SOLOMON ISLANDS

Table 1	2021
Population, million	0.7
GDP, current US$ billion	1.6
GDP per capita, current US$	2322.0
National Basic Needs Poverty Rate[a]	12.7
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	73.0
Total GHG Emissions (mtCO2e)	46.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Solomon Islands National Statistics Office. Most recent value (2013).
b/ Most recent WDI value (2019).

The economy is expected to shrink by -2.9 percent in 2022, reflecting the negative impact of the recent civil unrest and widespread community transmission of the coronavirus. These events have broad-based economic impacts and create pressure on the fiscal accounts. Risks to the outlook include a further spread of the coronavirus, higher imported inflation, a return of social unrest, and climate-related disasters.

Key conditions and challenges

Solomon Islands is a country with 700,000 people dispersed across 90 inhabited islands. The country faces large economic, development and governance challenges shaped by its geographical dispersion, remoteness to international markets, and vulnerability to natural disasters. In addition to the socio-geographic characteristics, capacity constraints, as well as a fragile political landscape pose a continuous threat to sustainable development. These challenges make the planning, delivery and management of infrastructure systems challenging and this has resulted in a large infrastructure gap. The need for economic diversification is urgent given economy's over-reliance on the logging sector. The government's attempt to find new sources of economic growth is constrained by several impediments, including limited human capital and an unfavorable business environment.

Development challenges have been further exacerbated by the COVID-19 pandemic which caused a sharp economic contraction and adversely affected people's livelihoods. According to a mobile phone survey collected from June to August 2021, there is no sign of employment recovery. To the contrary, the survey indicates a decline in the share of working individuals since the start of the pandemic. More than half of all households experienced reductions in their non-agricultural income during the period January-June 2021. Food insecurity remains prevalent, as more than two thirds of households had at least one episode of food insecurity in the month leading up to the survey. Common coping strategies, such as reducing food consumption or selling assets, could make those households further vulnerable.

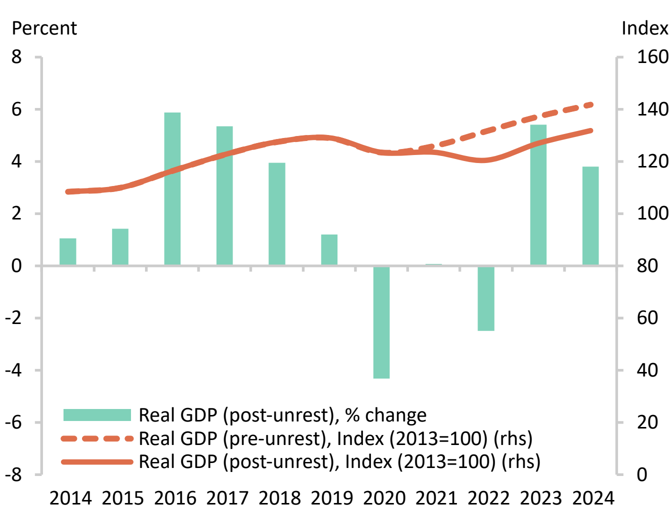
Strong and timely containment measures had been successful in preventing local transmission of the coronavirus until 2022, when a community outbreak rapidly spread through a largely unvaccinated population. At the end of February 2022 about 30 percent of the population had received at least one dose. The country expects to reopen its borders in the second half of 2022.

Recent developments

The economy was set to grow by 0.4 percent in 2021. However, at the end of November 2021, protests at the Parliament building escalated into looting and rioting, causing severe damage and losses to buildings and goods, estimated at 7 percent of GDP. The civil unrest, driven by a complex web of local grievances and a lack of economic opportunities, reduced the economic growth rate by 0.3 percentage points in 2021 (to 0.1 percent), with knock-on effects in 2022. This reflects lower economic activity in the retail and wholesale sector, which accounted for half of all the civil unrest damage.

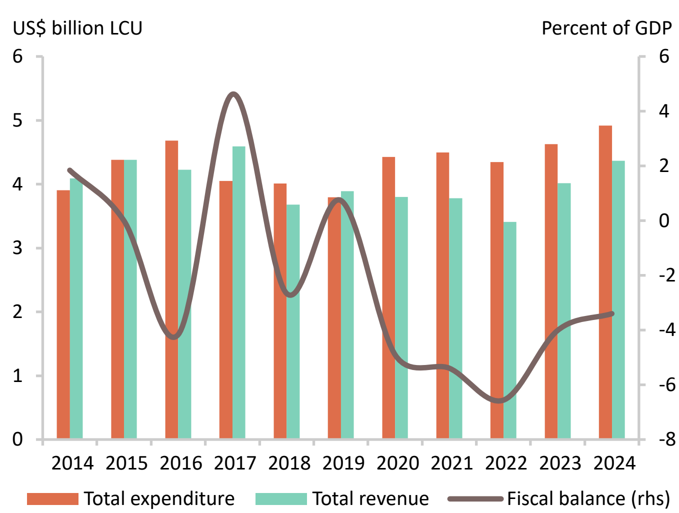
The fiscal deficit deteriorated to 5.4 percent of GDP in 2021. In the month of December

FIGURE 1 Solomon Islands / Real GDP growth, actual, pre-unrest trend and post-unrest forecast



Source: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal balance



Source: World Bank staff estimates.

2021, the revenue loss due to riots is estimated at 0.6 percent of GDP. In response, the government introduced austerity measures limiting payments to payroll, essential items and COVID-19 related expenditures, though this only partially offset the revenue loss. The remaining fiscal gap in 2021 was financed by a reduction in cash buffers, which stood 3 percent of GDP at the end of 2021.

The current account deficit widened to 5.2 percent of GDP in 2021, reflecting a large trade deficit which was partially offset by current transfers. The trade deficit was mainly driven by an increase in imports of machineries, fuel and basic manufactures and export of fish and agricultural products, as well as minerals.

Outlook

Output is projected to contract by 2.9 percent in 2022, reflecting the impact of the civil unrest and COVID-19 lockdown. This represents a sharp deterioration compared to the pre-unrest projection for 2022 (4.5 percent growth). Investments to replace damaged productive capacity caused by the riots are unlikely to gain pace until later in the year. Furthermore, the lockdown to contain COVID-19 is likely to dent output in contact-intensive sectors, including services, which represents about 55 percent of output. Following a contraction in 2022, growth is projected to rebound to 5.3 percent of GDP in 2023 and to moderate to 3.8 percent in 2024. Infrastructure investment, a return of business tourism and increased mining activity are expected to support growth over the medium-term.

The deficit in both external and fiscal accounts will widen in 2022, to 18.3 percent and 7.7 percent of GDP, respectively. High demand for imported construction materials and machinery will drive current account deficit. A combination of lower economic activity and elevated spending on COVID-response and business recovery will increase the fiscal deficit. The deficit, in turn, will be financed by a further drawdown on the cash buffers and a combination of domestic and external lending. An expected rebound of economic activity and spending consolidation will lead to a narrowing of the fiscal deficit in 2023-2024. Similarly, the current account deficit will shrink over the medium term reflecting smaller fiscal deficit and reduction in construction-related imports.

COVID-19 remains a major risk to the economic outlook. A low vaccination intake—particularly among low-educated and female populations— may lead to the maintenance of a closed border policy, while a further community transmission may have human capital implications and hamper economic recovery. The Russia-Ukraine war may lead to sustained high commodity prices – especially fuel, which would have inflationary effects and negative implications on the external accounts (refined petroleum constitutes 20 percent of imports). A further deterioration of domestic economic conditions may lead to a return of social unrest, while natural disasters remain a significant risk for Solomon Islands.

TABLE 2 Solomon Islands / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.2	-4.3	0.1	-2.9	5.3	3.8
Real GDP growth, at constant factor prices	1.3	-4.3	0.1	-2.9	5.3	3.8
Agriculture	-4.4	-2.3	-0.6	-6.6	2.2	-1.2
Industry	6.3	-12.7	6.8	-1.9	18.7	17.7
Services	2.8	-2.7	-1.4	-1.4	2.9	1.5
Inflation (Consumer Price Index)	1.6	3.0	-0.2	8.8	3.5	3.5
Current Account Balance (% of GDP)	-9.8	-1.6	-5.2	-18.3	-17.7	-14.0
Net Foreign Direct Investment (% of GDP)	-1.8	-0.4	-1.5	-2.9	-3.1	-2.8
Fiscal Balance (% of GDP)	0.7	-4.9	-5.4	-7.7	-4.9	-4.5
Debt (% of GDP)	8.3	14.0	20.6	23.7	25.6	26.8
Primary Balance (% of GDP)	1.2	-4.2	-5.1	-7.3	-4.4	-4.0
GHG emissions growth (mtCO2e)	0.0	0.0	0.0	0.1	0.1	0.1
Energy related GHG emissions (% of total)	0.9	0.9	0.9	0.9	0.9	1.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.