International Monetary and Financial Committee

Seventeenth Meeting
April 12, 2008

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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

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

Washington, DC, April 12, 2008

This meeting is taking place at a time of heightened uncertainty about the global economy and our collective near-term prospects. This backdrop for our discussions today underscores the importance of an effective International Monetary Fund (IMF), capable of identifying potential economic vulnerabilities through its surveillance, helping members to implement sound policies through its capacity building and, when necessary, supporting members amid crises through its lending activities. The Fund was created, after all, to promote the international monetary cooperation needed to promote and safeguard the public good of international economic and financial stability, and with it, global prosperity.

It is thus encouraging that our meeting is also taking place at a time of great progress for the IMF as an institution. I am pleased to represent my constituency at this important meeting and, on behalf of Canada and the constituency, I want to extend a warm thanks to Managing Director Dominique Strauss-Kahn for his strong leadership, including the steps that have been taken toward making the IMF more legitimate, credible and effective since his arrival last fall.

The recent agreement to modernize the IMF's quota system is an historic event in that it recognizes the growing importance of a new group of countries in the global economy. It is an understanding that can reanimate the spirit of international cooperation on which the Fund was created. The significant progress we have made in updating the Fund's voting structure is a key foundation for moving forward on other reforms. And I believe we can move forward knowing that the quota deal can re-energize members' belief in the importance and ultimate legitimacy of the institution.

Global Prospects

Since our fall meeting, the global economic outlook has deteriorated. What started as a collapse of the US subprime mortgage market has spread to a wide range of markets and financial instruments. To this point at least, there has been a disconnect between the turbulence in financial markets and the real economy. However, there are now signs that economic growth in a number of major economies is slowing, reflecting greater stringency in the availability of financing for households and firms.

Similarly, emerging markets have been much less affected to this point, reflecting in part improvements in recent years in their policy frameworks. But in the integrated global economy in which we live, no country can be completely insulated from instability in international markets. The current turmoil is a global problem, and Canada, as an open economy with strong links to the rest of the world, is also not isolated from the adverse spillovers from slower growth elsewhere.

At the same time, policy-makers around the world have reacted to these developments with agility and determination. Monetary conditions have been eased in many countries to support growth. Liquidity has been provided to facilitate the smooth functioning of financial markets, including in some cases through innovative mechanisms. And, in some countries, fiscal stimulus has also been added, in a manner that will bolster demand in the face of near-term challenges without compromising longer-term fiscal sustainability. Together, these responses will support confidence, strengthen aggregate demand and facilitate needed adjustments. Yet, as policy-makers try to navigate through this financial turmoil, they are also faced with the challenge of inflationary pressures that have increased due to oil and food prices rising sharply over the past year.

Canadian Developments

Growth in the Canadian economy was strong through most of 2007, averaging over 3½ per cent (annualized) in the first three quarters. Growth has slowed more recently, with real gross domestic product (GDP) increasing just 0.8 per cent in the final quarter of 2007, reflecting lower exports associated with the weakening US economy and the appreciation of the Canadian dollar. For 2007 as a whole, the Canadian economy expanded 2.7 per cent, down slightly from the 2.8 per cent pace observed in 2006.

Despite the slowing in overall growth, final domestic demand remains strong and continues to be the main driver of growth. Led by robust growth in consumer spending and business investment, final domestic demand increased 4.3 per cent in 2007, down moderately from a robust 4.7 per cent increase in 2006. Solid personal income gains, very healthy job growth and low interest rates, together with tax relief and strong monetary and fiscal fundamentals, continue to support the Canadian economy. The IMF expects Canadian growth to be 1.3 per cent in 2008, increasing to 1.9 per cent in 2009.

Inflation pressures remain well contained. Total consumer price inflation dropped below the Bank of Canada's 2 per cent inflation target in February after spending most of the past year somewhat above the target, while core inflation has averaged about 1.6 per cent over the past six months. The Bank of Canada has lowered its policy rate by a cumulative 100 basis points since December 2007 and has noted that "further monetary stimulus is likely to be required in the near term to keep aggregate supply and demand in balance and to achieve the 2 per cent inflation target over the medium term."

Canada's fiscal situation remains strong. On a total government basis, Canada's budget surplus was 1.3 per cent of GDP in 2007 and is projected to remain in surplus for 2008 and 2009. By contrast, the Group of Seven (G7) as a whole is expected to record an average deficit of approximately 2.6 per cent of GDP during that time. Canada also has a very strong track record on debt reduction. Our total government net debt, as a percentage of GDP, has declined steadily from a peak of nearly 71 per cent in 1995 to about 23 per cent in 2007. We will continue this course. The Government aims to bring total government net debt, already the lowest in the G7 since 2004, to zero by 2021. This responsible fiscal stewardship is the cornerstone of the Government's economic plan. It has allowed the Government to respond to recent economic uncertainty from a position of strength. The actions taken by the Government in the October 2007 Economic Statement provide more than $12 billion in incremental tax relief this year. Combined with actions taken by the Government since 2006, $21 billion in incremental tax relief—1.4 per cent of Canada's economy—is being provided to Canadian individuals and businesses this year.

Irish and Caribbean Developments

The Irish economy put in another strong performance in 2007. Real GDP grew by more than 5 per cent; the fiscal position remained in small surplus, while inflation averaged 2.7 per cent. As the year progressed, however, turbulence in global financial markets, the long-expected downturn in the domestic construction sector and the strengthening of the euro against the US dollar and sterling began to weaken growth, and downside risks came into prominence. For 2008, the prospect is for growth of about 2.5 per cent but as a small highly globalized economy, Ireland is particularly vulnerable to a further deterioration in the global economic environment. After many years of an extremely buoyant housing/property market, this sector is experiencing a sharp slowdown and house prices are falling to a modest degree. This period of adjustment will bring about a better balance between longer-term supply and demand and a recovery expected in 2009. The well-established pattern of fiscal balance or small surplus will be interrupted in 2008, when a deficit in excess of 1 per cent of GDP is in prospect. Unemployment seems likely to rise to about 5.5 per cent and inwards migration to slow considerably. As in many other countries, rising fuel and food prices are having an effect on inflation: on a harmonized European basis, consumer prices are rising at about 3.5 per cent year on year and should average slightly above 2.5 per cent over the course of the year.

While, along with the rest of the world, 2008 will be quite a difficult year for the Irish economy, economic fundamentals remain strong, and many years of sound micro and macroeconomic policies should mitigate the effects of the current global downturn and place the economy in a favourable position to respond as the world economy begins to recover in 2009.

For the Caribbean countries I represent in the Committee, 2007 was another challenging year, due mainly to adverse exogenous shocks. Growth remained robust, although the rate of economic expansion moderated, reflecting a winding down of Cricket World Cup–related activities and natural disaster–related damages to the agriculture sector in a number of countries. The region faced high levels of inflation due to high and rising oil and commodity prices, and weather-related food supply shocks. Minimizing the impact of the high and rising inflation and protecting the poor and vulnerable also remain a major policy challenge. During the year, a number of countries incurred additional fiscal and social costs as a result of the impact of hurricanes, floods and earthquakes. Debt overhang remains a major challenge for many countries but Caribbean governments remain fully committed to reducing the debt and, accordingly, efforts at fiscal consolidation continue. Against the backdrop of the turbulence in financial markets, the outlook for further slowing in the global economy and the contraction in the US economy, the Caribbean's major trading partner, there are downside risks for the Caribbean. These reinforce the need to advance the reform process and the regional integration movement.

Given the Caribbean's vulnerability to natural disasters, we are pleased to see that based on the lessons learned from the recent experience with the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the facility now offers lower deductible options, a reduction in policy premiums and a minimum claim payment that is equal to the annual premium paid. In addition, to better serve the needs of the region, the CCRIF is exploring new areas of potential coverage related to flooding and agricultural losses. In the meantime, efforts by the Caribbean governments at disaster preparedness and mitigation continue. Given the region's dependence on its costal zones for tourism, fishing, residential accommodation and transportation, a current challenge for the Caribbean relates to the issues of global warming and rising sea levels and temperatures as a result of climate change.

IMF Reform

Today's global economic uncertainties, which clearly transcend national borders, are reminders of why we need strong and effective international economic and financial institutions. The role of the IMF in providing a forum for international monetary cooperation is why Canada and all the countries in the constituency I represent place a high priority on further strengthening the institution. The Fund must be able to fulfill its core mandate of supporting international financial and monetary stability. It can only do this if it is seen as a legitimate, effective and credible institution. The reforms we have been pursuing get to the heart of what is needed.

Legitimacy: Quota and Voice Reforms

Legitimacy largely falls to one issue: quota and voice. For the Fund to be recognized as legitimate, it must have a modern and representative governance structure. I am therefore pleased that after 18 months of hard work, we now have consensus on a new quota formula and a path forward on quota and voice reforms. It is a deal that has required political compromise on all our parts. It is a deal that deserves the International Monetary and Financial Committee's strong support and one that can reanimate the spirit of international cooperation on which the Fund was created.

The new quota formula presents a far more accurate picture of the weights of different members in the global economy. Both the calculated and actual quota shares of dynamic emerging market economies will increase, reflecting their growing influence in our changing world. At the same time, by tripling basic votes, the proposal not only preserves the vote share of low-income countries, it increases it. Because basic votes will now be set as a fixed percentage of total votes, these countries will receive automatic increases in basic votes as part of future realignments of voting power, helping them maintain adequate representation at the Fund. To raise the vote share of developing countries even further, several advanced countries have voluntarily forgone much of the increases, including a member of my constituency. I applaud these countries for their willingness to compromise.

Though over 120 countries see vote share increases, by its very nature, reform necessitates losses for some countries. In fact, Canada experiences one of the largest vote share declines of any member country. Nevertheless, we still firmly support the deal on quota and voice reform: though Canada has shown solid economic performance, many emerging market economies are growing even faster. It is thus appropriate that their vote shares should rise relative to our own.

Most fundamentally, this quota agreement is in Canada's interests. As a country whose prosperity is inextricably linked to developments beyond our borders, we benefit from a more legitimate and effective IMF, better able to fulfill its mandate of supporting a prosperous global economy. In this respect, the new formula represents the start of an ongoing dynamic process: future economic growth will be recognized through higher quotas and voting power, ensuring that lower quota share for some countries now could be regained in the future as their weight in the global economy increases.

Effectiveness: Surveillance Reforms

It is clear that an institution that is recognized as legitimate will be more effective in its operations and its relations with member countries. For the IMF, this has real implications for its surveillance work; the effectiveness of surveillance is linked inextricably to the willingness of members to take on board its policy advice.

The current financial turmoil underscores the extent to which global markets are integrated. There is a clear need for effective surveillance of global risks and the policy imbalances that can amplify these risks. The IMF's strong analytic capacity and virtually universal membership mean that it is also well placed to play an important role in convening fora for discussions on how to address the challenges that may require concerted action by national governments. Getting agreement on a Statement of Surveillance Priorities that enjoys widespread political support would provide accountability for targeted, balanced and effective Fund surveillance. The fundamental goal should be to reanimate the spirit of cooperation by forging a consensus among all the Fund's members on the role of surveillance in assisting governments deal with the challenges of the integrated global economy of the 21st century.

In this respect, we support the Managing Director's vision for a refocused IMF, which places top priority on more incisive surveillance and embraces the view that the IMF has a unique role to play, and comparative advantage, in linking financial sector developments with the real economy. Indeed, the IMF has also taken very welcome steps over the last year to improve the effectiveness of its surveillance activities.

The 2007 Decision on Bilateral Surveillance over Members' Policies established modern policies to govern how the IMF conducts surveillance of its members and clarified the interpretation of members' existing obligations in the area of exchange rate policy. This decision will foster improvements in the focus, even-handedness and candour of Article IV reviews. The challenge is to build on this progress, particularly through more thorough analysis of cross-border spillover effects of national economic policies. This is especially relevant in the current environment.

Credibility: IMF Finances

Finally, the IMF as a financial institution must have the stable financial footings to allow it to play a credible role in the international financial architecture. A strong budget position ensures stability and independence in its operations, and ensures the Fund is able to respond quickly and effectively in times of uncertainty.

With this in mind, our operational goal has been sustainable budget reforms that result in a more cost-effective IMF that focuses its outputs on core institutional strengths and practises good financial governance. The recent Executive Board approval of the 2009–2011 medium-term budget, which implements a significant cut in administrative spending, is a key milestone. The budget correctly orients the IMF's outputs, expenditures and activities toward such goals as achieving a vision of the institution as a key player in surveillance of linkages between the financial sector and the broader economy.

I welcome the leadership shown by Executive Directors in reducing their own budgets in line with the overall cuts to IMF administrative spending. This demonstration of the Board's commitment to cost-effectiveness is critical for the legitimacy of the exercise; it sends a signal to the valued Fund staff that the Board is prepared to share the burdens of putting the IMF on a strong financial footing.

I am also encouraged that the membership is forging a clear path forward on measures to ensure that the Fund has a sustainable income model for the future. On the income side, my constituency supports a limited sale of IMF gold, provided that this is done in a manner that avoids any potential disruption of world gold markets. We also support the other Crockett Report recommendations currently under consideration by the Executive Board for incorporation into the new income model.

Together we have made important progress in addressing IMF finances. Critical work remains to be done, however, including domestic legislative ratification by many members of the required amendments to the IMF Articles of Agreement to support income-generating reforms. I am confident we can accomplish this soon. It is important that every Fund member does their part to ensure the success of IMF budgetary and financing reforms.

The IMF's Work in Low-Income Countries

My constituency supports the work of the IMF in low-income countries that is focused on promoting macroeconomic stability, sustainable growth and effective debt management.

Debt Sustainability

The international community has made tremendous progress on debt reduction in the past decade. Going forward, I believe that it is critical that recipients of debt relief remain on a path of sustainable long-term financial management. Our ultimate goal regarding debt sustainability is to prevent a return to the "lend-and-forgive" cycles of the past and ensure that the potential benefits of debt relief are realized and long-lasting. To do so, a high priority for the IMF should be to help low-income countries avoid unsustainable borrowing, while simultaneously encouraging creditor countries to provide financing that is in line with the borrowing country's development plans as well as any IMF concessionality requirements or the results of the most recent IMF/World Bank Debt Sustainability Analysis.

The IMF and World Bank have cooperated effectively thus far, including through the development of the Debt Sustainability Framework to better monitor and prevent the reaccumulation of unsustainable debt. However, given that many countries are still at a high risk of debt distress and are reaccumulating unsustainable levels of debt, I see scope for the Fund to further strengthen its cooperation with the Bank. For example, the Bretton Woods Institutions should play a bigger role in ensuring that debtor countries have access to the capacity-building tools required for effective fiscal management.

Countries' prospects for reducing their vulnerability to excessive external debt accumulation will be enhanced if they are capable of borrowing at attractive terms on local markets. I therefore call upon the IMF (in cooperation with the World Bank) to support efforts underway to assist countries in developing their local bond markets, through achieving and maintaining macroeconomic stability, implementing appropriate debt management policies, and establishing sound regulatory systems and market infrastructure.

Climate Change

Coping with climate change is of great importance to our collective well-being in the future. I am pleased that the IMF recently announced that it will undertake research to assess the fiscal aspects of climate change mitigation measures, including developing the appropriate public finance responses, evaluating some of the economic issues involved in choosing mitigation policies, and determining the impact of climate change policies on the IMF's core functions. Indeed, these issues appear very relevant for the Fund. The IMF must increase its analytic capacity concerning the effects of climate change on national economies, in coordination with the World Bank, with a view to assessing appropriate policy responses.