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The Chairman's Summing Up at the Conclusion of the  
1982 Article IV Consultation with Solomon Islands  
Executive Board Meeting 82/136, October 25, 1982

Executive Directors generally endorsed the appraisal contained in the staff report for the 1982 Article IV consultation with Solomon Islands. The authorities were commended for their success in expanding productive capacity in the 1970s. It was noted that the authorities had been successful to some extent in mitigating the effects of a massive deterioration in the terms of trade on the balance of payments. Directors commended the Solomon Islands authorities for having taken several measures to help external adjustment, in particular, the exchange rate adjustments in 1981 and 1982. They noted, however, that inflation had remained substantial and that an external current deficit of the magnitude of recent years would not be sustainable over the medium term. The large increases in budget expenditures of recent years had contributed to a substantial weakening of the budgetary position, despite a strong revenue performance. Although economic growth had stagnated in 1981, several Executive Directors commented that, given the small open nature of the economy, the stagnation was due essentially to external factors.

Looking toward 1983, Executive Directors supported the policy objectives of significantly reducing the current account deficit of the balance of payments, while directing the investment effort toward strengthening the basis for export-led growth over the medium term. Given the less favorable external aid prospects, Directors encouraged the authorities to strengthen the budgetary position, particularly through restraint in current expenditures, so as to reduce the fiscal deficit and its financing from domestic sources. The revenue base should also be broadened, a number of Directors suggested, and the conduct of exchange rate and wage policies should be geared to sustaining export profitability. Some concern was expressed on the potential dangers of the present wage arrangements. Regarding the need for a greater mobilization of domestic savings, several Directors expressed the view that, while measures taken thus far were commendable, efforts--especially in interest rate policy--should be continued. Questions were raised on the desirability of investing heavily in agricultural production such as cocoa, given the price fluctuations of such commodities, but it was also recognized that the scope for diversification was subject to various constraints.

On the whole, Executive Directors considered, the adjustment effort undertaken in 1981 under the stand-by arrangement with the Fund, and continued to some extent in 1982, has been very helpful, but needs to be further supplemented in the near future in order to build a sound basis for economic growth with a stable domestic financial situation and a viable balance of payments. Executive Directors hoped that the future discussions with the Solomon Islands authorities would lead to a continued close collaboration with the Fund.