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Introduction

Global economic prospects are encouraging, bolstered by the improved world economic environment of recent months. The challenge is to sustain and broaden the recovery that is underway and address global imbalances in a credible and cooperative way. At the International Monetary Fund (IMF), work should continue on enhancing the Fund's ability to promote financial stability by making its surveillance more effective, including through the further development of its monitoring mechanisms.

The Global Economy

The global economic recovery has strengthened and broadened since the last time we met. Growth has picked up significantly in the United States, Japan, the United Kingdom and emerging Asia, although evidence of stronger growth has yet to materialize in the euro area. All in all, we are pleased to see that the recovery has advanced in most regions and are confident that growth will become more balanced across regions over the course of the year.

At the same time, fiscal policy in many countries needs to be put on a sustainable medium-term track, particularly in industrial countries facing long-term fiscal pressures from aging populations. Emerging market economies with high public debt burdens and heavy financing requirements are vulnerable to shifts in financial market sentiment. This will become a growing concern during the transition to higher interest rates as the global recovery advances. A key challenge for these countries is to implement a credible medium-term fiscal consolidation plan.

Growth in Canada turned out to be weaker than expected in the latter half of last year. Economic activity slowed during the year because of a series of unforeseen shocks and a more than 20-per-cent appreciation in the Canadian dollar vis-à-vis the U.S. dollar. As a result, real gross domestic product (GDP) expanded by only 1.7 per cent in 2003, the weakest annual growth rate since 1996.

Looking ahead, solid domestic fundamentals, low interest rates and a favourable global economic environment, particularly strong growth in the U.S., are expected to support Canadian growth in the near term. Canadian private sector economists expect real GDP growth to average 2.7 per cent in 2004 and 3.3 per cent in 2005, in line with the IMF forecasts for Canada.

Canada's fiscal situation remains solid. The Government of Canada recorded six consecutive annual budget surpluses from fiscal year 1997–98 to 2002–03, and the 2004 budget projects a balanced budget or better for the next three fiscal years.

Turning to the other countries which I represent at the IMF, the Irish economy proved resilient to the drawn-out slowdown among its European Union (EU) partners, reflecting the sustained pursuit of growth-friendly policies last year. Despite weak European markets and a strengthening euro, real gross national product increased by 3¼ per cent. There was a marginal budgetary surplus, employment continued to rise appreciably, and inflation is now below 2 per cent. Growth is expected to pick up through 2004 and beyond. But there are risks. Externally, the continuing slow pace of European recovery and the strength of the euro pose challenges. At home, achieving an internationally competitive outcome to the economy-wide wage negotiations now getting underway will be critical. Given the latter, the Irish authorities are looking to the future with confidence. But their key current role is set on a broader stage. They are now deeply engaged in steering the EU safely through the uncharted waters of a very major expansion—with 10 new members to come on board next week—and in the challenging task of finalizing Europe's new constitutional map. I wish them, and all of the new 25-member Union, bon voyage.

The economic situation in many of the Caribbean countries which I represent remains difficult, although there have been some encouraging signs. After a fairly subdued economic performance recently, modest growth returned in most of the countries in 2003, led by a nascent recovery in the important tourism sector. While much still needs to be done to ensure that this is sustainable, recent efforts to intensify economic reforms and increase international competitiveness appear to be meeting with some success. Together with positive developments in the international economy, these efforts should help improve the economic outlook for the Caribbean.

Crisis Prevention and the Role of IMF Surveillance

IMF surveillance plays an important role in helping identify emerging problems before they become crises. Improved surveillance at the IMF—leading to better information for sound economic analysis, including better pricing of risk, which leads to more stable capital flows—is central to crisis prevention. The Fund has made progress in sharpening surveillance and enhancing its impact. These efforts should continue, focusing on the early identification of potential problems and providing candid assessments so that policy prescriptions will be meaningful. We also think there is scope for the Fund to develop, as outlined below, a country-led monitoring framework.

Country-Led Surveillance: A Proposal to Support Low- and Middle-Income Members

Last year, in Dubai, we noted our concern that there was a gap in the assistance we provide to low- and middle-income countries—as it stands, countries must choose between very active Fund engagement through a formal program (including formal conditionality) or accept a much scaled-back engagement through the annual Article IV surveillance process. We asked for further reflection on how we might create a greater continuum of support by filling the gap so countries that are ready to graduate from a Fund program, or do not want a Fund program, could still receive ample Fund advice and technical assistance without having to enter into a borrowing arrangement.

Towards this end, Canada recently presented a proposal to the IMF Executive Board to create a country-led surveillance mechanism. Unlike a formal program, there would be no Fund financing or conditionality. Instead, the country would design (with the advice of Fund staff) its own economic and fiscal objectives. The Fund's job would be to provide frequent monitoring, but unlike the now-defunct signalling staff-monitored program, the reports would be Board-approved, monitoring the extent to which the country is achieving its own economic and financial goals. Such a mechanism would help on the domestic front—to anchor political leadership in following through with the reform agenda—and internationally—as a clear signal to donors and financial markets on the progress the country is making in achieving its goals. We—as well as many others at the Executive Board—believe a country-led surveillance mechanism could fill an important gap in the assistance the IMF provides to low- and middle-income countries, and encourage Fund staff and management to consult with stakeholders on refining this proposal.

Refining and Strengthening the Fund's Role in Supporting Low-Income Countries

Over the last year the Fund has continued to refine—and strengthen—its support for low-income countries. We support many of these initiatives, particularly the efforts to enhance IMF support to low-income countries that are vulnerable to exogenous shocks and emerging from conflict. We also support the recent proposal to establish Poverty Reduction and Growth Facility (PRGF) access norms, which is consistent with our view that a more determined effort to graduate countries from PRGF programs is needed—as prolonged use of Fund resources can undermine ownership.

The proposed operational framework for assessing debt sustainability is also welcomed, and could play a large role in determining financing terms and the appropriate level of new borrowing. The framework is potentially a major improvement in the way we assess debt by using broader debt sustainability indicators and taking into account the quality of country governance. On this last point, we strongly urge the IMF to coordinate its efforts on governance assessments with other international financial institutions, particularly the World Bank.

Finally, progress continues to be made in implementing the enhanced Heavily Indebted Poor Country (HIPC) Initiative and reducing the debt burdens of poor countries, but much work remains to be done. We urge the Fund to provide generous debt relief—including full topping-up when warranted—in order to ensure that these countries have a better chance to achieve a lasting exit from unsustainable debt. Given that some potentially HIPC-eligible countries could soon be emerging from conflict, we ask that the Executive Board move quickly to support the extension of the HIPC Initiative's sunset clause through end-2005.

Conclusion

The outlook for the global economy is encouraging but challenges and risks remain. It is in our mutual interest to continue to pursue sound economic policies to ensure that the global recovery underway is sustained, and that we build in sufficient policy flexibility to allow us to respond to any shocks that might emerge. In this context, the Fund must continue to improve its policy assessment and surveillance instruments, and adapt its lending relationships to the new environment in which it operates.