



SOLOMON ISLANDS

SELECTED ISSUES

February 2025

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SOLOMON ISLANDS

January 29, 2025

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Approved By
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STRENGTHENING FISCAL DATA GOVERNANCE IN SOLOMON ISLANDS¹

A. Background

1. Despite a commendable level of coordination among authorities and development partners, fundamental challenges persist in Solomon Islands that impede the efficiency and effectiveness of fiscal management. Solomon Islands is currently navigating through a critical phase in enhancing its fiscal governance structures. Continuous technical assistance missions, including those from the IMF in 2017, 2021, 2023, and 2024², alongside evaluations from partners such as the World Bank in 2022 and the Asian Development Bank in 2024, supported the improvement of fiscal reporting. These evaluations provided policy recommendations for both the short and long term, emphasizing the importance of data and transparency for successful policy implementation. A significant concern is the performance of the Financial Management Information System (FMIS), upgraded in 2021, which has not functioned as anticipated.

2. This paper, as part of bilateral surveillance, underscores broader issues of governance and the necessity for a comprehensive approach to bolster fiscal data governance. It lays out high-level policy recommendations as summarized in Table 1 and identifies specific technical assistance needs where the Fund can support the improvement of fiscal reporting and data within the transparency framework for better integration of surveillance and capacity development.

B. Fiscal Transparency and Best Practices

3. Solomon Islands enacted the Public Financial Management Act (PFMA) in 2013, alongside a public financial management (PFM) reform plan spanning 2014-2017; however, implementation has fallen short of expectations. The PFMA 2013 broadly addresses cash management, reporting requirements, and the integrity of implementation processes. While PFM reforms have consistently been on the Solomon Islands Government (SIG)'s agenda, actual follow-through and effective implementation have been sporadic. Resource challenges such as low absorption capacity and heavy reliance on external support have hindered the progress. The Auditor General's inability to express opinion, due to the insufficient audit evidence in the SIG financial statements and the untimely submission of the statements (OAG, 2020), were in line with observations made by the IMF (2018b) regarding challenges to the overall control over budget, cash and procedure; timely accounting; and reporting.³

¹ Prepared by Yuwawan Rattakul (STA). The author appreciates Mr. Masafumi Yabara, Ms. Nada Choueiri, and Mr. Ojima Yasuhisa for their meticulous reviews and suggestions.

² Silins, Mark (forthcoming), from the latest PFTAC technical assistance mission, explored and recommended the process improvement in public finance management to enhance fiscal reporting.

³ This issue has existed even before the enactment of the PFM Act in 2013, highlighting a longstanding challenge. The PEFA assessment by the World Bank in 2012 revealed only marginal improvements in public finance management for the years 2008-2012.

Table 1. Solomon Islands: Summary of Recommendations

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.		

Table 2. Solomon Islands: Standard Requirements of Fiscal Report

Pillar I. Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.					
Dimension 1.1 Coverage: Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.			Dimension 1.2. Frequency and Timeliness: Fiscal reports should be published in a frequent, regular, and timely manner.		
Principle 1.1	Basic	Advanced	Principle 1.2	Basic	Advanced
1.1.1. Coverage of Institutions: All entities of ..	Central government	Public sector and report on each subsector	1.2.1. Frequency of In-Year Reporting:	Quarterly basis, within a quarter.	Monthly basis, within a month.
1.1.2. Coverage of Stocks:	Government cash and deposits and all debt.	All financial and nonfinancial assets and liabilities and net worth.			
1.1.3. Coverage of Flows:	Cash revenues, expenditures, and financing.	Cash flows, accrued revenues, expenditures and financing, and other economic flows.	1.2.2. Timeliness of Annual Financial Statements: Audited or final annual financial statements.	Within 12 months after financial year ends	Within six months after financial year ends
1.1.4. Coverage of Tax Expenditures:	Published the estimates at least annually.	<ul style="list-style-type: none">Published by sector or policy area, annually.Budgetary control or target for tax expenditure size			
Dimension 1.3. Quality: Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.			Dimension 1.4. Integrity: Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.		
Principle 1.3	Basic	Advanced	Principle 1.4	Basic	Advanced
1.3.1. Classification: consistent with international standard	Administrative and economic classifications	Administrative, economic, functional, and program classifications	1.4.1. Statistical Integrity:	Disseminated in line with international standards.	<ul style="list-style-type: none">Disseminated in line with international standards.Compiled by a professionally independent body.
1.3.2. Internal Consistency with reconciliations between (i) fiscal balance and financing (ii) debt issued and debt holdings (iii) financing and the change in the stock of debt	One of the recommended reconciliations	All three of the recommended reconciliations	1.4.2. External Audit: Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.	An independent audit report is published on the reliability of the government's annual financial statements.	An independent audit report is published and consistent with international standards, stating whether the financial statements present a true and fair view and without major qualifications.
1.3.3. Historical Revisions: Major revisions to historical fiscal statistics are disclosed and explained.	Revisions are reported	<ul style="list-style-type: none">They are reportedAn explanation for each major revisionA bridging table between the old and new time series.	1.4.3. Comparability of Fiscal Data: Budget execution report, fiscal statistics and financial statements	A fiscal report is prepared on the same basis as the fiscal forecast/budget.	<ul style="list-style-type: none">Fiscal forecasts/budget & outturn are comparable, the outturn is reconciled with both fiscal statistics and final accounts.
Source: Excerpt from Fiscal Transparency Handbook (2018a).					

4. Fiscal transparency is crucial for effective fiscal management and accountability. It involves clarity, reliability, timeliness, and relevance of public reporting on the state of public finances. The companion handbook (IMF, 2018a) provides detailed guidance on the implementation of the Fiscal Transparency Code.⁴ Table 2 compares the basic requirements and the advanced components for a good fiscal report in four dimensions: (1.1) coverages, (1.2) frequency and timeliness, (1.3) quality, and (1.4) integrity. There are several international standards and guidelines around fiscal reporting, including the Government Finance Statistics Manual 2014 (GFSM 2014), the Data Quality Assessment Framework (DQAF), the Public Expenditure and Financial Accountability (PEFA) framework, and the International Public Sector Accounting Standards (IPSAS). Publishing reliable economic data helps governments make informed policy decisions and fosters accountability. To achieve these objectives, the budget preparation and implementation processes must be transparent. This entails ensuring data availability, accessibility, adherence to international standards, and timeliness.

5. The primary recommendation is to ensure that the PFMA adheres to international standards in the medium term. The PFM framework, fiscal transparency guidelines, the GFSM2014, and the DQAFs share many overlapping topics, all emphasizing the efficiency and effectiveness of public policy that affects both domestic populace and the global community. The quick win for fiscal transparency is compliance with the PFMA 2013, establishing the minimum criteria for transparency. In comparing the PFMA 2013 with the IMF fiscal transparency framework, the PFMA 2013 focuses on the central government, with monthly in-year reporting and the full annual financial statement, including balance sheet audited by an external institution in a format determined by the Minister of Finance, which broadly aligns with the fiscal transparency framework for fiscal reporting (as summarized in Table 1). The SIG-audited financial statements and technical assistance reports reveal the burdens associated with reporting and auditing across various standards. These efforts highlight the critical role of data as the foundation for sound policy planning and public communication. Furthermore, aligning the financial statements and in-year reporting with international standards will reduce the report burden, increase the confidence of external donors and investors, and improve fiscal policy practices.

C. Usage for Fiscal Analysis

Data Availability

6. The rollout of a new platform (Microsoft Dynamics 365: D365) for the FMIS initially resulted in the unavailability of operation or management reports, presenting a significant challenge at the operational level. The availability of comprehensive and reliable data plays a pivotal role in conducting extensive fiscal analysis and assessing debt sustainability. Therefore, upgrading the capabilities for data collection and processing is fundamental to facilitate informed decisions in policymaking. It required some time before the system could be utilized even for basic

⁴ The IMF's Fiscal Transparency Code (IMF, 2019), which was approved by the IMF Board in 2014, is the international standard for disclosing information about public finances, based on four pillars: fiscal reporting, fiscal forecasting and budgeting, fiscal risk analysis and management, and resource revenue management.

functions. Eventually, the Accountant General succeeded in extracting data in Excel format from the system for others' use. It has been reported by the Accountant General that they were able to obtain preliminary outputs for the Fiscal Year 2023. However, it is important to note that these data were subject to frequent revisions, and their quality varied over time.

7. The lack of fiscal reporting prevailed even before the implementation of D365 in 2020.

In 2018, when the country was still using Microsoft Dynamics AX 2009, the technical assistance report on strengthening the fundamentals of PFM underscored the importance of data reporting for budget execution, cash management, effective control, and arrears management. The last fiscal quarterly report compiled by the Treasury was available in 2011. The most recent audited annual report publicly available was for the 2014 budget. Although the Central Bank of Solomon Islands (CBSI) has consistently published fiscal statistics, it is essential that the official information be distributed and endorsed by the Ministry of Finance and Treasury (MOFT). This ensures clear communication of policy direction, liquidity management, and expenditure control within government agencies and to the public.

Adherence to the International Standards

8. The presentation of the budget document did not follow the GFSM 2014 for the cash flow statement, nor did it comply with the IPSAS 24, which details the presentation of budget information in financial statements. The format used for presenting budget fiscal tables did not align with these international standards and was subject to frequent modifications. Although countries' budget documents are not mandated to comply with the IPSAS or GFSM 2014, SIG would benefit significantly from adopting either standard. This approach would reduce the costs associated with trial and error in making frequent adjustments to the budget template, improve communication of budget presentation to the public, and enhance confidence among the public, external donors, and creditors. A PFM technical assistance report from May 2021⁵, focusing on compliance with the revised Cash Basis IPSAS (2017), highlighted discrepancies in the financial statements and recommended the inclusion of a Statement of Budgetary Performance. Figure 1 presents IPSAS and GFSM 2014 templates for the statements on cash basis, clearly distinguishing various types of cash flows.

⁵ Cavanagh, Joe (2021). Solomon Islands: Compliance with the Cash Basis IPSAS, Technical Assistance Report, PFTAC, IMF.

Figure 1. Templates of the Cash Basis IPSAS and the GFSM2014 Statement of Sources and Uses of Cash

APPENDIX 1A – GOVERNMENT A				
FINANCIAL STATEMENTS FOR NATIONAL GOVERNMENT A				
STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED 31 DECEMBER 200X				
(RECEIPTS ONLY)				
	Note	200X	200X-1	
		Receipts/	Receipts/(Payments)	
(In thousands of currency units)		(Payments)		
RECEIPTS				
Taxation				
Income tax		X	X	
Value-added tax		X	X	
Property tax		X	X	
Other taxes		X	X	
		X	X	
Donations, Grants and Other Aid	10	X	X	
Borrowings	3			
Proceeds from:				
Commercial institutions		X		
Development Banks and similar organizations		X		
Capital Receipts				
Proceeds from disposal of plant and equipment		X	X	
Proceeds from disposal of financial instruments		X	X	
		X	X	
Trading Activities				
Receipts from trading activities		X	X	
Other receipts	4	X	X	
Total receipts		X	X	
PAYMENTS				
Operations				
Wages, salaries and employee benefits		(X)	(X)	
Supplies and consumables		(X)	(X)	
		(X)	(X)	
Transfers				
Grants		(X)	(X)	
Other transfer payments		(X)	(X)	
		(X)	(X)	
Capital Payments				
Purchase/construction of plant and equipment		(X)	(X)	
Purchase of financial instruments		(X)	(X)	
		(X)	(X)	
Loan and Interest Repayments				
Repayment of borrowings		(X)	(X)	
Interest payments		(X)	(X)	
		(X)	(X)	
Other payments				
		(X)	(X)	
Total payments		(X)	(X)	
Increase/(Decrease)Cash		X	X	
Cash beginning of year	2	X	X	
Increase/(Decrease)Cash		X	X	
Cash at end of year	2	X	X	

Table 4.2: Statement of Sources and Uses of Cash

Cash flows from Operating Activities:	
C1 Revenue cash flows	
C11 Taxes	
C12 Social contributions	
C13 Grants	
C14 Other receipts	
C2 Expense cash flows	
C21 Compensation of employees	
C22 Purchase of goods and services	
C24 Interest	
C25 Subsidies	
C26 Grants	
C27 Social benefits	
C28 Other payments	
C10 Net cash inflow from operating activities (C1-C2)	
Cash flows from Transactions in Nonfinancial Assets:	
C31 Net cash outflow from investment in nonfinancial assets ¹	
C311 Fixed assets	
C312 Inventories ²	
C313 Valuables	
C314 Nonproduced assets	
C3M Expenditure cash flows (C2+C31)	
C3D Cash surplus (-) / Cash deficit (+) (C1-C2-C31 - C1-C2M - C32-C33)	
Cash flows from Transactions in Financial Assets and Liabilities (Financing):	
C32a Net acquisition of financial assets other than cash	
C321x Domestic ²	
C322x External ²	
C33 Net incurrence of liabilities	
C331 Domestic ²	
C332 External ²	
NFB Net cash inflow from financing activities (C32-C32a)	
NCB Net change in the stock of cash (C3D+NFB - C3212-C3222)	

¹The net cash outflow from investment in nonfinancial assets equals purchases minus sales.

²On a cash basis, the category inventories (C312) is limited to changes in strategic stocks. Other inventories are, by definition of the cash basis of recording, considered an expense when acquired.

³Classified by instrument and/or sector of the counterparty (see Tables 9.1 and 9.2).

Sources: Appendix 1A is based on IPSAS and Table 4.2 is based on GFSM2014

9. The International Public Sector Accounting Standards Board (IPSASB) recommends that authorities responsible for presenting financial statements should maintain consistency in the presentation format used for budget reports. The MOFT, particularly the Accountant General, is responsible for the preparation of the financial statements in accordance with an applicable financial reporting framework, according to the PFMA2013 (OAG 2017(1) and (2)). It is unclear why the MOFT submitted two separate copies of the PFMA and IPSAS for audit. As in the PFMA 2013, the reporting standard shall be established by the Minister of Finance. Issuing a ministerial order or subsidiary legislation to adopt templates recommended in the IPSAS 24 for fiscal reporting by SIG will help reduce inconsistencies, deviations of templates, and the reporting burden. This recommendation aims to enhance accountability and simplify oversight by ensuring that actual amounts or budget outcomes are disclosed alongside the financial statements. Such transparency is pivotal for evaluating budget execution performance and adherence to budgetary constraints.

10. Given the significant role of fiscal policy in influencing macroeconomic factors such as development, distribution, sustainability, and the debt burden, it is crucial that the information presented is useful for policy analysis and evaluation. This is particularly important for countries that depend on external financing. The confidence and credibility of the government

become focal points for donors and external lenders when setting fiscal targets and monitoring the outcomes of their contributions. These stakeholders are keenly interested in observing the impact of their financial support on economies and countries. Adhering to international standards in presenting budget and fiscal documents, coupled with the provision of comprehensive metadata, significantly improves the assessment of fiscal policy. This approach enables authorities to effectively utilize the analytical tools and frameworks provided by international organizations to evaluate the direction and trajectory of fiscal policy.

Coverage, Accessibility, Frequency, and Timeliness

11. The precise delineation of Government Finance Statistics (GFS) by government sub-sectors and the consolidated statistics are instrumental in setting effective goals and monitoring policy execution. Presenting the public sector or general government data broken down by sub-sectors would facilitate the communication of policy designs aimed at targeted policies. Currently, information disclosed in budget documents and the GFS disseminated on the CBSI website focuses on the budgetary central government, whereas the GFS that is compiled by the CBSI and submitted to the IMF encompasses a broader scope. The prevalence of expenditure managed outside the budget system and financed by external concessional loans complicates the management of finances and hinders the comprehensive assessment of the impact of fiscal policy and government investment activities.

12. Both budget documents and actual fiscal outcomes should be made accessible to the general public. The MOFT has successfully disseminated the budget document through its website since 2020. The GFS are released on a quarterly basis on the CBSI website. However, due to the utilization of differing templates, it becomes nearly impossible to compare the policy outcomes using the CBSI's information with that of the SIG annual budget. It is highly recommended that the MOFT releases monthly fiscal outturns, which should include budget implementation, revenue collection, and financing. Additionally, the MOFT and the CBSI should collaborate to present the government budget in the GFSM 2014 format.

13. The most urgent problem to be resolved is the timeliness of the actual/preliminary budget disbursement. The budget outturns for FY2022 were not published until November 2024, and the most recent debt bulletin was issued in June 2023. During the budget process, the budget disbursement would be projected, and the preliminary numbers would be provided. Enhancing the coverage, accessibility, frequency, and timeliness of fiscal data dissemination can markedly improve fiscal governance. These enhancements foster a more dynamic and responsive approach to fiscal policy formulation and implementation, enabling stakeholders to make more informed decisions and assessments.

Consistency with Other Macroeconomic Statistics

14. Fiscal data must align with other macroeconomic statistics to provide a coherent view of the economy. This consistency ensures that fiscal policy is based on a complete and accurate economic assessment. This also helps using the information from other statistics for estimating

when the data are unavailable due to frequency or timeliness. Table 3 demonstrates the discrepancies of government debt disseminated on different sources.

Table 3. Solomon Islands: Government Debt Data Disseminated by the MOFT and the CBSI

	2021	2022	2023
SIG - Total official debt*			(Q2)
Domestic Debt	747.8	751.3	924.3
External Debt	1,163.2	1,140.0	1,263.4
Total debt	1,911.0	1,891.3	2,187.6
CBSI- Quarterly Review Table 1.25b Issuance			
Domestic Debt	747.8	819.1	1,192.1
External Debt	1,137.9	1,265.1	1,635.1
Total debt	1,885.7	2,084.2	2,827.2
CBSI- Public Sector Debt Statistics Table 1.1 Central Government Debt			
Domestic Debt	747.8	817.9	1,192.1
External Debt	1,223.1	1,229.7	1,716.2
Total Debt	1,970.9	2,047.6	2,908.4

Source: SIG and CBSI websites. Note: SIG data are available up to 2023 (Q2)

15. The inconsistency of grants between the Balance of Payments and GFS has been addressed in the data submitted to the IMF, though there is still room for improvement. Article IV missions regularly raised questions regarding the significant discrepancies between grants data in the Balance of Payments and grants revenue in the GFS. The CBSI has now addressed this issue by using the donor survey as a common data source for compiling grants for both sets of statistics. There were the discrepancies between changes in external borrowing in the government debt data and the government external borrowing in the budget document, which were addressed as the non(budget)-appropriated spending. However, these discrepancies highlight the need for further improvements in the consistency and coverage of the GFS, which could be enhanced by refining the coverage and source data in the metadata.

16. As noted in the GFS technical assistance report (Rattakul, 2022), the inconsistency between the Monetary and Financial Statistics (MFS) and the GFS was taken care of, but further refinement is possible. This was due to the unavailability of information on government treasury accounts. The government financing in the GFS is compiled from the MFS government deposits with depository corporations, which has a wider coverage than the budgetary central government. The data on government securities issued by the government and the holder information disseminated by the CBSI were found to be inconsistent. The dissemination of data by the CBSI could significantly benefit from the provision of metadata on its website.

D. Fiscal Documents

17. The SIG's most recent annual financial statement published on the website is for 2015, which was released in 2020. The latest audit report (OAG, 2020) covered the SIG national accounts for 2016 and 2017, but it lacked the financial statements. Observations on quality from the Office of the Auditor General (OAG) mirrored those in the Fund's TA reports of 2018, noting that the statements failed to meet international accounting standards and the requirements set forth in the PFMA 2013.

18. There are gaps in current budget documents, highlighting areas for targeted interventions. A thorough review of budget documents, data shared in monthly meetings, and publicly available data from key institutions (MOFT, Ministry of National Planning and Development Coordination, CBSI, and Solomon Islands National Statistics Office) is imperative. The recent 2024 budget presentation has been organized into three broad categories: revenue, expenditure, and financing. However, the terminology employed within the budget overlaps with that of international standards, albeit with differing meanings, leading to confusion among the international community. The examples are as follows:

- **Cash Flow Identification:** It is crucial to separate the cash flows arising from operating activities and those from financing activities. For instance, debt servicing payments, which are outflows related to financing activities, were incorrectly categorized under 'Other Charges' within recurrent expenditure. This classification should be clarified to avoid misinterpretation.
- **External Development Financing:** This category comprises government borrowings; however, it excludes borrowings that finance the non-appropriated investment. Meanwhile, the fiscal balance refers to the 'remaining deficit' that still requires funding. It is important to differentiate between these concepts to provide a clear understanding of the government's financial position.
- **Financing Flows:** The inflows from financing activities were grouped under the revenue sub-category, although externally sourced funding has been excluded from total revenue since 2021 and is now presented below the deficit. This reclassification needs to be communicated effectively to avoid misrepresentation of revenue sources.
- **Treasury Cash and Deposit Accounts:** These should be accurately represented as both sources of financing and financial assets to reflect their role in the government's financial management.

E. Recommendations

19. The key recommendation is to adhere to the international standard practices for PFM. Compliance to the PFMA 2013 by December 2025 will set the SIG to the right course for achieving minimum fiscal transparency, while concurrently preparing to amend the PFMA to adopt the fiscal transparency framework, targeting December 2027. Improving the coverage, accessibility, frequency, and timeliness of fiscal data dissemination can significantly enhance fiscal governance. The ultimate aim is to have the PFMA cover the general government. Regular and timely dissemination includes,

but is not limited to, the annual budget and mid-year budget documents, monthly fiscal outturns for the budgetary central government, quarterly financial statements, and annual financial statements and balance sheets. By addressing these areas, budget presentation can be improved to provide a clearer and more accurate reflection of the government's fiscal position and intentions, fostering better understanding and confidence among the international community.

20. It is important to ensure that the FMIS performs standard PFM functions effectively.

Microsoft Dynamic 365 is equipped with modules for public finance management. As a cloud-based system, it allows accessibility for all government agencies with internet connection. If properly utilized, its built-in reporting, general ledger, bank management modules can greatly assist financial management. Free basic and intermediate training courses of the Microsoft D365 are available online. The authorities would benefit from collaborating with PFM experts, by March 2025, to address these challenges. Access to D365 should be granted to all line ministries by December 2025.

21. The government should aim to recommence the release of quarterly and monthly budget outturns and to complete improvements in cash management and control by June 2025. Commitment to cash management and control, along with regular reporting on budget execution, fiscal analyses, and overall fiscal presentations, is vital for fostering transparency and accountability. A phased approach to reforms should prioritize areas that can yield immediate improvements in fiscal data quality and governance.⁶ Thus recommencing the release of quarterly and monthly budget outturns should be implemented by June 2025. The subsidiary legislation (according to the PFMA 2013 part 10) should be amended to align a fiscal reporting template for all public accounts with both accounting principles for the IPSAS and the GFS presentation standards. This will ensure consistency and clarity in budget documentation. The full adoption of IPSAS accrual accounting takes time, thus it is highly recommended that the MOFT first revise the report templates following the IPSAS by December 2025 and commence it in January 2026.

22. The capacity of staff in relevant agencies should be strengthened through targeted training and development programs focused on fiscal data management and analysis, starting in April 2025. The IMF stands ready to provide technical assistance in fiscal reporting and the GFS. There is room for improvement in three key areas: the FMIS (particularly D365), PFM, and the GFS for staff who are responsible for the budget and accounting in the budget department, the treasury, and line ministries. They will benefit from participating in the technical assistance for fiscal reporting and the GFS. Seeking technical assistance from international organizations will help align the Solomon Islands' fiscal governance practices with global standards: PFM and GFS technical assistance provided by the Fund can significantly enhance the quality and accuracy of fiscal reporting, ensuring that it meets international benchmarks.

23. The government should engage with stakeholders regularly, starting from January 2025. Coordination among stakeholders can be enhanced in targeting on redistributing tasks to optimize efficiency and improving statistical compilation and fiscal analysis. Monthly meetings serve

⁶ IMF (2018) recommended an action plan to strengthen the basic PFM, which could still be updated and followed.

as a platform for interaction between MOFT agencies and the CBSI to discuss statistics, which helps raise awareness of data quality and budget implementation. A memorandum of understanding can also facilitate data sharing and timely submission, aiding macroeconomic statistics compiler in achieving consistent collaboration. Enhanced coordination is needed between the treasury unit of the MOFT and the CBSI. Utilizing the mapping developed by the GFS TA and CBSI can aid in aligning with international standards. The Ministry of Development Planning and Aid Coordination, the CBSI, the MOFT, and donors should also collaborate to exchange timely and consistent grant data.

F. Conclusion

24. Solomon Islands faced the challenges in PMF and the need to strengthen fiscal data governance. The non-adherence to international standards has caused a burden in preparing financial reports in accordance with several different standards. Delays in fiscal reporting were aggravated by the implementation of the new FMIS during the pandemic. The adherence to the PFMA 2013 and alignment with the international standards, such as the Fiscal Transparency Code, GFS, and the Data Dissemination Standard, are critical factors for effective PFM and accountability. The challenge with FMIS should be discussed with the PFTAC PFM expert in order to get technical support to fully utilize available FMIS public finance functions. The MOFT staff will benefit from capacity development training on PFM and the GFS. As fiscal data has a critical role in sound policy planning and public communication, regular dissemination of fiscal and budget data will immensely enhance policy credibility and attract investors and donors.

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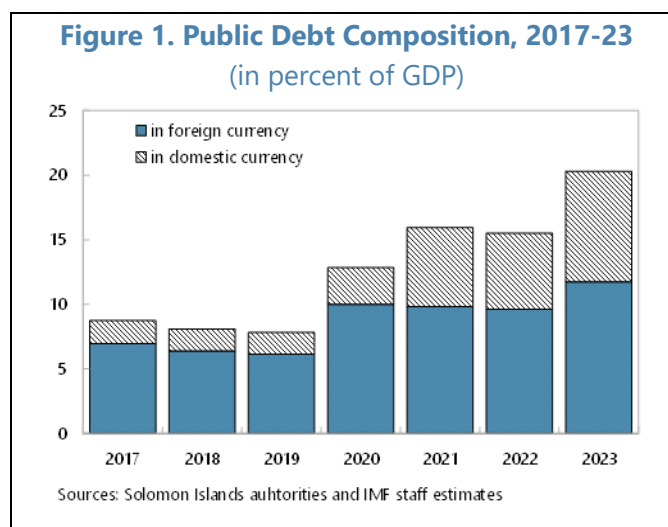
ENHANCING EFFECTIVENESS OF SOLOMON ISLANDS' FISCAL FRAMEWORK¹

Solomon Islands faces the immediate fiscal challenges of rebuilding cash reserves, improving the quality of public spending, and imposing fiscal discipline on domestic borrowing. To address these challenges while financing necessary investments, it is an urgent priority to improve the effectiveness of the fiscal framework, in parallel with the efforts to strengthen basic public financial management (PFM) functions. Staff analysis indicates that the current debt ceiling of 35 percent of GDP remains broadly appropriate as a medium-term debt anchor. Given the weak PFM foundation and the absence of effective operational fiscal rules, staff proposes the introduction of a simple ex-ante guideline for annual budget formulation, as an interim measure. The proposed guideline sets a ceiling on the domestically financed primary budget deficit, to be consistent with a potential fiscal rule covering both domestic and external sources. The government should assess ex post whether the budget was implemented in line with the guideline and whether the fiscal outlook is consistent with the medium-term anchor.

A. Fiscal Challenges Facing Solomon Islands

1. A series of crises and landmark events have significantly deteriorated Solomon Island's fiscal position. The government has been running a deficit in recent years, driven by increased spending pressures. These pressures have arisen from the need to respond to the pandemic, the riot in Honiara, the successful hosting of the Pacific Games, and the general elections. Additionally, stagnant revenues owing to structural declines in logging activity and the pandemic have further contributed to the fiscal deterioration. The government's cash reserves have been significantly

depleted, and public debt has nearly tripled from its pre-pandemic level, with a noticeable increase in expensive domestic bonds (Figure 1). The depletion of the cash reserves exposes the government to liquidity risk and complicates its ability to respond to future shocks. While the latest debt sustainability analysis indicates the moderate risk of overall debt distress in Solomon Islands, the



¹ Prepared by Masafumi Yabara (APD). The author appreciates extensive support from Weining Xin, Irina Yakadina, Yasuhisa Ojima (all APD), Raphael Lam, Andresa Lagerborg (both FAD), Leonardo Martinez, and Sofia M. Anastacio (both ICD). This paper benefited from useful suggestions and comments from Solomon Islands authorities and IMF colleagues, including Nada Choueiri, Paulo Medas, Jiro Honda, Mark Griffiths, Nico Pierri, Iulai Lavea, Bryn Welham, and Raphael Lam.

authorities' threshold, public debt at 35 percent of GDP, is projected to be breached by the early 2030s under current policies.

2. Solomon Islands is tasked with the challenge of replenishing its cash balance and ensuring fiscal sustainability, while creating fiscal space for priority spending to achieve inclusive and sustainable growth. Compared to its peers, the country falls behind in access to infrastructure and human capital development, and it faces significant vulnerability to natural disasters and climate change. Staff estimates that the country would need additional spending of about 6.9 percent of 2030 GDP every year, to meet the Sustainable Development Goals (SDGs) on health, education, and infrastructure, while building climate resilience (IMF 2022).

3. The urgency of the fiscal challenge requires Solomon Islands to take measures to enhance the effectiveness of its fiscal framework, in parallel with strengthening public financial management (PFM) functions. The depleted cash reserves and rising domestic debt underscore the urgent need to improve the effectiveness of fiscal policy. While a well-designed fiscal framework can serve this purpose, a strong PFM base is a prerequisite for effective implementation of such a framework. However, the urgency of the challenges does not allow the country to wait until it has built up sufficient PFM capacity—it needs to explore a practical option to facilitate the functioning of the fiscal framework that can be implemented in the current weak PFM settings. This paper, building on the recent IMF work on fiscal frameworks, assesses the performance of the existing fiscal framework in Solomon Islands, discusses challenges facing the country in implementing its fiscal framework, and proposes a practical option to support the operation of the fiscal framework.

B. Existing Fiscal Framework in Solomon Islands

4. Solomon Islands has implemented certain fiscal rules. Fiscal frameworks can be delved into three key elements: (i) fiscal rules; (ii) medium-term fiscal frameworks (MTFFs); and (iii) independent fiscal councils (IMF 2024).² Solomon Islands has two sets of fiscal rules: a golden rule and debt rules. Firstly, the Public Finance Management Act (PFMA) restricts the government from borrowing to cover planned recurrent budget deficits, permitting borrowing solely for high-priority infrastructure and development projects (golden rule). This rule includes an escape clause for short-term borrowing under exceptional circumstances, such as a significant economic downturn or natural disaster. Secondly, the government's debt management strategy has set two debt thresholds (ceilings): a public debt-to-GDP ratio of 35 percent and a debt service-to-domestic revenue ratio of 10 percent. The government sets an annual borrowing limit when formulating the annual budget, so that the 35 percent ceiling is not breached over a 15-year forecast period. Additionally, the annual budget specifies a ceiling on the Treasury Bill issuance under the escape clause. These limits have

² Fiscal rules set numerical limits on key fiscal aggregates (e.g., debt, deficit, expenditure, revenue). MTFFs involve setting medium-term fiscal targets and formulating policies to achieve them. Fiscal councils are independent institutions providing oversight and analysis of fiscal policies and promoting greater transparency and accountability (IMF 2024).

been gradually raised, with the annual borrowing limit standing at SI\$558 million and the Treasury bill cap at SI\$200 million in the 2024 budget.

5. The fiscal rules have not effectively guided fiscal policy. The golden rule has not served as an effective fiscal discipline, since development expenditures—which are eligible for borrowing under the rule—have continued to grow, reaching 6 percent of GDP in 2023. This increase has been driven by rising government investment, including for the Pacific Games, as well as an inconsistent classification between the recurrent and development expenditures.³ In addition, compliance with the rule has not been given notable weight: in the 2021 budget, the government invoked the escape clause for the golden rule “to meet essential recurrent expenditure to cushion the effect of the pandemic on the national economy.” However, there was no comprehensive discussion, including specifics of the deviation and its consequences on the government’s financial position. In the budgets for 2023 and 2024, the estimated amount of government-funded recurrent expenditures exceeded the amount of tax and other revenues, seemingly violating the golden rule, yet this discrepancy sparked no debate. The debt rules have not been constraints on fiscal policy either, as the outstanding public debt has remained below the ceiling since their introduction. The annual borrowing limit has been gradually raised, despite the rapid accumulation of public debt, without disclosing the details of the calculation.

6. Medium-term planning and independent monitoring are weak in Solomon Islands’ budget. Previously, the government published a medium-term fiscal strategy that detailed economic conditions and fiscal performance, projected fiscal aggregates, and outlined economic and fiscal strategies. However, this strategy was not integrated into the annual budgeting process and has not been published on the government website since 2014. The Public Accounts Committee (PAC) under the National Parliament reviews the government’s budget proposal and provides a report with recommendations to the Parliament. The work of the PAC has made significant progress in recent years; in the 2024 budget report, the committee discussed economic conditions, budget trends, and risks in addition to the investigation of budget items. However, discussions on medium-term outlook are limited. In addition, the independence and impartiality of the assessment is not guaranteed as the PAC is composed of legislators, with the Auditor General of the government serving as the secretary.

7. Cash shortages and expenditure controls have mitigated further fiscal deterioration. Solomon Islands’ budgets have consistently faced substantial financing gaps over recent years that could not be met by estimated donor support and domestic bond issuances. In addition, the preparation of a supplementary budget has become routine, necessitated by unaccounted mandatory expenditures in the original budget and expenditures financed by additional donor support. When these financing gaps cannot be resolved through additional donor support and domestic bond issuance, the government has imposed strict expenditure controls. These controls include freezing discretionary spending, suspending procurement processes, and delaying payments

³ World Bank (2022) pointed out that the distinction between recurrent and development expenditures in the budget has not been consistent over time and does not accurately reflect the actual recurrent and capital expenditures.

to suppliers and vendors. Such measures, coupled with low execution rates, have curtailed non-

payroll⁴ recurrent expenditures and development expenditures, reducing the final financing gap to a level that can be covered by drawing down on the government's cash reserves. For instance, the 2021 budget initially projected a financing gap of SI\$329.6 million, which expanded to SI\$479.3 million in the supplementary budget, but reduced to SI\$15.5 million in the end (Text Table 1). This significant reduction in the financing gap was mainly due to increased donor support and decreased non-payroll current

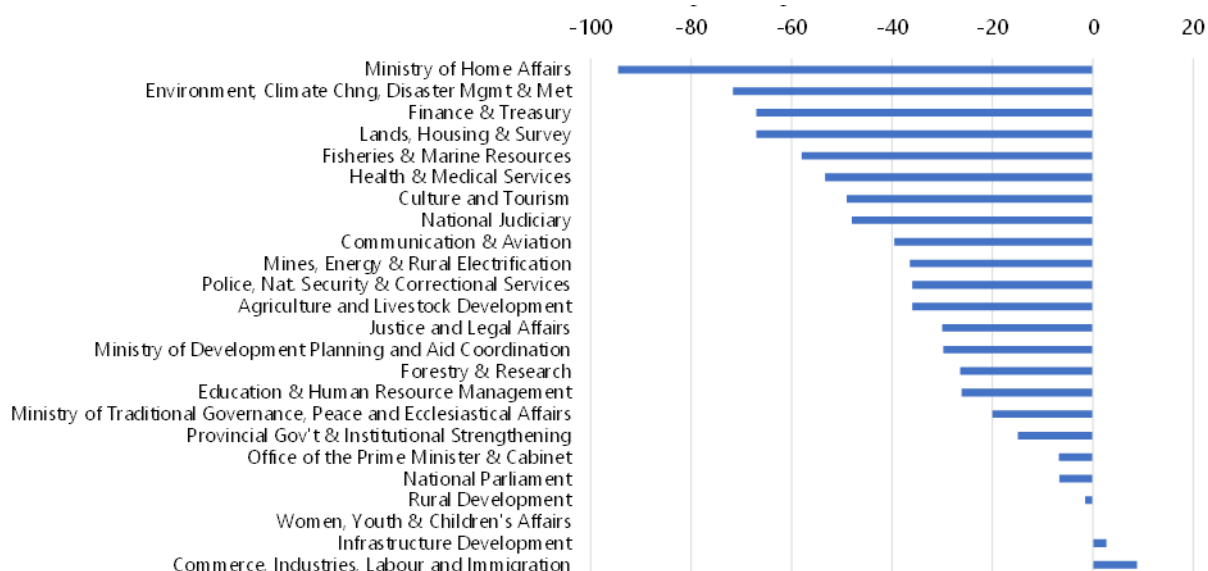
Table 1. Solomon Islands: Approved Budgets and Outturns, 2021

	Original Budget (SI\$ million)	Supplementary Budget (SI\$ million)	Actual (SI\$ million)	Actual - Original Budget (percent)
Total expenditure	4,039.7	4,597.1	3,919.3	-3.0
Recurrent expenditure	3,101.6	3,614.8	3,104.4	0.1
Government funded	2,831.1	2,929.9	2,666.0	-5.8
Payroll	1,290.6	1,293.0	1,347.4	4.4
Other Charges	1,520.5	1,606.9	1,293.5	-14.9
Contingency Warrant	20.0	30.0	25.2	25.8
Donor funded	270.5	684.8	438.4	62.0
Development expenditure	938.0	982.3	814.9	-13.1
Government funded	848.0	892.3	724.9	-14.5
Donor funded	90.0	90.0	90.0	0.0
Total revenue	3,008.5	3,002.0	3,034.4	0.9
Tax	2,576.1	2,612.4	2,648.8	2.8
Others	432.4	389.6	385.6	-10.8
Grants and budget support	360.5	774.8	528.4	46.6
Overall budget balance	-670.6	-820.3	-356.5	-46.8
Development bond	341.0	341.0	341.0	0.0
Remaining Gap	-329.6	-479.3	-15.5	-95.3

Sources: Ministry of Finance and Treasury; IMF staff calculations.

Note: The figures, scope, and presentation follow those of the authorities' budget documents and are different from staff estimates.

Figure 2. Changes in Development Expenditures from Original Budget to Actual, 2021
(Percent of Original Budget)



Sources: Ministry of Finance and Treasury; IMF staff calculations.

⁴ Payroll expenditures have occasionally exceeded the original budget, due to the weak control by the government.

expenditures and development expenditures funded by the government. Comparing development expenditures in the original budget with actual spending in 2021, six ministries, including the Ministry of Health and Medical Services, had underspending of more than 50 percent (Text Figure 2).

8. Repeated cash shortages and expenditure controls have severely undermined the quality of public spending and stifled private sector economic activity and market development. The implementation of stringent expenditure controls demonstrates the authorities' commitment to balance the budget. However, the across-the-board spending cuts have made it almost impossible for line ministries and agencies to implement their policies and deliver services according to their plans. In addition, service providers to the government have been plagued by persistent payment delays, identified as a threat to financial stability (CBSI 2023). The uncertainty around the financing needs from the domestic market and the unpredictability of the auction schedules have deterred potential investors from adequately preparing for these auctions, thus impeding market development. All of these indicate that eliminating the financing gap in budget proposals is the critical first step towards reliable fiscal policy management.

C. Solomon Islands' Challenges in Implementing Its Fiscal Framework

9. Solomon Islands, along with its peers in the region, faces significant constraints and challenges in designing and operating its fiscal framework (IMF 2024). These challenges include:

- **Limited scope and control of the budget.** A considerable portion of donor support, including infrastructure projects funded through external concessional borrowing, is managed off budget.⁵ Consequently, the accumulation of external debt occurs outside the purview of the budget framework.⁶ Estimates in the budget often fail to account for all mandatory expenditures, necessitating significant in-year adjustments⁷.
- **Absence of reliable and timely fiscal data** (see the 2024 Solomon Islands Article IV Selected Issues Paper "Strengthening Fiscal Data Governance in Solomon Islands). For instance, the unaudited outturns of the 2022 and 2023 budgets were not published until November 2024. The ministry does not disseminate monthly or quarterly fiscal updates and the results of the mid-year budget review. This hampers informed budget formulation and transparent monitoring.
- **Unpredictable revenues and grants.** As a small, commodity-exporting archipelago nation, the country's economy and revenue are susceptible to exogenous shocks such as commodity price

⁵ The World Bank estimates that potentially around 90 percent of total donor spending for Solomon Islands was off budget in 2019 (World Bank 2022).

⁶ The Debt Management Advisory Committee assesses the impact of a loan project on the government's financial position at the project appraisal stage. In addition, the authorities have made efforts to include more information on non-appropriated projects financed by donor support in the budget documents, although they have faced challenges in obtaining credible and comprehensive data.

⁷ In addition, an array of off-budget projects makes it difficult for the authorities to oversee them holistically and align them with development priorities.

volatility and natural disasters. Estimating grants and budget support during the budget planning phase is challenging due to the varying cycles and systems of donors. A comparison between the budget estimates and actual outcomes reveals that revenue discrepancies over the past three years have been within ± 1 percent, whereas disparities in donor support have exceeded 50 percent.

- **Limited Resources.** Budget formulation and implementation is coordinated by a limited number of staff in the Ministry of Finance and Treasury (MoFT), making it unrealistic to take on additional tasks that require significant resources in the short- to medium-term.

10. These constraints suggest that Solomon Islands is not in a position to implement a full-fledged fiscal framework, highlighting the urgent need to address weaknesses in basic PFM functions. Regardless of the precision in designing a fiscal framework, its efficacy is contingent upon a sound PFM foundation. This includes, among other aspects, the impracticality of adhering to a particular fiscal rule when a financing gap remains open at the budget formulation stage and when significant adjustments to mandatory spending are required within the fiscal year. Moreover, the prompt reporting of budget outcomes is essential to assess budget performance against the established targets.

11. Developing a strategic roadmap to strengthen PFM mechanisms with the support of the IMF would be beneficial. This roadmap should outline an immediate action plan focusing on fundamental PFM requirements as well as broader reforms over the medium- to long-term. Many of these actions could be achieved by reinstating past practices that are not currently enforced. Near-term actions should include:

- **Budget formulation.** Prepare a credible estimate of the budget envelope, including the planned domestic bond issuance and donor support, and keep expenditure within the limit. Enhance the accuracy and comprehensiveness of expenditure estimates. Publish the medium-term fiscal strategy that includes medium-term projections of fiscal aggregates.
- **Budget implementation.** Improve cash management and forecasting, including through closer communication with donors. Observe the commitment made in the initial budget, including regarding the hiring of government officials.
- **Budget monitoring and transparency.** Release budget documents in a timely manner, in particular the mid-term budget review and budget outcomes. Resume publication of monthly and quarterly fiscal data.

D. Enhancing Effectiveness of Solomon Islands' Fiscal Framework

12. Urgent action is needed to enhance the effectiveness of fiscal policy to address the following fiscal challenges:

- **Rebuilding the cash balance.** A concrete plan is needed immediately, given the liquidity risk and the country's vulnerability to shocks. However, the pace of the restoration needs to be

gradual, as growth is still below potential, the fiscal space is limited, and the shallow domestic market precludes one-off borrowing to quickly rebuild the balance. Staff's recommendation to restore the broader cash balance⁸ to at least two months of total spending remains valid.

- **Improving the quality of public spending.** Repeated cash shortages and spending cuts during budget implementation have severely compromised the quality of public spending, as discussed in section B.
- **Imposing fiscal discipline on domestic borrowing.** The rapid increase in domestic borrowing (Figure 1) raises concerns about the sustainability of financing from the domestic market, given the narrow investor base⁹ and the underdeveloped financial market. As discussed in Section B, currently there is no effective restriction on domestic borrowing. As a result, expenditures are budgeted on a bottom-up basis, driven by each ministry's spending estimate, with no effective top-down controls on aggregate spending.

To help the government address these challenges while preserving fiscal space for needed investments, this section will explore a practical policy tool to improve the effectiveness of Solomon Islands' fiscal framework, taking into account the country's constraints.

13. Well-designed fiscal frameworks have a medium-term fiscal anchor and operational rules that are simple, implementable, flexible, and monitorable. Fiscal frameworks are generally structured around two types of rules: (i) a medium-term fiscal anchor linked to the final objective of fiscal policy and (ii) operational rules on fiscal aggregates guiding annual budget formulation to navigate to the medium-term anchor. Such a set of fiscal rules should be simple so that they are easily understood by decision makers and the public, and the targets should be largely under the control of policymakers. They should not be so rigid as to hinder response to large shocks, while compliance with the rules should be easy to monitor (IMF 2018b, IMF 2024). These arguments are particularly pertinent for Solomon Islands, given the country's limited resources, aid dependency, and susceptibility to shocks, as discussed in the previous section.

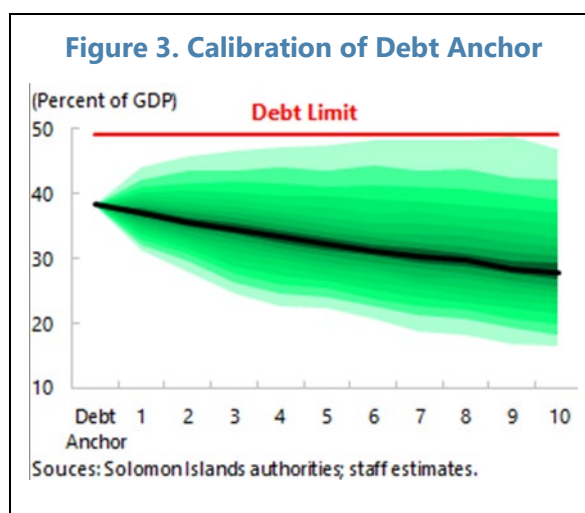
14. Solomon Islands has a medium-term fiscal anchor, but no effective operational rules to guide fiscal policy consistent with the anchor. A natural candidate for a fiscal anchor is a debt-to-GDP ratio, which is already adopted in Solomon Islands (35 percent). However, there is no effective framework to ensure that the annual budget is formulated to be consistent with the medium-term debt anchor. The golden rule has not been binding partly because of inconsistent classification of expenditures: the rule is not linked to the anchor in the first place. The annual borrowing limit is derived from the debt ceiling, but it has also failed to control the budget because

⁸ The broader cash balance equals the sum of government deposits held at the CBSI and the commercial banks minus unpaid payment orders and unrepresented checks, plus reserves in the government consolidated deposit account.

⁹ About half of government bonds are held by the Solomon Islands National Provident Fund, about a quarter by the CBSI, and about 20 percent by two state-owned enterprises.

its complexity and lack of transparency have prevented people from understanding the rule and allowed it to be circumvented.

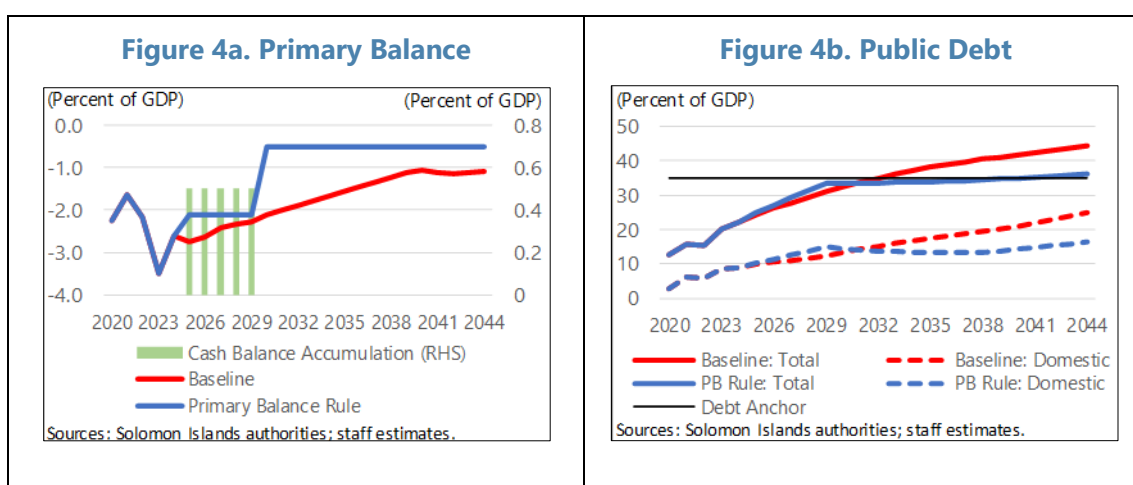
15. Simulations suggest that the current debt ceiling remains broadly appropriate as a medium-term fiscal anchor. While there is no consensus on the appropriate debt threshold, one approach in the literature is first to define a debt limit, above which there is a high risk of triggering debt distress, and then to calibrate a debt threshold so that debt remains below the debt limit with a chosen probability over a medium term, despite the occurrence of negative shocks (IMF 2018b). In this paper, a debt anchor for Solomon Islands is calibrated using the toolkit developed by the IMF Fiscal Affairs Department (FAD). In Figure 3, the debt limit is set at 49 percent of GDP, which corresponds to the benchmark for a country with weak debt carrying capacity, such as Solomon Islands, in the IMF-World Bank Debt Sustainability Framework for Low-Income Countries. Stochastic simulations based on Solomon Islands' macroeconomic variables suggest that a debt anchor of 35.7 percent of GDP would limit the risk of the debt-to-GDP ratio reaching 49 percent in a decade to less than 5 percent, taking into account macroeconomic shocks, fiscal shocks, and natural disasters¹⁰. In other words, raising the ceiling further means that the government assumes the risk of hitting the debt limit with a probability higher than 5 percent.¹¹



¹⁰ In simulating the impact of a natural disaster, it is assumed that a natural disaster occurs with a probability of 13.5 percent and causes a loss of 7.1 percent of GDP, based on Lee, Zhang, and Nguyen (2018).

¹¹ The 5 percent probability is chosen given Solomon Islands' weak debt carrying capacity and history of debt restructuring. If the government assumes a 10 percent risk of hitting the debt limit, for example, the estimated debt anchor will rise to 41 percent of GDP.

16. A possible operational fiscal rule should allow the government to gradually rebuild the cash balance, while financing infrastructure projects and other investments. It should be noted that major infrastructure projects such as the Tina River Hydropower Development Project are planned until 2029, to be financed by external loan disbursements of 1.8-1.9 percent of GDP per year.¹² Any proposal for an operational fiscal rule needs to accommodate this, in addition to fiscal space for other necessary spending and investment. Staff analysis indicates that the above-mentioned objective would be achieved by targeting a primary fiscal deficit of 2.1 percent of GDP from 2025 to 2029 and 0.5 percent of GDP from 2030 onwards.¹³ This assumes domestic borrowing of 0.5 percent GDP each year to build up the broader cash balance to two months of total spending by 2029, in addition to borrowing to finance budget deficits. It is projected that public debt will remain below the 35 percent of GDP ceiling by 2040, if the government manages to control its expenditures and externally financed projects under the rule (Figure 4).



17. In light of the weak PFM foundation, staff proposes the introduction of a simple ex-ante guideline for annual budget formulation that is consistent with the primary balance rule suggested above, as an interim measure. As discussed above, the government is not in a position to implement a full-fledged fiscal framework as presented in the previous paragraph: considerations of donor-supported projects, including infrastructure projects financed by concessional loans, are not integrated into the annual budget process, and credible budget data are not available on a timely basis to track the implementation of the fiscal rule. However, the urgency of the fiscal challenges requires a guideline that can be implemented immediately in the current weak PFM settings to enable the government to prepare a budget proposal that addresses these challenges. Therefore, staff proposes the introduction of a simple ex-ante guideline for annual budget formulation, which is not an operational fiscal rule per se, but consistent with it, as an interim

¹² These loan disbursements are projected on the basis of donor resources allocated to Solomon Islands and will need to be updated as donor resources are revised.

¹³ This analysis is based on staff's baseline assumptions, which assume around 3 percent growth and 3.3 percent inflation in the long run, as well as average interest rates of 1.8 percent for external debt and 4.0 percent for domestic debt. It is assumed that adverse impacts of fiscal adjustments on growth could be minimized through enhanced efficiency of public expenditures.

measure while the government builds up sufficient PFM capacity. As the proposed guideline is not intended to be a fiscal rule, strict compliance, such as through legislation, would not (and cannot) be required. The government could decide to adopt the guideline, for instance, by a cabinet decision and reaffirm its commitment in the budgetary strategy developed at the beginning of the budgetary process. Such a guideline would force the government to prioritize expenditures within the envelope when preparing a budget proposal, rather than cutting spending during the fiscal year in the face of a cash crunch.

18. Staff proposes that the guideline set a ceiling on the primary budget deficit financed by domestic borrowing. In other words, the ceiling would apply to the balance between domestic revenues (i.e. tax and other revenues) and primary spending financed by these resources: such spending is under the control of the government and can be reliably estimated at the stage of a budget proposal. In order to follow the primary balance path set out in paragraph 16, taking external financing in the staff baseline as given, the government would need to maintain the domestically financed primary balance at around 0.3 percent of GDP until 2029. This assumes that the government would borrow domestically by 0.5 percent of GDP each year from 2025 to 2029 to build up the cash balance, in addition to borrowing to finance budget deficits (Text Table 2).

Table 2. Solomon Islands: Fiscal Balance and Financing
(Percent of GDP)

	2020	2021	2022	2023	2024	2025		2026		2027		2028		2029	
						Base- line	Guide- line	Base- line	Guide- line	Base- line	Guide- line	Base- line	Guide- line	Base- line	Guide- line
Primary Balance	-2.2	-1.6	-2.2	-3.5	-2.6	-2.7	-2.1	-2.6	-2.1	-2.4	-2.1	-2.3	-2.1	-2.3	-2.1
Domestically financed	-0.8	-0.5	-2.1	-0.6	-0.4	-0.9	-0.3	-0.7	-0.2	-0.5	-0.2	-0.5	-0.3	-0.5	-0.3
Externally financed	-1.4	-1.1	-0.1	-2.9	-2.3	-1.8	-1.8	-1.9	-1.9	-1.9	-1.9	-1.8	-1.8	-1.8	-1.8
Less: Interest expense	0.2	0.2	0.3	0.3	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.9
Overall Balance	-2.4	-1.9	-2.5	-3.8	-3.1	-3.3	-2.7	-3.2	-2.7	-3.1	-2.8	-3.1	-2.9	-3.1	-3.0
Financial Transactions	2.4	1.9	2.5	3.8	3.1	3.3	2.7	3.2	2.7	3.1	2.8	3.1	2.9	3.1	3.0
Liabilities:	2.4	1.9	2.5	3.8	3.1	3.3	3.2	3.2	3.2	3.1	3.3	3.1	3.4	3.1	3.5
Domestic	1.0	0.7	2.4	0.9	0.8	1.5	1.3	1.3	1.3	1.2	1.4	1.2	1.6	1.3	1.7
External	1.4	1.1	0.1	2.9	2.3	1.8	1.8	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8
Less: Assets: Cash Balance							0.5		0.5		0.5		0.5		0.5

Source: IMF staff estimates.

19. The government should assess ex-post whether the budget was implemented in line with the guideline and whether the fiscal outlook is consistent with the medium-term anchor.

It is important that the government reviews the implementation of the guideline ex post and explains the reasons for deviations from the guideline. The budget outcome report would be an appropriate venue for this. It is also important that the government regularly monitors whether the envisaged evolution of its financial position is consistent with the medium-term anchor. This would allow the government to recalibrate the guideline as necessary, especially when the debt to GDP ratio is projected to reach the 35 percent ceiling in the near future. To this end, the government should resume the publication of the medium-term fiscal strategy.

20. The PAC could contribute to overseeing the implementation of the guideline. When the government adopts the guideline and resumes the publication of the medium-term fiscal strategy, the PAC will be in the best position to assess the implementation of the guideline and medium-term fiscal outlook by the government. This oversight would bolster the fiscal framework's credibility and transparency, provided that the committee is equipped with sufficient resources and time. It is not realistic to create an additional independent fiscal agency in Solomon Islands, given limited human resources.

E. Conclusion

21. Solomon Islands faces the immediate fiscal challenges of rebuilding cash reserves, improving the quality of public spending, and imposing fiscal discipline on domestic borrowing. To address these challenges while financing needed investments, it is an urgent priority to enhance the effectiveness of its fiscal framework, in parallel to efforts to build basic PFM capacity. Among other things, it is essential to improve the budget formulation process by improving the accuracy of budget estimates and keeping expenditures within the estimated budget envelope.

22. Given the weak PFM foundations and the absence of effective operational fiscal rules, staff proposes, as an interim measure, the introduction of a simple ex-ante guideline for annual budget formulation that sets a ceiling on the domestically financed primary deficit. Staff analysis suggests that the current 35 percent debt-to-GDP ratio threshold remains broadly appropriate as a medium-term debt ceiling. The proposed guideline, which is consistent with a possible fiscal rule to keep public debt below the 35 percent ceiling in the long run, sets a ceiling on the domestically financed primary budget deficit at around 0.3 percent of GDP until 2029. This assumes that the government would borrow domestically by 0.5 percent of GDP until 2029 to build up the cash balance, in addition to borrowing to finance budget deficits.

23. The government should assess ex post whether the budget was implemented in line with the guideline and whether the fiscal outlook is consistent with the medium-term anchor. The government should explain deviations from the guidelines in the budget outcome report, while recalibrating the guideline as necessary to be consistent with the medium-term debt anchor. The PAC is best placed to monitor the implementation of the guideline and medium-term fiscal outlook by the government.

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