Finance Circular Number: 04/2023

2024 BUDGET STRATEGY and OPERATIONAL RULES

To: National Parliament
Ministers

Date: 30 August 2023

Permanent Secretaries and equivalents

CC: All Financial Controllers/Chief Accountants
All Line Ministry Planning/Project Officers
All Human Resource Managers
All Heads of Departments (HODs)

KEY POINTS

1. The theme for the 2024 Budget is: "**Restoring Fiscal Stability To Sustain Growth**" **.** The theme calls for fiscal responsibility, discipline and stability through effective collaboration across the whole of government.

2. As the economy is still recovering from the unprecedented shocks over the last three years since 2020, the government is committed to restore stability on its financial position by bringing down the budget deficit and build back its cash reserves to act as fiscal buffers when required to support the government effectively manage its cash flow management.

3. The 2024 Budget is a stable and affordable budget, set within the total revenue estimates that the Government can reliably secure both from the internal and exteranal sources in 2024.

4. The Budget 2024 strives to achieve two important objectives; to strengthen our resilience to achieve sustainable and economic growth and further strengthen delivery of service to our people in the rural areas.

5. The DCGA is committed to focus resources to complete all legitimate and existing SIG contracts and obligations committed in 2023 and that no new intiatives to be considered, but to maintain key service delivery and essential services including the upcoming national event, which is the 2024 National General Election.

6. The government will continue to prioritize productive and resources sectors, including those priorities under the fundamental sector, i.e. review of legislations, improvement of processes and procedures to promote conducive environment for growth.

7. The government is planning to have a planned deficit of $576.7 million in 2024. The deficit is mostly attributed to development budget which will be financed from domestic and external sources such as domestic borrowings and budget support to fully fund the funding gap.

8. Solomon Islands real Gross Domestic Product (GDP) growth is projected at 2.5 percent in 2024, a fall by 0.2 percent from 2.7 percent in 2023. This growth rate is driven by a projected inflation rate of 3-4 per cent.

9. All implementing Ministries are required to properly plan and cost out activities according to their annual workplan for 2024 and be able to link these planned activities to their respective Budget allocations. The deliverables or intended outputs of these activities will need to be clearly articulated as well so that the 2024 Budget is implemented along the key budget principles.

10. The Government will strive to maintain and prioritise resources towards service delivery grants, drugs and dressings, basic infrastructure, contractual commitments, office and staff rent, utilities for all Ministries, subscriptions and fees and donor partner counterpart financing agreements and commitments.

11. Under the PFM Act 2013, section 46 (1) "**Before the start of each financial year, every accountable and accounting officer shall prepare for the secretary budget estimates of the resources required by the Government** (including for any special funds) and estimates of revenue received by the ministry, for (a) the Financial Year and (b) up to the three following financial years and section 46 (2) the accountable officer shall provide the budget estimates according to the prescribed procedures and timeframes, in the prescribed manner and including the prescribed information".

12. This Financial Circular, and the directions of the Budget Coordination Committee, are to be strictly adhered to. Any deviation will be brought to the attention of the Cabinet and may impact on the recommendations for Ministry budget submissions to Cabinet as well as performance assessments of Permanent Secretaries.

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1. MINISTERS FORWARD

I am pleased to present to the National Parliament the 2024 Budget Strategy and Operational Rules, in accordance with section 45 (1) a of the *Public Financial Management Act 2013*.

First and foremost, this document is the Government's Framework for the 2024 Budget. **All Ministries are expected to read and strictly adhere to the framework and guiding rules set forth in this Strategy.** It provides all required information necessary for Ministries and Ministers to submit for 2024 Budget.

The Budget Strategy forms the basis for the 2024 Budget and will be the foundation for the 2024 Budget Strategy and Outlook Volume 1. It outlines the fiscal and economic context that guides the preparation of the 2024 National Budget.

The economy is expected to grow at around 2.5 per cent in 2024, being driven by contributions from several major sectors which include fishing, construction, the Business and the service sector.

The current government has taken full responsibility to ensure that the 2024 Budget continues to adhere strictly to much needed fiscal discipline as the economy is still recovering from the unprecedented shocks over the last three years, and to build back the cash buffers or reserves that have been depleted over recent years.

Budget 2024 is expected to deliver on all SIG legitimate contractual obligations that are ongoing including essential services and fixed costs. These comitments must be adequately funded to ensure they are delivered successfully and for the benefit of the people of Solomon Islands.

This will only be possible if Ministers and Permanent Secretaries work closely together in the formulation of the 2024 Budget to ensure that key priorities are being delivered. I expect all Permanent Secretaries to organize internal Budget consultations through the Ministry Budget Committees, to ensure their Budget priorities for 2024 are to fully fund all SIG ongoing contractual commitments and fixed costs.

The Budget Coordination Committee, comprised of officials from MoFT, MNPDC, MPS and OPMC has the mandate from the Government to ensure that the 2024 budget is focused on the guiding principles set forth in this Strategy and the overall fiscal framework set for 2024.

I thank all Ministers and Permanent Secretaries in advance for their commitment to delivering to our people the 2024 Budget. Let us all work responsibly and cohesively together in preparation for 2024, with the overarching theme of "***"Restoring fiscal stability to sustain growth***"

Hon. Harry D Kuma, MP
Minister of Finance and Treasury

2. INTRODUCTION

This Financial Circular is mandatory under section 45 (1) (a) (b) of the *Public Financial Management Act 2013. In summary, this section explained that prior to tabling the National Budget in Parliament, Minister of Finance with the approval of Cabinet shall provide the prescribed information outlining the Government's Budget Strategy at least five months before start of financial year and such information relating to its fiscal and debt management strategies three months before start of financial year*

It provides the strategic and fiscal framework for the 2024 Budget, the guidelines and instructions to be followed and strictly adhered to when Ministries prepare their budgets and provides the basic requirements that have to be met in order for any Ministry submission to be fairly assessed by the Budget Coordinating Committee, Budget Strategic Committee, Budget Cabinet and Parliament.

This Strategy sets forth the overall macroeconomic trends that framed the 2024 revenue estimates which then determine the top-down expenditure ceilings that the Government can reliably secure to implement the key priorities for 2024.

The government is committed to maintain stability and sustainability of its financial position by living within the capacity of the government and strengthening our resilience to ensure the government can respond to any immediate shocks in 2024 and beyond.

The first section of this document sets out the overall policy direction and priorities of the Government. This section provides the 2024 budget theme, guiding principles and key overaching objectives of of what the Government strives to achieve through the sectoral policy priorties.

The second section provides the macroeconomic outlook of the economy that framed the 2024 revenue estimates. Real GDP growth is projected at 2.5% in 2024, which is driven by a projected rate of inflation of 3-4%. This positive growth primarily reflects continued growth in major sectors particularly, fishing, construction, manufacturing and the service sector. The construction sector continues to drive the recovery in growth in 2023 to 2024, with other sectors gradually picking up over this recovery period.

The third section will discuss fiscal parameters and the operational rules and timeline that all government ministries must strictly follow to ensure that their 2024 Budget is prepared and implemented smoothly throughout the financial year in accordance with the PFMA 2013. Ministries must know their ongoing contractual comitments, fixed costs and other essential services and programs allocated to them and ensure that these priorities are well costed and are budgeted for. Sufficient information on expected outputs for 2024 should be clearly outlined and aligned to the successful delivery of these priorities for 2024.

It is important that Government continue to address issues of capacity constraints in the areas of budget and procurement planning and to ensure that inputs into the 2024 formulation process results in a *value for money* budget that delivers and achieves Government's priorities in a transparent and accountable manner.

The *Public Financial Management Act 2013* will continue to support improved financial management. The Act includes reforms to improve the credibility and transparency of the budget, whilst increasing accountability for budget outcomes. These reforms are intended to build the confidence and trust of Solomon Islanders, investors and our stakeholders. The Act will also help Government manage budget execution to maximise the benefits of public expenditure, and ensure it improves the long-run growth potential of the Solomon Islands economy.

This document has been prepared in consultation with the Ministry for Public Service, the Ministry for National Planning and Deverlopment Coordination, the Ministry for Finance and Treasury and the Office of the Prime Minister and Cabinet. These Central Ministries and Office are members of the Budget Strategic and Coordinating Committees of the Government.

3. GUIDING PRINCIPLES OF THE 2024 BUDGET

The 2024 Budget theme is **"*Restoring Fiscal Stability To Sustain Growth*".** The theme calls for fiscal responsibility, discipline and stability through effective collaboration to foster a resilient and sustainable economy. As the economy is still recovering from the unprecedented shocks over the last three years; the government is committed to restore stability and discipline on its financial position so as to rebuild its fiscal buffers against domestic and external shocks.

The 2024 Budget represents DCGA's key commitment to build a resilient and sustainable economy. To guide budget preparation, Budget 2024 is grounded in the following principles;

- **Responsible and affordable budget –** plans to reduce down budget deficit and fund the budget within the capacity of the government through cost management, sector cost sharing arrangements and applying value for money principles.

- **Restore and stabilize government finance -** it is important to restore and stabilize government finances by building fiscal buffers to support government cash flow management.

- **Enhance economic recovery and growth -** prioritize economic recovery investments and streamline government key deliverables.

- **Strengthen delivery of essential services** – ongoing improvement in health, education and social services to the rural people.

Ensuring government is able to build its fiscal buffer in the beginning of the year while waiting for the new incoming government around June 2024. This will help improve the ability of Government to manage cash flows effectively, improve the predictability of financing to line Ministries to implement their budgets and facilitate longer term planning. Further to that, setting a top-down expenditure ceiling within within government's fiscal capacity can help to build back cash reserves as fiscal buffer which has been depleted over the past recent years.

It is essential to maintain fiscal discipline to protect the Government from any possible fiscal risks such as, revenue shocks due to the gradual decline in logging activities being a key contributor to overall growth, and as well as other unforeseen expenditure pressures that the incoming Government will be committed to honour in 2024.

4. POLICY DIRECTION FOR 2024

The Solomon Islands' economy is slowly recovering from the 3 years of recession as a result of the adverse impacts of COVID 19 pandemic, 2021 civil unrest and Ukraine-Russia war.

For the first time, the government has recorded a historic budget deficit of $1.5 billion in 2023 since independence. The government had committed to higher spending over the recent years in response to boost economic recovery of our domestic economy and also to meet the increasing pressure to host the XVII Pacific Games in Honiara in 2023.

The increasing expenditure pressure has forced the government to utilize all available cash and reserves to meet government redirection policy priorities and ensure critical essential services continued to be provided to the people of Solomon Islands.

SIG domestic revenue has fallen by $500 million from $3.5 billion to $3.0 billion in 2020 and development projects were deferred or stopped and many planned activities could not be carried out and resources had to be reallocated to fight against the COVID 19.

Despite the fiscal challenges faced by the government, the government is able to finance its deficit budget through budget support provided by our development partners, including domestic borrowings and additional SIG revenue measures.

The risks of having a deficit budget comes with the following consequences, which includes.

- Raise high expectation of line ministries
- Delay in the implementation of the government key policy priorities and services
- Accumulation of payments in the system
- Issue of spending restrictions to control expenditures
- Delay payments to suppliers and vendors
- Reliance on budget support. Any delay or deferment of donor funding may affect timely delivery of critical government policy priorities
- May lead to slow economic growth
- May damage public trust and confidence on the government

Budget 2024 is the fourth and final budget brought forward by DCGA since elected into power in 2019. The DCGA has come through a difficult and challenging times in the recent years, overcoming all adversities which is a testament of a strong leadership demonstrated by DCGA.

Coming off from the high levels of spending over 3 years from 2020 to 2023, the government is planning to bring back the budget to a fully funded budget in 2024 and onwards. This is why Budget 2024 is a responsible and affordable budget that focuses resources to maintain ongoing investments projects to support our economic recovery initiatives and at the same time improve delivery of services to the people of Solomon Islands, especially those in the rural and most remote areas.

The 2024 budget therefore strives to achieve two important policy pillars to realize Government's efforts to build a resilient and sustainable economy, as follows;

A. **Strengthen our resilience to achieve sustainable economic growth**
B. **Strengthen delivery of services to our people.**

A. STRENGTHEN OUR RESILIENCE TO ACHIEVE SUSTAINABLE ECONOMIC GROWTH

The DCGA believes that by strengthening the fundamental growth investments and legislative requirements will boost our economic recovery and build our resilience to achieve sustainable economic growth in the short to medium terms.

Investments that upgrades or modernizes our guiding policies, systems and infrastructure will include:

- support to key policies or legislations such as the National Building Code, Road Transport Authority, Electricity Act,
- upgrade of bridges in provinces and rural areas from wooden planks to metal and concrete,
- upgrade of dirt roads to tar-sealed roads with proper drainage,
- upgrade and weatherproofing of key critical infrastructure in provinces including airstrips, wharves, jetties ,and shelter at all passenger wharves,
- Compliance with overseas phytosanitary requirements to export our agricultural produce to overseas markets

Transformative Investments (projects) will include projects such as:

- expanding the reach of our telecommunication sector to rural and remote areas with fast, accessible, reliable and affordable internet connectivity;
- implementation of a nation-wide renewable energy strategy roadmap based initially on hydropower and photovoltaic energy;
- develop an overarching national energy roadmap that balances petroleum driven energy and renewable energy;
- lengthening and widening of the international airport to allow for long-haul wide-body aircrafts to operate non-stop to Honiara to enhance the tourism and business market;
- initiate consultations to develop a new and larger international seaport terminal outside of Honiara city to cater for future growth;
- fast-track tourism development including targeting an expansion of cruise tourism and attracting investors to invest in four and five star hotels to benefit from the fast increasing global tourism market;
- explore and implement innovative revenue-generating programs such as 'citizenship by investment program that has potential to introduce new financing streams';

- establish a national development / infrastructure authority to prioritise funding and implementation of key critical national infrastructure throughout the country,
- further develop and implement components of the national Transport Core initiative, and
- explore a second submarine cable link to provide a redundancy to our current cable and expand out communication capacity.
- other transformative projects and activities will be explored in the productive and resources sectors

Under Legislative Reforms:
The Ministry of Finance and Treasury (MoFT):

- Improved tax administration will enhance increased tax collection resulting in higher revenue levels for government.
- will expedite efforts to pursue urgent tax reforms in 2024 to spur economic growth
- Cabinet approved the VAT Bill in June 2023 and forwarded to AGC to vet the bill and expect to to table the bill in August 2023. Once approved by Parliament and enacted, the Bill will provide a fairer, efficient, and a more level playing field
- The National Payment Bill will allow interoperability and promote real time transactions to occur

The Ministry of Mines, Energy and Rural Electrification (MMERE):

- Review of the Electricity Act which will address current constraints relating to regulatory authority and electricity pricing. The Ministry anticipates tabling the new Bill in in late 2023/2024. Once approved by Parliament and enacted implementation will follow in 2024 with the regulatory authority separated from the provider.

Institutional and Policy Reforms

- The Commodity Export Marketing Authority (CEMA) will further expand its presence throughout the country and bring services closer to our rural farmers and producers. The revitalisation of CEMA provides economic opportunities for the 80 percent of our rural population that depend on the agricultural and forestry commodities for their livelihoods.
- The DBSI re-established in 2020 is delivering sustainable financing to small to medium businesses. This transformative initiative is already making economic impacts in SMEs accessing assistance from DBSI. 2024 Budget will continue to invest in DBSI to ensure it reaches more SMEs.
- The government will continue to pursue the establishment of special economic zones in the country to take advantage of the diverse opportunities and strengths for each separate zones or provinces
- The 2024 Budget will provide incentives to encourage and promote private sector investment in the productive and resource sectors.

B. STRENGTHEN DELIVERY OF SERVICES TO OUR PEOPLE

Solomon Islands is an archipelago of approximately 1000 scattered islands and stretches about 900 miles from the Shortlands Islands in Western Province to the Santa Cruz Islands in Temotu Province.

According to 2019 census results, around 80 percent or 591,279 of the population resides in the provinces. Close to 26 percent of the population live in areas that are defined as urban compared to 74 percent who reside in rural areas.

The 2024 budget is designed to improve delivery of services to reach the people who resides in the rural or remote areas of our country.

Ensuring investments to empower our people is channelled through all government ministries including in education, in health, in children, youths, women and men. It also invests in national security, and programs to promote national unity and long-term peace and security of the country. It invests in the productive and resource sectors. It also supports the work of provincial governments across these areas to ensure ‘no one is left behind’.

Education

Government will continue to invest in the education sector in 2024, and the policy goal is to expand access, decrease the dropout rate, and improve facilities and equipping our schools through the following;

- Expand access and improve quality of education especially in the provinces and rural areas. In 2024, the government will continue with ongoing initiatives to improve access to technology (computers and internet connectivity) in schools.
- Government will continue to support schools through grant assistance to help them meet the cost of school operations and the provision of quality teaching and learning resources. Government assistance will be all encompassing from early childhood to secondary and to tertiary level.
- Government is looking at improving commitment to Early Childhood Education.
- To address the issue of school drop outs and access to education, the government will continue its support towards existing initiatives upgrading of school infrastructure such new classrooms, science labs, dormitories and ablution blocks.
- Our assistance to SINU through budgetary and infrastructure and capital development support to improve SINU’s status as University will continue.
- Education is crucial for Solomon Islands and whether you live in the islands or in remote rural areas, we must access to educational and vocational opportunities. Only through education training will we can become competitive with our regional peers and the outside world.

Health

Solomon Islands has a high prevalence of communicable diseases such malaria, respiratory infections and COVID-19. At the same time non-communicable diseases has reached epidemic levels and is now responsible for about seven deaths from every ten deaths in the country.

In addition our health system is weak, and must be strengthened to provide effective and efficient health services to our population.

The 2024 Budget will focus on three primary objectives for health namely (i) continue to invest in the control and hopefully elimination of COVID-19 and other highly transmissible diseases to protect our people and our country. Our funded COVID-19 strategy will continue to be determined by the COVID-19 situation globally and in the region, (ii) invest to tackle non-communicable diseases, the single largest killer of Solomon Islands people, and (iii) transform and strengthen our health system including modernisation of health policies, strategies, financial and information systems, transform distribution systems for medicines and drugs to all health facilities so that we no longer experience stock outs, and improve human resources throughout the heath system.

The Ministry of Health and Medical Services will continue to provide budget support to address our health system. Our goal is to dramatically improve the delivery of health services, while encouraging prevention at all levels of society.

The Government support on health will be channelled toward areas directly related to service delivery, such as the purchase of drugs and medicines, consumables, dental prosthetics, oxygen supplies, and vaccines, as well as supporting operations of our health services.

Improvement of our medical infrastructure will continue with funds being provided for the construction and upgrading of health institutions as it is imperative to reach all parts of our country.

Work will begin on the new PRC funded four-storey modern comprehensive health facility at the eastern end of the national referral hospital in 2024. This facility will transform the type and level of care we can provide to people in Solomon Islands. We are also encouraged by investors from the private sector on private health facilities to complement government institutions.

NCDs is the single largest killer of people in Solomon Islands. 70% of deaths in the country are due to NCDs such as diabetes, heart disease, heart attack, high blood pressure, stroke and cancers. The sad fact is that Solomon Islands do not need to die from NCDs because we can control the risk factors. The seven most important risk factors in NCDs are: (i) consumption of sugar / sugary foods and beverages. (i) Consumption of too much salt; (iii) consumption of too much fat and low quality oil; (iv) tobacco and cigarette smoking, (v) alcohol, (vi) lack of exercise, (vii) obesity.

All seven of the risk factors are within the control of each individual Solomon Islander, not the health system. Each individual must adjust their way of life to reduce the current NCD epidemic in the country.

The health system is overwhelmed by the high levels of NCDs threatens that over-stretches the capacity of the country to contain.

The government will continue to advocate on a policy for healthy diet and exercise regularly. Be cautious of the saturated fats and salt in your diet. Eat more fruit and vegetables. To support this, the government will promote home grown vegetables and fruits and will be working with Ministry of Health and Medical

Services and Ministry of Finance and Treasury to double our effort in the implementation of tax on sugary foods.

The government will also looking at a strategy to increase the tariffs on the importation of fat and sugary foods, which negatively affect health.

The same will apply for cigarettes and alcohol, which will see in the future an increased excise duty.

We want all Solomon Islanders to live long and healthy lives.

National Security

The 2024 Budget will invest in the safety and security of our people through continued investments to the Ministry of Police, National Security and Correctional Services.

We plan to increase the number of posts in the Ministry incrementally to reach 2,500 officers over the next five years, an increase of 200 new officers per year. The police officer to population ratio in Solomon Islands has increased now to the point we must change, to maintain law and order.

In partnership with our partners, the police radio-communication network is being enhanced throughout the country. This will also transform communication capability for other users such as health and disaster offices in rural areas where they co-locate with RSIPF.

Women and Youth Empowerment

The 2024 Budget will ensure continued priority accorded to our women and youth through the Ministry of Women, Youth, Children and Family Affairs. Support will also be provided through other ministries whose work also benefits women and youth for instance ministries of health and education.

The government will step up efforts to further strengthen the labour mobility program so that more of our youths and adults can access employment opportunities in Australia and New Zealand and other countries offering similar opportunities.

5. OVERALL 2024 BUDGET STRATEGY

I. Macroeconomic overview and outlook

Global overview

Global growth is projected to fall from 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024 on an annual average basis. Compared with the previous projection, growth has been upgraded by 0.2 percentage points for 2023, with no change for 2024. The forecast for 2023–2024 remains well below the historical (2000–2019) annual average of 3.8 percent. It is also below the historical average across broad income groups, in overall GDP as well as per capita GDP terms.

Advanced economies continue to drive the decline in growth from 2022 to 2023, with weaker manufacturing, as well as characteristic factors, offsetting stronger service activity. In emerging markets and developing economies, the growth outlook is broadly stable for 2023 and 2024, although with notable shifts across regions. On a year-over-year basis, global growth bottomed out in the fourth quarter of 2022. However, in some major economies, it is not expected to bottom out before the second half of 2023.

Global trade growth is expected to decline from 5.2 percent in 2022 to 2.0 percent in 2023, before rising to 3.7 percent in 2024, well below the 2000–19 average of 4.9 percent. The decline in 2023 reflects not only the path of global demand but also shifts in its composition toward domestic services, lagged effects of US dollar appreciation—which slows trade owing to the widespread invoicing of products in US dollars—and rising trade barriers.

These forecasts are based on a number of assumptions, including those regarding fuel and nonfuel commodity prices and interest rates. Oil prices rose by 39 percent in 2022 and are projected to fall by about 21 percent in 2023, reflecting the slowdown in global economic activity.

Assumptions regarding global interest rates have been revised upward, reflecting actual and signalled policy tightening by major central banks since April. The Federal Reserve and Bank of England are now expected to raise rates by more than assumed in the April 2023 WEO—to a peak of about 5.6 percent in the case of the Federal Reserve—before reducing them in 2024.

The European Central Bank is assumed to raise its policy rate to a peak of 3.7 percent in 2023 and to ease gradually in 2024. Moreover, with near-term inflation expectations falling, real interest rates are likely to stay up even after nominal rates start to fall.

Table 1. Overview of world economic outlook

Table 1. Overview of the *World Economic Outlook* Projections

(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
		Estimate	Projections		Difference from April 2023 WEO Projections 1/		Estimate	Projections	
	2021	2022	2023	2024	2023	2024	2022	2023	2024
World Output	**6.3**	**3.5**	**3.0**	**3.0**	**0.2**	**0.0**	**2.2**	**2.9**	**2.9**
Advanced Economies	**5.4**	**2.7**	**1.5**	**1.4**	**0.2**	**0.0**	**1.2**	**1.4**	**1.4**
United States	5.9	2.1	1.8	1.0	0.2	–0.1	0.9	1.4	1.1
Euro Area	5.3	3.5	0.9	1.5	0.1	0.1	1.8	1.2	1.5
Germany	2.6	1.8	–0.3	1.3	–0.2	0.2	0.8	0.5	1.5
France	6.4	2.5	0.8	1.3	0.1	0.0	0.6	0.9	1.6
Italy	7.0	3.7	1.1	0.9	0.4	0.1	1.5	0.9	1.1
Spain	5.5	5.5	2.5	2.0	1.0	0.0	3.0	1.8	2.2
Japan	2.2	1.0	1.4	1.0	0.1	0.0	0.4	1.5	1.0
United Kingdom	7.6	4.1	0.4	1.0	0.7	0.0	0.6	0.5	1.3
Canada	5.0	3.4	1.7	1.4	0.2	–0.1	2.1	1.6	1.8
Other Advanced Economies 3/	5.5	2.7	2.0	2.3	0.2	0.1	1.0	1.8	2.1
Emerging Market and Developing Economies	**6.8**	**4.0**	**4.0**	**4.1**	**0.1**	**–0.1**	**3.1**	**4.1**	**4.1**
Emerging and Developing Asia	7.5	4.5	5.3	5.0	0.0	–0.1	4.2	5.3	4.9
China	8.4	3.0	5.2	4.5	0.0	0.0	3.1	5.8	4.1
India 4/	9.1	7.2	6.1	6.3	0.2	0.0	6.1	4.3	6.4
Emerging and Developing Europe	7.3	0.8	1.8	2.2	0.6	–0.3	–1.3	2.7	2.0
Russia	5.6	–2.1	1.5	1.3	0.8	0.0	–3.1	1.9	0.8
Latin America and the Caribbean	7.0	3.9	1.9	2.2	0.3	0.0	2.6	0.8	2.9
Brazil	5.0	2.9	2.1	1.2	1.2	–0.3	2.5	1.3	2.2
Mexico	4.7	3.0	2.6	1.5	0.8	–0.1	3.7	1.9	1.7
Middle East and Central Asia	4.4	5.4	2.5	3.2	–0.4	–0.3	. . .	. . .	. . .
Saudi Arabia	3.9	8.7	1.9	2.8	–1.2	–0.3	5.5	2.0	2.9
Sub-Saharan Africa	4.7	3.9	3.5	4.1	–0.1	–0.1	. . .	. . .	. . .
Nigeria	3.6	3.3	3.2	3.0	0.0	0.0	. . .	. . .	. . .
South Africa	4.7	1.9	0.3	1.7	0.2	–0.1	. . .	. . .	. . .
Memorandum									
World Growth Based on Market Exchange Rates	6.0	3.0	2.5	2.4	0.1	0.0	1.8	2.5	2.4
European Union	5.5	3.7	1.0	1.7	0.3	0.1	1.8	1.5	1.7
ASEAN-5 5/	4.0	5.5	4.6	4.5	0.1	–0.1	4.7	4.6	4.8
Middle East and North Africa	4.0	5.4	2.6	3.1	–0.5	–0.3	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	7.1	3.9	3.9	3.9	0.0	–0.1	3.1	4.1	4.1
Low-Income Developing Countries	4.1	5.0	4.5	5.2	–0.2	–0.2	. . .	. . .	. . .
World Trade Volume (goods and services) 6/	**10.7**	**5.2**	**2.0**	**3.7**	**–0.4**	**0.2**	**. . .**	**. . .**	**. . .**
Advanced Economies	9.9	6.1	2.3	3.2	–0.1	0.3	. . .	. . .	. . .
Emerging Market and Developing Economies	12.2	3.7	1.5	4.5	–0.9	–0.2	. . .	. . .	. . .
Commodity Prices									
Oil 7/	65.8	39.2	–20.7	–6.2	3.4	–0.4	8.8	–13.0	–4.9
Nonfuel (average based on world commodity import weights)	26.7	7.9	–4.8	–1.4	–2.0	–0.4	–0.4	0.0	0.8
World Consumer Prices 8/	**4.7**	**8.7**	**6.8**	**5.2**	**–0.2**	**0.3**	**9.2**	**5.5**	**3.9**
Advanced Economies 9/	3.1	7.3	4.7	2.8	0.0	0.2	7.7	3.3	2.5
Emerging Market and Developing Economies 8/	5.9	9.8	8.3	6.8	–0.3	0.3	10.5	7.4	5.1

Solomon Islands recent economic update (2023)

The Solomon Islands economy is still recovering from the unprecedented shocks over the last three years, and the recent Ukraine- Russian war plus the global slowdown have increased uncertainties. The real GDP growth for Solomon Islands is expected to grow at around 2.7 per cent in 2023 from the negative 3.4 per cent in 2022, mostly unchanged from January projections. Weak spots identified in the economy include primary and service sectors (particularly logging activities, and copra sector and lower level of tourism activities). However, this is more than offset by strength in other sectors, most notably in construction, fishing, service sector, business activities and industry sectors.

The construction sector continues to drive the recovery in growth from 2023 to 2024. With the reopening of the borders last year and the ongoing national infrastructure development project, in particular the upcoming Pacific Games 2023 and other donor projects compensating weaker service activity. The agriculture and service sector are also expected a slightly growth, although notable slow recovery across the sector.

With the sectoral growth Composition, output in the primary sector is broadly in line with our projection of around 4 per cent in 2023 despite the negative impact of weaker external demand for logs and copra associated with the higher cost of production in the first half of this year. This is largely offset by the high performance from other agricultural products especially palm oil, cocoa and also stronger performance in the fishing activities due to good weather conditions and high demand both domestic and internationally.

Year to June 2023, Agricultural commodities increase by 5.7 per cent higher compared to the same period in 2022. This outcome reflected the increase in cocoa, palm oil and Palm kernel oil. The positive performance was due to borders reopening and relatively strong demand, particularly from Solomon Island external trading partners.

After 3 years of economic slowdown, the fishing sector has gradually picked up in 2023. Based on the first half of 2023, fishing activities were relatively strong compared to the same period in 2022. Total fish catch in the first 6 months increased by 27 per cent to 1931 tons from 1519 tons in the same period in 2022. This is largely owing to favorable weather conditions and higher demand from import countries during the first 6 months of 2023. Fishing activities are expected to grow by 3.4 per cent in 2023 unchanged from the January projections.

The industrial sector is expected to be a leading economic recovery in 2023 and is expected to grow at around 0.6 percent in 2023, as more activities are expected from construction, mining, and manufacturing sector. Since the border reopening and easing of covid-19 restrictions last year construction activities have been increasing and are expected to grow by 2.3 per cent in 2023, boosted by the ongoing national infrastructure project and Public and Private partnership notably Pacific Games, Tina Hydro Project and King George highway road. Based on the data in the first half of 2023, mining productions and activities have seen increases and therefore exceeded expectations, while manufacturers have struggled with higher costs of production and high related fuel prices.

The recent improvement of domestic activities and recovery of domestic demand in the first half of this year is expected to boost the wholesale and retail, hotel and restaurant, business services and finance-related activities in 2023. Data from the business survey in early 2023, shows that most businesses and companies have performed above projection and higher compared to the same period in 2022, leading to an upward revision to the full -year forecast for the service and business sector to be around 2.3 per cent in 2023.
However, given the shocks and uncertainties, some sectors are expected to slow down resulting in a lower growth in 2023. This includes the logging, manufacturing and tourism sector.

The logging sector is forecast to continue to slow down over the near term as log exports move to a more sustainable level of around 1 million m3. The logging activities were severely affected by Covid-19 and supply disruptions as log volumes dropped by 36 per cent lower compared to pre-covid years. However, from year to June 2023, log volumes increased by 15 per cent to 0.78 million m3 in the first half of 2023 compared to the same period in 2022 of around 0.68 million m3. But this is 38 per cent lowered than compared to the same period between 2017 – 2019. The total volume of log exports for 2023 is expected to be around 1.6 - 1.8 million m3 broadly in line with the 2023 budget projection.

The tourism sector on the other hand is expected to return to positive growth but at a slower pace. The recovery is still very slow given the heightened uncertainty in the global outlook. Tourism sector is slowly recovering. Year to March 2023, visitor arrival increased by 83 per cent to 3481 from 566 in the same period in 2022. However, this is well below compared to visitor arrival in the pre covid-19. With the planned Pacific Games in November, this will be a benefit to the tourism sector, with increased demand for accommodation, restaurants and other services.

II. Solomon Islands Economic Outlook for 2024 and 2025

Real GDP growth is projected to fall from 2.7 per cent in 2023 to 2.5 per cent in 2024 and increase by 3.1 per cent in 2025. Compared with the projection in October 2022 budget, growth has been revised down by 0.5 percent for 2024 and with no changes for 2025. The forecast for 2024 is broadly in line with the historical average GDP growth of 2.5 percent during pre- covid-19 period, however, this growth is still uncertain and could be changed given the ongoing war between Ukraine – Russian and international financial and price unstable.

The industry sector is expected to drive the decline in growth for 2024, with weaker construction as well as idiosyncratic factor, offsetting strong service activities. This reflects the decline in national infrastructure project construction activities due to the completion of the Pacific Games projects and is associated with a lower level of investment in infrastructure and other private projects in 2024. However, mining and manufacturing activities are expected to slightly increase by 0.01 percent and 0.3 per cent, albeit lower level compared to the decrease in the construction activity as a number of mining licenses has increased and improvement in domestic activity is expected to continue in next the year and over the near term.

In the primary sector, the growth outlook is broadly stable for 2024 and 2025, although a downward trend in logging activities. The agriculture and hunting sector is expected to increase by 3.3 per cent in 2024, this is mainly driven by the strong demand in the formal sector plus the improvement in the informal sector as domestic activities are expected to continue stronger in 2024.

Fishing activities are expected to perform stronger in 2024, as growth is projected to increase by 5 per cent from 3.6 per cent in 2023. The increase in growth is relatively due to an increase in catches due to good weather conditions as more fish is anticipated to our EEZ and expected higher demand from the import countries and also domestic consumptions.

Forest and logging activities, however, are projected to decline by 6 per cent in 2024 deriving largely from the expected downturn of log output by around 1.5 million – 1.7 million cubic metre as well as general depletion of our forest resources. The Solomon Island’s heavy reliance on logging revenue is a fiscal risk for both government and the economy. This downfall could impact on the exports and government revenue.

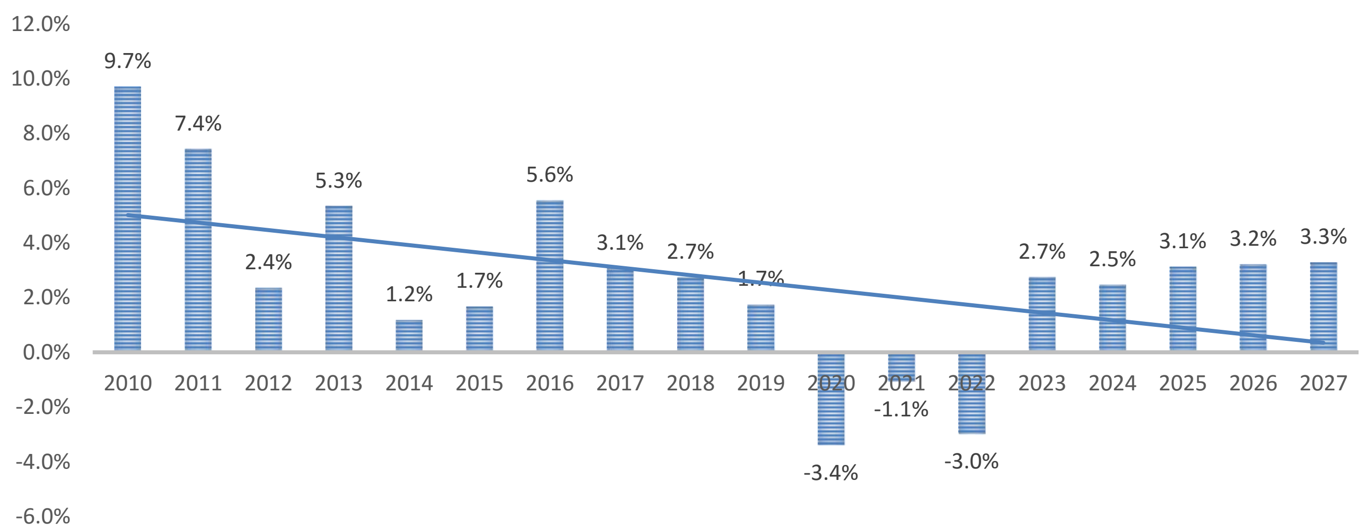
As a result, the primary sector is anticipated to subtract from growth in 2024. This projection may likely be changed due to the uncertainty of international prices for logs and government policy.

Business and service activities are expected to increase by 3.1 per cent of growth in 2024 as the domestic economy is expected to continue to recovery from shocks over the past 3 years with more improvement in business services and an expected boost from the national infrastructure project and private project particularly south pacific game and Tina hydro.

In terms of contribution to growth, Services and primary sectors are expected to contribute by 3.1 per cent and 2.1 per cent, respectively, in 2024. As a result of the projected decline in construction activity, the industry sector is projected to contribute by around 0.7 per cent in 2024, this is supported by the expected increase of business activities, agriculture and fishing outputs in the near term.

After recovery from the global shock over the past 3 years, Solomon Islands' growth is expected to grow at around 3.7 per cent in average into the medium term.

Figure 1: Solomon Islands Real GDP Growth



Inflation Update.

Solomon Islands inflation rate for 2023 is expected to reach 2-3 percent compared to a 9.1 percent rate in 2022. This is primarily due to the decline in oil and fossil fuels prices compared to the higher oil price in 2022 owing to Ukraine – Russian war. Global commodity prices fell 14 percent in the 1st quarter of 2023. By the end of March global prices would be roughly 30 percent below the historic peak in June 2022.
For the remainder of this year, commodity prices are forecast to remain broadly unchanged. However, prices are still expected to remain above pre-pandemic levels, which will continue to weigh on affordability and food security.

The National Consumer Price Index (CPI) marginally declined by 0.3 percent to 118.5 in May 2023, through the year compared to the same month in 2022, the National CPI rose by 3.7 percent in May.

The most significant changes by major expenditure groups from the previous month include:

- Food and Non-Alcoholic Beverages: May (-0.3%),
- Alcoholic beverages, tobacco and narcotics: May (-0.1%),
- Clothing & footwear: May (-0.1%)
- Housing, water, electricity, gas & other fuels: May (-0.7%)
- Furnishings, household equipment & routine household maintenance: (-0.6%)
- Health: May (-1.1%)
- Transport: May (+0.0%)
- Recreational & culture: May (+0.0%)
- Education: May (+0.3%)
- Miscellaneous goods & services: May (+0.0)

The Solomon Islands inflation rate for May 2023 calculated on a 3-months moving average basis was 5.5%. The corresponding inflation rates for imported items was +4.1%, while other (domestic) items inflation rate was +6.1%.

Underlying Inflation.

The Solomon Islands underlying rates of inflation based on a 3-month moving average were observed between +5.3% and +7.1% for May 2023

Inflation is forecast to be around 3-4 % in 2024 and grow at a historical average of around 5- 6 percent over the medium term taking into account the continued uncertainty in fuel prices given the ongoing war in Ukraine.

Volatility in international commodity markets remains the primary external risk to domestic inflation. Solomon Islands high dependency on fuel and imported items for production and the lack of immediate substitutes will also add inflationary pressures to domestic prices. The high levels of liquidity currently in the banking system are also a potential risk for inflationary pressure should lending activities pick up significantly.

III. Fiscal outlook

The health pandemic has caused a major decline in tax revenue in economies around the world since early 2020 when it was first declared a global pandemic by the World Health Organisation. The Solomon Islands, which experienced the full impact of the pandemic in late 2020, was further affected by the domestic riots in late 2021 and the Russian/Ukraine war in early 2022. Half way into 2023, the impact of these global and local events on the domestic economy has lasted longer than anticipated.

Recovery has been slow in the aftermath of the mentioned events. Actual fiscal performance for the first six months of 2023 was weaker than expected, especially from the forestry sector. Despite the reopening of borders and resumption of international trade, revenue from log export has yet to reach pre-pandemic levels. This has been a key driver behind the shortfall in CED revenue collection in the first half of 2023. Nonetheless, log output is improving (compared to 2022) and is expected to continue to improve, along with other export categories, going into 2024.

In contrast to CED, IRD on the other hand has been consistently performing above expectations; much of the strong performances coming from Goods taxes. This positive trend is a result of the resumption of import activities by businesses and other economic agents following the reopening of borders. Additionally, the reopening of businesses affected by the riots have also contributed to the growth in goods tax. As government services and more private business activities continue to return to full operations, further growth is expected from this particular revenue stream in 2024.

Total tax revenue from Inland Revenue Division (IRD) and Customs and Excise Division (CED) is projected at around $2,873.8 million SBD in 2024. This is $97.1 million (or 3.5 percent) more than 2023 original budget and $228.39 million SBD above 2022 actual collections. The increase reflects the current growth projections and ongoing recovery from recent economic disruptions. The total revenue from other

REVENUE (SI $million)	2018 Actual	2019 actual	2020 Actual	2021 Actual	2022 Actual	2023 Original Budget	2023 MYBR	2024 Budget Estimates	2025 Budget Estimates	2026 Budget Estimates
Inland Revenue Division	**1,983**	**1,969**	**1,742.34**	**1,782.90**	**1,819.8**	**1,783.8**	**1,921.6**	**1,979.3**	**2,040.7**	**2,103.9**
Company tax	306.6	301.6	317.7	280.5	269.3	303.8	281.7	296.0	305.2	314.6
Personal tax	500.7	509.5	406.4	412.1	446.1	415.9	468.7	487.3	502.5	518.0
Withholding tax	285.7	294.2	284.0	301.6	267.5	279.7	269.7	280.7	289.4	298.4
Goods tax	775.2	755.7	630.5	684.8	735.5	682.0	789.6	797.6	822.3	847.8
Sales tax	83.5	77.7	72.8	74.3	68.1	71.5	77.9	83.0	85.5	88.2
Stamp duty	15.5	13.0	11.8	11.1	15.4	12.6	15.9	16.4	16.9	17.4
Licence revenue	15.7	17.4	19.2	18.6	17.9	18.2	18.2	18.3	18.8	19.4
Customs and Excise revenue	**1,323.2**	**997.5**	**962.73**	**893.3**	**825.6**	**992.9**	**904.1**	**924.5**	**953.1**	**973.0**
Import duty	293.7	246.2	256.2	272.6	248.3	288.6	281.9	296.0	305.1	320.4
Export duty	794.2	562.2	480.7	411.4	325.3	362.2	359.7	363.3	374.6	370.8
of which: export duty on logs	789.8	541.4	477.0	406.4	321.2	357.6	355.2	358.7	369.8	366.1
export duty of non-log related	3.4	19.8	3.7	5.0	4.1	4.6	4.6	4.6	4.7	4.7
Excise duty	232.7	188.0	220.5	201.8	247.2	334.1	257.5	260.1	268.2	276.5
Fees, Charges and others	2.6	1.1	5.4	7.5	4.7	8.0	5.0	5.1	5.2	5.3
Total CED/IRD	**3,306.2**	**2,966.6**	**2,705.1**	**2,676.2**	**2,645.4**	**2,776.7**	**2,825.7**	**2,903.8**	**2,993.8**	**3,077.0**
other revenue	**502.7**	**482.1**	**432.5**	**457.9**	**297.7**	**426.0**	**426.0**	**422.5**	**423.5**	**424.5**
Total Estimated revenue	**3,808.9**	**3,448.7**	**3,137.6**	**3,134.1**	**2,943.1**	**3,202.7**	**3,251.7**	**3,326.3**	**3,417.3**	**3,501.5**

ministries is forecasted at $422.5 million dollar, around $3.5 million (0.8 percent) below 2023 original estimates.

Table 2. Domestic Revenue Estimates outlook

Estimates for the Inland Revenue Division for 2024

The total IRD revenue forecast for 2024 is projected at SBD $1,949.3 million SBD. This is around $165.5 million (or 9.3 percent) higher than the original 2023 Budget estimate of $1.783.8 billion and around

$129.50 million above the 2022 actual collections. IRD revenue collection is projected to increase as business activities continue to pick up following the removal of covid-19 restrictions and the return to normality.

Sales tax forecast at around $83 million; this is an increase of around 16 percent from the 2023 original forecast of $71.5 million. The re-opening of international borders and the lifting of restrictions will boost confidence in the businesses and activities – thus increasing transactions.

Company tax is estimated at $296 million in 2024; a decrease of $7.8 million from the 2023 original budget of $303.8 million SBD and an increase of $26.6 million when compared to the 2022 actual collections.

Goods tax is estimated to be $797.6 million in 2024. This is $115.6 million above the 2023 original budget and $62.1 million above 2022 actual collections. Good tax has been a strong performer in 2023 and where multiple surpluses has been recorded over the first half of the year. Businesses are expected to make full recovery from the pandemic and the 2021 riots and with the resumption of international trade, further growth is expected from Goods tax in 2024.

Personal tax (PAYE) is estimated to be $487.3 million in 2024. This is $71.4 million above the 2023 original estimates and $41.2 million above the 2022 actual collections. PAYE is expected to continue to grow after the pandemic and as restrictions are lifted and borders have been reopened. Workers who have been laid off during the pandemic are expected to have returned to work and most of the businesses affected during the 2021 riots have already resume normal operations in 2023. The resurgence in the workforce utilization is reflected by the strong performance in PAYE in the first six months of 2023. This positive trend is expected to continue well into 2024.

Stamp duty is estimated to be $16.4 million in 2024. This is $3.8 million above the 2022 original budget and $1.1 million above the 2022 actual collections. Likewise, Licenses revenue is also expected to increase to $18.3 million; $0.1 million more than 2023 original budget and $0.4 million less than 2022 actual collections.

Estimates for Customs and Excise Division (CED) for 2023

Total CED revenue is estimated to be $924.5 million SBD in 2024. This is $68.4 million (or 6.9 percent) below the 2023 original budget and $98.9 million above the 2022 actual collections. The decreased estimation comes after a weak performance from CED in 2023, particularly from log export duty which recorded deficits throughout the first half of the year.

Import duty is projected to be $296.0 million in 2023; around $7.3 million higher than the 2023 original estimates of around $288.6 million and $47.6 million higher than the 2022 actual collection of $248.3 million SBD. The reopening of international borders has led to an increase in importation of goods, which attracts high duties including foods, manufacturing goods by material, manufacturing, transport and equipment, Manufacturing Miscellaneous items, diesel and other fuel. Added that the 2023 SPG event will boost importing of goods by the business houses – thus positive import duties revenue collection in the later of half of 2023 going into 2024.

Export duty is estimates for 2023 is at $363.3 million SBD. This is $1.2 million SBD higher compared to the 2023 original budget and $38.0 million SBD above 2022 actual collections. Log output is expected to be slightly above 2022 & 2023 at around 1.7 million meters cubic in 2024. This is an indication of improving production levels and the slow increase in the frequency of shipments abroad following the reopening of borders and resumption of log extraction activities. Mix impact of covid-19 on commodity prices, as well as contraction in trade volumes, have resulted in a net loss of receipts for export in the first five months 2023. The situation improved later on in June and is expected to continue to improve throughout the rest of the year. Export duty from logs for 2024 is conservatively projected to be $358.7 million SBD, a modest increase of $1.1 million SBD over the 2023 original budget.

Excise duty is estimated at $260.1 million in 2024. This is $74.0 million less than the 2023 original budget but $12.9 million SBD more than the 2022 actual collections. The expected decrease in collection is a result of a weak performance from tobacco excise duty in the first half of 2023. This is despite an increase in the excise duty rate for tobacco which came into effect in January 2023.

Fees, Charges and Penalties are estimated to be $5.1 million in 2024; a $2.9 million decrease from 2023 original budget but a $0.4 million increase from 2022 actual collection.

Forecasting government revenue under these circumstances is challenging. Growth could be weaker still if downside risks materialise. In the near-term, the major downside risk is the fact that the impact of the pandemic is much long lasting and more intense than originally anticipated. Recovery in 2023 has been very slow and consequently the growth rate is projected to fall from 2.7% in 2023 to 2.5% in 2024. The outlook for commodity prices for logging and mining activities is also a source of significant uncertainty which can undermine a reasonably positive outlook on nominal GDP over the medium term.

Non-tax revenue estimates for 2024

Other Ministries revenue are forecasted at $422.5 million SBD for 2024. This was around $3.5 million SBD lower than the 2023 original budget. This source of revenue primarily depends on each ministries ability to collect revenue and re-opening of international borders is believed could fuelled positive collection in 2024.

Tax reform

The current Tax system of the Solomon Islands has not supported growth over the past years as it remains a major constraint on business. It is complex and costly to administer.

However, government taxation is the only practical means of raising revenue that would support service delivery throughout the country.

Tax reform remains a key priority for the Government to simplify the tax system and encourage a more efficient, transparent, fair and competitive tax system. This will reduce collection costs and promotes compliance, produces a level playing field and lessen opportunities for rent-seeking.

The government over the medium term is focused on reforming the tax system. This included reforming consumption-based taxes and income taxes to ensure fairness and efficiency. The reforming of the tax system is crucial, the redesigning of the tax system should focus on the cost-effectiveness of revenue collection and its overall excess burden on the overall economy. Thus, by redesigning and broadening the tax base, the government is also reducing the incentives effects of taxation.

The Tax Administration Act paves the way for other tax reform initiatives and will create a unified tax administration law that strengthens our revenue collecting agencies to better administer and collect revenue and contribute to the overall reform of the country. It is a major step for the government in promoting and creating a fair and efficient tax environment.

Another key milestone of both the Government and Central Bank is the passing of the Payment Systems Act in 2022, this has provided the financial infrastructure comprising of institutions, instruments, rules, procedures, standards and technical means to transfer and mover money safely, efficiency and swiftly.

Phase one of the tax reform work is nearing completion with Cabinets agreeing on Value Added Tax Bill to table in Parliament in the second half of 2023. This is part of the Government's long-term commitment to broaden the tax base by prioritising a comprehensive tax reform agenda that would support economic growth and development of the country. The VAT bill is expected to be tabled in Parliament in 2023, and full implementation of the VAT would likely take 18-24 months.

Phase two of the tax reform is due to commence into second half of 2023 with the reviewing of the income tax act. Preparations to review the income tax are underway, ADB have been supporting this program and have assisted the Inland Revenue Division with Technical support.

STATEMENT OF RISKS.

Domestic risks to the economic outlook reflect external buffers, subdued investor enthusiasm and lower fiscal revenue due to the impact of the pandemic and other global shocks. At present, lower economic growth relies disproportionately more on expansionary fiscal policy and unsustainable logging. The impact of COVID-19 on logging activity and other services sectors, while seemingly short-lived, has heightened the risk that may be more rapid and disruptive on the economy than anticipated.

Thus, over the medium term, logging will pose a significant risk to the macroeconomic outlook of the economy, especially as it accounts for a growing share of exports. Any decline in logging in the future would adversely affect the government's finances and require it to identify new sources of revenue, such as strengthening the taxation regime for the mining sector, to support government expenditures. Successful completion and implementation of the tax review will lead to a taxation system more attuned to promoting economic growth and foreign investment in the medium term.

Although logging is expected to subtract from growth, other sectors are expected to grow in the near term. There are several measures that will be being implemented in 2024, goods tax amendments, additional compliance work, and measure to improve public health and reduce the prevalence of non-communicable diseases (such as sugar taxation), which are expected to slightly increase revenue collections

The uncertainty of commodity prices due to the pandemic and Ukraine – Russia war could also pose a risk for the economy, affecting commodity exporters such as copra and cocoa through loss in export and revenue. This could tip some economies into debt crises and slow activity further. More generally, cross-border spill overs from weaker external demand and tighter financial conditions could further magnify the impact of the country- or region-specific shocks on global growth.

2024 Elections

It should be noted that 2024 is an election year, and certain government priorities will change, which may cause disruption to reform activity. Decreased activity at the start of 2024, due to a slightly longer caretaker period, may reduce broader economic activity and presents a downside risk to growth.

Natural disasters and other extreme events

Like all Small Island Developing States, Solomon Islands is among the most exposed and vulnerable to lingering risks related to climate and natural disasters. Pacific Island countries are exposed to earthquakes and adverse natural weather events, which have the potential to have significant impacts on livelihoods and infrastructure, significantly impacting economic growth and development and severe impact of Government finances. This lingering risk underscores the importance of sufficient cash-buffers to assist the country manage such events.

2023 Pacific Games Outstanding Arrears

Lack of proper planning and management of contracts may lead service providers to bring forth claims of outstanding payments in 2024. NHA is therefore asked to meet all payments in 2023 and any delayed payments should be addressed from the special fund.

6. DEBT OUTLOOK

This section highlights the SIG Debt policies, key requirements of the MTDS and the debt outlook for the next financial year.

Debt Policy

SIG debt policy for the medium term will continue to focus on achieving debt sustainability by aligning to the Debt Management strategies and adopting sound risk management.

Key strategies for managing debt levels over the medium term are itemized below:

- All maturing debt will be fully repaid, there will be no rollover;
- Reduce deficits gradually to achieve a progressive reduction in the Debt to GDP ratio;
- DMU will focus on the development of the local primary market for an efficient market for Government securities to raise new finance;

- Develop the SIG domestic bond market to improve liquidity, promote secondary market trading and create new bonds with varying yields and maturity structures;
- Maintain a stable and affordable debt maturity structure to reduce the burden of resettlement and minimize exposure;
- Develop a vibrant domestic capital market with a diverse range of debt and equity instruments to be considered for future debt diversification;
- Identify opportunities to re-finance expensive debt under concessional loan facilities with bilateral and multilateral agencies;
- Priority be given to bilateral Grants and donor support for external financing and reduce reliance on offshore concessionary borrowings to lessen exposure to foreign exchange rate risks; and
- Prudent management of contingent liabilities and government guarantees by putting in place rigorous measures to improve the commercial performance of State Owned Enterprise (SOEs) and prevent risky borrowings.
- Establish an open and collaborative investor relations platform to promote Government issuance program and build confidence in investing in debt instruments

Medium Term Debt Strategy

The SIG fiscal policy stance will continue to focus on growing the productive capacity of the island economy through infrastructure investment, ensuring improve quality for all Solomon Islanders, strengthen SOE financial performance and maintaining an enabling environment for the private sector to thrive and drive future growth**.**

The MTDS which was approved by the DMAC in 2021 is to ensure that the financing needs of the SIG for the medium term are met on a timely basis, with borrowing costs as low as possible and consistent with a prudent degree of risk.

Consistent with Medium term fiscal strategy to achieve macro-economic stability and inclusive economic growth with a commitment to fiscal responsibility, the Medium-Term Debt Strategy is to target a ‘low risk’ debt sustainability rating through:

A. Maintaining SIG Fiscal Targets namely:
   - Nominal Growth in GDP to be above 3 percent in the medium term;
   - Mandatory deduction to the DSA from SIG Domestic Revenue to be appropriated in the Budget

B. New borrowings for the foreseeable future is projected at maintaining or be within the 35 percent of GDP targets; the aim to maintain the debt to GDP ratio at sustainable levels over the medium term
   - if new debt is to be considered, it must be concessional – either a minimum 35 percent grant element, or supported by back-to-back grant funding that meet all principal and interest payments
   - All maturing debt whether locally or external are to be fully paid upon settlement

C. Maintenance of the debt sustainability indicator ratios as highlighted in the DMS which comprise of:

- **Maximise net economic benefit, promote development and maintain debt** at a sustainable level

- **Minimise the cost of Government borrowing**, subject to an acceptable level of risk. New Government borrowing because the PFMA requires new Government borrowing to be: 1) approved/authorised by the Minister of Finance; 2) reviewed by the DMAC; and 3) incurred subject to an Annual Borrowing Limit (ABL).

- **Promote the development of the domestic debt market.** Developing the domestic debt market in the Solomon Islands can mean many things, including: 1) the promotion of Government securities through the maintenance of a properly functioning primary market; (2) the development of a secondary market for Government securities; or (3) a 'lengthening' of the existing Government securities yield curve

- **Minimise variability in SBD** - Foreign exchange risk refers to the potential for variability in the SBD value of future DSR payments, due on foreign currency denominated Government borrowings, which are unhedged. The SBD value of these obligations are a function of: 1) the foreign currency denominated value of debt service obligations; and 2) foreign exchange rates prevailing at the time the DSR payments are made.

- **Low Cost of Borrowing:** Interest rate risk refers to the potential for variability in the SBD value of future interest payments, due on variable/floating rate Government borrowings, which are unhedged. The SBD value of interest payments on variable/floating rate Government borrowings are a function of the variable interest rate prevailing at the time the interest payment is scheduled to be paid. There is no interest rate risk exposure on fixed-rate Government borrowing (i.e. there cannot be any variability in interest cost on these obligations)

- **No rollover of long-term debt except for Treasury bills** - Rollover/refinancing risk refers to the potential that a borrower cannot issue enough new debt to repay the principal due at maturity of existing debt, resulting in a default. This possibility exists if a borrower has adopted a strategy to rollover and refinance maturing debts, instead of repaying them from forecast revenues and/or accumulated cash reserves. SIG's only rollover risk exposure exists with respect to the Treasury Bill component of the portfolio, which is a small component of the total portfolio

- Inflation risk refers to the potential for variability in the SBD value of future DSR payments, on particular forms of debt (i.e. Inflation-linked debt), which have repayment obligations linked to inflation. Materialization of inflation risk can result in adverse cost outcomes on all forms of Government borrowing, which in turn can be the cause of a default on all forms of Government borrowing. SIG is therefore potentially exposed to inflation risk on all forms of Government borrowing. Currently, SIG's portfolio of Government borrowing contains no inflation-linked debt and there is limited scope for inflation-linked debt to be issued in the near future.

- **Exclusion of borrowing as alternative funding for Deficits**. Currently, the PFMA precludes SIG from borrowing to fund planned recurrent deficits and T-Bill issuance is undertaken primarily to maintain a properly functioning primary market, which has the effect of providing adequate cash reserves for SIG to draw upon to meet within-year funding shortfalls
-
- **Non-Permissible Borrowings** which comprise of (a) Guarantees provided by sub-national entities; and (b) On-lending arrangements where a sub-national entity is a debtor of a primary loan and creditor of a subsidiary loan

Debt Outlook: Medium Term Fiscal Targets

The Table below reflect the debt status based on the macro fiscal framework.

	2022 Prov	2023 Budget
REVENUE		
SIG Revenue (Recurrent)	3,064.9	3,202.6
Grants & Budget Support	659.4	177.4
Total Revenue	**3,724.3**	**3,380.0**
EXPENDITURE		
SIG Expenditure (Recurrent)	3,127.1	3,461.0
Development Budget	936.1	1,170.9
Budget Support	764.4	252.4
Total Expenditure	**4,827.6**	**4,884.3**
Budget Balance	-1,103.3	-1,504.3
External Development Financing	880.7	320.2
Fiscal Balance	**-222.6**	**-1,184.1**
Total Debt Outstanding Projections	**1,891.3**	**2,549.4**
Debt as % of GDP	13.5%	18.2%

Source: Ministry of Finance and Treasury

- **Moderate Debt Level – while fiscal gap has widened**, the SIG anticipates debt position to be at moderate level at the end of 2024 fiscal year.

- **Economic Growth –** the SIG is optimistic that with the level of investment and increase in Government Expenditure over the years, the growth rate is projected at 3 percent in the medium term.

SIG Central Government Debt Outstanding

The composition of total official public debt is almost equal, external debt is slightly higher than domestic debt. This is mostly due to the weak domestic currency that results in appreciation of disbursement outstanding debt at the end of financial year carrying a higher balance.

Domestic market will remain major source of borrowing for the Government in 2024 and beyond. All external financing are link to capital and infrastructure projects.

SIG Public Debt Position (Actual and Forecast -$SBDM)			
	Dec-2021	**Dec-2022**	**Dec-2023 (Forecast)**
Domestic Debt			
- Domestic Development Bonds	650.0	645.9	1,142.1
- Treasury bills	92.8	100.4	100.0
Sub-Total	**742.8**	**746.3**	**1,242.1**
Special Securities AC	4.9	4.9	4.9
Total Domestic Debt	**797.8**	**751.2**	**1,247.0**
External Debt			
Multilateral Creditors	945.7	952.0	962.5
Bilateral Creditors	41.4	188.0	339.95
Total External Debt	**1,163.1**	**1,140.0**	**1,302.4**
Totals for Official Public Debt	**1,960.9**	**1,891.2**	**2,549.4**

Source: CBSI and Min of Finance & Treasury

Annual Borrowing Plan

MoFT has issued an Annual Borrowing Plan approved by the DMAC in May 2023. The ABL provides a sound strategy for the Government and the institutional investors in ensuring the successful floatation of Government Securities.

Furthermore, fiscal discipline is imposed on the Government through the Public Financial Management Act (PFMA), which excludes the use of borrowing to fund recurrent budget deficits. With the current level of Debt to GDP it is still considered sustainable and affordable. The current level of debt stock stood at around SBD1.9 billion (May 2023Report), this represented disbursed loan amount to date. Undisbursed loans were not counted as debt until they were actually drawn down.

The Government has increased the Treasury Bill ceiling to $200 million to be raised throughout the year.

1. Loan and Grant under Processing in 2023

Tabulated below are the status of infrastructure projects and programs that are in the pipeline to continue rollover into 2024 and the new programs to be finalized for implementation.

Project Details	**Donor/Financier**	**Financed by:**	
		Loan	**Grant**
Senior Secondary Education Improvement Project (SSEIP)	ADB	**US$10m**	**US$38m**
	Ireland Trust Fund		**$0.7m**
	Remarks: SSEIP is estimated to cost **US$48.7m**, comprising a (i) a Concessional Loan of $10 million, (ii) $5m grant from an ADF (iii) $15m grant from ADF 13 Thematic Pool (iv)$15m grant from ADF 13 (v) a $0.7 million grant from the Irish Trust Fund for Building Climate Change and Disaster Resilience in Small Island Developing States.		
Solomon Island National Broadband Infrastructure Project (SINBIP)	Exim Bank of China	**US$30m**	
	Remarks: Project involves the construction and the development of the National Broadband Infrastructure in Solomon Islands to be built and delivered by Huawei and CHEC (Contractors)		
Performance Based Allocation System -Rural Market Development	IFAD	**US$7.5m**	**US$10m**
	Remarks: Scope of projects and various components of projects is under negotiations		
Development Projects under SIG Program	JICA	**US$18m**	
	Remarks: This will be a mix of Loan and grants that would be channel to finance various infrastructure programs at all levels of Government and provinces. The support also includes Training and Capacity building. A formal arrangement with JICA is under consideration		
Islands Agriculture and Rural Transformation Project (SIART).	World Bank	**US$6m**	**US$9m**
	Remarks: The project scope is to "increase household food production and provide improved market access in the selected value chains in the project provinces, and in the event of an Eligible Crisis or Emergency, to provide an immediate response to such Eligible Crisis or Emergency". The SIART project is proposed to cover three provinces. They are Guadalcanal, Malaita and Makira		
Integrated Economic Development and Community Resilience Project (IEDCR) - MPGIS		**US$6m**	**US17.5m**
	Remarks: IEDCR project has a total funding of USD23.56 million (SBD 195.55 million) with the main component include the upscale of our provinces key Social and Economic Infrastructure Investments and other support to our sub-national entities or Provinces. IEDCR will cover investments in all the provinces across the country and priority of investments will be determined by the Provincial Government structure in consultation with the Central Government.		
Pacific Islands Regional Oceanscape Project (PROP)	World Bank/IDA		**US$6.7m**
			US$4.5m
			US$2.3m
	Remarks: Component 1: Strengthening Regional Cooperation and National Capacity for Oceanic Fisheries Component 2: Strengthening Regional Collaboration and National Capacity for Coastal Fisheries Component 3: Project Management		

Solomon Island Roads and Aviation Project II (SIRAP II)	World Bank/IDA	**SDR$48.57m**	**SDR$15.57m**
	Remarks: The estimated cost of the Project is around SDR$64.14 million (SBD719.86M). This will be funded through a combination of grant funding valued at SDR $15.57 million (SBD 174.74 million) and a loan amount of SDR $48.57 million (SBD 545.12m) Component 1 – Munda and Honiara Airports upgrade Component 2 – Climate resilience and Safety investments Component 3- Institutional strengthening and Project Management Component 4 – Contingency Emergency response		
Supplement BPO		**US$3.5m**	**US$11.5m**
	Remarks: The objectives of Second Solomon Islands Transition to Sustainable Growth Development Policy Operation are: (1) to strengthen fiscal management in the areas of debt management, cash management and procurement; (2) to strengthen the business environment through simplifying tax processes, fighting corruption and supporting more efficient payments systems; and (3) to improve environmental sustainability by strengthening national planning for climate change and reducing plastic pollution.		

2. 2023 Domestic Development Bond

The government is planning to issue domestic bond to a total of SBD435 million this year. Proceeds from the issuance will be used to financial the government investment plans under the development budget during the year.

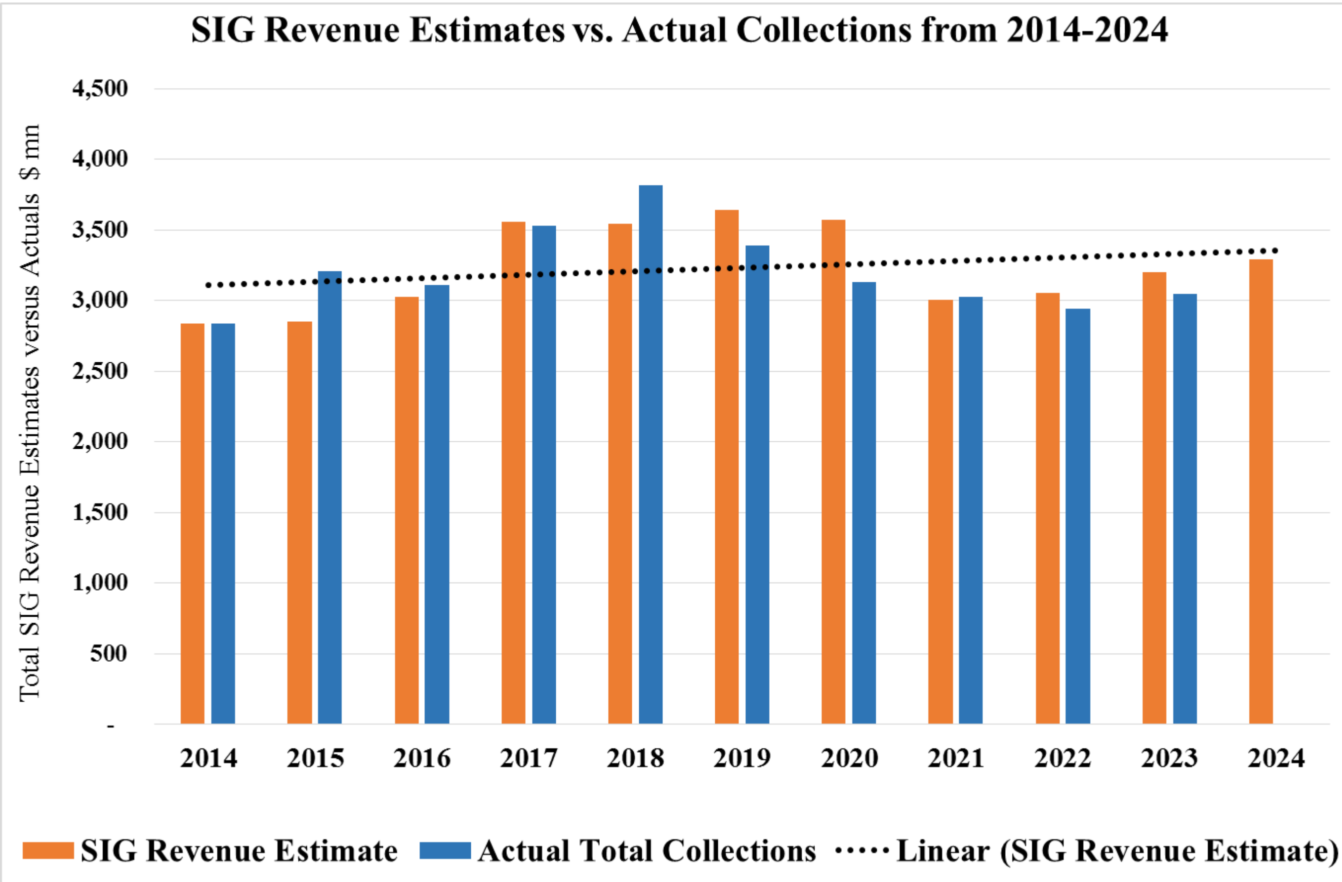
The projects in in the pipeline including all requests for Government guarantee, on-lending and sub-national will tabled to the DMAC for consideration and approval. The overall impact on SIG debt position will depend on disbursements and drawdown; noting that some of these projects will be implemented over a 5-year period or more.

7. The 2024 BUDGET PARAMETERS AND ESTIMATES

I. Fiscal Strategy for the 2024 Budget -Revenue

The total SIG revenue estimates for 2024 is **$3.326 billion.** This is inclusive of both tax and non- tax revenue for 2024, an increase of $124 million or 4% from the 2023 revenue estimates. This increase is expected under Inland Revenue Division (IRD) as business activities are gradually picking up due to removal of covid-19 restrictions, thus increase in transactions. Customs and Excise collections however, is still below the 2023 original budget due to weak performance specifically from log export duty that recorded deficit in the first half of 2023. Non- tax revenue estimates has been slightly revised down from the 2023 estimates by 1% based on revenue estimates provided by government ministries collecting non-tax revenue for the Government. There is a great need to strengthen and improve the collection of non-tax revenue as this can help increase SIG revenue collections annually. It is important that the incoming Government remain within these overall parameters to maintain a stable and responsible budget as per the guiding principles of the 2024 Budget.

Figure 2**: SIG Trend in Revenue Estimates to Actual Collections.**



This graph illustrates trend of SIG revenue estimates against actual collections from 2014 to 2024. The revenue estimates for 2024 is expected to increase by 4% above the 2023 revenue estimates. 2023 actual collections is projected to be $3,048 million higher than 2022, based on the first six months collection from Jan-June 2023. FY 2018 had the highest level of SIG actual revenue collection over the 10 year-period, collected above 2018 revenue estimate of $3.5 billion by 8 percent. The domestic economy is slowly recovering and it is projected that SIG domestic revenue should reach pre-covid 19 level of $3.5 billion by 2026.

II. Fiscal Strategy for the 2024 Budget – Expenditure

The 2024 budget will be funded by SIG revenue, including donor support, as well as other financial arrangements made by the government for the required level of resources for priority activities and programs in 2024. The current government's commitment is to ensure that there is **no significant budget deficit** in government's overall expenditure, to regain stability on its financial position. Therefore, total expenditure must be within a manageable level to implement on its key priorities in 2024.

Government will ensure to provide adequate resources to fund all legitimate and ongoing contracts, fixed costs and essential services for the benefit of citizens and businesses for investment and growth in the economy. To maintain fiscal discipline; expenditure estimates will be spread across all ministries based on the available resources that can be secured in terms of revenue. This is a good opportunity for all ministries to properly plan and cost out their activities and be able to align to key priorities that can be fully or implemented well with their level of capacity in terms of human resources, available budgets and the technical capability to implement.

Table 3: 2024 Fiscal Table

Budget Estimates ($ millions)	2023 Original Estimates	2023 Revised Budget Estimates	2024 Budget Estimates	% Change btwn 2023 Original and 2024 Estimates
Total SIG Revenue	**3,202.6**	**3,251.7**	**3,326.3**	4%
IRD	1,783.7	1,921.6	1,979.3	11%
Customs	992.9	904.1	924.5	-7%
Non-Tax	426.0	426.0	422.5	-1%
Budget Support Revenue	**177.4**	**177.4**	**144.4**	-19%
Budget support	177.4	177.4	144.4	-19%
Donor funded Development	0.0	0.0	-	0%
ESP Support	0.0	0.0	-	0%
Covid 19 Support	0.0	0.0	-	0%
Total Revenue	**3,380.0**	**3,429.1**	**3,470.7**	3%
Total Expenditure	**4,884.3**	**4,781.1**	**4,047.4**	-17%
Total SIG Expenditure	**4,631.9**	**4,223.3**	**3,903.0**	-16%
Total Recurrent Expenditure	**3,461.0**	**3,052.4**	**3,403.0**	-2%
Payroll	1,474.4	1,321.1	1,474.0	- 0
Other Charges	1,966.6	1,716.8	1,909.0	-3%
Contingency Warrant Provision	20.0	14.5	20.0	0%
Development Budget	**1,170.9**	**1,170.9**	**500.0**	-57%
SIG Development Expenditure	1,170.9	1,170.9	500.0	-57%
Donor Development Expenditure	0.0	0.0	-	0%
Budget Support	**252.4**	**557.8**	**144.4**	-43%
Sector Budget	177.4	457.8	144.4	-19%
ESP Support/Reconst. and rehab. of business buildings	75.0	100.0	-	-100%
Covid 19 Support	0.0	0.0	-	0%
Budget Balance	**-1,504.3**	**-1,352.0**	**- 576.7**	-62%
External Development Financing	**320.2**	**880.7**	**407.0**	27%
Fiscal Balance	**-1,184.1**	**-471.3**	**- 169.7**	-86%

The total expenditure estimate for 2024 is $4.047 billion. Total SIG expenditure Ceiling will be $3.903 billion, a decrease of 16% or $728.9 million from the 2023 original estimates. Total expenditure ceiling for payroll will be $1.48 billion, same level as in 2023 Original estimates. The payroll baseline is based on existing filled and reserved contractual positions including 3.0% Cost of Living adjustment (COLA).

The total Other Charges ceiling is $1.83 billion, which is a decrease of 7% or $138 million from 2023 original estimates. The Development Budget will have a total expenditure ceiling of $500 million for the 2024 budget - a significant decrease of 57% or $670.9 million from the 2024 Original estimates. The projected decrease in Development Budget is to ensure that the Government adequately resource its legitimate and ongoing contractual commitments that were already in place or policy priority with clear investment initiative that can contribute to growth over the medium term.

Development Budget Financing

The government is intended to have an overall planned budget deficit budget of $169.7 million in 2024, of which $407 million will be funded from resources secured by the government through financial assistance from multilateral and bilateral institutions and domestic borrowings. The remaining deficit of $169.7 million will be funded from a number of new revenue measures, expenditure control measures, and other external support through ongoing dialogue with development partners to balance the remaining development funding shortfall. This is a significant reduction of 86% from the 2023 original estimates of $1,184.1million. *Refer to Table 3: 2024 Fiscal Table*

The Government is committed to manage expenditure priorities within the fiscal capacity for stability, and to manage the huge domestic debt incurred within the past recent years. The government cannot borrow to fund planned budget deficits for recurrent expenditure. It is preferable to incur debt for investments but only those that promote economic activities and are able to bring economic returns that can be used to repay the debt. This is in accordance to section 71 of the *Public Financial and Management Act 2013.* The section further clarifies that the Minister of Finance may only enter into new borrowing for high priority infrastructure and development initiatives in line with Government's development and debt policies. The Government will remain committed to its priority to regain stability in its financial position and hence will ensure any borrowings must be within sustainable level.

8. OPERATING RULES AND GUIDELINES

All ministries are required to comply with the guiding principles of the Budget Strategy and the operating rules of this section. Failure to do so will result in the return of submissions and re-work to make corrections. The development budget will only be used for legitimate and ongoing capital and development projects that will boost economic growth, and all recurrent costs should be reflected in the Recurrent Budget if they are legitimate and necessary for the Ministries' ongoing operations. The Development Budget will not be used to supplement the recurrent spending of ministries.

Preparation Instructions for Ministry Budget Committees:

Ministries are expected to align their budget submissions with the strategic direction and priorities set out in the 2024 Budget Strategy and relevant sectoral and ministry strategies, the Medium-Term Development Plan for development projects and their Corporate Plans. The Ministry Budget Committees (MBC) are expected to:

- Provide direction to divisions responsible for preparing budget estimates

- Assure submissions follow the correct format, and are accurate to the respective instructions for other charges, payroll and development budgets
- Establish a time table to hold internal consultations with divisions, similar to that of the Public Accounts Committee (PAC)
- Assure that the sum of allocations across divisions for other charges and development ceilings does not exceed the ministry's threshold.
- Confirm that budget estimates are costed against the correct general ledger accounts
- Ensure that all service grants, fixed costs, utilities, housing rentals, and subscriptions to international organizations are included in the baseline for other charges.
- Ensure all on-going Government contractual commitments are accounted for
- Cost any contributions to co-funded activities or bilateral or multilateral agreements. These agreements must also comply with the SIG National Budget Process.

Ministry budget baselines and other documents will be uploaded into D365 system, and available to the Financial Controllers (FCs). In addition, FC's may copy the electronic files and templates onto a flash drive following the budget launch. It is recommended that the MBC use the templates for inputs for both recurrent and development budgets for ease in consolidating the ministry budget before uploading in D365 system.

The following templates will be prepared outside of D365: "Other Charges" template, templates to support new funding requests, payroll and development templates. These documents may be uploaded in D365 or submitted to the Budget Unit MOFT.

Upon endorsement by the MBC and approval of the PS, the FCs will submit the ministry's budget request, with supporting documentation, through D365.

The table below lists the required documentation ministries are to include in the budget submissions:

Recurrent Budget	**Personnel Budget**	**Development Budget**

• Other Charges Baseline spreadsheet
• Procurement plan
• FY24 Work Plan
• Travel Plan
• For new funding requests:
  o New Funding Bid (BUDForm 1)
  o New Policy Funding Proposal (BUDForm 2)
  o Costing template
	• Payroll related templates
	• For new funding requests:
	  o New Funding Bid (BUDForm 1)
	  o New Policy Funding Proposal (BUDForm 2)
	  o Other related documents
		• Appraisal of New Proposals for the Medium Term Development Plan 2024-2028
		• For proposed new projects,
		  o Appraisal of New Proposals (Form2Dev)
		  o Financing Agreement
		  o Development Cost worksheet
		  o Project formulation documents
		  o Feasibility studies
		  o Risk screening templates

Documents will be scanned separately to associate supporting documentation with the relevant budget request.

I. Recurrent Budget:

A. Payroll Budget

The Ministry of Public Service believes that all Government Ministries and Agencies will continue to implement their outstanding DCGA policy activities while awaiting formation of a new Government in May 2024. Attention will be directed to ensuring the public service organisations is in its optimum size, efficient and effective in responding to implementation of outstanding DCGA government policies. Next year we anticipating redirection of SIG human resources towards the preparation of the National General Election and its roll out in mid-January to April 2024.

Consequently, business of all Ministries will be slow since the new Government will have to prepare its new Policy Framework before its actual rolling out between the month of July and September 2024. Following this, various government Ministries and Agencies will waste no time in getting back into their service delivery mode towards the fourth quarter of 2024.

i. 2024 Payroll Priority

The 2024 payroll budget will still focus on the productive and resource sector primarily as a means to ensure that activities are gearing towards ensuring economic stability, while also having in mind the significance of other sectors. Ministry of Public Service have to make some painful yet worthy decisions in the short and medium term in order to achieve long term prosperity for our people.

ii. Freezing of unfilled vacancies

Filling up of unfilled vacancies is still a challenge being observed across the Public Service despite the rolling out of the MPS Decentralised Recruitment Process to line Ministries and Agencies. MPS have noted with concern at the rate of unfilled vacancies being idle since 2018. The duration of the unfilled vacancies has reached 75% with only 25% being filled on an annual basis. Simply put, Ministries are finding difficulties to recruit against these unfilled vacant positions. The delay of filling these vacancies would be a result of limited qualified personnel in the open market as well as the lack of enabling infrastructure such as office space, accommodations and equipment to work with. In 2022-2023, the number of vacancies have risen largely due to Ministries negligence or no proper Human Resource Planning in place. The high number of payroll pressures in the Social, Fundamental, Productive and Resource Sectors mostly explains this. In our view, the 2024 payroll strategy will focus in addressing these unplanned pressures. As a matter of urgency, to stabilise the payroll, Ministry of Public Service will again freeze all unfilled vacancies and Ministries will have to provide evidences that they are ready to fill their frozen unfilled vacancies.

iii. Retirements and Fixed Term Appointments

According to Ministry of Public Service data, 131 Public Officers excluding teachers should have retired in 2023 and another 73 Public Officers will retire in 2024. In terms of fixed term appointments, we have 324 serving Public Officers in the payroll who are beyond the legal minimum retirement age of 55, presumably on fixed term appointments. The Ministry after consulting the Public Service Commission, decided to stop all new fixed term appointments in 2024. Only on exceptional cases, Public Service Commission will approve any new Fixed Term Appointments. This measure is important to strike the balance between recruiting qualified graduates and retaining aging workforce.

iv. MPS Early Retirement Program

The government has taken measures to reduce the size and cost of its workforce. One initiative is the early retirement program. The Early Retirement Program will be implemented in phases for period of three years. It will involve 50 Public Officers per year between the age of 50 to 54 years. This is an important DCGA policy to reduce the size of the Public Service. The implementation of the Early Retirement Program will bring long-term savings to government. In accordance to our estimation, the projected savings will be $3, 378,908 annually and net savings of $10,136,724.00.

v. Addressing unplanned payroll pressures

Ministry of Public Service is continuously enhancing efficiency of Government Ministries and Agencies to respond to changing needs of our citizens in a cost-effective manner. The costs effective measures being implemented from time to time resulted in various cost cutting initiatives, which at times resulted in staffing implications. The Ministry wish to highlight that the 2024 payroll will address unplanned payroll pressures incurred in 2023. This include all cabinet approved organizational restructuring, terms of conditions including remuneration and Cost of Living Adjustment for all Public Officers.

vi. Refocus of workforce to rural areas

While Productive and Resource Sectors are exceptional to the freeze of vacancies, MPS will ensure that there is improvement done to the enabling infrastructures in the Provinces and rural areas before commence to any recruitments or else it will defeat the DCGA Government policy refocus of workforce to rural areas. Thus, the onus is on Ministries to ensure that there is improvement done to their enabling Infrastructures in the rural areas before recruitment is done.

B. Other Charges Budget

The recurrent budget caters for all general and operational costs to maintain government's ongoing services and operations.

i. Budgeting for Non-Discretionary Obligations

MBC's shall give priority to budgeting for fixed expenses and contractual obligations. These obligations are non-discretionary in that they required by law, Cabinet decision, or Parliamentary directive. Therefore, MBC's must guarantee that sufficient funds are allotted to all fixed expenses and contractual obligations for the financial year.

Non-discretionary obligations include all rental, education and service delivery grants, mission grants, utilities (e.g., electricity, water, and telephone), subscriptions to international bodies/ organizations and other contracts.

ii. Discretionary

After non-discretionary obligations are subtracted from the threshold, the MBC's shall review historic expenditures and make strategic allocation decisions to ensure uninterrupted delivery of critical services and to allocate discretionary funds to high priority areas. MBC's shall provide sufficient justification on requests to fund consumables, travel, conferences, seminars, and training to demonstrate that funding those activities support policy priorities and contribute to increased tax collections and expanded economic opportunities for all Solomon Islanders.

Motor Vehicles: New vehicles must be requested through the Ministry of Infrastructure. Supporting documentation (BUD Form 2 and 3) must clearly demonstrate that the acquisition of the vehicles will improve service delivery and create revenue.

Travel (both domestic and international): MBCs will submit a travel strategy to justify the travel in terms of improved service delivery and revenue collection. International travel will be limited to government and work-related purposes only. The travel strategy will indicate that international travel is necessary because the intended objective cannot be accomplished domestically. For domestic travel, MBC's are encouraged to minimize the number of travelers to the minimum required to achieve the travel objective.

Training and skills service development: Requests to fund training and skills service development will be accompanied by a training plan with supporting evidence of a skills gap analysis for the ministry. The requested training must support priority policy objectives, improve performance in service delivery, contribute to strengthened revenue collections or expanded economic opportunities to Solomon Islanders.

II. Development Budget:

The 2024 development budget intends to focus on tangible infrastructure projects been affected due to control measures imposed on development budget in 2023. Maintain and improve delivery of essential services across the country whilst reform programs and other projects still on preparatory phase will be assessed base on its urgency to implementation.

a) Budget Baseline Assumptions

Baseline for 2024 development budget mainly carry-on from 2023 development funding priorities and expenditures by program and project level. This implies development programs with existing contractual commitment and obligation will remain priority for 2024. Hence, the 2023 approved estimates and development budget envelope based on revenue projection for year 2024 become the baseline for 2024 development budget costings as stipulated in this budget strategy. Ministries to note that all development estimates recommended as savings and appropriated against program title - 2023 Pacific Games Support Program (code-0054) under the 2023 development budget will be re-instated to ministries baseline. There will be further review for ministries receiving additional budget allocation in 2023 due to pressure to deliver on games critical. The 2023 Pacific Games Support program is categorized as one-off program under the 2023 development budget.

Given the current fiscal challenges faced with government public finance, ministries are advised that 2024 development budget will NOT fund any new program or project. Therefore, only programs and projects captured in the 2023 development budget and 2023-2027 Medium Term Development Plans (MTDP) will be considered.

b) Guidelines for Number of Projects by Development Program

As part of managing the current fiscal stretched and ensure available resources are more focus towards targeted projects, ministries and sectors are encouraged to undertake a collaborative approach in reviewing the 2023 development programs and projects. This is an important process for ministries to determine which critical projects and activities would remain priority for funding under the 2024 development budget. Limiting the number of projects per development program is crucial to avoid thinly spreading of resources therefore ministries are encouraged to prepare development program and project submission to be on phases noting SIG annual budgeting cycle and five (5) year rolling MTDP, which already provided for multi-year project planning.

c) Guidelines for Programs and Projects with Contractual Commitment and Obligation

Ministries through its Ministry Budget Committee (MBC) must properly deliberate and prepare 2024 budget submission prioritising its contractual and obligation projects. The 2024 budget baseline will fund the most pressing contractual obligations that government must settle hence ministries are advised to defer any new contractual agreements anticipated for 2025. Ministries must ensure all contractual obligations both to be due in 2024 and outstanding ones from 2023 are factored in the submission before considering allocating funds to other ongoing projects and activities that are not tied to any contracts or financing agreements.

d) Guidelines for Ongoing Development Programs and Projects

For ongoing programs and projects, assessment will be based on its readiness for implementation as per the indicators and targets at the output level as indicated in the program logical framework. Allocation of funding to ongoing programs will also consider major investment projects affected due to control measures imposed on development budget in 2023.

e) Guidelines for New Development Programs and Projects

The 2024 Development Budget will NOT consider any new development program or project proposal since there is no new policy yet until any new government form. As such, ministries therefore asked to thoroughly review existing program and project activities and allocate funding using indicative budget ceilings.

f) Guidelines for Non- Appropriated Funding Component

The 2024 Development Budget seek to show a more credible data on the non-appropriated donor funding, donors were consulted to provide data and received cooperative response and this was cross checked with relevant SIG sector line ministries and agencies. However, there are challenges such as timing, specific data needs of stakeholders and project management reporting that require more collaboration to improve credibility of data. Going forward, it is the goal to make compulsory reporting for all non-appropriated funding which will provide a complete picture of the on budget and off budget components. This is important and has to be improved in order to provide a complete report on both SIG and donor support in implementing the NDS 2016 – 2035 and government priority policies.

g) Guidelines for Preparation of the 2024-2028 Medium Term Development Plan (MTDP)

Subsequent to guidelines regarding new programs and projects for 2024, the next MTDP cycle will focus on reviewing the current (2023-2037MTDP) version. This implies, ongoing programs captured in the current MTDP can be used as basis for preparing the next five year cycle. Except if a particular program or project is completed then a new proposal to be assessed to include in the list of pipeline programs. For non-appropriated analysis, it is important to use the latest available estimates, projections and funding allocations across various sector of the NDS2016-2035.

h) Solomon Islands National Development Strategy (NDS2016-2035) Review

The Cabinet of Solomon Islands mandated a review of the Solomon Islands National Development Strategy (NDS2016-2035) to commence in 2023. This is an important undertaken as a country going forward, and the Ministry of National Planning and Development Coordination (MNPDC) as lead ministry has been coordinating the review process since month of May 2023. The objectives of the review is to assess the extent to which the NDS has met its five key objectives. The review will also help to understand gaps, challenges and lessons learnt over the past seven (7) years of implementation and provide practical recommendations for improved implementation of the NDS in the future.

Solomon Islands also contribute towards implementation and reporting against regional and international commitments at the country level through the lens of NDS. As such, the timing of the review is appropriate to see whether the NDS indicators and targets are realistic, can be easily monitored, evaluated and report on.

Moreover, outcome of the NDS review would help provide guidance to policy makers, government ministries and agencies, private sectors, non-government organisations, development partners, civil society organisations, faith-based organisations and other stakeholders to improve on areas require urgent attention in the overall planning, budgeting and reporting process. This is part of country's ongoing effort in responding to demands from the increasing population, gradually responding to other emerging development issues whilst focusing on achieving development aspirations of the country.

i) Monitoring, Evaluation and Learning (MEL) Systems Strengthening Strategy

MNPDC successfully conducted a diagnostic study and analysis on Monitoring and Evaluation systems been practised at both national and provincial levels in 2022 and during first quarter of 2023. This is an important undertaking that would form the baseline information and guidance to develop a proper Monitoring Evaluation and Learning (MEL) Systems and Strategy Plan that would promote the use of evidence in public decision-making, enhance accountability, track development progress and achieve better development results.

At the country level, the need to establish a proper MEL system remained crucial. MNPDC as lead ministry will continue to coordinate the process to ensure the Diagnostic Study Report and Solomon Islands

Monitoring and Evaluation Systems Strengthening Strategy proceed through Advisory Committee and Solomon Islands Cabinet for further review and endorsement. This is part of MNPDC's ongoing effort to assist the government with monitoring and informing national development strategies, programs, budgets and help address gaps and challenges encountered in the overall planning, budgeting and reporting process. An effective MEL system comprises of a range of different systems, policies, procedures, practices and resources are implemented and used by a diverse range of institutions to address development needs and aspirations.

9. DONOR CONTRIBUTIONS

Contributions from development partners continue to assist the government in maintaining the delivery of essential services and other infrastructure developments and programs in the country. The government will continue to maintain the long standing relationship and strong commitment with the donors into the next financial year. Below is a summary of budget support from donor partners that will be channelled through ministries as Budget support for 2024 financial year.

Head	Ministry/Office	Development Partner	Description of Program/Project	2024 Budget Estimates
01	Solomon Islands Electoral Commission	Australia	National General Election	27,047,886.77
05	Ministry of Education & Human Resource Development	New Zealand	Education Sector Support Programme	5,303,526.00
05	Ministry of Education & Human Resource Development	UNICEF	Child Protection in Education	462,735.00
06	Ministry of Finance and Treasury	EU	EU-Solomon Islands Partnership for Resilience Building (SIRP)	21,575,000.00
06	Ministry of Finance and Treasury	New Zealand	Supporting Economic and Financial Reform	19,022,286.00
23	Ministry of Fisheries & Marines Resources	New Zealand	Solomon Islands Fisheries Development - New phase 2020-2024	7,178,137.00
09	Ministry of Health & Medical Services	UNICEF	Health and Nutrition Policy and legislation	15,395,518.70
09	Ministry of Health & Medical Services	UNICEF	Health and nutrition system strengthening	81,500.00
09	Ministry of Health & Medical Services	UNICEF	Child Protection System Strengthening	124,316.01
09	Ministry of Health & Medical Services	UNICEF	Child Protection Behaviour Change Communication	2,102,700.00
26	Ministry of Home Affairs	UNICEF	Birth Registration	374,900.00
20	Ministry of Culture & Tourism	New Zealand	Tourism Recovery Programme	5,774,586.00
			TOTAL	**$104,443,091.48**

10.CONCLUSION

This document provides the framework in preparing the 2024 Budget in accordance with section 45 (1) (a) (b) of the *Public Financial Management Act 2013*. Given the overall macro-fiscal estimates and parameters

Government used to develop the 2024 Budget, it is of paramount importance that all ministries adhere to the guiding principles and the operating rules laid out in this document when preparing their 2024 Budget submissions. All ministries are to ensure that all service grants, fixed costs, subscriptions to international organisations, and most importantly Government's ongoing contractual comitments both in the recurrent and development budgets must be adequately funded or given priority in the 2024 Budget. Any contributions to co-funded activities or bilaterial and multilateral agreements must be properly costed and in compliance to the SIG National Budget Process and procurement guidelines. These ongoing or contractual commitments will be prioritised and ministries responsible for the respective key priorities need to actively collaborate through the Mnistry Budget Committees(MBCs) they establish, to ensure they are adequately funded. These priority commitments if not properly budgeted for will continue to accumulate substantial arrears to the next financial year just because of poor internal coordination and prioritisation. It is therefore important that Government is committed to funding all its ongoing contractual obligations, essential services and fixed costs, as we transition to the formation of a new Government in 2024.

Attachment A: The 2024 Budget Timetable

Major milestones	Activities	Deliverables	Deadline
Review and update economic and fiscal parameters	Review of the economic and fiscal parameters that will frame the fiscal framework of the 2024 Budget.	GDP forecast and revenue estimates update	1st July – 11 August 2023
Compiling and finalizing of the 2024 budget Strategy and Operational Rules	BSC agree on the fiscal parameters and expenditure envelope for budget components. BCC prepare inputs for the 2024 budget strategy Update fiscal table and prepare ministry budgets	2024 Budget Strategy. 2024 Fiscal table	14th – 18th August 2023
Caucus and Cabinet approval of the 2024 budget Strategy	Deliberate and Approval of the 2024 draft budget Strategy	Caucus and Cabinet papers 2024 Budget Strategy	21st to 25th August 2023
2024 Budget Launch	BCC present to ministries and Donor partners on the 2024 Budget Strategy and operational rules	Presentations, baselines budget templates and development budget templates	30th August 2023
Post Budget Consultation	Provide feedback to ministries on the final budget estimates. Ministries review budget estimates	Draft ministry budget ceilings and ministry allocations	31st August to 5th September 2023
Prepare Budget Submissions	Ministry Budget Committees (MBCs) to plan and prepare budget submissions.	Ministry Budget submissions Annual work plans and procurement plans	6th – 14th September 2023
Budget Submission Due	Ministry submit baselines and developmental proposals to MNPDC MoFT and MPS	Ministry draft 2024 recurrent and development budget	15th September 2023
Collate and compile Budget Submissions	Review and assess ministry submissions – recurrent and development budget	Compiled draft recurrent and development budget	18th to 22nd September 2023
Budget Cabinet	Cabinet approvals of the 2024 draft budget- 2024 Appropriation Bill	Cabinet paper Revised draft 2024 Budget estimates 2024 Appropriation bill 2023	25th to 28th October 2023
Feedback to ministries and Budget documents delivered to Parliament	Budget documents printed and delivered to parliament	202 Appropriation Bill 20223 2024 Budget documents	29th September 2023
PAC Hearing	Ministries present to PAC Complete PAC generic template by ministries	Ministries' talking points Ministry budget information	2nd to 13th October 2023

Parliament sitting	Brief Ministers on ministry budget Prepare second reading winding up speech	Second reading speech Winding up speech	16th – 31st October 2023
Royal Assent	2024 Appropriation Bill	Gazette and royal assent	2 December 2023
Budget Upload and release of warrant	Prepare upload files Accounting warrants	2024 budget in operation Issue of Accounting Warrants	December 2023 to 2nd January 2024