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Statement by The Honorable Ralph Goodale
Minister of Finance, Canada
On behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

Statement prepared for the International Monetary and Financial Committee of the International Monetary Fund
The Honourable Ralph Goodale,
Minister of Finance of Canada

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This meeting of the International Monetary and Financial Committee (IMFC) presents us with a historic opportunity, as we enter the seventh decade of the International Monetary Fund's (IMF's) existence, to take stock of the institution and its progress toward fulfilling its mandate of fostering a stable and prosperous global economy and financial system. At the centre of this stock-taking is the Strategic Review of the Fund's role in supporting the international monetary system, launched by the Managing Director just over a year ago. The conclusions of this Review, presented to the IMFC at our meeting today, both reaffirm the central relevance of the Fund's mandate to its members and demonstrate clearly the institution's capacity for renewal in response to changes in the environment in which it operates.

This meeting also gives the Fund and its membership a unique occasion to signal a clear break from the past by implementing a debt relief plan for many of the Fund's poorest members, completing the process of debt relief for these countries and contributing to their achievement of the Millennium Development Goals.

Global Economy

The Fund's forecast in its *World Economic Outlook* is for the global expansion to remain reasonably steady, with growth expected to moderate to 4.3% in 2005 and 4.4% in 2006. However, regional differences have become more marked since the spring and recent oil price surges have increased global risks. The expansion has continued to be led by the U.S. and emerging Asia, while growth in Japan and the euro area remains disappointing.

In the current global context, we share the IMF's assessment that the balance of risk to the short-term outlook, and beyond, remains slanted to the downside. The global outlook faces three key short-term risks: high and volatile oil prices may dampen growth by lowering domestic demand and putting upward pressure on inflation; rising protectionist pressures may dampen growth by restricting trade; and possible significant tightening of financial market conditions may weaken housing markets and have a significant impact on some emerging markets. In our view, these risks have increased since the Fund's last assessment six months ago, with the increase in oil prices and increased global current account imbalances.

Hurricane Katrina has brought immense destruction and human suffering. We are all humbled by this event, and the members of this constituency have offered our sympathies and assistance. In Katrina's aftermath, American oil production has been temporarily diminished at a time when oil prices were already high. Demand for oil is expected to continue growing strongly, while supply is already constrained and unable to expand quickly. Addressing this challenge requires three actions: improving the investment climate, boosting energy conservation, and using technology to get more out of energy sources and reduce the environmental costs. Conservation and the development and use of new technologies have to be central parts of any sustainable energy strategy.

Beyond oil, the international community needs to address key vulnerabilities in order to reduce the risk of disorderly adjustment and to support higher long-term growth: 1) widening global imbalances and the dependence of global expansion on the United States and China could trigger a significant global slowdown should their economies weaken; 2) unsustainable medium-term fiscal positions are likely contributing to external imbalances and are leading to concerns regarding increasing debt and fiscal pressures from aging populations; 3) various structural weaknesses that constrain growth, which necessitate various types of reforms in different regions; and 4) the uncertain prospects for the outcome of the Doha Round in order to ensure effective trade liberalization.

Going forward, authorities in key countries must take concerted action to reduce imbalances, thus helping forestall the risks of a disorderly adjustment, limit the size of external exposures and the attending risks, and sustain global growth during the adjustment process. An orderly resolution to the current and growing global imbalances will require different responses in different economies. There is a widespread recognition that fiscal consolidation is needed in the U.S., as are continued structural reforms to boost domestic demand in Europe and Japan and greater movement towards more flexible exchange rates and financial sector reforms in emerging Asia. There is little debate on the analysis underlying these prescriptions, yet the focus has been more medium-term than near-term and implementation has lagged. The longer these adjustments are avoided, the larger, and potentially more disruptive, will be the changes required to ensure sustainability.

The Canadian economy accelerated in the second quarter of 2005, with real gross domestic product (GDP) growing 3.2%, up from the 2.1% growth observed in each of the two previous quarters. Final domestic demand grew a solid 2.9% in the second quarter, slowing from a very strong 6.2% gain in the first quarter, with all components contributing to growth. For 2004 as a whole, real GDP increased 2.9%, while final domestic demand was up 3.9%. Well-anchored expectations have helped keep consumer price inflation low and stable. After holding the target rate unchanged at each of the previous six fixed announcement dates, the Bank of Canada resumed its tightening cycle on September 7th, increasing the overnight target rate by 25 basis points to a still-accommodative 2.75%, noting that, “with the Canadian economy operating close to capacity and the stance of monetary policy still stimulative, the Bank will be monitoring developments closely and continuing to assess underlying trends in the economy and their implications for keeping inflation on target over the medium term.”

Healthy business and consumer confidence and solid job gains, coupled with Canada's strong monetary and fiscal fundamentals, should continue to support Canadian growth for the remainder of this year and 2006. In their spring 2005 *World Economic Outlook*, the IMF projected Canada's real GDP growth to be 2.8% in 2005 and 3.0% in 2006, second only to the United States among Group of Seven (G7) countries in both years. These projections are just slightly weaker than the 2.9% and the 3.1%, respectively, expected by private sector forecasters surveyed at the time of the February 2005 budget. The risks to the Canadian outlook are largely external, relating to the volatility of oil prices as well as sustained U.S. savings deficits, led by the public sector, and current account imbalances.

Canada's fiscal situation remains strong. According to estimates by the Organisation for Economic Co-operation and Development, Canada was the only G7 country to record a fiscal surplus in each of the past three years and will again be the only G7 country to record a surplus in 2005 and 2006. Following a $1.6-billion surplus in 2004–05, the federal government is expecting balanced budgets or better in 2005–06 and in each of the next four fiscal years. The federal debt has declined steadily since 1996–97 and, combined with Canada's strong economic growth, has resulted in a significant decline in the federal debt-to-GDP ratio, from its peak of over 68% in 1995–96 to under 39% in 2004–05. The Government is committed to keeping this ratio on a downward track, and in Budget 2005 reaffirmed its objective to lower it to 25% by 2014–15.

The Irish economy continues to prosper, with GDP growth of about 5% projected for 2005—well above the European average. Given the impact of rising energy prices, inflation will increase slightly to 2.4%, but still remain close to the euro-area average. Employment is still expanding quite strongly (2.9%), while unemployment should continue to average about 4.2%. Small deficits of about 1% are expected in both the fiscal and current external accounts. This positive picture is, however, subject to downside risks in terms of rising oil prices, persistently slow growth in European partners, the possible disorderly unwinding of global imbalances and the extent to which growth is dependent on the housing market.

In this context, the focus of policy in Ireland will continue to be on containing domestic cost pressures to underpin competitiveness, which remains the key economic priority. It will also be essential to manage the public finances in a prudent and sustainable manner so as to maintain the record of broad fiscal balance. The remarkable performance of Ireland over the past decade, however, places it in a strong position to meet the challenges facing it.

The economies of the majority of the Caribbean countries that I represent continued to experience expansion during the first half of 2005, albeit at a slower pace than in 2004. While there was continued growth in the tourism sector—the main driver of economic activity—the record expansion of 2004 was not maintained as visitor arrivals moderated somewhat during the first half of 2005 in many of the countries. External factors have also impacted these economies. In particular, higher oil prices have adversely affected the fiscal and external current accounts in these countries, all of which are net oil importers. The short- to medium-term economic outlook for these countries remains broadly favourable, with tourism and construction activity, primarily associated with domestic investment, expected to be the principal drivers. Nevertheless, the Caribbean countries will face significant challenges, both domestic and external, that could threaten growth and therefore require policy action. These include the impact of higher oil prices, the prospect of an increase in interest rates, and changes in trade regimes and the pattern of trading preferences. Economic policies firmly anchored in the medium term, and based on the objective of ensuring fiscal and debt sustainability in the context of productive and efficient economies, are at the centre of a strategy that will foster resilience and prosperity in these economies.

Helping Countries Vulnerable to Natural Disasters

Natural disasters are a terrible fact of life, as the unimaginable destruction and human suffering wrought by Katrina have again demonstrated. Certain areas of the developing world are particularly prone to repeated natural disasters, the Caribbean being a prime example, as illustrated in that region over the last year by the impact of a number of hurricanes and tropical storms, including the terrible devastation caused by Hurricane Ivan. Given the frequency of severe storms in the Eastern Caribbean, the affected states have little capacity for self-insurance, in the context of very underdeveloped local insurance markets for private housing and local enterprises, weak risk mitigation measures such as effective building codes, and lack of post-disaster remediation skills.

The time has thus come for international institutions and donors to work toward developing a new, and comprehensive, approach to catastrophe insurance in the Caribbean, involving the public and private sectors in the region and outside. In this respect, we strongly support the work now underway in the World Bank to explore the insurance of public assets, and in the International Finance Corporation to find new mechanisms to insure private dwellings. We need not only to support those efforts but to broaden their scope and harden their time lines. Such a comprehensive catastrophe insurance approach can provide a more effective risk management approach at more affordable costs, particularly if it includes donor governments and the private sector. It can provide incentives for much better risk mitigation by governments and by private individuals in the region. It can create greater expertise in disaster remediation, improving the current slow and inefficient rebuilding process. And it can reduce the periodic fiscal shocks from disasters that have contributed to the large increases in debt burdens in the affected communities.

Strengthening the IMF

The Fund’s mandate and mission remain as valid today as they were when it was founded 60 years ago. While the international financial system has changed dramatically since then, the Fund remains the central institution charged with fostering global financial stability. For the Fund to meet rapidly evolving challenges and to become more responsive and accountable to the global economy, it will need to adapt its governance, surveillance, lending and capacity building as well as its relationship with its members and stakeholders. By undertaking the Strategic Review launched a year ago, Managing Director de Rato has recognized the pressing need for the Fund to focus its efforts on responding to these challenges and has tabled substantive reforms, and we welcome his proposed Strategic Direction.

We agree with the report's clarity on the continued relevance of the Fund's central mandate and its reaffirmation that, despite the changes in the global economy cited above, the mission of the Fund—to promote global prosperity and financial stability—remains as valid today as it was in 1944. We also welcome the report's conclusion that the Fund's four broad lines of activity—surveillance, lending, capacity building, and its work to assist low-income countries—in broad terms represent the right channels by which it can achieve its objectives. The key challenge for the Fund is now to move forward in the directions outlined in the Review, with the objective of "retooling" the IMF to meet the challenges of the 21st century.

Adopting a More Strategic Communications Approach

Among the many welcome aspects of the Review is its clear recognition that the Fund, as a policy advisor, can only be effective when the recommendations that flow from its solid analytic work are communicated in a persuasive and influential manner. This requires that, in addition to the Fund's traditional role as advisor, it increasingly engage more broadly, so that its policy recommendations become an integral part of the public debate on reforms. For these reasons, we wholeheartedly endorse the Review's goal of developing a communications strategy aimed at ensuring that the Fund adopts best practices in communicating its policy advice and recommendations.

Strengthening Surveillance and Crisis Prevention

The proposed strengthening of surveillance, a core function of the IMF, provides an opportunity to better influence policy development and help prevent crises. Tightening the focus of surveillance, both within and between countries, on policy areas and issues of national relevance and systemic importance for global economic and financial stability would strengthen its impact. A more selective and focused approach should allow the Fund to shape its advice to recognize the constraints and opportunities within countries. An element of this is better integrating technical assistance into the surveillance process, to ensure that members have the expertise and sustained capacity to implement reforms. Taking a longer-term view of specific issues of importance to the global economy, as proposed by the Managing Director, would contribute to strengthening the Fund's contribution to fostering international financial stability.

Clarifying the IMF's Role in Crisis Resolution

Further clarifying the international approach to crisis resolution will help in both crisis prevention and resolution. Today's crises (with origins in the capital account of the balance of payments) are too large for the Fund to respond to merely by providing financial assistance of increasing size. Rather, the magnitude of capital account crises, the need to avoid distorting private sector investment decisions and the inability of the Fund to act as a true lender of last resort underscore the need for lending to be guided by "rules of the game." The establishment by the Fund in 2002 of a policy framework to guide decisions on exceptional access is a key step in this direction. This framework should be reviewed in order to clarify how it is applied and strengthen its credibility in light of experience.

Improving the Fund's ability to respond to crises also requires it to understand better the dynamics of capital account crises, including the behaviour of private capital markets. The Fund must identify the factors that will support sustained re-access to international capital markets in a manner that places less emphasis on large-scale assistance.

Protecting Multilateralism and the IMF's Universal Membership

The IMF serves and is accountable to its members through a governance structure based on the principle that quotas and the associated structure of voting power should aim to reflect countries' relative economic size and capacity to both obtain resources from, and contribute them to, the Fund. However, differences in the patterns of growth among members have created a situation whereby the structure of quotas embodies in some respects a legacy of the past, not the realities of today. In order to sustain the legitimacy of the Fund as a universal and cooperative institution, using its resources to help its membership, a determined effort is needed to ensure that the distribution of quotas, voting power and voice reflect developments in the global economy. While there is no need for consideration of a general increase in quotas at this time given the overall adequacy of the Fund's resources, a redistribution of quotas and voting power to those rapidly growing economies, largely in Asia, whose quotas have not kept pace with their greater role in the global economy, would further strengthen the legitimacy of the Fund's governance arrangements. We believe the time has come to signal the priority the Fund attaches to this issue, and launch a process that will allow concrete progress by the 2006 Annual Meetings in Singapore.

Assisting Low-Income Countries

The IMF has a clear role to play, together with other multilateral institutions, in helping low-income countries reduce poverty and make steady progress toward achieving the Millennium Development Goals. Canada has long believed that reducing unsustainable debt burdens in low-income countries is an essential part of a strategy aimed at helping them achieve sustained growth and poverty reduction. In this context, the debt forgiveness plan proposed by G8 Finance Ministers represents an unprecedented multilateral effort to complete the process of debt relief for low-income countries. By freeing up fiscal space for critical investments in health and education, this initiative will help to promote growth and poverty reduction. This approach ends questions about prolonged use of Fund credits by low-income countries and concerns about debt rollovers, while maintaining the financial capacity of the Fund. Combined with the recently adopted debt sustainability framework for low-income countries, this initiative will provide many countries and the international community a clean break from the past and a chance to help these countries achieve the Millennium Development Goals. Moreover, IMF members can now engage in the discussion over the future of the Poverty Reduction and Growth Facility free of the looming spectre of unsustainable debt.

More generally, in fulfilling its mandate to assist low-income countries, it is important that the Fund focus on its core competency of helping countries achieve macroeconomic stability through policy advice, capacity building and, when necessary, financial assistance. In this respect, a lesson of the Fund's engagement with its developing country members is that sustained financial assistance, in the form of successive IMF programs, rarely in itself leads to strong growth and poverty reduction, and in far too many cases merely contributes to an unsustainable accumulation of debt. Others, such as the multilateral development banks or bilateral donors, are in a better position to provide long-term development assistance.

Improving the Fund's effectiveness in helping its developing country members means that it must continue to be prepared to lend when necessary, while at the same time having a flexible range of tools appropriate to individual country needs. This could include a concessional facility to help countries faced with short-term difficulties arising from adverse shocks to their balances of payments. The Fund's low-income members should also have access to a non-lending Policy Support Instrument (PSI) for instances when a lending relationship with the Fund is not necessary. Such an instrument would provide a structured mechanism for regular provision of policy advice and, just as importantly, allow the Fund to provide the "public good" of an assessment of country policies useful for donors and markets. The PSI signal would thus be particularly useful to countries with strong macroeconomic foundations that nonetheless continue to depend on other donors for development financing or that are in transition to market-based financing. And it would help eliminate the paradox whereby countries are required to borrow from the Fund merely to demonstrate their commitment to the sound policies needed to unlock Paris Club assistance.

Concluding Remarks

Today IMF members have an opportunity to lend strong support to management efforts to strengthen the IMF's surveillance and crisis prevention and resolution frameworks and to enhance the effectiveness of its activities through more strategic communications and a more robust and integrated technical assistance system. Most of all, the IMF and its partners are given an opportunity to complete the debt reduction process for poor, highly indebted members to allow them to refocus their attention on the critical needs of their citizens. Members of the Canadian/Irish/Caribbean constituency endorse the Managing Director's vision of a stronger, more focused and relevant IMF and strongly support the plan to give poor members a clean break from unsustainable debt and, at the same time, a fighting chance of attaining the Millennium Development Goals. As we look ahead to the risks and challenges facing the global economy, there can be no doubt about the value of a strong, effective IMF.