

**Statement by Mr. Ray and Ms. Johnson on Solomon Islands
Executive Board Meeting
June 1, 2020**

On behalf of our Solomon Islands authorities, we thank staff, management and the Executive Board for their continued support to the Solomon Islands, especially during these challenging times.

The COVID-19 pandemic and its economic impact

Despite there being no confirmed cases in the Solomon Islands, the Solomon Islands government has taken swift action to prepare for and respond to the threat of a COVID-19 outbreak and has been operating under a State of Public Emergency since 25 March.

The Solomon Islands is a small and vulnerable economy, with a limited public health capacity, particularly on outlying islands. An outbreak of COVID-19 could very quickly reach beyond the capacity of the public health system.

Under the State of Public Emergency, the government closed borders and imposed a number of containment measures to ensure social distancing, such as closing schools and non-essential businesses, as well as setting up mandatory quarantine and isolation facilities.

The Solomon Islands was also affected by cyclone Harold in early April, when 27 people lost their lives and heavy rain and strong winds caused destruction to homes, schools and crops.

The negative impact on the Solomon Islands of the containment measures and the cyclone is likely to be considerable, affecting individuals, households and businesses throughout the country. The authorities are forecasting economic growth will fall to around -5.1 percent in 2020 (compared to staff estimates of -5.5 percent). The government has additional COVID-19 related spending pressures, coupled with lower revenue trends as the economy has seen declines in logging, mining and fishery exports as well as a sharp contraction in tourism. As a result, the fiscal deficit is expected to widen to 5.8 percent of GDP and public debt is expected to rise this year and into the medium term.

The current account balance is expected to widen significantly to about 17.8 percent of GDP in 2020, given weak external demand and travel restrictions. The COVID-19 pandemic has led to an urgent balance of payments need and a sizeable residual financing gap of around US\$38.8 million (about 2.5 percent of GDP), after taking account of international reserve drawdown and donor support from the Asian Development Bank and World Bank.

Policy response to the crisis

Because of the Solomon Islands' vulnerabilities, the government has been proactive in preventing the spread of COVID-19, isolating the country and imposing strict quarantine.

The government has prepared a COVID-19 preparedness and response plan, and with support from development partners, has introduced quarantine facilities and testing capability in preparation for a possible domestic outbreak.

The government also announced a stimulus package of SBD319 million (about 2.6 percent of GDP) to support the recovery, aimed at protecting jobs and incomes and stabilizing the domestic economy. An Oversight Committee has been set up to ensure that the overall desired outcomes are achieved and the targeted beneficiaries receive the support they need and to prevent any abuse or misuse of the package.

The government remains committed to stabilizing public finances and understand the importance of rebuilding fiscal buffers to address potential risks from natural disasters. The authorities are maintaining their efforts to strengthen tax compliance, to progress tax reform – including indirect tax reform, and to tighten expenditure controls and procurement processes at the Ministry of Finance and Treasury.

The authorities remain committed to the current debt management framework and are working closely with development partners to address large infrastructure needs in a transparent manner.

The Central Bank of Solomon Islands will maintain an expansionary monetary policy stance in view of the low inflation environment, the weak growth outlook and slowing credit growth. The authorities consider that the basket exchange rate peg remains an appropriate nominal anchor for Solomon Islands.

Fund support

Against this background, the Solomon Islands is facing an urgent balance of payments need, which has triggered the authorities' request for emergency financing in the amount of SDR20.8 million (100 percent of quota, around one fifth of the external financing gap). The Fund's emergency assistance will help meet the urgent balance of payments financing needs stemming from the adverse impact of the ongoing shock on the economy as a result of COVID-19.

The IMF debt relief provided under the Catastrophe Containment and Relief Trust will also help to close the financing gap.

The authorities are continuing to actively seek additional financing from development partners and Fund support will play a catalytic role. In this regard, the World Bank is processing a fast-track US\$5 million COVID-19 Emergency Response and Health Systems Preparedness Project. The Asian Development Bank has approved US\$6 million in funds under the Contingent Disaster Financing Facility and is processing a pandemic response loan and grant under the Countercyclical Support Facility for up to US\$20 million.

The authorities are thankful to the Fund for their advice and ongoing technical assistance (particularly support from PFTAC) and look forward to further constructive engagement in the future.