CENTRAL BANK of SOLOMON ISLANDS
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# The Three Days Riot (Nov 24-26, 2021)

## *The Direct Economic Cost to the Economy*

**ASSESSEMENT REPORT**

November 2022

# The Three Days Riot (Nov 24-26, 2021): The Direct Economic Cost to the Economy

**The adverse economic impact of the recent riot is estimated to have costed the Solomon Islands' economy around $534 million**, following the initial assessment of $227 million. Much of these costs are directly related to the burning, looting, and loss of income.

The associated damage to economic activities will push the country back into a contraction, reversing the positive outcome seen in the second and third quarter of 2021. Consequently, **growth for 2021 is now projected to decline by minus 0.6%** from a 0.4% lacklustre growth forecasted earlier, with growth for 2022 expected to weaken subsequently.

The contraction in GDP is driven by sharp decreases in the retail and wholesale and the manufacturing sectors, as most of the burnings and lootings were concentrated in these sectors. The retail and wholesale sector, which accounted for more than 50% of the damages is expected to fall by -3.5% in 2021 from a projected rebound of 1.3% forecasted earlier. CBSI estimated that the **total loss in the value of goods destroyed equates to around $228 million**, this is likely to exacerbate the already disrupted supply chain prevalent in the economy.

The damages to the **infrastructures burnt and looted** totalled to an estimated **$306 million.**

In addition, around **1000 employees may have lost their jobs** with an equivalent **total loss in employment income estimated at $1 million** for the month of December. Moreover, **the spill-over effects** of the riot into other sectors in the economy is quite significant and evident across the sectors such as the utilities, communication, transport, education, police, and other services.

These economic consequences are expected to have **adverse fiscal outcomes in 2021** adding to an already stretched fiscal condition. Broadly, the government is expected to lose 31% of its monthly revenue or a net loss of around $80 million over the next three months. This will be felt through revenue loss from various tax categories including tax on income and profit, goods and services and property taxes. The biggest loss to the government stems from a monthly loss of around $20 million in various tobacco taxes, this implies that in the near term the Government will lose around $120 million. These will add to an already tight fiscal condition. The fiscal deficit is expected to deteriorate to around 5-6% of GDP by the end of this year, 2021. With cash buffers already stretched, and the revenue outlook constrained, it will be quite a challenging fiscal task to maintain critical services and provide a stimulus support to the affected businesses in 2022 and beyond, unless external assistance is sought.

The unrest has aggravated the countries' pre-existing vulnerabilities. Risks of climate-related disasters and community transmission of COVID-19 remain, given vaccine hesitancy and dismal health infrastructures. Hosting the 2023 Pacific Games comes on the back of pressing needs to address critical social services and large infrastructure gaps across the country. This means more budget support or debt financing will be needed, which could lead to a rapid increase in government debt in the near to medium term. Rebuilding fiscal buffers to strengthen resilience to these vulnerabilities is critical to ensure fiscal sustainability.

The **external sector** is **expected to face higher imports and outward remittances** in the coming months. Based on monthly average imports data, overall imports are estimated to increase by $26 million from $304 million to $330 million in the coming months, the onset will be in the early months of 2022, expecting December imports to have no significant changes due to most import payments done in the previous month. However, driving the surge will be Food and basic manufactures. This is basically to replenish supply stock and hence meet current market demand. Consequently, the increase in imports in the short to medium term will lead to a widening the current account deficit to 3% of total GDP.

| *All values in SBD million* | **Pre- Riot** | **Post-Riot** | **Riot impact** |
|---|---|---|---|
| **Imports (monthly avg.)** | ***$ 304*** | ***$ 330*** | ***$ 26*** |

Additionally, a potential spike in outward remittances in the coming days or weeks owing to capital flights is likely. CBSI currently monitors movements in outward remittances in the coming weeks. This will see foreign reserves falling, although this will not be a concern in the short term, as the level of reserves remain well above the minimum threshold.

**Inflation** is **expected to increase in 2021** as a consequence of the riot impacts. CBSI earlier forecast was for inflation to rise to 3% by year-end on the back of high fuel and food prices. The riot-induced impacts will result in inflation rising even further to **3.7% at end 2021** as **unexpected food and tobacco shortages** as well as demand and supply mismatches add to the already elevated price pressures. This however, is anticipated to be temporary in the near term, subject to shipments and smooth supply by the unaffected businesses.

However, any prolonged shortages of food and low shipments would push prices up to 4%. This would be a concern considering the economy is in a recession.

| Headline Inflation | Without unrest* (A) | With unrest (B) | Unrest impact (B – A) |
|---|---|---|---|
| Moderate impact | 3.0% | 3.7% | 0.7% |
| Worse impact | 3.0% | 4.3% | 1.3% |

In terms of the **banking sector,** the impact will be seen in the potential increase in **Non-Performing-Loans** (NPLs), as a number of the businesses affected acquired loans from the Financial Institutions, which totalled to **$43 million** worth of loans. The projected downturn of the economy, coupled with the already stretched fiscal situation, will also lengthen the time taken for consumers to reach financial access points, affect risk-taking appetite of financial institutions to extend credit with confidence, and put huge pressure on debt servicing obligations of domestic households and private sector in the short to medium term.