

## Carolyn Rogers, Toni Gravelle : Release of the Financial Stability Report

Opening statement Ms Carolyn Rogers, Senior Deputy Governor of the Bank of Canada, and Mr Toni Gravelle, Deputy Governor of the Bank of Canada, at the press conference following the release of the Financial Stability Report, Ottawa, Ontario, 28 May 2026.

\* \* \*

Good morning. Deputy Governor Toni Gravelle and I are pleased to be here to discuss the Bank of Canada's *Financial Stability Report*, or FSR.

A stable and efficient financial system is essential to our economy. It supports growth and helps households and businesses to save, invest and manage risks. We monitor the financial system closely-and each year, we publish this report to share our assessment with Canadians.

The FSR is very different from our *Monetary Policy Report*. It is not a forecast, and it does not guide interest rate decisions. Instead, it gauges the resilience of the Canadian financial system and explores the key risks and vulnerabilities that could undermine that resilience.

I'll start today with our overall assessment, then highlight a few key areas we are keeping a close eye on. Deputy Governor Gravelle will then delve into the conditions across financial markets, households, businesses, banks and non-bank financial intermediaries.

Overall, Canada's financial system has functioned well through a challenging year. Households and businesses remain in stable financial condition, and banks have strengthened their capacity to absorb shocks.

However, vulnerabilities have increased in some parts of the system. Stock and corporate debt valuations have risen and are high relative to historical norms. This makes markets more vulnerable to a sharp correction.

The issuance of global sovereign debt is also rising, and hedge funds are playing a bigger role in buying that debt, often using borrowed money. In normal times, hedge fund activity helps keep markets running smoothly. But if conditions become strained, this activity could amplify stress and disrupt core funding markets.

Individually, these and other vulnerabilities look manageable. However, the economic and geopolitical environment has become more volatile. And this has made it more likely that a new shock or a combination of shocks could cause several vulnerabilities to crystalize at once. If this were to happen, these vulnerabilities could interact and reinforce each other.

A cascading series of events could cause a sharp loss of investor confidence and lead to a spike in demand for liquidity or rapid asset sales. Funding markets could come under pressure, and stress could spread more broadly.

To be clear, the FSR is not about what we expect *will* happen. It is an assessment of how existing vulnerabilities-or pockets of stress-*could* amplify shocks and ultimately spread across the financial system.

At the time of the 2025 Report, we were concerned that tariffs and trade uncertainty could lead to market volatility, strains on liquidity or even market dysfunction.

So far, the impacts have been less widespread than we originally feared. But this risk has not gone away, and the future of Canada's trade relationship with the United States remains uncertain.

More recently, the war in the Middle East has added to global uncertainty, leading to volatility in some markets and short periods of reduced liquidity. Even with these pressures, markets have continued to function well.

But it remains unclear how long the war will last or how it might be resolved.

New risks are also emerging, particularly from artificial intelligence. AI is expected to boost productivity and economic growth over time, but it is sparking concerns about disruption in some sectors and about overinvestment. AI may also increase the speed, scale and sophistication of cyber attacks.

Now let me turn to Deputy Governor Gravelle to talk about conditions in the five sectors we monitor.

Thank you, Senior Deputy Governor.

I will start with households, where the overall picture is similar to last year.

Canadians continue to carry high levels of debt relative to their income, but overall household wealth has risen. And the share of borrowers who are behind on debt payments has stabilized.

In recent years, we've highlighted the risk of payment shocks when households renew pandemic-era mortgages. To date, most borrowers have managed this risk well. With the final wave of these renewals set to happen over the next 12 months, we expect this risk to have fully passed by the second half of 2027.

I'd like to stress that this overall picture masks important differences. Some households face far greater strain than others, and those with the highest debt burden have very little financial flexibility to cope with a job loss or an unexpected expense.

Business financial health is broadly stable-even in sectors most exposed to shifting US trade policy. But a downturn could put pressure on margins and make borrowing more difficult.

The main concern for both households and businesses is a geopolitical or economic shock that leads to a deep recession and a sharp rise in unemployment.

Canada's large banks have become more resilient over the past year, with higher profitability and healthy capital buffers. They have also set aside additional funds to absorb potential loan losses. This positions them to support the economy and financial system, even in a severe downturn.

Vulnerabilities related to non-bank financial intermediaries continue to grow. Hedge funds are taking on more leverage, in part to finance their purchases of government bonds. This supports market liquidity but can also be a source of fragility.

I'll end with financial markets. Recent geopolitical events have led to bouts of volatility, but financial markets have generally proven resilient.

To summarize, our overall view is that the Canadian financial system remains well positioned to weather shocks. Over the past year, it has faced repeated tests. While there have been some strains, those episodes did not lead to broad-based financial stress.

Still, we must stay vigilant. We will continue to monitor vulnerabilities closely and remain in regular contact with financial system participants and with domestic and international partners.

A stable and resilient financial system absorbs shocks rather than amplifying them, and that benefits every Canadian.

With that, the Senior Deputy Governor and I are happy to take your questions.