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Global Economic Environment Presents Significant Challenges and Opportunities for Canada

SAINT JOHN, New Brunswick – Over the summer, the global economic outlook deteriorated, the European sovereign debt crisis intensified, and investor confidence decreased in the ability of policy-makers to respond, Bank of Canada Governor Mark Carney said today. These changes in the global economic environment present both significant challenges and opportunities, the Governor told the Saint John Board of Trade.

In Europe, while the most immediate concern is growing funding pressures on its banks, the broader issues are the fiscal and competitive positions of a number of countries, most of which have little choice but to reduce their budget deficits, despite weak private demand.

“The European situation is fragile but fixable; manageable if it is managed,” the Governor said. A comprehensive capital plan for European banks is needed, as is, crucially, a sizeable funding backstop for European sovereigns. “European authorities must create time to re-found their monetary union based on credible fiscal arrangements and more flexible economies that can adjust quickly to inevitable shifts in internal European competitiveness,” he added.

In the United States, the economy has lost momentum and could stall, depending on global developments. “At this stage, the Bank of Canada does not expect a recession in the United States, although the risk has clearly risen,” the Governor said. A renewed U.S. slowdown is more material to Canada than weaker European growth, the Governor noted. Moreover, the U.S. slowdown has further hit activity in sectors, such as autos and housing, that matter for Canada.

“To put this into perspective, consider that if this had been an average U.S. recovery, U.S. GDP would be 2.5 per cent higher and Canadian exports would be 6.5 per cent greater, equivalent to \$30 billion in additional sales,” the Governor said.

However, Canadians should not be discouraged. Regardless of what happens in the United States or Europe, there are challenges and opportunities that need to be seized through sustained efforts here in Canada, the Governor said. He identified three major currents: “Canadian firms are underexposed to the fastest growing parts of the global economy; commodity prices can be expected to remain elevated relative to historic averages; and our firms are not as productive as they could or need to be.”

For its part, the Bank will continue to support Canada’s economic expansion by keeping inflation low, stable and predictable. “The Bank always takes a flexible approach. Our decisions are guided by considered analysis and informed judgment rather than mechanical rules,” the Governor said. “The Bank of Canada has a wide range of tools and policy options that it will continue to deploy as appropriate in order to ensure that Canadians can seize these opportunities in an environment of domestic macroeconomic and financial stability.”