BANK OF CANADA

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Bank of Canada Governor reviews economic developments and outlines proposed new arrangements for announcing interest rate changes

CALGARY, AB. – In a speech to the Calgary Chamber of Commerce today, Bank of Canada Governor Gordon Thiessen gave an update on the Bank's outlook for the Canadian economy. He also outlined plans to move to a system of pre-set dates for announcing changes in official interest rates as part of the Bank's ongoing efforts to improve the effectiveness of monetary policy.

Mr. Thiessen said that the Canadian economy has demonstrated exceptional strength, growing faster than anticipated—by about 5 ¼ per cent between mid-1999 and mid-2000—thanks to booming exports to the United States and robust spending by Canadian households and businesses. The Bank's latest projection for economic growth in 2000 (published in the August *Monetary Policy Report Update)* is now within a range of 4 ¼ to 4 ¾ per cent. This is somewhat higher than projected in the spring, even though the pace of expansion is still expected to moderate through the balance of the year.

The Governor pointed out that despite the stronger momentum of total demand, the *basic* trend of inflation has remained unexpectedly low. He did note, however, that surging energy prices have pushed the 12-month rate of increase in the total consumer price index to around 3 per cent.

While acknowledging that these higher energy prices are raising living costs for most Canadians, the Governor explained that "monetary policy can control only the future trend of inflation," and not the temporary ups and downs caused by volatility in energy and food prices. "If there was evidence that higher energy prices were beginning to feed into prices of other goods and services, or into expectations about the future trend of inflation, that would be different. But so far, this has not been the case," he said. The Bank's core measure of inflation, which provides a better fix on the underlying rate of inflation by removing the volatile energy and food components as well as the effects of changes in indirect taxes, has remained in the bottom half of the Bank's 1 to 3 per cent target range.

The Governor also noted that this somewhat lower-than-expected trend of inflation suggests that total demand "may not have been putting as much pressure on our economy's production capacity as we had thought at the beginning of the year" because capacity may be higher than had been assumed. Although the recent productivity gains are encouraging, "it is too early to tell if this is the beginning of a sustained improved performance on this front." Because of this, and because of the need to be forward-looking, the Bank must be careful not to "take risks with inflation." The

Governor reassured Canadians that the Bank remains fully committed to preserving a climate of low and stable inflation for “this is what fosters sustained solid economic growth and improved standards of living over time.”

In outlining the Bank’s plans to adopt pre-set dates for announcing interest rate changes, Mr. Thiessen said that these new procedures had several advantages over the current arrangements and should contribute to a more effective monetary policy.

In particular, the new arrangements “should reduce uncertainty in financial markets about the timing of policy actions” and “should improve market efficiency and liquidity.” In addition, they will “help to focus public attention more closely on economic trends *here in Canada*, and on the appropriate monetary policy response based on those critical trends.” The plan to issue a press release on each of the eight pre-set policy action dates, whether or not interest rates are adjusted, should help in this respect by providing “a more regular, frequent, and continuous account of [the Bank’s] views on the Canadian economy.”

Governor Thiessen said that he expected that, if the Bank did its job of keeping people well informed under the new system “economic analysts, market participants, and the public generally will be clearer about the factors that influence monetary policy and will be in a better position to anticipate the direction of policy.”

Details of this new approach will be issued on 19 September and posted on the Bank’s Web site, together with an invitation for comments from the public.