BANK OF CANADA

23 September 1998

CONTACT: Laurette Bergeron
(613) 782-8782

FOR RELEASE AT:
1:20 p.m. Newfoundland daylight time
11:50 a.m. eastern daylight time

Bank of Canada Governor Addresses St. John's Board of Trade

ST. JOHN'S, NEWFOUNDLAND -- Bank of Canada Governor Gordon Thiessen today reviewed international economic and financial developments and their implications for Canada.

Mr. Thiessen's remarks came in a speech to the Board of Trade in St. John's, where the Bank of Canada's Board of Directors is meeting. The Board of Directors holds one of its regular meetings each year in a different part of the country. The Board consists of 12 appointed directors from across Canada, as well as the Governor, Senior Deputy Governor, and the Deputy Minister of Finance.

The Governor noted that for over a year now, volatility and uncertainty have been the main traits of the international environment in which Canada operates. These include the financial crisis in Asia and the reverberations in Russia and elsewhere.

At the same time, he said, "Economic activity in the United States has been very robust and is expected to remain healthy . . . . In Europe the situation is positive."

Despite the ongoing global uncertainty and pressures, Mr. Thiessen said, our economy is still in good shape. The improvement in our basic foundations -- a low inflation environment, a declining public debt-to-GDP ratio, and strong private sector investment -- puts us in a better position than before to withstand the present adversity.

The Governor said that this year the Canadian economy will not repeat the 4 per cent growth experienced through 1997. But it may still expand by 2 ½ to 3 per cent (fourth quarter over fourth quarter). The latest indicators suggest continued expansion in consumer spending and business investment, supported by higher employment and low medium- and long-term interest rates.

Mr. Thiessen said that several factors contributed to the downward pressure on our currency over the past year, including the marked decline in the prices of primary commodities that Canada exports and the global uncertainty that has led investors to shift into U.S. dollar assets in search of a safe haven.

He explained that the Bank Rate increase in late August was designed to bolster market confidence and to reverse a costly backup in medium- and long-term interest rates. Following the Bank Rate increase, the Canadian dollar recovered, and medium- and longer-term interest rates have declined.

He also reminded his audience that despite the attention on the Canadian dollar because of exceptional external developments, the fundamental focus of monetary policy remains keeping inflation low, inside a target range of 1 to 3 per cent.

“Low inflation is the best contribution the Bank of Canada can make towards improved overall economic performance over time. It also provides the best underpinning for a sound Canadian dollar in the long run.”