International Monetary and Financial Committee

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IMFC Statement by Mr. Morneau
Canada

On behalf of
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and 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 Bill Morneau, 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

I. Global Outlook and IMF Policy Priorities

Eight years after the global financial crisis, the global economy is still recovering; meanwhile it faces increasingly complex challenges, including weak and uneven growth, persistent trade imbalances and volatile capital flows. At the same time, deeper global forces such as aging populations, mass migration, and inequality present evolving challenges for policymakers. A rise in populist and protectionist sentiments reflecting growing dissatisfaction with the economic prospects for the middle class has also brought confidence in two key pillars of our global economic system – globalization and multilateralism – under pressure.

These are important global challenges that must be addressed and we must work together to overcome them. To do this we will need stronger, more inclusive and sustainable growth. This requires doing a better job clarifying the economic gains and opportunities that come with openness, freer trade and investment. But that is not enough. We must also better ensure that all members of society are able to share in the benefits of growth. This will require all countries to apply a more balanced set of policies that draw on all available policy levers.

The IMF has a central role to play in both advocating and facilitating the multilateral cooperation the global economy needs right now. It does this this by overseeing and enforcing the obligations and responsibilities that members have to each other and to the system specified in the *Articles of Agreement*. The Fund can also help members resolve coordination failures that block the attainment of superior outcomes—"the promotion and maintenance of high levels of employment and real income" as expressed by the *Articles*. In this respect, after eight years of anemic growth and growing economic and social cleavages, IMF members are looking to the Fund to underscore the gains that come with openness and multilateralism and to set out clear, practical and tested policy solutions. This work will require engagement through effective IMF surveillance, sound policy advice, targeted capacity building support and effective adjustment lending when required.

II. IMF Surveillance and Advice

IMF surveillance – coupled with high quality policy advice – plays a critical role in identifying vulnerabilities and imbalances, preventing crises, strengthening resilience, and bolstering confidence. This work is especially important at the current juncture as members continue to grapple with an uncertain economic environment and elevated risks. The Fund, in its role of trusted advisor, will need to provide sound, timely and targeted surveillance, as well as offer advice on best practices based on its global experience, so as to help member countries navigate these challenges and contribute to a more stable and prosperous global economy.

Stepping up global demand will be essential to reinvigorating growth. The Fund should continue its efforts at better integrating its bilateral and multilateral surveillance as an essential step towards ensuring that the IMF's analysis of global macroeconomic risks and trends translate clearly into actionable country-specific policy advice. In particular, we welcome continued work on better integrating the Fund's global advice on defining, calibrating and coordinating available policy space – including best leveraging fiscal policy space. This remains important for macroeconomic rebalancing and is a central part of the Fund's mandate.

At the same time, the reemergence of large global imbalances poses challenges to the global economy. The problem today is that, in an environment in which nominal interest rates are at or near their effective lower bound, large current account surpluses reflect the withdrawal of demand from the global economy, making it more difficult for countries struggling to adjust in the face of already-weak global demand and large terms of trade shocks stemming from low commodity prices. Helping its members avoid such adjustment challenges through collective action is the *raison d'etre* of the IMF.

However, gaining traction will require the Fund to make sure that it is providing policy advice that directly addresses the key macroeconomic challenges that the membership is actually facing. Therefore, we welcome the IMF's planned work to further develop and target its expertise on the macro-critical areas of pressing global issues like inclusive growth, efficient public investment in areas such as infrastructure, and climate change. In order to maximize the impact and effectiveness, we encourage the Fund to continue to collaborate closely with other institutions in order to avoid duplication.

We also welcome the IMF's focus on financial sector "de-risking," a particular challenge for some members of this constituency. The IMF has undertaken helpful work and advocacy so far to help understand the drivers of this phenomenon and identify potential ways forward. We encourage the Fund to continue working with the Financial Stability Board, Financial Action Task Force, the World Bank, global standard regulatory setters as well as with national regulators so as to undertake deeper analysis and identify concrete solutions.

Finally, we would like to recognize the important role played by the IMF in supporting the G20's Framework Working Group. The IMF's analytical work continues to be invaluable in guiding the G20 towards policies that foster stronger and more inclusive growth and reduce external imbalances, which benefits all IMF members. As co-chair of this G20 process, Canada extends its appreciation to the Fund for this work.

III. IMF Resources, Lending Toolkit and Capacity Building

The IMF is a critical part of a strong and resilient international financial architecture and we agree that it should remain primarily a quota-based institution. However, it is clear that there are still important risks facing the global economy, which if realized and not effectively contained could have serious consequences for all. In such circumstances, prudence and pragmatism dictate that we remain open to temporary sources of funds which can serve as second and third lines of defense, and allow the Fund to respond quickly to relevant and tangible risks. In the current uncertain environment, it is thus important that the IMF's current lending capacity be temporarily maintained by extending its access to bilateral borrowing agreements, which form a temporary third line of defense against major global shocks. Canada intends to extend an SDR 8.2 billion temporary credit line to the Fund as part of these 2016 Borrowing Agreements.

It is also essential that the Poverty Reduction and Growth Trust continues to have the resources it needs to support the IMF's poorest and most vulnerable members. Canada will thus provide a further SDR 500 million in loan resources to support the Trust.

The Fund's tools and lending programs must also be responsive to the evolving global economic landscape. A process of review and adaptation is an important element in ensuring that the IMF's lending toolkit remains targeted at the root causes of macroeconomic instability, provides incentives for timely adjustment, and reflects needs of the broader membership. With lessons from the financial crisis now more clearly in focus, our constituency looks forward to continued discussion of whether and how the IMF's lending toolkit might be further improved. It will be important that this effort is undertaken with a view towards creating a stronger and more effective global financial safety net (GFSN).

This will require taking a broad view beyond just the IMF'S facilities – and in particular looking for ways to improve coordination between the different layers of the GFSN. This will help ensure the GFSN is greater than the sum of its parts. One such example is the welcome 'test run' between the IMF and the Chiang Mai Initiative Multilateralization. We encourage the Fund to engage in similar exercises with other regional financing arrangements (RFAs) and to prioritize the development of clearer operational guidelines on IMF-RFA cooperation, as called for in its Crisis Program Review and by the Independent Evaluation Office.

The Fund's provision of technical assistance and training (capacity development) is another key tool for crisis prevention and stronger, more inclusive and sustainable growth. This work provides important benefits, helping countries to strengthen public institutions, design more effective policies and build capacity within their public service. However, to ensure that lasting progress is being made this work also requires accurate and comprehensive monitoring of results achieved. In this regard, we continue to support a greater emphasis on results-based management in the delivery of IMF capacity development.

Capacity development alongside surveillance and tailored policy advice, also serves as an important component of the Fund's support for small and vulnerable states. Our constituency continues to emphasize the unique challenges faced by small states and calls upon the IMF to sustain its dedicated engagement with these members.

IV. Equipping the IMF with the Governance Structure to Deliver on its Mandate

The entry into force of the 14th General Review of Quotas earlier this year marked an important milestone in the needed evolution of the IMF's governance structure. However, just as the weight and integration of members in the global economy continues to evolve, so must the Fund if it is to remain effective and legitimate. Our constituency remains fully committed to completing the 15th Review, including agreeing on a new quota formula, to ensure greater voice for under-represented members. Achieving this goal will require some flexibility and compromise by all. We look forward to working with other members to advance concrete, practical reforms.

The 15th Review will also set the size of the IMF's long-term permanent resource needs. We encourage the Fund to provide rigorous and transparent analysis of likely steady-state needs beyond the current period of heightened uncertainty. It will also be important to more meaningfully consider the appropriate mix of permanent and temporary funds.

Finally, we re-emphasize the importance we place on greater gender, employment and educational diversity throughout the IMF. Progress to date is welcome, but more can be done.