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Statement by the Honourable Joe Oliver
Minister of Finance, Canada

On behalf of Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint 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 Joe Oliver, 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 our meeting in the spring, it has become clear that recovery from the deepest economic and financial crisis since the Great Depression remains incomplete, unbalanced and fragile. In this Statement, I will outline the salient challenges facing the global economy, and their implications for International Monetary Fund (IMF) policy priorities. I will also convey our constituency's views on specific policy issues germane to the IMF's governance and effectiveness in fulfilling its mandate.

Global Outlook and IMF Policy Priorities

The expected strengthening of the global economic recovery has yet to materialize. Overall, global growth remains weak and uneven across both advanced and emerging market regions. Unemployment remains stubbornly high in many regions, and the global outlook is clouded by downside risks and uncertainty.

A bold, coordinated policy response from members is needed. At the Group of 20 (G-20), members are developing comprehensive growth strategies designed to raise near-term demand as well as address the key rigidities and distortions that are limiting economic growth over the medium term. Good progress is being made. G-20 members are putting forward a wide range of policy actions to address challenges in their economies, particularly with respect to enhancing the quality of investment, lifting employment and participation, promoting competition and facilitating trade.

The IMF is central to this effort, helping assess policy strengths and weaknesses and providing constructive policy recommendations and support for member countries that will help achieve stronger, more sustainable and more balanced growth. The responsibility for implementing growth-supporting policies is shared by the whole of the Fund's membership, and the following areas should guide the Fund's policy agenda in the period ahead.

Fiscal Policies

The weakness of the recovery despite favourable financial conditions, including improvements in household and corporate balance sheets, demonstrates that more needs to be done to strengthen the recovery.

The IMF has an important role to play in helping members identify the scope to implement fiscal policy measures that are more supportive of growth. In particular, the IMF can do more to assist countries in identifying reforms to tax and expenditure policies that can provide a greater contribution to near- and medium-term growth within current, planned budgetary envelopes. In countries where these reforms cannot lead to a sufficient growth payoff, the IMF should not shy away from recommending changes to fiscal envelopes, if economic and financial circumstances warrant. Specifically, members with low growth, below-target inflation and fiscal space need to consider the pace and composition of fiscal consolidation and the appropriateness of targeted, timely and temporary fiscal support. Additionally, it is critical that all members have a medium-term framework of balanced budgets and sustainable debt.

Monetary Policies

Those advanced economies that experienced a severe economic and financial crisis and responded with aggressive unconventional monetary policies are now benefitting from more robust growth. There are clear lessons here for other large advanced economies where inflation is well below target. For emerging markets, greater exchange rate flexibility is central to providing authorities with buffers to better manage changing external financial conditions and potential shocks.

At the same time, there are heightened financial market risks owing to the increasingly interconnected global economy, reduced risk premiums and volatility in markets with potentially limited liquidity, ever-higher concentrations of financial assets under management, and the eventual normalization of monetary policies. In this respect, clear central bank communication and careful policy calibration are critical to mitigate the risk of disruptions to the ongoing recovery. The IMF should remain attentive to the risks associated with this uncertain environment, and stand ready to assist members in managing any associated volatility.

Carefully designed macroprudential policies, within sound market frameworks, will also play an important role. We encourage the IMF to further strengthen the analytical underpinnings of its advice in this area, to assist better-informed policy choices on the potential scope and effectiveness of these tools.

Structural Reforms

Boosting underlying productivity and thereby raising potential growth must go beyond the measures noted above and address the long-standing structural deficiencies in countries' trade and investment regimes, labour and product markets, and banking and financial systems. Doing so would not only lay the groundwork for boosting potential and longer-term growth, but also contribute to strengthening confidence in the near term.

The IMF's surveillance role can be enhanced by a targeted focus on macro-critical structural reforms. A careful and focused reallocation of existing resources will be required to minimize the risk that the Fund is pulled in too many directions. We encourage the IMF to enhance its collaboration with other organizations to leverage third-party expertise wherever possible.

Beyond bilateral and multilateral surveillance, the IMF must continue to draw on its research capacity and cross-country analysis to inform decision making and global collaboration in a complex, uncertain and evolving global economic and financial environment.

IMF Mandate and Instruments

Surveillance and Advice

Our constituency welcomes the recommendations from the 2014 Triennial Surveillance Review (TSR) and their future implementation. Good progress has been made since the innovations of the 2011 review, many of which still need further fine-tuning to fully achieve their potential. Going forward, the focus will need to be on the implementation of the key findings of the TSR as well as on the assessment of its results.

In particular, the Fund needs to continue its efforts to better integrate spillover risk analyses into all its surveillance activities, including bilateral surveillance. Spillover risks are particularly important with respect to the financial sector. We welcome the recent Financial Sector Assessment Program (FSAP) review and reiterate the importance that systemic risk must be the main organizing principle of all aspects of the FSAP. As a general proposition, financial sector assessments must become a more integral part of surveillance review for all members.

We also wish to highlight the importance of strengthening external sector analysis and better integrating it into bilateral surveillance. Exchange rate assessments are at the core of the Fund's mandate, and monitoring the spillover effects of exchange rate policies on other members is an integral part of effective surveillance.

Finally, we note that IMF surveillance is hampered by the excessive delays by certain members in submitting to an Article IV review. We reiterate our support for strengthened enforcement mechanisms requiring members to undertake regular Article IV reviews. Reviews will also be more productive and gain better traction if they are transparent and made publicly available. Our constituency welcomes the upcoming review of the IMF's Article IV incentives framework.

Tools, Lending and Conditionality

The IMF's ability to address future crises requires an ongoing capacity to adapt and to learn from past experience. To encourage this learning culture within the Fund, we have advocated for a comprehensive and objective assessment of the Fund's performance in the wake of the financial crisis. We therefore welcome the inclusion of a Crisis Program Review in the Managing Director's Global Policy Agenda. To maximize the benefits of the Crisis Program Review, we encourage the IMF to consult externally and draw on the many high quality publications of the Independent Evaluation Office in this area.

Overall, we support the IMF's current sovereign debt restructuring work plan, while emphasizing the importance of better safeguards for official sector resources and clear guidelines for appropriate burden sharing by the private sector in supporting adjustments efforts. One of the main lessons from some recent lending programs to advanced economies is the need to review the IMF's approach to sovereign debt restructuring in cases where debt sustainability is uncertain. We welcome recent work in this area and encourage the Fund to bring forward proposals that will provide a more effective approach to dealing with episodes where members require exceptional official financing but debt sustainability is not certain.

Recent court cases have served to highlight some of the ongoing challenges associated with market-based approaches to sovereign debt restructuring as a result of activist holdout creditors. We welcome the Fund's advocacy for ways to strengthen contractual approaches to address collective action problems in sovereign debt restructuring. Further steps could be considered, such as helping countries that wish to swap existing debt into debt with new contractual arrangements designed to mitigate collective action problems.

Finally, we recognize that the IMF also has an important role as a trusted advisor, providing valuable technical assistance and capacity building to member states. We encourage the Fund to continue to tailor its advice to take into account the unique challenges of small and vulnerable states. We also encourage the IMF to strengthen its capacity to serve as a coordinator for external stakeholders, where appropriate—a role the Fund is currently fulfilling in Ukraine.

Equipping the Fund to Deliver on its Mandate

It is essential that the IMF be equipped with the governance structure and resources to continue to play its vital role in the global economy.

Quota and Governance Reform

Quota and governance reform continues to be essential to ensuring that the IMF has the resources and credibility to effectively fulfill its mandate. The ongoing delays in the implementation of the 2010 reforms are deeply regrettable, and we urge the members that have not yet ratified the reforms to do so at the earliest opportunity.

Strengthening the IMF's quota and governance system is an ongoing process. Our constituency remains open to practical options that would advance the completion of the 15th General Review of Quotas. The 15th Review should build upon the 2010 agreement and the progress made with respect to a new quota formula. The 15th Review should also improve representation at the Fund so that it better reflects relative economic weights of its members and their integration in the global economy. As a starting point, discussion of the Fund's future permanent resource needs should be supported by rigorous, transparent and evidence-based scenario analysis that explicitly recognizes the Fund's catalytic financing role.