

# Opening Statement by Gordon Thiessen, Governor of the Bank of Canada, for the release of the Monetary Policy Report

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This morning we released our eighth Monetary Policy Report. The period since our last report has certainly been an eventful one from a monetary policy perspective.

During the past six months, global economic uncertainties intensified, 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 downward. Nevertheless, economic activity in the major industrial countries, particularly in North America and Europe, is still expected to be reasonably well sustained.

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. However, the turbulent international developments have created greater-than-usual uncertainty around the economic outlook.

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. And I welcome the greater stability we have seen in financial markets in recent weeks.

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.

Let me conclude by underlining again that the global economic situation continues to be uncertain. But let me also say that the Canadian economy has been coping with the difficult consequences of global instability better on this occasion than in the recent past

because of the improvements in fiscal policy and inflation control and the steps taken by the private sector to become more productive and competitive.