Opening remarks by Tiff Macklem
Governor
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Good afternoon. I want to thank the Institute of International Finance and the Canadian Bankers Association for inviting me to take part in your 2024 Forum.

Your focus on growth during uncertainty is timely. Uncertainty feels like the new reality: The uncertainty caused by war in Europe and in the Middle East. The uncertainties arising from geopolitical tensions and economic fragmentation. And the related uncertainties about supply chains, trading relationships and global investment risks.

Rapid advances in new technologies, particularly artificial intelligence (AI) and its new offspring, Generative-AI, are disrupting business models and creating new uncertainties for firms and workers.

Uncertainty surrounds the impacts of climate change and the policy frameworks to adapt to and mitigate it.

There is political uncertainty. And fiscal uncertainty.

As your theme implies, uncertainty and economic growth do not sit well together: uncertainty impedes growth.

But with inspired policy, good business decisions and sound risk management, we can manage uncertainty and reduce its impact on households, businesses and growth. We have recent historical evidence.

Sixteen years ago this month, Lehman Brothers failed, and the financial system froze because nobody knew which banks were safe. Today, the global financial system is much safer thanks to the implementation of sweeping global reforms to increase capital and liquidity buffers, and reduce leverage.

With the rapid development of new vaccines and with exceptional fiscal and monetary policies, uncertainty about our health and the health of our economies has decreased dramatically since the depths of the COVID-19 pandemic.

Thanks to decisive monetary policy action and the unblocking of supply chains, uncertainty about costs and inflation are much lower today than two years ago, when inflation peaked above 8% in Canada and was even higher in many other countries.

In the past few weeks, I have given speeches on the shifting global trade landscape and the economic implications and risks of rapid advances in artificial

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intelligence. These are two key areas where we can reduce uncertainty through good policy and far-sighted business leadership.

At the same time, we need to recognize that new uncertainties are a new reality, and we must be ready for the inevitable shocks in a more turbulent world. That puts a priority on risk management and investments in resilience.

A key function of financial institutions is to help households and businesses manage the risks they face. Financial institutions also have a responsibility to manage their own risks prudently so that they do not themselves become a source of uncertainty and instability.

As Canada's central bank, we have a role to play in mitigating and managing risks and uncertainty. Our primary mandate is price stability—in other words, low, stable and predictable inflation. We also have mandates to foster a stable financial system and ensure safe and efficient payments.

Let me say a few words on financial stability and payments. And then I'll finish with some thoughts on monetary policy.

Our financial stability focus is on risks that could lead to system-wide stress. And we publish these findings in our annual Financial Stability Report (FSR).[1]

In our most recent FSR, published in May, we reported that Canadian mortgage holders had experienced a modest increase in levels of financial stress. Since then, we've observed that arrears on mortgages have continued to rise, although they remain below pre-pandemic levels. It also appears that these households have not leaned on revolving credit products such as lines of credit and credit cards to a greater degree than before the pandemic.

But there is a notable increase in financial stress among borrowers without a mortgage, mainly renters. During the pandemic, for most credit products, the share of these borrowers missing payments reached historical lows. However, we're now seeing a larger share of these borrowers lagging behind on credit card and auto loan payments. Over the past year the share of borrowers without a mortgage who carry a credit card balance of at least 90% of their credit limit has continued to climb. And this share is now above typical historical levels. This is concerning.

Our responsibilities related to payments require us to adapt to increasing digitalization. Innovation in payments continues to accelerate.

In 2021, the Bank assumed a new mandate for the supervision of retail payment service providers. Starting November 1st of this year, more than 3,000 service providers will need to register with the Bank and follow new rules aimed at safeguarding consumers and protecting the integrity of retail payments.

We are also looking at the bigger picture of payment innovation, both in Canada and around the world. As part of this work, in the past few years we've built an extensive body of knowledge about the framework and technology behind a possible central bank digital currency (CBDC), including the benefits and risks.

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[1] Financial Stability Report—2024 - Bank of Canada

But recognizing that there is not currently a compelling case to move forward with a CBDC in Canada, the Bank is scaling down its work on a retail central bank digital currency and shifting its focus to broader payments system research and policy development. The Bank will continue to monitor global retail CBDC developments. And the Bank will be ready to ensure Canadians always have a safe and secure supply of public money.

Now, let me circle back to monetary policy.

In June, we began lowering our policy interest rate. We cut the policy rate at our last three decisions, for a cumulative decline of 75 basis points to 4.25%.

Our most recent decision on September 4th reflected two main considerations.

First, we noted that headline and core inflation had continued to ease as expected. Second, we said that as inflation gets closer to target, we want to see economic growth pick up to absorb the slack in the economy.

Since then, we’ve been pleased to see inflation come all the way back to the 2% target. It has been a long journey. Now we want to keep inflation close to the centre of the 1%–3% inflation-control band. We need to stick the landing.

What does this mean for interest rates? With the continued progress we've seen on inflation, it is reasonable to expect further cuts in our policy rate. The timing and pace will be determined by incoming data and our assessment of what those data mean for future inflation.

As always, we try to be as clear as we can about what we are watching as we chart the course for monetary policy.

Economic growth picked up in the first half of this year, and we want to see it strengthen further so that inflation stays close to the 2% target. Some recent indicators suggest growth may not be as strong as we expected. We will be closely watching consumer spending, as well as business hiring and investment.

We will also be looking for continued easing in core inflation, which is still a little above 2%. Shelter cost inflation remains elevated but has started to come down, and we are looking for it to moderate further.

Our next decision is October 23rd. And we will have a revised economic outlook at that time.

With those introductory thoughts, let’s get the discussion started.