



CENTRAL BANK of SOLOMON ISLANDS
P.O. BOX 634, Honiara, Solomon Islands

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FOR IMMEDIATE RELEASE

IMF Completes 2019 Article IV Mission to Solomon Islands

Honiara, Solomon Islands - An International Monetary Fund (IMF) team led by Ms. Alison Stuart visited the Solomon Islands during October 30-November 12 to hold discussions on the 2019 Article IV Consultation.

At the conclusion of the visit, Ms. Stuart issued the following statement:

* “Solomon Islands has benefited from a solid growth performance, strengthened economic institutions, and macroeconomic stability in recent years. However, a concerted effort is needed to place the government’s budget on a sounder footing; provide a buffer to respond to shocks, including natural disasters; and to enable Solomon Islands to realize its development potential in line with the National Development Strategy.”

“Governance challenges need to be overcome to provide a solid foundation for growth. Key issues include governance of the logging and mining sectors, and the need for transparency regarding use of Constituency Development Funds (CDFs). The mining sector should contribute its fair share of fiscal revenues to ensure that Solomon Islands benefits from mining activity. The lack of transparency and reporting of CDF spending means there is little evidence to show how these funds contribute to social or economic development.”

“Economic growth was faster than expected in 2018, at 3.9 percent but is expected to slow to 2.7 percent in 2019, with weaker logging and agricultural activity, and a temporary pause in activity around the election period. Headline inflation was subdued at 1.5 percent in July 2019 and is expected to remain contained.”

“While the 2018 budget recorded a surplus of 0.7 percent of GDP, due to higher than expected revenues and slower execution of major infrastructure projects, a deficit of 2.7 percent of GDP is expected in 2019 as revenues have weakened, and spending has picked up in the latter part of the year, with a sharp increase in the public sector payroll.”

“Against this backdrop, the IMF staff team and the authorities discussed policies to restore fiscal buffers, strengthen public financial management, improve governance, and invest in new sources of growth.”

“Policy measures are needed to keep fiscal buffers above a minimum level. Efforts to recover tax arrears, strengthen revenue administration and compliance have been successful and can help improve the fiscal position. Greater spending discipline, and a focus on quality spending, would be less disruptive than the large and ad hoc cuts to offset big increases in the payroll or in areas such as Constituency Development Funds where spending has increased rapidly in recent years.”

“The government’s continued focus on tax reform is welcome. The reform offers an important opportunity to make the tax system more efficient, fair and equitable. To yield good results, the authorities should set a medium-term revenue strategy with clear policy goals. This would make sure that policies, administrative and legal reforms are well coordinated. Pressing ahead with public financial management reforms will improve spending efficiency.”

“Opportunities exist to develop job-rich sectors, such as tourism, agriculture and fisheries. The new undersea cable could be strongly beneficial for private sector development, as well as public sector service delivery, as long as the cost of service provision declines. Success will also depend on appropriate investment in human capacity, as well as physical infrastructure. Closing the infrastructure gap and structural reforms in the areas of trade and access to finance would also foster private sector development.”

“A potential for scaling up of development partner-financed investment could help support infrastructure development needs. However, the authorities must be in the driving seat to ensure that projects fit with key development plans and risks are appropriately managed, financing terms should be transparent, and projects should be subject to robust procurement practices. A step up in public financial management practices is critical to ensuring improved outcomes.”

“Investments ahead of hosting the Pacific Games (PG) in 2023 will need to be carefully managed so they do not substantially add to fiscal risks and debt. Spending should be contained, financing should be transparent, and on grant (or highly concessional) terms so as not to crowd out other urgent priorities.”

“The basket exchange rate peg remains an appropriate nominal anchor for Solomon Islands. In line with softer activity, credit growth has slowed. Staff noted that lending rates, particularly on fully collateralized personal loans, remain high. The banking system continues to have a structural excess of cash, in part reflecting limited lending opportunities and borrowing demand at current interest rates. A number of options exist to reduce structural excess liquidity over time, including facilitating further offshore investment by the NPF. “

“The IMF stands ready to support the government’s reform efforts through policy advice and capacity development especially with respect to fiscal management and reform, monetary and exchange rate policy, financial sector supervision and regulation, and macroeconomic statistics.”

“The IMF team wishes to express its deep appreciation to the authorities and other stakeholders for frank and constructive discussions.”

Key Points:

- *Growth is slowing in 2019, with weaker logging activity. Generating new sources of growth is becoming urgent with logging in decline. Fiscal discipline, strengthening governance, and a better policy and regulatory environment for business would provide the platform for new growth sectors to flourish.*
- *Government budgetary pressures are reemerging due to lower revenues and rising spending. Fiscal adjustment is needed and can be achieved by limiting spending in non-priority areas, introducing better budget planning and prioritization, and establishing a medium-term revenue strategy. Containing fiscal risks from hosting the Pacific Games in 2023 will be an important challenge.*
- *Opportunities to scale up development-partner-financed infrastructure investment have to be managed carefully. The authorities must be in the driving seat with respect to investment decisions and borrowing, ensuring that all projects are strictly prioritized in line with key development plans, the payoffs are sufficient, and any risks are properly managed.*

**All information supplied by IMF Mission team to SI*

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