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# Economic Case for Global Financial Sector Reform Compelling, Bank of Canada Governor Mark Carney Says

BERLIN, GERMANY – The economic case for global financial sector reform is compelling, and the basic stakes are enormous, Bank of Canada Governor Mark Carney argued today in Berlin in a lecture that focused on the costs and benefits of reform. “Without credible, coordinated financial reforms, we risk losing the open trading and financial system that has underpinned the economic miracle of recent times,” he said.

The global financial crisis left a legacy of foregone output, lost jobs, and enormous fiscal deficits, the Governor noted. “As is typically the case, much of the cost has been borne by countries, businesses, and individuals who did not directly contribute to the fiasco,” said Governor Carney, this year’s presenter of the prestigious annual Bundesbank Lecture.

As a result of the crisis, growth is expected to be lower and unemployment higher for years to come. The Bank of Canada forecasts that cumulative foregone economic output from 2009 to 2012 will be 16 per cent of GDP in Europe and 9 per cent in Canada. Over the longer term, these shortfalls could grow to 40 per cent and 30 per cent, respectively. “Surely, and contrary to what some in the industry would have you believe, there is some price worth paying to reduce such tail risks in the future.”

Reforms, including stronger capital and liquidity standards for financial institutions, could contribute to a lower incidence of financial crises, reduced severity of crises, smoother economic cycles, and a lowering of the risk that resources are misallocated.

While stronger prudential standards impose some costs, a conservative estimate of the long-run average net benefits of the reforms for G-20 countries is 30 per cent of GDP or about €10 trillion. For Canada, the net long-run benefit is about 13 per cent of GDP in present-term values, or $200 billion.

“The challenge is to get the balance between resiliency and efficiency right,” Governor Carney concluded. “Most fundamentally, successful implementation of the G-20 agenda will increase the likelihood of an open, flexible international financial trading system.”

Governor Carney pointed out that the Deutsche Bundesbank, the central bank of the Federal Republic of Germany, has led the development of many of these reforms. “Germany’s continued leadership in the coming weeks and months will be critical, so that we can finish building a solid financial foundation for growth and social improvement,” Governor Carney said.