Opening Statement by
Gordon Thiessen
Governor of the Bank of Canada
before the Standing Senate Committee on
Banking, Trade and Commerce
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My colleagues and I look forward to our yearly appearance before your committee because it gives us an opportunity to present an account of how the Bank has worked to fulfil its objectives over the past year. It is also an opportunity for a discussion with you on a range of economic and monetary issues.

I can report that the Bank has taken further steps to improve its communication with Canadians and to be accountable for its actions. We have increased our contacts with individuals, a range of business and other groups and provincial governments. The most important initiative we have taken is to establish new regional offices in Calgary and Halifax and to expand our operations in Montreal, Toronto and Vancouver. These regional offices will multiply our contacts with Canadians across the country and help us gather information from a wide range of sources.

Recently, we have taken another step to ensure that we benefit from expertise outside the Bank on monetary policy. We have created the position of Special Adviser to bring outside experts into the Bank for one-year terms. Over time, this will also provide a number of university and private sector economists with first-hand knowledge of the Bank and its role. Professor David Laidler of the University of Western Ontario has been chosen to fill the visiting economist’s position for a one-year term starting in August.

When I spoke to you a year ago, prospects for global economic growth were very promising. World economic activity was strong, with low inflation and stable or declining interest rates. In Canada too, output and employment growth had picked up, helped by our low interest rates and dramatically improved fiscal situation. As it turned out, the Canadian economy performed very well in 1997, with growth of over four per cent through the year and a strong increase in employment.

Today, the outlook for both the world and the Canadian economy is still positive, though the problems in Asia have led to a scaling back of earlier projections for world economic growth.

The effects on the Canadian economy of the problems in Asia are likely to come mainly via our other major trading partners and through the prices of some of our exports, especially primary commodities. These effects will no doubt have a dampening influence on economic activity in Canada this year. That is particularly true of British Columbia, which has a heavy reliance on the primary commodity sector and on exports to Asia.

But there are other factors working in the opposite direction. With the exception of Japan, the economic performance of our major trading partners, particularly the United States, has been somewhat stronger than anticipated. And here in Canada, we have a much sounder economic foundation than in the past, thanks to our low inflation, improved fiscal health, and the progress that has been made in private sector restructuring. This puts us in a better position to withstand shocks such as those emanating from Asia.

Except for some temporary influences, inflation has remained within our target range of 1 to 3 per cent over the past year. By pursuing a monetary policy designed to keep inflation low, the Bank of Canada is contributing to making the economic expansion in Canada as long-lasting as possible, while also providing a buffer against outside shocks. The longer economic growth is sustained, the more benefits we will see in terms of improved incomes and employment.

In line with our commitment to keep inflation low, together with the federal government, we announced in February that we would extend our current target range to the end of 2001. This extension will allow our economy more time to demonstrate its ability to perform well under conditions of low inflation before we define longer-term targets for price stability.

On balance, the Canadian economic outlook remains positive. The IMF recently projected economic growth of 3.2 per cent in Canada this year, which will put us at the top of the list of G-7 industrialized nations in this respect. This is generally in line with our own projections. We expect continued gains in incomes and employment through this year and next. Just how large those gains will be on an ongoing basis over the medium-term will depend on how successful the private sector restructuring I mentioned earlier will be in putting the Canadian economy on a track of rising productivity.