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This paper provides background information to the staff report on the 1982 Article IV consultation discussions with Solomon Islands, which was circulated as SM/82/199 on October 4, 1982.

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INTERNATIONAL MONETARY FUND

Solomon Islands

Recent Economic Developments

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Approved by the Asian and Exchange
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	<u>Contents</u>	<u>Page</u>
Basic Data		iv-v
I.	Introduction and Summary	1
II.	National Income and Production	3
	1. Overall developments	3
	2. Agriculture	3
	a. Copra	3
	b. Oil palm	7
	c. Rice	7
	d. Cocoa	9
	e. Livestock	9
	3. Fisheries	9
	4. Forestry	11
	5. Mining and electricity	11
	6. Manufacturing sector	11
III.	Population, Employment, Wages, and Prices	13
	1. Population and employment	13
	2. Wages and prices	13
IV.	Public Finance	14
	1. Structure of the public sector	14
	2. Budgetary developments in 1981	16
	3. Budgetary prospects for 1982	19
V.	Monetary and Credit Developments	21
	1. Institutional structure	21
	2. Monetary and credit developments during 1981 and January-June 1982	22

<u>Contents</u>	<u>Page</u>
3. Interest rate and other policy developments	24
4. Nonbank financial institutions	25
VI. Balance of Payments	26
1. Overall developments	26
2. Merchandise trade	28
3. Services, transfers, capital movements, and reserves	29
4. External debt	30
a. Public debt	30
b. Private debt	31
VII. Exchange and Trade System	31

Text Tables

1. Gross Domestic Product, 1977-81	4
2. Copra Production and Prices, 1977-82	6
3. Palm Oil Crop Area and Production, 1977-82	8
4. Fish Catch and Utilization, 1977-82	10
5. Timber Production and Utilization, 1977-82	12
6. Retail Price Index by Commodity Group, 1979-June 1982	12
7. Summary of Central Government Budget, 1979-82	17
8. Monetary Survey, 1979-82	23
9. Balance of Payments, 1979-82	27

Appendix Tables

I. Cocoa and Rice Production, 1977-82	33
II. Electricity Production, 1977-82	34
III. Population by Age Group, Growth Rates, and Estimates for 1981	35
IV. Formal Employment by Industrial Sector, 1976-81	36
V. Formal Employment by Geographical Area, 1976-81	37
VI. Retail Prices of Selected Commodities in Honiara, March 1980-May 1982	38
VII. Functional Classification of Government Current Expenditure, 1979-81	39
VIII. Economic Classification of Government Expenditure and Net Lending, 1979-82	40
IX. Functional Classification of Government Capital Expenditure, 1979-81	41
X. Government Revenue and Grants, 1979-82	42
XI. Foreign Grants, 1979-82	43
XII. Banks' Advances and Loans, 1979-82	44
XIII. Summary Accounts of Trading and Savings Banks, 1979-81	45
XIV. Summary Accounts of the Solomon Islands Monetary Authority, December 1979-June 1982	46

<u>Contents</u>	<u>Page</u>
XV. Interest Rate Structure, December 1980-June 1982	47
XVI. Assets and Liabilities of the Development Bank of Solomon Islands, 1979-82	48
XVII. Loan Approvals of the Development Bank of Solomon Islands by Region and by Sector, 1981-82	49
XVIII. National Provident Fund, 1979-82	50
XIX. Assets and Liabilities of the National Provident Fund, 1979-82	51
XX. Balance of Payments, 1979-82	52
XXI. Value, Volume, and Unit Value of Major Exports, 1979-82	53
XXII. Value of Imports by SITC Commodity Groups, 1979-April 1982	54
XXIII. Imports of Major Petroleum Products, 1980-81	55
XXIV. Exports by Country of Destination, 1979-82	56
XXV. Imports by Country of Origin, 1979-82	57
XXVI. International Reserves, 1978-82	58
XXVII. Government External Public Debt, 1979-81	59
XXVIII. External Public Debt Service Payments, 1975-89	60
XXIX. Private Sector External Debt	61
XXX. Exchange Rates, 1979-82	62

Charts

1. Copra Output and Domestic Buying Price, 1977-81	6a
2. Retail Price Indices, 1978-81	16a
3. Foreign Trade Indices, 1977-82	28a
4. Composition of Foreign Trade, 1977-82	28b
5. Effective Exchange Rate of the Solomon Islands Dollar, 1979-82	32a
6. Aggregate Index of Relative Profitability	66a
7. Commodity Indices of Relative Profitability	66a
 Annex: Aggregate and Commodity Indices of Relative Export Profitability	 63-66

Solomon Islands

Basic Data 1/

Area:	28,896 square kilometers
Population (1981):	233,000
Population growth rate (1976-81):	3.4 per cent per annum
GDP per capita (1981):	SDR 606

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> Staff Proj.
<u>GDP (in millions of SI\$)</u>				
GDP at 1978 prices	94.6 (18.9)	89.4 (-5.5)	89.9 (0.6)	86.0 (-4.0)
<u>Prices (percentage change)</u>				
Retail price index	9.9	15.9	14.6	14.0
<u>Central Government budget</u> <u>(in millions of SI\$)</u>				
Revenue and grants	32.2 (18.4)	37.4 (16.2)	40.0 (7.0)	42.9 (7.3)
Expenditure	34.9 (27.4)	40.7 (16.6)	49.6 (21.9)	54.0 (9.8)
Overall surplus or deficit	-2.7	-3.3	-9.6	-11.1
<u>Money and credit (percentage</u> <u>change)2/</u>				
Domestic credit	25.5	14.5	21.2	9.8 3/
Broad money	50.2	-8.7	-16.4	0.6 3/
<u>Balance of payments (in</u> <u>millions of SDRs)</u>				
Exports	53.0 (76.1)	56.3 (6.2)	56.1 (-0.4)	52.8(-5.9)
Imports	-45.2 (59.7)	-56.9 (25.8)	-64.3 (13.0)	-60.0(-6.7)
Current account balance	8.0	-9.3	-17.2	-16.9
Overall balance	5.7	-5.2	-10.3	-7.2
<u>External debt (in millions</u> <u>of SDRs)</u>				
Public debt	2.7	5.9	13.5	...
Public debt service payments	--	--	0.7	2.6
(As a percentage of exports				
of goods and services)	(--)	(--)	(1.0)	(3.5)
<u>Gross official reserves (end</u> <u>of period)</u>				
In millions of SDRs	28.1	23.2	18.5	20.0
In months of imports	5.9	4.3	3.7	3.7
<u>Ratios to GDP (in per cent)</u>				
Government domestic revenue				
and grants	28.6	31.4	28.2	28.1
Government expenditures	31.0	34.2	35.0	35.4

Solomon Islands

Basic Data (concl'd)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> Staff Proj.
Government overall deficit (-)	-2.4	-2.8	-6.8	-7.3
Broad money	36.7	31.7	22.3	...
Domestic credit	9.7	14.2	17.6	...
Exports	52.6	51.1	40.7	37.9
Imports	44.9	51.6	46.6	43.0
Current account deficit (-)	7.9	-8.5	-12.4	-12.1
Public sector external debt	2.7	5.3	9.8	20.0
Interest payments on external public debt	--	--	0.5	1.4
Amortization payments on external public debt	--	--	--	--

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

1/ Figures in parentheses represent percentage changes.

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

3/ June 1981-June 1982.

I. Introduction and Summary

During the 1970s, Solomon Islands recorded an annual average growth rate of about 8 per cent; however, in 1980, GDP at constant factor cost declined by 5.5 per cent. A sharp deterioration in the terms of trade compounded by a fall in copra and fish output adversely affected the profit position of businesses, and this, coupled with uncertain export prospects, curtailed the growth of new private investment. The pattern of economic development remained broadly the same in 1981; although output of most major commodities revived due to favorable production conditions, real operating surpluses of businesses and households continued to decline on account of further deterioration in the terms of trade. Real GDP grew by less than 1 per cent during the year. Available indicators suggest that investment in 1981 was well below the levels of recent years. In 1982, external demand continues to be weak and the terms of trade is expected to deteriorate further. Preliminary estimates suggest that real GDP will decline by 4 per cent.

The rate of inflation slowed to 14.6 per cent in 1981 from 15.9 per cent in 1980, due mainly to a lower rate of increase in external prices. In the first half of 1982, consumer prices increased at an annual rate of slightly less than 14 per cent, reflecting in part a sharp increase in import duties at the beginning of the year. Wage settlements averaged 10 to 12 per cent during 1980-82. Formal employment rose by 7 per cent in 1981.

Fiscal developments in 1981 were characterized by a rapid growth of domestic revenues and recurrent expenditures and by declines in capital outlays and foreign grants. Domestic revenues rose by 34 per cent, reflecting large increases in revenues from import duties and income taxes. Current expenditures increased by 33 per cent due partly to an increase in expenses relating to the administration of local governments. Delays in project formulation and execution contributed to a fall in capital outlays and also to a reduction in foreign grants. Reflecting these developments, the overall budget deficit expanded from 2.8 per cent of GDP in 1980 to 6.8 per cent, with the increase in the deficit mostly financed through greater recourse to domestic borrowing.

In 1982, the overall budget deficit is expected to expand further to 7.3 per cent of GDP, mainly as a result of stagnation in the growth of total revenues and grants. The revenue strategy in the original budget was to increase domestic revenues by 17 per cent over 1981, largely on the basis of a 44 per cent rise in revenues from import duties. During the first half of the year, the increase in import duty revenues was below expectations because of a decline in import volume, and total domestic revenues are now expected to increase by 7 per cent for the year. Current expenditures are expected to increase by 11 per cent, while continued delays in project formulation and execution are expected to constrain the growth of capital outlays and net lending to about 6 per cent.

Monetary and credit developments during 1981-82 reflected the erosion in export profitability and the uncertain business climate. Broad money fell by 16 per cent as depressed export earnings and the sluggish economy led enterprises to liquidate a large portion of their time deposits with the banking system to make foreign payments. In addition to depleting deposits, some enterprises also turned to the banking system to borrow funds for working capital. Partly as a result of this, total domestic credit rose by 21 per cent of the stock of broad money, with over half of the credit expansion in the private sector. During the first half of 1982, the rise in total domestic credit was equivalent to about 11 per cent of the stock of broad money at end-1981, with almost all of the credit expansion financing revenue shortfalls in the government budget. Broad money rose by 10 per cent during the first half, mainly reflecting a further increase in time deposits held by the National Provident Fund (NPF).

The balance of payments position remained weak in 1981, due mainly to a 19 per cent deterioration in the terms of trade. The volume of exports rose by about 10 per cent while that of imports virtually stagnated. As a result, the current account deficit widened from SDR 9.3 million (8.5 per cent of GDP) in 1980 to SDR 17.2 million (12.4 per cent). Although the capital inflow rose substantially due to an increase in private borrowing, the overall deficit nearly doubled to SDR 10.3 million, which was financed by a drawdown of international reserves and a Eurocurrency loan. The pattern of balance of payments developments has remained broadly the same in 1982; the terms of trade are projected to deteriorate further by 6 per cent. The volume of exports is expected to stagnate, while that of imports is to decline considerably due to the sluggishness of the economy. As the value of imports is projected to decline more than that of exports, the trade deficit is expected to be smaller. With the reduced trade deficit, a modest reduction in the current account deficit to SDR 16.9 million (12.1 per cent of GDP) is projected for 1982. Net capital inflows are estimated to increase slightly, reflecting the inflow of loans for development projects. The overall deficit is expected to decline to SDR 7.2 million.

As most of external public debt is on highly concessional terms, debt service payments have been negligible in recent years. In 1981, the Government contracted its first syndicated loan of US\$20 million in the Eurodollar market. The debt service ratio was 1 per cent in 1981 and is projected to rise to about 5 per cent during 1985-87 when the grace period on the Eurodollar loan expires. At the end of June 1982, gross international reserves amounted to SDR 29.0 million, equivalent to about five months of estimated imports. Such reserves are projected to decline by the end of the year to SDR 20.0 million, equivalent to less than four months of imports.

During the period from March 1981 to the early part of August 1982, the Solomon Islands dollar was pegged to a settlement-weighted currency basket dominated by the U.S. dollar. The trade-weighted real effective exchange rate index had, however, risen by March 1982 to a level about 9 per cent higher than the level of February 1981, when the Solomon Islands

dollar was depreciated by 6 per cent. The authorities devalued the Solomon Islands dollar by 10 per cent in August 1982. In addition, they switched the currency peg to a trade-weighted basket and allowed for a 2 per cent discretionary band in either direction around the peg.

II. National Income and Production

1. Overall developments

GDP at constant factor cost declined by 5.5 per cent in 1980 (Table 1), following growth rates averaging about 8 per cent during the 1970s. This decline was due mainly to a sharp reduction in real operating surpluses of businesses and households, stemming from a 21 per cent deterioration in the terms of trade compounded by a fall in copra and fish output. In 1981, despite a revival of output of most major commodities due to favorable production conditions, real operating surpluses continued to decline on account of a 19 per cent deterioration in the terms of trade; the growth of real GDP slowed to 0.6 per cent. For 1982, external demand continues to be weak and a deterioration of 6 per cent in the terms of trade is projected. Preliminary estimates suggest that real GDP will decline by 4 per cent during the year.

Production in the monetized sector declined by 9.0 per cent and 3.8 per cent in 1980 and 1981, respectively, resulting in an increase in the share of the subsistence sector in GDP from 35.8 per cent in 1979 to 40.9 per cent in 1981.^{1/} In the subsistence sector, population rose by 7.6 per cent in 1981, and production is assumed to have increased at the same rate. Because of the poor economic performance in the monetized sector, there was a significant movement of population toward the subsistence sector in 1981.

Although data on investment are not available in the national accounts, indicators suggest that investment in 1981 was well below the levels in recent years; imports of investment goods in real terms declined by 29 per cent; bank credit to primary and manufacturing sectors fell by over 50 per cent; and private direct investment from abroad virtually ceased. The continuing deterioration in the terms of trade and unfavorable export prospects for the medium term were the major factors adversely affecting private investment.

2. Agriculture

a. Copra

Copra is produced by both smallholders and plantations in Solomon Islands. After a decline in output during 1980, due partly to a temporary

^{1/} Agriculture, fishing, and forestry are the principal economic activities of the Solomon Islands economy. The subsistence sector produces food, housing, and transport services for its own consumption. The monetized sector of the economy mainly produces for exports. Many Solomon Islanders participate in production in both sectors.

Table 1. Solomon Islands: Gross Domestic Product, 1977-81

(In thousands of Solomon Islands dollars)

	1977	1978	1979	1980	1981
Monetary sector					
1. Wages and salaries	21,700	25,200	27,100	31,300	38,000
Expatriates	6,800	7,500	7,500	8,000	9,000
Others	14,900	17,700	19,600	23,300	29,000
2. Operating surplus	11,212	13,636	27,528	21,602	19,127
Business	7,656	9,300	20,700	15,100	12,700
Companies			(17,000)	(16,600)	(12,700)
Cooperatives			(300)	(300)	(300)
Public enterprises			(3,400)	(-1,800)	(-300)
Government	746	775	657	813	738
Rents (quarters)			(643)	(727)	(608)
Timber royalty			(14)	(86)	(130)
Households	2,770	3,561	6,171	5,689	5,689
Copra			(5,603)	(4,880)	(4,848)
Other			(568)	(809)	(841)
3. Incomes (monetary) at factor cost (1 + 2)	32,912	38,836	54,628	52,902	57,127
4. Depreciation	6,160	7,500	10,911	14,247	18,052
5. GDP (monetary) at factor cost (3 + 4)	39,072	46,336	65,539	67,149	75,179
6. Indirect taxes less subsidies	5,408	6,200	10,545	10,400	14,400
7. GDP (monetary) at market prices (5 + 6)	44,880	52,536	76,085	77,569	89,579
Nonmonetary sector					
8. Gross subsistence product	29,050	33,225	36,583	41,540	42,029
Monetary and nonmonetary sectors					
9. GDP at factor cost (5 + 8)	68,122	79,561	102,122	108,689	117,208
10. GDP at market prices (9 + 6)	73,530	85,761	112,668	119,089	141,608
Memorandum items:					
GDP at constant 1978 prices					
Subsistence production	31,665	33,225	33,873	34,159	36,756
Monetary incomes	42,588	46,336	60,684	55,217	53,110
GDP at factor cost	74,252	79,561	94,557	89,376	89,866

Source: Data provided by the Solomon Islands authorities.

work stoppage on one of the major plantations, production revived in 1981 and reached an all time high of 34,000 metric tons, despite a continuing decline in export and domestic buying prices (Table 2). The perverse movements between production and price of copra reflected the results of substantial replanting of coconut trees by smallholders three to five years ago and attempts by producers to maintain income levels in the face of declining prices (Chart 1). In 1981, the share of smallholders in total production of copra continued to increase and reached 70.4 per cent as a consequence of improvements in collection of copra from the outer islands. In 1982, copra production is expected to increase by 2.7 per cent. Considerable potential exists in increasing production through improved collection of copra and in exploiting the number of possible by-products of coconut.

The Copra Board has a monopoly over buying and marketing copra. To increase collection of copra from the outer islands, the Board has established three collection points where copra is graded and packed for export. Since February 1980, the Board buys copra from all producers at a price composed of a uniform basic price and a variable freight equalization component. To determine the latter, the country is divided into four different zones, and freight compensation is paid to producers in each zone on the basis of the average cost of transportation and distance from the nearest collection point. Collection of copra from the outer islands has been further enhanced by improved inter-island shipping facilities.

In setting its domestic buying price, the Copra Board aims at providing producers with a relatively more stable price than the one existing in the international market. For its price support program, the Board accumulates reserves during times of price buoyancy in the world market and uses them when world market prices are depressed to provide price support to domestic producers.^{1/} During 1981-82, with the sharp

^{1/} The domestic buying price is determined on the basis of the London c.i.f. export price adjusted for freight and other cost. For example, in June 1982, the domestic buying price was higher than the net receipt of the Copra Board:

(In U.S. dollars per metric ton)

London c.i.f. export price	315
Freight	70
Fixed cost of Copra Board	20
Shrinkage 5 per cent, brokerage	
1/2 per cent of fob value	13
Net receipts of Copra Board	<u>212</u>
Domestic buying price	<u>249</u>
Of which: average freight equalization payment	35
Basic buying price	<u>214</u>
Implicit price support	37

Table 2. Solomon Islands: Copra Production and Prices, 1977-82

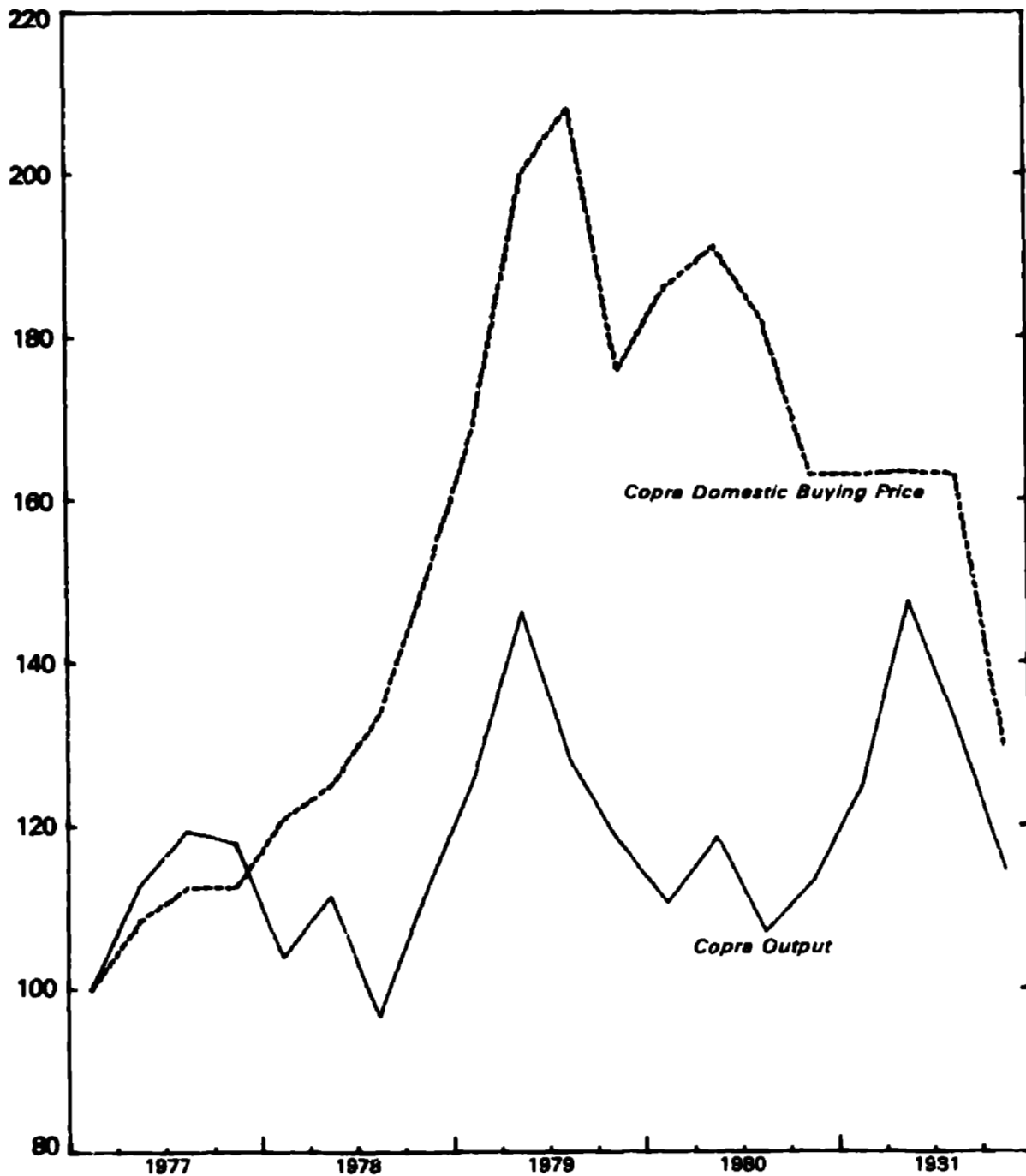
	Marketed Production ('000 metric tons)				Prices (SI\$ per metric ton)	
	Small- holder	Plantation	Total	Smallholder Share (per cent)	Copra Board ^{1/} Buying Price Incl. Freight Payment	Export Unit Value ^{2/}
1977	18.1	11.1	29.2	62.0	191	297
1978	17.6	9.9	27.5	64.1	233	301
1979	23.1	10.5	33.6	68.9	332	494
1980	20.5	8.7	29.2	70.1	318	383
1981	23.7	10.0	33.7	70.4	275	255
1982 (Proj)	24.6	10.0	34.6	71.1	275	248

Sources: Statistics Office, Statistical Bulletin, No. 5/82; and data provided by Solomon Islands authorities.

^{1/} Average price for first grade copra, including the average freight equalization payment.

^{2/} Export unit value reflects the F.O.B. Honiara export price.

CHART 1
SOLOMON ISLANDS
COPRA OUTPUT AND DOMESTIC BUYING PRICE, 1977-81



Sources: Statistics Office Statistical Yearbook 1981, Statistical Bulletin No. 29/81 and data provided by Solomon Island authorities

decline in export prices of copra, the Board provided substantial price support to domestic producers. The scale of such support was indicated by a decline of SI\$2.8 million in bank deposits of the Board during March 1981-June 1982; at the end of June 1982, the ready reserve of the Copra Board totaled SI\$1.9 million, in addition to SI\$0.9 million in the Copra Export Duty Stabilization Fund.^{1/} In 1982, the Government also suspended the export tax on copra. Most export sales are made by advance contract and have been directed to Europe and Japan. However, more recently, the People's Republic of China is emerging as a potentially important market.

b. Oil palm

Palm oil is almost totally produced by a joint-venture company, Solomon Islands Plantation Limited (SIPL). In 1981, production increased by over 27 per cent, aided in part by an increase in export prices of about 18 per cent and by the introduction of a weevil to help natural pollination of oil palms (Table 3). The cultivated and mature area under oil palm did not change in 1980-81. Production of palm kernel, a by-product, has paralleled that of palm oil, increasing by 35 per cent in 1981. The existing mill for the extraction of palm oil has been underutilized and could handle output from another 1,000 hectares of oil palm, but expansion by SIPL and smallholder cultivation has been limited due to land tenure problems. Most existing palms have matured except those which were sown over 210 hectares in 1981-82. A further 210 hectares are planned to be cultivated in 1982-83. Production increases before 1985-86, when the new cultivation will yield crops, may depend on the success of the weevil pollination process. A slight decline in production projected for 1982 reflects the effects of below average rainfall in 1981.

c. Rice

In an effort to attain self-sufficiency in food production, the Government produced rice in a joint venture with a foreign company in Guadalcanal. Following substantial increases in 1980, both the area under cultivation and rice production, however, almost leveled off in 1981 (Appendix Table I). Production was adversely affected by abnormally severe pest problems. Since the varieties of rice grown in Guadalcanal were not consumed locally, domestic production was exported and locally popular varieties of rice were imported. The joint venture company incurred large losses in 1981 on its export sales, however, due to high costs of production and declining world prices. Consequently, in 1982, it limited cultivation to only one fourth of the area cultivated in the previous year and suspended all exports. A new pest-resistant and locally popular variety of rice has also been introduced. Moreover, the implementation of a land-leveling program is expected to increase yields and to reduce costs of herbicides.

^{1/} This Fund was established in 1975 to utilize unused aid from the United Kingdom and it was matched by equal contributions from the Copra Board. The Fund is at the disposal of the Copra Board for its price support program.

Table 3. Solomon Islands: Palm Oil Crop Area and Production, 1977-82

	Crop Area End-Year (hectares)		Production ('000 metric tons)		Domestic Sales as Per Cent of Production	
	Cumulative cultivated area	Mature area	Palm oil	Palm kernel	Palm oil	Palm kernel
1977	3,335	2,464	7.04	1.44	...	...
1978	3,335	2,994	10.91	1.96	0.2	...
1979	3,335	3,286	13.01	2.26	0.5	...
1980	3,335	3,335	14.23	2.35	0.6	...
1981	3,335	3,335	18.08	3.16	0.5	...
1982 (Proj.)	3,545	3,335	17.90	3.12	0.7	...

Sources: Statistics Office, Statistical Bulletin, No. 13/82; and data provided by Solomon Islands authorities.

d. Cocoa

Cocoa is the only other crop, apart from coconut, grown both by smallholders and large plantation owners for export. In 1981, total production of cocoa increased by almost 70 per cent, despite a continuing reduction in the export unit price during 1980-81 (Appendix Table I). Production is likely to increase further by 50 per cent in 1982, as a result of investment in new cultivation during the past two to three years. In order to protect domestic producers from price fluctuations in the international market, the Copra Board is planning to take over the marketing of cocoa by the end of 1982 and introduce a price stabilization program for cocoa. This is likely to increase cocoa cultivation substantially in the near future, especially on monocrop plantations owned by foreign companies.

e. Livestock

Since 1978, the size of the domestic herd has declined because consumption of beef, 70 per cent of which is met by domestic cattle, has been in excess of the increase in the size of the herd. The Government plans to achieve self-sufficiency in beef production and exploit the potential for exporting beef to neighboring islands. For this purpose, the Government established the Cattle Development Authority and encouraged private owners to enlarge the size of their herds by bringing the domestic price of beef in line with the international market. The number of cattle is estimated at about 23,000. The implementation of expansion projects has been sluggish because of lack of funds and demands on available land for alternative uses in agriculture.

3. Fisheries

As a result of improved fishing conditions and an enlarged fleet, the total fish catch increased by 11.3 per cent in 1981 (Table 4). Most of the fish were caught by Solomon Taiyo Limited (STL) a joint-venture company, and the National Fisheries Development Corporation (NFDC). The fishing fleet is managed by STL which presently has 25 modern ships, including 14 chartered from Okinawa and five owned by the NFDC. At present, 14 of these ships are based at Noro in the Western Division and 11 at Tulagi in the Central Division. One ship was added to the STL fleet in 1982. Two ships are to be purchased by NFDC in 1983, while over the next ten years, another eight ships will be added to the total fleet. A cannery with a capacity of 200,000 cases is also planned for 1985.

The fishing industry has been under considerable financial strain during 1981-82. Despite increased production, export earnings have declined due to falling world market prices. The world market for tuna has been affected mainly by the sharp reduction in demand from North America. In the United States, low prices of grain have made poultry cheaper, which has in turn reduced tuna consumption. A decline in the efficiency of fuel consumption by the fleet has also contributed to the financial

Table 4. Solomon Islands: Fish Catch and Utilization, 1977-82

(In metric tons)

	Total Catch ^{1/}	Utilization				Other Uses
		Frozen/ exported	Frozen/ domestic sales	Canned	Smoked	
1977	12,056	9,773	195	1,745	964	--
1978	17,453	14,518	132	2,056	1,003	--
1979	23,804	21,918	136	2,267	786	84
1980	22,755	18,111	225	2,162	905	180
1981	25,317	23,246	291	2,060	843	154
1982 (proj.)	24,000	18,000	300	2,335	1,000	--

Sources: Statistics Office, Statistical Bulletin, No. 13/82; and data provided by Solomon Islands authorities.

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

straints on the industry; the consumption of fuel per unit of fish caught has increased from 357 liters per ton of fish in 1979 to 571 liters per ton of fish in 1981. The increased use of fuel is attributed to the use of netting and carrier fishing ships. To cope with the declining earnings, STL has shortened the fishing season in 1982 by one month (May-December), which is expected to result in a 5 per cent decline in total fish catch. STL has also replaced some of its personnel with more experienced fishermen to increase productivity.

4. Forestry

Production of logs increased by 21.8 per cent in 1981 to about 364,000 cubic meters (Table 5). Production of sawn timber increased marginally, while veneer production declined by 29.4 per cent. The increase in log production in 1981 was due mainly to new timber cutting licenses granted in New Georgia. Production is expected to increase further in 1982 with the issuance of two more licenses. The annual quota in 1981 for licensed areas was about 400,000 cubic meters, but actual production remained below that level. The authorities are unlikely to allow total production to exceed 400,000 cubic meters, which is considered an annually sustainable yield. Reafforestation has been slow for lack of funds. In an effort to involve the private sector in reafforestation, the Government recently introduced a measure whereby one third of import duties paid on machinery for logging will be reimbursed to participating firms.

5. Mining and electricity

Despite evidence of the existence of a number of minerals in Solomon Islands, the prospects for commercial development are unfavorable, except for gold. The production of gold remains small, although it almost doubled in two years reaching 42 kilograms in 1981. Gold is presently mined from alluvial deposits, and the Government has recently opened the hills comprising the hinterland of these alluvial deposits to prospectors. An inland road exists in the area, which should make early exploration possible. Projects for the mining of bauxite and phosphate have been postponed indefinitely.

Total electricity generation rose by 8 per cent in 1981 after a rise of 11 per cent in 1980 (Appendix Table II). The planned Lungga hydro-electric project, which was expected to generate sufficient power to meet the growing needs of Guadalcanal up to 1990, has been temporarily suspended, because the revised cost of construction makes it economically impractical. If the Lungga project is permanently shelved, a wood-burning project with a capacity of five megawatts will be developed instead. The commercial feasibility of producing energy from biowaste and solar sources is also being examined.

6. Manufacturing sector

Output data on the manufacturing sector are not available. However, indicators suggest that output continues to be small and consists of simple processing activities like soap-making, baking, metal work, wood manufactures, boat-building, and tobacco manufactures. At present, domestic demand for manufactured goods is met almost entirely by imports.

Table 5. Solomon Islands: Timber Production and Utilization, 1977-82

(In '000 cubic meters)

	<u>Logs</u>		<u>Sawn Timber 1/</u>		<u>Veneer 1/</u>	
	Production	Exports	Production	Exports	Production	Exports
1977	259.0	237.6	8.2	1.6	0.4	0.3
1978	274.2	246.3	11.1	2.7	0.8	0.9
1979	298.8	257.9	17.0	7.9	1.1	1.1
1980	298.8	257.9	19.5	5.1	1.7	1.6
1981	364.5	315.2	19.9	6.1	1.2	1.2
1982 (Proj.)	...	325.0	25.0	5.0	--	--

Sources: Statistics Office, Statistical Bulletin, No. 13/82; and data provided by Solomon Islands authorities.

1/ Log input in production of sawn wood and veneer is about double the output of final product.

III. Population, Employment, Wages, and Prices

1. Population and employment

According to the last census taken in 1976, total population in Solomon Islands was estimated at 196,823, with a rate of growth of 3.4 per cent per annum. On this basis, total population is estimated to have increased to 232,936 in 1981. The population in the capital, Honiara, increased by 7.5 per cent in 1981 to a total of 21,000, indicating a substantial migration to the capital. Inter-island migration has resulted in considerable differences in growth rates of population among islands.

Total formal employment increased by 7 per cent in 1981 or at about the same rate as in 1980. The proportion of the population in the age group 15-59 increased from 19 per cent in 1980 to 20 per cent in 1981 (Appendix Table III). Formal employment increased in all industries during 1976-81, except in mining, with the highest rates of growth in financial services (Appendix Table IV). The social and personal services sector has the largest employment. By geographical area, employment increased during 1976-81 in such provinces as Western, Central Islands, Guadalcanal, and in Honiara (Appendix Table V). By type of employer, in 1981, the Central Government employed 29.9 per cent; provincial governments, 5.0 per cent; and nongovernment enterprises and organizations, 64.3 per cent of the total formally employed labor force.

2. Wages and prices

Total wages and salaries paid in the formal employment sector (including expatriates) increased from SI\$31.3 million in 1980 to SI\$38 million in 1981,^{1/} reflecting an average wage increase of 15 per cent and the 7 per cent rise in employment. The rate increase in wages during 1981 varied among types of employers. The wage bill of the national and provincial governments, with 35 per cent of all formally employed people, accounts for 45 per cent of the total; this in part reflects a higher proportion of expatriate workers who receive relatively higher wages.

Since the Government is the largest employer in Solomon Islands, the Government wage adjustment usually establishes a guideline for the rest of the economy; the wage and salary increase in 1981 ranged from 8 to 12 per cent in the permanent public service, as compared with an increase of 10 to 15 per cent in several large businesses and up to 20 per cent in some smaller firms. At the beginning of 1982, the Government entered into a three-year contract with the Union of Government Employees, whereby wages would be adjusted upward each year by 3 per cent plus one half of the increase in the consumer price index during the preceding 12 months; public service employees received a wage adjustment of 10 to 12 per cent in 1982.

^{1/} Expatriates received SI\$9 million of SI\$38 million in 1981.

The retail price index rose by 16.4 per cent during 1981 on an average yearly basis and by 14.6 per cent on an end-year basis (Table 6). Prices of food items, which carry almost half the weight of commodities in the index and half of which are imported, increased by 19.5 per cent on an average yearly basis. Other components contributing to the increase in the price index were drink and tobacco (21.3 per cent), and transport (19.1 per cent) (Chart 2). Prices of clothing, housing, and utilities increased by less than the average for all items (Appendix Table VI). To a large extent, inflation in 1981 was attributable to increases in international prices of imports, the devaluation of the Solomon Islands dollar in March 1981, and the sizable increase in import duties levied at the beginning of the year. The average wage settlement of about 15 per cent and an increase in domestic food prices also contributed to the rise in the retail price index.

During the first half of 1982, the retail price index, on an average annual basis, increased by 13.6 per cent over the corresponding period of 1981. The price rise in 1982 largely reflected a sharp increase in import duties at the beginning of the year. Other factors contributing to inflation included an increase in inter-island shipping fares and the removal of subsidy on water rates in Guadalcanal, water charges were raised from SI\$0.50 to SI\$4.00 per 5,000 gallons. The projected inflation for the remaining year is about the same as in the first half, reflecting the expected effects of a 10 per cent devaluation of the Solomon Islands dollar in August 1982.

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 a number of public enterprises.^{1/} There are no consolidated accounts of the public sector, but available data suggest that total public sector spending was equivalent to slightly less than 40 per cent of GDP in 1980-81. The Central Government accounts for roughly 90 per cent 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 enterprise sector consists of entities engaged in operations in: postal and telecommunication services, water supply and sewage, broadcasting, and electricity, and the following statutory corporations: Solomon Islands Tourist Authority, Honiara Port Authority, the Government Shareholding Agency, the Cattle Development Authority, and the Copra Board. Public financial institutions include the SIMA, the Development Bank of Solomon Islands, the Solomon Islands Housing Authority, and the NPF.

Table 6. Solomon Islands: Retail Price Index by Commodity Group, 1979-June 1982

(Fourth quarter 1977 = 100)1/

End of Period	Food (470)	Drink and Tobacco (95)	Clothing (50)	Housing and Utilities (155)	Transport (110)	Misc. (120)	Total All Items (1,000)	Per Cent Annual Change in Total Index
1979 (Average)	(116.3)	(120.1)	(104.2)	(109.4)	(116.7)	(120.2)	(115.4)	(8.0)
March	112.8	115.4	102.9	103.2	114.3	114.6	111.5	6.0
June	114.6	122.1	103.1	108.7	115.6	118.1	114.1	7.5
September	117.2	115.8	104.9	112.5	117.0	122.1	116.3	8.6
December	120.6	126.9	105.8	113.2	119.7	125.8	119.8	9.7
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)2/	(175.9)	(183.9)	(125.2)	(144.0)	(174.6)	(155.6)	(166.6)	(13.6) 3/
March	175.0	182.2	124.6	143.2	170.1	155.8	165.4	14.8
June	180.8	188.1	130.9	146.7	176.8	158.2	170.5	11.95

Source: Data provided by the Solomon Islands authorities.

1/ Beginning in the fourth quarter of 1977, data refer to an updated weighting of the retail price index.

2/ January-June period.

3/ Per cent annual change over average of January-June 1981.

The Central Government's operations are implemented through two separate budgets. The recurrent budget is funded primarily by tax and nontax revenues. Since 1979, the recurrent budget has been in near balance. The capital budget provides for development projects and is financed largely by foreign grants and concessional loans. Given that all project loans from other governments and multilateral development institutions transit through the budget, the overall budget deficit has tended to increase in line with such loans in recent years. Domestic borrowing has financed the portion of development expenditures not linked to grants or concessional loans.

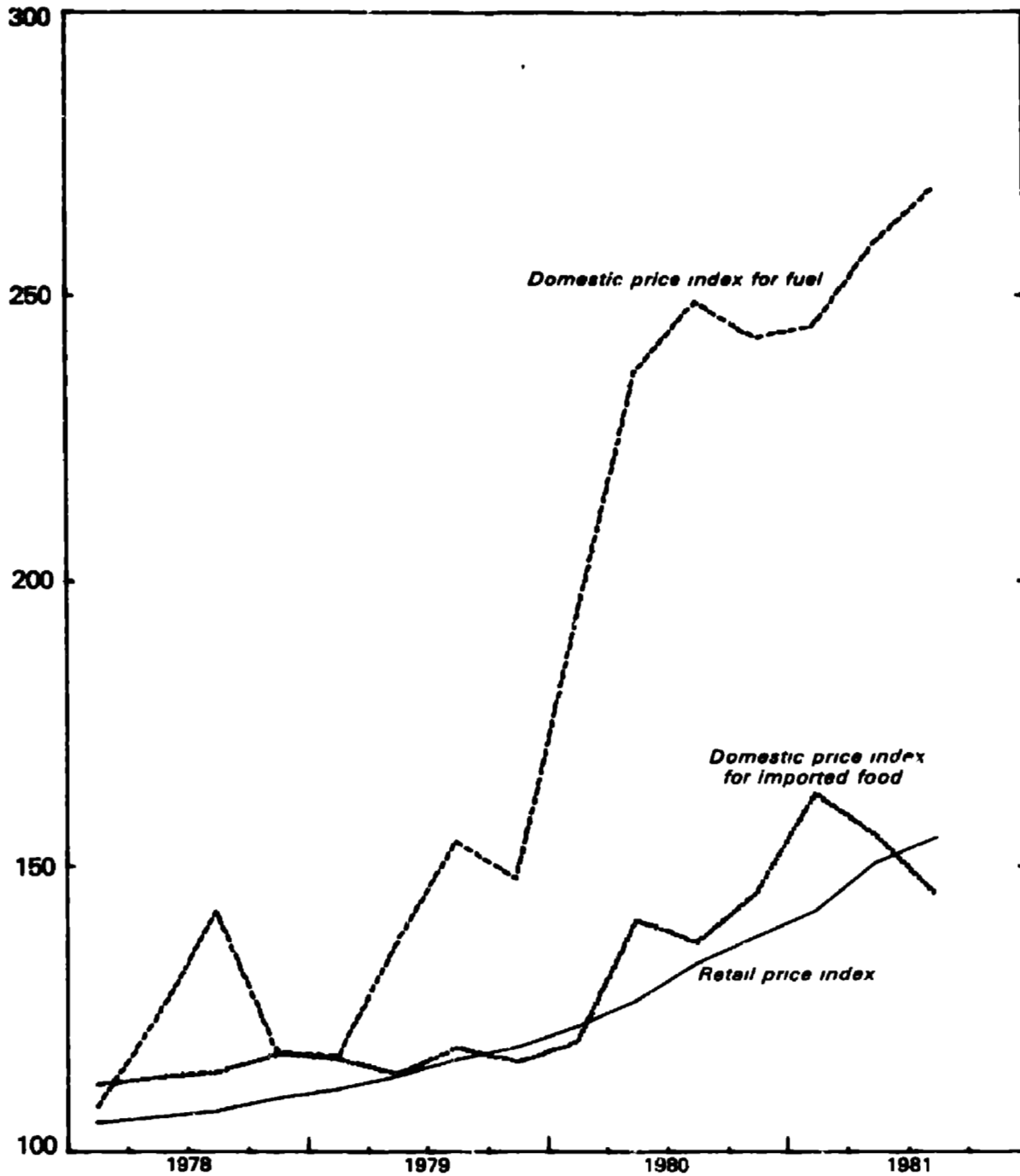
The responsibilities of the provincial assemblies have grown to include public works, education and health, and some economic services. The major source of revenues for the provinces is transfers from the Central Government; in 1982, it is estimated that the Central Government will finance over 95 per cent of provincial expenditures. The tax base in many of the provinces is extremely limited due to the subsistence character of the economy in these regions. Provincial revenues are generated mainly by a head tax and business licenses and fees. The Government is encouraging a greater revenue effort by the provinces and is now studying recent recommendations on provincial taxation made by a member of the Fund's panel of fiscal experts.

2. Budgetary developments in 1981

Fiscal developments during 1979-81 were characterized by a rapid growth of revenues and expenditures, reflecting the transfer of functions from colonial to national authorities and the enlargement of government administration following the country's independence in mid-1978. Total revenues increased by 25 per cent during 1979-81, as a 63 per cent increase in domestic revenues more than offset a sharp reduction in grants. During the same period, total expenditure and net lending grew by 42 per cent, largely as a result of increased recurrent expenditures. Reflecting these developments, the overall budget deficit expanded from about 2.4 per cent of GDP in 1979 to 6.8 per cent in 1981 (Table 7). Whereas the deficit was financed entirely by concessional external project loans and domestic nonbank borrowing during 1979-80, a delay in anticipated external financing necessitated substantial bank financing in 1981.

During 1981, total expenditure and net lending increased by 21 per cent, largely on the basis of a 33 per cent increase in current expenditures. Roughly 40 per cent of the increase in current expenditures was accounted for by an increase in general government administration expenditures, which increased from SI\$6.3 million in 1980 to SI\$9.6 million in 1981 (Appendix Table VII). The increase in government administration spending is partly due to a policy expanding the administrative capabilities of the provincial assemblies; a single public service staffs both central and provincial government positions. A substantial increase in current transfer payments to provincial assemblies has also supported the devolution of public sector responsibilities. Of the total current expenditures of SI\$32.0 million, expenditures on goods and services accounted for 73 per

CHART 2
SOLOMON ISLANDS
RETAIL PRICE INDICES, 1978-81



Sources: Statistics Office Statistical Yearbook 1981, Statistical Bulletin No 29/81

**Table 7. Solomon Islands: Summary of Central
Government Budget, 1979-82**

(In millions of Solomon Islands dollars)

	1979	1980	1981 Prelim.	<u>1982 (Estimate)</u> Budget Revised	
Revenues and grants	32.2	37.4	40.0	51.3	42.9
Domestic revenue	19.5	23.7	31.8	37.3	34.1
Tax revenue	15.7	18.5	24.2	29.7	26.5
Income taxes	5.0	7.3	9.6	10.3	10.5
Individuals	(2.7)	(3.1)	(4.7)	(6.3)	(6.9)
Companies	(2.3)	(4.2)	(4.9)	(4.0)	(3.6)
Export duties	5.5	4.4	4.1	4.8	3.8
Import duties	4.4	5.6	9.3	13.4	11.0
Other tax revenue	0.8	1.2	1.2	1.2	1.2
Other revenues and fees	3.8	5.2	7.6	7.6	7.6
Grants	12.7	13.7	8.2	14.0	8.8
Expenditure and net lending	34.9	40.7	49.6	59.6	54.0
Recurrent	19.9	24.1	32.0	33.9	35.4
Of which: wages	(7.8)	(8.7)	(10.8)	(11.4)	(12.6)
Capital	12.0	11.4	10.8	19.9	12.8
Net lending	3.0	5.2	6.8	5.8	5.8
Of which: GSA <u>1/</u>	(1.6)	(3.2)	(2.4)	(3.0)	(3.0)
Overall deficit	-2.7	-3.3	-9.6	-8.3	-11.1
Total financing	2.7	-3.3	9.6	8.3	11.1
Domestic	0.7	-0.1	6.4	0.8	3.1
Of which: Banking system	(-0.7)	(-3.1)	(3.3)	(--)	(...)
Foreign borrowing (net)	2.0	3.4	3.2	7.5	8.0
(As per cent of GDP)					
Memorandum items:					
Domestic revenue	17.3	19.9	22.5	24.5	22.4
Tax revenue	13.9	15.5	17.1	19.5	17.4
Total expenditure and net lending	31.0	34.2	35.0	39.1	35.4
Recurrent expenditure	17.7	20.2	22.7	22.2	23.3
Capital expenditure	10.6	9.6	7.6	13.1	8.4
Net lending	2.7	4.4	4.8	3.8	3.8
Overall deficit	2.4	2.8	6.8	5.5	7.3

Sources: Data provided by the Solomon Islands authorities; SIMA Annual Report, 1981, Ministry of Finance; and staff estimates.

1/ Government Shareholding Agency.

cent, and subsidies and transfers had a 26 per cent share (Appendix Table VIII). A classification by function shows that general public services in 1981 claimed 38 per cent of total current expenditures, compared to 34 per cent in 1979. The share of education remained somewhat above 17 per cent in 1981, while the shares of health and economic services fell to 12 per cent and 19 per cent, respectively.

Total capital expenditures and net lending rose by 6 per cent in 1981, reflecting higher levels of net lending and lower capital spending. Mainly as a result of problems in project formulation and execution, capital outlays fell to SI\$10.8 million in 1981, compared to SI\$11.4 million in the previous year. The decline was largely due to lower spending on road construction and other transport and communication facilities (Appendix Table IX). Capital expenditures on health and education stagnated in 1981. The only area in which capital expenditures substantially exceeded 1980 levels was in the development of urban housing and community amenities. This expenditure partly reflects the development of sites for staff housing for the Lungga hydroelectric project that were made prior to its postponement. Among specific projects, the postponement of the Lungga power plant and delays in the development of the telephone system account for the largest shortfalls in capital expenditures relative to budgetary approvals.

Net lending increased from SI\$5.2 million in 1980 to SI\$6.8 million in 1981. The increase was mainly due to higher lending to local governments. In late 1981, the Government decided on a large-scale restructuring of debts owed by the provincial governments. Debts representing unpaid bills for stores, shipping, and vehicle hire had reached about SI\$1.8 million at end-1981. Within the terms of the agreement, SI\$600,000 was written off and the remainder is to be paid off in equal annual instalments over the next ten years. In conjunction with efforts to correct problems with administration of lending to the provinces, credit on supplies and shipping charges will be limited to three months.

Total revenues and grants increased by 7 per cent to SI\$40.0 million in 1981 (Appendix Table X). Despite the weak economy, domestic revenues have been remarkably buoyant, rising by 34 per cent in 1981. Tax revenues as a per cent of GDP rose steadily from below 14 per cent in 1979 to over 17 per cent in 1981. This increase is almost entirely due to revenues from import duties and higher income tax receipts. The growth in personal income tax revenues is the result of upward movements in wages and salaries, increased employment in the cash sector, and improved collection procedures associated with the withholding tax system and expanding computerization. In 1981, personal income taxes were over 50 per cent higher than in the previous year, as revenues from withholding taxes increased by about 60 per cent. Corporate taxes rose by 17 per cent. Revenue from import duties increased by 66 per cent in 1981. Tax measures that contributed to this increase include a 20 per cent increase in duties on all non-oil imports and a doubling in the rate of taxation on petroleum products to a range of 10 to 20 per cent, as a system of ad valorem rates replaced specific taxes. Export duties declined modestly, reflecting a decline in the

total value of exports during 1981. Substantial increases in government fees and charges, most notably a 50 per cent increase on air transport charges, also boosted revenues in 1981.

Partially offsetting the buoyant domestic revenue performance, foreign grants declined from SI\$13.7 million in 1980 to SI\$8.2 million in 1981 (Appendix Table XI). Development aid from the United Kingdom was reduced sharply from 1980 levels, mainly reflecting delays in the implementation of projects eligible for support. The Independence Financial Settlement (1978), whereby the United Kingdom agreed to provide SI\$26 million in development assistance following Solomon Islands independence, expired in 1981.^{1/}

The overall deficit increased from SI\$3.3 million in 1980 to SI\$9.6 million in 1981. The deficit was financed in equal parts by net use of bank credit, nonbank borrowing, and foreign financing. Domestic borrowing included a loan of SI\$1.5 million from the NPF, a SI\$1.0 million issue of development bonds, and the first issue of Treasury bills for SI\$0.5 million. Foreign borrowing was related to development projects through the soft-loan facilities of the Asian Development Bank and the OPEC Special Fund. At end-1981, outstanding domestic public debt amounted to SI\$10.7 million, while foreign public debt amounted to SI\$13.9 million.

3. Budgetary prospects for 1982

Based on fiscal developments during the first half of 1982, the overall budget deficit is expected to be SI\$11.1 million (7.3 per cent of GDP), compared to a deficit of SI\$8.3 million (5.5 per cent) in the original budget and a deficit of SI\$9.6 million (6.8 per cent) in 1981. The upward revision in the budget deficit estimate mainly reflects lower estimates for tax revenues, particularly from import duties, and a slight overrun in recurrent expenditures. Almost three quarters of the overall deficit is expected to be financed by external project related loans on concessional terms, mainly from the Asian Development Bank, the European Development Fund, and the United Kingdom. Domestic borrowing will consist of a SI\$2.0 million issue of development bonds, with the remainder provided by loans from the NPF and a Treasury bill issue.

Total revenues and grants are expected to increase by 7.3 per cent, compared to an increase of 28 per cent projected in the original budget, as estimates of domestic revenue and receipts from grants have been revised downward. In the 1982 budget, a broad set of measures was introduced with the aim of raising tax revenues by 23 per cent. A central feature of the tax strategy was its reliance on import duties, which were intended to increase by 44 per cent and thereby account for roughly half of total tax revenue. To accomplish this objective, import duties

^{1/} The unspent balance under the arrangement has continued to be available for project financing. About SI\$4.5 million and SI\$1.3 million in grants have been earmarked for project financing in 1983 and 1984, respectively.

were raised across the board. Duties ranging between 5 and 10 per cent were placed on items that had previously been duty free, including many food items, chemicals, and other intermediate inputs; a 15 per cent tariff was added to the existing rates on crude materials. With regard to petroleum products, duty on petrol and lubricating oils was increased to 30 per cent (a 50 per cent increase), and a 10 per cent tariff was introduced on kerosene. Duties on alcohol and tobacco were raised by a third, and a 5 to 10 per cent duty was added to almost all other imported items. During the first half of the year, the increase in revenues from imports was below expectations because of a decline in import volume. Import duties are currently projected to increase by about 18 per cent in 1982 and supply about 40 per cent of total tax revenue.

Export duties have also been revised downward as a result of the unexpected 5 per cent decline in export value now being projected. To provide some relief to commodities experiencing weak international prices, the export duty on copra was suspended, and a sliding scale running from 10 per cent to 5 per cent on frozen fish replaced a 10 per cent duty. To offset the revenue impact, a 10 per cent duty on cocoa exports was introduced, the rate on gold exports was raised to 15 per cent from 10 per cent, and the duty on log exports was raised from a rate of 10 per cent to 15 per cent; a 7.5 per cent duty was also imposed on sawn timber.

Income taxes are expected to increase by about 10 per cent to SI\$10.5 million in 1982, just above the budget estimate, as somewhat higher collections from individuals offset lower-than-expected company taxes owing to the weak economy. Revenue from personal income taxes benefited from a sizable collection of taxes in arrears. Tax legislation affecting income taxes in 1982 include an upward adjustment in the rate on companies incorporated abroad from 45 per cent to 50 per cent and a reduction in the number of tax brackets and the maximum rate of taxation on individuals.^{1/} In addition, there was a general increase in fees and charges for government services. In particular, fares and freight charges on government ships were raised in line with commercial rates, and water charges in urban areas were raised.

Foreign grants in 1982 are estimated to increase to SI\$8.8 million, compared to SI\$8.2 million in 1981 and a budget estimate of SI\$14.0 million. About two thirds of the grants, which are linked to development

^{1/} Previously, tax payable on total income less personal exemptions and deductions was 15 per cent for the first SI\$1,000, increasing by 2 per cent for each successive SI\$1,000, until a maximum rate of 45 per cent was reached at SI\$15,000. Following the 1982 adjustment, the tax scale for nonmarried individuals was 14 per cent on the first SI\$2,100 of taxable income, increasing by 4 per cent for each successive SI\$2,100 until a maximum rate of 42 per cent was reached at SI\$14,700. For married persons taxed jointly, the tax scale was 14 per cent on the first SI\$2,500 of taxable income, increasing by 4 per cent for each successive SI\$2,500, until a maximum rate of 42 per cent is reached at SI\$17,500.

projects, will be provided by the United Kingdom; the remainder is largely accounted for by aid from Australia and the European Development Fund. The shortfall in grants relative to budget estimates is due in part to delays in project implementation.

Total expenditure and net lending are expected to increase by 9 per cent to SI\$54.0 million in 1982. Recurrent expenditures, which account for two thirds of total expenditure and net lending, are expected to increase by 11 per cent in 1982, about 4 per cent more than anticipated in the budget. The original budget did not provide for any increase in the rates of employee compensation, whereas wages and salaries were raised by about 12 per cent for lower paid government employees and by about 10 per cent for higher paid employees; wages and salaries account for about a third of recurrent expenditure. In accord with the Government's emphasis on the devolution to the provinces of a wide range of powers and responsibilities, budgeted current expenditures in 1982 provide for a substantial increase in transfers to local governments. Capital expenditures are expected to increase by 19 per cent, which implies disbursements of about 64 per cent of the capital budget estimate. This shortfall is in line with past performance and is partly due to a shortage of skilled manpower to formulate and execute development projects. The main priority of development expenditures is in transport and communications, including the construction of bridges on Guadalcanal and Kotombangara, new inter-island vessels for the marine fleet, and the modernization of the telephone system. Net lending is expected to be SI\$5.8 million, compared to SI\$6.8 million in 1981. Lending to local governments has been budgeted to contract, while increased lending to the Development Bank of Solomon Islands and to the Government Shareholding Agency for equity participation in key industries is expected.

V. Monetary and Credit Developments

1. Institutional structure

The monetary sector is composed of the SIMA, three trading and savings banks, the Development Bank of Solomon Islands (DBSI), and the NPF. SIMA was established on June 21, 1976 and vested with full central banking powers. Prior to 1981, however, SIMA refrained from using the usual credit control powers of a central bank, preferring to allow domestic credit expansion to be determined by commercial bank lending decisions.

The three trading and savings banks (the National Bank of Solomon Islands (NBSI), Hong Kong and Shanghai Banking Corporation, and the Australian and New Zealand Banking Group) have their center of operations in Honiara, with banking agencies throughout the islands. In March 1981, NBSI was established as a joint venture between the Government (49 per cent) and the Australian based Commonwealth Banking Corporation (51 per cent); the NBSI replaced a bank branch entirely owned and operated by the Commonwealth Banking Corporation. One major objective of the NBSI was to

extend banking facilities into rural areas, and, in conjunction with the DBSI, has expanded the number of agency branches from 12 to 21 in outlying islands and improved the existing facilities. In addition, the NBSI provides banking opportunities to the outer provinces through a system of four mobile banks operated on ships that visit the islands on a regular basis. The NBSI is also setting up a bank training program for local staff in an arrangement with SIMA and the Australian Banking Institute.

The Solomon Islands Development Bank (formerly the Agricultural and Industrial Loan Board) is the major nonbank financial institution and provides concessional loans to further economic and social development. The NPF, a social security institution, began operations in 1976. Membership in the NPF is compulsory and currently totals about 46,000 people, with about 24,000 in active membership.

2. Monetary and credit developments during 1981 and January-June 1982

Monetary and credit developments in 1981 reflected the erosion in export profitability and an uncertain business climate. Following a decline of 9 per cent in 1980, broad money fell by 16 per cent in 1981 as depressed export earnings and the sluggish economy led enterprises to continue to liquidate a large portion of their time deposits with the banking system in order to make foreign payments (Table 8). The Copra Board was also forced to deplete a substantial portion of its deposits as it continued to offer price support to domestic producers facing weak international prices. In contrast to corporate depositors and the Copra Board, however, the NPF increased its deposits with the banking system by almost SI\$1 million, indicating its growing importance as a source of financial savings and stable deposit base. At end-1981, the deposits of the NPF accounted for 27 per cent of quasi-money, compared with 17 per cent at end-1980. Net foreign assets fell by SI\$10.5 million during 1981 (a fall of SI\$8.2 million in 1980), the decline being equivalent to almost 28 per cent of the stock of broad money outstanding at the beginning of the year.

During 1981, total domestic credit outstanding increased by about 21 per cent (15 per cent in 1980) of the stock of broad money, with just over half of the credit expansion in the private sector. The latter reflected, in part, the credit demand of some corporations which turned to the banking system to borrow funds for working capital. The largest extension of credit went to the agriculture, fishing, and forestry and construction sectors; personal loans are estimated to have contracted by about 46 per cent during the year, reflecting the sluggish economy (Appendix Table XII).

As a result of the contraction in the deposit base during 1981, the structure of assets and liabilities of commercial banks changed considerably (Appendix Table XIII). The share of time deposits in total liabilities fell from 45 per cent in 1980 to 30 per cent in 1981, with a corresponding increase in the share of foreign liabilities and the liability entry for paid-up capital (SI\$2.0 million) created when the NBSI was

Table 8. Solomon Islands: Monetary Survey, 1979-82

	1979	1980	1981			1982		
	Dec.	Dec.	March	June	Sept.	Dec.	March	June
(In millions of Solomon Islands dollars)								
Net foreign assets	30.7	22.5	18.2	14.1	14.1	12.0	14.0	13.1
Domestic credit to:								
Government (net)	10.9	16.9	18.8	25.1	25.0	24.9	25.6	28.5
Statutory corporations	-2.5	-5.6	-3.9	-1.0	-0.5	-2.3	-0.8	1.0
Private sector	2.8	5.2	5.4	5.5	5.5	5.8	5.0	5.3
	10.6	17.3	17.3	20.6	20.0	21.4	21.4	22.2
Broad money	41.3	37.7	33.8	34.8	33.7	31.5	33.3	35.0
Narrow money	11.1	15.1	14.2	14.5	13.7	14.2	14.3	14.2
Quasi-money	30.2	22.6	19.6	20.3	20.0	17.3	19.0	20.8
Other items (net)	0.3	1.7	3.2	4.4	5.4	5.4	6.3	6.6
(Annual percentage changes)1/								
Net foreign assets	23.3	-19.9	-22.9	-30.6	-26.3	-27.9	12.4	-2.9
Domestic credit to:	25.5	14.5	3.4	19.5	27.6	21.2	20.1	9.8
Government (net)	-2.5	-7.5	-9.5	-1.5	13.8	8.8	9.2	5.8
Statutory corporations	10.2	5.8	4.7	4.8	1.8	1.5	-1.2	-0.6
Private sector	17.8	16.2	8.2	16.2	12.0	10.9	12.1	4.6
Broad money	50.2	-8.7	-11.1	-10.5	-12.2	-16.4	-1.5	0.6
Narrow money	11.3	9.7	9.2	10.0	-1.3	-2.4	0.3	-0.8
Quasi-money	18.9	-18.4	-20.3	-20.5	-10.9	-14.0	-1.8	1.4

Source: SIMA Annual Report, 1981.

^{1/} In relation to stock of broad money outstanding in the same period of preceding year

established in March 1981; the share of total demand deposits held by the Government, statutory corporations, and the private sector remained stable at about 30 per cent. On the asset side, the smaller deposit base was reflected in a sharp decline in reserve deposits held with SIMA, which fell about SI\$9 million during 1981 (Appendix Table XIV). The level of reserve deposits at end-1981 was equivalent to about 8 per cent of total deposits, compared to 32 per cent at end-1980 and a reserve requirement of 5 per cent.

The sluggishness of the economy continued to be mirrored in monetary and credit developments during the first half of 1982. While the rise in total domestic credit through June was equivalent to about 11 per cent of the stock of broad money at end-1981, almost all of the credit expansion financed revenue shortfalls in the government budget; private sector credit rose only marginally. Broad money rose by 11 per cent during the first half, mainly reflecting a further increase in time deposits of the NPF. Business deposits increased slightly from December levels, while deposits of the Copra Board continued to decline. Net foreign assets increased by SI\$1.1 million in the first half.

3. Interest rate and other policy developments

As deposit withdrawals were larger than the reduction in demand for private credit, liquidity conditions of banks tightened significantly during 1981. Commercial banks raised interest rates on short-term deposits by 0.25 to 0.75 percentage points, and lending rates, by 1 to 2 percentage points (Appendix Table XV). At year-end, deposits of SI\$5,000 with a two-year maturity earned about 8 per cent, while deposits of SI\$25,000 or more yielded about 11 per cent per annum with a negotiable maturity; such large deposits make up about 80 per cent of total deposits.^{1/} The average interest rate on time deposits at year-end stood at about 9 per cent. When adjusted for the tax exempt character of interest income, the average yield on deposits was equivalent to about 14 per cent. Commercial lending rates ranged between 11 to 15 per cent, while rates for consumer loans were somewhat higher.

To prevent further liquidity contraction from disrupting normal economic activity, SIMA introduced a lending facility during the second half of 1981 whereby commercial banks could borrow funds on a 90- or 180-day term to supplement their own resources. As of end-June 1982, about SI\$1.7 million had been borrowed through this facility at an annual interest rate of 10 per cent. As a benchmark for the marginal cost of funds, the lending rate set by SIMA on funds loaned through this facility has had substantial influence on the lending rates charged by commercial banks. At the same time the lending facility was established, SIMA issued credit guidelines to commercial banks to encourage lending to priority sectors.

^{1/} Most time deposits with the banking system are held by the NPF and by a relatively small number of companies in the 35 per cent income tax bracket.

In addition to the introduction of the discount window, SIMA strengthened its control over credit expansion by imposing reserve requirements on commercial banks and by introducing Treasury bills during 1981. The reserve requirement was set at 5 per cent in early 1981 and has not been changed subsequently. No interest is paid on required reserves, but an annual rate of 4 per cent is paid on banks' deposits with SIMA in excess of the required amount. Presently, SIMA can adjust the reserve requirement up to a legal maximum of 15 per cent. Treasury bills were introduced in October 1981, with the expectation that the continued development of the Treasury bill market would eventually provide a basis for open market operations. The Government sold SI\$0.5 million of Treasury bills in the first issue, with a maturity of 182 days and an annual effective yield of 7 per cent. In April 1982, the Government sold another SI\$0.5 million of 182-day bills, which yielded 7.5 per cent on an annual effective basis. Most of the Treasury bills have been purchased by the commercial banks and, to a much lesser extent, by SIMA.

4. Nonbank financial institutions

The DBSI was established by the Government in 1977 and began formal operations in January 1978. Lending practices of the bank place emphasis on (1) projects involving active participation of Solomon Islanders; (2) rural development; (3) processing and industrial projects. The bank is empowered to make loans, guarantee loans from other sources, invest in equity, and provide business advisory assistance. Operations of the DBSI are funded by government loans, loans from the Asian Development Bank, and the European Development Bank, loans from the NPF, and bilateral aid (Appendix Table XVI). The funding is on concessional terms; the current average cost of borrowing is 3 per cent. In 1981, the DBSI showed its first operating loss due to a large provision for dubious debts. The larger provision for dubious debts reflects the difficult economic situation in recent years and a portfolio structure that has not been sufficiently diversified.

Loan approvals of DBSI for the year ended December 1981 amounted to SI\$2.2 million, a 50 per cent decline from loan approvals during the previous year. During the second half of 1981, lending activity came to a virtual standstill due to a combination of the sluggish economy and administrative bottlenecks. Although DBSI loans are usually limited to SI\$250,000 per company, about 78 per cent of loan applications involved sums less than SI\$1,000. Such loans accounted for about 11 per cent of the value of DBSI loan portfolio. Of the total loan approvals during 1981, 37 per cent were for the agricultural sector, 34 per cent for industry, 8 per cent for commerce, and 21 per cent for services including transport (Appendix Table XVII). Consonant with the goal of rural development, about 65 per cent of loan approvals during 1981 were directed toward rural areas, particularly in the provinces of Malaita, Western and Guadalcanal. During the first half of 1982, there has been a significant revival in lending activity of the DBSI. Loan approvals during the first six months amounted to 85 per cent of total loan approvals in 1981.

The share of agricultural loans approved during the period increased to about 45 per cent, which reflects the current lending strategy of raising the total portfolio share of agricultural loans; about 60 per cent of loan approvals during the first half of 1982 were for projects in rural areas.

The NPF has consistently been running large operating surpluses in recent years as a result of the age structure of its membership, which is heavily skewed toward younger workers; only about a third of total membership in 1982 was over 40 years old. Under the current arrangement, employees contribute 5 per cent of gross income and employers add an additional 7.5 per cent of the employee's gross income. A member can withdraw the contributions upon retirement after the age of 40 or upon leaving the country with no intention of returning. In the 12 months ending June 1982, the NPF received contributions totaling SI\$4.5 million, while benefit payments amounted to only SI\$0.9 million (Appendix Table XVIII). The bulk of these payments were made to expatriates leaving Solomon Islands. As of end-June 1982, total assets of the NPF amounted to SI\$14.5 million (Appendix Table XIX). A large portion of the NPF's assets were deposited with commercial banks (SI\$7.9 million, including accrued interest) or in the form of loans to the Government (SI\$2.9 million). The average return on these investments in recent years has been about 8 per cent. In contrast to social security institutions in many other countries, there are no legal provisions stipulating the relative share of the NPF portfolio to be invested in specific priority sectors or in Government securities, leaving the NPF to select its assets composition; investment in foreign assets, however, is not allowed.

VI. Balance of Payments

1. Overall developments

The external payments position remained weak in 1981, due mainly to a 19 per cent deterioration in the terms of trade (Chart 3). Notwithstanding an increase in export volume, the worsening terms of trade and a substantial rise in petroleum imports contributed to a larger deficit on the trade balance. As a result, the current account deficit widened from SDR 9.3 million in 1980 (8.5 per cent of GDP) to SDR 17.2 million (12.4 per cent) (Table 9 and Appendix Table XX).^{1/} Net inflows of non-monetary capital rose substantially due to an increase in private borrowing. However, the improvement in the capital account only partially offset the deterioration in the current account and the overall balance of payments deficit rose to SDR 10.3 million.

^{1/} Assuming unchanged trade volumes in 1981, the deterioration in the terms of trade alone would have worsened the trade balance by SDR 12.1 million, and the current account deficit would have reached SDR 21.4 million (15.4 per cent of GDP).

Table 9. Solomon Islands: Balance of Payments, 1979-82

(In millions of SDRs)

	1979	1980	1981 Estimate	1982 Projections
Trade balance	7.8	-0.6	-8.2	-7.2
Exports, f.o.b.	53.0	56.3	56.1	52.8
Imports, f.o.b.	-45.2	-56.9	-64.3	-60.0
Oil	(-5.8)	(-9.1)	(-14.8)	(-16.4)
Nonoil	(-39.4)	(-47.8)	(-49.5)	(-43.6)
Services (net)	-15.2	-24.0	-24.0	-18.9
Receipts	4.5	9.0	12.2	13.0
Payments	-19.6	-33.0	-36.2	-31.9
Of which: profits and dividends	(-3.6)	(-11.5)	(-3.0)	(-1.0)
Transfers (net)	15.4	15.3	15.0	9.2
Official	13.6	14.7	14.8	8.7
Private	1.8	0.6	0.2	0.5
Current account balance	8.0	-9.3	-17.2	-16.9
Nonmonetary capital	4.9	2.4	6.5	9.7
Private	3.1	-0.7	3.4	3.9
Government	1.8	3.1	3.1	5.8
Allocation of SDRs	0.2	0.2	0.2	—
Errors and omissions ^{1/}	-7.4	1.5	0.2	—
Overall balance	5.7	-5.2	-10.3	-7.2
Monetary movements	-5.7	5.2	10.3	7.2
Monetary authorities (net) ^{2/}	-5.6	4.7	9.5	7.2
Assets	-6.0	4.9	4.7	-3.1
Liabilities	0.4	-0.2	4.8	10.3
Of which: Use of Fund credit	—	—	0.8	...
Commercial banks	-0.1	0.5	0.8	—
Memorandum items:				
Conversion rates - SI\$ per SDR				
Average	1.12	1.08	1.03	1.09
End of period	1.13	1.02	1.03	...
Gross international reserves				
Amount outstanding (SDR mn.)	28.1	23.2	18.5	20.0
In months of import	5.9	4.3	3.7	3.7
Current account balance (as per cent of GDP)	(7.9)	(-8.5)	(-12.4)	(-12.1)

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

^{1/} Includes valuation adjustment.

^{2/} Includes Central Government.

Balance of payments developments in 1982 have been characterized by continuing deterioration in prices for most major exports and a sharp fall in imports stemming from the sluggishness of the economy. Projections for the year indicate a smaller deficit on the trade balance, as the value of imports is projected to decline more than that of exports. With the reduced trade deficit, a modest reduction in the current account deficit to SDR 16.9 million (12.1 per cent of GDP) is projected, despite a decrease in inflows of official transfers. Net capital inflows are projected to increase slightly, reflecting mainly the inflow of loans for development projects. The overall deficit is projected to decline to SDR 7.2 million.

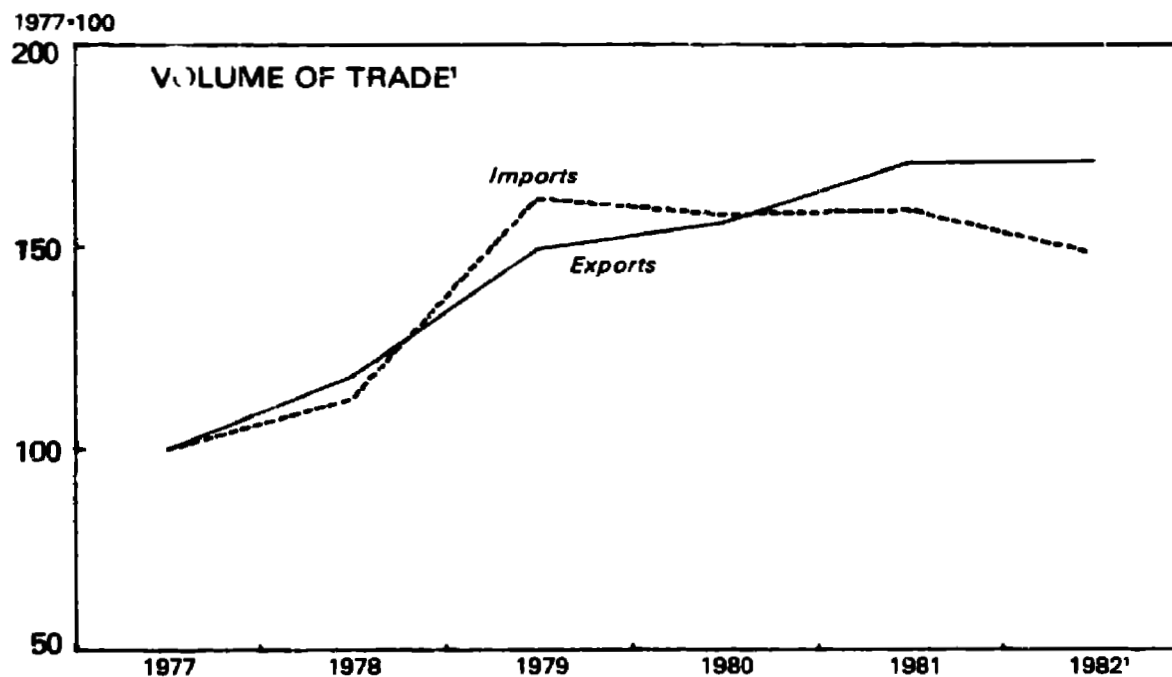
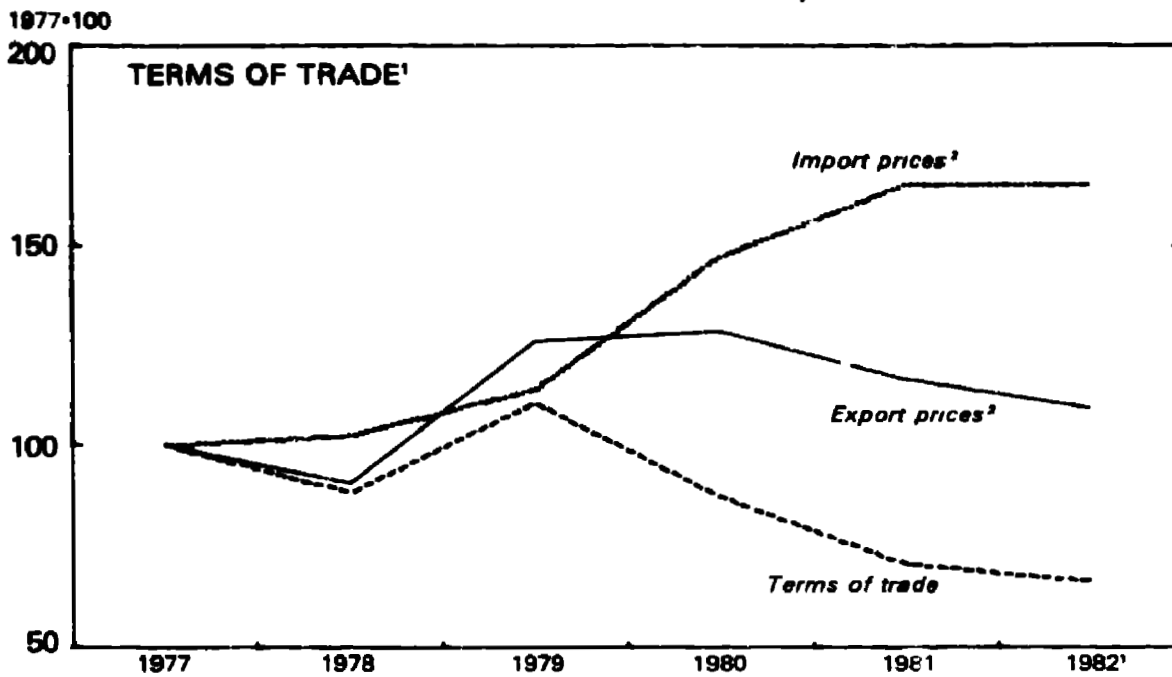
2. Merchandise trade

In 1981, export earnings stagnated as the fall in export prices completely offset the 10 per cent increase in volume. Lower prices affected most principal export commodities--timber, fish, and copra--which comprised 73 per cent of total exports. The sharpest price declines occurred in copra and timber, the export unit values of which were (in SDR terms) lower than in 1980 by 19 per cent and 15 per cent, respectively (Appendix Table XXI). Timber exports rose by 22 per cent in volume to over 300,000 cubic meters for the first time, providing the main volume uplift in the export sector. The volume of fish exports rose by 10 per cent, reflecting partly the addition of a new boat to the fishing fleet. However, the world market for fish became increasingly unfavorable during 1981 due to the virtual closure of the North American market to imports of tuna. The volume of copra exports remained constant during 1979-81, aided partly by price support provided by the Copra Board to domestic producers. The Government suspended the export duty on copra in 1981. The volume of palm oil exports was also unchanged as existing projects matured and production stabilized. Among other export commodities, the volume of cocoa exports continued to expand in 1981 while rice exports fell as production leveled off and largely met the domestic market need; rising costs related to pest control and a sharp fall in world prices of rice were the major factors contributing to this development.

The export structure of Solomon Islands continued to be dominated by four major commodities--fish, timber, copra, and palm oil--which accounted for 90 per cent of total exports in 1981 (Chart 4). During 1979-81, mainly reflecting the nearly halving of copra prices in the world market, the relative importance of copra in total exports declined, while that of timber increased almost equiproportionally. In recent years, cocoa has increasingly become an important foreign exchange earner.

In 1981, import payments rose by 13 per cent, reflecting mainly the substantial rise in petroleum imports associated with expanded logging and fishing operations (Appendix Tables XXII and XXIII). In contrast, most major categories of nonpetroleum imports declined in volume terms. In particular, there was a marked slowing down in imports of consumer goods due to reduced real incomes and the availability of locally-grown rice at competitive prices. Food imports declined by about 9 per cent in volume. Imports of machinery and transport equipment also declined considerably, reflecting the slowdown in investment activity.

CHART 3
SOLOMON ISLANDS
FOREIGN TRADE INDICES, 1977-82

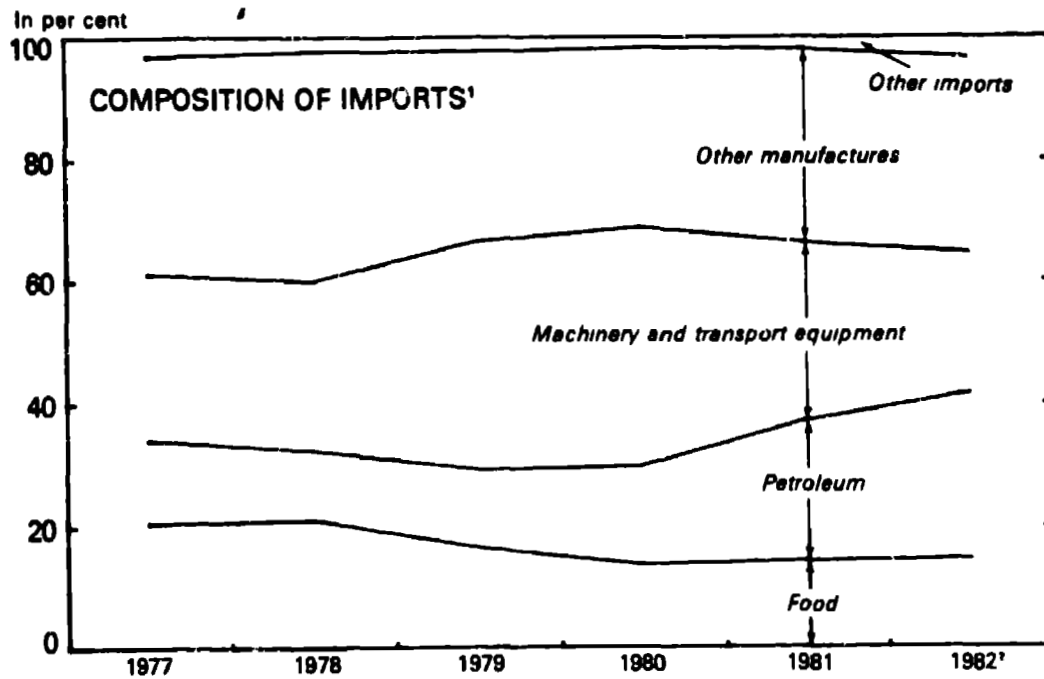
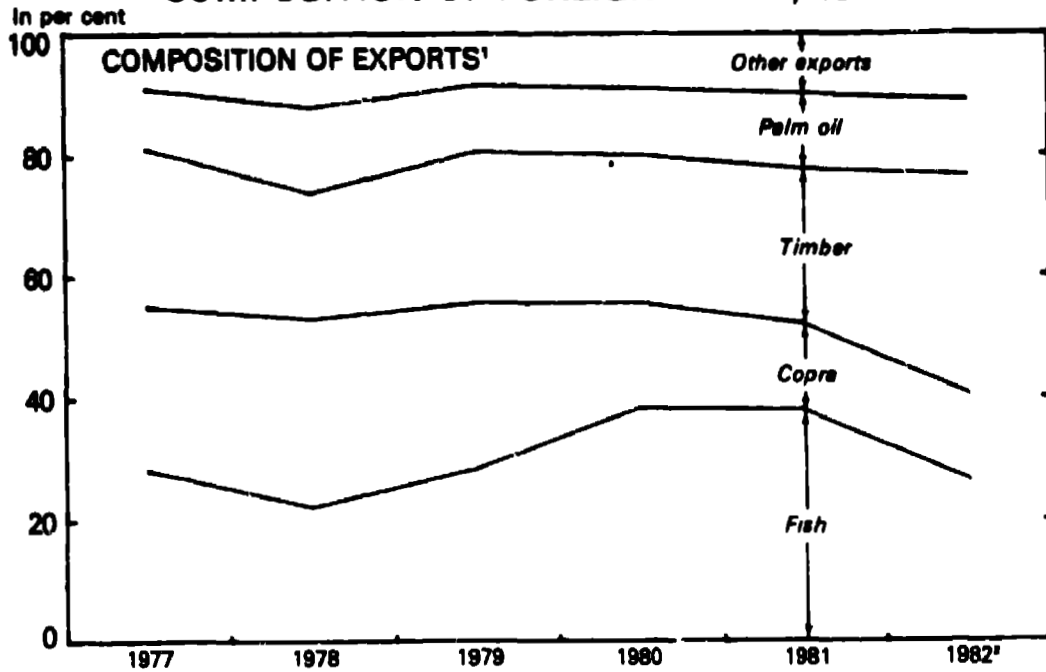


Sources: Data provided by the Solomon Islands authorities and staff estimates

¹Staff estimates.

²In terms of SDRs

CHART 4
SOLOMON ISLANDS
COMPOSITION OF FOREIGN TRADE, 1977-82



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

¹Share (in per cent) of total exports or imports

²Staff estimates.

The composition of imports has changed somewhat in recent years. With increasing self-sufficiency in food, food imports declined from 16 per cent to 11 per cent of total imports between 1977-81. During the same period, petroleum imports rose from 14 per cent to 23 per cent of total imports. Manufactured goods, including machinery and transport equipment, continued to comprise the bulk of imports, accounting for 60 per cent of the total in 1981.

In 1982, total export earnings are projected to decline by 5 per cent, reflecting a continued decline in most export prices and stagnant volume. During the first half of the year, prices plummeted for fresh and frozen fish due to excess inventories in the North American market, and for palm oil, as Malaysia (the world's major exporter) increased its export volume substantially. Copra prices also remained weak. Only timber prices appeared to be recovering from the low levels of 1981. Unlike in the previous year, the volume of exports is not expected to increase in 1982, reflecting mainly the substantial decline in fish exports and the continued stagnation in copra exports. However, growth in the volume of palm oil exports is projected to remain strong, as a result of increased yields from a new pollination technique. Timber exports are also forecast to increase slightly toward the medium-term target of 400,000 m³.

Import payments are projected to decline by 6 per cent in 1982 due to a projected fall in import volume stemming from continued sluggishness in economic activity and reduced real incomes. In the first quarter of 1982, import payments were 17 per cent below the level of the corresponding period in 1981. However, imports are projected to increase somewhat during the remainder of the year, reflecting replenishment of depleted stocks and lumpiness in import payments occurring toward the end of the year. Import prices are projected to increase only by 1 per cent as oil prices are forecast to stabilize and non-oil prices from industrial partner countries are projected to decline.

Solomon Islands' major export markets in 1981 were Japan (37 per cent), the United States, including American Samoa and Trust Territories (24 per cent), the United Kingdom (12 per cent), and the Netherlands (12 per cent) (Appendix Table XXIV). In recent years, the share of total exports to Japan and the United States has increased, while that to the neighboring Pacific island countries and to countries of the European Economic Community declined. Australia continued to be the major source of imports, accounting for about 28 per cent of the total (Appendix Table XXV). Singapore has become an increasingly important supplier of imports. The shares of imports from Singapore, Japan, New Zealand, and the United Kingdom were 22 per cent, 15 per cent, 9 per cent, and 8 per cent, respectively.

3. Services, transfers, capital movements, and reserves

The deficit in the services account remained unchanged in 1981 as the rising costs of freight and insurance and chartering of fishing boats were offset by a decline in outward remittances of dividends and interest,

due to reduced profitability in the agriculture and timber enterprises. Transfers also remained unchanged from the 1980 level. Net inflows of nonmonetary capital rose, due to increased private borrowing mainly by the timber industry. However, direct private investment virtually ceased in 1981, reflecting uncertainty over the medium-term outlook for exports.

In 1981, the overall payments deficit of SDR 10.5 million was financed, in roughly equal proportions, by a decline in reserves and a drawdown of SDR 4.3 million (US\$5 million) from an Eurodollar loan of US\$20 million. Gross official reserves, including the net foreign position of commercial banks and small overseas working balances of the Government, declined by SDR 4.7 million to SDR 18.5 million, the equivalent of 3.7 months of imports (Appendix Table XXVI).

In 1982, net service payments are forecast to decline, owing mainly to reduced remittances of profits and dividends as the financial performance of the exporting sector weakens and payments for use of the fishing fleet decline due to a shortened fishing season. Inflows of official transfers are also projected to decline, reflecting partly the termination of grants from the United Kingdom and partly the decline in the number of projects for which grant financing is available. Net capital inflows are projected to increase slightly, mainly as a result of disbursements for development projects. The projected overall deficit of SDR 7.2 million is expected to be financed by a further drawdown of the Eurodollar loan. Gross official reserves are expected to decline from SDR 29.0 million at the end of June 1982 to SDR 20.0 million at the end of the year, equivalent to four months of estimated exports.

4. External debt

a. Public debt

Due to the availability of grant financing, Solomon Islands' external public debt has been small (Appendix Table XXVII). In 1981, the Government contracted its first syndicated loan of US\$20 million in the Eurodollar market. The terms of the loan are eight years, including a four-year grace period on capital repayments, with interest rates of 7/8 per cent above LIBOR for the first two years, 1 per cent for the next two years, and 1.5 per cent thereafter. Repayments are to be made in nine equal instalments beginning in mid-1985. The first drawdown of US\$5 million was made in August 1981, and the second of US\$10 million, in February 1982. The remaining balance of US\$5 million is expected to be drawn before May 1983. Since 1978, the Government has utilized loans from the OPEC Special Fund for balance of payments financing. The most recent of these loans, amounting to US\$1 million, was contracted in October 1981, with terms of eight years, including a grace period of three years and interest of 0.5 per cent per year. At end-1981, a balance of US\$0.5 million remained to be drawn. Apart from the Asian Development Bank, a recent source of long-term concessional loans was the European Development Fund which, in November 1980, provided a loan equivalent to EUA 780,000 at an interest rate of 0.5 per cent per year for 30 years including a 10-year grace period. In 1981,

SI\$0.6 million of this loan was disbursed for onlending by DBSI. Mainly as a result of the Eurodollar borrowing, the external public debt is projected to rise rapidly--from SI\$6.4 million (5.3 per cent of GDP) at end-1980 to SI\$13.9 million (9.8 per cent) at end-1981, and SI\$30.6 million (20.0 per cent) at end-1982.

As most of the external public debt is on highly concessional terms, debt service payments were negligible during 1975-80 (Appendix Table XXVIII). In 1981, the debt service ratio was 1 per cent. It is, however, projected to rise to about 5 per cent during 1985-87 when the grace period on the Eurodollar loan expires.

b. Private debt

Recently, SIMA undertook a survey of private external debt for the first time (Appendix Table XXIX). The survey showed that the private external debt at end-1981 totaled SI\$13.2 million (US\$14.9 million). Agriculture accounted for the bulk (80 per cent) of the private external debt outstanding, followed by forestry (9 per cent), and communication (4 per cent). Private foreign borrowing is predominantly of long maturity; loans with maturity periods of over three years comprised 63 per cent of the total, while those with maturity periods of one to three years were 6 per cent; the maturity periods of 29 per cent of the total were not reported. The interest rates on most loans (54 per cent) were within 5 per cent per year; 20 per cent of the total involved interest rates of between 5 to 10 per cent per year, and 17 per cent, over 10 per cent per year; 9 per cent were free of interest charges. Thus, service payments on private debt are low; they are estimated to amount to US\$3 million in 1982 (4.3 per cent of exports of goods and services), of which amortization represents US\$2.1 million, and interest, US\$0.9 million.

VII. Exchange and Trade System

Solomon Islands continued 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 SIMA; there have been no major changes in the system since the last consultation in October 1980.

The exchange rate of the Solomon Islands dollar is pegged to a basket of currencies of Solomon Islands' major trading partners. From October 29, 1979 to March 2, 1981, the weights were based on trade shares. From March 3, 1981 to August 12, 1982, the weights were changed to reflect the importance of currencies used in settlement. Since August 13, 1982, the weights have reverted to the shares of trade. SIMA provides quotations for the Australian dollar and the U.S. dollar.

^{1/} For a detailed description of the exchange and trade system as of end-1981, see IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1982.

From March 1981, when the Solomon Islands dollar was devalued by 6 per cent, to March 1982, the latest date for which data are available, the Solomon Islands dollar, in terms of the trade-weighted effective exchange rate index computed by the staff, appreciated by 6.5 per cent (Chart 5 and Appendix Table XXX).^{1/} In terms of the Australian dollar, the intervention currency, the appreciation was 4.1 per cent. These exchange rate movements in part reflected the appreciation of the U.S. dollar vis-a-vis other currencies. Reflecting a higher rate of inflation ^{2/} in Solomon Islands than in its trading partner countries, the real effective exchange rate of the Solomon Islands dollar is estimated to have appreciated by 15.1 per cent during the same period. Based on an export-competitor weighted effective exchange rate index,^{3/} the Solomon Islands dollar appreciated by 1.6 per cent in nominal terms from March 1981 and March 1982 and 4.0 per cent in real terms between March and December 1981, the latest date for which data are available. In response to the deterioration in competitiveness and profitability of the exporting and import-competing sectors, the Solomon Islands dollar was devalued by 10 per cent effective August 13, 1982. Concomitantly, SIMA was authorized to make discretionary adjustments to the exchange rate of the Solomon Islands dollar with respect to the currency basket which do not exceed, on balance, 2 per cent in any four-week period.

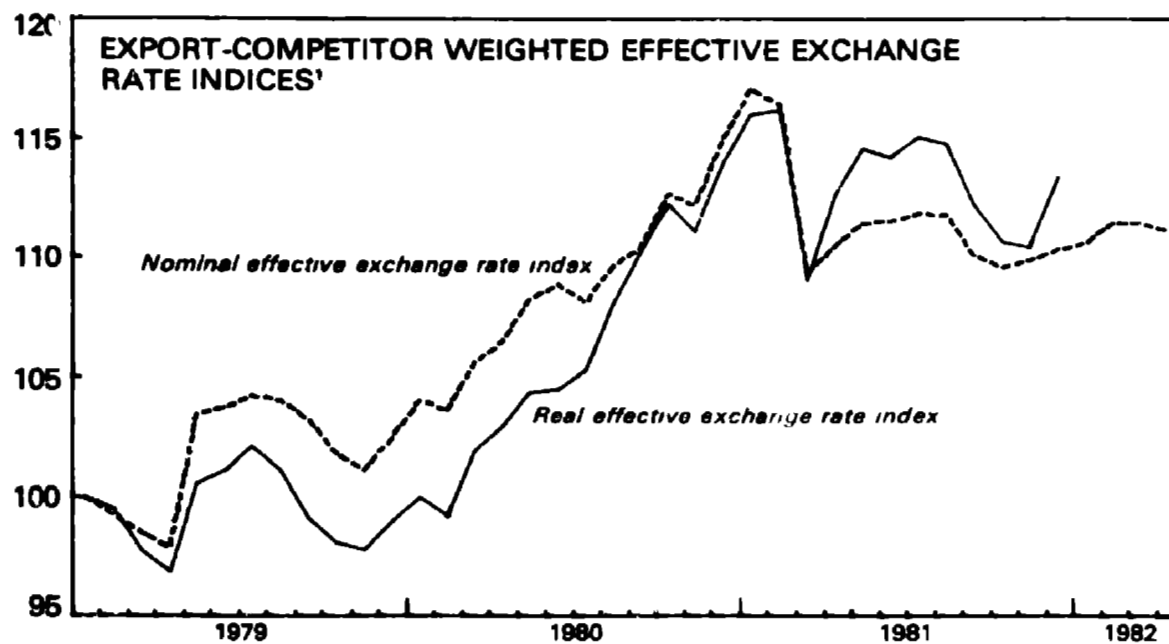
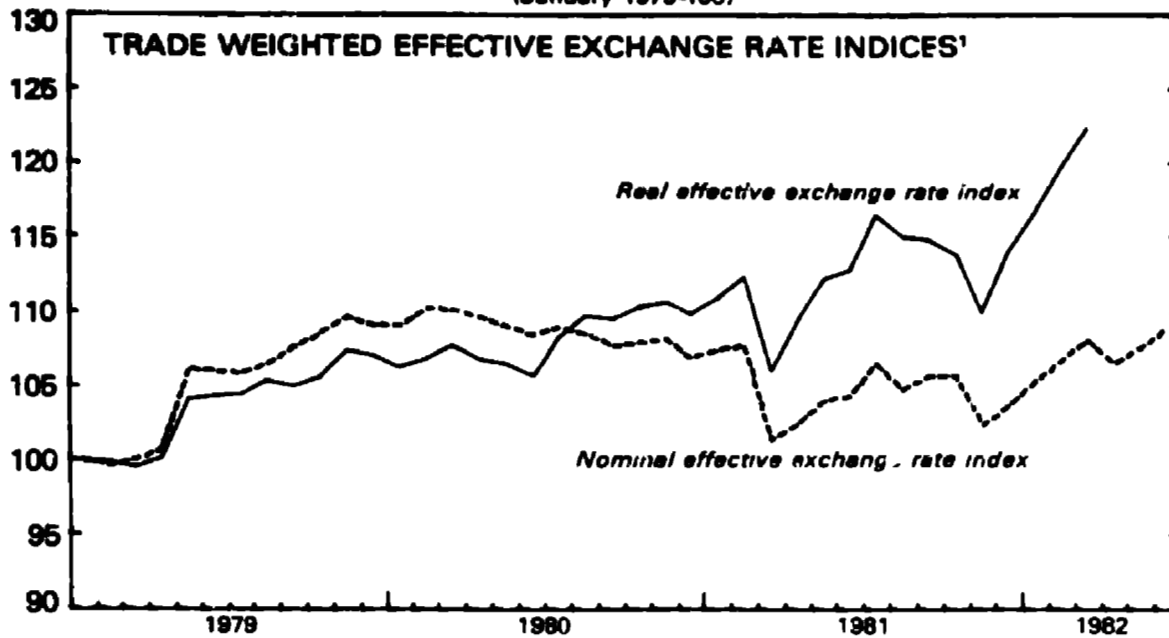
^{1/} The currencies of the following countries are included: Japan, Australia, the United States, and the United Kingdom.

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

^{3/} For details, see Annex.

CHART 6
SOLOMON ISLANDS
EFFECTIVE EXCHANGE RATE OF
THE SOLOMON ISLANDS DOLLAR, 1979-82

(January 1979=100)



Source: Staff calculations

¹ Increase represents an effective appreciation

Table I. Solomon Islands: Cocoa and Rice Production, 1977-82

	Cocoa (metric tons)			Area harvested (hectares)	Rice Production (metric tons)	
	Small- holder	Plantation	Total		Polished rice	Other products <u>1/</u>
1977	85.0	77.6	162.6	1,940	3,308	1,186
1978	107.8	126.7	234.5	2,663	2,320	3,187
1979	113.6	195.2	308.8	2,997	5,128	2,622
1980	197.0	148.7	345.7	3,869	5,670	4,904
1981	208.9	382.9	591.8	4,029	6,856	3,615
1982 (Proj.)	360.0	540.0	900.0	1,000	...	...

Source: Statistics Office, Statistical Bulletin, No. 13/82.

1/ Includes brown rice, broken rice, chips and bran.

Table II. Solomon Islands: Electricity Production,^{1/} 1977-82

(In thousands of kilowatt-hours)

	Honiara	Anki (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	-- ^{2/}	134	15,490
1980	15,700	565	752	--	184	17,201
1981	16,941	613	792	--	196	18,542
1982 (Proj.)	17,000	620	793	--	219	18,632

Sources: Statistics Office, Statistical Yearbook, 1981, Bulletin No. 32/81; and 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 III. Solomon Islands: Population by Age Group, Growth Rates, and Estimates for 1981 ^{1/}

Age Group	1976		1981		Average Annual Growth Rate (in Per Cent)
	Popula- tion	Per cent of total	Popula- tion	Per cent of total	
0-4	39,196	19.9	45,339	19.5	3.0
5-14	56,247	28.6	68,874	29.6	4.1
15-19	20,161	10.3	24,679	10.6	4.1
20-49	64,187	32.6	75,348	32.3	3.3
50-59	9,962	4.8	10,576	4.5	2.3
60 and over	7,510	3.8	8,120	3.5	1.6
Total	196,763	100.0	232,936	100.0	3.4

Source: Statistics Office, Statistical Yearbook, 1981, Bulletin No. 32/81.

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

Table IV. Solomon Islands: Fernal Employment by Industrial Sector, 1976-81

Industry	Total Employment				Average Annual Growth Rate (in per cent) 1976-81
	Feb. census 1976	1/ 1979	Jun survey 1980	1981	
Agriculture, forestry fishing	4,540	6,045	6,076	7,173	9.6
Mining	40	7	2	1	-52.2
Manufacturing	1,380	1,651	2,071	1,762	5.0
Electricity and water	170	242	266	283	10.7
Construction	1,450	1,238	1,585	1,979	6.4
Wholesale/retail	1,740	1,817	1,975	2,085	3.7
Transport and communi- cations	1,350	1,107	1,472	1,397	6
Financial services	130	246	301	327	20.3
Social personal services, etc.	5,610	5,859	5,819	5,981	1.3
Unenumerated 2/	--	800	800	800	--
Total	16 410	19,012	20,36	21,788	5.8

Source: Statistics Office, Statistical Bulletin, No 7/82 (Employment Survey June 30, 1981).

1/ The comparison basis for the 1976 census and the successive employment survey data are not consistent due to the wider coverage of the former.

2/ Unenumerated includes an estimate for those establishments which did not complete the questionnaire and a figure for domestic servants who were enumerated only at the time of 1976 census.

Table V. Solomon Islands: Formal Employment by Geographical Area, 1976-81

Province	Total Employment				Average Annual Growth Rate (in per cent) 1976-81
	Feb. census	June survey			
	1976	1979	1980	1981	
Western	3,310	3,580	3,863	4,059	4.2
Santa Isabe.	761	566	619	559	-6.0
Central Islands	1,637	2,217	2,137	2,221	6.3
Guadalcanal	2,803	3,082	3,230	4,019	7.5
Honiara	4,917	6,249	7,172	7,560	9.0
Malaita	1,752	1,484	1,543	1,493	-3.1
Makira Ulawa	731	583	582	580	-4.5
Eastern Islands	500	451	421	497	-0.1
Unenumerated <u>2/</u>	--	800	800	800	--
Total	16,410	19,012	20,367	21,788	5.8

Source: Statistics Office, Statistical Bulletin, No. 7/82 (Employment Survey, June 30, 1981).

1/ The comparison basis for the 1976 census and the successive employment surveys data are not consistent due to the wider coverage of the former.

2/ Unenumerated includes an estimate for those establishments which did not complete the questionnaire and a figure for domestic servants who were enumerated only at the time of 1976 census.

Table VI. Solomon Islands: Retail Prices of Selected Commodities in Honiara, March 1980-May 1982

(Prices in terms of Solomon Islands dollars)

Unit	1980			1981			1982		
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
Food									
Rice, Australian	Bulk per kg.	0.494	0.545	0.635	0.641	0.688	0.720	0.774	0.784
Rice, local	Bulk per kg.	0.410	0.411	0.406	0.399	0.399	0.427	0.461	0.461
Milk powder instant (Sunshine)	1 kg. tin	3.32	3.46	3.74	3.80	3.90	3.87	4.05	4.25
Butter, fresh (Allowrie)	255g. pkt.	0.48	0.49	0.525	0.54	0.592	0.60	0.66	0.67
Fish, fresh, local (bonito)	per lb.	0.44	0.47	0.47	0.47	0.47	0.530	0.530	0.530
Tinned skipjack (Tayo 2nd)	180g. tin	0.34	0.34	0.34	0.36	0.36	0.383	0.848	0.848
Tinned mackerel (777)	450g. tin	0.60	0.61	0.62	0.64	0.67	0.774	1.20	1.22
Mince meat	per lb.	0.72	0.78	0.93	1.19	1.19	1.18	1.40	1.43
Corned beef plain (Ox & Palm)	340g. tin	1.35	1.40	1.40	1.40	1.37	1.40	1.43	1.28
Sugar	per kg.	0.81	0.86	1.132	1.36	1.30	1.42	0.095	0.092
Bananas	per lb.	0.055	0.057	0.70	0.064	0.059	0.093	0.157	0.133
Limes	per lb.	0.098	0.121	0.14	0.124	0.109	0.164	0.061	0.057
Coconuts (Dry)	each	0.056	0.056	0.056	0.057	0.060	0.071	0.155	0.195
Tomatoes	per lb.	0.265	0.279	0.161	0.204	0.296	0.348	0.625	0.617
Onions, imported	per lb.	0.27	0.30	0.30	0.315	0.315	0.330	0.117	0.091
Kumara	per lb.	0.078	0.085	0.124	0.091	0.081	0.088		
Coffee instant (Nescafe yellow cap)	50g. bottle	1.45	1.49	1.50	1.51	1.56	1.57	1.61	1.56
Tea bushels	125g. pkt.	0.66	0.66	0.66	0.66	0.70	0.71	0.69	0.71
Drink and tobacco									
Beer (4 x)	370ml. bottle	0.49	0.49	0.51	0.55	0.63	0.63	0.63	0.73
Cigarettes (Benson & Hedges)	20 pkt.	0.83	0.83	0.83	0.89	0.94	0.98	1.04	1.04
Twist tobacco	stick	0.24	0.24	0.24	0.25	0.25	0.26	0.29	0.30
Transport									
Petrol	per litre	0.38	0.40	0.41	0.41	0.44	0.46	0.47	0.51
Housing and utilities									
Kerosene (incl. drum)	20 litres	10.03	10.12	10.50	10.50	10.70	11.10	11.10	11.95
Water	5,000 gal.	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Electricity	40 units	5.00	5.00	7.40	7.40	7.40	7.40	7.80	8.70
Miscellaneous									
Bath soap (Lyla)	3 oz. bar	0.25	0.26	0.26	0.26	0.26	0.28	0.31	0.33
Toothpaste (Colgate)	30g. tube	0.34	0.36	0.36	0.37	0.37	0.37	0.37	0.36
Washing powder (Omo)	450g. pkt.	1.32	1.43	1.54	1.50	1.73	1.79	1.81	1.87

Source: Statistics Office, Statistical Bulletin, Nos. 27/80, 14/81, 24/81, and 14/82.

**Table VII. Solomon Islands: Functional Classification of
Government Current Expenditure, 1979-81**

(In millions of Solomon Islands dollars)

	1979	1980	1981
General services	6.8	8.6	12.3
General administration	5.2	6.3	9.6
Public order and safety	1.6	2.3	2.7
Education	3.5	4.3	5.5
Health	2.8	3.5	3.9
Social security and welfare	1.1	1.1	1.6
Housing community amenities and other community services	0.8	0.7	0.9
Economic services	4.5	5.2	6.0
General administration	0.4	0.4	0.5
Agriculture, Forestry and Fisheries	1.7	2.1	2.1
Mining and construction	0.8	0.7	0.8
Utilities	0.1	0.2	0.3
Roads	0.8	0.6	0.8
Other transport and communication	0.7	1.2	1.5
Unallocable and other purposes	0.4	0.7	1.8
Public debt	...	0.2	0.4
Other purposes	0.4	0.5	1.4
Total	19.9	24.1	32.0

Source: Data provided by the Ministry of Finance.

Table VIII. Solomon Islands: Economic Classification of Government Expenditure and Net Lending, 1979-82

(In millions of Solomon Islands dollars)

	1979	1980	1981 Prelim.	1982 Budget
Current expenditure	<u>19.9</u>	<u>24.1</u>	<u>32.2</u>	<u>33.9</u>
Expenditure on goods and services	<u>15.0</u>	<u>17.1</u>	<u>23.4</u>	<u>23.8</u>
Wages and salaries	7.8	8.7	10.8	11.4
Contributions to pension fund	1.1	1.1	1.6	2.0
Other purchases of goods and services	6.1	7.3	11.0	10.4
Interest payments	—	<u>0.2</u>	<u>0.4</u>	<u>0.9</u>
Subsidies and other current transfers	<u>4.9</u>	<u>6.8</u>	<u>8.4</u>	<u>9.2</u>
Subsidies and transfers to public enterprises	1.0	1.7	2.1	1.0
Transfers to local government	3.8	4.6	6.0	7.7
Transfers to nonprofit institutions	—	0.1	0.1	0.1
Transfers abroad	0.1	0.4	0.2	0.4
Capital expenditure	<u>12.0</u>	<u>11.4</u>	<u>10.8</u>	<u>19.9</u>
Acquisition of fixed capital assets	7.0	8.2	8.8	14.4
Purchases of land	—	0.1	0.1	0.1
Capital transfers	<u>5.0</u>	<u>3.1</u>	<u>1.9</u>	<u>5.4</u>
To nonfinancial public enterprises	5.0	3.1	1.9	5.4
Net lending	<u>3.0</u>	<u>5.2</u>	<u>6.8</u>	<u>5.8</u>
To local government	0.3	0.2	1.7	-0.3
To financial institutions	0.5	1.2	0.8	1.2
To others	2.2	3.8	4.3	4.8
Total expenditure and net lending	<u>34.9</u>	<u>40.7</u>	<u>49.8</u>	<u>59.6</u>

Source: Data provided by the Ministry of Finance.

**Table IX. Solomon Islands: Functional Classification of
Government Capital Expenditure, 1979-81**

(In millions of Solomon Islands dollars)

	1979	1980	1981
General services	1.1	0.9	0.4
Public administration	0.7	0.7	0.4
Public order and safety	0.4	0.2	0.1
Education	0.5	0.7	0.7
Health	0.2	0.2	0.2
Social security and welfare	0.1	--	--
Housing community amenities and other community services	0.7	1.3	3.3
Economic services	8.2	8.2	6.1
General administration	--	0.2	0.1
Agriculture, Forestry and Fisheries	1.7	2.1	2.7
Mining	0.1	0.1	0.2
Utilities	0.5	0.6	1.0
Roads	1.2	1.4	0.7
Other transport and communications	4.7	3.8	1.4
Total	10.7	11.4	10.8

Source: Data provided by the Ministry of Finance.

Table X. Solomon Islands: Government Revenue and Grants, 1979-82

(In millions of Solomon Islands dollars)

	1979	1980	1981	1982 (Estimate)	
				Budget	Revised
Current revenue	<u>19.3</u>	<u>23.5</u>	<u>31.7</u>	<u>37.3</u>	<u>34.1</u>
Tax revenue	<u>15.7</u>	<u>18.5</u>	<u>24.2</u>	<u>29.7</u>	<u>26.5</u>
Taxes on income and profits	5.0	7.3	9.6	10.3	10.5
Companies	(2.7)	(3.1)	(4.7)	(6.3)	(6.9)
Individuals	(2.3)	(4.3)	(4.9)	(4.0)	(3.6)
Taxes on goods and services	0.7	1.1	1.1	1.2	1.2
Excise duties	(0.2)	(0.2)	(0.3)	(0.2)	(0.2)
Business licenses; other	(0.5)	(0.9)	(0.8)	(1.0)	(1.0)
Taxes on international trade	9.9	10.0	13.4	18.2	14.8
Import duties	(4.4)	(5.6)	(9.3)	(13.4)	(11.0)
Export duties	(5.5)	(4.4)	(4.1)	(4.8)	(3.8)
Nontax revenue	<u>3.6</u>	<u>5.0</u>	<u>7.5</u>	<u>7.5</u>	<u>7.5</u>
Property income	0.8	0.9	1.0	1.2	1.2
Administration fees and charges	0.1	0.1	0.1	0.2	0.2
Fines and forfeits	--	--	0.1	0.1	0.1
Other	2.7	4.0	6.3	6.0	6.0
Capital revenue (sale of fixed assets)	0.2	0.2	0.1	0.1	0.1
Total revenue	<u>19.5</u>	<u>23.7</u>	<u>31.8</u>	<u>37.5</u>	<u>34.1</u>
Total grants	<u>12.7</u>	<u>13.7</u>	<u>8.2</u>	<u>14.0</u>	<u>8.8</u>
Current grants from abroad	1.6	0.7	0.2	--	--
Capital grants from abroad	11.1	13.0	7.9	14.0	8.8
Total revenue and grants	<u>32.2</u>	<u>37.4</u>	<u>40.0</u>	<u>51.3</u>	<u>42.9</u>

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

Table XI. Solomon Islands: Foreign Grants, 1979-82 1/

(In thousands of Solomon Islands dollars)

	1979	1980	1981	1982 Budget
<u>Bilateral 2/</u>	<u>11,042</u>	<u>13,329</u>	<u>7,619</u>	<u>11,448</u>
Australia	1,324	1,338	1,881	3,717
Denmark	--	--	--	--
Japan	5	3	--	250
New Zealand	257	69	48	64
Development Aid	216	69	48	54
N.Z. Laper Trust Fund	41	--	--	10
United Kingdom	9,371	11,892	5,680	7,352
Grant-in-aid	1,442	500	--	--
Development aid	7,648	9,180	4,776	4,852
Special grant	281	2,212	904	2,500
Others	85	27	10	65
<u>Multilateral</u>	<u>1,676</u>	<u>341</u>	<u>546</u>	<u>2,584</u>
Commonwealth Fund for Technical Coop.	--	57	--	25
European Development Fund	609	224	479	2,118
European Economic Community (STABEX)	876	--	--	--
Foundation for People of the South Pacific	--	6	16	20
South Pacific Commission	48	1	--	--
UN Children's Fund	--	--	--	--
UN Development Program	31	52	50	28
World Health Organization	--	--	--	--
World Wildlife Fund	--	1	1	1
Other	112	--	--	392
Total (inflows of foreign grants)	<u>12,718</u>	<u>13,670</u>	<u>8,165</u>	<u>14,032</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 XII. Solomon Islands: Banks' Advances and Loans, 1979-82

(In per cent of total)

	Manufac- turing	Agricul- ture and Forestry	Fishing	Construc- tion	Transporta- tion and Communi- cations	Retail and other Distribution	Public Utilities and National Government	Local Government	Personal Loans (incl. Housing)	Other	Total
1979											
Feb.	5.2	8.0	7.0	4.1	7.4	29.4	13.0	3.9	16.6	5.4	100.0
May	6.4	4.4	11.7	6.4	6.7	25.8	11.6	4.0	17.4	5.6	100.0
Aug.	4.0	3.9	21.3	4.2	6.1	26.4	16.2	2.5	12.1	3.3	100.0
Nov.	5.0	4.6	21.3	3.9	4.1	25.7	13.2	1.4	18.5	2.3	100.0
1980											
Feb.	3.5	10.9	25.4	2.3	2.2	18.6	3.5	2.4	10.9	20.3	100.0
May	4.3	11.2	23.5	2.5	2.5	20.2	2.9	1.9	19.7	11.3	100.0
Aug.	3.8	7.9	33.2	2.4	4.8	15.9	13.0	3.9	11.4	3.7	100.0
Nov.	3.0	8.3	28.8	2.2	11.4	15.9	14.1	3.5	10.9	1.9	100.0
1981											
Feb.	3.3	12.0	25.8	1.6	11.8	18.2	13.9	3.3	8.9	1.2	100.0
May	3.1	12.8	25.1	5.3	11.3	14.2	14.3	4.9	6.8	2.2	100.0
Aug.	3.7	14.0	25.1	5.4	11.1	13.9	15.1	3.5	5.9	2.3	100.0
Nov.	3.5	16.3	23.7	6.2	9.9	15.2	14.0	2.7	5.9	2.6	100.0
Dec.	3.1	20.0	21.7	5.9	9.5	15.2	14.0	2.2	5.9	2.5	100.0
1982											
Feb.	3.9	16.5	22.7	4.7	9.8	17.0	14.9	0.9	6.8	2.8	100.0
May	2.6	17.6	20.6	4.9	9.0	17.4	13.1	4.8	6.6	2.9	100.0

Sources: Solomon Islands Monetary Authority, Annual Report; and data provided by the Solomon Islands authorities.

Table XIII. Solomon Islands: Summary Accounts of Trading
and Savings banks, 1979-82

(In millions of Solomon Islands dollars)

	1979 <u>1/</u>	1980	1981				1982	
			Mar.	June	Sept.	Dec.	Mar.	June
Reserves <u>2/</u>	21.6	11.3	8.4	5.4	3.9	2.3	4.7	3.9
Foreign assets	--	0.8	1.0	0.6	0.8	0.9	1.0	0.4
Claims on government	0.8	1.2	1.2	1.2	1.2	1.7	1.7	2.4
Claims on private sector	10.6	17.3	17.3	20.6	20.0	21.4	21.4	22.2
Claims on statutory corporations	2.8	5.2	5.4	5.5	5.5	5.8	5.0	5.3
Demand Deposits	12.2	12.0	12.2	10.7	9.0	10.9	9.6	7.8
Of which: Central Government	...	2.5	3.4	2.1	1.7	3.1	1.8	0.6
Time and savings deposits	31.6	23.9	20.4	20.3	20.0	18.0	19.9	21.7
Of which: Central Government	...	1.3	0.8	—	—	0.7	0.9	0.9
Foreign liabilities	--	1.7	1.7	2.4	1.9	2.7	2.7	2.0
Other items (net) <u>1/</u>	-8.0	-1.8	-1.0	-0.1	0.5	1.2	1.6	2.7

Source: Data provided by the Solomon Islands Monetary Authority.

1/ Data for 1979 are not fully comparable with data thereafter because of revisions in commercial banks' reporting to SIMA.

2/ Held on deposit with SIMA.

Table XIV. Solomon Islands: Summary Accounts of the Solomon Islands Monetary Authority, December 1979-June 1982

(In millions of Solomon Islands dollars)

	1979 <u>1/</u> Dec.	1980 Dec.	1981				1982	
			Mar.	June	Sept.	Dec.	Mar.	June
Foreign assets <u>2/</u>	31.7	23.6	19.2	16.8	20.5	19.1	30.3	29.1
Claims on government <u>3/</u>	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Claims on banks	0.2	--	--	--	--	--	--	--
Reserve money	27.0	17.3	14.3	12.1	11.1	9.7	11.9	11.8
Currency issued	5.4	6.0	5.9	6.7	7.2	7.4	7.2	7.9
Banks' deposits	21.6	11.3	8.4	5.4	3.9	2.3	4.7	3.9
Foreign liabilities <u>4/</u>	1.0	0.2	0.2	0.9	5.2	5.2	14.5	14.4
Liabilities to government <u>5/</u>	0.3	3.1	1.0	0.3	0.1	0.4	--	--
Other items (net)	3.7	3.1	3.8	3.6	4.2	4.0	4.1	3.1

Source: Data provided by the Solomon Islands Monetary Authority.

1/ Data for 1979 are not fully comparable with data thereafter because of revisions in commercial banks' reporting to SIMA.

2/ Includes holdings of SDR, reserve position in the IMF, and foreign exchange holdings of the Government.

3/ Excludes advances made in connection with membership to IMF and IBRD.

4/ Includes deposits of the OPEC Special Fund and the EDF, use of Fund credit, and disbursements of 1981 Eurocurrency loan to the Government.

5/ Includes foreign exchange holdings of the Government.

Table XV. Solomon Islands: Interest Rate Structure, December 1980-June 1982

(Per cent per annum)

	1980 Dec.	1981			1982		
		Mar.	June	Sept.	Dec.	Mar.	June
SIMA							
Call money	4.00	4.00	4.00	4.00	4.00	4.00	4.00
30-day deposits	5.25	5.25	5.25	5.25	--	--	--
Trading and savings banks 1/							
Savings passbook	3.50	3.50	3.50	3.50	3.50	3.50	3.50
90-day deposits	6.00-6.50	6.00-6.50	6.00-6.50	6.25-6.75	6.25-6.75	6.25-6.75	7.00
12 months	7.00	7.00	7.00-7.25	7.00-7.25	7.25-7.50	7.25-7.50	8.25
24 months	7.25-9.00	7.25-9.00	7.25-9.00	7.25-9.00	7.50-10.00	7.50-10.00	8.25-11.25
NPF contribution account	7.00	8.00	8.00	8.00	8.00	8.00	8.00
National savings certificates	7.00	7.00	7.00	7.00	7.00	7.50	7.50
Treasury bills	....	....	....	....	7.00	7.00	7.00
Development bonds	9.00	9.00	9.00	9.00	10.00	10.00	10.00
Bank overdrafts	9.00-16.00	9.00-16.75	9.00-16.75	9.00-17.00	9.00-14.50	10.50-17.00	10.50-17.00

Source: Data provided by Solomon Islands Monetary Authority.

1/ Interest rates on deposits in excess of SI\$25,000 are negotiable; in June 1982, such deposits yielded about 11 per cent.

**Table XVI. Solomon Islands: Assets and Liabilities of the
Development Bank of Solomon Islands, 1979-82**

(In thousands of Solomon Islands dollars)

	1979 Dec.	1980 Dec.	1981 Dec.	1982 April
Assets				
Cash and deposits with banks	537	272	73	34
Investments	210	220	272	272
Loans (private and statutory)	2,978	5,230	7,197	7,475
Fixed assets	335	497	637	740
Current assets	83	294	311	87
Total	4,143	6,513	8,490	8,608
Liabilities				
Capital	2,368	2,930	3,452	3,580
Reserves	367	413	455	162
Borrowings	1,267	3,170	4,583	4,866
Government	621	852	832	821
ADB Cattle Project	85	140	24	320
ADB	213	1,187	1,452	1,619
NPF	250	500	750	750
EDF	—	—	556	688
Other (current liabilities)	109	227	415	307
Provision for doubtful debts	130	264	331	361
Total	4,143	6,513	8,490	8,608

Source: Data provided by the Solomon Islands authorities.

Table XVII. Solomon Islands: Loan Approvals of the Development Bank of Solomon Islands by Region and by Sector, 1981-82

	<u>1981 (Year)</u>		<u>1982 (Through June)</u>	
	Amount <u>1/</u>	Per cent of total	Amount <u>1/</u>	Per cent of total
By Province				
<u>Rural Provinces</u>	<u>1,453</u>	<u>65</u>	<u>1,003</u>	<u>59</u>
Central	68	3	32	1
Eastern Islands	2	--	--	--
Guadalcanal	422	19	516	27
Isabel	56	3	40	2
Makira/Ulawa	98	4	28	1
Malaita	361	16	323	23
Western	446	20	64	5
<u>Urban Province</u>	<u>77</u>	<u>35</u>	<u>890</u>	<u>41</u>
Honiara	77	35	890	41
Total	2,230	100	1,893	100
By Sector				
<u>Agriculture</u>	<u>839</u>	<u>37</u>	<u>862</u>	<u>45</u>
Of which:				
Cocoa	173	8	160	8
Copra	215	9	50	3
Livestock	213	10	153	7
Forestry	33	1	224	12
<u>Industry</u>	<u>759</u>	<u>34</u>	<u>660</u>	<u>35</u>
Manufacturing	395	18	415	22
Construction	364	16	245	13
<u>Commerce</u>	<u>167</u>	<u>8</u>	<u>239</u>	<u>13</u>
<u>Services including transport</u>	<u>465</u>	<u>21</u>	<u>132</u>	<u>7</u>
Of which:				
Shipping	175	8	57	3
Vehicles	180	8	63	3

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

1/ In thousands of Solomon Islands dollars.

Table XVIII. Solomon Islands: National Provident Fund, 1979-82

(In thousands of Solomon Islands dollars)

	End of June			
	1979	1980	1981	1982
Membership ('000 persons)	30	36	41	46
Active contributors (persons)	22	23	22	24
Contributions during year	1,968	2,450	3,289	4,510
Benefit payments	149	315	530	865
Assets distribution				
Cash deposits at banks (including accrued interest)	2,817	4,307	5,654	7,928
Loans to Government	500	745	1,200	2,906
Direct loans	500	500	500	1,956
Holdings of government development bonds	—	245	700	950
Loans to government enterprises	500	1,000	2,250	2,500
Loans to private sector	388	614	679	743
Agriculture	—	—	—	—
Manufacturing	—	—	—	—
Trading and commerce	—	—	—	—
Service	388	614	679	743
Construction	—	—	—	—
Other	—	—	—	—
Other assets	60	51	213	393
Total	4,265	6,717	9,996	14,470

Source: Data provided by the National Provident Fund.

**Table XIX. Solomon Islands: Assets and Liabilities of the
National Provident Fund, 1979-82**

(In thousands of Solomon Islands dollars)

	<u>End of June</u>			
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Assets				
Cash and deposits with banks	2,753	4,187	5,499	7,050
Accrued interest	64	120	155	878
Loans				
Private sector	388	614	679	743
Quasi-government bodies	500	1,000	2,250	2,500
Government	500	745	1,200	2,906
Fixed assets	60	51	213	393
Total	<u>4,265</u>	<u>6,717</u>	<u>9,996</u>	<u>14,470</u>
Liabilities				
Contributions account	3,768	6,019	9,109	12,754
Government grants	84	84	84	84
General reserves	411	614	800	1,629
Other liabilities	2	1	3	3
Total	<u>4,265</u>	<u>6,717</u>	<u>9,996</u>	<u>14,470</u>

Source: National Provident Fund, Annual Reports.

Table XX. Solomon Islands: Balance of Payments, 1979-82

(In millions of Solomon Islands dollars)

	1979	1980	1981	1982 Projection
A. Trade balance	8.7	-0.7	-8.4	-7.8
Exports, f.o.b.	59.3	60.8	57.6	57.8
Imports, f.o.b.	-50.6	-61.5	-66.0	-65.6
B. Services (net)	-17.0	-25.9	-24.6	-20.7
Receipts	5.0	9.7	12.5	14.2
Payments	-22.0	-35.6	-37.1	-34.9
Of which:				
Freight and insurance	(-10.0)	(-10.6)	(-13.2)	(-13.8)
Profits and dividends	(-4.0)	(-12.4)	(-3.1)	(-1.1)
Fishing fleet	(-5.9)	(-6.9)	(-8.0)	(-7.4)
C. Transfer receipts	17.2	16.5	15.4	10.0
Official	15.2	15.9	15.2	9.5
Private	2.0	0.6	0.2	0.5
D. Current account balance (A+B+C)	8.9	-10.1	-17.6	-18.5
E. Nonmonetary capital (net)	5.5	2.6	6.7	10.7
Direct private investment	(3.0)	(2.0)	(0.2)	(1.1)
Government borrowing	(2.0)	(3.3)	(3.2)	(6.4)
Private borrowing	(0.5)	(-2.7)	(3.3)	(3.2)
F. Allocation of SDRs	0.2	0.2	0.2	—
G. Errors and omissions (net) <u>1/</u>	-8.2	-0.9	0.2	—
H. Overall balance (D+E+F+G)	6.4	-8.2	-10.5	-7.8
I. Monetary movements	-6.4	8.2	10.5	7.8
Monetary authorities <u>2/</u>	-6.3	7.8	9.6	7.8
Use of assets	-6.7	8.0	4.6	...
Increase in liabilities <u>3/</u>	0.4	-0.2	5.0	...
Commercial banks (net)	-0.1	-0.4	0.9	—
J. Memorandum items:				
Gross reserves of SIMA (end of period)	31.7	23.7	19.1	...
Eurodollar borrowing	—	—	4.5	9.5

Sources: Data provided by the Solomon Islands authorities; and SIMA Annual Report, 1981.

1/ Includes valuation adjustment.

2/ Includes Central Government.

3/ Includes use of Fund credit.

Table XXI. Solomon Islands: Value, Volume, and Unit Value of Major Exports, 1979-82

	1979	1980	1981 Estimate	1982 Projections
Fish, fresh and frozen				
Value (SDR millions)	13.0	18.3	18.5	10.4
Volume ('000 metric tons)	23.4	21.6	23.7	18.0
Unit value (SDR/mt)	556	847	779	580
Fish, canned and smoked				
Value (SDR millions)	2.1	3.2	2.8	3.5
Volume ('000 metric tons)	0.9	1.0	0.8	1.1
Unit value (SDR/mt)	2,317	3,305	3,519	3,166
Cocoa beans				
Value (SDR millions)	0.5	0.6	0.9	1.2
Volume ('000 metric tons)	0.3	0.4	0.6	0.9
Unit value (SDR/mt)	2,023	1,616	1,480	1,306
Copra				
Value (SDR millions)	14.4	9.7	7.9	7.6
Volume ('000 metric tons)	31.6	31.7	31.8	32.0
Unit value (SDR/mt)	454	307	248	240
Timber, logs				
Value (SDR millions)	13.1	13.8	14.3	18.9
Volume ('000 cubic meters)	258	258	315	325
Unit value (SDR/m ³)	51	54	46	58
Palm oil				
Value (SDR millions)	5.9	6.2	6.9	6.6
Volume ('000 metric tons)	12.8	15.6	16.9	17.9
Unit value (SDR/mt)	461	394	408	368
Rice				
Value (SDR millions)	0.9	1.4	0.9	0.6
Volume ('000 metric tons)	4.2	5.1	3.5	...
Unit value (SDR/mt)	204	274	250	...

Sources: Data provided by the Solomon Islands authorities, SIMA Annual Report 1981, Statistical Bulletin; and staff estimates.

**Table XXII. Solomon Islands: Value of Imports 1/ by SITC
Commodity Groups, 1979-April 1982**

(In thousands of Solomon Islands dollars)

	1979	1980	1981	<u>1982</u> <u>Jan.-April</u>
Food	6,362	6,631	7,047	2,084
Beverages and tobacco	1,906	1,816	2,400	645
Inedible crude material	222	417	594	100
Minerals, fuels, lubricants, etc.	6,483	9,873	15,222	4,165
Animal and vegetable oils and fats	583	401	334	243
Chemicals	3,308	3,164	3,816	1,324
Manufactured goods	8,825	10,188	12,127	2,958
Machinery and transport equipment	18,945	24,141	19,149	3,378
Miscellaneous manufactures	3,724	4,706	5,029	1,206
Other commodities	216	208	253	41
Total	50,574	61,545	65,971	16,144

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

1/ F.o.b. valuation.

**Table XXIII. Solomon Islands: Imports of Major
Petroleum Products, 1980-81**

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

	1980		1981	
	Volume	Value	Volume	Value
Gasoline	5,854	1,311	8,344	2,113
Aviation spirit	996	495	858	424
Kerosene	1,412	322	1,839	476
Jet fuel	2,998	672	3,664	92 ^a
Distillate	29,649	6,200	39,313	9,872
Lubricating oil	1,010	600	1,745	1,187
Total	41,919	9,600	55,763	15,001

Source: Data provided by the Solomon Islands authorities.

Table XXIV. Solomon Islands: Exports by Country of Destination, 1979-82

(As per cent of total)

	1979	1980	1981	1982 (Jan.-Mar.)
Oceania	<u>17.1</u>	<u>13.2</u>	<u>7.7</u>	<u>10.4</u>
American Samoa	7.8	5.9	1.3	--
Australia	1.7	2.3	3.1	4.5
New Zealand	0.7	1.0	1.6	2.4
Papua New Guinea	0.8	0.4	0.8	0.3
Others	6.1	3.6	0.9	3.2
Asia	<u>27.5</u>	<u>28.4</u>	<u>39.5</u>	<u>58.4</u>
Japan	24.1	26.3	37.4	57.5
Singapore	2.6	1.4	0.7	1.1
Others	0.8	0.7	1.4	--
European Economic Community	<u>40.8</u>	<u>31.1</u>	<u>28.7</u>	<u>26.1</u>
France	3.3	--	--	--
Germany, Federal Republic of	3.5	5.8	4.9	--
Netherlands	14.6	12.6	11.9	4.8
United Kingdom	17.2	12.7	11.9	21.3
Others	2.2	--	--	--
Americas	<u>14.5</u>	<u>26.6</u>	<u>22.7</u>	<u>0.1</u>
Mexico	7.2	6.1	--	--
U.S.A. ^{1/}	7.3	20.5	22.7	0.1
Others	--	--	--	--
Rest of the world	<u>0.1</u>	<u>0.6</u>	<u>1.4</u>	<u>4.8</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

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

^{1/} Including exports to Puerto Rico.

Table XXV. Solomon Islands: Imports by Country of Origin, 1979-82

(As per cent of total)

	1979	1980	1981	1982 (Jan.-Mar.)
Oceania	<u>40.0</u>	<u>43.8</u>	<u>41.3</u>	<u>50.4</u>
Australia	<u>29.9</u>	<u>30.9</u>	<u>28.0</u>	<u>35.7</u>
New Zealand	6.3	7.0	8.6	8.0
Papua New Guinea	3.5	5.4	4.1	2.2
Others	0.3	0.5	0.6	4.5
Asia	<u>38.2</u>	<u>41.1</u>	<u>43.2</u>	<u>37.1</u>
China, People's Republic of	<u>3.1</u>	<u>2.5</u>	<u>2.5</u>	<u>3.1</u>
Hong Kong	3.3	2.9	2.5	2.6
Japan	18.0	19.7	14.9	14.9
Singapore	12.4	14.7	22.1	15.1
Others	1.4	1.3	1.2	1.4
European Economic Community	<u>16.2</u>	<u>10.3</u>	<u>9.9</u>	<u>6.7</u>
France	<u>0.3</u>	<u>0.1</u>	<u>0.1</u>	--
Germany, Federal Republic of	1.6	1.2	1.0	1.6
Netherlands	--	--	--	--
United Kingdom	13.5	8.6	8.1	4.5
Others	0.8	0.4	0.7	0.6
Americas	<u>4.2</u>	<u>3.6</u>	<u>4.4</u>	<u>4.9</u>
U.S.A.	<u>3.6</u>	<u>3.2</u>	<u>4.0</u>	<u>4.3</u>
Others	0.6	0.4	0.4	0.6
Rest of the world	<u>1.4</u>	<u>1.2</u>	<u>1.2</u>	<u>0.9</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

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

Table XXVI. Solomon Islands: International Reserves, 1978-82

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

Solomon Islands										
SIMA					Government		Total	Commercial	Total	
Foreign assets	Holdings of SDRs	IMF reserve position	Foreign liabilities	Net	ment	(net)	(net)	banks	2/	(net)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1978										
March	2.6	--	--	2.6	0.6	3.2	12.6	15.8		
June	3.6	--	--	3.6	0.2	3.8	12.1	15.9		
September	3.5	--	--	3.5	0.5	4.0	15.8	19.8		
December	24.4	--	--	24.4	0.6	25.0	-0.7	24.3		
1979										
March	23.8	0.5	--	24.3	1.1	25.4	-0.9	24.5		
June	30.4	-0.7	0.4	29.3	0.6	29.9	-1.3	28.6		
September	34.4	-0.7	0.9	32.8	0.5	33.3	-1.4	31.9		
December	30.9	0.5	0.4	31.0	0.3	31.3	-0.6	30.7		
1980										
March	28.2	0.3	0.3	28.7	-0.9	27.8	1.8	29.6		
June	26.0	0.3	0.7	26.1	0.1	26.2	-1.3	24.9		
September	22.8	1.3	0.7	23.9	2.9	26.8	-0.5	26.3		
December	18.8	1.0	0.2	20.4	3.1	23.5	0.2	23.7		
1981										
March	16.2	0.8	0.2	17.9	1.1	19.0	-0.3	18.7		
June	15.2	--	0.9	15.6	0.3	15.9	-0.8	15.1		
September	19.1	--	5.2	15.2	0.1	15.3	--	15.3		
December	17.4	--	5.2	13.5	0.4	13.9	-1.0	12.9		
1982										
March	29.1	--	14.6	15.7	--	15.7	-0.8	14.9		
June	27.8	--	14.6	14.4	--	14.4	-0.7	13.7		

Source: Data provided by Solomon Islands Monetary Authority (SIMA).

1/ Including Eurodollar borrowing.

2/ Do not correspond to monetary survey data, excluding foreign liabilities on the capital account of commercial banks.

Table XXVII. Solomon Islands: Government External Public Debt, 1979-81 1/

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

	1979	1980	1981
Bilateral loans	<u>410.3</u>	<u>395.8</u>	<u>340.9</u>
U.K. development project loans <u>2/</u>	410.3	395.8	340.9
Multilateral loans	<u>2,630.2</u>	<u>5,960.9</u>	<u>13,598.0</u>
ADB <u>3/</u>	<u>2,200.2</u>	<u>5,163.4</u>	<u>6,853.7</u>
Cattle Development Authority Loan	1,017.3	1,568.9	2,293.4
Solomon Islands Port Authority Loan	107.7	789.7	314.7
National Fisheries Development Loan	857.8	1,530.2	2,352.8
Development Bank of Solomon Islands Loan	217.4	1,274.6	1,602.6
Honiara Water Supply	--	--	290.2
European Development Fund	--	--	556.2
OPEC Special Fund	430.0	797.5	1,743.7
Others <u>4/</u>	--	--	4,444.4
Total	3,040.5	6,356.7	13,938.9

Source: Data provided by the Solomon Islands authorities.

1/ On disbursement basis.

2/ Interest-free loan.

3/ Soft-term loans.

4/ Including loans on commercial terms.

Table XXVIII. Solomon Islands: External Public Debt Service Payments, 1975-89

(In thousands of U.S. dollars)

	1975-79 Average	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
							Projections 1/				
Amortization	13	16	14	12	63	213	2,535	4,757	4,828	4,941	4,961
United Kingdom	13	16	14	12	13	13	13	13	13	13	13
Asian Development Bank	--	--	--	--	--	--	--	--	71	184	204
OPEC Special Fund	--	--	--	--	50	200	300	300	300	300	300
Commercial borrowing	--	--	--	--	--	--	2,222	4,444	4,444	4,444	4,444
Interest	--	--	800	2,400	3,205	3,010	2,676	2,007	1,376	763	112
Asian Development Bank	--	--	--	--	--	--	--	--	36	92	110
OPEC Special Fund	--	--	--	--	5	10	9	7	6	4	2
Commercial borrowing	--	--	800	2,400	3,200	3,000	2,667	2,000	1,334	667	--
Total	13	16	814	2,412	3,268	3,222	5,210	6,764	6,204	5,704	5,073
As per cent of exports of goods and services	--	--	1.0	3.5	3.9	3.3	4.9	5.8	4.8	4.0	3.3

1/ Based on contracted debt at end-1981.

Table XXIX. Solomon Islands: Private Sector External Debt

(In millions of Solomon Islands dollars,
amount outstanding at end-1981)

Purpose	Amount Outstanding	Number of Borrowers
Agriculture	10.587	3
Transport	0.362	3
Communications	0.485	1
Forestry	1.237	2
Fishing	0.266	1
Construction	0.168	1
Others	<u>0.110</u>	<u>2</u>
Total	13.215	13

Source: Data provided by the Solomon Islands authorities.

Table XXX. Solomon Islands: Exchange Rates, 1979-82

(In units of foreign currency per SI\$)

	Australia (dollar)	United States (dollar)	United Kingdom (pound)	Japan (yen)
1979				
March	1.0000	1.1182	0.5427	233.63
June	1.0500	1.1772	0.5416	254.97
September	1.0500	1.1863	0.5364	264.78
December	1.0540	1.1652	0.5225	280.17
1980				
March	1.0590	1.1470	0.5264	286.07
June	1.0620	1.2294	0.6223	266.89
September	1.0590	1.2380	0.5186	263.41
December	1.0620	1.2539	0.5251	254.39
1981				
January	1.0710	1.2538	0.5236	256.28
February	1.0620	1.2283	0.5504	255.79
March	0.9957	1.1573	0.5143	244.15
April	0.9970	1.1480	0.5348	246.23
May	0.9978	1.1366	0.5492	254.67
June	0.9833	1.1292	0.5804	254.95
July	0.9806	1.1147	0.6003	266.30
August	0.9749	1.1205	0.6061	256.83
September	0.9741	1.1147	0.6217	259.47
October	0.9820	1.1153	0.6042	261.43
November	0.9851	1.1339	0.5797	244.40
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

Source: Data provided by the Solomon Islands authorities.

Aggregate and Commodity Indices of Relative Export Profitability 1/

This note derives an index to measure relative export profitability on a commodity basis and uses the various commodity indices to derive an index of overall export profitability for a country. The technique is illustrated by calculating relative export profitability indices for each of the major export commodities of Solomon Islands and an aggregate index of export profitability.^{2/}

I. Indices of Relative Export Profitability

The nominal profits of export activity i in country k are written in equation 1, where it is assumed that the production of Q_i requires L_i of labor and R_i of imported raw materials.

$$A_{ki} = p_{\$i}^e Q_i - w_{k1} L_i - p_{\$r}^e R_i \quad (1)$$

Labor is assumed to be perfectly mobile within the country and is paid w_k . The prices of export good i , expressed in currency of country k , is the product of the U.S. dollar price of commodity i as determined in world markets ($p_{\$i}^e$) and the exchange rate ($e_{k\$}$). Similarly, the domestic currency price of imported raw materials is $p_{\$r}^e e_{k\$}$.

The profitability per unit of export i in real terms is written in equation 2.

$$a_{ki} = \frac{p_{k\$}^e}{p_k} - \frac{w_{k1}}{p_k} - \frac{p_{k\$}^e r_i}{p_k} \quad (2)$$

where p_k is the appropriate price deflator and

$$a_{ki} \equiv A_{ki}/Q_i p_k \quad l_i \equiv L_i/Q_i \quad r_i \equiv R_i/Q_i$$

By an appropriate choice of units, $p_{\$i}^e$ and $p_{\$r}^e$ have been set equal to unity.

Equation 3, which can be derived by differentiating equation 2, expresses the change in real profitability of export i as a function of

1/ Prepared by James Healy and Zubair Khan.

2/ The aggregate index of export profitability is the inverse of the export-competitor weighted index of the effective exchange rate discussed in the Staff Report (SM/82/199).

the changes in real price of the commodity and changes in the real costs of labor and raw materials:

$$\hat{a}_{k1} = \alpha_{11} (\hat{e}_{k\$} - \hat{p}_k) - \alpha_{21} (\hat{w}_k + \hat{l}_1 - \hat{p}_k) - \alpha_{31} (\hat{e}_{k\$} + \hat{r}_1 - \hat{p}_k) \quad (3)$$

where

$$\alpha_{11} \equiv \frac{e_{k\$}}{A_{k1}} \quad \alpha_{21} \equiv \frac{w_{k1}}{A_{k1}} \quad \alpha_{31} \equiv \frac{e_{k\$} r_1}{A_{k1}} \quad \text{and} \quad \hat{x} \equiv \frac{dx}{x}$$

A depreciation of the domestic currency raises the domestic currency receipts from exports, but also increases the domestic currency cost of imported raw materials. Similarly, an increase in the price level in country k lowers the real domestic currency receipts of exports, but also lowers the real domestic currency costs of both labor and imported raw materials. The net effect of a 1 per cent depreciation of the exchange rate is given by $(\alpha_1 - \alpha_3)$; the net effect on profitability of a 1 per cent change in the level of domestic prices is given $-(\alpha_1 - \alpha_2 - \alpha_3)$.

Now suppose that country j competes with country k in supplying export commodity i in world markets. The change in the real profitability of export i to producers in country j is similar to equation 3:

$$\hat{a}_{j1} = \alpha_{11} (\hat{e}_{j\$} - \hat{p}_j) - \alpha_{21} (\hat{w}_j + \hat{l}_1 - \hat{p}_j) - \alpha_{31} (\hat{e}_{k\$} + \hat{r}_1 - \hat{p}_j) \quad (4)$$

where it has been assumed that the proportion of labor costs and raw material costs to total profits are the same in country j and country k and that the capital/output and labor/output ratios are the same in both countries.

The change in relative profitability of producing export commodity i in country j and country k can be obtained simply by subtracting equation 3 from equation 4 and rearranging terms. This operation results in equation 5,

$$\hat{a}_{k1} - \hat{a}_{j1} = (\alpha_{11} - \alpha_{31}) [(\hat{e}_{k\$} - \hat{e}_{j\$}) - (\hat{p}_k - \hat{p}_j)] \quad (5)$$

where it has been assumed for simplicity that wage rate movements in each country are proxied by movements in the price levels in that country.

The expression in equation 5 suggests the following index of relative profitability of commodity i for country k:

$$PRI_1^K = \left(\frac{e_{k\$}}{e_{j\$}} \frac{p_j}{p_k} \right)^{(\alpha_{11} - \alpha_{31})} \quad (6)$$

Equation 6 implies that the relative profitability of producing commodity i in country k would improve as currency k depreciates vis-a-vis currency j and would deteriorate as the inflation in country k exceeds the inflation

in country j . The exponent in the index is the coefficient in equation 5 for the net impact of changes in the exchange rate and the price level on total profitability. Generalizing the index to allow for other competitor countries producing commodity i results in equation 7:

$$PRI_i^K = \prod_j \left(\frac{e_{k\$}}{e_{j\$}} \frac{p_j}{p_k} \right)^{(\alpha_{1i} - \alpha_{3i})\beta_{ji}} \quad i = 1, 2, \dots, n \quad (7)$$

where β_{ji} is the share of country j 's exports of commodity i in the total international trade of commodity i . The formula in equation 7 can be used to construct a relative profitability index for each of n commodity exports.

The next step is to construct an index of overall relative profitability, incorporating the information contained in the individual commodity indices. The overall index is simply a weighted geometric average of the component commodity indices, with the weights being determined by the importance of each commodity export in the total export bundle of country k . This expression is presented in equation 8.

$$PRI^{K'} = \prod_i \prod_j \left(\frac{e_{k\$}}{e_{j\$}} \frac{p_j}{p_k} \right)^{(\alpha_{1i} - \alpha_{3i})\delta_i\beta_{ji}} \quad (8)$$

where δ_i is the proportion of export i in total exports of country k .

Intuitively, a change in the exchange rate of country k vis-a-vis a competitor country j will influence the relative profitability of each of the export goods in which countries k and j compete as suppliers. This impact is given by $(\alpha_{1i} - \alpha_{3i})$ for each commodity i . The effect on total export profitability will then depend on the impact on the profitability of each commodity, weighted by its importance in total exports. That is, $(\alpha_{1i} - \alpha_{3i})\beta_{ji}\delta_i$ across all commodities i . These effects are computed for country k vis-a-vis each competitor country j .

II. Relative Profitability of Solomon Islands Exports

In the case of Solomon Islands, separate export competitor-weighted indices were estimated ^{1/} for its five major exports; copra, fish, timber, palm oil and cocoa. Each index uses the currencies of a set of about eight competing countries whose share in world exports of these products was at least 1 per cent in 1979. The relative weights of each country in the commodity index reflect their relative market shares. Some countries are included in the calculations for more than one of the commodity indices. An overall index was then constructed as a weighted average of

^{1/} For lack of data on relationships between revenue, profits and costs by commodity, it has been assumed that $(\alpha_{1i} - \alpha_{3i})$ in equation (7) equals unity.

the five individual indices, the weights being the relative importance of the five products in the total value of Solomon Islands exports in 1981. All the indices were constructed on a monthly basis for the period January 1979 to December 1981, with January 1979 as the base period.

Following the 6 per cent devaluation of the Solomon Islands dollar in March 1981, the aggregate index of relative profitability shows that profitability of total exports decreased by 5 per cent in the period April-July as a result of changes in exchange rates and relative price movements. Relative profitability recovered somewhat by November but declined again in December 1981 to a level of 4 per cent below that in March 1981 (Chart 6). Most of the decline in aggregate relative profitability was due to the losses experienced by producers of fish and timber (Chart 7). Relative profitability had declined by 6 per cent in December over the level in March for fish exports and by 4 per cent for timber. Losses in relative profitability for exports of cocoa, copra and palm oil during the same period ranged between 1 to 2 per cent.

CHART 6
SOLOMON ISLANDS

AGGREGATE INDEX OF RELATIVE PROFITABILITY

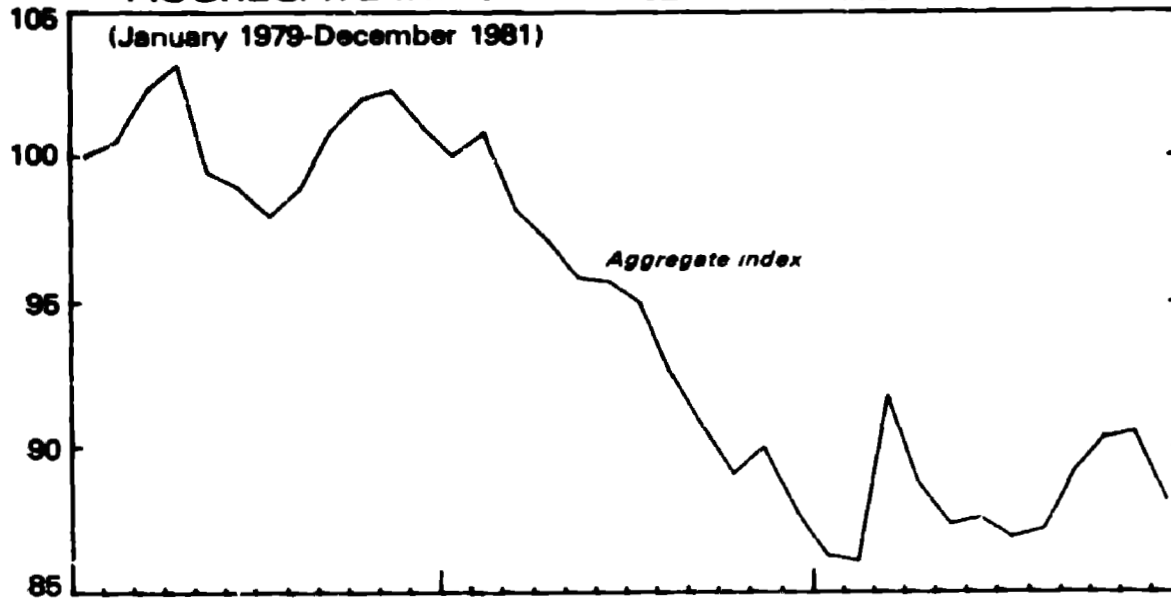
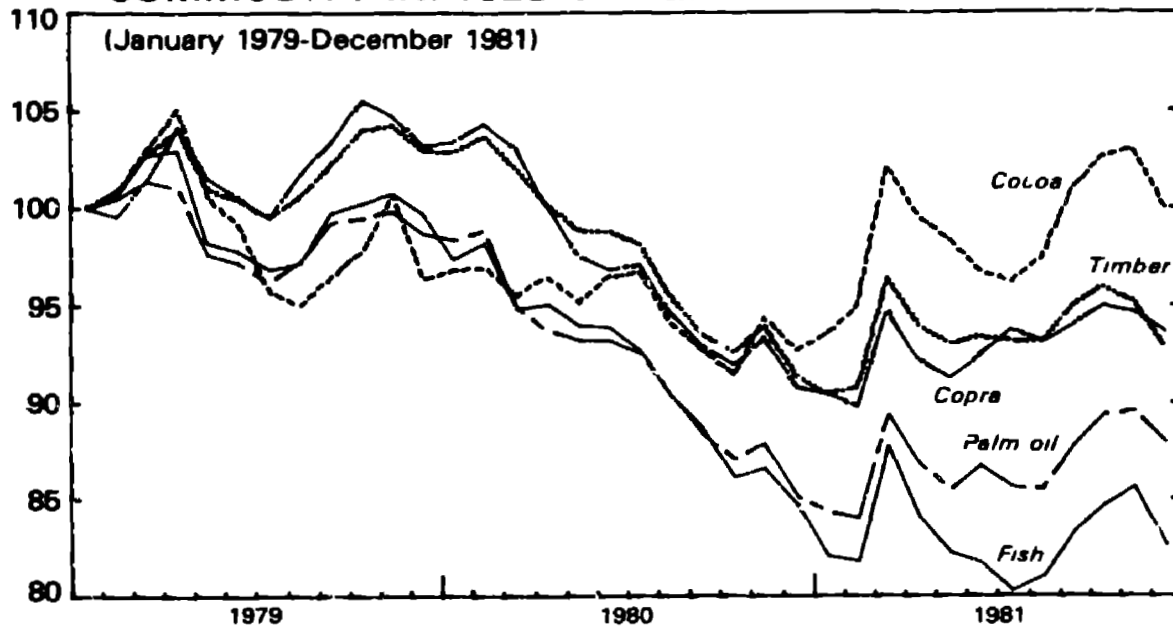


CHART 7

COMMODITY INDICES OF RELATIVE PROFITABILITY



Source: Staff estimates

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