

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

Remarks to the Greater Sudbury Chamber of Commerce
Sudbury, Ontario
10 February 2014



Table of Contents

- Bank of Canada's mandate
- Four main activities
- Economic outlook
- Introduction of Bank of Canada Regional Directors and representatives

Mandate



Mandate

The Bank of Canada's mandate is to contribute to the economic and financial 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

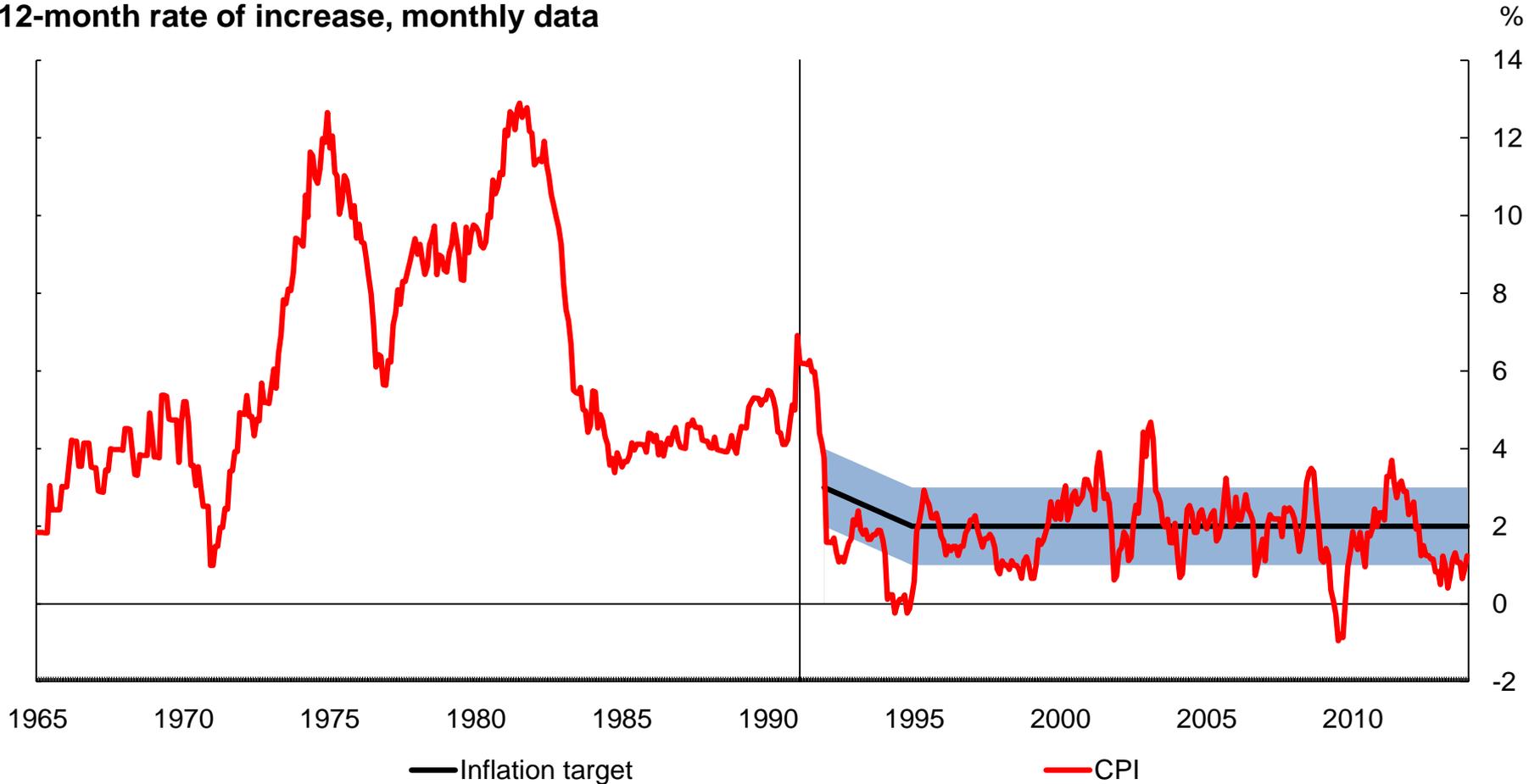
Our objective: To foster confidence in the value of money by keeping inflation at or near the 2 per cent inflation target

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

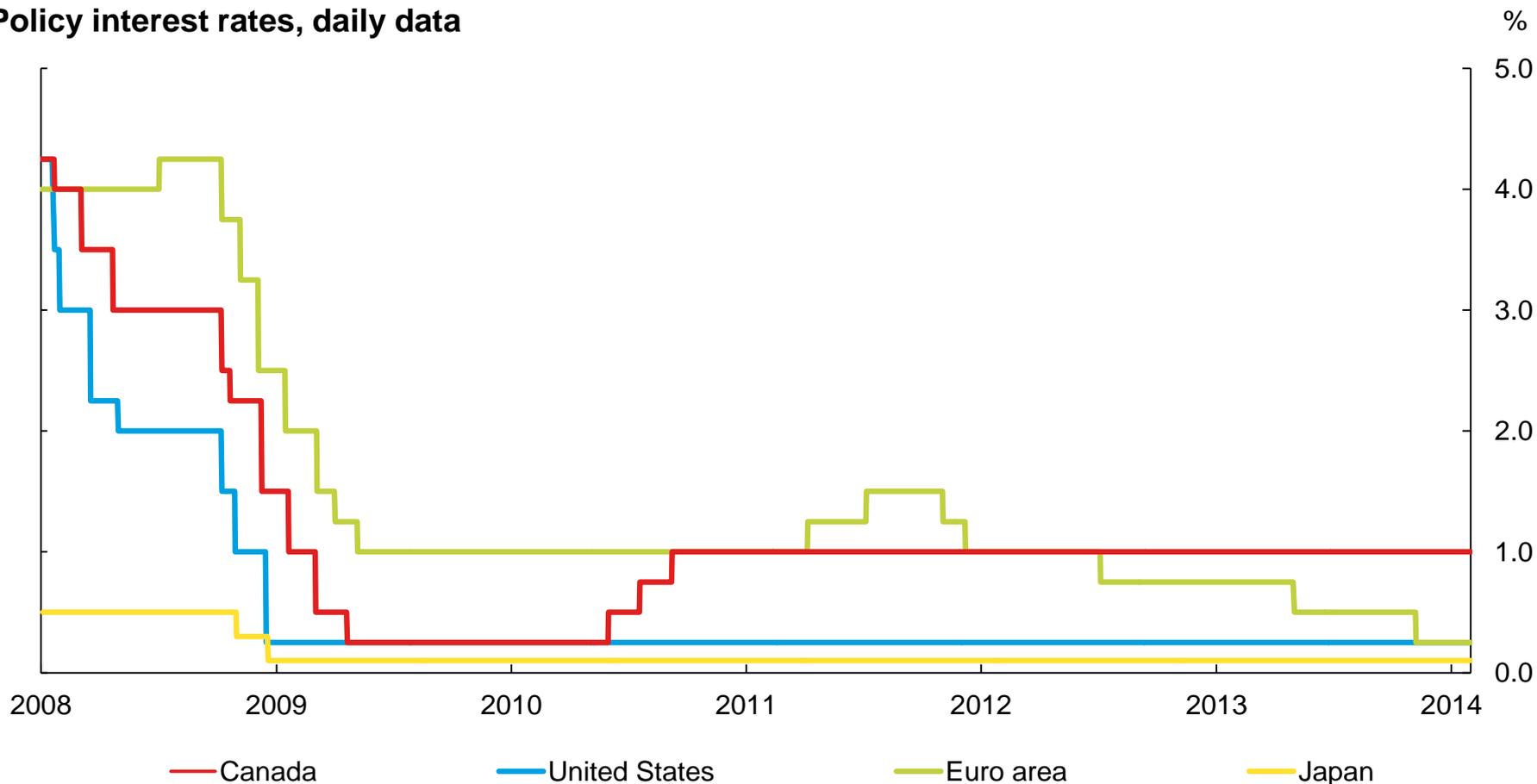
Monetary policy: Low and stable inflation

12-month rate of increase, monthly data



Central bank policy rates dropped to historic lows during the recession

Policy interest rates, daily data



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

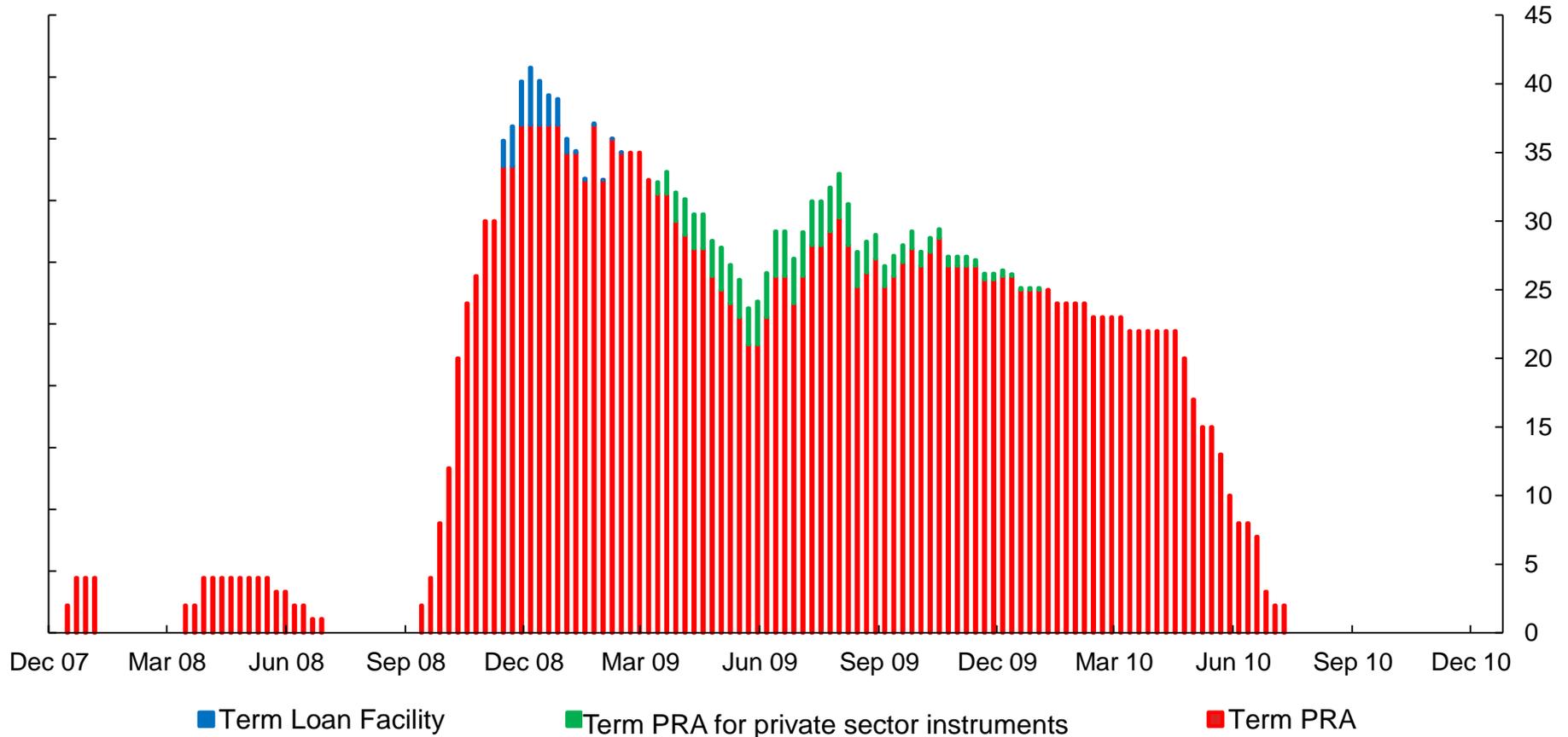
The Bank promotes the stability and efficiency of the Canadian financial system by:

- 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

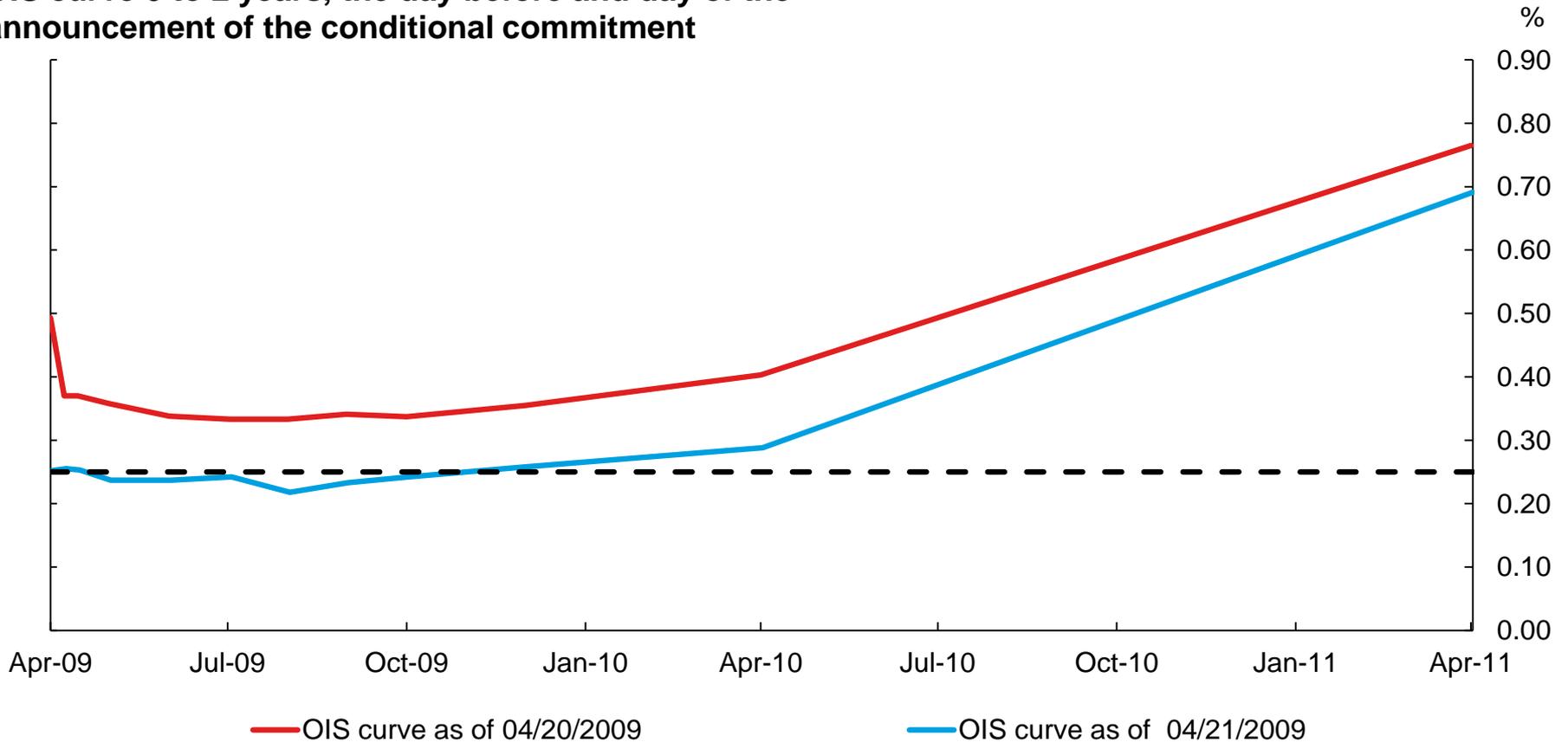
Weekly par value outstanding at Bank of Canada facilities

Can\$ billions



Bank of Canada yield curve expectations declined after conditional commitment was announced

OIS curve 0 to 2 years, the day before and day of the announcement of the conditional commitment



Note: On 21 April 2009, the Bank of Canada announced a commitment to hold the policy rate at 0.25 per cent until the end of 2010Q2.

Source: Bloomberg

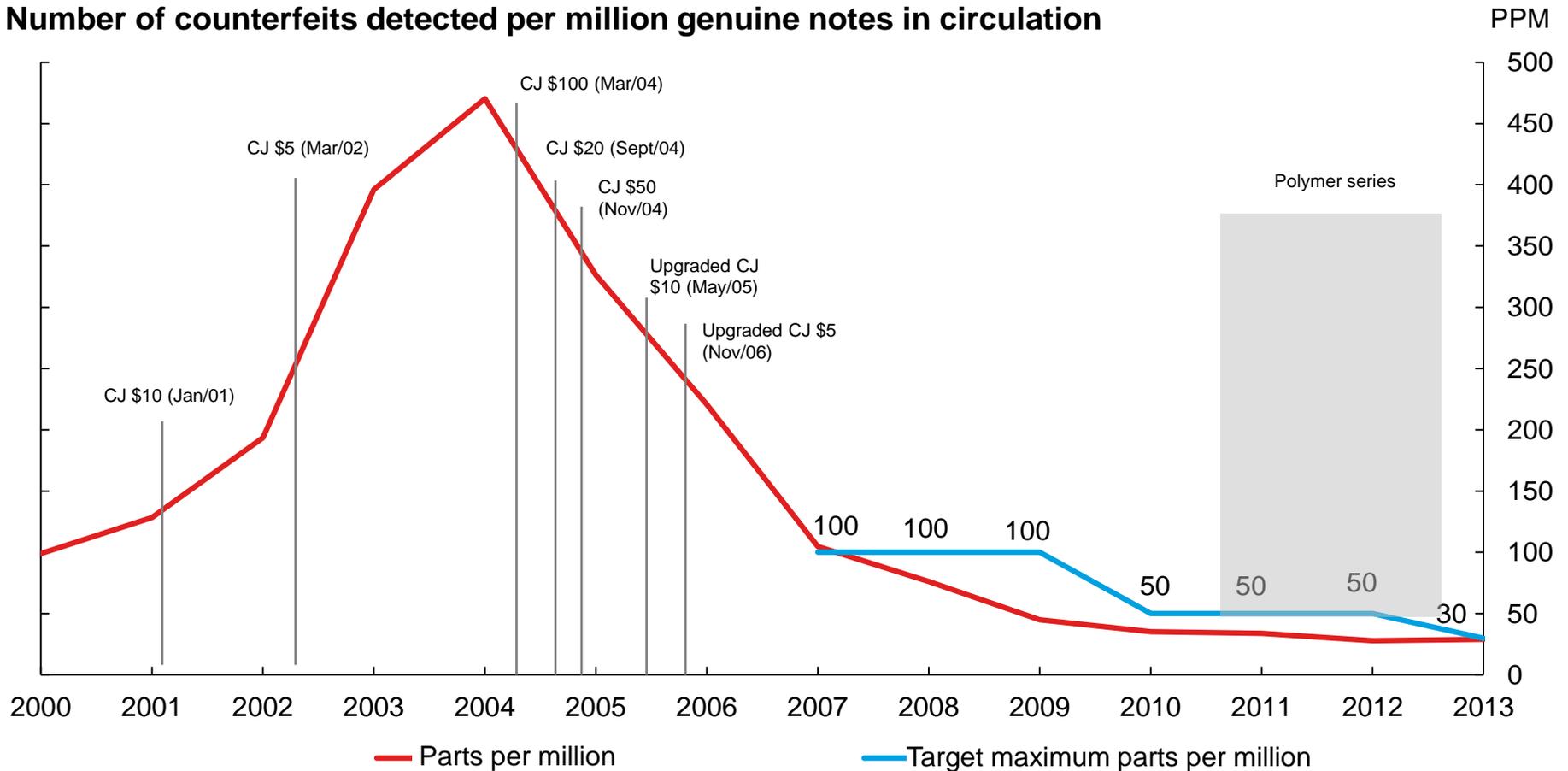
Last observation: April 2011

Key responsibilities: Currency

- Bank notes are the central bank's most tangible product
- The Bank of Canada is responsible for ensuring that notes are readily accepted and secure from counterfeiting
- Our anti-counterfeiting goal: fewer than 30 counterfeits detected annually per million notes in circulation

Secure, quality bank notes

Number of counterfeits detected per million genuine notes in circulation



Note: CJ = *Canadian Journey* series. Data are from CUR-MIS database.
Source: Bank of Canada

Last observation: 31 December 2013

New series of bank notes

- Launched new Polymer series of bank notes—*Frontiers*
 - November 2011—new \$100
 - March 2012—new \$50
 - November 2013—new \$5 and \$10

- Polymer notes have 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

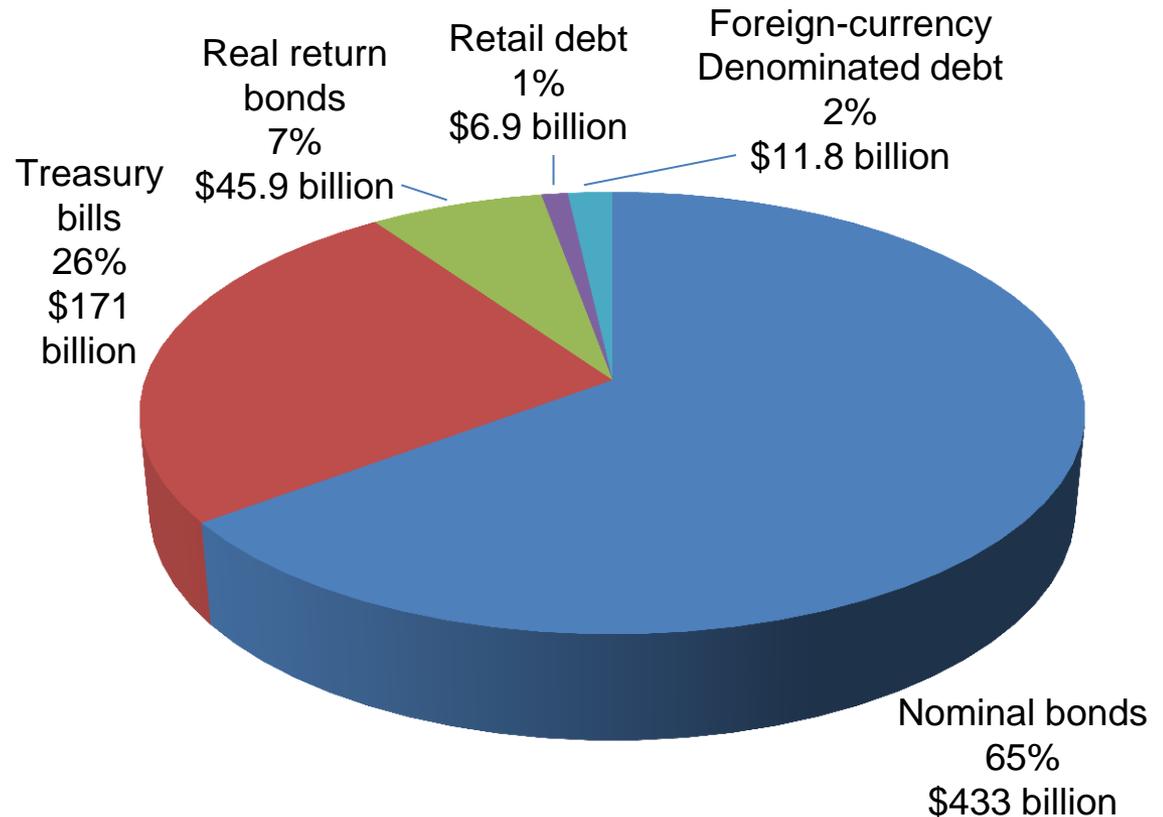
Our objective: To provide effective banking services to the federal government and key financial system players. This involves:

- 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 payments among financial institutions

Debt management

Key objectives

- Raise stable and low-cost funding to meet the financial needs of the Government of Canada
- Maintain a well-functioning market in Government of Canada securities



**Government of Canada debt
31 December 2013**

Economic Outlook

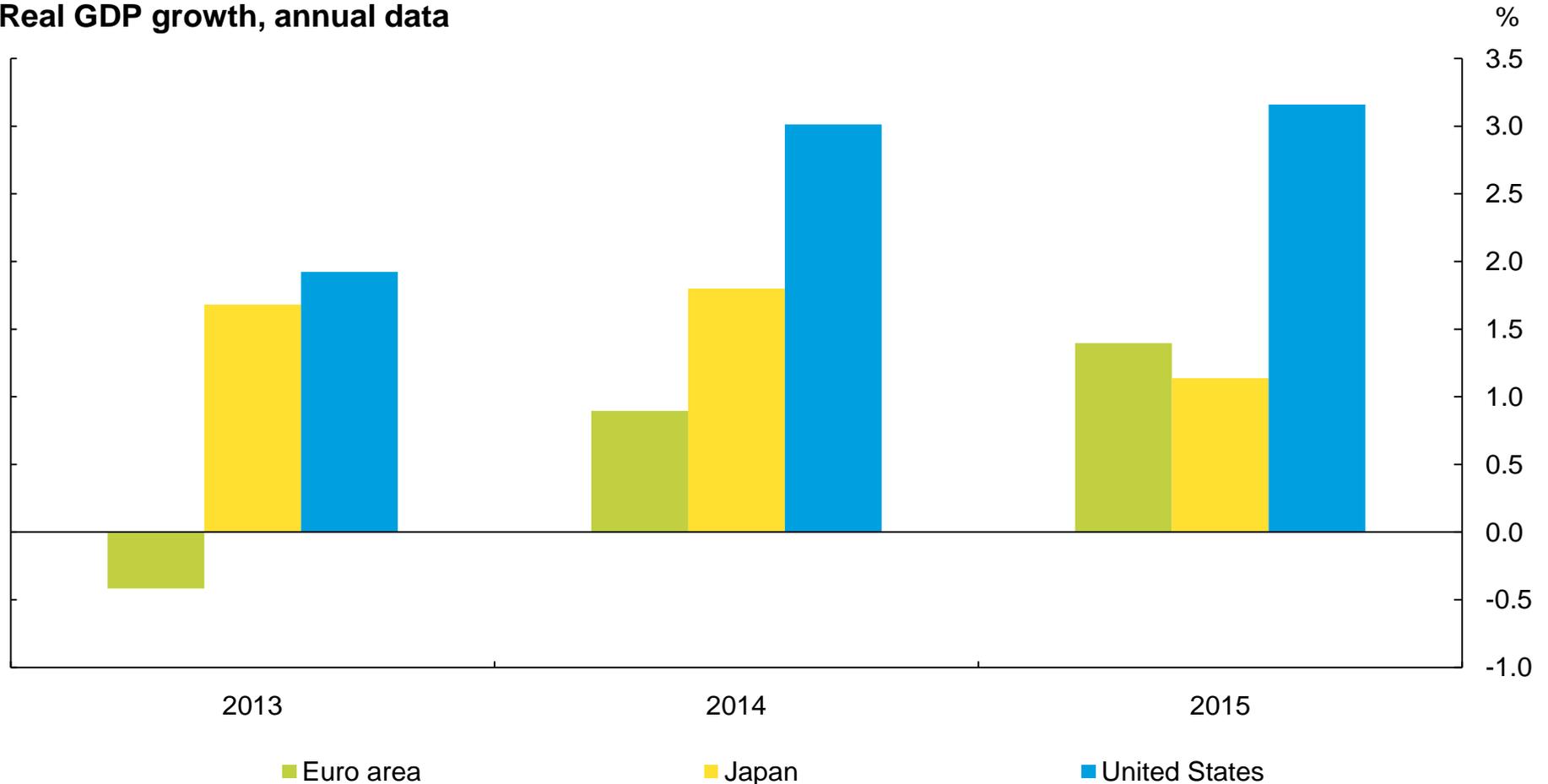


Global economic growth

- Global growth is expected to strengthen over the next two years, rising from 2.9 per cent in 2013 to 3.4 per cent in 2014 and 3.7 per cent in 2015.
- The United States will lead this acceleration, aided by diminishing fiscal drag, accommodative monetary policy and stronger household balance sheets.
- The improving U.S. outlook is affecting global bond, equity, and currency markets.
- Global trade growth plunged after 2011, but is poised to recover as global demand strengthens.

The United States is expected to lead the strengthening in global economic growth

Real GDP growth, annual data



Source: Bank of Canada projections

Table 1: Projection for global economic growth

	Share of real global GDP ^a (per cent)	Projected growth ^b (per cent)			
		2012	2013	2014	2015
United States	20	2.8 (2.8)	1.9 (1.5)	3.0 (2.5)	3.2 (3.3)
Euro area	14	-0.6 (-0.6)	-0.4 (-0.4)	0.9 (1.0)	1.4 (1.3)
Japan	5	1.4 (2.0)	1.7 (1.8)	1.8 (1.5)	1.1 (1.0)
China	15	7.7 (7.7)	7.7 (7.7)	7.2 (7.4)	7.1 (7.2)
Rest of the world	47	3.2 (3.2)	2.9 (2.8)	3.2 (3.4)	3.8 (3.7)
World	100	3.1 (3.1)	2.9 (2.8)	3.4 (3.4)	3.7 (3.6)

a. GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity (PPP) valuation of country GDPs for 2012. The individual shares may not add up to 100 owing to rounding.

Source: IMF, *World Economic Outlook*, October 2013

b. Numbers in parentheses are projections used for the October 2013 *Monetary Policy Report*.

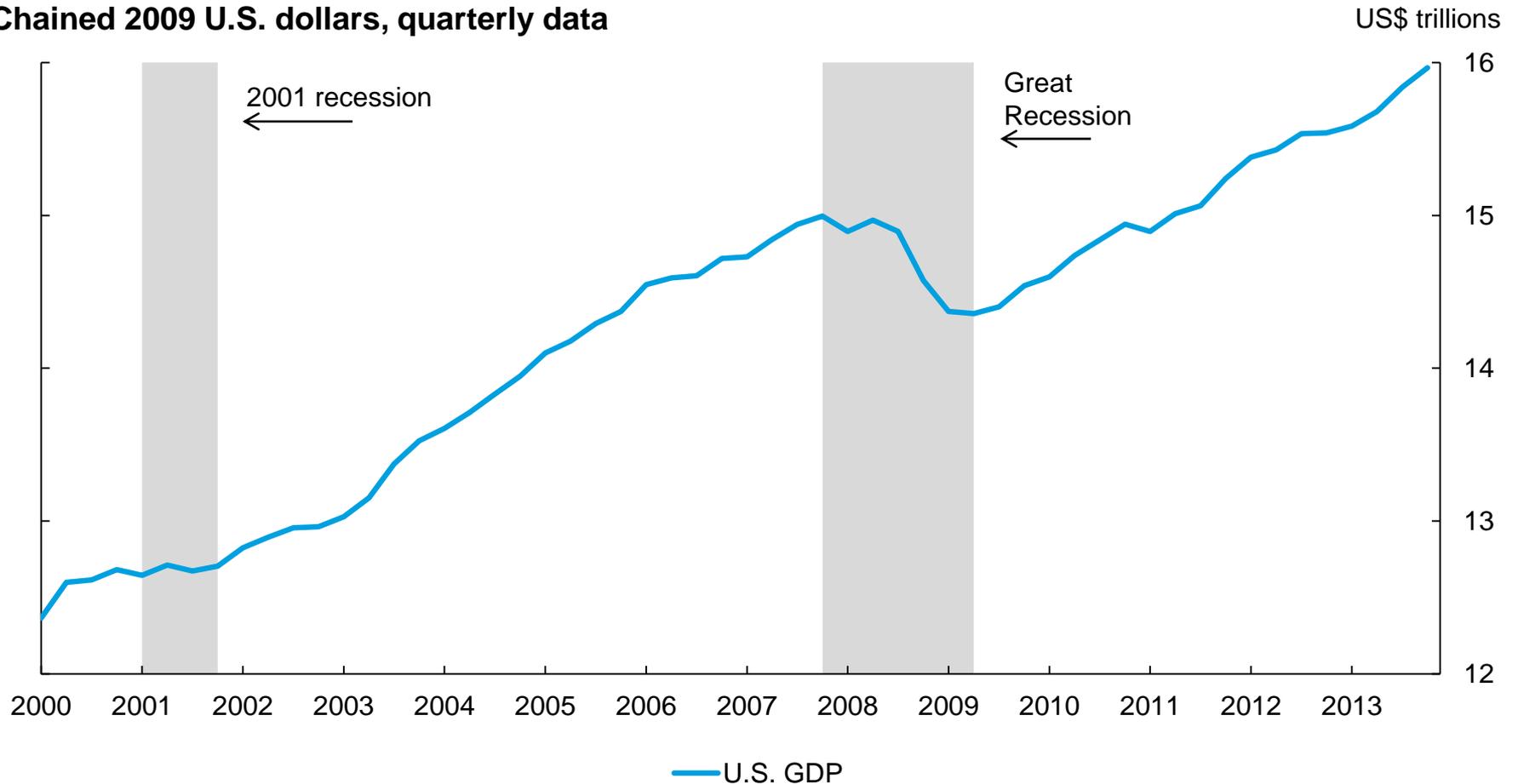
Source: Bank of Canada

The composition of growth in the Canadian economy is expected to broaden

- The Canadian economy is still adjusting to two shocks: the financial crisis and higher prices of many commodities that we export.
- The strengthening of the global economy and depreciation of the Canadian dollar should foster a broadening of the composition of growth in Canada.
- Real GDP growth is projected to pick up from 1.8 per cent in 2013 to 2.5 per cent in both 2014 and 2015, with the economy returning gradually to capacity over the next two years.
- The Bank expects inflation to return to the 2 per cent target in about two years, as the effects of retail competition dissipate and excess capacity is absorbed.

Shock 1: U.S. Great Recession

Chained 2009 U.S. dollars, quarterly data

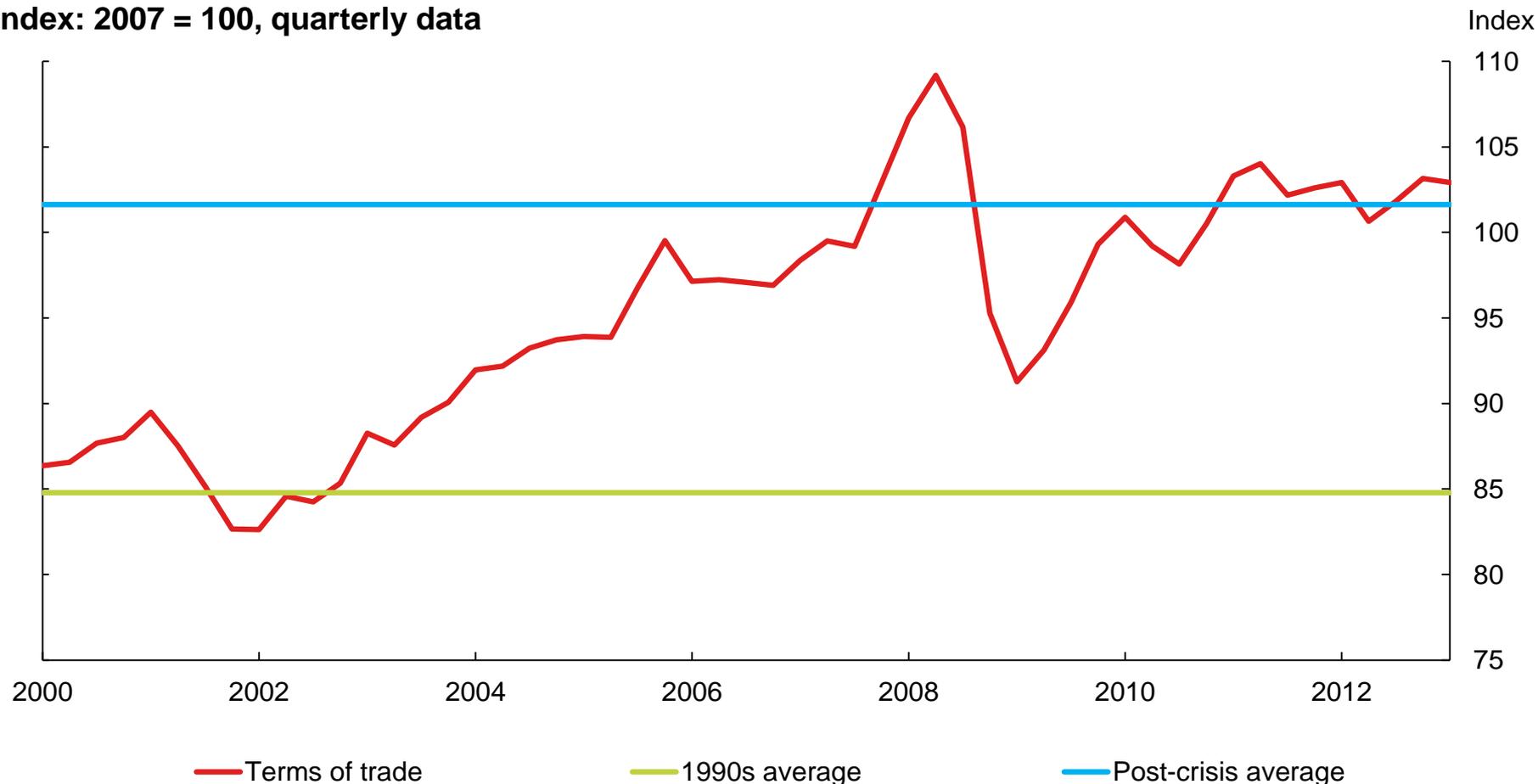


Sources: U.S. Bureau of Economic Analysis and Bank of Canada calculations

Last observation: 2013Q4

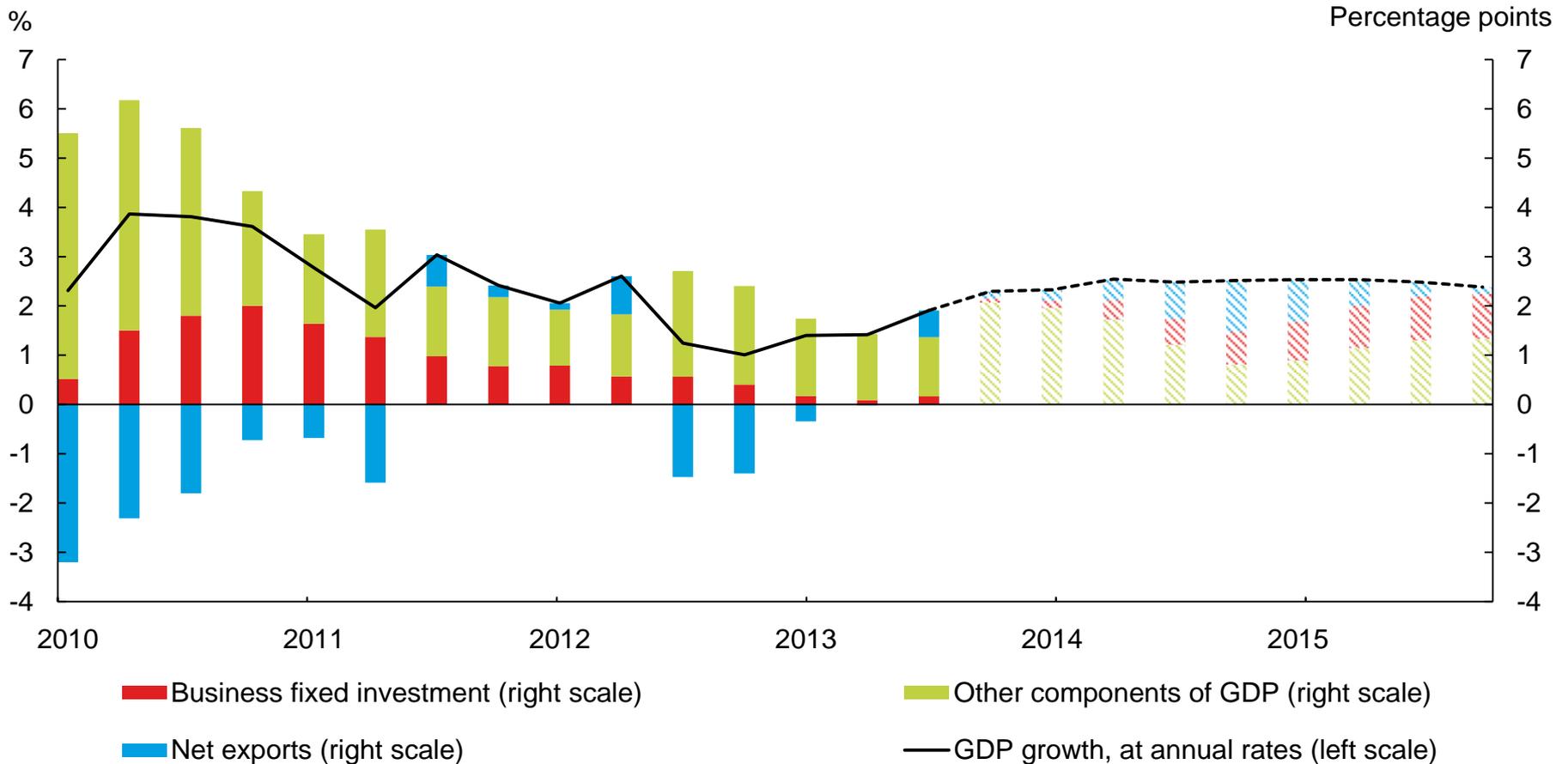
Shock 2: Canada's terms of trade are much higher than 1990s average

Index: 2007 = 100, quarterly data



Demand is expected to become more broadly based

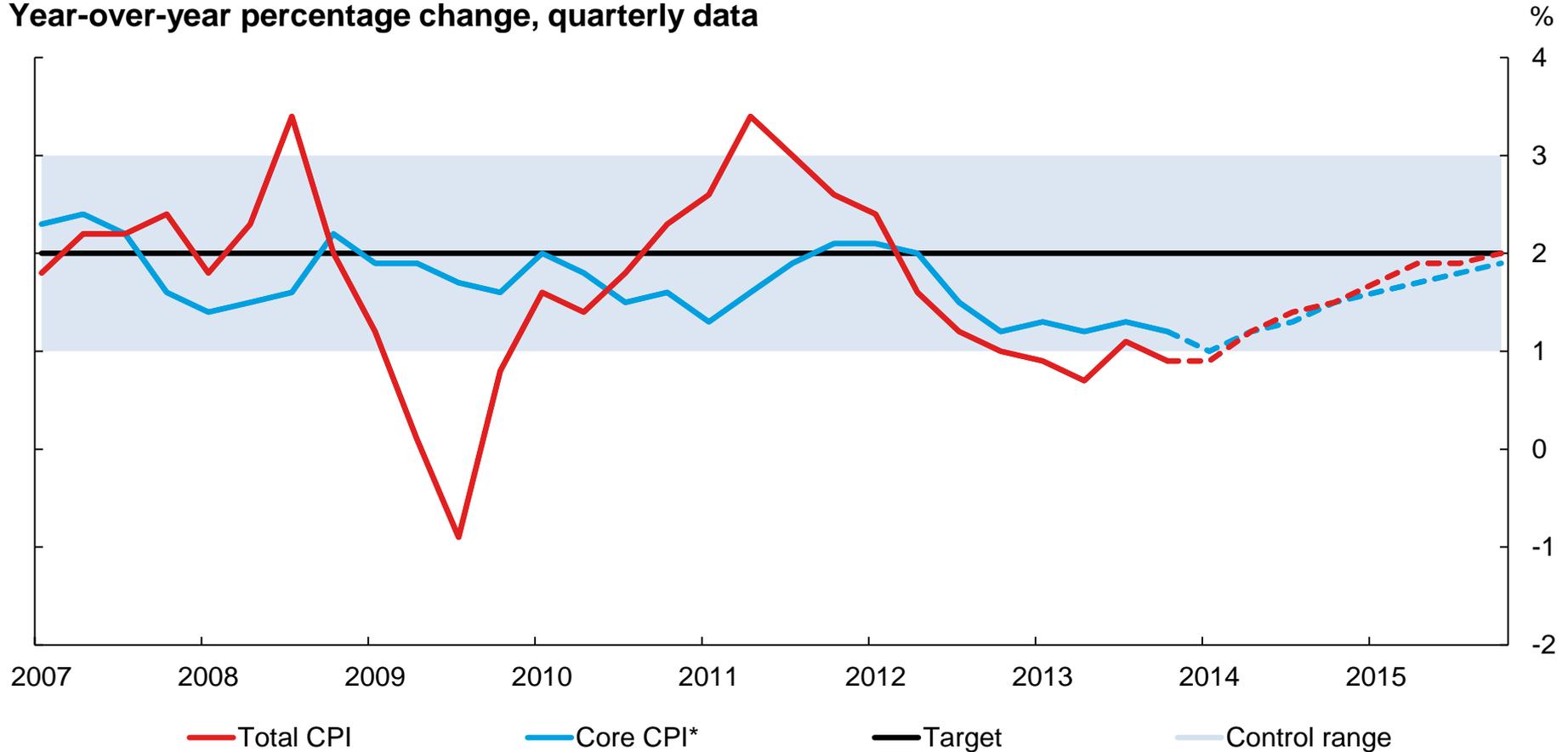
Contributions to real GDP growth; 4-quarter moving average



Sources: Statistics Canada and Bank of Canada calculations and projections

CPI inflation is subdued and expected to return slowly to target

Year-over-year percentage change, quarterly data



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

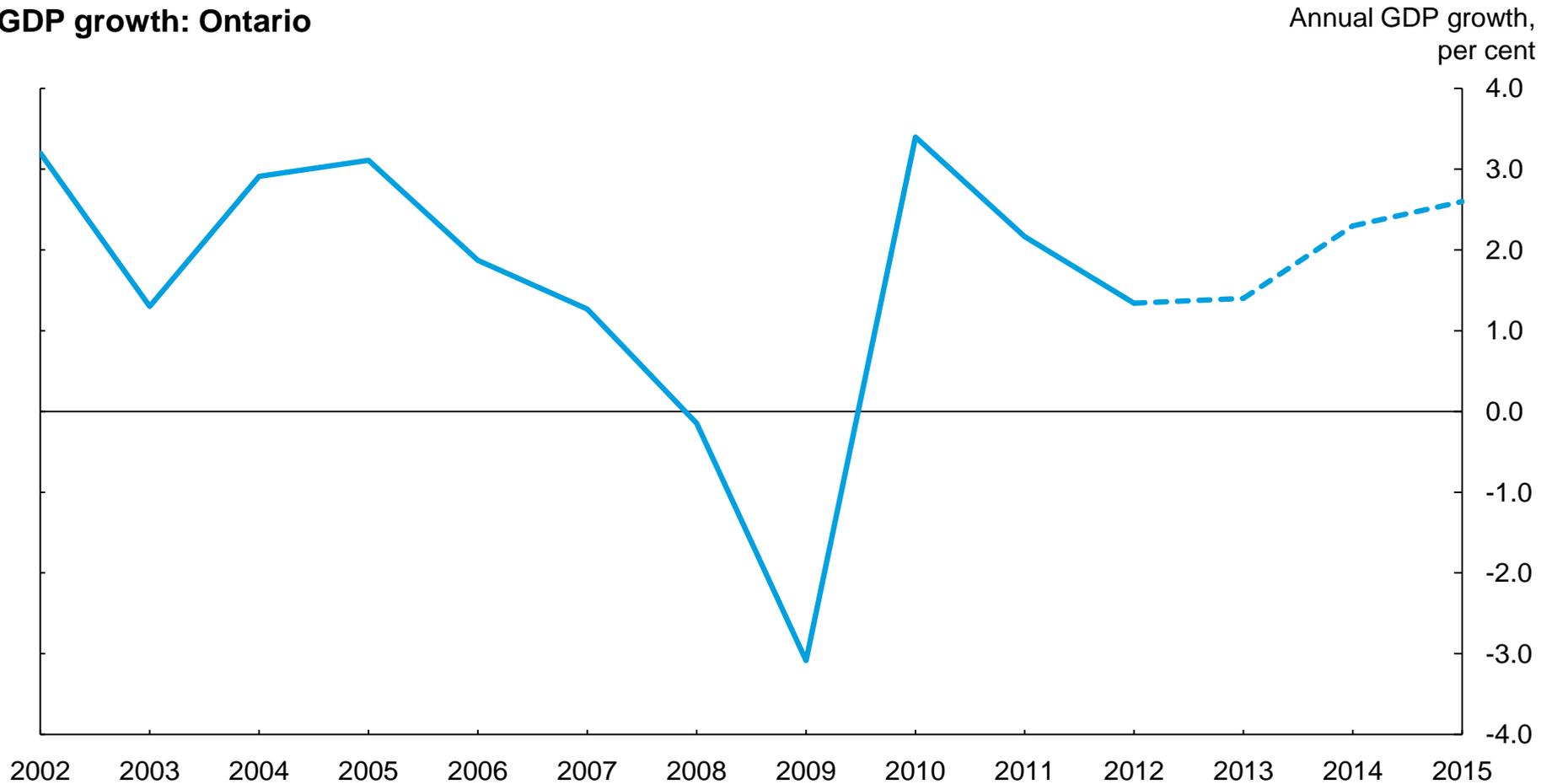
Sources: Statistics Canada and Bank of Canada calculations and projections

Economic outlook: Ontario

- Ontario GDP grew modestly at 1.3 per cent in 2013. Growth started off weakly but strengthened through the year.
- In 2013, consumption growth was solid, exports contributed to GDP growth and non-residential investment stopped declining.
- On the downside, a decline in residential investment that began in the second quarter, accelerated towards year-end. Housing starts have fallen markedly and were down 21 per cent in 2013.
- GDP growth is expected to accelerate to 2.3 per cent in 2014, according to the average forecast of private-sector economists.

GDP growth in Ontario

GDP growth: Ontario



Sources: Statistics Canada and mean of private sector forecast

Your Bank of Canada Directors



Philip Deck
Board Member
Board of Directors



Claire Kennedy
Board Member
Board of Directors

Your Bank of Canada regional representatives



Jane Voll
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Thank you

