



BANK OF CANADA

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**Bank of Canada Governor comments on release of the *Monetary Policy Report***

Bank of Canada Governor Gordon Thiessen today commented on the release of the *Monetary Policy Report* for November 1998. The semi-annual report discusses current economic trends in the context of monetary policy.

Mr. Thiessen noted that global economic uncertainties had intensified during the past six months, particularly following Russia's decision in August to declare a debt moratorium. Many emerging market countries were faced with large capital outflows and widening interest rate spreads as investors looked for safe havens. More broadly, spreads between private sector and government bonds also increased, and market liquidity fell.

As a result of the economic and financial upheavals in the international area, estimates for global economic growth in 1998 and 1999 have been revised downwards. Nevertheless, said Mr. Thiessen, economic activity in the major industrial countries, particularly in North America and Europe, is still expected to be reasonably well sustained through to the end of 1999.

“We expect the Canadian economy to continue expanding over the next year on the basis of the projected sustained domestic demand in the United States and accommodative monetary conditions in Canada,” Mr. Thiessen said. However, the turbulent international developments have created a greater-than-usual uncertainty around the economic outlook, he added.

The Governor noted that financial stability is particularly important to household and business confidence. Thus, the extent to which growth in Canada's economy will take up slack over the next year will depend on how quickly international and domestic financial markets stabilize. “Preserving confidence among investors in Canadian financial markets will therefore be an important consideration for the Bank over the near term,” he said.

Mr. Thiessen reaffirmed that the fundamental focus of monetary policy over the medium term continues to be on keeping inflation within the target range. Inflation is expected to remain in the lower half of the Bank's target range of 1 to 3 per cent over the next year.

“Preserving low and stable inflation is how monetary policy can best contribute to improved overall economic performance over the long haul and indeed to the long-term maintenance of confidence in financial markets as well,” said Mr. Thiessen.