INTERNATIONAL MONETARY FUND

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SOLOMON ISLANDS

June 2020

REQUESTS FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOLOMON ISLANDS

In the context of the Requests for Purchase under the Rapid Financing Instrument and Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 1, 2020, following discussions that ended on May 7 with the officials of Solomon Islands on economic developments and policies underpinning the IMF Purchase under the Rapid Financing Instrument and Disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 26.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Solomon Islands.

The documents listed below will be released.

Letter of Intent sent to the IMF by the authorities of Solomon Islands*

*Also included in the Staff Report.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves a US$28.5 Million Disbursement to Solomon Islands to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved the disbursement of US$28.5 million in emergency financing to help Solomon Islands address urgent balance of payments needs created by COVID-19, which is having a severe impact on exports, tourism, and domestic activity.
- To address the pandemic, the Solomon Islands' authorities have taken measures to prevent the entry of COVID-19, to increase health and containment spending, and to provide targeted support for vulnerable households and businesses.
- IMF financing will help fill immediate financing needs and catalyze additional financing from its development partners to support the COVID-19 response.

Washington, DC – June 1, 2020. The Executive Board of the International Monetary Fund (IMF) today approved a disbursement to the Central Bank of Solomon Islands for an amount of SDR 20.8 million (about US$28.5 million, 100 percent of quota), comprising SDR 6.93 million (about US$ 9.5 million, 33.3 percent of quota) under the Rapid Credit Facility (RCF) and SDR 13.87 million (about US$ 19 million, 66.7 percent of quota) under the Rapid Financing Instrument (RFI) to help cover urgent balance of payments needs stemming from the COVID-19 pandemic.

The government has implemented strong measures to prevent the entry of COVID-19 and Solomon Islands has had no confirmed cases. Nevertheless, a sharp decline in commodities exports and tourism is expected to negatively impact the economy and weaken the external position, and necessary containment efforts will slow domestic economic activities.

The authorities' immediate policy responses have focused on strong and timely containment measures to limit the risk of a local outbreak while reprioritizing spending towards health care. The authorities have also recently adopted a fiscal stimulus package with policy measures targeted at providing social assistance, protecting jobs and incomes, and stabilizing the domestic economy. The IMF financial support will make a substantial contribution to filling immediate external financing needs that have emerged due to COVID-19. It is also expected to catalyze additional support from development partners.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Chair, made the following statement:

"The global and domestic measures to contain the COVID-19 pandemic are severely affecting the Solomon Islands' economy, through their impact on commodities exports, tourism, and domestic activity. These have given rise to an urgent balance of payments need. IMF support under the Rapid Financing Instrument and Rapid Credit Facility, in addition to the recent approval of debt service relief under the CCRT, will help address immediate financing needs and catalyze additional support from other development partners.

“The authorities’ immediate policy response has focused on strong and timely containment measures to limit the risk of a local outbreak while reprioritizing spending towards health care. They have also adopted a fiscal stimulus package with measures targeted at providing social assistance, protecting jobs and incomes and stabilizing the domestic economy.

“Additional assistance from development partners, beyond what has already been committed, is needed to close the remaining balance of payments gap and ease the fiscal situation. The authorities’ commitment to high standards of transparency and governance in the management of financial assistance is welcome.

“Beyond the immediate response to the external shock, the authorities should remain committed to policies that promote inclusive growth and resilience while containing external pressures, protecting financial stability and preserving fiscal sustainability.”

More information:

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

IMF Factsheet: The IMF's Rapid Credit Facility (RCF)
https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility

IMF Factsheet: The IMF's Rapid Financing Instrument (RFI)
https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument

INTERNATIONAL MONETARY FUND

SOLOMON ISLANDS

May 26, 2020

REQUESTS FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic is having a severe impact on Solomon Islands' economy. The global economic slowdown has reduced demand for its commodity exports, including logging exports, and tourism. The authorities have enacted strong and timely containment measures to limit the risk of a local outbreak while orienting additional spending towards health care and support for the economy. The necessary containment measures have hampered domestic activities. The disruption of activity, together with loss in revenue from exports, are resulting in a sharp decline in foreign exchange reserves and an immediate external financing gap. The need for sufficient external buffers is urgent, particularly in the context of the basket exchange rate peg regime, a weak fiscal position, ongoing uncertainty and still large downside risks.

Request for Fund support. The authorities are seeking financial assistance under a blend of one-third of the disbursement under the "exogenous shock" window of the Rapid Credit Facility (RCF) and two-thirds from the Rapid Financing Instrument (RFI). The attached Letter of Intent (LOI) envisages a disbursement of SDR 20.8 million, equivalent to 100 percent of quota, with the full amount to become available upon Board approval. The authorities intend to use the RCF/RFI disbursement to provide balance of payment support. Staff assesses that Solomon Islands is faced with an urgent balance of payments need, meets other eligibility requirements for RCF/RFI and supports the request. Public debt is at moderate risk of distress and there is adequate capacity to repay the Fund. The IMF disbursement is expected to play a catalytic role in securing additional financing from development partners.

Macroeconomic policies. In addition to containment measures to limit the risk of a local outbreak and increasing health spending, immediate policy measures should reprioritize spending towards protecting vulnerable households and businesses. Going forward, improving budget planning in line ministries, strengthening commitment controls and procurement planning would help safeguard fiscal sustainability. Substantial new measures, including concessional external financing, will be needed to increase fiscal buffers. Comprehensive structural reforms, including improving the business environment, would help reduce the current account deficit over the medium term and foster diversification into new growth sectors. Strengthening enforcement of governance standards, improving transparency and advancing the anti-corruption agenda remain crucial.

Approved By
Jonathan D. Ostry (APD) and Johannes Wiegand (SPR)

An IMF team comprising Jarkko Turunen (Head), Piyaporn Sodsriwiboon, Vybhavi Balasundharam (all APD), Reshika Singh (Resident Representative's office, PIC) and Leni Hunter (Resident Representative, PIC) held teleconference discussions with the Solomon Islands authorities led by Central Bank Governor Luke Forau, Permanent Secretary for the Ministry of Finance and Treasury McKinnie Dentana, and other government officials during May 5–7, 2020. Ms. Laura Johnson (OED) also joined the teleconference discussions. Haopeng Xu and Connor Kinsella provided research and editorial assistance for this report.

CONTENTS

BACKGROUND

1. **The Executive Board completed the 2019 Article IV consultation on February 5, 2020.** The staff report highlighted that economic activity has slowed and fiscal pressures are re-emerging. Policy discussions focused on maintaining stability, including the need for stronger fiscal management and near-term fiscal adjustment, setting a medium-term fiscal strategy, improving exchange rate management, strengthening financial stability, improving governance and building the conditions for sustainable growth.

2. **The authorities have requested financial support from the Fund to address the urgent balance of payment needs caused by the COVID-19 pandemic.** Solomon Islands received debt service relief through the Catastrophe Containment and Relief Trust (CCRT) for repayment of debt service falling due to the IMF over the next six months, with potential extension up to two years, from April 14, 2020. Solomon Islands is a presumed blend country and one-third of the Fund disbursement is expected to be under the exogenous shock window of the Rapid Credit Facility (RCF) and two-thirds from the Rapid Financing Instrument (RFI). The financing provided by the Fund is expected to help contain urgent balance of payments needs and catalyze support from other development partners.

IMPACT OF THE PANDEMIC AND OUTLOOK

A. Pre-COVID-19 Pandemic Economic Developments

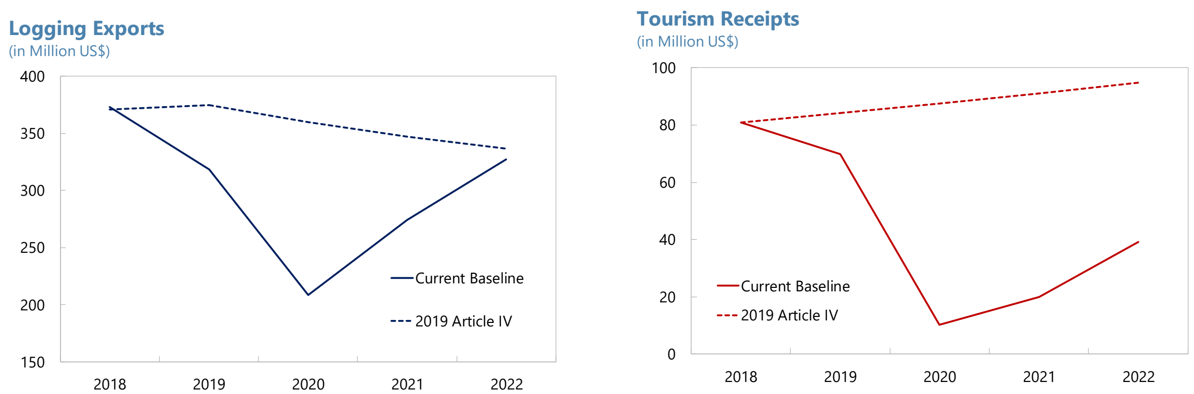
3. **Economic activity slowed prior to the pandemic.** Real GDP growth moderated to 1.2 percent in 2019 owing to weakening logging exports and a temporary pause in economic activity around the general election period. Inflation remained subdued. The current account deficit widened as exports fell amid slowing demand for logs from China. Nevertheless, international reserves remained comfortable. Monetary conditions were accommodative. Excess liquidity overhang declined, as credit growth picked up to 5 percent. The fiscal deficit is estimated to have deteriorated sharply to 1.7 percent of GDP in 2019, as logging and other revenues declined. Public debt is low but was projected to rise over the medium term.

B. Impact of the COVID-19 Pandemic

4. **The government has implemented strong measures to prevent the entry of COVID-19**. Solomon Islands has no confirmed COVID-19 cases as of May 21, 2020. To prevent the entry of COVID-19, the government immediately took actions including the suspension of all international flights, no entry of non-citizens, and strict mandatory quarantine for all returning passengers. In addition, the government has declared a state of emergency (extended until July 25), scaled down public services to essential services only and temporarily closed schools and some services. The government has imposed some local mobility restrictions and is actively encouraging its citizens to return to their home islands, disrupting agricultural cash crop production, business activity and consumer spending.

5. The COVID-19 pandemic is having a severe impact on the economy. Real GDP growth is expected to decline to about -5.5 percent in 2020 (compared to 2.5 percent in the pre-pandemic baseline) as a result of a decline in logging, mining and fisheries exports, a contraction in tourism, as well as the negative impact of containment measures on domestic demand (Text Table 1 and Figure 1). The sharp fall in growth is expected to result in economic hardship, in particular for the poor and other vulnerable groups. Travel restrictions and supply-chain disruptions are likely to delay infrastructure and mining projects and related activity. The recently enacted COVID-19 economic stimulus package is expected to partly offset the contraction in demand. Despite a temporary surge in food prices in the first quarter of 2020, inflation is expected to remain muted owing to weak demand and falling energy prices. In line with the April World Economic Outlook projections for the global economy, growth is expected to rebound in 2021.

Text Figure 1. Solomon Islands: Logging Exports and Tourism



Sources: IMF staff projections.

Sources: IMF staff projections.

6. The pandemic is expected to further weaken the fiscal position. A sharp contraction of logging exports is expected to lead to a decline in tax revenue, while health spending and containment costs are expected to rise. The bulk of expenditure compression is taking place through a cut in wage and operational costs, as funding pressures surge. The recently approved stimulus package of SI$319 million, about 2.6 percent of GDP, is expected to be financed through development partners' support and domestic sources. All in all, the fiscal deficit is projected to widen to 5.8 percent of GDP (compared to 3.7 percent in the pre-pandemic baseline), with the cash balance falling well below the staff recommended minimum of two months of spending, and public debt rising.

7. The current account deficit is expected to widen sharply. Exports are expected to decline by close to 25 percent, as import demand for round logs primarily from China collapses. While accounting for a relatively small share of foreign exchange receipts, both tourism arrivals and remittances are projected to plummet amid travel restrictions. The decline in oil prices will alleviate pressure on imports. The current account deficit is projected to increase to 17.8 percent of GDP in 2020 (compared to about 8 percent in the pre-pandemic baseline). Foreign direct investment flows, especially those related to infrastructure projects, are likely to be delayed.

Text Table 1. Solomon Islands: Comparison of Macroeconomic Forecasts

	Est.	Projections					
	2019	2020			2021		
		Pre 1/	Post	Diff	Pre 1/	Post	Diff
	(in percent of GDP unless specified otherwise)						
Real Sector							
Real GDP growth (percent)	1.2	2.5	-5.5	-8.0	2.7	5.6	2.8
CPI inflation (percent, period average)	1.8	2.3	2.8	0.5	2.9	3.7	0.8
Central Government Operations							
Revenue and grants	32.9	35.8	32.2	-3.5	34.8	32.3	-2.6
Of which: grants	6.8	6.6	10.9	4.3	6.8	7.3	0.5
Expenditure	34.6	39.4	38.0	-1.4	39.4	37.4	-2.0
Of which: Recurrent Expenditure	25.5	28.0	22.8	-5.2	27.2	24.3	-2.9
Of which: Development Expenditure	9.1	11.4	15.3	3.8	12.2	13.2	0.9
Overall fiscal balance	-1.7	-3.7	-5.8	-2.2	-4.6	-5.2	-0.6
Balance of Payments							
Current Account Balance	-8.9	-7.9	-17.8	-9.9	-10.1	-15.9	-5.8
Merchandise exports	28.8	37.1	22.9	-14.3	33.8	27.4	-6.3
Merchandise imports	31.3	42.0	30.8	-11.1	41.3	32.6	-8.7
Gross official reserves (in millions of U.S. dollar)	574	601	466	-135	596	427	-169
(in months of next years' imports of GNFS)	10.0	7.6	7.0	-0.6	7.0	5.7	-1.3

Source: IMF Staff Projection.
1/ Pre COVID-19 forecasts are from the 2019 Article IV. Post-COVID forecasts use recently published rebased GDP series (with 2012 as the base year). Pre COVID-19 ratios have been recomputed using the new GDP series for comparability.

8. **Mounting fiscal and balance of payment pressures are projected to trigger immediate financing needs** (Text Table 2). A projected large current account deficit in 2020 is expected to be only partially financed by projected capital and financial account inflows, resulting in a sharp fall in international reserves that could risk undermining confidence in the basket exchange rate peg regime. Without additional exceptional financing, international reserves are expected to fall well below the top of the reserve adequacy range (estimated as four to seven months of prospective imports in the 2019 Article IV Consultation) this year and to decline further in 2021, before stabilizing over the medium-term. The total external financing gap is projected at about US$38.8 million (about 2.5 percent of GDP). The Solomon Islands is a resource-rich, fragile, small economy and maintaining sufficient reserve buffers is warranted given the exceptional uncertainties relating to the duration of the pandemic and its impact on major sources of foreign exchange (logging exports, tourism and remittance inflows), the need to be able to respond to (frequent) natural disaster events, as well as to preserve the credibility of the exchange rate regime.

9. **Fund financing under the RCF/RFI will make a substantial contribution to filling the urgent balance of payment needs.** The disbursement will cover about a fifth of the external financing needs in 2020 (with the rest covered by a significant drawdown of international reserves and financing from development partners). The authorities are actively seeking additional budget support from development partners and the Fund support is expected to play a catalytic role in this

effort. The World Bank has approved the first Solomon Islands transition to sustainable growth development policy operation of US$15 million (US$11.8 million in grant and US$3.2 million in loan), in addition to US$5 million under the COVID-19 Fast Track Facility expected to be approved by end May. The Asian Development Bank (ADB) has released US$6 million from its Pacific Disaster Resilience Program and is processing an additional US$20 million, a policy-based operation anchored on the government's COVID-19 response plan. The financing under the World Bank's COVID-19 Fast Track Facility and ADB is expected to equally comprise grant and loan disbursements.

Text Table 2. Solomon Islands: Projected External Financing Gap in 2020 1/

	2019 Article IV	Projection after COVID-19
	(in percent of GDP)	
Current account	-7.9	-17.8
Trade balance	-4.8	-8.0
Logging	23.6	13.7
Service	-5.8	-10.9
Tourism	5.7	0.7
Income	-1.9	-2.0
Current transfer	4.6	3.0
Capital/Financial account	9.2	8.1
Overall Balance of payment (- deficit)	0.0	-9.7
Change in gross official reserves (+ decrease)	0.0	7.1
External financing gap	0.0	2.5
Net use of IMF credit 2/		1.9
Other foreign financing (ADB) 3/		0.7

Source: IMF Staff Projection.
1/ Forecasts for the 2019 Article IV have been recomputed using the new rebased GDP (with 2012 as the base year) series for comparability.
2/ Includes 100% of Fund quota of which 1/3 as RCF and 2/3 as RFI.
3/ Includes US$10 million from ADB for COVID-19 response.

10. Risks are skewed to the downside. External risks include a sharper-than-expected and more prolonged global slowdown that would further hamper demand for commodity exports and tourism. Containment efforts could have a stronger-than-expected impact on domestic activity. Solomon Islands plans to ramp up infrastructure development in anticipation of Pacific Games 2023, but extended travel restrictions and supply chain disruptions could cause delays. Volatility in commodity prices—both on imports (rice and oil) and exports (logs, tuna, and agricultural products) adds to the risk profile. Domestic risks, including from fiscal spending pressures, decline in logging due to implementation of the logging sustainability policy, and vulnerability to severe natural disasters, are exacerbated by the uncertainty surrounding the pandemic. Finally, given the country's geographic dispersion and isolation, managing a local outbreak would be particularly challenging. A local outbreak would lead to a significant increase in human and fiscal costs, strain the weak health infrastructure and adversely affect growth, unemployment and poverty reduction.

POLICY DISCUSSIONS

A. Fiscal Policy

11. To mitigate the impact of the pandemic, immediate policy responses have focused on health and containment spending and targeted support towards vulnerable households and businesses (Text Table 3). The authorities have enacted strong and timely containment measures to limit the risk of a local outbreak while reprioritizing spending towards health care. Health and containment spending are estimated to be about SI$137 million (1.1 percent of GDP). In addition to the increase in health-related spending, the government recently adopted a fiscal stimulus package of SI$319 million, around 2.6 percent of GDP. Policy measures are appropriately targeted at providing social assistance, protecting jobs and incomes, and stabilizing the domestic economy. These include payroll and employment support, capital grants to businesses to prevent job losses and support investment in productive and resource sectors, tax relief for affected businesses, equity injection to government-owned companies, and advancing planned infrastructure investment. An Oversight Committee has been set up to oversee the stimulus spending and prevent any abuse or misuse of the package. The authorities have also committed to publication of an audit of COVID-19 related expenditures and related procurement information. In addition, the government is committed to reprioritizing and enforcing budgetary discipline in the line ministries to alleviate budget pressures resulting from the pandemic. The government has scaled down non-essential public services and its employees have all been required to take emergency leave. The authorities are planning to continue payroll for public servants, but the costs and financing of the measure are yet to be announced.

12. Beyond the immediate response to the pandemic, the weak fiscal position calls for policies to increase fiscal buffers. The fiscal deficit is projected to increase significantly in 2020 and remain elevated over the medium term, as revenues fall back with reduced logging exports. Substantial new policy measures and concessional budget support will be needed to build fiscal buffers (towards a broad cash balance of at least two months of total spending) and for debt to remain within the government's target of 35 percent of GDP. Targeted efforts to recover tax arrears and strengthen revenue administration and compliance should continue. Public financial management (PFM) weaknesses need to be addressed, including finalizing the regulations under the PFM Act and developing short-term liquidity forecasts. The Ministry of Finance and Treasury should complete its review of the payroll and allowances to better align staffing need and wage expense. Prudent spending on Constituency Development Funds, Pacific Games and tertiary scholarships would help reduce fiscal pressures. A stocktaking of arrears is needed to clear outstanding obligations and formulate a plan to prevent further accumulation.

Text Table 3. Solomon Islands: COVID-19 Fiscal Policy Response

	Amount in SI$ million	In percent of GDP
Health and Containment Spending	**137**	**1.1**
Economic Stimulus Package	**319**	**2.6**
Budget Measures:	*266*	*2.2*
Health-related spending:		
• Health grants allocated to all provincial health authorities	10	0.1
Social assistance:		
• Support the resumption of schools	5	0.0
• Employment support for women and youths	5	0.1
• Continued government payroll for civil servants who faced 50 percent reduction in salaries due to a shutdown of public services.	To be announced	n.a.
Additional support:		
• Capital grants to targeted existing investment in productive and resource sectors, including agriculture, forestry, fisheries and tourism, as well as government-owned companies 1/	141	1.1
• Special rental relief package to affected SMEs	5	0.0
• Tax relief for affected businesses, especially tourism sector	Cost neutral	n.a.
Economic recovery:		
• Advancing infrastructure investment such as agriculture projects, bridges, airport.	100	0.8
Below-the-line Measures:	*53*	*0.4*
Equity injections to SOEs:		
• Equity injection to the Development Bank of Solomon Islands	20	0.2
Loans to businesses:		
• Concessional loans to SMEs and large corporates through the Development Bank of Solomon Islands	33	0.3

Source: Solomon Islands Government.

1/ Government-owned companies including Solomon Airlines, Solomon Water, Soltuna, and Commodities Export Marketing Authority.

13. **A comprehensive approach to medium-term fiscal policy that safeguards debt sustainability is needed**. Public debt is currently low but is expected to rise over the medium term, with the negative impact of the pandemic leading to a further buildup of debt vulnerabilities (Joint Bank-Fund Debt Sustainability Analysis). The priorities for medium-term fiscal policy should include:

- Articulating the policy intent for the new VAT, as well as other reforms, taking into account the fiscal regime for the mining sector, and building consensus will be important. The reforms should at least be revenue neutral.

- Improving budget planning in line ministries, strengthening commitment controls and procurement planning, and prioritizing quality spending in line with the National Development Strategy would help safeguard fiscal sustainability.

- To address risks stemming from frequent natural disasters, it is important to strengthen efforts to rebuild fiscal buffers and undertake infrastructure investment to increase resilience.

B. Monetary, Exchange Rate and Financial Sector Policy

14. Monetary policy remains accommodative. To support a low inflation environment with weak growth outlook and slowing credit growth, the Central Bank of the Solomon Islands (CBSI) has adopted an easing cycle since September 2019 and reiterated its commitment to continue expansionary monetary policy. An expansionary monetary policy stance is appropriate for current conditions, although the transmission channels are weak. Excess liquidity in the banking system is structural, in part reflecting lags between donor inflows and spending. Addressing constraints on National Provident Fund investment abroad, stemming CBSI valuation losses, and tackling weak investor protection and uncertain property rights would reduce excess liquidity, enable collateralized lending, and improve monetary policy effectiveness. Additional CBSI measures could include a trade credit facility to provide businesses with opportunities for competitive financing and potential purchases of government bonds in the secondary market. The basket exchange rate peg remains an appropriate nominal anchor. Credibility of the basket exchange rate regime is preserved by maintaining an adequate level of gross official reserves.

15. Financial support measures are expected to be part of the government's stimulus package (Text Table 3). The economic impact of the pandemic will affect borrowers' capacity to service loans and weigh on banks' earnings. The government is encouraging commercial banks to provide loan and interest relief to affected borrowers for three to six months. Financial injections to support investment in productive and resource sectors and concessional loans to large industries will be provided through the recently established Development Bank of Solomon Islands (DBSI). The National Provident Fund (NPF) is providing financial assistance to its members and eliminating surcharges and penalties to employers' contributions to the fund.

16. Financial sector vulnerabilities persist. As of December 2019, non-performing loans increased to 10.4 percent and bank profitability declined. Credit to the private sector is expected to shrink and non-performing loans to rise further this year, owing to a sharp contraction of economic activity and delays in government payments. While banks remain profitable, a significant further deterioration could lead to an increase in contingent liability risks for the government. Financial sector reforms should continue, including to strengthen supervision and increase capacity to respond effectively to risks to the financial system. The backlog of financial legislation including a review of the Credit Union Act and the Insurance Act should be finalized, and actions should be taken to ensure the effectiveness of the AML/CMT framework to prevent future risks, including from correspondent banking pressures. The DBSI is expected to play a pivotal role in supporting the economic recovery. It is critical to ensure that DBSI is subject to rigorous supervision standards and has a strong governance structure so that it does not add to fiscal risks. The CBSI should continue to promote digital banking as it becomes integral to financial inclusion.

C. Structural Reforms

17. Comprehensive structural reforms are needed to increase competitiveness, foster diversification and support inclusive growth over the medium-term. Progress in strengthening transparency and governance should continue. The government should advance the anti-corruption agenda, apply the mining fiscal regime rigorously and enforce the governance standards rigorously. This would encourage investment into new growth sectors and reduce fiscal leakages. Improving sanitation, transport, communication and energy services would facilitate diversification. Enforcement of contracts, procedures for trading across borders, insolvency resolution and access to finance are areas for improvement. Digitalization and registration could potentially improve record keeping, revenue collection, improve access to credit and help tackle property rights issues. State-owned enterprises have recorded high profits from monopoly positions— stronger regulation or other initiatives could help promote greater affordability in service provision.

FUND SUPPORT UNDER THE RCF AND RFI

18. Given the urgency of the situation, an RCF/RFI disbursement is the most appropriate instrument for Fund assistance. The Solomon Islands is facing a temporary shock due to the COVID-19 pandemic and the urgent balance of payments need is expected to diminish as global health and economic conditions normalize.

19. Staff consider access at 100 percent of quota with blend of RCF and RFI to be appropriate given the scale of the urgent needs. The pandemic has created a large external financing gap of about US$38.8 million, equivalent to 2.5 percent of GDP, even after accounting for significant decline in reserves and official inflows from multilateral and bilateral partners for budgetary support of around US$44 million. Disbursements from the IMF under an RCF/RFI blend would total SDR 20.8 million (about US$28.8 million), comprising SDR 6.93 million for the RCF and SDR 13.87 million for the RFI. In addition, the expected disbursement from the ADB amounting to US$10 million will go toward filling the financing gap. Outstanding access with the IMF would increase to 103.8 percent of quota and remain below allowable limits. The Solomon Islands currently has outstanding credit to the fund equivalent to 4 percent of quota from the 2012 Extended Credit Facility (ECF).

20. Capacity to repay the Fund under this access would remain adequate. A disbursement of 100 percent of quota would increase the Fund's exposure by 2 percent of GDP and 6.4 percent of foreign exchange reserves. Total repayments would peak in 2024 at 1.5 percent of government revenue and 1.4 percent of exports of goods and services.

21. The Solomon Islands continues to be assessed at moderate risk of external and overall debt distress. The updated debt sustainability analysis (DSA) capturing the impact of the COVID-19 pandemic shock shows that debt remains at a moderate risk of debt distress. All external debt indicators are below their respective thresholds under the baseline, but breach thresholds under the most extreme stress scenario with adverse shock to growth and exports. Public debt also remains below its indicative threshold under the baseline but breaches the threshold under the most extreme shock to real GDP growth.

22. In line with the IMF safeguards policy, the authorities have committed to undergoing a new safeguards assessment. The authorities intend to use the RCF/RFI to provide balance of payments support and disbursement will be made to the CBSI. The previous safeguards assessment was concluded in 2013. The assessment is to be completed before the Board approval of any subsequent arrangement to which the safeguards policy applies. The authorities will authorize the external auditor of the CBSI to share relevant documents and hold discussions with Fund staff and have published on the CBSI website the audited financial statements for the year ended December 31, 2019.

STAFF APPRAISAL

23. The COVID-19 pandemic is having a severe impact on the Solomon Islands economy. A sharp decline in exports and tourism is expected to negatively impact the economy and weaken the external position, and necessary containment efforts will slow down domestic economic activities. GDP growth in 2020 is expected to decline to about -5.5 percent, about 8 percentage points lower than the pre-pandemic projection. The current account and fiscal deficits are expected to widen and foreign reserves to fall. Given the depth and duration of the economic impact of pandemic is highly uncertain, downside risks to the already-weak baseline outlook are significant.

24. Based on these developments, the country is facing urgent external financing needs. Estimates point to a large external financing gap of around US$38.8 million, equivalent to 2.5 percent of GDP. Maintaining sufficient reserve buffers is warranted given the exceptional uncertainties relating to the impact and duration of the pandemic, the need to be able to respond to (frequent) natural disaster events, as well as to preserve the credibility of the exchange rate regime. Fiscal financing needs are large and buffers low.

25. Staff supports the authorities' immediate priorities to mitigate the impact of the pandemic and preserve macroeconomic stability. The authorities' immediate efforts focused on preventing the entry of the COVID-19 through restricting international and domestic travel, scaling down public services to essential services only, and temporarily closing schools and some services. To mitigate the impact of the pandemic and support the recovery, the government has increased health spending and introduced a fiscal stimulus package. Beyond this immediate response, the authorities remain committed to building the conditions for sustainable growth, strengthening fiscal management, reigning in financial stability and improving governance.

26. Against this background, staff supports the authorities' request for a disbursement under the RCF/RFI in the amount of SDR 20.8 million (about US$28.8 million, 100 percent of quota), comprising SDR 6.93 million for the RCF and SDR 13.87 million for the RFI. Staff's support is based on the urgent balance of payment needs arising from a major external shock caused by the COVID-19 pandemic. While the risks to the outlook are tilted to the downside, the Solomon Islands continues to be assessed at moderate risk of debt distress and its capacity to repay the Fund remains strong.

Table 1. Solomon Islands: Selected Economic Indicators, 2016–2025

Per capita GDP (2017): US$2,375
Population (2017): 613,712

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.	Proj.					
GROWTH AND PRICES	Annual percentage change unless otherwise indicated									
Real GDP	5.9	5.3	3.9	1.2	-5.5	5.6	4.0	3.4	3.0	2.9
CPI (period average)	0.5	0.5	3.5	1.8	2.8	3.7	2.2	3.6	3.9	4.2
CPI (end of period)	-2.2	2.1	3.9	2.8	1.2	4.1	3.4	3.8	4.0	4.3
GDP deflator	0.0	1.4	4.2	1.3	0.8	3.6	1.8	3.4	3.6	3.5
Nominal GDP (in SI$ millions)	10,957	11,703	12,676	12,992	12,384	13,543	14,336	15,321	16,350	17,425
CENTRAL GOVERNMENT OPERATIONS	In percent of GDP									
Total revenue and grants	38.6	39.2	40.0	32.9	32.2	32.3	33.4	33.5	32.6	32.1
Revenue	28.4	30.2	30.1	26.1	21.4	25.0	25.8	25.7	25.3	25.1
Grants	10.2	9.0	9.9	6.8	10.9	7.3	7.6	7.8	7.4	7.0
Total expenditure	42.7	42.7	39.1	34.6	38.0	37.4	37.4	37.7	36.8	36.2
excluding grant-funded expenditure	32.5	33.6	29.2	27.8	27.2	30.1	29.8	30.0	29.4	29.3
Recurrent expenditure	29.3	29.2	29.2	25.5	22.8	24.3	24.4	24.3	24.2	24.4
Development expenditure	13.4	13.5	9.9	9.1	15.3	13.2	13.0	13.5	12.6	11.8
Unrecorded expenditure	-1.2	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.2	-3.4	0.8	-1.7	-5.8	-5.2	-4.0	-4.3	-4.2	-4.1
Foreign financing (net)	0.3	0.2	-0.1	0.6	3.6	3.7	3.3	3.3	2.6	2.4
Domestic financing (net)	2.7	1.9	-0.8	1.1	2.3	1.5	0.8	1.0	1.6	1.7
Central government debt	7.1	8.4	8.2	8.9	15.7	19.2	22.2	24.7	26.8	29.0
Domestic debt	0.4	1.6	1.9	2.2	3.2	4.1	4.6	5.0	5.8	6.8
External debt	6.7	6.7	6.3	6.7	12.5	15.1	17.6	19.7	21.0	22.2
MACROFINANCIAL	Annual percentage change (end of year)									
Credit to private sector	12.1	6.4	4.1	5.0	-4.1	5.7	6.0	5.0	4.5	4.5
Broad money	13.4	3.5	6.8	-3.0	-15.6	11.9	2.2	6.7	1.0	3.0
Reserve money	14.5	7.5	10.6	-7.0	-13.8	10.0	6.4	3.7	2.2	3.0
BALANCE OF PAYMENTS	In US$ millions unless otherwise indicated									
Current account balance	-48.8	-62.8	-47.8	-142.5	-271.1	-264.4	-230.3	-222.0	-221.8	-177.7
(percent of GDP)	-3.5	-4.3	-3.0	-8.9	-17.8	-15.9	-13.1	-11.8	-11.0	-8.3
Trade balance	-71.7	-81.7	-67.6	-160.1	-287.2	-259.2	-244.2	-240.7	-252.7	-214.3
(percent of GDP)	-5.2	-5.6	-4.3	-10.0	-18.9	-15.6	-13.8	-12.8	-12.6	-10.0
Foreign direct investment	36.0	35.9	15.9	25.4	15.2	68.5	73.3	72.4	77.1	83.0
(percent of GDP)	2.6	2.5	1.0	1.6	1.0	4.1	4.2	3.8	3.8	3.9
Overall balance	-5.9	63.2	36.2	-39.0	-147.0	-39.1	9.9	29.8	23.9	72.7
Gross official reserves (in US$ millions, end of period) 1/	513.6	576.9	613.1	574.1	465.9	426.5	436.1	460.9	475.1	541.8
(in months of next year's imports of GNFS)	9.1	9.3	9.8	10.0	7.0	5.7	5.6	5.8	5.7	6.0
EXCHANGE RATE (SI$/US$, end of period)	8.2	7.9	8.1	8.2	...	...	...	...	...	...
Real effective exchange rate (end of period, 2010 = 100)	127.8	126.4	126.5	126.7	...	...	...	...	...	...
MEMORANDUM ITEMS:										
Cash balance (in SI$ millions)	412	343	311	206	47	0	0	0	0	0
in months of recurrent spending	2.0	1.5	1.2	0.8	0.3	0.0	0.0	0.0	0.0	0.0
SIG Deposit Account (In addition to cash balance, in SI$ millions)	140	140	140	140	140	140	140	140	140	140
Broader cash balance (=Cash balance+ SIG Deposit Account; in SI$ millions)	552	483	451	346	187	140	140	140	140	140
in months of total spending 2/	1.9	1.5	1.5	1.2	0.7	0.4	0.4	0.4	0.3	0.3
Public domestic debt, including arrears (in SI$ millions)	43	193	245	288	401	556	662	768	945	1,193

Sources: Data provided by the authorities; and IMF staff estimates and projections.

1/ Includes SDR allocations made by the IMF to Solomon Islands in 2009 and actual and prospective disbursements under the IMF-supported programs.

2/ Total spending is defined as total expenditure, excluding grant-funded expenditure.

Table 2a. Solomon Islands: Summary of Fiscal Accounts
(In millions of Solomon Islands dollars)

	2016	2017	2018	2019	2020		2021	2022	2023	2024	2025
	Act.	Act.	Act	Act	Original Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	4,226	4,592	5,068	4,280	4,541	3,988	4,369	4,784	5,131	5,335	5,590
Total revenue	3,108	3,534	3,815	3,391	3,484	2,645	3,379	3,692	3,938	4,129	4,378
Tax revenue	2,611	2,954	3,275	2,871	2,932	2,131	2,824	3,106	3,312	3,461	3,667
Income and profits	887	1,028	1,090	1,049	1,066	882	1,080	1,144	1,222	1,298	1,393
Goods and services	762	878	1,095	937	1,102	793	958	1,015	1,085	1,156	1,232
International trade and transactions	962	1,048	1,090	886	765	456	786	948	1,004	1,007	1,042
Of which: Tax on logging	579	629	790	581	475	225	532	667	706	708	731
Other revenue	496	579	540	520	552	513	555	586	626	668	712
Grants	1,118	1,058	1,253	890	1,057	1,344	990	1,092	1,194	1,206	1,212
Development grants	423	471	590	594	713	709	685	771	852	844	827
Recurrent budget grants	695	587	663	296	344	635	305	321	342	363	385
Expenditure	4,682	4,994	4,960	4,496	4,509	4,712	5,070	5,362	5,783	6,015	6,313
Of which: excluding grant-funded expenditure	3,564	3,936	3,707	3,606	3,452	3,368	4,080	4,270	4,590	4,809	5,101
Recurrent expenditure	3,211	3,415	3,700	3,317	3,229	2,823	3,288	3,493	3,720	3,959	4,252
Of which: excluding grant-funded expenditure	2,516	2,828	3,037	3,021	2,920	2,188	2,982	3,172	3,378	3,596	3,867
Compensation of employees	1,009	1,113	1,169	1,231	1,292	944	1,284	1,359	1,452	1,550	1,652
Interest payments	82	169	70	54	22	23	35	50	62	76	95
Other recurrent expenditure	2,120	2,134	2,323	2,031	1,915	1,856	1,968	2,084	2,206	2,332	2,506
Government funded	1,425	1,547	1,661	1,736	1,606	1,221	1,663	1,762	1,864	1,970	2,121
Grant-funded	695	587	663	296	309	635	305	321	342	363	385
Development expenditure	1,472	1,579	1,261	1,179	1,279	1,889	1,782	1,870	2,064	2,057	2,061
Government funded development expenditure	1,049	1,108	670	585	775	1,180	1,098	1,099	1,212	1,213	1,234
Domestic	944	1,007	626	451	389	694	556	588	628	671	715
External loan	104	101	45	134	386	486	542	511	583	543	519
Grant funded	423	471	590	594	504	709	685	771	852	844	827
Of which: CDFs	322	374	380	220	120	286	313	331	353	376	400
Discrepancy 1/	-129	-156	0	0	0	0	0	0	0	0	0
Current balance 2/	592	705	778	370	564	457	397	521	559	533	511
Primary balance	-142	-234	178	-162	55	-701	-666	-528	-590	-604	-628
Overall balance	-456	-403	108	-215	33	-723	-701	-578	-652	-680	-723
Total financing	456	403	-108	215	-33	723	701	578	652	680	723
Net foreign financing	31	28	-10	77	86	444	499	468	503	422	427
Net domestic financing	425	219	-98	139	-119	279	202	111	150	258	296
Memorandum items:											
Nominal GDP (in SI$ millions)	10,957	11,703	12,676	12,992	12,384	12,384	13,543	14,336	15,321	16,350	17,425
Public domestic debt, including arrears (in SI$ millions)	43	193	245	288	288	401	556	662	768	945	1,193
Narrow cash balance (in SI$ millions) 3/	412	343	311	206	206	47	0	0	0	0	0
in months of recurrent spending 4/	2.0	1.5	1.2	0.8	0.8	0.3	0.0	0.0	0.0	0.0	0.0
SIG Deposit Account and others (in SI$ millions)	140	140	140	140	140	140	140	140	140	140	140
Broader cash balance (in SI$ millions)	552	483	451	346	346	187	140	140	140	140	140
in months of total spending 5/	1.9	1.5	1.5	1.2	1.2	0.7	0.4	0.4	0.4	0.3	0.3
Accumulated domestic arrears (in SI$ million)		138	0	0	0	0	0	0	0	0	0
Non-commodity primary balance 6/ (in SI$ millions)	-953	-863	-612	-743	-420	-925	-1,198	-1,205	-1,311	-1,348	-1,398

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

1/ Includes changes in the stock of unpaid payment orders and unpresented checks (+ = reduction) and the statistical discrepancy.

2/ Defined as total revenue minus recurrent expenditure, excluding grant-funded recurrent expenditure.

3/ Defined as the sum of government deposits held at the CBSI and the commercial banks minus unpaid payment orders and unpresented checks. From 2016 onward, deposits held at the CBSI and the commercial banks have used as a proxy for the narrow cash reserve

4/ Recurrent spending is defined as recurrent expenditure, excluding grant-funded recurrent expenditure.

5/ Broader cash balance=Narrow cash balance+ SIG Deposit Account; Total spending is defined as total expenditure, excluding grant-funded expenditure.

6/ Defined as nonmineral nonlogging revenue (excludes grants) minus government-funded spending excluding interest payments.

Table 2b. Solomon Islands: Summary of Fiscal Accounts
(In percent of GDP)

	2016	2017	2018	2019	2020		2021	2022	2023	2024	2025
	Act.	Act.	Act.	Proj.	Original Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	38.6	39.2	40.0	32.9	36.7	32.2	32.3	33.4	33.5	32.6	32.1
Total revenue	28.4	30.2	30.1	26.1	28.1	21.4	25.0	25.8	25.7	25.3	25.1
Tax revenue	23.8	25.2	25.8	22.1	23.7	17.2	20.8	21.7	21.6	21.2	21.0
Income and profits	8.1	8.8	8.6	8.1	8.6	7.1	8.0	8.0	8.0	7.9	8.0
Goods and services	7.0	7.5	8.6	7.2	8.9	6.4	7.1	7.1	7.1	7.1	7.1
International trade and transactions	8.8	9.0	8.6	6.8	6.2	3.7	5.8	6.6	6.6	6.2	6.0
Of which: Tax on logging	5.3	5.4	6.2	4.5	3.8	1.8	3.9	4.7	4.6	4.3	4.2
Other revenue	4.5	5.0	4.3	4.0	4.5	4.1	4.1	4.1	4.1	4.1	4.1
Grants	10.2	9.0	9.9	6.8	8.5	10.9	7.3	7.6	7.8	7.4	7.0
Development grants	3.9	4.0	4.7	4.6	5.8	5.7	5.1	5.4	5.6	5.2	4.7
Recurrent budget grants	6.3	5.0	5.2	2.3	2.8	5.1	2.3	2.2	2.2	2.2	2.2
Expenditure	42.7	42.7	39.1	34.6	36.4	38.0	37.4	37.4	37.7	36.8	36.2
Of which: excluding grant-funded expenditure	32.5	33.6	29.2	27.8	27.9	27.2	30.1	29.8	30.0	29.4	29.3
Recurrent expenditure	29.3	29.2	29.2	25.5	26.1	22.8	24.3	24.4	24.3	24.2	24.4
Of which: excluding grant-funded expenditure	23.0	24.2	24.0	23.3	23.6	17.7	22.0	22.1	22.0	22.0	22.2
Compensation of employees	9.2	9.5	9.2	9.5	10.4	7.6	9.5	9.5	9.5	9.5	9.5
Interest payments	0.7	1.4	0.6	0.4	0.2	0.2	0.3	0.4	0.4	0.5	0.5
Other recurrent expenditure	19.3	18.2	18.3	15.6	15.5	15.0	14.5	14.5	14.4	14.3	14.4
Government funded	13.0	13.2	13.1	13.4	13.0	9.9	12.3	12.3	12.2	12.0	12.2
Grant funded	6.3	5.0	5.2	2.3	2.5	5.1	2.3	2.2	2.2	2.2	2.2
Development expenditure	13.4	13.5	9.9	9.1	10.3	15.3	13.2	13.0	13.5	12.6	11.8
Government funded	9.6	9.5	5.3	4.5	6.3	9.5	8.1	7.7	7.9	7.4	7.1
Domestic	8.6	8.6	4.9	3.5	3.1	5.6	4.1	4.1	4.1	4.1	4.1
External loan	0.9	0.9	0.4	1.0	3.1	3.9	4.0	3.6	3.8	3.3	3.0
Grant funded	3.9	4.0	4.7	4.6	4.1	5.7	5.1	5.4	5.6	5.2	4.7
Of which: CDFs	2.9	3.2	3.0	1.7	1.0	2.3	2.3	2.3	2.3	2.3	2.3
Discrepancy 1/	-1.2	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current balance 2/	5.4	6.0	6.1	2.8	4.6	3.7	2.9	3.6	3.7	3.3	2.9
Primary balance	-1.3	-2.0	1.4	-1.2	0.4	-5.7	-4.9	-3.7	-3.9	-3.7	-3.6
Overall balance	-4.2	-3.4	0.8	-1.7	0.3	-5.8	-5.2	-4.0	-4.3	-4.2	-4.1
Total financing	4.2	3.4	-0.8	1.7	-0.3	5.8	5.2	4.0	4.3	4.2	4.1
Net foreign financing	0.3	0.2	-0.1	0.6	0.7	3.6	3.7	3.3	3.3	2.6	2.4
Net domestic financing	3.9	1.9	-0.8	1.1	-1.0	2.3	1.5	0.8	1.0	1.6	1.7
Memorandum items:											
Accumulated domestic arrears (In percent of GDP)		1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public domestic debt, including arrears (In percent of GDP)	0.4	1.6	1.9	2.2	2.3	3.2	4.1	4.6	5.0	5.8	6.8
Non-commodity primary balance (In percent of GDP)	-8.7	-7.4	-4.8	-5.7	-3.4	-7.5	-8.8	-8.4	-8.6	-8.2	-8.0

Sources: Data provided by the Solomon Islands authorities; and IMF staff estimates and projections.
1/ Includes changes in the stock of unpaid payment orders and unpresented checks (+ = reduction) and the statistical discrepancy.
2/ Defined as total revenue minus recurrent expenditure, excluding grant-funded recurrent expenditure.

Table 3. Solomon Islands: Balance of Payments, 2016–25 1/

	2016	2017	2018	2019 Est.	2020 Proj.	2021	2022	2023	2024	2025
				(In millions of U.S. dollars)						
Current account balance	-48.8	-62.8	-47.8	-142.5	-271.1	-264.4	-230.3	-222.0	-221.8	-177.7
Trade balance for goods	12.8	7.2	6.5	-39.4	-121.2	-85.6	-93.1	-105.5	-120.3	-80.9
Exports	432.1	469.3	536.0	460.1	348.3	456.6	527.8	536.9	537.7	610.0
Logs	303.7	312.4	372.9	318.6	208.4	274.0	327.4	329.9	324.1	328.0
Fish	41.8	48.7	56.2	48.7	47.3	54.6	65.1	74.4	85.0	97.1
Minerals	2.3	16.8	19.0	20.4	37.4	67.7	68.6	61.9	53.7	102.3
Other	84.4	91.4	87.9	72.4	55.2	60.4	66.6	70.6	74.9	82.5
Imports	-419.4	-462.1	-529.4	-499.5	-469.5	-542.3	-620.9	-642.4	-658.0	-690.8
Trade balance for services	-84.5	-88.9	-74.1	-120.8	-166.0	-173.5	-151.1	-135.1	-132.4	-133.4
Exports	122.6	128.9	144.7	128.1	52.4	80.0	118.4	149.5	166.6	181.1
Imports	-207.2	-217.8	-218.8	-248.9	-218.4	-253.6	-269.5	-284.7	-299.0	-314.5
Income balance	-41.6	-33.3	-20.4	-12.6	-29.9	-29.2	-28.9	-28.9	-28.5	-30.4
Current transfers balance	64.5	52.2	40.2	30.2	46.0	24.0	42.8	47.5	59.4	67.0
Of which : Official transfers, net	80.8	61.1	50.5	60.2	74.7	34.8	37.1	39.6	42.3	45.0
Capital and financial account balance	93.4	99.2	77.6	90.2	124.1	225.3	240.2	251.8	245.8	250.3
Capital account balance	53.3	59.6	60.0	73.1	87.2	84.2	94.8	104.8	103.8	101.8
Direct investment balance	36.0	35.9	15.9	25.4	15.2	68.5	73.3	72.4	77.1	83.0
Portfolio investment balance	-1.7	-2.1	0.2	-3.8	0.0	0.0	0.0	0.0	0.0	0.0
Other investment balance	5.8	5.8	1.5	-4.4	21.6	72.5	72.2	74.6	65.0	65.6
Assets	-7.5	-4.9	-6.0	1.1	-2.5	-8.5	-7.9	-12.4	-17.0	-13.5
of which, amortization of official loans	-9.2	-9.0	-6.9	-7.1	-5.2	-5.3	-5.3	-9.9	-14.8	-11.4
Liabilities	13.3	10.7	7.5	-5.5	24.1	81.0	80.1	87.0	82.0	79.1
of which, disbursement of official loans (incl. SDR)	23.5	18.0	9.0	16.5	49.8	66.7	62.8	71.7	66.7	63.9
Errors and omissions	-38.7	-99.6	-66.1	91.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-5.9	63.2	36.2	-39.0	-147.0	-39.1	9.9	29.8	23.9	72.7
Financing	-5.2	-44.1	-36.2	39.0	147.0	39.1	-9.9	-29.8	-23.9	-72.7
Change in gross reserves (- = increase)	-2.2	-41.2	-32.7	41.1	108.2	39.4	-9.6	-24.8	-14.1	-66.8
Total Financing gap	0.0	0.0	0.0	0.0	38.8	0.0	0.0	0.0	0.0	0.0
Net use of IMF Credit	-3.1	-3.0	-3.5	-2.1	28.8	-0.2	-0.3	-5.0	-9.8	-5.9
Of which: IMF Disbursements 2/	0.2	0.0	0.0	0.0	28.8	0.0	0.0	0.0	0.0	0.0
Of which: Repayments to the IMF	-3.3	-3.0	-3.5	-2.1	-0.1	-0.2	-0.3	-5.0	-9.8	-5.9
Other Financing (net of IMF credit) 3/	0.0	0.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP, unless otherwise indicated)						
Current account	-3.5	-4.3	-3.0	-8.9	-17.8	-15.9	-13.1	-11.8	-11.0	-8.3
Trade balance for goods	0.9	0.5	0.4	-2.5	-8.0	-5.1	-5.3	-5.6	-6.0	-3.8
Exports	31.3	32.2	33.8	28.8	22.9	27.4	29.9	28.5	26.7	28.5
Imports	30.4	31.7	33.4	31.3	30.8	32.6	35.2	34.1	32.7	32.2
Trade balance for services	-6.1	-6.1	-4.7	-7.6	-10.9	-10.4	-8.6	-7.2	-6.6	-6.2
Income balance	-3.0	-2.3	-1.3	-0.8	-2.0	-1.8	-1.6	-1.5	-1.4	-1.4
Current transfers balance	4.7	3.6	2.5	1.9	3.0	1.4	2.4	2.5	3.0	3.1
Of which: Official transfers net	5.9	4.2	3.2	3.8	4.9	2.1	2.1	2.1	2.1	2.1
Capital account balance	3.9	4.1	3.8	4.6	5.7	5.1	5.4	5.6	5.2	4.7
Direct investment balance	2.6	2.5	1.0	1.6	1.0	4.1	4.2	3.8	3.8	3.9
Of which: Inward FDI 4/	2.7	2.9	1.6	1.9	1.0	4.1	4.1	3.8	3.8	3.8
Other investment balance	0.4	0.4	0.1	-0.3	1.4	4.4	4.1	4.0	3.2	3.1
Memorandum items										
Gross official foreign reserves (in US$ million) 5/	514	577	613	574	466	427	436	461	475	542
In months of next year's imports of GNFS	9.1	9.3	9.8	10.0	7.0	5.7	5.6	5.8	5.7	6.0
Gross external public debt (in percent of GDP)	6.7	6.7	6.3	6.7	12.5	15.1	17.6	19.7	21.0	22.2
Disbursement of concessional borrowing (in US$ millions)	10.3	12.6	5.6	16.5	57.6	35.5	31.3	40.8	36.6	35.4
External public debt service (in percent of exports of GNFS)	1.8	1.7	1.1	1.4	1.6	1.3	1.2	1.9	2.7	2.0
Nominal GDP (in US$ million)	1,381.1	1,457.6	1,585.4	1,598.0	1,523.2	1,665.8	1,763.4	1,884.5	2,011.1	2,143.3

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

1/ Incorporates the authorities' revision of historical data, including a new formula for f.o.b/c.i.f conversion, new estimates of reinvested earnings and donor grants, and reclassification of current and capital transfers.

2/ Includes 100% of Fund quota of which 1/3 as RCF and 2/3 as RFI.

3/ Includes $10 million from ADB for COVID response.

4/ FDI numbers have been revised down as a result of changes to ensure the correct treatment of net losses under reinvested earnings, in line with BPM6 practice.

5/ Includes actual and prospective disbursements under the IMF-supported arrangement.

Table 4. Solomon Islands: Summary Accounts of the Banking System, 2016–25 1/

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.			Proj.			
	(In millions of Solomon Islands dollars, end of period)									
Central Bank of Solomon Islands (CBSI)										
Net foreign assets (NFA)	4,018	4,366	4,834	4,560	3,409	3,089	3,167	3,368	3,483	4,026
Net international reserves (NIR)	4,127	4,481	4,957	4,683	3,532	3,212	3,290	3,491	3,606	4,149
Other NFA	-109	-115	-123	-123	-123	-123	-123	-123	-123	-123
Net domestic assets (NDA)	-1,429	-1,583	-1,758	-1,698	-942	-375	-280	-375	-425	-875
Net claims on central government	-850	-963	-1,026	-979	-820	-773	-773	-773	-773	-773
Claims	5	5	5	5	5	5	5	5	5	5
Deposits	855	968	1,032	984	825	778	778	778	778	778
Other items (net)	134	143	136	136	136	136	136	136	136	136
Reserve money	2,589	2,783	3,077	2,862	2,467	2,714	2,887	2,993	3,058	3,151
Currency in circulation	828	896	908	930	887	970	1,026	1,097	1,171	1,248
Bank deposits	1,748	1,875	2,158	1,921	1,569	1,732	1,848	1,883	1,873	1,888
Other deposits	13	12	11	11	11	12	12	13	14	15
Other depository corporations										
NFA of commercial banks	155	217	218	249	256	263	270	278	285	293
Assets	305	323	439	470	477	484	492	499	507	514
Liabilities	150	106	221	221	221	221	221	221	221	221
NDA of commercial banks	1,999	1,909	1,949	1,975	1,569	1,826	1,750	1,967	1,947	2,007
Net claims on central government	-198	-265	-257	-217	-217	-217	-224	-235	-245	-255
Claims	19	17	25	65	65	65	57	47	37	26
Deposits	217	282	282	282	282	282	282	282	282	282
Claims on the private sector	2,221	2,363	2,460	2,583	2,479	2,622	2,779	2,918	3,050	3,187
Other items (net)	-24	-190	-253	-391	-693	-578	-805	-716	-857	-924
Reserves and vault cash	1,834	1,950	2,238	1,999	1,644	1,847	1,970	2,013	2,012	2,036
Deposits	3,988	4,076	4,406	4,223	3,469	3,937	3,990	4,258	4,245	4,337
Depository corporations survey										
NFA of the banking system	4,173	4,583	5,053	4,809	3,665	3,352	3,437	3,646	3,768	4,319
Central bank	4,018	4,366	4,834	4,560	3,409	3,089	3,167	3,368	3,483	4,026
Other depository corporations	155	217	218	249	256	263	270	278	285	293
NDA of the banking system	570	326	192	277	628	1,452	1,470	1,592	1,522	1,133
Net claims on central government	-1,048	-1,228	-1,283	-1,196	-1,037	-990	-997	-1,007	-1,018	-1,028
Claims on the private sector 2/	2,229	2,372	2,469	2,593	2,486	2,629	2,786	2,925	3,057	3,194
Other items (net)	-611	-818	-994	-1,120	-822	-188	-319	-326	-517	-1,033
Broad money (M3)	4,743	4,909	5,244	5,086	4,292	4,803	4,908	5,238	5,291	5,452
M1	3,521	3,649	3,937	3,882	3,327	3,777	3,911	4,228	4,270	4,400
Currency outside banks	742	821	828	852	812	855	905	967	1,032	1,100
Demand deposits	2,779	2,828	3,109	3,029	2,514	2,922	3,007	3,261	3,238	3,300
Savings and time deposits	1,221	1,260	1,307	1,204	966	1,026	996	1,010	1,020	1,051
	(Annual percentage change, unless otherwise indicated)									
Reserve money	14.5	7.5	10.6	-7.0	-13.8	10.0	6.4	3.7	2.2	3.0
Credit to the private sector	12.1	6.4	4.1	5.0	-4.1	5.7	6.0	5.0	4.5	4.5
Broad money	13.4	3.5	6.8	-3.0	-15.6	11.9	2.2	6.7	1.0	3.0
Memorandum items:										
Money multiplier (level)	1.8	1.8	1.7	1.8	1.7	1.8	1.7	1.8	1.7	1.7
Loan-to-deposit ratio (in percent)	55.7	58.0	55.8	61.2	71.5	66.6	69.7	68.5	71.8	73.5
Interest rates (percent per annum)										
Deposit rate 3/	0.2	0.3	0.3	0.4	...	...	...	...	...	...
Lending rate 3/	10.1	10.6	10.5	10.0	...	...	...	...	...	...
NCG of financial corporations	-1,022	-1,044	-1,097	-958	-679	-632	-639	-649	-660	-670
91-day treasury bill rate	0.5	0.5	0.5	0.5	...	...	...	...	...	...

Sources: Data provided by the Central Bank of Solomon Islands; and IMF staff estimates and projections.

1/ Based on actual and projected exchange rates.

2/ Includes claims of the CBSI on other (nonbank) financial corporations.

3/ Weighted average of different maturities, period average.

Table 5: Solomon Islands: Core Financial Soundness Indicators, 2014–2019

	2014	2015	2016	2017	2018	2019
	(In percent, unless otherwise indicated)					
Capital Adequacy						
Regulatory Capital to Risk-Weighted Assets	31.6	31.1	32.5	35.1	31.1	31.3
Non-performing Loans Net of Provisions to Capital	8.1	7.3	6.6	11.5	11.8	18.0
Asset Quality						
Non-performing Loans to Total Gross Loans	4.7	4.1	3.8	6.1	7.1	10.4
Specific Loan Loss Provision to NPLs	26.0	29.5	31.2	18.7	31.2	29.4
Earnings and Profitability						
Return on Assets	3.3	3.0	3.5	3.9	3.5	3.1
Return on Equity	20.0	17.6	22.7	23.1	20.4	18.3
Interest Margin to Gross Income	56.7	55.0	56.3	55.0	54.6	53.6
Non-interest Expenses to Gross Income	43.3	45.0	43.7	45.0	45.4	46.4
Liquidity						
Liquid Assets to Total Assets (Liquid Asset Ratio)	38.0	33.5	38.1	38.4	40.4	37.4
Liquid Assets to Short Term Liabilities	51.7	46.2	53.3	55.4	56.2	56.3
Net open position in foreign exchange to capital	11.1	7.9	3.6	3.8	13.1	2.1

Source: Central Bank of Solomon Islands.

Table 6. Solomon Islands: Indicators of Capacity to Repay the Fund, 2020–30

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Proj.					
Fund obligations based on existing credit (in SDR millions)											
Principal	0.0	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on prospective credit (in SDR millions) 1/											
Principal	0.0	0.0	0.0	3.5	6.9	4.2	1.4	1.4	1.4	1.4	0.7
Charges and interest	0.1	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in SDR millions) 1/											
Principal	0.0	0.2	0.2	3.6	7.1	4.2	1.4	1.4	1.4	1.4	0.7
Charges and interest	0.1	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	0.0	0.2	0.2	3.6	7.1	4.2	1.4	1.4	1.4	1.4	0.7
In millions of US$	0.1	0.2	0.3	5.0	9.8	5.9	2.0	1.9	1.9	1.9	1.0
In percent of gross international reserves	0.0	0.1	0.1	1.1	2.1	1.1	0.3	0.3	0.3	0.3	0.2
In percent of government revenue	0.0	0.0	0.0	0.8	1.5	0.9	0.3	0.3	0.2	0.2	0.1
In percent of exports of goods and services	0.0	0.0	0.0	0.7	1.4	0.7	0.2	0.2	0.2	0.2	0.1
In percent of debt service 2/	0.7	3.2	3.4	36.2	49.4	33.8	9.7	8.8	7.9	6.5	2.9
In percent of GDP	0.0	0.0	0.0	0.3	0.5	0.3	0.1	0.1	0.1	0.1	0.0
In percent of quota	0.2	0.9	1.0	17.5	34.0	20.3	6.8	6.7	6.7	6.7	3.3
Outstanding Fund credit 1/											
In millions of SDRs	21.6	21.4	21.2	17.6	10.5	6.3	4.9	3.5	2.1	0.7	0.0
In millions of US$	29.9	29.7	29.4	24.4	14.6	8.7	6.7	4.8	2.9	1.0	0.0
In percent of gross international reserves	6.4	7.0	6.7	5.3	3.1	1.6	1.2	0.8	0.4	0.2	0.0
In percent of government revenue	6.1	5.5	5.0	3.9	2.2	1.3	0.9	0.6	0.4	0.1	0.0
In percent of exports of goods and services	7.5	5.5	4.5	3.5	2.1	1.1	0.8	0.5	0.3	0.1	0.0
In percent of debt service 2/	398.2	380.6	343.1	175.3	73.4	50.1	33.0	22.0	11.7	3.2	0.0
In percent of GDP	2.0	1.8	1.7	1.3	0.7	0.4	0.3	0.2	0.1	0.0	0.0
In percent of quota	103.8	102.9	101.9	84.5	50.5	30.1	23.3	16.7	10.0	3.3	0.0
Net use of Fund credit (in SDR millions) 1/	20.8	-0.2	-0.2	-3.6	-7.1	-4.2	-1.4	-1.4	-1.4	-1.4	-0.7
Disbursements	20.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	-0.040	-0.180	-0.210	-3.630	-7.070	-4.230	-1.420	-1.390	-1.390	-1.390	-0.690
Memorandum items:											
Nominal GDP (in US$ millions)	1523.2	1665.8	1763.4	1884.5	2011.1	2143.3	2282.3	2438.8	2595.9	2773.1	2966.3
Exports of goods and services (in US$ millions)	400.7	536.7	646.2	686.4	704.2	791.1	885.4	917.7	951.9	929.5	926.4
Gross international reserves (in US$ millions)	465.9	426.5	436.1	460.9	475.1	541.8	569.0	612.0	650.7	617.9	555.9
Government revenue (in US$ millions)	490.6	537.4	588.5	631.1	656.2	687.6	716.9	761.2	803.8	850.8	904.1
Debt service (in US$ millions) 2/	7.5	7.8	8.6	13.9	19.8	17.4	20.4	21.9	24.5	29.7	32.6
SI/U.S. dollars (period average)	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1
U.S. dollars/SDR (period average)	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Quota (in SDR millions)	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8

Source: IMF staff estimates and projections.

1/ Prospective credit includes SDR 20.8 million (100 percent of quota) under the Rapid Credit Facility (1/3) and the Rapid Financing Instrument (2/3).

2/ Total public debt service, including IMF repayments.

Appendix I. Letter of Intent

Honiara, Solomon Islands
May 18, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

1. The COVID-19 pandemic is having severe effects on both the health prospects for the general public and on the level of economic activity across the globe. The negative effects of the COVID-19 pandemic on the Solomon Islands economy are felt mainly through a decline in logging, mining and fisheries exports and a sharp contraction in tourism. Solomon Islands has no confirmed COVID-19 cases as of May 18, 2020. To prevent the entry of COVID-19, the government immediately took actions to restrict travel and has declared a state of emergency (extended until July 25) with several containment measures. The government has prepared a COVID-19 preparedness and response plan, and with support from development partners, has introduced quarantine facilities and testing capability in preparation for a possible domestic outbreak. Domestic containment measures, while necessary, are also having a temporary negative impact on economic activity.

2. Against this backdrop, the Solomon Islands is experiencing an exceptional short-term balance of payments need. While there is a high degree of uncertainty regarding the duration and scale of the COVID-19 impact, we currently anticipate that real output growth in 2020 will decline to about -5.5 percent as per IMF estimates, compared with pre-crisis projections of 2.5 percent. Our fiscal situation will be negatively impacted by a significant shortfall in tax revenues as well as higher spending needs related to health, social assistance and support for the economy during the emergency period. As result, the fiscal deficit is estimated to widen to about 5.8 percent of GDP. Amid travel restrictions and weak external demand, the current account deficit is projected to increase sharply to about 17.8 percent of GDP in 2020. The deterioration in the balance of payments is giving rise to a projected external financing gap projected in the order US$38.8 million (about 2.5 percent of GDP).

3. To address the immediate external financing needs, the Government of Solomon Islands requests emergency financing from the IMF in the amount of SDR20.8 million (about US$28.8 million), equivalent to 100 percent of quota, with SDR 6.93 million under the Rapid Credit Facility (RCF) and SDR 13.87 million under Rapid Financing Instrument (RFI). IMF debt relief provided under the Catastrophe Containment and Relief Trust (CCRT) will also help to close the financing gap. We are actively seeking additional budget financing from our development partners, and we are confident that IMF support will play a catalytic role. In this regard, the World Bank is processing a fast-track US$5 million COVID-19 Emergency Response and Health Systems Preparedness Project. The Asian Development Bank has approved US$6 million in funds under the Contingent Disaster

Financing Facility and is processing a pandemic response loan and grant under the Countercyclical Support Facility for up to US$20 million.

4. We remain committed to policies that promote inclusive growth, while containing external pressures, preserving fiscal sustainability, protecting financial stability and reducing poverty. As regards fiscal policy, the priority is stabilizing the domestic economy during the emergency period and building resilience by restoring fiscal buffers. We plan to increase health-related spending by US$20 million (about 1.1 percent of GDP) over the course of 2020, with key measures already underway such as setting up quarantine centers and establishing COVID-19 testing capability. However, additional spending may be needed should downside risks materialize.

5. In addition to the increase in health related spending, to mitigate the impact of the pandemic and support the recovery, we recently adopted a fiscal stimulus package of SI$319 million (about 2.6 percent of GDP) aimed at providing social assistance, protecting jobs and incomes, and stabilizing the domestic economy. Policy measures include payroll and employment support, capital grants to businesses to support investment in productive and resource sectors, tax relief for affected businesses, equity injection to government owned companies, and advancing planned infrastructure investment. An Oversight Committee has been set up to ensure that the overall desired outcomes are achieved and the targeted beneficiaries receive the support they need, as well as to prevent any abuse or misuse of the package.

6. We remain committed to maintaining efforts to progress tax reform and to strengthen tax compliance and public financial management, including through tightening expenditure controls and procurement processes. We are also committed to the current debt management framework and are working closely with development partners to address large infrastructure needs in a transparent manner. We confirm our commitment to maintaining an expansionary monetary policy stance in view of the low inflation environment, weak growth outlook and slowing credit growth. Credibility of the basket exchange rate peg regime is preserved by maintaining an adequate level of gross official reserves. We will continue to implement financial sector policies to reduce financial stability risks, including those stemming from correspondent banking relationships, and to foster financial inclusion. To address risks stemming from frequent natural disasters, we acknowledge the importance of rebuilding fiscal buffers and undertaking infrastructure investments to increase resilience.

7. We recognize the importance of good governance, transparency and accountability, and tackling corruption and related money laundering. We commit to ensure that the funds provided by the IMF will be effectively used to maintain macroeconomic stability, thus safeguarding public health, saving lives, and supporting livelihoods and the economic recovery. Towards that end, we will publish on the Ministry of Finance and Treasury’s website: (i) results of an audit by the Solomon Islands Office of the Auditor General of COVID-19 related expenditures before December 2021; and (ii) documentation on crisis-related public procurement, including the nature of the goods or services procured, the contract amounts, the names of the entities awarded the contract and their beneficial owners, followed by documentation on ex-post validation of delivery. In line with IMF safeguards policy, we are committed to undergo an update of the safeguards assessment of the CBSI made by the Fund in 2013. We will authorize the external auditor of the CBSI to share relevant

documents and hold discussions with Fund staff and have published (on May 13, 2020) on the CBSI website the audited financial statements for the year ended December 31, 2019.

8. We do not intend to introduce measures or policies that would exacerbate the current balance-of-payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

9. We are determined to meet the immense challenge we are facing due to the COVID-19 pandemic. Support from the international community will be critical, and we look forward to an early approval of financial assistance by the IMF. Beyond this much needed immediate financial assistance, we reaffirm our willingness to remain engaged with the IMF and to benefit from its policy advice and its capacity development support.

10. We authorize the IMF to publish this letter and the staff report for the request for disbursement under the RCF/RFI.

Sincerely yours,

Mr. Harry Kuma /s
Minister of Finance and Treasury

Mr. Luke Forau /s
Governor, Central Bank of Solomon Islands

SOLOMON ISLANDS

May 26, 2020

REQUESTS FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Jonathan D. Ostry and Johannes Wiegand (IMF) and Marcelo Estevão (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)[1/2/]

The updated DSA after the COVID-19 shock suggests Solomon Islands remains at moderate risk of debt distress for both the external and overall public debt. All external debt indicators remain below the relevant indicative thresholds under the baseline scenario but breach thresholds under the extreme stress test scenario (combination shock for the PV of debt-to-GDP and export shock for the PV of debt-to-export and the debt services to export ratio). The PV of public debt-to-GDP ratio remains below the 55 percent benchmark under the baseline scenario, and it would remain below the benchmark under the most extreme shock (real GDP growth) till 2030. A tailored natural disaster shock of similar scale to the largest shock in Solomon Islands' history would cause a spike in debt trajectory in the aftermath of the event. While the DSA suggests there is substantial space to absorb shocks, Solomon Islands often faces fiscal liquidity challenges due to weak public financial management and the cash balance is currently low. Going forward, stronger revenue mobilization measures and expenditure rationalization are needed to rebuild fiscal buffers and to enhance resilience against shocks.

Risk of external debt distress	Moderate[3]
Overall risk of debt distress	Moderate
Granularity in the risk rating	Substantial space to absorb shocks
Application of judgment	No

[1] Debt coverage has remained unchanged compared to the 2019 DSA (IMF Country Report No. 20/49).

[2] The updated DSA uses the rebased GDP series with 2012 as the base year. The rebased GDP level is approximately 13 percent higher than the previous GDP series with 2004 as the base year.

[3] The Composite Indicator score is 2.72, which is based on the October 2019 WEO and the World Bank's 2018 CPIA, and the country's debt-carrying capacity is assessed to be medium.

Macroeconomic projections	The updated DSA incorporates a new set of macroeconomic assumptions reflecting the impacts of COVID-19 shock. Growth is expected to fall by 5.5 percent, as a result of a decline in logging, mining and fisheries exports, a contraction in tourism, as well as the negative impact of containment measures on domestic demand. Fiscal and current account deficits are expected to widen sharply.
Financing strategy[4]	The RCF/RFI will help finance balance of payment needs. The World Bank has approved the first Solomon Islands transition to sustainable growth development policy operation of US$15 million (US$11.8 million in grant and US$3.2 million in loan), in addition to US$5 million under the COVID-19 Fast Track Facility expected to be approved by end May. The Asian Development Bank (ADB) has released US$6 million from its Pacific Disaster Resilience Program and is processing an additional US$20 million, a policy-based operation anchored on the government's COVID-19 response plan. The financing under the World Bank's COVID-19 Fast Track Facility and ADB is expected to equally comprise grant and loan disbursements.
Realism tools flagged	None
Mechanical risk rating under the external DSA	Moderate
Mechanical risk rating under the public DSA	Moderate

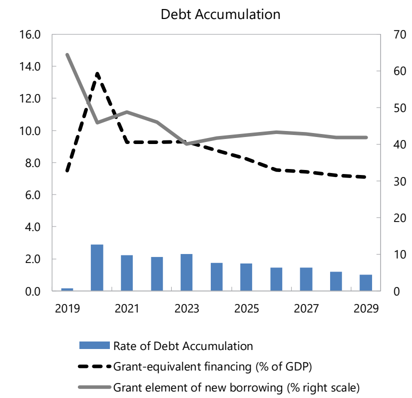
[4] Solomon Islands has not requested participation in the G20 Debt Service Suspension Initiative (DSSI).

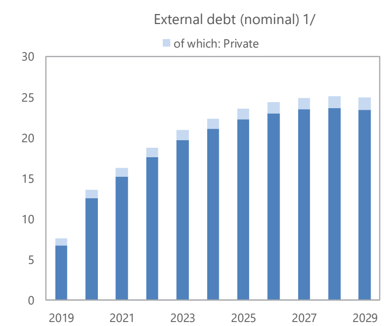
Table 1. Solomon Islands: External Debt Sustainability Framework, Baseline Scenario, 2016-2039

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**7.4**	**7.5**	**7.1**	**7.6**	**13.6**	**16.2**	**18.7**	**20.9**	**22.3**	**25.0**	**24.6**	**15.0**	**20.2**
of which: public and publicly guaranteed (PPG)	**6.7**	**6.7**	**6.3**	**6.7**	**12.5**	**15.1**	**17.6**	**19.7**	**21.0**	**23.4**	**22.8**	**10.5**	**18.5**
Change in external debt	-2.0	0.1	-0.4	0.5	6.0	2.7	2.5	2.2	1.4	-0.1	0.6		
Identified net debt-creating flows	**0.5**	**1.5**	**1.4**	**7.2**	**17.2**	**11.1**	**8.3**	**7.3**	**6.6**	**5.5**	**3.2**	**0.3**	**7.2**
Non-interest current account deficit	**3.4**	**4.2**	**2.9**	**8.8**	**17.7**	**15.7**	**12.9**	**11.6**	**10.8**	**9.0**	**7.0**	**6.7**	**10.6**
Deficit in balance of goods and services	-85.5	-87.7	-90.1	-83.6	-71.5	-80.0	-87.1	-85.6	-82.6	-77.7	-60.9	**-93.9**	**-82.6**
Exports	40.2	41.0	42.9	36.8	26.3	32.2	36.6	36.4	35.0	33.5	25.2		
Imports	-45.4	-46.6	-47.2	-46.8	-45.2	-47.8	-50.5	-49.2	-47.6	-44.2	-35.7		
Net current transfers (negative = inflow)	-4.7	-3.6	-2.5	-1.9	-3.0	-1.4	-2.4	-2.5	-3.0	-3.4	-3.6	**-9.8**	**-2.7**
of which: official	-6.3	-5.1	-3.7	-4.0	-5.1	-2.3	-2.2	-2.2	-2.2	-2.2	-2.1		
Other current account flows (negative = net inflow)	93.6	95.5	95.6	94.4	92.2	97.2	102.4	99.7	96.3	90.1	71.6	**110.4**	**96.0**
Net FDI (negative = inflow)	**-2.6**	**-2.5**	**-1.0**	**-1.6**	**-1.0**	**-4.1**	**-4.2**	**-3.8**	**-3.8**	**-3.1**	**-3.4**	**-5.2**	**-3.2**
Endogenous debt dynamics 2/	**-0.4**	**-0.3**	**-0.5**	**0.0**	**0.6**	**-0.5**	**-0.4**	**-0.4**	**-0.3**	**-0.4**	**-0.4**		
Contribution from nominal interest rate	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.4		
Contribution from real GDP growth	-0.5	-0.4	-0.3	-0.1	0.4	-0.7	-0.6	-0.6	-0.6	-0.7	-0.8		
Contribution from price and exchange rate changes	0.0	0.0	-0.3	...	...	...	...	...	...	...	...		
Residual 3/	**-2.4**	**-1.3**	**-1.8**	**-6.7**	**-11.3**	**-8.4**	**-5.8**	**-5.1**	**-5.2**	**-5.6**	**-2.7**	**-2.4**	**-5.4**
of which: exceptional financing	0.0	0.0	0.0	0.0	-1.9	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**5.7**	**5.8**	**9.1**	**10.3**	**11.8**	**13.1**	**13.9**	**15.7**	**16.2**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**13.2**	**15.7**	**34.5**	**32.1**	**32.1**	**36.1**	**39.8**	**46.7**	**64.2**		
PPG debt service-to-exports ratio	**1.8**	**1.7**	**1.1**	**1.4**	**1.6**	**1.3**	**1.2**	**1.9**	**2.7**	**3.0**	**4.0**		
PPG debt service-to-revenue ratio	**2.6**	**2.3**	**1.6**	**2.0**	**1.9**	**1.7**	**1.7**	**2.7**	**3.7**	**4.1**	**4.6**		
Gross external financing need (Million of U.S. dollars)	30.9	36.5	39.3	124.7	261.5	201.2	162.4	159.4	159.6	193.3	269.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.9	5.3	3.9	1.2	-5.5	5.6	4.0	3.4	3.0	3.2	3.5	**4.3**	**2.4**
GDP deflator in US dollar terms (change in percent)	-0.5	0.2	4.6	-0.4	0.8	3.6	1.8	3.4	3.6	3.6	4.6	**4.2**	**2.7**
Effective interest rate (percent) 4/	1.3	1.5	1.2	1.5	1.5	1.2	1.2	1.2	1.3	1.5	1.7	**2.1**	**1.3**
Growth of exports of G&S (US dollar terms, in percent)	5.3	7.8	13.8	-13.6	-31.9	33.9	20.4	6.2	2.6	-2.4	5.9	**11.9**	**4.9**
Growth of imports of G&S (US dollar terms, in percent)	1.0	8.5	10.0	0.0	-8.1	15.7	11.9	4.1	3.2	4.4	9.9	**8.0**	**4.8**
Grant element of new public sector borrowing (in percent)	...	...	...	64.5	45.9	48.8	46.0	40.0	41.7	41.9	33.0	**...**	**45.7**
Government revenues (excluding grants, in percent of GDP)	28.4	30.2	30.1	26.1	21.4	25.0	25.8	25.7	25.3	24.5	21.9	**28.5**	**24.9**
Aid flows (in Million of US dollars) 5/	230.3	232.1	254.4	111.9	211.1	155.4	164.1	176.6	182.6	202.5	359.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	7.5	13.5	9.3	9.3	9.3	8.8	7.1	6.7	**...**	**8.8**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	95.3	81.1	81.9	82.8	80.3	81.9	85.6	77.1	**...**	**83.8**
Nominal GDP (Million of US dollars)	1,381	1,458	1,585	1,598	1,523	1,666	1,763	1,884	2,011	2,773	5,676		
Nominal dollar GDP growth	5.3	5.5	8.8	0.8	-4.7	9.4	5.9	6.9	6.7	6.8	8.2	**8.7**	**5.1**
Memorandum items:													
PV of external debt 7/	...	...	6.5	6.7	10.1	11.4	12.9	14.4	15.2	17.2	17.9		
In percent of exports	...	...	15.1	18.1	38.5	35.5	35.3	39.5	43.5	51.3	71.1		
Total external debt service-to-exports ratio	3.6	1.9	1.3	1.6	1.9	1.5	1.3	2.0	2.8	3.2	4.4		
PV of PPG external debt (in Million of US dollars)			89.9	92.1	138.2	172.3	207.2	247.8	280.4	434.2	919.0		
(PVt-PVt-1)/GDPt-1 (in percent)				0.1	2.9	2.2	2.1	2.3	1.7	1.0	1.9		
Non-interest current account deficit that stabilizes debt ratio	5.4	4.1	3.4	8.3	11.7	13.1	10.4	9.4	9.4	9.2	6.5		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

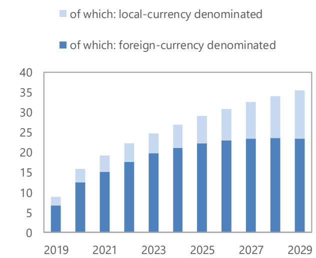
Table 2. Solomon Islands: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016-2039

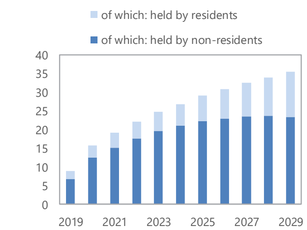
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	7.1	8.4	8.2	8.9	15.8	19.2	22.2	24.7	26.8	35.4	46.3	14.1	25.4
of which: external debt	6.7	6.7	6.3	6.7	12.5	15.1	17.6	19.7	21.0	23.4	22.8	10.5	18.9
Change in public sector debt	-1.9	1.3	-0.2	0.7	6.9	3.4	2.9	2.6	2.1	1.4	2.1		
Identified debt-creating flows	3.2	1.4	-1.7	1.2	6.2	4.1	3.0	3.1	3.0	2.1	2.7	-3.5	3.0
Primary deficit	3.4	2.0	-1.4	1.2	5.7	4.9	3.7	3.9	3.7	3.0	3.8	-2.1	3.6
Revenue and grants	38.6	39.2	40.0	32.9	32.2	32.3	33.4	33.5	32.6	30.7	27.6	44.0	32.1
of which: grants	10.2	9.0	9.9	6.8	10.9	7.3	7.6	7.8	7.4	6.2	5.7		
Primary (noninterest) expenditure	42.0	41.2	38.6	34.2	37.9	37.2	37.1	37.3	36.3	33.7	31.4	41.9	35.7
Automatic debt dynamics	-0.3	-0.6	-0.3	-0.1	0.6	-0.9	-0.7	-0.7	-0.7	-0.8	-1.1		
Contribution from interest rate/growth differential	-0.5	-0.3	-0.4	-0.1	0.6	-0.9	-0.7	-0.7	-0.7	-0.8	-1.1		
of which: contribution from average real interest rate	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.2	0.4		
of which: contribution from real GDP growth	-0.5	-0.4	-0.3	-0.1	0.5	-0.8	-0.7	-0.7	-0.7	-1.0	-1.5		
Contribution from real exchange rate depreciation	0.3	-0.2	0.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-5.1	-0.1	1.5	-0.5	0.7	-0.6	-0.1	-0.6	-0.9	-0.7	-0.6	1.2	-0.5
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	7.7	8.0	12.4	14.4	16.4	18.2	19.7	27.6	39.7		
PV of public debt-to-revenue and grants ratio	...	...	19.3	24.2	38.4	44.8	49.1	54.2	60.4	90.1	143.8		
Debt service-to-revenue and grants ratio 3/	3.0	2.8	2.2	3.4	4.0	3.8	4.0	4.7	5.5	6.5	10.6		
Gross financing need 4/	4.5	3.0	-0.5	2.4	6.9	6.1	5.0	5.4	5.5	5.0	6.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.9	5.3	3.9	1.2	-5.5	5.6	4.0	3.4	3.0	3.2	3.5	4.3	2.4
Average nominal interest rate on external debt (in percent)	1.0	1.2	0.7	1.1	1.0	0.9	0.9	1.0	1.0	1.2	1.4	1.1	1.1
Average real interest rate on domestic debt (in percent)	-0.7	-0.3	-0.8	-0.5	-0.5	-0.7	-0.6	-0.6	-0.5	-0.3	-0.1	-0.3	-0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	3.3	-3.9	0.8	...	...	...	...	...	...	...	...	-2.5	...
Inflation rate (GDP deflator, in percent)	0.0	1.4	4.2	1.3	0.8	3.6	1.8	3.4	3.6	3.6	4.6	4.4	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	5.9	3.5	-2.7	-10.3	4.7	3.6	3.6	4.2	0.2	2.3	2.9	4.2	1.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	5.3	0.7	-1.2	0.5	-1.2	1.5	0.7	1.3	1.6	1.6	1.7	1.6	1.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

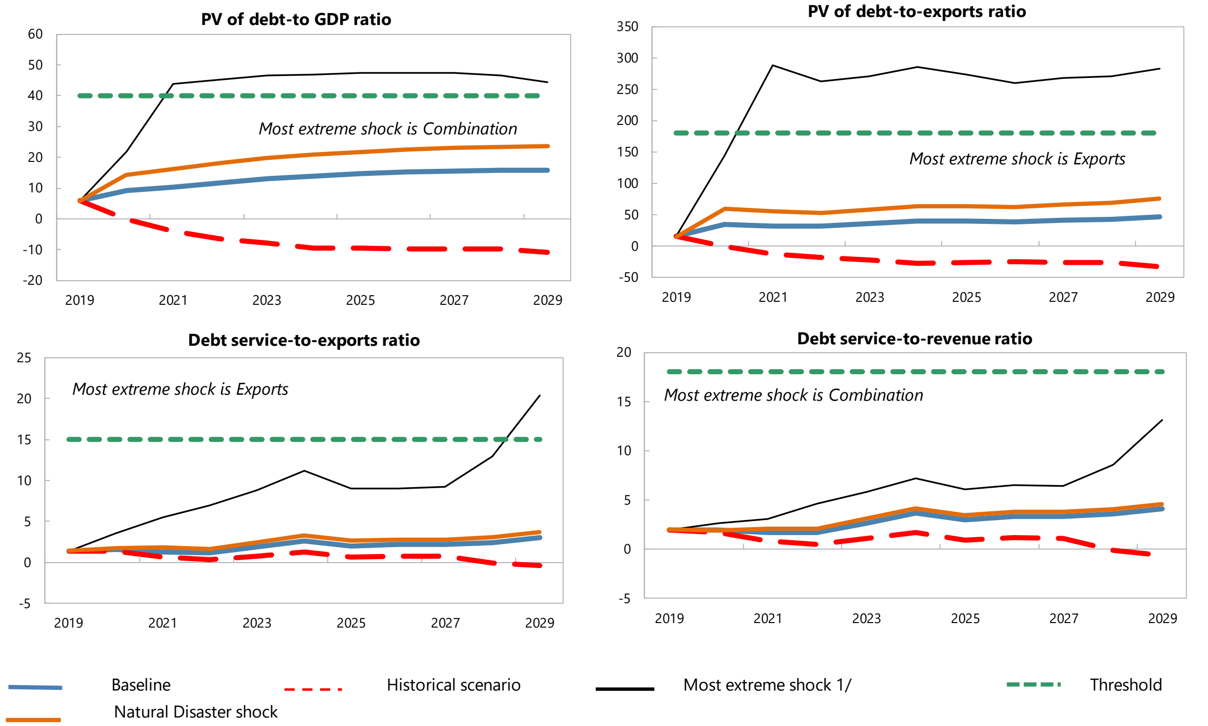
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Solomon Islands: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019-2029 1/



Customization of Default Settings	Size	Interactions
Standardized Tests	Yes	
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	Yes	Yes
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	7	7

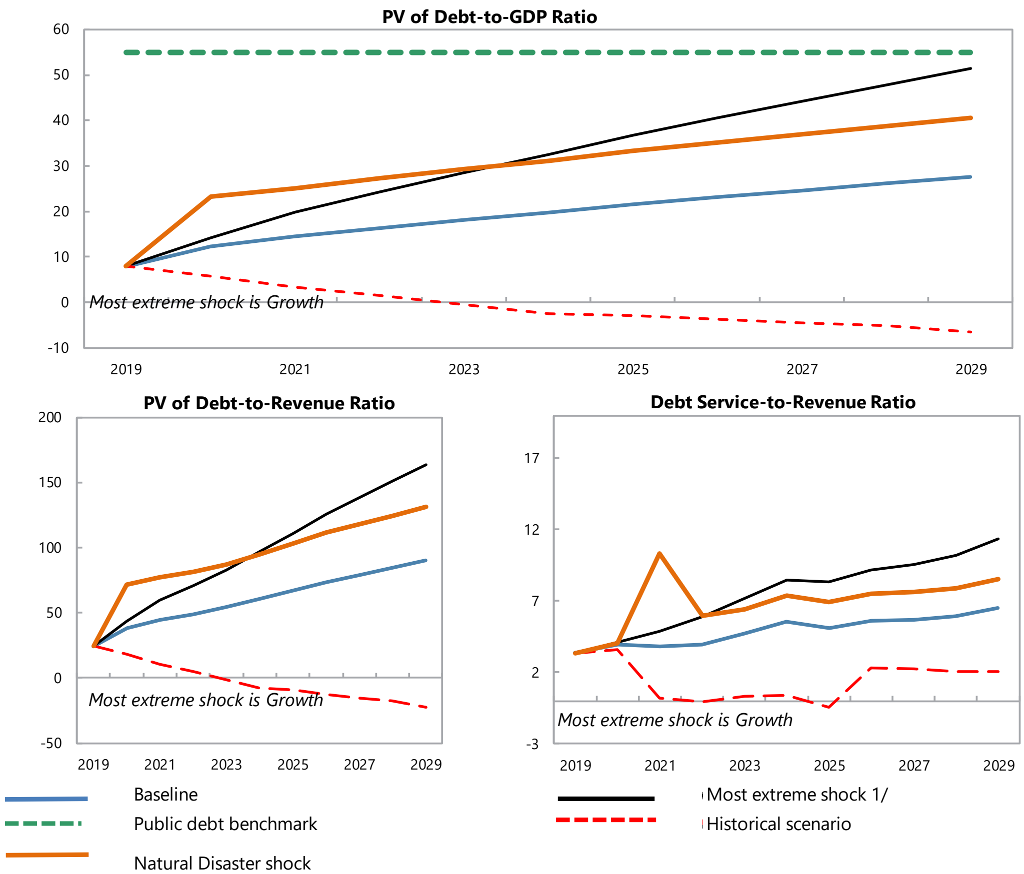
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Solomon Islands: Indicators of Public Debt Under Alternative Scenarios, 2019-2029



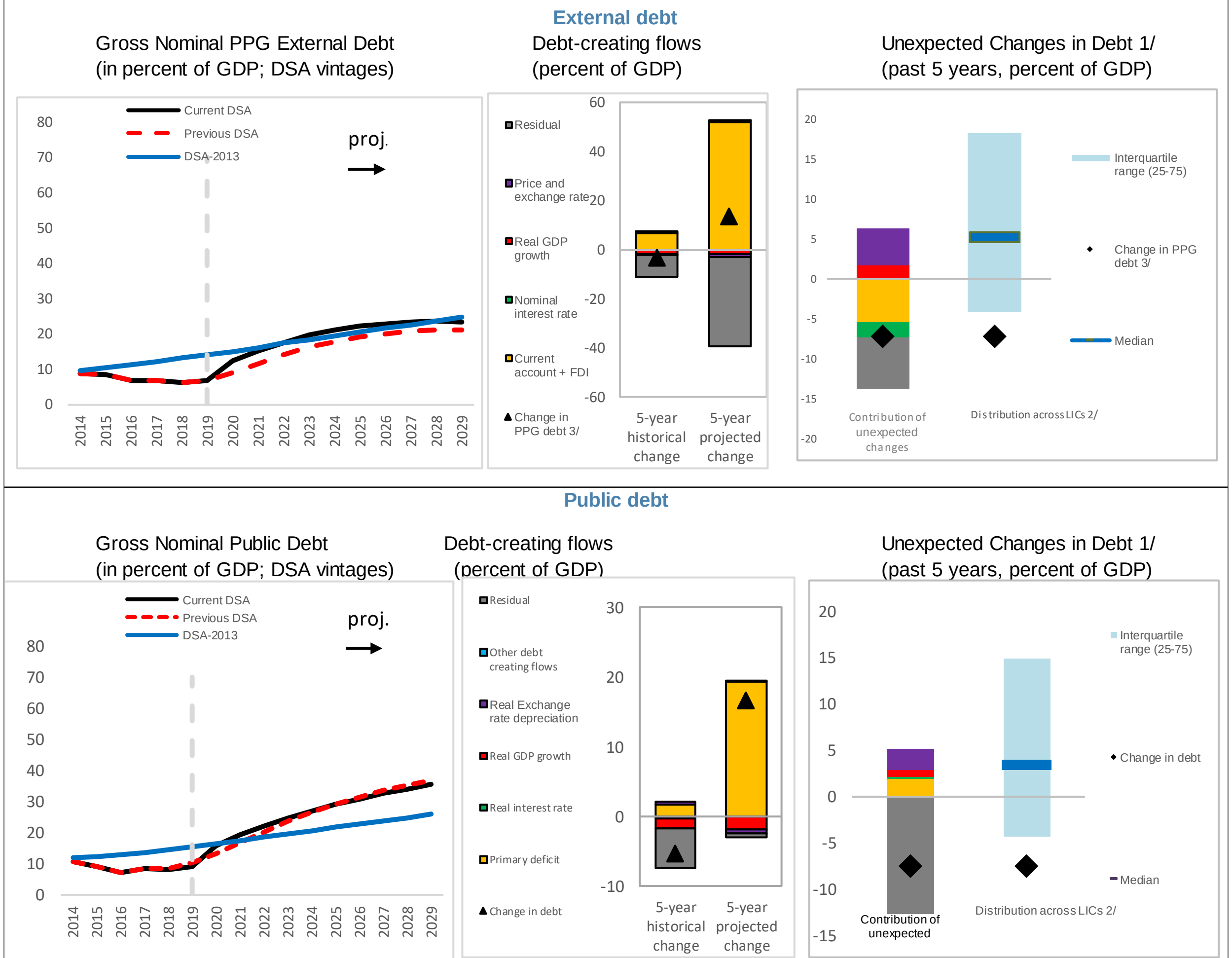
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	62%	62%
Domestic medium and long-term	26%	26%
Domestic short-term	13%	13%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.6%	3.6%
Avg. maturity (incl. grace period)	15	15
Avg. grace period	14	14
Domestic short-term debt		
Avg. real interest rate	-1%	-1%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Solomon Islands: Drivers of Debt Dynamics - Baseline Scenario



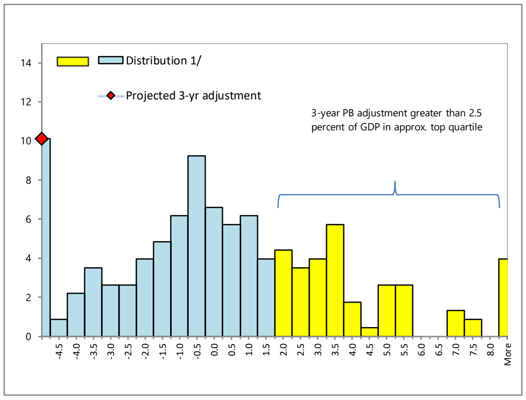
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

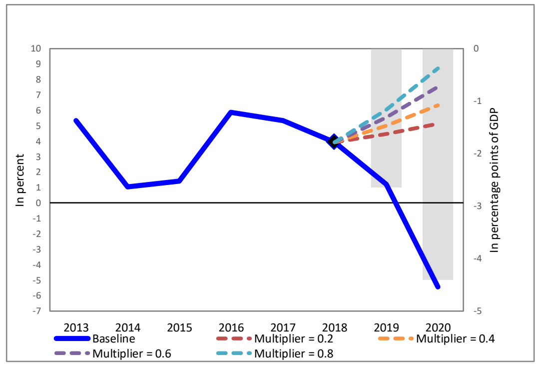
Figure 4. Solomon Islands: Realism tools

Three-Year Adjustment in Primary Balance



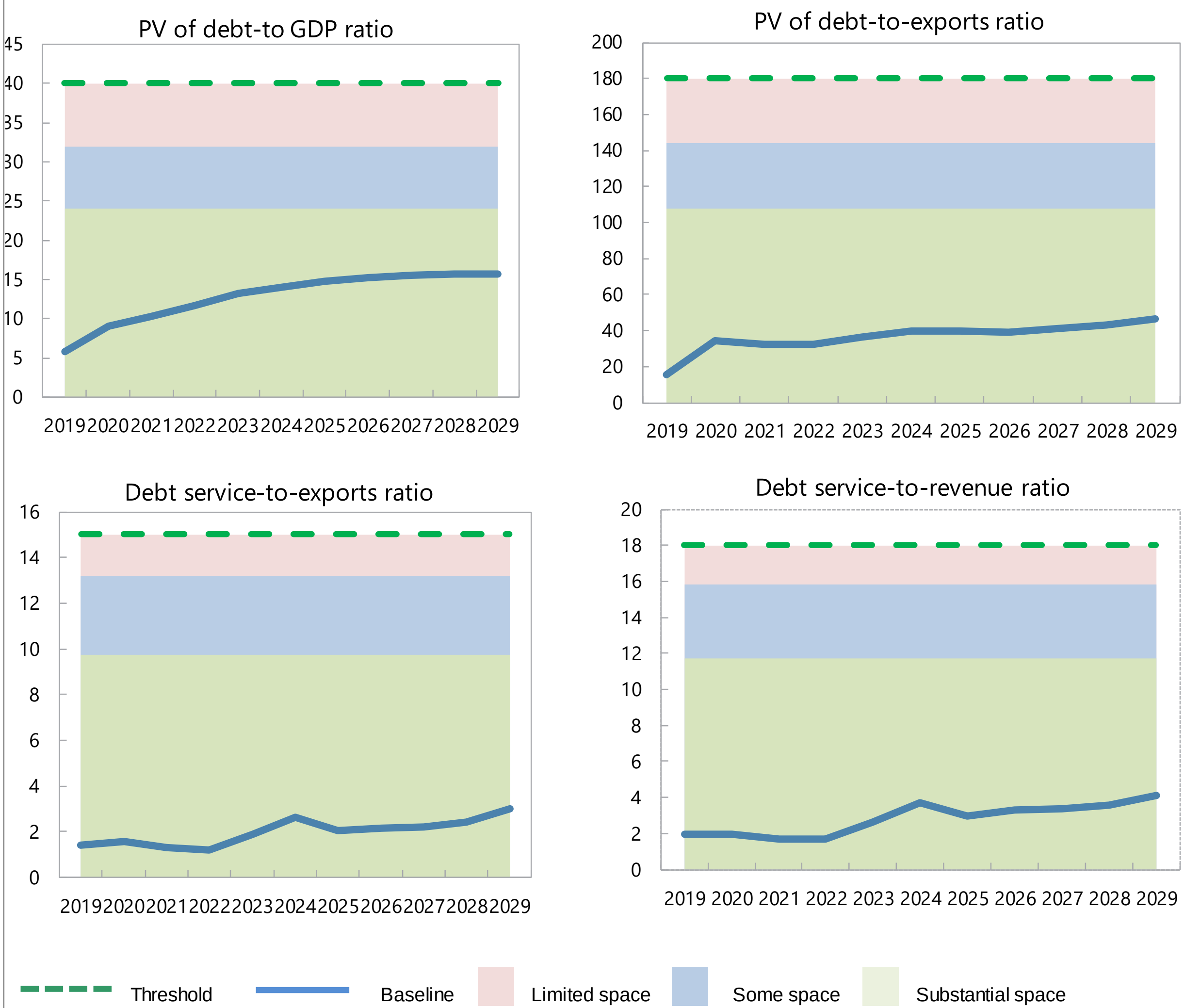
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of three-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Figure 5. Solomon Islands: Qualification of the Moderate Category, 2019-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 3. Solomon Islands: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019-2029
(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	5.8	9.1	10.3	11.8	13.1	13.9	14.7	15.2	15.5	15.7	15.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5.8	-0.2	-4.1	-6.4	-7.9	-9.5	-9.5	-9.8	-9.8	-9.7	-10.8
B. Bound Tests											
B1. Real GDP growth	5.8	9.7	11.7	13.3	14.9	15.8	16.7	17.2	17.6	17.8	17.7
B2. Primary balance	5.8	10.2	12.7	14.3	15.7	16.4	17.2	17.7	18.0	18.1	18.0
B3. Exports	5.8	21.9	38.7	**40.0**	**41.2**	**41.6**	**42.0**	**42.1**	**42.1**	**41.3**	39.5
B4. Other flows 3/	5.8	15.8	23.5	24.7	25.7	26.2	26.7	26.9	27.0	26.6	25.7
B6. One-time 30 percent nominal depreciation	5.8	11.5	23.2	24.8	26.3	27.0	27.8	28.2	28.4	28.5	27.7
B6. Combination of B1-B5	5.8	21.8	**43.9**	**45.3**	**46.5**	**46.9**	**47.3**	**47.4**	**47.3**	**46.5**	**44.4**
C. Tailored Tests											
C1. Combined contingent liabilities	5.8	11.2	12.7	14.1	15.5	16.2	17.0	17.4	17.8	18.0	17.9
C2. Natural disaster	5.8	14.4	16.3	18.1	19.7	20.8	21.8	22.5	23.0	23.4	23.5
C3. Commodity price	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	15.7	34.5	32.1	32.1	36.1	39.8	39.8	39.1	41.3	42.9	46.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	15.7	-0.7	-12.7	-17.4	-21.7	-27.1	-25.6	-25.3	-26.2	-26.4	-32.3
B. Bound Tests											
B1. Real GDP growth	15.7	34.5	32.1	32.1	36.1	39.8	39.8	39.1	41.3	42.9	46.7
B2. Primary balance	15.7	38.8	39.5	39.0	43.0	47.0	46.6	45.5	47.8	49.5	53.6
B3. Exports	15.7	144.4	**287.8**	**262.1**	**271.2**	**285.0**	**273.2**	**260.6**	**268.1**	**270.4**	**282.8**
B4. Other flows 3/	15.7	60.1	72.9	67.3	70.7	74.9	72.4	69.4	71.7	72.6	76.6
B6. One-time 30 percent nominal depreciation	15.7	34.5	56.9	53.5	57.1	61.1	59.6	57.5	59.8	61.5	65.4
B6. Combination of B1-B5	15.7	84.8	98.2	142.8	147.5	154.8	148.2	141.2	145.1	146.6	153.1
C. Tailored Tests											
C1. Combined contingent liabilities	15.7	42.6	39.3	38.4	42.5	46.4	46.0	44.9	47.2	49.0	53.3
C2. Natural disaster	15.7	59.2	55.0	53.5	58.8	64.3	63.9	62.8	66.4	69.4	76.2
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	1.4	1.6	1.3	1.2	1.9	2.7	2.0	2.1	2.2	2.4	3.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	1.4	1.4	0.7	0.3	0.7	1.2	0.6	0.7	0.7	-0.1	-0.4
B. Bound Tests											
B1. Real GDP growth	1.4	1.6	1.3	1.2	1.9	2.7	2.0	2.1	2.2	2.4	3.0
B2. Primary balance	1.4	1.6	1.4	1.3	2.0	2.8	2.2	2.3	2.3	2.7	3.4
B3. Exports	1.4	3.5	5.5	6.9	8.9	11.2	9.0	9.1	9.2	12.9	**20.4**
B4. Other flows 3/	1.4	1.6	1.7	1.9	2.5	3.3	2.6	2.7	2.7	3.8	5.4
B6. One-time 30 percent nominal depreciation	1.4	1.6	1.3	1.6	2.3	3.1	2.4	2.5	2.5	2.7	4.5
B6. Combination of B1-B5	1.4	2.2	2.8	3.7	4.7	6.0	4.8	4.8	4.9	6.6	11.1
C. Tailored Tests											
C1. Combined contingent liabilities	1.4	1.6	1.4	1.3	2.0	2.8	2.1	2.2	2.3	2.5	3.1
C2. Natural disaster	1.4	1.8	1.8	1.6	2.4	3.3	2.6	2.7	2.8	3.0	3.7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	2.0	1.9	1.7	1.7	2.7	3.7	3.0	3.3	3.3	3.6	4.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	2.0	1.7	0.9	0.5	1.0	1.7	0.9	1.1	1.1	-0.1	-0.6
B. Bound Tests											
B1. Real GDP growth	2.0	2.1	1.9	1.9	3.0	4.2	3.4	3.8	3.8	4.0	4.6
B2. Primary balance	2.0	1.9	1.8	1.9	2.8	3.9	3.2	3.5	3.5	3.9	4.7
B3. Exports	2.0	2.5	3.0	4.1	5.2	6.5	5.5	5.9	5.8	8.0	11.6
B4. Other flows 3/	2.0	2.0	2.2	2.7	3.6	4.6	3.9	4.1	4.1	5.6	7.4
B6. One-time 30 percent nominal depreciation	2.0	2.5	2.1	2.9	4.1	5.4	4.4	4.8	4.8	5.1	7.7
B6. Combination of B1-B5	2.0	2.7	3.1	4.6	5.8	7.2	6.1	6.5	6.4	8.5	13.1
C. Tailored Tests											
C1. Combined contingent liabilities	2.0	1.9	1.8	1.9	2.8	3.8	3.1	3.5	3.5	3.7	4.2
C2. Natural disaster	2.0	1.9	2.1	2.1	3.1	4.1	3.4	3.8	3.8	4.0	4.6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Solomon Islands: Sensitivity Analysis for Key Indicators of Public Debt 2019-2029

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	8.0	12.4	14.4	16.4	18.2	19.7	21.5	23.1	24.6	26.1	27.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	8.0	5.7	3.3	1.5	-0.5	-2.4	-2.9	-3.8	-4.6	-5.2	-6.5
B. Bound Tests											
B1. Real GDP growth	8.0	14.2	19.8	24.3	28.6	32.5	36.7	40.5	44.2	47.9	51.5
B2. Primary balance	8.0	14.8	19.1	20.8	22.5	24.0	25.7	27.2	28.6	30.0	31.5
B3. Exports	8.0	20.4	34.3	35.9	37.2	38.3	39.7	40.9	41.9	42.7	42.8
B4. Other flows 3/	8.0	19.1	27.6	29.3	30.8	32.0	33.6	34.8	36.1	37.0	37.6
B6. One-time 30 percent nominal depreciation	8.0	12.1	12.5	12.8	13.1	13.3	13.8	14.2	14.5	15.0	15.6
B6. Combination of B1-B5	8.0	13.9	16.1	16.2	18.0	19.5	21.3	22.9	24.4	25.9	27.4
C. Tailored Tests											
C1. Combined contingent liabilities	8.0	16.9	18.6	20.4	22.1	23.6	25.3	26.8	28.2	29.7	31.1
C2. Natural disaster	8.0	23.3	25.0	27.2	29.3	31.2	33.3	35.2	36.9	38.8	40.5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	24.2	38.4	44.8	49.1	54.2	60.4	67.2	73.5	78.8	84.4	90.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	24.2	18.4	10.6	4.6	-1.4	-7.6	-9.4	-12.6	-15.3	-17.6	-22.5
B. Bound Tests											
B1. Real GDP growth	24.2	43.2	59.6	70.7	82.8	96.7	111.2	125.6	137.9	150.7	163.4
B2. Primary balance	24.2	45.8	59.1	62.3	67.1	73.4	80.1	86.6	91.7	97.1	102.5
B3. Exports	24.2	63.4	106.4	107.6	111.0	117.3	123.7	130.1	134.3	137.9	139.7
B4. Other flows 3/	24.2	59.3	85.5	87.8	91.8	98.1	104.6	110.9	115.5	119.6	122.7
B6. One-time 30 percent nominal depreciation	24.2	38.7	39.3	39.1	39.9	41.5	43.8	45.8	47.4	49.4	51.8
B6. Combination of B1-B5	24.2	43.3	49.9	48.6	53.7	59.9	66.6	72.9	78.2	83.7	89.4
C. Tailored Tests											
C1. Combined contingent liabilities	24.2	52.4	57.5	61.1	66.0	72.2	78.9	85.4	90.4	95.9	101.5
C2. Natural disaster	24.2	71.7	77.0	81.1	87.0	95.0	103.3	111.4	117.7	124.5	131.4
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	3.4	4.0	3.8	4.0	4.7	5.5	5.1	5.6	5.7	6.0	6.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	3.4	3.6	0.2	-0.1	0.3	0.4	-0.4	2.3	2.3	2.1	2.1
B. Bound Tests											
B1. Real GDP growth	3.4	4.1	4.9	5.9	7.2	8.5	8.3	9.2	9.6	10.2	11.3
B2. Primary balance	3.4	4.0	5.3	5.8	5.5	6.2	5.7	6.2	6.3	6.7	7.5
B3. Exports	3.4	4.0	4.3	5.1	5.8	6.6	6.2	6.6	6.6	8.1	10.5
B4. Other flows 3/	3.4	4.0	4.2	4.7	5.4	6.3	5.8	6.3	6.3	7.6	9.2
B6. One-time 30 percent nominal depreciation	3.4	4.0	4.0	4.1	5.0	6.0	5.3	5.8	5.8	5.9	6.3
B6. Combination of B1-B5	3.4	3.9	3.8	3.9	4.7	5.5	5.1	5.6	5.7	6.0	6.5
C. Tailored Tests											
C1. Combined contingent liabilities	3.4	4.0	6.6	4.7	5.2	6.1	5.6	6.1	6.2	6.4	7.0
C2. Natural disaster	3.4	4.0	10.4	6.0	6.5	7.4	7.0	7.5	7.6	7.9	8.5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by Mr. Ray and Ms. Johnson on Solomon Islands
Executive Board Meeting
June 1, 2020

On behalf of our Solomon Islands authorities, we thank staff, management and the Executive Board for their continued support to the Solomon Islands, especially during these challenging times.

The COVID-19 pandemic and its economic impact

Despite there being no confirmed cases in the Solomon Islands, the Solomon Islands government has taken swift action to prepare for and respond to the threat of a COVID-19 outbreak and has been operating under a State of Public Emergency since 25 March.

The Solomon Islands is a small and vulnerable economy, with a limited public health capacity, particularly on outlying islands. An outbreak of COVID-19 could very quickly reach beyond the capacity of the public health system.

Under the State of Public Emergency, the government closed borders and imposed a number of containment measures to ensure social distancing, such as closing schools and non-essential businesses, as well as setting up mandatory quarantine and isolation facilities.

The Solomon Islands was also affected by cyclone Harold in early April, when 27 people lost their lives and heavy rain and strong winds caused destruction to homes, schools and crops.

The negative impact on the Solomon Islands of the containment measures and the cyclone is likely to be considerable, affecting individuals, households and businesses throughout the country. The authorities are forecasting economic growth will fall to around -5.1 percent in 2020 (compared to staff estimates of -5.5 percent). The government has additional COVID-19 related spending pressures, coupled with lower revenue trends as the economy has seen declines in logging, mining and fishery exports as well as a sharp contraction in tourism. As a result, the fiscal deficit is expected to widen to 5.8 percent of GDP and public debt is expected to rise this year and into the medium term.

The current account balance is expected to widen significantly to about 17.8 percent of GDP in 2020, given weak external demand and travel restrictions. The COVID-19 pandemic has led to an urgent balance of payments need and a sizeable residual financing gap of around US$38.8 million (about 2.5 percent of GDP), after taking account of international reserve drawdown and donor support from the Asian Development Bank and World Bank.

Policy response to the crisis

Because of the Solomon Islands' vulnerabilities, the government has been proactive in preventing the spread of COVID-19, isolating the country and imposing strict quarantine.

The government has prepared a COVID-19 preparedness and response plan, and with support from development partners, has introduced quarantine facilities and testing capability in preparation for a possible domestic outbreak.

The government also announced a stimulus package of SBD319 million (about 2.6 percent of GDP) to support the recovery, aimed at protecting jobs and incomes and stabilizing the domestic economy. An Oversight Committee has been set up to ensure that the overall desired outcomes are achieved and the targeted beneficiaries receive the support they need and to prevent any abuse or misuse of the package.

The government remains committed to stabilizing public finances and understand the importance of rebuilding fiscal buffers to address potential risks from natural disasters. The authorities are maintaining their efforts to strengthen tax compliance, to progress tax reform – including indirect tax reform, and to tighten expenditure controls and procurement processes at the Ministry of Finance and Treasury.

The authorities remain committed to the current debt management framework and are working closely with development partners to address large infrastructure needs in a transparent manner.

The Central Bank of Solomon Islands will maintain an expansionary monetary policy stance in view of the low inflation environment, the weak growth outlook and slowing credit growth. The authorities consider that the basket exchange rate peg remains an appropriate nominal anchor for Solomon Islands.

Fund support

Against this background, the Solomon Islands is facing an urgent balance of payments need, which has triggered the authorities' request for emergency financing in the amount of SDR20.8 million (100 percent of quota, around one fifth of the external financing gap). The Fund's emergency assistance will help meet the urgent balance of payments financing needs stemming from the adverse impact of the ongoing shock on the economy as a result of COVID-19.

The IMF debt relief provided under the Catastrophe Containment and Relief Trust will also help to close the financing gap.

The authorities are continuing to actively seek additional financing from development partners and Fund support will play a catalytic role. In this regard, the World Bank is processing a fast-track US$5 million COVID-19 Emergency Response and Health Systems Preparedness Project. The Asian Development Bank has approved US$6 million in funds under the Contingent Disaster Financing Facility and is processing a pandemic response loan and grant under the Countercyclical Support Facility for up to US$20 million.

The authorities are thankful to the Fund for their advice and ongoing technical assistance (particularly support from PFTAC) and look forward to further constructive engagement in the future.