267	787	85
1980	22,902	19,000	225	2,162	918	185
1981	25,499	23,246	291	2,060	843	109
1982	20,607	15,258	194	2,680	1,324	54
1983 (est.)	26,000	23,000	...	...	...	...

Sources: Statistics Office, Ministry of Finance, Statistical Bulletin; and data provided by the Solomon Islands authorities.

1/ Total catch may differ from total utilization in a particular year due to differences in recording timings.

Province, where refrigeration facilities are maintained. Each boat is usually served by 20 Solomon Islanders and 10 Okinawans, but the STL is planning gradually to replace high-wage Okinawans by Solomon Islanders to reduce costs. Besides the two cold storages, the STL has two arabushi (smoked fish) factories where the boats are based. The STL presently produces canned fish at Tulagi and plans to start the construction of a new cannery at Noro in 1984. The new cannery is expected to commence production by mid-1986 and to quadruple production capacity.

d. Forestry

In 1982, total log production increased by 6 percent to an all-time high level of 388,000 cubic meters, reflecting the increased issuance of licenses and foreign direct investment (Table 5). Eighty-five percent of total log production was exported and the remainder was used for production of sawn timber and local consumption. In 1983, timber production is expected to decline by 9 percent, because land tenure disputes on customary land ^{1/} interrupted production at a major company and another company declared bankruptcy and ceased production.

Reafforestation has been slow in recent years. A forestry survey conducted several years ago indicated that, with an annual log production of 400,000 cubic meters, entire forest resources would be depleted in 25 years if no replantation took place. Reafforestation has been difficult on customary land, mainly due to land tenure problems. So far, replanting has taken place only on government-owned land, which accounts for about 9 percent of total land used for timber production. To encourage reafforestation, the Government has introduced a scheme under which duty on timber exports is reduced for companies engaged in replanting. Furthermore, the Government will enlarge the Forest Fund to finance increased replanting by public sector agencies.

3. Manufacturing, mining, and electricity generation

There are no data on manufacturing production. Available indicators, however, suggest that the manufacturing sector has remained relatively small, with simple processing activities in the manufacturing of consumer-oriented products, such as food, beverages, cleaning agents, handicrafts, tobacco, furniture, and boats. Most manufactured goods are imported, mainly from Australia, Japan, and the United States.

No large-scale mining exists in Solomon Islands. The production of gold from alluvial deposits remains small. Two large bauxite deposits were found in recent years, but commercial exploitation by a foreign company has been postponed indefinitely because of land tenure problems and high costs relative to low international prices of bauxite.

^{1/} Land owned by communities.

Table 5. Solomon Islands: Timber Production and Exports, 1977-83

(In thousands of cubic meters)

	<u>Logs</u>		<u>Sawn Timber</u>		<u>Veneer</u>	
	Production	Exports	Production	Exports	Production	Exports
1977	259.0	237.6	8.2	1.9	0.4	0.3
1978	274.2	246.3	11.1	3.6	0.8	0.9
1979	298.8	257.9	17.0	9.0	1.1	1.1
1980	298.8	257.9	19.5	6.7	1.7	1.6
1981	364.5	315.2	19.9	7.3	1.2	1.2
1982	388.3	336.0	21.0	7.3	--	--
1983 (est.)	354.0	306.0	16.0	5.9	--	--

Sources: Statistics Office, Ministry of Finance, Statistical Bulletin; and data provided by the Solomon Islands authorities.

Total electricity generation increased steadily at an annual average rate of about 6 percent during the period 1977-81 (Appendix Table V). However, it rose by less than 2 percent in 1982, reflecting the sluggish economic activity and a 10 percent increase in electricity rates.

III. Population, Employment, Wages, and Prices

1. Population and employment

Total population is estimated at 241,283 in 1982, an increase of 3.5 percent over the 1981 level (Appendix Table VI). Forty-eight percent of total population is under 15 years old. Because of inter-island migration, population growth rates among the islands differ significantly. For instance, the annual average population growth rate in the capital, Honiara, is estimated at more than 7 percent during the period 1976-81, double the average population growth rate of the country. Some reverse migration from urban to rural areas, however, appeared to have taken place in 1982 because of the depressed economic activity in the urban area.

Total formal employment in 1982 declined by 1 percent to 21,647, after a 7 percent rise in the preceding year (Appendix Table VII). The decline was mainly due to bankruptcies of two construction companies, which reduced employment in the construction sector by 3 percent (Appendix Table VIII). This decline more than offset an increase in employment in the financial services sector due to a significant expansion of the banking system. In 1982, Central Government workers accounted for about 30 percent of total formal employment and those in the private sector, for about 50 percent. By geographical area, employment declined in the Honiara area where the two bankrupt construction companies were located. Employment increased in the western area due to increased timber production.

2. Wages and prices

In 1982, the Government entered into a three-year wage agreement with its established workers (i.e., permanent employees), under which wages are to increase by half of the increase in the Honiara retail price index, plus 1 to 3 percentage points. In line with this formula, nominal wages and salaries for established workers rose in 1982 by 9-12 percent, depending on the wage scale. However, wages and salaries of nonestablished workers and school teachers, who together account for about half of total government employees and who are not covered by the agreement, rose by 13-14 percent. Wage increases in the private sector, which broadly follow the Government's wage formula, were about 11 percent in 1982. In 1983, wages rose by about 8 percent for established workers, about 9 percent for nonestablished workers, and about 10 percent for teachers. In addition, special benefits and allowances were raised substantially for all public employees.

The rate of inflation as measured by the Honiara retail price index (the only available price index) decelerated from 16 percent in 1981 to 13 percent in 1982, mainly because a substantial decline in import prices of rice and sugar helped contain an increase in food prices (Table 6). Inflation moderated further during the first nine months of 1983, with the retail price index rising by 7 percent on an annual average basis over the corresponding period of the preceding year. Declines in prices of main local agricultural output and of some imported food items, including rice and sugar, contributed to the deceleration. The rate of inflation for the year as a whole is estimated at about 8 percent.

On May 1, 1983, the Government introduced price controls on 33 essential consumer goods, including milk, beef, fish, rice, and sugar, in the Honiara area. On June 1, the Government, however, switched from the direct price control to the application of markups, as the control had resulted in the withdrawal of some goods from the market because of insufficient profit margins. Under the new system, official approval for price increases is not required. Presently, the wholesale markups allowed are 6 percent on most locally produced goods and 9 percent on most imported items. Retail markups are 9 percent on local goods and 11 percent on imports. The wholesale and retail markup rates for butane gas are 6 percent and 15 percent, respectively. The effect of these measures on inflation has been insignificant, as controlled items account for a small portion of total consumption expenditure.

IV. Public Finance

1. Structure of the public sector

The public sector in Solomon Islands consists of the Central Government, eight provincial assemblies, including one representing the city of Honiara, and several public enterprises. ^{1/} There are no consolidated accounts of the public sector, but available data suggest that total public sector spending was equivalent to 35-40 percent of GDP in 1980-82. The Central Government accounts for roughly 90 percent of total public sector spending, but this percentage is expected to fall gradually as a result of the Government's commitment to the devolution of services and powers to the provinces.

^{1/} The nonfinancial public enterprises are: (i) Post and Telecommunications; (ii) Water Supply; (iii) the Broadcasting Authority; and (iv) the Electricity Authority. In addition, there are two Government departmental enterprises, the Marine Department and the Plant and Vehicles Department, and five statutory corporations: (i) Solomon Islands Tourist Authority; (ii) Honiara Port Authority; (iii) the Government Shareholding Agency; (iv) the Cattle Development Authority; and (v) the Copra Board.

Table 6. Solomon Islands: Retail Price Index by Commodity Group, 1980-83 1/(Fourth quarter 1977 = 100) 2/

Weights	Food 470	Drink and Tobacco 95	Clothing 50	Housing and Utilities 155	Transport 110	Miscel- laneous 120	Overall 1,000	Percent Annual Change in Overall Index
1980 (average)	(133.7)	(133.9)	(108.7)	(119.7)	(132.3)	(131.6)	(129.9)	(12.6)
March	124.3	140.1	108.1	115.1	124.0	128.4	124.0	11.2
June	129.9	192.7	107.9	116.8	131.7	132.2	127.4	11.7
September	143.7	127.6	110.1	124.1	137.3	134.8	135.7	16.7
December	145.7	140.6	111.2	124.8	144.2	135.1	138.8	15.9
1981 (average)	(159.8)	(162.4)	(116.0)	(130.7)	(157.5)	(143.8)	(151.2)	(16.4)
March	150.8	156.8	111.7	127.0	146.6	141.1	144.1	16.2
June	163.6	161.8	115.6	130.6	153.1	143.3	152.3	19.5
September	167.8	162.4	119.3	133.1	156.1	145.8	155.5	14.6
December	165.1	182.6	122.3	135.2	173.4	150.0	159.1	14.6
1982 (average)	(180.3)	(188.5)	(129.6)	(147.1)	(180.1)	(159.3)	(170.8)	(13.0)
March	175.0	182.2	124.6	143.2	170.1	155.8	165.4	14.8
June	180.8	188.1	130.9	146.4	176.8	158.2	170.5	12.0
September	185.4	191.3	132.0	149.6	187.1	161.7	175.1	12.6
December	180.7	193.6	137.8	152.2	188.9	166.4	174.5	9.7
1983 (average) <u>3/</u>	(190.3)	(190.8)	(139.3)	(157.0)	(192.4)	(172.7)	(180.8)	(7.1)
March	187.6	184.3	138.3	156.7	187.2	172.2	178.2	7.7
June	198.1	187.9	140.0	156.7	189.3	173.7	181.6	6.5
September	193.7	194.1	141.1	157.9	208.5	174.2	184.2	5.2

Source: Data provided by the Solomon Islands authorities.

1/ End of period.2/ Beginning in the fourth quarter of 1977, data refer to an updated weighting of the retail price index.3/ January-September period.

The Central Government's fiscal operations are recorded in two separate budgets. The recurrent budget is primarily funded by domestic tax and nontax revenues. The Government has aimed at balancing the recurrent budget, and between 1979 and 1982, the current deficit has been at most 0.4 percent of GDP. The development budget provides for capital projects and is financed largely by foreign grants and concessional loans. Domestic borrowing has covered the part of development expenditures not linked to grants or concessional loans.

The Government is committed, under the constitutional mandate, to transfer a wide range of powers and administrative responsibilities to provincial authorities, but these remain heavily dependent on funding from the Central Government. It is estimated that about 95 percent of provincial expenditures is financed by transfers from the Central Government. The provinces' main sources of revenue are business licenses and a head tax, but both generate only a small amount of resources because of the subsistence character of these regions.

2. Fiscal developments in 1982

Fiscal operations in 1982 were characterized by a balance in current operations and a substantial decline in capital expenditure and net lending. The overall budget deficit fell from SI\$17.6 million in 1981 (12.8 percent of GDP) to SI\$15.3 million in 1982 (9.6 percent) (Table 7).

Domestic revenue increased by 12 percent in 1982 (Appendix Table IX). The increase was wholly due to higher tax revenue. Import duties were raised substantially, yielding SI\$13.1 million in revenue from this source, which is an increase of 41 percent over 1981. Goods thus far free of duty were submitted to a 5-10 percent rate, while the import duties on beverages and tobacco were raised by a third and the duty on many fuel imports also increased. Revenue from export duties remained unchanged from the level of 1981, as the impact of increases in duty on timber was offset by the suspension of the duty on copra and a lower duty on frozen fish. Corporate profit tax revenue declined, following the slowdown in economic activity. Revenue from personal income tax benefited from a sizable collection of taxes in arrears. Tax legislation introduced in 1982 provided for a higher rate of taxation for companies incorporated abroad and a lower maximum rate of taxation on individuals. ^{1/}

In 1982, current expenditure rose by 11 percent (Appendix Table X). Wages and salaries increased by 22 percent, reflecting in part a change in the budgetary classification of wages and salaries of school teachers. Whereas school teachers' salaries had been counted as part

^{1/} For a detailed description of the new tax legislation see SM/82/203.

Table 7. Solomon Islands: Summary of Central Government Budget, 1981-83

	1981	1982	1983	
			Original Budget	Revised Est.
(In millions of Solomon Islands dollars)				
Domestic revenue	31.8	35.7	37.1	37.8
Tax revenue	24.2	29.4	31.0	30.9
Income tax	(9.6)	(10.8)	(11.1)	(11.1)
Tax on international trade	(13.4)	(17.2)	(18.2)	(18.1)
Import duties	[9.3]	[13.1]	[13.2]	[12.8]
Export duties	[4.1]	[4.1]	[5.0]	[5.3]
Other	(1.2)	(1.4)	(1.7)	(1.7)
Other revenue	7.6	6.3	6.1	6.9
Current expenditure	32.2	35.7	37.4	39.9
Wages	10.8	13.2	13.2	14.9
Other goods and services	13.0	12.2	13.0	15.1
Subsidies and current transfers	8.4	10.2	11.2	9.9
Current balance	-0.4	--	-0.3	-2.1
Capital expenditure and net lending	17.6	15.3	28.9	15.5
Overall balance	-18.0	-15.3	-29.2	-17.6
Grants	8.2	5.3	15.2	6.3
Foreign borrowing	3.2	5.0	10.6	6.7
Domestic financing	6.6	5.0	3.5	4.6
(Bank financing)	(3.1)	(3.5)	(1.5)	(2.1)
(In percent of GDP)				
Revenue	22.6	22.5	20.9	21.6
Current expenditure	22.9	22.5	21.1	22.8
Capital expenditure	12.5	9.6	16.3	8.9
Current balance	-0.3	--	-0.2	-1.2
Overall balance	-12.8	-9.6	-16.5	-10.1
Domestic financing	4.7	3.1	2.0	2.6
Domestic bank financing	2.3	2.2	0.8	1.2

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

of expenditure on other goods and services in 1981, they were included in wages and salaries in 1982. The decline in expenditure on goods and services in 1982 was partly due to this change in accounting practice, but spending on housing and other community services also declined (Appendix Table XI). Subsidies and current transfers rose by 21 percent to SI\$10.2 million. Major factors contributing to this increase were: an 18 percent increase in transfers to local governments and an increase of 30 percent in subsidies and transfers to public enterprises.

Current transfers to public enterprises have steadily increased since 1979. The deterioration in the profitability of public enterprises was particularly marked for the Marine Department, which accounted for about 60 percent of total transfers. The transfer to the Marine Department represents a subsidy to inter-island shipping in order to promote the attractiveness of outlying islands for agricultural production. Another 20 percent is accounted for by the Postal and Telephone service, while Water Supply and Broadcasting make up the balance. The Plant and Vehicles Department has been realizing a surplus for the past four years.

Capital expenditure and net lending together declined substantially in nominal terms from SI\$17.6 million in 1981 to SI\$15.3 million in 1982. While capital expenditure remained constant in nominal terms at SI\$10.8 million, net lending declined from SI\$6.8 million in 1981 to SI\$4.5 million. Both capital expenditure and net lending were even further below the level initially budgeted than in previous years. In 1982, the rate of implementation was 60 percent, compared with 88 percent in 1981. The shortage of skilled personnel, which became more acute following the dismantling of the Central Planning Office in mid-1981, contributed to delays in project identification and implementation. The decline in net lending principally reflected a net repayment by local governments of SI\$0.2 million in 1982, after such lending reached SI\$1.7 million in 1981.

In 1982, the composition of capital expenditure shifted slightly. Spending on housing and other community services declined, but spending on roads and on transport and communication increased (Appendix Table XII). The Government obtained a loan from the IBRD in support of primary education, but no expenditure was made on this project in 1982. As a result, expenditure on education remained unchanged from the level of 1981.

In the first few years after its independence, Solomon Islands received foreign aid in advance of any capital spending. From 1982, most aid has been disbursed by aid donors after domestic expenditure has been made, based on detailed documentation on the project's cost and viability. Since then, there have been administrative delays in providing the required data and cost analysis, and this has

contributed to an increased lag in the disbursement of aid and to a rise in net credit to the Government from the domestic banking system.

In 1982, the overall budget deficit was financed in equal parts by grants, foreign borrowing and domestic borrowing. As a proportion of total financing, grants fell from 46 percent in 1981 to 35 percent in 1982, while at the same time, foreign concessional borrowing increased. Domestic borrowing accounted for about the same proportion of the deficit financing as in 1981; nonbanking institutions provided less (Appendix Table XIII) but the Government's recourse to the banking system was greater than in 1981.

3. Budgetary operations in 1983

The overall budget deficit in 1983 is estimated at SI\$17.6 million (10.1 percent of GDP), compared with the deficit of SI\$15.3 million (9.6 percent) in 1982. Current operations have resulted in a deficit because of an overrun in current expenditure. Capital expenditure and net lending remained virtually unchanged from the low level of 1982.

The 1983 budget provided for a moderate rise in revenue, mainly based on increased tax revenue. Actual revenue collections have been broadly in line with the budget forecast and are estimated to have increased by 6 percent. Import duty receipts are estimated to have declined somewhat in 1983 (Chart 1), reflecting the exemption of duty on imports of capital goods which constitute essential components of new capital projects. In addition, the import duty on certain types of fuel was changed from an ad valorem tax to a specific tax per liter of fuel imported. Revenue from export duties, on the other hand, was higher than initially budgeted, reflecting the general upswing in exports and the reimposition of the export duty on copra, effective September 1, 1983. ^{1/} Based on the world market prices through October, it is expected to yield revenue of about SI\$0.5 million this year.

Income tax revenue for 1983 is expected to reach SI\$11.1 million, corresponding to the budget forecast. The composition of income tax receipts, however, is different from the original budget. Personal income tax collection is expected to be substantially lower than the budget forecast and virtually unchanged from the 1982 level. Two factors account for this development. First, Okinawa fishermen had overpaid their income taxes in 1982, and this overpayment was adjusted against their tax liabilities in 1983. Second, there has been a change in the tax assessment of Australian aid personnel, who were fully taxed in 1982. In 1983, their income was exempt from tax, and their 1982 tax

^{1/} When suspended in 1982, the duty was 20 percent on the amount exceeding a f.o.b. price of SI\$180. It is now 15 percent on the amount exceeding a f.o.b. price of SI\$300.

payments were refunded; the loss in revenue from this change is estimated at SI\$0.2 million. The shortfall in personal income tax revenue, however, is expected to be offset by increased revenue from corporate income tax, which is expected to rise by 9 percent to SI\$4.6 million, reflecting some pick-up in the economy and the increase in the profitability of some enterprises.

Nontax revenue is expected to rise by 8 percent to SI\$6.9 million in 1983 due largely to an increase in receipts from government stores. Property income, consisting mainly of the rent collected from government housing, declined because of the smaller number of government-owned houses.

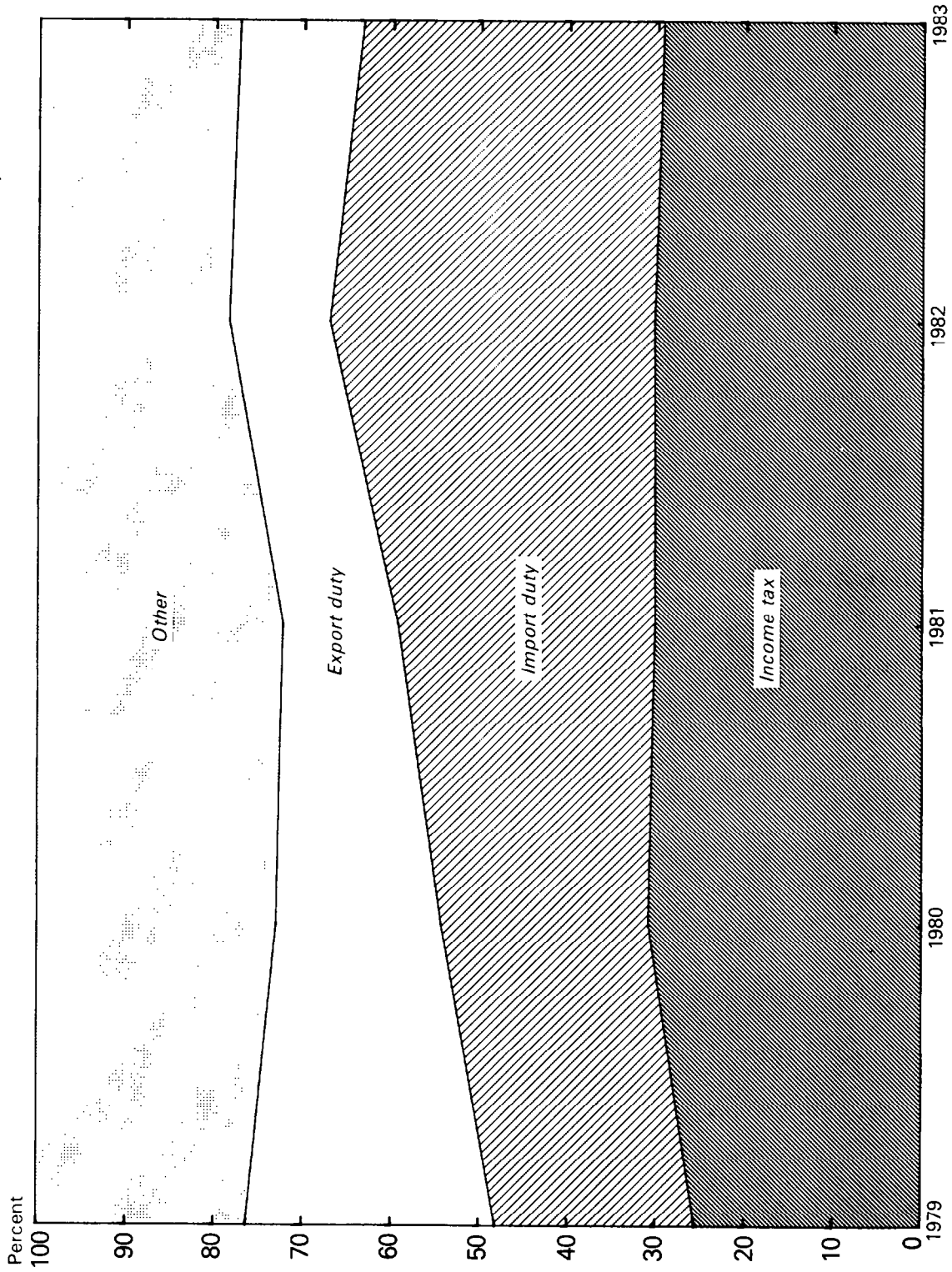
In 1983, current expenditure has exceeded the budget estimate and is estimated to have reached SI\$39.9 million, an increase of 12 percent over 1982. Wage and salary payments rose by 13 percent. Under the wage agreement covering the period 1982-84, wages and salaries of established workers rose by 8 percent. Salaries of nonestablished workers increased by 9 percent and those of teachers by 10 percent. In addition, fringe benefits and allowances, not covered by the wage agreement, also increased substantially in 1983.

Expenditures on goods and services are estimated to have increased by 22 percent in 1983. Major factors contributing to this increase were an increase in contributions to the National Provident Fund from SI\$1.8 million in 1982 to an estimated SI\$2.4 million in 1983 and in interest payments from SI\$0.9 million in 1982 to SI\$1.4 million in 1983. The latter mostly reflects the interest payments on a US\$20 million Eurodollar loan on which the final drawing was made in 1983. Other purchases of goods and services increased from SI\$9.5 million in 1982 to SI\$11.3 million in 1983, representing a rise in general government administration expenditures.

Expenditure on subsidies and current transfers is expected to decline slightly in 1983. This reflects mainly an improvement in the financial condition of some public enterprises. Current transfers to public enterprises are expected to fall from SI\$2.7 million in 1982 to SI\$1.5 million in 1983, with both the Marine Department and the Telephone and Postal services reducing their current deficit considerably. Transfers to local governments are forecast to increase by 11 percent over 1982.

Capital expenditure and net lending is forecast to rise by 1.3 percent, implying a significant decline in real terms. Capital expenditure remained virtually constant in nominal terms. As in the previous year, the shortage of skilled manpower for project identification and execution contributed to this stagnation. Expenditure on education, however, increased substantially in 1983, with the starting of the IBRD project on primary education which was approved in 1982

CHART 1
SOLOMON ISLANDS
STRUCTURE OF GOVERNMENT DOMESTIC BUDGET REVENUE, 1979-83



Source: Data provided by Solomon Islands authorities and staff estimates.

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but for which disbursement only took place in 1983. Spending on housing and other community services, on the other hand, declined considerably, reflecting the halting of the Lungga hydroelectric project, for which extensive construction of staff housing took place in 1981-82. Net lending is expected to increase slightly from SI\$4.5 million in 1982 to SI\$4.8 million in 1983. This is due largely to increased lending to the Government Shareholding Agency and to the Development Bank of Solomon Islands. No lending to local governments is expected to take place.

In 1983, the Government has taken some measures to improve the rate of implementation of capital projects and to speed external aid inflows. Early in the year, the Central Planning Office was restored to coordinate and monitor project implementation. Recently, the Government has reached agreements with several multilateral aid donors on the establishment of revolving funds in the Central Bank. Aid donors will hold an account with the Central Bank, from which the Government could draw at the time when it incurred expenditure for a funded project. Thus, the revolving accounts will in effect provide a bridging loan to the Government until the Government completes the submission of necessary documentation to aid donors.

Foreign grants are expected to finance about one third of the overall budget deficit in 1983, as they did in 1982. Since 1980, however, grants have been falling as a proportion of the deficit financing, reflecting a switch by the donors to concessional loans (Appendix Table XIV and Chart 2). In 1983, this trend is halted because of the receipt of SI\$1.2 million from the EEC STABEX fund for losses incurred on copra exports during 1981. Foreign concessional loans are expected to cover nearly 40 percent of the overall budget deficit. Domestic borrowing is expected to finance 26 percent of the deficit in 1983, down from 33 percent in 1982. Nearly half of the domestic borrowing came from the banking system. Recourse to domestic bank financing was substantially lower in 1983, compared with 1982, but remained considerably higher than had been provided for in the budget, due mainly to the overrun in current expenditure and delays in external aid inflows.

V. Money and Credit Developments

1. Financial institutions

The financial system of Solomon Islands comprises the Central Bank of Solomon Islands (CBSI), three commercial banks, and two nonbank financial institutions--the Development Bank of Solomon Islands (DBSI) and the National Provident Fund (NPF). ^{1/} The three commercial banks

^{1/} The institutional structure of the financial system was described in the Recent Economic Developments report (SM/82/203, 10/12/82).

play a dominant role in financial intermediation of the economy. In recent years, their operations have rapidly expanded, and they provide more than 60 percent of total domestic credit, including credit extended by nonbank financial institutions. Most of their loans are directed toward agriculture, fishing, forestry, and the Government (Appendix Table XV). The DBSI provides concessional loans for development projects in all sectors, including agriculture, forestry, livestock, and shipping. The NPF provides loans mainly to the Central Government and the statutory corporations.

2. Monetary and credit developments in 1982-83

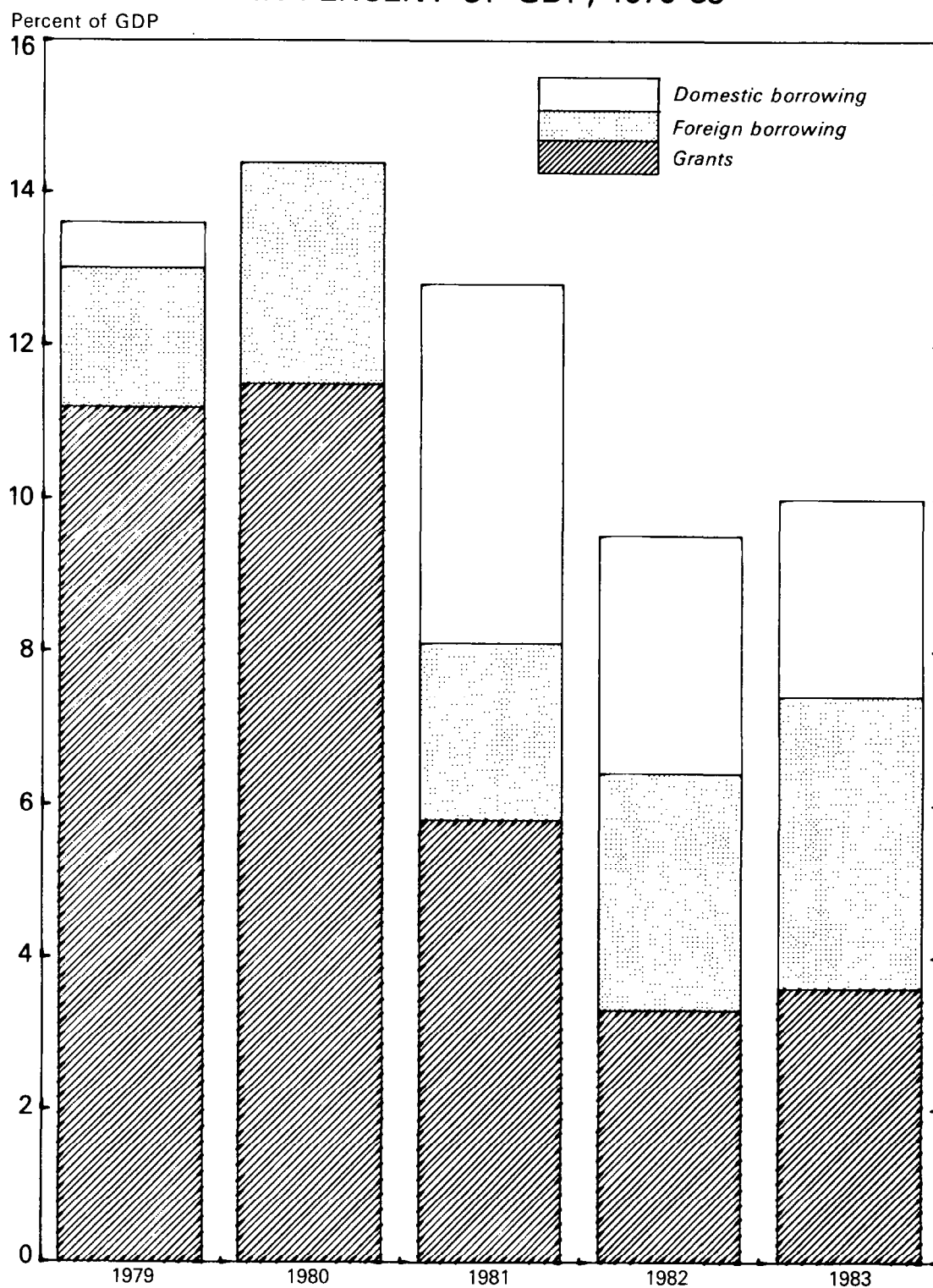
Following a substantial contraction in 1980-81, growth of liquidity accelerated sharply in 1982. On a year-end to year-end basis, broad money increased by about 23 percent in 1982 after a decline of 14 percent in 1981 (Table 8). The acceleration in liquidity expansion in 1982 was associated with a sharp turnaround in the balance of payments position and an expansion of domestic credit by the banking system (Appendix Table XVI and Chart 3). In 1982, total domestic credit rose by about 19 percent of broad money outstanding at the end of 1981. The credit expansion was mainly due to an expansion of net credit to the Government, which rose by about 11 percent of the stock of broad money. As a result, the Government's position with the domestic banking system shifted from a net depositor status to one of a net borrower for the first time. Credit to statutory corporations was virtually unchanged and that to the private sector increased by only 5 percent, reflecting the sluggish economy.

In the first nine months of 1983, total liquidity increased by 10 percent, compared with a rise of about 16 percent a year earlier. The expansion of broad money resulted entirely from domestic credit expansion of 14 percent; net foreign assets were virtually unchanged during the period. Net credit to the Government increased about four times and credit to the statutory corporations by about 22 percent, while credit to the private sector declined marginally in the face of the continued sluggishness in the economy during most of this period. The large increase in net credit to the Government was related to an overrun in current expenditure and to delays in external aid inflows. The Government's borrowing from the banking system, however, did not appear to have crowded out the private sector credit demand.

3. Monetary policy developments in 1982-83

In 1982, the authorities continued their efforts to increase mobilization of financial resources and improve their allocation. Interest rates on time deposits of less than SI\$25,000 were raised by 0.5 to 0.75 percentage point and those on development bonds by 1 percentage point at mid-1982 (Appendix Table XVII). In addition, the denomination of development bonds was reduced from SI\$500 to SI\$100 per

CHART 2
SOLOMON ISLANDS
FINANCING OF THE OVERALL BUDGET DEFICIT
IN PERCENT OF GDP, 1979-83



Source: Data provided by Solomon Islands authorities and staff estimates.

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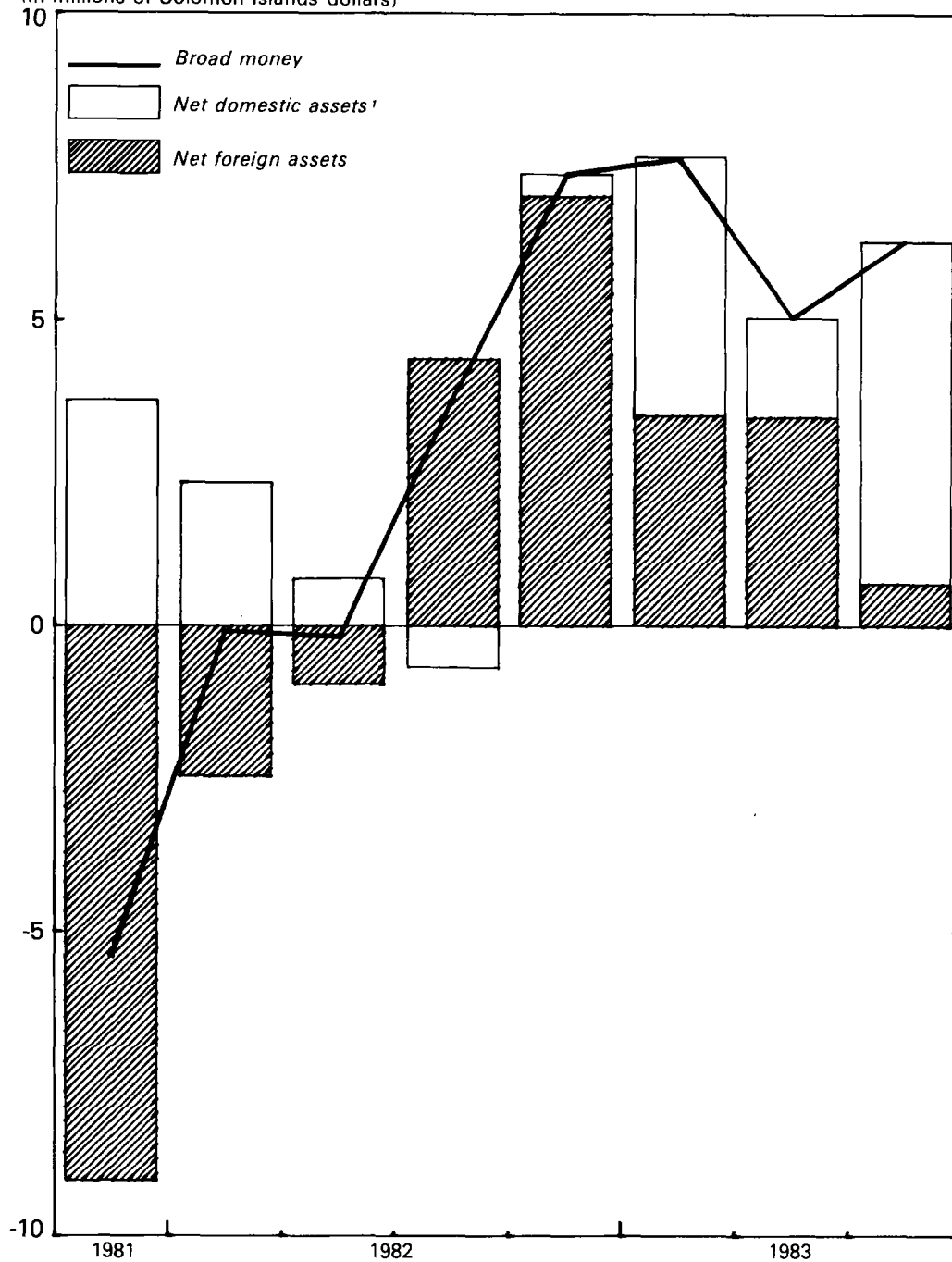
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CHART 3
SOLOMON ISLANDS
FACTORS AFFECTING MONEY SUPPLY, 1981-83

(Changes in stock over 12 months)

(In millions of Solomon Islands dollars)



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

¹Includes other items, net.



Table 8. Solomon Islands: Summary of Monetary Survey, 1980-83 ^{1/}

	1980 Dec.	1981 Dec.	1982				1983		
			Mar.	June	Sept.	Dec.	Mar.	June	Sept. Prov.
(In millions of Solomon Islands dollars)									
Net foreign assets	23.3	14.2	15.9	14.8	20.2	21.3	19.4	18.2	20.9
Domestic credit	<u>16.8</u>	<u>24.6</u>	<u>25.4</u>	<u>27.9</u>	<u>27.3</u>	<u>29.3</u>	<u>32.8</u>	<u>33.2</u>	<u>33.4</u>
Government (net)	-5.7	-2.6	-1.1	-0.3	1.1	0.9	2.1	2.5	3.9
Statutory corporations	5.2	5.8	5.0	6.0	6.2	6.0	5.4	6.7	7.3
Private sector	17.3	21.4	21.5	22.2	20.0	22.4	25.3	24.0	22.2
Broad money	<u>38.2</u>	<u>32.8</u>	<u>34.1</u>	<u>35.6</u>	<u>37.9</u>	<u>40.2</u>	<u>44.7</u>	<u>40.7</u>	<u>44.2</u>
Narrow money	<u>15.6</u>	<u>15.5</u>	<u>15.1</u>	<u>14.8</u>	<u>15.2</u>	<u>16.7</u>	<u>14.9</u>	<u>16.0</u>	<u>17.4</u>
Quasi-money	22.6	17.3	19.0	20.8	22.7	23.5	26.8	24.7	26.8
Other items (net)	1.9	6.0	7.2	7.1	9.6	10.4	10.5	10.7	10.1
(Annual percentage change in relation to broad money) ^{2/}									
Domestic credit	...	20.5	19.9	8.4	7.6	14.5	21.9	14.9	16.0
Government	(...)	(8.2)	(9.2)	(2.5)	(5.4)	(10.7)	(9.4)	(7.7)	(7.4)
Statutory corporations	(...)	(1.7)	(-1.4)	(1.4)	(2.1)	(0.5)	(1.1)	(2.0)	(2.8)
Private sector	(...)	(10.6)	(12.1)	(4.5)	(0.1)	(3.3)	(11.4)	(5.2)	(5.8)
(Annual percentage change)									
Domestic credit	...	46.6	36.5	12.1	10.5	19.3	29.1	19.0	22.3
Government	...	...	...	...	...	...	...	...	254.5
Statutory corporations	...	12.2	-9.6	8.8	13.0	3.1	8.0	11.7	17.7
Private sector	...	23.4	23.8	7.8	0.2	5.0	17.7	8.1	11.0
Broad money	...	-14.1	-0.3	-0.5	10.9	22.5	22.3	14.2	16.6

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

^{1/} Monetary statistics for December 1980-June 1983 were revised. Data before December 1980 are not comparable to those shown in this table.

^{2/} In terms of broad money outstanding at end of previous period.

unit to encourage subscription by individuals. Bank lending rates on overdrafts were also raised by 2 to 2.5 percentage points. Despite these adjustments, interest rates, however, remained negative in real terms (Chart 4).

On January 22, 1983, the Solomon Islands Monetary Authority (SIMA) was transformed into the Central Bank of Solomon Islands (CBSI). This empowered the CBSI, with the approval of the Minister of Finance, to prescribe interest rates on bank deposits and advances, and to provide a refinancing facility to support bank lending to priority sectors.

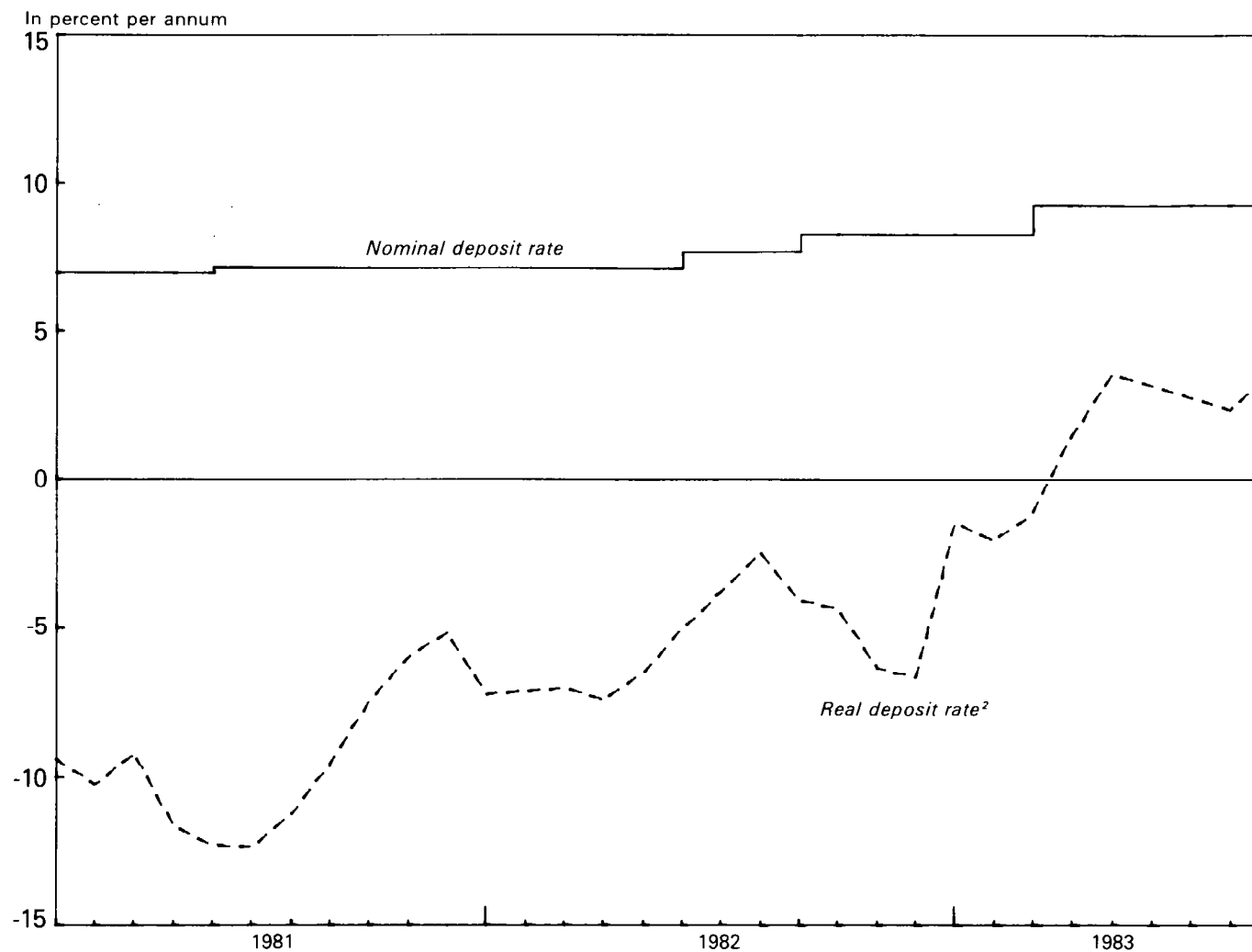
With a view to increasing domestic financial savings, the CBSI raised interest rates further in March-April 1983. The interest rate on Treasury bills was raised by 2 percentage points to 9 percent per year, while reducing the minimum denomination from SI\$10,000 to SI\$1,500. In addition, interest rates on time deposits of less than SI\$25,000 were raised by 1.00 to 1.25 percentage points ^{1/} and those on passbook savings deposits, which can be withdrawn without prior notice, by 0.5 percentage point. Passbook savings deposits in excess of SI\$300, which can be withdrawn subject to prior notice, were introduced and interest rates on them were set at 7 to 10 percent per year. Furthermore, bank lending rates on overdrafts were raised by 0.5 percentage point. These measures, combined with a deceleration in the rate of inflation, have allowed key interest rates to remain positive in real terms since March 1983. There has yet been no clear sign indicating the impact of interest rate adjustments on the growth of financial savings (Appendix Table XVIII).

Other policy measures undertaken in 1983 include the introduction of a refinancing facility to support commercial bank loans to priority sectors. Commercial banks had faced increased pressure on their liquidity positions in the first half of the year as the profit squeeze on enterprises led to a reduction in deposits. Under this facility, the CBSI's funding of the commercial banks rose by more than SI\$2 million during the first seven months of 1983. However, as the liquidity position of banks improved during the third quarter, partly due to an improvement in profitability of enterprises, the use of the facility fell substantially. In May, in order to improve its monetary management, the CBSI introduced a 15 percent liquidity ratio ^{2/} requirement for commercial banks in place of a 5 percent reserve requirement. A recent increase

^{1/} Interest rates on deposits in excess of SI\$25,000, most of which belong to the NPF and to a relatively small number of companies, are negotiable. At present, the rates range from 11.25 to 11.50 percent.

^{2/} A ratio of liquid assets to total liabilities. Liquid assets are defined to include currency, domestic interbank assets, foreign assets, government securities, and deposits with the CBSI. Total liabilities are domestic liabilities (mostly deposits held by the public), domestic interbank liabilities, and foreign liabilities.

CHART 4
SOLOMON ISLANDS
NOMINAL AND REAL INTEREST RATES¹, 1981-83



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

¹Interest rates on 1-year term deposits of less than S\$25,000. Those on the deposits in excess of S\$25,000 are negotiable, and usually higher.

²Defined as the nominal rates minus the rate of inflation based on the Honiara retail price index.



in the commercial banks' reserves at the CBSI was partly associated with this change (Appendix Table XIX). The Government also recently introduced a small loans guarantee scheme to expand bank lending to small investors for rural development. Under the scheme, the Government provides a repayment guarantee of up to 80 percent on loans of SI\$25,000 or less, or on loans of up to SI\$50,000 with the prior approval in writing of the CBSI.

4. Nonbank financial institutions

Total loans extended by the DBSI to the private sector and statutory corporations increased by about 24 percent to SI\$8.9 million in 1982 (Appendix Table XX). The lending of the DBSI continued to be principally directed toward the agricultural sector, with the value of loans approved for agricultural projects accounting for 47 percent of total loan approvals of SI\$3.4 million (Appendix Table XXI). The commerce and trade and the service sectors accounted for about 32 percent of the value of total loan approvals. The value of loan approvals for the industrial sector, which accounts for the balance of the DBSI lending, declined substantially. During the first half of 1983, the amount of loan approvals for the industrial sector further declined to about 10 percent of the level a year earlier. While loans were almost equally distributed between urban and rural areas in 1982, they were directed more toward rural development during the first half of 1983.

In 1982, most of the new DBSI loans were used to finance small-scale projects of less than SI\$5,000, and such loans accounted for about 95 percent of the total. Virtually all loans were made to Solomon Islands individuals. Financial resources were made available to the DBSI by the Government Shareholding Agency, the NPF, the Asian Development Bank, the European Development Bank, or through equity participation by Australia and New Zealand through respective bilateral aid.

In the past, the DBSI has experienced difficulties in collecting loan repayments. The situation, however, improved in 1982, with the amount of arrears declining from 15 percent of loans outstanding in 1981 to 11 percent in 1982. In order to effect a further improvement in this area, the Government appointed a lawyer to the DBSI's staff and established an Arrears Division.

Loans from the NPF, which has been steadily running large operating surpluses in recent years, have become an important financial source for the Government, statutory corporations, and the DBSI. ^{1/} Most of the nonbank domestic borrowing by the Government has been from the NPF, and a large portion of Treasury bills and development bonds

^{1/} Apart from two old loans, which are being repaid, the NPF has not invested in private enterprises.

outstanding is held by the NPF. During the year ended June 1982, the NPF's outstanding loans increased by almost 50 percent, mainly as a result of a sharp increase in direct loans to the Government, which more than tripled during the period (Appendix Tables XXII and XXIII). At the same time, the NPF's cash and deposits at commercial banks rose by 40 percent during the same period. The relatively large increase in loans to the Government reflected a lack of alternative investment in the economy. ^{1/} During the year ended June 1983, loans outstanding rose by about 75 percent, mainly due to an expansion of loans to the Government. Cash and deposits at commercial banks increased by only 7 percent. Direct loans to the Government more than doubled to SI\$5.2 million and holdings of government development bonds nearly doubled to SI\$1.8 million at the end of June 1983.

These developments underlined a substantial shift in the NPF's portfolio from deposit holdings at commercial banks to loans to the Government during the two-year period ended June 1983, with a share of cash and deposits with commercial banks declining from 55 percent of total assets to 40 percent. In the first quarter of 1983, the NPF invested in government development bonds totaling SI\$0.5 million, and Treasury bills totaling SI\$0.25 million, and made direct loans of SI\$1 million to the Government.

In the year ended June 1982, total contributions to the NPF rose by SI\$1.2 million to SI\$4.5 million, while benefit payments increased by SI\$0.3 million to SI\$0.9 million. A rise in the number of contributors, general increases in wages and salaries, and an increase in the rate of contributions from 10 percent to 12.5 percent ^{2/} in 1982 helped increase the contribution receipts. In the year ended June 1983, total contributions increased to SI\$5.8 million, while benefit payments rose to SI\$1.2 million. The rise in the contribution receipts was due mainly to an increase in wages and salaries and the number of contributions.

VI. External Developments

1. Overall developments

The external position improved sharply in 1982 as the severe recession reduced demand for imports, especially of investment goods. The volume of imports dropped by 18 percent while export volumes

^{1/} The NPF is not allowed to invest in foreign assets. There are no statutory requirements for the NPF to invest in specific priority sectors or in government securities.

^{2/} Under the current arrangement, employees contribute 5 percent of gross income and employers add an additional 7.5 percent of the employees' gross income.

declined by about 5 percent (Chart 5). The trade deficit narrowed significantly and, together with a smaller deficit on the services account, led to a substantial reduction in the current account deficit, from SDR 37.4 million in 1981 (27.2 percent of GDP) to SDR 19.8 million (13.4 percent) (Table 9 and Appendix Table XXIV). Official grants from overseas declined markedly in 1982, reflecting delays in project implementation and also a shift by donors from grants to concessional loans. Net inflows of nonmonetary capital were, however, significantly larger than in 1981. Private sector borrowing from abroad rose substantially, largely because of a short-term credit of almost SDR 2 million to the fishing company. The overall balance swung from a deficit of SDR 8.9 million in 1981 to a surplus of SDR 4.6 million in 1982.

In 1983, the current account improvement of 1982 has been maintained. Export volumes picked up largely because of a 50 percent increase in the fish catch. Export prices of some major commodities have also increased, while import prices declined in SDR terms. The resulting improvement in the terms of trade is the first since 1979. Reflecting these factors, the trade balance is estimated to have moved into a surplus. This improvement has been partially offset by a widening in the deficit on the services account. The current account deficit is estimated to have narrowed slightly in SDR terms to SDR 19.4 million and to have widened marginally in relation to GDP (13.6 percent). Inflows of official grants and of nonmonetary capital are forecast to be broadly the same as in 1982, leading to an estimated surplus on the overall balance of payments of SDR 1.9 million.

2. Merchandise trade

a. 1982

Export earnings fell by 6 percent, as a sharp drop in fish exports contributed to a 5 percent decline in the volume of exports (Table 10). A combination of weak external demand, which depressed prices for fish, and a poor fish catch led the fishing companies to cut short the season, and export earnings from this commodity halved in 1982. Timber exports, on the other hand, rose substantially as both prices and production increased. Export volumes of copra and palm oil increased, but lower world market prices led to a decline in export earnings for both commodities. Receipts from cocoa and other exports were little changed from 1981. Overall, export unit values in SDR terms declined by just over 1 percent, after a drop of almost 10 percent in 1981.

Solomon Islands continued to have a very narrow export base, with four main commodities (timber, fish, copra, and palm oil) accounting for just over 90 percent of total export earnings in 1982. Of these four, timber and fish exports together earned SDR 34.7 million, equivalent to two thirds of total exports, while copra and palm oil accounted for a further 14 percent and 12 percent of export earnings, respectively.

Table 9. Solomon Islands: Balance of Payments, 1980-83

(In millions of SDRs)

	1980	1981	1982	1983 Est.
Trade balance	-0.6	-8.2	-0.8	2.0
Exports, f.o.b.	56.3	56.2	52.7	56.6
Imports, f.o.b.	-56.9	-64.4	-53.5	-54.6
Oil	(-9.1)	(-14.8)	(-13.4)	(-13.9)
Investment	(-31.7)	(-30.6)	(-21.2)	(-22.8)
Other	(-16.1)	(-19.0)	(-18.9)	(-17.9)
Services (net)	-24.0	-24.3	-14.9	-18.5
Receipts	9.0	11.0	16.5	13.4
Payments	-33.0	-35.3	-31.4	-31.9
Private transfers (net)	0.6 ^{1/}	-4.9	-4.1	-2.9
Current account balance	-24.0	-37.4	-19.8	-19.4
Official transfers (net) ^{2/}	14.7	14.8	10.7	10.8
Of which: cash	(12.7)	(8.0)	(4.9)	(5.1)
Nonmonetary capital (net)	2.4	5.8	10.8	10.4
Official (net)	3.1	3.3	4.7	5.5
Private (net) ^{2/}	-0.7	2.4	6.1	4.9
Allocation of SDRs	0.2	0.2	--	--
Errors and omissions ^{3/}	1.5	7.7	2.9	0.1
Overall balance	-5.2	-8.9	4.6	1.9
Monetary movements	5.2	8.9	-4.6	-1.9
Monetary authorities (net) ^{4/}	4.7	8.5	-5.1	-1.3
Assets, increase (-)	(4.9)	(3.6)	(-15.2)	(-7.5)
Liabilities	(-0.2)	(4.9)	(10.1)	(6.2)
Of which: IMF	(--)	(0.8)	(1.6)	(1.0)
Commercial banks	0.5	0.4	0.5	-0.6
Memorandum items:				
Gross international reserves				
(In millions of SDRs)	22.2	18.5	33.7	41.2
(In months of imports of goods and services)	(2.7)	(2.6)	(4.7)	(5.0)
Current account balance (as percent of GDP)	-21.9	-27.2	-13.4	-13.6
SI\$ per SDR (period average)	1.00	1.025	1.072	1.227

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

^{1/} Gross receipts.

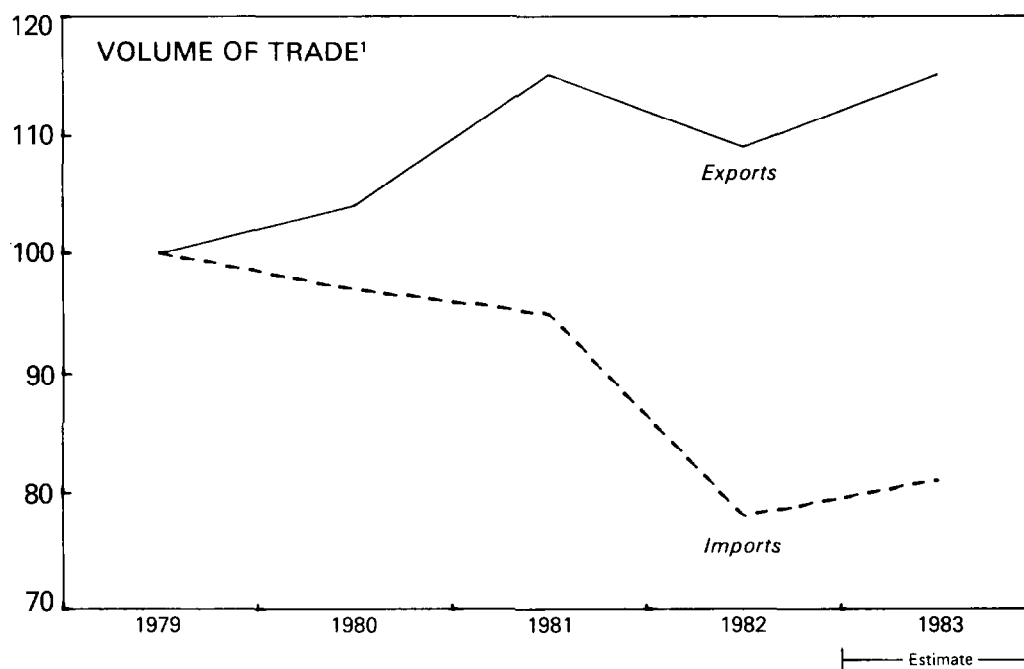
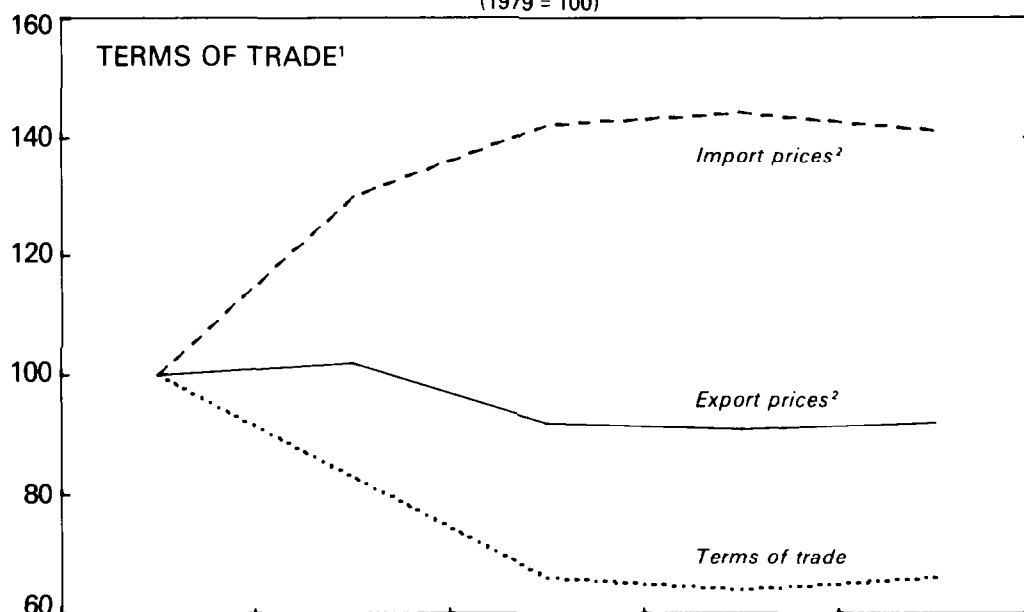
^{2/} Includes special short-term credits to the fishing company of SDR 1.9 million in 1982 and SDR 1 million in 1983.

^{3/} Includes valuation adjustment.

^{4/} Includes central government.

CHART 5
SOLOMON ISLANDS
FOREIGN TRADE INDICES, 1979-83

(1979 = 100)



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

¹Staff estimates

²In terms of SDRs

Table 10. Solomon Islands: Value, Volume, and Unit Value of Major Exports, 1980-83

	1980	1981	1982	1983 Est.
Fish, fresh and frozen				
Value (SDR mn.)	18.3	18.5	9.2	15.5
Volume ('000 m.t.)	21.6	23.7	15.3	23.0
Unit value (SDR/m.t.)	847	779	600	675
Fish, canned and smoked				
Value (SDR mn.)	3.2	2.8	3.8	4.5
Volume ('000 m.t.)	1.0	0.8	1.2	1.3
Unit value (SDR/m.t.)	3,305	3,519	3,145	3,450
Cocoa beans				
Value (SDR mn.)	0.6	0.9	0.8	1.1
Volume ('000 m.t.)	0.4	0.6	0.6	0.9
Unit value (SDR/m.t.)	1,616	1,480	1,400	1,200
Copra				
Value (SDR mn.)	9.7	7.9	7.6	9.8
Volume ('000 m.t.)	31.7	31.8	33.9	27.0
Unit value (SDR/m.t.)	307	248	225	365
Timber, logs				
Value (SDR millions)	13.8	14.3	20.4	14.2
Volume ('000 cu.m.)	258	315	336	306
Unit value (SDR/cu.m.)	54	46	61	46
Timber, sawn				
Value (SDR mn.)	1.0	1.3	1.3	0.9
Volume ('000 m.t.)	7.0	7.0	6.8	5.5
Unit value (SDR/m.t.)	143	187	200	165
Palm oil				
Value (SDR mn.)	5.4	6.9	6.3	8.1
Volume ('000 m.t.)	13.7	16.9	18.6	19.6
Unit value (SDR/m.t.)	394	408	340	415
Other exports				
Value (SDR mn.)	4.3	3.5	3.3	2.5

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

Imports fell by almost 17 percent in value, and by 18 percent in volume terms. Recession, together with the depreciation of the Solomon Islands dollar, reduced the demand for foreign goods in every major category except food, imports of which rose by 16 percent in SDR terms (Appendix Table XXV). Imports of investment goods were particularly depressed, reflecting both weak private sector activity and a reduction in foreign aid inflows for government capital projects. Investment goods imports declined by about 30 percent overall to SDR 21.2 million. Oil imports declined by about 10 percent in 1982, reflecting in part the decline in fishing operations.

The composition of imports shifted in 1982 as investment goods slipped from about 48 percent of total imports to about 40 percent. This was partly matched by a rise in imports of food, beverages, and miscellaneous items from 15 percent to 20 percent of the total. Oil imports have become much more important since the beginning of the decade and accounted for about a quarter of total import payments in 1981 and 1982. The timber and fishing industries are the two major consumers of fuel in Solomon Islands.

b. 1983

Exports have increased in both price and volume terms with the improvement coming in the second half of the year. Overall, export volumes are estimated to have risen by about 6 percent, while export prices in SDR terms increased by about 1.5 percent. With the return of warm ocean temperatures and a normal fishing season, exports of fresh and frozen fish are estimated at SDR 15.5 million, a rise of almost 70 percent from 1982. Timber exports, however, are now expected to be somewhat lower in volume terms than in 1982. In addition, prices for Solomon Islands timber have fallen significantly. A boom in world prices of vegetable oils in the middle of the year has led to a rapid increase in export prices for copra and palm oil which has more than offset the effect on export earnings of an estimated 20 percent drop in the volume of copra exports.

Import payments are also estimated to have risen, although by less than the rise in exports. Import prices in 1983 have declined slightly in SDR terms, but this price impact has been more than offset by a rise in the second half of the year in import volumes, particularly of investment goods. Overall, capital goods imports are expected to rise by almost 10 percent in volume terms and about 8 percent in value. Private investment rose in the logging industry where production picked up after the middle of the year, following a fall in output in the first half. The increase in investment goods imports in 1983 also reflects the import of two ships (SDR 1.5 million) provided by the Japanese Government under its aid program. Fuel imports are estimated to have risen by about 4 percent in value (Appendix Table XXVI). Food imports have declined during 1983 as a result of increased substitution of domestic rice for imports.

c. Direction of trade

Japan is Solomon Islands' biggest export market and in 1982 it absorbed almost 60 percent of total exports, compared with less than 30 percent in 1980 (Appendix Table XXVII). In the first six months of 1983, the proportion of exports to Japan fell slightly as the U.S. market for imported fish began to open up again. In 1982, exports to the United States accounted for less than 1 percent of the total compared with more than 20 percent in 1980-81. In the first half of 1983, 7.7 percent of Solomon Islands' exports went to the United States and other countries in North and South America. Most of this would have been accounted for by the United States. The United Kingdom is the next largest market for Solomon Islands (14.4 percent in 1982 and 12.5 percent in the first half of 1983).

Australia is the single largest source of imports (34 percent in 1982 and 38 percent in the first half of 1983) (Appendix Table XXVIII). Singapore, which supplies oil products to Solomon Islands, provided somewhat less than 20 percent of total imports in 1982 and the first half of 1983. Japan was the next largest supplier (14 percent and 15.8 percent). The United Kingdom was also a major source of imports in the past, but its share in total imports has dropped sharply in the years since independence. In 1982, only 4.4 percent of imports came from the United Kingdom and this declined further to 2.7 percent, in the first six months of 1983.

3. Services and transfers

The deficit on the services account narrowed considerably in 1982 from SDR 24.3 million to SDR 14.9 million. This reflected both a rise in receipts and a slight decline in service payments from the levels of 1980 and 1981. Service receipts rose partly because of higher interest earnings on official reserves, which almost doubled during 1982. Major service payments include freight and insurance costs, accounting for about 20 percent of total imports; fees for chartering fishing boats from Okinawa; and payments of interest and repatriation of profits and dividends. The decline in imports in 1982 cut the costs of insurance and freight, while the shortened fishing season reduced the charter fee for the fishing fleet. The net outflow of private transfers, the main component of which is overseas remittances by expatriate workers, decreased slightly in 1982.

In 1983, the services deficit is expected to widen again. Service payments are estimated to have increased slightly as imports have recovered, increasing the costs of insurance and freight; the charter fee for the fishing fleet has risen; and remittances of profits and dividends and interest payments on private debt have increased. In

addition, service receipts are estimated to have declined. ^{1/} Lower international interest rates have also reduced interest earnings on Solomon Islands' holdings of official reserves. The net outflow from private transfers is estimated to have declined slightly in 1983. Workers' remittances are believed to have fallen somewhat, partly reflecting a decline in the number of expatriates being employed.

4. Official transfers, capital movements, and reserves

In 1982, the bulk of the current account deficit was financed by inflows of grants and concessional loans, although these were lower than in the previous year. Official transfers fell from SDR 14.8 million in 1981 (11 percent of GDP) to SDR 10.7 million in 1982 (7 percent). This was partially offset by a rise of SDR 1.4 million in government borrowing from overseas, reflecting a shift in the composition of aid flows from grants to concessional loans. Private capital inflows also increased sharply, contributing to an overall surplus on the balance of payments of SDR 4.6 million. A rise in private sector borrowing from overseas, partly reflecting a short-term credit for the fishing company, accounted for most of the rise in private capital flows. There was also a slight increase in direct investment, which had fallen sharply in 1981. Gross international reserves rose substantially during the year to SDR 34 million, as a result of both the overall surplus and a further drawing of US\$10 million on the Eurocurrency loan.

In 1983, inflows of official grants and nonmonetary capital are again expected to be larger than the external current account deficit. However, despite efforts to increase external aid receipts, official transfers are expected to remain almost unchanged in 1983 at SDR 10.8 million, including a grant of about SDR 1 million from the STABEX fund of the European Economic Community in respect of a sharp decline in copra prices that took place in 1980 and 1981. Net private capital inflows are estimated to have declined somewhat with a smaller loan to the fishing company. At the end of September, gross international reserves amounted to SDR 37.5 million, reflecting the final drawing of US\$5 million on the Eurodollar loan. With the overall balance of payments estimated to be in surplus in the final quarter of the year, the reserves are expected to rise to about SDR 41 million by the end of December, equivalent to about five months of imports of goods and services (Appendix Table XXIX). An overall payments surplus of SDR 1.9 million is estimated for 1983.

^{1/} There appears to have been double counting of some foreign aid inflows prior to 1983, with some of the aid receipts also included in the services account.

5. External debt

a. Public debt

Solomon Islands' public external debt has remained small as the country had ready access to grant financing in the past. Total public external debt outstanding at the end of 1982 was estimated at SDR 29 million. Government borrowing from overseas has recently begun to increase, however, because of a shift by foreign aid donors from grants to concessional loans (Appendix Table XXX). In addition, in 1981, the Government contracted its first syndicated loan of US\$20 million in the Eurodollar market, which has been used mainly to supplement gross international reserves. Repayment is due to begin in the middle of 1985. The main sources of concessional loans include the Asian Development Bank (AsDB), the International Development Association (IDA), the European Development Fund (EDF), and the OPEC Special Fund.

In 1983, external public debt outstanding is expected to rise to SDR 37 million. The Government has contracted a loan for f2 million from the Commonwealth Development Corporation for financing a housing project. The loan will be repayable over 17 years with a grace period of two years and will carry an interest rate of 9 percent, much higher than the rates charged on most outstanding public borrowing from non-commercial sources. The Government is also negotiating with the Kuwait Development Fund for a loan to finance an expansion of the airport on Guadalcanal. The loan would have a maturity of 18 years with four years' grace and an interest rate of 3 percent.

The debt service ratio of public external debt was estimated at just over 3 percent of exports of goods and services and private transfers in 1982 and somewhat under 3 percent in 1983. This will rise sharply in the middle of the decade to about 8 percent as the grace period on the Eurodollar loan expires and the Government's repurchases to the Fund become due (Appendix Table XXXI). By 1990, however, the ratio is projected to decline again to less than 1 percent of exports of goods and services and private transfers.

b. Private debt

Private sector external debt at end-1982 totaled SI\$16.15 million (US\$15.5 million), according to a survey carried out by the Central Bank of Solomon Islands. More than half of the end-1982 debt was for agriculture, with a single loan for palm oil production accounting for much of that (Appendix Table XXXII). At the end of 1982, agriculture had accounted for 80 percent of total outstanding private sector debt. Forestry is the next most important private sector user of foreign debt, accounting for one third of the total. Much of the private sector debt is on less than fully commercial terms as it is borrowed from, or secured by, parent companies. Interest rates on almost 60 percent of

the outstanding private debt at end-1982 were below 6 percent, with about 15 percent of the total bearing no interest at all. Almost 40 percent of the total carried interest rates of more than 10 percent. Private sector debt service payments have remained fairly low at US\$3.2 million in 1982, equivalent to 4.4 percent of exports of goods and services. The ratio is estimated at about 3 percent in 1983 when interest rates declined and exports rose.

VII. Exchange and Trade System

Solomon Islands continues to have an exchange system free of restrictions on payments for current international transactions. ^{1/} No bilateral payments agreements are maintained, and there are no multiple currency practices. Exchange controls are administered by the CBSI. There have been no major changes in the system since the last consultation in July 1982.

The exchange rate of the Solomon Islands dollar is pegged to a basket of currencies comprising the Japanese yen, the U.S. dollar, the Australian dollar, and the U.K. pound. In August 1982, the weighting of the basket was changed, in consultation with the Fund, from one based on settlement currencies to one based on trade shares. An upward adjustment is made to the share of the U.S. dollar in the basket to reflect the importance of oil payments through Singapore. The CBSI calculates the rates of the Solomon Islands dollar against the four currencies in the basket, the SDR, and the German mark, on a daily basis and sets buying and selling rates for commercial banks.

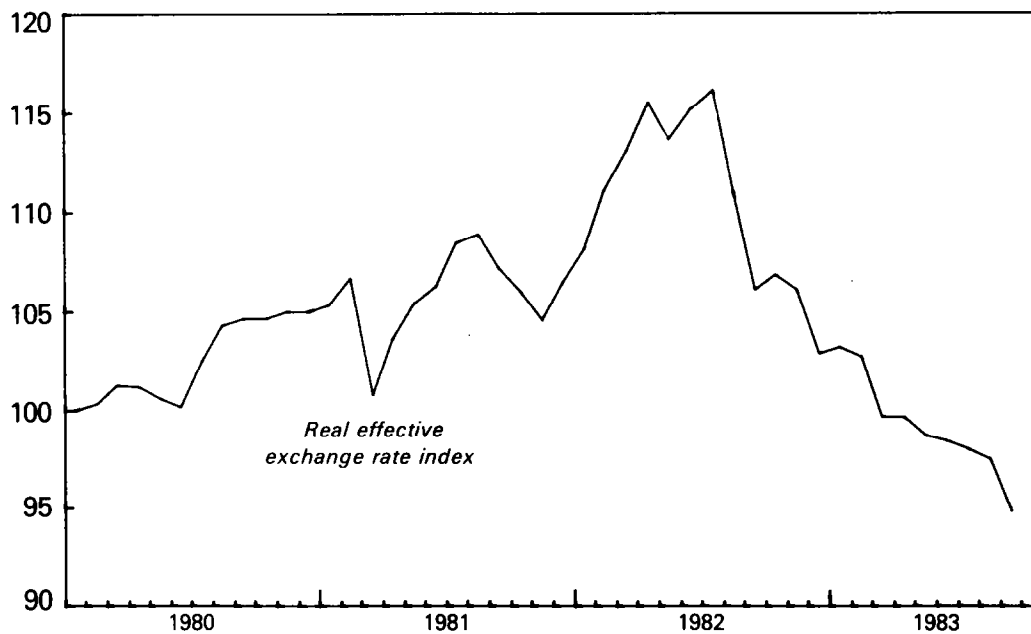
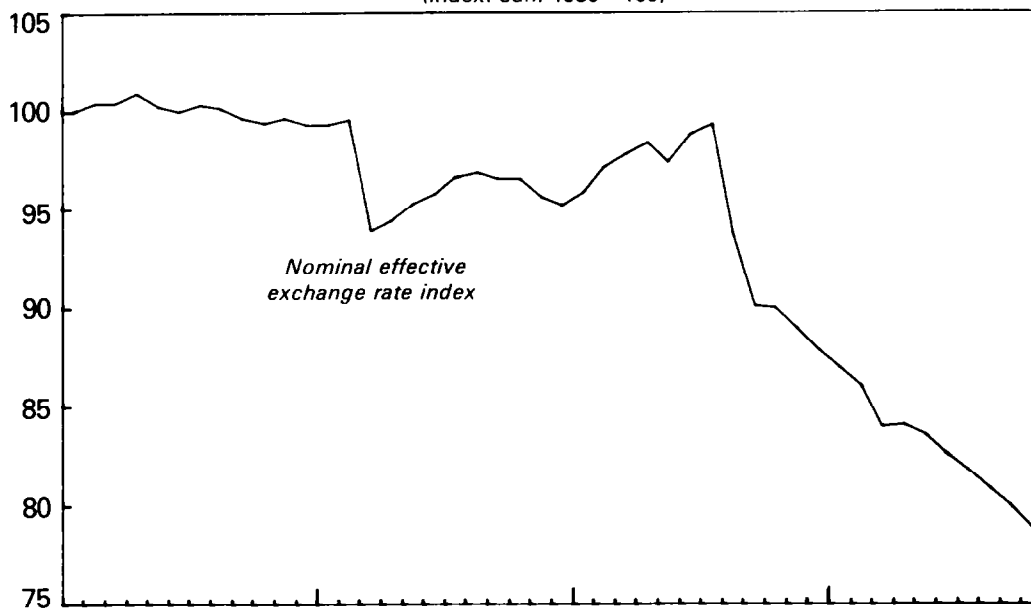
In August 1982, the Solomon Islands dollar was devalued by 10 percent to compensate for a substantial real appreciation ^{2/} of the currency in the previous 15 months. CBSI has been authorized to change the rate at its discretion by up to 2 percent a month with respect to the currency basket. The CBSI has depreciated the rate by 0.25 percent against the basket almost every week since August 1982 in order to preserve Solomon Islands' competitiveness and the profitability of exports (Appendix Table XXXIII). In the year to September 1983, the latest month for which figures are available, this policy has led to a real effective depreciation of 10 percent, with respect to the basket (Chart 6).

^{1/} For a detailed description of the exchange and trade system as of end-1982, see IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1983.

^{2/} Inflation is measured by the consumer price indices in the respective countries.

CHART 6
SOLOMON ISLANDS
EFFECTIVE EXCHANGE RATE INDICES OF
THE SOLOMON ISLANDS DOLLAR¹, 1980-OCT. 1983

(Index: Jan. 1980 = 100)



Source: Staff calculations

¹Increase represents an effective appreciation.



Table I. Solomon Islands: Gross Domestic Product, 1979-83

(In millions of Solomon Islands dollars)

	1979	1980	1981	1982	1983 Est.
Monetary sector					
1. Wages and salaries	27.1	31.3	39.2	45.2	50.0
Expatriates	7.5	8.0	9.0	10.0	10.3
Others	19.6	23.0	30.2	35.2	39.7
2. Operating surplus	27.5	21.6	18.3	14.3	17.5
Business	20.7	15.1	11.8	8.6	11.5
Companies	(17.0)	(16.6)	(13.3)	(9.0)	(10.0)
Cooperatives	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Public enterprises	(3.4)	(-1.8)	(-1.8)	(-0.7)	(1.2)
Government	0.7	0.8	0.8	0.9	0.9
Rents	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
Timber royalty	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Households	6.2	5.7	5.7	4.8	5.1
Copra	(5.6)	(4.9)	(4.9)	(4.0)	(4.3)
Other	(0.6)	(0.8)	(0.8)	(0.8)	(0.8)
3. Incomes (monetary) at factor cost (1+2)	54.6	52.9	57.5	59.5	67.5
4. Depreciation	10.9	14.3	19.3	22.0	24.0
5. GDP (monetary) at factor cost (3+4)	65.5	67.2	76.8	81.5	91.5
6. Indirect taxes less subsidies	10.6	10.4	14.3	18.0	18.0
7. GDP (monetary) at market prices (5+6)	76.1	77.6	91.1	99.5	109.5
Nonmonetary sector					
8. Gross subsistence product	36.6	41.5	49.7	59.0	65.5
Monetary and nonmonetary sectors					
9. GDP at factor cost (5+8)	102.1	108.7	126.5	140.5	157.0
10. GDP at market prices (9+6)	112.7	119.1	140.8	158.5	175.0
Memorandum item:					
GDP at constant 1977 prices					
GDP at market prices	93.9	87.6	88.9	88.6	90.6

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

Table II. Solomon Islands: Estimates of Consumption, Investment, and Savings, 1980-83

	1980	1981	1982	1983
(In millions of Solomon Islands dollars)				
1. GNP at market prices	112.6	135.1	155.1	171.0
2. Net factor income from abroad	-6.5	-5.7	-3.4	-4.0
3. GDP at market prices	119.1	140.8	158.5	175.0
4. Net imports of goods and non-factor services	25.1	32.4	17.9	19.8
5. Total available resources (3 + 4)	144.2	173.2	176.4	194.8
6. Consumption	98.6	133.1	146.1	157.3
7. Fixed investment	39.6	40.1	30.3	37.5
Private	(23.0)	(22.5)	(15.0)	(22.0)
Public	(16.6)	(17.6)	(15.3)	(15.5)
8. Gross domestic savings (7 - 4)	14.5	7.7	12.4	17.7
9. Gross national savings (8 + 2)	8.0	2.0	9.0	13.7
10. Foreign savings (7 - 9)	31.6	38.1	21.3	23.8
(In percent of GNP)				
Consumption	87.6	96.0	94.2	92.0
Investment	35.2	29.7	19.5	21.9
Private	(20.4)	(16.7)	(9.7)	(12.9)
Public	(14.7)	(13.0)	(9.9)	(9.1)
Gross domestic savings <u>1/</u>	12.2	5.5	7.8	10.1
Gross national savings	7.1	1.5	5.8	8.0
Foreign savings	28.1	28.2	13.7	13.9

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

1/ In percent of GDP.

Table III. Solomon Islands: Production, Exports, and Imports of Rice, 1977-83

(In metric tons unless otherwise indicated)

	<u>Domestic Production</u>			Imports	Total Domestic Supply	Area Harvested (hectares) <u>1/</u>
	Exports	Domestic sales	Total			
1977	1,664	2,461	4,125	3,215	5,676	1,940
1978	3,069	2,631	5,700	3,096	5,727	2,663
1979	4,161	3,486	7,647	4,954	8,440	2,997
1980	5,103	5,292	10,395	2,520	7,812	3,869
1981	3,352	5,990	9,342	1,530	7,520	4,029
1982	2,469	5,758	8,227	3,107	8,865	3,191
1983 (est.)	--	7,200	7,200	1,200	8,400	2,500

Sources: Statistics Office, Ministry of Finance, Statistical Bulletin; and data provided by the Solomon Islands authorities.

1/ Approximately 2.5 crops per year.

Table IV. Solomon Islands: Cocoa Production and Exports, 1977-83

(In metric tons unless otherwise indicated)

	<u>Marketed Production</u>			Smallholder Share (percent)	Exports	Export Unit Value <u>1/</u>
	<u>Smallholder</u>	<u>Plantation</u>	<u>Total</u>			
1977	85	78	163	52	164	3,372
1978	108	127	235	46	240	2,483
1979	114	195	309	37	286	2,023
1980	197	149	346	57	365	1,745
1981	209	383	592	35	586	1,517
1982	156	512	668	23	620	1,500
1983 (est.)	...	...	900	...	900	1,500

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

1/ F.o.b. prices in Solomon Islands dollars per metric ton.

Table V. Solomon Islands: Electricity Generation, 1977-82 1/

(In thousands of kilowatt-hours)

	Honiara	Auki (Malaita)	Gizo (Western)	Tulagi (Central Is.)	Other	Total
1977	11,965	530	581	1,586	115	14,777
1978	12,847	576	592	1,069	114	15,228
1979	14,144	560	652	-- <u>2/</u>	134	15,490
1980	15,700	565	752	--	184	17,201
1981	16,941	613	792	--	196	18,542
1982	17,019	664	855	--	257	18,795

Source: Data provided by the Solomon Islands authorities.

1/ Pertains to production by the Electricity Authority.

2/ The Electricity Authority's plant at Tulagi has been closed for repairs.

Table VI. Solomon Islands: Population by Age Group in 1976 and 1982 ^{1/}

Age Group	1976		1982		Average Annual Growth Rate (in Percent)
	Population	Percent of total	Population	Percent of total	
0-4	39,196	19.9	47,099	19.5	3.1
5-14	56,247	28.6	71,404	29.6	4.1
15-19	20,161	10.3	25,835	10.7	4.2
20-49	64,187	32.6	77,819	32.3	3.3
50-59	9,962	4.8	10,847	4.5	1.4
60 and over	7,510	3.8	8,279	3.4	1.6
Total	196,763	100.0	241,283	100.0	3.5

Source: Data provided by the Solomon Islands authorities.

^{1/} National estimates for male and female Solomon Islanders, assuming constant fertility and mortality and no migrations.

Table VII. Solomon Islands: Formal Employment by Geographical Area, 1979-82

Province	Total Employment				Average Annual Growth Rate (in percent) 1979-82
	June survey				
	1979	1980	1981	1982	
Western	3,580	3,863	4,059	4,209	5.5
Santa Isabel	566	619	559	728	8.8
Central Islands	2,217	2,137	2,221	2,415	2.9
Guadalcanal	3,082	3,230	4,019	3,843	7.6
Honiara	6,249	7,172	7,560	7,084	4.3
Malaita	1,484	1,543	1,493	1,490	0.1
Makira Ulawa	583	582	580	549	-2.0
Eastern Islands	451	421	497	529	5.5
Other <u>1/</u>	<u>800</u>	<u>800</u>	<u>800</u>	<u>800</u>	<u>--</u>
Total	19,012	20,367	21,788	21,647	4.4

Source: Data provided by the Solomon Islands authorities.

1/ Includes an estimate for those establishments which did not complete the questionnaire for employment surveys.

Table VIII. Solomon Islands: Formal Employment by Industrial Sector, 1979-82

Industry	Total Employment				Average Annual Growth Rate (in percent) 1979-82
	June survey				
	1979	1980	1981	1982	
Agriculture, forestry, fishing	6,045	6,076	7,173	7,167	5.8
Manufacturing	1,651	2,071	1,762	1,831	3.5
Electricity and water	242	266	283	222	-2.8
Construction	1,238	1,585	1,979	1,395	4.1
Wholesale/retail	1,817	1,975	2,085	2,122	5.3
Transport and com- munications	1,107	1,472	1,397	1,795	17.5
Financial services	246	301	327	446	21.9
Social personal services, etc.	5,859	5,819	5,981	5,869	0.1
Other <u>1/</u>	<u>807</u>	<u>802</u>	<u>801</u>	<u>800</u>	<u>-0.3</u>
Total	19,012	20,367	21,788	21,647	4.4

Source: Data provided by the Solomon Islands authorities.

^{1/} Includes employment in mining and an estimate for those establishments which did not complete the questionnaire for employment surveys.

Table IX. Solomon Islands: Government Revenue and Grants, 1981-83

(In millions of Solomon Islands dollars)

	1981	1982	1983	
			Budget	Esti- mate
Current revenue	<u>31.7</u>	<u>35.4</u>	<u>36.8</u>	<u>37.4</u>
Tax revenue	<u>24.2</u>	<u>29.4</u>	<u>31.0</u>	<u>30.9</u>
Taxes on income and profits	9.6	10.8	11.1	11.1
Companies	(4.7)	(4.2)	(3.4)	(4.6)
Individuals	(4.9)	(6.6)	(7.7)	(6.5)
Taxes on goods and services	1.1	1.4	1.7	1.7
Excise duties	(0.3)	(0.2)	(0.3)	(0.3)
Business licenses; other	(0.8)	(1.2)	(1.4)	(1.4)
Taxes on international trade	13.4	17.1	18.2	18.1
Import duties	(9.3)	(13.1)	(13.2)	(12.8)
Export duties	(4.1)	(4.1)	(5.0)	(5.3)
Nontax revenue	<u>7.5</u>	<u>6.0</u>	<u>5.8</u>	<u>6.5</u>
Property income	1.0	1.2	1.0	1.1
Administration fees and charges	0.1	0.1	0.2	0.2
Fines and forfeits	0.1	0.1	0.1	0.1
Other	6.3	4.6	4.5	5.1
Capital revenue (sale of fixed assets)	0.1	0.3	0.3	0.4
Total revenue	<u>31.8</u>	<u>35.7</u>	<u>37.1</u>	<u>37.8</u>
Total grants	<u>8.2</u>	<u>5.3</u>	<u>15.2</u>	<u>6.3</u>
Current grants from abroad	0.2	--	--	--
Capital grants from abroad	7.9	5.3	15.2	6.3
Total revenue and grants	<u>40.0</u>	<u>41.0</u>	<u>52.3</u>	<u>44.1</u>

Sources: Data provided by the Ministry of Finance; and staff estimates.

Table X. Solomon Islands: Economic Classification of
Government Expenditure and Net Lending, 1981-83

(In millions of Solomon Islands dollars)

	1981	1982	1983	
			Budget	Esti- mate
Current expenditure	32.2	35.7	37.4	39.9
Expenditure on goods and services	<u>23.4</u>	<u>24.5</u>	<u>26.2</u>	<u>28.6</u>
Wages and salaries	10.8	13.2	13.2	14.9
Contributions to pension fund	1.6	1.8	2.2	2.4
Other purchases of goods and services	11.0	9.5	9.5	11.3
Interest payments	0.4	0.9	1.3	1.4
Subsidies and other current transfers	<u>8.4</u>	<u>10.2</u>	<u>11.2</u>	<u>9.9</u>
Subsidies and transfers to public enterprises	2.1	2.7	2.5	1.5
Transfers to local government	6.0	7.1	8.2	7.9
Transfers to nonprofit institutions	0.1	0.1	0.2	0.2
Transfers abroad	0.2	0.3	0.3	0.3
Capital expenditure	<u>10.8</u>	<u>10.8</u>	<u>23.9</u>	<u>10.7</u>
Acquisition of fixed capital assets	8.8	6.9	19.5	6.3
Purchases of land	0.1	--	0.1	0.1
Capital transfers	<u>1.9</u>	<u>3.8</u>	<u>4.3</u>	<u>4.3</u>
To nonfinancial public enterprises	<u>1.9</u>	<u>3.8</u>	<u>4.3</u>	<u>4.3</u>
Net lending	<u>6.8</u>	<u>4.5</u>	<u>5.0</u>	<u>4.8</u>
To local government	1.7	-0.2	-0.1	-0.1
To financial institutions	0.8	2.9	3.7	3.5
To others	4.3	1.8	1.4	1.4
Total expenditure and net lending	<u>49.8</u>	<u>50.9</u>	<u>70.2</u>	<u>55.4</u>

Source: Data provided by the Ministry of Finance.

Table XI. Solomon Islands: Functional Classification
of Government Current Expenditure, 1981-83

(In millions of Solomon Islands dollars)

	1981	1982	1983 Estimate
General services	12.3	14.0	15.7
General administration	9.6	10.5	12.6
Public order and safety	2.7	3.4	3.2
Education	5.5	6.8	8.2
Health	3.9	4.4	4.7
Social security and welfare	1.6	1.8	2.4
Housing community amenities and other community services	0.9	0.8	0.9
Economic services	6.0	6.0	5.4
General administration	0.5	0.4	0.5
Agriculture, forestry, and fisheries	2.1	1.7	2.0
Mining and construction	0.8	0.8	0.9
Utilities	0.3	0.4	0.1
Roads	0.8	0.6	0.5
Other transport and communication	1.5	2.1	1.5
Unallocable and other purposes	2.0	1.8	2.5
Public debt	0.4	0.9	1.4
Other purposes N.E.C.	1.6	1.0	1.1
Total	32.2	35.7	39.9

Source: Data provided by the Ministry of Finance.

Table XII. Solomon Islands: Functional Classification
of Government Capital Expenditure, 1981-83

(In millions of Solomon Islands dollars)

	1981	1982	1983 Estimate
General services	0.5	0.4	0.5
Public administration	0.4	0.4	0.4
Public order and safety	0.1	--	0.1
Education	0.7	0.7	1.6
Health	0.2	0.3	0.2
Housing community amenities and other community services	3.3	2.2	1.1
Economic services	6.1	7.2	7.3
General administration	0.1	--	0.1
Agriculture, forestry, and fisheries	2.7	2.2	2.6
Mining	0.2	0.2	0.2
Utilities	1.0	0.8	0.3
Roads	0.7	1.7	1.5
Other transport and communications	1.4	2.3	2.6
Total	10.8	10.8	10.7

Source: Data provided by the Ministry of Finance.

Table XIII. Solomon Islands: Government Domestic Debt, 1979-83 ^{1/}

(In SI\$ '000; amount outstanding at end of period)

	1979	1980	1981	1982	1983 Est.
Commercial bank loans (long term)	43.4	33.8	22.7	14.9	...
Telephone system, 1964	3.9	2.0	--	--	--
Telephone system, 1967	40.5	31.8	22.7	14.9	...
Solomon Islands Government Development Bonds	<u>1,500.0</u> ^{2/}	<u>3,450.0</u>	<u>4,450.0</u>	<u>5,450.0</u>	<u>6,450.0</u>
Held by:					
CBSI	66.0	148.5	866.0	1,281.9	...
Commercial banks	784.5	1,242.5	1,242.5	1,242.5	...
Statutory bodies	244.5	1,155.0	1,405.0	1,902.5	...
Private corporations	252.0	503.5	503.5	506.7	...
Churches	122.5	277.0	277.0	278.9	...
Individuals	30.5	83.5	116.0	197.5	...
Others	--	40.0	40.0	40.0	...
Solomon Islands Savings Certificate	--	2.0	16.5	16.5	17.8
National Provident Fund	2,043.5	500.0	1,978.0	2,928.0	4,428.0
Treasury Bills	--	--	500.0	500.0	1,500.0
Total	3,587.0	3,985.8	6,967.2	8,909.4	12,395.8

Source: Data provided by the Solomon Islands authorities.

^{1/} Excluding government short-term overdrafts from commercial banks and the CBSI.^{2/} This is the first development bond issue bearing interest at 9 percent per annum payable twice a year on March 1 and September 1. The principal of the bond will be repaid on September 1, 1984.

Table XIV. Solomon Islands: Foreign Grants, 1980-83 1/

(In thousands of Solomon Islands dollars)

	1980	1981	1982	1983 Budget
<u>Bilateral 2/</u>	<u>13,329</u>	<u>7,619</u>	<u>4,597</u>	<u>12,509</u>
Australia	1,338	1,881	1,408	7,310
Japan	3	--	2	250
New Zealand	69	48	81	141
United Kingdom	11,892	5,680	2,976	4,775
Grant-in-aid	(500)	(--)	(--)	(--)
Development aid	(9,180)	(4,776)	(1,730)	(2,675)
Special grant	(2,212)	(904)	(1,246)	(2,100)
Others	27	10	130	33
<u>Multilateral</u>	<u>341</u>	<u>546</u>	<u>500</u>	<u>2,654</u>
Commonwealth Fund for Technical Coop.	57	--	14	25
European Development Fund	224	479	463	2,565
Foundation for People of the South Pacific	6	16	3	--
UN Development Program	52	50	20	42
Other	2	1	232	22
Total (inflows of foreign grants)	<u>13,670</u>	<u>8,165</u>	<u>5,329</u>	<u>15,163</u>

Source: Data provided by the Ministry of Finance.

1/ On cash basis; excluding grants in kind and services provided by aid donors.2/ Not including Australian Staff Supplement Fund, Special Development Fund, Beef Industry Special Fund, and Noro Port Development Fund.

Table XV. Solomon Islands: Banks' Advances and Loans, 1981-83 ^{1/}
(In millions of Solomon Islands dollars; outstanding at end of period)

	Manufac- turing	Agricul- ture and Forestry	Fishing	Construc- tion	Transporta- tion	Retail and other Distribution	Others ^{2/}	Personal Loans (incl. housing)	Total
1981									
June	0.8 (3.2)	3.4 (13.5)	6.5 (25.8)	1.3 (5.2)	2.6 (10.3)	3.6 (14.3)	5.3 (21.0)	1.7 (6.7)	25.2
Sept.	0.7 (2.8)	4.2 (16.9)	6.2 (24.9)	1.3 (5.2)	2.5 (10.0)	3.4 (13.7)	5.1 (20.5)	1.5 (6.0)	24.9
Dec.	0.8 (3.0)	5.4 (20.0)	5.8 (21.5)	1.6 (5.9)	2.6 (9.6)	4.1 (15.2)	5.1 (18.9)	1.6 (5.9)	27.0
1982									
Mar.	0.9 (3.4)	4.3 (16.3)	6.1 (23.2)	1.2 (4.6)	2.4 (9.1)	4.8 (18.3)	5.0 (19.0)	1.6 (6.1)	26.3
June	0.4 (1.5)	5.2 (19.9)	5.7 (21.8)	0.3 (1.2)	2.2 (8.4)	5.1 (19.5)	5.7 (21.9)	1.5 (5.8)	26.1
Sept.	0.8 (3.0)	3.5 (12.9)	6.4 (23.6)	0.3 (1.1)	2.3 (8.5)	6.9 (25.5)	5.3 (19.6)	1.6 (5.9)	27.1
Dec.	0.8 (3.1)	5.3 (20.3)	4.7 (18.0)	0.4 (1.5)	2.1 (8.1)	5.9 (22.6)	5.2 (19.9)	1.7 (6.5)	26.1
1983									
Mar.	1.1 (3.7)	6.1 (20.5)	7.4 (24.9)	0.2 (0.7)	1.9 (6.4)	5.3 (17.8)	6.0 (20.2)	1.7 (5.8)	29.7
June	1.1 (3.5)	6.5 (20.6)	7.6 (24.1)	0.1 (0.3)	1.9 (6.0)	5.4 (17.1)	7.1 (22.6)	1.8 (5.8)	31.5
Sept.	1.5 (5.3)	5.3 (18.7)	5.5 (19.4)	0.4 (1.4)	1.5 (5.3)	6.6 (23.2)	5.7 (20.1)	1.9 (6.6)	28.4

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

^{1/} Figures in parentheses represent percent of total.

^{2/} Includes public utilities, central and local governments, and professionals.

Table XVI. Solomon Islands: Factors Affecting Money Supply, 1981-83 ^{1/}

(In millions of Solomon Islands dollars)

	1981 Dec.	1982				1983			1982 Jan.-Sept.	1983 Jan.-Sept. ^{2/}
		Mar.	June	Sept.	Dec.	Mar.	June	Sept.		
Money supply										
Broad money	-5.39	-0.10	-0.18	3.72	7.38	7.64	5.07	6.29	5.10	4.02
Factors affecting money supply										
Domestic credit	<u>7.81</u>	<u>6.79</u>	<u>3.00</u>	<u>2.60</u>	<u>4.74</u>	<u>7.45</u>	<u>5.29</u>	<u>6.07</u>	<u>2.75</u>	<u>4.07</u>
Government	3.13	3.14	0.91	1.86	3.50	3.18	2.73	2.82	3.67	2.98
Statutory corps	0.63	-0.47	0.49	0.71	0.18	0.38	0.73	1.08	0.44	1.34
Private sector	4.05	4.12	1.60	0.03	1.06	3.89	1.83	2.17	-1.36	-0.25
Net foreign assets	-9.07	-2.45	-0.95	4.38	7.03	3.47	3.43	0.69	6.00	-0.34
Miscellaneous factors	-4.13	-4.44	-2.23	-3.26	-4.39	-3.28	-3.65	-0.47	-3.65	0.29

Source: Data provided by the Solomon Islands authorities.

^{1/} Changes in stock over 12 months.

^{2/} Changes during the period.

Table XVII. Solomon Islands: Interest Rate Structure, 1980-83

(Percent per annum)

	1980	1981	1982				1983	
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June
CBSI								
Call money	4.00	4.00	4.00	4.00	4.00	4.00	6.00	6.00
30-day deposits	5.25	... ^{1/}	...	...	...	...	...	...
Trading and savings banks ^{2/}								
Savings passbook	3.50	3.50	3.50	3.50	3.50	3.50	4.00	4.00
90-day deposits	6.00-6.50	6.25-6.75	6.25-6.75	7.00	7.00	7.00	8.50	8.50
12 months	7.00	7.25	7.25	7.75	8.25	8.25	9.25	9.25
24 months	7.25	7.50	7.50	8.25	8.75	8.75	10.00	10.00
NPF contribution account	7.00	8.00	8.00	8.00	8.00	8.00	9.00	9.00
National savings certificates	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Treasury bills	...	7.00	7.00	7.00	7.00	7.00	9.00	9.00
Development bonds	9.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00
Bank overdrafts	9.00-16.00	9.00-14.50	11.00-17.00	11.00-17.00	11.00-17.00	11.00-17.00	11.50-17.50	11.50-17.50

Source: Data provided by the Central Bank of Solomon Islands.

^{1/} Discontinued.^{2/} Interest rates on deposits in excess of SI\$25,000 are negotiable.

Table XVIII. Solomon Islands: Summary Accounts of Trading and Savings Banks, 1980-83
(In millions of Solomon Islands dollars)

	1980 Dec.	1981 Dec.	1982				1983		
			Mar.	June	Sept.	Dec.	Mar.	June	Sept.
Assets									
Reserves <u>1/</u>	11.2	1.2	4.7	3.8	7.0	5.7	4.0	5.0	8.8
Foreign assets	0.8	0.9	1.0	0.4	1.0	0.8	0.9	0.5	1.0
Claims on Government	1.2	1.7	1.7	1.7	2.1	2.4	3.0	4.9	4.9
Claims on statutory corporations	5.2	5.8	5.0	6.0	6.2	6.0	5.4	6.7	4.3
Claims on private sector	17.3	21.4	21.4	22.2	20.0	22.5	25.3	24.0	22.2
Liabilities									
Demand deposits	12.0	10.9	9.6	7.8	8.4	10.4	7.6	8.6	8.5
Of which: Central Government	(2.5)	(3.1)	(1.8)	(0.6)	(1.5)	(1.8)	(1.1)	(1.2)	(0.2)
Savings deposits	6.2	6.8	6.8	7.1	7.2	7.3	7.3	7.7	7.7
Time deposits	17.7	11.1	13.1	14.6	15.9	16.6	19.7	18.1	19.8
Of which: Central Government	(1.3)	(0.7)	(0.9)	(0.9)	(0.4)	(0.4)	(0.2)	(1.0)	(0.7)
Foreign liabilities <u>2/</u>	1.7	2.7	2.7	2.0	3.7	2.6	3.7	3.3	2.1
Other items (net) <u>1/</u>	-1.9	-0.5	1.6	2.6	1.1	0.5	0.3	3.4	3.1

Source: Data provided by the Solomon Islands authorities.

1/ Held on deposit with CBSI.

2/ Includes capital and liabilities to nonresidents.

Table XIX. Solomon Islands: Summary Accounts of the Central Bank of Solomon Islands, 1980-83

(In millions of Solomon Islands dollars)

	1980	1981	1982				1983		
			Mar.	June	Sept.	Dec.	Mar.	June	Sept.
Assets									
Foreign assets <u>1/</u>	22.7	19.2	30.3	29.1	35.8	38.6	37.5	43.9	47.0
Claims on Government <u>2/</u>	0.2	0.1	0.3	0.2	1.6	1.4	0.7	0.2	0.3
Claims on banks	--	--	0.8	1.8	1.8	0.7	0.7	2.6	0.7
Liabilities									
Reserve money	17.4	9.7	11.9	11.8	15.4	15.6	13.3	14.0	17.7
Currency issued	(6.0)	(7.4)	(7.2)	(7.9)	(7.9)	(8.5)	(8.1)	(8.3)	(8.9)
Banks' deposits	(11.4)	(2.3)	(4.7)	(3.9)	(7.5)	(7.1)	(5.2)	(5.7)	(8.8)
Foreign liabilities <u>3/</u>	--	5.1	14.4	14.5	15.8	17.3	18.1	25.3	26.5
Other items (net)	5.4	4.5	5.1	5.1	8.0	7.8	7.5	7.4	3.8

Source: Data provided by the Central Bank of Solomon Islands.

1/ Includes holdings of SDRs, reserve position in the IMF, and foreign exchange holdings of the Government.2/ Excludes advances made in connection with membership in IMF and IBRD.3/ Includes use of Fund credit and disbursements of 1981 Eurocurrency loan to the Government.

Table XX. Solomon Islands: Assets and Liabilities of the
Development Bank of Solomon Islands, 1980-83

(In thousands of Solomon Islands dollars)

	1980	1981 December	1982	1983 June
Assets				
Cash and deposits with banks	272	5	--	292
Investments	220	272	277	306
Loans (private and statutory)	5,230	7,164	8,863	9,612
Fixed assets	335	635	704	716
Current assets	<u>294</u>	<u>312</u>	<u>85</u>	<u>43</u>
Total	6,513	8,388	9,929	10,969
Liabilities				
Capital	2,930	3,452	4,421	4,727
Reserves	413	154	9	-1 ^{1/}
Borrowings	2,906	4,211	4,852	5,563
Government	(852)	(1,361)	(1,252)	(815)
ADB Cattle Project	(140)	(262)	(207)	(451)
ADB	(1,187)	(1,437)	(1,547)	(2,304)
NPF	(500)	(744)	(744)	(1,237)
EDF	(--)	(--)	(756)	(756)
Other (current liabilities)	(227)	(407)	(346)	(--)
Provision for doubtful debts	<u>264</u>	<u>571</u>	<u>647</u>	<u>--</u>
Total	6,513	8,388	9,929	10,969

Source: Data provided by the Development Bank of Solomon Islands.

^{1/} Operating loss.

Table XXI. Solomon Islands: Loan Approvals of the Development Bank of Solomon Islands by Region and by Sector, 1981-83 ^{1/}

(In thousands of Solomon Islands dollars)

	1981	1982	1982 January-June	1983
By province				
Rural provinces	<u>1,453</u> (65.2)	<u>1,867</u> (55.1)	<u>1,003</u> (53.0)	<u>858</u> (80.8)
Central	68	43	32	14
Eastern Islands	2	--	--	--
Guadalcanal	422	599	516	633
Isabel	56	554	40	6
Makira/Ulawa	98	73	28	3
Malaita	361	385	323	42
Western	446	213	64	160
Urban province				
Honiara	<u>777</u> (34.8)	<u>1,521</u> (44.9)	<u>890</u> (47.0)	<u>204</u> (19.2)
Total	2,230	3,388	1,893	1,062
By sector				
Agriculture	<u>839</u> (37.6)	<u>1,582</u> (46.7)	<u>862</u> (45.5)	<u>886</u> (83.4)
Of which:				
Cocoa	173	597	160	410
Copra	215	218	50	133
Livestock	213	240	153	243
Forestry	33	234	224	5
Industry	<u>759</u> (34.0)	<u>718</u> (21.2)	<u>660</u> (34.9)	<u>73</u> (6.9)
Manufacturing	395	473	415	38
Construction	364	245	245	35
Commerce	<u>167</u> (7.5)	<u>652</u> (19.2)	<u>239</u> (12.6)	<u>36</u> (3.4)
Services including transport	<u>465</u> (20.9)	<u>436</u> (12.9)	<u>132</u> (7.0)	<u>67</u> (6.3)
Of which:				
Shipping	175	116	57	14
Vehicles	180	82	63	46

Source: Data provided by the Development Bank of Solomon Islands.

^{1/} Figures in parentheses represent percent of total.

Table XXII. Solomon Islands: Assets and Liabilities of the
National Provident Fund, 1980-83

(In thousands of Solomon Islands dollars)

	June			
	1980	1981	1982	1983 Prov.
Assets				
Cash and deposits with banks	4,187	5,499	7,050	7,533
Accrued interest	120	155	878	--
Loans				
Private sector	614	679	743	716
Statutory corporations <u>1/</u>	1,000	2,250	2,500	2,948
Government	745	1,200	2,906	7,087
Fixed assets	<u>51</u>	<u>213</u>	<u>393</u>	<u>373</u>
Total	6,717	9,996	14,470	18,657
Liabilities				
Contributions account	6,018	9,109	12,754	17,363
Government grants	84	84	84	84
General reserves	614	800	1,629	1,209
Other liabilities	<u>1</u>	<u>3</u>	<u>3</u>	<u>1</u>
Total	6,717	9,996	14,470	18,657

Source: Data provided by the National Provident Fund.

1/ Includes the DBSI.

Table XXIII. Solomon Islands: National Provident Fund, 1980-83

(In thousands of Solomon Islands dollars)

	June			
	1980	1981	1982	1983 Prov.
Membership ('000 persons)	36	41	46	48
Active contributors	23	22	24	27
Contributions during year	2,451	3,289	4,510	5,795
Benefit payments	315	530	865	1,186
Assets distribution				
Cash and deposits at banks (including accrued interest)	4,307	5,654	7,928	7,533 ^{1/}
Loans to Government	745	1,200	2,906	7,087
Direct loans	(500)	(500)	(1,956)	(5,253)
Holdings of government development bonds	(245)	(700)	(950)	(1,834)
Loans to government enterprises	1,000	2,250	2,500	2,948
Loans to private sector	614	679	743	716
Agriculture	(--)	(--)	(--)	(--)
Manufacturing	(--)	(--)	(--)	(--)
Trading and commerce	(--)	(--)	(--)	(--)
Service	(614)	(679)	(743)	(716)
Construction	(--)	(--)	(--)	(--)
Other	(--)	(--)	(--)	(--)
Other assets	<u>51</u>	<u>213</u>	<u>393</u>	<u>373</u>
Total	6,717	9,996	14,470	18,657

Source: Data provided by the National Provident Fund.

^{1/} Excludes accrued interest.

Table XXIV. Solomon Islands: Balance of Payments, 1980-83

(In millions of Solomon Islands dollars)

	1980	1981	1982	1983 Est.
Trade balance	-0.7	-8.4	-0.9	2.4
Exports, f.o.b.	60.8	57.6	56.5	69.4
Imports, f.o.b.	-61.5	-66.0	-57.4	-67.0
Services (net)	-25.9	-24.9	-16.0	-22.7
Receipts	9.7	11.3	17.7	16.4
Payments	-35.6	-36.2	-33.7	-39.1
Of which:				
Freight and insurance	(-10.6)	(-13.2)	(-11.4)	(-13.4)
Fishing fleet	(-6.9)	(-8.0)	(-5.4)	(-7.0)
Interest, profits, dividends <u>1/</u>	(-12.4)	(-3.4)	(-5.7)	(-7.3)
Private transfers (net)	0.6	-5.0	-4.4	-3.5
Current account balance	-26.0	-38.3	-21.3	-23.8
Official transfers	15.9	15.2	11.5	13.3
Nonmonetary capital (net)	2.6	5.9	11.6	12.7
Official (net)	3.3	3.4	5.0	6.7
Private (net)	-0.7	2.5	6.6	6.0
Direct investment	(2.0)	(0.2)	(1.0)	(1.0)
Borrowing	(-2.7)	(2.3)	(5.6)	(5.0)
Allocation of SDRs	0.2	0.2	--	--
Errors and omissions (net) <u>2/</u>	-0.9	7.9	5.3	2.0
Overall balance	-8.2	-9.1	7.1	4.2
Monetary movements (net)	8.2	9.1	-7.1	-4.2
Monetary authorities (net) <u>3/</u>	7.8	8.6	-7.6	-3.6
Assets (increase -)	(8.0)	(3.5)	(-19.8)	(-12.8)
Increase in liabilities <u>4/</u>	(-0.2)	(5.1)	(12.2)	(9.2)
Commercial banks (net)	0.4	0.4	0.5	-0.6
Memorandum item:				
Gross international reserves (end period)	22.7	19.2	38.9	51.6

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

1/ Includes private and official interest payments.

2/ Includes valuation adjustment.

3/ Includes Central Government.

4/ Includes use of Fund credit.

Table XXV. Solomon Islands: Value of Imports by SITC
Commodity Groups, 1980-83 ^{1/}

(In thousands of Solomon Islands dollars)

	SITC Group	1980	1981	1982	1982 Jan.-June	1983
Food	0	6,631	6,996	8,510	3,655	3,465
Beverages and tobacco	1	1,901	2,343	2,131	915	1,107
Crude materials, inedible	2	417	594	544	170	412
Minerals, fuels, lubricants, etc.	3	9,873	15,192	14,405	6,823	7,437
Animal and vegetable oils and fats	4	401	334	711	297	148
Chemicals	5	3,164	3,830	3,556	1,997	2,250
Manufactured goods	6	10,203	12,099	9,142	4,443	4,543
Machinery and transport equipment	7	24,041	19,305	13,259	5,915	7,806 ^{2/}
Miscellaneous manufac- tures	8	4,706	5,029	4,939	2,095	1,956
Other commodities, n.e.s.	9	208	252	235	82	108
Total		61,545	65,974	57,432	26,392	29,232

Source: Data provided by the Solomon Islands authorities.

^{1/} F.o.b. valuation.

^{2/} Includes ships, SI\$1.8 million.

Table XXVI. Solomon Islands: Imports of Major Petroleum Products, 1980-83

(Volume in '000 liters; value in '000 Solomon Islands dollars)

	1980		1981		1982		Jan.-June 1983	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Gasoline	5,854	1,311	8,344	2,113	7,391	1,963	3,891	1,068
Aviation spirit	996	495	858	424	845	428	431	203
Kerosene	1,412	322	1,839	476	327	154	67	22
Jet fuel	2,998	672	3,664	929	4,586	1,284	2,386	624
Distillate	29,649	6,200	39,313	9,872	36,426	9,545	17,561	4,951
Lubricating oil	1,010	600	1,745	1,187	1,005	812	645	502
Total	41,919	9,600	55,763	15,001	50,580	14,186	24,981	7,370

Source: Data provided by the Solomon Islands authorities.

Table XXVII. Solomon Islands: Exports by Country of Destination,
1980-83

(As percent of total)

	1980	1981	1982	1983 Jan.-June
Oceania	<u>13.2</u>	<u>7.7</u>	<u>8.9</u>	<u>8.3</u>
American Samoa	5.9	1.3	1.1	2.6
Australia	2.3	3.1	2.7	2.6
New Zealand	1.0	1.6	2.2	1.1
Papua New Guinea	0.4	0.8	0.7	0.2
Others	3.6	0.9	2.2	1.8
Asia	<u>28.4</u>	<u>39.5</u>	<u>61.8</u>	<u>56.9</u>
Japan	<u>26.3</u>	<u>37.4</u>	<u>58.6</u>	<u>52.6</u>
Singapore	1.4	0.7	0.4	...
Others	0.7	1.4	2.8	4.3
European Economic Community	<u>31.1</u>	<u>28.7</u>	<u>22.2</u>	<u>22.4</u>
Germany, Federal				
Republic of	5.8	4.9	1.8	3.8
Netherlands	12.6	11.9	3.6	3.4
United Kingdom	12.7	11.9	14.4	12.5
Others	--	--	2.4	2.7
Americas	<u>26.6</u>	<u>22.7</u>	<u>1.0</u>	<u>7.7</u>
Mexico	6.1	--	--	--
U.S.A. ^{1/}	20.5	22.7	0.1	...
Others	--	--	0.9	7.7 ^{2/}
Rest of the world	<u>0.7</u>	<u>1.4</u>	<u>6.1</u>	<u>4.7</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Data provided by the Solomon Islands authorities; and
Statistical Bulletin.

^{1/} Including exports to Puerto Rico.

^{2/} Includes U.S.A.

Table XXVIII. Solomon Islands: Imports by Country of Origin,
1980-83

(As percent of total)

	1980	1981	1982	1983 Jan.-June
Oceania	<u>43.8</u>	<u>41.3</u>	<u>46.4</u>	<u>48.5</u>
Australia	<u>30.9</u>	<u>28.0</u>	<u>33.9</u>	<u>38.1</u>
New Zealand	7.0	8.6	8.3	7.6
Papua New Guinea	5.4	4.1	2.1	1.8
Others	0.5	0.6	2.1	1.0
Asia	<u>41.1</u>	<u>43.2</u>	<u>39.8</u>	<u>41.2</u>
China, People's Republic of	2.5	2.5	3.3	3.2
Hongkong	2.9	2.5	3.1	2.5
Japan	19.7	14.9	14.0	15.8
Singapore	14.7	22.1	17.6	18.5
Others	1.3	1.2	1.8	1.2
European Economic Community	<u>10.3</u>	<u>9.9</u>	<u>6.9</u>	<u>5.1</u>
France	0.1	0.1	0.1	0.1
Germany, Federal Republic of	1.2	1.0	1.7	1.6
Netherlands	--	--	0.2	0.2
United Kingdom	8.6	8.1	4.4	2.7
Others	0.4	0.7	0.5	0.5
Americas	<u>3.6</u>	<u>4.4</u>	<u>5.8</u>	<u>3.7</u>
U.S.A.	<u>3.2</u>	<u>4.0</u>	<u>5.6</u>	<u>3.6</u>
Others	0.4	0.4	0.2	0.1
Rest of the world	<u>1.2</u>	<u>1.2</u>	<u>1.1</u>	<u>1.5</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Data provided by the Solomon Islands authorities; and
Statistical Bulletin.

Table XXIX. Solomon Islands: International Reserves, 1980-83

(In millions of Solomon Islands dollars,
amount outstanding at end of period)

	1980		1981		1982		1983	
	June	Dec.	June	Dec.	June	Dec.	June	Sept. Prov.
CBSI, net	26.3	19.7	15.7	13.6	14.6	21.3	18.6	20.5
Assets	26.3	19.7	16.5	18.7	29.1	38.6	43.9	47.0
Of which:								
SDRs	0.3	1.0	1.3	1.3	1.3	1.4	2.1	--
IMF reserve position	0.5	0.8	--	--	--	--	--	--
Liabilities	--	--	0.8	5.1	14.5	17.3	25.3	26.5
Of which:								
Eurocurrency loan <u>1/</u>	--	--	--	4.3	13.4	13.4	19.0	19.0
Use of Fund credit	--	--	0.8	0.8	0.8	2.8	3.6	4.1
Solomon Islands Government, net, <u>2/</u>	0.1	2.9	0.1	0.4	0.3	0.3	0.1	0.1
Total, official reserves, net	26.4	22.6	15.8	14.0	14.9	21.6	18.7	20.6
Commercial banks, net <u>3/</u>	0.3	0.6	-0.1	0.2	-0.1	-0.3	-0.5	0.3
Total, net	26.7	23.3	15.7	14.2	14.8	21.3	18.2	20.9

Sources: Data provided by the Central Bank of Solomon Islands (CBSI); and IFS.

1/ Represents book value of loan.

2/ Includes only deposits with the Crown Agents.

3/ Excludes nonresident deposits and capital account of head office abroad.

Table XXX. Solomon Islands: Government External
Public Debt, 1980-82 1/

(In thousands of Solomon Islands dollars, amount
outstanding at end of period)

	1980	1981	1982
Bilateral loans	<u>395.8</u>	<u>340.9</u>	<u>1,295.1</u>
U.K. development project loans <u>2/</u>	395.8	340.9	1,295.1
Multilateral loans	<u>5,960.9</u>	<u>13,162.1</u>	<u>27,692.5</u>
ADB	<u>5,163.4</u>	<u>6,853.7</u>	<u>10,375.0</u>
Cattle Development Authority Loan	(1,568.9)	(2,293.4)	(2,869.8)
Solomon Islands Port Authority Loan	(789.7)	(314.7)	(1,732.9)
National Fisheries Development Loan	(1,530.2)	(2,352.8)	(2,974.4)
Development Bank of Solomon Islands Loan	(1,274.6)	(1,602.6)	(1,884.6)
Honiara Water Supply	--	(290.2)	(913.3)
IDA	--	--	96.3
European Development Fund	--	556.2	2,266.1
OPEC Special Fund	797.5	1,307.8	1,567.4
Others <u>3/</u>	--	4,444.4	13,387.7
Total	6,356.7	13,503.0	28,987.6

Source: Data provided by the Solomon Islands authorities.

1/ On disbursement basis. Figures differ from CBSI data for total public external debt which is valued at end-period exchange rates.

2/ Interest-free loan.

3/ Including loans on commercial terms.

Table XXXI. Solomon Islands: External Public Debt Service Payments, 1975-90

(In thousands of U.S. dollars)

	1975-79 Average	1980	1981	1982 Est.	1983	1984	1985	1986	1987	1988	1989	1990
					Projection <u>1/</u>							
Amortization	<u>13</u>	<u>16</u>	<u>14</u>	<u>12</u>	<u>13</u>	<u>373</u>	<u>2,855</u>	<u>5,896</u>	<u>6,123</u>	<u>5,256</u>	<u>4,944</u>	<u>478</u>
Concessional loans	<u>13</u>	<u>16</u>	<u>14</u>	<u>12</u>	<u>13</u>	<u>163</u>	<u>213</u>	<u>213</u>	<u>334</u>	<u>497</u>	<u>500</u>	<u>478</u>
Commercial												
borrowing	--	--	--			--	2,222	4,444	4,444	4,444	4,444	--
IMF	--	--	--			210	420	1,239	1,345	315	--	--
Interest	<u>--</u>	<u>--</u>	<u>800</u>	<u>2,330</u>	<u>2,070</u>	<u>2,515</u>	<u>2,447</u>	<u>1,929</u>	<u>1,387</u>	<u>860</u>	<u>381</u>	<u>262</u>
Concessional	<u>--</u>	<u>--</u>	<u>--</u>	<u>272</u>	<u>300</u>	<u>185</u>	<u>257</u>	<u>263</u>	<u>262</u>	<u>261</u>	<u>259</u>	<u>258</u>
loans												
Commercial												
borrowing	--	--	800	2,000	1,600	2,100	1,983	1,517	1,062	590	118	--
IMF	--	--	--	58	170	230	207	149	63	9	4	4
Total	<u>13</u>	<u>16</u>	<u>814</u>	<u>2,342</u>	<u>2,083</u>	<u>2,888</u>	<u>5,302</u>	<u>7,825</u>	<u>7,510</u>	<u>6,116</u>	<u>5,325</u>	<u>740</u>
As percent of												
exports of goods												
and services	--	--	1.2	3.3	2.7	3.4	5.9	8.0	6.9	5.1	4.0	0.5

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

1/ Based on contracted debt at end-1982.

Table XXXII. Solomon Islands: Private Sector External Debt, 1982

(In millions of Solomon Islands dollars,
amount outstanding at end of period)

Purpose	Interest rates				Total
	Free	Up to 5 Percent	5-10 Percent	10 Percent and above	
Agriculture	1.00	--	7.09 <u>1/</u>	0.46	8.55
Forestry	--	--	--	5.34	5.34
Fishing	--	0.50	--	0.04	0.54
Communication	--	--	--	0.40	0.40
Transport	0.41	--	--	0.03	0.44
Construction	0.62	--	--	--	0.62
Tourism	0.22	--	--	--	0.22
Others	0.04	--	--	--	0.04
Total	2.29	0.50	7.09	6.27	16.15
Percentage distribution	14.20	3.10	43.90	38.80	100.00

Source: Data provided by the Solomon Islands authorities.

1/ Includes SI\$6.7 million at 5.6 percent.

Table XXXIII. Solomon Islands: Exchange Rates, 1980-83 ^{1/}

(In units of foreign currency per SI\$)

	Australia (dollar)	United States (dollar)	United Kingdom (pound)	Japan (yen)
1980				
December	1.0620	1.2539	0.5251	254.39
1981				
March	0.9957	1.1573	0.5143	244.15
June	0.9833	1.1292	0.5804	254.95
September	0.9741	1.1147	0.6217	259.47
December	0.9975	1.1250	0.5898	247.12
1982				
January	1.0112	1.1122	0.5935	256.68
February	1.0247	1.1024	0.6021	260.37
March	1.0363	1.0898	0.6116	268.34
April	1.0346	1.0977	0.6123	258.89
May	1.0378	1.0922	0.6075	264.48
June	1.0530	1.0738	0.6187	273.99
July	1.0714	1.0689	0.6152	273.84
August	0.9866	0.9533	0.5581	248.86
September	0.9898	0.9401	0.5540	252.57
October	0.9826	0.9185	0.5470	254.24
November	0.9833	0.9396	0.5846	235.43
December	0.9753	0.9570	0.5902	223.83
1983				
January	0.9608	0.9353	0.6084	221.06
February	0.9620	0.9247	0.6051	217.26
March	1.0206	0.8841	0.6025	221.76
April	1.0212	0.8859	0.5674	210.66
May	1.0010	0.8841	0.5522	210.08
June	0.9886	0.8653	0.5669	207.02
July	0.9685	0.8539	0.5596	205.71
August	0.9508	0.8357	0.5586	206.02
September	0.9400	0.8433	0.5632	199.55
October	0.9187	0.8441	0.5641	196.64

Source: Data provided by the Solomon Islands authorities.

^{1/} End of period.

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