



GOVERNMENT OF SOLOMON ISLANDS

THE 2025 BUDGET SPEECH

"Accelerating Accountable and Transformative Investments: A Pathway Towards A Resilient and Sustainable Economy".



Delivered by

**Honourable Manasseh D. Sogavare, MP
Minister for Finance & Treasury**

**Honiara
4th December 2024**

Table of Contents

1. Introduction	3
2. Reflections – Development Challenges and Progress	4
3. Economic Update and Outlook	4
4. 2025 Budget Theme and Principles	8
5. Development Policy Priorities	10
6. 2025 Budget Overview and Framework	15
7. Tax Policy Reforms	17
8. Debt Outlook	19
9. Budget Risk Statements	20
10. 2025 Appropriation Bill 2024	22
11. Strategy to Finance the 2025 Budget	24
12. Budget Monitoring & Implementation	26
13. Acknowledgements	29
14. Closing Remarks	29

1. Introduction

Honourable Speaker,

I rise to beg that the 2025 Appropriation Bill, 2024, be now put to the second reading.

The Honourable Prime Minister, Cabinet Ministers, Leaders of the Opposition and Independent Group, and fellow Members of Parliament – good morning to you all.

Mr Speaker Sir, I also welcome all Solomon Islands citizens who have joined us this morning via radio, and live streaming on the Parliament Website or through other various Facebook mediums.

Mr Speaker Sir, I am very privileged and feel humbled as Minister for Finance and Treasury to present to this Honourable House the 2025 Budget on behalf of the Government of National Unity and Transformation (GNUT) and the people of Solomon Islands in accordance with Section 102 of our National Constitution.

Mr. Speaker, today marks an important occasion in the quest to accord the 2025 Budget process the seriousness it deserves. The government has worked extra hard to ensure early submission of the 2025 Budget, as well as the 2025 Appropriation Bill. It is my sincere hope that this Honourable House will pass this Bill into law to enable implementation by 1st January 2025, given the collaborative manner in which the budget was prepared.

Mr. Speaker, and Honourable Members, before I proceed further, I would like to acknowledge and commend the support of Caucus Members, the Cabinet, my hard working staff, the Ministries of Development Planning and Aid Coordination and the Ministry of Public Service, and all Government Ministries in working together to make the 2025 budget a reality. Through their collective efforts and Ministerial coordination, we were able to bring forth the 2025 Budget for discussion and formal approval in this Honourable House. It would also be remiss of me not to acknowledge the Public Accounts Committee under the Chairmanship of the Member of Parliament for Central Honiara for their constructive scrutiny of the Bill.

Mr. Speaker, before I present the 2025 Budget in detail, let me first briefly reflect on how far we have come, as a nation since attaining political independence in 1978.

2. Reflections – Development Challenges and Progress

Development Path since Political Independence.

Mr. Speaker, as all Honourable Members would agree, Solomon Islands development path since attaining political independence 46 years ago has not been an easy going. Despite our progress this far, our major development challenges still remain:

- Our economy is small, highly dispersed, and very vulnerable to adverse environmental challenges and global developments;
- The private sector is not well developed and needs to function in a more transparent environment, supported with quality and reliable infrastructure;
- Weak governance at all levels of our society;
- Low economic growth, and a rising young population with less formal employment opportunities.

Mr. Speaker, our journey towards nation building was continually hampered, putting Solomon Islands on its knees, as a result of impacts of the many unprecedented crisis that we have experienced over the years.

Mr. Speaker, this Governments primary objective continues to remain focussed on achieving broad based economic development. The government recognises the value and potentials of the nations population, and their resolve to determine the course and outcomes of their own destiny and participate more actively and meaningfully in the development of our nation, Solomon Islands.

3. Economic Update and Outlook

Global Economy

Mr. Speaker, we live in a global village where our fortunes are very much dependent on how well the global economy is performing.

Mr. Speaker, global growth is projected to be in line with the April 2024 World Economic Outlook (WEO) forecast, of 3.2 percent in 2024 and 3.3 percent in 2025. However, varied momentum in activities at the turn of the year has somewhat narrowed the output divergence

across major economies as cyclical factors wane and activity becomes better aligned with its potential.

Mr. Speaker, among advanced economies, economic growth is expected to converge over the coming quarters. In the United States, projected growth is revised downward to 2.6 percent in 2024, reflecting the slower-than-expected growth at the beginning of the year. Growth is expected to slow to 1.9 percent in 2025 as the labor market cools and consumption moderates, with fiscal policy starting to tighten gradually. By the end of 2025, growth is projected to taper to potential, closing the positive output gap.

Mr. Speaker, in the Euro area, a modest pickup of 0.9 percent growth is expected for 2024, driven by stronger momentum in services and higher-than-expected net exports in the first half of the year. Growth is projected to rise to 1.5 percent in 2025. This is underpinned by stronger consumption on the back of rising real wages, as well as higher investment from the easing of financing conditions amid gradual monetary policy loosening this year.

Mr. Speaker, the growth forecast for the emerging market and developing economies is revised upward; reflecting relatively stronger activity in Asia, particularly in China and India. For China, the growth forecast is revised upward to 5 percent in 2024, primarily due to a rebound in private consumption and strong exports in the first quarter. However, for 2025, GDP is projected to slow to 4.5 percent, and to continue to decelerate over the medium term to 3.3 percent by 2029, because of headwinds from aging and slowing productivity growth.

Mr. Speaker, in terms of prices, global inflation is holding up progress on disinflation, which is complicating monetary policy normalization. Upside risks to inflation have thus increased, raising the prospect of higher-for-even-longer interest rates, in the context of escalating trade tensions and increased policy uncertainty in major economies. To manage these risks and preserve growth, it is crucial that policy mix is carefully sequenced to achieve price stability in the years ahead.

Domestic Economic Update - 2024

Mr. Speaker, latest economic data suggest that the recovery process is gaining momentum and remains positive as evidenced by the strong GDP growth of 3.1 per cent in 2024, compared with the previous estimates of 2.8 per cent. The growth outcomes for 2024 is also well above the growth average in the post covid-19 period. However, the recovery process from the

shocks is still ongoing and is unpredictable amid elevated uncertainty in the global and domestic economic environment.

Mr. Speaker, relatively stronger performance in agriculture, mining, fishing, construction, wholesale and trade, other business, combined with a robust service sector, improved manufacturing and an upward trend in tourism and employment are the key drivers of growth in 2024. However, logging output and other primary sectors particularly copra, and cocoa are estimated to fall in 2024.

2025 Economic Outlook

Mr. Speaker, looking ahead, Solomon Islands economic recovery process is expected to remain stable with real GDP growth projected at 3.8 per cent in 2025, 4.3 per cent in 2026 and 4 per cent in 2027. Compared with the projection in the October 2023 budget, growth has been increased by 0.5 percent for 2025 and 0.4 per cent in 2026. The projection is well above 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 in Europe and the Middle East, and uncertainty in the price of commodities.

Mr. Speaker, in terms of sectoral output, the industry sector is expected to drive growth in 2025 and 2026, with a stronger mining activity from both Nickel and Gold exports, offsetting the slowdown in construction activities and other business services. The Mining sector is projected to increase by 44 per cent, as Gold Ridge and nickel mining are expected to hit full production in 2025 aligning with several prospecting and mining developments over the near term.

Mr. Speaker, fishing activities are also expected to perform stronger in 2025, with growth projected to increase by 3.5 per cent, compared to 1 per cent in 2024. The increase in growth is relatively due to an increase in fish catches, reflecting expected good weather conditions as more fish are anticipated in our EEZ with additional new boats together with higher demand for fish from the importing countries as well as domestic consumptions.

Mr. Speaker, the forest and logging activities, however, are projected to decline by 1.1 per cent in 2025, as log output is expected to decline to around 1.4 million cubic metres owing to the general depletion of our forest resources. The forecasted decline in logging activities could impact on the exports and government revenue. As a result, the primary sector is anticipated

to subtract from growth in 2025. This projection may likely to be changed due to the uncertainty of international prices for logs and government policy.

Mr. Speaker, the business and service activities are expected to increase by 3.9 per cent of growth in 2025 as the domestic economy is expected to continue to recover from shocks with more improvement in business services and an expected boost from the national infrastructure project and private project particularly the Tina Hydro and mining development activities.

Mr. Speaker, in terms of sectoral contributions to growth, the services and primary sectors are expected to contribute 2.2 per cent and 1.3 per cent respectively to the 2025 overall growth, while the industry sector is projected to contribute around 0.3 per cent. This positive economic growth is projected to be sustained and firm further to 4-5 percent from 2027 until 2029. However, despite the expected positive outcomes, it is still below the projected growth forecast as outlined in the 2025-2035 National Development strategy.

Mr. Speaker, the recent National Economic Summit has identified the productive and resource sector as key sectors with potential to add more value to the economy with the support of both private and public sector.

Inflation Outlook

Mr. Speaker, in terms of prices, the average inflation rate is projected at 2 percent for 2024, and relatively lower at 1.8 percent in 2025. However, inflation is anticipated to return to the target range of 2.5 to 3 percent by 2026 until 2029. These growth rates could change along the medium term due to fluctuations in global commodity prices, especially for fuel and food, which can significantly impact domestic inflation. The ongoing global supply chain challenges could also lead to shortages and higher prices for imported goods. This can result in persistent inflationary pressures in the years ahead.

Financial Sector Developments

Mr. Speaker, no one should take for granted the stability of our financial sector. It is the solid rock upon which our country's economic and fiscal edifice resides.

Mr. Speaker, the Central Bank Financial Stability Report for the first six month of 2024 showed that our financial system remained sturdy despite the challenges posed by the slow economic

progress, inflationary pressures, and tight fiscal and monetary conditions experienced over the preceding periods. The banking sector demonstrated buoyancy throughout the first half of 2024 (1H24) with its total capital ratio reaching 36.7 percent cumulative to the end of the period. This outcome underscored the sector's resilience to withstand potential financial shocks that may come to its fore. The total liquidity level for the industry remained ample to meet its short to medium-term liabilities. This highlights the banks' solvency strength and financial muscles to maintain smooth operations.

However, the elevated levels of non-performing loans continue to raise concerns regarding the sector's asset quality. Similarly, the superannuation sector also exhibited a strong performance over the period, bolstered by adequate liquidity and robust earnings from both domestic and external equity investments. Likewise, the insurance sector, also demonstrated resilience over the period, driven by positive financial performance.

4. 2025 Budget Theme and Principles.

Mr. Speaker, the theme of the 2025 Budget is;

"Accelerating Transformative Investment: A Pathway Towards a Resilient and Sustainable Economy"

Mr. Speaker, this theme was not carved out of nothing, but reflect the development path we have gone through since independence, especially our recent economic and development challenges since the onslaught of the global pandemic five years ago.

In other words, the budget theme is built on the spirit of '**growing the economy and rebuilding governments capacity**' to better adapt and withstand ongoing and future adverse impacts emanating from both domestic and external shocks.

Mr. Speaker, the government is aware that the economy is now on a recovery path from the unprecedented shocks over the last five years. However, it is important that government remains committed to restoring its fiscal position by building back its monetary buffers, reduce the budget deficit and improve its cash flow management, as we progress forward.

Budget Objectives.

Mr. Speaker, the 2025 budget is the government's key vehicle for implementing its policies as clearly outlined in the Policy Statement launched after the general election in April 2024. There are two important policy pillars in Government's efforts to build and support the recovery process;

- (a) Increased investments in key infrastructure, promote economic diversification and transformational economic growth; and
- (b) Strengthen and improve service delivery to our people.

Mr. Speaker, the GNUT believes that promoting more investment opportunities in key economic infrastructures is critical in diversifying the economy. Strengthening the legal framework to create certainty and confidence for private sector investors is also critical to enhance the economic recovery process and build our resilience to achieve transformative growth in the short to medium term.

Budget Guiding Principles.

Mr. Speaker, the 2025 Budget represents the Government for National Unity and Transformation's (GNUT) commitment to build a united, transformative and inclusive sustainable economic growth. The government recognises that Solomon Islands not only has the natural resources, but also has the human resources needed to support and further strengthen its economic initiatives, not only in 2025, but also in the years ahead. The government believes that by putting adequate resources to strategic key pillars of the economy, everyone can realise and benefit from more tangible outcomes in the future.

Mr. Speaker, the 2025 budget preparation was grounded on the following development objectives;

- (a) Promote more transformative and sustainable growth activities.
- (b) Maintaining an affordable Budget
- (c) Safeguard fiscal stability
- (d) Improve service delivery through quality spending
- (e) Improve national unity and empower people
- (f) Improve good governance and accountability

Mr. Speaker, with this general background, let me now turn to the macroeconomic outlook upon which the 2025 Budget was framed.

Economic Rebuilding Require Teamwork.

Mr. Speaker, the rebuilding of Solomon Islands economy require massive efforts from everyone, beginning from all of us in this Honourable house. It require better partnerships, more collaborative efforts by all government ministries and stakeholders to implement the 2025 Budget to improve the general quality of life that we all want for our people throughout the country.

5. Development Policy Priorities

Mr. Speaker, let me now outline to this Honourable House the fundamentals of the 2025 Budget.

Mr. Speaker, the Government is conscious about these economic challenges and is also aware that we have a very young population with increasing demand for quality education and health services, and more infrastructure development to boost growth in order to provide more employment opportunities for our growing population.

Mr. Speaker, the budget that I'm presenting to this honourable house commenced the implementation of GNUT Four Years Social and Economic Road Map and its Transformational Agenda.

Sir, the government's transformational agenda is reflected under the four foundational pillars, which includes economic transformation, infrastructure development, human capital development and unity and stability.

Economic Transformation

Mr. speaker, under Agriculture, the following projects are critical to support government's policy priorities;

- (a) The government is allocating \$20 million to revitalize and strengthen the rural economy through the Cocoa and Coconut Development Program. The government expects to increase cocoa export by 50% and copra export by 40%, ensure farmers are fully

equipped with tools for pruning, grafting and farm maintenance. Ensure training of farmers on proper pruning and grafting techniques and quality of beans. Equipment for driers, provide regular shipping to producing areas, ensure there is a revolving fund established for local buyers, provide fuel subsidy for local selected ship operators and provide nurseries for cocoa/coconut replanting.

- (b) Support of \$30 million to Agriculture Research Center. This project is designed to strengthen growth of agriculture through better Research and Development through developing a centre for agriculture excellence. This will benefit agriculture officers, farmers, SINU and other external research institutions as well.
- (c) Support of \$6 million to Cassava export chain, the program is designed to strengthen capacity to export large volumes of cassava abroad. The government expects to have a monthly export of around 30 – 40 tons of freshly frozen cassava. The government is investing to establish an Out-grower scheme, purchase of farm machineries for large scale commercial cassava farming, purchase of container refrigerator storage systems, and establishing a revolving fund for out grower farmers to purchase small tilling machineries.
- (d) Support of \$4 million to export treatment facilities – VHT, fumigation. The program is designed to establish capacity to export fresh pineapples, vegetables/spices, taro, mangoes and melons according to international standards.
- (e) The government expects to export Bi-monthly of 15-20 tons of fresh pineapples to the existing Australian market. Quarterly export of 5-10 tons of mangoes, melons and vegetables to other small island countries in the pacific. Construction of two fumigation chambers (fumigation machines already in the country). Full operationalization of the VHT plant (about to begin treatment trials), mass production of pineapples, storage shed for pineapples and export containers for pineapples
- (f) Support towards Piggery and Poultry Development Program. The government is allocating \$20m to strengthen import-substitution to improve food security and nutrition. The government expects to increase local production of eggs and meat by 30% and reduce imports of eggs and meat by 30%. The government is planning to produce 40 ha of maize

for feed, establish a feed mill, and establish a 20,000-day old chick egg hatchery, national pig breeding facility, 3 x slaughter facilities and support to farmers.

Mr. Speaker, Sir, under Fisheries, the government is prioritising the following;

- (a) Support to Bina Harbour Tuna Processing Plant Project. The government is allocating \$3.7 million towards the ongoing effort to establish a second tuna Processing Plant in Solomon Islands. The project will create more jobs and increase economic benefits for Solomon Islands.
- (b) Support to Freshwater Fish Hatchery. The government is allocating an additional \$12 million to improve food security and income generation. In 2025, the government plans to complete the outstanding onsite infrastructure and Equipment, importation of the GIFT species into Solomon Islands and partial operation of the hatchery. The government is targeting Tilapia Farmers throughout the country to benefit from this project.
- (c) The government is allocating \$4.7 million to support fisheries operation in provinces;
 - \$1.5 million towards Tataba Fisheries operation to improve income generation for the Provincial Government.
 - \$1.5 million allocated to support Russell Islands Fisheries Operation to improve income generation for the Provincial Government
 - \$1.7 million allocated to support Lata Fisheries Operation to improve income generation for the Provincial Government

Mr. Speaker, under Forestry sector, the government is strengthening and adding more resources to;

- (a) Support downstream processing & timber Value adding - The project is designed to promote and encourage downstream processing programs by implementing the Sustainable Logging Policy (SLP) recommendations and enhance timber production initiatives. The government expects to increase timber production and export by 5 to 10 percent in year 2025/2026. The government is also planning to replicate value-added timber association's (VATA) buying points to Western and Malaita provinces. Also, provision to subsidise freight of timbers for VATA financial members.

- (b) Strengthening monitoring, compliance & enforcement and legislative reforms in the forestry industry sector. The government plans to strictly enforce monitoring and compliance measures & legislative reforms to ensure sustainable and environmentally responsible logging activities, protecting forests for future generations and promoting ecosystem health, preserving biodiversity. This initiative strives to achieve a 100 percent on 10 percent log exports and volume checks, 50 percent on 100 percent checks on log exports volume checks. Reduce under scaling of logs as well as increasing revenue for SIG and Resource owners.

Mr. Speaker, under commerce, the government is allocating \$49.2 million, which includes;

- a) around \$17.5 million allocated to strengthen export and trade program, through providing cocoa and copra subsidy, grant support to CEMA and other export related support.
- b) \$9 million to targeted 6 economic growth centres in 5 provinces.
- c) Support of \$8.3 million to private sector and MSME development program, of providing funding support to MSME financing and credit scheme to DBSI and CBSI.
- d) \$6 million to support value added and downstreaming processing of food processing and packaging, cocoa and coconut value added and other related activities.
- e) \$6 million support to improve legislative reforms and \$4 million support to e-commerce program.

Mr. Speaker, under Tourism development the government, for the first time, is allocating a total of \$46.4million, a massive 364% increase from previous budgets, which include;

- a) \$18million to support Tourism operators, Youth Entrepreneurs and other tourism development facilities;
- b) \$2.4million towards the development of the National Tourism Product Program, which include the Bloody Ridge National Peace Park Projects and other products;
- c) \$8million to develop National Cultural Heritage and Tourism infrastructure Program.

Moving forward, the government fully appreciates that the successful development of this sector must involve the full participation of the private sector, operating in an investment environment that is attractive.

Infrastructure Development

- (a) Mr, Speaker, Sir, having proper and quality infrastructures is key to nation building and socio economic development. The government is therefore allocating more than 100 million to build our key infrastructures in Honiara and Provinces, this includes roads, wharves, buildings and street lights. The government is investing in key infrastructures to improve connectivity within islands and inter-islands or provinces to improve transportation of goods and services on a timely manner.
- (b) Mr. Speaker, the government is allocating \$45.2 million towards SIWA Infrastructure (Sewer Works Main Trunk completion by March 2025). The government expects a significant improvement in the overall infrastructure of the Solomon Islands Water Authority, leading to better sanitation and hygiene for residents, resulting in improved public health outcomes, enhance wastewater management efficiency and benefit both the environment and local communities in the region.

Education and Human Capital Development

- (a) The government's ongoing commitment to SINU is critical in our efforts to build our human capital. The government is allocating \$50 million to support building of physical infrastructure, technological capacity, and human resource capacity in order to create an enabling learning environment and to produce skilled workforce. SINU is expected to increase access to modern facilities and conducive learning environment. The grant provided should be used to fund specific infrastructure projects (13) specified in the SINU 2025 infrastructure plan.
- (b) Support to school infrastructures. The government is allocating \$16.7 million to support construction of classrooms, science laboratory and ablution blocks. The government expects to improve access to quality basic education. The government is planning to build 16 classrooms, 2 dining halls, 5 dormitories, 1 WASH, 2 Education Provider offices, and 4 rehabilitation/maintenance projects.

Unity and Stability

Mr Speaker, under ministry of Lands, Housing and Survey;

- (a) The government is providing a budgetary support of \$5.2 million to Customary Land Recording Project - The project is designed to strengthen customary land rights of relevant landholding groups through the recording of customary land holding groups, rights, and customary land boundaries. Also, to co-ordinate and connect relevant stakeholders including Development Partners, line ministries, and other relevant stakeholders and also to promote reconciliation and settlement in the land recording process.

Mr. Speaker, the government expects to produce a formal documentation of customary land rights, a legal recognition for protecting these rights against encroachments or disputes, prevent conflicts among landholding groups and foster peaceful coexistence, manage and utilize their land effectively for economic and social development, leading to improved livelihoods and economic opportunities for community members and groups to engage in sustainable land use and development planning.

Mr Speaker, under constituency rural development, support of \$330 million is provided towards CDF Program. This is designed to improve Livelihood of Communities. The government expects to increase participation of rural communities in local economic activities and improvement in social and economic infrastructures in communities throughout the 50 constituencies.

Health

Mr Speaker, in terms of health, the people of our beloved country should be grateful because the government is committed to continue to bring free health care services to our people. In this effort, the government is allocating around \$44 million, of which \$32 million is allocated towards building 8 Area Health Centres and Rural Health Centres including medical equipment in 6 provinces in 2025.

6. 2025 Budget Overview and Framework

Overall Budget Deficit

Mr. Speaker, the government has planned for an overall deficit of \$1.274 billion in the 2025 budget with total consolidated revenue estimated at \$3.877 billion, and a total of \$5.152 billion

in expenditures to provide efficient and more quality services for our people. Of the total consolidated revenue estimates, total domestic SIG revenue is estimated at \$3.781 billion. The government remains confident that the balance of \$1.274 billion will be financed from both external and domestic sources to ensure the fiscal stability and credibility of the budget is maintained.

Mr. Speaker, of the \$1.274 billion projected budget deficit, the government has already secured \$870.0 million from its normal multilateral and bilateral partners. The government remains hopeful to fund the remaining \$404.4 million from other donor partners and domestic sources during the year.

Mr. Speaker, the \$5.152 billion in total estimated consolidated expenditures consists of \$4.099 billion in recurrent expenditures, and \$956.7 million in development expenditures. A total of \$20.0 million is also budgeted as Contingency Warrant provision for 2025.

Revenue Estimates.

Mr Speaker, the total revenue estimates for 2025 is \$3.878 billion. This consists of \$3.782 billion in normal Government revenues, and \$95.9 million in Budget Support revenue from our donor partners.

Sir, in terms of funding sources, the total domestic revenue are expected from the following sources;

- (a) Inland Revenue Division (IRD) - \$2.247 billion;
- (b) Customs and Excise Division - \$1.038 billion; and
- (c) Other Ministries - \$496.3 million.

Mr. Speaker Sir, the level of revenue estimates for both the IRD and Customs are relatively higher than in 2024. The growth in revenue from both sources are in line with the forecasted economic growth for the year, and ongoing revenue enhancement measures planned for the year in both divisions.

Sir, all sources of revenue under the IRD, including company tax, personal tax, withholding tax, goods tax, stamp duty and licence fees are also forecast to increase in 2025. The same

picture is also foreseen for all revenue sources under the Customs Division, namely import duty, export duty, exercise duty and fees, charges and others.

Recurrent Expenditures.

Mr. Speaker Sir, let me now turn to the 2025 recurrent Budget.

Sir, the government recurrent budget expenditures for 2025 is \$4.099 billion. This consists of \$1.702 billion for payroll budget, \$2.377 billion for other charges, and \$20.0 million in Contingency Warrants.

Mr. Speaker, as usual, the 2025 budget is a very tight budget and the government will need to realistically plan and prioritise its activities in order to achieve tangible outcomes within the 2025 financial year and avoid any commitments that will further derail government's fiscal situation.

Mr Speaker, in this regards, the government has taken a drastic decision to reduce overall SIG expenditure within the SIG revenue estimates in order to maintain fiscal stability and affordability of the government fiscal plan in 2025. This is to ensure funding is always readily available to pay all government suppliers on time.

7. Tax Policy Reforms.

Mr. Speaker, the government is aware that Solomon Islands current tax system has not supported growth over the past years. It remains a major constraint to business. It is not only complex, but also costly to administer.

However, at the same time, government is also aware that taxation is the only practical means of raising revenue to support quality service delivery throughout the country.

Mr. Speaker, tax reform remains a key priority for the current Government. The objective of the tax reform is to simplify the tax system and encourage a more efficient, transparent, fair and competitive tax system. This will reduce collection costs and promote compliance, produce a level playing field and lessen opportunities for rent-seeking.

The reform includes the introduction of a Broad based consumption Tax, modelled on VAT and the abolishment of a number of taxes to ensure fairness and efficiency. Amongst other objectives, the redesigning of the tax system should also focus on the cost-effectiveness of revenue collection and its overall excess burden on the overall economy.

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 move money safely, efficiently and swiftly.

Mr speaker, the Financial Sector of the Solomon Islands is currently going through various review of its legislation. As stipulated in the GNUT policy 8.1.4 (b) that supports the Financial sector reforms to promote a modern and resilient financial system that supports economic growth. This includes reviewing of the Financial Institutions Act, Insurance Act and developing regulations to create and enable the environment to support the development and expansion of financial services.

Sir, the review of the National Provident fund Act is also needed to improve the legislative framework for the operation and prudential regulation of the fund. Members should have confidence that their savings are being invested in a prudent manner and to ensure the funds is working in the best interest of its members. Progressing the Solomon Islands National Provident Fund Bill is one of the GNUT Government's strategic actions to expand access to finance and underpin economic growth in Solomon Islands.

Progress on Fundamental Reforms.

Mr. Speaker, Government acknowledges that the country also faces many development and growth constraints. These range from lack of access to financial services, lack of competition in key areas, shortage of needed skills, access to land, lack of quality infrastructure, weak institutions, poor governance, and lack of employment opportunities and high cost of doing business in Solomon Islands.

Sir, the government aims to address the ongoing development constraints through embarking on both structural and institutional reforms across the government; including tax reforms, land reforms, foreign investment attraction strategy reform, reforms to address the high cost of

utilities, improving good governance and developing robust legislations and policies to drive investment and growth.

Mr. Speaker, to achieve these objectives, Government encourages strong collaboration and coordination amongst all ministries in terms of planning and implementation of the 2025 budget, ensure key sectors establish working relationships to address cross-cutting needs through cost sharing arrangements to fast-track implementation of key government priorities.

Mr. Speaker, in advancing the better partnership and fruitful relation we continue to enjoy, Government will also work closely with our development partners during the course of implementing the development investment priorities in 2025 and onward.

8. Debt Outlook

Mr. Speaker, let me now turn to the country's debt outlook for 2025.

Mr. Speaker, the stock of official government debt at the end of October 2024 was \$3.0 billion, 21 percent higher than the stock of debts at the end of 2023. This consists of \$1.16 billion in domestic debts, and \$1.90 billion in external debts. In terms of debt servicing, the government has so far paid a total of \$338.5 million, consisting of \$285.4 million in principal payments and \$53.1 million in interest payments, up to October 2024.

Mr Speaker, I wish to assure members of this House that SI Government debt position is at moderate level, a position we would like to maintain for the next 4 years. The recent comments from the IMF Article IV Team states that indicators shows that the overall risk of debt distress in Solomon Islands remains moderate, while the risk of external debt distress has improved from moderate to low. This outcome reflects prudent management by the Ministry of Finance to ensure we borrow mainly from high concessional sources that offer low costs with longer durations.

Mr Speaker, the Government anticipates our total debt stock to be around \$3.2 billion by end of December 2024, or 24 percent of GDP. The bulk of debt are denominated in foreign currency; this comprise \$1.9 billion and the balance are local currency bonds. The current debt/GDP ratio of 24 percent, is below the IMF benchmark of 35% of GDP. According to IMF Article IV Team, it might take Solomon Islands 10 years to hit the 35 percent target if all

factors remain unchanged. But that is unlikely to happen as the GNUT is committed to sound public financial management in the medium term, to diversify the economy and ensure our growth is broad based. Most importantly, we will ensure borrowing is sustainable, not only that SIG can pay back our debt obligations but ensuring that future generations will be able to enjoy the same resources and natural wealth as the present one, in a more equal, inclusive, and enduring fashion.

Mr. Speaker, the government will continue to borrow in 2025 and in the years ahead to fund the much needed infrastructure around the country. Borrowing is important to meet governments funding requirements as well as to achieve national long-term economic and social development objectives. Expected borrowing is estimated at \$900 million, of which \$300 million will be raised through development bonds. Government is borrowing domestically as part of its capital development program to develop the local capital money market, allowing opportunity for commercial banks, SOEs, Clubs and private individuals to actively participate. I would like to encourage members of the public to invest by participating in the Government bond auction program. SIG will be borrowing \$600 million from abroad, most of these loans will be highly concessional, with maturities around 40 years, interest rate at 1 percent and grace period of 10 years.

Mr Speaker, to maintain a sound legal framework and governance in future borrowing commitments, Cabinet has approved the Medium-Term Debt Strategies (2025-2027) and the Debt Sustainability Analysis that provides an effective platform for debt management in Solomon Island. Both of these documents have been verified by PFTAC/IMF and our bilateral partners, and were found to be sound.

9. Budget Risk Statements.

Mr. Speaker, domestic risks to the economic outlook reflect external buffers, subdued investor enthusiasm and lower fiscal revenue due to the internal and external shocks. At present, lower economic growth relies disproportionately more on expansionary fiscal policy and unsustainable logging. The impact of shocks 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.

Mr. Speaker, although logging is expected to subtract from growth, other sectors are expected to grow in the near term. The government will be implementing a number of measures aimed at improving revenue collection in 2024/2025, including minor amendments to the Goods Tax Act, review of the Non-Tax Revenue sources and other additional compliance work, to strengthen the revenue sources of the Government.

Mr. Speaker, Sir, the uncertainty of commodity prices 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 economic 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.

Political instability

Mr. Speaker, political instability always poses risks to national progress. It should be noted that changes in government will change government priorities, which may cause disruption to reform activity and may reduce broader economic activity and presents a downside risk to growth.

Natural disasters and other extreme events

Mr Speaker, Sir, 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 on Government finances.

This lingering risk underscores the importance of sufficient cash-buffers to assist the country manage such events.

Cash flow risks

Mr Speaker, Sir, having a deficit budget means that some part of the expenditures is still not covered by projected revenue estimates. Therefore, there is a risk if the projected estimates are not achieved and may have some unintended consequences, which includes;

- Delay in the implementation of the government priorities and services
- Accumulation of payments in the system
- Imposition of spending restrictions to control expenditures and high expectations
- Delay payments to suppliers and vendors
- Refocussing of revenue to new additional or supplementary pressures.
- Undermining public trust and confidence on the government

Delay of Donor Funded Development Financing

Mr. Speaker, Sir, on the development financing fund, the Government will be talking to Development Partners, both bilateral and multilateral partners to ensure the secured development financing fund is released earlier in order to meet the needs and priorities of the government when required.

10. 2025 Appropriation Bill 2024

Mr. Speaker, the 2025 Appropriation Bill 2024, calls for \$4.832 billion to be applied to the service of the 2025 financial year, including \$3.779 billion in recurrent budget, \$95.941 million in budget support and \$956.726 million in total development expenditure. The appropriation excludes \$299.692 million for the statutory expenditures including \$263.400 million for national debt servicing.

Sir, the borrowing limit that government can borrow or agree to borrow is \$900.0 million, specifically for priority infrastructures and development initiatives from multilateral, bilateral development partners and domestic financial institutions.

The total sum that can be issued by the Minister through Advance Warrant must not exceed \$150 million at any one time.

The Contingency Warrant provision of \$20 million has been allocated to cover both unforeseen and urgent spending during the year. This is covered within the 2025 revenue estimates.

Non-Appropriated Estimates

Mr Speaker, Sir, in addition to the 2025 recurrent budget estimates, the 2025 development budget document also presents a \$1.104 billion of non-appropriation estimates from Development Partners to Parliament. This is presented to acknowledge additional funding provided by our development partners to serve our people of Solomon Islands through other programs outside of SIG processes and systems. This funding is managed and implemented directly by NGOs and ministries and does not form part of the appropriation.

Sir, this information is collected by the Ministry of National Planning and Development Coordination through its Development Cooperation Division to ensure utilization of external and domestic resources are align to the objectives of the National Development Strategy (NDS2016-2035) as required by the Aid Management and Development Cooperation Policy.

Mr. Speaker, although the implementation of the Aid Management and Development Cooperation Policy is expected to result in a gradual decrease in off-budget support, data received from ten (10) ministries, showed that off-budget support still remains high.

Mr. Speaker, these non appropriated funds go towards implementation of projects, sectoral policies, strategic plans, and capacity building which include monitoring and evaluation, resilient, adaptation, to name a few.

Sir, going forward, the Ministry of National Planning and Development Coordination needs to work closely with the ministries, implementation agencies and development partners to properly gauge information on the implementation status of the projects and whether project fundings in the country are aligned to government priorities.

Mr Speaker, Sir, the Government through MNPDC recognized the need to strengthen the level of engagement with the development partners to improve on gaps and challenges faced and to ensure objectives of the Aid Management and Development Cooperation Policy is achieved.

11. Strategy to Finance the 2025 Budget

Mr Speaker, Sir, let me assure this Honourable House, that I am confident and optimistic that the government will secure additional funds on top of what has already been secured of \$870.0 million from our Development Partners and external borrowing to finance this development budget shortfall.

(A) SIG Domestic Development Bond Issuance

Mr. Speaker Sir, the local capital market is a major source of financing for the Government; the current investors are the financial institutions, State owned entities, small and medium enterprises and private individuals. These participants continue to actively trade in our bond and T-bills auctions on regular basis.

Mr. Speaker, latest financial data on the economy showed that the broad money, which is the comprehensive measure of an economy's money supply, including both cash and easily convertible assets has been on the rise, from \$5.7 billion in December 2022 to around \$6.2 billion as at June 2024. That's an increase of 14 percent. This assures us that the level of liquidity is on the rise and investing in equity or debt instrument is priority for these holders of funds to maximise their return.

Sir, as two agencies sharing the same vision and mandate, CBSI will collaborate with MOFT to improve investor relations, build confidence amongst institutional investors, increased presence in market through regular roadshows and issue debt instruments that meets the investor appetite.

Mr. Speaker, for this reason, I wish to assure this Honourable House of the following measures for 2025;

- Price and yield of Government bonds will be market determinant instead of being fixed as the current practice;

- MOFT will float treasury bills regularly, with various maturities to meet demand from investors who prefer to stick to short-term; giving them options to re-invest to suit their investment plans.

Mr. Speaker, based on the above measures, the Government is confident of raising \$300 million in domestic bonds to support the financing of the development budget that will generate more employment, increase economic activity and therefore strengthen our nominal GDP.

(B) Increased dialogue with Development Partners & Strengthen Tax compliance.

Mr. Speaker, the government will also be taking serious measures to ensure the 2025 budget is implemented as planned, by taking the following measures;

- Carry out ongoing dialogue with our development partners to secure additional development financing funds,
- Strengthened compliance by IRD and Customs, including tax exemptions.

(C) 2025 Additional Revenue Measures.

Mr. Speaker, the government also plans to take the following policy actions as part of its efforts to finance the development budget;

- The government is committed to regain fiscal stability and discipline to rebuild fiscal buffers that has been depleted over the recent years due to global economic and domestic shocks that impacted SIG financial position.
- Government agents such as IRD, CED and Non-Tax Revenue (NTR) collection from other ministries are urged to strengthen and improve their measures to control and further avoid leakages at every points. This will further increase revenue collection of around \$20 – 30 million in 2025. This includes improved debt recovery and arrears collections from taxpayers, managing fiscal and administrative tax incentives, auditing and investigating activities and strengthening compliance measures.

- There is a great need to strengthen and improve the collection of NTR as this can help boost additional SIG revenue collections by \$10 million. Of that \$10 million, additional \$2 million is expected from Ministry of Commerce, \$2.5 million from the Ministry of Lands and Housing, \$1 million from the MID, an additional \$3.5 million from Ministry of Fisheries and \$1 million from other small line ministries.
- Other anticipated additional revenue measures that will be strongly pursued are as follows;

(a) Re-introduction of Export Duty on Bauxite	– \$5.4 million
(b) Alcohol Excise Increase	– \$3 million
(c) Re-introduce Export rate of 5 percent on Gold Exports	– \$1.5 million
(d) Raise the export duty rate on Nickel Exports.	- \$5.5 million
(e) Propose to increase license fees on vehicles.	- \$2.0 million
(f) Vehicle Pollution Tax	– \$1.8 million
(g) Implement a number of new revenue policy measures for mining and tobacco	– \$5.0 million
(h) Strengthen monitoring of logging operations and revenue collection conducted by various key enforcement agencies	– \$5.0 million

Mr. Speaker, the government will introduce the above revenue measures going forward in order to maintain a stable and manageable budget in the medium to long terms.

Sir, on the expenditure side, government will strengthen its due diligence on the quality of expenditure and ensure value for money principle is applied, and also carry out a mid-year budget review on SIG revenue and expenditures, and prioritise key government priorities accordingly.

12. Budget Monitoring & Implementation.

Mr. Speaker Sir, as in previous years, the execution of the 2025 Budget will not be easy. As part of monitoring the 2025 budget implementation, my ministry will be strictly enforcing Ministries compliance with the Solomon Islands Government procurement and payment processes. A further austerity circular is being finalized and will be circulated to all Ministries in early 2025 to ensure that Payments are consistent with government guidelines and only

spent in these priority areas. This circular will set out clear expectations for robust expenditure controls in all government ministries.

Mr. Speaker, the Financial Management Information System (FMIS) project which has been underway for the last years will significantly improve financial governance and oversight across SIG. Monthly financial reporting will be the new reporting features available in the new system.

Sir, my ministry will continue to perform its mandated responsibilities and under the leadership of Treasury will revamp its expenditure control and compliance, including additional scrutiny on areas that have high risk of leakages, wastages and abuse. The key features of the expenditure control and compliance measures are as follows;

- With the recent upgrading of the Aurion payroll system we will now fully utilise its reporting features which will allow us to accurately verify and validate variations from normal payroll baseline, thus providing a better check on payroll fluctuations against its budget and baseline.
- The system will also enable more timely and accurate information flow between Aurion and the FMIS (D365), which facilitates better monitoring of payroll movements in all ministries at department levels and at aggregate level.
- There will be stricter prioritisation of payments in the order of payroll, debt servicing, essential services (health, education and police and border control authorities), utilities (power, telecom, water, rent, fuel, and gas), legitimately authorised contract instalment payments, and provincial grants.
- In regard to compliance, more rigorous compliance will be applied to imprests, simple procurement, travel (domestic and international), advance payments for goods and services yet to be delivered.
- Procurement training and awareness will be conducted across all ministries and procurement regulations and rules will be enforced. We have sought additional resources from partners to support these training initiatives.
- Unauthorised prior procurement will be curtailed through tight enforcement of procurement regulations and procedures. Retrospective approvals for bid waivers and variations will not be entertained.
- Development budget expenditures will be thoroughly vetted to verify physical progress of projects against contract schedule of instalments.

- All payments will be scrutinised to ensure that its purpose of appropriation is met and that there is value for money and economy.
- Financial Controllers will now all be contracted with specific deliverables in their contracts on carrying out their responsibilities under the Public Financial Act 2013. This will be a mandatory component of the assessment of their performances.
- Training of the accounting cadre will be ramped up, and MOFT will continue with the upgrading of their qualifications in collaboration with the Institute of Solomon Islands Accountants (ISIA) and Institute of Public Accountants (Australia).
- A public expenditure and financial assessment (PEFA) exercise will be undertaken next year jointly by the multilateral and bilateral partners, and the outcome of this assessment will be the laying out of a prioritised and sequenced public financial management action plan which will guide the strengthening of SIG's PFM systems in the next five years.

Maintain Fiscal Discipline

Sir, the government is committed to implement the 2025 Budget as planned, and ensure adequate resources are allocated to legitimate contractual commitments and policy priorities. The 2025 Budget will be the necessary vehicle to stimulate growth again, investment opportunities and better service delivery outcomes for all.

As usual, all ministries and agencies are required to put together comprehensive procurement plans and documentations as soon as possible, so that implementation of the 2024 budget, especially the development component is not unnecessarily delayed.

Mr. Speaker, it is the responsibility of all accounting and accountable officers, Permanent Secretaries, Deputy Secretaries, Financial Controllers, Human Resource Managers and Directors to uphold the PFM Act 2013 and also Financial Circulars which will be issued to ministries after this Appropriation.

Furthermore, Ministries are strongly reminded not to commit the government into contractual commitments without securing funding. This is to avoid rolling over arrears into 2025.

Mr. Speaker Sir, in order to facilitate the smooth operation and delivery of government services to our people, all Ministries are urged to provide revised costed work plans, procurement plans and ensure spending is in line with those plans.

13. Acknowledgements

Mr. Speaker, every National Budget involves countless hours of analysis and review; for everyone involved, it is a delicate dance.

Mr. Speaker, putting limited money to best use is not an easy process since, there will be purposes and projects that do not make the final cut. As always, we are grateful to the public officers, elected representatives and other stakeholders for their contribution to this effort.

Mr. Speaker, as all Members in this Honorable House will note, the last five years was a very challenging period for the government, private sector businesses, faith-based organizations, our bilateral and multilateral partners and everyone in the country.

Mr. Speaker Sir, on behalf of the political government, I wish to acknowledge all the efforts and contributions from all of you and everyone who have contributed in one way or the other in lessening the pains we have gone through together during the year.

Mr. Speaker, everyone's contribution have exemplified the resilience and indomitable spirit of our people and country, Solomon Islands. I hope we can all maintain this spirit in 2025 and in the years ahead.

As a country, we have survived the challenges that had beset us throughout the last five years because our development partners had not forshaken us. And so, on behalf of the Government, Provincial Governments, and all citizens of this country, I wish to thank all our donor partners for standing with the country and supporting Government's efforts to regrow the economy during these trying times.

14. Closing Remarks.

Mr. Spaker, the 2025 Budget forecast spans a spectrum of activities, with the majority being in infrastructure development, tourism and hospitality, but also agriculture, mining, business development, and a host of activities in rural areas.

Mr. Speaker, there will be setbacks and flaws, but this Government is committed to rekindle hope in our people because the 2025 Budget will touch their lives in so many positive ways.

Mr. Speaker, the 2025 Budget will touch our people lives at a clinic, or a hospital, or at a school; whether it is by the positive conduct of a nurse, a police officer or a public officer; whether it is the birth certificate or the passport, or the social security card; whether it is the salary, or pension or gratuity; whether it is new street or drain, or the new highway, the machine of governance oiled by the 2025 National Budget will touch the lives of all the citizens we serve in so many ways.

Mr. Speaker, on the broad global canvas, the 2025 Budget aims to advance our status as an independent nation-state and fortifies our engagement with the region and the world.

Mr Speaker, in closing, let me again remind this Honourable House that our nation has been sorely tested by a series of shocks over the last five years. Never has our nation suffered like this. Unfortunately, some of of these have been self inflicted on ourselves. We hope, we have learnt a lesson and will not repeat the same own self inflicted mistakes again.

Mr. Speaker, the journey to economic recovery and transformation that we have embarked on requires us to unlock the potential of our country and build resilience through inclusiveness and partnerships. This calls for hard work, perseverance and discipline to achieve our shared vision.

Mr. Speaker, the journey to a better Solomon Islands is a collective one. It requires active participation of all citizens. Together, we can overcome the challenges we face today. Together, we can build the Solomon Islands that we all want. Together, we shall benefit from our wealth and prosperity. And together, we will march towards our common Vision of becoming a prosperous middle-income nation in 2035.

Mr. Speaker Sir, the Budget I have presented today is a clear demonstration of GNUTs commitment to unlocking the economy, uplifting the livelihoods of our people and providing a conducive environment for private sector participation. We have made strides in restructuring our external debt and in restoring fiscal discipline. We have increased the allocation to infrastructure development, and we have provided incentives to the private sector.

Mr. Speaker, despite the onslaught of COVID-19, self-inflicted pains of the riots, and global trickle effects of the Russian-Ukraine war, the government remained firm and had continued

to do the right thing by focussing on rebuilding the economy by taking very painful but corrective fiscal measures to ensure vital services continued during the years.

Mr. Speaker, the very fact that we have survived the combined forces of COVID-19 and the politically driven riots was not a mistake, but the result of God's mercy and loving interventions through the prayers of our people.

Mr. Speaker, as I said before, good governance and strong ethical leadership is more than just politics and economics. It is about DOING THE RIGHT THING even when we have differences.

Mr. Speaker, as Minister for Finance and Treasury, I appeal to all citizens of our beloved country, Chiefs, Church and Community leaders, NGOs and Civil Society organizations, Premiers and Members of Provincial Assemblies, Public Servants and the general populace of Solomon Islands to support the government and work in partnership to lay the foundations for recovery, growth and prosperity in our country.

Finally, I wish all Members of this Honourable House, your families, hardworking Public Servants, private sector businesses, NGOs, Chiefs, church leaders, women and youths of this country a happy Christmas Greetings and celebrations. Let us all join hands and acknowledge that without God's mercy, protective hands, and unwavering love and guidance, Solomon Islands would not have come this far, despite the many challenges that we have faced over the years.

For this, we give thanks to God because in him, through him, and only with him alone can we **"Accelerate Transformative Investments Towards Achieving a Resilient and Sustainable Economy"**, from shore to shore.

Mr. Speaker, with these remarks, I commend this Bill to the Honourable House and I beg to move.