

COUNTRY REVIEW

Solomon Islands



16 June 2009

ANALYST: David Atkinson

EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Honiara
GDP:	USD 460 mn (2008e)
Population:	0.6 mn (2008e)
GDP per capita:	USD 770 (2008e)
Currency:	Solomon Islands dollar (SBD)
Form of state:	Constitutional monarchy
Head of government:	PM Derek Sikua
Next elections:	Legislative: 2010

PM Derek Sikua took over the reins of power after his predecessor Manasseh Sogovare was defeated in a no-confidence vote in parliament in December 2007. PM Sikua has survived a number of challenges to his leadership in 2008 PM Sikua, but political affiliations are fluid and further challenges are likely, unless a proposed bill to fix party allegiances and prohibit a vote of confidence within the first 18 months of a government's term of office. Such a law would help stability, which has been conspicuously lacking, with a coup, violent disorder and a breakdown of law and order in the 2003 that required the support from the Regional Assistance Mission to Solomon Islands (RAMSI), led by Australia, to restore stability.

Statistical data on the Solomon Islands are sparse. The Asian Development Bank (ADB) expects real GDP grew by 6.4% in 2008 (down from 10.3% in 2007) but project growth to slow further to 2.2% in 2009 and 1.7% in 2010, as logging exports decline. A major structural concern is the depletion of commercial forestry, as logging rates reached 5 times the sustainable rate in 2007. Gold mining and palm oil offer some prospects for the future but neither seems to be developing fast enough to offset the likely decline of logging, the former hampered by lack of financing. The fiscal deficit widened to 5.6% of GDP in 2009 from 0.4% in 2007 and is budgeted at 3.9% in 2009. However, this will exceed cash reserves, but borrowing is precluded by agreements with official creditors. Consequently, expenditure may have to be cut, reducing expected growth, unless donors are willing to change the agreement. Credit expansion was very strong in 2008. Inflation accelerated in 2008, peaking at 23.5% in September before dipping below 20% by the end of the year. According to ADB estimates, the current account deficit widened to 4.9% of GDP in 2008 and is set to increase in 2009 to more than 10% and also according to the ADB FX reserves fell below the official target of 3 months import cover at end-2008. The value of exports is likely to have fallen sharply in the past six months given the sharp drop in commodity prices, after increasing by a modest 2.8% in 2008.

With logging in decline and political instability weakening policy implantation prospects are poor. Overall we recommend retention of grade D.

David Atkinson

London: +44 (0)20 7860 2807