



SOLOMON ISLANDS

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

July 2026

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the with Solomon Islands, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on March 20, 2026, with the officials of the Solomon Islands on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 10, 2026.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF staff.

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

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IMF Executive Board Concludes 2026 Article IV Consultation with Solomon Islands

FOR IMMEDIATE RELEASE

- *The war in the Middle East is expected to weigh on growth, slowing it to 2.6 percent in 2026, and to raise inflation to an average of 5.4 percent.*
- *Reducing fiscal deficits and rebuilding liquidity buffers through realistic budgeting is critical. Measures to mitigate the impact of the war should be strictly time-bound, preserve price signals, be as targeted as possible, and be well coordinated with donors.*
- *The central bank should remain ready to tighten monetary policy in response to developments in the Middle East, while avoiding ad-hoc exchange rate adjustments. The current fixed exchange rate regime is calibrated to limit exchange rate volatility and support price stability.*

Washington, DC – July 7, 2026: On June 29, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Solomon Islands.¹

Economic activity in 2025 exceeded staff expectations. The economy is estimated to have grown by 3.5 percent, following 3.0 percent growth in 2024, supported by strong gold production, agricultural output, and progress in infrastructure projects. Inflation averaged 2.7 percent. Staff estimates that the current account balance surged to a surplus of 5.6 percent of GDP in 2025, driven by gold and agricultural exports, while the fiscal deficit is estimated to have widened to 3.9 percent of GDP, reflecting continued spending pressures and progress in externally financed infrastructure projects.

The Middle East war is expected to weigh on growth and heighten inflationary pressures in 2026. Growth is projected to slow to 2.6 percent, while inflation is expected to rise to an average of 5.4 percent, reflecting higher fuel prices. The current account is projected to return to a deficit of 3.4 percent of GDP, weighed by fuel and food import prices. Staff expects the fiscal deficit to widen to 4.1 percent of GDP, amid significant budget implementation risks arising from depleted cash reserves, revenue uncertainty, and limited investor capacity to absorb government bonds.

Risks to the outlook are firmly tilted to the downside, notably from prolonged geopolitical tensions, domestic political instability, and budget financing constraints. Upside risks include a further expansion of gold mining—if supported by robust resource management and limited fiscal incentives—and additional donor support.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment²

In concluding the 2026 Article IV consultation with Solomon Islands, Executive Directors endorsed staff's appraisal, as follows:

Staff projects growth to soften and inflationary pressures to rise in 2026. Growth is expected to remain moderate over the medium term, supported by agriculture, mining, and infrastructure projects, but constrained by declining logging activity, limited diversification, and weak governance. Current account deficits are projected to persist, while strong gold exports and continued aid inflows are expected to support rising reserve coverage. Solomon Islands' external position in 2025 was assessed as broadly in line with fundamentals. Staff expects continued fiscal deficits leading to higher public debt, while the risks of external debt distress and overall debt distress remain low and moderate, respectively. Risks to the outlook are firmly tilted to the downside, notably from prolonged geopolitical tensions, domestic political instability, and budget financing constraints.

Reducing fiscal deficits and rebuilding liquidity buffers is critical at this juncture.

Depleted cash balances and rising debt underscore the need for realistic, fully financed budgets to avoid disruptive budget freezes. Staff's advice—capping domestically financed deficits while steadily rebuilding cash balances—therefore remains appropriate. Reallocating resources away from the CDFs and strengthening coordination with donors would enhance spending efficiency. Further delays in introducing a VAT should be avoided, and efforts to strengthen tax enforcement and rationalize exemptions, particularly in extractive industries, should be accelerated. Measures to help mitigate the impact of the war should be strictly time-bound, preserve price signals, be as targeted as possible, and be well coordinated with donors.

Long-standing weaknesses in PFM continue to undermine fiscal transparency and credibility. Persistent delays in fiscal reporting, audits of government financial statements, and the completion of the Pacific Games audit weaken accountability. Immediate priorities include resuming regular inter-agency coordination meetings to facilitate fiscal reporting and completing the FMIS upgrade. Strengthening procurement, audit, and debt management capacity across government remains critical.

Solomon Islands should begin considering a medium-term fiscal framework to properly manage mineral resource revenues. Effective implementation of such a fiscal framework requires strengthening basic PFM functions, including realistic budgeting and timely, reliable fiscal reporting.

The CBSI should remain ready to tighten monetary policy in response to inflationary pressures stemming from the Middle East war, while avoiding ad-hoc exchange rate adjustments. The primary response should be to allow the exchange rate to move in line with the currency basket, as it is calibrated to limit exchange rate volatility and support price stability. Adherence to the fixed exchange rate regime is essential to preserve policy credibility and transparency and to support market development. Adopting a coherent foreign exchange market policy would strengthen policy consistency and communication with market participants.

² The Executive Board takes decisions under the lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Staff welcomes the CBSI's commitment to modernizing its monetary policy operations and encourages phased but steady implementation of the reform agenda. Near-term priorities include gradually absorbing excess liquidity in the banking system and introducing standing facilities linked to the policy rate. Establishing effective monetary policy operations would help the CBSI better manage a potential surge in foreign exchange inflows associated with an expansion of mining activity.

While the financial sector remains broadly sound, addressing gaps in financial stability, inclusion, and integrity remains crucial. Priorities include upgrading legal and regulatory frameworks, strengthening risk-based supervision, and establishing a framework for crisis management. Completing the rollout of the outstanding National Payment System components would further support financial inclusion. The authorities should expedite legal reforms to establish a robust AML/CFT system.

Diversifying the economy and addressing governance weaknesses are key to achieving sustainable and inclusive growth. Staff welcomes the authorities' focus on boosting productivity in agriculture, while improving the business environment and addressing infrastructure gaps remain priorities. Efforts to address governance weaknesses should be accelerated, including by advancing legislation in extractive sectors and resuming the implementation of the National Anti-Corruption Strategy.

Slow moving climate change is expected to have incremental but meaningful cumulative effects on the economy and debt trajectory over the long term. Staff's assessment highlights the need for adaptation policies, particularly to mitigate impacts on populations vulnerable to sea-level rise. A critical first step is to build basic PFM capacity to prioritize, execute, and monitor climate-relevant projects.

Strengthening core capacity for sound macroeconomic management remains the near-term IMF CD priority. Data provided by the authorities continues to exhibit some shortcomings that somewhat hamper surveillance, particularly in national accounts and GFS. The IMF continues to support efforts to address these gaps. Other immediate priorities include strengthening PFM, establishing a medium-term fiscal framework for managing resource revenues, improving monetary policy and foreign exchange operations, and enhancing financial sector stability.

It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.

Table 1. Solomon Islands: Selected Economic Indicators, 2023–2031

Per capita GDP (2025): US\$2092									
Population (2025): 798,079									
Quota: SDR 20.8 million									
	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Est.	Est.	Proj.						
GROWTH AND PRICES	(In percent change, unless otherwise indicated)								
Real GDP	2.8	3.0	3.5	2.6	2.8	2.8	2.8	2.9	2.9
CPI (period average)	5.1	4.2	2.7	5.4	4.8	4.1	3.9	3.4	3.0
CPI (end of period)	4.3	5.6	-1.4	5.4	4.3	4.0	3.8	3.0	3.0
GDP deflator	2.5	3.1	4.1	5.6	3.7	3.4	3.5	3.5	3.5
Nominal GDP (in SI\$ millions)	12,615	13,392	14,431	15,625	16,657	17,707	18,832	20,052	21,344
Nominal GDP (in US\$ millions)	1,506	1,584	1,733	1,876	2,000	2,126	2,262	2,408	2,563
CENTRAL GOVERNMENT OPERATIONS	(In percent of GDP)								
Total revenue and grants	40.1	37.2	39.0	37.8	37.7	37.3	37.4	37.2	36.6
Revenue	25.2	25.4	28.2	27.3	28.0	28.2	28.4	28.5	28.7
Grants	14.8	11.8	10.7	10.5	9.7	9.1	9.0	8.7	7.9
Total expenditure	44.2	39.6	42.8	41.9	40.9	40.3	40.1	39.9	39.1
Expense	32.2	31.9	32.0	31.8	31.1	30.7	30.6	30.6	30.3
Net acquisition of nonfinancial assets	12.0	7.7	10.9	10.1	9.8	9.6	9.5	9.3	8.8
Net lending (+) / Net borrowing (-)	-4.1	-2.4	-3.9	-4.1	-3.2	-3.0	-2.7	-2.6	-2.5
External	-2.9	-3.0	-2.7	-3.3	-2.4	-2.3	-2.0	-1.8	-1.8
Domestic	-1.2	0.6	-1.2	-0.8	-0.8	-0.7	-0.6	-0.8	-0.7
Central government debt 1/	23.1	26.6	29.5	32.1	34.1	34.9	35.3	35.6	35.9
Public domestic debt	9.4	8.8	9.3	9.3	9.4	9.4	9.3	9.4	9.5
Public external debt	13.6	17.7	20.2	22.8	24.7	25.6	26.0	26.2	26.4
MACROFINANCIAL	(In percent change)								
Credit to private sector	4.7	5.2	2.5	2.9	3.5	4.5	5.0	5.5	5.7
Broad money	6.1	3.8	23.5	12.0	10.0	8.0	8.0	8.0	6.4
Reserve money	9.9	13.3	8.6	15.0	12.0	10.0	9.0	8.0	6.4
BALANCE OF PAYMENTS	(In percent of GDP, unless otherwise indicated)								
Current account balance	-11.4	-4.2	5.6	-3.4	-3.5	-3.1	-3.1	-3.1	-3.2
Trade balance (goods and services)	-21.8	-13.5	-3.1	-11.9	-11.9	-11.6	-12.0	-11.9	-11.8
Exports	35.9	40.4	52.4	50.0	47.4	45.7	44.2	43.4	42.9
Imports	57.7	53.8	55.5	61.9	59.3	57.3	56.3	55.4	54.7
Gross Remittances	4.1	4.9	4.5	4.6	4.7	4.9	5.1	5.1	5.1

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	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Est.	Est.				Proj.			
Capital and Financial Account	15.0	3.4	4.6	9.6	8.4	7.1	6.7	6.5	6.4
Foreign direct investment, net	-4.8	1.2	-3.1	-1.8	-1.8	-1.7	-1.7	-1.7	-1.7
Overall balance	3.6	-0.7	7.8	6.2	4.9	4.0	3.6	3.4	3.2
Gross official reserves (in US\$ millions, end of period) 2/	678.8	683.3	814.9	931.6	1,029.3	1,114.0	1,194.6	1,276.8	1,359.5
(in months of next year's imports of GNFS)	9.6	8.5	8.4	9.4	10.1	10.5	10.8	10.9	11.0
EXCHANGE RATE (SI\$/US\$, end of period)	8.5	8.5	8.1	...	...	...	...	...	...
Real effective exchange rate (end of period, 2010 = 100)	135.8	139.5	142.8	...	...	...	...	...	...
Sources: Data provided by the authorities; and IMF staff estimates and projections.									
1/ Includes disbursements under the Rapid Credit Facility (RCF).									
2/ Includes SDR allocations made by the IMF to Solomon Islands in 2009 and in 2021.									



SOLOMON ISLANDS

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

June 10, 2026

KEY ISSUES

Context. Economic growth and the external position strengthened in 2025, supported by export-led production in mining and agriculture. Further expansion of gold mining could boost growth and generate sizable fiscal revenues, if it is managed prudently with limited fiscal incentives. However, the country faces heightened risks from the war in the Middle East, while underlying fragilities, including weak state capacity and political instability, persist. Depleted government cash buffers, together with long-standing weaknesses in public financial management (PFM) and governance, continue to constrain effective policy implementation.

Main Policy Recommendations.

- **Fiscal policy.** Reducing fiscal deficits and rebuilding liquidity buffers is critical. This requires realistic, fully financed budgets guided by simple, top-down guidelines. Measures to help mitigate the impact of the war should be strictly time-bound, preserve price signals, be as targeted as possible, and be well coordinated with donors. Further delays in introducing a value-added tax (VAT) should be avoided, and addressing persistent weaknesses in fiscal reporting and PFM is an urgent priority. The authorities should begin considering a medium-term fiscal framework to properly manage mineral resource revenues.
- **Monetary and exchange rate policies.** The central bank should remain ready to tighten monetary policy in response to inflationary pressures stemming from the Middle East, while avoiding ad-hoc exchange rate adjustments. Staff encourages phased and steady implementation of the reform agenda to modernize monetary policy operations, starting with the gradual absorption of excess liquidity in the banking system.
- **Financial sector policy.** While the sector remains broadly sound, efforts to address gaps in financial stability, integrity, and inclusion need to be further intensified.
- **Structural reforms.** Accelerating reforms is needed to raise growth potential, including measures to boost productivity in agriculture and fisheries, improve the business environment, build infrastructure, strengthen governance, and enhance climate resilience. Addressing data gaps is critical for informed policy making.

Approved By
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(SPR)

Discussions took place in Honiara during March 9–20, 2026. The staff team comprised M. Yabara (head), D. Kirti, N. Suryakumar (all APD), and K. Ranadi (Resident Representative office in Fiji). S. Iro (OED) joined the mission, and B. Welham, E. Massetti, and F. Tagklis (all FAD) attended sessions virtually to deliver presentations. S. Rao and S. Zhang (all APD) provided excellent editorial and research assistance. B. De La Beer (STA) contributed to the report. The mission met with the Governor of the Central Bank of Solomon Islands L. Forau, Permanent Secretary of Ministry of Finance and Treasury M. Dentana, other government officials, private sector representatives, civil society organizations, and development partners.

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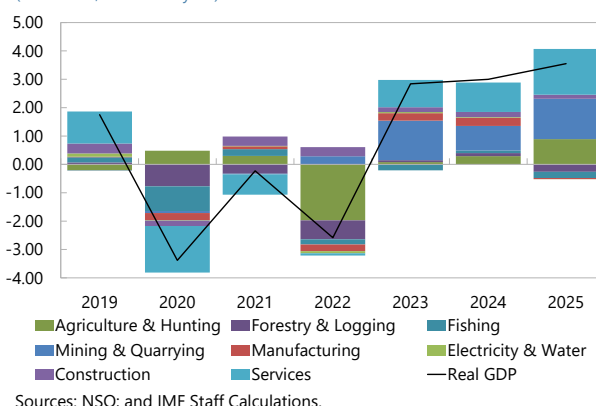
CONTEXT

1. Solomon Islands is beginning to see signs of emerging growth opportunities, while facing heightened risks and persistent fragilities. Strong gold exports are significantly improving the external position and could potentially offer fiscal revenue gains, depending on the outcome of revenue sharing negotiations with a mining company. Nonetheless, the outlook is subject to significant risks stemming from the war in the Middle East. In addition, the underlying drivers of fragility—such as limited connectivity, high exposure to climate change, and weak state capacity—persist, as discussed in the updated Country Engagement Strategy (CES, Annex I). Political instability remains elevated, as evidenced by a recent change in government following the third motion of no confidence in the past two years.

RECENT DEVELOPMENTS

2. Growth has picked up since the last Article IV consultation.¹ The economy is estimated to have grown by 3.5 percent in 2025, following 3.0 percent growth in 2024, supported by strong gold production, agricultural output, and progress in donor-funded infrastructure projects. Adverse impacts of global trade tensions have so far been limited, partly reflecting Solomon Islands' minimal exports to the US.

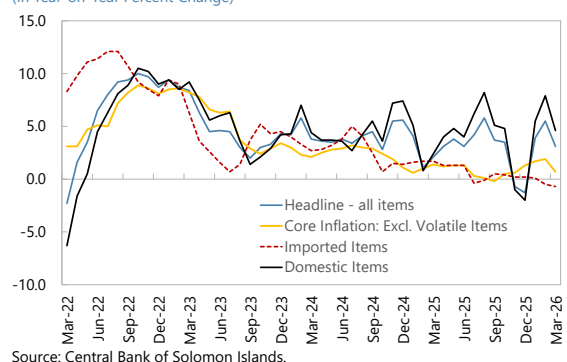
GDP Contribution by Sector
(In Percent, Year-over-year)



3. Inflationary pressures have remained contained so far, amid volatile domestic prices. Headline inflation rose to 3.1 percent year-on-year in March 2026, after averaging 2.7 percent in 2025, mainly driven by volatile movements in betel nut prices. Imported inflation declined to -0.7 percent, while core inflation—excluding volatile items such as betel nuts—remained low at 0.7 percent.² The Central

Inflation

(In Year-on-Year Percent Change)



¹ In October 2025, the Solomon Islands National Statistics Office (SINSO) published GDP estimates up to 2024, revising past estimates for 2021 and 2022. Real GDP growth rates were significantly revised downwards from 2.6 percent to -0.2 percent in 2021, and from 2.4 percent to -2.6 percent in 2022, making the estimates more in line with developments in the field, in particular the social unrest in 2021 and the border closure in 2022 due to the pandemic. These revisions lowered the nominal GDP levels in these and subsequent years.

² Volatile items include fruit and vegetables, fresh seafood, betel nuts, motor vehicle fuel (petrol and diesel), and fuel for household utilities (kerosene).

Bank of Solomon Islands (CBSI) announced an easing of monetary policy in September 2025, in light of subdued inflation.

4. The current account balance is estimated to have surged to a surplus of 5.6 percent of GDP in 2025 from a deficit of 4.2 percent in 2024. This was driven by strong gold and agricultural exports—supported by higher international prices—and relatively flat fuel imports. Services exports were also strong, as Solomon Islands hosted regional and international events. Remittances from seasonal workers under the labor mobility schemes were steady, while foreign exchange reserves remain above 8 months of prospective imports. The External Sector Assessment indicates that the country’s external position in 2025 was broadly in line with the level implied by fundamentals and desirable policies (Annex II).

5. The fiscal deficit is estimated to have widened from 2.4 percent of GDP in 2024 to 3.9 percent in 2025, driven by spending pressures and progress in externally financed infrastructure projects. This leaves the government with limited cash reserves, with a broader cash balance of SI\$140 million (0.4 months of total spending), although the 2025 budget was executed without tight expenditure controls, unlike in recent years. Public debt is estimated to have risen to 29.5 percent in 2025, driven by both external and domestic borrowing.

OUTLOOK AND RISKS

6. Staff expects growth to soften and inflationary pressures to mount in 2026.³ Growth is projected to weaken to 2.6 percent in 2026, as the global oil shock will weigh on domestic and external demand. Sectors particularly reliant on electricity and transport, including agriculture, mining, and tourism, are expected to see a slowdown. Inflation is expected to rise to 5.4 percent in 2026, reflecting higher fuel and food prices. Over the medium term, growth is projected at around 3 percent, supported by agriculture, mining, tourism, and donor-funded infrastructure projects, but constrained by declining logging activity and an undiversified economic base with weak governance.⁴ Inflation is forecast to return gradually to around 3 percent over the medium term.

7. The current account is expected to revert to a deficit. Staff projects a current account deficit of 3.4 percent of GDP in 2026: while exports are expected to remain supported by robust gold production, imports are projected to increase markedly, reflecting rising fuel and food prices. Over the medium term, current account deficits of around 3 percent of GDP are expected, reflecting weakening log exports and continued import needs for infrastructure projects. Steady remittances from seasonal workers are expected to help contain these deficits. Robust gold exports, together

³ Staff’s baseline projections are based on commodity price forecasts derived from futures markets as of May 11, 2026. The other assumptions are sourced from the reference scenario in the April 2026 World Economic Outlook (WEO), which assumes that disruptions due to the Middle East war will fade by mid-2026. The planned expansion of gold production is not incorporated into the baseline, given ongoing negotiations with the government and uncertainty over key terms (see Box 2).

⁴ This growth prospect is supported by staff analysis employing a growth accounting framework and a dynamic time warping technique (Annex III).

with continued aid inflows, are expected to drive sustained accumulation of foreign reserves. As a result, reserves are forecast to rise steadily to 11 months of prospective imports by 2031, well above the adequacy range.

8. Staff expects a wider fiscal deficit in 2026, amid significant budget implementation risks. The 2026 budget formulated by the previous government envisages a significant increase in expenditure, especially in development spending. The budget anticipates financing this spending through a surge in tax revenue—with tax exemptions expiring for a key gold mining company—and sizable budget support from donors (6 percent of GDP). However, mining revenues may be weaker than expected given capacity constraints at revenue authorities, while budget support disbursements depend on the implementation of agreed reforms. Despite assuming some additional borrowing amid investors' limited absorptive capacity, the budget still leaves a financing gap of 0.8 percent of GDP. Accordingly, staff considers the 2026 budget unlikely to be executed as planned, as in previous years, predicting a deficit of 4.1 percent of GDP.⁵

9. Fiscal deficits of around 3 percent of GDP are expected over the medium term. Expenditure needs to boost growth potential, as well as a narrow revenue base on the back of weak governance, are expected to continue driving these deficits. Public debt is projected to continue growing, exceeding the authorities' threshold of 35 percent of GDP in 2029. The Debt Sustainability Analysis (DSA) indicates that the risk of external debt distress and the overall risk of debt distress remain low and moderate, respectively, as in the previous DSA. However, stress tests point to significant risks—stemming from volatile commodity prices, vulnerability to natural disasters, and an undiversified export base—while debt management capacity remains low. This underscores the importance of prioritizing grant financing where available.

10. Risks to the outlook are firmly tilted to the downside (Annex IV). A prolonged war in the Middle East would pose severe downside risks (Box 1). The formation of the new government following recent political turmoil could complicate policy execution and further delay legislative actions, including those required for budget support disbursements. The risk of a freeze in budget execution due to financing shortfalls remains elevated, which could adversely affect the economy. The country remains particularly vulnerable to natural disasters.⁶ Moreover, further escalation in global trade barriers and policy uncertainty could weaken demand from key trading partners. On the upside, an expansion of gold mining—if supported by robust resource management and revenue administration with limited fiscal incentives—could boost output and allow for additional government expenditure. Additional donor assistance could also support the economy.

⁵ This projection assumes that short-term cuts in fuel taxes will be maintained through 2026 (see Box 1).

⁶ A cyclone struck western Solomon Islands in April 2026. While it caused significant damage to housing, subsistence livelihoods, and local infrastructure in remote communities, necessitating humanitarian support, economy-wide impacts appear to have been relatively limited.

Box 1. Prolonged Middle East War: Impact and Policy

Solomon Islands would be severely affected by persistently high fuel and food prices stemming from a prolonged Middle East war as in the severe scenario in the April 2026 WEO. The country relies on imported fuel for nearly all domestic transport and electricity, and its geographic dispersion makes economic activity—including agriculture, exports, and tourism—highly sensitive to transportation and energy costs.^{1/} Food items account for around one-third of the consumption basket, with roughly half sourced from imports. Second-round effects could be significant, as seen in 2022 when higher global commodity prices temporarily pushed core inflation above 7 percent. Additional spillovers could arise through lower aid flows from donors facing weaker growth and reduced remittances from seasonal workers abroad, while the impact on gold exports would depend on movements in international gold prices.

The previous government introduced short-term cuts in fuel taxes from May 1 to August 1, the cost of which is estimated at 0.4 percent of GDP. While the new government has not made any announcement, it may need to extend the measure beyond 2026 if the war is prolonged, given the absence of a platform for targeted social assistance. This could significantly weaken the fiscal position amid substantial budget implementation risks. Staff therefore advises better targeting—for example, by limiting relief to specific fuel types—and incorporating clear sunset clauses to contain fiscal costs, while maintaining partial price signals. The government should also outline a credible plan to finance these costs through expenditure rationalization, additional revenues, and donor support. Sector-wide support or ad-hoc exchange rate adjustments should be avoided.

1/ The country holds fuel reserves equivalent to about 30–60 days of consumption.

Authorities' Views

11. The authorities broadly agreed with staff's assessment of the outlook and risks. They acknowledged heightened uncertainty stemming from the ongoing Middle East crisis, noting that a prolonged disruption to oil supplies could have severe economic repercussions through higher living expenses and production costs. On the other hand, the authorities envisage a more optimistic growth trajectory and a stronger external position, assuming an expansion in gold production, while anticipating higher inflation owing to a persistent fuel shock. The authorities are more sanguine about their ability to implement the 2026 budget, citing efforts to expedite budget support disbursements and broaden the investor base for government bonds.

ECONOMIC POLICIES

A. Fiscal Policy

12. Reducing fiscal deficits and rebuilding liquidity buffers is critical at this juncture. The 2026 budget projects that the public debt ceiling of 35 percent of GDP—the medium-term fiscal anchor that staff considers still relevant—will be nearly reached within two years, reflecting large anticipated fiscal deficits. However, staff considers the 2026 budget unlikely to be executed as planned (T18). Instead, staff assesses that the government faces the risk of reverting to a budget freeze due to a cash crunch, which would make the rebuilding of cash buffers implausible. The government should therefore closely monitor liquidity conditions and prepare contingency plans for

potential cash shortfalls. Measures to help mitigate the impact of rising fuel prices should be strictly time-bound, preserve price signals, and be as targeted as possible (Box 1). Such measures should be well coordinated with donors.

13. There is scope to rationalize expenditure without compromising growth through better planning and targeting. Shifting resources away from the Constituency Development Funds (CDFs)⁷, which account for 1.6 percent of GDP in spending, would enhance public spending efficiency. Staff also notes that compensation of government employees has risen by more than 6 percent of GDP relative to pre-pandemic trends. The government should assess the appropriate size, allocation, and remuneration of its workforce in coordination with donors. Continued efforts to better integrate donor-financed off-budget programs remain important to improve the efficiency of education and health spending.

14. Domestic revenue mobilization is critical to accelerating priority investment. Further delays in introducing a VAT should be avoided, and the authorities should ensure smooth implementation by developing regulations and strengthening public outreach. Given the relatively high income tax rates, broadening the tax base through improved registration, compliance, and rationalization of exemptions is essential.⁸ These efforts will require further administrative reforms by IRD, including greater digitalization and enhanced audit capacity. Special economic zones should be limited to activities with clear externalities and subject to robust cost-benefit analysis. Fiscal regimes for mining companies should be simple, transparent, and avoid excessive exemptions.

15. Significant gaps in fiscal data and reporting persist, as highlighted by the recent Public Expenditure and Financial Accountability (PEFA) assessment (Annex V). Monthly and quarterly budget execution reports have not yet resumed, partly due to prolonged disruptions following the rollout of the new Financial Management Information System (FMIS). The budget tables remain misaligned with international standards, limiting comparability and assessment. The compilation of the Government Finance Statistics (GFS) continues to face challenges (¶135). Immediate priorities include resuming regular inter-agency coordination meetings and completing the FMIS upgrade.

16. A simple, top-down fiscal guideline remains essential for formulating realistic, fully financed budgets and rebuilding cash buffers. While additional fiscal rules were introduced in the 2026 budget, many lack specificity, and consistency across the rules is unclear.⁹ Staff's advice from the previous Article IV consultation—capping domestically financed deficits while ensuring a steady accumulation of cash balances—remains appropriate. Amid rising external borrowing, stronger government ownership over donor-financed infrastructure projects is needed. Staff emphasizes the

⁷ CDFs are allocated to each of the 50 Parliament Members to be spent in their constituencies.

⁸ Exemptions extended without a statutory basis amounted to nearly 20 percent of the total revenue collected by the Inland Revenue Division (IRD) and the Customs and Excise Division in 2024.

⁹ The additional fiscal rules include a gradual reduction in the fiscal deficit over the next three years, the transfer of unexpected revenues to the cash reserve account, and a medium-term ceiling of 10 percent of GDP on the public sector wage bill.

importance of rigorous cost-benefit analysis for all potential projects under the Public Investment Management Framework.

17. Solomon Islands should begin considering a medium-term fiscal framework to properly manage mineral resource revenues (Box 2). Such a framework should be guided by core principles, including ensuring fiscal sustainability and intergenerational equity, managing volatility, and mitigating the risk of Dutch disease. It should also be tailored to country-specific circumstances, notably expected fiscal deficits, sizable infrastructure gaps, limited absorptive capacity, and institutional capacity constraints. Effective implementation of such a fiscal framework requires strengthening basic PFM functions, including realistic budgeting and timely, reliable fiscal reporting.

Box 2. Fiscal Framework for Managing Revenues from Natural Resources: Key Considerations

Expanded gold production could generate significant revenues for the government over the medium term. Gold Ridge Mine—a key mining company in Solomon Islands—has announced plans to triple gold manufacturing capacity in the coming years. While heavily dependent on actual production and the agreed fiscal regime, media reports indicate that revenues could exceed 10 percent of GDP once fully operational. The expansion plan is currently being assessed by the authorities, and the associated fiscal regime remains under negotiation.

Solomon Islands should consider a medium-term fiscal framework to harness natural resource revenues. Such a framework should include a strategy articulating the objectives and modalities of resource utilization, including the appropriate balance between consumption, investment, and savings, and be underpinned by fiscal rules and institutions to support implementation. Key principles should include ensuring fiscal sustainability and intergenerational equity, managing volatility associated with natural resource revenues, and mitigating the risk of Dutch disease. While the framework should be simple, operationally feasible, and sufficiently flexible to adapt as circumstances evolve, it should also take into account the country's economic structure, notably significant infrastructure gaps, limited absorptive capacity, and weak governance in extractive industries (¶30). It should weigh using additional revenues to close deficits and repay high-interest domestic debt.

A dedicated savings vehicle—such as a sovereign wealth fund (SWF)—could be helpful. Three elements should be kept in mind when designing such a vehicle. First, strong governance insulated from short-term political pressures is essential. Second, clear objectives should be determined. National savings vehicles in the Pacific Islands (e.g., Kiribati and Tuvalu) are often aimed at one or more of (i) short-term economic stabilization, (ii) accumulation of intergenerational wealth, and (iii) providing a source of development financing.^{1/} Third, asset allocations need to be aligned with the objectives.

1/ Drew, A. (2016), "The Role of Sovereign Funds in Pacific Island Nations," New Zealand Institute for Pacific Research.

18. Enhancing the transparency and accountability of public spending remains a priority. Staff welcomes progress in implementing the CDFs Act, including the nationwide deployment of implementing officers and bodies, and underscores the need for continuous training to strengthen these officers' procurement and accounting capacity.¹⁰ The authorities should regularly review

¹⁰ The new CDFs Act, enacted in January 2024, aims to strengthen CDF governance (e.g., by establishing a committee to decide on programs), ensure effective delivery mechanisms (e.g., by requiring a procurement process in

(continued)

whether the Act ensures efficient and transparent use of public resources. The audit report on the 2023 Pacific Games remains outstanding, and audits of the government's financial statements face a multi-year backlog. These delays reflect widespread weaknesses in basic PFM, including inadequate procurement records. Legislative reforms to enhance the independence of the Auditor General should be accelerated.

Authorities' Views

19. The government remains committed to gradually reducing deficits and rebuilding cash buffers over the medium term. The 2026 budget represents a first step, with a smaller deficit and an operational surplus. Key measures include containing the public sector wage bill, introducing a VAT, and reviewing income taxes. The government stands ready to mitigate the impact of global fuel supply disruptions on households and businesses in coordination with stakeholders. Strengthening revenue administration and establishing a SWF—anchored in a robust medium-term fiscal framework—are key priorities to harness the country's natural resource endowment. The government is committed to addressing PFM gaps identified in the PEFA assessment, in coordination with development partners.

B. Monetary and Exchange Rate Policies

20. The CBSI should remain ready to tighten monetary policy in response to inflationary pressures stemming from the Middle East war, while avoiding ad-hoc exchange rate adjustments.¹¹ Staff supports the central bank maintaining the current monetary policy settings while closely monitoring developments, given subdued core inflation and heightened uncertainty surrounding the Middle East war. The primary response to inflationary pressures should be to allow the exchange rate to move in line with the currency basket, as it is calibrated to limit exchange rate volatility and support price stability.¹² Discretionary exchange rate adjustments deviating from the basket—as observed in 2025 (¶22)—undermine policy credibility and transparency, hinder private sector and market development, and complicate the transition towards market-based monetary policy operations (¶21). The central bank could also signal a tighter policy stance by adjusting its monetary policy tools, namely by raising the cash reserve requirement (CRR) or the cap on central bank notes (bokolo bills).

21. Staff welcomes the CBSI's commitment to strengthening monetary policy transmission through the modernization of its monetary policy operations. To address weak monetary policy transmission, an IMF CD mission provided sequenced recommendations in August 2025, including absorbing excess liquidity from the banking system, introducing a policy rate and an interest rate

accordance with the Public Financial Management Act) and promote inclusion (e.g., by ensuring that two women serve on the committee).

¹¹ The CBSI has promptly communicated its vigilance regarding Middle East developments and readiness to adjust its monetary policy stance as needed (<https://www.cbsi.com.sb/18123-2/>).

¹² The Solomon Islands dollar is pegged to a currency basket comprising the US, Australian, and New Zealand dollars.

corridor system, and establishing a liquidity monitoring and forecasting framework (Box 3).¹³ Staff advises the phased but steady implementation of these recommendations with continued IMF support. Establishing the foundations for effective monetary policy operations in line with the recommendations would help the CBSI better manage a potential surge in foreign exchange inflows arising from expansion of mining activity.

Box 3. Capacity Development Support for Enhancing Analytical and Forecasting Capacity for Monetary Policy Formulation

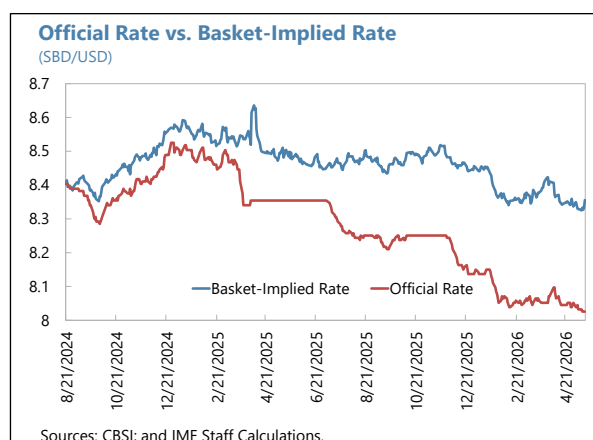
The IMF's Institute for Capacity Development (ICD) supported the CBSI in establishing a Forecasting and Policy Analysis System (FPAS) under a five-year CD program.^{1/} The program aimed to strengthen analytical and forecasting capacity, integrate model-based analysis into monetary policy decision-making, and modernize communication.

The project's success reflected hands-on engagement, careful sequencing, continuity, and strong tailoring to local circumstances. The program initially focused on building core analytical capacity and basic forecasting tools before advancing to the development of a forecasting model and embedding it into policy processes. Over five years, ICD delivered ten missions, including virtual engagements, working closely with CBSI staff to provide hands-on training and jointly develop analytical tools and models tailored to the country's economic structure. To support this, ICD developed a projection model using EViews, adapted to the CBSI's capacity and working environment.

The project markedly enhanced the CBSI's analytical capacity and operations. CBSI staff now undertakes GDP and inflation nowcasting and produces model-based forecasts that are fully embedded in monetary policy deliberations. These advances have strengthened internal decision-making, improved external communication practices, and facilitated deeper policy discussions with the IMF country team. The CBSI and ICD plan to jointly author a working paper documenting the experience and lessons learned. Building on capacity developed under the FPAS program, the CBSI has begun a multi-year reform agenda to modernize its monetary policy operations, with further support from the IMF's Monetary and Capital Markets Department (MCM).

1/ These activities were funded by the government of Japan.

22. The CBSI should adhere to the fixed exchange rate regime anchored by the currency basket. Since the updated basket became effective in late August 2024, the exchange rate has deviated from the path implied by the basket, with notable appreciations around March, July, and November 2025, due to discretionary interventions by the CBSI. These movements—which were not communicated to the public—were inconsistent with the CBSI's announced monetary policy stance, notably its



¹³ The CBSI announced the introduction of a policy rate at 1.5 percent in February 2026. This policy rate currently serves as a signaling instrument, according to the CBSI, while the bank is working to establish systems needed for its effective implementation.

September 2025 decision to ease monetary policy.¹⁴ Adopting a coherent foreign exchange market policy—covering objectives, instruments, and communication in the market—would help ensure greater policy consistency and clearer communication with market participants.

23. The implementation of priority recommendations from the 2022 safeguards assessment of the CBSI has been mixed. External audit and financial reporting practices have been strengthened, and initial steps were taken to reinforce internal audit practices. That said, ensuring the independence of the Audit Committee has not progressed.

Authorities' Views

24. The CBSI remains vigilant to developments in the Middle East and stands ready to act as needed. It emphasized that exchange rate adjustments are Board decisions for monetary policy purposes, reflecting the country's high import dependence, while recognizing the need for clearer communication. The CBSI reaffirmed its commitment to transitioning toward market-based monetary operations, including by addressing excess liquidity in the banking system.

C. Financial Sector Policy

25. The financial sector remains broadly sound. Banks are well capitalized, liquid, and profitable. While non-performing loans are largely collateralized, they are concentrated in certain sectors (e.g., personal and construction), and slow court proceedings and an illiquid real estate market continue to impede their write-off. Rising oil prices due to the Middle East war could potentially affect banks' asset quality by weakening borrowers' loan repayment capacity. However, staff's sensitivity analysis suggests that banks remain resilient under all shock scenarios, including credit risk (Annex VI). Performance of the Solomon Islands National Provident Fund (SINPF) improved, thanks to higher dividend income and valuation gains from offshore investments, alongside ample liquidity. However, high demand for early withdrawals by members and the concentration of the investment portfolio in unlisted domestic shares continue to pose risks to financial stability, given the funds' dominant role in the financial system.¹⁵

26. The authorities should accelerate reforms to safeguard financial stability and promote financial inclusion. The Financial Sector Stability Review (FSSR) made sequenced recommendations aimed at enhancing the resilience of the sector. These included measures to upgrade prudential standards, deepen risk-based banking supervision, and introduce a framework for crisis management. The CBSI should work on these reforms, supported by a multi-year CD program with the IMF. Completing the rollout of the outstanding National Payment System components¹⁶ and its

¹⁴ The CBSI did not adjust its monetary policy instruments (i.e., the CRR and the cap on bokolo bills) following this easing decision.

¹⁵ SINPF holds 34 percent of total financial system assets and 52 percent of government securities as of June 2025.

¹⁶ These include the Instant Fund Transfer and Ministry of Finance payments system. The CBSI also plans to integrate mobile money platforms such as M-Selen with the National Payments System to achieve full interoperability.

regulations, as well as the implementation of the credit reporting framework, will help enhance financial inclusion. Expediting legal reforms to strengthen governance and the regulatory frameworks for financial institutions, such as the Financial Institutions Act and the SINPF Act, remains crucial.

27. The authorities should continue to address key deficiencies in the AML/CFT system, including those identified by the 2019 Asia-Pacific Group Mutual Evaluation. This remains critical to safeguard correspondent banking relationships. Priority should be given to enacting the Money Laundering and Proceeds of Crime Act and enhancing risk-based AML/CFT supervision. The authorities are also reviewing the Companies Act and working to develop a targeted financial sanctions framework. Strengthening the capacity and resources of supervisory agencies is critical.

Authorities Views

28. Enhancing financial stability, integrity, and inclusion remains a priority for the authorities. The CBSI is committed to addressing the gaps identified in the FSSR to strengthen the resilience of the financial system along with the CD roadmap. The authorities also recognize the importance of expediting legislation to strengthen the AML/CFT framework. They further highlighted ongoing efforts to promote financial inclusion, including financial literacy programs, the establishment of the credit reporting regime, and the development of an inclusive green finance roadmap.

D. Structural Reforms

29. Limited diversification and weak private sector participation continue to hamper growth prospects. The economy continues to rely on mining and logging, while agriculture and fisheries suffer from low productivity due to predominance of semi-subsistence production with minimal mechanization, isolation from markets, and inadequate market infrastructure such as storage and cold-chain facilities. Addressing these challenges through targeted interventions would significantly contribute to job creation, higher incomes, and improved food security.¹⁷ Moreover, promoting private sector participation, including by improving the business environment, addressing infrastructure gaps, and enhancing the quality of education and training, would alleviate the bottlenecks to enhancing growth prospects.

30. Progress in tackling governance weaknesses and combating corruption has been slow, constraining growth. Strengthening governance and regulation in the logging and mining sectors through legislative reforms remains an urgent priority for the authorities. The ministries continue to face resource constraints that limit effective monitoring, compliance, and enforcement in these sectors. While the Solomon Islands Independent Commission Against Corruption (SIICAC) was granted dedicated funding in the 2026 budget, the Commission continues to face resource shortages and delays in recruiting a new Director General. These constraints have stalled the

¹⁷ Smets, L., L. McDonald, and C. Miller (2024), *Solomon Islands - Country Economic Memorandum: Unlocking New Sources of Economic Growth*. <http://documents.worldbank.org/curated/en/099091324035518530>.

implementation of the National Anti-Corruption Strategy, including amendments to the Anti-Corruption Act 2018. The framework for implementing the strategy should be revamped upon the arrival of a new Director General, with adequate support from the government and donors.

Authorities Views

31. The authorities remain committed to advancing reforms to unlock the Solomon Islands' growth potential, including by addressing governance weaknesses. The government is strengthening support for the agriculture sector to enhance productivity, market access, and food security, in partnership with development partners. The Public Investment Management Framework and the National Infrastructure Investment Plan provide a platform to appraise and prioritize infrastructure projects, including to improve transport and digital connectivity. The authorities acknowledged delays in enacting the Mineral Resources Bill and implementing the National Anti-Corruption Strategy, while noting that public consultations on the bill and recruitment of a Director General for SIICAC are ongoing.

E. Macroeconomic Impact of Climate Change

32. Slow-moving climate change is expected to have incremental but meaningful cumulative effects on Solomon Islands' economy over the long term.¹⁸ Climate models indicate that annual temperatures could rise by 0.9–1.2°C by 2050. Staff analysis suggests that it could reduce the level of GDP by 1–4 percent by end-century, relative to a continuation of historical trends, depending on the global warming scenario. The impact could be twice as large in the absence of adaptation. Fish stocks in the country's exclusive economic zone are projected to decline by about 11 percent by 2045. On the other hand, commercial timber production could increase by about 13 percent by mid-century, if sustainable forestry practices are widely adopted. In the absence of adaptation, sea-level rise could cause welfare costs estimated at about 1.5 percent of GDP per year over the long term. Scenario analysis in the DSA shows that these forces could have a significant cumulative impact on the public debt trajectory over the long run.

33. Strengthening core PFM functions is an urgent priority for effective climate adaptation. Staff assessment clearly indicates the need for adaptation policies, particularly to mitigate impacts on populations living in areas vulnerable to sea-level rise. These policies would entail significant fiscal and social costs, although a comprehensive set of policies and reliable cost estimates are not yet available. The government will therefore need to allocate scarce resources strategically, by first mapping climate-exposed regions and vulnerable groups, and then by establishing criteria for public intervention. A critical first step is to build basic PFM capacity to prioritize, execute, and monitor climate-relevant projects in line with budget plans and donor support. A robust PFM foundation is also a prerequisite for accessing multilateral climate funds.

¹⁸ See the Selected Issues Paper "Climate Change, Macroeconomic Risks, and Adaptation in the Solomon Islands" (SM/26/137).

Authorities Views

34. The authorities agreed on the risks posed by climate change and the importance of adaptation policies. They noted that climate change is already having material economic and social impacts, citing extreme weather events such as cyclones. While efforts are underway to strengthen climate resilience, including under the National Infrastructure Investment Plan, the authorities acknowledged resource constraints. They are working to integrate climate considerations into budget processes, including through climate budget tagging, and to gain access to international climate finance.

DATA ISSUES AND CAPACITY DEVELOPMENT

35. Data provided by the authorities to the Fund continues to have some shortcomings that somewhat hamper surveillance (Annex VII). The authorities' efforts have yielded some positive progress: SINSO published GDP estimates for 2021-2024 in October 2025, improving timeliness, while the CBSI continues to compile the GFS in a timely manner. However, SINSO continues to face acute capacity constraints, warranting continued support from donors. The GFS continues to suffer from classification inconsistencies and sizable discrepancies between above-the-line and below-the-line data, underscoring the need to strengthen inter-agency coordination (Annex V).

36. The updated CES indicates that near-term CD priorities continue to focus on strengthening basic capacity for sound macroeconomic management. The recent PEFA assessment and the FSSR provide foundations for multi-year programs to advance reforms to address the identified vulnerabilities in PFM and the financial sector, respectively. Such programs should be fully understood and owned by the authorities, focus on concrete and actionable reforms, and follow realistic timelines (Annex I). Accordingly, one of key CD priorities over the coming years will be the steady implementation of these programs, alongside ongoing CD in areas such as statistics and AML/CFT (Annex VIII).

Authorities Views

37. The authorities recognize the need to improve data quality and agreed with the proposed priorities for IMF CD support. The government acknowledged the urgent need to strengthen resourcing of the statistics office, particularly for national accounts. While working with development partners to complete upgrades to financial and debt data management systems, the authorities agreed on the need for better inter-agency coordination to facilitate the compilation of the GFS. They welcomed the emphasis of the updated CES on recipient ownership, sustained engagement, and basic capacity building, and expressed their commitment to improving data quality, PFM, monetary and exchange rate operations, and financial sector resilience, with IMF support.

STAFF APPRAISAL

38. Staff projects growth to soften and inflationary pressures to rise in 2026. Growth is expected to remain moderate over the medium term, supported by agriculture, mining, and infrastructure projects, but constrained by declining logging activity, limited diversification, and weak governance. Current account deficits are projected to persist, while strong gold exports and continued aid inflows are expected to support rising reserve coverage. Solomon Islands' external position in 2025 was assessed as broadly in line with fundamentals. Staff expects continued fiscal deficits leading to higher public debt, while the risks of external debt distress and overall debt distress remain low and moderate, respectively. Risks to the outlook are firmly tilted to the downside, notably from prolonged geopolitical tensions, domestic political instability, and budget financing constraints.

39. Reducing fiscal deficits and rebuilding liquidity buffers is critical at this juncture. Depleted cash balances and rising debt underscore the need for realistic, fully financed budgets to avoid disruptive budget freezes. Staff's advice—capping domestically financed deficits while steadily rebuilding cash balances—therefore remains appropriate. Reallocating resources away from the CDFs and strengthening coordination with donors would enhance spending efficiency. Further delays in introducing a VAT should be avoided, and efforts to strengthen tax enforcement and rationalize exemptions, particularly in extractive industries, should be accelerated. Measures to help mitigate the impact of the war should be strictly time-bound, preserve price signals, be as targeted as possible, and be well coordinated with donors.

40. Long-standing weaknesses in PFM continue to undermine fiscal transparency and credibility. Persistent delays in fiscal reporting, audits of government financial statements, and the completion of the Pacific Games audit weaken accountability. Immediate priorities include resuming regular inter-agency coordination meetings to facilitate fiscal reporting and completing the FMIS upgrade. Strengthening procurement, audit, and debt management capacity across government remains critical.

41. Solomon Islands should begin considering a medium-term fiscal framework to properly manage mineral resource revenues. Effective implementation of such a fiscal framework requires strengthening basic PFM functions, including realistic budgeting and timely, reliable fiscal reporting.

42. The CBSI should remain ready to tighten monetary policy in response to inflationary pressures stemming from the Middle East war, while avoiding ad-hoc exchange rate adjustments. The primary response should be to allow the exchange rate to move in line with the currency basket, as it is calibrated to limit exchange rate volatility and support price stability. Adherence to the fixed exchange rate regime is essential to preserve policy credibility and transparency and to support market development. Adopting a coherent foreign exchange market policy would strengthen policy consistency and communication with market participants.

43. Staff welcomes the CBSI's commitment to modernizing its monetary policy operations

and encourages phased but steady implementation of the reform agenda. Near-term priorities include gradually absorbing excess liquidity in the banking system and introducing standing facilities linked to the policy rate. Establishing effective monetary policy operations would help the CBSI better manage a potential surge in foreign exchange inflows associated with an expansion of mining activity.

44. While the financial sector remains broadly sound, addressing gaps in financial stability, inclusion, and integrity remains crucial. Priorities include upgrading legal and regulatory frameworks, strengthening risk-based supervision, and establishing a framework for crisis management. Completing the rollout of the outstanding National Payment System components would further support financial inclusion. The authorities should expedite legal reforms to establish a robust AML/CFT system.

45. Diversifying the economy and addressing governance weaknesses are key to achieving sustainable and inclusive growth. Staff welcomes the authorities' focus on boosting productivity in agriculture, while improving the business environment and addressing infrastructure gaps remain priorities. Efforts to address governance weaknesses should be accelerated, including by advancing legislation in extractive sectors and resuming the implementation of the National Anti-Corruption Strategy.

46. Slow-moving climate change is expected to have incremental but meaningful cumulative effects on the economy and debt trajectory over the long term. Staff's assessment highlights the need for adaptation policies, particularly to mitigate impacts on populations vulnerable to sea-level rise. A critical first step is to build basic PFM capacity to prioritize, execute, and monitor climate-relevant projects.

47. Strengthening core capacity for sound macroeconomic management remains the near-term IMF CD priority. Data provided by the authorities continues to exhibit some shortcomings that somewhat hamper surveillance, particularly in national accounts and GFS. The IMF continues to support efforts to address these gaps. Other immediate priorities include strengthening PFM, establishing a medium-term fiscal framework for managing resource revenues, improving monetary policy and foreign exchange operations, and enhancing financial sector stability.

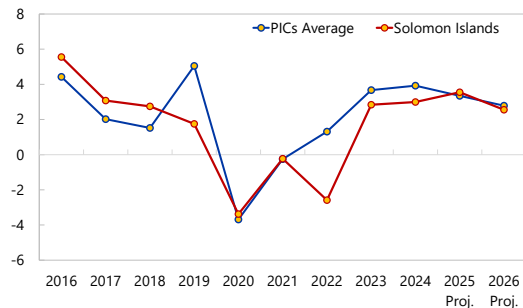
48. It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Solomon Islands: Macroeconomic Developments and Outlook

Economic recovery continues at moderate pace, in line with regional peers.

Real GDP Growth Rate

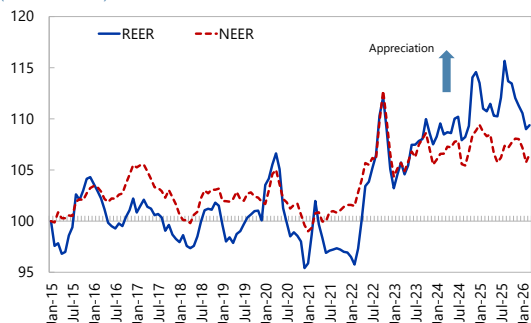
(In Year-on-Year Percent Change)



The real effective exchange rate continues to deviate from the nominal exchange rate path, despite a recent update to the currency basket.

Nominal and Real Exchange Rates

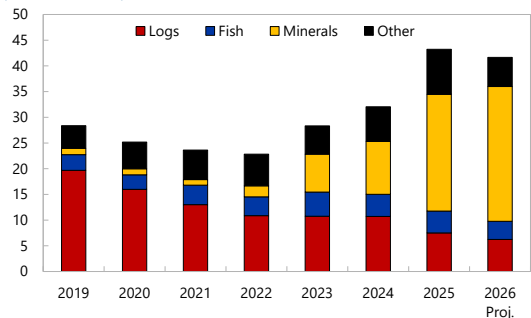
(Jan 2015 = 100)



...on the back of strong export performance, particularly from the mining sector...

Total Exports

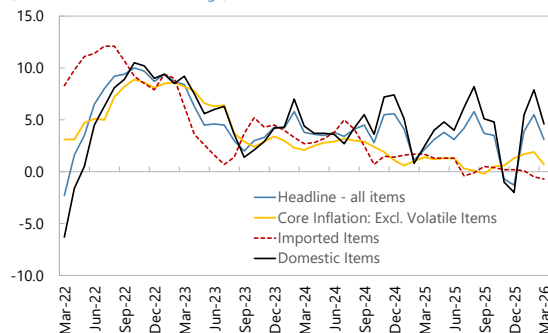
(In Percent of GDP)



Inflationary pressures have remained contained so far, amid declining global commodity prices and volatile domestic prices.

Inflation

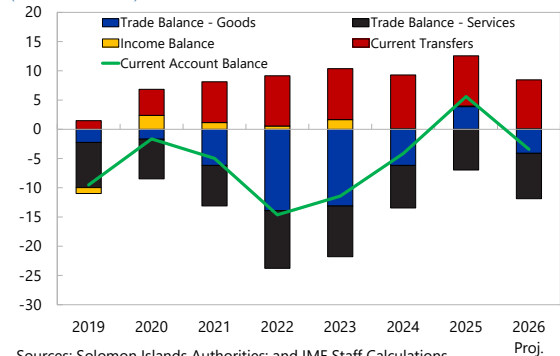
(In Year-on-Year Percent Change)



The current account balance recorded a surplus in 2025...

Current Account Balance

(In Percent of GDP)



...and normalization of imports following the Pacific Games.

Total Imports

(In Percent of GDP)

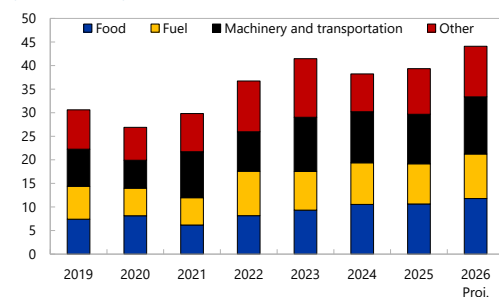
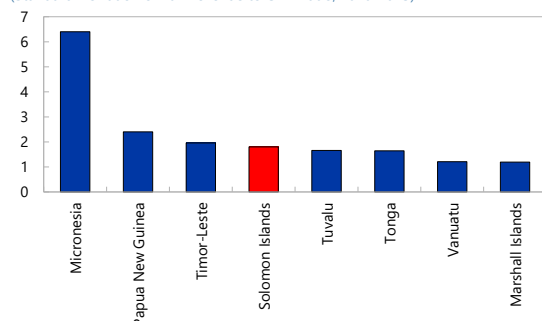


Figure 2. Solomon Islands: Fiscal Indicators

Solomon Islands tax revenue is relatively volatile...

Volatility of Tax Revenue

(Standard Deviation of Tax Revenue to GDP Ratio, 2010-2025)

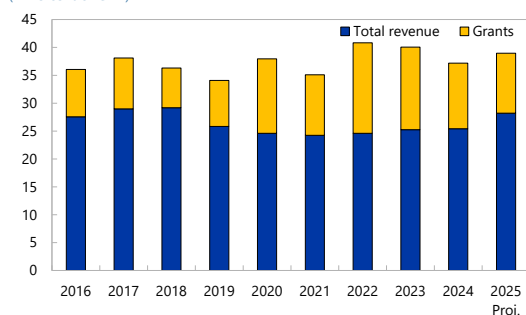


Sources: World Economic Outlook; and IMF Staff Calculations.

Revenue has been gradually increasing, while donors have continued to provide grant support after the Pacific Games.

Government Revenue

(In Percent of GDP)

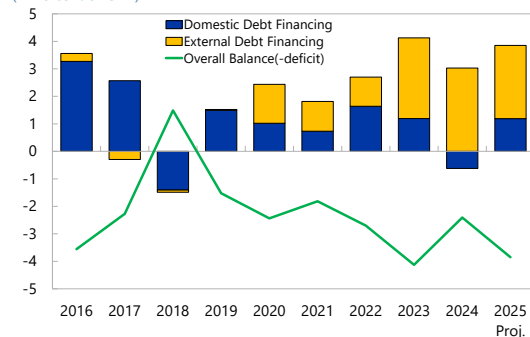


Source: IMF Staff Calculations.

Consequently, the fiscal deficit has persisted...

Fiscal Balance and Financing

(In Percent of GDP)

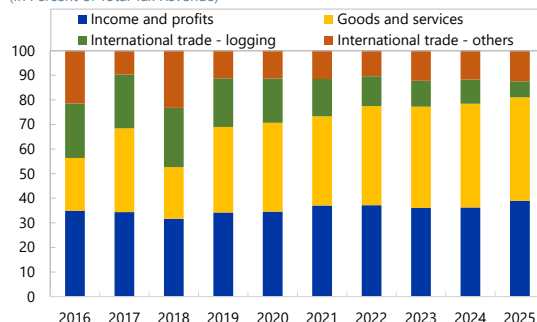


Source: IMF Staff Calculations.

... while the share of logging revenue has declined.

Composition of Tax Revenue

(In Percent of Total Tax Revenue)

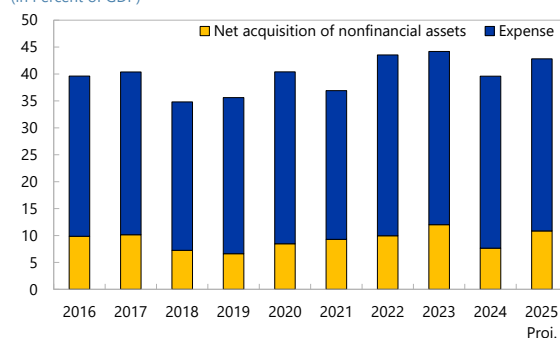


Sources: Solomon Islands Authorities; and IMF Staff Calculations.

Expenditure has remained high, reflecting spending pressures and progress in infrastructure projects.

Government Expenditure

(In Percent of GDP)

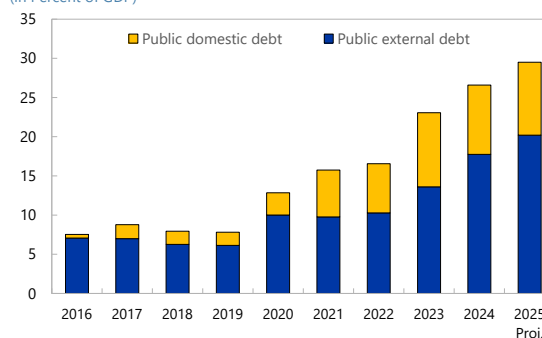


Source: IMF Staff Calculations.

...leading to continued increases in the public debt ratio, including domestic debt.

Public Debt

(In Percent of GDP)



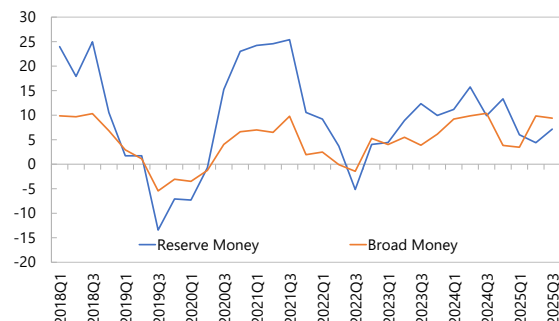
Sources: World Economic Outlook; and IMF Staff Calculations.

Figure 3. Solomon Islands: Money and Credit Developments

Monetary conditions remain accommodative...

Broad Money and Reserve Money

(In Year-on-year Percent Change)

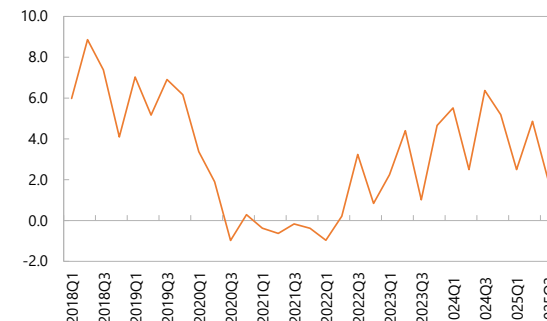


Sources: IMF-IFS; and Central Bank of Solomon Islands.

...while commercial banks are moderately increasing credit to the private sector.

Private Sector Credit

(Year-on-year Percent Change)

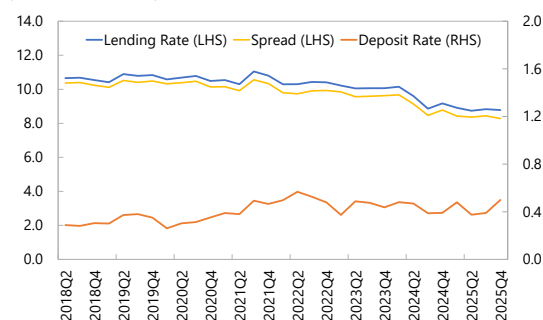


Sources: IMF-IFS; and IMF Staff Calculations.

Banking sector spreads are declining slowly, but remain high...

Lending and Deposit Rates

(In Percent Per Annum)

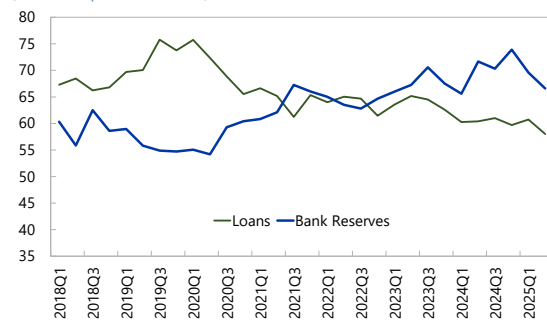


Sources: Central Bank of Solomon Islands; and IMF Staff Calculations.

...as banks have accumulated reserves amid conservative lending behavior.

Bank Reserves and Loans

(Ratio to Deposits, In Percent)

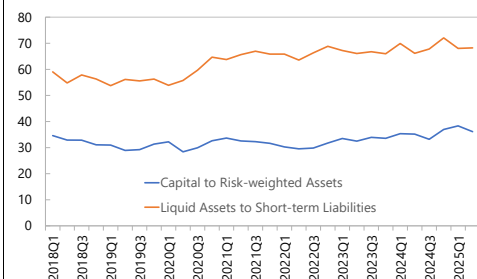


Sources: IMF-IFS; and IMF Staff Calculations.

Banks remain well capitalized and liquid ...

Bank Capital and Liquidity Ratios

(In Percent)

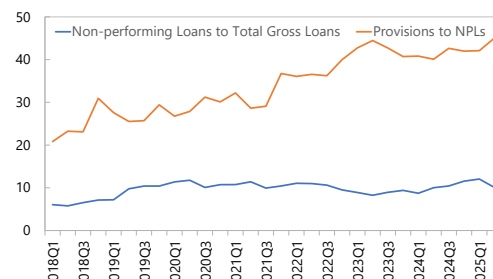


Sources: IMF-FSI; and Central Bank of Solomon Islands.

...while their non-performing loans have ample provisioning.

Non-performing Loans

(In Percent)



Sources: IMF-FSI; and Central Bank of Solomon Islands.

Table 1. Solomon Islands: Selected Economic Indicators, 2023–2031

Per capita GDP (2025): US\$2092									
Population (2025): 798,079									
Quota: SDR 20.8 million									
	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Est.	Est.				Proj.			
GROWTH AND PRICES	(In percent change, unless otherwise indicated)								
Real GDP	2.8	3.0	3.5	2.6	2.8	2.8	2.9	2.9	
CPI (period average)	5.1	4.2	2.7	5.4	4.8	4.1	3.9	3.4	3.0
CPI (end of period)	4.3	5.6	-1.4	5.4	4.3	4.0	3.8	3.0	3.0
GDP deflator	2.5	3.1	4.1	5.6	3.7	3.4	3.5	3.5	3.5
Nominal GDP (in SI\$ millions)	12,615	13,392	14,431	15,625	16,657	17,707	18,832	20,052	21,344
Nominal GDP (in US\$ millions)	1,506	1,584	1,733	1,876	2,000	2,126	2,262	2,408	2,563
CENTRAL GOVERNMENT OPERATIONS	(In percent of GDP)								
Total revenue and grants	40.1	37.2	39.0	37.8	37.7	37.3	37.4	37.2	36.6
Revenue	25.2	25.4	28.2	27.3	28.0	28.2	28.4	28.5	28.7
Grants	14.8	11.8	10.7	10.5	9.7	9.1	9.0	8.7	7.9
Total expenditure	44.2	39.6	42.8	41.9	40.9	40.3	40.1	39.9	39.1
Expense	32.2	31.9	32.0	31.8	31.1	30.7	30.6	30.6	30.3
Net acquisition of nonfinancial assets	12.0	7.7	10.9	10.1	9.8	9.6	9.5	9.3	8.8
Net lending (+) / Net borrowing (-)	-4.1	-2.4	-3.9	-4.1	-3.2	-3.0	-2.7	-2.6	-2.5
External	-2.9	-3.0	-2.7	-3.3	-2.4	-2.3	-2.0	-1.8	-1.8
Domestic	-1.2	0.6	-1.2	-0.8	-0.8	-0.7	-0.6	-0.8	-0.7
Central government debt 1/	23.1	26.6	29.5	32.1	34.1	34.9	35.3	35.6	35.9
Public domestic debt	9.4	8.8	9.3	9.3	9.4	9.4	9.3	9.4	9.5
Public external debt	13.6	17.7	20.2	22.8	24.7	25.6	26.0	26.2	26.4
MACROFINANCIAL	(In percent change)								
Credit to private sector	4.7	5.2	2.5	2.9	3.5	4.5	5.0	5.5	5.7
Broad money	6.1	3.8	23.5	12.0	10.0	8.0	8.0	8.0	6.4
Reserve money	9.9	13.3	8.6	15.0	12.0	10.0	9.0	8.0	6.4
BALANCE OF PAYMENTS	(In percent of GDP, unless otherwise indicated)								
Current account balance	-11.4	-4.2	5.6	-3.4	-3.5	-3.1	-3.1	-3.1	-3.2
Trade balance (goods and services)	-21.8	-13.5	-3.1	-11.9	-11.9	-11.6	-12.0	-11.9	-11.8
Exports	35.9	40.4	52.4	50.0	47.4	45.7	44.2	43.4	42.9
Imports	57.7	53.8	55.5	61.9	59.3	57.3	56.3	55.4	54.7
Gross Remittances	4.1	4.9	4.5	4.6	4.7	4.9	5.1	5.1	5.1
Capital and Financial Account	15.0	3.4	4.6	9.6	8.4	7.1	6.7	6.5	6.4
Foreign direct investment, net	-4.8	1.2	-3.1	-1.8	-1.8	-1.7	-1.7	-1.7	-1.7
Overall balance	3.6	-0.7	7.8	6.2	4.9	4.0	3.6	3.4	3.2
Gross official reserves (in US\$ millions, end of period) 2/	678.8	683.3	814.9	931.6	1,029.3	1,114.0	1,194.6	1,276.8	1,359.5
(in months of next year's imports of GNFS)	9.6	8.5	8.4	9.4	10.1	10.5	10.8	10.9	11.0
EXCHANGE RATE (SI\$/US\$, end of period)	8.5	8.5	8.1	...	...	...	...	...	...
Real effective exchange rate (end of period, 2010 = 100)	135.8	139.5	142.8	...	...	...	...	...	...

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

1/ Includes disbursements under the Rapid Credit Facility (RCF).

2/ Includes SDR allocations made by the IMF to Solomon Islands in 2009 and in 2021.

Table 2a. Solomon Islands: Summary of Fiscal Accounts, 2023–2031
(in millions of Solomon Islands Dollars)

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Est.	Est.				Proj.			
Revenue	5,054	4,980	5,622	5,905	6,284	6,612	7,046	7,467	7,810
Tax	2,919	3,117	3,612	3,749	4,118	4,416	4,730	5,061	5,419
Income, profits, and capital gains	1,053	1,130	1,408	1,509	1,592	1,735	1,855	1,989	2,132
Goods and services	1,202	1,315	1,519	1,520	1,753	1,864	1,997	2,143	2,298
International trade and transactions	642	672	657	700	761	801	856	909	969
Of which: Taxes on exports: Logging	307	305	234	242	231	225	231	230	232
Of which: Taxes on exports: Other	4	42	63	125	133	142	151	150	160
Not elsewhere classified	22	0	28	19	12	16	21	20	20
Grants	1,869	1,575	1,550	1,641	1,616	1,611	1,695	1,744	1,686
Other revenue	266	288	460	516	550	584	621	662	704
Expenditure	5,574	5,302	6,178	6,547	6,820	7,143	7,545	7,992	8,344
Expense	4,060	4,277	4,611	4,968	5,187	5,443	5,756	6,127	6,466
Compensation of employees	2,073	2,210	2,408	2,734	2,798	2,975	3,164	3,369	3,582
Interest	41	73	87	78	90	113	125	132	152
Use of goods and services	1,119	1,327	1,618	1,641	1,749	1,771	1,846	1,965	2,006
Subsidies and grants	167	472	299	312	333	354	377	401	427
Other expense	659	196	199	203	217	230	245	261	299
Net/gross acquisition of nonfinancial assets	1,515	1,025	1,566	1,578	1,632	1,700	1,789	1,865	1,878
Gross/Net operating balance 1/	994	703	1,010	936	1,096	1,169	1,290	1,340	1,344
Primary balance	-479	-250	-468	-564	-446	-418	-374	-393	-383
Net lending (+) / Net borrowing (-)	-521	-323	-556	-642	-536	-531	-499	-524	-535
External	-370	-406	-384	-518	-407	-414	-377	-368	-387
Domestic	-151	83	-172	-124	-129	-117	-122	-157	-148
Memorandum items:									
Nominal GDP	12,615	13,392	14,431	15,625	16,657	17,707	18,832	20,052	21,344
Broader cash balance	200	180	140	...	...	...	...	...	...
in months of total spending 2/	0.6	0.6	0.4	...	...	...	...	...	...
Public domestic debt	1,192	1,184	1,341	1,450	1,562	1,659	1,759	1,893	2,031
Constituency Development Fund (CDF) expenditure	258	115	253	253	253	253	253	253	253

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

1/ Defined as revenue minus expense

2/ Broader cash balance is defined as the sum of usable cashes in reserve and operating accounts for general government purposes. Total spending is defined as total expenditure, excluding grant-funded expenditure.

Table 2b. Solomon Islands: Summary of Fiscal Accounts, 2023–2031
(in percent of GDP)

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Est.	Est.				Proj.			
Revenue	40.1	37.2	39.0	37.8	37.7	37.3	37.4	37.2	36.6
Tax	23.1	23.3	25.0	24.0	24.7	24.9	25.1	25.2	25.4
Income, profits, and capital gains	8.3	8.4	9.8	9.7	9.6	9.8	9.9	9.9	10.0
Goods and services	9.5	9.8	10.5	9.7	10.5	10.5	10.6	10.7	10.8
International trade and transactions	5.1	5.0	4.6	4.5	4.6	4.5	4.5	4.5	4.5
Of which: Taxes on exports: Logging	2.4	2.3	1.6	1.6	1.4	1.3	1.2	1.1	1.1
Of which: Taxes on exports: Other	0.0	0.3	0.4	0.8	0.8	0.8	0.8	0.8	0.7
Not elsewhere classified	0.2	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Grants	14.8	11.8	10.7	10.5	9.7	9.1	9.0	8.7	7.9
Other revenue	2.1	2.1	3.2	3.3	3.3	3.3	3.3	3.3	3.3
Expenditure	44.2	39.6	42.8	41.9	40.9	40.3	40.1	39.9	39.1
Expense	32.2	31.9	32.0	31.8	31.1	30.7	30.6	30.6	30.3
Compensation of employees	16.4	16.5	16.7	17.5	16.8	16.8	16.8	16.8	16.8
Interest	0.3	0.5	0.6	0.5	0.5	0.6	0.7	0.7	0.7
Use of goods and services	8.9	9.9	11.2	10.5	10.5	10.0	9.8	9.8	9.4
Subsidies and grants	1.3	3.5	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Other expense	5.2	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.4
Net/gross acquisition of nonfinancial assets	12.0	7.7	10.9	10.1	9.8	9.6	9.5	9.3	8.8
Gross/Net operating balance 1/	7.9	5.2	7.0	6.0	6.6	6.6	6.8	6.7	6.3
Primary balance	-3.8	-1.9	-3.2	-3.6	-2.7	-2.4	-2.0	-2.0	-1.8
Net lending (+) / Net borrowing (-)	-4.1	-2.4	-3.9	-4.1	-3.2	-3.0	-2.7	-2.6	-2.5
External	-2.9	-3.0	-2.7	-3.3	-2.4	-2.3	-2.0	-1.8	-1.8
Domestic	-1.2	0.6	-1.2	-0.8	-0.8	-0.7	-0.6	-0.8	-0.7
Memorandum items:									
Public domestic debt	9.4	8.8	9.3	9.3	9.4	9.4	9.3	9.4	9.5

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

1/ Defined as revenue minus expense

Table 3. Solomon Islands: Balance of Payments, 2023–2031 1/

	2023	2024	2025	2026	2027	2028	2029	2030	2031
		Est.	Est.			Proj.			
	(In millions of U.S. dollars)								
Current account balance	-172	-66	97	-64	-71	-66	-71	-74	-82
Trade balance for goods	-198	-98	67	-77	-79	-73	-84	-87	-89
Exports	427	508	749	776	783	806	831	871	921
Logs	162	170	130	115	109	108	108	109	110
Fish	71	68	73	63	65	71	76	80	83
Minerals	111	163	394	472	482	494	509	534	572
Other	83	107	152	126	127	132	139	149	156
Imports	624	605	682	853	862	879	915	959	1,009
Food	141	167	184	225	243	253	265	279	295
Fuel	123	140	148	199	179	170	179	188	197
Machinery	173	172	182	228	234	246	251	261	274
Trade balance for services	-131	-115	-121	-146	-159	-174	-188	-200	-214
Exports	114	132	160	163	164	166	169	174	180
Imports	245	247	280	308	324	340	357	375	394
Primary Income balance	25	2	2	2	4	4	4	4	4
Current transfers balance	131	146	149	157	164	177	196	209	216
<i>Of which:</i> Official transfers, net	83	84	85	86	84	84	89	91	88
<i>Of which:</i> Gross Remittances	61	77	78	86	95	104	114	122	130
Capital account balance	131	95	70	71	70	69	73	77	81
Financial account balance	-96	41	-10	-110	-99	-82	-79	-80	-84
Direct investment balance	-72	20	-53	-34	-35	-37	-39	-42	-44
Portfolio investment balance	4	8	5	6	6	6	7	7	8
Other investment balance	-49	-18	-71	-82	-70	-51	-46	-45	-48
Errors and omissions	-54	11	42	0	0	0	0	0	0
Overall balance	54	-11	135	117	98	85	81	82	83
Financing	54	-11	135	117	98	85	81	82	83
Change in gross reserves (- = increase)	-49	18	-132	-117	-98	-85	-81	-82	-83
Net use of IMF Credit 2/	-5	-6	-3	0	0	0	0	0	0
	(In percent of GDP, unless otherwise indicated)								
Current account	-11.4	-4.2	5.6	-3.4	-3.5	-3.1	-3.1	-3.1	-3.2
Trade balance for goods	-13.1	-6.2	3.9	-4.1	-4.0	-3.4	-3.7	-3.6	-3.5
Exports of goods	28.3	32.0	43.2	41.4	39.1	37.9	36.8	36.2	35.9
Imports of goods	41.5	38.2	39.4	45.5	43.1	41.3	40.5	39.8	39.4
Trade balance for services	-8.7	-7.3	-7.0	-7.8	-8.0	-8.2	-8.3	-8.3	-8.3
Primary Income Balance	1.7	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Current transfers balance	8.7	9.2	8.6	8.4	8.2	8.3	8.7	8.7	8.4
<i>Of which:</i> Official transfers, net	5.5	5.3	4.9	4.6	4.2	3.9	3.9	3.8	3.4
<i>Of which:</i> Gross Remittances	4.1	4.9	4.5	4.6	4.7	4.9	5.1	5.1	5.1
Capital and Financial account balance	15.0	3.4	4.6	9.6	8.4	7.1	6.7	6.5	6.4
Direct investment balance	-4.8	1.2	-3.1	-1.8	-1.8	-1.7	-1.7	-1.7	-1.7
Memorandum items									
Gross official foreign reserves (in US\$ million) 3/	678.8	683.3	814.9	931.6	1,029.3	1,114.0	1,194.6	1,276.8	1,359.5
In months of next year's imports of GNFS	9.6	8.5	8.4	9.4	10.1	10.5	10.8	10.9	11.0
Gross external public debt (in percent of GDP)	13.6	17.7	20.2	22.8	24.7	25.6	26.0	26.2	26.4
Nominal GDP (in US\$ millions)	1,506.1	1,584.0	1,733.0	1,876.4	2,000.4	2,126.5	2,261.6	2,408.1	2,563.3

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

1/ The presentation follows the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6)

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

3/ Includes SDR allocations made by the IMF to Solomon Islands in 2009 and in 2021

Table 4. Solomon Islands: Summary Accounts of the Banking System, 2023–2028

	2023	2024	2025	2026	2027	2028
			Est.	Proj.	Proj.	Proj.
(In millions of Solomon Islands dollars)						
Central Bank of Solomon Islands (CBSI)						
Net foreign assets (NFA)	5,226	5,363	6,212	7,161	7,956	8,645
Net international reserves (NIR)	5,566	5,687	6,548	7,497	8,292	8,981
Other NFA	-340	-324	-336	-336	-336	-336
Net domestic assets (NDA)	-344	-85	-282	-412	-453	-439
Net claims on central government	-136	-117	-396	-386	-375	-366
Claims	261	250	250	261	271	281
Deposits	397	367	646	646	646	646
Other items (net)	-218	-431	-240	-240	-240	-240
Reserve money	4,438	5,030	5,462	6,281	7,035	7,739
Currency in circulation	1,417	1,461	1,601	1,764	1,886	1,904
Deposits of ODCs	2,956	3,567	3,858	4,514	5,146	5,831
Other deposits	65	1	3	3	3	4
Other depository corporations						
NFA of commercial banks	256	291	902	902	902	902
Assets	517	456	1,007	1,007	1,007	1,007
Liabilities	261	165	106	106	106	106
NDA of commercial banks	1,084	888	1,126	1,256	1,388	1,464
Net claims on central government	-409	-414	-172	-158	-144	-132
Claims	87	79	187	200	214	227
Deposits	496	493	359	359	359	359
Claims on the private sector	2,741	2,882	2,947	3,032	3,138	3,282
Other items (net)	-133	146	103	103	103	103
Capital and Reserves	3,038	3,648	3,947	4,585	5,169	5,723
Deposits	4,378	4,827	5,975	6,243	6,409	6,589
Depository corporations survey						
NFA of the banking system	5,481	5,654	7,114	8,063	8,858	9,547
Central bank	5,226	5,363	6,212	7,161	7,956	8,645
Other depository corporations	256	291	902	902	902	902
NDA of the banking system	740	803	844	844	935	1,025
Net claims on central government	-546	-531	-568	-544	-520	-497
Claims on the private sector 2/	2,764	2,907	2,979	3,064	3,170	3,314
Other items (net)	-364	-340	-342	-342	-342	-342
Broad money (M3)	6,166	6,402	7,910	8,859	9,745	10,525
M1	5,151	5,309	6,858	7,681	8,449	9,125
Currency outside banks	1,334	1,380	1,512	1,693	1,863	2,012
Demand deposits	3,817	3,928	5,346	5,988	6,586	7,113
Savings and time deposits	1,015	1,094	1,052	1,178	1,296	1,400
(In percent change)						
Reserve money	9.9	13.3	8.6	15.0	12.0	10.0
Credit to the private sector	4.7	5.2	2.5	2.9	3.5	4.5
Broad money	6.1	3.8	23.5	12.0	10.0	8.0
Memorandum items:						
Money multiplier (level)	1.4	1.3	1.4	1.4	1.4	1.4
Loan-to-deposit ratio (in percent)	62.6	59.7	49.3	48.6	49.0	49.8
Interest rates (percent per annum)						
Deposit rate 3/	0.4	0.5	0.5	...	...	...
Lending rate 3/	8.7	8.5	8.8	...	...	...
NCG of financial corporations (in SI\$ millions)	8	109	73	96	121	143
91-day treasury bill rate (percent per annum)	0.5	1.2	1.2	...	...	...

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

1/ Based on actual and projected exchange rates.

2/ Includes claims of the CBSI on the private sector.

3/ Weighted average of different maturities, period average.

Table 5. Solomon Islands: Core Financial Soundness Indicators, 2018–2025

	2018	2019	2020	2021	2022	2023	2024	2025
(In percent, unless otherwise indicated)								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	31.1	31.3	32.6	31.7	31.8	33.6	37.0	37.2
Non-performing Loans Net of Provisions to Capital	15.8	23.5	21.6	18.2	15.7	14.7	17.7	7.4
Asset Quality								
Non-performing Loans to Total Gross Loans	7.1	10.4	10.7	10.4	9.5	9.4	11.6	7.9
Provisions to Non-performing Loans	30.9	29.4	30.1	36.8	40.0	40.7	42.0	53.5
Earnings and Profitability								
Return on Assets	3.5	3.1	2.1	2.3	5.9	6.5	5.4	3.0
Return on Equity	14.2	13.3	8.9	9.8	26.4	27.4	22.2	16.7
Interest Margin to Gross Income	54.3	53.3	58.7	58.1	55.1	55.0	50.0	50.7
Non-interest Expenses to Gross Income	51.8	53.7	56.2	55.6	56.3	52.0	57.7	56.7
Liquidity								
Liquid Assets to Total Assets (Liquid Asset Ratio)	40.6	37.4	45.7	46.8	48.1	48.0	52.0	55.1
Liquid Assets to Short Term Liabilities	56.3	56.3	64.7	65.8	68.8	66.0	72.1	73.8
Net open position in foreign exchange to capital	5.4	2.7	3.1	3.9	3.9	3.5	4.1	5.1
Sources: IMF and CBSI								

Annex I. Country Engagement Strategy: Update

The Country Engagement Strategy for Solomon Islands, formulated in 2023, identified key drivers of fragility, including limited connectivity, high exposure to natural disasters and climate change, and weak state capacity. It also set out policy priorities to address these vulnerabilities, notably maintaining macroeconomic stability and strengthening fiscal governance and transparency. These findings remain relevant and continue to inform IMF engagement. Near-term priorities therefore continue to focus on strengthening the authorities' basic capacity to implement sound macroeconomic policies. In doing so, the Fund should place greater emphasis on ownership by the authorities, and on the sequencing and tailoring of support. Staff will continue to maintain close communication with the authorities to provide support as needed.

A. Fragility Drivers

- 1. The 2023 Staff Report for the Article IV Consultation with Solomon Islands included the Country Engagement Strategy (CES).¹** This strategy outlined the key drivers of fragility in Solomon Islands, identified policy priorities and constraints to address them, and provided guidance for Fund engagement with the country.
- 2. The CES identified drivers of fragility stemming from the country's geographic characteristics and historical context.** These drivers included extremely limited connectivity across the country; high exposure to natural disasters and climate change; tenuous national unity; weak state capacity; and predominance of customary rules rather than explicit legal frameworks. The strategy further argued that these fragility drivers undermined economic outcomes, contributing to an underdeveloped private sector; insufficient and unequal allocation of physical and human capital; high aid dependence; and governance and corruption vulnerabilities.
- 3. These fragility drivers remain in place.** They are largely structural and are deeply rooted in the Solomon Islands. Hence they require sustained efforts to address and long time to resolve. For example, while the successful hosting of the Pacific Games in 2023 seems to have contributed to enhancing social cohesion and confidence, political instability remains a material risk, as evidenced by a recent change in government following the third motion of no confidence in the past two years.

B. Policy Priorities and Constraints

- 4. The CES prioritized policies to mitigate these fragility drivers.** They included policies aimed at maintaining macroeconomic stability; strengthening fiscal governance and transparency, notably through improvements in public financial management (PFM); expanding access to public services and infrastructure, especially in underserved rural areas; and developing new growth drivers

¹ The original CES is available in [Solomon Islands: 2023 Article IV Consultation—Press Release and Staff Report, IMF Country Report No. 23/162 \(April 7, 2023\)](#), Annex III.

by addressing structural bottlenecks to private sector development. The strategy recognized weak state capacity and governance vulnerabilities as major constraints in advancing these policy priorities.

5. These policy priorities have yet to be fully implemented. The authorities' policy directions are broadly aligned with the priorities, and they have managed the economy without major disruptions amid two landmark events: the Pacific Games in 2023 and the general elections in 2024. Nonetheless, progress on reforms has been slow, reflecting capacity constraints and governance weaknesses. The economy remains susceptible to exogenous shocks, as cash buffers have been depleted and public debt has accumulated. Weaknesses in core PFM functions persist, which is illustrated by repeated cash shortages and delayed fiscal reporting and audits. The government has prioritized investment in rural areas; however, long-standing structural challenges—such as land issues and weak governance in natural resource sectors—remain unresolved and continue to constrain private sector development and economic diversification.

C. IMF Engagement and Capacity Development Priorities

6. Consistent with the CES, IMF engagement with Solomon Islands has placed particular emphasis on strengthening the authorities' basic capacity to implement sound macroeconomic policies. The IMF has provided advice on overhauling the fiscal framework and tax administration, improving exchange rate and monetary policy operations, and enhancing the quality of statistics. Capacity development (CD) support has followed and is helping with the implementation of these recommendations.

7. Some engagements have made remarkable progress, while others have faced challenges. The Inland Revenue Division has reformed its organizational structure and functions, with support from the Pacific Financial Technical Assistance Centre (PFTAC). The IMF's multi-year program—which comprised total 10 missions over nearly five years—has helped the Central Bank of Solomon Islands (CBSI) strengthen its analytical capacity and decision-making processes. These have brought about visible improvements to their operations. On the other hand, many of the IMF CD mission recommendations aimed at consolidating core PFM functions have been left unattended for years, partly due to political constraints and issues with the financial management information system. CD missions to support compilation of the national accounts and government finance statistics (GFS) have faced challenges due to the shortage and high turnover of staff, as well as weak coordination between agencies.

8. These experiences underscore several important lessons. Firstly, strong ownership by recipients of CD is essential for success. Secondly, proposed reforms must be actionable and carefully sequenced over a sufficient period of time, taking into account recipients' absorptive capacity and potential staff turnover. Lastly, regular and frequent engagement with recipients, including hands-on training, is important in order to maintain momentum.

9. Near-term CD priorities continue to focus on strengthening basic capacity for sound macroeconomic management. The authorities recently underwent two diagnostic CD programs by

the IMF: the Public Expenditure and Financial Accountability (PEFA) assessment and the Financial Sector Stability Review (FSSR). The former investigated the strengths and weaknesses in PFM, while the latter assessed capacity to identify, monitor, and manage financial stability risks. These diagnostics will lay the groundwork for subsequent CD programs, which will be designed to address the identified weaknesses and vulnerabilities. In addition, the CBSI is committed to implementing reforms to modernize its monetary policy operations, following steps presented by an IMF CD mission in 2025. Assisting the implementation of these multi-year programs, alongside the continuation of existing support—particularly with regard to statistics—will be the priority for the IMF's CD support in the coming years.

10. The lessons learned should be embraced in working on the priorities. When formulating reform plans, CD providers should hold intensive discussions with recipients to fully convey the necessity and details of the proposed reforms. The reforms should be focused and actionable, with a realistic timeframe for implementation that reflects the views of the recipients. In addition to regular visits to the country, CD providers should maintain frequent contact with recipients to encourage the implementation of reforms and provide assistance as needed.

D. Coordination with Stakeholders and Risks to Fund Engagement

11. Coordination with development partners remains essential. In the Solomon Islands, donors such as Australia, the World Bank, and the Asian Development Bank, are actively providing support on a wide range of issues, some of which occasionally overlap with support from the Fund. It is therefore important to ensure an appropriate division of labor among donors, including through the Joint Policy Reform Group.

12. Staff should be aware of the risks involved in the Fund's engagement with Solomon Islands. As previously discussed, political instability and staff turnover could hinder the pace of economic reforms. These risks should be factored in when formulating engagement plans.

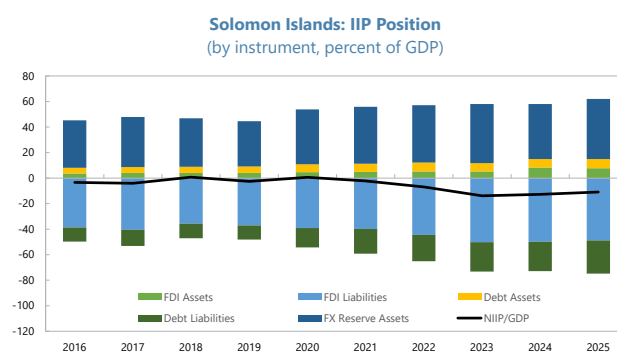
Annex II. External Sector Assessment¹

Overall Assessment: The external position of Solomon Islands in 2025 was broadly in line with the level implied by fundamentals and desirable policies. Staff estimates that the current account was 0.3 percent of GDP above the estimated norm, after adjusting for cyclical and temporary factors and natural disasters. Staff judges the real effective exchange rate to be overvalued, consistent with the REER model estimate of around 25 percent overvaluation.

Potential Policy Responses: Structural policies, particularly those improving competitiveness and export diversification, combined with prudent fiscal policies, would help ensure external sustainability over the medium term. A financing mix primarily involving grants and highly concessional loans would help contain financing costs and avert debt accumulation. The exchange rate should be fully guided by the currency basket, which should be periodically updated to reflect the country's trade structure. This would help to prevent exchange rate misalignments and better align with the central bank's primary objective of price stability.

Foreign Assets and Liabilities: Position and Trajectory

Background. The deficit in Solomon Islands' net international investment position (NIIP) widened to -10.9 percent of GDP in 2025, from a small surplus of around 0.7 percent in 2018. This deterioration has been primarily driven by an increase in foreign direct investment (FDI) liabilities, centered around infrastructure investment, while debt liabilities have also significantly increased in recent years. Reserve assets have remained steady at around 47 percent of GDP, equivalent to 75 percent of gross assets. On the liabilities side, FDI liabilities have grown to nearly 50 percent of GDP, equivalent to 66 percent of total liabilities. Debt liabilities have increased to around 26 percent of GDP, more than doubling since 2019.



Assessment. The NIIP is expected to remain broadly stable in the medium term, as reserves are expected to remain strong, supported by continued aid and investment inflows. Debt liabilities accounted for about 35 percent of total liabilities in 2025, compared to 23 percent in 2019, although the debt is mostly on concessional terms with multilateral creditors. External vulnerabilities are relatively contained given the relatively large share of FDI liabilities compared to portfolio liabilities, though the declining share of FDI in total liabilities over the past decade necessitates close monitoring.

2025 (% GDP)	NIIP: -10.9	Gross Assets: 62.5	Debt Assets: 7.2	Gross Liabilities: 73.4	Debt Liabilities: 26.1
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¹ Prepared by Narayan Suryakumar (APD)

Current Account

Background. The current account (CA) surged to a surplus of 5.6 percent of GDP in 2025, the first surplus since 2012. This was driven by unusually strong increases in gold and agricultural exports—supported by higher international prices—and relatively flat fuel imports. Services exports were also strong, as Solomon Islands hosted regional and international events.

Assessment. The EBA-lite CA model indicates a positive gap of 0.3 percent of GDP, reflecting an adjusted CA balance of -3.0 percent and an adjusted CA norm of -3.3 percent. The CA is assessed to be in line with the level consistent with medium-term fundamentals and desirable policy settings. The adjusted CA of -3.0 percent accounts for transitory increases in gold and agricultural exports in late-2025 amid favorable commodity prices and a temporary boost to service exports associated with the hosting of international conferences (8.7 percent of GDP), as well as the effects of natural disasters and conflicts (-0.3 percent of GDP) and cyclical factors (0.2 percent of GDP).

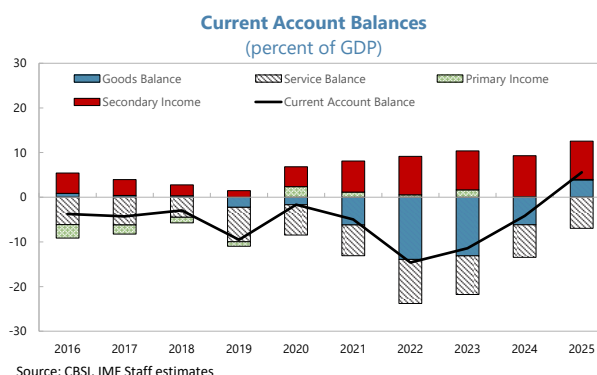


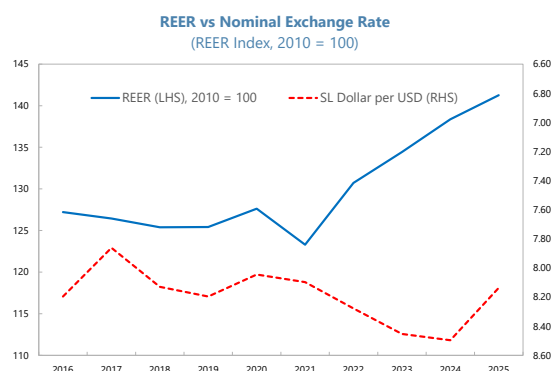
Table 1. Solomon Islands: EBA-lite Model Results, 2025

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	5.6	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-) 2/	8.7	
Natural disasters and conflicts (-)	-0.3	
Adjusted CA	-3.0	
CA Norm (from model) 3/	-3.3	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-3.3	
CA Gap	0.3	-7.2
o/w Relative policy gap	2.4	
Elasticity	-0.3	
REER Gap (in percent)	-1.1	24.7
1/ Based on the EBA-lite 3.0 methodology		
2/ Additional adjustment to account for transitory increases in gold and agricultural exports in late-2025 amid favorable commodity prices, as well as a temporary boost to service exports associated with the hosting of international conferences.		
3/ Cyclically adjusted, including multilateral consistency adjustments.		

Real Exchange Rate

Background. The real effective exchange rate is estimated to have appreciated by 2.1 percent in 2025, continuing a long-run appreciation trend. Meanwhile, the terms of trade are estimated to have significantly improved in 2025, on the back of sharp increases in prices of key export commodities (gold, palm oil, copra, cocoa), even while prices of key import goods (food, fuel) continued to see modest declines.

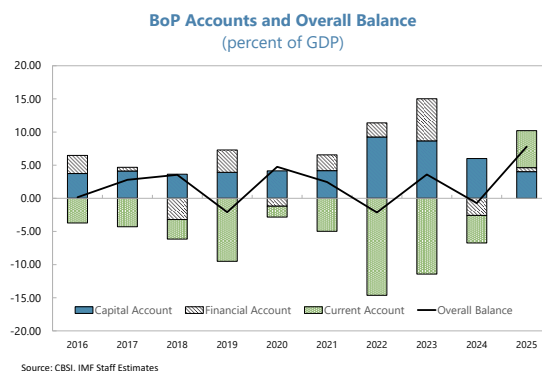
Assessment. While the CA model approach suggests a real exchange rate undervaluation of 1 percent, the REER approach indicates that the real exchange rate was overvalued by 25 percent in 2025. Staff places greater weight on the REER model estimate, as it is consistent with recent exchange rate and inflation developments in Solomon Islands and its main trading partners. While this trend does not automatically imply a need for a nominal exchange rate adjustment, it highlights the need for allowing the exchange rate to be fully guided by the currency basket, which is periodically updated to reflect the country's current trade structure. Meanwhile, structural reforms to improve the business environment and promote private investment remain a priority to enhance competitiveness of exports and reduce risks from exchange rate overvaluation.



Capital and Financial Accounts: Flows and Policy Measures

Background. The capital and financial accounts have helped finance the CA deficit through 2024 and build up foreign exchange reserves. Donor support such as project grants and concessional borrowing has been a key source of external financing, while FDI investment has also risen in recent years.

Assessment. Capital and financial accounts are expected to remain stable over the medium term, supported by continued donor-funded projects and FDI inflows.

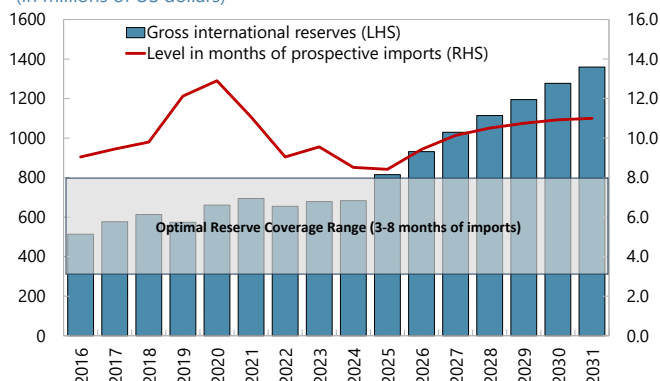


FX Intervention and Reserves Level

Background. Gross official reserves increased to US\$815 million in 2025, supported by donor flows, remittances, strong gold exports, and tourism. This level of reserves translates to 8.4 months of prospective imports. The strong level of reserves has helped preserve macroeconomic stability and maintain the fixed exchange rate regime, though the recent accumulation of reserves by the central bank has led to a build-up of excess liquidity in the domestic market.

Official Foreign Exchange Reserves

(In millions of US dollars)



Sources: Authorities data; and IMF staff calculations and projections.

Assessment. A surge in mineral exports in 2025 indicates that the level of reserves is expected to remain well above the adequacy range of three to eight months of imports over the medium term, supported by gold exports, continued aid inflows, and remittances (Table 2).

Table 2. Solomon Islands: Optimal Range of Reserve Adequacy Ratios

Prob of shock	Reserves / Months of imports		
	Resource rich	Small State	Fragile
65%	6.7	3.2	2.9
70%	7.3	3.5	3.2
75%	7.8	3.7	3.4

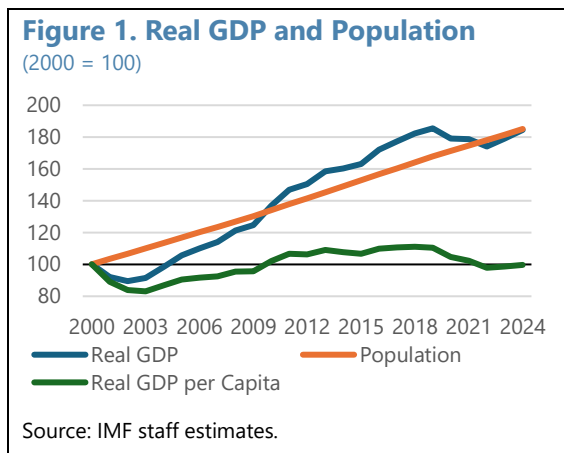
Note: Given that Solomon Islands is a fragile, resource-rich, small developing state (SDS), the ARA metric for the country falls within a wide band encompassing these three categories. The range of reserve adequacy ratios above is based on an estimate for marginal cost of holding reserves of 5.57 percent (see 2013 IMF paper on ARA – Further Considerations). The selected range of the probabilities of a large climate/natural disaster shock is based on the 2018 IMF paper on the Economic Impact of Natural Disasters on the Pacific Island Countries.

Annex III. Assessing Solomon Islands' Growth Drivers and Prospects¹

This annex examines the factors driving or hindering economic growth in Solomon Islands and forecasts medium- to long-term growth prospects using growth accounting and dynamic time warping methodologies. The analysis shows that rising contributions from physical capital have been more than offset by negative productivity growth over the past decade, underscoring the need to improve the economy's absorptive capacity. Both methodologies suggest growth prospects of around 3 percent for Solomon Islands, consistent with staff baseline projections.

A. Introduction

1. Understanding growth dynamics and prospects is crucial for the Solomon Islands. Real per capita income growth has stagnated for a quarter century, lagging behind population growth (Figure 1). Investigating the factors behind this weak economic performance is essential for policy makers to design effective measures to boost the country's growth potential. Developing realistic and reliable growth forecasts is particularly challenging for countries prone to exogenous shocks and structural changes, like the Solomon Islands. Nevertheless, such forecasts are a fundamental basis not only for policy makers, but also for investment planning.



2. This annex assesses Solomon Islands' growth drivers and medium-to-long-term growth prospects using growth accounting and dynamic time warping approaches. The growth accounting approach allows one to decompose historical growth into contributions from production factors (i.e., capital, labor, and productivity). It can be also utilized to predict future growth, based on the expected trends of these factors. However, growth accounting requires assumptions about the shape of the production function and its parameters, which may not accurately reflect the country's economic structures. The dynamic time warping approach could be a useful complement in this regard, as it predicts a target country's future growth by identifying similar growth episodes of other countries by pattern recognition, without relying on production functions.

¹ Prepared by Masafumi Yabara (APD). The author is greatly indebted to Natasha Che (FAD) for her generous help.

B. Growth Accounting

3. Several assumptions underpin our growth accounting analysis. Following Che and others (2025), we assume that real GDP (Y) is given by $Y = K^\alpha (AhL)^{(1-\alpha)}$, where K , A , h , L , and α represent the capital stock, total factor productivity (TFP), human capital, employment, and the capital share, respectively. This equation can be rewritten in per capita income terms as follows:

$$\frac{Y}{P} = \left(\frac{K}{Y}\right)^{\alpha/(1-\alpha)} Ah \frac{L}{P} \quad (1)$$

where P stands for population. The capital stock (K) is set at 0.7 times real GDP in the initial year, following a conventional rule of thumb, and is assumed to follow the perpetual inventory equation in subsequent years:

$$K_t = K_{t-1}(1 - \delta) + I_t \quad (2)$$

where I_t and δ represent gross fixed capital formation at time t and the depreciation rate, respectively. We assume a depreciation rate (δ) of 5 percent, following the cases of other low-income countries (IMF, 2024).²

4. We rely on various data sources, including modelled estimates on the labor market.

Data on real GDP (Y), gross fixed capital formation (I), and population (P) are sourced from the national accounts database compiled by the United Nations Statistics Division.³ This database features wide country coverage, including all the Pacific Island countries (PICs), dating back to 1970. Employment data (L) and the labor income share ($1-\alpha$) are taken from the International Labor Organization's modelled estimates database.⁴ Human capital (h) is measured in the same way as in the Penn World Table, using the mean years of schooling data from the Human Development Index dataset.⁵ For forecasts, we use the medium scenario population projections from the World Population Prospects. All of these data are available for six PICs, including Solomon Islands (i.e., Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu).

5. Growth accounting reveals that increasing capital investment has not translated into higher income of Solomon Islanders. The left-hand panel of Figure 2 shows GDP per capita growth of Solomon Islands and its decomposition, calculated according to equation (1). The chart

² The results remain robust when these parameters are changed.

³ Solomon Islands' national accounts data are adjusted reflecting the latest official statistics by the Solomon Islands National Statistics Office. The same adjustments are applied to the dynamic time warping analysis.

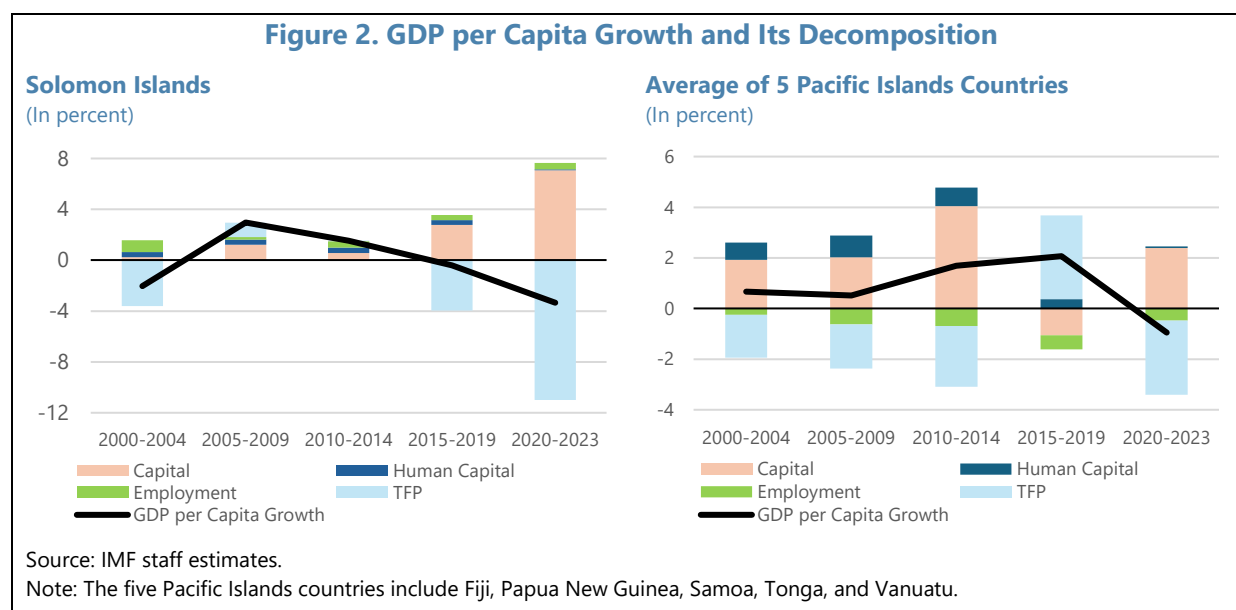
⁴ These data are imputations produced through a series of econometric models maintained by the ILO. For further details, see ILO (2025).

⁵ Specifically, a human capital index is calculated as follows:

$$\varphi(s) = \begin{cases} 0.134s & \text{if } s \leq 4 \\ 0.134 \times 4 + 0.101(s - 4) & \text{if } 4 < s \leq 8 \\ 0.134 \times 4 + 0.101 \times 4 + 0.068(s - 8) & \text{if } s > 8 \end{cases}$$

where s is the mean years of schooling.

shows that increasing contributions from physical capital since 2015 have been more than offset by negative productivity growth. The period between 2020 and 2023 was exceptional, characterized by the pandemic and the riot, in addition to infrastructure building in preparation for the Pacific Games. However, it is striking that TFP declined by 4 percent per annum between 2015 and 2019—a sharper decrease than during the early 2000s, when the country experienced civil conflict. This trend of capital investments crowding out other economic activity is also seen in other PICs, as shown in the right-hand panel of Figure 2.



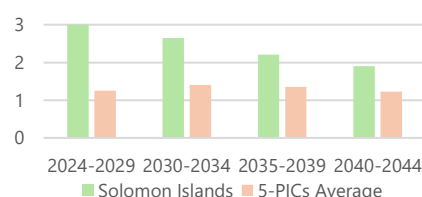
6. The growth accounting results underscore the need for Solomon Islands to prioritize policies to enhance the absorptive capacity of the economy. Figure 2 shows that further factor accumulation is unlikely to make Solomon Islanders richer, without addressing impediments to productivity. While identifying the specific drivers of TFP decline is beyond the scope of this annex, three policy priorities merit attention based on the literature (Dieppe, 2021). First, maintaining a stable and growth-friendly macroeconomic environment—including through prudent fiscal management and reducing regulatory costs—is critical to lowering uncertainty and fostering economic activity. Second, investments in infrastructure and human capital should be carefully prioritized within a robust public investment management framework, ensuring that resources are efficiently allocated to projects that contribute to reducing trade barriers and promoting productivity. Finally, improving access to finance would enable companies to expand beyond the limitations of their financial resources. Reducing barriers to registering collateral and speeding up the court process for debt recovery could help to achieve this (IMF, 2025).

7. Growth accounting can be used to predict medium-to-long term growth. Equation (1) can be rewritten in growth terms as follows, with $\hat{x}$ denoting the log difference of x :

$$\hat{Y} = \alpha \hat{K} + (1 - \alpha)(\hat{A} + \hat{h} + \hat{L}) \quad (3)$$

We assume that physical capital (K) and human capital (h) will continue to grow at the same rates as observed during a pre-pandemic period, 2015–2019 (5.3 percent and 0.4 percent, respectively, for Solomon Islands). The capital and labor shares (α , $1-\alpha$) are set at the average for the same period. Employment (L) growth is approximated by projected labor force growth: labor force is forecast by multiplying the projected population size of age-gender groups by their labor force participation rates in 2015–2019. Solomon Islands is expected to benefit from favorable demographic dividends compared to its peers, although the pace is projected to slow (Figure 3).

Figure 3. Projected Labor Force Growth
(In percent)



Source: IMF staff estimates.

Note: 5-PICs average is the average of Fiji, Papua New Guinea, Samoa, Tonga, and Vanuatu.

8. Growth accounting suggests around 3 percent GDP growth for Solomon Islands over the medium-to-long term. We present two sets of projections: one assumes a future productivity growth rate at the same rate as in 2015–2019, and the other at the same rate as in 2010–2019 (-4.0 percent and -2.0 percent for Solomon Islands, respectively). This is due to the region’s fluctuating TFP and the difficulty of predicting it: it also means that possible technological innovations and structural transformations are not considered. The results indicate that the Solomon Islands economy is expected to grow by between 2.1 and 3.5 percent over the medium to long term, which is in line with staff’s baseline projections of 3 percent (Table 1). This is at the lower end of the government’s medium-term growth target of 3-5 percent and indicates that per capita income growth is expected to remain around 0.3 to 1.5 percent in Solomon Islands over the forecast horizon.

Table 1. Solomon Islands: Growth Prospects from Growth Accounting (in percent)

		2024-29	2030-2034	2035-2039	2040-2044
Solomon Islands	TFP: 2015-2019	2.6	2.4	2.2	2.1
	TFP: 2010-2019	3.5	3.3	3.1	3.0
5-PICs Average	TFP: 2015-2019	3.6	3.6	3.6	3.6
	TFP: 2010-2019	2.5	2.6	2.5	2.5

Source: IMF staff estimates.

Note: 5-PICs average is the average of Fiji, Papua New Guinea, Samoa, Tonga, and Vanuatu. TFP: 2015-2019 and TFP: 2010-2019 use TFP growth rates for 2015-2019 and 2010-2019, respectively, as expected productivity growth in the forecast horizon.

C. Dynamic Time Warping Forecasts

9. The Dynamic Time Warping (DTW) algorithm employs machine-learning techniques to predict countries' growth prospects in a data-driven, non-parametric manner. It computes distances between the target country's variables in a target period and those of other countries in all possible historical periods. It then identifies the pairs of a country and a period with the shortest distances, which closely mirror the target country's economic conditions during the target period. These identified episodes are used to predict the target country's future growth, by computing the median, simple and weighted averages, and the 25th and 75th percentile values of the subsequent growth rates of the selected growth episodes.⁶ According to Che and others (2025), this approach yields relatively stable medium-term forecasts.

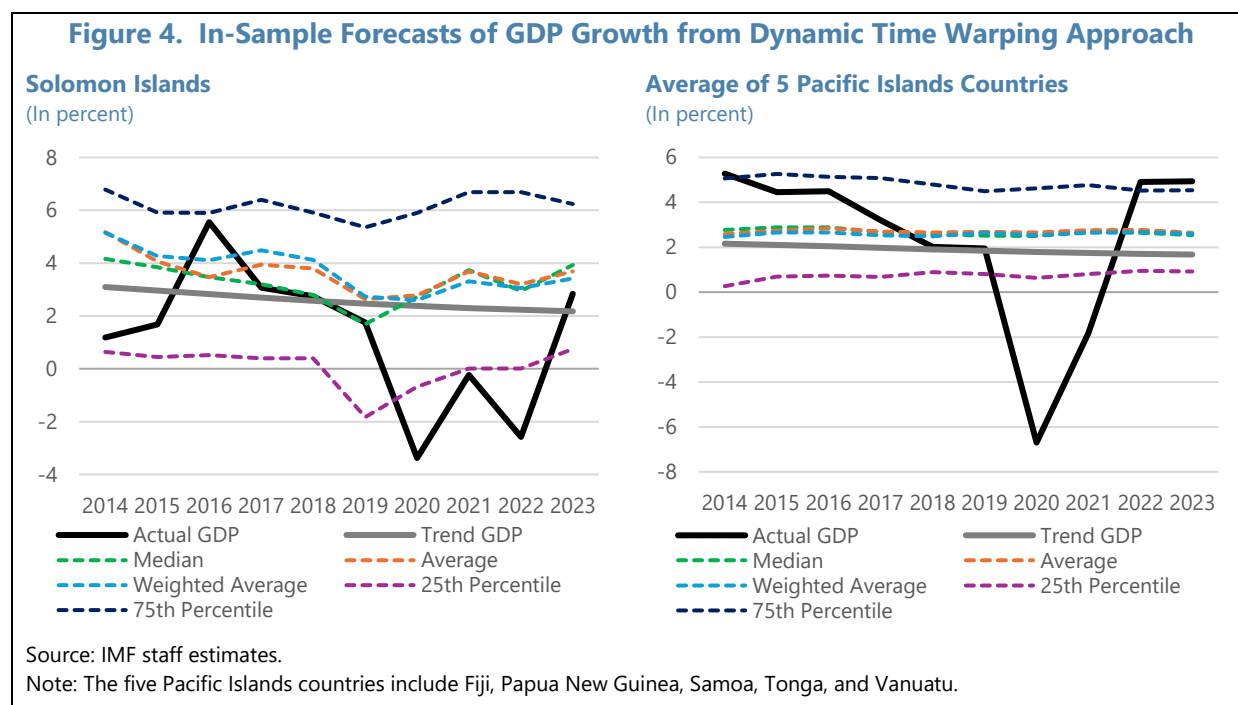
10. We use historical data of more than 200 countries ranging from 1970 to 2023 to forecast Solomon Islands' growth rates from 2024 to 2044. The data are sourced from the national accounts database compiled by the United Nations Statistics Division, the same database as used for the growth accounting exercise. The target period is set at 2017–2023, in order to cover both the pre- and post-pandemic periods. We select the top one percent of historical episodes with the shortest distances from Solomon Islands in the target period, focusing on two variables: real GDP per capita and population. This ensures that the country's small population size and income level are appropriately taken into account and yields relatively good forecast performance.

11. In-sample forecasts indicate that the DTW approach generates relatively stable forecasts for PICs over extended periods. To test the performance of the forecasts, we predict GDP growth rates of Solomon Islands and other PICs from 2014 to 2023. The algorithm identifies historical episodes with the shortest DTW distances from these countries between 2007 and 2013, using data on over 200 countries starting from 1970. As shown in Figure 4, even after 10 years, the projected growth paths closely follow the growth trends calculated from actual growth, despite major external shocks such as the pandemic.⁷ The mean absolute errors of the median, simple

⁶ For the details of the methodology, see Che and others (2025).

⁷ The growth trends are computed using the Hodrick–Prescott filter.

average, and weighted average forecasts range from 0.84 to 1.15 for Solomon Islands and from 0.70 to 0.81 for the average of the five PICs.



12. DTW forecasting suggests that Solomon Islands would grow around 3 percent over the medium to long run. To forecast Solomon Islands' growth beyond 2024, the DTW algorithm identified 61 historical episodes consisting of 10 countries that have the shortest distances from Solomon Islands in 2017–2023 (Table 2). Aggregating subsequent growth rates of these episodes yields a forecast for Solomon Islands' growth prospects around 3 percent until 2044 (Table 3).

Table 2. Solomon Islands: Example of Growth Episodes Similar to Solomon Islands in 2017–2023

Country	Start Year	End Year
Congo, Republic of	1973	1979
Djibouti	1978	1984
Micronesia	1978	1984
Kiribati	1978	1984
Mongolia	1985	1991
Mauritania	1975	1981
São Tomé and Príncipe	2016	2022
Tonga	1974	1980
Tuvalu	1970	1976
Vanuatu	1974	1980

Source: IMF staff estimates.

Table 3. Solomon Islands: Growth Prospects from Dynamic Time Warping Approach (in percent)

		2024-29	2030-2034	2035-2039	2040-2044
Solomon Islands	Median	2.1	2.5	2.9	2.7
	Average	3.5	2.8	2.9	3.3
	Weighted Average	3.3	2.9	2.7	3.2
	75th Percentile	6.4	4.9	4.7	5.9
	25th Percentile	-1.3	-0.5	0.3	-0.7
5-PICs Average	Median	2.8	2.6	2.4	2.6
	Average	2.9	2.8	2.3	2.2
	Weighted Average	2.9	2.6	2.3	2.3
	75th Percentile	4.9	4.8	4.5	4.5
	25th Percentile	1.0	0.8	0.5	0.4

Source: IMF staff estimates.

Note: 5-PICs average is the average of Fiji, Papua New Guinea, Samoa, Tonga, and Vanuatu.

D. Conclusion

13. Both the growth accounting and DTW approaches envisage around 3 percent growth for Solomon Islands over the medium to long term, based on its historical performance.

Growth accounting shows that increasing contributions from physical capital to GDP per capita growth since 2015 have been more than offset by negative TFP growth in Solomon Islands. This underscores the need for enhancing the absorptive capacity and productivity of the economy, including through maintaining a stable macroeconomic environment, improving investment planning, and facilitating access to finance. The growth accounting exercise suggests that Solomon Islands economy will grow by 2.1–3.5 percent until 2044, which is consistent with forecasts from the DTW approach.

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Annex IV. Risk Assessment Matrix¹

Sources of Risks	Likelihood	Expected impacts	Recommended Policy Responses
External Risks			
Commodity Price Volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	High	High. Solomon Islands is sensitive to increases in global prices and supply chain disruptions as it is heavily dependent on imports. Sharp commodity price rises could generate inflation and/or significant cost-of-living pressures.	- Reprioritize fiscal policy to ramp up targeted support for those vulnerable and slow down lower priority expenditure. - Efforts to diversify the economy, enhance domestic agriculture productivity, and increase the use of renewable energy should be continued.
Geopolitical Tensions and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	High	High. Higher import prices due to supply disruptions and/or rising shipping and input costs could push up inflation and affect fiscal and external sustainability.	
Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	High	Medium. A sharp economic slowdown particularly in main trading partners like Australia or China could negatively affect the growth prospect in Solomon Islands, particularly via the commodity exports and tourism channels.	- Provide targeted fiscal support as needed to most-affected groups, while carefully watching inflation developments and public debt sustainability. - Seek additional donor support.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Sources of Risks	Likelihood	Expected impacts	Recommended Policy Responses
Domestic Risks			
Mismanagement of Fiscal Policy. A cash crunch triggered by lower-than-expected donor support or an unsuccessful bond issue in the shallow domestic market, coupled with weak PFM capacity, forces the government to cut spending without proper planning and to delay payments to suppliers.	High	Medium. Government activity accounts for a substantial share of output in Solomon Islands. Under-execution of the budget would adversely affect economic activity, while delays in government payments to suppliers could pose a risk to financial stability.	• Strengthen basic PFM functions such as budget planning, as well as cash management and forecasting. • Enhance coordination with donors through steady implementation of reforms committed in budget support. • Enhance fiscal transparency and dialogue with potential investors to develop the domestic market.
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	High. Solomon Islands faces high natural disaster risk, with limited capacity to address the risk. Adverse climate events would have significant impacts on vulnerable areas/populations with knock-on effects on aggregate growth.	• Invest in resilient infrastructure to promote climate change adaptation. • Enhance fiscal buffers to meet climate financing needs, including through exploring donor support.
Social Discontent. Persistently high living costs, youth unemployment and inequality, amid an erosion in governance standards and pressures from geoeconomic realignments, trigger social unrest, political repression and instability, affecting countries' capacity to pursue economic reforms.	High	High. Solomon Islands has a history of social unrest and political instability. Should the risk materialize in the form of a political crisis, accompanied by civil unrest, it could significantly damage capital and hamper economic activity.	• Explore inclusive growth through improving the delivery of public services and providing well-targeted support to the vulnerable. • Take measures to improve governance, policy transparency, job creation, and quality of public services.

Annex V. Improving Fiscal Reporting in Solomon Islands¹

Solomon Islands has taken important steps toward strengthening fiscal data governance since the last Article IV consultation. Significant gaps remain, however, in fiscal reporting, the financial management information system (FMIS), and coordination among stakeholders. The immediate priority is to resume regular inter-agency coordination meetings and finalize the memorandum of understanding to formalize this coordination. The government should coordinate with development partners to complete the upgrade of the FMIS, which is necessary for the government to resume periodic reporting on budget execution. Continued capacity development of staff and institutions, supported by partners, is central to achieving these goals and fostering confidence, accountability, and sustainable fiscal policy in the Solomon Islands.

A. Background

1. The Solomon Islands' public financial management (PFM) framework, anchored by the Public Financial Management Act (PFMA) 2013, has suffered from weak and inconsistent implementation, resulting in poor fiscal reporting, limited transparency, and diminished accountability. Persistent capacity constraints, reliance on external support, and system challenges including prolonged disruptions following the rollout of the new FMIS have undermined timely, reliable budget execution and financial reporting. Audited financial statements are outdated. The government publishes budget outturns and debt data with long delays, and the reporting formats do not align with international standards such as the *Government Finance Statistics Manual 2014 (GFSM 2014)* and the *International Public Sector Accounting Standards (IPSAS)*. This is creating inconsistencies across fiscal, debt, and macroeconomic statistics. The authorities, in particular the Central Bank of Solomon Islands (CBSI), have been making efforts to improve data quality. Nevertheless, fragmentation between institutions and nonstandard budget presentations continues to hinder policy analysis, donor confidence, and public oversight.

2. The IMF set out a series of recommendations to address these challenges in the previous Article IV consultation. The recommendations covered a wide range of areas including the legal framework, the FMIS, staff capacity, and coordination among stakeholders, as shown in Table 1 (IMF 2025). The following sections provide updates on the progress in implementing these recommendations and discuss the remaining challenges, focusing on the recommendations relating to fiscal transparency and reporting, the FMIS, and the capacity and coordination of the authorities.

¹ Prepared by Barend De La Beer (STA), with inputs from the Solomon Islands Staff team.

Table 1. Solomon Islands: Recommendations from Previous Article IV Consultation

Priority	Recommendation	Date	Responsibility
High	Adhere to international standard practices for public finance management.		MOFT
	Compliance with PFMA2013: Regular dissemination.	December 2025	
	Amending the PFMA to adopt the fiscal transparency framework.	December 2027	
High	Strengthen the capacity of staff in relevant agencies through targeted training and development programs focused on fiscal data management and analysis.	From April 2025	AG
Medium	Ensure that the FMIS performs effectively.		AG
	Collaborate with PFM experts to address challenges utilizing Microsoft D365 for public finance management.	March 2025	
	Ensure all government agencies' accessibility.	December 2025	
Medium	Increment regular reports, public finance management reform, and transparency.		AG
	Commit to cash management and control.	From June 2025	
	Recommence the release of quarterly and monthly budget outturns.	From June 2025	
	Align fiscal reporting templates with IPSAS and/or GFS standards.	From January 2026	
Medium	Engage with stakeholders regularly to enhance coordination.	From January 2025	MOFT
	Recommence monthly policy implementation meetings between MOFT agencies and the CBSI.		
	Establish a memorandum of understanding to facilitate data sharing and timely submission.		

Source: IMF 2025.

B. Improving Fiscal Transparency

3. The PFMA 2013 requires regular compilation and dissemination of public accounts, but it is not being fully implemented. The Act requires the submission of monthly financial reports and annual financial statements by the government within certain timeframes. However, the government has long suspended the release of monthly reports on budget execution, while budget outturn reports are published with significant delays. Therefore, the first step towards ensuring fiscal transparency is to fully comply with the Act. In addition, the format of these reports does not align with international standards such as *GFSM 2014* and *IPSAS*, impairing consistency, comparability, and quality of fiscal reporting. Over the medium term, fiscal transparency could be further improved by adopting international best practices, such as the IMF's Fiscal Transparency Framework (FTF), in the PFMA. Given this, IMF (2025) specifically recommended the following:

- Resume the release of quarterly and monthly budget outturns. [June 2025]
- Comply with PFMA2013: Regular dissemination. [December 2025]
- Align fiscal reporting templates with IPSAS and/or GFS standards. [January 2026]
- Amend the PFMA to adopt the Fiscal Transparency Framework. [December 2027]

4. Although the authorities are committed to improving fiscal reporting, delays to the FMIS upgrade are hindering the effort. The Ministry of Finance and Treasury (MoFT) has not resumed dissemination of monthly reports on budget execution. The budget outturn report has not been published on the MoFT's website since 2021, and the most recent audit report on the government's annual financial statements that is available on the Auditor General (AG)'s website is for 2017. Budget tables in the 2026 budget documents are not aligned with the international standards such as *IPSAS* and *GFSM 2014*. No discussion has taken place regarding the adoption of the fiscal transparency framework. The government is committed to resuming publication of the periodic fiscal reports once the FMIS upgrade is complete.

5. In addition to implementing these recommendations, developing a formal data revision policy will enhance transparency and improve confidence in fiscal statistics. Solomon Islands' fiscal data is often revised retroactively without explanation. Having a data revision policy—that stipulates procedures for updating previously released fiscal statistics when new information becomes available—enhances users' understanding of how fiscal data evolves and guards against misinterpretation of past reports.

C. Ensuring Functioning Financial Management Information System

6. The introduction of Microsoft Dynamics 365 (D365) for the FMIS has exacerbated long-standing weaknesses in fiscal reporting and data availability. The system initially failed to generate basic operational and management reports, partly because in-person installation assistance was not possible due to the pandemic. The MoFT was unable to provide the CBSI with

granular data on budget execution, which prevented the CBSI from compiling the Government Finance Statistics (GFS) in a reliable and timely manner. Given this, IMF (2025) specifically recommended the following:

- Collaborate with PFM experts to address challenges utilizing Microsoft D365 for public finance management. [March 2025]
- Ensure access for all government agencies. [December 2025]

7. The provision of granular data has resumed, although further improvements are needed. The MoFT has resumed extracting granular data from D365, but the process of sharing the data is still subject to significant delays. This has enabled the CBSI to publish the GFS up to 2024 on a provisional basis. Once Phase 2 of the FMIS upgrade is complete, the government expects financial management reports to be generated automatically. Development partners, including the PFTAC, have supported the upgrade. Work remains in refining the economic classification of stocks and flows and the classification of the functions of government (COFOG) to better align to the GFSM 2014 classifications. Further efforts are needed to reduce the significant statistical discrepancies between above and below the line, as well as to include the government's financial assets associated with on-lending and equity investments in state-owned enterprises. The development of fiscal reports that map FMIS outputs to the government's chart of accounts (COA) has yet to start.

8. Officials across all ministries and departments that operate in the financial management environment have now been granted access to D365. However, further investment in training and upskilling officials on the technicalities of the FMIS is required to ensure that the system is functional throughout the government.

D. Strengthening Capacity and Collaboration of Stakeholders

9. Weak institutional capacity and fragmented coordination continue to undermine the quality, consistency, and credibility of fiscal data and reporting in the Solomon Islands. Staff responsible for budgeting, accounting, fiscal analysis, and statistics face skills gaps in FMIS use, PFM, and the GFS. The authorities continue to face difficulties in recruiting staff with the appropriate skills and background. In addition, insufficient coordination among the MoFT, the CBSI, line ministries, and development partners hampers data sharing, task alignment, and timely statistical compilation. Given this, IMF (2025) specifically recommended the following:

- Strengthen the capacity of staff in relevant agencies through targeted training and development programs focused on fiscal data management and analysis. [April 2025]
- Resume monthly policy implementation meetings between MOFT agencies and the CBSI. [January 2025]
- Establish a memorandum of understanding to facilitate data sharing and timely submission. [January 2025]

10. While the government is planning to increase training in accounting and auditing, government officials would also benefit from training in fiscal data management and analysis.

The government is working to set up a training center for accounting and auditing officers. MoFT officials, particularly those in charge of economic analysis, budget formulation and execution, and treasury, would benefit from training on PFM and the GFS, possibly funded by development partners including the IMF.

11. The monthly policy implementation meeting has not been held since May 2025, while the finalization of the memorandum of understanding (MoU) is pending.

Regular monthly meetings support timely discussion of fiscal trends, resolution of data discrepancies, and alignment of forecasts. International experience shows that frequent inter-agency coordination improves the timeliness and accuracy of fiscal indicators and strengthens budget execution. A draft MOU to set up a committee to facilitate data sharing, timely submission, and division of labor is waiting for finalization.

12. Donor grant data provided by donors is being used to improve the coverage and consistency of fiscal data.

The CBSI collects data on donor grants through a survey of multilateral and bilateral donors for the compilation of the balance-of-payments (BOP) statistics. The central bank has decided to use the data for the GFS as well, to cover off-budget grants and improve consistency with the BOP statistics. Additional efforts are required to validate and reconcile external borrowing in the BOP statistics with government debt data in the fiscal accounts and public sector debt statistics.

E. Conclusion

13. Solomon Islands has taken important steps toward strengthening fiscal data governance, but significant gaps remain in fiscal reporting, the FMIS, and coordination among stakeholders.

The MoFT has resumed providing granular data extracted from the FMIS, and the government is working to establish a training center for auditing and accounting. The immediate priority is to resume regular coordination meetings across agencies and finalize the MoU to formalize this coordination. The government should coordinate with development partners to complete the FMIS upgrade, which is necessary for the government to resume periodic reporting on budget execution. Continued capacity development, supported by partners such as the IMF, the World Bank, and regional partners, is central to achieving these goals and fostering confidence, accountability, and sustainable fiscal policy in the Solomon Islands.

Reference

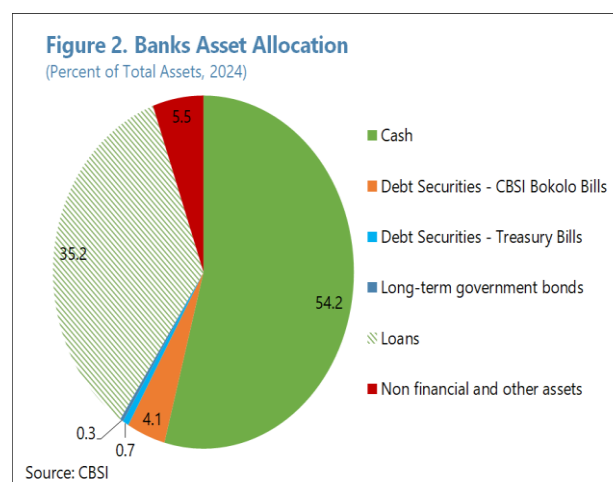
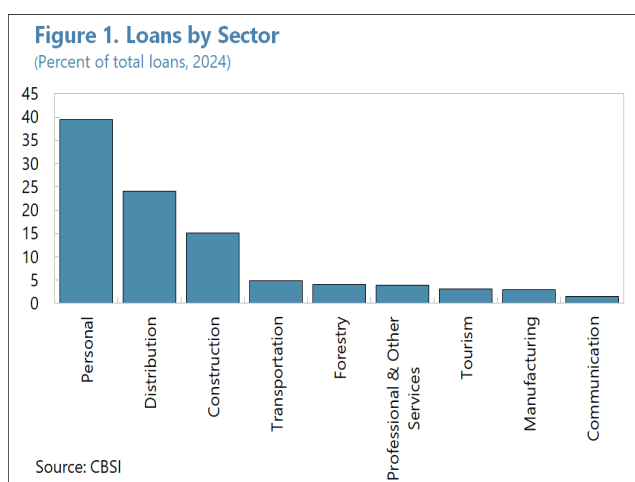
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Annex VI. Sensitivity Analysis of Banking System in Solomon Islands¹

Solomon Island's banking system is small and concentrated, dominated by foreign ownership. The sector is generally well capitalized, liquid and profitable. However, areas of vulnerabilities including elevated non-performing loans, and the concentration of large exposures require careful monitoring. The sensitivity analysis indicates that banks remain resilient to different shocks under both mild and severe downside scenarios. Although credit risk shocks have the largest adverse impact on banks' capital positions relative to foreign exchange (FX) and interest rate shocks, all banks' capital ratios remain above the regulatory minimum of 15 percent under all shock scenarios.²

A. Banking System Characteristics

- Solomon Islands' banking system is small and concentrated, dominated by foreign-owned banks.** In 2024, banks held SI\$7.2 billion in assets, equivalent to 61 percent of the total financial system and 0.7 times the size of the economy.³ The system comprises four banks, three of which operate as branches of foreign-owned banks, and a domestically incorporated bank. The foreign-owned banks dominate the system, holding 90 percent of total assets, with the largest accounting for 47 percent.
- The banking sector is centered on traditional lending and exposed to the personal, distribution, and construction sectors** (Figure 1). However, in 2024, loans made up just 35 percent of total assets, equivalent to 24 percent of GDP, while cash comprised half of banks' assets



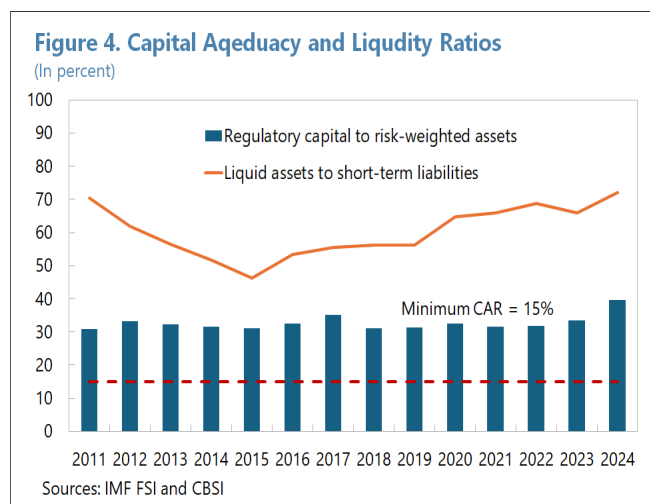
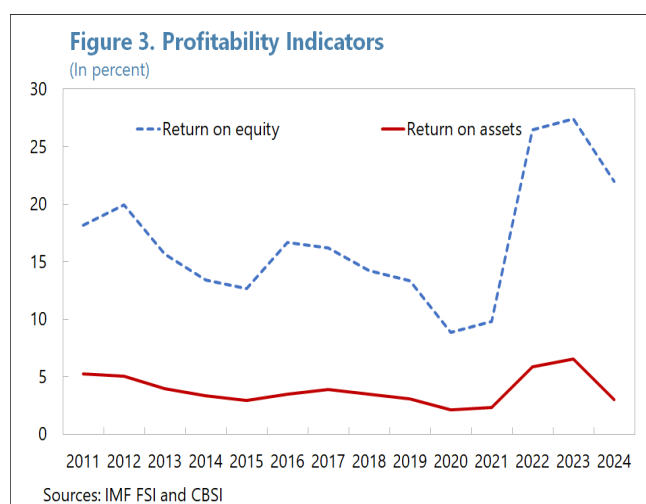
¹ Prepared by Kalolaini Ranadi (APD).

² Important caveats apply to these conclusions given the methodological limitations discussed in Section B.

³ The Solomon Islands National Provident Fund accounts for around 34 percent of the total financial system assets.

(Figure 2) The modest lending activity reflects structural challenges, including high informality, limited collateral due to communal land ownership, and high costs of providing services in rural and outer islands. On the liability side, banks are primarily funded through deposits, which account for 85 percent of total liabilities.

3. Banks are profitable due to robust interest and non-interest incomes, and are adequately capitalized and liquid. Interest earnings remain the main source of revenue, accounting for over half of banks' gross income. Despite the high non-interest income from fees and FX transactions, elevated operating costs, particularly outsourcing service fees and salaries and wages caused some banks to report negative net non-interest income in 2024. Average return on assets stood at 3.0 percent and return on equity at 22.0 percent in 2024 (Figure 3). The capital adequacy ratio (CAR) was 39.6 percent in 2024, with wide variation (23-65 percent) among banks (Figure 4). Tier 1 capital makes up 84 percent of total capital, underscoring the quality of capital.



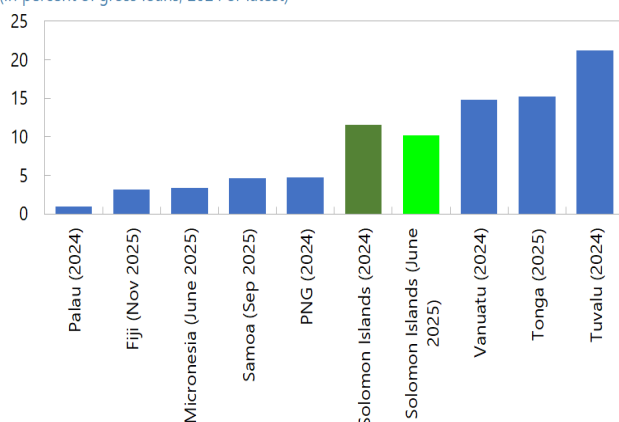
4. Non-performing loans (NPLs) remain elevated, and among the highest in the Pacific

(Figure 5). In 2024, the NPL ratio stood at 11.6 percent, and concentrated in the personal, distribution, transportation, and construction sectors (Figure 6). These sectors also represent substantial portions of gross loans, and are vulnerable to shocks, including adverse climate events and economic slowdown. Banks' provisioning⁴ for NPLs appear adequate and collateralized; however, challenges related to slow court processes and an illiquid property market hinder loan recovery. Additionally, the concentration of large exposure warrants closer monitoring.

⁴ At minimum, banks must set aside provisions based on the classification grade of each loan: Pass (performing) - 1 percent, special mention - 5 percent, substandard - 20 percent, doubtful - 50 percent, and loss - 100 percent.

Figure 5. Non-Performing Loans

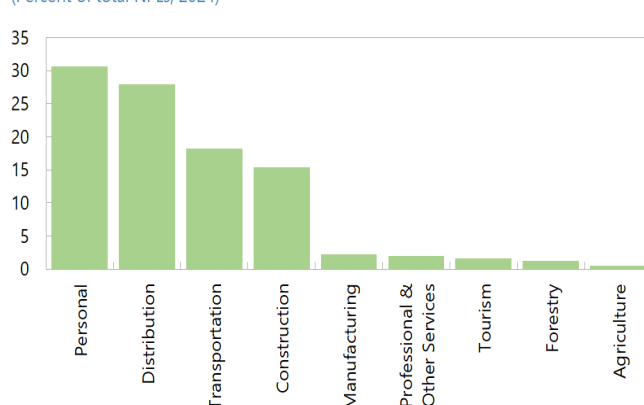
(In percent of gross loans, 2024 or latest)



Sources: Country authorities; and IMF staff calculations.

Figure 6. Non-Performing Loans by Sector

(Percent of total NPLs, 2024)



Source: CBSI

B. Sensitivity Analysis of the Banking System

5. The sensitivity analysis assesses banks' vulnerability to three key risk shocks—credit, interest rate, and foreign exchange. The analysis uses an Excel-based tool⁵ for a small and non-complex banking system. It is based on banks' 2024 balance sheet and income statement data provided by the Central Bank of Solomon Islands (CBSI) and considers both mild and severe downside scenarios. However, the tool only mechanically calculates the direct effect of these shocks, excluding the indirect, second-round effects or macroeconomic feedback loops that stress testing would capture.⁶ The table below summarizes the shock assumptions of the sensitivity analysis.

⁵ Refer to Čihák (2007), Introduction to Applied Stress Testing, IMF Working paper. The paper provides an introduction or the basic versions of the most common stress tests.

⁶ In addition, this exercise does not account for support from, or shock transmission between, parent banks and their branches in the Solomon Islands.

Mild Downside Scenario	Assumptions
Credit Risk	NPLs increase to double the current maximum NPL among banks, equivalent to 43 percent. Level of provisioning needed is 50 percent.
Interest Rate Risk	Lending rates decrease by 4 percentage points, corresponding to the largest reduction observed in February 2000. This decline coincided with broader economic and financial strains that the country faced due to the impact of ethnic tensions.
FX Risk	The Solomon Island dollar depreciates by 1.4 percent against the US dollar. This corresponds to the average depreciation of the Solomon Island dollar over the past three decades (excluding large shock periods ⁷).
Severe Downside Scenario	Assumptions
Credit Risk	NPLs increase to three times the current maximum NPL among banks, reaching 66 percent. Level of provisioning needed is 90 percent.
Interest Rate Risk ⁸	The interest rate shock evaluates the combined impact of a decline in lending rates of around 4 percentage points observed in February 2000, together with the associated increase in credit risk ⁹ on banks' net interest income and capital. For the credit risk shock, NPLs increases to around 13 percent (doubling the actual NPLs), with level of provisioning needed is 50 percent.
FX Risk	The Solomon Island dollar depreciates by 34 percent, which corresponds to the largest annual depreciation of the currency observed in 2002. ¹⁰

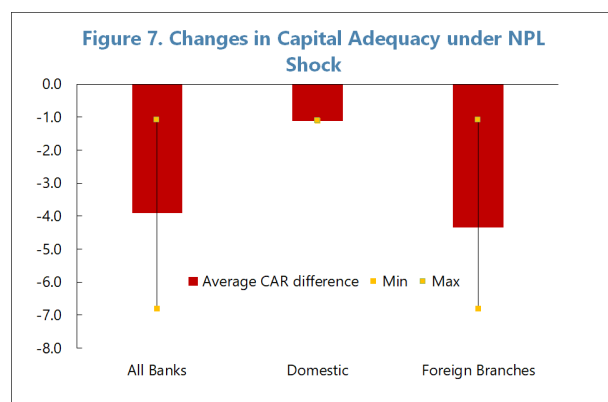
⁷ Excluding the 1997 Asian Financial Crisis, 2002 ethnic tension, and pandemic period.

⁸ Given the absence of a monetary policy rate, the interest rate shock is assessed using the weighted average lending (continued)

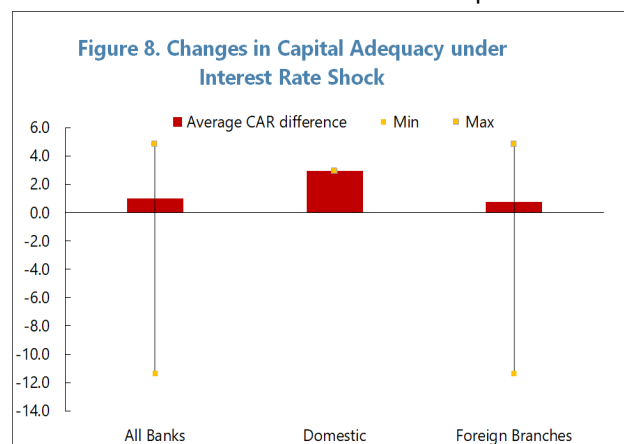
6. Results of the sensitivity analysis show that banks remain well capitalized and resilient to the set of shocks under both mild and severe downside scenarios. Among the shocks, credit risk adversely impacts banks' capital positions in both scenarios, compared to the FX and interest rate shocks. In the mild downside scenario, the credit risk shock reduces banks' CAR by 1.5 percentage points, whereas the CAR marginally improves under the interest rate and direct FX shocks.

7. The section below shows the results of the different shocks in the adverse downside scenarios.

- a. **Credit Risk Shock.** This test assesses a general deterioration in asset quality, with NPLs assumed to increase proportionately across all banks, with an increase in provisioning requirements. Under the severe downside scenario, banks' average CAR declines by 3.9 percentage points, with the largest impact observed for a foreign-owned bank (Figure 7). Despite the decline, all banks' CAR remains above the regulatory minimum.



- b. **Interest rate shock.** The interest shock tests for the direct interest rate risks which correspond to the risk incurred by banks when the interest rate sensitivities of its assets and liabilities are mismatched. Assets and liabilities are sorted into three time-to-repricing buckets (0-3 months, 0-6 months, and 0-12 months). The buckets are used to calculate the impact of the interest shock on banks' net interest income. The severe downside scenario assesses the combined impact of a fall in lending rates and higher NPLs in an economic downturn during the early 2000s, resulting in a marginal increase in banks' CAR by 1.0 percentage point (Figure 8).¹¹



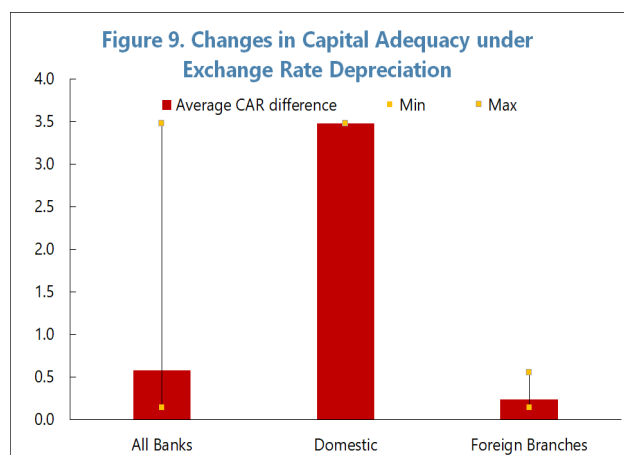
rates.

⁹ In an economic downturn, credit quality tends to deteriorate as higher unemployment and reduced incomes weaken borrowers' debt-servicing capacity, while demand for new lending also declines.

¹⁰ This coincided with the ethnic tensions that Solomon Islands experienced from the late 1990s and 2000s.

¹¹ In this scenario, interest rate shock via reduced lending rates has a positive impact on banks' capital given the predominance of interest-sensitive liabilities over assets which outweighs the adverse impact of credit risks shock.

- c. **FX shock.** The FX shock assesses bank' sensitivity to a depreciation of the Solomon Islands dollar. Large exchange rate volatility has historically been limited, given that currency is pegged to a basket of currencies. The analysis focuses solely on direct FX risk measured through banks' net open position, excluding indirect FX risk, as banks do not issue FX-denominated loans. Under the direct FX shock, the severe downside scenario assumes a 34 percent depreciation of the Solomon Islands dollar against the US dollar, corresponding to the largest observed depreciation over the past three decades. The results show that such depreciation would benefit banks, as they maintain positive net open position, leading to an increase in CAR of 0.6 percentage points, with the largest effect observed for the domestic bank (Figure 9). The modest direct FX exposure of banks reflects their small net open positions and the regulatory limits¹² placed on FX exposures by the central bank. Notwithstanding this result, FX depreciation may affect the banks through its impact on borrowers' cash flow, particularly importers potentially raising credit risk, while large exporters may gain from such depreciation.



C. Conclusion

- 8. The sensitivity analysis indicates that Solomon Islands banking system remain resilient to different shocks under both mild and severe downside scenarios.** Credit risk shocks have the largest adverse impact on banks' capital positions relative to foreign exchange and interest rate shocks. However, all banks' capital ratios remain above the regulatory minimum of 15 percent.

¹² According to CBSI prudential guidelines, banks are not permitted to hold an open foreign currency position exceeding 15 percent of Tier 1 capital in any single foreign currency and an overall open foreign currency position exceeding 25 percent of Tier 1 capital.

References

Cihák Martin (2007), "Introduction to Applied Stress Test", International Monetary Fund, Working Paper No. 07/59.

International Monetary Fund (2014), "A Guide to IMF Stress Testing: Methods and Models", edited by Li Lian Ong.

Annex VII. Data Issues

Table 1. Solomon Islands: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	C	B	B	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	C	B	A		
Granularity 3/	C		C	C	A		
			B		B		
Consistency			D	B		C	
Frequency and Timeliness	C	B	C	B	B		
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank. 1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics. 2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF Review of the Framework for Data Adequacy Assessment for Surveillance , January 2024, Appendix I). 3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
Rationale for staff assessment. The quality of data in the Consumer Price Index and debt, external sector, monetary, and financial statistics is broadly adequate for surveillance. However, the quality of the national accounts and government finance statistics (GFS) remains insufficient. The national accounts are occasionally subject to significant revisions and are based on 2012 prices. The release of annual GDP estimates has become earlier than before, but there is still a lag of over ten months. The Central Bank of Solomon Islands (CBSI) publishes higher-frequency data such as on production activity, trade, and inflation, which helps to bridge some of the gaps in estimating GDP. The CBSI publishes the GFS covering the central government on a quarterly basis in a timely manner, although it lacks balance sheet data and there are significant statistical discrepancies between above and below the line data. The MoFT's provision of granular budget execution data to the CBSI is often delayed, partly due to the ongoing upgrade of the financial management information system (FMIS). This, alongside classification errors and data gaps in the compilation system, prevents consistent and reliable compilation of the GFS.							
Changes since the last Article IV consultation. The Solomon Islands National Statistics Office (SINSO) updated historical GDP estimates for 2021-2024 in October 2025, bringing the national accounts up to-date. The estimates for 2021 and 2022 were significantly revised, making them more consistent with observations in the field. SINSO also published supply and use tables in February 2026, although they are based on 2012 prices. The MoFT has resumed providing granular budget execution data extracted from the FMIS, although it is still subject to delays. This has enabled the CBSI to improve the timeliness of GFS compilation. The MoFT has not been able to provide reliable data on future debt repayments and interest payments.							
Corrective actions and capacity development priorities. Efforts to strengthen staff capacity, complete the upgrade of the information system, and institutionalize inter-agency coordination are needed to address weaknesses in the national accounts and GFS. Capacity development support by the Pacific Financial Technical Assistance Centre (PFTAC) and Statistics Department is ongoing to help the authorities address these challenges. The World Bank and the Asian Development Bank are also providing support to strengthen the capacity and resources of the SINSO. Streamlining and automating reporting and compilation process, alongside continued capacity development, would further strengthen the timely dissemination of monetary financial statistics and financial soundness indicators.							
Use of data and/or estimates different from official statistics in the Article IV consultation. None							
Other data gaps. Data on labor market conditions and state-owned enterprises would allow staff to conduct more detailed analysis of the economy. More granular data on digitalization of financial services would also be useful.							

Table 2. Solomon Islands: Data Standards Initiatives

Solomon Islands participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in February 2012 but is yet to disseminate the data recommended under the e-GDDS.

Table 3. Solomon Islands: Table of Common Indicators Required for Surveillance

	As of April 1, 2026				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Data Provision to the Fund							
	Date of Latest Observation	Date Received	Frequency of Data ⁵	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Solomon Islands ⁸	Expected Timeliness ^{6,7}	Solomon Islands ⁸
Exchange Rates	Mar-26	Mar-26	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Nov-25	Feb-26	M	M	M	M	1M	1Q
Reserve/Base Money	Oct-25	Mar-26	M	M	M	M	2M	2M
Broad Money	Dec-25	Mar-26	M	M	M	M	1Q	2M
Central Bank Balance Sheet	Oct-25	Mar-26	M	M	M	M	2M	2M
Consolidated Balance Sheet of the Banking System	Oct-25	Mar-26	M	M	M	M	1Q	2M
Interest Rates ²	Dec-25	Jan-26	M	M	M	M	NA	2M
Consumer Price Index	Jan-26	Mar-26	M	M	M	M	2M	2M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	NA	NA	NA	NA	A	A	3Q	12M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Dec-25	Mar-26	A	A	Q	A	1Q	1Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Dec-25	Mar-26	Q	Q	Q	Q	2Q	2W
External Current Account Balance	Sep-25	Dec-25	Q	Q	Q	A	1Q	24M
Exports and Imports of Goods and Services	Sep-25	Dec-25	Q	Q	M	M	12W	4M
GDP/GNP	Dec-24	Oct-25	A	A	Q	A	1Q	1Q
Gross External Debt	Dec-25	Mar-26	Q	Q	Q	Q	2Q	2W
International Investment Position	Sep-25	Dec-25	Q	Q	A	A	3Q	24M

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("I") irregular; and ("NA") not available.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex VIII. Capacity Development Priorities for FY26-27

Topic	Sub-Topic	Description	Comments
Public Financial Management (PFM)	Budget planning and reporting	Improve budget planning and quality of fiscal reporting	The recent Public Expenditure and Financial Accountability (PEFA) assessment mission, conducted by the Pacific Financial Technical Assistance Centre (PFTAC), delved into these issues. The authorities plan to formulate a broad PFM reform roadmap, with support from the PFTAC, building on the assessment.
	PFM laws and institutions	Strengthen PFM laws and institutions	
	Cash flow forecasts	Improve cash flow forecasts	
Revenue Administration	Modernization of revenue administration	Strengthen revenue administration to improve tax compliance.	Further technical assistance (TA) for the revenue authorities is needed to prepare for a value-added tax, advance digitalization, and strengthen staff capacity. Priorities also include improving tax compliance and taxpayer services, particularly in extractive industries.
Fiscal Framework	Fiscal framework for managing resource revenue	Develop a fiscal framework to manage revenue from the extractive industries	It is necessary to develop a medium-term fiscal framework to save and utilize revenue from the extractive industries in a sustainable and equitable manner. Support could include the establishment of a fund to save and manage the proceeds.
Foreign Exchange Rate Policy	Operation of the exchange rate regime	Better align the foreign exchange rate to the fundamentals	The implementation of the TA recommendations—including those relating to adherence to the currency basket and improvements in foreign exchange (FX) market operations—needs follow-up. Further support is needed to develop an FX Policy.
Foreign Exchange Control	Modernization of foreign exchange regulations	Review the Exchange Control Act	The legislation and regulations governing foreign exchange control are outdated and require modernization.
Monetary Policy Operations	Open market operations Liquidity management and forecasting	Enhance effectiveness of monetary policy, including through reforms to introduce a policy rate and a framework for liquidity management and forecasting.	TA was delivered to assist the authorities in modernizing their monetary policy operational framework. Continued support is required to assist in the implementation of the recommendations.
Financial Sector Stability	Banking supervision Crisis management Systemic risk analysis	Strengthen risk-based supervisory frameworks, resolution and crisis management, and stress testing and systemic risk analysis	The Financial Sector Stability Review mission identified the need to enhance capacity in these areas and made recommendations. The authorities and the IMF plan to develop a roadmap for capacity development support to implement the recommendations.
Financial Integrity	Anti-money laundering and counter-terrorism financing (AML/CFT)	Strengthen AML/CFT capacity	TA will continue to help establish a legal and regulatory framework for AML/CFT and develop and implement risk-based AML/CFT supervisory tools.
Central Bank Operations	Internal audit	Strengthen internal audit function	Continued support is needed to implement a multi-year capacity building plan for the internal audit function.
Macroeconomic Statistics	Statistics on the real sector and government finance	Strengthen compilation and dissemination of the real sector statistics and the government finance statistics (GFS)	TA will continue in the compilation of the national accounts (including rebasing exercise), debt statistics, and GFS.

Annex IX. Authorities' Response to Fund Policy Advice

Fund Recommendation	Policy Actions
Fiscal Policy Address critical fiscal data gaps, particularly by resuming regular government reports on fiscal and debt data. Improve budget formulation to eliminate a financing gap in the budget proposal and gradually rebuild the cash balance. Promote domestic revenue mobilization including through more efficient tax administration and the introduction of a value-added tax (VAT). Improve the transparency and accountability of public expenditure by strengthening procurement and audit capacity.	The government has resumed providing the central bank with granular budget execution data, albeit with delays and monthly and quarterly budget execution reports and debt statistics remain unpublished. The government plans to resume the publication of the in-year financial reports once the upgrade of the financial management information system is complete. The authorities are committed to reducing the budget deficit over the medium term and rebuilding cash reserves. However, the 2026 budget still has a financial gap and lacks a credible plan and concrete measures to implement these commitments. The Inland Revenue Division has continued efforts to modernize its organizational structure, with the support from the Pacific Financial Technical Assistance Centre (PFTAC). The VAT bill has yet to be passed by Parliament, and the VAT is expected to be implemented by January 2028. The implementation of the new Constituency Development Funds Act has been gradual, with the associated regulations still under development. The delivery of an audit report on the Pacific Games has been delayed. The government is working to establish a training center for auditing and accounting.
Monetary and Financial Sector Policy The Central Bank of Solomon Islands (CBSI) should stand ready to adjust its monetary policy stance as economic conditions evolve. Strengthen the supervisory and regulatory framework for the financial system. Strengthen the framework for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT). Improve analytical and forecasting capacity of the central bank.	In September 2025, the CBSI announced its decision to ease monetary policy, in light of the mixed economic activity and subdued inflation outlook. The authorities continue to enhance their capacity, with support from the IMF, in line with the findings of the Financial Sector Stability Review. The authorities are working to establish its legal framework and risk-based supervisory framework for AML/CFT, supported by the IMF. The central bank has improved its analytical and forecasting capacity through utilizing high frequency indicators, establishing forecasting models, and strengthening monetary policy communication, supported by the IMF.
Exchange Rate Policy Improve foreign exchange operations and communication with market participants.	The CBSI updated the currency basket for the exchange rate regime in August 2024 and has regularly reviewed it, in line with the IMF recommendations. The actual exchange rate, however, has deviated from the basket due to discretionary adjustments by the central bank. The implementation of other recommendations is at varying stages, and the central bank is in need of further support for implementing some of them.
Structural Reforms Enhance productivity of the economy, including through targeted investments and improved connectivity, in particular in rural areas. Address governance weaknesses through implementing the National Anti-Corruption Strategy Action Plan and strengthening legal frameworks and monitoring in the forestry and mining sectors.	The government is prioritizing the enhancement of the competitiveness of export products in rural areas, such as cocoa, coconut, and fisheries, through supporting production and building infrastructure and logistics. The implementation of the National Anti-Corruption Strategy Action Plan has been stalled, with the anti-corruption institution still struggling with shortages of resources. Legislation to strengthen regulations and enforcement in the logging and mining sectors is still pending.



SOLOMON ISLANDS

June 10, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION— DEBT SUSTAINABILITY ANALYSIS

Approved By

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Manuela Francisco and
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Prepared by the staff of the International Monetary
Fund (IMF) and the International Development
Association (IDA)

Risk of external debt distress:	Low
Overall risk of debt distress:	Moderate
Granularity in the risk rating:	Tool not applicable
Application of judgement:	No

The 2026 Debt Sustainability Analysis (DSA) indicates that the risk of external debt distress and the overall risk of debt distress in the Solomon Islands remain low and moderate, respectively. These ratings, as well as debt coverage, are unchanged from those in the 2024 DSA (IMF Country Report No. 25/49).¹ All external debt indicators remain below the relevant indicative thresholds under the baseline scenario and stress tests. The present value of the public debt-to-GDP ratio remains below the indicative threshold under the baseline scenario but breaches the threshold under the commodity price shock and GDP growth scenarios. An alternative scenario that considers the impact of slow-moving, long-term shifts in climate suggests that these changes could have a meaningful cumulative impact on the public debt trajectory over the long run. Debt sustainability needs to be anchored by prudent fiscal policy to rebuild buffers, improved debt management capacity, and careful selection of donor-funded projects guided by a robust public investment management framework. Priority should be given to grant financing where available.

¹ The Composite Index (CI) for the Solomon Islands is estimated at 2.80 based on the April 2026 World Economic Outlook and the Country Policy and Institutional Assessment (CPIA) for 2024, up from 2.65 in 2025. This score corresponds to a medium debt-carrying capacity; however, the country's capacity is assessed to remain weak, as the Guidance Note on the Bank–Fund Debt Sustainability Framework for Low Income Countries requires two consecutive signals to warrant an upgrade.

PUBLIC DEBT COVERAGE

1. For the purposes of this report, public sector debt includes central government debt, central government guaranteed debt, and central bank debt on behalf of the government. Debt coverage has remained unchanged since the 2024 DSA. Due to data limitations, other elements of the general government, including non-guaranteed state-owned enterprise (SOE) debt and publicly-guaranteed private external debt, are not included in the analysis.² The authorities are continuing their efforts to improve data coverage, particularly for SOEs, with support from the IMF. The DSA uses a residency-based definition of external debt, but there is no material difference with a currency-based definition.

Text Table 1. Coverage of Public Sector Debt

Subsectors of the public sector	Check box
1 Central government	X
2 State and local government	
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

2. A stress test for the combined contingent liability shock uses default assumptions. There are no explicit contingent liabilities. Following the standard contingent liability stress test, the default shock is set at 7 percent of GDP, comprising 2 percent from non-guaranteed SOE debt and 5 percent from the financial system.

Text Table 2. Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

1 The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4 PPP	35 percent of PPP stock	0	PPP capital stock data is not available.
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		7.0	

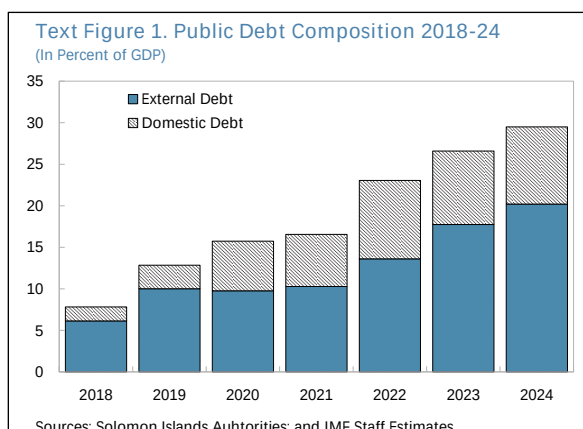
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

² Given the limited capacity of state and local governments, SOEs, and the private sector to borrow and the underdeveloped domestic debt market, this limited debt coverage is not expected to significantly impact the assessment. The government is working to ensure timely financial reporting by SOEs.

BACKGROUND ON DEBT

3. Public and Publicly Guaranteed (PPG) external debt stood at US\$279.7 million (17.7 percent of GDP) as of end-2024 (latest available full-year data), an increase of 4.1 percent of GDP from 2023 (Table 1).³ The Asian Development Bank (ADB) and the International Development Association (IDA) remained the largest creditors, accounting for 81 percent of total PPG external debt, up by 5 percent points since 2023. Total PPG external debt rose by approximately US\$77 million: the vast majority of this larger-than-expected increase came from the ADB and the IDA, reflecting progress in large infrastructure projects. All new external borrowing remained concessional.

4. Public debt stood at 26.6 percent of GDP as of end-2024, a 3.5 percent of GDP increase from 2023 (Table 2). As discussed above, this increase was driven by new external debt. Outstanding public domestic debt in 2024 was almost unchanged in nominal terms from 2023, standing at SI\$1,184 million (8.8 percent of GDP).⁴ This reflects a smaller budget deficit in 2024, as well as investors' reduced ability to absorb domestic bonds. There were no central government domestic arrears at end-2024.



Text Table 3. Public Debt: Share by Creditor (percent), 2021-24

	2021	2022	2023	2024
Multilateral Creditors	51.0	52.6	49.2	57.2
ADB	25.9	26.0	22.2	26.8
IDA	19.1	20.9	23.1	27.4
IMF	4.3	4.1	2.8	2.2
Other multilateral	1.6	1.6	1.1	0.8
Bilateral Creditors	11.0	9.5	10.3	9.6
China Exim Bank			4.3	4.3
China Exim Bank (Taiwan Province of China)	2.1	1.7	0.8	0.4
Exim Korea				1.1
JICA	8.9	7.8	5.2	3.8
Government Securities	38.0	37.9	40.5	33.2
Treasury Bills	4.7	5.1	4.6	5.0
Development Bonds	33.2	32.9	35.9	28.3
Total Central Government Debt	100.0	100.0	100.0	100.0

³ In October 2025, the Solomon Islands National Statistics Office (SINSO) published GDP estimates up to 2024, revising its estimates for 2021 and 2022 in light of newly available data. Real GDP growth rates were significantly revised downwards from 2.6 percent to -0.2 percent in 2021, and from 2.4 percent to -2.6 percent in 2022, making the estimates more in line with developments in the field, in particular the social unrest in 2021 and the border closure in 2022 due to the pandemic. These revisions lowered the nominal GDP levels in these years: for example, nominal GDP for 2022 in this DSA is 6 percent lower than in the previous DSA. Consequently, figures measured as a percentage of GDP are higher in these years and afterwards.

⁴ Domestic bonds outstanding as of end-2024 had an average interest rate of 4.5 percent and an average remaining maturity of 5.1 years.

METHODOLOGY AND ASSUMPTIONS

A. The Baseline

5. The assumptions in the baseline scenario are consistent with the macroeconomic framework.⁵ The discount rate used to calculate the net PV of external debt remains at 5 percent. The main assumptions are:

- Real GDP growth is estimated to have strengthened from 3.0 percent in 2024 to 3.5 percent in 2025, driven by robust agricultural output and strong gold production. Medium-term growth is expected to average 2.9 percent over 2025-35, driven by mining, construction, agriculture, tourism, and infrastructure projects financed by development partners. Meanwhile, declining logging activity due to dwindling reserves and an undiversified economic base with weak governance are expected to constrain growth potential.
- Inflation (as measured by the GDP deflator) is estimated to have risen to 4.1 percent in 2025, reflecting the higher-than-expected outturn in 2024, and is expected to increase further to 5.6 percent in 2026, due to the impact of the war in the Middle East on global commodity prices. Over the period 2025-35, inflation is forecast to average 3.8 percent.
- The non-interest current account is estimated to have recorded a surplus of 5.9 percent of GDP in 2025, a temporary improvement from a deficit of 4.0 percent in 2024, before returning to an average deficit of 2.2 percent over 2025-35. The improvement in 2025 reflects strong gold and logging exports, relatively flat food and fuel imports, and high tourist arrivals during a series of regional and international events. However, despite strong expected gold exports, deficits are expected over the medium term, primarily due to weakening log exports and growing import needs for infrastructure projects.
- Official grants are estimated to have declined from 11.8 percent of GDP in 2024 to 10.7 percent in 2025, as donor support normalized after the Pacific Games and the general elections, and are expected to gradually decline to 7.5 percent of GDP over the long run, reflecting a shift towards concessional debt from the IDA and the ADB. Grants are forecast to average 8.8 percent of GDP between 2025 and 2035.
- FDI is estimated to have recorded net inflows in 2025, supported by investment in wholesale and retail, construction, and service-related sectors. It is forecast to average net inflows of 1.9 percent of GDP over 2025–2035.

⁵ The baseline is based on commodity price forecasts derived from futures markets as of May 11, 2026. The other assumptions are sourced from the reference scenario in the IMF's April 2026 World Economic Outlook, under which disruptions due to the Middle East war will fade by mid-2026. It does not explicitly consider the effects of climate change and natural disasters beyond those embedded in historical trends due to a high degree of uncertainty, especially surrounding the authorities' climate policy. The impact of climate change is accounted for via a customized natural disaster stress test and an alternative scenario considering the impact of slow-moving, long-term shifts in climate.

- **Fiscal outlook:** The primary deficit is estimated to have widened to 3.2 percent of GDP in 2025, up from 1.9 percent of GDP in 2024, with development partners providing additional external concessional financing and the government tapping domestic debt markets to finance investment priorities. Fiscal deficits are expected to persist over the medium term, with the primary deficit averaging 2.1 percent of GDP over 2025-35, due to significant investment needs, moderate growth outlook, and a narrow revenue base.
- **External and domestic financing:** New external loan disbursements by donors are expected to average around 3.7 percent of GDP over the next five years (2025-29), gradually declining to 2.2 percent over 2030-35. All external financing is assumed to be concessional. It is assumed that the government will primarily rely on external borrowing to finance deficits in line with the latest Medium-Term Debt Management Strategy. The share of Treasury bills as a percent of new domestic financing is assumed to remain at 40 percent over the projection period, reflecting limited investor interest in longer-term government bonds.⁶ However, significant gross issuance needed to refinance existing domestic debt maturing in the next decade may crowd out private investment due to local investors' limited capacity to absorb domestic bond issuance.

Text Table 4. DSA Key Macroeconomic Assumptions

	Previous DSA		Current DSA		Current vs. Previous	
	2025-29	2025-35	2025-29	2025-35	2025-29	2025-35
Real GDP growth, percent	2.9	3.0	2.9	2.9	-0.1	-0.1
Inflation (GDP deflator), percent	2.5	2.3	4.1	3.8	1.5	1.5
(In percent of GDP)						
Revenue and grants	32.7	33.0	37.8	37.3	5.2	4.4
Primary expenditure	35.1	35.1	40.6	39.5	5.5	4.4
Primary balance	-2.5	-2.1	-2.8	-2.1	-0.3	0.0
Exports of goods and services	32.1	30.9	48.0	44.8	15.9	13.9
Imports of goods and services	47.8	47.2	58.1	56.0	10.2	8.8
Non-interest current account balance	-7.2	-7.1	-1.2	-2.2	5.9	5.0

6. The realism tools suggest that these macroeconomic and fiscal assumptions are reasonable. The trajectory for external PPG debt in the current DSA has slightly deteriorated compared to the previous DSA, while the trajectory for public debt has improved (Figure 3). This is due to the higher debt-to-GDP ratio in the initial year, which is partly a reflection of lower nominal GDP, as well as larger assumed external borrowing in outer years. Projected five-year changes in external PPG and public debt are broadly in line with the historical trends. The projected fiscal

⁶ The authorities are working to develop the domestic bond market, with support from the IMF and the World Bank, including through the release of an annual borrowing plan and the expansion of an investor base.

adjustment over 2025-27 is reasonable considering the distribution of prior experience in low-income countries. Staff's real GDP growth projections over 2025-26 are broadly in line with the multiplier analysis, although they are more cautious in 2026, reflecting the expected impact of the war in the Middle East (Figure 4).⁷

B. Tailored Stress Test⁸

7. Given the severity and frequency of natural disasters in Solomon Islands, the natural disaster shock is tailored to better reflect country-specific factors. Solomon Islands, a small developing natural disaster-prone state, is automatically subject to the standard natural disaster shock.⁹ The size of the shock relative to GDP is modified to 14 percent of GDP (up from the standard 10 percent of GDP), based on staff research on the impact of natural disasters in Pacific Island Countries.¹⁰ This shock is associated with reductions in real GDP growth and exports of 1.5 and 3.5 percentage points, respectively.

C. Alternative Climate Risk Scenario

8. This DSA incorporates an alternative scenario that considers the impact of slow-moving, long-term shifts in climate on debt sustainability. This alternative scenario builds on staff analysis specifically on Solomon Islands (Selected Issues Paper, "Climate Change, Macroeconomic Risks, and Adaptation in the Solomon Islands"), which assesses the macroeconomic impacts of slow-moving, long-term shifts in climate through three channels: rising temperatures, reduced fish stocks, and sea level rise.¹¹ Staff's analysis projects that rising temperatures, through reduced productivity and increased energy costs, will reduce the level of real GDP by 0.6 percent by 2045. Biomass potential in the Solomon Islands' exclusive economic zone (EEZ) is forecast to decline by 11 percent by 2045, hampering prospects in the fishery sector. A model-based analysis suggests that

⁷ Lack of reliable public investment data precludes the team from using the Public Investment-Growth realism tool. The authorities continue to improve national account statistics, with capacity development support from the IMF, the World Bank, and other development partners.

⁸ Six standardized stress tests in the DSF are applied to both external and public DSA. They capture shocks to real GDP growth, the primary fiscal balance, exports, other flows (including official and private transfers and FDI), exchange rate depreciation, and a combination of these shocks. Tailored tests considering shocks to commodity prices and contingent liabilities are also applied.

⁹ See IMF (2016), "Small States' Resilience to Natural Disasters and Climate Change – Role for the IMF."

¹⁰ See IMF Working Paper 18/108, "The Economic Impact of Natural Disaster in Pacific Island Countries" for details. The largest shock observed over 1980-2016 in the Solomon Islands caused damage of 14 percent of GDP.

¹¹ Solomon Islands is an archipelago in which staff's analysis highlights that about 85 percent of the population lives within three kilometers of the coast, and about 10 percent of the built surface area is at an elevation of less than three meters from the sea level. Staff's analysis also suggests that commercial timber production could increase by about 13 percent by mid-century, supported by improved CO₂ fertilization. This positive impact, however, is not integrated into the alternative scenario, as this model analysis presupposes that sustainable forestry practices are adopted widely. Also see World Bank (2025), "Livable Pacific Cities and Towns: Urbanization Strategies for Resilience, Sustainability and Inclusion" for a detailed assessment of growing disaster and climate risk in the Solomon Islands and in Pacific Island Countries more broadly.

annual economic and welfare costs of sea level rise in Solomon Islands—if no adaptation measures are implemented—will amount to approximately 1.6 percent of GDP by 2045.

9. Staff adopts a simple, mechanical approach to illustrate the possible consequences of these projections for debt sustainability. The impact of slow-moving climate change across all three channels is assumed to be linearly additive. Reduced biomass in the Solomon Islands' EEZ is assumed to imply an 11 percent reduction of output and exports in the fishery sector by 2045. This impact is translated to real GDP and exports based on the current share of the sector in output and exports. By 2045, due to rising temperatures and reduced fish stocks, the levels of real GDP and exports are assumed to fall by 1.3 percent and 0.5 percent, respectively. Revenues are projected to fall in line with the decline in GDP, assuming that the revenue-to-GDP ratios remain fixed. Staff conservatively assumes that the government will be responsible for all costs associated with sea level rise.

COUNTRY CLASSIFICATION

10. Solomon Islands' debt-carrying capacity remains weak. The Composite Indicator (CI) index is estimated at 2.80, up from 2.65 in 2025, supported by improved growth and remittances. This score corresponds to a medium debt-carrying capacity; however, the country's capacity is assessed to remain weak, as the Guidance Note on the Bank–Fund Debt Sustainability Framework for Low Income Countries requires two consecutive signals to warrant an upgrade.

11. Based on the CI rating, Solomon Islands' debt is assessed against the following thresholds: 35 percent for the present value (PV) of the public debt-to-GDP ratio, 30 percent for the PV of the PPG external debt-to-GDP ratio, 140 percent for the PV of the PPG external debt-to-exports ratio, 10 percent for the PPG external debt service-to-exports ratio, and 14 percent for the PPG external debt service-to-revenue ratio.

Text Table 5. Debt Carrying Capacity and Applicable Thresholds

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.949	1.14	41%
Real growth rate (in percent)	2.719	2.033	0.06	2%
Import coverage of reserves (in percent)	4.052	57.963	2.35	84%
Import coverage of reserves^2 (in percent)	-3.990	33.597	-1.34	-48%
Remittances (in percent)	2.022	5.584	0.11	4%
World economic growth (in percent)	13.520	3.637	0.49	18%
CI Score			2.80	100%
CI rating			Medium	

Reference: Thresholds by Classification

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

12. Under the baseline scenario, all external PPG debt indicators remain below relevant thresholds for the next ten years (Figure 1). The PV of the PPG external debt-to-GDP ratio is expected to rise from 11.9 percent in 2025 to 15.0 percent in 2035. Dynamics for external PPG debt are primarily driven by persistent current account deficits, on the back of continued financing for infrastructure projects from development partners.

13. All standard stress tests show that external PPG debt indicators will stay below their respective indicative thresholds throughout 2025-2035 (Figure 1, Table 3).¹² An exports shock generates the most severe deterioration across all four indicators for external debt, highlighting the need to expand and diversify exports. Due to large increases in external debt, buffers are limited. Under the exports shock scenario, the PV of the PPG external debt-to-GDP ratio rises to 28 percent, close to the indicative threshold of 30 percent, and remains near that level through 2035.¹³

¹² The export shock sets nominal export growth (in USD) to its historical average minus one standard deviation (SD), or the baseline projection minus one SD, whichever is lower in the second and third years of the projection period.

¹³ A historical average scenario shows the PV of the PPG of external debt-to-GDP ratio rising beyond the indicative threshold, as the scenario does not reflect a structural increase in mining exports and an associated improvement in the current account position.

14. In the natural disaster scenario, the trajectories for all debt indicators shift upward but remain below their thresholds (Table 3). Although this scenario considers a one-off shock in 2026, multiple severe natural disasters could occur within a 10-year horizon: staff analysis indicates a 13.5 percent annual probability of a disaster with costs larger than 7 percent of GDP (see footnote 10). Multiple natural disasters would have a larger cumulative effect on debt sustainability due to lower long-term growth and higher borrowing needs for reconstruction.

15. The alternative scenario suggests that the impact of climate change on external debt sustainability may take time to materialize in the Solomon Islands. All indicators for external debt sustainability remain below relevant thresholds through 2045 in this alternative scenario. It should be noted, however, that the impact may be underestimated. There is significant uncertainty surrounding the projections due to a lack of detailed climate data for Solomon Islands. Moreover, second-round effects and the correlation of impacts from different channels may not have been fully captured.

B. Public Sector Debt Sustainability Analysis

16. The PV of the public debt-to-GDP ratio is forecast to rise in the baseline, although it is expected to remain below the 35 percent benchmark (Figure 2). This ratio is projected to remain below the 35 percent benchmark throughout the forecasting horizon, reflecting the highly concessional nature of external financing. In nominal terms, however, public debt is projected to breach the authorities' threshold of 35 percent of GDP in 2029, due to persistent primary deficits. Moreover, the PV of the public debt service-to-revenue and grants ratio is projected to increase in the next ten years, reflecting rising debt driven by continued deficits.

17. Sensitivity analysis highlights vulnerabilities related to the Solomon Islands' public debt burden. The 35 percent benchmark for the PV of public debt as a share of GDP would be breached in 2028 under the commodity price shock scenario (Figure 2, Table 4). The PV of the debt-to-revenue ratio would also significantly rise under this scenario. As a small exporter of multiple commodities including logs and metals, the country is highly exposed to international price fluctuations. These vulnerabilities highlight the need for economic diversification to foster growth in the private sector outside commodities. The PV of public debt would also breach the 35 percent indicative threshold under the GDP growth scenario in 2029.

18. The natural disaster shock scenario flags important risks to debt sustainability. In the tailored natural disaster shock scenario, the PV of public debt would approach the 35 percent benchmark in 2027, and the debt service-to-revenue ratio would peak at 18.3 percent in 2031 (Table 4). These results highlight the importance of rebuilding fiscal buffers to maintain the ability to withstand external shocks, including natural disasters.

19. The alternative scenario points to the meaningful cumulative impact of climate change on public debt over long horizons. In this alternative scenario, the PV of the public debt-to-GDP ratio rises by 11 percentage points relative to the baseline by 2045. This projected shift is largely driven by assumed additional expenditure needs due to rising sea levels in a scenario with

adaptation. This highlights the need for adaptation policies—particularly forward-looking and efficient management of rising sea levels—in the Solomon Islands. Indeed, the 2025 audit report on implementation of the Solomon Islands Climate Change Adaptation Programme (SICAP) highlights limited progress in assessing risks to vulnerable communities and the lack of formal planning to manage sea level rise.

RISK RATING AND VULNERABILITIES

20. The 2026 DSA suggests that the risk of external debt distress and the overall risk of debt distress in the Solomon Islands remain low and moderate, respectively. All indicators for both external PPG and overall public debt are projected to remain below relevant indicative thresholds during 2025-35 under the baseline. Prioritizing grant financing where available and adopting a selective approach to donor-funded projects on the best available concessional terms, under a sound public investment management framework, would help keep the debt burden manageable.¹⁴

21. The stress tests highlight important risks to debt sustainability. In the commodity price and GDP growth scenarios, public debt sustainability would be significantly undermined. The alternative scenario shows that slow-moving, long-term climate shifts could have a cumulative impact on the trajectory of public debt over the long term. Moreover, the PV of external PPG debt would approach the indicative threshold under the exports shock scenario. Given that fiscal deficits are projected to persist, these vulnerabilities underscore the need to reduce deficits, enhance medium-term potential growth, improve debt management capacity, and prioritize investment projects and policies that strengthen resilience to natural disasters and adaptation to slow-moving impacts of climate change.¹⁵

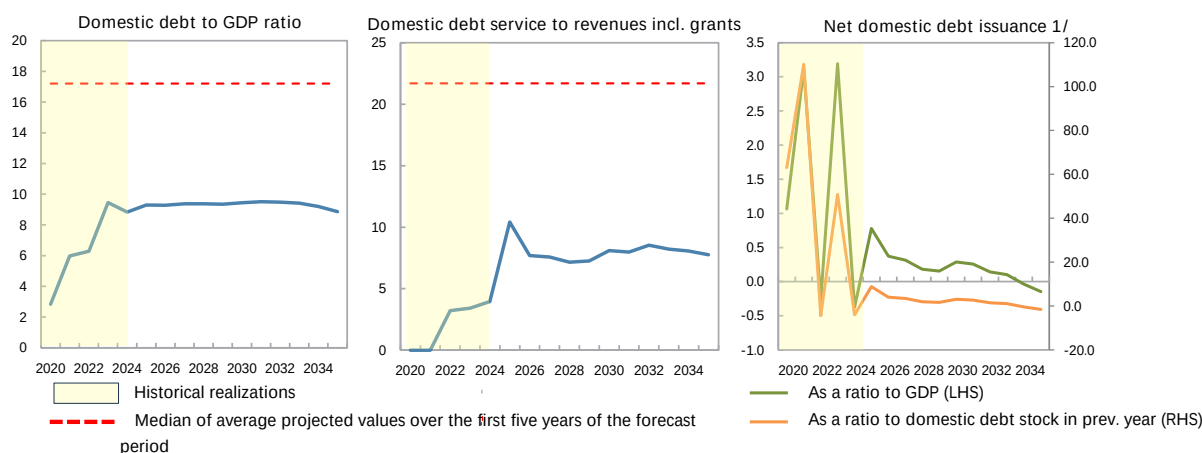
22. The public debt portfolio currently faces limited refinancing and interest rate risks; however, these risks may increase. About 67 percent of public debt consists of external borrowing contracted at concessional terms. Yields on government securities did tick upwards in early 2024, but have remained stable since then. Staff expects refinancing and interest rate risks to grow over time, as existing longer-term domestic debt will need to be refinanced in the coming years.

23. The domestic debt tool (Text Figure 2) illustrates the risks associated with domestic debt. The baseline assumes that the government will primarily rely on external debt to finance future deficits, reflecting the narrow investor base and the underdeveloped domestic debt market. However, fiscal discipline with regard to domestic borrowing is essential, as domestic debt carries significantly higher interest rates than external concessional debt.

¹⁴ The authorities are making progress with appraising and monitoring donor-funded infrastructure projects within the Public Investment Management Framework. Rigorous and comprehensive cost-benefit analysis of potential projects under this framework is essential.

¹⁵ These priorities are aligned with the objectives of the World Bank's Sustainable Development Finance Policy for Solomon Islands.

Text Figure 2. Solomon Islands: Indicators of Domestic Public Debt, 2020-2035
(Percent)



Borrowing Assumptions (average over 10-year)	Value
Shares in new domestic debt issuance	
Medium and long-term	60%
Short-term	40%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	0.9%
Avg. maturity (incl. grace period)	5
Avg. grace period	3
Domestic short-term debt	
Avg. real interest rate	-1.8%

Sources: Country authorities; and IMF staff calculations and projections.

Note: 1/ Net domestic debt issuance is an estimated based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

AUTHORITIES' VIEWS

24. The authorities agreed with the main findings of the DSA. They reaffirmed their commitment to reducing fiscal deficits over the medium term and maintaining public debt below 35 percent of GDP, noting that the recent increase in external debt reflects progress in donor-financed infrastructure projects. Measures to achieve this commitment include containing the public sector wage bill, introducing a VAT, and reviewing income taxes and non-tax revenue sources. They plan to carefully assess new projects under the Public Investment Management Framework, while prioritizing grant financing where available. The authorities also aim to develop the domestic debt market by enhancing transparency and communication with investors and are exploring access to climate finance to meet sizable climate adaptation needs.

Table 1. Solomon Islands: External Debt Sustainability Framework, Baseline Scenario, 2022-45
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045		
External debt (nominal) 1/	29.4	32.0	35.2	36.2	37.6	38.6	38.6	38.2	37.7	35.0	29.1	25.0	37.1
of which: public and publicly guaranteed (PPG)	10.3	13.6	17.7	20.2	22.8	24.7	25.6	26.0	26.2	26.6	24.7	9.6	25.3
Change in external debt	2.3	2.6	3.2	0.9	1.4	1.0	0.0	-0.3	-0.5	-0.6	-0.5		
Identified net debt-creating flows	13.5	5.9	3.8	-9.8	0.8	0.8	0.4	0.4	0.3	0.7	1.1	3.8	-0.4
Non-interest current account deficit	14.5	11.2	4.0	-5.9	3.2	3.3	2.8	2.8	2.8	3.1	3.2	5.8	2.2
Deficit in balance of goods and services	23.8	21.8	13.5	3.1	11.9	11.9	11.6	12.0	11.9	12.2	12.3	11.3	11.1
Exports	27.6	35.9	40.4	52.4	50.0	47.4	45.7	44.2	43.4	40.9	36.7		
Imports	51.3	57.7	53.8	55.5	61.9	59.3	57.3	56.3	55.4	53.1	49.0		
Net current transfers (negative = inflow)	-8.6	-8.7	-9.2	-8.6	-8.4	-8.2	-8.3	-8.7	-8.7	-8.7	-8.8	-5.6	-8.5
of which: official	-16.1	-14.7	-11.7	-9.3	-8.7	-8.0	-7.5	-7.4	-7.3	-6.6	-5.8		
Other current account flows (negative = net inflow)	-0.7	-1.8	-0.3	-0.5	-0.3	-0.4	-0.5	-0.5	-0.5	-0.4	-0.4	0.1	-0.5
Net FDI (negative = inflow)	-2.8	-4.8	1.2	-3.1	-1.8	-1.8	-1.7	-1.7	-1.7	-1.7	-1.5	-1.8	-1.9
Endogenous debt dynamics 2/	1.9	-0.6	-1.4	-0.8	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.6		
Contribution from nominal interest rate	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.2		
Contribution from real GDP growth	0.7	-0.8	-0.9	-1.1	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-0.8		
Contribution from price and exchange rate changes	1.0	0.0	-0.7	...	...	...	...	...	...	...	...		
Residual 3/	-11.3	-3.3	-0.6	10.8	0.6	0.2	-0.4	-0.8	-0.8	-1.3	-1.6	-1.6	0.4
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	10.7	11.9	13.3	14.2	14.6	14.9	15.0	15.0	13.8		
PV of PPG external debt-to-exports ratio	...	...	26.6	22.7	26.5	30.0	32.0	33.6	34.5	36.6	37.7		
PPG debt service-to-exports ratio	1.7	1.4	1.3	1.2	1.3	1.3	1.4	1.5	1.5	1.9	2.0		
PPG debt service-to-revenue ratio	1.9	2.0	2.0	2.3	2.3	2.3	2.3	2.4	2.3	2.7	2.4		
Gross external financing need (Million of U.S. dollars)	232.8	165.2	139.1	-96.8	86.7	92.1	85.0	88.3	89.2	119.7	198.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-2.6	2.8	3.0	3.5	2.6	2.8	2.8	2.8	2.9	2.9	2.9	1.4	2.9
GDP deflator in US dollar terms (change in percent)	-3.4	-0.1	2.1	5.7	5.6	3.7	3.4	3.5	3.5	3.7	3.6	0.4	3.9
Effective interest rate (percent) 4/	0.6	0.6	0.6	1.1	0.7	0.7	0.9	0.9	0.9	0.9	0.9	1.1	0.9
Growth of exports of G&S (US dollar terms, in percent)	-1.5	33.9	18.2	42.1	3.3	0.9	2.6	3.0	4.5	5.2	5.6	2.4	7.5
Growth of imports of G&S (US dollar terms, in percent)	22.5	15.5	-1.9	12.9	20.7	2.1	2.8	4.4	4.8	5.7	5.7	3.1	6.9
Grant element of new public sector borrowing (in percent)	...	...	...	53.9	50.0	53.9	54.0	54.7	56.1	56.1	55.9	...	54.8
Government revenues (excluding grants, in percent of GDP)	24.6	25.2	25.4	28.2	27.3	28.0	28.2	28.4	28.5	29.3	30.2	26.7	28.5
Aid flows (in Million of US dollars) 5/	375.8	379.1	186.3	270.7	271.2	270.0	250.5	267.7	262.7	327.2	565.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	13.4	12.9	11.8	10.6	10.3	9.9	8.9	8.2	...	10.4
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	85.6	84.5	86.9	89.4	90.5	91.1	90.2	90.9	...	89.0
Nominal GDP (Million of US dollars)	1,467	1,506	1,584	1,733	1,876	2,000	2,126	2,262	2,408	3,301	6,245		
Nominal dollar GDP growth	-5.9	2.7	5.2	9.4	8.3	6.6	6.3	6.4	6.5	6.7	6.6	1.8	6.9
Memorandum items:													
PV of external debt 7/	...	...	28.2	27.9	28.0	28.1	27.7	27.1	26.5	23.3	18.3		
In percent of exports	...	...	69.9	53.2	56.0	59.3	60.5	61.3	61.0	57.1	49.8		
Total external debt service-to-exports ratio	15.3	12.6	8.8	6.6	6.4	6.5	6.4	6.4	6.1	5.5	4.1		
PV of PPG external debt (in Million of US dollars)	...	...	170.0	206.4	249.2	284.5	311.4	336.2	360.6	493.7	863.6		
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...	2.3	2.5	1.9	1.3	1.2	1.1	1.0	0.8		
Non-interest current account deficit that stabilizes debt ratio	12.2	8.6	0.7	-6.9	1.8	2.3	2.8	3.2	3.3	3.7	3.7		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

The large residual in 2025 reflects a current account surplus and net FDI inflows, resulting in an increase in gross foreign reserves.

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

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

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

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

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

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

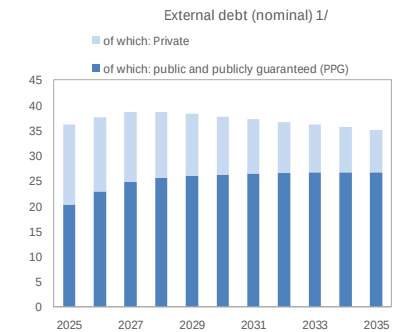
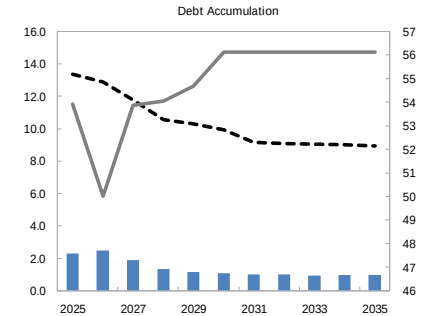


Table 2. Solomon Islands: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022-45
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/ of which: external debt	16.6 10.3	23.1 13.6	26.6 17.7	29.5 20.2	32.1 22.8	34.1 24.7	34.9 25.6	35.3 26.0	35.6 26.2	35.5 26.6	29.0 24.7	13.5 9.6	34.6 25.3
Change in public sector debt	0.8	6.5	3.5	2.9	2.6	2.0	0.8	0.4	0.3	-0.4	-0.8		
Identified debt-creating flows	3.7	3.6	1.0	4.2	3.5	2.6	1.3	0.9	0.8	0.2	-0.3	1.6	1.4
Primary deficit	2.3	3.8	1.9	3.2	3.6	2.7	2.4	2.0	2.0	1.3	0.7	1.6	2.1
Revenue and grants	40.8	40.1	37.2	39.0	37.8	37.7	37.3	37.4	37.2	37.0	37.4	37.8	37.3
of which: grants	16.2	14.8	11.8	10.7	10.5	9.7	9.1	9.0	8.7	7.7	7.2		
Primary (noninterest) expenditure	43.2	43.9	39.0	42.2	41.4	40.4	39.7	39.4	39.2	38.3	38.1	39.4	39.5
Automatic debt dynamics	1.4	-0.2	-0.8	-0.9	-1.1	-1.1	-1.0	-1.1	-1.1	-1.2	-1.0		
Contribution from interest rate/growth differential	0.6	-0.4	-0.8	-0.9	-1.1	-1.1	-1.0	-1.1	-1.1	-1.2	-1.0		
of which: contribution from average real interest rate	0.1	0.0	-0.1	0.0	-0.3	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2		
of which: contribution from real GDP growth	0.4	-0.5	-0.7	-0.9	-0.7	-0.9	-0.9	-0.9	-1.0	-1.0	-0.9		
Contribution from real exchange rate depreciation	0.8	0.2	-0.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	1.9	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify) 7/	0.0	0.0	0.0	1.9	1.0	1.0	0.0	0.0	0.0	0.0	0.0		
Residual	-2.9	2.9	2.5	-1.3	-0.9	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4	0.0	-0.6
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	19.6	20.9	22.3	23.3	23.7	23.9	24.1	23.5	17.8		
PV of public debt-to-revenue and grants ratio	...	...	52.8	53.7	58.9	61.7	63.4	63.8	64.6	63.5	47.5		
Debt service-to-revenue and grants ratio 3/	4.3	4.7	5.3	12.1	9.4	9.3	8.9	9.0	9.8	9.9	6.1		
Gross financing need 4/	4.1	5.7	3.8	8.6	8.1	7.1	5.7	5.3	5.6	4.9	3.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-2.6	2.8	3.0	3.5	2.6	2.8	2.8	2.8	2.9	2.9	2.9	1.4	2.9
Average nominal interest rate on external debt (in percent)	1.1	1.2	1.0	1.8	0.9	0.9	1.2	1.2	1.1	1.0	0.9	1.0	1.2
Average real interest rate on domestic debt (in percent)	6.6	2.5	0.4	-0.2	-1.7	0.3	0.7	0.8	0.8	0.8	1.0	-0.3	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	8.2	1.8	-0.6	...	...	...	...	...	...	...	...	2.6	...
Inflation rate (GDP deflator, in percent)	-1.9	2.5	3.1	4.1	5.6	3.7	3.4	3.5	3.5	3.7	3.6	1.7	3.8
Growth of real primary spending (deflated by GDP deflator, in percent)	14.6	4.5	-8.3	11.9	0.6	0.3	1.0	2.0	2.4	2.9	2.9	1.6	2.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.5	-2.7	-1.7	0.3	1.0	0.7	1.5	1.6	1.7	1.7	1.5	-0.9	1.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

7/ Includes on-lending of borrowed funds to state-owned enterprises.

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

Public sector debt 1/

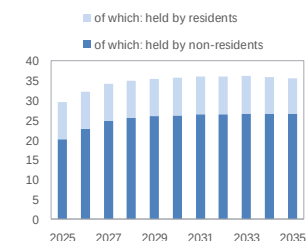
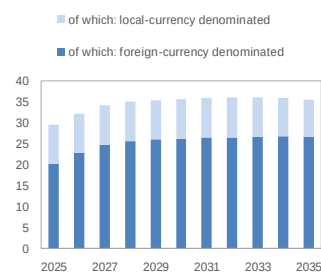


Table 3. Solomon Islands: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025-35
(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of debt-to GDP ratio											
Baseline	12	13	14	15	15	15	15	15	15	15	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	12	15	18	20	23	25	27	29	31	34	36
A2. Alternative Scenario: Slow-moving climate change	12	13	14	15	15	15	15	15	15	15	15
B. Bound Tests											
B1. Real GDP growth	12	14	16	17	17	17	17	17	17	17	17
B2. Primary balance	12	14	15	16	16	16	16	17	17	17	17
B3. Exports	12	18	28	28	28	28	28	28	27	27	27
B4. Other flows 3/	12	17	21	21	21	21	21	21	21	21	20
B5. Depreciation	12	17	15	16	16	16	16	17	17	17	17
B6. Combination of B1-B5	12	19	23	23	23	23	23	23	23	23	23
C. Tailored Tests											
C1. Combined contingent liabilities	12	15	16	17	17	17	18	18	18	18	18
C2. Natural disaster	12	17	19	19	20	20	21	21	21	21	22
C3. Commodity price	12	14	15	15	16	15	15	15	15	14	14
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	23	27	30	32	34	34	35	35	36	36	37
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	23	30	38	45	51	58	63	69	75	81	87
A2. Alternative Scenario: Slow-moving climate change	23	27	30	32	34	35	35	36	36	37	37
B. Bound Tests											
B1. Real GDP growth	23	27	30	32	34	34	35	35	36	36	37
B2. Primary balance	23	28	32	35	36	38	38	39	40	40	40
B3. Exports	23	42	75	79	81	82	83	83	83	83	84
B4. Other flows 3/	23	33	44	46	48	49	49	49	49	50	50
B5. Depreciation	23	27	26	28	29	30	31	31	32	32	33
B6. Combination of B1-B5	23	39	43	53	55	56	56	57	57	57	58
C. Tailored Tests											
C1. Combined contingent liabilities	23	30	34	37	39	40	41	42	42	43	43
C2. Natural disaster	23	35	40	43	45	48	50	51	52	53	54
C3. Commodity price	23	27	32	34	35	35	35	35	35	35	34
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	1	1	1	1	2	2	2	2	2	2	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	1	1	2	2	2	2	2	3	3	3	3
A2. Alternative Scenario: Slow-moving climate change	1	1	1	1	2	2	2	2	2	2	2
B. Bound Tests											
B1. Real GDP growth	1	1	1	1	2	2	2	2	2	2	2
B2. Primary balance	1	1	1	1	2	2	2	2	2	2	2
B3. Exports	1	2	2	3	3	3	3	3	3	3	3
B4. Other flows 3/	1	1	1	2	2	2	2	2	2	2	2
B5. Depreciation	1	1	1	1	1	1	2	2	2	2	2
B6. Combination of B1-B5	1	1	2	2	2	2	2	2	2	2	2
C. Tailored Tests											
C1. Combined contingent liabilities	1	1	1	2	2	2	2	2	2	2	2
C2. Natural disaster	1	1	2	2	2	2	2	2	2	2	2
C3. Commodity price	1	1	1	2	2	2	2	2	2	2	2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	2	2	2	2	2	2	3	3	3	3	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	2	2	3	3	3	3	4	4	5	5	5
A2. Alternative Scenario: Slow-moving climate change	2	2	2	2	2	2	3	3	3	3	3
B. Bound Tests											
B1. Real GDP growth	2	2	3	3	3	3	3	3	3	3	3
B2. Primary balance	2	2	2	2	2	2	3	3	3	3	3
B3. Exports	2	2	3	3	3	3	3	3	4	4	3
B4. Other flows 3/	2	2	2	3	3	3	3	3	3	3	3
B5. Depreciation	2	3	3	3	3	3	3	3	3	3	3
B6. Combination of B1-B5	2	3	3	3	3	3	3	3	3	3	3
C. Tailored Tests											
C1. Combined contingent liabilities	2	2	2	2	2	2	3	3	3	3	3
C2. Natural disaster	2	2	2	3	3	3	3	3	3	3	3
C3. Commodity price	2	3	2	3	3	2	3	3	3	3	3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Solomon Islands: Sensitivity Analysis for Key Indicators of Public Debt, 2025-35
(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	21	22	23	24	24	24	24	24	24	24	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	21	22	23	24	25	25	26	27	27	28	28
A2. Alternative Scenario: Slow-moving climate change	21	23	24	25	26	26	27	27	28	28	28
B. Bound Tests											
B1. Real GDP growth	21	25	30	33	36	38	41	43	45	46	47
B2. Primary balance	21	23	26	26	26	26	26	26	26	25	25
B3. Exports	21	26	34	34	34	34	34	34	33	33	32
B4. Other flows 3/	21	26	30	30	30	30	30	30	30	29	29
B5. Depreciation	21	23	22	21	20	19	18	18	16	15	14
B6. Combination of B1-B5	21	22	24	24	24	24	24	25	25	24	24
C. Tailored Tests											
C1. Combined contingent liabilities	21	27	28	28	28	28	28	28	27	27	26
C2. Natural disaster	21	33	34	34	34	34	33	33	33	33	32
C3. Commodity price	21	25	31	36	41	44	47	50	52	54	55
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	54	59	62	63	64	65	66	66	65	65	63
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	54	58	60	63	64	65	68	69	70	71	71
A2. Alternative Scenario: Slow-moving climate change	54	60	64	67	68	70	73	75	76	76	77
B. Bound Tests											
B1. Real GDP growth	54	64	77	86	93	100	108	113	118	122	125
B2. Primary balance	54	62	68	69	69	70	71	70	70	69	67
B3. Exports	54	69	89	91	91	91	92	91	90	89	87
B4. Other flows 3/	54	68	79	80	80	81	82	82	81	80	78
B5. Depreciation	54	62	59	58	55	53	51	49	45	42	38
B6. Combination of B1-B5	54	59	63	63	64	65	67	67	67	66	65
C. Tailored Tests											
C1. Combined contingent liabilities	54	72	74	75	75	75	76	75	74	73	71
C2. Natural disaster	54	88	89	90	91	91	91	90	90	89	87
C3. Commodity price	54	70	87	102	113	122	131	135	140	145	149
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	12	9	9	9	9	10	10	11	10	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	12	10	10	10	10	12	12	12	13	13	13
A2. Alternative Scenario: Slow-moving climate change	12	9	9	8	9	10	10	11	12	12	12
B. Bound Tests											
B1. Real GDP growth	12	10	11	12	13	15	17	19	19	20	20
B2. Primary balance	12	9	10	10	10	11	12	12	11	11	11
B3. Exports	12	9	9	9	10	10	10	11	11	11	10
B4. Other flows 3/	12	9	9	9	9	10	10	11	11	10	10
B5. Depreciation	12	9	9	8	9	10	9	10	10	10	10
B6. Combination of B1-B5	12	9	9	9	10	11	10	11	11	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	12	9	13	10	10	13	14	12	11	11	11
C2. Natural disaster	12	10	18	12	11	17	18	15	13	13	13
C3. Commodity price	12	10	12	15	16	18	21	23	23	23	23
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Solomon Islands: Indicators of Public and Publicly Guaranteed External Debt Under Baseline and Alternative Scenarios, 2025-35 1/



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	Yes	No
Commodity price 2/	No	No
Market financing	n.a.	n.a.

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

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	9	9

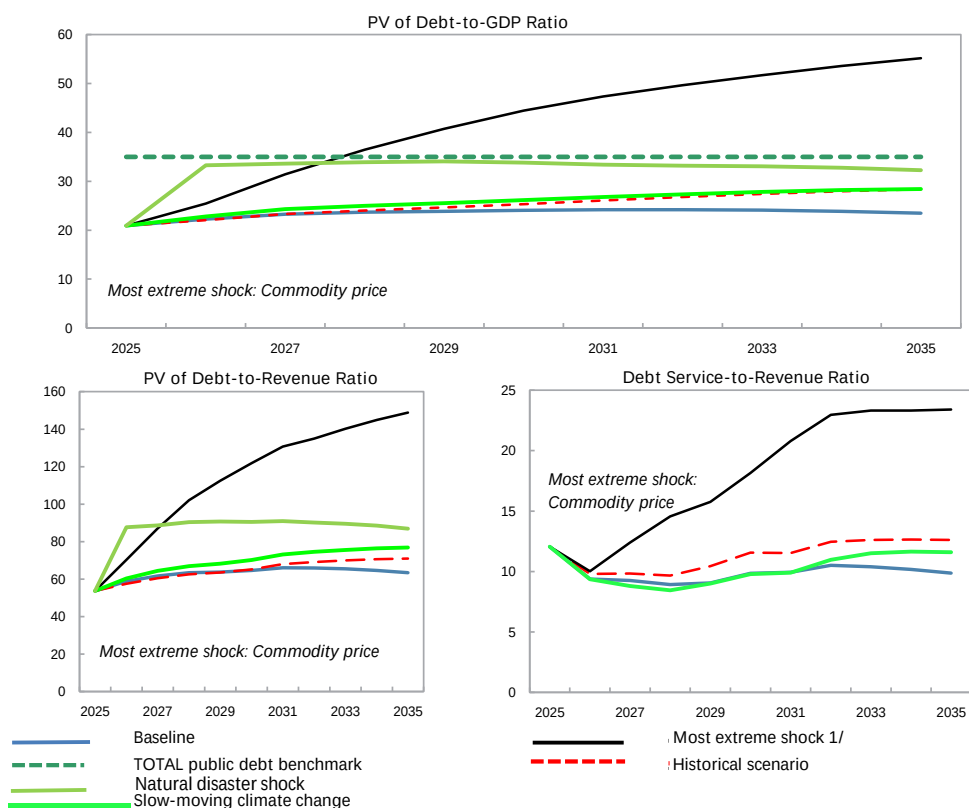
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Solomon Islands: Indicators of Public Debt Under Baseline and Alternative Scenarios, 2025-35 1/



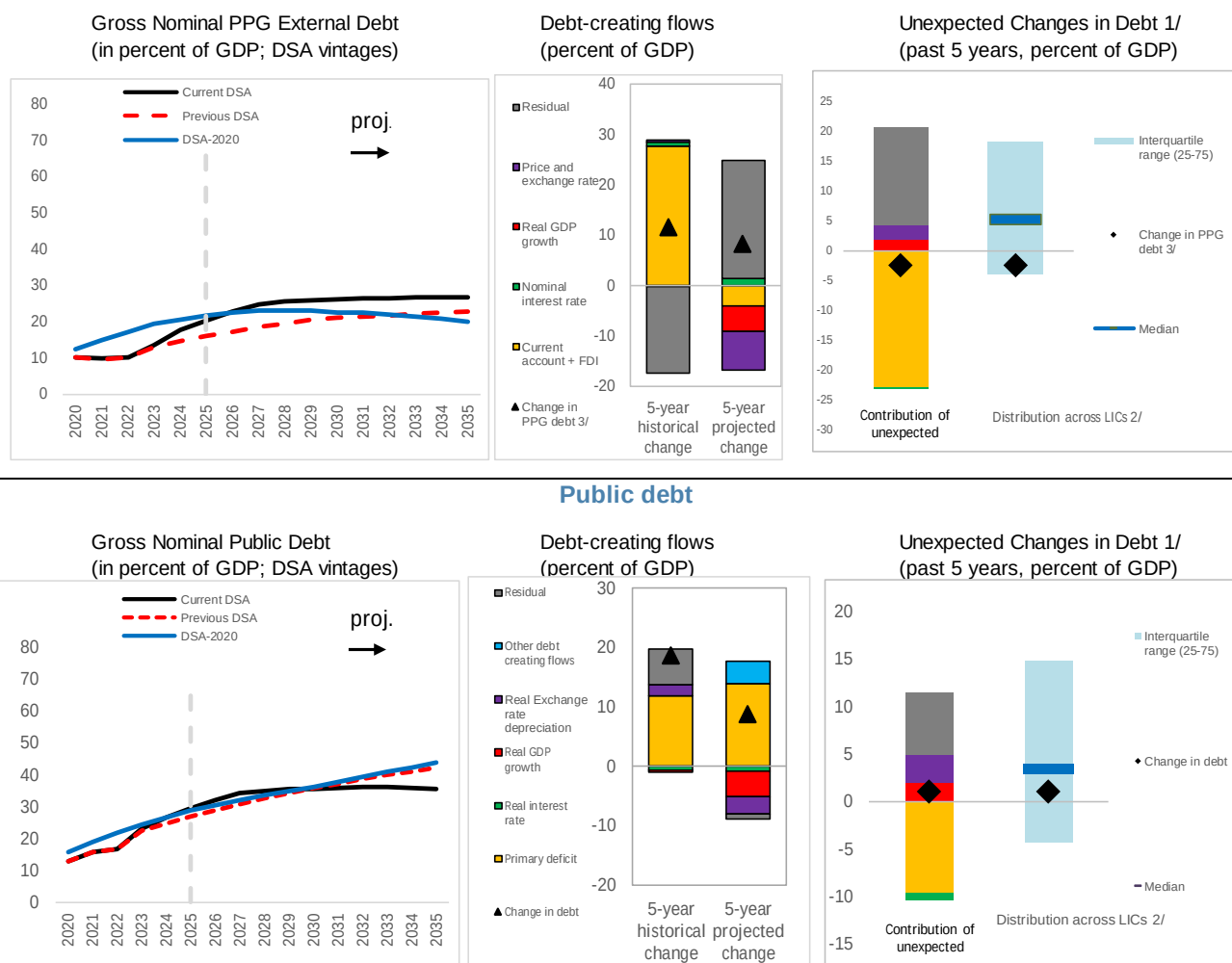
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	47%	47%
Domestic medium and long-term	32%	32%
Domestic short-term	21%	21%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.9%	0.9%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	-1.8%	-1.8%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Solomon Islands: Drivers of Debt Dynamics – Baseline Scenario External and Public Debt



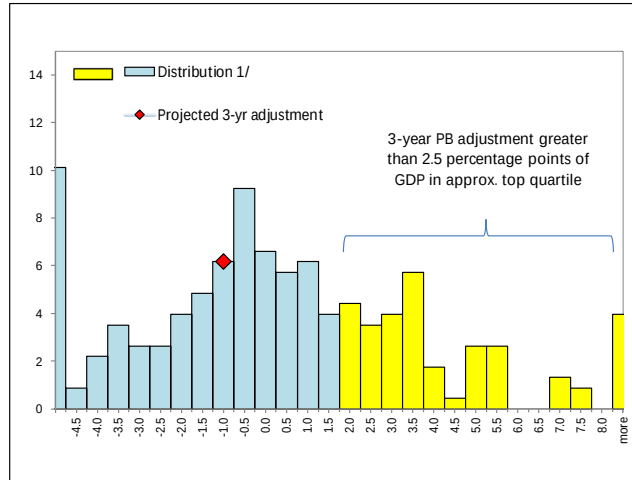
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

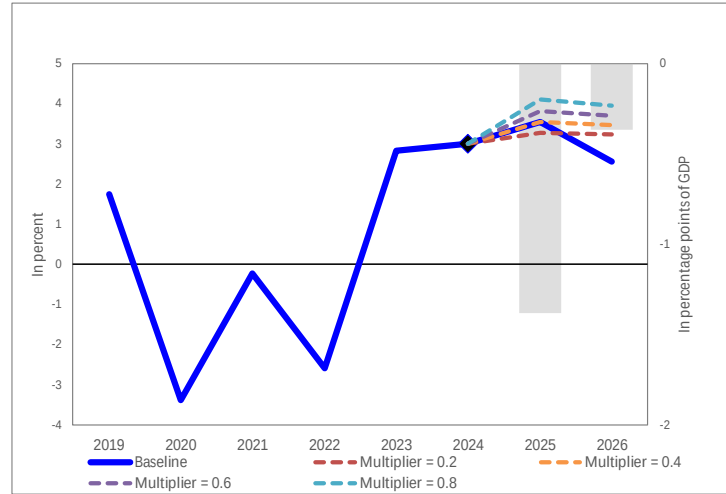
Figure 4. Solomon Islands: Realism tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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



SOLOMON ISLANDS

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 10, 2026

Prepared By

Asia and Pacific Department (in consultation with other
departments)

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FUND RELATIONS

(As of March 31, 2026)

Membership Status: Joined September 22, 1978; Article VIII

General Resources Account:

	SDR Million	Percent of Quota
Quota	20.80	100.00
IMF's Holdings of Currency	17.65	84.87
Reserve Tranche Position	3.15	15.14

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	29.84	100.00
Holdings	4.31	14.44

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
RCF Loans	6.24	29.99

Latest Financial Commitments:

Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	12/7/2012	3/31/2016	1.04	1.04
SCF	12/6/2011	12/5/2012	5.20	0.00
SCF	6/2/2010	12/1/2011	12.48	12.48

Outright Loans: ^{1/}

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	6/1/2020	6/3/2020	6.93	6.93
RFI	6/1/2020	6/2/2020	13.87	13.87

^{1/} Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e., Board approval date.

Projected Payments to Fund:^{1/}

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2026	2027	2028	2029	2030
Principal	1.39	1.39	1.39	1.39	0.69
Charges/Interest	0.53	0.71	0.71	0.71	0.71
Total	1.91	2.09	2.09	2.09	1.40

^{1/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
N/A	4/13/2020	0.06	0.06
N/A	10/2/2020	0.07	0.07
N/A	4/1/2021	0.10	0.10
N/A	10/6/2021	0.06	0.06
N/A	12/15/2021	0.04	0.04

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangements:

The de jure exchange rate arrangement is a conventional peg arrangement. The Solomon Islands dollar (SBD) is pegged to a basket of currencies consisting of the US dollar, the Australian dollar, and the New Zealand dollar. The basket was revised on August 21, 2024. The Central Bank of Solomon Islands (CBSI) sets the exchange rate vis-à-vis the US dollar as to maintain the value of the basket constant in SBDs given the movements of currencies in the basket relative to each other. The exchange rate is allowed to move along the exchange rate basket and market fundamentals with no fixed band imposed on the basket movement. The de facto exchange rate arrangement is classified as crawl-like. Solomon Islands has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system that is free of restrictions on making of payments and transfers for current international transactions and multiple currency practices.

Last Article IV Consultation:

The 2024 Article IV Consultation discussions were held during November 11–22, 2024, and the consultation was concluded on February 19, 2025 (IMF Country Report No. 25/49).

Safeguards Assessment:

An update safeguards assessment of the CBSI was completed in July 2022. The assessment found that the external audits and financial reporting framework continue to be broadly aligned with international standards, and the CBSI's organic law provides an adequate legal underpinning for its autonomy. However, substantial effort is required to modernize the internal audit function and to enhance the audit committee's oversight. Since the assessment, the CBSI has advanced the implementation of some recommendations with IMF technical assistance, such as on internal audit and risk management.

Technical Assistance:

Experts from PFTAC and HQ provided support for capacity development in areas of revenue administration, tax policy, public financial management, macroeconomic frameworks, banking regulation and supervision, AML/CFT, and statistics (national accounts and government finance statistics).

Resident Representative:

The resident representative office in the Pacific Islands was opened in September 2010 in Suva, Fiji. Mr. Giovanni Ganelli is the current Resident Representative.

RELATIONS WITH OTHER IFIS

- World Bank Group:
[Pacific Islands: Development news, research, data | World Bank](#)
- Asian Development Bank:
<https://www.adb.org/countries/solomon-islands/main>
- Pacific Financial Technical Assistance Center:
<https://www.pftac.org/>