

SU/20/21

February 5, 2020

**The Acting Chair's Summing Up
Solomon Islands—2019 Article IV Consultation
Executive Board Meeting 20/14
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Executive Directors agreed with the thrust of the staff appraisal. They welcomed the recent growth performance, the improvement in the fiscal position in 2018, low inflation and a comfortable international reserves cover. However, they noted that growth is slowing, fiscal pressures have begun to re-emerge and risks to the outlook are mostly on the downside. Directors urged the authorities to maintain fiscal discipline, strengthen governance and improve the business environment to sustain growth.

Directors emphasized that policy measures are needed to secure fiscal sustainability and build resilience, including to natural disasters through investment and contingency planning. They encouraged rebuilding the government cash balance, for which it would be essential to strengthen expenditure control and prioritize spending in line with the National Development Strategy. Sustaining efforts to boost revenues, increasing tax compliance, improving efficiency of the tax system and strengthening revenue administration would also bolster the fiscal position.

Directors urged the authorities to press ahead with expenditure reforms which would improve budget outcomes and the quality of spending through strengthening procurement planning, enforcing commitment controls, and greater transparency of the Constituency Development Funds. Directors stressed prudent management of development partner-financed infrastructure investments. Spending for the Pacific Games 2023 should be contained, financing should be transparent, follow procurement and public financial management best practices, and should be on grant or highly concessional terms in line with debt sustainability and implementation capacity. Directors welcomed the progress in anti-corruption efforts and encouraged stronger enforcement.

Directors considered that the basket exchange rate peg regime remains appropriate for Solomon Islands. They welcomed the review on the composition of the basket. Fiscal consolidation and structural reforms would help bring the external sector position closer to that suggested by medium-term fundamentals.

Directors emphasized the need to generate new sources of growth and viewed improved internet connectivity as an opportunity to foster private-sector development and public sector service provision. Harnessing benefits from connectivity would require

improvements in the regulatory framework, and complementary investments in infrastructure and human capital. Progress in strengthening governance should continue where improvements in the legislative framework, regulation and oversight would be necessary to create a conducive environment for mining and avoid governance problems.

Directors encouraged the authorities to sustain progress on financial sector reforms. The strengthening of the AML/CFT framework would help alleviate risks to correspondent banking relationships.

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