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October 29, 2018

**The Acting Chair's Summing Up
Solomon Islands—2018 Article IV Consultation
Executive Board Meeting 18/87
October 29, 2018**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the recent solid growth performance, contained inflation, and comfortable external reserves. However, Directors noted that the weak fiscal position, a build-up in domestic arrears, and low fiscal buffers limit policy space and leave little room to respond to shocks. Looking ahead, they noted the need to generate new sources of growth. Directors emphasized that a strong commitment to sound polices and structural reforms is necessary to maintain macroeconomic stability, address vulnerabilities, and support sustained growth. Achieving sustained growth would also require substantial infrastructure investment.

Directors stressed that securing fiscal sustainability should be a priority. They encouraged the authorities to take action to resolve domestic government arrears and to gradually rebuild fiscal buffers to build resilience, including from natural disasters. Directors underscored the importance of boosting revenues, strengthening tax compliance, and containing spending. In addition, they emphasized that spending priorities need to be better aligned with the National Development Strategy.

Directors encouraged sustained fiscal reform efforts, including advancing public financial management and preparing a Medium-Term Fiscal Strategy to assess the tradeoffs between development spending and building buffers. They also called for greater transparency of the Constituency Development Funds. Directors welcomed the authorities' interest in strengthened tax administration and reform. A medium-term revenue strategy would help to guide policy goals and sequencing.

Directors considered the current monetary policy stance and the basket exchange rate peg regime to be appropriate. A modest increase in the cash reserve requirement would help absorb structural excess liquidity. Directors encouraged periodic reassessment of the level of the exchange rate to ensure that it remains supportive of external stability and economic growth.

Directors commended the authorities' efforts to improve financial inclusion and to link it to resilience building. They highlighted that clearing the backlog of financial legislation would help strengthen the financial sector supervisory and regulatory framework. Directors encouraged the authorities to take steps to ensure the effectiveness and enforcement

of the AML/CFT framework. They also emphasized that these reforms, in addition to addressing governance issues in the logging industry, would help sustain correspondent banking relationships.

Directors emphasized that structural reforms aimed at greater private sector involvement are key to supporting growth and generating new sources of growth. They also called for continued efforts to enforce and push ahead with the anti-corruption agenda and highlighted that a strong policy and regulatory environment is important to ensure that the maximum benefits from the mining sector are secured.

It is expected that the next Article IV consultation with Solomon Islands will take place on the standard 12-month cycle.