BANK OF CANADA
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Remarks by Tiff Macklem
Governor of the Bank of Canada
Chamber of Commerce of Metropolitan Montreal
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Good money and your central bank

Introduction

Good afternoon. It's a pleasure to be back home in Montréal, especially at this time of year. And it is wonderful to see so many of you again.

My final speech of the year is always an opportunity to reflect on the year that was and to look ahead to the year to come. This year, 2025, was marked by the US swerve to protectionism and the resulting upheaval in global trade. It's a story about uncertainty, and about the loss of trust in our trade relationship with our biggest and best partner.

As I look to the year ahead, trust and stability will be critical themes.

At its core, the role of the Bank of Canda is to maintain trust in our monetary system. Trust that the bank notes we issue are secure. Trust that our financial system is stable and efficient, so you can be confident that your money is safely stored and easy to use. And trust that the purchasing power of your money will be stable.

The other theme for the year ahead is innovation.

Stability does not mean standing still. We want to support innovations in money and payments that serve Canadians. That's why, starting this year, we are overseeing retail payments. And next year, the Bank will add two more responsibilities: regulating stablecoins and implementing consumer-driven banking. With our role as the provider of cash and the supervisor of payments systems, and our mandate to control inflation, these new responsibilities make the Bank a one-stop shop for money you can trust.

That's what I will talk about today—money. Good money. Money that is safe, money that trades at par in all its forms, and money that has stable purchasing power. The Bank must ensure trust and stability of money in all its forms—now, and in the future.

We've got a lot of ground to cover, so let's get going.

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The essence of money

So, what is money? Economists typically define money by its functions: a unit of account, a store of value, and a way to trade and transact with trust.[1] Simply put, money is what money does. That's why I think of money as both the medium—physical bank notes or digital money—and the infrastructure it travels on. Money isn't much good if you can't move it around. But when it moves safely and efficiently on trusted infrastructure, money provides vital services to us all.

There are two kinds of money: central bank money and private sector money.

Central bank money includes bank notes—the cash in your wallet—and settlement balances, which are deposits at the Bank of Canada by members of the payments system. Central bank money is the foundation of the financial system because the central bank stands behind it. Think of a $50 bill. On its own, it's just a piece of red polymer with an image of an icebreaker in the Arctic. It's worth $50 only because everyone agrees it's worth the amount written on it—now and in the future—and everyone trusts that the central bank will back it. Maybe this seems a bit archaic, but my signature is on the money to certify we stand behind every note.

Then there's private sector money. Part of that is banking: the digital money that includes deposits at financial institutions. And part of it is payments: the infrastructure that moves money easily and safely. Private sector money also includes innovations in money, like stablecoins, which I'll get to in a minute. Central banks play a role in private sector money, too: together with bank regulators and deposit insurance providers, we're the stewards for the infrastructure that allows money to be stored and moved securely and efficiently.

It's critically important to the Bank that Canadian money is good money. That it's trustworthy and secure. That it can be converted to cash, dollar for dollar, no matter its form. That it trades hands with minimum transaction fees and holds its value with low inflation.

Good money ensures an efficient and inclusive financial system. It's what economists call a "public good"—something everybody can use and benefit from. Without confidence in money, it's hard to be confident about our economic system.

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[1] Like so many before and after my time at university, I learned about the functions of money in my economics courses. When I was a graduate student at Western University, this took on more rigour in the study of what economists call the microfoundations of money—essentially modelling the services that money provides to people. With a model you can begin to assess the features of good money and the benefits to the economy. I was fortunate to learn about the microfoundations of money from Professor Peter Howitt, whose early academic work focused on modelling the transactions services of money. This year Peter Howitt shared the Nobel Prize in Economics for his work with Philippe Aghion on the microfoundations of innovation and the process of creative destruction. But Peter Howitt's early work on the microfoundations of money is also important, and it was my good luck to be in his graduate Monetary Economics class.

The future of bank notes

Now let’s get more concrete, starting with the simplest form of money—cash.

Cash has undeniable benefits. It’s simple, widely accepted, inexpensive to use and reliable. It works during power failures and internet outages and is not vulnerable to cyber attack. About 80% of Canadians—perhaps surprisingly, both old and young—and 96% of small- and medium-sized businesses use cash.

While the use of cash for daily transactions has declined, cash remains important to many Canadians. It accounts for one in five transactions at the point of sale, and the demand for cash continues to grow with the economy.

To be good money, the bank notes we issue have to be easy to authenticate and hard to counterfeit. We issued our first series of notes in 1935, shortly after the Bank was founded. That first series of notes had raised ink and small green dots scattered in the paper, which made the notes hard to counterfeit at the time. But threats have evolved.

Our newest bank note will be issued in early 2027. The new vertical $20 will showcase an innovation in anti-counterfeiting security. We’ve used 3-D features before, and we’ve used features that shift when the note is moved. Our $20 note will combine these two technologies for the first time. I wish I could tell you more, but you’ll have to wait for the unveiling next year.

What I can tell you is that the new $20 note will feature King Charles III on the front and the Canadian National Vimy Memorial on the back. A new $5 note will follow soon after, picturing Terry Fox. And work has begun to develop larger denominations—the $50 and the $100—to build on the security features of this new series of notes.

To be good money, cash also needs to be accessible. And I want to assure you that even as other forms of payment are growing faster than cash, we are committed to ensuring Canadians continue to have access to cash.

Developments in digital money

Digital money is less tangible than a $50 bill, but it’s everywhere—sitting in bank accounts or moving through payment and settlement systems, across international borders and between your phone and e-commerce websites. There are about three billion Canadian bank notes in circulation, representing about $120 billion in value. By comparison, the money in Canadian chequing accounts is about $1.6 trillion.

That digital money has to be good money too—just as secure as bank notes. There are two fronts to protect: banking and payments.

On the banking front, Canada has strong regulators—the Office of the Superintendent of Financial Institutions and its provincial counterparts—that monitor banks and credit unions to ensure their operations are sound. And money in Canadian bank accounts is insured by the Canada Deposit Insurance Corporation or its provincial counterparts.

The second front is payments—money in motion. Advancements in technology mean Canadians are using digital payments more often. Ideally, you don’t think much about the plumbing of Canada's payment systems. You tap, and you trust that your money will get from one place to another.

The Bank supervises the infrastructure that moves these digital payments. For some 30 years, we've overseen Canada's large-value payments system as well as the clearing and settlement systems critically important to the financial system. About 10 years ago, our oversight was expanded to include other prominent payment systems, including Interac e-Transfer® and the largest credit card networks.

This year, the Bank began overseeing retail payments. Since this is a new function, let me explain how it works.

When money is moving, it's facilitated by payment service providers (PSPs). In Canada, there are all kinds of PSPs that help people store or move their money electronically: they offer digital wallets, provide point-of-sale terminals or facilitate cross-border money transfers. The Bank now supervises PSPs to ensure they manage operational risks and safeguard funds held on behalf of Canadian households and businesses, with close to 1,600 PSPs either already registered with the Bank or in the pipeline. This brings PSPs into the regulatory sphere so that Canadians can safely access cheaper payment options and a broader array of services.

Now let's look to the future of digital money and our new responsibilities.

Real-Time Rail will speed up payments

First, the Bank is working with Payments Canada to modernize Canada's national payments infrastructure through a project called Real-Time Rail. This will allow payments to clear and settle instantly, 24-7, 365 days a year—making payments here much more efficient. In time it will also allow Canada to link our system to those in other countries so that money can move across borders more quickly. Real-Time Rail will also give PSPs direct access to the payments system, increasing competition and adding efficiency.

Stablecoins may bring payment innovation

Next is the frontier of digital money: stablecoins—a type of cryptocurrency that is designed to be money.

The biggest cryptocurrency by value is Bitcoin. Bitcoin has some features of money—it did create a new unit of account—but it's not really money. Its price is very volatile, making it a lousy store of value, and it's difficult to use in everyday transactions. It's more of an investment, albeit a speculative one.

Stablecoins are different. They're designed with the intention to always be convertible to a currency at par. So they overcome the price volatility of other cryptocurrencies while taking advantage of the same technology. The biggest stablecoins in circulation right now are Tether and Circle's USDC, both pegged to the US dollar. Other stablecoins have been issued in euros, and there are proposals for stablecoins pegged to the Canadian dollar.

The stability of stablecoins means they hold more promise as a form of payment, although it's hard to know how much of a role they'll play in the future of money. The US *GENIUS Act* created a legislative framework for stablecoins and opened the door to their broader use in global payments. And the industry is keen to deliver. Other countries are also looking at how to bring the benefits of stablecoins to businesses and consumers while minimizing the risks of fraud or instability.

It is important for Canada to have its own regulatory framework for stablecoins. In the federal budget last month, the government announced it will do just that, with the Bank of Canada as the regulator. The draft legislation lays out the core elements of the framework. The proposed Stablecoins Act will regulate stablecoin issuers, and the retail payments legislation will be amended so that it also applies to stablecoin payments. The goal is to ensure Canadians can leverage the innovation of stablecoins and do so safely.

We want stablecoins to be good money, like bank notes or money on deposit at banks. That requires a few critical elements. A stablecoin must be pegged at a one-to-one ratio to a central bank currency and be backed by high-quality liquid assets so that it can always be converted to cash at par. The conditions for redeeming stablecoins must be fully disclosed, including the timing and any fees that need to be paid. Stablecoins made available for purchase by individuals and businesses in Canada should be assured of these protections. And issuers of stablecoins must have enough operational resilience to make stablecoins reliable.

We will work closely with the Department of Finance Canada to support the drafting of regulations next year so Canadians can use stablecoins with confidence.

Open banking gives Canadians more control

The Bank's other new responsibility is part of the push for consumer-driven banking, also known as open banking. For money to work for Canadians, Canadians must be confident the banking system is working for them. Open banking will give you more control over your financial data, so you can do more with your money. It will make it easier to compare banks and switch providers or share data with third parties such as budgeting apps, investment tools or credit applications. It will make the system more efficient and more competitive, and it should drive innovation.

As with Real-Time Rail and stablecoins, we need to ensure supervision of participants and high standards for technology in open banking to safeguard customer data and minimize the risk of fraud. Open banking is a bit different from our other responsibilities, but the overlap with the other parts of our supervisory mandate is clear: the Bank has experience keeping money and payments secure so you can use your money safely and easily. Open banking extends this to storing and moving financial information safely and easily.

The regimes for stablecoins and open banking must be built thoughtfully. The technology is evolving rapidly, and the regulatory framework will need to evolve to keep pace with the changing landscape. It is important that Canadians can benefit from new technology and new services—safely and securely.

Preserving the value of money

That brings me to the final component of good money: it needs to hold its value. All the forms of money I've mentioned, from bank notes to stablecoins, must have stable purchasing power. In Canada, as in most other major countries, we have defined that as 2% inflation. When inflation is around 2%, the value of our money is relatively stable and the economy works well.

We don't have to go back far in time to remember how painful it can be if we don't preserve the value of our money. Canada's economy overheated in 2022 when the post-pandemic surge in demand ran up against still-impaired supply chains. Combined with Russia's unprovoked invasion of Ukraine, this pushed inflation just above 8%. The cost of both goods and services rose too fast. The money people had was buying fewer goods and services. People felt ripped off.

When inflation gets out of control, we lose price stability—and we risk losing trust. If elevated inflation persists, it becomes entrenched in people's expectations, making it more difficult to bring inflation back to target. That's why we responded forcefully, raising interest rates at a historically rapid pace. It worked. Longer-term inflation expectations remained well anchored, and we were able to restore 2% inflation without a recession.

But high inflation has had a lasting impact. Inflation has been back around 2% for more than a year, but price levels are a lot higher than they were before the pandemic. That's why it's so important that inflation stay low and stable, so incomes can catch up.

The pandemic experience reminds us that trust cannot be taken for granted—it has to be earned and maintained. In Canada, we review and renew our monetary policy framework with the federal government every five years. It's one way we preserve Canadians' trust. With the renewal coming up in 2026, we're taking a fresh look at whether our inflation-targeting framework is still fit for purpose.

As we review, we recognize that structural shifts—the rise of artificial intelligence, climate change, trade disruptions and geopolitical instability—make global economies increasingly vulnerable to shocks and uncertainty. We want to be sure the way we use our flexible inflation-targeting framework gives us the best chance of keeping inflation low and stable in a more shock-prone world. We want to provide the best information to Canadians about how we're doing that. And we want to better understand the link between inflation and housing affordability.

One thing we're *not* reviewing is whether 2% inflation is the best target. We're confident it is. Flexible inflation targeting has proven to be more successful and more durable than anything that came before. In the 25 years leading up to the pandemic, inflation in Canada averaged very close to the 2% target and was inside the 1% to 3% band about 80% of the time. And yes, the pandemic tested our framework like never before, but as difficult as that was, the framework guided our actions to restore low inflation.

Faced with a more shock-prone world, the anchor provided by the 2% target looks more important than ever. But we need to look at how we conduct monetary policy to hit the 2% target. The economic landscape is shifting. Protectionist US trade policy and high tariffs are adding costs and creating economic volatility. More generally, ongoing structural changes are turning into headwinds that have the potential to disrupt supply and add inflationary pressures.

The renewal of our monetary policy framework in 2026 is the opportunity to ensure we are ready for a more shock-prone world. Good money in all its forms is only as good as its purchasing power.

Conclusion

It's time for me to wrap up.

This has been a pivotal year for the global economy. The reconfiguration of global trade and the restructuring of Canada's economy will likely continue to dominate the economic landscape in 2026.

Last week, Governing Council maintained the Bank's policy interest rate at 2¼%.

US tariffs on steel, aluminum, autos and lumber have hit these sectors hard, and uncertainty is weighing on business investment. But so far, the economy is proving resilient overall.

Inflationary pressures continue to be contained despite added costs related to the reconfiguration of trade. Total CPI inflation has been close to the 2% target for more than a year now, and we expect it to remain near the target.

In the current situation, Governing Council sees the policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment. Uncertainty is of course still very high. If the outlook changes, we are prepared to respond.

At the Bank of Canada, we are focused on managing the present and preparing for the future. We will support the economy through this period of transition while keeping inflation well controlled. And we will safeguard the essential features of good money—security, convertibility and price stability—while ensuring Canadians can benefit from innovations in money and financial services. We can and must be both a source of stability and an engine of progress.

As money changes with innovation and our economy faces new challenges, the Bank of Canada will be there for Canadians. You can count on us to maintain the trust and stability of your money.

Thank you.