



BANK OF CANADA

FOR IMMEDIATE RELEASE
24 October 2001

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Bank of Canada Governor focuses on current and future economic challenges for Canada

MONCTON, NB—In a speech to the Greater Moncton Chamber of Commerce and the Conseil économique du Nouveau-Brunswick, Governor David Dodge said that the terrorist attacks in the United States, coming on top of a more pronounced-than-expected global economic slowdown, have heightened the uncertainty about the short-run economic outlook.

As we all strive to come to terms with this tragedy and its implications, it is understandable that our immediate preoccupation is with near-term issues, he said. Nonetheless, it is “critically important that we maintain a sense of perspective—that we step back and look past current developments, focusing also on the longer-term trends in our economy and its potential.”

Mr. Dodge noted that the remarkable progress made in the past decade in strengthening our economic foundations “should stand us in good stead, no matter what economic turbulence and near-term uncertainties we face.” And it gives us a firm basis for new initiatives to meet future challenges. Adopting new technologies, revamping management and work processes, upgrading skills, and ensuring that our financial system works well are the key factors highlighted by the Governor that would help Canadians become more efficient and productive over the longer term.

As for the near-term growth prospects for Canada, Mr. Dodge stressed that it is very difficult to assess the ongoing effects of the terrorist actions in the United States and the implications for consumer and business attitudes. When the direct effects of these actions and the immediate impact on confidence are taken into account, growth in Canada will likely be close to zero or slightly negative in the second half of 2001.

The Governor pointed out that “how quickly growth will resume will depend crucially on geopolitical developments and on how soon consumer and business confidence return to normal,” both of which are very difficult to predict. But, “once the uncertainty stemming from terrorist actions dissipates, healthy growth in output, investment, and employment will resume, given Canada’s sound economic fundamentals.”

However, Mr. Dodge noted that, even with a quick recovery in confidence, our economy would still be operating below potential by the end of 2002. And this means less pressure on capacity and inflation than was expected earlier. In light of this, yesterday, the Bank lowered its key policy interest rate by $\frac{3}{4}$ of a percentage point, bringing the cumulative reduction this year to a full 3 percentage points. This

action aims to further support economic growth in Canada and to keep inflation close to the 2 per cent target over the medium term.