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Statement by Jim 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

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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

Almost five years after the onset of the financial crisis, the global economic environment remains unacceptably weak, with deficient global demand holding back meaningful job creation. While financial market conditions have shown improvement since the last time we met, the underlying economic recovery, starting from an already low level, has yet to solidify and important risks to stability remain. The International Monetary Fund (IMF) must remain diligent in candidly identifying these risks and continuing to underscore to its members the importance of implementing policy actions that will benefit the global recovery, promote job creation and boost growth.

The IMF's latest global economic and financial outlook finds that global tail risks have diminished, but we have been in this situation before, only to see growth forecasts marked down. Assuming that economic conditions will continue to improve without decisive actions by policymakers to implement the policies and reforms necessary to sustain the recovery is a significant risk to the outlook. Many of the impediments to strong, sustainable and balanced growth have been in place for some time. Decisive actions are needed to more forcefully address them. We must remain steadfast. Advanced economies must continue to progress with structural reforms that encourage job creation and growth, while also maintaining credible medium-term fiscal consolidation plans. In the euro area, restructuring weak banks and reducing sovereign stress are priorities. Recent events in Cyprus have underscored the importance of Europe advancing expeditiously on a full banking union. Uncertainty regarding U.S. fiscal policy must be addressed through the adoption of a strong medium-term plan. Emerging markets must also continue to do their part in rebalancing global demand and be mindful of the need to bolster fiscal policy buffers over the medium term. In these uncertain times, one of the most important contributions a government can make to bolster confidence is to maintain a sound medium-term fiscal position.

Canada's constituency members continue to face a diverse set of challenges stemming from the financial crisis. In this Statement, I provide updates on economic developments in the constituency countries of 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 recovery has been solid, reflecting Canada's sound economic, fiscal and financial sector fundamentals. Growth has been driven by a strong domestic economy, including robust business investment. As a result, Canada has more than recovered the business investment lost during the recession.

However, the global economic environment remains fragile, and Canada is not immune to external developments. The euro area is once again in recession and considerable risk remains over the region's implementation of needed reforms. In addition, uncertainty regarding U.S. fiscal policy continues to weigh on growth prospects.

The Government of Canada remains committed to returning to budgetary balance in 2015, and results to date indicate 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 by 2015 and a declining federal debt-to-GDP (gross domestic product) ratio by next fiscal year.

Economic Action Plan 2013, released on March 21, 2013, builds on Economic Action Plan 2012, by providing additional support for jobs and growth. These measures include tailoring skills training to the needs of the labour market, a new 10-year Building Canada Plan with over $53 billion in investments, and new initiatives to support Canada's manufacturing sector and innovation. Furthermore, these measures complement the significant structural actions taken in Economic Action Plan 2012 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 Irish economic activity continue its gradual recovery, with GDP recording its second full year of growth following three years of decline. Despite an external environment which remains challenging, a third successive year of positive growth is expected in 2013, compared to the negative growth expected for the euro area as a whole. Exports, which remain the main driver of Ireland's recovery, performed strongly in 2012, rising at an annual rate of almost 3 per cent, reflecting continuing price and cost competitiveness improvements.

Encouragingly, domestic demand stabilized in the second half of 2012, with investment making a positive contribution to growth for the first time since 2007. Positive, if modest, growth in employment was recorded for the first time since 2008.

High-frequency developments for the first quarter of 2013 have been reasonably positive for domestic demand. Core retail sales remain in positive territory and while unemployment remains high, it has started to fall. The outlook for exports is more challenging than anticipated when forecasts were last completed at end-2012, due to product-specific developments and weak growth in key trading partners.

Ireland's European Union (EU)/IMF program is in its final year, and the focus is now on a successful exit from the program and the measures necessary to achieve it. The program is continuing to perform well. Implementation remains strong and Ireland continues to meet all of the targets set under the program, with the deficit for 2012 coming comfortably below the ceiling. In addition to the ongoing fiscal consolidation, the Irish authorities have started the process of reducing their exposure to the banking sector, through the ending of the bank guarantee scheme and the sale of state stakes in Bank of Ireland and Irish Life. Furthermore, the liquidation of Irish Bank Resolution Corporation has also reduced Ireland's refinancing needs over the next few years.

Ireland is continuing to repair the banking system so that it is in a position to service the real economy as it recovers. The authorities have taken actions to address the problem of non-performing loans so as to strengthen confidence in the banks and the housing market and relieve distressed homeowners. Banks have been given specific, time-bound and quantitative targets to provide sustainable mortgage solutions. This process will be monitored closely and the Central Bank will consider regulatory action, such as additional capital requirements, where necessary.

The government is continuing its policy of seeking to promote pro-growth policy measures, such as through investing in infrastructure and through implementing reforms in education and labour market policies. Recent school-building and infrastructure programs, funded by the European Investment Bank, show its ambition to build for the future. The government is also aware that structural measures are needed to ensure that the rebalancing of the economy is accompanied by active measures to realign the skills of the workforce with the needs of employers. Reform of the education and training system will continue, and specific measures to encourage activation of the long-term unemployed will be attained by doubling the number of case workers.

These efforts, and the European commitment to examine the situation of the Irish financial sector with a view to further improving the sustainability of Ireland's well-performing program, have helped rebuild market confidence but challenges remain. Yields have come down significantly and Ireland has been regularly issuing debt in the international capital markets since July 2012. On March 13, 2013, Ireland achieved another milestone in its goal of achieving sustainable market access with its first sale of a benchmark 10-year bond since January 2010. A total of €5 billion of a new March 2023 bond was sold at a yield of 4.15 per cent. The yield achieved should be viewed in the context that 10-year Irish bond yields were within striking distance of 14 per cent back in July 2011. However, considerable risks remain and the momentum of funding success to date needs to be maintained and supported, for example by the proposed adjustment of maturities on the EU loans.

Caribbean Developments

The Caribbean economy continues to struggle to regain its growth trajectory in the face of spillovers from the prolonged and uneven global recovery. Real GDP growth remains tepid as the main partners of the Caribbean region continue to recover, impacting both trade and investment receipts. The better Caribbean performers have benefitted from strong commodity prices, but the tourism-dependent countries have experienced only limited growth, which is not enough to rebuild confidence and policy buffers needed to renew these economies. Much of the burden has fallen on fiscal policy, which was initially expansionary to stimulate domestic aggregate demand but now has become more austere as deficits have widened in the face of the slow recovery. On the whole, unemployment and debt levels remain high, foreign exchange receipts are moderate, and fiscal space is narrow. In addition, the financial sector is under some pressure, as both the banking and insurance sectors grapple with areas of portfolio weakness. Notwithstanding these challenges, the financial sector is currently undergoing significant reform to make it stronger and more resilient in the medium term. As is constantly the case, the region remains very vulnerable and susceptible to the ravages of natural hazards. It has had to make provision from scarce resources to build infrastructure resilience to disasters to mitigate against the ever-present threat of climate change, which affects the very livelihood of citizens and tourism assets alike.

In response to these challenging circumstances, many Caribbean countries have sought the assistance of the IMF and development partners to avail themselves of financial support as well as much-valued technical assistance and advice. Since the outset of the global crisis in 2008, more than half of the Caribbean countries in our constituency have utilized IMF financing facilities. In addition, they all continue to benefit from assistance from the Caribbean Regional Technical Assistance Centre, including to support tax system reforms such as the introduction of value-added tax systems, and to engage in the task of fiscal consolidation. Much work also continues to be done in financial sector regulation, statistical capacity, and macroeconomic planning and forecasting. This support is invaluable and remains a concrete example of the valuable contribution that the Fund can make to support its members.

Constituency Views on the IMF

Quotas and Governance

Strong, effective and accountable governance is central to the IMF's role in promoting sustainable global growth and safeguarding economic stability. To this end, we strongly support efforts to ensure that the governance structure of the institution keeps pace with changing global economic dynamics. We continue to view the 2010 IMF quota and governance reforms as a significant step forward in this regard and look forward to its final implementation.

Looking ahead, we remain committed to completing the 15th General Review of Quotas by January 2014 and, as part of this process, agreeing to a simpler and more transparent quota formula. Our constituency recognizes that a fair and equitable outcome, which ensures that voting power within the institution continues to evolve in line with the changing global landscape, is in the long-term interest of both the Fund and its membership. As part of the reform process, we also remain mindful of the need to ensure that the voice and representation of the Fund's poorest and most vulnerable members is protected. Our constituency remains actively engaged in and committed to this effort.

Without diminishing the importance of quota reforms, effective governance of the Fund goes beyond this issue. Though the focus in the period ahead must rightly be on achieving our agreed commitments, it is not too early for the membership to begin thinking about how other accountability structures, be it at the level of the Executive Board, Management or Fund staff, can be strengthened. We hope to see more attention given to these issues by the membership following the completion of the 15th General Review of Quotas.

Surveillance

Surveillance has gone through an important set of improvements since the global financial crisis, culminating in the Integrated Surveillance Decision and financial sector surveillance strategy, which will strengthen assessments of spillovers and sharpen the Fund's ability to diagnose systemic financial risks. The IMF can now focus on implementing and refining its surveillance toolkit as a means to safeguard the international monetary system while promoting global prosperity and financial stability. Drawing lessons from recent crisis experiences is vital to identifying emerging trends and common warning signs that often leave countries in need of adjustment programs.

The stand-alone External Sector Report adds a much-needed focus and depth to the Fund's core responsibility of assessing exchange rates, current account balances and reserves. We encourage the Fund to continue refining the methodology surrounding external balance assessments in order to gain credible insights that will help advance global rebalancing. Credible advice that has traction with members will greatly enhance the contribution the Fund can make to global monetary and financial stability.

At the bilateral surveillance level, we also welcome the efforts being made by the Fund to better understand the unique challenges and needs of small states, a group that includes many countries in our constituency. We are pleased that the Fund has responded to the call from the International Monetary and Financial Committee for further work in this area. As this work has only just begun, we look forward to the identification of a clear and measurable work program aimed at enhancing and better tailoring Fund surveillance and policy advice to small states.

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

Lending and Program Design

Since the financial crisis, the IMF has played an increasingly important role in assisting members throughout the world adjust to shocks or deep-seated economic imbalances. Over this period, the Fund's resources have been increased, the lending toolkit has been revised, new practices for cooperation with regional bodies have emerged, and adjustment program design has evolved. Some developments have enhanced effectiveness while others have challenged the credibility and independence of the institution.

The IMF must continue to ensure that program design, reviews and policy advice remain impartial and independent, including when engaged in regional partnerships. This is imperative for three principal reasons: 1) programs must be well-designed, tailored to the problem and credible, with conditionality that is targeted and appropriately calibrated to address the core economic difficulties; 2) markets must have confidence in the underlying assumptions; and 3) all member countries must receive uniform and even-handed treatment.

The IMF should focus on improving its relationships with other institutions and its ability to coordinate its involvement in an effective manner that puts the interests of the program country first. Thus, we call upon the Fund to use the upcoming Crisis Program Review, as well as the planned review of the Flexible Credit Line and Precautionary and Liquidity Line, to provide the membership with a truly robust and objective assessment of lending, program design and regional cooperation over the last few years. These reviews should be completed and presented for discussion as soon as possible.

Decisions on the appropriate size of Fund resources, which will be made in the context of the 15th General Review of Quotas, will depend in no small part on how effectively the institution is utilizing the resources already provided by its members. Equally important will be the ability of the institution to clearly and transparently present evidence-based scenario analysis, underpinned by realistic macroeconomic conditions, to justify any conclusions on the appropriate size of the Fund.

Finally, in line with the discussion on small states above, we also encourage the Fund to continue to round out its toolkit to ensure that the needs of the entire membership are met. The adjustment-related financing needs and adjustment options for small, vulnerable, middle-income countries (many of which are heavily indebted) require continued attention from the Fund and other development partners.