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Canadian Mortgage News - National Archive 2008

Governor Carney Discusses Impact of Recent International Developments

MONTREAL, Quebec, September 25, 2008 — The world is grappling with dramatic events that have seized up markets, sparked a massive flight to quality and caused some great names in the world of finance to succumb, Bank of Canada Governor Mark Carney said today. But, he argues, the turmoil may be cathartic in restructuring markets, prompting decisive policy responses and speeding the reordering of the financial system to make the world more stable. He concludes that Canada's financial system is well positioned to weather this financial storm because it has been prudent and soundly capitalized.

In a speech to the Canadian Club of Montreal, Governor Carney outlined how the upheaval in global financial markets and the slowdown in the U.S. economy have been important international factors affecting the Canadian economy. High global commodity prices have benefited the Canadian economy, Governor Carney said, noting that continued volatility in commodity prices can be expected.

Governor Carney said that global markets are now at a critical juncture. Many foreign financial institutions need to raise capital, but their ability to do so has been reduced. "In this environment, the U.S. government's initiative to buy distressed assets is critically important. The plan announced by Treasury Secretary Paulson and being developed through discussions in the U.S. Congress is bold and timely," he said. Outside Canada, he reflected, it may be necessary for other countries to follow suit with public capital to complete the necessary deleveraging process.

The Governor stressed that Canadian financial institutions "are in considerably better shape than their international peers," which has allowed credit growth to remain strong in Canada. He also detailed the actions taken by the Bank of Canada to ease strains in Canadian financial markets and saluted international efforts, stressing that the G-7 "is ready to take whatever actions may be necessary, individually and collectively, to ensure the stability of the international financial system."

Governor Carney noted that the nature of the slowdown in the U.S. economy – with weakness in the housing and auto sectors – poses particular problems for Canadian exports. In addition, with credit conditions tightening, "a fall in U.S. domestic demand seems likely," he said. The recent further weakness in the U.S. financial sector has made the risk that the U.S. economic recovery will be delayed more probable.

In conclusion, Governor Carney cautioned that while international events will have an important influence on our economy, "they must be considered in tandem with domestic factors, including the strength of domestic demand, the evolution of potential growth and the health of our financial system." The Governor added that the Bank of Canada will continue to monitor economic and financial developments carefully and "will continue to set monetary policy consistent with achieving the 2 per cent inflation target over the medium term."