**SOLOMON ISLANDS**

**Table 1**

<table>
<thead>
<tr>
<th>Index</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, million</td>
<td>0.6</td>
</tr>
<tr>
<td>GDP, current US$ billion</td>
<td>1.5</td>
</tr>
<tr>
<td>GDP per capita, current US$</td>
<td>2317</td>
</tr>
<tr>
<td>National basic needs poverty rate (%)</td>
<td>12.7</td>
</tr>
<tr>
<td>School enrollment, primary (% gross)</td>
<td>112.6</td>
</tr>
<tr>
<td>Life expectancy at birth, years</td>
<td>72.6</td>
</tr>
</tbody>
</table>

Source: WDI, Macro Poverty Outlook, and official data.

Notes:
- (b) Most recent WDI value (2017).

The economy is expected to contract by 5 percent in 2020 due to the negative effects of COVID-19 on export demand, tourism and donor infrastructure projects. With a constrained revenue outlook and new spending needs for the health sector, economic relief and social protection, the Government will need to tightly manage the efficiency of spending to make the best use of limited resources.

**Recent developments**

Staff project a GDP contraction of 5 percent in 2020 due to the impacts of COVID-19. Border disruptions and weak global demand contributed to a 17 percent drop in production for the primary sector in the first half of 2020, with tuna exports to Europe being particularly badly affected. Tropical log harvesting, the largest export earner, exceeded expectations in the first two quarters but preliminary data point to a sharp 40 percent slowdown in production in July. The lack of international visitor arrivals has also impacted severely on demand in the hotel and restaurant sector. On the supply side, disruptions to development partner infrastructure activity and a lockdown period in April-May are expected to have weighed heavily on the economy. Preliminary analysis from a mobile phone survey estimates that 6 percent of the workforce active in January were no longer working in June due to COVID-19 restrictions.

The current account deficit is expected to widen to 14 percent of GDP in 2020. However, Solomon Islands entered the crisis with a comfortable external reserves cushion of 10 months of imports. This, combined with an US$28.5m IMF credit in May 2020, has helped support the external position despite the decline in exports.

A fiscal deficit of about 6 percent of GDP is expected in 2020. This is likely to require a further drawdown on Solomon Islands Government’s (SIG’s) already thin cash buffers, in addition to the financing already secured through donor budget support and a domestic bond issuance. Cash reserves amounted to just 1.3 months of total spending by the start of 2020. When revenue collection fell sharply in March 2020, the government was forced to introduce liquidity rationing measures, including placing public servants on half pay, and to make wide-ranging cuts to ministry budgets in order to reprioritize funds towards COVID-19 preparedness and response efforts. In May 2020, SIG launched an economic stimulus package with measures totaling about 2.7 percent of GDP (or 8 percent of government spending), after accumulating additional fiscal space through reprioritization, budget support contributions and a domestic bond. The package includes new agricultural subsidies and grants, provincial transport infrastructure projects, lending facilities for small businesses, and new equity injections and loans for affected state-owned enterprises. SIG has also authorized withdrawals from the National Provident Fund for members who have lost work due to COVID-19.

The impacts of the current economic turbulence on the poor and vulnerable are likely to be substantial. Informal workers have, by definition, not been able to benefit from the Provident Fund withdrawal scheme, although planned agricultural subsidies could benefit poorer households. The expected decline in logging activity in 2020 and in the medium term could have widely felt impacts amongst poorer groups, given that logging companies are a large employer of informal labor in rural areas. On the other hand,
results from a recent mobile phone survey suggest that households in the upper income quintiles were more impacted by job losses. To continue monitoring the impacts of the COVID-19 crisis on the poor, accurate and timely data are therefore indispensable.

**Outlook**

A relatively robust recovery is anticipated for 2021, with 3 percent growth supported by an improvement in the fisheries sector and the expected easing of border restrictions in the latter part of the year, which will allow for increased activity in the hotel/restaurants and construction sectors. The current account deficit is expected to remain elevated over the medium term, as the eventual recovery in primary exports is offset by higher imports for donor infrastructure projects once border restrictions are lifted. The current account deficit will be financed through current and capital transfers, foreign direct investment flows and highly concessional project loans. As a result, the international investment position is expected to remain sustainable over the medium term.

The fiscal outlook is challenging. A modest recovery in tax revenues and export duties in 2021 is expected to narrow the deficit somewhat to around 4 percent of GDP in 2021 and 2.5 percent in 2022. However, logging revenues are expected to be on a downward trajectory over the medium and longer term and are a source of significant downside risk, given that harvesting has been occurring at highly unsustainable rates for many years. In this environment, it will be critical for SIG to maintain expenditure constraint and maximize donor support, including for the preparation costs for its upcoming hosting of the 2023 Pacific Games.

**Risks and challenges**

The key risk facing Solomon Islands is the prospect of a local COVID-19 outbreak, which could have devastating economic and social impacts. Even if Solomon Islands succeeds in remaining COVID-free, delays in effectively distributing a vaccine would imply longer border closures and a slower economic recovery, with corresponding consequences for the fiscal position and poverty alleviation. Planned stimulus measures can help to mitigate the economic and poverty impacts in the country, although it will be important to tightly manage the quality of spending in order to make the best use of limited resources. Medium term fiscal pressures were already expected to be challenging prior to COVID-19, due to declining logging revenue and the need to finance construction for the 2023 Pacific Games. COVID-19 has accelerated the squeeze on government revenues, while adding new costs for health sector preparedness and economic relief. The pandemic has also heightened fiscal risks stemming from SOEs and public financial institutions, and these will need to be closely monitored. Continued budget support contributions from development partners will be critical to assist SIG to manage these pressures and rebuild some fiscal space to respond to future shocks, which is especially important given Solomon Islands’ vulnerability to natural disasters and exposure to commodity price fluctuations. To accelerate growth and poverty reduction in the longer term, Solomon Islands will need to find ways to reduce economic reliance on the logging sector and find more sustainable sources of growth, including through tourism development, strong governance of mineral resources, and further development of the fisheries value chain.

**TABLE 2  Solomon Islands / Macro poverty outlook indicators**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019e</th>
<th>2020f</th>
<th>2021f</th>
<th>2022f</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP growth, at constant market prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation (Consumer Price Index end of period)</td>
<td>2.1</td>
<td>3.9</td>
<td>2.8</td>
<td>3.0</td>
<td>4.1</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Balance of Payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-4.3</td>
<td>-3.0</td>
<td>-8.9</td>
<td>-14.3</td>
<td>-13.6</td>
<td>-12.2</td>
</tr>
<tr>
<td><strong>Fiscal Balance (% of GDP)</strong></td>
<td>-4.6</td>
<td>0.7</td>
<td>-1.7</td>
<td>-6.2</td>
<td>-3.7</td>
<td>-2.5</td>
</tr>
<tr>
<td><strong>External Debt (% of GDP)</strong></td>
<td>7.6</td>
<td>7.1</td>
<td>7.6</td>
<td>10.1</td>
<td>13.2</td>
<td>15.9</td>
</tr>
</tbody>
</table>

Source: World Bank and International Monetary Fund staff estimates.
Notes: e = estimate, f = forecast.