BANK OF CANADA
BANQUE DU CANADA

FOR IMMEDIATE RELEASE
12 December 2013

CONTACT: Media relations
613 782-8782

Monetary Policy an Exercise in Risk Management, Says Bank of Canada Governor Stephen S. Poloz

Montréal, Quebec—The financial crisis and the considerable uncertainty that has ensued are leading to a progressive redefinition of central banking, Bank of Canada Governor Stephen S. Poloz said today in a speech to the Canadian Club of Montréal.

“We assess how risks could interact with each other. We gauge their potential impact. And we use judgment to determine the balance among them, both today and in prospect. In fact, monetary policy formulation these days is more a process of risk management than one of precision engineering.”

The Bank looks at risks through two lenses: (i) the possible impact on the outlook for real economic activity and inflation and (ii) the possible impact on the stability of the financial system. While it examines them from different perspectives, the Bank takes into consideration the interplay between them, the Governor said.

The Bank’s current monetary policy balances the risk that household imbalances could grow against the risk that inflation could drift even further below target, the Governor noted. “This zone of balance is relevant today and in prospect, as we expect both risks to diminish over the next two years or so.”

Governor Poloz underscored how the recent financial crisis proved that financial stability is a necessary condition for low and stable inflation. He attributed the Bank’s ability to conduct monetary policy in an environment of slow economic growth and financial stability risks to its flexible inflation-targeting framework and the credibility that the Bank has earned through years of sound policy.

“By using credibility to exercise the framework’s flexibility, we are working to maintain stable financial conditions that will support the expansion of capacity and return the economy to its full potential.”