# International Monetary and Financial Committee

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**Statement by James Michael Flaherty**
**Minister 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 21, 2012**

**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**

We meet at a time of considerable uncertainty about global economic conditions. While economic and financial risks may have diminished from when we last met, they remain very elevated and thus of serious concern to all members of the International Monetary Fund (IMF). The IMF plays a key global role in identifying and helping its members to implement measures to reduce risk and strengthen the foundations for growth. The mission of the Fund—to promote global prosperity and financial stability—and its three core activities—surveillance, lending, and technical assistance and capacity building—have become more important than ever.

Just as the IMF serves its membership, we, its members, must contribute to collective action. Canada's constituency faces a diverse set of challenges resulting from the enduring impacts of the global financial crisis and the spillovers from the European sovereign debt crisis. As outlined below in my update on economic developments in Canada, Ireland and the Caribbean, the constituency is taking action to strengthen our policy frameworks, promote jobs and growth and contribute to the global recovery. Following these updates, I will outline constituency views on IMF issues going forward.

## Canadian Developments

Canada's economic performance over the recession and recovery has been solid relative to our peer countries. This reflects Canada's sound economic, fiscal and financial sector fundamentals, along with the significant and timely support provided under Canada's Economic Action Plan. As a result, Canada has posted the strongest growth in employment in the Group of Seven (G-7) during the recovery. Looking forward, the IMF projects that Canada will be among the fastest growing advanced industrialized economies both this year and next.

The Government of Canada projects a return to balanced budgets over the medium term, to be achieved primarily by restraining the growth of program spending. All provincial governments have followed the federal government's lead, also committing to returning to balanced budgets over the medium term. At the federal level, spending restraint initiatives have been focused on improving the efficiency and effectiveness of government programs and operations, culminating most recently in a comprehensive review of departmental spending. The Government has also introduced measures to support jobs and growth by improving conditions for businesses, entrepreneurs and innovators, investing in training and infrastructure, and helping the unemployed find jobs. These measures are being complemented by significant structural actions 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.

**Irish Developments**

Turning to Ireland, the Irish economy continues to show signs of recovery in its recent performance. For 2011 as a whole, gross domestic product (GDP) grew by 0.7 per cent, the first full-year increase in economic activity since 2007. The traded sector is leading the way in this regard, which owes much to the competitiveness improvements which have taken place in recent years—a testament to the flexibility of the Irish economy. The recovery is expected to continue this year and next, with export growth gradually feeding through to the labour market and the domestic economy. Notwithstanding improved competitiveness and flexibility, the extent of the recovery and its feed-through to the domestic economy will also depend on external developments. The medium-term outlook for the Irish economy is relatively favourable, with GDP growth forecast at 3.0 per cent per annum over the period 2014–2015. In relation to banking, Ireland has substantively completed the recapitalization of the domestic banks, at a cost to the taxpayer significantly lower than initially anticipated. Domestic banks have sold a significant amount of non-core assets. The restructuring of the domestic banks is progressing well. Bank recapitalization is largely completed and the front-loaded deleveraging programme met its 2011 targets. Furthermore, an early success of this banking strategy was the injection of private capital into one major bank. The Irish authorities continue to work on implementing solutions to mortgage arrears.

In relation to the European Union-IMF Programme of Assistance, Ireland has met all the requirements to date, and is committed to meeting the programme targets. The government is resolved to implementing the changes necessary to bring Ireland back into the markets as soon as possible. The most tangible demonstration of this resolve is the implementation of a comprehensive budgetary adjustment package over the period 2008 to 2012 designed to yield approximately €25 billion (representing close to 16 per cent of estimated 2012 GDP, including adjustments before the programme was agreed in 2010).

**Caribbean Developments**

Among my Caribbean constituents, the improving outlook in the advanced economies augurs well for steady, albeit very modest, tourism-led growth over the medium term. These economies remain very vulnerable to the downside risks in the global economy, including threats from high oil prices and constraints on foreign direct investment flows posed by financial sector deleveraging. Even as the authorities commit to rebuild policy buffers and tackle heavy debt burdens, they must accede to increased demands for growth-enhancing public sector investments and social expenditures. Indeed, Caribbean policy makers are steadfast in their commitment to achieve more resilient and robust economies. This is vital in order to reduce high structural unemployment and accelerate the reduction in public debt ratios. It is acknowledged that the policy mix must continue to embrace structural reforms and business sector improvements that strengthen external competiveness, broaden the scope for economic diversification and further enhance financial stability. In all of these regards, the IMF's heightened presence in the region is highly valued. Caribbean countries welcome and attach high importance to the Managing Director's commitment to give increased attention to the issues of small states, in particular initiatives which target the subset of highly vulnerable middle-income countries.

## Constituency Views on the IMF

*Lending and Conditionality*

We will be actively engaged in the upcoming reviews of crisis programs and conditionality, concessional facilities, and the Fund's debt limits policy. When the IMF lends, it should provide a bridge to allow program countries sufficient space to address macroeconomic challenges, return to public debt markets, and restore the conditions necessary for achieving strong and sustainable economic growth. For lending to be effective, however, it is critical that programs be well-designed and credible with conditionality that is targeted and appropriately suited to address the core economic difficulties. The IMF must continue to ensure that program design, reviews and policy advice remain impartial and independent, including when engaged in regional partnerships. In a similar vein, robust qualification standards for accessing precautionary arrangements must also be rigorously upheld.

The Fund continues to have an essential role to play in low-income countries (LICs) as well as small and vulnerable middle-income countries. Completing the 2009 LIC financing package will be important. Canada has contributed substantial loan and subsidy resources to the effort and we would encourage additional contributions from those that have not yet pledged. When reviewing its debt limits policy, the Fund must carefully balance essential development needs with medium-term debt sustainability.

*Quotas and Governance*

To pursue its mission of promoting global prosperity and financial stability, the IMF must have the appropriate tools and governance structure. The Fund is and must remain a quota-based institution. This structure underlines the Fund's legitimacy and effectiveness.

The Fund's membership has made a significant effort since 2009 to increase quota resources and enhance the rules-based New Arrangements to Borrow and must now deliver the 2010 quota and governance reforms by the agreed deadline of the 2012 Annual Meetings. Countries in our constituency are making good progress towards full ratification of the 2010 reforms by the deadline.

Over the coming year, we will be actively engaged in the review of the quota formula to ensure that the formula is a simple and transparent reflection of relative and evolving economic positions in the global economy while also protecting the voice and representation of the Fund's poorest and smallest members.

We welcome recent improvements to the International Monetary and Financial Committee process aimed at fostering more focused and strategic discussions. While these improvements should increase Ministerial engagement, the Fund should pursue further governance enhancements, including clarifying the roles, responsibility and accountability structure of management and the Executive Board.

*Surveillance*

Surveillance is a core function of the IMF. There has been considerable improvement in surveillance in recent years, as noted by last year's triennial surveillance review (TSR). We encourage the IMF to move forward in implementing the recommendations of the TSR and of the Independent Evaluation Office.

The Fund has demonstrated its ability to improve surveillance within the existing legal framework. If changes are proposed, a strong case needs to be made that they will lead to practical improvements in the conduct of surveillance, improve its traction and maintain the flexibility to adapt to meet the future needs of the Fund's membership.

We look forward to the publication of the first *External Stability Report*, which will help strengthen surveillance and inform the debate on global imbalances, exchange rates and related policies. We also welcome the decision to maintain the spillover reports for the five systemic economies, as they enhance collective knowledge on the major spillover risks.

We commend the IMF for its invaluable advice to the G-20 Framework Working Group and welcome the Fund's continuing support in monitoring the implementation of each member's commitments.

We look forward to the articulation of a fully fledged financial surveillance strategy focused on the key comparative advantages of the Fund. The strategy should clarify the Fund's mandate in this area and provide a strong basis for cooperation with other key actors such as the G-20 and the Financial Stability Board.