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Solomon Islands: Letter of Intent, Memorandum of Economic and
Financial Policies, and Technical Memorandum of Understanding

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SOLOMON ISLANDS: LETTER OF INTENT

May 23, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Lipsky,

The Solomon Islands has benefited from sound macroeconomic policies of the Government's economic reform program that is supported by a Standby Credit Facility (SCF) arrangement. Economic and fiscal performances were stronger than expected, foreign reserves reached a high level, and inflation has remained moderate.

We will continue to implement the program described in the May 14, 2010 Memorandum of Economic and Financial Policies (MEFP), aimed at promoting strong, sustainable, and equitable growth in a stable macroeconomic environment to help advance our poverty alleviation efforts. We are providing the attached Supplemental MEFP (SMEFP) to request modification of end-June performance criteria to reflect recent developments and reaffirm policy commitments for the rest of the program period.

Given the success of the program to date, the observance of all end-December 2010 quantitative targets, and the progress in implementing the structural benchmarks, we request the completion of the second review and the release of the corresponding disbursement. The program will continue to be monitored through quantitative performance criteria and indicative targets, structural benchmarks, and semi-annual reviews (see SMEFP Tables 1 and 2).

We intend to maintain a close policy dialogue with the Fund, and stand ready to take additional measures, as appropriate, to ensure the achievement of the government's macroeconomic objectives under the SCF. We will consult with the Fund in advance on the adoption of these measures or on any revisions to policies contained in the SMEFP, in accordance with the Fund's policy on such consultation. Furthermore, we will provide the Fund with any information it may request on policy implementation, as necessary to achieve program objectives. We also authorize the publication of this Letter of Intent and the attached SMEFP.

Sincerely yours,

/s/

/s/

Hon. Gordon Darcy Lilo, MP
Minister of Finance and Treasury
Ministry of Finance and Treasury

Denton Rarawa
Governor
Central Bank of Solomon Islands

Attachments: Supplemental Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding

SOLOMON ISLANDS: SUPPLEMENTAL MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. RECENT DEVELOPMENT AND OUTLOOK

1. **Macroeconomic performance has been stronger than expected and the outlook remains favorable.** Real GDP growth rebounded strongly in 2010 owing to higher-than-expected logging and agricultural productions as well as large mining investment. Inflation remained low in 2010 reflecting domestic supply conditions but is expected to pick up owing to rising global food and fuel prices. The overall balance of payments surplus was larger than anticipated due to large foreign investment, donor support, and other flows, contributing to a record level of gross international reserves. The near-term growth outlook is favorable due to rebound in economic activities including gold mining that has come on stream this year.
2. **The program targets for end-December were met with comfortable margins.** Our fiscal performance in 2010 was stronger than envisaged under the program due to greater revenue collections and expenditure restraint. As a result, we managed to build up our cash balance to around SI\$260 million by end-2010, covering two months of recurrent spending. On the monetary side, large foreign exchange inflows from exports, investments, as well as donor support contributed to an increase in net international reserves, reaching US\$256 million at end-2010. The targets for net credit to government and the central banks' net domestic assets were also met with comfortable margins (Table 1).

II. PROGRAM POLICIES

A. Fiscal Policies

3. **We have formulated our 2011 Budget to ensure that it reflects our program commitment to strengthening public finance and fiscal sustainability.** We intend to preserve our fiscal over-performance in 2010 by maintaining cash reserves at over two months of recurrent spending through end-2011, while channeling more than SI\$50 million to the newly established National Transport Fund (NTF). We have ensured that the budget is fully funded and improved the budget process by aligning the priorities with the government's policy strategy and strengthening the consultation process with each ministry.

- On revenue, we intend to improve tax and customs collections by reducing exemptions, and strengthening administration and enforcement actions. In addition, we expect additional revenue from the commencement of gold exports this year. We remain committed to applying the full amount of the formula-based price for logging exports, with a quarterly automatic price adjustment, starting on July 1, 2011.
- On expenditure, the budget reflects our commitment to limiting the growth of nonessential recurrent spending while ensuring adequate resources for development needs. We intend to restrain the growth of recurrent spending including the wage bill while protecting priority spending and any measures that mitigate the potential adverse impact of rising fuel and food prices on the poor. The development budget reflects our

commitment to developing infrastructure, especially in rural areas. We strive to ensure that our development budget will be used to finance high-impact development projects and plan to save any unspent budgetary resources.

- In order to ensure that the budget remains fully funded, and that the budgeted cash balances are preserved, any supplementary budget and additional contingency warrants will be funded by new revenue measures, savings measures, or updated revenue estimates. Any additional spending under a supplementary budget will prioritize education, health, and infrastructure, including through the NTF, while containing other recurrent spending.

4. **We have made good progress in implementing the structural fiscal reforms under the program** (Table 2). We continue to make progress in enforcing actions to collect income tax arrears. Since the enforcement framework is now in place, we request this benchmark be removed for the remaining period of the program. We have implemented the new Customs Valuation Act, incorporated all line ministries into a centralized payroll system, and obtained Cabinet approval of the plan to reform the National Provident Fund (NPF) (December 2010 program benchmarks). The drafting of amendments to the Customs and Excise and Income Tax Acts to legalize and streamline exemptions (December 2010 program benchmark) took longer than expected, but we plan to submit the draft amendment to Cabinet by end-May with approval expected in June.

5. **We are also moving ahead with our fiscal reforms to ensure long-term overall fiscal sustainability.** In this context, we intend to obtain Cabinet approval of a policy paper on formulating the new resource-based tax regime based on Fund Technical Assistance (TA) recommendations by end-June 2011 (program benchmark) and reforming the relevant legislations to implement the new regime during 2011–12. Until this regime is in place, we will refrain from approving mining lease that includes the participation by the government in the sharing of production, revenues, profits, or in the equity capital of the mining company. Prospecting licenses will continue to be granted under the Mines and Mineral Act. We also made progress in drafting fiscal responsibility provisions to be incorporated into the Public Finance and Audit Act (PFAA) that is now being reformed. We seek to ensure that PFAA reform and the formulation of fiscal responsibility provisions are done through a consultative process to build ownership. In view of this, we intend to obtain Cabinet approval by end-June 2011 of a proposal to reform the PFAA, and as part of the reform, incorporate the fiscal responsibility provisions (revised program benchmark). After the first round of consultation with the stakeholders, we intend to publish the proposed amendments to PFAA including the draft fiscal responsibility provisions by end-September 2011 (new program benchmark).

B. Monetary, Exchange Rate, and Financial Sector Policies

6. **Monetary and exchange rate policies are geared toward maintaining price and external stability.** In light of the comfortable level of foreign reserves, the Central Bank of Solomon Islands' (CBSI) has decided on a modest adjustment of the exchange rate to mitigate the inflationary impact of the anticipated rapid increase in imported fuel and food prices.

Monetary growth remains robust and banks' excess reserves continue to accumulate, reflecting large external inflows from large donor support and buoyant exports. Credit growth remains negative despite the pickup in economic activity as banks remain cautious. However, credit growth is expected to pickup in 2011 following the passage of the 2011 Budget and general recovery in the economy. The CBSI will closely monitor credit developments and tighten monetary conditions using both direct and indirect monetary instruments should banks begin to expand credit. In view of the high level of banks' excess reserves, the CBSI will continue to mop up liquidity.

7. **To strengthen the effectiveness of CBSI in the conduct of monetary policy and supervisory activities, we are amending the CBSI Act.** The amendment has been drafted, and we will seek a Cabinet approval of the draft by end-September 2011 (new program benchmark).

8. **We continue our efforts to strengthen the financial sector.** The financial soundness indicators confirm that the banking system remains adequately capitalized and highly profitable, albeit with a modest rise in nonperforming loans. While all banks are above the prudential ratios, on-site examinations of banks revealed weaknesses in accounting and classification, resulting in a significant overstatement of capital and underprovisioning. The CBSI has requested the banks to undertake corrective actions and imposed a fine in the case of one bank, and will continue to enforce new prudential regulations issued in 2010. On reforms to the National Provident Fund (NPF), more time is needed to draft the amendments to the NPF Act (June 2011 program benchmark) with the assistance of the World Bank in line with the policy paper approved by the Cabinet last year. We believe more consultations among stakeholders are needed to strengthen ownership of the NPF reforms. In this regard, we plan to seek Cabinet approval of the drafting instructions to the amendments by end-September 2011 (new program benchmark).

III. OTHER ISSUES

9. **External debt and arrears:** As part of the ongoing review of the Honiara Club Agreement (HCA), we are working on our debt management strategy and, together with the signatories of the HCA, formulating the terms-of-reference for the review. We plan to finalize our debt strategy by July, in time for the expected public consultation to formulate our fiscal responsibility provisions to ensure consistency. Moving forward, we plan to have the formal meeting of the HCA review before the end of 2011. We have finally received confirmation that the arrears to the European Investment Bank have been fully resolved.

10. **Safeguards assessment:** We have fully constituted the CBSI Board as recommended by the IMF Safeguards assessment (December 2010 program benchmark). We will be publishing annually, starting with the 2010 accounts, the opinion rendered by the international audit firm on CBSI audit results and the IFRS-based financial statements (June 2011 program benchmark).

11. **Statistical issues:** In February 2011, the National Statistics Office (NSO) published the national income accounts statistics for 2007–09 (June 2011 program benchmark). However, the work is still ongoing to revise these statistics, including by incorporating the results of the population census. The NSO plans to publish the revised statistics by end-June 2011.

Table 1. Solomon Islands: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

	9/30/2010			12/31/2010			3/31/2011			6/30/2011		9/30/2011
	IT (CR/10/359)	IT with adjustors	Est.	PC (CR/10/359)	PC with adjustors	Est.	IT (CR/10/359)	IT with adjustors	Prel. Est.	PC (CR/10/359)	Rev. PC	IT
Performance criteria 1/												
Net international reserves (NIR) of the Central Bank of Solomon Islands (CBSI) (floor, eop stock, in millions of U.S. dollars (US\$)) 2/	141	146	205	201	204	256	206	197	280	214	280	283
Net domestic asset (NDA) of the CBSI (ceiling, eop stock, in millions of Solomon Islands dollars (SI\$)) 3/	-327	-365	-435	-401	-426	-673	-401	-332	-767	-411	-700	-722
Net credit to central government (NCG) (ceiling, cumulative change from the beginning of the year, in millions of SI\$) 4/	22	22	30	-80	-80	-279	31	100	-23	-14	17	-15
New nonconcessional external debt maturing in more than one year, contracted or guaranteed by the public sector (ceiling, eop stock since the beginning of the program, in millions of US\$) 5/	0	0	0	0	0	0	0	0	0	0	0	0
New nonconcessional external debt maturing in one year or less, contracted or guaranteed by the public sector (ceiling, eop stock since the beginning of the program, in millions of US\$) 5/	0	0	0	0	0	0	0	0	0	0	0	0
Accumulation of new external payment arrears by the public sector (ceiling, eop stock since the beginning of the program, in millions of SI\$) 5/	0	0	0	0	0	0	0	0	0	0	0	0
Central government program cash balance (floor, cumulative change from the beginning of the year, in million of SI\$) 4/	-13	-13	-9	120	118	216	-33	-105	34	10	-30	-8
Memorandum items:												
Central government program cash balance (floor, eop stock, in million of SI\$) 4/	34	34	38	167	165	263	134	62	297	177	233	255
Budget support from bilateral and multilateral donors other than IMF (cumulative change from the beginning of the year, in millions of US\$), program level.	24	...	29	59	...	62	11	...	2	28	21	39
Outstanding stock of Solomon Islands government (SIG) treasury bills, excluding restructured government bonds (end-period stock, in millions of SI\$), program level.	...	...	...	40	...	39	40	...	38	40	40	40

1/ Evaluated at the program exchange rate.

2/ The adjustors are specified in the Technical Memorandum of Understanding (TMU) and include: the floor on NIR will be adjusted upward (downward) by the amount of budget support from bilateral and multilateral donors (excluding IMF) in excess (short) of the program level.

3/ The adjustors are specified in the TMU and include: the ceilings on NDA will be adjusted downward (upward) by the amount of budget support from bilateral and multilateral donors (excluding the IMF) in excess (short) of the program level. Following the recommendations of the IMF Safeguards Assessment, the program targets starting from end-December 2010 incorporate the recommended changes in the measurement of reserve money. Such changes, however, are not applied in measuring the September 2010 NDA outcome to make it consistent with the September 2010 IT, which was set before the changes were made.

4/ The adjustors are specified in the TMU and include: the floor on central government program cash balance will be adjusted downward and the ceiling on NCG will be adjusted upward by the stock amount of budget support from bilateral and multilateral donors (excluding the IMF) short of the program level; the floor on the program cash balance will be adjusted upward (downward) by the stock of government treasury bills, excluding restructured government bonds, in excess (short) of the program level.

5/ These performance criteria are applicable on a continuous basis.

Table 2. Solomon Islands: Structural Benchmarks

Actions	Macroeconomic criticality	Date	Status
Ministry of Finance and Treasury			
Apply full enforcement actions to collect income tax arrears.	To strengthen revenue administration and collections.	Continuous	In progress, several prosecutions under way. In view of continued progress made and the well functioning framework for enforcement, this benchmark is removed for the remaining of the program (Met).
Amend the Customs Valuation Act and issue new implementation guidelines by end-2010, bringing the act into full effect.	To strengthen customs administration and revenue collections.	December 31, 2010	The amendment was gazetted in December 2010 (Met).
Receive Cabinet approval of amendments to the Customs and Excise and Income Tax Acts legalizing exemption criteria and guidelines, including full disclosure requirements, and merging existing exemption committees into a unified committee structure.	To promote fiscal transparency and enhance the efficiency of revenue collections.	December 31, 2010	A policy paper outlining the amendments was submitted to the Cabinet in December 2010, and Cabinet approval was received in January 2011. The amendment based on the policy paper is expected to be approved by the Cabinet in June (expected to be met by end-June 2011).
Incorporate all line ministries and employees into the new payroll accounting system.	To strengthen expenditure oversight and control.	December 31, 2010	All line ministries and employees are incorporated in a centralized payroll accounting system, and the reconciliation process is underway (Met).
Obtain Cabinet endorsement of a reform plan to the National Provident Fund (NPF) strengthening governance and oversight.	To improve the long-term financial viability of the NPF and reduce fiscal risks.	December 31, 2010	The proposed reforms were endorsed by the Cabinet in November 2010 (Met).
Formulate a resource tax regime, consistent with IMF technical assistance (TA) recommendations.	To broaden the tax base and increase revenue transparency.	June 30, 2011	A policy paper outlining the new resource tax regime is being drafted with inputs from IMF TA.
Draft fiscal responsibility provisions to be incorporated into either a Fiscal Responsibility Act or an amended Public Finance and Audit Act.	To strengthen budget management and ensure fiscal sustainability.	June 30, 2011	The provisions are being drafted with inputs from IMF TA. This benchmark will be replaced with a revised benchmark (see below).
Submit to Parliament a revised National Provident Fund (NPF) Act incorporating the reform plan endorsed by the Cabinet.	To improve the long-term financial viability of the NPF and reduce fiscal risks.	June 30, 2011	Amendments to NPF Act based on the policy paper is being drafted, however the submission to Parliament is not expected before end-June. This benchmark will be replaced with a new benchmark (see below).
Revised and new benchmark			
Obtain Cabinet approval of a proposal to reform Public Finance and Audit Act and to incorporate fiscal responsibility provisions.	To strengthen budget management and ensure fiscal sustainability.	June 30, 2011	Revised benchmark.
Publish the proposed amendments to the Public Finance and Audit Act including the draft fiscal responsibility provisions for public consultation.	To strengthen budget management and ensure fiscal sustainability.	September 30, 2011	New benchmark.
Obtain Cabinet endorsement of the drafting instructions to revise the National Provident Fund (NPF) Act incorporating the reform plan.	To improve the long-term financial viability of the NPF and reduce fiscal risks.	September 30, 2011	New benchmark.
Central Bank of Solomon Islands (CBSI)			
Issue auction guidelines for CBSI and treasury bills.	To broaden monetary instruments.	December 31, 2010	The guidelines were issued on the CBSI website in December 2010 (Met).
Constitute fully the membership of the CBSI Board of Directors.	To strengthen governance of the CBSI.	December 31, 2010	New members of CBSI Board were appointed and the decision was gazetted in December 2010 (Met).
Publish the opinion rendered by the international audit firm on the CBSI audit results and the IFRS-based financial statements, beginning with the 2010 financial statements.	To improve transparency of the CBSI.	June 30, 2011	In progress.
New benchmark			
Obtain Cabinet approval of draft amendment to the CBSI Act.	To strengthen the effectiveness of monetary policy.	September 30, 2011	New benchmark.
The National Statistics Office			
Publish finalized national income accounts for 2007-09.	To strengthen macroeconomic indicators.	June 30, 2011	The National Statistics Office (NSO) published the national account statistics in February 2011. Work is still ongoing to revise the statistics by incorporating the results of the population census.

SOLOMON ISLANDS: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. The program will be monitored through quantitative performance criteria, indicative targets, structural benchmarks, and reviews. This memorandum sets out the definitions for quantitative performance criteria and indicative targets under which performance under the program will be assessed. Monitoring procedures and reporting requirements are also specified.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

2. Performance criteria for end-December 2010 and end-June 2011 and indicative targets for end-March 2011 have been established with respect to:

- Floors on the level of net international reserves (NIR) of the Central Bank of Solomon Islands (CBSI);
- Ceilings on the level of net domestic assets (NDA) of the CBSI;
- Ceilings on the level of net credit to the central government (NCG); and
- Floors on the central government cash balance.

3. Performance criteria applicable on a continuous basis have been established with respect to:

- Ceilings on the contracting and guaranteeing by the public sector of new medium- and long-term nonconcessional external debt;
- Ceilings on the contracting and guaranteeing by the public sector of new short-term nonconcessional external debt; and
- Ceilings on accumulation of new external payment arrears by the public sector.

II. INSTITUTIONAL DEFINITIONS

4. The central government includes all units of budgetary central government and extrabudgetary funds.

5. Depository corporations (DCs) include the CBSI and other depository corporations (ODCs). ODCs include commercial banks, the Credit Corporation of Solomon Islands, and credit unions. Financial corporations include DCs and other financial corporations (OFCs). OFCs are the National Provident Fund (NPF), the Development Bank of Solomon Islands, and the Investment Corporation of Solomon Islands.

III. MONETARY AGGREGATES

6. **Valuation.** Foreign currency-denominated accounts will be valued in Solomon Islands dollar (SI\$) at the program exchange rate of SI\$8.06 per U.S. dollar, as of end-2009. Foreign currency accounts denominated in currencies other than the U.S. dollar and monetary gold will first be valued in U.S. dollars at actual exchange rates and gold prices used by the CBSI, respectively, before they are converted to Solomon Islands dollars.

A. Reserve Money

7. Reserve money consists of currency issued by the CBSI (excluding CBSI holdings of currency) and all transferable deposits held at the CBSI.

B. Net International Reserves of the CBSI

8. A floor applies to the level of NIR of the CBSI. The floor on NIR will be adjusted upward (downward) by the amount of budget support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level.

9. NIR will be calculated as gross international reserves (GIR) less international reserve liabilities. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the CBSI, as reported in Solomon Islands dollars, shall be valued at program exchange rate in U.S. dollars, as described on paragraph 6.

10. GIR of the CBSI are defined as the sum of:

- Foreign currency assets in convertible currencies held abroad and as vault cash that are under the direct and effective control of the CBSI and readily available for intervention in the foreign exchange market or the direct financing of balance of payments imbalances and are of investment grade or held with an investment-grade institution.
- The reserve position of the Solomon Islands in the IMF;
- Holding of SDRs; and
- Monetary gold.

Excluded from the definition of GIR are:

- Foreign currency deposits of ODCs and OFCs held at the CBSI;
- Any foreign currency claims on residents, capital subscriptions in international institutions, and foreign currency assets in nonconvertible currencies, and;
- GIR that are in any way encumbered or pledged, including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities.

11. International reserve liabilities of the CBSI are defined as the sum of:

- All outstanding liabilities of the Solomon Islands to the IMF, excluding IMF SDR allocations; and
- Foreign currency liabilities in convertible currencies to nonresidents with an original maturity of up to and including one year.

C. Net Domestic Assets of the CBSI

12. A ceiling applies to the level of NDA of the CBSI. The ceiling on NDA will be adjusted downward (upward) by the amount of budget support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level.

13. NDA of the CBSI will be calculated as the difference between reserve money and the sum of NIR of the CBSI and other NFA of the CBSI. Any revisions to the historical stock of reserve money based on changes to the accounting treatment of the profit/loss account of the CBSI will be notified to the Fund immediately and used to adjust monetary aggregates by an equivalent amount, as deemed appropriate. Other NFA of the CBSI includes:

- Foreign assets related to holdings of foreign currency deposits, and securities not included in NIR of the CBSI, and loans, shares, financial derivatives, or accounts receivable with nonresidents; and other foreign assets that are not included in NIR of the CBSI, as defined in Section III. B; and
- Foreign liabilities related to IMF SDR allocations; deposits, securities, loans, financial derivatives, and other accounts payable with nonresidents; and other foreign liabilities that are not included in NIR of the CBSI, as defined in Section III. B.

D. Net Credit to the Central Government

14. A ceiling applies to the NCG measured cumulatively from the beginning of the year. The ceiling on NCG will be adjusted upward by the amount of budget support from bilateral and multilateral donors (excluding IMF) short of the programmed level.

15. NCG is defined as the sum of net claims of: (i) the CBSI, (ii) commercial banks and other ODCs, (iii) OFCs, (iv) insurance companies, (v) and government treasury bills held by the general public.

IV. FISCAL AGGREGATES

A. Cash Balance of the Central Government

16. A floor applies to the program cash balance of the central government. The floor on the program cash balance will be adjusted downward by the amount of budget support from bilateral and multilateral donors (excluding IMF) in short of the programmed level. The floor on the program cash balance will also be adjusted upward (downward) by the stock of government treasury bills, excluding restructured government bonds, in excess (short) of the program level of S\$40 million.

17. The program cash balance of the central government is defined as the gross cash balance minus the total amount of unpaid payment orders and unrepresented checks.

18. The gross cash balance is defined as the sum of government deposits, which are not in any way encumbered or pledged as collateral or used as a guarantee against government incurred liabilities, in the following accounts:

- In CBSI: Solomon Islands Government (SIG) Revenue Account, SIG Funded Development Account, SIG Debt Servicing Account;
- In Australia New Zealand Bank: SIG Creditors Account; Payroll Imprest Account, and Airport Service Fees Account;
- In Bank of South Pacific: Provincial Revenue Holding Account, SIG Inland Revenue Account, Sub Treasury Gizo Account, and Sub Treasury Auki Account; and
- Donor funded budget support accounts that are created by and under control of the government.

V. EXTERNAL DEBT

A. Medium- and Long-Term External Debt

19. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing with nonresidents with original maturities of more than one year. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitutes a contingent liability of the public sector. The public sector comprises the central government, the CBSI, nonfinancial public enterprises, and other official entities.

20. The definition of debt, for the purposes of the program, is set out in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement Executive Board Decision No. 6230-(79/140), as revised on August 31, 2009 (see Annex I).

21. Excluded from the ceiling are (i) the use of Fund resources; (ii) lending from the World Bank and the Asian Development Bank; (iii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; (iv) concessional debts; (v) any SIs-denominated treasury bill and bond holdings and Bokolo bonds held by nonresidents.

22. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the central government, the CBSI, nonfinancial public enterprises, or other official entities on behalf of the central government or the CBSI to service debt in the event of nonpayment by the main obligor (involving payments in cash or in kind).

23. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the 10-year-average CIRR will be used to calculate the

NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the 6-month average CIRRR will be used. To both the 10-year and 6-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

B. Short-Term External Debt

24. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing with nonresidents with original maturities of up to and including one year. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector.

25. For program purposes, the definition of debt is set out in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement approved by the Executive Board Decision No. 6230-(79/140), as revised on August 31, 2009 (see Annex I).

26. Excluded from the ceiling are (i) debts classified as international reserve liabilities of the CBSI; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; (iii) SIS-denominated treasury bills and bonds and CBSI and Bokolo bills held by nonresidents; and (iv) normal import financing. A financing arrangement for imports is considered to be “normal” when the credit is self-liquidating.

VI. EXTERNAL PAYMENT ARREARS

27. A continuous performance criterion applies to the nonaccumulation of external payments arrears by the public sector, comprising the central government, the CBSI, nonfinancial public enterprises, and other official entities. External payments arrears consist of external debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements.

VII. DATA PROVISION

28. The data listed below will be provided for monitoring performance under the program based on data templates agreed with Fund staff. Under each section, reporting responsibilities are indicated in parentheses. Weekly data are requested for submission to Fund staff by the end of the following week. Monthly and quarterly data are requested for submission within six weeks of the end of the observation period. The authorities have committed to using the best available data, so that any subsequent data revisions will not lead to a breach of quantitative performance criteria or benchmarks. All revisions to data will be promptly reported to Fund staff.

A. Monetary Data (CBSI)

On a weekly basis:

- Daily exchange rates, both buying and selling rates, of the Solomon Islands dollar against the U.S. dollar, including the official, interbank, and parallel market exchange rates;
- Stock of NIR and sales and purchases by the CBSI in the foreign exchange markets;
- Stock of reserve money and its components; and
- Treasury bill auction reports.

On a monthly basis:

- Financial corporations' survey, including the balance sheet of CBSI, the consolidated balance sheet of ODCs, and the consolidated balance sheet of OFCs;
- Liquid asset ratios and/or reserves requirement of the commercial banks;
- Interest rates, including average interbank rate, bank deposit rates, and bank lending rates;
- A detailed breakdown of NCG from the CBSI, commercial banks and other ODCs, and OFCs;
- Foreign exchange cash-flow of the CBSI, including donor disbursements; and
- Balances of each central government account specified in Section IV. A., as recorded or collected by the CBSI.

B. Fiscal Data (Ministry of Finance and Treasury (MoFT))

On a monthly basis:

- Consolidated accounts of the central government, including detailed data on:
 - Revenue, including tax and nontax revenues, and recurrent and development grants included in the consolidated budget;
 - Recurrent expenditure, including payroll, goods and services, and other recurrent outlays, including those funded by donor support;
 - Other recurrent charges of the Ministry of Education and Ministry of Health, separating spending funded by donor support;
 - Debt service payments, classified into amortization and interest payments on (i) domestic debt, (i) external debt, (iii) domestic arrears, and (iv) external arrears; and

- Development expenditure funded by (i) central government of the Solomon Islands, and (ii) foreign grants and loans included in the consolidated budget.
- Detailed financing components of central government's accounts, classified into foreign and domestic sources.
 - Foreign financing includes (i) disbursement and amortization of project and program loans, and (ii) changes in external debt arrears, classified into principal and interest arrears.
 - Domestic financing includes (i) borrowing from and repayment to the CBSI, commercial banks and other ODCs, and OFCs; (ii) changes in deposits at the CBSI, commercial banks and other ODCs, and OFCs; and (iii) privatization receipts and changes in domestic debt arrears, classified into principal and interest arrears.
- Stock of domestic debt, including the outstanding balance of government securities, treasury bills, cash advances, and other debt instruments.
- Balances of each central government account specified in Section IV. A., as recorded by the MoFT.
- Stock of unpaid government payment orders and unrepresented checks.

C. External Sector Data (CBSI and MoFT)

On a quarterly basis:

- New external debt obligations contracted and/or guaranteed by the government of the Solomon Islands, CBSI, and other official entities, including details on the amounts, terms, and conditions of each obligation.
- Stock of outstanding external debt at end-month and disbursement, amortization, and interest payments for short-term external obligations contracted or guaranteed by the government or the CBSI by creditor in original currency and U.S. dollars.
- Stock of external debt at end-month and disbursement, amortization, and interest payments for medium- and long-term external obligations contracted or guaranteed by the government or the CBSI by creditor in original currency and U.S. dollars.
- Stock of arrears on the external debt contracted or guaranteed by the government or the CBSI by creditor in original currency and in U.S. dollars at end-month.

On a quarterly basis:

- Balance of payment data, including detailed components of current accounts and capital and financial accounts.

D. Real Sector Data (MoFT, National Statistical Office)

On a monthly basis:

- The monthly consumer price index and a detailed breakdown by major categories of goods and services included in the consumer basket.

ANNEX I. GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT

Excerpt from Executive Board Decision No. 6230-(79/140), as revised on August 31, 2009

9. (a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
- (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
 - (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
 - (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.