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Green Statement by Mr. Jennings and Ms. Smith on Solomon Islands - 2023 Article IV Consultation (SM/23/89, SM/23/90)

We thank staff for their comprehensive reports, and we broadly agree with the thrust of their analysis and policy recommendations. Solomon Islands has begun to rebound from the pandemic; however, the recovery has been tepid and remains subject to downside risks including further escalation in global prices, and recurrent political instability. As an archipelagic small state Solomon Islands also faces structural challenges and significant vulnerability to external shocks including climate-related shocks.

Steadfast commitment to structural reforms, fiscal prudence and sound governance will be critical to the success of infrastructure projects and their impact on development and growth. We are pleased to note the large infrastructure projects planned for the near to medium term, as well as the authorities' success in securing support from donors—including the World Bank, Asian Development Bank, and European Union—to help finance these initiatives. We agree with staff that the projects should be effectively prioritized, phased, and implemented to ensure that financial, fiscal and external stability and sustainability are not compromised. We encourage the authorities to sustain efforts to strengthen public investment management and ensure strong coordination among donors. The authorities are to be commended on the recent adoption of the Tax Administration Act, which is a positive step toward addressing weaknesses in the tax system; and we look forward to the completion of the ongoing Tax Administration Diagnostic Assessment (TADA). We encourage them to develop a Medium-Term Revenue Strategy (MTRS) and continue to rely on the fund to help build capacity toward this goal.

Given the rapid escalation in inflation, we welcome the Central Bank of Solomon Island's recent monetary policy tightening. The sharp increase in global prices and the consequent reversal in inflation from -2.7 percent in March 2022 to 8.5 percent in December 2022, warrants close vigilance and readiness to adjust if further tightening is needed. Ongoing efforts to strengthen capacity—including economic analysis, forecasting, and monetary policy communication— are positive steps and reviews of the exchange rate basket as well as the central bank's internal audit would be beneficial.

We take positive note of the Country Engagement Strategy for Solomon Islands and agree with the focus of capacity development on strengthening sound macroeconomic policy

implementation. The CD needs and sequencing outlined by staff seem appropriate and we encourage the authorities to work closely with staff towards implementation. Coordination with development partners would also strengthen impact and efficiency. Given the country's significant vulnerability to climate shocks— including cyclones, heavy rainfalls, earthquakes, and tsunamis—investment in climate adaptation is critical. Support with building capacity to cope with disasters and access global climate funds is also needed.