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Renewed faith in the international monetary system is essential for G20 success, says Bank of Canada Governor Mark Carney

CALGARY, ALBERTA – Bank of Canada Governor Mark Carney today urged the world's leading nations to ensure that their domestic policies are consistent with the G-20 framework for strong, sustainable, and balanced growth and to support the G-20 financial system reforms.

"We are three years into the global financial crisis, and its dynamics still dominate the economic outlook," Governor Carney said at the Spruce Meadows Changing Fortunes Round Table. "This would be true even if policy were optimal; but globally, this is not the case."

The policy response to the crisis, which included unprecedented fiscal and monetary easing, has bought time for necessary economic adjustments. But a durable solution requires a rebalancing of global supply and demand which, in turn, requires changes to the functioning of both the international monetary and financial systems, the Governor said.

"There is no miracle cure," Governor Carney told delegates at the Round Table. "Faith is required, but not in a barbarous relic or a utopian global central bank. Rather, countries must restore their faith in the adjustment process under the current system." Both the G-20 framework and its financial reforms are necessary to restore that trust, the Governor said. "Without the successful completion of G-20 reforms, the current recovery is at risk."

The Governor stressed that changing the international monetary system itself is not the answer. Rather, a constellation of policies across major economic areas is required to be consistent with the current international monetary system, including structural policies changes and greater exchange rate flexibility.

It is also essential, he said, to maintain an open global financial system, buttressed by institutions and rules that support cross-border finance. For that, it is necessary to focus on three core issues: improving the resiliency of institutions; building robust markets; and, reducing interconnectedness between institutions.

Bank of Canada research illustrates the substantial gains of implementing the G-20 framework versus the considerable costs of disregarding it. A shortfall in economic output of $7 trillion by 2015 is the potential difference between a co-operative path for the global economy based on the G-20 framework and one in which markets force fiscal adjustment and little else is changed. Member countries agreed at the G-20 Summit in Toronto to many measures to make up this shortfall.

"However, measures that have actually been implemented have been consistent with the deflation path," Governor Carney said. "While the other right promises have been made, conviction is required."

In concluding, the Governor noted that the world's economic centre of gravity is shifting. "The effectiveness of the international monetary and financial systems will determine how rapidly this change will occur and how sustainable it will be," he said.