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Financial Reforms Should Support Economic Growth, Says Bank of Canada Governor Mark Carney

GENEVA, Switzerland—Canada fared relatively well during the global crisis, as a result of good policy and, in retrospect, some good fortune, Bank of Canada Governor Mark Carney said today in a speech to the International Center for Monetary and Banking Studies in Geneva, Switzerland.

In his remarks, the Governor examined the attributes that helped the Canadian financial system weather the storm and that are now being incorporated into new global regulatory and supervisory standards. These strengths include:

- a commitment to higher and better-quality capital,
- an active supervisory regime with close co-operation amongst authorities,
- a well-regulated mortgage market, and
- a limited shadow banking sector.

"The fundamental objective of the reforms should be to create a system that efficiently supports economic growth while providing financial consumers with choice," the Governor said.

The system must be robust to shocks, dampening, rather than amplifying, their effect on the real economy. It needs resilient financial institutions and robust markets, since both play a central role in financing and, if properly structured, each can support the other, he said.

"New measures should promote competition rather than concentration, and build systemic resilience rather than entrench indispensable institutions."

The Governor also discussed additional reforms, including more robust market infrastructure and better resolution mechanisms, that will be new to Canada and have the potential to enhance the efficiency and resiliency of the global financial system.

While these official initiatives are essential, said the Governor, systemic resilience importantly depends on the oversight of private parties, ranging from investors to management and boards. Ultimately, the private sector will remain the first line of defence. A focus on improving these oversight functions is thus required.

The Governor urged private participants and policy-makers to focus continually on identifying vulnerabilities and improving resilience. "Risks are usually the greatest when they appear the least; and financial market participants the most vulnerable when they think they know all the answers," Governor Carney concluded.