PRESS RELEASE

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IMF Staff Concludes Visit to Solomon Islands

FOR IMMEDIATE RELEASE

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. This mission will not result in a Board discussion.

- *The economy has been hit by multiple shocks, resulting in a projected decline in economic activity this year. As the situation normalizes, growth is expected to pick up in the second half of 2022 and rebound further in 2023.*
- *Policy support remains appropriate for now given subdued economic activity, low inflation and the need to mitigate the negative impact from the recent shocks on vulnerable households and firms.*
- *As the recovery is secured, policies should focus on rebuilding fiscal buffers to enhance resilience and address spending needs for progress towards Sustainable Development Goals.*

Washington, DC – June 27, 2022: An International Monetary Fund (IMF) team led by Mr. Jarkko Turunen conducted a virtual mission to Solomon Islands during 14 to 24 June 2022 to discuss recent economic developments and policy plans. At the conclusion of the visit, Mr. Turunen issued the following statement:

"Solomon Islands has been hit hard by a number of shocks including social unrest in Honiara in late 2021, a significant outbreak of COVID-19 in early 2022 and the indirect impact of the war in Ukraine. Following an estimated contraction of 0.2 percent in 2021, real GDP is projected to fall by 4.5 percent in 2022 – the third year of contraction in a row. However, the economy is expected to start recovering in the second half of this year and rebound further in 2023, underpinned by the relaxation of COVID-19 related restrictions and increased activity related to the 2023 Pacific Games and large donor-funded infrastructure projects. The fiscal deficit is expected to widen further to over 6 percent of GDP in 2022, reflecting a domestic revenue shortfall and large spending needs stemming from the impact of the negative shocks. Budget financing depends crucially on continued donor support.

"The trade deficit is likely to deteriorate as imports are expected to outpace exports and the current account deficit is projected to widen to 10.6 percent of GDP in 2022. Foreign reserves remain at a comfortable level at about 11 months of future imports, supported by donor inflows and the new allocation of the IMF's Special Drawing Rights. Inflation has been low reflecting subdued domestic economic activity but is expected to increase in the months ahead on the back of higher global fuel and food prices, increased shipping costs and the economic recovery. The banking sector has been resilient: liquidity and capital ratios remain high but elevated non-performing loans constrain lending to the private sector. Uncertainty about the economic outlook remains high.

“The authorities are to be commended for their responses to the COVID-19 outbreak including implementation of supportive fiscal and monetary policy measures. Key to immediate growth prospects will be an acceleration in vaccinations (from the current low rate of about 26 percent) to allow for a safe border reopening.

“Accommodative monetary and fiscal policy remain appropriate for now given low inflation, subdued economic activity, and the need to mitigate the negative impact from the recent shocks on vulnerable households and firms. As the economic recovery is secured, fiscal adjustment should aim to gradually rebuild fiscal buffers and to create space for spending on achieving the Sustainable Development Goals and improving resilience to climate change shocks. Boosting revenues is crucial and should include a comprehensive medium-term revenue strategy to maintain fiscal sustainability, on-going efforts to modernize tax administration and introduce a Value Added Tax. Further fiscal reforms are also needed to refocus expenditures to enhance growth and improve public financial management and governance.

“The Central Bank of Solomon Islands needs to closely monitor inflation pressures and stand ready to adjust its accommodative policy stance to avoid global inflationary pressures from becoming entrenched domestically. Remedial steps by the government to reduce inflation, such as lower taxes on fuel, should be temporary to mitigate fiscal costs. Financial sector reforms should be aimed at increasing lending to the private sector as well as improvements in financial development and inclusion. Strengthening the AML/CFT framework would help safeguard financial stability.

“Looking ahead, in the medium term, sustainable and inclusive growth prospects depend crucially on effective investment in human capital and infrastructure, structural reforms and efforts to improve the business environment. Accelerating digital and green growth can foster longer-term economic transformation and improve resilience. Strengthening the enforcement of governance standards, improving transparency, including publication of audit of pandemic-related spending and procurement information, and advancing the anti-corruption agenda remain crucial.

“The team had very constructive discussions with the Governor of the Central Bank of Solomon Islands, the Permanent Secretary of the Ministry of Finance and Treasury, other senior government officials, development partners, civil society and private sector representatives. The team would like to thank the Solomon Islands’ authorities for their excellent cooperation.”