

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

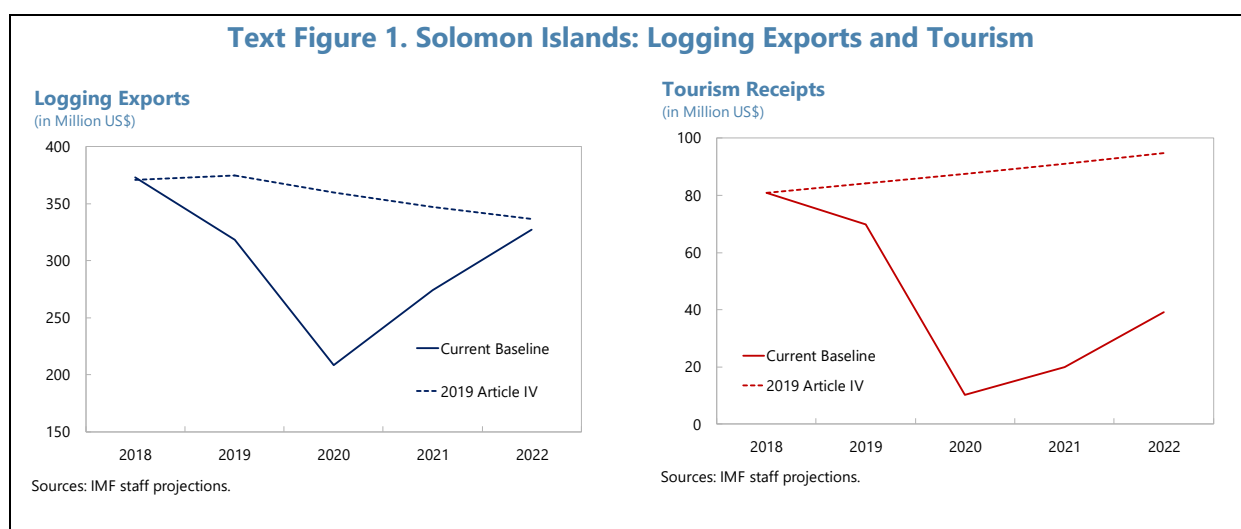
A. Pre-COVID-19 Pandemic Economic Developments

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.



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
<i>Budget Measures:</i>	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
<i>Below-the-line Measures:</i>	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.
Total revenue and grants	4,226	4,592	5,068	4,280	4,541	3,988	4,369	4,784	5,131	5,335
Total revenue	3,108	3,534	3,815	3,391	3,484	2,645	3,379	3,692	3,938	4,129
Tax revenue	2,611	2,954	3,275	2,871	2,932	2,131	2,824	3,106	3,312	3,461
Income and profits	887	1,028	1,090	1,049	1,066	882	1,080	1,144	1,222	1,298
Goods and services	762	878	1,095	937	1,102	793	958	1,015	1,085	1,156
International trade and transactions	962	1,048	1,090	886	765	456	786	948	1,004	1,007
Of which: Tax on logging	579	629	790	581	475	225	532	667	706	708
Other revenue	496	579	540	520	552	513	555	586	626	668
Grants	1,118	1,058	1,253	890	1,057	1,344	990	1,092	1,194	1,206
Development grants	423	471	590	594	713	709	685	771	852	844
Recurrent budget grants	695	587	663	296	344	635	305	321	342	363
Expenditure	4,682	4,994	4,960	4,496	4,509	4,712	5,070	5,362	5,783	6,015
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
Recurrent expenditure	3,211	3,415	3,700	3,317	3,229	2,823	3,288	3,493	3,720	3,959
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
Compensation of employees	1,009	1,113	1,169	1,231	1,292	944	1,284	1,359	1,452	1,550
Interest payments	82	169	70	54	22	23	35	50	62	76
Other recurrent expenditure	2,120	2,134	2,323	2,031	1,915	1,856	1,968	2,084	2,206	2,332
Government funded	1,425	1,547	1,661	1,736	1,606	1,221	1,663	1,762	1,864	1,970
Grant-funded	695	587	663	296	309	635	305	321	342	363
Development expenditure	1,472	1,579	1,261	1,179	1,279	1,889	1,782	1,870	2,064	2,057
Government funded development expenditure	1,049	1,108	670	585	775	1,180	1,098	1,099	1,212	1,213
Domestic	944	1,007	626	451	389	694	556	588	628	671
External loan	104	101	45	134	386	486	542	511	583	543
Grant funded	423	471	590	594	504	709	685	771	852	844
Of which: CDFs	322	374	380	220	120	286	313	331	353	376
Discrepancy 1/	-129	-156	0	0	0	0	0	0	0	0
Current balance 2/	592	705	778	370	564	457	397	521	559	533
Primary balance	-142	-234	178	-162	55	-701	-666	-528	-590	-604
Overall balance	-456	-403	108	-215	33	-723	-701	-578	-652	-680
Total financing	456	403	-108	215	-33	723	701	578	652	680
Net foreign financing	31	28	-10	77	86	444	499	468	503	422
Net domestic financing	425	219	-98	139	-119	279	202	111	150	258
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
Public domestic debt, including arrears (in SI\$ millions)	43	193	245	288	288	401	556	662	768	945
Narrow cash balance (in SI\$ millions) 3/	412	343	311	206	206	47	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
SIG Deposit Account and others (in SI\$ millions)	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
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
Accumulated domestic arrears (in SI\$ million)		138	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

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 unrepresented 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 unrepresented 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.
Total revenue and grants	38.6	39.2	40.0	32.9	36.7	32.2	32.3	33.4	33.5	32.6
Total revenue	28.4	30.2	30.1	26.1	28.1	21.4	25.0	25.8	25.7	25.3
Tax revenue	23.8	25.2	25.8	22.1	23.7	17.2	20.8	21.7	21.6	21.2
Income and profits	8.1	8.8	8.6	8.1	8.6	7.1	8.0	8.0	8.0	7.9
Goods and services	7.0	7.5	8.6	7.2	8.9	6.4	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
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
Other revenue	4.5	5.0	4.3	4.0	4.5	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
Development grants	3.9	4.0	4.7	4.6	5.8	5.7	5.1	5.4	5.6	5.2
Recurrent budget grants	6.3	5.0	5.2	2.3	2.8	5.1	2.3	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
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
Recurrent expenditure	29.3	29.2	29.2	25.5	26.1	22.8	24.3	24.4	24.3	24.2
Of which: excluding grant-funded expenditure	23.0	24.2	24.0	23.3	23.6	17.7	22.0	22.1	22.0	22.2
Compensation of employees	9.2	9.5	9.2	9.5	10.4	7.6	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
Other recurrent expenditure	19.3	18.2	18.3	15.6	15.5	15.0	14.5	14.5	14.4	14.3
Government funded	13.0	13.2	13.1	13.4	13.0	9.9	12.3	12.3	12.2	12.0
Grant funded	6.3	5.0	5.2	2.3	2.5	5.1	2.3	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
Government funded	9.6	9.5	5.3	4.5	6.3	9.5	8.1	7.7	7.9	7.4
Domestic	8.6	8.6	4.9	3.5	3.1	5.6	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
Grant funded	3.9	4.0	4.7	4.6	4.1	5.7	5.1	5.4	5.6	5.2
Of which: CDFs	2.9	3.2	3.0	1.7	1.0	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
Current balance 2/	5.4	6.0	6.1	2.8	4.6	3.7	2.9	3.6	3.7	3.3
Primary balance	-1.3	-2.0	1.4	-1.2	0.4	-5.7	-4.9	-3.7	-3.9	-3.7
Overall balance	-4.2	-3.4	0.8	-1.7	0.3	-5.8	-5.2	-4.0	-4.3	-4.2
Total financing	4.2	3.4	-0.8	1.7	-0.3	5.8	5.2	4.0	4.3	4.2
Net foreign financing	0.3	0.2	-0.1	0.6	0.7	3.6	3.7	3.3	3.3	2.6
Net domestic financing	3.9	1.9	-0.8	1.1	-1.0	2.3	1.5	0.8	1.0	1.6
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
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
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

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 unrepresented 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/US 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