

Promoting Canada's economic and financial prosperity

Presentation to the Chambre de commerce et de l'industrie de Rimouski-Neigette
Rimouski, Québec
14 November 2012



Overview

- Mandate of the Bank of Canada
- Four main responsibilities
- Economic outlook

Mandate



Mandate of the Bank

The mandate of the Bank of Canada is to promote the economic well-being of Canadians.

Four main responsibilities:

- Monetary policy
- Financial system
- Currency
- Funds management

Main responsibilities: Monetary policy

Our objective: Safeguard confidence in the value of money by keeping inflation low, stable and predictable

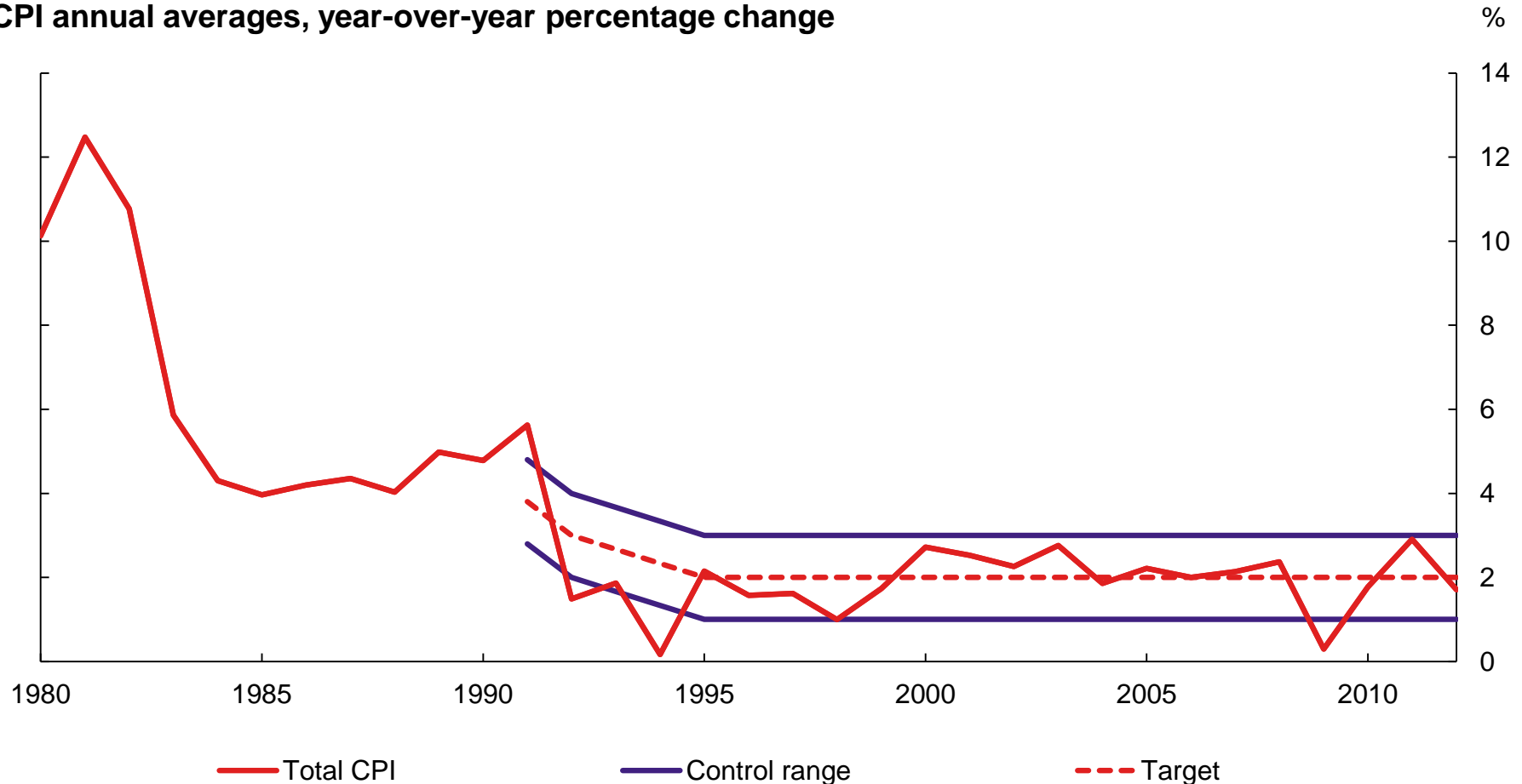
- Target of 2 per cent established in agreement with the federal government

Benefits:

- Greater certainty of future buying power
- Lower nominal and real interest rates
- More stable economic growth with lower and less-variable unemployment

Since 1995, inflation has averaged 2 per cent

CPI annual averages, year-over-year percentage change



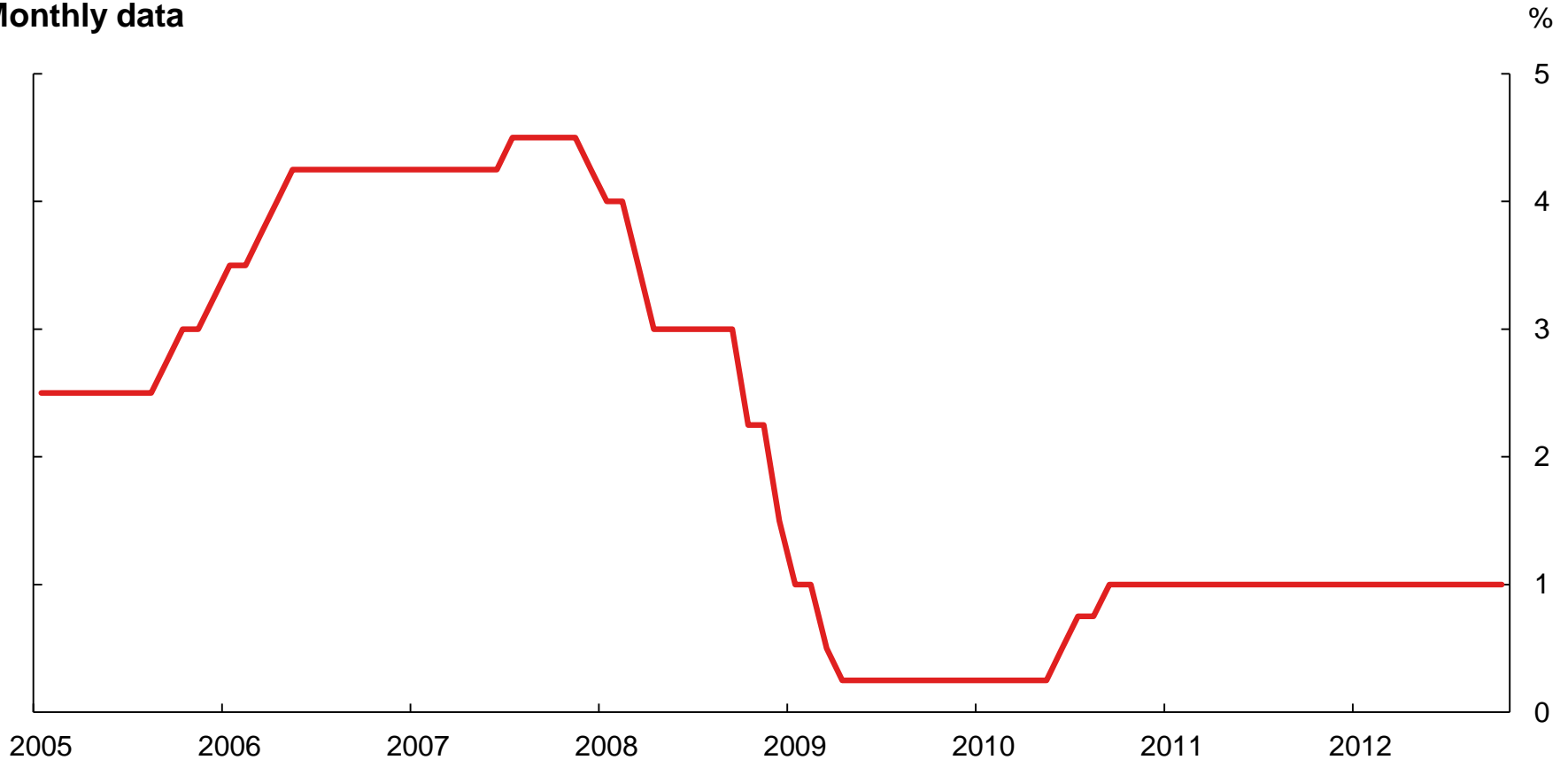
Note: Data for 2012 are from January to September
Source: Statistics Canada

Inflation-targeting system

- To achieve the inflation target, the Bank adjusts its overnight rate.
 - Affects the economy via its impact on other interest rates, domestic asset prices and the exchange rate
- Forward-looking, symmetrical and flexible approach
- Clear communication
 - Policy rate decisions announced eight times a year on a pre-announced schedule
 - Detailed analysis is provided in the *Monetary Policy Report*

Monetary policy remains very stimulative to counter external headwinds

Monthly data



— Target for the overnight rate

Main responsibilities: Financial system

Our objective : Promote stability and efficiency of the Canadian and global financial systems

Canada's financial system includes:

- Financial institutions
- Financial markets
- Payment, clearing and settlement systems

The Bank shares responsibility for financial stability with other regulatory organizations.

Main Bank activities to ensure stability of financial system

The Bank:

- Provides liquidity and acts as lender of last resort
- Oversees systemically important payment, clearing and settlement systems
- Contributes to development of policies governing financial systems
- Assesses risks
 - Publishes findings in the *Financial System Review*
 - Household indebtedness is biggest domestic risk

Main responsibilities: Currency

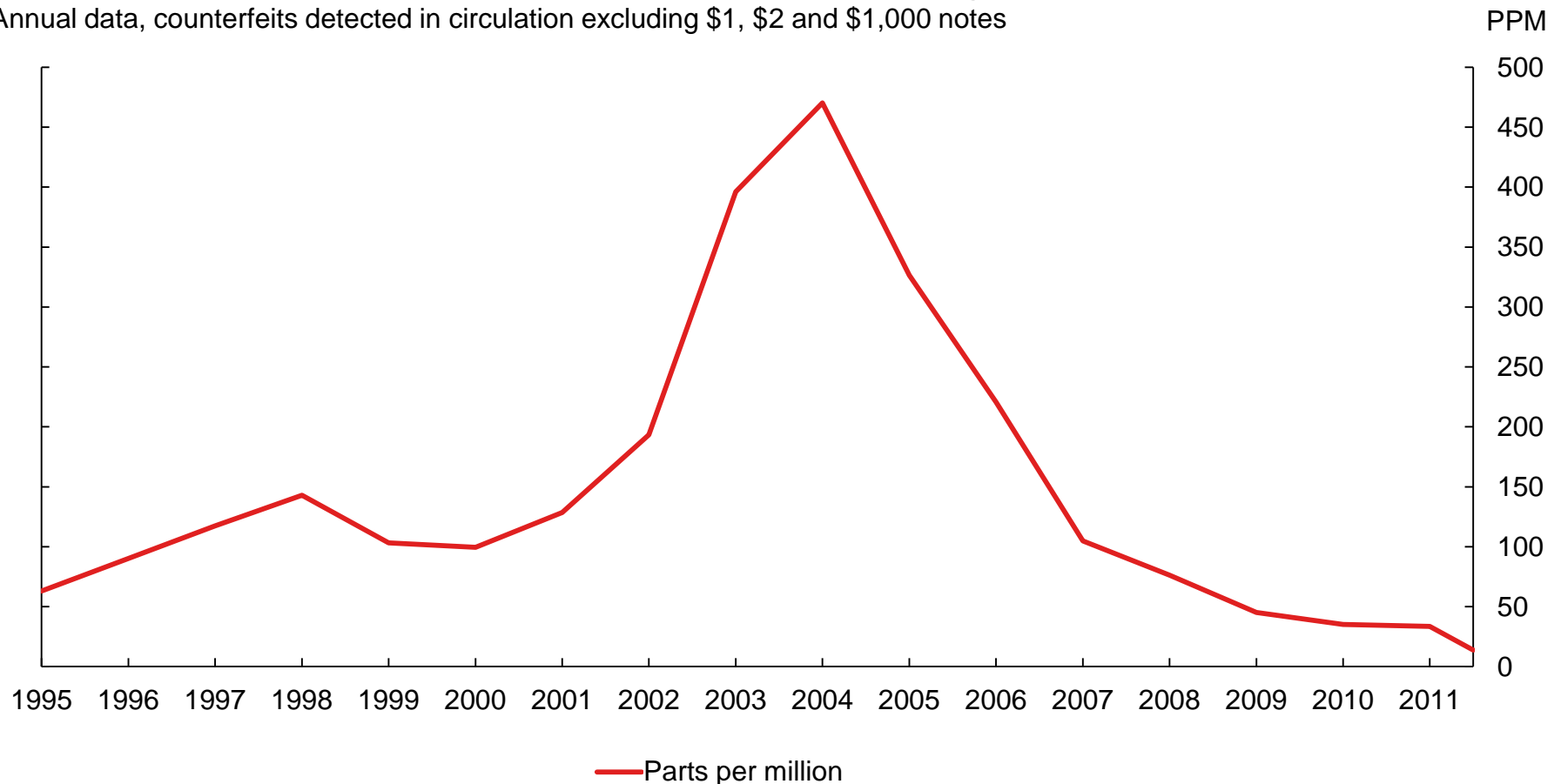
Our objective: Provide Canadians with bank notes they can use with confidence

- Fewer than 50 counterfeits detected annually per million notes in circulation
- Bank notes are the Bank's most tangible product
- Demand for bank notes continues to grow at the same rate as the economy

Secure, quality bank notes

Counterfeit Canadian bank notes detected for each one million genuine notes in circulation

Annual data, counterfeits detected in circulation excluding \$1, \$2 and \$1,000 notes



New series of bank notes

New polymer bank notes:

- Safer: State-of-the-art security features
- Greener: Smaller environmental footprint
- Cheaper: Will last at least 2.5 times longer than cotton-based notes

New \$20 bank note



Frosted maple leaf window

Hidden numbers

Raised ink

Metallic portrait

Large window

Transparent text

Small numbers

Maple leaf border

Metallic building

Main responsibilities: Funds management

Our objective: Act as fiscal agent and provide banking services to the federal government and other key players in the financial system

The Bank:

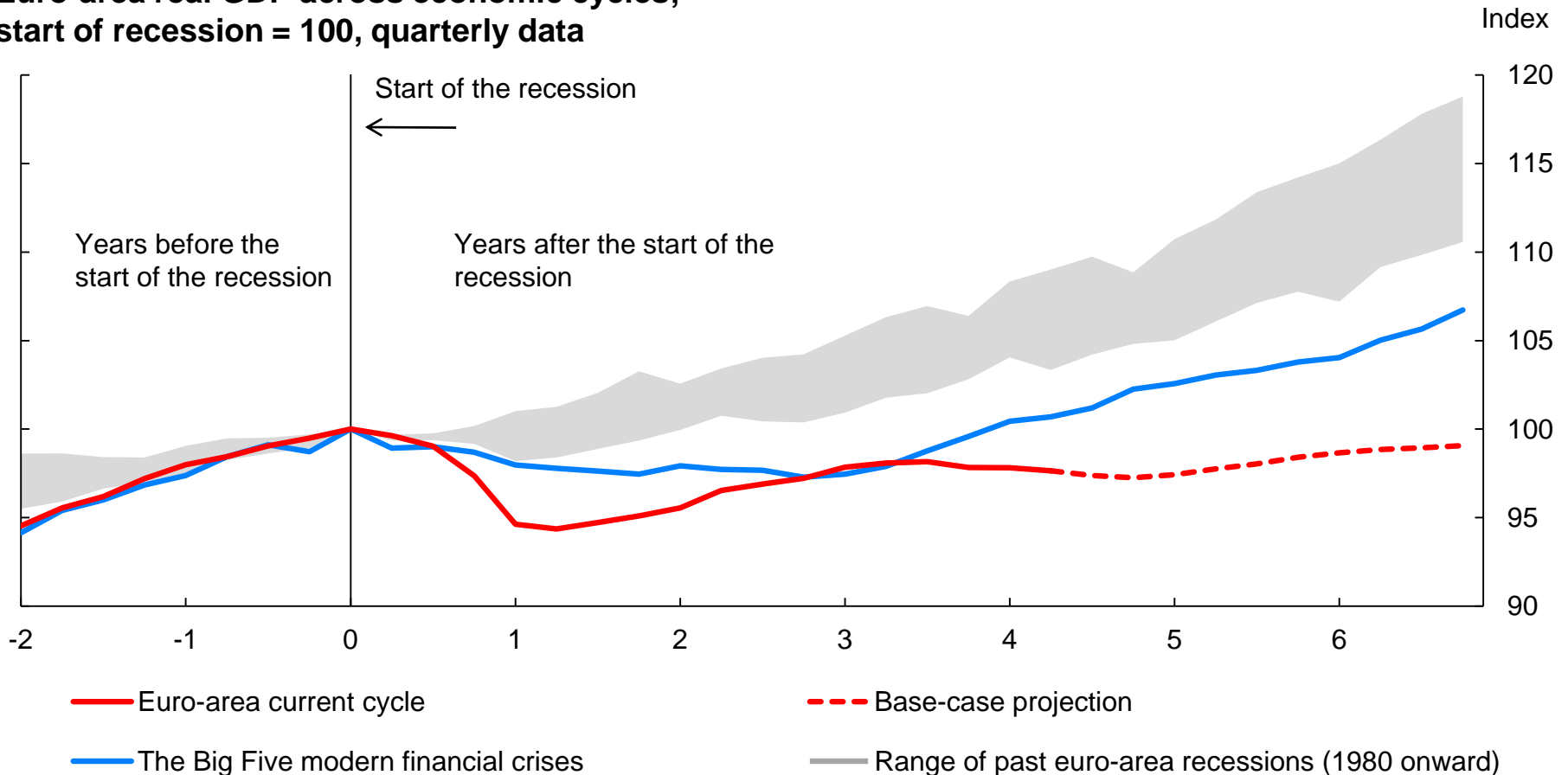
- Manages Canada's foreign exchange reserves, the federal government's cash balances and federal debt in collaboration with the Department of Finance
- Administers the Canada Savings Bond program
- Provides the means of final settlement of daily flows of payments between financial institutions

Economic outlook



Europe is stagnating

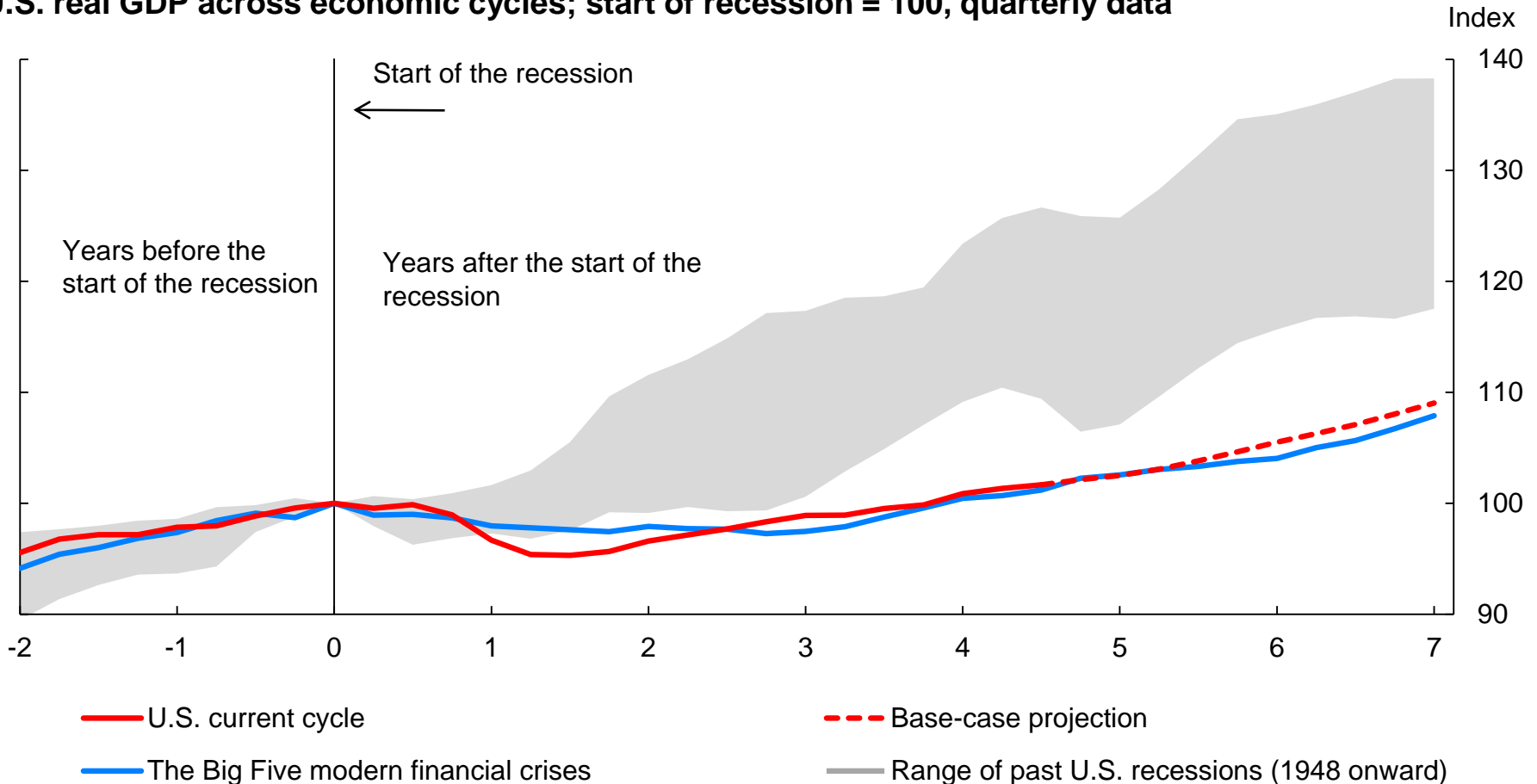
**Euro-area real GDP across economic cycles;
start of recession = 100, quarterly data**



Sources: Eurostat, Organisation for Economic Co-operation and Development, and Bank of Canada projections

Slowest U.S. recovery since Great Depression

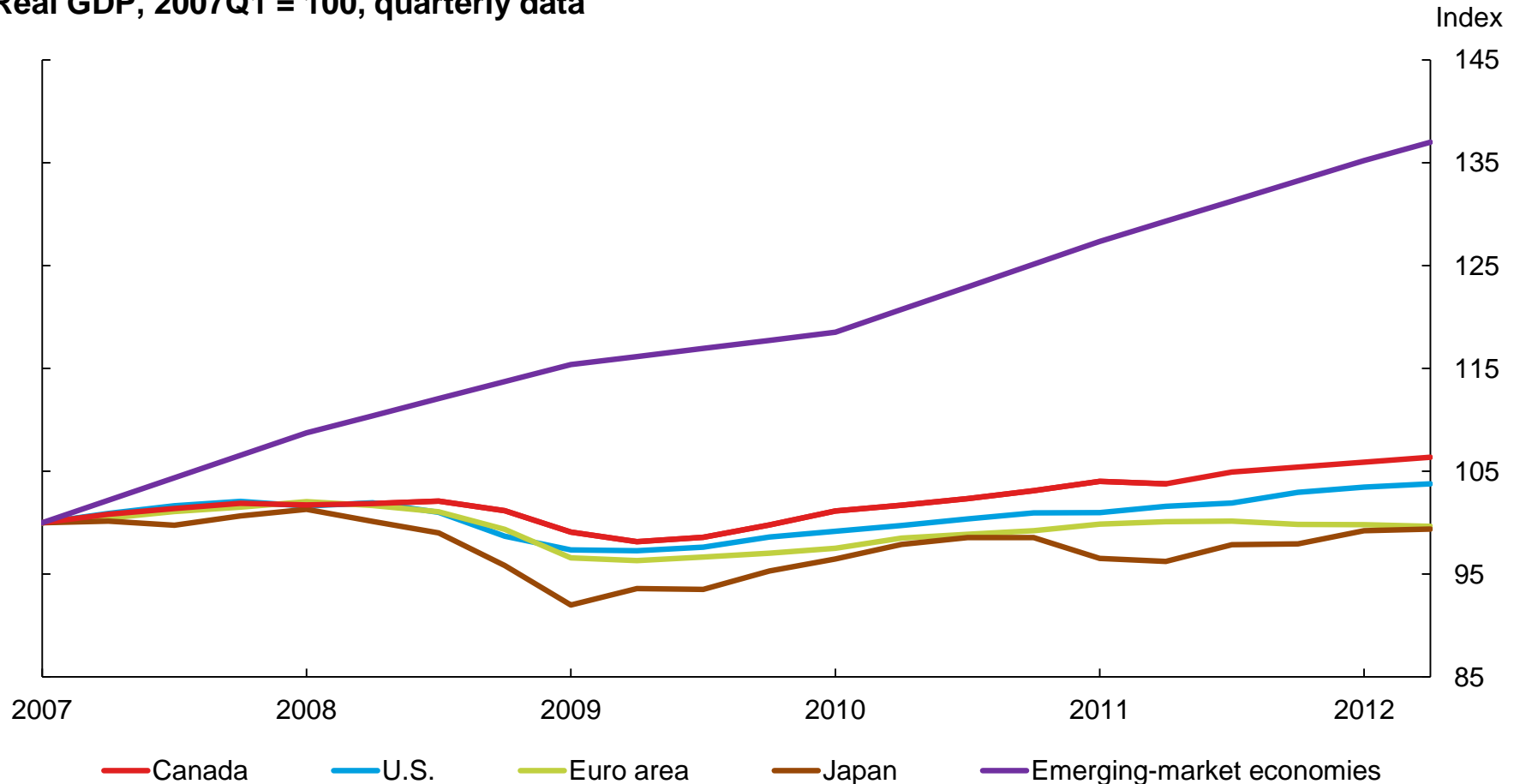
U.S. real GDP across economic cycles; start of recession = 100, quarterly data



Sources: U.S. Bureau of Economic Analysis, Organisation for Economic Co-operation and Development, and Bank of Canada projections

Emerging-market economies have become the engine of global economic growth

Real GDP, 2007Q1 = 100, quarterly data

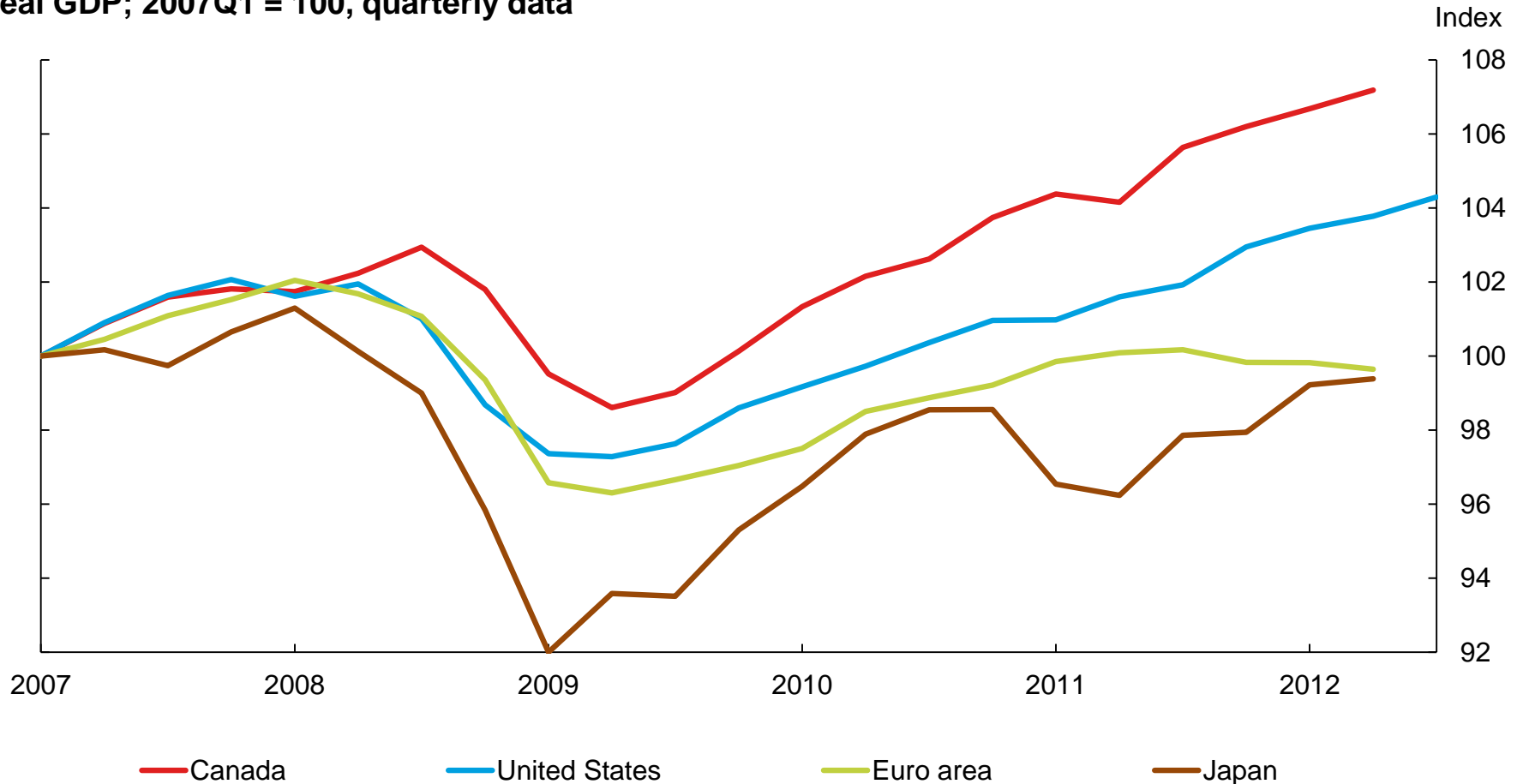


Sources: Statistics Canada, U.S. Bureau of Economic Analysis, Eurostat, Japan Statistics Bureau and International Monetary Fund

Last observation: 2012Q2

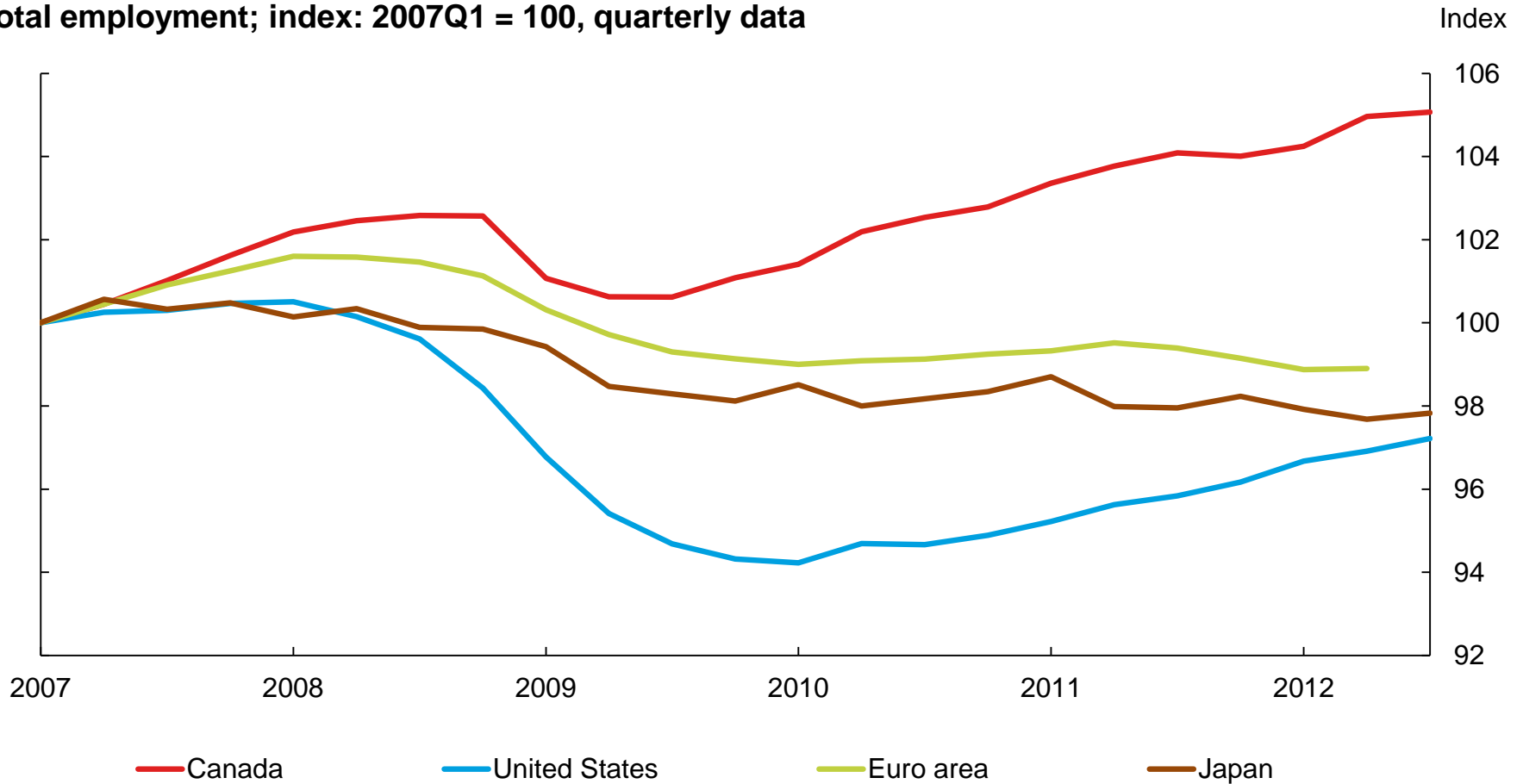
Canada: First G-7 country to recover pre-recession GDP

Real GDP; 2007Q1 = 100, quarterly data



Canada has more than recovered all jobs lost

Total employment; index: 2007Q1 = 100, quarterly data

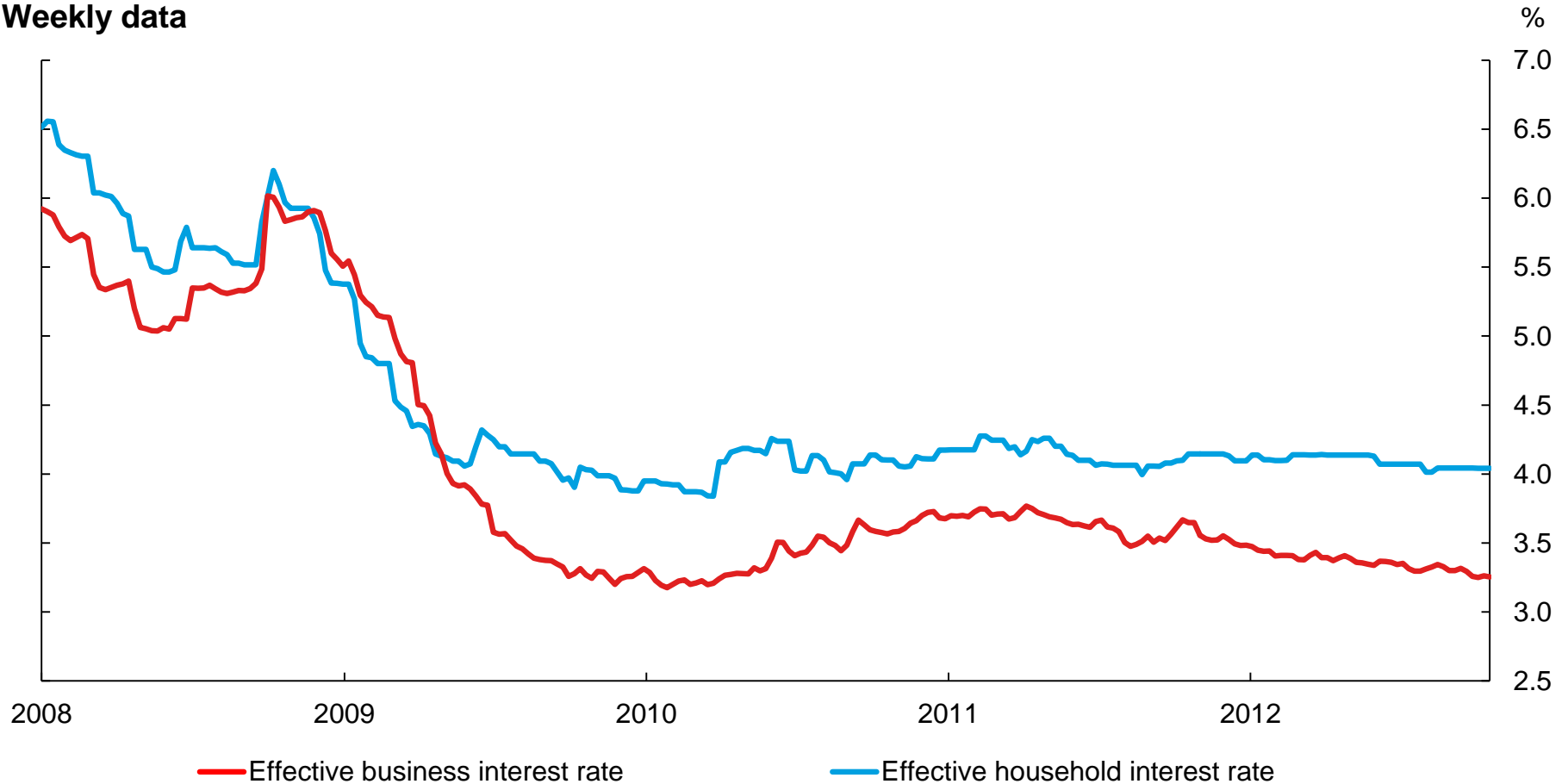


Sources: Statistics Canada, U.S. Bureau of Economic Analysis, Eurostat and Japan Statistics Bureau

Last observation: 2012Q2 and 2012Q3

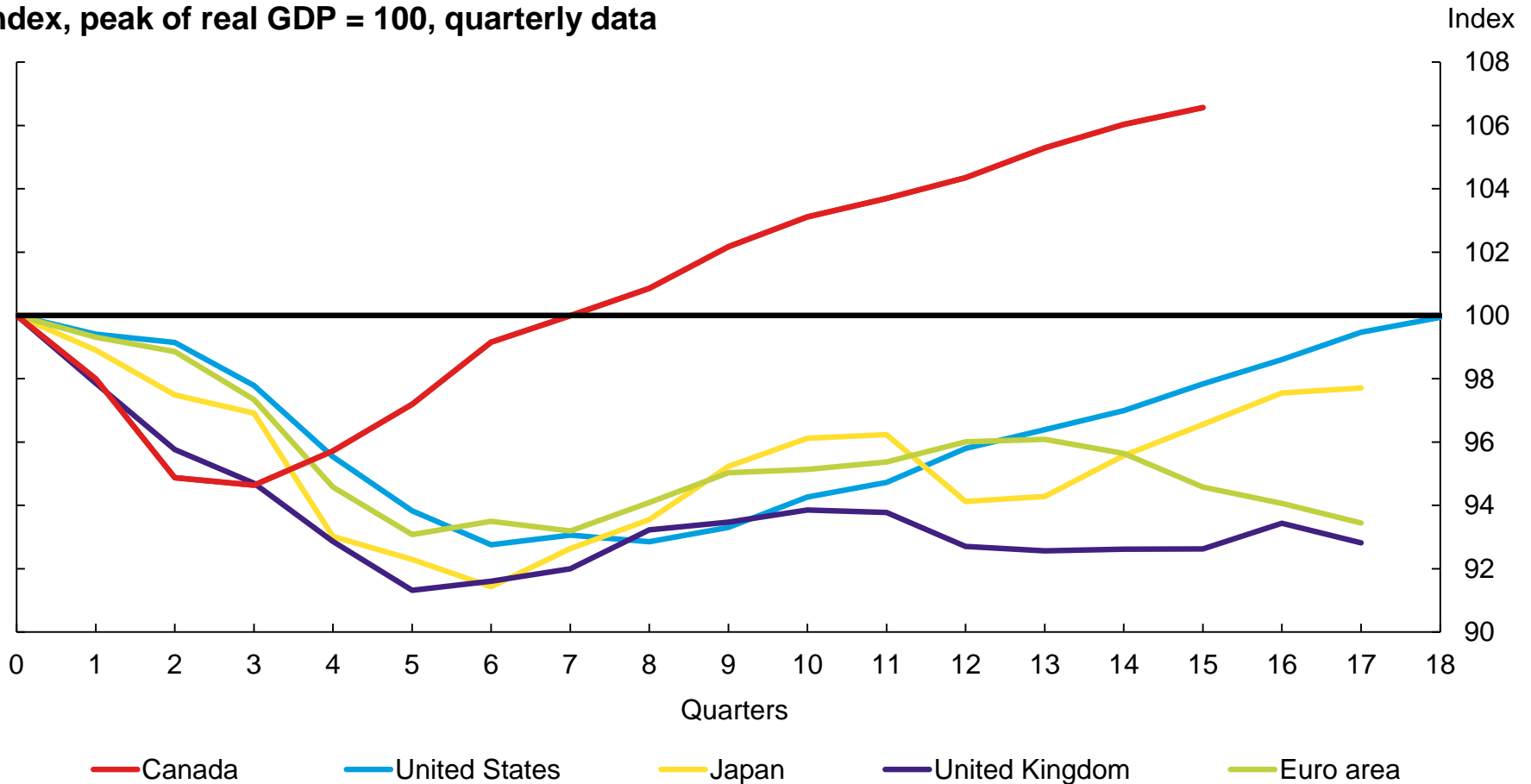
Borrowing costs for businesses and households remain at exceptionally low levels

Weekly data



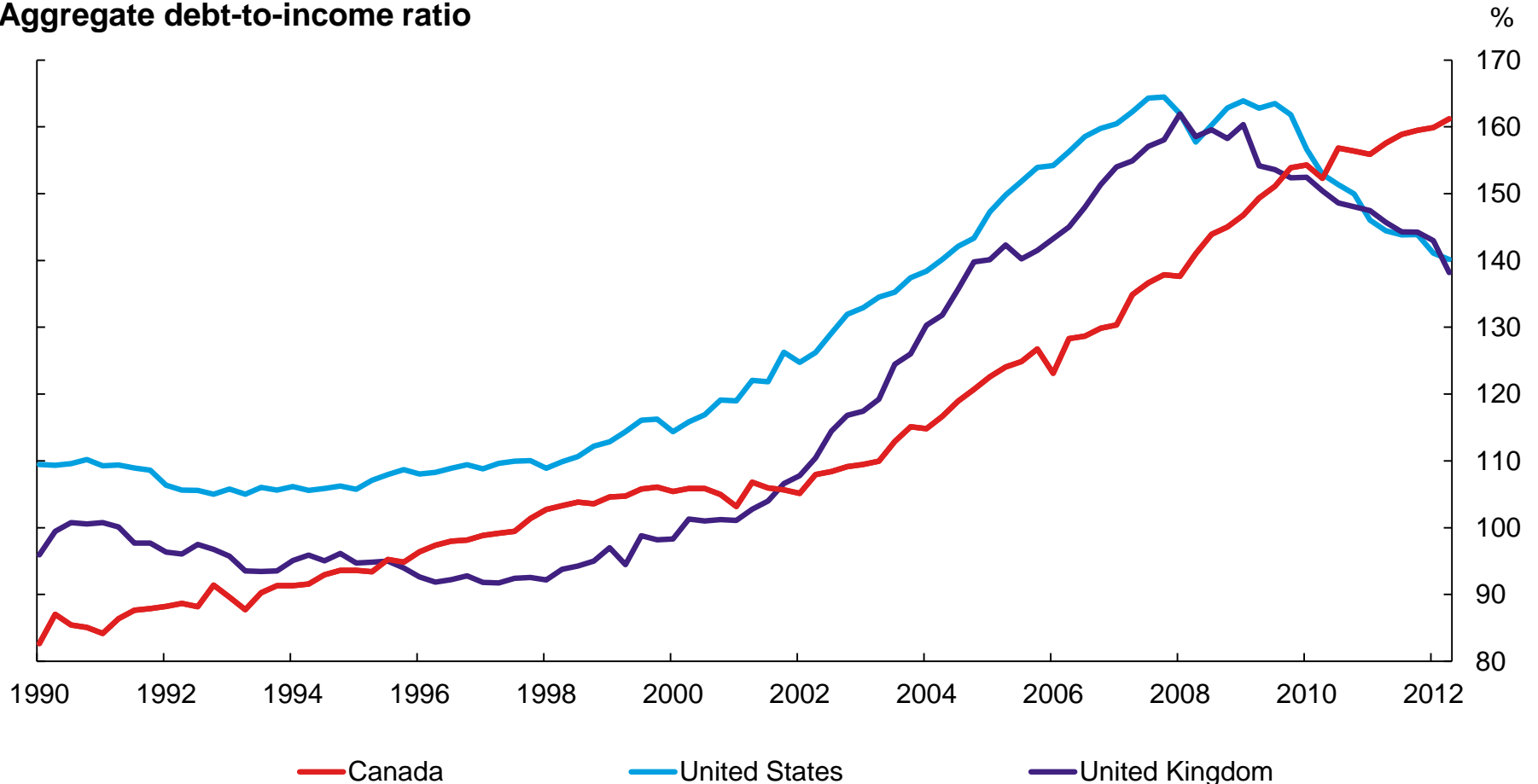
Economic growth in Canada has relied on domestic demand

Index, peak of real GDP = 100, quarterly data



Canadians now more indebted than Americans and British

Aggregate debt-to-income ratio



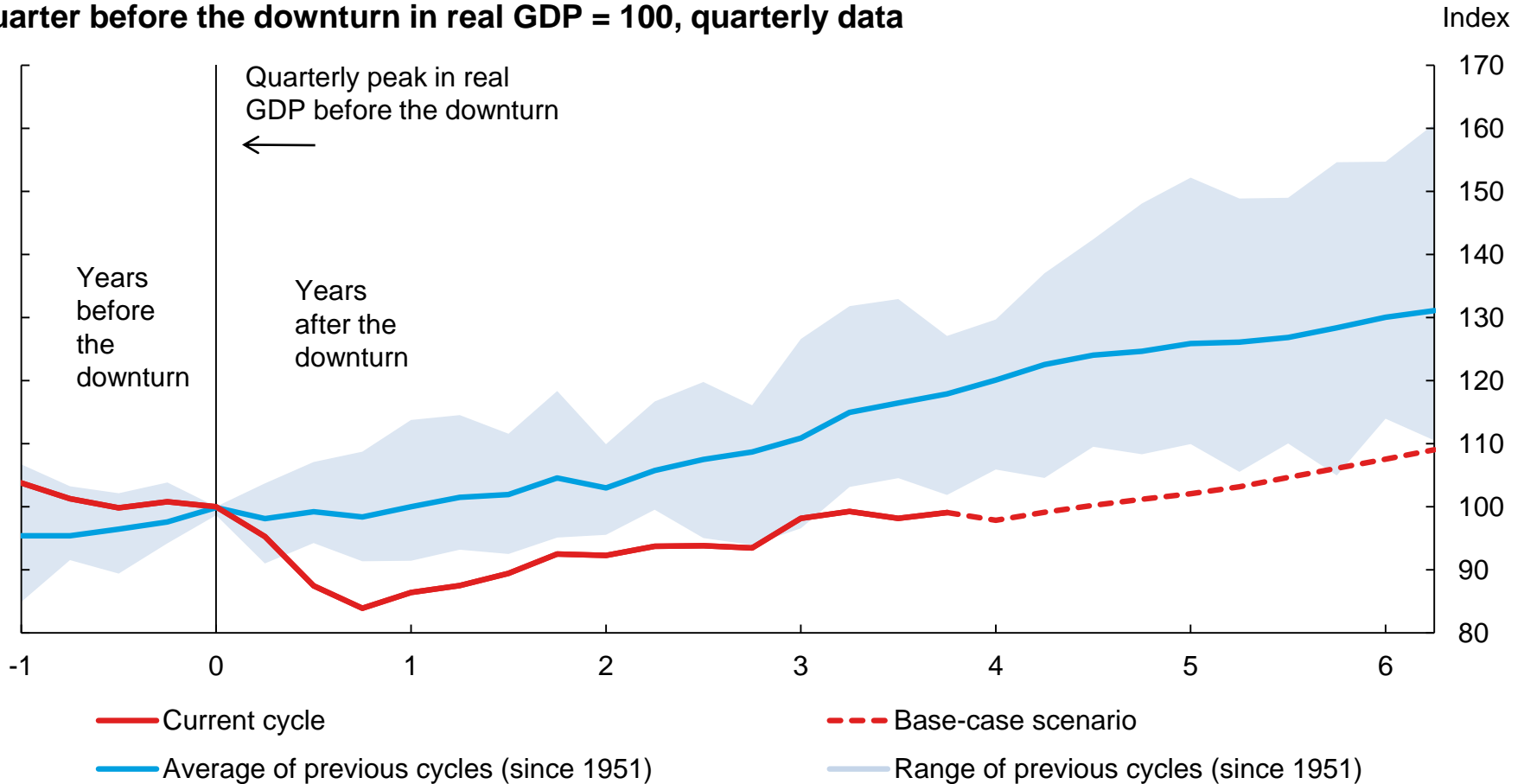
Note: Since 15 October 2012, Canadian data are based on the international standards of the 2008 System of National Accounts (SNA). As a result, they are not strictly comparable to U.S. data.

Sources: Statistics Canada, U.S. Federal Reserve and U.K. Office for National Statistics

Last observation: 2012Q2

Exports recovery expected to remain weak

**Comparison of real exports across economic cycles;
quarter before the downturn in real GDP = 100, quarterly data**



Sources: Statistics Canada and Bank of Canada calculations and projections

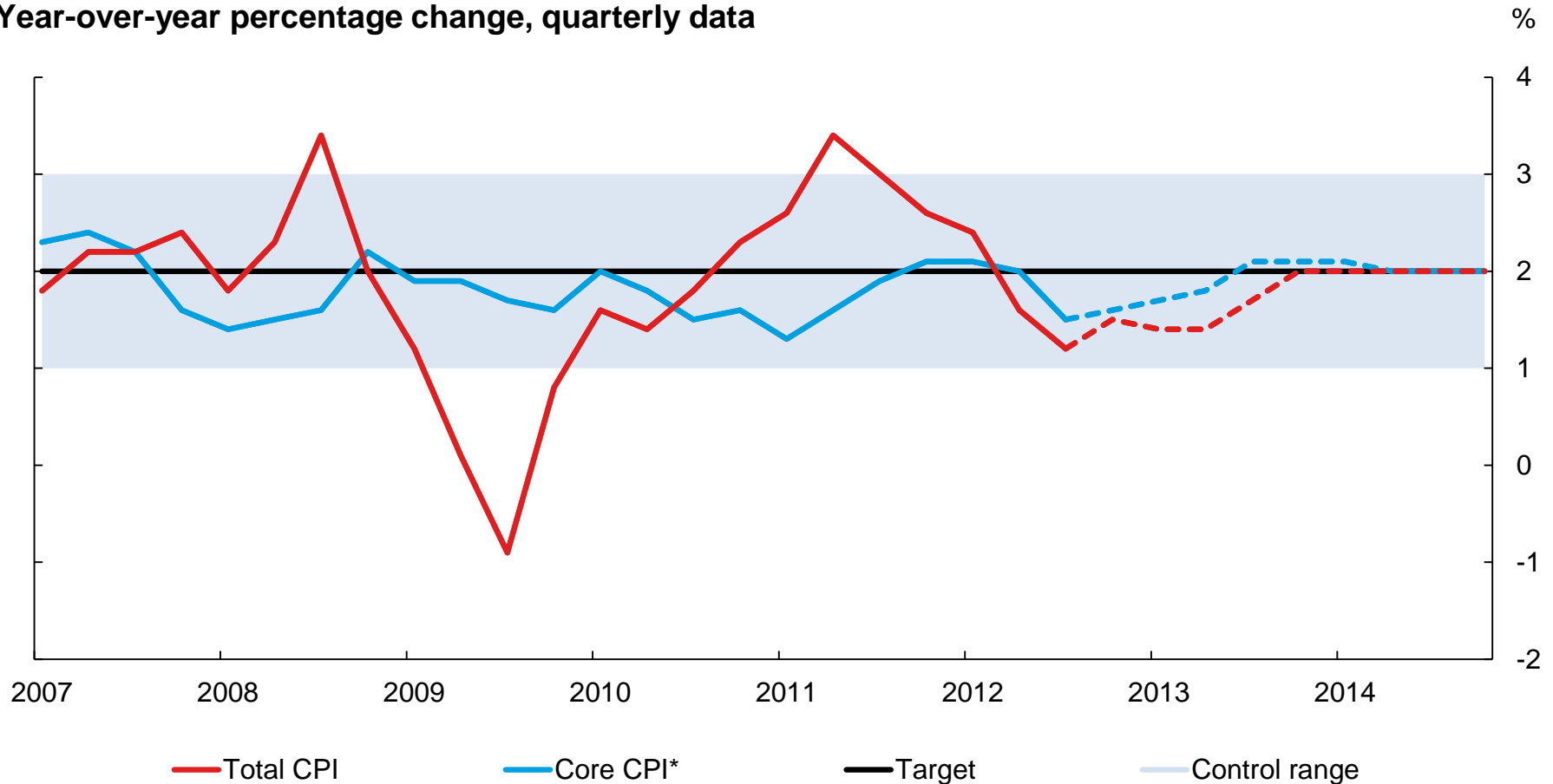
Projection for global economic growth (per cent)

	Average from 2002 to 2007	2011	2012	2013	2014
United States	2.6	1.8	2.1	2.3	3.2
Euro area	2.0	1.5	-0.5	0.4	1.0
Japan	1.6	-0.7	2.2	1.0	1.1
China	10.8	9.3	7.6	7.7	7.7
Rest of world	5.0	4.3	3.2	3.1	3.3
World	4.7	3.8	3.0	3.1	3.5
Canada	2.6	2.6	2.2	2.3	2.4

Source: Bank of Canada

Total CPI inflation to remain under 2 per cent until end of 2013

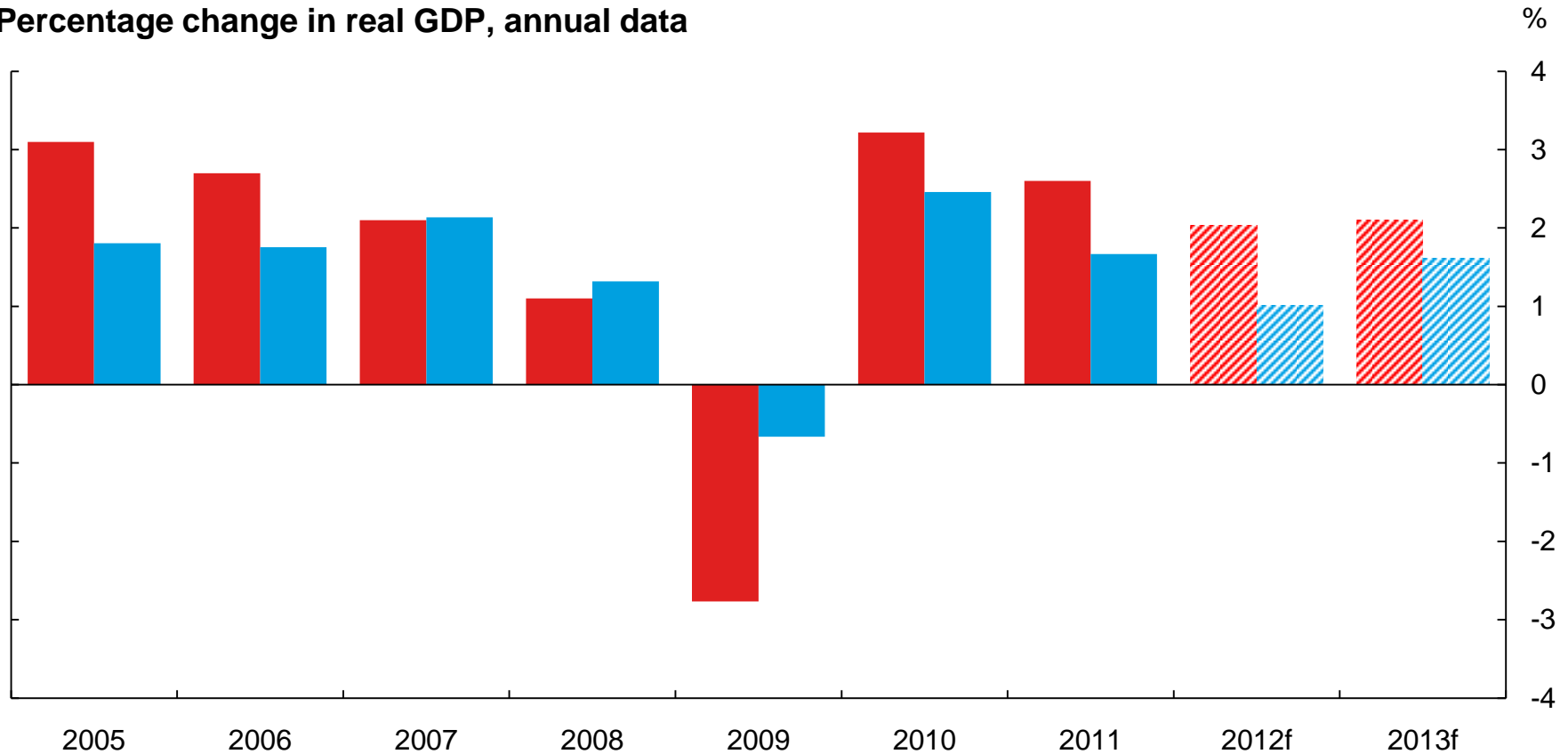
Year-over-year percentage change, quarterly data



*CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components
Sources: Statistics Canada and Bank of Canada calculations and projections

Private sector forecasters expect relatively modest growth in Québec

Percentage change in real GDP, annual data



Note: f = forecast

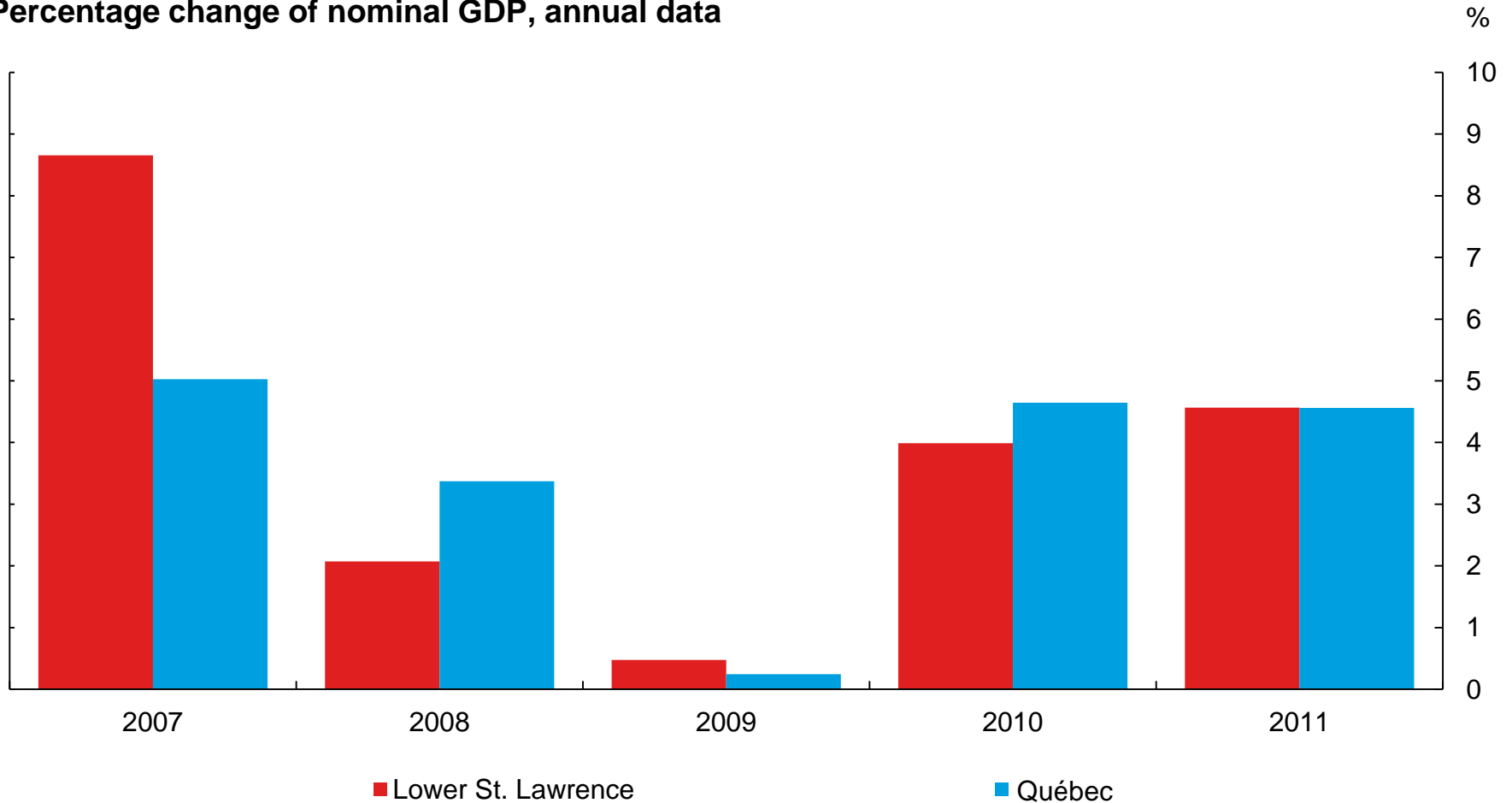
Sources: Statistics Canada and forecasts by financial institutions

■ Canada

■ Québec

Economic growth in the Lower St. Lawrence region progressed at a rate similar to that of the provincial average

Percentage change of nominal GDP, annual data



Thank you

