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Chair

Mr. James Rajotte

Standing Committee on Finance

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• (1530)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Order. Thank you.

I call to order the thirteenth meeting of the Standing Committee on Finance.

We have a very special guest with us here this afternoon, colleagues. We have with us the Governor of the Bank of Canada, Mr. Mark Carney. Pursuant to Standing Order 108(2), he's here to discuss a study on the report of the Bank of Canada on monetary policy. As you all know, he appears twice a year before the finance committee, and we look forward to his presentations and a fulsome discussion of some very pertinent issues.

Governor, Mr. Carney, welcome to the committee. Thank you so much for being with us here today. We look forward to your opening statement, and we'll have questions from members after your remarks.

Please begin at any time.

Mr. Mark Carney (Governor, Bank of Canada): Thank you very much, Mr. Chair and members of this committee. I'm very pleased to appear before you today to discuss the bank's views on the economy and our monetary policy stance.

Before I take your questions, I would like to give you a few of the highlights from our latest monetary policy report, which was released last Thursday.

[Translation]

Global economic growth has been somewhat stronger than projected, with momentum in emerging-market economies increasing noticeably and moderate recovery under way in most advanced economies. It is now projected by the Bank of Canada that global growth should average slightly above 4% a year through 2012.

In Canada, the economic recovery is proceeding somewhat more rapidly than the Bank of Canada expected in January. It is supported by continued fiscal and monetary stimulus, improved financial conditions, the rebound in global economic growth, more favourable terms of trade, and increased business and household confidence.

This year should mark the turning point when the private sector takes over from the public sector as the primary source of growth. GDP is now projected to grow by 3.7% in 2010 before slowing gradually to 3.1% in 2011 and 1.9% in 2012.

[English]

This profile of growth reflects stronger near-term global growth, very strong housing activity in Canada, and the bank's assessment that the policy stimulus resulted in more expenditures being brought forward in late 2009 and early 2010 than expected.

At the same time, the persistent strength of the Canadian dollar, Canada's poor relative productivity performance, and the low absolute level of U.S. demand will continue to act as significant drags on economic activity in Canada.

The bank estimates that GDP in the first quarter of 2010 was about 1% below its peak in the third quarter of 2008, and some 2% below its potential. The economy is expected to return to full capacity in the second quarter of 2011, one quarter earlier than we had projected in January.

The outlook for inflation reflects the combined influences of stronger domestic demand, slowing wage growth, and overall excess supply.

Core inflation, which had been somewhat firmer than projected in January, is expected to ease slightly in the second quarter of 2010 as the effect of temporary factors dissipates, and to remain near 2% throughout the rest of the projection period. Total CPI inflation is expected to be slightly higher than 2% over the coming year before returning to the target in the second half of 2011.

• (1535)

[Translation]

Despite the firming of the global and Canadian recoveries, there are considerable risks around the bank's outlook. There are two main upside risks to inflation. It is possible that the momentum in household expenditures and residential investment could be greater than currently expected. Internationally, a faster-than-expected global recovery could stimulate external demand for Canadian exports and improve the terms of trade.

On the downside, the combination of the persistent strength of the Canadian dollar and Canada's poor relative productivity performance could exert a larger-than-expected drag on growth and put additional downward pressure on inflation.

[English]

A second downside risk is that the global economic recovery could be more protracted than currently projected. In this regard, there is a risk that sovereign credit concerns could intensify, leading to higher borrowing costs and a more rapid tightening of fiscal policy in some countries. Either of those factors would restrain global private demand relative to the bank's base-case projection.

Over the medium term, global macroeconomic imbalances continue to pose significant risks to the outlook. While these imbalances narrowed during the recession, sustained improvement over the medium term will require fiscal consolidation in advanced countries, together with stronger domestic demand growth and real exchange rate adjustments in countries with large current account surpluses. In the absence of these measures, the cost to the global economy could be considerable.

The G20 framework is designed to help the global economy move in the right direction. This past weekend in Washington, the G20 reaffirmed its commitment to this important initiative.

In Canada, in response to the sharp, synchronous global recession, the bank lowered its target rate rapidly over the course of 2008 and early 2009 to its lowest possible level. In addition, in April 2009, the bank committed to hold it at that level, conditional on the outlook for inflation. This unconventional policy provided considerable additional stimulus during a period of very weak economic conditions and major downside risks to the global and Canadian economies.

With recent improvements in the economic outlook, the need for such extraordinary policy is now passing, and it is appropriate to begin to lessen the degree of monetary stimulus. That is why, on Tuesday, April 20, the bank removed its conditional commitment. This, in and of itself, represents a tightening of monetary policy.

Going forward, nothing is preordained. The extent and timing of any additional withdrawal of monetary stimulus will depend on the outlook for economic activity and inflation and will be consistent with achieving the 2% inflation target.

With that, I would be very pleased to take members' questions.

The Chair: Thank you very much, Mr. Carney, for your presentation.

We'll start members' questions with Mr. McCallum, for seven minutes.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair.

Thank you for being with us, Governor.

I won't characterize your forecast as optimistic, which I did once, but I think I would still say that at 3.7% for the current year it's certainly higher than the consensus among private sector economists and others—and of course, it might be right.

But I want to raise the subject of debt. In your report, you say it's possible that the momentum in household expenditures could be greater than currently expected. I might have thought the contrary, because a lot of people have talked about the unprecedentedly high household debt—145%, according to one authority.

OSFI has said, and I quote, "The ability of households to service their debt obligations in the context of continued growth in credit and an environment of rising interest rates is an emerging source of risk for the medium term".

Royal Bank, Standard and Poor's, the Certified General Accountants Association—various groups—have all spoken about this issue of rising debt. Rather than thinking that consumer spending might rise more quickly than predicted, I would have thought, especially if we do have rising interest rates, that the debt issue might be a negative factor that would slow down domestic expenditures.

• (1540)

Mr. Mark Carney: Thank you.

You left one institution out of that list of people who have been warning about the levels of household debt, and that's the Bank of Canada. We began warning about this issue in the fall of last year—

Hon. John McCallum: Right.

Mr. Mark Carney: —very clearly supported by quite detailed simulations. I would say that we share the concern that there are cohorts of Canadians, or groups of Canadians, who run the risk of being overextended in their personal finances.

We've used every opportunity, and I'll use this one as well, to encourage people when they consider taking on additional debt to look at that obligation over the fullness of time, or in other words, over the long term, and to think about it in more normal circumstances. We still are in quite extraordinary circumstances with respect to borrowing.

That brings me to your question, which is a very welcome and important one. To be absolutely clear, a large portion of this debt that was recently run up—not all of it, but a large portion of it—has been related to the housing market. It was not purely for housing purchases, but was related to the housing markets in two ways: first, conventional mortgages, and second, personal lines of credit that have been secured against houses, the so-called home equity loans. In fact, the bulk of private consumer debt has been home equity debt in recent years.

We see a marked weakening in housing activity over the course of our projection, starting from the second quarter of this year, and over the balance of the year. In fact, you will note in the detailed breakdown on page 20 of the report where we consider GDP growth by component that housing activity will actually subtract from growth in 2011. That's not the same as talking about specific prices, but in terms of the level of this activity, we see it coming down, and we do expect to see a moderation in debt.

That said, credit growth in this country has continued to be quite strong. In those situations, there is a risk that momentum maintains itself for longer than expected. We're expecting to see a coming off in the rate of credit growth. If it does not and persists for longer, then there is a risk of upside momentum. Now, there is a variety of factors—I won't use up all of your time, but I'm sure we will get into it—in regard to why we expect to see this deceleration.

One final point is that something that does characterize our forecast for this year is the front-loaded nature of the recovery, with a much faster first quarter, second quarter, and then a gradual slowing.

Hon. John McCallum: Thank you.

I'd like to change the subject completely and ask you what you see as the biggest challenge or risk globally over the medium term. Before you answer, I'd like to give you one candidate and see if you might agree with it.

One concern I have—and that I think many people have—is that the United States deficit is very big, at well over 10% of GDP. That in itself might not be a huge problem, except that I think a lot of people wonder if the United States political process—the Senate, the Congress—is capable of dealing with this kind of thing; we look at their social security problems over decades. So as Canada is so close to the United States, I think this is a concern not only for them but also for me.

Do you see the U.S. President and Congress dealing effectively with this over the coming years?

Mr. Mark Carney: Well, I think the question was on what we see as the largest risk over the medium term.

• (1545)

Hon. John McCallum: Globally, yes.

Mr. Mark Carney: I would generalize it, because we have been clear... We generalize in global imbalances, but I want to talk specifically about fiscal: very much the risk is getting the balance right on fiscal policy. That means both: accelerating the fiscal adjustment too quickly or delaying it too long, in a number of major economies, the United States perhaps being the most prominent. But this is a common issue in a number of major economies: the need to get the balance right.

Something I did highlight—I won't go into detail about it, but I'll just put the reference in—in a speech a few weeks ago here in Ottawa is that we referenced this issue of the markets and the political process actually accelerating adjustment on the fiscal side too quickly, and that driving deficient demand on a global level with knock-on effects.

With respect to the United States, the fiscal challenge in the United States is considerable, and we would support calls for a sustainable fiscal plan to be outlined and implemented.

Hon. John McCallum: Thank you.

The Chair: You have 30 seconds left.

Hon. John McCallum: I don't think 30 seconds will do much for me.

Thank you very much.

The Chair: Thank you, Mr. McCallum

Monsieur Paillé, s'il vous plaît.

[Translation]

Mr. Daniel Paillé (Hochelaga, BQ): Thank you, Mr. Chairman. Welcome, Mr. Carney.

It is obvious, and you have indicated so, that your simple presence here and the answers that you provide us with could have a tightening or a non-tightening effect on monetary policy. We are well aware of this.

The entire monetary policy of Canada, of your bank, is based upon a target inflation rate of 2%. For a very long time now — it was also the case for your predecessor —, it has been a religion to want to control at all cost this 2% target with a lower range. The problem is that, in the private sector, one could already be fearful of the fact that stubbornly relying on a rate of inflation might, for example, bring about a very high exchange rate, very rapid fluctuations of the exchange rate and dollar parity.

You say that Canada's productivity is rather weak, that use is not being made of Canada's full capacity and that American demand is low. Is there not a danger of a too rapid tightening? Furthermore, Mr. McCallum likes to talk of his Royal Bank. This bank increased mortgage rates rather quickly. A form of escalation took place and it seems that things are moving more quickly than you had hoped.

Obviously, one can never correct what one has said, but you indicated, last week, that at the end of the second quarter, the rate would rise. Is there not a danger of acting too quickly in tightening monetary policy? Obviously, I am thinking of Quebec, of the SMEs and the manufacturers of my province.

Mr. Mark Carney: Mr. Paillé, there is no risk of the Bank of Canada making changes too quickly or too slowly. Our objective is very clear, as you have just stated. It is a rate of inflation measured by an overall CPI of 2%. This is not a religion, but a mandate from the people of Canada, represented by the government of Canada. An agreement between the Bank of Canada and the government of Canada is in place until the end of 2011. The Bank of Canada and the government will then have the opportunity to make changes, if they so wish. It is a matter of choice and not of religion.

In our opinion and in that of the government of Canada, the best contribution of the monetary policy to the welfare of Canadians is an inflation rate that is low, stable and predictable. Inflation has a painful impact on poor and disadvantaged Canadians. You listed several factors that impact upon the level of economic activity in Canada and, therefore, on Canada's inflation prospects.

At the Bank of Canada, we are able to react to these various factors. In my comments, I mentioned that nothing is a done deal. Global activity could change several factors, including the value of our currency, that could impact upon the inflation prospects in Canada. If such is the case, the Bank will react.

• (1550)

Mr. Daniel Paillé: I am happy that you have provided this clarification. The terms “religion” and “mandate” do not mean the same thing. Mandates can change. Some people change religion. But that is another matter.

In the early 1990s and in the first years of the following century, the tightening that occurred was, in the opinion of some, premature. Things went up and then fell back. The exact same thing was done in the early 2000s with the federal funds. I am leery of ten-year timeframes. We are early in the year 2010, and I would not like our successors or myself to be able to say, ten years down the road, that we went too fast in 2010-11. That is one of my fears.

Mr. Mark Carney: I assure you that the monetary policy will suit Canadian circumstances.

The Chair: Thank you.

[English]

We'll go to Mr. Wallace now, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

Thank you, Governor Carney, for coming today.

I have a number of questions so I'm going to try to be fairly quick about it.

In your opening statement, you talked about the poor relative productivity of our economy. Just for your information, there's a bill in front of the House that I'm completely opposed to: through the tax system, it would pay individuals, as graduates, to go back to their homes whether they have jobs or not. I think it goes completely against the mobility of labour.

That's my question to you. In terms of productivity, does mobility of labour play a role in the productivity of the Canadian economy?

Mr. Mark Carney: Thank you for the question, Mr. Wallace.

Yes, flexibility of labour markets is an important aspect of productivity. Flexibility in product markets and openness in trade markets are all factors that influence the productivity growth. Canada does have relatively flexible labour markets. It has been to our advantage. Over the course of the decade in the run-up to the recession, we've seen quite large shifts of labour into very productive activities across our country.

Mr. Mike Wallace: The rest of my questions are on the monetary policy report, which I read every time you send it out and which I appreciate.

I just want to confirm this. You indicated in the report, if I'm reading it correctly, that the government stimulus package, which has been put out by this government over the last year and a half, has made a difference in restarting the economy, in our coming out of recession, and in providing economic growth. Is that what this report tells me?

Mr. Mark Carney: It's not the theme of the report, Mr. Wallace, but certainly fiscal policy has been important, and it particularly is important in 2010. The contribution of government, federal and provincial, is an important contributor to growth in 2010. We would say that our expectations on fiscal policy thus far have been met; in other words, the contributions have been consistent.

I would draw members' attention to page 13, where there's a somewhat busy chart, but an instructive one, which shows the levels of activity in the recession. In effect, relative to where their levels were going into the recession, you see a very sharp fall-off, for example, in business investment, and in exports, less of a

contribution. Government expenditure and personal expenditures are the only activities that rise following the start of the recession.

Mr. Mike Wallace: You would also.... I'm not going to ask you to agree or not agree, but maybe to comment. The government has done its share—some people think more or less than it should have—in terms of stimulus, but at the end of the day, we need the private sector to come to the table to make sure that this economic recovery is sustainable. Would you agree with that comment?

• (1555)

Mr. Mark Carney: That's entirely correct. The issue that the recovery will turn on is the full response of the private sector. We've seen, as I say, quite strong housing activity, and consumption has held up. What has been lower than the general experience in recessions has been business investment.

Our forecast—and this is an important component of our forecast for several reasons—is that we see the recovery in business investment basically from now going forward, and that picks up over the forecast horizon. That's important, obviously, just as a direct contributor to growth, but it's important particularly because it goes back to your productivity point.

And we have, in terms of the supply side of the economy, the capacity of the economy, rising productivity, from very low levels, over the course of our forecast horizon through the end of 2012, which is obviously very much dependent on the scale of that business investment.

Mr. Mike Wallace: Just to comment on liquidity, we heard often going into the recession that business didn't have access to capital. I think you mention here that from the world perspective, it's mixed; some places have more liquidity than others. What's the Canadian experience at this point in terms of availability of capital to the business sector?

Mr. Mark Carney: The availability of capital on the whole is very strong, but there is still some tightness in the availability for small and medium-sized enterprises. We've seen that. The conditions tighten more for small and medium-sized enterprises than for large enterprises. Large enterprises obviously have the benefit of access to capital markets, which are quite open at this stage.

While we've seen the end of the deterioration in the tightness of credit conditions for small and medium-sized enterprises and just the start of an improvement, there is still a way to go. But as a whole, in terms of the recovery and the recovery in business investment, I would characterize Canada as, if not the least affected, one of the countries least affected by this credit tightness that we see globally.

Mr. Mike Wallace: Thank you, Mr. Carney.

I have one question that is more a personal interest of mine. On page 15, you have a chart on CPI, showing "Total CPI" versus "Core CPI". I've probably asked you this question each time. A number of our programs, particularly for seniors, such as OAS and so on, are attached to CPI, so their increases or non-increases change based on that number.

I've advocated that maybe there should be a seniors' CPI, one that weights things differently and would deal with issues of a higher value to seniors. Driving to and from work doesn't happen that often for many seniors, so the cost of fuel, as in gasoline, shouldn't play as big a role. The core inflation, the blue line on the chart, is a lot flatter; it doesn't change nearly as much as the variances in the total CPI.

Can you explain to me briefly what the difference is between the two in terms of weighting and what plays a bigger and lesser role?

Mr. Mark Carney: Very briefly, the adjustment for the Canadian core and total CPI is that what is removed from total CPI are the most volatile items in that basket. But what is important here is that while there's less variation in core CPI—and core CPI is the best predictor of future CPI levels, so you see much bigger swings in total CPI—if you look over a longer period, the level of those prices as they move over time is consistent. So for core CPI in Canada—not uniquely, but it's relatively unusual—it is much more the case here that core is a good predictor of total CPI. You have higher variance; both move in tandem.

Mr. Mike Wallace: I may come back to that.

The Chair: Thank you, Mr. Wallace.

Monsieur Mulcair, s'il vous plaît.

[Translation]

Mr. Thomas Mulcair (Outremont, NDP): Thank you, Mr. Chairman.

Welcome, Mr. Carney. Thank you for being with us. It is always a pleasure to hear your explanations. Every time, they are really to the point. For several years now, we have had the opportunity to sit down here with you and, each time, we have appreciated the soundness of your vision of things. This is the third time — the third consecutive spring, in fact —, that we have had the pleasure of working with you in an official context. This allows us to draw links between statements made in the past and what is taking place at the present time. We see to what extent things have evolved. The liberal critic is even prepared to admit that you can be right. Things are constantly evolving.

That being said, I would like to ask you a very specific question relating to a matter of concern to us. I am talking about the internalization of the costs related to the oil sands. You and I have had the opportunity to discuss this matter in the past. I will provide you with the 30 second version.

As you are aware, we are concerned by the fact that an artificially high volume of American securities are flooding onto the Canadian market because we never applied certain basic sustainable development principles, such as the internationalization of costs or even the user-pays or the polluter-pays principles. We pass the problem on to future generations and, on top of this, it is having an effect on the loonie.

Last year, when we spoke about this, you told me that you understood, but that it was not under your jurisdiction, given that it was the choice of the government. This is how I interpreted your statements. However, very recently, I had the opportunity to see you agree with the Finance Minister of Canada when he stated that he wanted to hear no talk of what he called attacks on banks. In fact,

two things are at play: what we sometimes call the Tobin tax, that is rather a tax on financial transactions, and the tax on banks. With regard to the latter, I will dare say that it is rather like a figurehead that he is brandishing. Whatever the case may be, it is indeed matter for a political debate.

I would like you to explain to me the nuance between your refusal of last year to provide an opinion on the internationalization of the environmental costs relating to the oil sands and the joy with which you supported the Minister of Finance's analysis when it suited him. For the outsider, it might have looked like a double standard. In other words, when it is to agree with the minister of Finance, you are all for it, but when it is to agree with the opposition, even when you share its view, you are hesitant. I would like you to reassure me in this regard.

● (1600)

Mr. Mark Carney: There is a difference, if one considers the responsibilities of the Bank of Canada. The main motivation of countries that are in favour of a tax on wholesale financing is financial stability.

In our view, the important issue is determining if this tax is the best way to reach our financial stability objectives. My answer is no, for several reasons. There is a difference in motivation. There are issues linked to our environment, but they do not impact upon financial stability nor on short term inflationary pressures in Canada.

Mr. Thomas Mulcair: My third question relates precisely to inflationary pressures, but I would first like to ask you another question. You and I have already, in the past, had the opportunity to talk about inflation. You told me about your targets. Now, you are talking to me about a tightening, most probably in order to reach your objectives in terms of inflation. We will have to discuss this further.

The other question I wanted to ask you is purely technical in nature. It relates to market regulation structures. During a symposium held in London at the end of November, and which was attended by the critic for the Liberal party, I was much surprised by what one of the participants had to say. She was an American, who plays an important regulatory role in England. What she said was surprising. It had to come from someone from the financial milieu and who works for the State. In her opinion, the rating of securities and bonds on the market, as it is done by the Dominion Bond Rating Service and others, should be a function of State regulation.

During a conference I participated in as a speaker, in Paris, in the month of January, I was surprised to hear Joseph Stiglitz state, during a discussion, that he shared this viewpoint. There are aspects of what we have experienced over the last two years that are directly linked to the defects of this rating system. If you, as a former Goldman Sachs man, are here today smiling and chuckling with elected members of the House of Commons rather than being subjected to the throes of a full-fledged inquisition before the American Senate, it is because you made a good career choice. What I most want to know is if you agree that this way of rating securities on the market might eventually fall to a regulatory role of the State.

•(1605)

[English]

The Chair: You have about one minute, Mr. Carney.

[Translation]

Mr. Mark Carney: In my opinion, this would not be a good idea. It was a mistake to grant this mandate to a rating agency. Several official mandates have been given to rating agencies.

[English]

To be quick, in a variety of regulations, including capital regulations, there's an ability to use ratings, which effectively reinforce the franchise of these agencies, and so there is a desire, and also in investment regulations and other things from the officials' side.... So it would be an advantage to remove, to the maximum extent possible, these mandates that reference ratings—

An hon. member: [Inaudible—Editor]

Mr. Mark Carney: Yes, in order to.... But the mandated use of ratings, in order to have...if it's going to be private, it should be truly private and survive not by fiat from the public sector, but because of the effectiveness of their opinions, which reinforce the original business model of these entities.

The Chair: Thank you.

We'll go now to Mr. Pacetti.

You have a five-minute round.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman.

Thank you, Mr. Carney, for appearing.

I want to stick a little bit around that realm and the fact that the economy seems to be doing well globally. We're talking about a global recession recovery.

The last time you were here, we talked a little bit about some of the actions and some of things we can do to reform the financial system. I think you were quoted in certain areas as saying that you want to see better collaboration, with OSFI perhaps taking over some of the responsibilities.

The only thing I've been reading about is this bank tax. That's sort of being put off now. What is happening on the global end in terms of reform? Is it now going to just go by the wayside or has there been improvement? When I talk about bank tax, isn't there some type of bank tax in Canada—if you want, you can call it insurance—the banks have to pay, whether it be to OSFI or CDIC?

Why is there so much pressure for our banks to pay into a global fund? Can you explain that to me?

Mr. Mark Carney: Thank you for the question.

Very quickly, we collaborate very closely with OSFI, the federal Department of Finance, CDIC, and other federal agencies. There is no desire to change any of those relationships. I'll just assure the committee that we do work effectively together and, I think, to good end.

In terms of your last question, yes, banks do pay a deposit insurance premium that is collected by CDIC and invested. That protects retail depositors; there are more details, but it's basically up to \$100,000 per account.

On the issue around the bank tax, if I can explain the motivation—and this goes back to the previous question—there are two justifications for it.

On the first, I will quote the other side, if you will, on this argument. It is to make up for the losses that the state in various countries, for example, the U.S., had for recapitalizing their banks—the direct losses. So they make those up over time. Obviously that isn't an issue for Canada, as has been pointed out.

The second one, though, is to—quote—“internalize the externality” that comes from wholesale borrowing—so not retail deposits, but wholesale borrowing. By setting a tax on that, you would reduce the amount of that, and then you'd set up a fund and that would be there—

Mr. Massimo Pacetti: So it would be a global CDIC.

Mr. Mark Carney: Exactly—well, this is in the most extreme versions. Now, the issues we have with that are multiple.

First off, let's just all stop and think about the prospect of having such a fund and it actually being there when it was needed, global or domestic. That's the first point.

Secondly, what would that do to the behaviour of the individual institutions and other market participants, knowing that the state was behind these institutions through a fund?

Thirdly, there are better ways to get this externality. We agree that there's an issue with the size of balance sheets. How do you get at it?

You get at it by having a simple leverage test that just restricts the overall size of balance sheets, which we have in Canada. We need one globally. It's one of our top priorities. You get at it by increasing the amount of capital within a business. You get at it by having differential charges for certain types of activities. Notably, if you want to trade derivatives in the dark, that's fine, but it's going to cost you a lot more from a capital perspective than it does if you do it on a central clearinghouse exchange.

Then, the last aspect is that, again, instead of having a fund globally or domestically over there that probably wouldn't be there when you need it—and I don't want to insult members of the finance committee, but sometimes taxes aren't always ring-fenced for their uses—you have the fund embedded in the actual institution through contingent capital. That is an example, to go back to the first point on OSFI and collaboration, where we are working in extremely close collaboration with OSFI in developing a concrete proposal, which has some support internationally, but there are a lot of details to be worked out still.

•(1610)

Mr. Massimo Pacetti: That would be my question, I guess. Just to go back in reverse, if the bank tax is not acceptable, why not sell our advantages, the institutions that the previous Liberal government put into place? Why not sell that internationally?

Mr. Mark Carney: Yes. I—

Mr. Massimo Pacetti: What is the failure there? I don't think there would be the reform—

Mr. Mark Carney: Yes. I'm conscious of your time.

And that is the strategy, first and foremost. The core of this is that we need more and better capital. We need leverage ratios on an international scale, as we have in Canada. We also need to make some other measures, and we can talk about them if the committee is interested, but I would say—

Mr. Massimo Pacetti: What's holding it up?

Mr. Mark Carney: We are making progress on this. It's going to be very intensive between now and the November summit in Korea, which is the target for having this package together.

We're available any time to go into detail on these issues if the committee is interested, but I would say that the success of this past weekend was to put the distraction of the bank tax off to the side and re-establish the focus on exactly what you're talking about.

Mr. Massimo Pacetti: But is the philosophy still to recover past losses or is it to go forward?

Mr. Mark Carney: The most ambitious variant of that tax is to build up a fund to anticipate future losses, which in our view is unacceptable, because the point is that the losses stay in the sector; the sector recapitalizes itself. And you create tremendous moral hazard by setting up this pot. Finally, that pot probably isn't going to be there in a pinch.

The Chair: Thank you.

Monsieur Carrier, s'il vous plaît.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you.

Welcome, Mr. Carney. It is a pleasure to have you with us again.

My first question relates to the issue of a bank transaction tax. I am aware that you share the view of the Finance Minister, in other words that you are not in favour of such a measure. The chief executive officer of the International Monetary Fund has recommended to the G20 countries that they apply such a measure. However, it must also be said that it could be advantageous to combine it with stricter regulation of the finance sector.

I would like to know the reasons why you are opposed to this tax. Do you consider that the regulatory system that applies here is already sufficiently strict and that this regulation should be reserved to those countries wishing to improve the situation?

Mr. Mark Carney: Thank you, Mr. Carrier.

I would simply like to clarify one thing. Are you talking about the same thing as Mr. Pacetti and Mr. Mulcair, or are you talking about the Tobin tax? You are rather talking about a Tobin tax?

Mr. Robert Carrier: Yes.

Mr. Mark Carney: Unfortunately, the document that we received from the International Monetary Fund, the IMF, was provided in English only. It is their fault and not that of the Bank of Canada.

With regard to the Tobin tax, I must say that the IMF advises that it not be adopted.

[*English*]

I have just a quick quote, which says that the financial transaction tax, and that's a Tobin tax, is not the best instrument for these purposes. It is "not the best way to finance a resolution mechanism". It "is not focused on the core sources of financial instability", and its "real burden" will "fall largely on final consumers rather than... earnings of the financial sector".

The advice that we received very clearly from the fund with respect to a financial transaction tax, a Tobin tax, was, "Don't do it". There was no serious discussion of implementing that.

• (1615)

[*Translation*]

As you are more certainly aware, a Tobin tax could be put in place without the agreement of all of the major countries.

Mr. Robert Carrier: Very well. I will move on to another matter.

In your presentation, when you talked about the progression of the GDP, I noted that it was falling back. You are predicting a progression of 3.7% in 2010, 3.1% in 2011 and 1.9% in 2012. I would like us to compare our economy to that of the other countries. Is it similar to other economies? Is this progression, that seems to be slowing down, specific to Canada, or is it generalized?

Mr. Mark Carney: Thank you for your question. This is an important point.

First of all, with regard to the growth rate in Canada, the numbers of the Bank of Canada and those of the IMF are somewhat different. However, the interpretation of the numbers is the same.

This year, we are predicting that Canada will have the highest growth rate of all of the G7 countries. However, afterwards, as you mentioned, the growth rate for Canada will begin to slowly fall back. Thus, according to the Bank of Canada, our growth rate in 2012 will be the same as our potential growth rate. That is one answer to your question.

For comparison purposes, the potential growth rate of the Canadian economy will, for example, in our view, be of 1.9%, compared with a potential growth rate of approximately 2.4 or 2.5% in the United States, still according to us. Two types of factors are at play. There are demographic factors and there are productivity factors.

The Chair: Very well.

There are 30 seconds remaining.

Mr. Mark Carney: Is that clear enough?

Mr. Robert Carrier: Yes.

To finish up with regard to this matter, is this linked to the growth rate in the United States, upon which we are greatly dependent? Is a slowdown there automatically going to bring about a slowdown here as well?

[English]

Mr. Mark Carney: Very quickly, there are two factors. The slowing in the United States is a factor, but it's also that we reach our rate of potential growth, so the economy is equilibrated. If we want to grow faster.... It's unlikely we will improve our demographic profile, so it's a question of productivity.

Our judgment is that productivity growth, given where investment has been, would be about 1.4% per annum by 2012. So that is the key regulator on the rate of growth in this economy.

The Chair: *Merci.*

We'll go to Mr. Hiebert, please.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you, Mr. Carney, for being here with us.

As I was reviewing your most recent report, I noticed on page 17, in table 2, the change that has occurred between the Bank of Canada's overnight rate and the prime rate. It's been some time since the historical gap between the two was 1.75%.

I think we can all appreciate...Canadians can mostly appreciate, for those who have variable rates, the increase that occurred, that was experienced back in December of 2008, from 1.75% to 2%. I'd be interested in knowing your perspective on the implications of this change in this historical gap. What was the basis was for the change? I can speculate on it.

My real question has to do with whether or not there should be action taken to encourage financial institutions to return to that 1.75% gap and what implications that would have for Canadians.

Mr. Mark Carney: Thanks for the question.

I would say first off that in terms of the implications for Canadians and for monetary policy, we take this into account; we take the spread between our rates and the rates that Canadians are paying, whether it's on prime borrowings or on mortgage rates—not just what's posted, which is what is reported, but what they're actually paying.

If you look at the chart—as you have—you'll see, for example, that on variable rate mortgages, actual variable rate mortgage payments continue to come down. The discounts to posted five-year mortgages and the discounts to posted prime re-emerged over that time, so the effective rates that Canadians have been paying have come down over that period of time.

This is not for all Canadians. The likelihood of somebody writing a letter to you or to me—and I get plenty of these letters—is partially a product of whether they're in that camp.

Your question is, what do we do about it? We take it into account. We care about what rate Canadians are actually getting and what that means for economic activity and, ultimately, inflation.

I'll leave it at that and let you follow up.

• (1620)

Mr. Russ Hiebert: Wasn't the basis for the change the worldwide economic recession that was experienced back in 2008-09? Since that has resolved itself somewhat, would it not be reasonable for Canadians to expect the historical gap to return?

Mr. Mark Carney: Well, I think there are two things—

Mr. Russ Hiebert: [*Inaudible—Editor*]...the banks.

Mr. Mark Carney: —if I may. One is the funding costs of banks and the increase of the spread. Ultimately, it's a product of the recession, but where bank funding costs and bank spreads went in shorter term markets....

I'm going to get technical, but it is the finance committee. If you look at, for example, the spread between the CDOR and the OIS rates—so where the market expects our interest rate to be and where banks are borrowing in the interbank market—those have not returned to historic norms. The stability has returned to that market, which is welcome, and that means that on a level basis there's less need for liquidity, but they haven't returned to historic norms.

Ultimately, these are markets, and one has to be quite careful about dictating market prices, I would suggest. From our perspective, the market price that we set is the overnight cost of money, and we take into account where markets are going from there in determining where that level should be.

The Chair: You have one minute.

Mr. Russ Hiebert: Changing the subject just a little bit, in your remarks, in the summary of your report, and in the report itself, you make this statement: “On the downside, the combination of the persistent strength of the Canadian dollar and Canada's poor relative productivity performance...”. When you refer to our “poor relative productivity”, who are you comparing us to?

Mr. Mark Carney: Well, it's a pretty long list, actually, unfortunately. I would draw your attention to chart 19 on page 21. In that chart, the relevant line is unit labour costs in Canada and the United States. “Unit labour costs, Canada (in US\$)” is the green line going up, and the blue line is “Unit labour costs, United States (in US\$)”. You see the gap that opens up.

That is a product of the exchange rate, partially, but it is also the product of the fact that unit labour costs in the United States have been falling. They've been falling because productivity growth has been so high relative to wage growth. They've continued to rise in Canada despite large increases in spare capacity, and that's a product of flat to negative productivity in Canada.

So I'm afraid that vis-à-vis our largest trading partner the story is not good, and there is a longer list, not quite as impressive relative to Canada, of those that have performed on productivity.

The Chair: Thank you.

We'll go back to Mr. McCallum, please.

Hon. John McCallum: Thank you.

I certainly agree with what I think you said: that a bank tax that created a fund for future financial crises would constitute moral hazard, and that funds built up within banks, based on their own capital, are better. I think that's what you said.

But I have a question about “too big to fail”. I read in the latest *Economist* magazine where they were claiming that one justification for a bank tax was that the big banks get a lower interest rate because they are perceived to be too big to fail, and that this could justify a tax. I guess partly I'd like to ask you if you agree with that point of view.

But more importantly, *The Economist* went on to say that a better solution is to do something about the too-big-to-fail challenge; I know that is a challenge and I know people are working on that. So my question to you is, do you think there is some sort of resolution in sight and that means can be found so that large institutions may no longer be seen as too big to fail?

• (1625)

Mr. Mark Carney: Yes, absolutely. You've put your finger on exactly the right issue.

Just very briefly, the issue on why the tax, in our view, doesn't get to this externality issue is that by creating this fund...or one of the issues, as there are many.... You're creating a fund, so I, as a lender, a buyer of the bonds of this financial institution that ultimately benefits from the fund...so why is that not a quasi-sovereign obligation, given...? That's what moral hazard means, obviously, and certainly as the counterparties and other people in the transaction.

So what do you do about it? What I would say is that this is the question by which I would encourage members and others to judge financial reforms: by the extent to which, in an efficient way, they address this issue. So are we building a system where large institutions can fail without impacting other institutions and really impacting the real economy? That's the issue.

So what do you do about it? Part of it is that you change market infrastructure so that you have an ability to remove, so if an institution fails, the market continues to function. We're doing that with repo transactions in Canada, along with the industry, through a central counterparty.

There's a major G20 initiative that's relevant to Canada on OTC derivatives and moving standardized derivatives onto central clearing. That's incredibly important for exactly this reason.

The next thing you do is make sure that your supervisors—OSFI and CDIC—have all the appropriate powers to resolve an institution if it gets in trouble. That was one of the failings in the United States. They didn't have effective resolution powers for big proportions of their financial sector, including investment banks and insurance companies—and you can think of who we're talking about.

The other thing we say that you do, just to be clear, is to have contingent capital or contingent capital attributes—we and others, OSFI particularly—and just to be clear on what we mean there, it's not core capital. It's elements of the financing of the institution, subordinated debt and maybe even senior debt, that then converts into core capital if the institution gets in trouble. What it does is that it converts into equity. It dilutes existing equity holders, but it recapitalizes the institution from itself.

There is a variety of ways to do that, but I think it's very promising because it bears the costs within the sector and ensures that somebody who's a going concern, or is about to become a gone

concern, if you will, can continue to function because they're recapitalized through their credit stock.

Hon. John McCallum: Thank you. I agree with everything you said—on that. But I think it's also true that we certainly weren't at that phase when they allowed Lehman Brothers, for example, to fail, and the system practically disintegrated or ran into huge trouble.

So do you think sufficient progress has been made such that if we had another crisis, let's say, five years from now, we would have advanced to the point where such institutions could be allowed to fail without doing huge damage?

Mr. Mark Carney: Yes, that's the test. If you're asking me right now if sufficient progress has been made, the answer is no. These are issues that are being discussed. We need to come to agreement on them, but we have not yet come to agreement on them.

The key date for this year is the November summit in Korea, and there's the run-up to that. All I can say is that we, the superintendent, and the Department of Finance are working very hard to make progress on these issues.

Hon. John McCallum: Thank you.

The Chair: Thank you.

[*Translation*]

Mr. G n reux, please.

Mr. Bernard G n reux (Montmagny—L'Islet—Kamouraska—Rivi re-du-Loup, CPC): Thank you, Mr. Chairman.

Welcome, Mr. Carney.

I would like to come back to the positive effects — according to your statements, contained in your last report — of the measures that were put in place to get us through the latest economic crisis. In what way do you believe these measures were truly beneficial to our economy?

Mr. Mark Carney: I could probably be more precise with regard to the impact of the easing of the monetary policy. Since the beginning of 2008, the Bank of Canada has quickly reduced its key interest rate. At the end of the month of April 2009, we set it at its floor value and we introduced our conditional commitment. I am convinced that our monetary policy has had and continues to have a major positive impact on our economy.

I could perhaps refer you to the answers I gave to Mr. Wallace's questions with regard to the impact of the federal and provincial fiscal initiatives in Canada.

•(1630)

Mr. Bernard Généreux: You are presupposing that the recovery will perhaps not be quite as rapid over the next few quarters. Do you believe that the measures taken by the Bank of Canada and the government should potentially be maintained over a longer period if the economy does not rebound as quickly as we would like? That does not necessarily mean that you will be right, because the economy is stronger than you had predicted. We could suppose that it will continue to be stronger despite the statements made in your report, namely that you believe that it will not be as strong as predicted. With regard to the measures that you have put in place and the termination of which you have already announced, would you consider re-establishing them if the recovery of the economy tended once again to slow down?

Mr. Mark Carney: Firstly, with regard to our Canadian economic predictions, we underscored the fact that there was probably an advancement of household spending, that had a major impact on the final quarter of last year and the first quarter of this year. That was followed by a progressive slowdown of our level of activity in Canada. As for our monetary policy and its orientation, the objective is clear, namely the attainment of our 2% inflation target for the overall CPI. The Bank of Canada will manage its policy in such a way as to reach this target. Lastly, there are serious risks, both upward and downward, that can impact on the level of activity, the growth rate and the inflation rate in Canada. The Bank of Canada will react appropriately to these impacts.

[English]

The Chair: *Merci.*

We'll now go to Mr. Pacetti, please.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

In your opening remarks, on a few occasions I think you mentioned the words “monetary stimulus”. On your second-to-last point, you say that we should “lessen the degree of monetary stimulus”. What would be the definition or an example of monetary stimulus for the Bank of Canada?

Mr. Mark Carney: Thank you for the question. This is a very important point.

If you'll permit me, sir, to go back to this time last year, when we reached the zero lower bound or the effective zero lower bound—25 basis points—for technical reasons we couldn't see the interest rate going any lower than that. We felt that given the level of activity abroad and in Canada, and the perspectives for inflation, in order to achieve our inflation target, we needed more monetary stimulus.

At that point, we were faced with a choice. Other central banks have been faced with this choice. The first step they took was to “quantitative ease”—to print money, colloquially speaking—or to “credit ease”, which was to purchase securities.

We provided a policy. First off, we wanted to have a policy that was rooted in principles and that was transparent. We were fortunate that we were able to put that out and come to this committee immediately afterward and explain ourselves. And we saw a third option. We had those two options, and we continue to have those two options if needed, but the third option was to provide extraordinary

guidance on the path of interest rates. That's why we gave the conditional commitment.

So to your point about what we got as monetary stimulus out of that, what we got was a movement in the short end of the yield curve from the overnight rate out to the end of June, 2010, a movement down. Over the course of the year, as we've reiterated that commitment, that bit of the yield curve has been anchored. Those are important yields for a variety of prices, which have eased financial conditions in Canada, including for prime rate borrowing, as discussed earlier.

So by removing that commitment, even though the amount of time left in that commitment was relatively short, it gave a corresponding adjustment to those expectations, which removed some of the monetary stimulus that was there. That was an unconventional policy. It was done for extraordinary times. Our message is that those extraordinary times—not difficult times, but extraordinary times—have passed or are passing, so it was appropriate to remove that, and that was the monetary stimulus that we have taken out.

•(1635)

Mr. Massimo Pacetti: But what if we use the example of quantitative easing? I remember when you brought that up; that's what I thought you were referring to in your monetary stimulus, but my understanding is that you never used quantitative easing.

Mr. Mark Carney: Yes.

Mr. Massimo Pacetti: What was the second one? Credit...?

Mr. Mark Carney: It was credit easing. For example, the Federal Reserve, but also the Bank of England, would directly purchase bonds/credit securities in markets that were particularly distressed in an effort to get those markets restarted. The most dramatic example, if you will, or the largest example of that, is the Fed's purchase of a very large number of mortgage-backed securities in the United States.

Mr. Massimo Pacetti: So the fact that you never actually used them is still considered to be lessening the degree of monetary stimulus—

Mr. Mark Carney: No. What I meant in my remarks at the start, to be absolutely clear, was that what we have done to lessen the monetary stimulus is that the decision taken last Tuesday to remove the conditional commitment was lessening monetary stimulus in Canada.

Mr. Massimo Pacetti: Okay.

I have a quick question on something entirely different. We talk about growth. With the growth numbers being over 3%—3.7%, I think it is—doesn't growth at that high a rate just automatically give you inflation?

Mr. Mark Carney: No. It's a function of the rate of growth, the capacity of the economy, where we are relative to the potential of the economy. It's a function of other factors as well: the exchange rate pass-through and other things such as that.

Mr. Massimo Pacetti: But when it happens in such a short timeframe—

Mr. Mark Carney: But we have, in a summary measure or on a summary basis, an output gap that is still 2%—even after that surge in growth in the fourth quarter of last year and first quarter of this year. So we still have a fair degree of slack in the economy. These are not precise measures, but we've been pretty conservative in our estimate of that.

Mr. Massimo Pacetti: The reason I'm asking is that if the growth is so quick and it's such a short timeframe, wouldn't it be just for specific items, products, and sectors that are already equipped, which then just shoot up, and that's what would cause inflation? But you're saying it's an overall...?

Mr. Mark Carney: There's a lot of slack in the economy. Some of that slack is starting to be taken up. In fact, this is typical growth, in many respects, for a recovery. On the pace of the recovery as a whole, though, given the severity of the recession, which was short but sharp, it's not back at historic averages. Our forecast is not back at historic averages. There's a variety of reasons for that.

As a general factor, early in recoveries, because of lags in labour markets and a lot of other factors, there tends to be a slower recovery in the pace of inflation, and.... Well, we can talk about the specifics of the forecast if we have time.

• (1640)

Mr. Massimo Pacetti: Thank you.

The Chair: We'll go to Ms. Block, please.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much, Mr. Chair.

Thank you for being here, Mr. Carney.

We've heard numerous times how important it is to keep Canada competitive, and we've seen that Canada has gone a long way in doing just that, especially in relation to business taxes.

KPMG's recent competitive alternatives study showed that we now hold a business cost advantage over the United States. They also noted that Canada, though, cannot rest on its laurels on lower business taxes.

In fact, let me quote them. They say that Canada “must continue to present a clear value proposition to businesses in other areas in order to maintain its attractiveness for international firms”. They also explained this by noting that Canada's “big rivals are no longer developed countries like the U.S., but emerging low-cost economies, such as Mexico”.

This would appear to be a sentiment that you agreed with. In fact, I'd just like to quote a speech that you gave this past March:

Whatever the combination of reasons behind Canada's poor productivity record, there are several avenues available to policy-makers to encourage sustainable longer-run growth.

It is important to acknowledge that successive governments have taken many steps in the right direction.... Corporate tax competitiveness—particularly for new investment—has improved markedly over the past decade and is now among the most attractive in the industrialized world. Canada has also actively pursued trade openness through new agreements and unilateral tariff reductions. Staying the course in these regards is likely the single most important contribution of the public sector.

Can you expand on why staying the course on Canada's business competitiveness is that important?

Mr. Mark Carney: Thank you for the question.

Thanks for reading my speech. It puts you in very select company.

Some hon. members: Oh, oh!

Mr. Mark Carney: There is a variety of factors. One of the points of that speech is that a variety of measures have been taken by a variety of governments over a number of years that have considerably improved the business environment in Canada.

That runs the gamut from investments in primary research and improvements in labour market and other flexibilities, to infrastructure investment, and importantly, as you reference in the point of your question, to a fairly dramatic turnaround in business taxation in the country, and very importantly—and there are still some final measures coming through on this at the provincial level—on the marginal effect of tax rates on investment in the country.

We've seen a big move perspectively in terms of both corporate income tax competitiveness and the competitiveness of new investment with the full implementation of these measures, so yes, that is important to the response.

One of the other messages of the speech, I think, is that there will continue to be requirements for governments to make these investments going forward. But at its core, there is a challenge for the private sector to take full advantage of this business environment, as we would expect them to do and as is now consistent with our forecast in terms of an uptick in investment; and not to just take advantage of the business environment, but also, maybe, less as a competitive threat from emerging markets and more as an opportunity to develop those markets, reflecting a relative shift in the weight of growth between the advanced and emerging economies.

The Chair: Thank you, Ms. Block.

Monsieur Mulcair, s'il vous plaît.

[Translation]

Mr. Thomas Mulcair: Thank you, Mr. Chairman. I advised Mr. Carney that I wanted to discuss inflation with him.

I must admit, Mr. Carney, that you leave me very impressed. Your talents as a pedagogue serve you well when you explain that what Anglophones like to call

[English]

quantitative easing

[Translation]

quantitative easing is no more no less than the printing of bank notes throughout the world. That is just about the best and most frank explanation I have heard to date.

That being said, there does exist a platitude in economics. Inflation is caused when you have too much money and not enough goods. We are therefore going to have a lot of money and a monstrous debt to absorb. I do not want to discuss the war in Iraq, but even before the current crisis, the war had already cost the U.S. Treasury more than 1,500 billion US dollars. This debt will have to be offset one way or another, as was done at the end of the Vietnam war. The inflation in the years following the Vietnam war was not foreign to the fact that the money had to be reimbursed. What better way for a government than to reimburse with bank notes of a lesser value. It makes things simpler.

I took note of your 2% target that has not changed. I also took note of what you told us earlier. The stimulus measures are going to drop off despite the fact that, according to you, nothing is decided in advance. As you say, nothing is preordained. Could you nevertheless share with us what you see, realistically, with regard to inflation. Will the rates be similar to those we experienced at the end of the 1970s and at the beginning of the 1980s? I would like, if you will allow me, to tie that in with an excellent initiative taken by the Conservative government — you did hear me correctly —, when the Finance Minister warned those people purchasing their first house to not be to adventuresome given that the low interest rates are somewhat of a trap. Is there a real danger that some young people who are in the process of buying their first house might get into trouble, as we saw in the early 1980s, when interest rates rose beyond 20%?

• (1645)

Mr. Mark Carney: Thank you for your question. It is complex, but very relevant, given present market conditions. With regard to Canada, allow me to respond in English.

[English]

The issue you're identifying—and I appreciate your acknowledgement of our inflation target—and the discipline that imposes on us in terms of the management of our monetary policy is such that this “easy out” on the fiscal side, if you will, or more broadly, is not likely to happen. We have to respond appropriately, anticipating inflationary pressures in this economy, so that one is not in a situation where there's a sharp increase in interest rates down the road—an overshoot, if you will—in the monetary response because of timidity early on.

The intent of major monetary authorities around the world is to follow similar policies. Their intent is to do that, and I have confidence that they will. Whatever they do, though, we have the ability to control the rate of inflation in Canada.

[Translation]

We are masters in our own house, in particular with regard to the inflation rate in Canada.

[English]

We will take the necessary steps.

I would say finally that the solution to this—and this is a slightly gratuitous comment, but it's something that has been discussed—the solution to these debt issues in other countries, in our opinion, is not to change the rate of inflation, to try to target a higher level of inflation in order to inflate away the debt in a sort of orderly fashion.

It's extremely difficult to move from a low to a higher rate of inflation. I think that view is shared more widely.

Thank you.

The Chair: Thank you, Mr. Mulcair.

We'll go now to Mr. Pacetti again.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

On a different subject, you addressed debt. I'm looking at pages 16 and 17. Maybe you can talk a little about the difference between individual debt and business debt. I think chart 15 explains why you feel that the business debt has levelled off but individual debt seems to be on the increase.

I have two questions. Not to be facetious, but why would you care about people's debt or household debt or debt increasing? Shouldn't that be the problem of the lenders? Care is perhaps a strong word, but is your concern or your mandate more to deal with the actual individuals who are doing the lending?

• (1650)

Mr. Mark Carney: Well, we do care about people's debt, and we care for two reasons. We're here to discuss the monetary policy report, so I'll focus on that aspect, but there's also a financial stability concern.

With respect to monetary policy, our concern is that the rates on debt, the take-up on debt, is one of the factors that obviously influence, in the case of households, residential investment, home buying, renovation, etc., and consumption. So it's indicative of the level of activity and the ease of that activity.

What you've seen is, not surprisingly—and this goes back to a previous question from Mr. Hiebert—the impact of that on economic activity and how we look through from our policy rate to the effective borrowing rate of households and businesses. What's it going to do to activity? What will it then do as part of one of many factors on inflation?

What we've seen in household debt—in borrowing costs, more specifically—in recent weeks is that fixed rate mortgage costs have gone up. That's a product of increases in the underlying funding costs of banks on a term basis, so on a fixed rate basis at five years, which is the five-year fixed rate. That's basically what we've seen: a rise in government yields since our last report—generally that's consistent with an improvement in the global economy—and a slight increase in the funding costs of banks above those government yields. So the combination of those two have raised the cost of debt—

Mr. Massimo Pacetti: I'm sorry to interrupt—

Mr. Mark Carney: No, that's the end.

Mr. Massimo Pacetti: You're worried about debt and its effect on monetary policy. If I am a financial institution and it doesn't really matter to me what the Bank of Canada says, and I decide to lend money anyway, is that a problem that you have in terms of your policy? Are the banks going to lend money regardless?

In Canada, they have insurance. They can always collect from CMHC. Do the banks really care that home prices are going to go up? Here's where I'm going with this. Is there a danger that we can copy what went on in the States with their crisis?

Mr. Mark Carney: In some respects this goes back to the question from Mr. McCallum earlier about the risk of household spending being higher than expected. Our expectation is that there is going to be a slowdown in the rate of debt accumulation of households, most notably through the mortgage side and the residential side. But if that doesn't transpire, yes, it's an issue for us, all things being equal, because there would be the impact that it has on activity and inflation.

All other things aren't equal, ever, so we have to take everything into account. But yes, we do look at the momentum in housing markets and in consumption.

Mr. Massimo Pacetti: So in reverse, will the banks stop lending because of the warnings that you put out?

Mr. Mark Carney: Well, there's a price signal that's sent with higher borrowing costs, and we see the start of higher borrowing costs in fixed rate mortgages. On the margin, some people will not take out a mortgage at those levels, or not as large a mortgage, and that will slow it. It's not stopping lending; it's a reaction to supply and demand.

Mr. Massimo Pacetti: To slow it down.

Thank you.

The Chair: Thank you.

Monsieur Paillé, s'il vous plaît.

[Translation]

Mr. Daniel Paillé: You were right in saying earlier that if ever there were an international tax on financial institutions, this should not be left in the hands of a government, because the money could very well no longer be available when needed. The two parties dipped into the banks like that.

You also mentioned that with regard to the monetary policy, there are monetary policy instruments. We sometimes get the impression that the government of Canada never intervened with the chartered banks. It nevertheless remains that, in your statement as governor of the Bank of Canada, there is an increase in government securities. You used a number of repo transactions, in particular Canada Mortgage and Housing Corporation, CMHC, securities. Are we to believe that these mortgage holdings are problem-free, that their valuation is good and that there will be no backlash in the short term?

That is my first question, and I will then follow up with another one.

• (1655)

Mr. Mark Carney: I would just like to clarify one thing. Since the beginning of the financial crisis, short-term markets have been facing problems. I am talking about the liquidity problems of financial institutions, even those of Canada. Consequently, the Bank of Canada provided liquidities to the banks. We did this through loans guaranteed by securities, for example CMHC securities. Every time we did this, we offered less money than the value of the

securities. We are therefore protected. To use a finance world term, the haircuts were rather close related to...

Mr. Daniel Paillé: And what about the volume or the value of the...

Mr. Mark Carney: With regard to the value of the liquidities, let us say that our balance sheet is of 50 billion dollars normally. The high for liquidities in the Bank of Canada, not the government of Canada, is approximately 40 billion dollars. Right now, we are talking about 22 or 23 billion dollars. Between now and the end of July 2010, the value of these special liquidities will have dropped right down to zero. It will be finished.

Mr. Daniel Paillé: The moral suasion of the governor of the Bank of Canada is another instrument of the monetary policy. It is as old as time. Last week, for example, it had been predicted that you were going to be announcing something. For the banks, the rate is perhaps also a way for them of knowing if they can make a move. We have seen mortgage rates, for example, rise considerably. There is also the tightening that SMEs are facing.

Based on what you have said, you are reviewing the availability of capital for SMEs. I once again come back to my pet peeve. When there are housing starts, obviously supported by mortgages, when SMEs are finally getting their heads above water and are requiring capital to increase their investments and renew their cash flow, with the government all the while not offering loan guarantees, the rates go up. Is this a vice they are caught in?

Mr. Mark Carney: I would first of all like to underscore the fact that the rise in fixed mortgage rates had begun before we made our decision. As I have just said, it was due to an increase in the cost of funds for banks. The main reason was the increase in government of Canada treasury bond rates. With the pursuit of the Canadian recovery, several bond rates in the mortgage market, preferred rates, etc., could increase. This is normal, given that the levels continue to be exceptional. This is what Canadians must take into account. The rates are very low at present. One must therefore be prudent in business.

• (1700)

[English]

The Chair: *Merci.*

Thank you very much.

I am going to take the next round as the chair.

Mr. Carney, I did want to talk to you about the dollar. You discuss it in your report on pages 19, 20, and 21.

The common perception, especially when the dollar rapidly appreciated in recent times, was that it was driven by petroleum prices—driven by the price of crude, mainly—but you discuss energy prices and talk about prices for non-energy commodities increasing. Then you talk about global credit conditions. Obviously, I think, the state of the U.S. dollar would have an impact there as well.

Is it your view that petroleum or the price of crude is not as large an influence on the price of the dollar as it was, say, a year or two ago?

Mr. Mark Carney: Well, one hesitates to be too precise about short-term movements in currencies, so I will not be. The level of our dollar is a product of numerous factors: our relative economic performance, relative fiscal position, the terms of trade. This is much broader, as you're suggesting, Chair, than just the price of oil. It bears reminding that the natural gas exports of this country are at least equal to or, depending on the day price of natural gas, in fact larger than our oil exports, and a huge source of investment in this economy as well. So it's a variety of factors on the terms of trade.

I would say that persistent strength in the Canadian dollar is a risk, an important...we've only identified two major downside risks to the Canadian outlook and the dollar is the first. It's something we watch closely. It could have an important influence both on economic activity and on the outlook for inflation, and the bank will set policy appropriately in those circumstances.

The Chair: So it's one of two. The second factor is the concern about economic activity in the U.S., if I'm correct.

Mr. Mark Carney: Well, on the outlook in the United States, the United States remains a reserve currency, at a minimum, and the outlook in the United States in relative terms, globally amongst industrialized countries, is improving. Certainly, we've highlighted in the report the importance of the hand-off, if you will, to the private sector later this year and into 2011 in the United States. It's a substantial acceleration in private activity that is consistent with our projection. It remains to be seen how well it will progress.

But there has been a strengthening of the U.S. economy and, in relative terms, I think the U.S. economy is doing better than had been expected by many participants in recent months.

The Chair: On page 21, you mention a concern about U.S. economic activity and then the higher value assumed for the Canadian dollar.

In the past, I think that both you and the finance minister have made an effort, in a sense, to talk down the dollar, especially when it was rapidly appreciating. That works for a time; I think it probably works less effectively over time.

Is there any concern about lesser tools available to you if the dollar continues to appreciate?

Mr. Mark Carney: Thank you.

Markets sometimes overshoot. We should be conscious of that. For those reasons, the bank, in agreement with the Minister of Finance, has additional tools to address those situations, and no one should be under any illusions that we wouldn't use them if it were appropriate.

The Chair: Here is one final question. There's obviously a lot of discussion, both in this country and around the world, about being too big to fail; if it's too big to fail, it's too big. Some of my friends, even on this committee, suggest that in the past policy decisions were rightly made by not allowing certain institutions to merge or grow larger. Yet my contention is that perhaps it's not the size of an institution like a bank; perhaps it has more to do with the capital requirements or the reserves.

I'm wondering whether you have a perspective with respect to how it's perhaps not the size of a financial institution but in fact the

level of reserves or capital requirements that ensures the stability of the institution over time.

● (1705)

Mr. Mark Carney: Well, that is true, in that higher capital, better capital, better liquidity management, and higher liquidity actually carried on the books are all factors that will reduce the probability of failure of individual institutions and collectively will improve the resilience of the system.

The other factor, which is important to consider, is the interconnectedness of institutions. Do they hold each other's bonds? Are they big counterparties with each other? How related are institutions? Because the contagion effect of one institution going down....

I would point out—you know this, but it bears remembering—that Bear Stearns was the sixth largest investment bank in the United States, so not a big investment bank, but the sixth largest. It was the determination of the U.S. authorities that it was too big, or rather too interconnected, to fail, which is why they took steps to engineer an orderly rescue of that firm. I must say, based on what I know and understand of the situation—and understood at the time—that this was the right decision.

So one has to attack as well these interconnections as part of financial reform, so that an individual institution can be separated, if you will, from the system if it has failed.

The Chair: Thank you.

Mr. McCallum, please.

Hon. John McCallum: Let me return to the bank tax issue or the transactions tax for a moment. I think I've indicated my position. I've heard numbers such as several hundred billions of dollars per year that could be earned from a small tax on transactions, whether foreign exchange transactions or, somehow, a broader set of transactions. I've been thinking about this, and the implication seems to be that this would be somehow painless.

My question has to do with two things: one, the reaction of financial institutions; and two, the incidence.

On the reaction, having worked for a bank, and you having worked for something similar—

Voices: Oh, oh!

Hon. John McCallum: —my thought is that there would be huge change in trading patterns, so that instead of trading volumes reducing by 40%, for all I know it might be 90%. I don't know what it would be, but it seems to me that one can't just calculate revenues on the basis of existing trading patterns pre-tax. That's the first question.

Second, I think that when you're talking about hundreds of billions of dollars someone has to pay. I can imagine people going to the United States on holiday, or people buying mortgages, or people getting loans, or... Or is it somehow going to be limited to speculators paying?

I'd like to ask you what you think on these two subjects of incidence and the reaction of financial institutions, which would affect the revenue.

Mr. Mark Carney: I think you're absolutely right on both points—and you agreed with me earlier, so now we're even—but one of the reactions in particular to worry about is maybe not just the level of activity. These calculations assume that there's the same level of activity and that you just strip out a cost. There will be a reaction to it, which in many respects should be the point. I mean, the issue should be the externality that comes from that activity.

But the other reaction that concerns us is the practicality of having everybody sign up to the same transaction tax. Because the one reaction you can expect is that the activity will migrate to those jurisdictions that don't track the transactions, so the proceeds will be greatly reduced.

Now, vis-à-vis the incidence, it is likely to fall on the end borrower, very clearly, not just—obviously importantly—individuals who are doing foreign exchange transactions for normal activities, such as going across the border to visit friends and family, but commercial borrowers and households. So it should be passed net through, and with respect to a Tobin tax or a financial transaction tax of the IMF, that is the conclusion; that's the one tax they didn't recommend to the G20 this past weekend.

There is a more general point, though, which is that while we are of the view that higher capital is required for the system, and it is—globally the system was under-capitalized—that capital has to earn a return as well, as you well know, and the effect of higher capital and tighter liquidity standards will be some increase in the cost of capital, not just to the institution itself, but to the end borrowers from those institutions. That can be seen through the longer spectrum of wild swings in the level of capital, huge fiscal costs that are incurred by all of us to address these crisis situations, and a greater level of stability.

Also, finally, speaking to the judgment that in the years just prior to the crisis, the cost of capital or of borrowing, because we had a bubble—

• (1710)

Hon. John McCallum: I'm told I have 30 seconds.

Mr. Mark Carney: It was too low.

Hon. John McCallum: I want to ask one last quick question.

I think the IMF has gone back to the drawing board. Are they going to come forward with alternative proposals for such taxes?

Mr. Mark Carney: Yes, they would have to, certainly. We made a number of points and there was pretty strong agreement.

But the core agenda, as we've been talking about a bit, is capital, liquidity, and interconnectedness, and we have to make progress on that core agenda. You should hold us to account to make progress on that core agenda by November. Then, once you see what those measures are, what the expected impact would be, the question will be, is more required?

Also, for the IMF, if you're thinking layering a tax on top—and not very many people are—you had better have calculated the net impact of extra capital, extra liquidity, and other measures that are put on the financial sector and ultimately passed through to the real economy.

Hon. John McCallum: Thank you.

The Chair: Thank you.

We'll go to Mr. Menzies now.

Mr. Ted Menzies (MacLeod, CPC): Thank you, Mr. Chair.

I appreciate Governor Carney being here today.

We appreciate your articulate answers. You usually get a grilling when you come here, so I'm going to change the channel a little bit. I'm going to ask people to think back to where we were 12 or 18 months ago. We need to recognize the role that you and your staff or your deputies played, as well as the finance minister, and where we could have been.

I still don't have a grasp of all of the role that the bank played. I pretty well understand the role that our finance minister played in keeping Canada stable and in making some of the right decisions. I know that you were a party to it. I don't know how much of it you can share with us. Most Canadians don't understand the role we have played, and I think it was exemplified this weekend in the fact that, with your assistance, the finance minister was able at the G8 and G20 discussions to turn around things that would have been hugely damning to the Canadian taxpayers. I think we all know that there's only one taxpayer in this country—you and I—and any tax on a financial institution would be quickly passed on to us. Just a quick comment on that, please.

Then I'll ask you for one quick explanation, if you could. We've had one individual from this committee stand up in question period and ask about the home renovation tax credit and why people who didn't pay taxes didn't get any money. Can you just very quickly explain how a tax credit works?

Voices: Oh, oh!

The Chair: Order. Mr. Carney has the floor.

Go ahead, Mr. Carney.

Mr. Mark Carney: Okay. Well, first off, thanks for those kind words.

At the depths of the crisis, there were some very difficult decisions that had to be taken, certainly internationally and in Canada. The history will ultimately be written, but because of our relatively better position I think we were able to assist in helping others make the right decisions, if you will, internationally, and I think importantly in October 2008 to get agreement at the G7 level—which really turned it around—that we would take some difficult decisions in terms of providing more explicit support for institutions, by way of liquidity and backstopping, to put a floor under the crisis.

I think it was helpful in that situation for the Minister of Finance, supported by me, to say that even though we don't have to, we will, and to help others represented.... We clearly didn't, but it helped others to represent that they didn't necessarily have to as well, because Canada didn't have to do it. But as a whole, that table needed to do it; we absolutely did need to do it and we had to do it immediately at that point. So that was helpful.

Crises help forge relationships, and the relationships that we built up in the G8 and G20 have helped to advance the reform process, and certainly the performance of the Canadian sector has helped advance things.

Finally, I would say that it's up to us to provide some intellectual leadership on some issues at the G20 to move things forward, because the system obviously needs dramatic change.

With respect to the home renovation tax credit, it was a sort of *Men in Black* incident as I moved over from the Department of Finance to the bank and was reprogrammed. I'm afraid I've forgotten exactly how a tax credit works, so I'm not going to be able to help you out.

Voices: Oh, oh!

• (1715)

The Chair: Okay.

Mr. Ted Menzies: Pretty good answer there, Mr. Carney.

Mr. Mark Carney: We're able to grasp the overall macro impact of these measures, but...

The Chair: Thank you.

I think we know what the headline will be in tomorrow's financial papers.

Mr. McKay, please.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Mr. Carney, for ending the hallelujah chorus on that very favourable note.

I, too, want to compliment the bank on its handling of the monetary side of the equation. It's a pity you didn't have support from the government on the fiscal side of the equation.

But I would like to take note personally, as has been mentioned by others, that Mr. Jenkins is usually with you. This is probably the first meeting over many years that he hasn't been with the governor, and I just wanted to say publicly what a joy he was to work with over the years. When I was on the other side he was extraordinarily helpful to me, as he was to me on this side—a very fine public servant.

You've obviously set out a window for bringing up the rates, and your words have been parsed ever so carefully by so many people. The concern I have with respect to your raising the rates as anticipated is that the window appears to be about the same time as the Governments of Ontario and British Columbia will implement the HST, which likely will have a dampening effect on the economy. The economy may well, on July 1, if that is the window, have a double hit: your raising the interest rates and the HST.

Have you given that some thought? If so, what is your reaction to that?

Mr. Mark Carney: Thank you very much.

I would like to add to your commendations for Paul Jenkins. He had an outstanding career serving our country and was a tremendous help to me personally, and obviously to the institution as a whole, over the course of the last couple of difficult years. I do miss him, particularly at times like this.

I do look forward to being joined by Mr. Macklem the next time we meet. He will start on Canada Day, as he fulfills his final obligations as Canada's representative on the finance side at the G20 and G8. Obviously, with the summits coming up, it's important that he supports our Prime Minister and our finance minister in that.

With respect to...what was your question again?

Voices: Oh, oh!

Hon. John McKay: We have three events on July 1: your interest rate, the HST, and Tiff Macklem.

Mr. Mark Carney: Okay. Got it.

And Tiff Macklem, yes. We don't anticipate any immediate impact of the arrival of Mr. Macklem.

But yes, of course, we've taken that into account. One of the things we've tried to highlight in the report is that we believe there has been a pulling forward of some economic activity, particularly in the housing sector and in some other consumption, for several reasons: one was the expiration of the home renovation tax credit and associated expenditure around that; second, anticipation of changes in interest rates; and third, the HST, on new home purchases but on other purchases as well.

So we anticipate that there will be a falling off in some of that activity in the second quarter, but most notably in the third. That is in our forecast. The question is, will it be more or less than we anticipated? We will see.

I would like to reiterate what I said at the start, though, that nothing is preordained. What we have done is taken away extraordinary guidance, exceptional guidance, unconventional guidance, about the path of interest rates, which was necessary at that time. That time is passing. We've taken it away. We are not going to provide guidance about the path of interest rates.

The extent and timing of any additional withdrawal of monetary stimulus will be a function of economic activity and the outlook for inflation in Canada. So those who are trying to divine what we might do should spend their time not parsing words, but thinking about the level of economic activity, the outlook for inflation in this economy, and where rates would appropriately be.

• (1720)

The Chair: Very briefly, Mr. McKay.

Hon. John McKay: As a related question, currently the banks have been raising their primes. You haven't. I think the Royal Bank has raised its prime three times, as have others.

The issue is that the Government of Canada, the people of Canada, the taxpayers of Canada, have been extraordinarily generous with the banking community. Yet when the first opportunity comes to put some space between what the Bank of Canada charges for their money and what the banks generally charge for their money, there doesn't seem to be some recognition of that.

Does that disturb you?

Mr. Mark Carney: I will make one point of clarification: the adjustments in rates have not been to the prime rate, but to the fixed rate mortgages of the banks, and what's relevant for the fixed rate mortgages for the banks is the funding costs fixed for the institutions.

Over the course of the last several weeks, those funding costs have gone up, for two reasons.

First, five-year government bond rates, the same as the mortgage horizon, have gone up about 40 basis points over that horizon. They've been coming off in the last few days with some market activity, but broadly speaking, that's what's happened. As well, the funding costs—the premium that banks pay above that—have risen about 15 to 20 basis points relative to that, so there has been an increase in funding costs, which gets flipped around and is passed through to the mortgage rate. We haven't seen this adjustment in prime.

Our responsibility, obviously, is to look at what people are actually paying and make a judgment of what that's going to do for their activity—and obviously inflation—and then adjust our rate relative to that.

One last point: we are obviously alert to any strains—which we do not see—in liquidity markets, as I discussed with Monsieur Paillé moments ago, or interbank markets, and to seeing whether there is a role for the bank to alleviate those strains and have an impact there as well. But as I said, we are not seeing that.

The Chair: Okay. Thank you.

Now we'll go to Mr. Wallace, please.

Mr. Mike Wallace: I'll be quick, Mr. Chair, and I'll be splitting my time with Ms. Block.

I have one question. In 2011 the inflation strategy is up for renegotiation or discussion. I think most Canadians would be surprised that we have a strategy, but it's been in place since 1991 or so.

If you pick 2%, what's involved in that discussion? Who is involved? Is it 2% because the public can understand 2%? Why is it not 2.2% or 2.3%? How do you figure that out? I'd be interested to know. I'm sure you can't tell me in two minutes, but do your best.

Mr. Mark Carney: I appreciate the question and thank you for it, in part because I think it is important for Canadians to understand that there is an agreement between the Government of Canada and the Bank of Canada that sets the mandate for the institution.

We're accountable to fulfilling that mandate, but it is delegated authority from the people of Canada through the Government of Canada, and you're right: the inflation targeting regime has been in place through successive agreements since the early 1990s and does come up for renewal at the end of 2011.

Why is the mandate 2%?

First off, there is a shared recognition of the cost of inflation, and recognition that those costs of inflation are disproportionately borne by poorer Canadians and by people who have less access to sophisticated hedging products. They're distortionary—they distort investment and other activity—and they transfer wealth between

savers and debtors somewhat erratically, depending on where you end up.

One definition of low, stable, predictable inflation is 2%. The goal is to have that.

In part, one of the reasons it has been chosen in the past—and we're revisiting this and have a huge research program on whether it's the right level—is that it's low enough not to enter into people's thinking when they're making economic decisions. There is a variety of ways of showing that when people do forecasting and take activity, they think that inflation of 2% is relatively low, and they can make a distinction between rises in the relative price of a good and generalized rises in price level.

The second reason is that it's far enough away from zero that, given the volatility of inflation, one would not expect to arrive where we are right now, which is at the zero lower bound, except in exceptional circumstances. When one arrives at the zero lower bound of interest rates, the options become unconventional. It becomes extraordinary guidance, it becomes quantitative easing, and it becomes credit easing.

One of the collective judgments that will have to be made is whether it's still appropriate. Have we learned anything from the conduct of policy in Canada and elsewhere at the zero lower bound that would allow the target to be lower or a different regime to be put in place? We'll have information to make that more informed judgment and think about the trade-off of having lower inflation versus maintaining the current rate.

I'm sorry, Mrs. Block, but—

• (17:25)

The Chair: There's about a minute left, Mrs. Block.

Mrs. Kelly Block: Okay. I'll be really quick. You made two statements in your opening remarks and in answering some questions. Early on you said that the largest risk is “getting the balance right” on fiscal policy. You also said that there is extreme importance in the handing off to the private sector.

I'm wondering if you can recap really quickly for us; I'm not sure if I'm the last questioner. What should our areas of focus should be in ensuring that those two things happen well?

Mr. Mark Carney: Very quickly, since you read my speech to the OEA, at the back end of that speech are references to some fairly sophisticated work the bank has done—which I'd be happy to distribute to the committee—on what happens if governments get that balance wrong.

If they don't tighten fiscal policy appropriately and global interest rates spike up and potential growth is hit, it will also ultimately hit Canada. Also, if they do it too quickly or too abruptly, because of market pressures, there's the same end result. In fact, it's a little worse.

So what's needed is a package in order to get it right. In a nutshell, that is the imbalances discussion as it currently stands, and that is why the G20 framework is important.

In terms of the hand-off in Canada, what's required is confidence in macro policy. That means having a fiscal plan and implementing it. It means that the bank does its job, and no more than that, so we have confidence that inflation is going to be low, stable, and predictable. It means making sure that our financial sector is functioning, that the reforms are appropriate and that it's not layering on too much capital. And it obviously requires, as well, a degree of confidence in the private sector in the outlook for the global economy, which unfortunately is beyond our control. But certainly, our job is to inform Canadians with our best view of where the global economy will go.

The Chair: Thank you.

For the final round, Mr. Mulcair, please.

[*Translation*]

Mr. Thomas Mulcair: We have very little time left. First of all, thank you very much for your presentation and for your way of explaining things. I am convinced that this will greatly assist those who are following our proceedings.

Let us talk about pedagogical tools. We have already had the opportunity to look at this together. You provided an excellent explanation regarding basis points, the cost of mortgages and the financing costs of the banks, that have just risen, which partly explains the increases. However, in a historical perspective vis-à-vis the Bank of Canada rates, at a level similar to that of today, mortgage rates for five-year terms are quite high at the present time.

Do you have a tool? Do you publish historical comparisons in order to study the trends? Is it something you are able to do?

●(1730)

Mr. Mark Carney: Yes, we are able to do this and we will do this, if it is what the committee requests.

Mr. Thomas Mulcair: That would be very helpful to us.

Mr. Mark Carney: Let us talk about the rate of return curve.

[*English*]

That slope is quite steep. Because of that, you will have a more extreme difference, historically speaking, between the overnight rate and the mortgage rate. Plus, the cost of borrowing of the institutions is a little higher in terms of the spread than you would have historically.

But your question is a fundamental one: how does it look in terms of the extremes? The easiest way to answer that is to provide the information you just asked for.

[*Translation*]

Mr. Thomas Mulcair: Thank you.

[*English*]

The Chair: Thank you very much, Mr. Mulcair.

Thank you very much, Mr. Carney. We certainly appreciate all of your visits here at the committee. We find them very substantive and very informative, so we look forward to your next visit here.

Colleagues, we are going to suspend for a couple of minutes, and then we will come back to deal in camera with future business.

Thank you again.

[*Proceedings continue in camera*]

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