



CENTRAL BANK of SOLOMON ISLANDS

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“Unemployment in the Solomon Islands”

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In our previous article on unemployment we looked at the issues of unemployment. We learned that unemployment is usually classified according to the various perceived causes of unemployment, and so to understand the issue of unemployment we must understand that unemployment can be caused by various conditions in an economy. In this article we will highlight a few statistics that is worth knowing.

What is an Unemployment Rate?

To recap, we said in the previous article that an ***“Unemployment rate should capture the number of people of working age who are willing and available to work at current wage rates and looking for employment opportunities, but are not employed.”***

Usually an unemployment rate is quoted as *“the percentage of unemployed people against the total number of working age people in a country.”*

We must highlight, however, that unemployment rates only capture people of an economy who are employed in the formal sector. By this we mean that people working in the production of vegetables to sell daily at the market, technically have a job but they do not have a wage in the normal sense of the term.

They may not take produce to sell at the market every day and so although they receive money, they do not have a steady stream of income and hence do not usually contribute via taxes or make pension payments.

Types of Unemployment

In the previous article we learned about the 4 types of unemployment and their causes. To recap, they are as follows.

Demand-deficient unemployment (or cyclical unemployment): This type of unemployment is caused due to a lack of demand in an economy so that domestic firms which are experiencing low demand for their goods and services are not willing to hire extra labour. This type of unemployment, however, can also result when an economy that imports many of its goods and services such that demand for workers from the few firms producing domestically, is not great enough to employ the people of working age in the country. It can also occur when the population is growing at a very fast pace, such that the current size of the economy is not able to employ all the new workers reaching working age each year.

Seasonal unemployment: this type of unemployment occurs in certain industries during certain low seasons. For example, during peak harvesting season for many agricultural crops many people of working age are hired to help with the harvest, during low seasons however these same people are not employed and may find no other work and hence are classified as unemployed. This type of unemployment is said to be short-lived (because next harvest period the hiring of additional labour happens again) and not a problem that should be addressed by government policy because this type of unemployment happens due to the characteristics of certain industries.

Frictional unemployment: When someone loses their job, they have to find another one. People who lose one job and find another immediately are generally very lucky and so between losing one job and finding another there will usually be a period when the person is termed "unemployed". Countries with efficient labour markets that match people to jobs quickly will experience shorter average periods of unemployment for people between jobs. Often government policies exist to match people to jobs so as to reduce this type of unemployment.

Structural unemployment: this type of unemployment is caused when the structure of an industry changes. As an economy develops over time, the type of industries may change as well. For instance, if, as anticipated the logging industry will decline substantially in the near future we would expect that the workers currently involved in this industry will find themselves losing their jobs. Because they have gained experience in that certain industry and may not have worked in another industry they may struggle to find another job unless they learn new skills necessary for working in different industries. Again, government policies can often be targeted to providing opportunities for re-training of workers when a large industry declines in a country in order to reduce problems of structural unemployment (this of course presumes that there is a demand for these workers in others sectors of the economy).

All these causes of unemployment can occur in the Solomon Islands. The main causes of unemployment in our country are still debated to this date.

Unemployment in the Solomon Islands

Estimating the unemployment rate in the Solomon Islands is a tricky task, as highlighted before, due to a large proportion of people of working age in the Solomon Islands working in the informal sector. An unemployment rate may not accurately capture the true proportion of the population who are not working. In fact, a conventional unemployment rate would overstate the level of unemployment in the country.

Currently, the level of taxes that are deducted automatically from the wages of those working in the formal sector and the number of people making contributions to a pension are monitored to try and estimate employment in the country. That is to say, we currently estimate those in formal employment rather than estimate unemployment in the country. Looking at these indicators, employment in the Solomon Islands has an increasing trend, or rather, the employment of people in the formal sector is increasing. What we cannot say for sure is whether the unemployment rate is increasing or decreasing since we cannot accurately measure the number of people who are working in the informal sector.

Unfortunately, the country does not have unemployment statistics like in other countries. The Central Bank of Solomon Islands use proxy indicators for EMPLOYMENT data instead, when assessing the labour market.

For instance, the proxy indicators used for employment indicated that the Solomon Islands National Provident Fund (SINPF), in the first quarter of this year 2021 has 55,790 contributors. In the first quarter of 2020 the number of contributors was 61,093.

The current data compared to last years data shows a reduction of 5,300 contributors. This is due to an estimation of formal job losses where people become unemployed because of the impacts of COVID-19 economic fallout.

Most of the sectors that were affected are, Accommodations (Hotels) Constructions, Transport and Forestry.

Finally, it is important to note that the biggest employer in Solomon Islands is the public service. Just recently in the 1st quarter of 2021, the total headcount of employees in public service is 20,713.

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