



BANK OF CANADA

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**Bank of Canada Governor Addresses Greater Victoria
Chamber of Commerce**

VICTORIA, BRITISH COLUMBIA -- Bank of Canada Governor Gordon Thiessen today reviewed the impact of turmoil in the global economy and international financial markets on Canada's economy and monetary policy. Mr. Thiessen's remarks came in a speech to the Greater Victoria Chamber of Commerce.

The Governor noted that the Canadian economy has been coping reasonably well with global uncertainty, lower world economic activity, and depressed world commodity prices.

"The important thing to remember," said Mr. Thiessen, "is that these days Canada is better positioned to ride out the storm. And we will feel much better if we can keep our eyes on the horizon -- for there are signs that the sky is clearing."

While economic forecasts remain more tentative than usual because of continuing global uncertainty, Mr. Thiessen said positive factors include a well-sustained expansion in most of the main industrial countries. The U.S. economy in particular will continue operating at relatively high levels even if it slows. He added that earlier concerns about a "credit crunch" have eased along with interest rates, and that there are grounds for "cautious optimism" about Japan's attempts to address its problems.

The sharp drop in commodity prices has meant lower incomes and wealth for Canadians, said Mr. Thiessen, and particularly for British Columbia, which produces and exports a larger share of key primary commodities than other provinces. He added that Canada's floating exchange rate has helped us adjust to the decline in commodity prices.

"Had we been on a fixed exchange rate, we would still have had to adjust. But the adjustment would have been more difficult, since it would have had to come mainly through downward pressure on output, employment, and wages," he said.

Mr. Thiessen acknowledged the concern that a weak currency can blunt incentives to improve productivity but added that this is more likely to be a problem if the weak currency is due to inflation.

“But such is not the case in Canada today. Inflation is low and stable, and the Bank of Canada is formally committed to keeping it that way,” Mr. Thiessen said, adding that a low-inflation environment is the most conducive to productivity growth over time.