



**Opening Statement by Mark Carney  
Governor of the Bank of Canada**

CHECK AGAINST DELIVERY

**Standing Senate Committee on Banking, Trade  
and Commerce  
29 April 2010  
Ottawa, Ontario**

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

- Global economic growth has been somewhat stronger than projected, with momentum in emerging-market economies increasing noticeably and moderate recovery under way in most advanced economies. Global growth is now projected to average slightly above 4 per cent a year through 2012.
- In Canada, the economic recovery is proceeding somewhat more rapidly than expected in January. It is supported by continued fiscal and monetary stimulus, improved financial conditions, the rebound in global economic growth, more favourable terms of trade, and increased business and household confidence.
- This year should mark the turning point when the private sector takes over from the public sector as the primary source of growth. GDP is now projected to grow by 3.7 per cent in 2010 before slowing gradually to 3.1 per cent in 2011 and 1.9 per cent in 2012.
- This profile reflects stronger near-term global growth, very strong housing activity in Canada, and the Bank's assessment that policy stimulus resulted in more expenditures being brought forward in late 2009 and early 2010 than expected.
- At the same time, the persistent strength of the Canadian dollar, Canada's poor relative productivity performance, and the low absolute level of U.S. demand will continue to act as significant drags on economic activity in Canada.
- The Bank estimates that GDP in the first quarter of 2010 was about 1 per cent below its peak in the third quarter of 2008 and some 2 per cent below its potential. The economy is expected to return to full capacity in the second quarter of 2011, one quarter earlier than projected in January.

- The outlook for inflation reflects the combined influences of stronger domestic demand, slowing wage growth, and overall excess supply. Core inflation, which has been somewhat firmer than projected in January, is expected to ease slightly in the second quarter of 2010 as the effect of temporary factors dissipates, and to remain near 2 per cent throughout the rest of the projection period.
- Total CPI inflation is expected to be slightly higher than 2 per cent over the coming year, before returning to the target in the second half of 2011.
- Despite the firming of the global and Canadian recoveries, there are considerable risks around the Bank's outlook.
- There are two main upside risks to inflation. It is possible that the momentum in household expenditures and residential investment could be greater than currently expected. Internationally, a faster-than-expected global recovery could stimulate external demand for Canadian exports and improve the terms of trade.
- On the downside, the combination of the persistent strength of the Canadian dollar and Canada's poor relative productivity performance could exert a larger-than-expected drag on growth and put additional downward pressure on inflation.
- A second downside risk is that the global economic recovery could be more protracted than currently projected. In this regard, there is a risk that sovereign credit concerns could intensify, leading to higher borrowing costs and a more rapid tightening of fiscal policy in some countries. Either of these factors would restrain global private demand relative to the Bank's base-case projection.
- Over the medium term, global macroeconomic imbalances continue to pose significant risks to the outlook. While these imbalances narrowed during the recession, sustained improvement over the medium term will require fiscal consolidation in advanced countries, together with stronger domestic demand growth and real exchange rate adjustments in countries with large current account surpluses. In the absence of these measures, the cost to the global economy could be considerable.
- The G-20 framework is designed to help the global economy move in the right direction. This past weekend, the G-20 reaffirmed its commitment to this initiative.
- In Canada, in response to the sharp, synchronous global recession, the Bank lowered its target rate rapidly over the course of 2008 and early 2009 to its lowest possible level. In addition, in April 2009, the Bank committed to hold it at that level, conditional on the outlook for inflation.

- This unconventional policy provided considerable additional stimulus during a period of very weak economic conditions and major downside risks to the global and Canadian economies.
- With recent improvements in the economic outlook, the need for such extraordinary policy is now passing, and it is appropriate to begin to lessen the degree of monetary stimulus. That is why on Tuesday, 20 April 2010, the Bank removed its conditional commitment. This represents a tightening of monetary policy.
- Going forward, nothing is pre-ordained. The extent and timing of any additional withdrawal of monetary stimulus will depend on the outlook for economic activity and inflation, and will be consistent with achieving the 2 per cent inflation target.

With that, I would be pleased to take your questions.