



SOLOMON ISLANDS

June 2020

REQUESTS FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOLOMON ISLANDS

In the context of the Requests for Purchase under the Rapid Financing Instrument and Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 1, 2020, following discussions that ended on May 7 with the officials of Solomon Islands on economic developments and policies underpinning the IMF Purchase under the Rapid Financing Instrument and Disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 26.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Solomon Islands.

The documents listed below will be released.

Letter of Intent sent to the IMF by the authorities of Solomon Islands*

*Also included in the Staff Report.

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

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IMF Executive Board Approves a US\$28.5 Million Disbursement to Solomon Islands to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved the disbursement of US\$28.5 million in emergency financing to help Solomon Islands address urgent balance of payments needs created by COVID-19, which is having a severe impact on exports, tourism, and domestic activity.
- To address the pandemic, the Solomon Islands' authorities have taken measures to prevent the entry of COVID-19, to increase health and containment spending, and to provide targeted support for vulnerable households and businesses.
- IMF financing will help fill immediate financing needs and catalyze additional financing from its development partners to support the COVID-19 response.

Washington, DC – June 1, 2020. The Executive Board of the International Monetary Fund (IMF) today approved a disbursement to the Central Bank of Solomon Islands for an amount of SDR 20.8 million (about US\$28.5 million, 100 percent of quota), comprising SDR 6.93 million (about US\$ 9.5 million, 33.3 percent of quota) under the [Rapid Credit Facility](#) (RCF) and SDR 13.87 million (about US\$ 19 million, 66.7 percent of quota) under the [Rapid Financing Instrument](#) (RFI) to help cover urgent balance of payments needs stemming from the COVID-19 pandemic.

The government has implemented strong measures to prevent the entry of COVID-19 and Solomon Islands has had no confirmed cases. Nevertheless, a sharp decline in commodities exports and tourism is expected to negatively impact the economy and weaken the external position, and necessary containment efforts will slow domestic economic activities.

The authorities' immediate policy responses have focused on strong and timely containment measures to limit the risk of a local outbreak while reprioritizing spending towards health care. The authorities have also recently adopted a fiscal stimulus package with policy measures targeted at providing social assistance, protecting jobs and incomes, and stabilizing the domestic economy. The IMF financial support will make a substantial contribution to filling immediate external financing needs that have emerged due to COVID-19. It is also expected to catalyze additional support from development partners.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Chair, made the following statement:

"The global and domestic measures to contain the COVID-19 pandemic are severely affecting the Solomon Islands' economy, through their impact on commodities exports, tourism, and domestic activity. These have given rise to an urgent balance of payments need. IMF support under the Rapid Financing Instrument and Rapid Credit Facility, in addition to the recent approval of debt service relief under the CCRT, will help address immediate financing needs and catalyze additional support from other development partners.

“The authorities’ immediate policy response has focused on strong and timely containment measures to limit the risk of a local outbreak while reprioritizing spending towards health care. They have also adopted a fiscal stimulus package with measures targeted at providing social assistance, protecting jobs and incomes and stabilizing the domestic economy.

“Additional assistance from development partners, beyond what has already been committed, is needed to close the remaining balance of payments gap and ease the fiscal situation. The authorities’ commitment to high standards of transparency and governance in the management of financial assistance is welcome.

“Beyond the immediate response to the external shock, the authorities should remain committed to policies that promote inclusive growth and resilience while containing external pressures, protecting financial stability and preserving fiscal sustainability.”

More information:

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
<https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>

IMF Executive Board calendar
<https://www.imf.org/external/NP/SEC/bc/eng/index.aspx>

IMF Factsheet: The IMF's Rapid Credit Facility (RCF)
<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility>

IMF Factsheet: The IMF's Rapid Financing Instrument (RFI)
<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument>



SOLOMON ISLANDS

May 26, 2020

REQUESTS FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic is having a severe impact on Solomon Islands' economy. The global economic slowdown has reduced demand for its commodity exports, including logging exports, and tourism. The authorities have enacted strong and timely containment measures to limit the risk of a local outbreak while orienting additional spending towards health care and support for the economy. The necessary containment measures have hampered domestic activities. The disruption of activity, together with loss in revenue from exports, are resulting in a sharp decline in foreign exchange reserves and an immediate external financing gap. The need for sufficient external buffers is urgent, particularly in the context of the basket exchange rate peg regime, a weak fiscal position, ongoing uncertainty and still large downside risks.

Request for Fund support. The authorities are seeking financial assistance under a blend of one-third of the disbursement under the "exogenous shock" window of the Rapid Credit Facility (RCF) and two-thirds from the Rapid Financing Instrument (RFI). The attached Letter of Intent (LOI) envisages a disbursement of SDR 20.8 million, equivalent to 100 percent of quota, with the full amount to become available upon Board approval. The authorities intend to use the RCF/RFI disbursement to provide balance of payment support. Staff assesses that Solomon Islands is faced with an urgent balance of payments need, meets other eligibility requirements for RCF/RFI and supports the request. Public debt is at moderate risk of distress and there is adequate capacity to repay the Fund. The IMF disbursement is expected to play a catalytic role in securing additional financing from development partners.

Macroeconomic policies. In addition to containment measures to limit the risk of a local outbreak and increasing health spending, immediate policy measures should reprioritize spending towards protecting vulnerable households and businesses. Going forward, improving budget planning in line ministries, strengthening commitment controls and procurement planning would help safeguard fiscal sustainability. Substantial new measures, including concessional external financing, will be needed to increase fiscal buffers. Comprehensive structural reforms, including improving the business environment, would help reduce the current account deficit over the medium term and foster diversification into new growth sectors. Strengthening enforcement of governance standards, improving transparency and advancing the anti-corruption agenda remain crucial.

Approved By
Jonathan D. Ostry
 (APD) and **Johannes**
Wiegand (SPR)

An IMF team comprising Jarkko Turunen (Head), Piyaporn Sodsriwiboon, Vybhavi Balasundharam (all APD), Reshika Singh (Resident Representative's office, PIC) and Leni Hunter (Resident Representative, PIC) held teleconference discussions with the Solomon Islands authorities led by Central Bank Governor Luke Forau, Permanent Secretary for the Ministry of Finance and Treasury McKinnie Dentana, and other government officials during May 5–7, 2020. Ms. Laura Johnson (OED) also joined the teleconference discussions. Haopeng Xu and Connor Kinsella provided research and editorial assistance for this report.

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