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Canada Is Adjusting to Global Economic Transformation, Says Bank of Canada Governor Mark Carney

OTTAWA, Ontario – While Canada’s economy remains relatively well positioned, it is being buffeted by a significant transformation of the global economy, which is driven by a combination of secular trends and cyclical forces, Bank of Canada Governor Mark Carney said.

“It is a time of great opportunity for Canada, but navigating the cross-currents in the global economy will require boldness and skill,” the Governor said in a speech today to the Canadian Club of Ottawa.

Robust growth in emerging market economies is the result of a combination of spectacular secular trends and powerful cyclical forces, the Governor said. Trends include the urbanization of emerging Asia and the accompanying formation of a massive new middle class. Cyclical forces, such as accommodative monetary policies, capital inflows and credit booms, are also contributing to strong domestic demand. In contrast, economic growth in advanced economies is listless and will be weighed down in coming years by the legacy of the financial crisis.

The balance between these forces has changed and may change again. “Last fall, the consensus was that a faltering recovery in advanced economies was a greater risk than overheating in emerging markets,” Governor Carney noted. “Today, it is the opposite. Such reversals can be expected to continue.”

The Governor identified three consequences for Canada, and discussed their implications:

- Rapidly evolving global patterns of trade will require sustained efforts by Canadians to develop trade, technical and academic partnerships to improve market share in emerging markets. In tandem, Canadian business needs to improve its competitiveness, source new suppliers, and prepare to manage in a more volatile environment.
- Dramatic changes in the scale, composition and direction of capital flows will have important implications for returns for Canadian investors, the cost of capital for our businesses, and the risks to our economy.
- Sustained fiscal adjustment is required in most advanced economies. While Canada entered the crisis with a strong fiscal position, it is not fully insulated from the negative spillovers from other countries.

The Governor said Canada’s economic flexibility, sound macroeconomic policy and commitment to openness will help address the current global challenges and opportunities. “Canada’s fiscal strength and monetary policy credibility represent crucial advantages that must be preserved.”