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Statement by James Michael Flaherty
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

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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

Since the last time we met, the global economic recovery is showing further signs of stress. Economic and financial risks remain very elevated and thus of serious concern to all members of the International Monetary Fund (IMF). We look to the IMF to provide a candid assessment of these risks, and for their guidance in navigating these challenging times.

The IMF has identified a number of key risks in its latest global economic and financial outlook. Declines in economic growth and slippage on policy actions are the most pressing risks. Their prescription is clear. At the individual level, more urgent action is needed by European partners to overwhelm the sovereign debt crisis and move steadfastly towards greater integration. Almost as important is the need for the United States to avoid a fiscal cliff. At the global level, medium-term fiscal consolidation and growth-enhancing structural reforms must be pursued in advanced economies, and policy flexibility and efforts to boost domestic demand in emerging markets must be consistent with global rebalancing. The sum of our efforts will be greater than its parts if we are to achieve strong, sustainable and balanced global growth.

Canada’s constituency members continue to face a diverse set of challenges stemming from the global financial crisis. In this Statement, I provide updates on economic developments in the constituency countries (Canada, Ireland and the Caribbean) and discuss the range of policies that members are pursuing in support of jobs and growth. I also convey constituency views on key issues that affect the IMF’s role in safeguarding the international monetary system, including quotas and governance, surveillance, and lending and program design.

CANADIAN DEVELOPMENTS

Canada’s economic performance over the recession and recovery has been solid relative to our peer countries. This reflects Canada’s sound economic, fiscal and financial sector fundamentals, along with the significant and timely support provided under the stimulus phase of Canada’s Economic Action Plan. As a result, Canada has posted the strongest growth in employment in the Group of Seven (G-7) during the recovery. Looking forward, the IMF projects that Canada will be among the fastest growing advanced industrialized economies both this year and next.

However, the global economic environment remains fragile, and Canada is not immune to external weakness. In particular, the euro area sovereign debt and banking crisis continues to weigh on financial markets and has resulted in a deterioration in the global outlook. In addition, the U.S. recovery remains modest, and considerable uncertainty remains over the risk of significant fiscal tightening at the beginning of next year.

The Government of Canada remains committed to returning to budgetary balance over the medium term, and results to date suggest it is on track to achieve this goal. Recent policy actions—including the winding down of temporary stimulus, specific measures to restrain the growth of direct program spending, and steps taken to bring federal public service compensation in line with other public- and private-sector employees—are expected to help achieve budgetary balance over the medium term and a declining federal debt-to-GDP (gross domestic product) ratio by next fiscal year. Should economic conditions deteriorate significantly, the Government of Canada stands ready to take the actions necessary to support jobs and growth.

The Government of Canada has also introduced measures to support jobs and growth by improving conditions for businesses, entrepreneurs and innovators, investing in training and infrastructure, and helping the unemployed find jobs. These measures are being complemented by significant structural actions that focus beyond the medium term, such as those to ensure the long-term sustainability of Canada's social programs, including increasing the age of eligibility for Old Age Security and putting transfers to provinces in support of health care, education and other social programs on a predictable, sustainable path. Structural changes are also being put in place to increase Canada's long-term economic potential. These include reforming the immigration system to ensure that it meets Canada's labour market needs, modernizing the regulatory system for major economic projects, implementing a new approach to support business innovation, and improving incentives to return to work when unemployed.

Canada continues to actively support the IMF and its lending activities through its financial commitments via the Fund's quarterly financial transactions plan, and through our participation in the New Arrangements to Borrow Agreement. Canada also demonstrates its ongoing support for the Fund's involvement with low-income countries, being one of the largest loans and grants contributors to the Poverty Reduction and Growth Trust as well as externally financed technical assistance.

IRISH DEVELOPMENTS

Last year saw a rebound in Irish economic activity, with GDP recording its first full year of growth since 2007. Despite a challenging external environment, a second successive year of positive growth is expected in 2012. Exports, which are the driver of Ireland's recovery, performed reasonably well in the first half of the year, rising at an annual rate of almost 4 per cent. This owes much to the price and cost competitiveness improvements that continue to materialize and have helped offset softer demand from our trading partners.

Domestic demand, on the other hand, remains weak. This is as expected—it will clearly take time for households, firms and the Government sector to work through the imbalances built up during the boom.

Ireland's European Union/IMF program is now just over the half-way point and is continuing to perform well. Implementation remains strong and the budget deficit is on track to be within its target for this year, just as it was last year. In addition to putting the public finances on a more sustainable footing, the Irish authorities are working to repair the banking system so that it is in a position to support the real economy as it recovers. Restructuring of the sector is continuing, as is deleveraging. Mortgage arrears resolution strategies have been put in place, while the establishment of a new personal insolvency framework is at an advanced stage. At the same time, the Government is pursuing an ambitious program of structural reforms and targeted measures to support domestic activity and job creation, including strengthening the competition law framework and the activation system.

These efforts, and the European commitment to examine the situation of the Irish financial sector with a view to improving sustainability, have helped rebuild market confidence. Yields have come down appreciably and Ireland made a welcome return to international capital markets in July—for the first time since 2010—issuing Treasury Bills and long-term bonds totalling €4.7 billion in new funding. This was followed in August by the sale of €1 billion of new amortizing bonds and a further €0.5 billion issuance of Treasury Bills in September.

CARIBBEAN DEVELOPMENTS

Among our Caribbean country constituents, growth is projected to be fairly modest over the medium-term, mostly associated with tourism inflows from North America and Europe. In these markets downside risks are still pronounced. Meanwhile, the prospects for more robust foreign direct investment inflows are still hampered by tight global financial market conditions. Although inflation is likely to remain moderate, Caribbean authorities are still concerned about the impact of high food and energy prices on the poor and the strain that this places on social safety net systems. In the meantime, efforts to resolve financial sector fragilities continue in many instances, and are being approached cautiously to keep fiscal costs at a minimum, given the already high debt overhang.

These small and fragile economies require much stronger growth to reduce poverty and unemployment, and to support more sustainable fiscal policy frameworks. Yet even as Caribbean policy makers commit to medium-term fiscal consolidation, the need for growth-enhancing public sector investments remains acute and underserviced. These countries view their engagement with the Bretton Woods institutions as critical to securing more access to development financing, and as a conduit for building stronger and more advantageous relationships with external donors and private investors. For their part, authorities are also committed to policies which increase the stock of human capital, improve the business climate and promote more diversified external trade. In some countries, efforts to broaden source tourist markets are already showing promise.

CONSTITUENCY VIEWS ON THE IMF

Quotas and Governance

The IMF must have a strong and effective governance structure to succeed in promoting global prosperity and financial stability. To this end, we strongly support efforts to ensure that the governance structure of the Fund evolves to reflect the changing global economic power of its membership. The 2010 IMF quota and governance reform agreement was a significant step forward in this regard. We look forward to its full implementation.

The current review of the IMF quota formula provides another opportunity to make the IMF more legitimate and effective. The members of our constituency are committed to ensuring that this review is done in a fair and equitable way, and is completed by January 2013. More broadly, we are encouraged that the larger membership of the IMF has an interest in simplifying the quota formula while ensuring that voting power at the institution continues to evolve with the changing global landscape. Along with these efforts, we must ensure that the voice and representation of the Fund's poorest and most vulnerable members is protected. Our constituency will be actively engaged in this effort.

We also continue to support pursuing further governance reforms outside of quotas, including increasing Ministerial engagement and strengthening the accountability framework of the Executive Board, IMF management and staff. We encourage the IMF to think strategically about how to make tangible progress in these areas.

Surveillance

Surveillance continues to be at the heart of the IMF's role to safeguard the international monetary system while promoting global prosperity and financial stability. Important improvements to the Fund's surveillance toolkit have been made recently. On the policy side, we welcome the Fund's new financial sector surveillance strategy and the priority placed on improving the strength of risk assessments, pursuing more active stakeholder engagement and better integrating surveillance tools. Credible advice that has traction with members will greatly enhance the contribution the Fund can make to global financial stability.

The recent Integrated Surveillance Decision and its enhanced focus on risks and spillovers are also an important area for Fund surveillance. It provides an opportunity for the Fund to deepen its analysis and advice on its core surveillance responsibility vis-à-vis the exchange rate system, which constitutes the primary mechanism for global economic rebalancing.

Finally, as co-chair of the G-20 Framework for Strong, Sustainable and Balanced Growth, we thank the IMF for its technical assistance and support for the Framework process.

Lending and Program Design

The recent review of IMF conditionality has provided an opportunity to take stock of an issue fundamental to the credibility of the institution and, in some cases, the stability of the global economy. While experience with IMF lending during the current crisis is still evolving, what is clear is that the size and unconventional nature of some IMF programs, both in terms of program design and monitoring, have brought both financial and reputational risks to the institution. The IMF must draw lessons from these experiences and adjust lending policy as necessary. Most importantly, the IMF must reaffirm its independence in program design and monitoring going forward. This is critical towards safeguarding both the credibility of the institution and the resources of its members.

While the IMF lending toolkit has undergone important changes in recent years aimed at addressing the needs of many developed and emerging market members and low-income countries, the Fund must continue to round out its toolkit to ensure that the needs of the entire membership are met. One area of forward-looking focus should be small, vulnerable, middle-income countries. Many of our small island members fall within this category. While they are not low-income countries, they face many similar challenges, including capacity constraints and high vulnerability to external shocks (such as natural disasters).