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May 29, 2020

**Statement by Mr. Lischinsky and Mr. Vogel on Solomon Islands  
(Preliminary)  
Executive Board Meeting 20/65  
June 1, 2020**

We thank staff for the report and Mr. Ray and Ms. Johnson for their helpful Buff statement.

**Economic activity in Solomon Islands had shown a slowdown prior to the pandemic**, having grown at a rate of 1.2 percent, much lower than those observed over the previous couple of years, with rates in the range between 4-6 percent. The report reminds us about a slowing demand for logs from China and a temporary pause in economic activity around the general election period, but *maybe staff could elaborate further on the reasons for this slowdown and on the political outlook after this general election.*

**Meanwhile, the current account also experienced an important deterioration in 2019**, going from a deficit between 3 percent and 4 percent of GDP in the period 2016-18 to a deficit of almost 9 percent. Text table 1 of the report exhibits a much more difficult situation after the eruption of the COVID-19 pandemic, where we can see, for instance, a difference of 8 percentage points between the real GDP growth projected pre pandemic and after. At the same time, the current account deficit is projected at almost 18 percent of GDP.

**The necessary response to the pandemic will generate a worsening of the country's fiscal accounts.** Therefore, it is clear that mounting fiscal and balance-of-payment pressures trigger immediate financing needs. We take note of staff's assessment that access at 100 percent of quota with blend of Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) is appropriate given the scale of the urgent needs, and that the country's capacity to repay the Fund would remain adequate. Given all these considerations, we support the authorities' request for purchase under the RFI and disbursement under the RCF.

We welcome the authorities' strong and timely measures, as noted in the staff report, while reprioritizing spending towards health care and taking policy measures aimed at providing social assistance, protecting jobs and income, and stabilizing the economy. We are encouraged by the authorities' commitment to publication of an audit of COVID-19 related expenditures and related

procurement information. Like staff, we consider that an expansionary monetary policy stance is appropriate for current conditions and that the basket exchange rate peg remains an appropriate nominal anchor. We take note of the staff's assessment that the credibility of the exchange rate regime is preserved by maintaining an adequate level of gross official reserves; *maybe staff could elaborate further on the expected evolution of gross official reserves considering the expected deterioration of the external accounts.*

With these comments, we wish Solomon Islands and its people every success in these difficult times.