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**Joint Statement by Ms. Lim, Ms. Kashima, Mr. Dacharux, and Mr. Watanabe on
Solomon Islands
(Preliminary)
Executive Board Meeting
January 7, 2022**

We thank staff for the informative report, and Mr. Huh and Ms. Johnson for their insightful buff statement. Decisive and timely containment measures have successfully prevented a domestic COVID-19 outbreak, but also put severe pressure on the economy. Uncertainties remain high due to the evolving path of the pandemic, long-standing socio-economic tensions and climate change vulnerabilities. **As we broadly concur with the thrust of the staff's appraisal and policy advice, we would like to offer the following comments for emphasis.**

Fiscal Policy

In the short term, the authorities should continue to provide targeted support to vulnerable groups until the recovery is fully entrenched amid the relatively low growth recovery, low vaccination rate where just 14% of the eligible population is vaccinated compared to the government target of 80% to reopen the border, the threat of new variants, as well as the recent social unrest in November 2021. At the same time, we agree that pandemic-related spending should be utilized efficiently and transparently. In this regard, while we welcome the establishment of the Oversight Committee and the authorities' continuous commitment to publish government procurement information, we concur with staff that the audit of pandemic-related spending should be completed in 2022 as scheduled.

Over the medium-term, the authorities should further advance necessary fiscal reforms in order to rebuild buffers and pursue fiscal consolidation. Additional revenue mobilization measures are needed, such as modernizing tax administration and introducing VAT, especially given the gradually decreasing and more volatile tax revenue compared to regional peers. On the expenditure side, enhancing fiscal governance and improving PFM are

critical to rebuild fiscal buffers against future shocks including natural disasters. Given the continuing fiscal deficit and increasing public debt, as shown in Figure 3, we underscore the urgency of these reforms for the country.

Financial and Monetary Policy

The authorities should steadily address potential financial sector vulnerabilities. Reforms should aim to increase private sector credit, address the elevating NPLs, and improve financial development and inclusion, to facilitate sustained private sector led growth. We concur with staff that aligning the AML/CFT framework with FATF standards is crucial (illustrated in Box 2), but also acknowledge pressures to Correspondent Banking Relationship (CBR) around the region and note the authorities' intention to pursue a regional solution to meet these CBR challenges.

We agree that the accommodative monetary policy and the current exchange rate regime remain appropriate to support the economic situation. Nevertheless, recent inflationary pressure and the gap between real and nominal exchange rates should be properly monitored. Also, we support staff's recommendation to update the currency basket and maintain adequate reserve buffers to bolster the country's competitiveness and macroeconomic stability. We also note that for a small and geographically-dispersed state, advancing the adoption of financial technologies could potentially help address the financial market challenges confronting the country. *Could staff elaborate on the authorities' stance regarding these cutting-edge financial technologies to deepen financial market developments?*

Structural Reforms and Capacity Developments

Establishing new sources of economic growth and addressing gaps in SDGs and climate objectives are urgent tasks for the Solomon Islands to achieve sustainable and inclusive growth. In this regard, we welcome the authorities' NDS (National Development Strategy) and NIIP (National Infrastructure Investment Plan). We also welcome the detailed analysis in the selected issues papers which indicates that annual additional spending of about 6.9% of GDP is needed to achieve key SDGs targets by 2030. *In this regard, how does staff assess the feasibility for the country to fully secure the necessary funding?* Further, these ambitious reforms including climate change adaptation measures will require strengthening the authorities' institutional capacity as well as prioritization and strategic planning. *Can staff elaborate on CDs envisaged by the Fund or other development partners to support the authorities' efforts on this front?*

Lastly, for a small island and fragile state, we would like to emphasize the importance of supporting the authorities' efforts through the Fund's CD that is well-integrated with the policy recommendation under the Article IV consultation. In this regard, we welcome

the summary on TA priorities in Annex IV, and encourage staff to keep close communication with the authorities and effectively collaborate with other development partners to deliver effective CD.