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Opening Statement by Stephen S. Poloz
Governor of the Bank of Canada
Press conference following the release of the *Financial System Review*
May 14, 2020
Ottawa, ON

Good morning, and thank you for being with us today. Senior Deputy Governor Wilkins and I are glad to have the opportunity to discuss the latest issue of the Bank of Canada's *Financial System Review* (FSR), which we published today.

The traditional purpose of the FSR is to identify key vulnerabilities in the financial system that can interact with and magnify economic events. Today, we are facing an extreme event in the form of the COVID-19 pandemic. This FSR gives an in-depth analysis of the impact of COVID-19 on the Canadian financial system and the implications for the economy.

Since the pandemic began, the Bank has focused on keeping financial markets functioning well. As we said last month in our *Monetary Policy Report* (MPR), the short-term goal is to help Canadian households and businesses bridge the crisis period. The longer-term goal is to provide a strong foundation for economic recovery. Both of these goals require a well-functioning financial system to ensure the success of the extraordinary fiscal response that has been put in place.

Today's FSR looks at the results of many of the programs the Bank has implemented since the onset of the pandemic. These programs have succeeded in restoring good functioning to many key financial markets that had been showing signs of significant stress. Bid-ask spreads and yield spreads in many markets have narrowed significantly. Access to liquidity for financial institutions has greatly improved. And many of our programs to support financial markets are being used less and less as conditions stabilize.

That said, considerable uncertainty remains about the future course of the pandemic and its economic consequences. The Bank will continue to do what is necessary to keep core financial markets working so that credit channels remain open for households, businesses and governments. It is important to remember that our programs and facilities, as well as the government's fiscal response, have been designed so that they can expand in line with the pandemic's impact.

In addition to the Bank's programs to support financial markets, we have cut our policy interest rate to its effective lower bound. These reductions, grounded in our inflation-targeting framework, will help stabilize the economy and employment and lay the foundation for recovery. Emergency government programs are mitigating income losses for households and businesses. Enhanced regulatory flexibility is giving financial institutions greater freedom to continue lending as risks increase. And banks have been flexible themselves in providing payment deferrals to many customers.

Today's FSR analyses the resilience of the financial system in this unusual context. We find that the country's banking system and financial market infrastructures are strong enough to deal with the situation—and even the more severe economic scenario that we outlined in last month's MPR. The resilience of our financial system stems in part from the fact that our economy was in good shape going into this episode. The economy was operating near its capacity, inflation was at target and banks were well-capitalized, with ample access to liquidity.

To be clear, the pandemic remains a massive economic and financial challenge, possibly the largest of our lifetimes, and it will leave higher levels of debt in its wake. The right combination of fiscal, monetary and macroprudential policies can ensure a return to economic growth and debt sustainability. Further, policy-makers have taken the lessons of past crises to heart and acted to strengthen the financial system. Canada's adherence to reforms after the 2007–09 global financial crisis, which strengthened the banking sector, is paying off. I am confident that a strong financial system will help Canada emerge from this episode in relatively good shape.

With that, Senior Deputy Governor Wilkins and I would be happy to answer your questions.