

Bank of Canada: Promoting Canada's Economic and Financial Well-being



Remarks to the Lethbridge
Chamber of Commerce
Lethbridge, Alberta
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Deputy Governor
Bank of Canada

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Mandate



Mandate

The Bank of Canada's mandate is to contribute to the economic well-being of Canadians

We do this by:

- aiming to keep inflation low, stable, and predictable
- promoting a stable and efficient financial system
- supplying secure, quality bank notes
- providing banking services to the federal government and key financial system players

The Bank's approach

In each of these four core areas, we follow the same consistent approach:

- a clear objective
- accountability and transparency
- a longer-term perspective

Key responsibilities: monetary policy

Our objective: to foster confidence in the value of money by keeping inflation at or near the 2 per cent inflation target

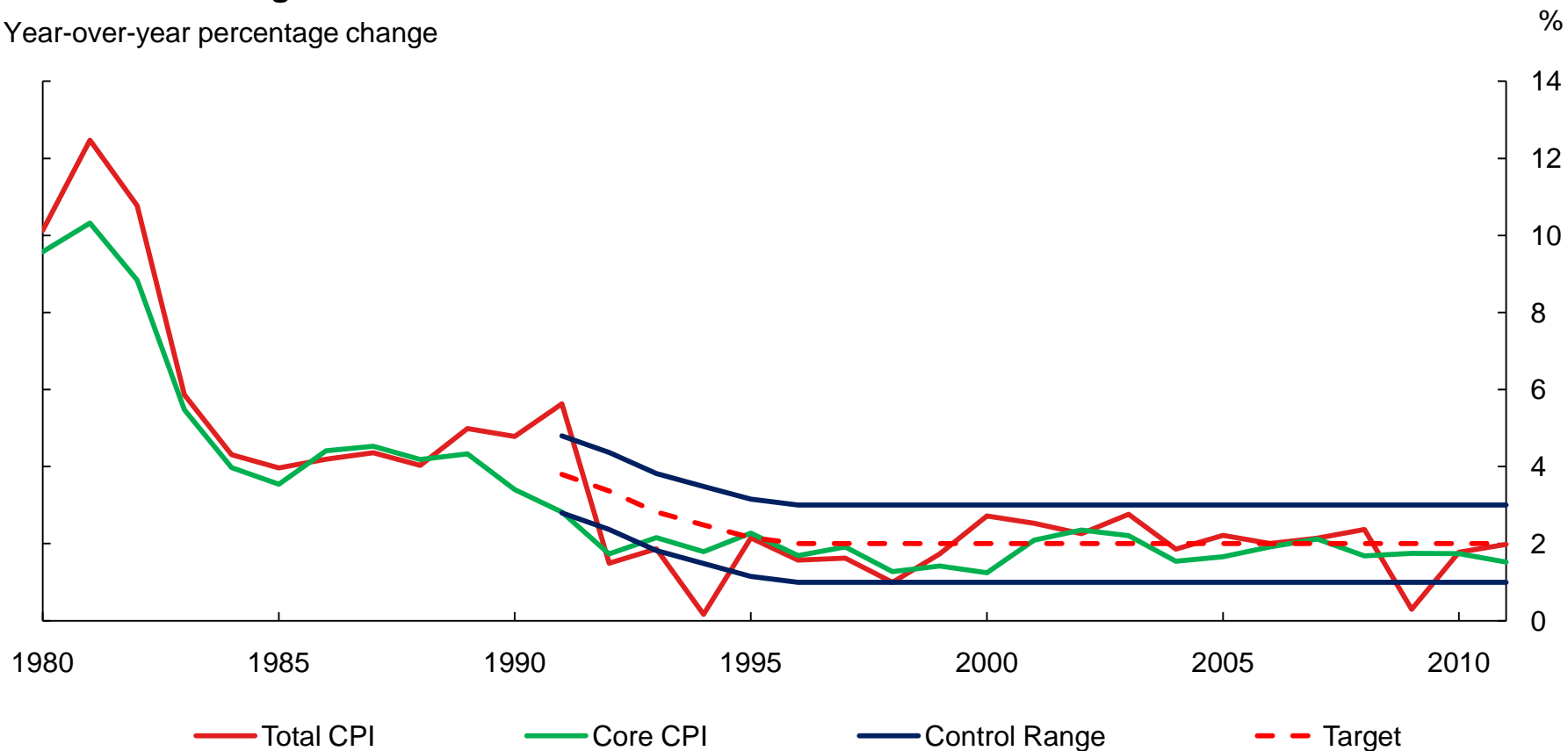
This is important because:

- it allows consumers, businesses, and investors to read price signals clearly, and to make financial decisions with confidence
- it reduces the inequity associated with arbitrary redistributions of income caused by unexpected changes in inflation
- it also makes the economy more resilient to shocks and enhances the effectiveness of monetary policy

Monetary policy: low and stable inflation

CPI annual averages

Year-over-year percentage change



Source: Statistics Canada

Key responsibilities: financial system

Our objective: To promote the stability and efficiency of the financial system, in Canada and globally

Canada's financial system consists of:

- financial institutions, such as banks, caisses populaires, insurance companies
- financial markets, including securities and foreign exchange markets
- clearing and settlement arrangements

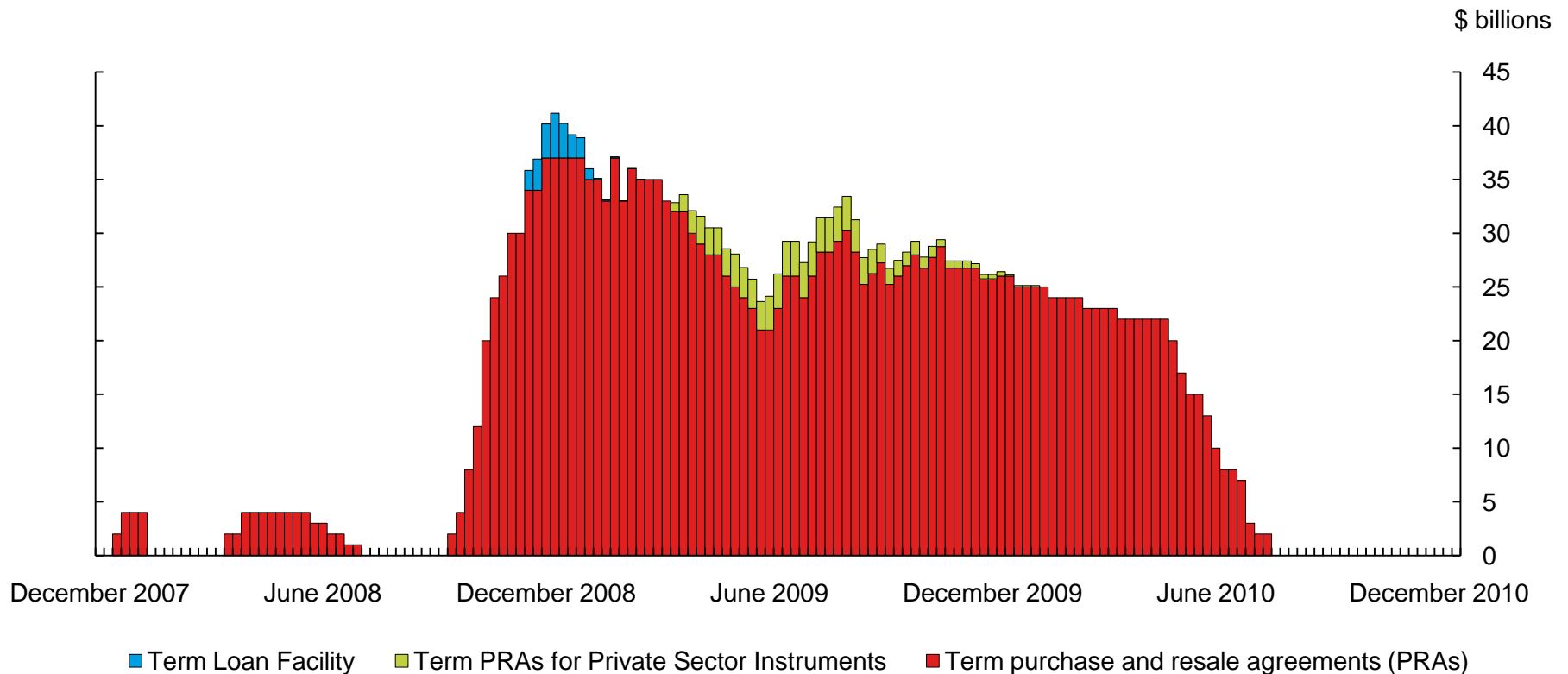
Ensuring a stable and efficient financial system

The Bank promotes the stability and efficiency of the Canadian financial system by:

- providing liquidity
- overseeing key domestic payment, clearing and settlement systems
- participating in the development of financial system policies in Canada and globally
- assessing risks to the overall stability of the financial system

Extraordinary liquidity support in response to the crisis

Weekly par value outstanding at Bank of Canada liquidity facilities



Source: Bank of Canada

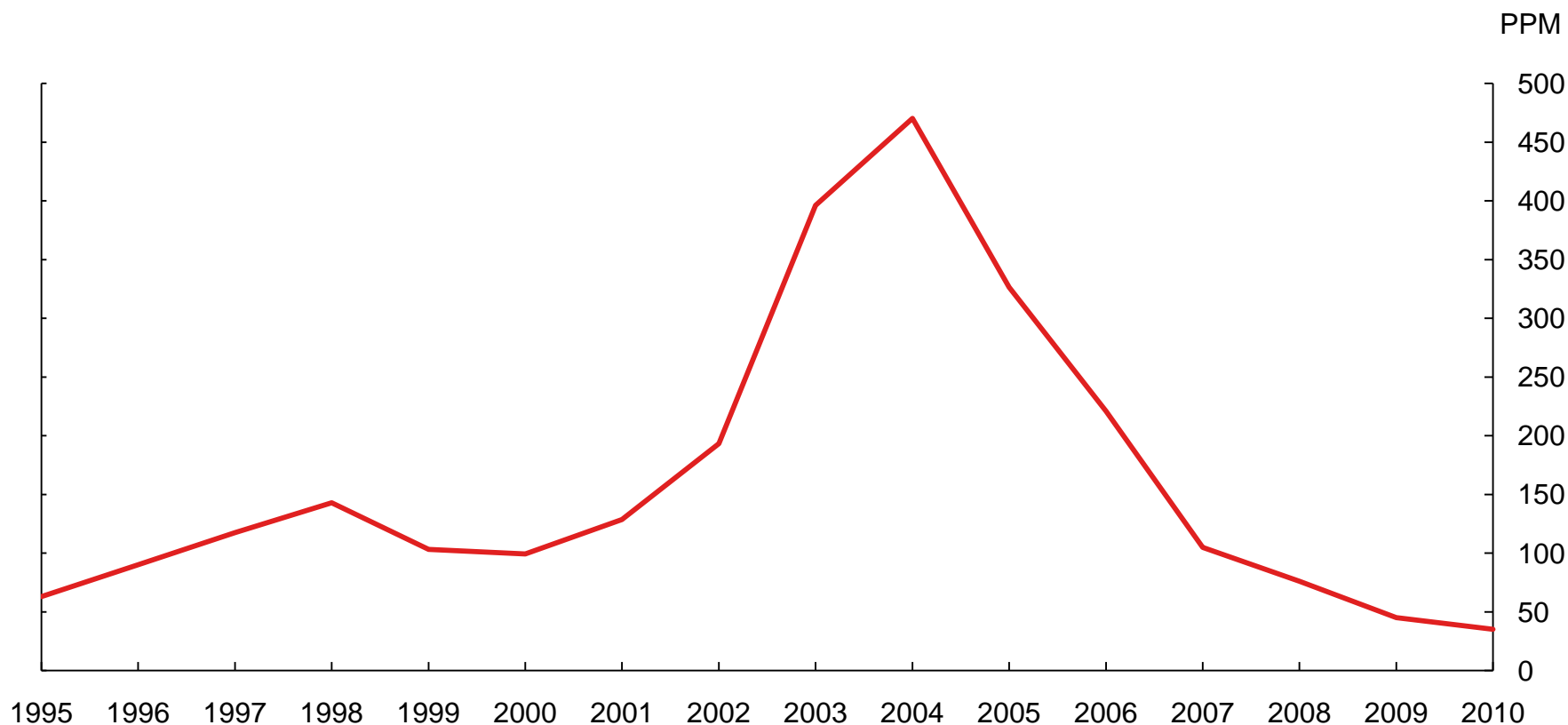
Last observation: 3 February 2011

Key responsibilities: currency

- Bank notes are one of the central bank's most tangible products
- The Bank of Canada is responsible for ensuring that notes are readily accepted and secure from counterfeiting
- Our anti-counterfeiting goal: fewer than 50 counterfeits detected annually per million notes in circulation

Secure, quality bank notes

Counterfeit Canadian bank notes detected for each one million of notes outstanding



Source: Bank of Canada.

Last observation: 2010

New series of bank notes

- 20 June launched new series of bank notes—*Frontiers*
 - November 2011—new \$100
 - March 2012—new \$50
 - Other denominations by end of 2013

- Polymer notes with sophisticated security elements including transparency and holography

- Smaller environmental footprint: bills will last 2.5 times longer than cotton-based paper and can be recycled

Transparent, holographic polymer bank notes



Key responsibilities: funds management

Our objective: To provide effective banking services to the federal government and key financial system players. This involves:

- managing Canada's foreign exchange reserves and federal government's cash balance
- managing the public debt in collaboration with the Department of Finance
- administering the Canada Savings Bonds program
- providing the means of final settlement of daily flows of payment among financial institutions

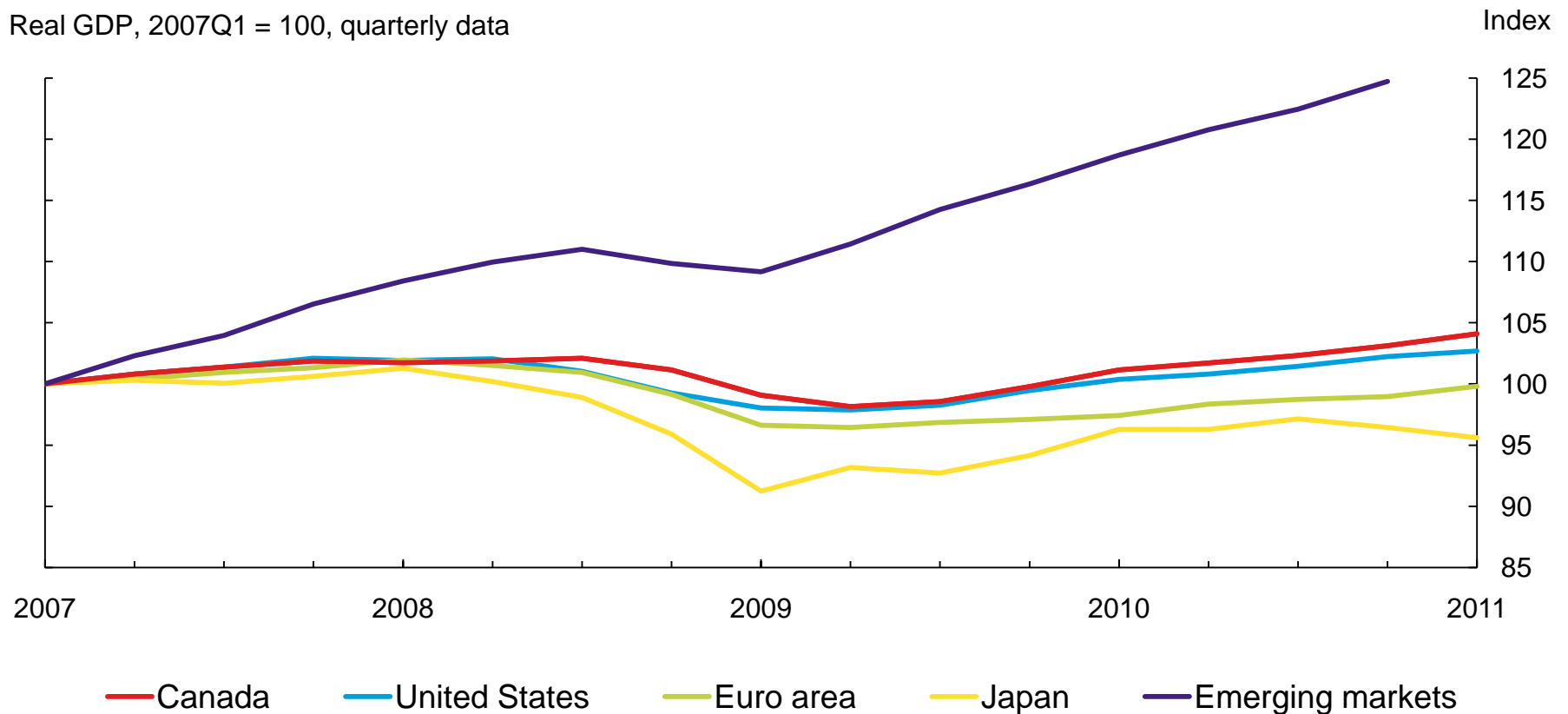
Economic Outlook



Global outlook

Emerging-market economies continue to drive global economic growth

Real GDP, 2007Q1 = 100, quarterly data



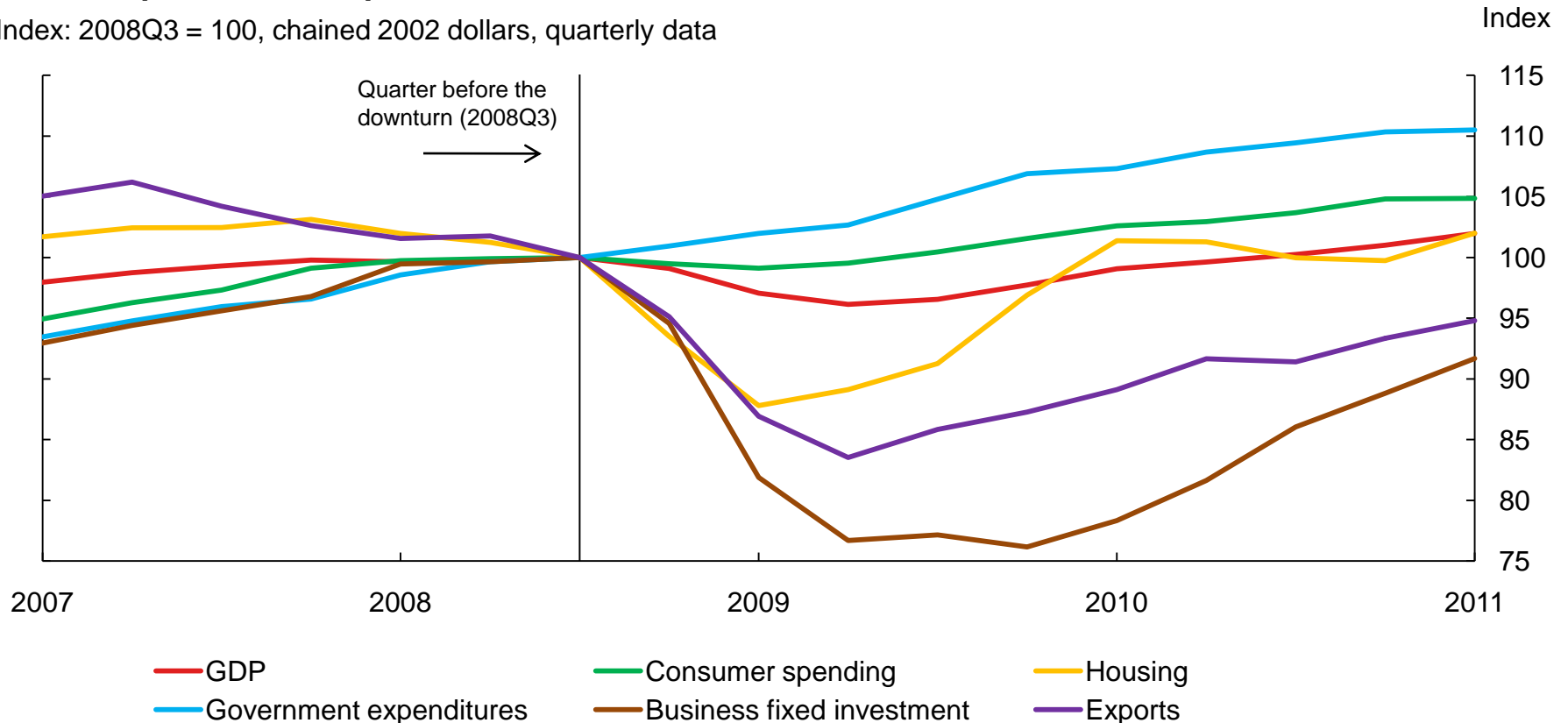
Canadian economic activity continues to expand

- Aggregate demand is shifting from government and household expenditures toward business investment and net exports
- Growth in Canada is expected to slow in the short term due to a number of temporary factors
- The Bank expects a re-acceleration of growth in the second half of the year, consistent with a renewed narrowing of the output gap
- Economy expected to return to capacity and inflation to 2 per cent by middle of 2012

Canada's outlook

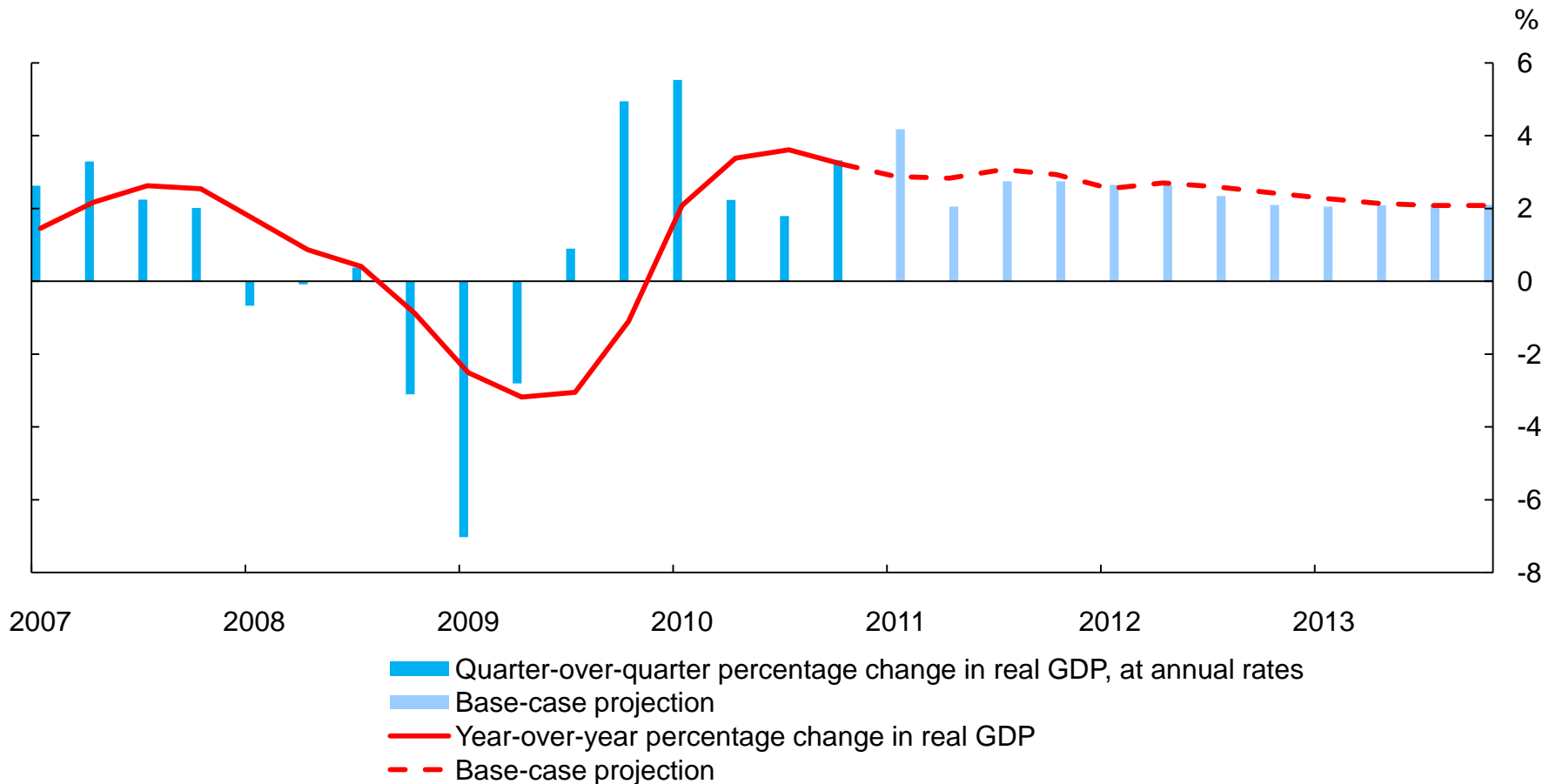
Despite rapid growth in recent quarters, business investment remains well below its pre-recession peak

Index: 2008Q3 = 100, chained 2002 dollars, quarterly data



Sources: Statistics Canada and Bank of Canada calculations

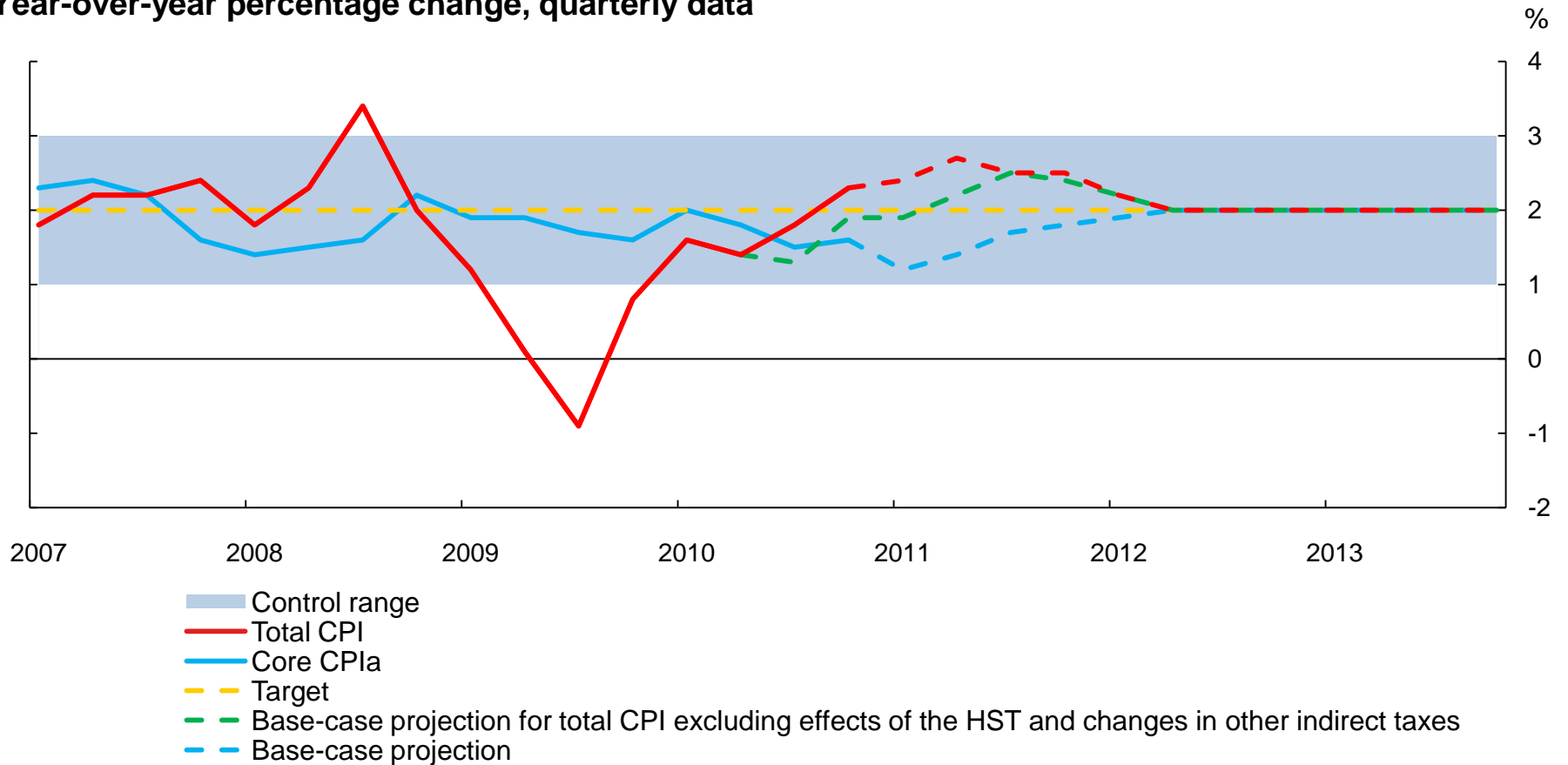
Growth expected to slow and then re-accelerate



Sources: Statistics Canada and Bank of Canada projections

Inflation

Year-over-year percentage change, quarterly data



a. CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components

Sources: Statistics Canada and Bank of Canada calculations and projections

Economic outlook: Alberta

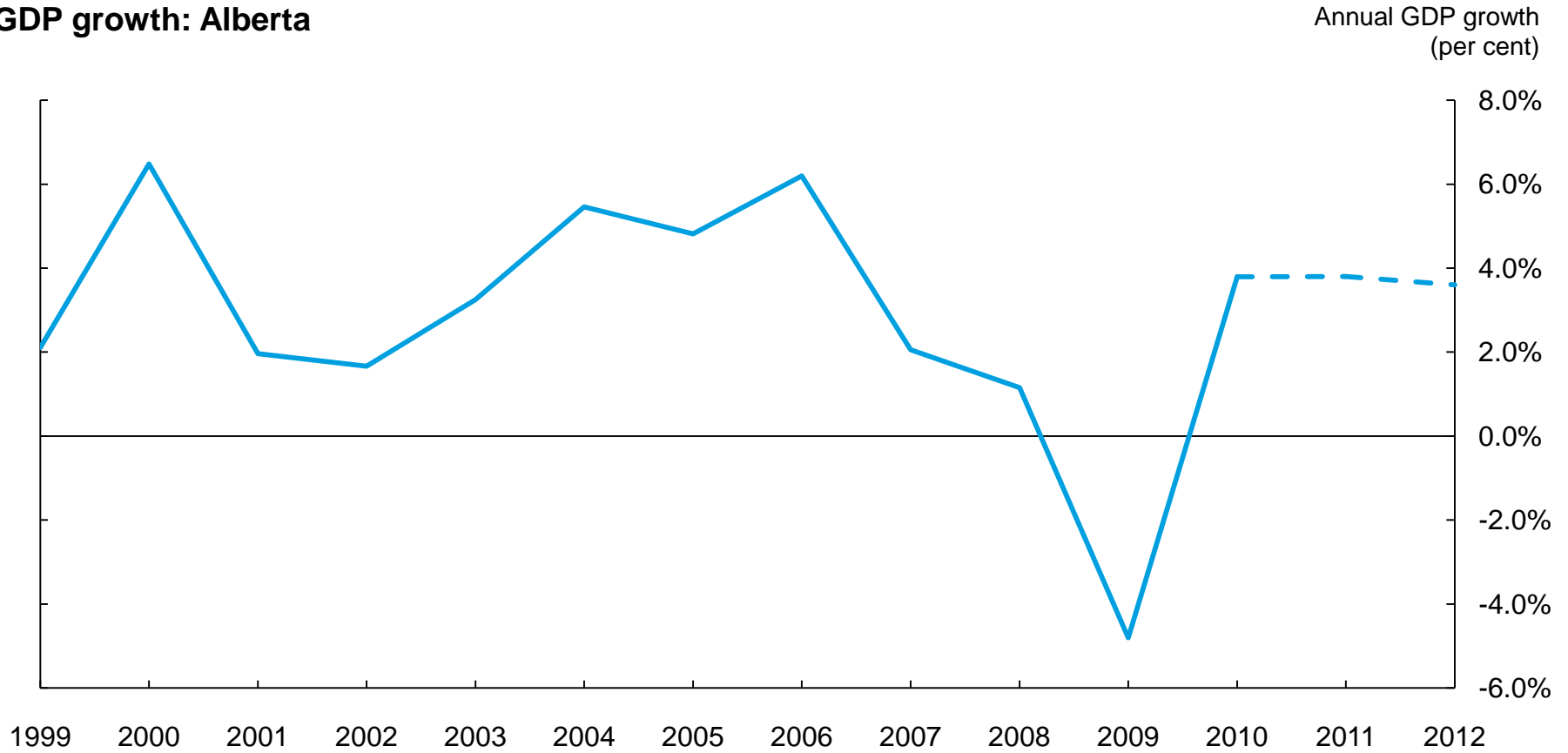
- Private sector forecasts strong growth of 3.8 per cent in 2011
- Employment grew by 2.8 per cent over the past year, the fastest growth in the country. Unemployment has fallen to 5.4 per cent
- Healthy income growth is supporting gains in retail sales
- Activity in the oil sands and extraction of unconventional oil resources (Cardium and Viking plays) is accelerating and attracting higher investment

Economic outlook: Alberta

- Natural gas sector remains challenged by persistently low prices; only minimal replacement investment
- Strong gains in manufacturing sector largely due to oil sands demand for machinery and fabricated metals
- Cattle prices remain high as feed costs continue to rise and North American herd sizes shrink

GDP growth in Alberta

GDP growth: Alberta



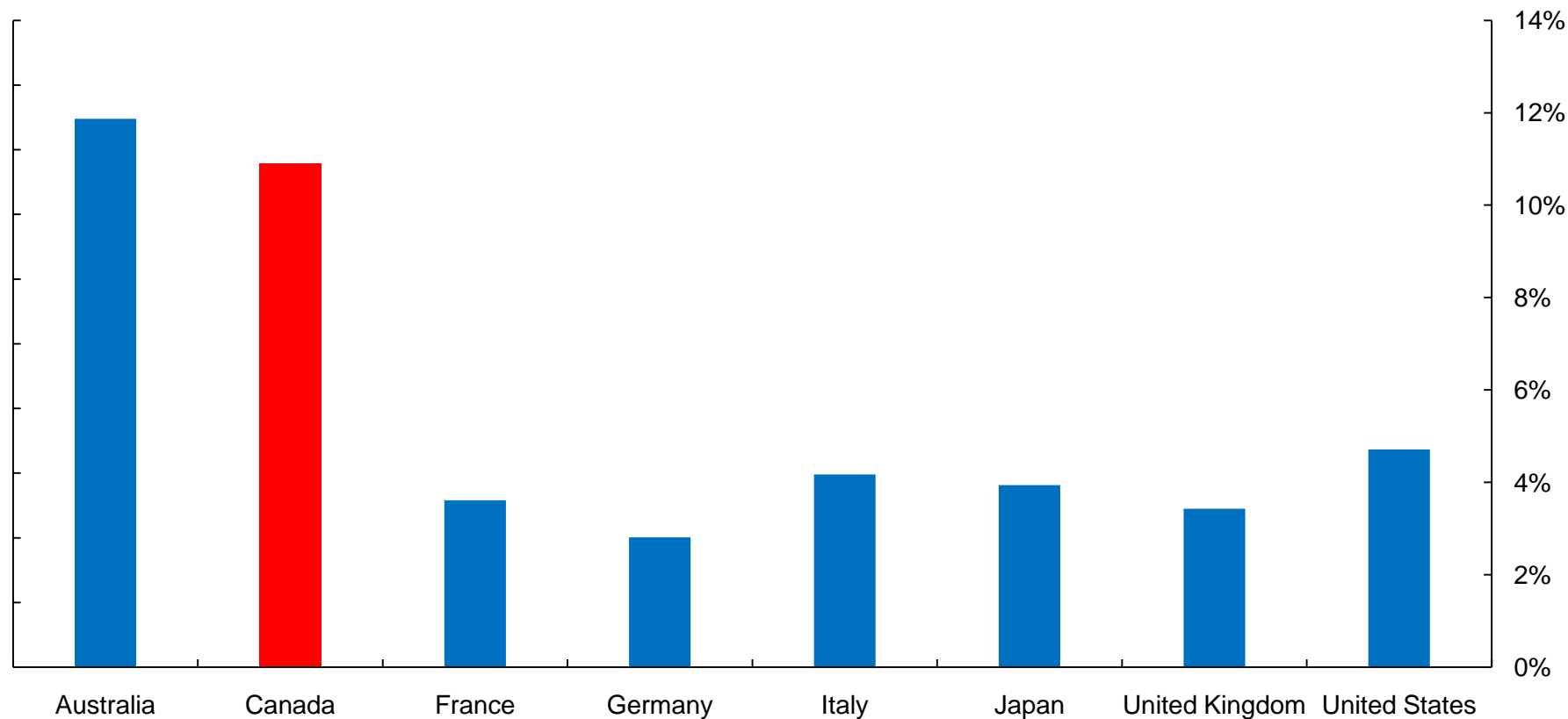
Sources: Statistics Canada and mean of private sector

Canada and Commodities



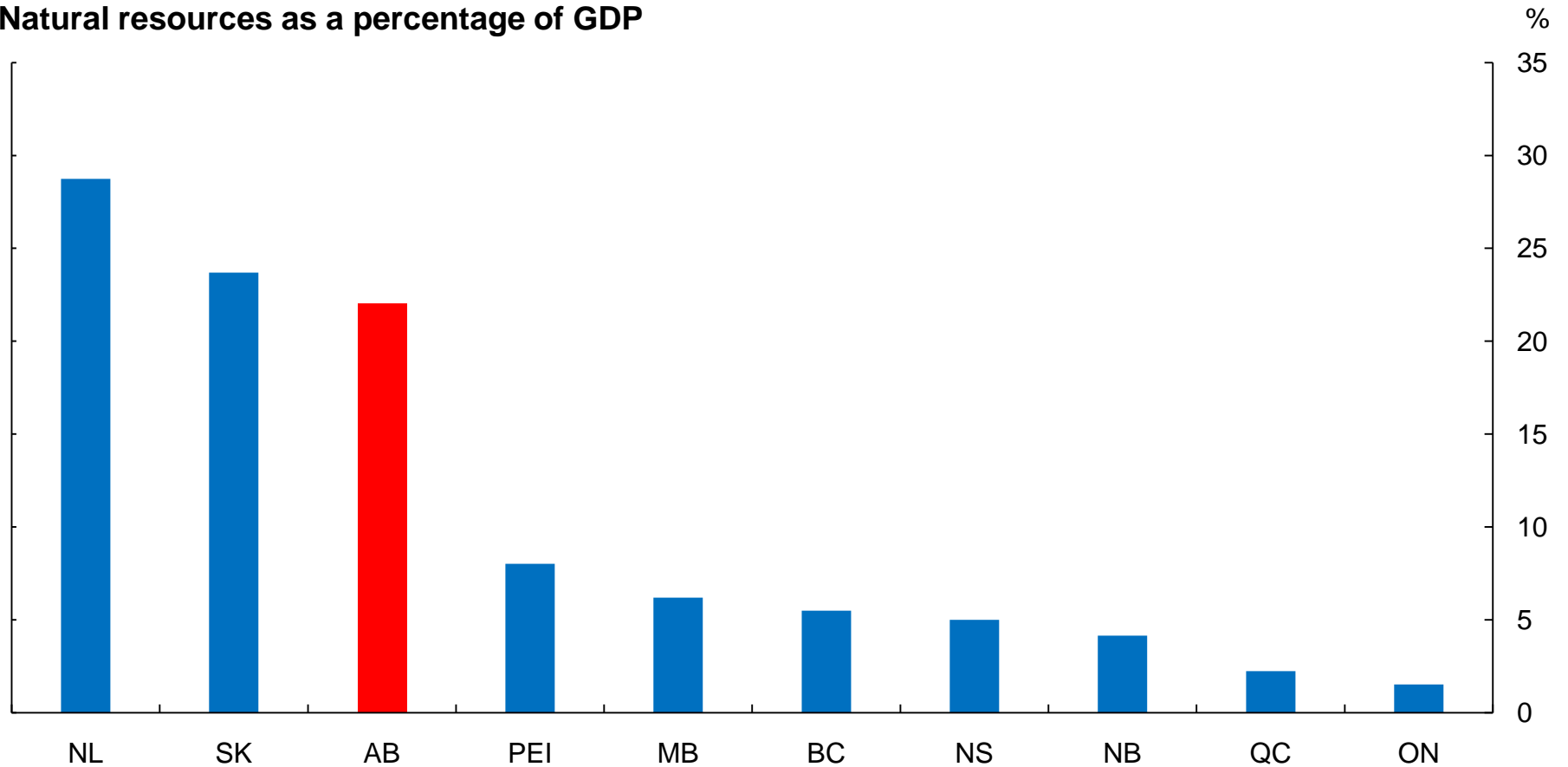
Canada: a major producer and exporter of commodities

Natural resources as a percentage of GDP



Importance of primary industries to Alberta

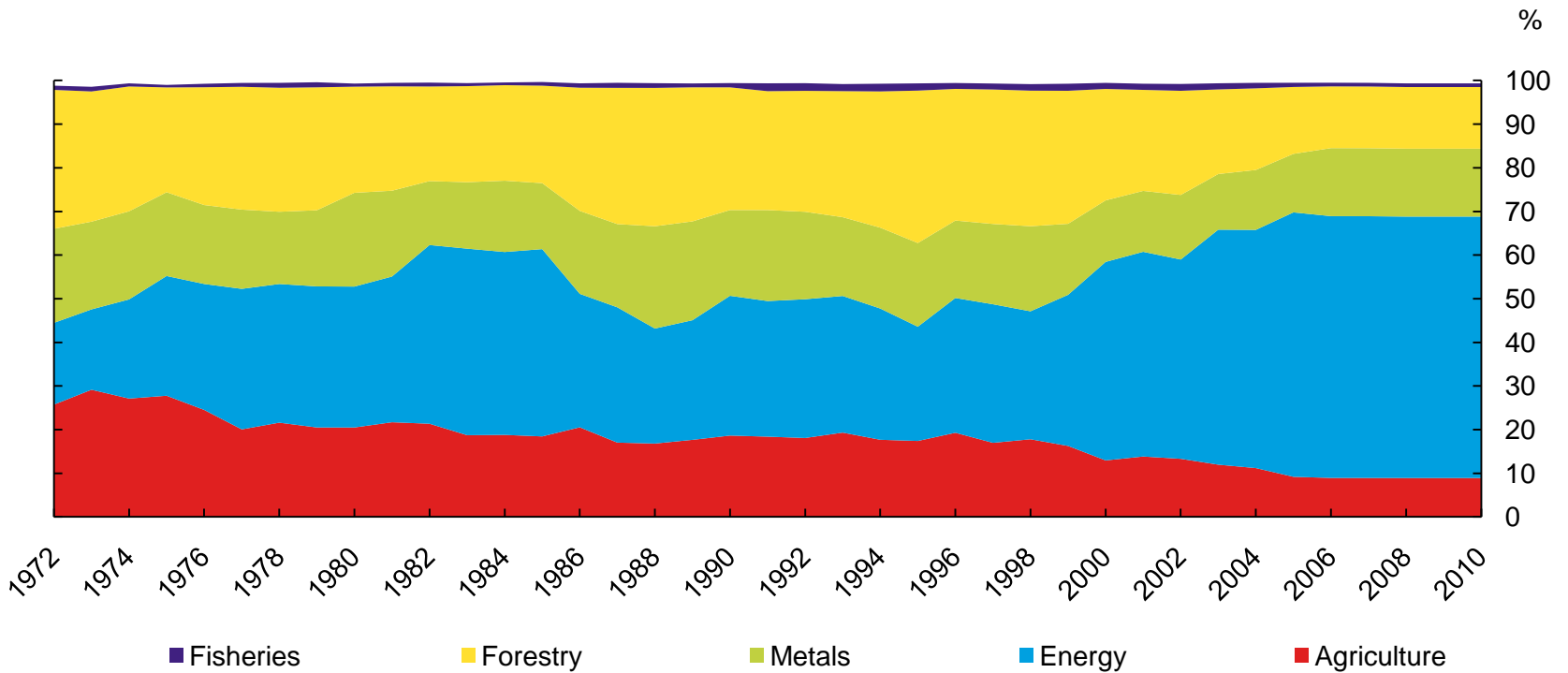
Natural resources as a percentage of GDP



Source: Statistics Canada

Last observation: 2010

From food to energy: shifts in Canadian commodity production



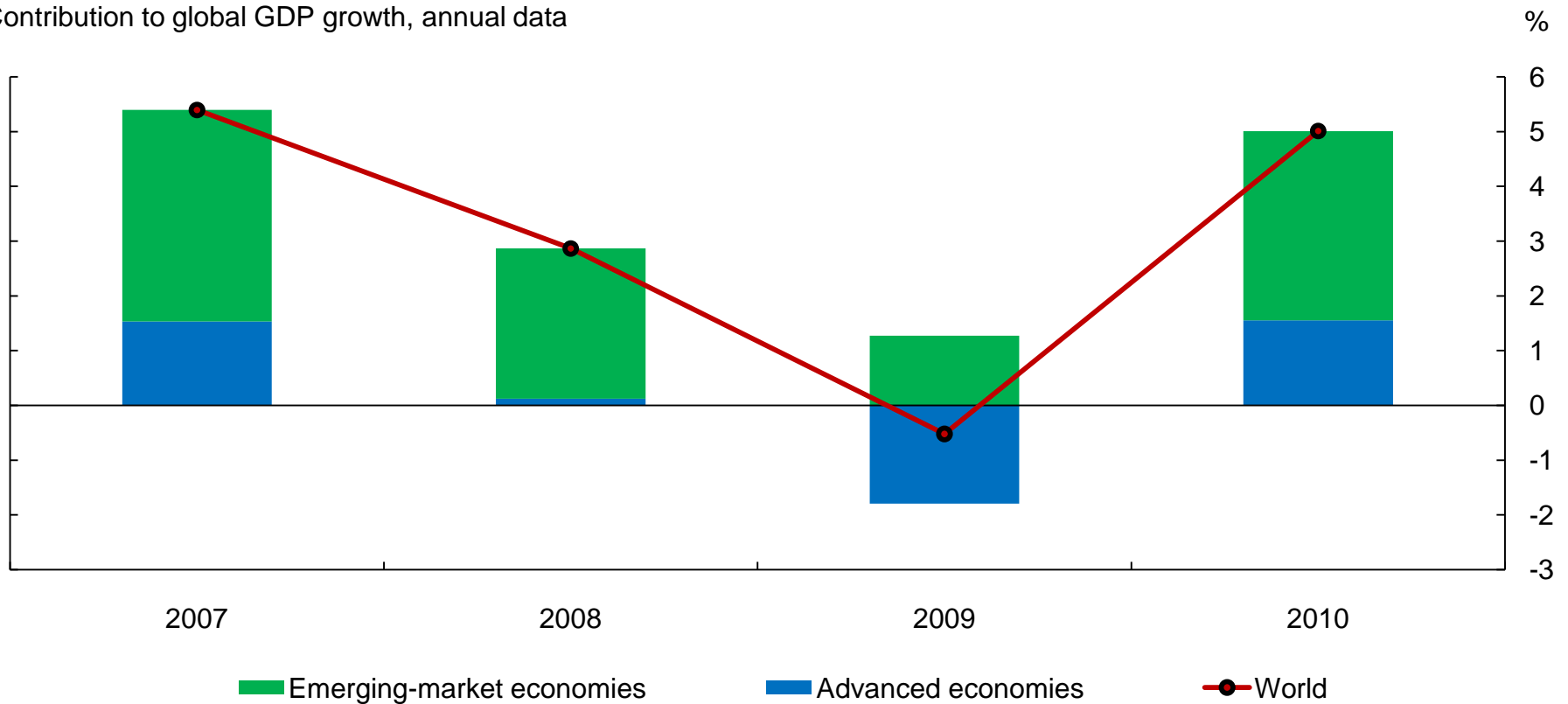
Source: Bank of Canada

Last observation: 2010

Global economic trends and commodities

Emerging-market economies continue to drive global economic growth

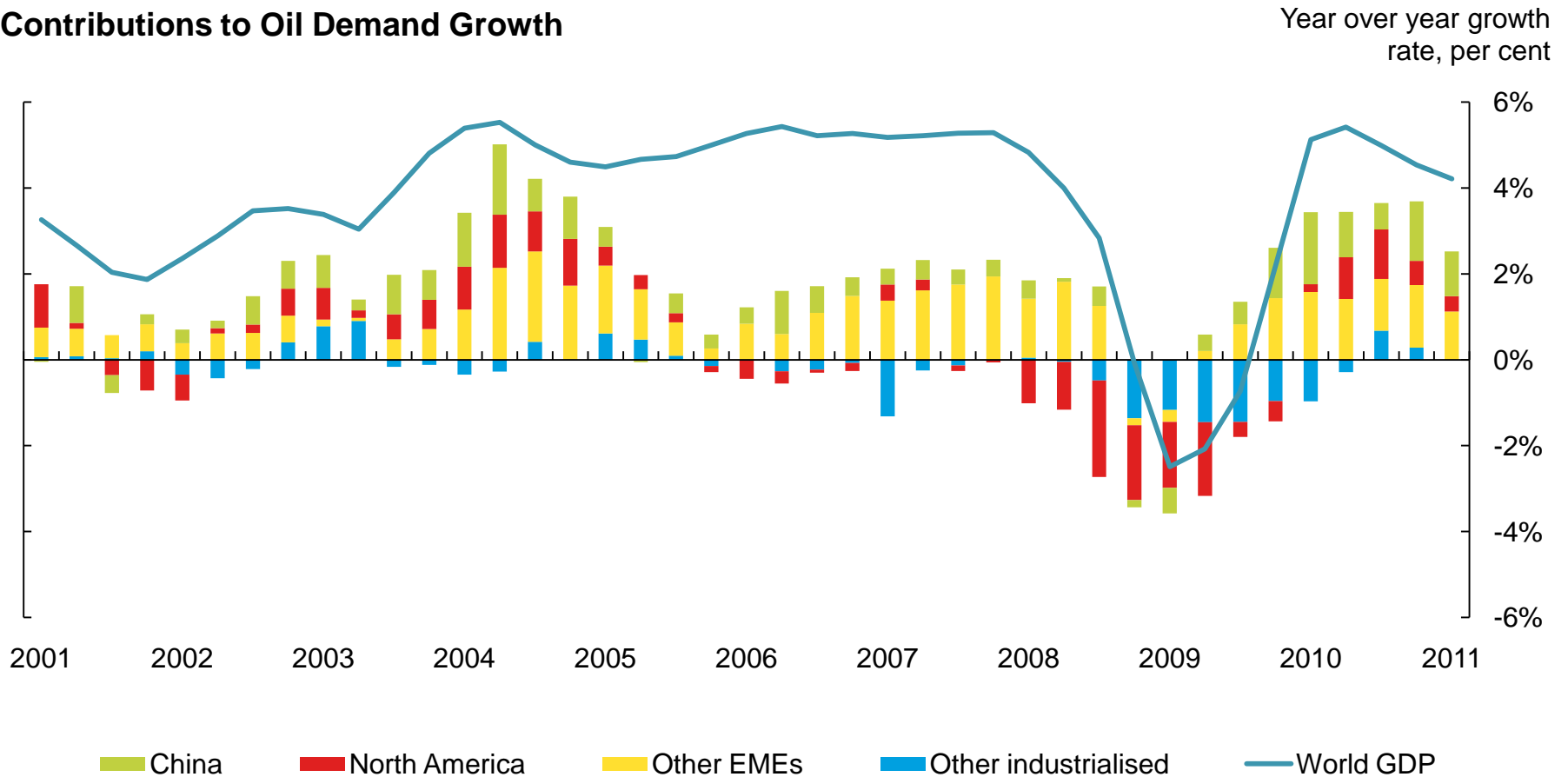
Contribution to global GDP growth, annual data



Note: Growth rates for 2010 are International Monetary Fund estimates. Source: International Monetary Fund, April 2010 World Economic Outlook.

Growth in world GDP and contribution to global growth of oil demand

Contributions to Oil Demand Growth



Source: IEA

Last observation: 2011Q1

Your Bank of Canada Director and regional representatives



Ted Mieszkalski
Senior Regional Representative
(Currency)
Calgary



Bonnie Dupont
Board Member
Board of Directors



Alexander Fritsche
Senior Regional Representative
(Economics)
Calgary

Thank you

