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**Remarks by Carolyn Rogers  
Senior Deputy Governor  
To the Canadian Club Toronto  
October 9, 2025  
Toronto, ON**

## **Productivity's competitive edge**

### **Introduction**

Good morning.

In March last year, I gave a speech about the urgent need to improve Canada's productivity. I said that instead of thinking of productivity as some obscure economic statistic, we need to think of it as a reflection of our collective ability to improve living standards, drive growth and remain resilient in a rapidly changing world. I also stressed that improving productivity in Canada is a shared responsibility—one that spans the public and private sectors.

The speech seemed to add a little fuel to a debate that has been going on for some time—a debate about how Canada can best shake off its long-standing productivity slump. That debate took on even more urgency less than a year later, as a new administration in the United States implemented a series of trade policies that represent a massive shock to the Canadian economy.

Meanwhile, Canadians are still grappling with a higher cost of living. Inflation has been back within the Bank of Canada's target band of 1%–3% for a year and a half now, but life is more expensive than it was. This is frustrating for everyone, and it's particularly stressful for those in lower-income brackets and for young Canadians who are trying to get a start in life.

Higher productivity won't make Canada immune to US trade policy, but it would help buffer the effects of tariffs. And it's the clearest path to boosting real wages, making life more affordable. For businesses, higher productivity offsets rising input costs, so it helps maintain margins and preserve price competitiveness. And a more productive economy is more attractive to investors and trading partners.

The bottom line is that there was an urgency to improving our productivity before, and that urgency has only increased.

So what's the holdup, you might ask? If productivity is so important and improving it is so urgent, why is it so hard to move the dial?

The short answer is that, like with most difficult problems, the solution involves trade-offs. There is almost never a solution that gives you all of what you want

I would like to thank Bradley Howell and Eric Santor for their help in preparing this speech.

and none of what you don't want. And like most policy trade-offs, views differ on the best way to balance them.

Today I want to illustrate this challenge by diving deeper into one policy area that has a big effect on an economy's productivity: competition.

I'll lay out some of the economic theory on the relationship between competition and productivity and highlight, very briefly, what the research tells us. And I'll explain some of the policy trade-offs that emerge when you set out to increase competition.

Then I will try to make it all a bit more real by talking about competition in a sector we pay a lot of attention to at the Bank of Canada: the financial sector.

## **Competition and productivity**

The idea that competition can improve productivity is pretty intuitive. We like our hockey analogies these days, so you could think of it this way: you always skate a little harder in the game than you do in practice. And when the game starts, the tougher the opponent, the harder you skate.

Economic theory and research on competition generally align with that intuition. Theory teaches us that competition works through a variety of channels. I'll mention three.

First, competition disciplines firms, forcing them to look for ways to reduce costs and inefficiencies so that the business can survive. Second, it encourages businesses to innovate so that they can differentiate their product or service and get an edge over other firms. Third, competition leads to the reallocation of resources in the economy. Firms that are efficient and innovative will attract more customers and more investment. Those that aren't won't keep up and will eventually exit the market. The result is that resources are continually allocated to their most efficient, productive use.

Research provides plenty of empirical evidence to support the theory. Studies from Statistics Canada,<sup>1</sup> the Organisation for Economic Co-operation and Development (OECD)<sup>2</sup> and the International Monetary Fund<sup>3</sup> find that when markets become more competitive—through deregulation, trade liberalization or competition enforcement—firms tend to become more efficient, adopt technology faster and innovate more.

Firm-level studies reinforce these findings. The Bank's own research highlights how important a dynamic business environment is for overall productivity—an environment where underperforming firms continually exit and resources are reallocated to new, more productive firms.<sup>4</sup>

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<sup>1</sup> J. Baldwin and B. Yan, "Empirical evidence from Canadian firm-level data on the relationship between trade and productivity performance," Statistics Canada Economic Analysis Research Paper Series No. 97 (June 2015).

<sup>2</sup> OECD, [OECD Economic Surveys: Canada 2025](#) (Paris: OECD Publishing, 2025).

<sup>3</sup> International Monetary Fund, Middle East and Central Asia Department, "[Quantifying Gains from Trade Liberalization](#)," IMF Staff Country Reports, volume 2023, issue 224.

<sup>4</sup> S. Abraham, D. Brouillette, A. Chernoff, C. Hajzler, S. Houle, M. Kim and T. Taskin, "Potential output in Canada: 2025 assessment," Bank of Canada Staff Analytical Note No. 2025-14 (June 2025); and D.

Another insight from research is that, for the overall economy, competition can matter more in some sectors than others.<sup>5</sup> For example, productivity gains in sectors that provide intermediate inputs to other sectors can lead to larger gains throughout the economy. This is particularly true in network sectors—those that serve everyone. Think telecommunications, energy and transportation. Canada's own Competition Bureau recently commissioned research in this area, and the results are compelling.<sup>6</sup>

Competition can also affect investment—another ingredient that's critical for productivity. If a market is highly concentrated, dominant firms may have the resources to invest but lack the incentive to do so. However, too much competition in a sector can lead firms to invest less or cause market gaps. Think of sectors that require very large initial investments or a high level of sustained investment—pharmaceuticals is a good example. This relationship between competition and investment is often illustrated with an upside-down U. Investment increases as markets become more competitive, up to a certain point. Beyond that optimal point, more competition can hinder investment as firms become less profitable and their resources become constrained.

We also know that competition can sometimes result in market distortions and disruptions. New entrants challenge incumbents, putting pressure on established business models. While this can benefit consumers, it can also introduce risks. Rapid innovation can outpace regulatory safeguards, leaving consumers exposed to fraud or predatory practices. And often the gains from disruptive competition or innovation aren't evenly distributed, particularly in the short term. This can leave vulnerable populations behind.

Finally, there are markets where the public good is not well served by open competition. In markets where universal access is important, or where public health and safety are at stake, innovation is still important, but disruption can be a problem. Most of us would agree that leaving things like education or health care entirely to competitive market forces would not deliver the societal outcomes we want.

So there you have the policy challenge: how to provide incentives to encourage competition while minimizing the disruptive effects that often come with it. An economy with too little competition will lag in innovation and efficiency and struggle to attract investment. An economy with too much competition can also have underinvestment and is more likely to experience instability and market failures. Either way, it will damage productivity.

Policy-makers manage these trade-offs using a mix of legal, regulatory and incentive-based tools. Competition laws aim to keep the playing field level and reduce the abuse of market power. In industries like utilities or transportation, where natural monopolies often exist, regulation will be aimed at maintaining fair access and stable pricing. And where market forces alone may not be enough to

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Brouillette, T. Devakos and R. Wheesk, "Total factor productivity growth projection for Canada: A sectoral approach," Bank of Canada Staff Analytical Note No. 2024-12 (May 2024).

<sup>5</sup> OECD (2025).

<sup>6</sup> G. Nicoletti, G. Clette, J. Lopez and O. Vernerey, "[Productivity and growth in Canada: the role of procompetitive reforms](#)," (September 1, 2025).

attract and promote investment, incentive-based tools such as tax policy, research grants and protection of intellectual property are used.

Of course, these tools involve their own trade-offs, and their effectiveness can wane over time or distort markets as conditions change. New technology, innovation and changing consumer preferences can upset competitive dynamics. Sometimes this takes years; sometimes it happens very suddenly. If policies designed to balance competition don't change as needed, they will create or exacerbate negative outcomes for consumers—and for productivity.

Now, to make all this a little more relatable, I'd like to look at a sector of the Canadian economy that offers up a good case study for many of the concepts and trade-offs I just covered.

### **Competition in Canada's financial sector**

The financial sector—and more specifically, banking—is a good example of a network sector, which I described earlier. There is a big investment in shared infrastructure and a network of players that both compete and cooperate to deliver services. Almost everyone uses it, and it's critical to the smooth functioning of the economy. The banking sector facilitates the movement of money and channels savings into loans and investments that help businesses and the economy grow.

It's one of those sectors where gains in productivity should propagate throughout the economy, but also one where the negative effects can be magnified if things go wrong. So it's a sector where policy-makers should regularly ask themselves if we've got the level of competition right. Have we got the right balance between promoting safety and stability and encouraging innovation and growth?

If you look at our track record, it would be hard to argue that Canada isn't delivering on the safety and stability objective. The last Canadian bank failure occurred about 30 years ago. Since then, banking regulation has unquestionably tightened in Canada. There have been increases in capital and liquidity requirements, the creation of a bail-in framework and many improvements in supervision. The proof is in the results, though. Canada's banking system has performed well through a number of major economic shocks, including the 2008–09 global financial crisis and, more recently, the COVID-19 pandemic.

It would also be hard to argue, on any objective measure, that Canada's banking system is anything other than an oligopoly. The six largest banks collectively hold about 93% of all banking assets. To state the obvious, this is a very high level of concentration. Canada's big banks are also consistently more profitable than their peers in most advanced economies.

High levels of profitability and concentration aren't necessarily bad. Profitability contributes to stability. As a former bank regulator, I can tell you that a bank that gets behind on its earnings is more likely to take on extra risk to try to make up ground. And the concentration of Canada's banking sector is often cited as one of the main factors contributing to its stability. The relatively small number of players keeps competitive pressure from providing incentives for too much risk-taking. It also makes supervision of that risk easier.

However, many argue that this level of concentration has clear negative impacts on productivity, innovation, capital allocation, cost and consumer choice.<sup>7</sup>

In the current environment, the balance between stability and competition in the financial sector is part of the debate about how to get underperforming economies back into growth mode. The United States has made several announcements aimed at reducing regulation in their financial sector. And earlier this year, the United Kingdom's Chancellor of the Exchequer, Rachel Reeves, called regulation a "boot on the neck of business" and told regulators that they should "take up the call to not bend to caution and boldly regulate for growth."<sup>8</sup>

The debate hasn't become quite that colourful in Canada, but there are reasonable calls for reflection here, too, and our regulators are listening. Canada's Superintendent of Financial Institutions says he sees room to tolerate a bit more risk in the system, particularly in the requirements for new entrants.<sup>9</sup> And the Office of the Superintendent of Financial Institutions has been actively streamlining its rules, rescinding 20 regulatory guidelines in the past year.

Two important changes are coming soon to Canada's financial sector that will help boost competition, and I want to take a minute to tell you about them.

### ***Real-Time Rail***

I'll start with Real-Time Rail, a project to modernize our payments system. Canada is the only country in the G7 without a real-time payments system. You've probably noticed that retail payments, other than cash, don't move directly from the sender's account to the receiver's. You pay a utility bill or make a payment to your credit card online, and you see the money leave your account right away. But it doesn't show up in your utility account or on your credit card until the next day or sometimes longer. This is because these payments currently settle on an overnight basis.

Real-Time Rail will speed this up. It will allow businesses and consumers to move money directly and instantly, anytime of the day or night. And once this is in place, we will be able to link our faster payments system to those in other countries, giving us the ability to move money across borders more quickly, too.

In addition to making payments faster, Real-Time Rail will also make payments more competitive by providing more firms with direct access to the payments system.<sup>10</sup> Our current payments system—the highway that moves money around the economy—restricts access to a small number of regulated financial institutions. Other firms can gain access only by going through one of these players. For example, if you are a technology firm that has designed an app to make payments easier or cheaper, you need to find a partner bank to gain

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<sup>7</sup> OECD (2025); and Competition Bureau Canada, "[Strengthening Competition in the Financial Sector](#)," submission to the Department of Finance's public consultation on strengthening competition in the financial sector (2023).

<sup>8</sup> Sky News, "[Rachel Reeves delivers Mansion House speech](#)," YouTube video, 0:08–23:29, July 15, 2025.

<sup>9</sup> P. Routledge, "[Speech from the Superintendent at the Global Risk Institute Summit 2025](#)" (Toronto, Ontario, September 17, 2025).

<sup>10</sup> For more information, see Bank of Canada, "[Lynx](#)."

access to the payments highway. The partner bank will, of course, charge you for this service.

Modernizing our payments system will allow more firms, including non-banks, to access the payments highway. We need to ensure the highway remains safe and efficient, though. So, firms that aren't regulated financial institutions need to register with the Bank of Canada and meet a core set of requirements under the *Retail Payment Activities Act* (RPAA).<sup>11</sup> The Bank's role in supervising payment service providers under the RPAA started last month.

Canada's Real-Time Rail system is now in test mode and should be ready for launch late next year. It's been a long time in the works and has suffered several delays, so it will be great to see it finally roll out. The experiences of countries that have already introduced instant payment systems show that these systems have real benefits. And a study last year by the C.D. Howe Institute estimated that Real-Time Rail could deliver more than \$3 billion in efficiency gains to Canada's economy over its first five years.<sup>12</sup> This is a clear example of the productivity benefits that can come from more competition in a network sector.

### ***Open banking***

A second innovation in the works in Canada is open banking.

In essence, open banking shifts control of your financial data from your bank to you. It creates a set of rules and standards that lets you safely choose to share your data with other banks or with third parties such as budgeting apps, investment tools or credit applications. This has all kinds of potential uses, but one very important one is that it will make it easier to compare banks and to switch between them.

Canadians don't switch their banking relationships very much. A survey of 4,000 Canadians in 2020 found that only 6% had switched banks in the past year.<sup>13</sup> A more recent survey reported that 69% of Canadians haven't switched their primary bank in the past decade, and 29% have never switched bank accounts.<sup>14</sup> Now, I am willing to put some of this down to good service and satisfied customers. But not all. If you have ever tried to move your banking relationship, you will know how daunting it is: the hours of research, reams of paperwork, missed payments, delayed deposits and the fees—lots of fees.

Picture a future where you could load your banking data securely into an application that would research and recommend options for you to save money. You could then pick a new bank and have your data sent directly to it so that it can use your data to qualify you for the products you want. Your credit and payment history are all there; you're not starting from zero. Your new bank could also recreate the direct deposit and direct debit instructions you have so that your payroll shows up on time and your rent, car lease and hydro bill continue to get

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<sup>11</sup> Payment service providers will also need to be members of Payments Canada. For more details, see Payments Canada, "[The Real-Time Rail: Canada's fastest payment system.](#)"

<sup>12</sup> T. Koepl and J. Kronick, "[The Need for Speed: The Benefits of Faster Payments and How to Achieve Them.](#)" C.D. Howe Institute (2023).

<sup>13</sup> Government of Canada, "[Consumer switching behaviour](#)" (2022).

<sup>14</sup> FICO, "[2024 Bank Customer Experience Survey: Canada](#)" (2024).

paid. Combine open banking with Real-Time Rail, and not only is this a more convenient process, but it's faster, too.

There's work to do, but this is a future within reach. The Canadian government first introduced the idea of open banking in its 2018 budget and put in place an initial legislative framework with the *Consumer-Driven Banking Act*, which was passed in June last year. Further legislation is needed to bring this idea to life, as well as regulations that require financial institutions to participate and minimum standards for other firms that want to get involved. Then the technical standards need to be developed, along with a regime to approve and oversee non-bank participants. We will need to maintain safeguards for customer data and minimize the risks of fraud. Just like with the payments highway, we want it to be open, but we also need it to be safe.

Real-Time Rail and open banking are two initiatives that promise to improve competition in a sector that is critical to Canada's economy. They are both close to implementation, but each needs a final push to get across the finish line.

## **Conclusion**

Let me conclude with two messages for you to take away.

First, Canada has a long track record of financial stability that we can be proud of. We shouldn't take it for granted. Nor should we sit on it. The stability of our system is an asset we can use and a strength that affords us opportunities. Greater contestability, more new entrants and more innovation in our financial sector would lead to competition that's good for consumers, for productivity and for our economy. We should lean into it. There are important innovations on the doorstep, and we need to get them over the finish line.

Second, as the world heads into a period of greater economic nationalism and more industrial policy, we need to resist the urge to add protections. Instead, we should look for ways to encourage more innovation and greater competition. I focused my remarks today on the financial sector because it fits with the Bank's mandate and my own background. But there are other sectors of the Canadian economy where more competition would contribute to productivity and growth. Getting rid of competitive protections between provinces is an obvious place to start, but it shouldn't be where we end. We need to think bigger than that.