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Governor Carney says the global financial system needs continuously open markets

LONDON, England, November 19, 2008 — In order to achieve a full recovery, the global financial system must have continuously open markets at its core, Bank of Canada Governor Mark Carney argued today in a speech to the Canada – United Kingdom Chamber of Commerce. Even under stress, core markets such as interbank lending, commercial paper, and repo for high-quality securities must remain liquid.

In what he called a "dispassionate and ultimately optimistic perspective on how to build sustainable markets in the age of global capital," Governor Carney said the G-7 Plan of Action provided a conventional roadmap to reopen markets. He suggested, too, that central bankers could act as market-makers of last resort. This would make markets more systemic and individual institutions less so, he said.

While Governor Carney defended market-based finance as positive for the global financial system, he cited three significant flaws – a lack of transparency, misaligned incentives, and inadequate liquidity – that must be addressed. Core markets broke down as a result of these failures, thereby worsening the global financial crisis, he added.

The Governor said that while Canada's financial system has clearly been affected by the crisis, the impact has been significantly less than in many other major economies. "Our experience demonstrates that the G-7 strategy will work," he said. Nevertheless, he noted that the Canadian economy has been importantly affected by tighter credit conditions as a result of the global financial crisis, the deepening global recession, and a related deterioration in Canada's terms of trade stemming from lower commodity prices. The risks to growth and inflation in Canada identified in the Bank's October *Monetary Policy Report* appear to have shifted to the downside, Governor Carney said.

The Canadian experience demonstrates that while "good financial regulation begins at home, it is equally clear that it cannot end there. Even if the domestic system is sound, there is no guarantee that core financial markets will always be available," the Governor said. "There is a pressing need for international institutions that effectively monitor systemic risk and coordinate macroprudential and financial policy reform."