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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

Washington, DC, September 24, 2011

Statement Prepared for the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

The Honourable Jim Flaherty, Minister of Finance for Canada, on behalf of Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines

On behalf of Canada, Ireland and the Caribbean countries in the constituency, I would like to formally welcome the International Monetary Fund's (IMF's) new Managing Director, Christine Lagarde, the new First Deputy Managing Director, David Lipton, and the new Deputy Managing Director, Min Zhu, to the institution.

The sovereign debt crisis in Europe, high unemployment and elevated debt levels in some advanced economies, and inflation pressures in many emerging markets, are stark reminders of the need for governments to maintain sound economic policy frameworks to support our collective well-being. The IMF has a critical global role to play in advising its members on their policy frameworks and in providing candid advice on risks and deficiencies. In this regard, I would like to extend my appreciation to the IMF's support of the G-20 Working Group on the Framework for Strong, Sustainable and Balanced Growth, which Canada co-chairs with India.

Following the onset of the global financial crisis, the IMF has implemented important reforms to its surveillance practices, lending tools and governance framework, while providing a key forum for international economic dialogue and cooperation. Given the prevailing environment, the Fund will continue to face significant pressures on its analytical, financial and technical resources, which must be carefully managed. At the same time, the Fund must continue to be flexible and responsive to circumstances, further enhance its surveillance and governance regimes, and strive at all times to provide timely and balanced advice to its members.

In this Statement, I provide updates on economic developments in the constituency countries of Canada, Ireland, and the Caribbean, and constituency views on key IMF issues.

Canadian Developments

Canada weathered the recession better than most and has, among advanced economies, had one of the strongest recoveries to date, reflecting significant policy stimulus and solid economic fundamentals. This has been visible throughout the recovery as growth has been underpinned by a strong rebound in private domestic demand. Beginning with the third quarter of 2009, the Canadian economy expanded for seven consecutive quarters before pausing in the second quarter of 2011, with the recent slowdown reflecting weak external demand. In spite of the recent pause in growth, Canada's economic resiliency during the recession and the strong recovery have left both real gross domestic product and real final domestic demand significantly above pre-recession levels.

To maintain and preserve Canada's strong financial position, the Government is committed to returning to budgetary balance over the medium term. In Budget 2010, the Government set out its initial three-point plan to bring Canada's finances back to balance. Building on these actions, Budget 2011 announced new measures to achieve additional savings by closing tax loopholes and launching a comprehensive one-year strategic review of departmental spending that is expected to help return the budget to balance by 2014–15, one-year earlier than originally planned.

The IMF expects that Canada, on a total government basis (including the federal, provincial/territorial and local government sectors), will be one of only two G-7 countries, along with Germany, to return to budgetary balance by 2016. This would allow Canada to maintain by far the lowest net debt burden among G-7 countries.

Irish Developments

The Irish economy continues to exhibit strong signs of stabilization, despite the continuing turmoil in international financial markets. The Irish authorities have shown a resolute determination to set the economy back on track and to meet, and in some cases exceed, the challenging benchmarks set out in the IMF program. Growth continues to recover and is expected to turn positive this year, driven, as expected, by a robust external sector, with domestic demand subdued. Wage growth and inflation remain below that of competitors, while unit labour costs continue to fall and productivity is increasing. The results are evident in strong net exports and a current account surplus. Fiscal consolidation continues with combined revenue and expenditure measures setting the public finances on a strong footing.

The process of stabilizing the Irish banking system is well underway. A major restructuring of the sector has involved a thorough examination of all assets, subsequent significant recapitalizations and a program of asset deleveraging which has already commenced and will carry through to 2013. Deleveraging will also reduce the reliance of the banking system on Eurosystem liquidity support and thus return the banks to normal funding operations. An early success of this banking strategy was the injection of private capital into one major bank.

Further positive news for Ireland resulted from the decision by the European Union (EU) to lower the interest rate for Ireland and to extend maturities on EU loans. The resulting improved debt sustainability and maturity profile will assist Ireland in its attempts to regain market access. In a movement against the general tide, Irish sovereign spreads have come in considerably in recent times and Standard & Poor's recently confirmed Ireland's current credit rating.

Caribbean Developments

In the Caribbean, economic prospects remained weighed down by weak conditions, particularly in the United States and Western Europe. In some countries signs of a mild recovery have emerged, with very modest firming in tourism and foreign direct investment (FDI) inflows.

While growth is expected to be more broad-based in 2012, the medium-term forecasts are for gains that are below averages experienced before the global crisis, and therefore with more persistent unemployment. FDI inflows are likely to be constrained by tight credit conditions in global financial markets, and public sector investment capacity limited, given the pressing budgetary consolidation needed to rebuild spending buffers and reduce debt overhang. However, beyond the external influences from fuel and commodity prices, core inflation expectations in the Caribbean should remain mild.

In addition to their efforts to return to more sustainable fiscal policy paths, the Caribbean authorities will maintain their focus on enhancing regional financial stability, particularly to address vulnerabilities which the crises exposed. They are also increasing efforts to achieve more diversified and accelerated growth, through increased productivity, more efficient public sectors and by forging stronger trading linkages with large emerging markets. Caribbean authorities value the ongoing policy dialogue with the IMF and multilateral development partners on these issues. In view of the policy priorities, technical assistance needs will remain elevated. The financial capacity to provide advice, particularly through the Caribbean Regional Technical Assistance Centre, must therefore be preserved. Meanwhile, Caribbean authorities continue to encourage the Fund to take on more of an advocacy role for their development interests, and those of other similarly vulnerable small states, in multilateral forums which promote policy harmonization and cooperation.

The IMF

IMF Surveillance

Candid, targeted and even-handed surveillance is central to the Fund's mandate and critical to its effectiveness. The IMF has made important progress recently on improving the quality of its surveillance products, including through the integration of Financial Sector Assessment Programs into Article IV reviews, the introduction of spillover reports for systemic economies, and the Fund's new *Consolidated Multilateral Spillover Report*. The current Triennial Surveillance Review provides a vital opportunity to further strengthen Fund surveillance by identifying areas for improvement and setting strategic priorities going forward. To maximize effectiveness, the Fund's surveillance products, including Article IV reports, must be made public.

The IMF will continue to play an important role in supporting the global recovery and ensuring greater progress is made in reducing global imbalances through its constructive contributions to the G-20 Framework for Strong, Sustainable and Balanced Growth. Since 2009 the Fund, working with other international organizations, has provided valuable technical advice to G-20 countries under the Mutual Assessment Process, a process co-chaired by Canada and India, to help evaluate the consistency of members' individual policies with our collective goals for global economic growth, and suggest improvements to policy frameworks where necessary.

Reform of the International Monetary System (IMS)

While much work has been devoted to strengthening the IMS over the last year, the system will not work properly so long as the global economy's ability to adjust to shocks remains impaired by exchange rate regimes that frustrate adjustment. Thus, while we welcome efforts to reform the IMS, the focus of these efforts should be on ensuring that global adjustment mechanisms work.

The Fund has also made important progress in strengthening its lending toolkit. The creation of the Precautionary Credit Line and Flexible Credit Line went a long way in filling gaps in the lending framework of the Fund. The near-term priority should be to ensure that these new tools are used and evaluated. A clear case needs to be made that gaps in the toolkit still remain before considering additional instruments.

Canada supports ongoing discussions at the IMF and in the G-20 on the possible expansion of the Special Drawing Right basket of currencies. The current criteria are appropriate and a high bar for entry should be maintained.

IMF Governance

IMF governance reform has also seen its share of important progress recently. The landmark quota and governance reform agreement reached in the fall of 2010 will go a long way towards greater aligning Fund representation with global economic weights. All IMF members should carry out the necessary steps to ratify the 2010 agreement in a timely manner. For our part, Canada, Ireland and our Caribbean constituents have begun this process and look forward to delivering on this commitment in the coming months. Looking ahead to the quota formula review and next general quota, Fund members will have to demonstrate flexibility in order to reach agreement, as they did in 2010.

While essential to the credibility and legitimacy of the IMF, voice reforms are not the only aspect of Fund governance that deserves attention. Important governance reforms remain to be implemented, such as enhancing Ministerial engagement and oversight, and further aligning and clarifying the accountability mechanisms of the Fund. Of critical importance, IMF members, as well as those of other international financial institutions, should commit to a management selection process that is based on merit criteria alone and that pays no regard to candidate nationality.

The Role of the IMF in Low-Income Countries (LICs)

Canada strongly supports the Fund's efforts to help LICs, and has backed such support with substantial commitments of loan and subsidy resources on several occasions. Canada urges other bilateral donors to finalize their commitments to the Poverty Reduction and Growth Trust (PRGT) and continues to support moving ahead with the use of previous gold sale profits to generate PRGT subsidy resources in line with the agreed 2009 LIC financing package. Canada also welcomes the upcoming review of the PRGT lending architecture and believes it will be another opportunity to better tailor the Fund's assistance to LICs requiring financial assistance.