# International Monetary and Financial Committee

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**Statement by James Michael Flaherty**
**Minister of Finance, Department 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

**Washington, DC, April 16, 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 I represent, I would like to take the opportunity to welcome the new Chairman of the International Monetary and Financial Committee (IMFC). Minister Tharman's leadership and extensive economic and financial experience will add tremendous value to the work of the Committee.

To my fellow IMFC members, we meet at a time when the global economy continues to recover from the financial crisis, but also continues to face significant risks. The imbalances and vulnerabilities that existed before the onset of the crisis have begun to re-emerge, and new sources of instability have emerged.

Global policy coordination and cooperative dialogue continues to be an essential part of the international toolkit to enhance global economic stability. The International Monetary Fund (IMF) was an important contributor in assisting the global economy through the worst of the financial crisis. Its role in overseeing a lasting recovery and preventing future crises through the timely identification of risks and the fostering of global economic cooperation will be equally important as we look to the future.

## Canadian Developments

An economic recovery in Canada is underway, reflecting improved global financial market conditions and a rebound in commodity prices, as well as significant fiscal and monetary policy stimulus. The Canadian economy has expanded for six consecutive quarters since the third quarter of 2009, fuelled by a strong rebound in consumer and business expenditures. This has translated into a labour market recovery, with all the jobs lost during the recession now recouped. Canada's recovery remains fragile, however, given continued global economic uncertainty.

## Irish Developments

2010 was a difficult year for the Irish economy, although the decline in economic activity was much less severe than in the two previous years. While domestic demand remained weak, the downsizing of the construction sector is now almost complete. Improvements in the external environment and significant reductions in the cost base were reflected in increased exports of 9½ per cent, the strongest rate of growth in a decade. 2011 will see a return to positive gross domestic product (GDP) growth driven by exports. The growth potential of the Irish economy remains strong, given the flexibility of the economy, the high skills base and the openness of the economy. These factors will help support growth over the medium term.

The budgetary consolidation which has been underway since mid-2008 is continuing with the Budget for 2011 setting out a further €6 billion or 3¾ per cent of GDP in adjustment measures with the main focus being on curtailing expenditure. The end-March 2011 revenue and expenditure outturns comfortably met the performance criteria set under the joint European Union/IMF programme of financial support.

On 31 March 2011, the *Financial Measures Programme Report* was published, which details the outcome of the Central Bank of Ireland's review of the capital and funding assessments of domestic Irish banks. The Irish authorities have committed to a radical reorganization of the Irish banking system to create two pillar banks that will be smaller and more focused on the Irish economy. The continued presence of foreign-owned financial institutions will ensure that a competitive environment is maintained. Recapitalization of the banks to challenging capital targets aims to ensure that they become viable financial institutions in a position to fund themselves in the future.

**Caribbean Developments**

In the Caribbean, a very slow recovery has begun, paced by a firming in tourism activity. While output gains are expected to be consolidated during 2012, medium-term performance is still expected to trail emerging markets and Latin America in particular. However, this growth potential has to be enhanced to underpin sustainable medium-term fiscal consolidation, sustain further poverty reduction efforts and aggressively confront structural unemployment. Caribbean authorities are therefore committed to policies to strengthen the business environment, enhance labour force productivity and diversify the sources of growth. Oversight of the financial sector remains at a heightened state, in view of still very elevated cyclical credit risks and the continued redress of structural weakness which were exacerbated by the economic crisis. In these regards, regional authorities view the continued engagement of the international financial institutions and other development partners as vital to ensure that economic vulnerabilities are addressed. They also see this support as vital to allow the region to effectively adapt to the changing global landscape of financial regulations and standards.

**The Role of the IMF**

As the IMF highlights in its current *World Economic Outlook,* global imbalances are not expected to unwind over the near to medium term as demand growth in deficit and surplus countries will likely not change substantially. These imbalances, represented by huge gross international asset positions, likely represent a misallocation of capital.

Effective IMF surveillance is crucial to provide sound and comprehensive advice regarding the key problems facing the IMF as well as potential remedies. The Fund must continue to build on the important work it has done recently in this regard, including its reports on managing capital flows and assessing reserve adequacy. This work should aim to ensure an open and resilient international monetary system.

As recently pointed out by the Independent Evaluation Office *Evaluation of IMF Performance in the Run-Up to the Financial and Economic Crisis*, the quality and candour of Fund surveillance needs to be enhanced. The upcoming Triennial Surveillance Review and Review of the 2007 Decision will also provide an important opportunity to assess and improve the effectiveness of Fund surveillance.

Economic crises vary in nature and magnitude. The IMF took important steps in 2010 to ensure that a diverse set of lending options are available to assist members that have difficulties coping with all types of economic shocks. Enhancements to the Flexible Credit Line and the creation of the new Precautionary Credit Line have improved the lending toolkit of the Fund. We must have a clear understanding of the impacts of these changes before we consider whether other reforms to the lending toolkit are required.

With the recently agreed expansion of the New Arrangements to Borrow, the IMF's lending has been substantially strengthened. This is important given the extent of Fund lending in Europe. To safeguard its resources, it will remain important for the IMF to play the lead role in negotiating conditions with borrowers, even when other lending institutions are involved.

Tangible and significant progress has been made at the IMF in the past year that will increase the legitimacy, credibility and effectiveness of the institution. Canada and its constituents commend the IMF membership for obtaining the necessary domestic ratifications to bring the 2008 quota agreement into force. This, coupled with the broad range of IMF governance reforms agreed to in the fall of 2010, constitutes a significant deliverable towards aligning the voice and representation of member countries with their global economic weight. All of the members in our constituency will carry out the necessary domestic ratifications to bring the 2010 reforms into force in a timely manner, and we urge all Fund members to do the same.

While recent measures constitute valuable progress on corporate governance reform, we must continue to identify ways to enhance the governance structure of the Fund. Clarifying the roles and responsibilities of Fund management and the Executive Board to enhance accountability, and introducing a management selection process that is based on merit and is without regard to nationality, are still important goals.