BANK OF CANADA
BANQUE DU CANADA

Opening statement by Mark Carney
Governor of the Bank of Canada
to the House of Commons Standing Committee on Finance
28 April 2009

CHECK AGAINST DELIVERY

Good afternoon, Mr. Chairman and committee members. Paul and I are pleased to appear before this committee to discuss the Bank of Canada's views on the economy and our monetary policy stance. Before we take your questions, I would like to give you some of the highlights from our latest *Monetary Policy Report*, released last week.

- These are difficult economic times, with the Canadian economy being buffeted by an intense and synchronized global recession. In recent months, that global recession has been exacerbated by delays in implementing measures to restore financial stability around the world.

- G-20 policy-makers are now responding to the global crisis with a renewed commitment to concrete initiatives and comprehensive plans. Our base-case projection is that these policies will be implemented in an effective and timely manner, and their impact will reach full force next year. The discussions in Washington over the weekend were consistent with that outlook.

- As a result of the current global economic and financial situation, the Bank now projects that the Canadian recession will be deeper than we projected in January. Our return to growth will be delayed by one quarter to the end of 2009 and our recovery will be somewhat more gradual.

- The broad outlines of the Canadian outlook are the same, but its profile has shifted.

- Canada's real GDP is projected to decline by 3.0 per cent this year, and growth is expected to resume in the autumn and accelerate to 2.5 per cent in 2010, and 4.7 per cent in 2011.

- Our outlook for inflation is broadly consistent with that in our January Update. Total inflation will temporarily fall below zero in 2009, but core and total CPI inflation are expected to return to the Bank's 2 per cent inflation target in the third quarter of 2011.

- In that context, on Tuesday, the Bank lowered the policy interest rate by 1/4 of a percentage point to 1/4 per cent, which is judged to be the *effective lower bound* of the policy rate. Conditional on the outlook for inflation, the Bank has committed to holding this rate at 1/4 per cent until the end of June 2010.

- Since December 2007, we have cut interest rates by a total of 425 basis points to their historic lows and lowest possible levels. It is the Bank's judgment that this cumulative easing, together with the conditional commitment to keep rates low for a considerable period, is the appropriate policy stance to move the economy back to full production capacity and to achieve the 2 per cent inflation target.

- However, these are uncertain times, and if additional stimulus were to become necessary, the Bank retains considerable flexibility in the conduct of monetary policy at low interest rates.

- Because it is important to outline those alternatives in a principled and transparent fashion, we published a framework last week that describes the Bank's approach to the conduct of monetary policy when the overnight interest rate is at its *effective lower bound*. We welcome the opportunity to discuss with this committee the possible application of that framework to achieve the inflation target.

- Additional stimulus could be provided through *quantitative easing,* which involves the creation of central bank reserves to purchase financial assets and/or *credit easing,* which includes outright purchases of private sector assets.

- If the Bank were to deploy either quantitative easing or credit easing, it would act in a deliberate and principled fashion.

  – The **focus** of these operations would be to improve overall financial conditions in order to support aggregate demand and achieve the inflation target.

  – Asset purchases would be concentrated in maturity ranges in order to have the maximum **impact** on the economy.

  – Actions would be taken in as broad and **neutral** a manner as possible.

  – The Bank would act **prudently**, mitigating the risks to its balance sheet and managing its ultimate exit from such strategies at an appropriately measured pace.

- Allow me to conclude with a few words on the outlook for the Canadian economy.

- While there remains a high degree of uncertainty – particularly with the Canadian economy dependent on forces beyond our borders – we remain confident in the prospects of eventual economic recovery in Canada.

- This recovery should be supported by the following factors:

  – the gradual rebound in external demand;

  – the end of the stock adjustments in Canadian and U.S. residential housing;

  – the strength of Canadian household, business, and bank balance sheets;

- our relatively well-functioning financial system and the gradual improvement in financial conditions in Canada;
- the past depreciation of the Canadian dollar;
- stimulative fiscal policy measures;
- the timeliness and scale of the Bank’s monetary policy response.

With that, Mr. Chairman and committee members, Paul and I would now be pleased to answer your questions.