

**FOR
AGENDA**

SM/08/17
Supplement 1

January 16, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Canada—Staff Report for the 2008 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with Canada (SM/08/17, 1/16/08), which is tentatively scheduled for discussion on **Wednesday, February 6, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Canada indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Bayoumi (ext. 36333) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, January 25, 2008; and to the Caribbean Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

CANADA

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by Western Hemisphere Department
(In consultation with other departments)

January 16, 2008

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Annex I. Canada—Fund Relations

(As of September 30, 2007)

I. **Membership Status:** Joined 12/27/45; Article VIII

	SDR Million	Percent of Quota
II. General Resources Account:		
Quota	6,369.20	100.00
Fund holdings of currency	5,938.38	93.24
Reserve position in Fund	430.83	6.76

	SDR Million	Percent of Allocation
III. SDR Department:		
Net cumulative allocation	779.29	100.00
Holdings	642.75	82.48

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:** None.

VI. **Projected Obligations to Fund:**

(SDR Million; based on existing use of resources and present holdings of SDRs):

	2007	2008	2009	2010	2011
Principal	n/a	n/a	n/a	n/a	n/a
Charges/Interest	1.36	5.21	5.21	5.21	5.21
Total	1.36	5.21	5.21	5.21	5.21

VII. **Implementation of HIPC Initiative:** Not applicable.

VIII. **Safeguards Assessments:** Not applicable.

IX. **Exchange Rate Arrangements:** The Canadian authorities do not maintain margins with respect to exchange transactions. The Canadian dollar is a freely floating currency, with exchange rates determined on the basis of demand and supply conditions in the foreign exchange market. However, the authorities may intervene to maintain orderly conditions in the exchange market. There are no taxes or subsidies on purchases or sales of foreign exchange. Canada has accepted the obligations of Article VIII, Sections 2, 3, and 4(a) and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Canada maintains exchange restrictions for security reasons, based on UN Security Council Resolutions, that have been notified to the Fund for approval (most recently EBD/07/121, 11/1/07) under the procedures set forth in Executive Board Decision No. 144-(52/51).

X. **Last Article IV Consultation:** The Staff Report for the 2007 consultation with Canada was considered by the Executive Board on January 12, 2007 (EBM/07/03). Canada is on a 12-month consultation cycle.

XI. The 2008 Article IV discussions were conducted in Ottawa and Toronto from December 3-11 by T. Bayoumi (head), T. Helbling, R. Balakrishnan, V. Klyuev, and H. Tong (all WHD). An advance mission team visited British Columbia. Mr. Perrault (Senior Advisor) attended the meetings. Mr. Singh and Ms. Atkinson (both WHD) and Mr. Fried (Executive Director) participated in the concluding meeting with Minister of Finance Flaherty and Bank of Canada Senior Deputy Governor Jenkins in Ottawa on December 17. A press conference was held on December 19. Outreach included discussions with the private sector, labor unions, academics, and think tanks.

XII. **FSSA Participation and ROSC Assessments**

*Canada–Financial System Stability Assessment–
Volume II: Report on Observance of Standards
in the Financial System*

FO/Dis/00/2, Sup. 1,
04/01/00

Summary: The FSSA report concluded that Canada has a stable and highly advanced financial system, which is among the soundest in the world. Moreover, it is supported by a well-developed regulatory system that shows a high degree of compliance with major international standards. Nevertheless, the FSSA report made a few recommendations to further strengthen the regulatory framework and financial system's resilience, most of which have already been addressed, including:

- Introducing capital requirements for the guarantees in life insurance segregated fund (completed by end-2001);
- Tabling legislation granting the Office of the Superintendent of Financial Institutions (OSFI) powers to remove a financial institution's director or senior officer if the person is deemed not suitable to hold that office based on a number of criteria. The latter legislation brought Canada into broad compliance with the Basel Core Principles;

Making significant progress in harmonizing securities regulation and improving coordination among provincial securities regulators, including through a newly created association of securities regulators, the Canadian Securities Administrators. Although there remain multiple regulators at the provincial level, a Senate commission was created to develop specific recommendations on further harmonization and streamlining of securities regulation.

***Canada: Report on the Observance of Standards
and Codes—Fiscal Transparency Module***

IMF Country Report
No. 02/51, 03/12/02

Summary: The report found that fiscal management in Canada meets the requirements of the fiscal transparency code, and in a number of instances represents best practice. In particular, it highlighted the use of private sector economic forecasts, prudence factors, and a contingency reserve for fiscal forecasting in Canada. Fiscal management was also commended for its statistical integrity, impartial tax administration, open procurement, and a transparent regulatory process.

The report found several areas where further improvements would be desirable, including: (i) the preparation of timely, current year estimates of federal and provincial budgets on a comparable basis, (ii) a comprehensive account of the procedures for the budget cycle and expenditure management system, (iii) systematic reporting of the use of reserves for non-economic contingencies, (iv) resumption of publication of reconciled national and public accounts forecasts of major aggregates over the forecast horizon, and (v) publication by all governments of quasi-fiscal activities.

Many of these issues have been addressed, including: (i) the release by Statistics Canada of consolidated data for federal and provincial budgets for 2001–02 (on a Financial Management System basis), and (ii) the publication of comprehensive descriptions of budget and expenditure management procedures, including: a joint document entitled “Budgeting in Canada” by the Government and the OECD; detailed accounts of policies and procedures on expenditure management at the website of the Treasury Board Secretariat; and the explanation of the budget cycle and process in Budget and Update documents.

***Canada: Report on the Observance of Standards
and Codes—Data Module***

IMF Country Report
No. 03/328, 10/23/03

Summary: Canada’s macroeconomic statistics are comprehensive, timely, and accurate and thus adequate to conduct effective surveillance of economic and financial policies. Official institutions responsible for the compilation and dissemination of the macroeconomic datasets are supported by adequate legal and institutional frameworks. These frameworks protect confidentiality and ensure that statistical work is conducted within a quality assurance program and with sufficient resources. Integrity is ensured by the professionalism of the staff, transparency in statistical policies and practices, and the provision of ethical guidelines for staff. Compilers generally follow internationally accepted guidelines in the production of the macroeconomic statistics, which is well-supported by excellent efforts to develop source data that facilitate a high degree of accuracy and reliability. Statistics are

generally relevant, well documented, available with good frequency on a timely basis, and readily accessible to users, who trust them as objective.

While recognizing the high quality of the macroeconomic data, the report makes recommendations to further strengthen the statistical system, most of which are already being addressed, including these priorities:

- Articulate the roles of Statistics Canada and the Bank of Canada in producing financial sector statistics and explore possibilities for more data sharing of monetary and financial statistics;
- Estimate consumption of fixed capital at replacement cost rather than historic costs now used for the corporate sector in the Canadian System of National Accounts (CSNA);
- Disseminate information on the sources and methods used in compiling quarterly public sector statistics for the quarterly CSNA; and
- Reclassify certain transactions that are not recorded in line with the 5th edition of the Balance of Payments Manual (*BPM5*).

XIII. **Technical Assistance:** Not applicable.

XIV. **Resident Representative:** Not applicable

Annex II. Statistical Issues

The quality, coverage, periodicity, and timeliness of Canada's economic data are considered to be excellent both in the context of the Article IV consultation and for purposes of ongoing surveillance. Canada has subscribed to the Fund's Special Data Dissemination Standard (SDDS), and its metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).

Real Sector. Statistics Canada provides timely and adequate data in monthly, quarterly, and annual frequency thereby facilitating the analysis of economic developments and assessment of policy proposals within a quantitative macroeconomic framework. In May 2001, Statistics Canada effected a smooth transition from Laspeyres methodology for estimating real expenditure-based GDP to Fisher index formulae, which enabled more accurate comparison between Canada and other G-7 countries.

Fiscal Sector. The Department of Finance Canada provides monthly and annual data on the federal government's budget, tax policies, rules and regulations for Canada's banks and other financial institutions. The provided data enable adequate assessment of the impact of fiscal policy measures on Canada's economic performance.

Monetary Sector. The Bank of Canada provides timely and adequate coverage of daily, weekly, monthly and quarterly data related to the monetary sector.

External Sector. Statistics Canada provides timely information on a quarterly frequency on the balance of payments, external debt, and the international investment position (IIP). Finance Canada provides monthly data on Official International Reserves in a format comparable to the IMF's reserve data template, thus enabling adequate surveillance. Data are published at http://www.fin.gc.ca/finsearch/finresults_e.asp?Who=News.

Canada: Table of Common Indicators Required for Surveillance
(As of January 15, 2008)

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶
Exchange rates	same day	same day	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	Jan. 1, 2008	Jan. 4, 2008	W	W	W
Reserve/base money	Dec. 1, 2007	Dec. 3, 2007	W	W	W
Broad money	Nov. 2007	Jan. 2008	M	M	M
Central bank balance sheet	Dec. 1, 2007	Dec. 3, 2007	W	W	W
Banking system's consolidated balance sheet	Oct. 2007	Dec. 2007	M	M	M
Interest rates ²	Same day	Same day	D	D	D
Consumer price index	Dec. 2007	Jan. 2008	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴	2007 Q3	Nov. 2007	Q	Q	Q
Revenue, expenditure, balance and composition of financing ³ – central government	Oct. 2007	Dec. 2007	M	M	M
Stocks of central government and central government-guaranteed debt	FY 2006	Nov. 2007	A	A	A
External current account balance	2007 Q3	Dec. 2007	Q	Q	Q
Exports and imports of goods and services	Nov. 2007	Jan. 2008	M	M	M
GDP/GNP	2007 Q3	Nov. 2007	Q	Q	Q
Gross External Debt ⁵	2007 Q3	Dec. 2007	Q	Q	Q

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government, Canada Pension Plan, provincial and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly(W), Biweekly(B), Monthly(M), Quarterly (Q), Annually (A); NA: Not Available.