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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)): I call this meeting to order. This is the 40th meeting of the Standing Committee on Finance in this session.

Colleagues, just before we get to our two witnesses today, I understand that Mr. Pacetti has a motion that I believe all members of the committee have agreed to.

Mr. Pacetti, you have the floor.

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

If you shall seek it, you shall get it. Is that it? You shall reap it?

The motion is that the committee invite Kevin Page, Parliamentary Budget Officer and private sector economist, to appear before the committee on Wednsday, November 3, for two hours to discuss the government's most recent economic update, fiscal projections, and any other item related to the government's fiscal framework or their own revenue and expenditure projections.

The Chair: That would be a two-hour meeting on Wednesday, November 3.

(Motion agreed to)

The Chair: Merci. Thank you very much, Mr. Pacetti. That motion is adopted.

Ladies and gentlemen, on behalf of the committee I want to welcome back to the finance committee the Governor of the Bank of Canada, Mr. Mark Carney. We're also delighted to have for the first time.... We've had Paul Jenkins here before. We're delighted to have Mr. Tiff Macklem, in his new or fairly recent role as senior deputy governor of the Bank of Canada. They are here to discuss the report of the Bank of Canada on monetary policy.

Thank you for being with us here today, gentlemen.

Mr. Carney, you have up to ten minutes for an opening statement, and then we'll get into a discussion with members.

Mr. Mark Carney (Governor of the Bank of Canada): Thank you very much, Chair.

Good afternoon, members. It's my pleasure to be here and to formally introduce Tiff Macklem as senior deputy governor of the Bank of Canada. Tiff assumed his post, appropriately, on Canada Day this past year.

We're very pleased to be here to discuss the bank's views on the economy and our monetary policy stance. l would like to give you some brief highlights from our latest monetary policy report, which was released last week.

[*Translation*]

The global economic recovery is entering a new phase. In advanced economies, temporary factors supporting growth in 2010, such as the inventory cycle and pent-up demand, have largely run their course and fiscal stimulus will shift to fiscal consolidation over the projection horizon.

The bank expects that private demand in advanced economies will become sufficiently entrenched to sustain the recovery. However, the combination of difficult labour market dynamics and on-going deleveraging in many advanced economies is expected to moderate the pace of growth, relative to prior expectations. These factors will contribute to a weaker than projected recovery in the United States in particular.

Growth in emerging economies is expected to ease to a more sustainable pace as fiscal and monetary policies are tightened. Heightened tensions in currency markets and related risks associated with global imbalances could result in a more protracted and difficult global recovery.

[*English*]

The economic outlook for Canada has changed. The bank expects the economic recovery to be more gradual than it had projected in July, with growth of 3% in 2010, 2.3% in 2011, and 2.6% in 2012. This more modest growth profile reflects a more gradual global recovery and a more subdued profile for household spending.

Overall, the composition of demand in Canada is expected to shift away from government and household expenditures towards business investment and net exports. The strength of net exports will be sensitive to currency movements, the expected recovery in productivity growth, and the prospects for external demand.

Inflation in Canada has been slightly below the bank's July projection. The recent moderation in core inflation is consistent with the persistence of significant excess supply and a deceleration in the growth of unit labour costs.

The bank judges that the output gap is slightly larger and that the economy will return to full capacity by the end of 2012, rather than the beginning of that year, as had been anticipated in July.

● (1535)

[*Translation*]

The inflation outlook has been revised down and both total CPI and core inflation are now expected to converge to 2% by the end of 2012, as excess supply in the economy is gradually absorbed and inflation expectations remain well anchored.

Important risks remain around this outlook. Three main upside risks to the inflation outlook are higher commodity prices, a stronger than anticipated recovery in the U.S. economy, and the possibility of greater than projected momentum in the Canadian household sector.

These upside risks are balanced by three downside risks relating to Canada's international competitiveness, global growth prospects, and the possibility of a more pronounced correction in the Canadian housing market.

[*English*]

In response to the sharp synchronous global recession, the bank lowered the target rate rapidly over the course of 2008 and early 2009 to its lowest possible level. We almost doubled our balance sheet to provide the financial sector with exceptional liquidity. With our conditional commitment, the bank provided exceptional guidance on the likely path of our target rate. These policies provided considerable additional stimulus during a period of very weak economic conditions and major downside risk to the Canadian economy.

With the initial rapid narrowing of the output gap, the return of employment to its pre-crisis peak, the highly effective transmission of monetary policy in Canada, and the sustained momentum in household borrowing, the need for such emergency policies has passed.

Since the spring, the bank has unwound the last of our exceptional liquidity measures, removed the conditional commitment, and raised the overnight rate to 1%. Last week, on October 19, the bank maintained the target for the overnight rate at 1%. This leaves considerable monetary stimulus in place, consistent with achieving the 2% inflation target in an environment of significant excess supply in Canada.

At this time of transition in the global recovery, with a weaker U. S. outlook, constraints beginning to moderate growth in emerging market economies, and domestic considerations that are expected to slow consumption and housing activity in Canada, any further reduction in monetary policy stimulus would need to be carefully considered.

With that, Mr. Chair, Tiff and I would be very pleased to take questions. Thank you.

The Chair: Thank you very much for your presentation.

We'll begin members' questions with Mr. Brison, for seven minutes.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you very much, Mr. Carney and Mr. Macklem, for appearing before us today.

I want to raise first the issue of housing prices. The October 23 edition of *The Economist* magazine has cited Canada as having a housing bubble. In fact comparatively, *The Economist* believes that the Canadian housing market is overvalued compared with those of countries such as China and the U.S. How concerned should Canadians be about this risk, and what does this housing bubble mean to Canadian families?

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

I'd make two distinctions. First, the bank's expectation with respect to economic growth has been that activity in the broad housing sector, meaning housing starts, renovations, and housing sales and the commissions that come from those, would decline markedly starting in the second quarter of this year and continuing over the course of this year. That is what we've seen: the level of activity that we've seen in the housing market has been consistent with our expectations. This has been a function of basically a concentration of housing activity through last year and the start of this year, because of pulled-forward demand because of the HST coming into place, pent-up demand because of the recession, obviously, and also the positive impact of the home renovation tax credit. So there's been that concentration. Now we see there's a decline markedly.

On the separate issue of the levels of valuations of housing, I would say that our expectation is that housing price appreciation and the net worth accumulation associated with the house price appreciation over much of this past decade has provided stimulus to consumption, and we do not expect that such stimulus will be there over our projection horizon.

● (1540)

Hon. Scott Brison: Do you believe that there could be a correction, in fact, in the housing prices in Canada?

Mr. Mark Carney: We believe that one of the important downside risks to our projection is the possibility of a more abrupt correction in the housing market than we're anticipating. We're not forecasting an abrupt correction, but it is a possibility, given two factors: first, the speed with which house prices rose; and secondly, the absolute weight of debt in the economy that is tied to housing.

Hon. Scott Brison: You raised recently the issue of household debt in Canada, and the TD Economics report further validated that risk. I'd appreciate some of your insight as to what government policy levers we should be looking at in order to reduce the risk of excessive household debt and what kind of regulatory reform we can be looking at. And in terms of macro-prudential measures, what are some other countries doing that we ought to be doing in Canada?

Mr. Mark Carney: Let me begin by making absolutely clear that there are limits to the role of interest rates in addressing this issue, or more specifically, the role of the Bank of Canada's interest rate. We conduct monetary policy with the sole objective of achieving our inflation target and that's the agreement with the Government of Canada. And as you know, it's a 2% inflation target.

So issues around financial stability and potentially issues around potential emerging vulnerabilities in the household sector are best addressed by other tools. And sometimes those tools are termed, as you just did, macro-prudential tools.

The options include changing elements of the terms of mortgage insurance—

Hon. Scott Brison: CMHC.

Mr. Mark Carney: —CMHC mortgage insurance, as the government did earlier this year, when it introduced some restrictions on the use of high-loan-to-value mortgages for investment properties, it changed the qualifying interest rate, and it made some other adjustments. We are starting to see the effects of those adjustments on cooling activity in the housing market. So that's one type of tool.

I will say that changes of this type—everybody has a different housing system around the world—including direct regulation on loan-to-value ratios for mortgages are an instrument that has been used in a variety of other locales. And I would further point out that the issues we are facing, in a period of low interest rates and relatively stable prices with accumulation of debt and some asset price pressures, are common to other economies around the world today that did not have the financial crisis. We felt the effects of the financial crisis, but we continue to have financial systems that work and policies relatively low.

So the options in Canada include those types of measures.

The other option, which is not something that has been done, nor are we in an immediate position to do, would be adjustments to the level of capital through the cycle that banks carry against certain types of lending, including to housing.

Hon. Scott Brison: Thank you.

Between 2006 and 2009, in the three years leading up to the economic downturn, government program spending in Canada increased by 18%, just the program spending component. As we enter a period of halting recovery, is that kind of program spending increase—18% over three years, three times the rate of inflation—economically sustainable?

● (1545)

Mr. Mark Carney: Well, while we don't give precise projections for the growth of nominal GDP—and certainly this committee would understand the revenue side of government finances, whether they're federal or provincial or closely tied to the growth of nominal GDP—it would be inconsistent to sustain that level of spending increase and be consistent with a gradual reduction in the level of deficits as have been planned on both the federal and provincial sides.

That's not going as far as your point on economic sustainability but in terms of consistency.

The Chair: Thank you, Mr. Brison.

[*Translation*]

Mr. Paillé, you have seven minutes.

Mr. Daniel Paillé (Hochelaga, BQ): Welcome. Welcome back, as I told the Minister of Finance earlier on. I would also like to welcome Mr. Macklem.

You stated very diplomatically in an aside to your brief that the easy part is behind us now. Some people might argue that the hardest part is yet to come.

I would like to begin by asking a question about currency. We are not engaged in a currency war, but there might be some elements to this on a global scale. You point out that many countries or central banks have huge U.S. dollar cash reserves. I would like to know whether this is a tool the bank uses, and what our variation in our U. S. dollar reserves is.

Regarding actions which might attack the Canadian dollar, do you think there is a danger this might happen and that the bank could lose any flexibility it has? I know that we do not officially control the value of our currency and that it is very flexible, but at a certain point, there might be movement in the value of our dollar.

Do you have, or could you have, internal tools which would enable you to play the currency, or, as some people might say, to at least play the market? These internal tools might be those of the bank, or they might come from the pension fund sector, or even from major capital reserves; they could even come from the Caisse de dépôt et de placement du Québec. Certainly, when you have a floating currency, the currency rates vary.

These are the questions I have with regard to the Canadian dollar.

Mr. Mark Carney: Thank you for your question.

First, the bank has observed that there is presently heightened tension in the currency markets, that is clear. The global economy is in a difficult process, which is that economic activity and economic demand are being transferred from advanced countries to emerging countries.

There was another part to my sentence in which I said that the easy part is over, and that is that the economic drivers are being transferred. The government is not the driver anymore. Nor is it the easy activity generated by Canadian households, for instance, but rather investment and net exports. You are right, the situation is more difficult now.

As a result, there is heightened tension in the currency markets. The Bank of Canada and the Government of Canada are both keeping their options wide open so they can, if need be, manage the situation. What is important is that the Canadian dollar remain strong, because a strong dollar might have a considerable impact on economic growth in Canada.

Mr. Daniel Paillé: Yes.

● (1550)

Mr. Mark Carney: The dollar must remain high and have a strong effect on the growth rate in the economy. In those circumstances, we have options.

Mr. Daniel Paillé: Let's just say that the bank has an interesting toolkit.

As you mentioned, the 2% rate of inflation seems fairly stable. In that case, we can be more flexible regarding everything else.

Concerning risks, you identified three upside risks and three downside risks. Let's go over these risks and assess the likelihood that they will happen.

Let's first look at the upside risks. It is possible that the price of commodities will go up. The risk that the U.S. economy will recover faster than expected is low. As for spending going up in the Canadian household sector, we can only hope this will happen, despite the household debt load. I can only conclude that the upswing risks are not very likely to happen.

As for the downswing risks, you talk about global growth prospects and the possibility of a more pronounced correction in the Canadian housing market.

Am I mistaken, or am I still too pessimistic when I say that the likelihood of the downside risks happening are higher than the likelihood of the upswing risks?

Mr. Mark Carney: Thank you for your question.

In fact, according to the bank, the risks are balanced. What we did with this projection is that we reduced our forecasts for the Canadian economy, and we reduced them significantly for the American economy. There has been a significant reduction in our growth projections in the interest of balancing the risks underlying this forecast.

As for risks relating to emerging countries, there is a real likelihood for the upswing risks to happen, because as it now stands, in several emerging markets, the monetary policy is too accommodating. This is explained by a situation that has been caused by an imbalance in world markets and in the currencies of emerging countries. That is one example.

As for the upswing risks for the United States, we have reduced our forecast by 0.6% for next year, for example. That is a significant reduction. There are reasons to believe that the American economy will perform better than that.

The Chair: Thank you, Mr. Paillé.

[*English*]

Mr. Menzies, please.

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

Thank you, Mr. Carney and Mr. Macklem. Welcome to both of you.

Welcome to your new role, Mr. Macklem. We worked a lot together at finance. I still miss you there, but we think you found a good home where you are.

If I may, I would like to follow up, Mr. Carney, your lightning quick trip to Korea—no pun intended, I guess, from your flight—to reflect on the coordinated effort. I realize we have a long way to go, but I think we need to remember that this is a coordinated effort. That's why the minister, you, and many others have put so much effort into making sure we work with our international partners.

The comment coming out of there, the statement that we would move to more market-determined exchange rates, I view as a positive step. There was some concern going into these meetings in Korea that we would even come out with that strong a statement. Is that positive, or are they only wiggle words?

Mr. Mark Carney: Thanks for highlighting that. You are very well informed. There was a little more lightning in my trip than I would have wished.

Yes, this is a positive statement. Let me say a couple of things, if I may, and ask my colleague to expand.

This is a process. This process of rebalancing the global economy, having cooperative solutions to do so in a way that's going to sustain global growth and ultimately enhance global growth in a sustainable manner, is something that is going to unfold over the course of years, as opposed to one meeting with a magic solution.

Importantly, first with Pittsburgh and then fleshed out more in the Toronto summit, the four aspects of policy that have to change have been identified, and meat has been put on those bones. It's fiscal—the Toronto summit, a very important path for fiscal policy. It is structural, but we still have a lot more to do on the structural side. That will be part of the work going up to Seoul, but it will extend beyond. It's financial sector policy. Mr. Macklem, both in his previous job and in his current one, has been working hard on developing that. Hopefully, we'll have a chance to talk about that a bit today. Then also, it's exchange rate flexibility.

So your question, what's relevant here on exchange rate flexibility, it is for the first time a commitment in a G-20 communiqué to move towards more market-determined exchange rates. It is for the first time an explicit commitment to refrain from competitive devaluation of currencies. There is also a commitment to look at indicators of sustainable external balance—think current accounts—in conjunction with the IMF, and then to centre policies around that.

That last bit is part of this consistent approach, this cooperative approach that is getting more and more structured, more and more nuanced, more and more concrete. So I would say that yes, it was worth it to be in Korea, and progress has been made. But as the Minister of Finance has indicated and we've indicated, we all need to remain very focused on this issue, at subsequent meetings over the course of this year and well into next year, to ultimately regulate the situation or to address the situation.

● (1555)

Mr. Ted Menzies: I would like some comment from Mr. Macklem, because I know he has played a very pivotal role in all of this.

Mr. Tiff Macklem (Senior Deputy Governor, Bank of Canada): Sure. First of all, I'm very pleased to be here and I'm glad I'm missed. It's always good to be missed.

A couple of comments.... Going back to Toronto, the Toronto summit of the G-20 was really the first place where this framework for a strong, sustained, balanced growth was put to the test. It's worth underlining that a great deal was achieved in Toronto. First of all, just in the lead-up to Toronto, there were a number of important announcements. The Chinese announced they were moving back to a more flexible exchange rate—certainly a positive development. We would have liked to see a little more flexibility than we've seen, but certainly a step in the right direction, and a number of other steps were taken.

It was a comprehensive agreement, including sustainable fiscal policies on the part of advanced countries, efforts and policies to boost internal demand in emerging market economies, and importantly, supported by more flexible exchange rates as well as structural adjustments that we all need to undertake to support growth. If you go back and look at the action plan, it's really quite a detailed action plan, but there is a considerable amount of work to do to implement it.

I think you want to take the steps achieved this weekend in Korea as evidence that this is moving forward. Starting to look at things like putting down specific indicators of sustainable current account imbalances is a way to implement those commitments and to make it measurable, make it real. In Toronto there were specific numerical agreements around what it meant to have sustainable fiscal policies for advanced countries. The next step now is looking at specific indicators around sustainable current account imbalances.

Certainly Canada is continuing to put a lot into this. As the governor said the other day, we need to be relentless, and I think we are looking forward to more progress.

Mr. Ted Menzies: Perhaps we can switch gears to something that my colleague Mr. Wallace and I have often discussed in sidebar conversations, which we get in trouble for, of course, but we do this after a committee, of course.

Governor, you talked about an inflation control target. We picked 2%. Are we going to take a look at whether that's relevant today? I think that language was yours, inflation control target.

Mr. Mark Carney: Yes, absolutely. I'll answer very briefly, Chair, and perhaps members want to expand.

The inflation control target agreement, as many members know, is a five-year agreement. It matures at the end of 2011 and is part of the preparation for discussions about whether the government should extend the agreement verbatim, effectively as is. The bank is looking, and has been looking over the course of the last four years, at a variety of issues.

There are three main ones. The first one is whether the rate of inflation should be lower. What is targeted is lower than 2%. What's magical about 2%? We can expand on that, if you'd like. The second issue is whether there's merit in moving the price-level targeting. I won't explain it, given the time, but I will, if asked. The third one is about the important issue that we began to discuss, Mr. Brison's question about the relationship between monetary policy and financial stability, and the aspects of that and whether that has any bearing on future agreements.

Those are the three aspects, so your question is very on point.

● (1600)

The Chair: Thank you.

[*Translation*]

Mr. Mulcair, you have the floor.

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

It is always a pleasure having the Governor of the Bank of Canada here, a person who, in my view, has greatly contributed to maintaining stability through what has been one of the biggest crises in the history of our country.

I am going to ask some technical questions, but also some about the institution. It will come as no surprise to Mr. Carney that I would like to discuss the appointment of Mr. Hodgson. I had occasion to comment publicly on that over the summer.

I would like to begin by saying that when you appoint an individual, you have to make sure that people do not think the individual is under any accusations. Mr. Hodgson has an extraordinary track record, just like Mr. Carney, in point of fact. The fact that he worked for Goldman Sachs does not make him damaged goods that have to be rejected. The question is how can you appoint Mr. Hodgson, who was chief executive officer at Goldman Sachs Canada, and give him a key role in developing our reforms, when he says from the outset that he will only be there for an 18-month term.

This issue of revolving doors is of concern to all parliamentarians. There are some very strict rules that apply to us and our staff, as well as parliamentary secretaries and ministers, especially. So we see a problem with this situation, a problem of perception, of course, but there could also be an underlying problem.

I would ask Mr. Carney to explain to us how he can accept this appointment for such a short time—18 months in the life of an institution like the Bank of Canada is very short—and allow Mr. Hodgson to return to the private sector after gaining in-depth knowledge of all of the internal aspects of the architecture and projects of the Bank of Canada. I have to admit that the situation raises substantive issues in my mind about the stewardship of our institutions.

Mr. Mark Carney: I am a bit disappointed by that question. Mr. Hodgson is an extraordinary banker. He wants to serve our country however he can. The Bank of Canada has special advisers to the governor positions. They are temporary positions, precisely for the purpose of recruiting a theorist—a professor, a businessman or a businesswoman—to work at the bank and help the bank to achieve specific goals.

Mr. Thomas Mulcair: Mr. Chairman—

Mr. Mark Carney: If I may, because it is important—

● (1605)

Mr. Thomas Mulcair: Mr. Chairman, since my time is limited, I would like to clarify the question for the governor.

Mr. Mark Carney: Okay, I will—

Mr. Thomas Mulcair: I am as disappointed with his answer as he may have been—

The Chair: Order, order, order.

Mr. Thomas Mulcair: I am as disappointed in the answer as he may be with the question.

The Chair: One at a time.

Mr. Thomas Mulcair: This is my time—

Mr. Mark Carney: I was not finished.

Mr. Thomas Mulcair: I got the beginning of an answer and I would like to clarify the question.

[*English*]

The Chair: Order. Let's go one at a time.

Mr. Mulcair, if you would pose your question, please, we'll have Mr. Carney respond.

Mr. Thomas Mulcair: I have asked him a question, but he's not answering it.

[*Translation*]

Mr. Mark Carney: It is an 18-month commitment because of a very important mandate for our economy, for our financial system, and that is transitioning the OTC derivatives market to an official trading market, the central counterparty. It is a very complex operation that has to be performed. We have to get it done in 18 months. It is a G20 commitment. It is the Prime Minister of Canada's commitment to the G20. So it has to be done quickly. Mr. Hodgson severed all ties with his former employer and all of his assets have been put in a blind trust—

Mr. Thomas Mulcair: That is not what my question was getting at.

Mr. Mark Carney: —and he is serving our country.

Mr. Thomas Mulcair: Mr. Chairman, I appreciate Mr. Carney's attempt to avoid answering the question, but I will clarify it again. He has expressed his disappointment with respect to this question, and I will express my disappointment regarding his attempt to dodge it.

I did in fact begin my question by saying that I had absolutely no doubts whatsoever about the competence of Mr. Hodgson, quite the opposite. However, Mr. Carney is avoiding the issue by claiming that Mr. Hodgson is serving the public and has put his assets in a blind trust. That has nothing to do with the matter. Moreover, he is certainly no theorist or professor. This is somebody who has come from the private sector, who is going to have an intimate knowledge about this new structure, he is going to have designed it, and he will be able to go back to the private sector through a revolving door, unless I have misunderstood. If the Governor of the Bank of Canada is telling us that I am mistaken, that Mr. Hodgson will not be going back to work in the private sector, I will offer him an abject apology, but I understood from the beginning that he would be spending 18 months with the Bank of Canada and that he could then go back to the private sector. That is what concerns me, as far as perception goes, Mr. Chairman.

Mr. Mark Carney: Yes, but your question is not clear. If you feel that no one can work for the Government of Canada, for Canadian agencies, without then becoming... What should you do afterward?

Mr. Thomas Mulcair: We are not asking Mr. Hodgson to become a Buddhist monk after his departure. However, we do have some very stringent rules that apply to parliamentary secretaries, or elected officials, and especially to ministers, given the information that they have.

You are telling us that you do not see any type of ethical problem whatsoever, at least not as far as perception is concerned, that would result from having someone like Mr. Hodgson spend 18 months with the Bank of Canada, get to know the entire alarm system, the architecture of the house and then leave with all of this private information. You see no problem with that, Mr. Carney?

[*English*]

The Chair: You have about 30 seconds.

Mr. Mark Carney: Very quickly, we have conflict of interest regimes in place at the Bank of Canada; we have post-employment responsibilities that extend from those conflict of interest provisions. We are privileged to have somebody like Mr. Hodgson working under those conditions.

I do not know what the individual is going to do 17 months from now when this work is finished. Our full intention is to make sure that this important work is finished, which is in all our interests. But we are very pleased that he is here in an entirely appropriate circumstance, above reproach.

The Chair: Thank you.

Mr. Pacetti, please.

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

Thank you, Mark. Thank you for appearing, Tiff. Welcome to the committee. It's always interesting to have you guys over.

One of the numbers I always like to ask you about is Canada's growth. Again—and it may be a compliment—nobody else has been able to predict it in the last two years. You're part of the same batch, but we haven't been able to predict the last quarter in terms of what our economic growth is going to be. I think you were quoted as saying let's not obsess about it, let's not worry about it, let's not panic. But shouldn't we be panicking from a government point of view? It's going to affect government's revenues and then it's going to have some other spinoffs.

But let's just stick to your prediction of the last three months and tell me why I shouldn't be obsessed or shouldn't panic about it.

Mr. Mark Carney: The point in that response is that last week my colleague and I were trying to focus on what the core drivers of growth were over the course of the horizon. We expect that there will be an important adjustment in the third quarter on the housing side. It's a level adjustment. I'm not saying it's not important, but that's not something we see persisting all the way through the forecast horizon. That's the first point.

Second, there are elements of weakness on the net export side, particularly in the third quarter, in our estimation, that are also helping to keep the level of growth below 2%—more precisely 1.6% in our latest forecast.

What we see is the pace of growth—and we've given our quarterly projections in the document, as you know—picking up from there not as rapidly to make that up, but into 2.5% and beyond going forward through the forecast horizon. The point we were trying to make—not that it's not important what the level of growth is at any time or any quarter, but what the underlying drivers are—is we're predicting over our forecast horizon some moderation in consumption and some displacement of activity toward investment, very importantly, and on the margin, much less importantly—

● (1610)

Mr. Massimo Pacetti: In English, what does displacement investment mean?

Mr. Mark Carney: It's in business investment. We see an important rebound in business investment that began in the second quarter and picked up through the third quarter, very importantly, and into the next year. And I would say, in understanding our projection, that is central to the dynamics of this projection. If that momentum in business investment that has just started does not persist, growth will be lower, all things being equal.

Mr. Massimo Pacetti: I think that's obvious. But the part that bothers me is that Canada is normally ahead or slightly ahead of the American growth numbers, and we're below American growth numbers.

Mr. Mark Carney: The important difference between Canada and America is that Canada is already back to the level of activity our economy had before the recession. America will not get back to that level until early next year. That's the first point. And there's the much bigger difference, as you well know, in the performance of the labour market.

The second thing to recognize is that the potential growth of the American economy—the sum of productivity and labour input—is faster, in our estimation, than the potential growth of the Canadian economy.

Mr. Massimo Pacetti: That was going to lead to my next question. I think you were also quoted as saying that productivity is actually much brighter for Canada. I don't want to misquote you, but the numbers don't reflect that. So is it policy or is it the environment? What factors are attributable to that?

Before I forget, where do I see, in the monetary policy report for October, the difference between U.S. growth and Canadian growth? Is that chart 2 on page 4?

The Chair: You have about 45 seconds.

Mr. Mark Carney: You have to use table 1 and table 2 in the document to compare the two annual levels of growth. We give more detail on the Canadian forecast, because we do a quarterly one in table 2. Those are on pages 10 and 22.

We see Canadian productivity picking up over the forecast horizon. There is a box in here that explains why, how, and to what extent. That being said, it does not pick up enough to compensate or get us back to the levels of overall potential growth we enjoyed earlier this decade. So if you think of Canadian growth as being around 3% in real terms—the sum of productivity and labour input—earlier this decade, in the 1990s, we're getting back to about 2%—

Mr. Massimo Pacetti: Is there any government policy that can help productivity?

Mr. Mark Carney: There is, but we're out of time.

The Chair: That's a big question. We'll have to follow that up in later rounds.

[*Translation*]

Mr. Carrier, you have five minutes.

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

Good afternoon, Mr. Carney. It is a pleasure to see you again. Welcome Mr. Macklem, who I do not know yet, but who I will certainly get to know.

My first question pertains to the regions you mentioned on page 4 of your report. Your report reads as follows: “Recent developments highlight important geographic divergences in underlying economic growth.” You have some charts that illustrate the situation in various regions and countries.

When you deal with the topic of regions, I was wondering whether you were thinking of those found in our huge country, with its regions that are so diversified. You do not mention this, to my knowledge. I would like to hear your thoughts on the matter. How do you treat these data? You no doubt have data about the various regions in Canada. How do you manage to come up with a common portrait?

Mr. Mark Carney: Thank you, sir.

As far as the divergences amongst the regions at the global level are concerned, I would say, very quickly, that there is clearly a huge difference between the growth rate of emerging countries and that of the developed countries. That has been one of the problems with this global recovery.

With respect to the Canadian regions, we are closely monitoring the growth in factors that impact on growth in the various regions of Canada, our country. We have regional offices that do research for each region, but we do not officially do forecasts for each region. Why? Because we manage the monetary policy for the entire country.

● (1615)

Mr. Robert Carrier: Take for example a region where the economy is overheating, like western Canada with its oil sands development. The economy there is holding up quite well. However, that might lead to some problems, such as an increase in the value of the Canadian dollar. That could hinder other regions, like Quebec in particular, which is very dependent on its exports to the U.S.

Therefore, setting the interest rate according to the overall state of the economy at a given time can place some regions at a disadvantage. Do you not take that into account?

Mr. Tiff Macklem: Of course, Canada is a large country. We consider data from across the country, and as the governor has just indicated, there is a single monetary policy for all of Canada. There are significant adjustments to be made throughout the country, and the more flexibility there is between our provinces, the better. Something important that we have learned in recent years is that flexibility has increased in Canada. That is a positive development.

Clearly, some regions are always stronger and others weaker. Nevertheless, over a longer period of time, we note that inflation rates among the various regions tend to converge—as you know, our mandate is to control inflation. And so, it makes sense to have a single inflation control policy in Canada.

The Chair: You have 45 seconds remaining.

Mr. Robert Carrier: Will the government's decision to get rid of Statistics Canada's long-form census hinder your ability to collect data in order to prepare sound economic forecasts for Canada and the regions?

Mr. Mark Carney: With regard to that change and our work with Statistics Canada, I would like to inform you that we are working in close cooperation with people at Statistics Canada in order to make sure that we properly understand all the statistics compiled by that key organization. That work is ongoing.

The Chair: Thank you, Mr. Carrier.

[*English*]

Mr. Wallace is next, please, for five minutes.

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

I want to thank our guests for coming today.

I'm going to start with a very broad question or two, and then get more specific about the report so I can I understand. I learn something every time I read these things, or at least I think I do, and I need your advice or your guidance on this.

To me, much of the economy is driven by confidence. If they have confidence they spend, things grow, people tell you it's growing, they believe you, and they keep it going.

My issue is this, and I asked this of the economists who were here before. We're talking about a growth rate that's less than 3%, and the indication is that it's negative. Some countries I noticed in here are way up there, 9% for China, for example, but Europe is at 1.1%, Japan's at 1.3%, the rest of the world is at 3.6%, and the United States is at 2.3%. But if we are at 2.6% or 2.8%, why is 3% such a magic number? Why can't we be happy with 2.5% growth? Why can't we say, “Look, we're growing, things are moving in the right direction, and we need to continue on that path”? Tell me why 3% is that magic number. Who came up with that?

Mr. Mark Carney: Well, we wouldn't have described 3% as the magic number. I mean, 3% is obviously larger than 2%. That has something to do, I guess, with people's attachment to it.

There's something else, though, that has to do with people's attachment to 3% with respect to Canada: it was more or less our rate of growth of potential for many years in the recent past. Importantly, that rate of growth, the speed limit, if you will, of the economy.... All things being equal, if we had aggregate demand and supply in balance, then the rate at which the economy could grow without creating inflationary pressures—in other words, the rate that the economy could sustainably grow—was a product, as always, of both labour inputs, as in how many people are working and how long they are working, and productivity growth.

Our demographics in the 1990s and early 2000s were such that, with people working longer and a much higher female participation rate in the labour force, and with just the demographic tree.... And when I say “longer”, I mean longer into their careers, not necessarily longer hours—longer in their life.

Mr. Mike Wallace: Right.

Mr. Mark Carney: The combination of all those factors was such that we had a very important contribution of labour input, on the order of one and a half, one and three quarters, depending, bouncing around—

● (1620)

Mr. Mike Wallace: Based on that answer—

Mr. Mark Carney: I'll just finish, Mr. Wallace, by saying that those demographics are starting to move away from us. They will continue to move away from us just as they have in Japan, very importantly, and in much of continental Europe.

Mr. Mike Wallace: Okay.

Mr. Mark Carney: Increasingly, the preponderance or the vast majority of growth in Canada will come from productivity growth, which will explain why sometimes we seem unhappy with the level of productivity growth in the recent past.

Mr. Mike Wallace: Right—because if productivity growth was higher, that number could be driven higher.

You talked about sustainability in your answer. Based on that answer, I'm to understand, then, we can.... Previously we could grow at a 3% level and it wouldn't generate inflation. I'm assuming generating past the 2% mark, because there will be....

Inflation isn't a bad thing, as long as it's under control. Is that...? Or do we really want inflation at zero?

That leads me to my second question, which is following up on what Ted was asking you about. Where do you see inflation going? Like, 2% was an agreed amount, in an agreement. If growth is lower, what does that do to...? Is our inflation flexibility lower than 2%? Or where are we going with that?

The Chair: You have about 40 seconds.

Mr. Mark Carney: Thank you.

Well, no, what matters is the growth of demand relative to the growth of supply, and the balance between those in the economy, ultimately, for their impact on inflation.

If we have a lower speed limit in the economy, as we do now, a speed limit that towards the end of our projection horizon is 2% rather than 3%, that means we need to manage monetary policy—given all the other factors that are influencing demand—such that, as growth approaches that level, as the economy approaches that level of potential, the economy will grow consistent with that growth of potential. That will maintain inflation at the level desired and delegated to us by the Government of Canada.

I would say, though, that yes, inflation is a bad thing. What particularly is a bad thing with inflation is unpredictable inflation, volatile inflation. We want low, stable, predictable inflation because business people can't make decisions when they have volatile inflation; the poor are hurt far more than the rich because they can't hedge themselves against inflation; and people have to spend time thinking about inflation, and where it might be, instead of focusing on the things that are truly important to them.

It's far better that we do our job properly and achieve that low, stable, predictable level of inflation so that Canadians can focus on what's important for them.

The Chair: Thank you, Mr. Wallace.

Mr. Szabo, please.

Mr. Paul Szabo (Mississauga South, Lib.): Thank you.

Mr. Carney, the elimination of the long-form census has prompted you to express some concern that it's going to take away from your ability to track the Canadian economy and also to formulate monetary policy. Have you been able to identify other alternatives to get the information that you would need? And with these changes, how do you expect them to impact the quality of your analysis and the impact on your operational budget?

Mr. Mark Carney: Thank you for the question.

I'll be absolutely clear on what I have said, what we have said, with respect to this issue. The issue is that there could be an impact on some data. We don't know what the impact is, and we won't know for some time until after the national household survey is conducted, after Statistics Canada gets the results, after that's all analyzed.

What we have done is we have set up a working arrangement with Statistics Canada to work through that set of questions as the information becomes available. I would like to assure the committee and Canadians that the bank will ensure that we have adequate information to conduct our responsibilities, discharge our responsibilities with respect to monetary policy. We are working closely with Statistics Canada to do that. We'll continue to do that over the coming years in order to make sure that's the case regardless of how they perform their functions.

● (1625)

Mr. Paul Szabo: I have no doubt, sir.

If I might switch to budget 2010 and the economic update that we received, one of the things we noted is that over the period ending in the five years 2014-15, the economic update shows that the cumulative federal debt is going to increase by $6.6 billion. There's going to be an increase compared to the budget. However, the public debt charges over the same period, budget versus the economic update, are actually going down by $10 billion: $6.6 billion increase in public debt, but a reduction of $10 billion in charges.

It seems to suggest that maybe the government has some of its own forecasts on interest rates over that period. I wonder if the revisions that we see in this do reflect a real change in their view, and I'm wondering if these expectations actually match your expectations over the same timeframe.

Mr. Mark Carney: Well, thank you for the question.

It's not something that we perform, a detailed analysis audit, if you will, of federal fiscal projections. The federal government uses external forecasters for the fundamental inputs for that analysis, as you know, and it uses the average of those external forecasters.

I will only hypothesize that the adjustment in the debt charges is importantly affected by the level of interest rates. Obviously, the debt charges are the product of the interest rates, long-term and short-term interest rates, duration weighted, and the level of public debt.

There has been an important reduction in the level of global and Canadian long-term interest rates in between the spring and the fall, given the global outlook. That adjustment, I presume, has extended over the forecast horizon for private sector forecasters, but it's to them and to the federal finance department that the question is best directed.

Mr. Paul Szabo: My time is almost done, but let me just ask you about the whole issue of bank reform. I know that you're interested, and others have called for consideration, even though the Canadian banks performed reasonably well on a comparative basis. What is the state of discussion in terms of bank reform? Is it mission impossible? Are we going to be successful? Are we going to fail on it?

Mr. Mark Carney: The good news is that since we were last before this committee, considerable progress has been made on bank reform, most importantly agreement on the Basel III capital and liquidity measures. They were endorsed this past week, and they were reviewed and endorsed this past weekend by ministers of finance and governors of the G-20. They will go to leaders in Seoul.

This package considerably improves the quality of capital for banks, the liquidity they have to hold, the level of capital increases, and the level of capital they have to hold. It introduces a series of measures and adjustments that are much more akin to the Canadian system on a global level.

My colleague Mr. Macklem chairs the important committee, the financial stability board, which oversees the implementation of measures such as this and ensures that.... This is a very important point. It's great to have a system that's more like Canada on paper, but it's only really useful if everyone actually implements it. An important part of this process—and if we have time, Mr. Chair, I'll ask him to expand—is ensuring to a peer review process that our peers around the table actually become more Canadian, not just talk about becoming more Canadian.

The Chair: I'll make a note of that, because we are over time on this round, but we will come back to that.

I have Mr. Hiebert, please.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you, Mr. Chair.

Good to see you, Mr. Carney, Mr. Macklem.

Mr. Carney, in your opening statement you mentioned three downside risks. One of them was a more pronounced correction in the Canadian housing market. Is your view a pan-Canadian correction, or a potential pan-Canadian correction, or do you see pockets of strength, as in the lower mainland, where I come from?

● (1630)

Mr. Mark Carney: Well, just like we don't publish regional economic forecasts, we don't publish regional housing forecasts, so I'm going to avoid that question—not even skilfully, I'm just going to avoid it.

Mr. Russ Hiebert: Fair enough.

You also referenced, without answering a question that was posed by one of my colleagues.... The question was, what can be done to increase productivity? You didn't really answer the question; you ran out of time. What could be done? What could the government do to spur greater productivity in Canada?

Mr. Mark Carney: Well, there is a host of policies that need to be put in place to enhance productivity in this country, and they're required from both the federal and provincial levels of government.

I would say, on the whole, over the course of many years successive governments have put in place a number of the factors that should bring about an increase in productivity. Those include, first and foremost, having our macroeconomic policies in order; sustainable public finances; inflation under control; competitive taxation, both on a corporate and a personal level; liberalizing tariffs to enhance competition; measures to enhance research and development; and then very importantly, a series of investments in human capital, particularly at the university level, so we have the people to help drive productivity.

But we still have a productivity issue in this country, without question. Our overall level of productivity is about 80% of the United States levels.

Importantly, there is a chart in here—I believe it's chart 15 or so—that shows unit labour costs in Canada versus the United States over the course of the last decade. The bottom line of that is Canadian unit labour costs have gone up 80% since 2002. The U.S. unit labour costs measured in the same currency have gone up 10%. So that gap is just one measure of the loss of competitiveness of our industry. So more needs to be done.

It's a bit more of the same, I would say, on the government side. And I don't want to be too prescriptive, obviously, to you on these measures.

But also very importantly, Canadian business needs to invest; it needs to take advantage of the financial system that's functioning; and it needs to take advantage of opportunities that exist in emerging markets. We have just started to see that rebound in investment.

And I'll make one last point. We've also noted in here the level of investment in this recovery versus previous recoveries is surprisingly weak. In fact investment is only about 15% of the level it would normally be at this stage in the recovery. So that has started to turn around, but it needs to continue, as I indicated earlier in my remarks.

Mr. Russ Hiebert: We had the beginning of a conversation about inflation. What's magic about 2%, and what is the alternative that you're looking at?

Mr. Tiff Macklem: With respect to 2%, what is very clear is that you want a rate of inflation that is low, and in terms of delivering it, you want to focus on low, stable, and predictable.

There are some good reasons you might not want to go all the way to zero. Since renewing the target at 2% in 2006 there has been a considerable amount of research looking at what would be the best rate of inflation. On balance, I would say the research tends to suggest that it might be a little below 2%. Having said that, it's certainly clear that 2% has worked very well. Our economy has performed well. Our macro-management has been quite successful.

So it's a high bar, and I think you'd want to consider carefully the success we'd had before you made changes.

Mr. Russ Hiebert: Mr. Carney, you made reference to a possible alternate method of regulating the inflation rate.

The Chair: Just very briefly.

Mr. Mark Carney: Very quickly, it's called price-level targeting, and the idea there is that whereas in inflation targeting what happens, and what happens presently, is that we get up every day and believe it or not the first thing we think about is how do we get inflation to that 2% mandated target over the forecast rate, and we think about 12 to 18 months out. Bygones are bygones. What's happened in the past is the past. Every day we get up, we worry about that.

On price-level targeting, bygones aren't bygones. If inflation was higher in the past, we'd look to make sure that we made up with some inflation that was lower so that overall the price level grew at whatever level was dictated under the agreement, whether it is 2% or 1% or 0%. And obviously there is the converse: if inflation was lower in the past, the effort would be to get it back up.

I'll make one final comment on it, if I may, Chair. There is some discussion in the public domain about the utility of price-level targeting for other jurisdictions in an environment of intense disinflationary or deflationary pressures. So for example in Japan in the 1990s this was looked at, at that time.

● (1635)

The Chair: Thank you.

We'll go to Mr. Brison, please.

Hon. Scott Brison: For the second straight report, the Bank of Canada has downgraded growth projections, and you have indicated concern about productivity levels in Canada and the stagnant productivity growth in Canada. When we consider the relative weakness of Canadian productivity numbers and the impending demographic shift, what is your forecast for Canadian standards of living for the next several years? Where you do you see the standard of living going? For Canadian families, this is a very important question.

Mr. Mark Carney: Yes, thank you.

We do see a steady improvement in the standard of living for Canadian families, albeit at a rate less rapid than in the 1990s and early 2000s, because productivity growth will not accelerate, in our opinion, fast enough to make up for the demographic drag. It's a little too strong to call it a drag, but the less rapid contribution from labour to growth, labour as a whole on an economy-wide basis. So we see a less rapid improvement in the standard of living, and the only way to get that up is to get productivity up.

Hon. Scott Brison: I find it difficult to understand how we'd see any strengthening in the standard of living if the demographic shift combined with the productivity challenges we already have. Where do you see that growth in the standard of living coming from?

Mr. Mark Carney: There is some productivity growth that picks up over the forecast horizon and yields the rate-of-growth potential. If you look at the table on page 22 in the English version, we have potential growing at 1.8% in 2011; 2%, as I said earlier, in 2012. That's the underlying improvement in the real growth in the economy, the speed limit of the economy. That's not the precise level of growth we see, but that's the underlying improvement, and if you think of that 2% potential growth extending out into the horizon, that's the potential, if you will. That provides growth to the standard of living.

Mr. Tiff Macklem: Could I add one point? It's worth stressing that the other element of the welfare of Canadians is getting the economy functioning at its level of potential output. At the moment, there are unused resources. So if you go back to table 2, what you see is that we're growing above potential growth through this projection to absorb those excess unused resources in the economy. So the first step is to get the economy fully utilizing its resources, then the other part you want to pursue at the same time is getting the underlying growth rate as strong as possible.

Hon. Scott Brison: Thank you.

On October 19 your press release suggests that Canadian growth will rely more on net exports in the future. You say in that report, “The strength of net exports will be sensitive to currency movements...”. I interpret that as a signal that the Bank of Canada will be watching its monetary policy closely to avoid a dangerous ascension of the Canadian dollar relative to the U.S. dollar in terms of its impact on our economy.

How do you reconcile that statement with the government's crusade against currencies being artificially low in some countries? How do you reconcile the government's public statements on competitive devaluation with the bank's positioning of the loonie against the U.S. dollar? Isn't there a pretty clear contradiction there?

● (1640)

Mr. Mark Carney: There are two things. The first is that we see a contribution of net exports to growth in 2011, but it's a modest contribution of 0.3% on a rate of growth of 2.3% in 2011. The second thing is yes, that will be sensitive. It's sensitive to productivity; it's sensitive to demand in the United States; it's also sensitive to currencies.

The reconciliation I would make is not to reconcile with the government's statement per se, but to reconcile with a different part of the press release that notes heightened tensions in global currency markets. This relates to the discussion we had earlier with Mr. Menzies on the efforts to resolve global imbalances. There are heightened tensions in global currency markets. That does create a risk for the Canadian economy and through the net export channel and back into the economy, including true confidence effects, as Mr. Wallace raised earlier. We are very alert to that and we do watch developments in these markets closely.

The Chair: Thank you.

[*Translation*]

Mr. Généreux, you have the floor.

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Thank you, Mr. Chair.

I thank the witnesses and welcome them to the committee.

Mr. Carney, you indicated that private investment was an extremely important factor driving the recovery. I concur with that. You are no doubt aware that our government committed to reducing the corporate tax rates to 15% by 2012. Yesterday, we heard from representatives of the Canadian Bankers Association and the Conseil du patronat du Québec. They stated that the reduction in corporate taxes was a very effective way to spur private sector growth, investment in private companies and job creation.

Do you share that opinion?

Mr. Mark Carney: I am sorry, sir, what specific measures are you referring to?

Mr. Bernard Généreux: I am referring to our government's firm commitment to reduce the corporate tax rate to 15% by 2012.

Mr. Mark Carney: Very well. Thank you.

It is a bit awkward for me to be giving advice here on tax rates. As I have just indicated in response to a question by Mr. Hiebert, there are a number of factors that influence Canadian and international business productivity, including corporate and personal income tax rates and structures. Of course, the competitiveness of our budgetary system as a whole has a major influence on the productivity of our businesses. That is also the case for investment, as you have indicated.

Mr. Bernard Généreux: I have another pressing question, and that is the fact that our dollar is now close to parity with the U.S. greenback. At one point, our dollar was worth approximately 70 U. S. cents and under. We are often told that our business exports are greatly influenced by such fluctuations. In certain respects, it becomes difficult for exporters to deal with these near-parity levels. In the short term, do you believe that the exchange rate will return to a level that would better assist our exporters?

Mr. Mark Carney: I do not want to make overly specific comments on the exchange rate. I apologize, but that is also a sensitive issue.

As we stated in the previous response, there is a risk regarding our economy's net exports, i.e., a risk that the exchange rate is too high and that the strength of our currency is sustained. We are closely monitoring the situation. We will see how things evolve. Ultimately, the Bank of Canada is responsible for managing the monetary policy in order in order to achieve an inflation target, not a specific exchange rate. As we have indicated, the growth rate of total CPI and core inflation are expected to converge to 2% by the end of 2012.

● (1645)

[*English*]

The Chair: You have a minute.

[*Translation*]

Mr. Bernard Généreux: But all of these elements are highly correlated. That is to say that a balance must be maintained between the exchange rate and the lowest possible level of inflation. Is there such a thing as a perfect balance? That is a good question. Everyone wishes to increase Canada's business productivity, and in so doing, enhance our country's overall growth. However, exerting too much control on the monetary side can lead to contradictory results at times.

Mr. Mark Carney: What is important, crucial even for our economy, is that our businesses increase their productivity. That is a given. In the end, it all comes down to that.

The Chair: Thank you.

Mr. Mulcair, you have the floor.

Mr. Thomas Mulcair: I would again like to come back to the case of Timothy Hodgson. In his response, the governor told us about a blind trust for Mr. Hodgson's assets. He told us about the Bank of Canada's own conflict of interest and ethics rules.

Mr. Chair, the word "trust" in English also means "confidence." I believe that Mr. Carney is quite able to understand, as we all are, that the confidence of Canadians in the institution he so effectively represents—as I have always said and since I have had the pleasure of working with him following his appointment—is of utmost importance.

That said, the appearance of a conflict of interest is also a serious matter. Earlier, Mr. Carney gave us an irrelevant response when he told us we should not be concerned and that his advise or would be governed by all the ethics rules in the course of his mandate. At the end of his response, he even said that he had no idea what Mr. Hodgson would be doing afterward.

With regard to the appearance of conflict of interest, there are no provisions for a cooling-off period. Would the Governor of the Bank of Canada not agree that it is in the interest of the bank, of Canadians and of their confidence in that institution that we implement rules concerning a cooling-off period for Mr. Hodgson and others. Such rules would avoid the use of revolving doors with regard to such positions, in which people are briefed on highly privileged and confidential information, and then immediately return to the private sector. That is the question I am asking him.

I recognize that Mr. Hodgson is one of his former colleagues at Goldman Sachs—he was even the CEO of Goldman Sachs in Canada. He is no doubt extremely qualified, since he was appointed to such a key position. Nevertheless, this raises concerns.

Would it not be in his interest, in the interest of the institution he represents and in the interest of Canadians' confidence in that institution that there be rules governing such matters? If so, what is he waiting for to request them?

Mr. Mark Carney: Thank you. Now, I understand your question more clearly.

Yes, a cooling-off period must be provided in order to meet the obligations of the Bank of Canada with regards to conflicts of interest. These obligations probably need a cooling-off period that is established with reference to the person's next job. This is absolutely clear.

For instance, if Mr. Hodgson worked in the academic field, he would not necessarily have to go through a very long cooling-off period. It would be different if he had to fill another position in the private sector, as you said.

I can therefore reassure you that the rules and the practices of the Bank of Canada are adequate.

● (1650)

[*English*]

They are put in place to ensure that any transition will be above reproach.

Mr. Thomas Mulcair: I understand that, but my invitation to the governor was to get him to reflect on what's missing. There is no cooling off period provided for in the statute so far. The code of ethics that he refers to applies while Mr. Hodgson is there. The blind trust rules that he's referring to apply while Mr. Hodgson is there. He is free, because the governor said so in so many words: he doesn't even know where he's going after.

I say that in terms of the confidence of the Canadian public, we should all be working together to give you the same types of rules that we've given ourselves, because the perception of the public with regard to those conflicts is at least as important, if not more important in the case of the Bank of Canada—a key institution for the whole of our economy—than it could be with regard to any individual minister or their staff. If that *carence* is there, if that lack is demonstrated, we should all be working on it together to fix it.

Mr. Mark Carney: The responsibilities of the conflict of interest and the broader set of accountability responsibilities apply to the senior deputy governor and me, as GiC appointments by the Government of Canada. We do have conflict of interest provisions; we do enforce—

Mr. Thomas Mulcair: Of course you have for you, but not for him.

Mr. Mark Carney: Yes, I understand.

We do have conflict of interest provisions; we do secure cooling off periods that are of appropriate length for individuals who leave, as does the government with people who are more junior in the ranks of those institutions. The responsibility—and that's my responsibility, the senior deputy's responsibility—is to ensure that appropriate arrangements are put in place for all our employees. We will discharge these responsibilities and we are responsible to ensure that this is the case.

The Chair: Thank you.

We'll go to Mr. Szabo, please.

Mr. Paul Szabo: Mr. Carney, the Canadian dollar has been strong and flirting with parity, and the projection is that it might go back again and may be as high as $1.05, I heard, which is interesting. That's obviously driven by such things as the U.S. printing money and the demand for the resources we export.

At the same time, a high dollar means that you have pressures on the export manufacturing sector. All of a sudden its goods for export to the United States are not going to be as attractive, because of the strength of the Canadian dollar.

Is there a point at which there should be some concern about the potential impairment of the manufacturing sector?

Mr. Mark Carney: As we indicated earlier, we manage monetary policy for the entirety of the Canadian economy, not for a specific region, not for a specific sector. Further to the point, we manage monetary policy specifically to achieve the 2% inflation target. The health of the manufacturing sector is obviously something we follow with great precision, both in our individual surveys and with data and with visits. Personally, I've been out to a variety of manufacturing locations across the country in the course of the last several months, and we are following the progress of the Canadian manufacturing sector.

We are aware of the pressures. We are also aware of the responses that have been seen from key manufacturing industries and firms that are starting to head in the right direction to build the productivity that we need.

We look at the level of the dollar, the persistence of strength of the dollar, the volatility around the dollar, as to how it affects the pressures on inflation in Canada. Then we will take that, with all other factors that influence the pressures on inflation in Canada, and ensure that we manage monetary policy to achieve what is a very clear target, for which we are accountable.

Mr. Paul Szabo: Just quickly, here is a parallel. You said that growth projections are going to improve the lot for Canadian families. But if you break down Canadian families, among the seniors and near-seniors who are living on fixed incomes the low interest rate scenarios are causing some pressures on them because of the lower cashflows they're able to get to sustain themselves.

So I guess the question really is, are there any consequences, after a sustained low interest rate scenario, that would in fact translate into other extraordinary costs to handle the problems created by increased poverty among seniors?

● (1655)

Mr. Mark Carney: We are aware that for people on fixed incomes, or more specifically for whom an important part of their income is the product of investments—particularly investments in bonds and broader fixed-income instruments—the low-interest environment is an adjustment, and I don't mean to underplay it.

The level of interest rates is appropriate to achieve the inflation target. Ultimately, Canadians need to retain the confidence that we're focused on the core objective that has been delegated to us. Just as we couldn't swing and manage interest rates for a certain class of investors, we can't swing and manage interest rates for a certain class of the economy.

The Chair: You have about one minute. You'll probably have one more round, too, Mr. Brison.

Hon. Scott Brison: Sure.

My question is about gross debt numbers as a percentage of GDP. If you combine federal, provincial, and municipal debt, according to the Department of Finance figures Canada is at an 82.5% debt-to-GDP ratio. This is actually higher than that of the U.S., which is at 75.5%; higher than that of the U.K., which is at 72%.

With public debt levels climbing at all levels, and with the aging demographic and the rising social costs, what should the government prioritize now: deficit reduction or tax reduction?

The Chair: Very small questions at the end of a....

Some hon. members: Oh, oh!

Mr. Mark Carney: Let me, if I may, make a couple of points.

The gross debt levels in the country have become more elevated, obviously, in the course of the recession. They are not as high as they were in the mid-1990s, when they approached around 100% of GDP. Obviously, demographics were in a different position then from the one they are in now, as we've discussed at length here.

It's important as well, when looking at the debt situation in the country, to consider net debt, because the federal government particularly has considerable assets, not least in the Canada Pension Plan, and there are some cross-holdings in it. And Canada's situation —the net debt, including federal and provincial—is superior to those of the United Kingdom and the United States.

That said, what is important and was acknowledged by the government at the core of the G-20 Toronto commitments is to achieve sustainable fiscal balance over the course of the next five years. The Toronto path for that is very clear: a halving of deficit by 2013, and achieving a sustainable level of debt to GDP in all G-20 economies, including Canada's, by 2016.

The Chair: Thank you.

Mr. Brison, you will have another round.

[*Translation*]

Mr. Paillé, you have the floor.

Mr. Daniel Paillé: I had other questions regarding the hazards and the indebtedness ratio, but I would like to come back to Mr. Timothy Hodgson's role—perhaps I will be more calm than my colleague was.

As I have already been awarded contracts as a consultant for governments, I know that there are cooling-off periods. They depend on the period of time during which one has worked. There is always a minimum period, and this period is established by considering the nature of the position that was previously occupied and the nature of the upcoming position.

Just now, you introduced Mr. Hodgson as a very high-level adviser with regard to the regulation of over-the-counter derivatives, with regard to maintaining the resiliency of the pension markets and the adequacy of the capital of financial institutions. In fact, this is how he is introduced. Up to this point, I agree. I think that he was hired because of his exceptional capabilities in these areas, for 18 months. We could say in more familiar terms that when you come out of the Bank of Canada, you're less naive; you have gained some value, and valuable knowledge.

Besides, I also note that he is the chief representative of the bank in Toronto with regard to monetary policy. From Toronto, he directs a team from the Bank to maintain communications with the Toronto financial markets. Mr. Hodgson currently sits on two committees, and one is the very important Monetary Policy Review Committee, and the other is the Financial System Review Committee.

I would like to have a simple yes or no answer to my question. At the time when Mr. Hodgson was hired, did the contract between him and the bank indicate the details about the cooling-off period, as we could say as well in Chinese or in Latin as in English? I do believe in foresight, but, in other words, was he already aware of what his cooling-off period would be? Was this provided right from the outset in the hiring contract?

● (1700)

Mr. Mark Carney: First, I would like to make a clarification. The committee in charge of monetary policy is the governing council of the Bank of Canada, which is composed of myself as governor, of the senior deputy governor and four other deputy governors of the bank. That is all. There are six of us.

Mr. Daniel Paillé: In the press release—

Mr. Mark Carney: There is a committee, comprising about twenty people, that provides forecasts and reports on current conditions in finance and economy, but it is the governing council, with its six members, that manages the bank's monetary policy.

Mr. Daniel Paillé: As we have just a minute left—

Mr. Mark Carney: He manages the bank's financial policies.

To give you a more specific answer, I can tell you that it is no; there is no cooling-off period stipulated in his contract.

Mr. Daniel Paillé: Do you think that this is sound management? Today the report of the auditor general on the oversight over chartered banks was published, but the Bank of Canada was not reviewed in that report.

Far be it from me to cast doubt on these matters, but I believe that it would have been better, for a high-level manager who is hiring somebody, to stipulate this kind of cooling-off period. Let me tell you that I am somewhat astonished, because in the government, when contracts are signed by consultants—as it was my case, and my colleague from Outremont had much to say about it, a year ago —cooling-off periods are established.

Mr. Mark Carney: In Mr. Hodgson's case, he is working on two or three specific reforms. He is an executive banker. He is not an expert in derivatives—

Mr. Daniel Paillé: But he is not alone in the bank.

Mr. Mark Carney: He is not an expert in shareholders equities, but he is an expert in negotiation. More specifically, with the reform of over-the-counter derivatives, this involves extensive negotiations between us and the bankers, between us and the funds, between us and the Americans, the English and the Europeans. These are broad negotiations. He is working in the field of mergers and acquisitions. He is specialized in investment bank services. This is important.

[*English*]

The Chair: Okay—

[*Translation*]

Mr. Mark Carney: For this reason—

[*English*]

This is not someone who comes from the derivatives world, works on derivatives, and goes back to the derivatives world. This is someone who does equity issues, who does mergers and acquisitions, who's a negotiator, and who is an expert at execution—so that we are the experts in derivatives, we are the experts in these reforms, we are the ones who make the final decisions—

● (1705)

The Chair: Okay—

Mr. Mark Carney: Please, we've spent a lot of time on this, so I want to continue, if I may, Chair.

We are the ones who give the orders and the objectives to Mr. Hodgson and his team to get the negotiation done, which ultimately has to be closed by Mr. Macklem and me, because it will be decided at the governor level across many jurisdictions and at the CEO level of banks. So this is a complex negotiation and it's why we needed somebody like him.

And finally, to your mutual point, and I respect your question, as to why we didn't have a cooling off period that was very precise *ex ante*, the likelihood of Mr. Hodgson going back into the derivatives world, or in fact into the derivatives world, is very low, because he doesn't come from the derivatives world. He has a skill set that applies to multiple things that are away from that world.

The Chair: Okay, thank you very much.

I know it's a very serious issue, Mr. Carney, and if you want to provide the committee with any further information, we'd certainly appreciate that, I know.

I'm going to take the next government round.

I just want to follow up on the Basel III requirements, which we were going to have Mr. Macklem address. Obviously, two of the reasons that the Canadian financial sector came through the last two years in fairly good shape were our capital ratios and leverage ratios. On the Basel III requirements in terms of the levels of capital required, from what I'm hearing from the financial sector, they can very much live with the levels of capital. There has been some concern expressed by certain institutions with respect to the type of capital required.

I know, Mr. Macklem, you were going to address it generally, but I was wondering if you could address that specific issue in your answer as well.

Mr. Tiff Macklem: Certainly.

As you indicated, there are a few elements to the new Basel III capital rules. First of all, let me just say that it's a very good agreement, with an appropriately lengthy transition period, reflecting the fact that it is a significant strengthening of the rules.

In terms of some of the specifics, as you mentioned, the levels of capital are higher. There is more emphasis on true capital—that is, capital that can actually truly bear losses, such as tangible common equity. There is a narrower set of deductions, strengthening the definitions, so that we are focusing on true capital.

There are also some other important elements. There's a limit on leverage. As you know, Canada has had a cap on leverage for some time. So we think this is a very positive development. There's also an additional buffer that institutions would build up in periods of excess credit growth that appear related to systemic risk, because of the increased likelihood that ultimately there will be a correction.

So those are some of the core elements.

Canadian banks are certainly well positioned. They came into this crisis with strong capital levels, and were able to raise further capital when needed. But Canadian banks will have to make some adjustments, particularly given the new definitions, and that's certainly something they have indicated they're very confident they can do.

The Chair: The second issue I want to raise is with respect to the statement made by Governor Carney that “The strength of net exports will be sensitive to currency movements, the expected recovery in productivity growth, and the prospects for external demand.”

You have some faith in terms of continuing export growth, but you obviously do have these three cautions in here. You've talked about the currency with respect to China, but I'm just wondering if there might be some other countries who choose to devalue their currency to address their own fiscal situation. Are you at all concerned about that and its impact then on our exports?

Mr. Mark Carney: We are concerned, and elsewhere in our statements and in the discussion today we've highlighted the heightened tensions in global currency markets. To put a slightly finer point on it, there was a period earlier this year when more than 40% of the trade-weighted amount of the U.S. dollar.... If you looked at all of the trading partners of the United States, more than 40% of the currencies, by trade volume, were in some way managed.

Those are the tensions that we need to work collectively to reduce. We had important reaffirmations of the commitments of advanced economies over the course of this weekend, and an extension and important commitment, for the first time, by all countries of the G-20 to refrain from competitive devaluations.

Now, those have to be respected, those have to be implemented. We have to keep focused on this. We have to be relentless on the whole range of issues around global imbalances. But you are right to raise the issue, in that when we look at tensions in foreign exchange markets, we do see the link through to Canada very importantly on the net export side as a risk to the outlook.

● (1710)

The Chair: Are you more confident now? Because there was some nervousness leading into the talks in Korea that the consensus that had been formed at Toronto, or at least was being formed there, is actually unravelling. Are there are any concerns, or are you...?

Mr. Mark Carney: I would say that progress was made in Korea, but the discussions or process is not finished. We need to continue—and the Minister of Finance and the Prime Minister I'm sure will continue—with that in the run-up to Seoul. I'll continue with my colleagues. It will be an important element of the French presidency of the G-20 next year to see this process through.

So yes, there was progress made this past weekend, but no, it's not over; it has to proceed.

The Chair: Okay, thank you.

We'll go now to Mr. Brison.

Hon. Scott Brison: Governor, earlier you referred to some macro-prudential measures that are being taken or implemented in other countries, or have been implemented. You spoke of some loan value measures. I think we'd benefit from more information on some of these types of measures. You referred specifically to CMHC reform, but I'd like to learn more about what loan value measures are being taken in other countries, to inform our committee on some of these initiatives.

Mr. Mark Carney: Okay, thank you.

One of the more direct measures that has been taken in a range of countries, for example by Israel and Hong Kong on the advanced economies' side, and by China and India and other emerging markets, has been to reduce the amount of a loan that can be set against the value of a property. Those measures are having some impact in terms of asset prices and, more particularly, house price inflation in those economies.

Now, in some of those cases the challenge is as much the stance of monetary policy as the stance of lending policy. In some of those cases monetary policy is loose, which is encouraging house price appreciation because the country's currency is managed, and that creates its own chain of issues. In Canada, obviously, we don't face that issue with the floating currency and our commitment to a floating currency; and we have, in relative terms, a different order of magnitude of activity and asset price behaviour in our housing market.

The CMHC, at the request of the Minister of Finance, took some tightening measures earlier this year and last year to make adjustments to the mortgage insurance that CMHC offers, which is a much more multi-faceted way of addressing the problem than a simple loan-to-value measure.

So I would say this area is something Canada is becoming more familiar with. Measures have been taken. Those are starting to have an impact. We work in close cooperation with the Department of Finance, CMHC, and the Superintendent of Financial Institutions to evaluate situations in the housing market and other markets, and we think about which tools are best suited to adjust. I would say that cooperation is very close, it's very effective, and that we have the appropriate level of vigilance in that regard.

Hon. Scott Brison: On September 16, when you spoke with the *Globe and Mail* editorial board and discussed the need for the long-form census in order for the Bank of Canada to be able to set monetary policy, you said that you'll take additional measures within the bank to make up for the lack of reliable information from Stats Canada as a result of the decision to cancel the long-form census. What additional initiatives will you be taking within the bank, and how much will they cost?

Mr. Mark Carney: Well, the principal measure that we're taking at this stage is engaging in much closer collaboration with Statistics Canada, over the coming months and really over the coming year, on the potential—underscore potential—implications of the move to the national household survey. We have a working group that is set up. We're going to work with them. A lot of that work is really going to begin in earnest once the data is collected from the national household survey. It really won't start until the first quarter of next year, and then we'll try to assess the implications, if any, for a variety of relevant surveys and data for the Bank of Canada, such as the labour force survey.

We're engaged. We've got a process in place with Statistics Canada that will unfold over the coming year and we'll assess from there. We're not running off and looking for alternative sources of data at this stage. And there's no cost. At this stage, we're using the people we have who are experts in statistics who are working with StatsCan on this important issue. I would say that we're very pleased with the level of seniority and cooperation we've received from StatsCan on this issue.

● (1715)

The Chair: Thank you.

Mrs. Block.

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

I just have one question, and I would invite any of my colleagues who would like to follow up to do so.

Mr. Carney, you stated earlier, I believe, that there are limits to the role the Bank of Canada's interest rates play in controlling or addressing inflation. Later on it was mentioned that low, stable, and predictable but not zero is what's desirable when it comes to the inflation rate. I want to make sure I understand price-level targeting and how that fits with the two statements. And is this policy of price-level targeting used elsewhere, in any other countries?

Mr. Mark Carney: Okay. I'm not sure your colleagues will have a chance to follow up, given the range of important questions there.

On the first point, I'll refer to the answer of my colleague on the optimal rate of inflation: the value of that 2%. We have done work on the potential value of lowering that. We have published some of that work, and we'll publish the rest of it in due course, well in advance of the renewal of discussions on the inflation target. I'll leave it there.

To be absolutely clear in terms of the interest rate and the conduct of monetary policy in Canada, we have the tools we need to achieve the 2% inflation target. There are lags with the operation of monetary policy. We can't instantly change monetary policy today and correct an overshoot or an undershoot on inflation tomorrow. It takes time: think in terms of a year to an 18-month type of timeframe.

Sometimes it takes a little longer when there are certain factors that are overlaid. Today, for example, we see inflation fully returning to target. It's very close to target over the forecast horizon, but it will fully return to target about two years from now.

There will be intervening events between now and then that will have an impact. We'll adjust the policy accordingly, if they are viewed to be more permanent than transitory.

We have the tools we need to achieve our objective, and it's our responsibility to achieve that objective.

On price-level targeting, to give a little more colour to what I said earlier, the issue there is a path for the level of prices, as opposed to a rate of change in the level of prices. In that regard, at any given point in time that there is a deviation from the price path.... And let's think of a 2% price path, so if prices today are 100, they'll be 102 a year from now. If inflation were 3% this year, for whatever reason, the commitment under price-level targeting is that we would conduct monetary policy to make up that overshoot in subsequent years so that inflation would go from 102, and ultimately it would end up at 104.—the senior deputy minister can do the math very quickly.

We adjust policy in order to achieve that price path over time. So the bygones aren't bygones; we make up the misses.

Why would we possibly do that? What's the advantage of doing that? It's greater certainty on the price level for individuals. So if you're making a long-term contract or you're buying a 10-year bond, the expectation is that the cumulative amount of inflation over the course of that 10-year contract or bond will be more likely to be the level that is consistent with the price path. For that and other reasons, there are potential benefits to price-level targeting.

On your question regarding whether anybody does it, the short answer is that nobody actually price-level-targets today. Sweden did, briefly, in the Great Depression. The United States had a form of it. It wasn't actually run through the Federal Reserve, but it was a commitment by President Roosevelt that he would return to the 1929 price level that was enacted.

It is a powerful mechanism, potentially, to avoid deflation. What one does when one says we are going to return the price level back to that path is to ensure that bygones aren't bygones, that undershoots on inflation will be made up. The consequence of that is real interest rates, which are what really drive decisions ultimately—the difference between the nominal headline rate of inflation and the expected level of inflation, that real number—will be more consistent with the plan of the central bank, and that promotes investment.

I'm giving a short version of it—you may not feel that it is a short version—and we will happily furnish the committee with more, if required.

● (1720)

The Chair: Thank you.

Mr. Szabo, please.

Mr. Paul Szabo: Governor, considering what we have come through with the global financial and economic crisis, has that prompted you to think of any reason there should be consideration to changing the role or mandate of your office?

Mr. Mark Carney: We have a system that works very well here in Canada. In particular, the focus of the Bank of Canada in monetary policy on price stability is essential, in our opinion, to the well-functioning of the Canadian economy. We have other responsibilities, most notably a shared responsibility with other agencies for the promotion of financial stability. Our principal role in that regard is to analyze risk to the Canadian economy, to financial stability like household debt, like the level of capitalization of banks, like potential financial implications of tensions in currency markets. There are monetary implications of that, but also financial implications. We share that perspective with this committee, with the public. We share it with other agencies, including very importantly the federal Department of Finance in Canada, so that, if appropriate in their judgment, policies they control could be adjusted to lessen the potential impact of those financial vulnerabilities.

This system works well. We have a good level of cooperation. I would say further that what we're all learning from the financial crisis—there are some lessons from the financial crisis, including for Canada, and they relate to the potential use of policy levers that address the health of the financial system as a whole, as opposed to individual institutions. Mr. Brison's questions earlier about loan-to-value ratios and the potential adjustments to elements of mortgage insurance to address vulnerabilities or tensions that build up in the housing market—that's an example; it's something that's been used in Canada.

Mr. Macklem referenced counter-cyclical capital for banks. That's a Canadian innovation at the Basel committee, and that's another example. So there are examples of these system-wide tools. A third example I'd add is margin requirements in the repossession market, which is something we're looking at very closely. There are several examples of the system-wide tools we are working through with our partners in Ottawa and across the country to determine their efficacy and advisability. That's not a change to the mandate of the bank, but I wanted to give you a richer answer to some of the issues we see coming out of the crisis.

● (1725)

Mr. Paul Szabo: Thank you, I appreciate that. It sounds as if at this time you have the tools to do the job.

Mr. Mark Carney: Yes.

Mr. Paul Szabo: The Parliamentary Budget Officer has fascinated me. He's had some interesting projects. He opined on something that.... Let's put it this way: I assume the economic update and all the numbers you've looked at assume there will be a delivery on the full stimulus package that was in the original 2010 budget. The Parliamentary Budget Officer said it's possible that 25% to 50% of the approved projects may not be complete by March 11, which raises the question, and it has been raised in Parliament, about whether the government will abandon those projects or whether it will be a download to other jurisdictions to complete them, etc.

Is the magnitude of the estimates of 25% to 50% of the approved projects of concern to you in terms of their potential impact?

Mr. Mark Carney: We have not changed our forecast for the sum of federal and provincial government spending between these monetary policy reports. We continue to have the expectation of an important contribution of government through the end of this federal fiscal year, based on current plans that the contribution from the government reduces and there's a slight fiscal drag, a combination of federal and provincial, over the balance of the projection horizon. Part of the dynamic of the projection we have is that we move from a very important fiscal stimulus to relying more on household consumption, investment, and, on the very margin, net exports.

So our expectations are continued contribution from government, consistent with current plans. Obviously we will adjust that projection if we form the view this is unlikely, but we do not have reason to form that view at this point.

Mr. Paul Szabo: Thank you.

The Chair: Thank you, Mr. Szabo.

Mr. Menzies, you have about a two-minute round.

Mr. Ted Menzies: Thank you, Chair.

Going back a little bit to some of the language coming out of Korea last weekend, if I may, there was once again a coordinated effort to make sure that we protect against protectionism. Defend against protectionism is maybe a better way to term it. There are some troubling things. We're suggesting we're going to refrain from competitive devaluation, and how that impacts.... We're a trading nation, and we're trying to expand trade as fast as we can, although we can't seem to get trade negotiations off the floor of the House of Commons. We think it's pretty important to do this.

Trade deficits were a big issue, I'm sure. Correct me if I'm wrong, but the information I received today is that for every one dollar of U. S. goods that are purchased in China, there are $3.90 worth of Chinese goods purchased in the United States. Is that troubling, as to the trade deficits that will create more protectionism?

Mr. Mark Carney: Certainly the commitments you referenced, although they're cast in the negative, are important: resisting competitive devaluation, refraining from protectionist measures. As I indicated earlier, what is important is that those commitments are respected. It's good to have them. They need to be respected. It is somewhat encouraging to have some of the elements around the currency side.

Are the scale of the trade and broader current account imbalances troubling? Yes, they are. I mean, these are the global imbalances that have potential to return to unsustainable levels as the recovery progresses, ultimately with the potential to undermine the pace of the recovery at a global level, and that will have direct implications for Canada.

We are working very hard. Mr. Macklem referenced earlier the Toronto framework and the elements of that. We need to see that implemented. We need to see it expanded to include structural policies. We need to finish the financial reforms. We ultimately need to see that enhanced level of flexibility of currencies, this movement toward market-based exchange rates in major emerging markets.

All of that said, there will always be imbalances. We're a trading nation. We understand that. We moved from having a 2%-plus current account surplus going into this recession to a similarly sized deficit, a slightly larger deficit on the current account now. That's appropriate, given the global outlook and given the relative strength of our economy. But what's important is that others are showing similar flexibility, so that over time that can reverse itself in a natural order of comparative advantage.

● (1730)

The Chair: Okay, thank you. I'm sorry, I have to cut you off, Mr. Menzies.

Mr. Carney, Mr. Macklem, thank you so much for being with us here. I hope you enjoyed our discussion, a very lively discussion. If there's anything further you wish the committee to consider, please feel free to send it at any time.

Colleagues, thank you.

The meeting is adjourned.

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