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Opening Statement by Stephen S. Poloz
Governor of the Bank of Canada
Press conference following the release of the *Monetary Policy Report*
17 July 2013
Ottawa, Ontario

Good morning. Tiff and I are pleased to be here with you today to discuss the July *Monetary Policy Report*, which the Bank published this morning.

- Global economic growth remains modest, although the pace of economic activity varies significantly across the major economies.
- The U.S. economic expansion is proceeding at a moderate pace. The continued strengthening in private demand is being partly offset by the impact of fiscal consolidation.
- In Japan, fiscal and monetary policy stimulus is contributing to a rapid recovery in economic growth.
- In contrast, economic activity in the euro area remains weak.
- In China and other emerging market economies, real GDP growth has slowed, although it is stronger than in the advanced economies. This is exerting downward pressure on global commodity prices.
- And, as a consequence, the Bank has downgraded slightly its global growth forecast.
- The global economy is still expected to pick up in 2014 and 2015.
- In Canada, economic growth is expected to be choppy in the near term, owing to unusual temporary factors. The overall outlook is little changed from the Bank's projection in April.
- Annual GDP growth is projected to average 1.8 per cent in 2013 and 2.7 per cent in both 2014 and 2015, supported by very accommodative financial conditions.
- Despite ongoing competitiveness challenges, exports are projected to gather momentum. This should boost confidence and lead to increasingly solid growth in business investment. The economy will also be supported by continued growth in consumer spending, while further modest declines in residential investment are expected.
- Growth in real GDP is projected to be sufficient to absorb the current material excess capacity in the economy, closing the output gap around mid-2015, as projected in April.

- Inflation has been low in recent months and is expected to remain subdued in the near term.
- The weakness in core inflation reflects persistent material excess capacity, heightened competitive pressures on retailers, relatively subdued wage increases, and some temporary sector-specific factors. Total CPI inflation has also been restrained by declining mortgage interest costs.
- As the economy gradually returns to full capacity and with inflation expectations well-anchored, both core and total CPI inflation are expected to return to 2 per cent around mid-2015.
- The outlook balances the many upside and downside risks to inflation. Three of the most important emanate from the external environment, and include the risks of stronger U.S. private demand, a failure to contain the crisis in Europe, and weaker growth in China and other emerging-market economies.
- The most important domestic source of risk to the Canadian economy remains the possibility of a disorderly unwinding of household sector imbalances.
- Against this backdrop, the Bank today decided to maintain the target for the overnight rate at 1 per cent.
- As long as there is significant slack in the Canadian economy, the inflation outlook remains muted, and imbalances in the household sector continue to evolve constructively, the considerable monetary policy stimulus currently in place will remain appropriate. Over time, as the normalization of these conditions unfolds, a gradual normalization of policy interest rates can also be expected, consistent with achieving the 2 per cent inflation target.

With that, Tiff and I would be pleased to take your questions.