

March 11, 2010

**Summary: Principles for Interesting Times
Mark Carney – Governor of the Bank of Canada**

Presented by video conference to: UBC, U. of Toronto, Queen's, Université du Québec à Montréal, McGill, Laval, Dalhousie, University of Ottawa, and Carleton University. The speech primarily encompasses the past and present of the bank in celebration of its 75th anniversary.

Mark Carney

Mark Carney was appointed on February 1, 2008 as the 8th Governor of the Bank of Canada. Mr. Carney received a bachelor's degree in economics from Harvard University in 1988. This was then followed by a master's degree in economics in 1993, and a doctorate in economics in 1995, both from Oxford University. His past experience has included work with Goldman Sachs, the Ministry of Finance, and a variety of positions within the Bank of Canada.

Bank of Canada

The Bank of Canada has five main areas of responsibility: monetary policy, currency, the financial system, funds management, and corporate administration. It was created by the Bank of Canada Act of 1934 and began operation on March 11, 1935. The bank is headquartered in Ottawa and has over \$57 billion in reserves.

The mandate of the Bank of Canada is to “preserve the value of the nation’s currency and to promote the economic and financial welfare of Canadians”.

According to Mark Carney, issues facing central banks “go to the heart of how modern economies function and how human being behaves”. With that in mind, the Bank of Canada is guided by research, and policy-based frameworks. In the recent years, technology has had a profound impact on the Bank. The global economy is better interconnected than ever before and therefore policy makers must act quickly under the banks guiding principles.

Research, macro-models, and price level targeting, have always been a forefront for the Bank of Canada. The Bank is guided by the discipline of an inflation target that anchors inflation expectations, and ensures that reductions in overnight rate drive down real interest rates and stimulates the economy. The Bank aims to contain annual inflation between 1-3%. The monetary policy currently strives for a 2% target.

The Past

October 1929 marked the crash of the stock market. The effects of the Great Depression had a devastating impact on the global and Canadian economies. Canadian equity prices fell by more than 70%, national output dropped by 40%. And unemployment peaked at 20% in 1933. The deflationary pressures from the US spread quickly, weakening the global economies and leading to countries abandoning the gold standard. With limited credit available, people distrusted banks. This led to the passage of the Bank of Canada Act.

In the 1950's, large capital inflows threatened to drive up inflation in Canada. To maintain price stability, it was decided to float the Canadian dollar. In 1974, Bankhaus Herstatt in Germany failed and highlighted the inadequate market infrastructure. In response, the CLS bank was established. The CLS Bank provides the largest multi-currency cash settlement system, eliminating settlement risk for over half the world's foreign exchange payment instructions.

Recent Events

In September 2008, the U.S. investment bank, Lehman Brothers, collapsed leading to a spike in the cost of interbank borrowing. The functioning of repo, stock, loan and derivative markets seized. The global financial system was on the brink.

The G-7 central banks, including Canada, worked together to stabilize international banks. The situation over the past year revealed shortcomings in market structure and regulations. Therefore, through the G-20 and the Financial Stability Board, the Bank is working towards a new bank capital regime, the development of a more systemic approach to regulation, and a series of initiatives to move towards a more resilient system.

In order to avoid replicating the experience of the 1930s, the Bank of Canada eased monetary conditions and provided significant liquidity to the financial system. A strong emphasis was placed on the inflation-targeting framework and the pursuit of the inflation target of 2%. Fortunately, the Bank of Canada averted the worst.

Conclusion

Recent events have shown that international monetary systems failed to promote timely and orderly economic adjustment. The challenges over the past 75 years and intense global economic forces have lead the Bank of Canada to innovate and become a more effective institution. Through continued research, analysis, and strong leadership, the Bank of Canada is prepared to maintain a solid financial system, and promote strong, sustainable and balanced growth.