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Remarks by Mark Carney
Governor of the Bank of Canada
to a media conference on the
Monetary Policy Report
23 October 2008

CHECK AGAINST DELIVERY

Good morning and thank you for joining us. Before I discuss today's *Monetary Policy Report*, which reflects the Bank of Canada's latest thinking on the economy, I would like to say a few words about the global financial crisis. We realize that this has created a great deal of uncertainty and stress. We understand the severity of the situation, and we are taking action to address it. These problems originated outside of our borders, and the primary solutions to correct them must take place there as well. That is why we are working so closely with our international colleagues and why the G7 Plan of Action is so important. Many international banks need substantial additional capital, and efforts to provide this capital are now under way in earnest.

In Canada, our financial system is sound, and our financial institutions are already well capitalized. We are nonetheless affected by global developments. That is why the Bank of Canada has taken extraordinary measures to provide liquidity. This will aid the ongoing functioning of our financial system during this time of stress, and we will continue to provide additional liquidity for our financial institutions as long as conditions warrant.

It is important to remember that Canadian monetary policy remains firmly focused on the Bank of Canada's mandate to maintain low, stable, and predictable inflation. We know through long experience that this is the best way to promote the economic and financial well-being of Canadians.

Let me turn to today's *Monetary Policy Report*. In it, we note that three major interrelated global developments are having a profound impact on the Canadian economy and making the outlook for growth and inflation more uncertain than it was at the time of the July *Monetary Policy Report Update*. First, the intensification of the global financial crisis has led to severe strains in financial markets. The associated need for the global banking sector to continue to reduce leverage will restrain growth for some time. Second, the global economy appears to be heading into a mild recession, led by a U.S. economy already in recession. Third, there have been sharp declines in many commodity prices.

The Bank expects growth to be sluggish through the first quarter of next year, then to pick up over the rest of 2009 and to accelerate to above-potential growth in 2010 supported by improving credit conditions, the lagged effects of monetary policy actions, and stronger global growth. The recent sizable depreciation of the Canadian dollar will also provide an important offset to the effects of weaker global demand and lower commodity prices.

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With excess supply projected to build throughout 2009, and with lower assumed energy prices, inflationary pressures will ease significantly relative to the projection in the July *Update.* Core inflation is now projected to remain below 2 per cent until the end of 2010. Total CPI inflation should peak during the third quarter of 2008, fall below 1 per cent in mid-2009, and then return to the 2 per cent target by the end of 2010.

In light of diminished inflationary pressures, the Bank of Canada has acted decisively and lowered its policy interest rate by a total of 75 basis points over the past two weeks. These actions provide timely and significant support to the Canadian economy. The Bank's policy rate has been cut in half since the beginning of December 2007.

In line with the Bank's new outlook, some further monetary stimulus will likely be required to achieve the 2 per cent inflation target over the medium term. The evolution of the financial crisis, its impact on the global economy, and the timing of the effects of the various extraordinary measures being taken to address it pose significant risks to the inflation projection on both the upside and the downside.