SOLOMON ISLANDS

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

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Risk of external debt distress:	Moderate
Overall risk of debt distress:	Moderate
Granularity in the risk rating:	Substantial space to absorb shock
Application of judgement:	No

The external risk of debt distress for Solomon Islands remains moderate. All external debt indicators remain below the relevant indicative thresholds under the baseline scenario, which incorporates the average long-term effects of natural disasters on growth, the fiscal balance, and the current account balance. However, an export shock would cause a prolonged breach of the threshold for the PV of PPG external debt-to-GDP ratio.

The overall risk of debt distress is assessed as moderate, with the risk reflecting a deteriorating fiscal position. Though the PV of total public debt-to-GDP ratio remains below the 35 percent benchmark under the baseline scenario, the nominal debt-to-GDP ratio would breach the authorities' target of 35 percent in 2028. Moreover, a shock to real GDP has the greatest impact on the PV trajectory, placing risk at moderate. A tailored natural disaster shock, which uses similar scale to the largest shock in Solomon Islands' history, causes a significant deterioration in debt sustainability in the aftermath of the event. To rebuild fiscal buffers and to enhance resilience against shocks, including natural disaster shocks, both stronger revenue mobilization measures and expenditure rationalization are needed. While the mechanical signal of the DSA suggests there is space to absorb a shock, staff assess such space to be limited, as there are fiscal cashflow problems which are acute, with rising domestic expenditure arrears and a very low cash balance. The sharp cut in development spending for 2018 looks difficult to fully achieve given a significant infrastructure investment gap; and although the authorities made efforts to clear arrears through the Supplementary budget, staff expect pressure on domestic expenditure arrears to reemerge later in the year.

[1] The Solomon Islands' first Composite Indicator (CI) index, which has been calculated based on the April 2018 WEO, is 2.72, indicating that the county's debt-carrying capacity is medium. However, a first change in the classification of capacity could only take place after such change has been confirmed by a calculation based on the October 2018 WEO, as two consecutive signals are required for a shift in capacity classification according to the new "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-income Countries" (http://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf). Thus, the current debt-carrying capacity (weak for Solomon Islands) based on the latest CPIA continues to apply. The relevant indicative thresholds for this category are: 30 percent for the PV of debt-to-GDP ratio,140 percent for the PV of debt-to-exports ratio, 10 percent for the debt service-to-exports ratio, and 14 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed (PPG) external debt. The benchmark of the PV of total public debt for weak debt carrying capacity is 35 percent.

PUBLIC DEBT COVERAGE

1. The coverage of public sector debt used in this report is central government debt, central government-guaranteed debt, and central bank debt, which is borrowed on behalf of the government.[2] As of end-2017, no central government-guaranteed debt had been recorded; but prospectively, guarantees are anticipated in government's borrowing plan for 2018. The outstanding debts to the IMF stood at US$6.7 million (0.5 percent of GDP).

Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
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	

BACKGROUND ON DEBT

2. Public debt has increased to 9.4 percent of GDP in 2017 from a historic low level of 7.9 percent in 2016. The pick-up in debt is due mainly to the SI$150 million issuance of a domestic development bond in 2017 and disbursements from multilateral creditors. The government successfully reduced debt from 50.3 percent of GDP in 2006 under the 2005 Honiara Club Agreement, which restructured around 10 percent of the stock of external public debt, and a moratorium was placed on debt servicing and new external borrowing. A new debt management framework was introduced in 2012 and revised in 2016 with new guidelines on direct borrowing, on-lending, and guarantees put in place. The debt management strategy sets a limit for the public debt-to-GDP ratio at 35 percent in nominal terms, with debt service to domestically-sourced revenue ratio set at 10 percent.

3. Public and Publicly Guaranteed (PPG) external debt stood at US$100 million (7.6 percent of GDP) as of end-2017. The International Development Association (IDA) and the Asian Development Bank (ADB) account for 29 percent and 36 percent of total public debt respectively. There were no explicit contingent liabilities—public debt guaranteed by the government—in 2017, but the government will provide a guarantee for the ADB's forthcoming US$15.4 million loan to fund the new University of the South Pacific campus in Solomon Islands. Private sector external debt amounted to 0.8 percent of GDP in 2017.

[2] The authorities have identified non-guaranteed SOE debt as amounting to 1.2 percent of GDP. However, there are a number of data constraints which preclude the inclusion of this information in the debt sustainability analysis. The data shortcomings include no information on the SOEs' debt service and insufficient information on the SOEs' fiscal accounts. In next year's DSA staff will follow up with the authorities to rectify these data shortcomings. For this year's DSA, staff have incorporated non-guaranteed SOE debt in the contingent liability shock scenario by adjusting the default figure by 2 percent of GDP.

4. Public domestic debt stood at SI$193 million (1.9 percent of GDP) at end-2017.[3] The government issued a SI$150 million domestic development bond in March 2017, purchased by the Solomon Islands National Provident Fund (SINPF). Implicit contingent liabilities—mainly non-guaranteed borrowing by state-owned enterprises (SOEs)—were SI$121 million (1.2 percent of GDP) at end-2017.

5. Both domestic and external borrowing are expected to grow in the medium term. The government has set its annual borrowing limit at SI$462 million in the 2018 budget to finance key infrastructure projects, including the Tina River hydropower development project (TRHDP), which is supported by many development partners, including the Green Climate Fund, IDA, ADB, Australia and Korea. The government plans to borrow SI$30 million during 2018 from the SOEs to resolve domestic arrears.

Stock of public debt (external and domestic at end-2019

	In million of SI dollars	In million of US dollars	As a share of total debt	In percent of GDP
Total public debt	980	125	100%	9.4
External	787	100	80%	7.6
Multilateral	703	89	72%	6.8
IDA	288	37	29%	2.8
ADB	349	44	36%	3.4
IMF	53	7	5%	0.5
IFAD	13	2	1%	0.1
Bilateral	84	11	9%	0.8
EXIM Bank (Taiwan province of China)	76	10	8%	0.7
EU	8	1	1%	0.1
Domestic	193	24	20%	1.9
Government domestic bonds	150	19	15%	1.4
Treasury Bills	38	5	4%	0.4
Others	5	1	1%	0.0

Source: Solomon Islands authorities and IMF staff estimates.

BACKGROUND ON MACRO FORECASTS

6. The assumptions in the baseline scenario are consistent with the macroeconomic framework presented in the staff report. Similar to the last DSA, the baseline scenario incorporates the effects of natural disasters and climate change over the longer-term, with an overall view lying slightly to the downside vis-à-vis the 2017 report. The years 2018–23 are assumed to be disaster free to simplify the policy discussion of the near-term outlook. However, from 2024 onwards, the baseline incorporates the average long-term effects of natural disasters and climate change by lowering GDP growth by 0.3 percentage points (pps) annually, raising the current account deficit by 0.5 pps and increasing the fiscal deficit by 0.2 pps vis-à-vis disaster-free projections to reflect the country's historical experience. These are consistent

Solomon Islands: Baseline Macroeconomic Assumptions
(In percent of GDP, unless otherwise states)

	2018 DSA	2017 DSA
	2018-28 ave.	2017-27 ave.
Real GDP growth	2.9	3.0
GDP deflator in US dollar terms (change in percent)	4.2	3.7
Non-interest current account deficit	7.2	5.8
Net FDI (negative = inflow)	-3.1	-3.6
Primary deficit	3.5	3.4

Source: IMF staff projections.

[3] This excludes domestic arrears of SI$138 million at end-2017, which were cleared by March 2018.

with the findings of staff's research on the impact of natural disasters.[4] The discount rate used to calculate the net present value of external debt remains at 5 percent. The main assumptions are:

- **Real GDP growth** is projected at 2.9 percent on average during 2018–28. The projection takes into account three factors: (i) on the upside, higher capital spending on key infrastructure projects, including TRHDP and the undersea cable project, pushes growth up; on the downside, there are: (ii) continued fiscal problems that would negatively affect private sector activity; and (iii) a decline in logging activity, which might be offset over the medium term by an expected rise in mining activity.
- **Inflation** (measured by GDP deflator in USD terms) is projected to average 4.2 percent during 2018–28, higher than last year's projection due mainly to a recovery in oil prices.
- **Non-interest current account deficit** is projected to rise to 7.2 percent of GDP on average over 2018–28, reflecting the high import content for key infrastructure projects and lower exports due to a long-term decline in logging activities. The reopening of the gold mine in Guadalcanal and the resumption of exports is now expected to be delayed until 2023.
- **FDI inflows** are expected to increase on average to about 3.1 percent of GDP over 2018–28, slightly lower than last year's projection due to worsening business sentiment caused by the government's cash-flow problems.
- **Logging outpu**t is expected to be slightly lower in the next couple of years and then to start declining on average by 1.1 percent a year from 2023.
- **Mining production** is expected to start over the longer term. Gold production is assumed to resume in 2023 and is assumed to peak from 2024 to 2027 and then to decrease gradually. Other mining activity (nickel and bauxite) is expected to come fully onstream in the long run, this is implicitly assumed to add a small impetus to long-term growth rates.
- **External borrowing and grants**: New disbursements for projects in the pipeline, including TRHDP, are expected to take place in the next five years (2018–22). From 2023 onwards, the level of new annual external borrowing is expected to be around 3 percent of GDP. Grant and lending flows from multilateral development partners are expected to increase over the medium term due to the scale-up of IDA and ADB financing, and are partly offset by lower financing from other development partners. Grants and the grant element of new borrowing are expected to decline over the medium term.
- **Fiscal outlook**: The ten-year forward-looking average of the primary deficit is expected to remain high at 3.5 percent of GDP, reflecting the recent worsening of the fiscal position that has resulted in a buildup in domestic arrears. By 2021, when the cash balance is positive, the deficit will be financed by cash reserves. Once depleted, the government is expected to seek domestic borrowing from SOEs. The accumulation of new domestic arrears is included in public debt during the projection period.

[4] Please see the detail in the IMF Working paper 18/108, "The Economic Impact of Natural Disaster in Pacific Island Countries" (https://www.imf.org/en/Publications/WP/Issues/2018/05/10/The-Economic-Impact-of-Natural-Disasters-in-Pacific-Island-Countries-Adaptation-and-45826).

7. **The new realism tools suggest that our projections are reasonable (Figure 4).** The three-year adjustment in the primary balance is expected to be zero, suggesting there is no fiscal adjustment between 2017 and 2020 (3.7 percent of GDP). The assumption on real growth in 2018 and 2019 is slightly lower than possible growth paths which are calculated based on one-year fiscal adjustment. Two charts on public and private investment rates and contribution to real GDP growth are not available due to a lack of data.

COUNTRY CLASSFICATION

8. **As discussed in footnote 1, the country's debt-carrying capacity applied in the 2018 DSA is weak.** The Solomon Islands' first Composite Indicator (CI) index, which has been calculated based on the April 2018 WEO, is 2.72, indicating that the county's debt-carrying capacity would be medium in the revised LIC-DSF framework. But a change in the classification needs await second appraisal, as two consecutive signals are required to confirm a shift in debt carrying capacity. Hence, this DSA is based on the weak category ratings.

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.967	1.14	42%
Real growth rate (in percent)	2.719	2.885	0.08	3%
Import coverage of reserves (in percent)	4.052	57.963	2.35	86%
Import coverage of reserves^2 (in percent)	-3.990	33.597	-1.34	-49%
Remittances (in percent)	2.022	0.000	0.00	0%
World economic growth (in percent)	13.520	3.660	0.49	18%
CI Score			2.72	100%
CI rating			Medium	

9. **The relevant indicative thresholds for the weak category are: 30 percent for the PV of debt-to-GDP ratio,140 percent for the PV of debt-to-exports ratio, 10 percent for the debt service-to-exports ratio, and 14 percent for the debt service-to-revenue ratio.** These thresholds are applicable to public and publicly guaranteed (PPG) external debt. The benchmark for the PV of total public debt under weak debt carrying capacity is 35 percent. Should debt-carrying capacity change to medium, the thresholds and benchmark would increase.

PPG External Debt Thresholds and Total Public Debt Benchmarks

Debt carrying capacity (CI classification)	PV of PPG external debt in percent of		PV of PPG external debt in percent of		PV of total public debt in percent of
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70

DETERMINATION OF SCENARIO STRESS TEST

10. Given the severity and frequency of natural disasters in the Solomon Islands, a tailored stress test for a natural disaster shock was conducted. Solomon Islands, which is defined as a small developing natural disaster-prone state in the IMF board paper on small states, is automatically subject to the LIC-DSF standard natural disaster shock.[5] Default parameters for this test were altered, based on EM-DAT, the international disaster database, to reflect the country's largest damage from natural disasters (over 1980–2016) at 14 percent of GDP. Thus, the DSA assumes a one-off shock of 14 pp of GDP to the debt-GDP ratio in 2019 and a reduction of real GDP growth and exports by 2.5 and 7.0 pps respectively.[6]

11. A stress test for the combined contingent liability shock adjusts the default setting for SOE debt. To reflect the current level of implicit contingent liabilities (1.2 percent of GDP), we adjust the magnitude of the shock of SOE debts from the default value of 2 percent, which is the median SOE external liability identified by a Fund staff survey conducted in 2016. We use the default value of 5 percent for financial markets.

Combined Contingent Liability Shock

Combined Contingent Liability Shock

				Used for the analysis	Reasons for deviations from the default settings
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	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	1.2	To reflect the size of inplicit contingent liabilities
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 6 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+6) (in percent of GDP)			6.2	

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%.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

12. Under the baseline scenario, all external PPG debt indicators remain below the policy relevant thresholds for the next ten years (Figure 1). The PV of debt-to GDP ratio is expected to increase gradually from 5.3 percent in 2017 to 15.4 percent in 2028 due mainly to new disbursements for key infrastructure projects, including the TRHDP. As Figure 3 shows, the main driver of debt dynamics during the projection period is the current account deficit. Even under the 20-year forecast horizon, which was used in the previous framework, there would be no breach for all debt indicators in the baseline scenario, although debt ratios continue to rise.

13. The standardized stress test shows that an export shock has the largest negative impact on the debt trajectory, causing a breach of the threshold for the PV of debt-to-GDP ratio. This suggests the need to expand the export base, as logging exports are expected to decline over the longer run. Other

[5] One-off shock of 10 percentage points to debt-GDP ratio in the second year of the projection period (2019 for this case). Real GDP growth and exports are lowered by 1.5 and 3.5 percentage points, respectively, in the year of the shock.

[6] Please see footnote 3.

shocks, including to real GDP growth, the primary balance, and a one-time 30 percent depreciation, do not lead to a breach of the debt threshold (Table 3).

14. The tailored natural disaster shock causes the debt trajectory for each indicator to move upward in the aftermath of the shock. Though the DSA assumes a one-off shock that takes place in 2019, there is a possibility that multiple severe natural disasters could occur within a ten-year timeframe. Staff's work shows that there is a probability of around 13.5 percent of a disaster each year of a magnitude of more than 7.1 percent of damage-to-GDP ratio or 7.5 percent of the population affected-to-total population ratio. This probability translates into one shock every seven years. Multiple natural disasters would carry a larger cumulative effect on debt sustainability through damaging long-term growth and increasing borrowing for reconstruction needs.

B. Public Sector Debt Sustainability Analysis

15. Under the baseline scenario, the PV of public debt-to-GDP ratio does not breach the 35 percent benchmark (Figure 2). However, the nominal public debt-to-GDP ratio would rise from 9.4 percent and breaches the authorities' threshold of 35 percent in nominal terms in 2028 (Table 2). As Figure 3 indicates, the breach is primarily driven by a primary deficit caused by continued expansionary fiscal policy.

16. The standardized sensitivity analysis shows that the largest shock that leads to the highest debt/GDP figures in 2028 is that to real GDP growth (Figure 2, Table 4). The PV of debt-to-GDP ratio would reach 56 percent of GDP in 2028. The vulnerability to a shock to real GDP growth highlights the need for stronger growth in the medium term.

17. The tailored natural disaster shock results in a sharper deterioration in debt sustainability. The PV of public debt-to-GDP ratio would breach the its threshold of 35 percent in 2026. This highlights the importance of rebuilding fiscal buffers against external shocks.

18. A tailored stress test for the combined contingent liability shock also causes a deterioration in debt sustainability. The trajectory of the PV of public debt-to-GDP ratio moves upwards by 2.5-4.2 percentage points from the baseline. This suggests the need for government to rebuild fiscal buffers to address the contingent liability shock.

RISK RATING AND VULNERABILITIES

19. The debt sustainability analysis under the new LIC DSF framework suggests that Solomon Islands' risk of external debt distress remains moderate. While there is no breach of external debt thresholds under the baseline, standardized stress tests indicate that an export shock would result in a breach of the threshold for the PV of external debt-to-GDP ratio. This underscores the importance of broadening the export base given an expected long-term decline in logging exports. Even though debt service indicators remain well below their thresholds both under the baseline and stress test scenarios, maximizing concessional loans would help keep the debt burden contained. Regarding the granularity in the risk rating, Figure 5 suggests that there is a substantial space to absorb shocks, reflecting a current low level of external debt; but staff assess that given current concerns about the deterioration in the fiscal position, it would need to be placed on a firmer footing to create an environment for higher-debt take up.[7] Also, it would be difficult for Solomon Islands to scale up rapidly without hitting absorptive capacity constraints.

20. The DSA suggests that overall risk of debt distress is moderate, reflecting the recent expansionary fiscal policy and a buildup of domestic arrears. The nominal debt-to-GDP ratio would breach the authorities' target of 35 percent in 2028, though not the benchmark for the PV of public debt as determined by the country's debt carrying capacity. A shock to real GDP growth has the largest impact on public debt sustainability, leading the PV of debt-to-GDP ratio to reach 56 percent in 2028. These results indicate the urgent need for fiscal adjustment and measures to boost potential growth in the long run. The tailored stress test for a natural disaster shock would affect debt sustainability quite adversely; that for the contingent liability shock more moderately. The authorities need to embark on fiscal consolidation measures to rebuild fiscal buffers and prioritize investment projects that build resilience to natural disasters.

AUTHORITIES' VIEW

21. The authorities broadly agree with the assessment of debt sustainability analysis under the new framework and support the tailored natural disaster stress test. They increased their nominal debt threshold from 30 percent to 35 percent of GDP recently to address large infrastructure needs, including for the Tina River hydropower project. Though the current debt level is relatively low, they continue to seek concessional loans or external grants to keep the debt burden subdued. They are beginning to prepare for the 2023 Pacific Games, but no decisions have yet been taken on borrowing or guarantees arising from infrastructure development related to the Games. The authorities recognize the risks that large borrowing in the context of such event would pose and are aware that such borrowing would adversely affect debt sustainability. The authorities intend to maintain around SI$40 million for the T-bill market and to seek borrowing from SOEs so as to clear all domestic arrears by end-2018. They emphasized that they had a firm intention to clear all domestic arrears by the end of the year which was being achieved through the sharp cut back in development spending. They noted that they are mindful of implicit contingent liability mainly from non-guaranteed SOE debt. In line with the public financial management act, they can require all SOEs to acquire consent from the Minister of Finance to undertake direct borrowing.

[7] The space is measured by the distance between the baseline debt burden indicators and their thresholds.

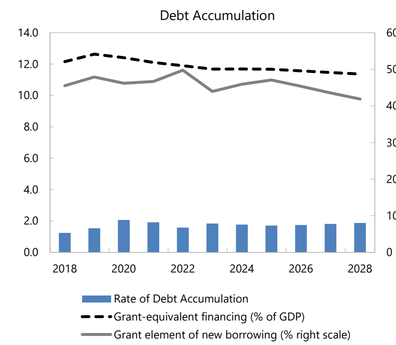
Table 1. Solomon Islands: External Debt Sustainability Framework, Baseline Scenario, 2015–38

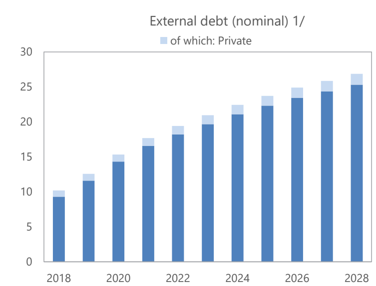
(In percent of GDP, unless otherwise indicated)

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	10.6	8.2	8.4	10.2	12.6	15.3	17.7	19.4	20.9	26.9	30.3	19.9	20.0
of which: public and publicly guaranteed (PPG)	9.7	7.5	7.6	9.3	11.6	14.3	16.6	18.2	19.7	25.3	28.4	13.9	18.1
Change in external debt	-1.4	-2.4	0.2	1.8	2.4	2.8	2.4	1.7	1.5	1.0	0.0		
Identified net debt-creating flows	0.8	0.4	1.8	4.0	4.8	5.1	3.6	3.6	3.2	3.9	3.0	0.3	3.8
Non-interest current account deficit	2.8	3.8	4.1	6.3	8.2	8.6	7.2	7.1	6.5	7.4	6.4	9.3	7.2
Deficit in balance of goods and services	8.1	5.8	5.8	8.0	10.4	10.9	11.4	11.7	11.2	13.3	15.2	12.4	10.9
Exports	45.5	44.9	45.6	45.3	45.1	44.5	42.3	40.6	41.0	39.1	26.2		
Imports	53.5	50.7	51.4	53.3	55.5	55.3	53.7	52.3	52.3	52.4	41.4		
Net current transfers (negative = inflow)	-7.1	-5.2	-4.3	-4.9	-5.3	-5.5	-6.0	-6.2	-6.7	-7.6	-5.4	-13.0	-6.3
of which: official	-8.1	-7.1	-7.9	-8.2	-8.3	-8.2	-8.3	-8.2	-8.4	-8.2	-5.2		
Other current account flows (negative = net inflow)	1.9	3.2	2.5	3.2	3.1	3.3	1.8	1.6	2.0	1.7	-3.3	9.9	2.6
Net FDI (negative = inflow)	-2.4	-2.9	-2.0	-2.2	-3.2	-3.4	-3.5	-3.2	-3.1	-3.2	-3.1	-7.1	-3.1
Endogenous debt dynamics 2/	0.4	-0.5	-0.3	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.4	-0.4		
Contribution from nominal interest rate	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.5		
Contribution from real GDP growth	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.8	-0.9		
Contribution from price and exchange rate changes	0.5	-0.3	-0.1	...	...	...	...	...	...	...	...		
Residual 3/	-2.3	-2.7	-1.6	-2.2	-2.4	-2.3	-1.3	-1.9	-1.6	-2.8	-3.0	-3.6	-2.1
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	...	...	5.3	6.0	7.1	8.6	9.9	10.7	11.7	15.4	19.6		
PV of PPG external debt-to-exports ratio	...	...	11.7	13.3	15.7	19.4	23.3	26.4	28.4	39.5	74.8		
PPG debt service-to-exports ratio	1.5	1.8	1.7	1.4	1.3	0.8	1.1	1.2	1.1	1.8	5.3		
PPG debt service-to-revenue ratio	2.0	2.6	2.4	2.0	1.8	1.1	1.5	1.5	1.5	2.2	4.7		
Gross external financing need (Million of U.S. dollars)	31.0	30.9	37.9	69.3	84.1	91.1	73.9	80.5	77.3	140.8	283.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.5	3.5	3.5	3.4	2.9	2.8	2.7	2.7	2.8	3.1	3.2	4.2	2.9
GDP deflator in US dollar terms (change in percent)	-3.8	3.0	1.5	6.2	3.1	3.5	4.1	3.9	4.6	4.0	4.5	5.5	4.2
Effective interest rate (percent) 4/	1.6	1.3	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.5	1.7	2.3	1.5
Growth of exports of G&S (US dollar terms, in percent)	-7.1	5.4	6.6	9.0	5.6	4.8	1.8	2.4	8.6	4.8	-3.1	12.4	5.9
Growth of imports of G&S (US dollar terms, in percent)	-9.3	1.0	6.5	13.9	10.5	6.0	3.7	4.0	7.4	7.4	7.1	7.8	7.5
Grant element of new public sector borrowing (in percent)	...	...	...	45.5	47.9	46.2	46.7	49.7	43.9	41.9	30.6	...	46.2
Government revenues (excluding grants, in percent of GDP)	35.1	31.7	32.5	32.4	32.2	32.0	31.7	31.6	31.4	31.0	29.8	32.0	31.7
Aid flows (in Million of US dollars) 5/	258.7	230.3	231.9	180.1	202.1	210.4	219.5	230.2	241.0	332.2	615.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	12.2	12.6	12.4	12.1	11.9	11.7	11.4	10.6	...	11.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	88.7	87.9	86.5	86.6	88.8	87.5	86.7	83.6	...	87.7
Nominal GDP (Million of US dollars)	1,158	1,235	1,298	1,424	1,511	1,607	1,718	1,833	1,970	2,802	5,836		
Nominal dollar GDP growth	-1.3	6.6	5.1	9.7	6.1	6.4	6.9	6.7	7.5	7.2	7.8	10.2	7.3
Memorandum items:													
PV of external debt 7/	...	...	6.2	6.9	8.1	9.6	11.0	11.9	12.9	17.0	21.5		
In percent of exports	...	...	13.6	15.2	17.9	21.7	25.9	29.3	31.5	43.5	81.9		
Total external debt service-to-exports ratio	4.9	3.6	1.9	1.6	1.5	0.9	1.2	1.3	1.3	1.9	5.7		
PV of PPG external debt (in Million of US dollars)			69.4	85.5	107.3	138.4	169.3	196.3	230.0	432.8	1143.6		
(PVt-PVt-1)/GDPt-1 (in percent)				1.2	1.5	2.1	1.9	1.6	1.8	1.9	1.7		
Non-interest current account deficit that stabilizes debt ratio	4.3	6.2	3.9	4.5	5.8	5.8	4.9	5.4	5.0	6.4	6.5		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = 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.

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.

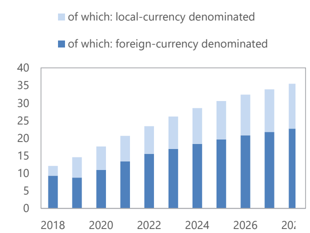
Table 2. Solomon Islands: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38

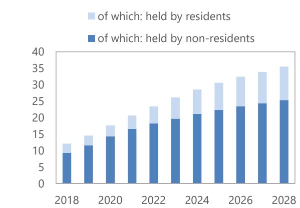
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	**10.1**	**7.9**	**9.4**	**12.1**	**14.6**	**17.6**	**20.6**	**23.4**	**26.1**	**35.5**	**43.2**	**19.0**	**25.0**
of which: external debt	**9.7**	**7.5**	**7.6**	**9.3**	**11.6**	**14.3**	**16.6**	**18.2**	**19.7**	**25.3**	**28.4**	**13.9**	**18.7**
Change in public sector debt	-1.8	-2.2	1.5	2.7	2.4	3.1	3.0	2.8	2.7	1.6	0.4		
Identified debt-creating flows	**0.0**	**3.4**	**3.1**	**2.9**	**2.6**	**3.2**	**3.1**	**2.9**	**2.8**	**1.7**	**0.4**	**-4.3**	**2.5**
Primary deficit	**-0.4**	**3.8**	**3.7**	**3.4**	**3.1**	**3.7**	**3.8**	**3.8**	**4.0**	**3.1**	**2.4**	**-2.2**	**3.5**
Revenue and grants	47.9	43.1	42.7	43.3	43.2	42.7	42.2	42.0	41.8	41.1	39.5	**50.5**	**42.1**
of which: grants	12.9	11.4	10.2	10.9	11.0	10.7	10.5	10.4	10.4	10.1	9.7		
Primary (noninterest) expenditure	47.5	47.0	46.4	46.7	46.3	46.4	46.0	45.8	45.7	44.2	41.9	**48.3**	**45.5**
Automatic debt dynamics	**0.4**	**-0.4**	**-0.6**	**-0.5**	**-0.5**	**-0.5**	**-0.7**	**-0.9**	**-1.1**	**-1.4**	**-2.0**		
Contribution from interest rate/growth differential	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.5	-0.6	-0.7	-0.9	-1.3		
of which: contribution from average real interest rate	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	-0.1	-0.1	0.1	0.0		
of which: contribution from real GDP growth	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.5	-0.5	-0.6	-1.0	-1.3		
Contribution from real exchange rate depreciation	0.8	0.0	-0.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**
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)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-1.7**	**-5.6**	**-1.6**	**-0.4**	**-0.3**	**-0.3**	**-0.4**	**-0.4**	**-0.5**	**-0.6**	**-0.8**	**0.9**	**-0.5**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**7.1**	**8.8**	**10.0**	**11.9**	**13.9**	**15.9**	**18.1**	**25.6**	**34.4**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**16.6**	**20.4**	**23.3**	**27.9**	**33.0**	**37.8**	**43.4**	**62.4**	**87.0**		
Debt service-to-revenue and grants ratio 3/	**5.5**	**3.0**	**2.9**	**2.6**	**2.4**	**2.5**	**3.9**	**6.0**	**5.9**	**6.3**	**17.8**		
Gross financing need 4/	2.1	5.0	4.9	4.5	4.1	4.7	5.5	6.3	6.4	5.7	9.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.5	3.5	3.5	3.4	2.9	2.8	2.7	2.7	2.8	3.1	3.2	**4.2**	**2.9**
Average nominal interest rate on external debt (in percent)	0.9	1.0	1.2	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.5	**1.3**	**1.2**
Average real interest rate on domestic debt (in percent)	-0.7	-0.6	-0.3	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	0.0	**-0.1**	**-0.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	8.1	-0.4	-5.2	...	...	...	...	...	...	...	...	**-3.7**	**...**
Inflation rate (GDP deflator, in percent)	3.1	3.6	2.7	4.2	3.4	3.5	4.1	3.9	4.6	4.0	4.5	**5.9**	**4.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	8.1	2.2	2.3	4.1	2.0	3.1	1.8	2.1	2.7	2.5	2.9	**5.0**	**2.5**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.3	6.1	2.2	0.7	0.6	0.6	0.8	1.0	1.2	1.5	2.1	**3.2**	**1.1**
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		

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

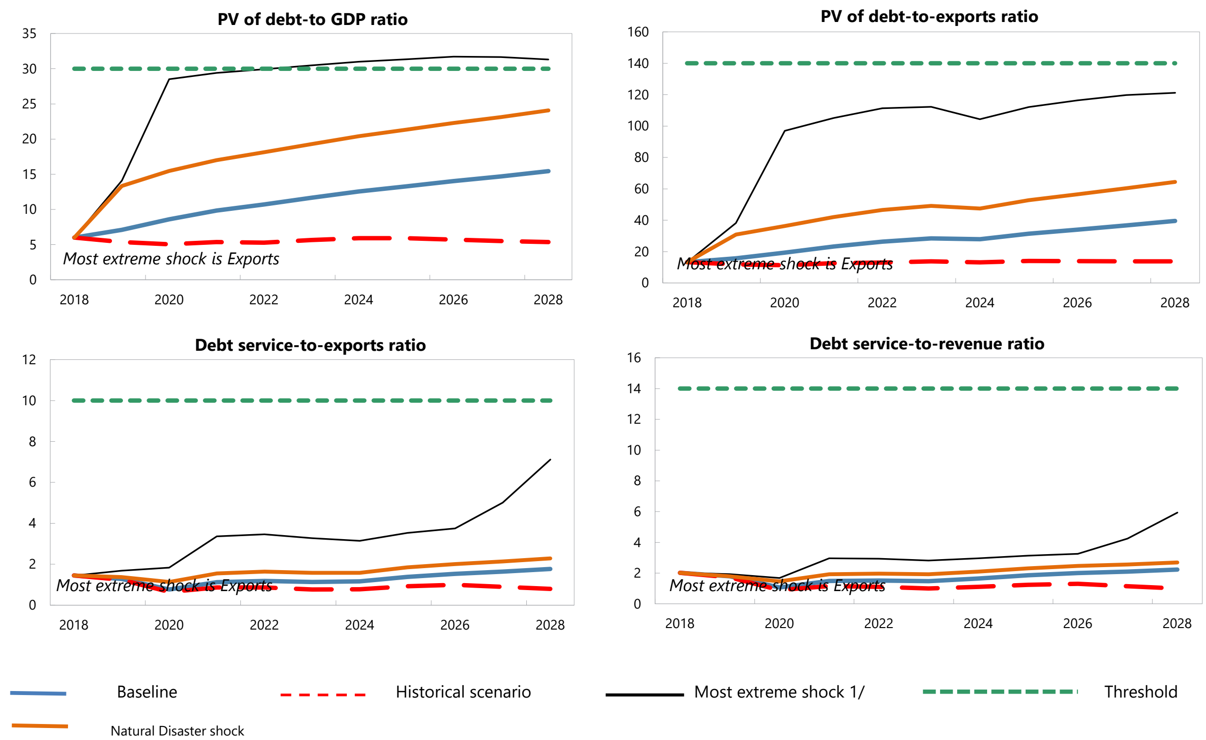
Public sector debt 1/





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 stabilizes 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.

Figure 1. Solomon Islands: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2018–28 1/



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	Yes	Yes
Commodity Prices 2/	n.a.	n.a.
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 for 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	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	31	31
Avg. grace period	7	7

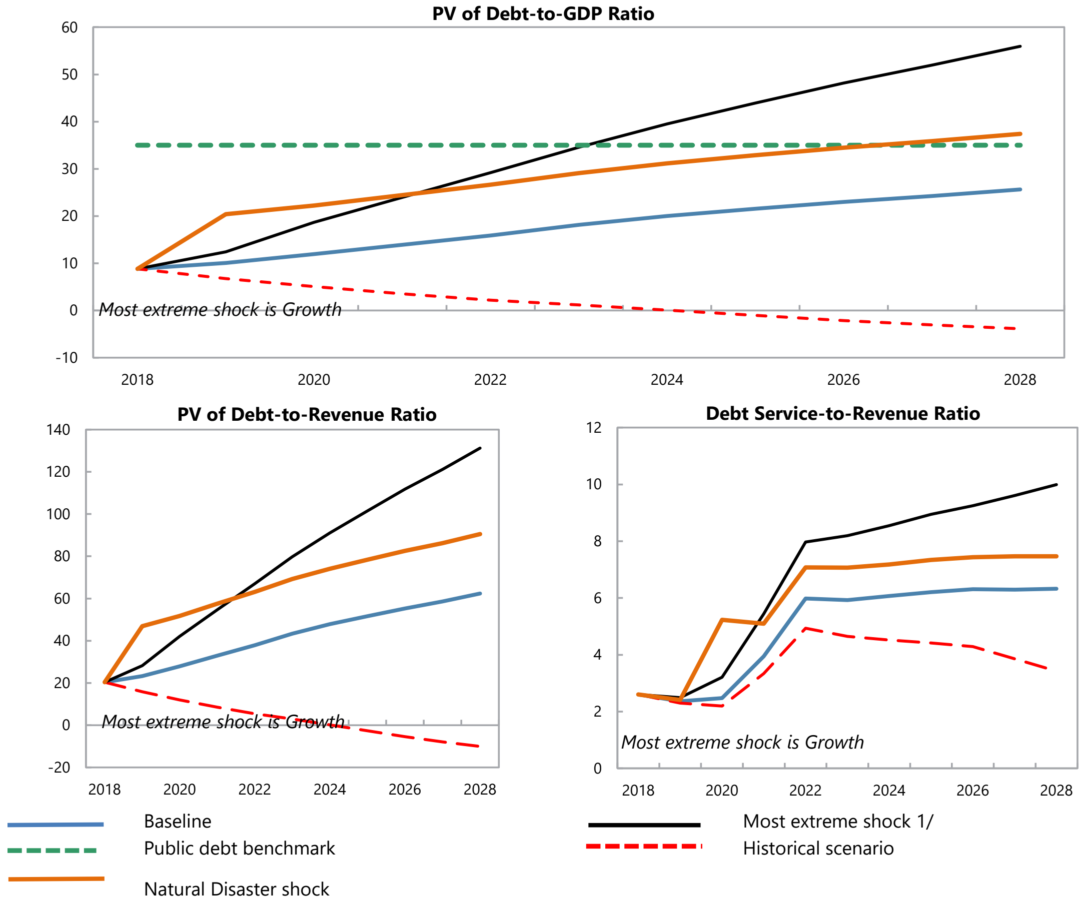
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme 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 Alternative Scenarios, 2018–28 1/



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	73%	73%
Domestic medium and long-term	21%	21%
Domestic short-term	33%	6%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	31	31
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.3%	2.3%
Avg. maturity (incl. grace period)	15	15
Avg. grace period	14	14
Domestic short-term debt		
Avg. real interest rate	-3%	-3.0%

* 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 2028. 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 exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Solomon Islands: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–28

(In percent)

	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	6.0	7.1	8.6	9.9	10.7	11.7	12.6	13.3	14.0	14.7	15.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 185-2628 1/	6.0	5.4	5.0	5.4	5.3	5.6	5.9	5.9	5.7	5.5	5.4
B. Bound Tests											
B1. Real GDP growth	6.0	7.6	9.9	11.4	12.4	13.5	14.5	15.3	16.2	17.0	17.8
B2. Primary balance	6.0	8.7	12.0	13.3	14.1	15.0	15.8	16.5	17.2	17.7	18.3
B3. Exports	6.0	14.1	28.5	29.4	29.9	30.5	31.0	31.3	31.7	31.7	31.3
B4. Other flows 2/	6.0	15.2	24.7	25.5	26.0	26.5	26.9	27.2	27.6	27.4	27.2
B6. One-time 30 percent nominal depreciation	6.0	8.9	7.8	9.4	10.6	11.9	13.1	14.1	15.1	16.0	17.1
B6. Combination of B1-B5	6.0	15.4	20.6	21.7	22.4	23.2	23.9	24.4	25.0	25.1	25.2
C. Tailored Tests											
C1. Combined contingent liabilities	6.0	9.6	11.3	12.5	13.3	14.2	15.0	15.7	16.4	17.0	17.7
C2. Natural disaster	6.0	13.3	15.5	17.0	18.1	19.3	20.4	21.3	22.3	23.1	24.1
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	13.3	15.7	19.4	23.3	26.4	28.4	27.9	31.5	34.0	36.7	39.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 185-2628 1/	13.3	11.9	11.3	12.7	13.0	13.8	13.2	14.0	13.9	13.8	13.7
B. Bound Tests											
B1. Real GDP growth	13.3	15.7	19.4	23.3	26.4	28.4	27.9	31.5	34.0	36.7	39.5
B2. Primary balance	13.3	19.4	27.0	31.4	34.7	36.5	35.2	39.0	41.7	44.3	47.0
B3. Exports	13.3	38.2	97.0	105.1	111.4	112.3	104.4	112.2	116.3	119.7	121.2
B4. Other flows 2/	13.3	33.8	55.6	60.3	63.9	64.5	59.9	64.5	66.9	68.6	69.5
B6. One-time 30 percent nominal depreciation	13.3	15.7	13.9	17.7	20.7	23.0	23.1	26.5	29.1	31.8	34.9
B6. Combination of B1-B5	13.3	35.8	41.3	58.9	63.4	64.8	61.0	66.4	69.5	72.0	74.1
C. Tailored Tests											
C1. Combined contingent liabilities	13.3	21.4	25.3	29.5	32.7	34.6	33.5	37.2	39.8	42.6	45.4
C2. Natural disaster	13.3	30.9	36.4	42.0	46.6	49.1	47.5	52.8	56.5	60.4	64.4
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	1.4	1.3	0.8	1.1	1.2	1.1	1.2	1.4	1.5	1.6	1.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 185-2628 1/	1.4	1.2	0.6	0.9	0.9	0.8	0.8	0.9	1.0	0.9	0.8
B. Bound Tests											
B1. Real GDP growth	1.4	1.3	0.8	1.1	1.2	1.1	1.2	1.4	1.5	1.6	1.8
B2. Primary balance	1.4	1.3	0.8	1.3	1.4	1.3	1.3	1.5	1.7	2.0	2.3
B3. Exports	1.4	1.7	1.8	3.4	3.5	3.3	3.1	3.5	3.7	5.0	7.1
B4. Other flows 2/	1.4	1.3	1.2	1.9	2.0	1.9	1.8	2.0	2.2	3.1	4.1
B6. One-time 30 percent nominal depreciation	1.4	1.3	0.8	1.0	1.1	1.0	1.1	1.3	1.4	1.5	1.4
B6. Combination of B1-B5	1.4	1.5	1.4	2.1	2.2	2.0	2.0	2.3	2.5	3.6	4.1
C. Tailored Tests											
C1. Combined contingent liabilities	1.4	1.3	0.9	1.3	1.3	1.3	1.3	1.5	1.6	1.7	1.9
C2. Natural disaster	1.4	1.4	1.1	1.5	1.6	1.6	1.6	1.8	2.0	2.1	2.3
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	2.0	1.8	1.1	1.5	1.5	1.5	1.7	1.9	2.0	2.1	2.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 185-2628 1/	2.0	1.7	0.9	1.2	1.1	1.0	1.1	1.2	1.3	1.1	1.0
B. Bound Tests											
B1. Real GDP growth	2.0	1.9	1.2	1.7	1.8	1.7	1.9	2.1	2.3	2.4	2.6
B2. Primary balance	2.0	1.8	1.2	1.7	1.8	1.7	1.9	2.1	2.2	2.5	2.9
B3. Exports	2.0	1.9	1.7	3.0	2.9	2.8	3.0	3.1	3.3	4.2	5.9
B4. Other flows 2/	2.0	1.8	1.6	2.6	2.6	2.5	2.6	2.7	2.8	4.0	5.1
B6. One-time 30 percent nominal depreciation	2.0	2.3	1.3	1.7	1.7	1.7	1.9	2.2	2.4	2.5	2.2
B6. Combination of B1-B5	2.0	1.9	1.7	2.4	2.4	2.3	2.5	2.7	2.8	4.0	4.5
C. Tailored Tests											
C1. Combined contingent liabilities	2.0	1.8	1.2	1.7	1.7	1.6	1.8	2.0	2.2	2.2	2.4
C2. Natural disaster	2.0	1.8	1.5	1.9	2.0	1.9	2.1	2.3	2.5	2.6	2.7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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/ 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.

2/ Includes official and private transfers and FDI.

Table 4. Solomon Islands: Sensitivity Analysis for Key Indicators of Public Debt 2018–28

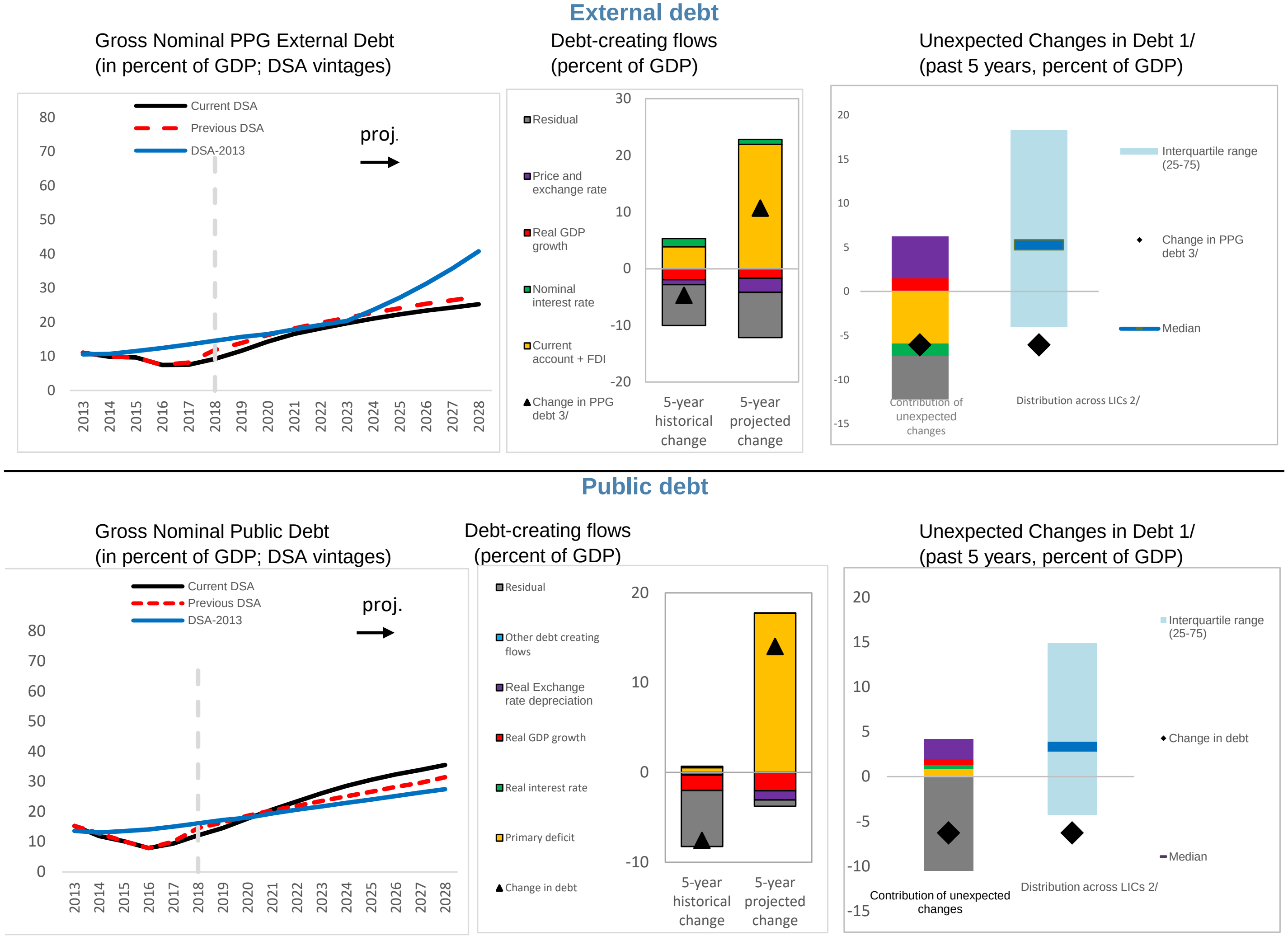
	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of Debt-to-GDP Ratio											
Baseline	**8.8**	**10.0**	**11.9**	**13.9**	**15.9**	**18.1**	**20.0**	**21.5**	**23.0**	**24.2**	**25.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 185-2628 1/	9	7	5	4	2	1	0	-1	-2	-3	-4
B. Bound Tests											
B1. Real GDP growth	9	12	19	24	29	35	40	44	48	52	56
B2. Primary balance	9	13	17	19	21	23	24	26	27	28	29
B3. Exports	9	16	28	30	31	33	35	36	37	37	38
B4. Other flows 2/	9	18	28	30	31	33	34	35	37	37	37
B6. One-time 30 percent nominal depreciation	9	10	9	10	10	11	11	11	11	11	11
B6. Combination of B1-B5	9	12	14	14	16	18	20	21	23	24	25
C. Tailored Tests											
C1. Combined contingent liabilities	9	14	16	18	19	22	23	25	26	27	28
C2. Natural disaster	9	20	22	24	27	29	31	33	35	36	37
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
PV of Debt-to-Revenue Ratio											
Baseline	**20.4**	**23.3**	**27.9**	**33.0**	**37.8**	**43.4**	**47.9**	**51.6**	**55.3**	**58.6**	**62.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 185-2628 1/	20	16	12	9	5	3	0	-3	-5	-8	-10
B. Bound Tests											
B1. Real GDP growth	20	28	42	55	67	80	91	101	112	121	131
B2. Primary balance	20	30	40	45	49	54	58	62	65	68	71
B3. Exports	20	37	66	71	75	79	83	86	89	90	92
B4. Other flows 2/	20	42	66	70	74	79	82	85	88	89	91
B6. One-time 30 percent nominal depreciation	20	24	23	23	24	26	27	27	27	27	28
B6. Combination of B1-B5	20	28	32	33	37	43	47	51	54	57	61
C. Tailored Tests											
C1. Combined contingent liabilities	20	33	37	42	46	51	56	59	62	65	69
C2. Natural disaster	20	47	52	58	63	69	74	78	83	86	91
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	**2.6**	**2.4**	**2.5**	**3.9**	**6.0**	**5.9**	**6.1**	**6.2**	**6.3**	**6.3**	**6.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 185-2628 1/	3	2	2	3	5	5	5	4	4	4	3
B. Bound Tests											
B1. Real GDP growth	3	2	3	5	8	8	9	9	9	10	10
B2. Primary balance	3	2	3	5	6	6	7	7	7	7	7
B3. Exports	3	2	3	5	7	7	7	7	7	8	9
B4. Other flows 2/	3	2	3	5	7	7	7	7	7	8	9
B6. One-time 30 percent nominal depreciation	3	2	3	4	6	6	6	6	6	6	5
B6. Combination of B1-B5	3	2	2	4	6	6	6	6	6	6	6
C. Tailored Tests											
C1. Combined contingent liabilities	3	2	4	4	6	6	6	6	7	7	7
C2. Natural disaster	3	2	5	5	7	7	7	7	7	7	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

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



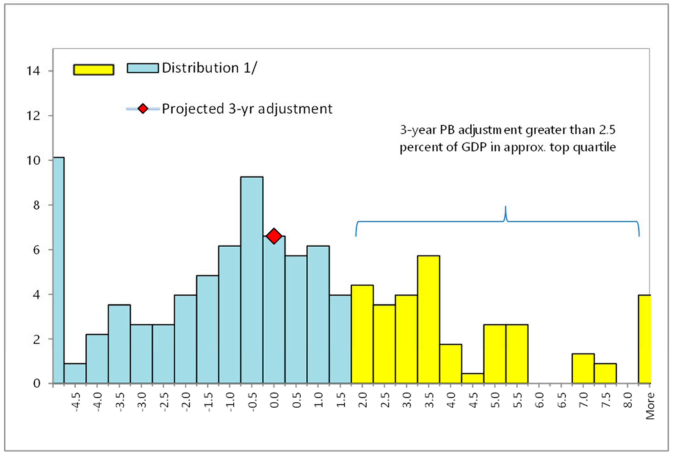
1/ Difference between anticipated and actual contributions on debt ratios.

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.

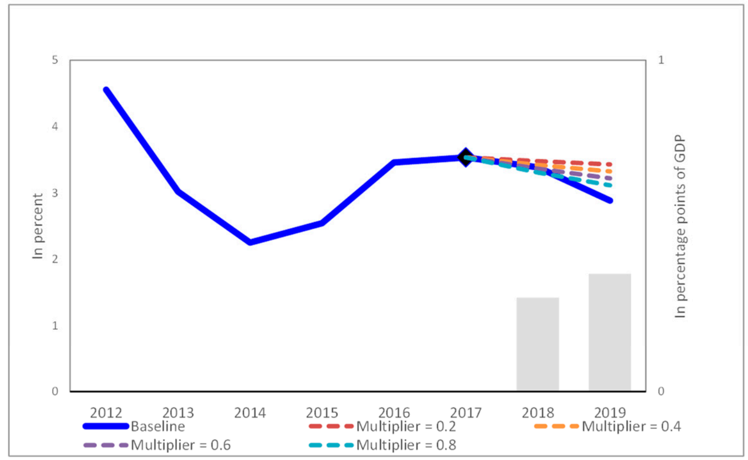
Figure 4. Solomon Islands: Realism Tools

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).

Figure 5. Solomon Islands: Qualification of the Moderate Category, 2018–28 1/

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.