



BANK OF CANADA

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Governor Credits Sound Economic Framework for Canada's Strong Performance

VANCOUVER – Canada's economy has shown remarkable strength over the last two years, despite a number of unfavourable developments that originated mainly from abroad, Bank of Canada Governor David Dodge said today in a speech at the University of British Columbia. The adoption of inflation targets, the restoration of fiscal health, and the restructuring initiatives taken by businesses were all positive steps taken in the 1990s that have allowed the economy to better handle economic problems now, he said.

“The economy has held up remarkably well when you consider that we have been hit with four major shocks during the past couple of years,” said the Governor. He cited the difficulties in the technology and telecommunications sectors, the broader global slowdown of 2001, the impact of last year's terrorist attacks in the United States, and the loss of investor confidence as a result of accounting and corporate governance issues.

“Canada's recent strong performance isn't just good luck. It is the result of having a solid policy framework, both in terms of inflation and fiscal control,” Mr. Dodge said. “We are now seeing a clear payback for the tremendous investment that Canadians made in opening this country to free trade, and in getting our macroeconomic framework right.”

With respect to the short-term economic outlook, the Governor underscored that “domestic demand in Canada remains stronger than expected, bolstered by the substantial amount of monetary stimulus still in the economy.” He noted, however, that “there are downside risks and uncertainties, mostly originating from outside Canada.”

Mr. Dodge concluded that the Bank's view is that the “underlying strength of the Canadian economy has not changed” over the summer. “Domestic demand may well be stronger; at the same time, the external uncertainties bearing on the outlook appear to be greater than they were in early July. ”