

**SOLOMON ISLANDS: MEDIUM-TERM BASELINE SCENARIO
AND JOINT BANK-FUND DEBT SUSTAINABILITY ANALYSIS¹**

The staff's medium-term baseline scenario would achieve only small increases in living standards, and leave the Solomon Islands at high risk of debt distress. Assuming macroeconomic stability and continued donor involvement, but only limited progress in structural reforms, this baseline downgrades macro forecasts, especially growth, compared to the 2005 Article IV due to greater uncertainty regarding the government's reform agenda. Although the debt situation has improved compared to last year, historical scenarios and several stress tests—even some temporary ones—still lead to a significant rise in the debt burden.

Medium-term Scenario

Under the medium-term baseline scenario, real GDP growth is projected to converge to about 3 percent, only slightly above population growth. This scenario assumes that the two large projects that have recently started (palm oil production and the rehabilitation of a gold mine) will continue, but not many new nontimber activities would commence. Inflation eases but remains around 7 percent. The real effective exchange rate is assumed to be constant. Export growth falls to about 1.0 percent given limited new activities to replace logging which is expected to wind down to about half of its current harvest rate by 2011.² The current account deficit gradually improves as import growth declines given lower official development assistance (ODA) and investment inflows, but stays at about 9 percent of GDP. The reserve coverage falls as ODA and exports ease, but remains adequate at above 4 months of imports. The budget position would need to maintain a small surplus due to financing constraints and the desire to avoid abrupt fiscal retrenchment, and to reduce the high public debt. Risks to the baseline appear roughly balanced. The country's history of political instability and volatile growth and export performance pose downside risks. On the other hand, the government may build upon the reforms started by the previous administration which could boost nontimber private sector activity and growth.

Debt

Some progress has been achieved in regularizing the debt situation. The Honiara Club initiative led to a short-term moratorium on principal payments and the forgiveness of interest payments during the moratorium (0.2 percent of GDP) from one creditor, as well as the

¹ Prepared jointly with World Bank staff.

² The current logging rate is about four times the sustainable rate.

possibility of debt forgiveness and arrears settlement after a planned review in 2007.³ The review will focus on the government's commitments to continue to regularize its debts, maintain fiscal discipline, refrain from contracting new loans, and advance on structural reforms. Given uncertainties on the content of the final agreement under the Honiara Club, this analysis does not assume debt forgiveness, but incorporates the impact of the short-term moratorium and related interest forgiveness. Successful negotiations with external commercial creditors achieved debt relief amounting to 2½ percent of GDP. The stock of informal arrears also fell by about 2 percent of GDP to 4½ percent of GDP.⁴

These developments helped reduce total public debt to 80 percent of GDP in 2005—lower than the starting point at the time of the 2005 Article IV consultation of 92 percent of GDP in 2004—despite the calling of a government guarantee on a loan to the state fishing company. In February 2006, agreement was also reached with the Central Bank of the Solomon Islands (CBSI) on outstanding advances and interest arrears.⁵

Debt Sustainability in the Baseline Scenario⁶

Results of the baseline external debt sustainability analysis are mixed (Appendix I, Table I.1).⁷ At end-2005, the NPV of external debt to GDP at 40 percent was higher than its Board-endorsed threshold, but is expected to fall below it by 2009.⁸ All other indicators, including the ratios of the NPV of debt to exports and revenue, and debt service ratios were below their thresholds, and are expected to decline over time. This assumes that the government's current policy of incurring no new debt will continue.

³ The Honiara Club is a multilateral forum convened by the government in October 2005 to seek debt relief from its official creditors. Four creditors participated in the Honiara Club, namely, the Export Finance and Insurance Corporation (EFIC), the European Commission, the European Investment Bank, and the International Fund for Agricultural Development.

⁴ Informal arrears are arrears to suppliers.

⁵ In February 2006, 25 percent of interest arrears to the CBSI amounting to 0.4 percent of GDP was settled, the rest was forgiven, and outstanding advances were converted into long-term bonds carrying a 2¼ percent interest rate.

⁶ Data on private external, state enterprise, and provincial government debt are not available. Therefore, the analysis is limited to central government debt data.

⁷ This analysis assumes that the government remains current on all obligations from June 2006, and that all debts in arrears are treated as a current short-term obligation with NPV equal to its face value. Existing external arrears are assumed to continue growing with accrued interest.

⁸ The thresholds (see Appendix I, Table I.1) apply to countries with weak policies and institutions, and are discussed in *Operational Framework for Debt Sustainability Analysis in Low Income Countries—Further Considerations*. The Solomon Islands' CPIA at 2.8 is the lowest among the Pacific Island Countries.

Albeit declining, the overall central government debt remains high (Appendix I, Table I.2). At end-2005, public domestic debt including arrears stood at 26 percent of GDP, about half its peak of 51 percent in 2003. In 2006, domestic debt is expected to decline further to 20 percent of GDP, partly reflecting the settlement of the bulk of remaining informal arrears. Nevertheless, total public debt would still be 42 percent of GDP in 2011, and the NPV of public sector debt to revenue ratio stays above 100 percent until 2012.

Risks to the debt dynamics

Historical scenarios and even some *temporary* stress tests demonstrate the country's vulnerable debt position (Appendix I, Tables I.3–I.4).

- *External Debt:* Key variables at their historical averages set the NPV of external debt to exports on a rising path. Even a temporary export growth decline increases the NPV of debt to exports to over twice its threshold. If all recognized contingent liabilities are realized (13.5 percent of GDP), the NPV of external debt to GDP would exceed 30 percent of GDP until 2015.
- *Public Debt:* Lower GDP growth, even temporarily, and a return of growth and the primary balance to their historical averages causes the NPV of public debt to GDP and revenue ratios to rise dramatically.

These tests seem especially relevant given the country's volatile economic and political history, poor credit history, and uncertainties surrounding the government's reform orientation.

These results are indicative given major uncertainties surrounding important variables. Macroeconomic variables (especially GDP) are subject to large measurement errors. ODA plans are uncertain and contingent liabilities are likely to increase as audits of SOEs and provincial governments are under way for the first time in many years.

Appendix I
Table I.1. Solomon Islands: External Debt Sustainability Framework, Baseline Scenario, 2003–26 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5	Standard Deviation 5/	Estimate	Projections						Board Endorsed Threshold 6/		
	2003	2004	2005				2006	2007	2008	2009	2010	2011		2006-11 Average	2016	2026
External debt (nominal) 1/	69.5	60.6	54.2			50.0	46.5	42.7	38.8	35.4	32.2		20.1	7.5	
Of which: public and publicly guaranteed (PPG)	69.5	60.6	54.2			50.0	46.5	42.7	38.8	35.4	32.2		20.1	7.5	
Change in external debt	2.9	-8.9	-6.3			-4.3	-3.4	-3.8	-3.9	-3.4	-3.2		-2.0	-0.9	
Identified net debt-creating flows	-6.6	-25.6	-12.8			-3.4	-2.1	-3.7	-2.0	-1.2	-0.8		-1.4	-0.5	
Non-interest current account deficit	-2.4	-13.2	10.3	1.8	7.3	15.1	15.3	9.8	9.4	8.7	8.4		4.6	3.3	
Deficit in balance of goods and services	2.2	-2.2	11.5			17.9	18.5	12.9	12.4	11.5	10.9		6.4	4.8	
Exports	41.2	47.9	46.5			47.8	45.9	49.8	47.7	46.0	44.1		35.5	26.7	
Imports	43.4	45.8	58.1			65.7	64.4	62.6	60.1	57.5	55.0		42.0	31.5	
Net current transfers (negative = inflow)	-5.8	-9.5	-0.7	-1.9	4.0	-1.2	-1.6	-1.6	-1.6	-1.5	-1.5		-1.5	-1.4	
Other current account flows (negative = net inflow)	1.2	-1.5	-0.6			-1.6	-1.6	-1.5	-1.5	-1.3	-1.0		-0.4	-0.2	
Net FDI and other non-debt-creating flows (negative = inflow)	-5.3	-4.8	-17.2	-3.6	5.0	-16.8	-16.2	-12.8	-10.8	-9.5	-8.8		-5.7	-3.7	
Endogenous debt dynamics 2/	1.2	-7.6	-5.8			-1.7	-1.2	-0.7	-0.6	-0.5	-0.4		-0.3	-0.1	
Contribution from nominal interest rate	2.2	1.2	0.8			0.9	0.8	0.7	0.7	0.6	0.6		0.3	0.1	
Contribution from real GDP growth	-4.2	-4.8	-2.7			-2.6	-2.0	-1.5	-1.3	-1.1	-1.0		-0.7	-0.3	
Contribution from price and exchange rate changes	3.2	-4.0	-4.0			...	...	...	...	...	...		...	...
Residual (3-4) 3/	9.5	16.6	6.4			-0.9	-1.3	-0.1	-1.9	-2.2	-2.4		-0.6	-0.3	
Of which: exceptional financing	-1.4	-1.4	-0.4			-0.3	-0.2	-0.2	-0.2	-0.2	-0.2		-0.2	-0.1	
NPV of external debt	...	44.2	39.7			36.6	34.3	31.9	29.3	27.0	24.8		16.2	6.2	
In percent of exports	...	92.2	85.4			76.4	74.7	64.1	61.3	58.6	56.2		45.7	23.3	
NPV of PPG external debt	...	44.2	39.7			36.6	34.3	31.9	29.3	27.0	24.8		16.2	6.2	30
In percent of exports	...	92.2	85.4			76.4	74.7	64.1	61.3	58.6	56.2		45.7	23.3	100
In percent of revenue (excluding grants)	...	170.1	143.6			122.7	115.7	106.7	97.4	89.9	82.7		54.0	21.0	200
Debt service-to-exports ratio (in percent)	6.4	4.3	7.6			4.8	4.8	4.2	5.1	4.6	4.6		3.5	1.8	
PPG debt service-to-exports ratio (in percent)	6.4	4.3	7.6			4.8	4.8	4.2	5.1	4.6	4.6		3.5	1.8	15
PPG debt service-to-revenue ratio (in percent)	13.7	8.0	12.8			7.6	7.3	6.8	8.1	6.9	6.6		4.1	1.6	25
Non-interest current account deficit that stabilizes debt ratio	-5.3	-4.2	16.6			19.4	18.7	13.6	13.3	12.1	11.6		6.6	4.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.4	8.0	5.0	-0.4	6.9	5.3	4.3	3.3	3.2	3.0	3.0	3.7	3.2	3.3	
GDP deflator in US dollar terms (change in percent)	-4.5	6.1	7.0	-0.8	9.3	4.6	1.6	2.3	2.0	2.2	2.2	2.5	2.2	3.6	
Effective interest rate (percent) 4/	3.4	2.0	1.5	2.1	0.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.9	
Growth of exports of G&NFS (US dollar terms, in percent)	28.1	33.2	9.1	-3.1	27.0	13.2	1.7	14.6	0.9	1.4	1.0	5.5	1.6	4.3	
Growth of imports of G&NFS (US dollar terms, in percent)	26.5	20.9	42.6	-2.7	29.0	24.6	3.9	2.7	1.1	0.7	0.7	5.6	2.3	5.1	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	49.4	49.9	...	...	...	...	49.7	...	...
Memorandum item:															
Nominal GDP (billions of U.S. dollars)	0.231	0.265	0.298			0.328	0.348	0.368	0.387	0.407	0.429		0.556	0.950	

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

1/ Refers to central government debt only due to data availability. This table assumes the government's current policy of not incurring new debt. The DSA exercise was conducted jointly with the World Bank.

2/ Derived as $[r - g - r(1+g)] / (1+g+r+gr)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

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/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

6/ These thresholds apply to countries with weak policies and institutions and are discussed in *Operational Framework for Debt Sustainability Analysis in Low-Income Countries--Further Considerations*.

Appendix I

Table I.2. Solomon Islands: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003–26 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 7/	Standard Deviation 7/	Estimate	Projections						2006-11 Average	
	2003	2004	2005			2006	2007	2008	2009	2010	2011	2016	2026	
Public sector debt 2/	120.1	90.1	80.0			69.9	63.6	57.3	51.5	46.3	41.5		24.8	8.1
Of which: foreign-currency denominated	69.5	60.6	54.2			50.0	46.5	42.7	38.8	35.4	32.2		20.1	7.5
Change in public sector debt	6.8	-30.0	-10.3			-10.1	-6.3	-6.3	-5.8	-5.1	-4.8		-2.9	-0.9
Identified debt-creating flows	-11.5	-22.9	-13.9			-8.4	-5.8	-5.5	-4.8	-4.4	-4.1		-2.5	-0.6
Primary deficit	-0.9	-9.8	-3.8	0.6	6.0	-1.9	-2.3	-2.4	-2.3	-2.2	-2.1		-2.2	-1.8
Revenue and grants	37.0	47.5	54.5			53.7	52.1	48.7	47.5	46.2	45.0		39.8	36.6
Of which: grants	17.8	21.5	26.8			23.9	22.4	18.8	17.4	16.2	15.1		9.8	7.0
Primary (noninterest) expenditure	36.1	37.7	50.7			51.7	49.8	46.4	45.2	44.0	42.9		38.0	36.1
Automatic debt dynamics	-9.9	-13.1	-8.4			-5.5	-3.5	-3.2	-2.6	-2.2	-1.9		-0.7	-0.1
Contribution from interest rate/growth differential	-7.7	-11.3	-6.4			-5.5	-3.8	-3.0	-2.5	-2.1	-1.8		-0.6	-0.2
Of which: contribution from average real interest rate	-0.9	-2.4	-2.1			-1.5	-0.9	-0.9	-0.7	-0.6	-0.5		0.2	0.1
Of which: contribution from real GDP growth	-6.9	-8.9	-4.3			-4.0	-2.9	-2.0	-1.8	-1.5	-1.3		-0.8	-0.3
Contribution from real exchange rate depreciation	-2.2	-1.8	-2.1			0.0	0.3	-0.2	-0.1	-0.1	-0.1		...	...
Other identified debt-creating flows	-0.6	0.0	-1.7			-1.0	0.0	0.0	0.0	-0.1	-0.1		0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0			-0.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities 3/	0.0	0.0	1.4			0.0	0.0	0.0	0.0	-0.1	-0.1		0.0	0.0
Debt relief (HIPC and other)	-0.6	0.0	-3.2			-0.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, 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
Residual, including asset changes	18.3	-7.2	3.6			-1.6	-0.5	-0.7	-1.0	-0.7	-0.7		-0.5	-0.3
NPV of public sector debt	101.1	73.7	65.3			56.3	51.2	46.4	41.8	37.8	33.9		21.0	6.8
Of which: Foreign-currency denominated	50.5	44.2	39.7			36.6	34.3	31.9	29.3	27.0	24.8		16.2	6.2
Of which: External	50.5	44.2	39.7			36.6	34.3	31.9	29.3	27.0	24.8		16.2	6.2
NPV of contingent liabilities (not included in public sector debt) 3/	...	...	10.0			13.5	12.1	10.8	9.8	8.9	8.1		5.0	2.0
Gross financing need 4/	1.9	-1.7	1.8			2.9	0.7	0.3	0.0	0.0	-0.1		0.5	-0.1
NPV of public sector debt-to-revenue ratio (in percent) 5/	525.8	283.6	236.0			189.1	172.7	155.1	139.0	125.9	113.1		69.8	23.0
Of which: External	262.6	170.1	143.6			122.7	115.7	106.7	97.4	89.9	82.7		54.0	21.0
Debt service-to-revenue ratio (in percent) 5/ 6/	14.8	25.0	15.5			12.1	6.2	5.5	4.7	4.3	4.2		2.9	0.6
Primary deficit that stabilizes the debt-to-GDP ratio	-7.7	20.2	6.5			8.1	4.0	3.9	3.6	3.0	2.7		1.2	0.4
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	6.4	8.0	5.0	-0.4	6.9	5.3	4.3	3.3	3.2	3.0	3.0		3.7	3.2
Average nominal interest rate on forex debt (in percent)	3.8	2.0	1.6	2.3	1.1	1.8	1.8	1.8	1.8	1.8	1.8		1.8	0.0
Average real interest rate on domestic currency debt (in percent)	-4.4	-4.3	-4.9	-1.6	5.3	-4.0	-4.3	-4.9	-4.3	-4.0	-3.8		-4.2	3.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.5	-2.8	-3.6	3.7	12.4	0.1	...	...	...	...	...		...	...
Inflation rate (GDP deflator, in percent)	6.2	5.8	7.7	7.0	2.7	6.5	7.3	8.0	7.2	6.9	6.6		7.1	6.7
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.4	2.9	18.2	1.7	12.0	17.4	9.6	7.4	5.0	4.2	4.1		8.0	4.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	49.4	49.9	...	...	...	...		49.7	...

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

1/ The DSA exercise was conducted jointly with the World Bank.

2/ Gross central government debt, including informal arrears. Foreign currency denominated debt converted using end-of-period exchange rate.

3/ Current estimate of recognized contingent liabilities. Remaining contingent liabilities are estimated at 10 percent of GDP.

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.

5/ Revenues excluding grants.

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

7/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Appendix I
Table I.3. Solomon Islands: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006–26 1/
(In percent)

	Estimate	Projections						
	2006	2007	2008	2009	2010	2011	2016	2026
NPV of debt-to-GDP ratio								
Baseline	37	34	32	29	27	25	16	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 2/	37	36	37	36	35	34	31	27
A2. New public sector loans on less favorable terms in 2007-26 3/	37	34	...	...	...	...	...	...
A3. Realization of all recognized contingent liabilities as external debt in 2007 4/	37	47	45	42	40	38	29	19
A4. Aid flows and FDI 25 percent lower in 2007-2026								
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08 5/	37	38	40	36	33	30	19	9
B2. Export value growth at historical average minus one standard deviation in 2007-08 6/	37	41	53	50	47	45	35	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	37	39	41	37	34	31	20	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 7/	37	45	52	49	46	44	34	13
B5. Combination of B1-B4 using one-half standard deviation shocks	37	45	63	59	56	52	39	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 8/	37	49	45	41	38	35	22	13
NPV of debt-to-exports ratio								
Baseline	76	75	64	61	59	56	46	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 2/	76	79	74	75	76	77	87	99
A2. New public sector loans on less favorable terms in 2007-26 3/	76	75	...	...	...	...	...	...
A3. Realization of all recognized contingent liabilities as external debt in 2007 4/	76	103	90	89	87	86	83	73
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08 5/	76	84	80	76	73	69	54	35
B2. Export value growth at historical average minus one standard deviation in 2007-08 6/	76	127	240	236	232	229	221	115
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	76	84	82	78	74	71	56	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 7/	76	98	104	102	101	99	95	49
B5. Combination of B1-B4 using one-half standard deviation shocks	76	100	148	145	142	139	129	66
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 8/	76	106	90	86	82	78	62	49
Debt service ratio								
Baseline	4.8	4.8	4.2	5.1	4.6	4.6	3.5	1.8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 2/	4.7	5.0	4.7	6.2	5.9	6.3	7.1	7.4
A2. New public sector loans on less favorable terms in 2007-26 3/	4.7	4.7	4.1	...	...	...	...	...
A3. Realization of all recognized contingent liabilities as external debt in 2007 4/	4.7	4.7	5.4	6.4	5.8	5.8	4.9	2.9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08 5/	4.7	5.3	5.2	6.4	5.7	5.7	4.6	2.2
B2. Export value growth at historical average minus one standard deviation in 2007-08 6/	4.7	6.6	9.9	13.3	12.0	12.0	10.1	11.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	4.7	4.7	4.1	5.1	4.5	4.5	3.7	1.4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 7/	4.7	4.7	4.5	5.8	5.3	5.3	4.4	5.0
B5. Combination of B1-B4 using one-half standard deviation shocks	4.7	5.6	6.8	8.9	8.1	8.0	6.7	6.6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 8/	4.7	4.7	4.1	5.1	4.5	4.5	3.7	1.4
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 9/	49	49	49	49	49	49	49	49

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

1/ The DSA exercise was conducted jointly with the World Bank.

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

3/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

4/ Liabilities realized and add to arrears from the beginning of 2007, attracting an interest rate equal to 2007 six month libor.

5/ Ratios calculated using baseline export-to-GDP, since GDP and exports are driven by the same primary commodities.

6/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

7/ Includes official and private transfers and FDI.

8/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

9/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Appendix I
Table I.4. Solomon Islands: Sensitivity Analysis for Key Indicators of Public Debt 2006–26 1/

	Estimate	Projections						
	2006	2007	2008	2009	2010	2011	2016	2026
NPV of Debt-to-GDP Ratio								
Baseline	56	51	46	42	38	34	21	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	56	56	56	56	56	56	62	78
A2. Primary balance is unchanged from historical average	56	54	52	50	48	47	44	41
A3. Permanently lower GDP growth 2/	56	52	49	46	44	43	48	107
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2007-2008	56	61	69	70	72	73	90	132
B2. Primary balance is at historical average minus one standard deviation in 2007-2008	56	59	63	58	54	50	36	19
B3. Combination of B1-B2 using one half standard deviation shocks	56	61	66	58	51	45	22	5
B4. One-time 30 percent real depreciation in 2007	56	68	63	58	54	50	34	13
B5. 10 percent of GDP increase in other debt-creating flows in 2007	56	61	55	51	47	43	29	13
NPV of Debt-to-Revenue Ratio 3/								
Baseline	189	173	155	139	126	113	70	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	189	190	188	186	186	186	205	262
A2. Primary balance is unchanged from historical average	189	182	173	165	161	156	147	139
A3. Permanently lower GDP growth 2/	189	177	164	154	148	143	160	359
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2007-2008	189	206	230	233	239	245	298	444
B2. Primary balance is at historical average minus one standard deviation in 2007-2008	189	200	209	192	178	165	119	63
B3. Combination of B1-B2 using one half standard deviation shocks	189	206	220	193	170	149	73	3
B4. One-time 30 percent real depreciation in 2007	189	230	211	193	179	165	113	44
B5. 10 percent of GDP increase in other debt-creating flows in 2007	189	204	185	169	155	142	97	42
Debt Service-to-Revenue Ratio 3/								
Baseline	12.1	6.2	5.5	4.7	4.3	4.2	2.9	0.6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12.1	6.5	6.6	6.4	6.6	7.0	8.5	20.0
A2. Primary balance is unchanged from historical average	12.1	6.2	6.1	5.7	5.7	5.9	6.1	10.4
A3. Permanently lower GDP growth 2/	12.1	6.3	5.8	5.2	5.0	5.3	6.5	19.8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2007-2008	12.1	7.0	7.7	7.9	8.4	9.2	12.2	30.9
B2. Primary balance is at historical average minus one standard deviation in 2007-2008	12.1	6.2	7.2	7.6	6.8	6.5	5.0	5.7
B3. Combination of B1-B2 using one half standard deviation shocks	12.1	6.7	7.7	7.6	6.4	5.8	3.1	7.5
B4. One-time 30 percent real depreciation in 2007	12.1	6.8	6.7	5.9	5.4	5.3	3.2	1.2
B5. 10 percent of GDP increase in other debt-creating flows in 2007	12.1	6.2	7.4	6.1	5.6	5.5	4.1	3.4

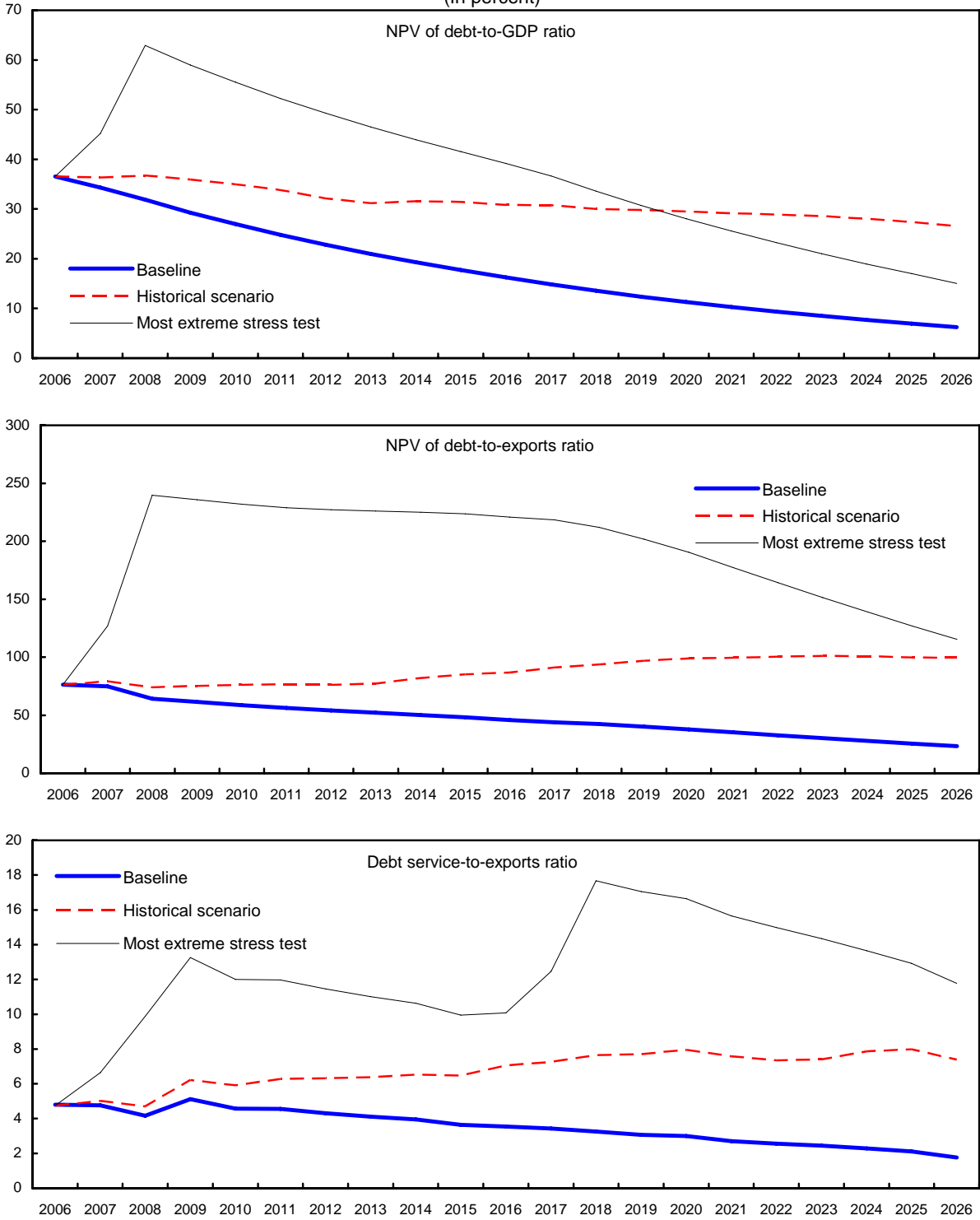
Sources: Data provided by the authorities; and Fund staff estimates.

1/ The DSA exercise was conducted jointly with the World Bank.

2/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

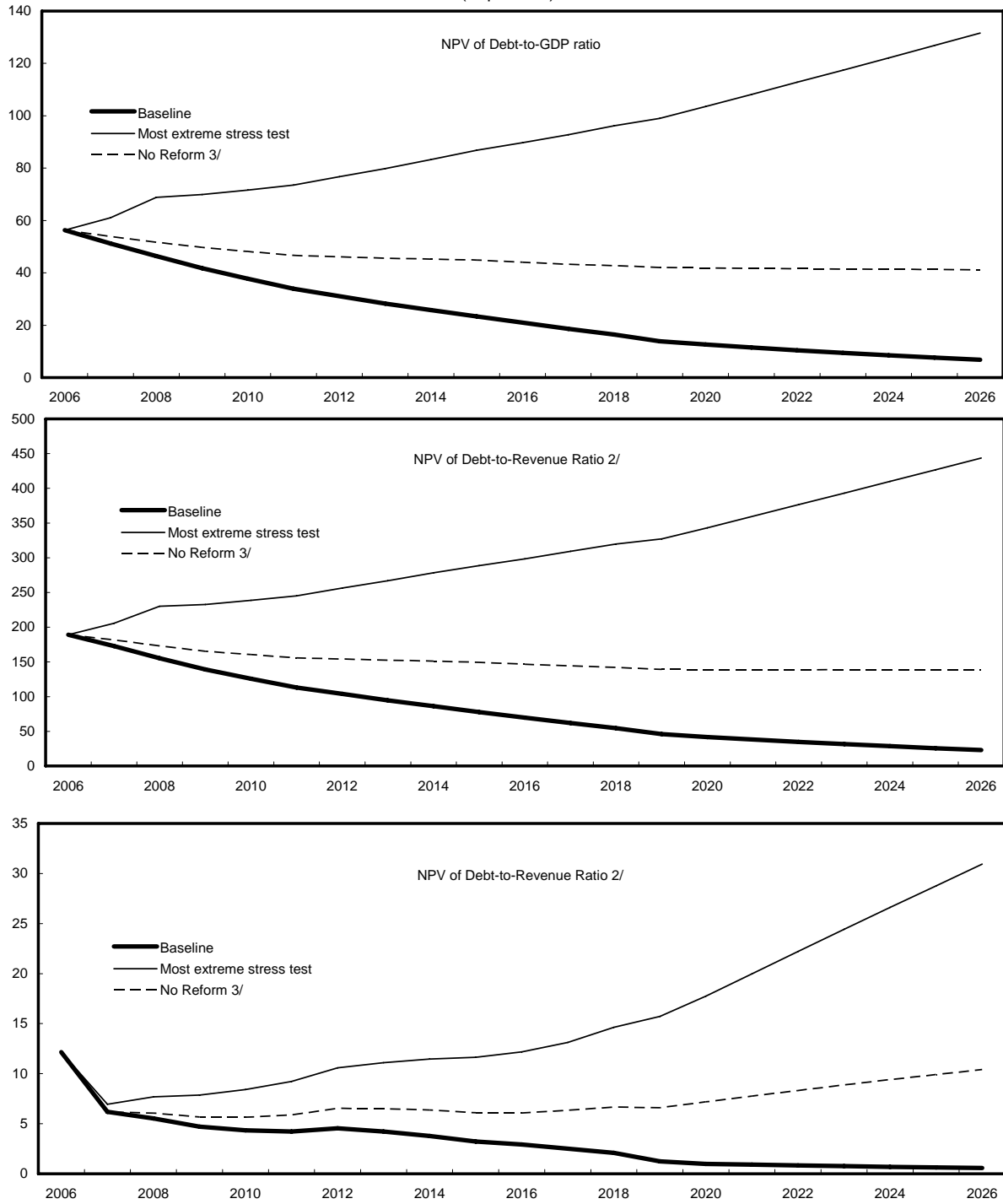
3/ Revenues exclude grants.

Appendix I
 Figure I.1. Solomon Islands: Indicators of Public and Publicly Guaranteed External Debt
 Under Alternative Scenarios, 2006–26
 (In percent)



Source: Staff projections and simulations.

Appendix I
 Figure I.2. Solomon Islands: Indicators of Public Debt
 Under Alternative Scenarios, 2006–26 1/
 (In percent)



Sources: Staff projections and simulations.
 1/ Most extreme stress test is test that yields highest ratio in 2016.
 2/ Revenue includes grants.
 3/ Primary balance remains at historical average.