

Promoting Canada's economic and financial well-being

Remarks to the Chambre de commerce et de l'industrie de Saguenay
Saguenay, Québec
30 September 2014



Overview

- Bank of Canada's mandate
- Four key responsibilities
- Economic outlook

Mandate



The Bank's mandate

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

Four key responsibilities:

- Monetary policy
- Financial system
- Currency
- Funds management

Key responsibilities: Monetary policy

Our objective: To safeguard confidence in the value of money by keeping inflation low, stable and predictable.

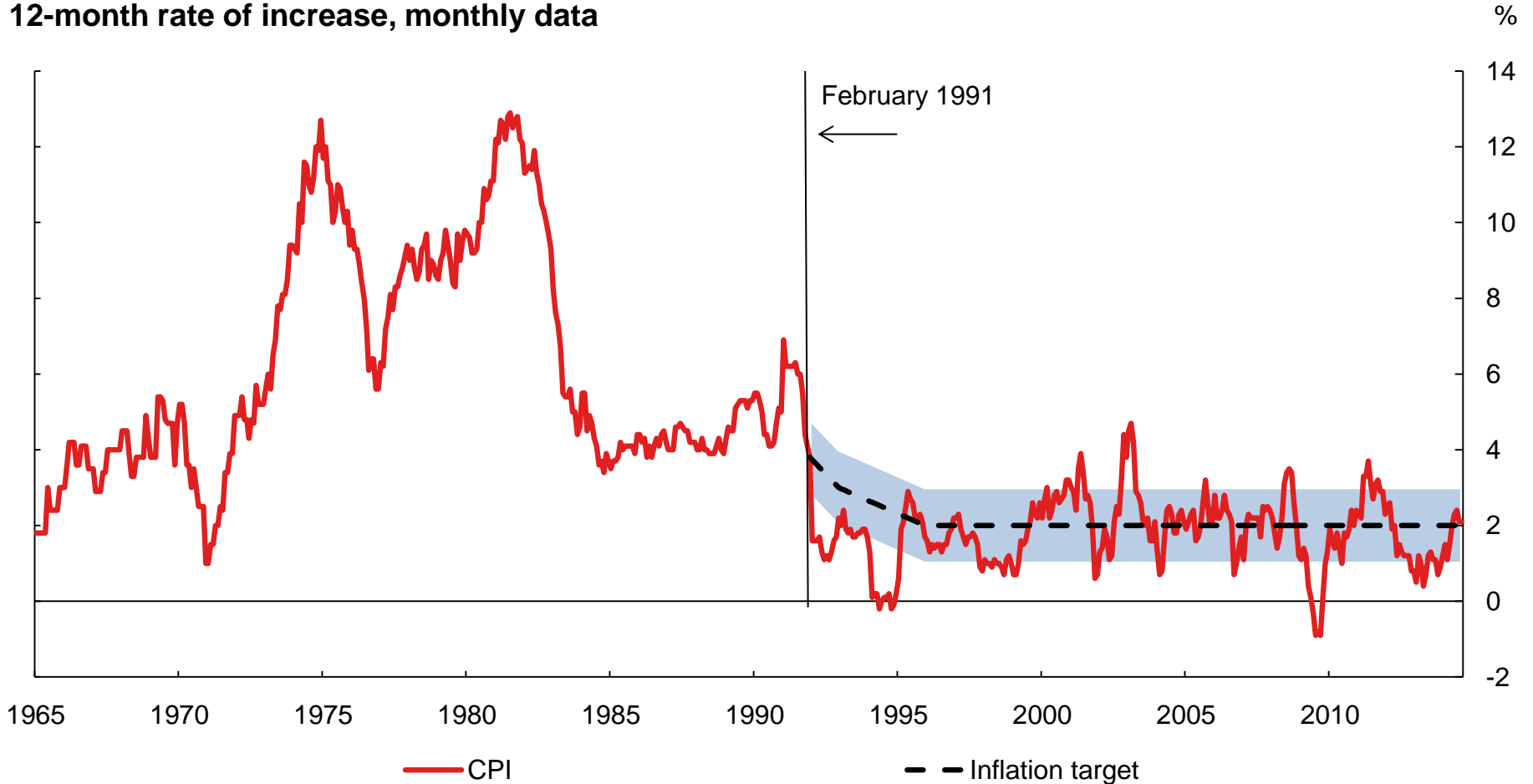
- target of 2 per cent established in agreement with the federal government

Benefits:

- greater certainty of future buying power
- lower interest rates
- lower unemployment rate and more stable economic growth

Monetary policy: Mission accomplished

12-month rate of increase, monthly data



Sources: Statistics Canada and Bank of Canada Calculations

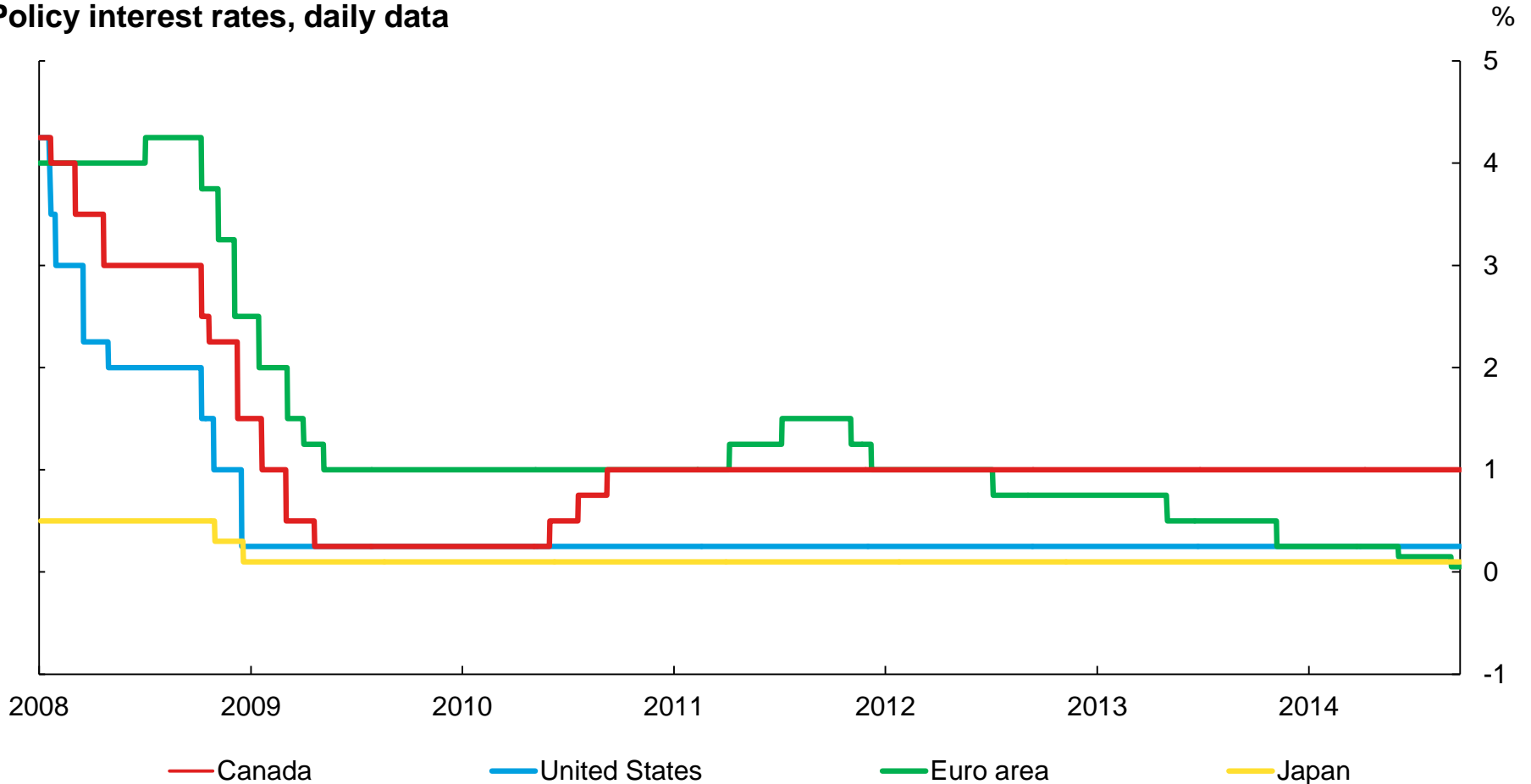
Last observation: August 2014

Inflation-targeting regime

- Under normal circumstances, one instrument to work with: the policy rate
- Policy rate decisions announced eight times a year on a fixed schedule
- A flexible exchange rate – an essential component of inflation-targeting regime
- Transparency improves regime's effectiveness
- Monetary policy must be forward-looking – important to use several models and consult extensively

Central bank policy rates at historic lows

Policy interest rates, daily data



Key responsibilities: Financial system

Our objective: To promote the stability and efficiency of the financial system.

Canada's financial system includes:

- financial institutions
- financial markets
- clearing and settlement systems

The Bank shares responsibility for financial stability with other regulatory authorities.

Principal activities to promote stability of financial system

The Bank:

- provides liquidity and acts as lender of last resort
- oversees systemically-important payment, clearing and settlement systems
- contributes to development of policies governing the financial system
- assesses vulnerabilities and risks
 - publishes findings in *Financial System Review*

Key risks identified in June 2014 *Financial System Review*

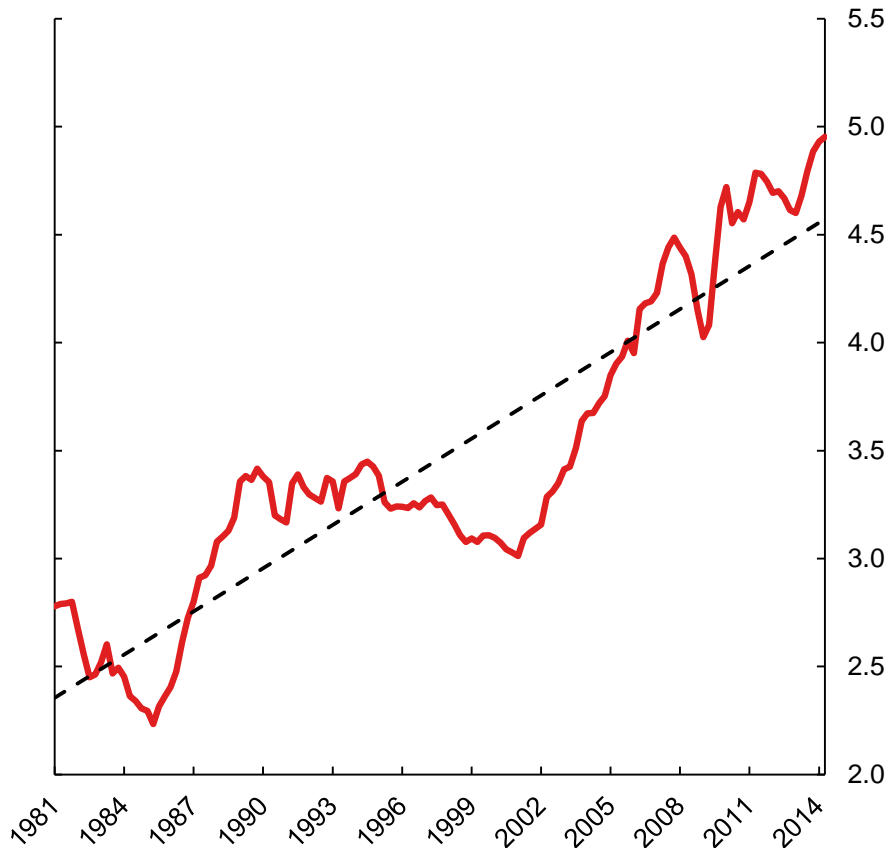
The Canadian financial system is robust, but can still be subject to important risks, such as:

- a sharp correction in house prices
- a sharp increase in long-term rates
- stress emanating from China and other EMEs
- financial stress from the euro area

Main vulnerabilities identified in the June 2014 *Financial System Review*

High house prices

House-price-to-income ratio and linear trend

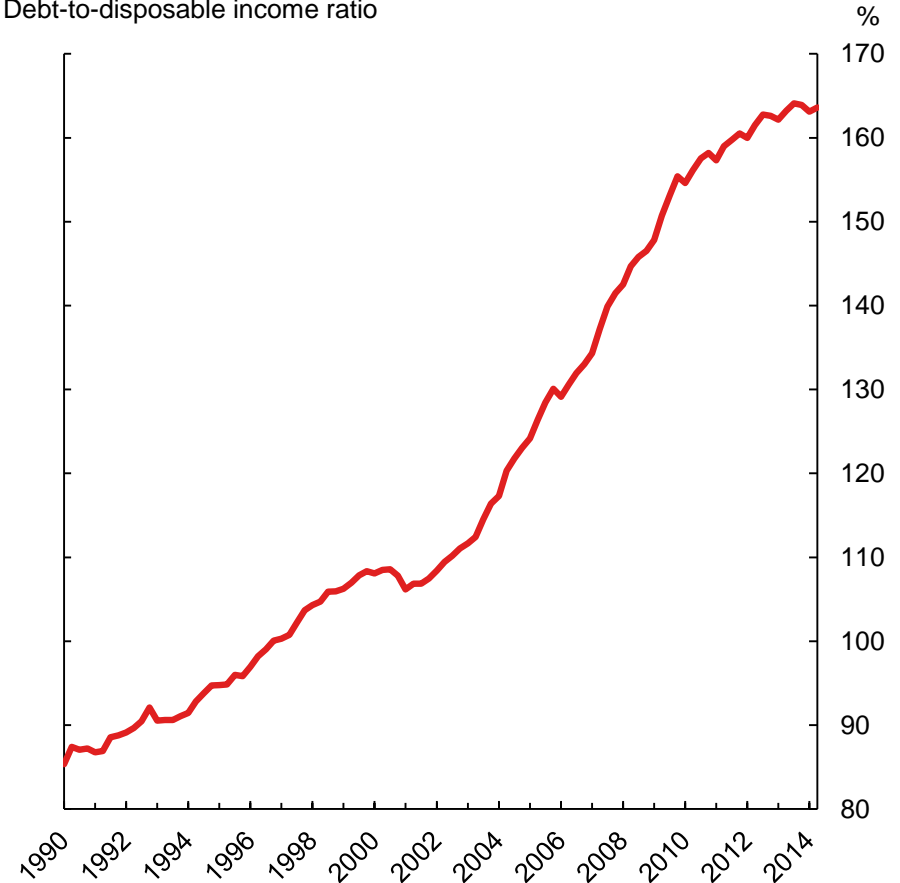


Sources: Statistics Canada, Canadian Real Estate Association and Bank of Canada calculations

Last observation: 2014Q2

High rates of household debt

Debt-to-disposable income ratio



Source: Statistics Canada

Last observation: 2014Q2

Key responsibilities: Currency

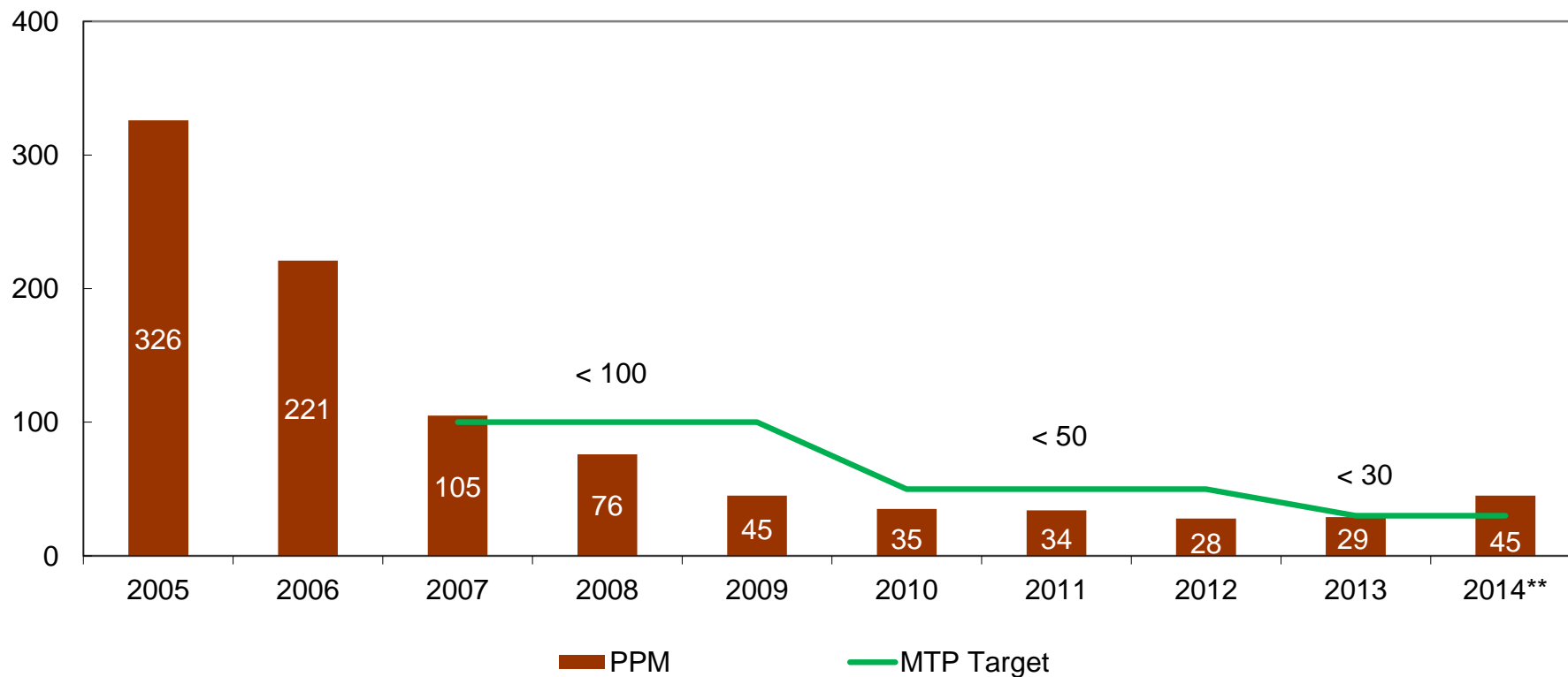
Our objective: To provide Canadians with bank notes that they can use with confidence.

- Fewer than 30 counterfeits detected annually per million notes in circulation
- Polymer notes are safer, cheaper and greener.
- Demand for bank notes continues to grow at the same rate as the economy.
- We have launched a research program on digital currency.

Counterfeiting levels are very low

Number of counterfeit bank notes detected per million notes in circulation*

Parts per million



* Target for the 2013-15 Medium Term Plan is below 30 ppm

** Annualized (January to August inclusive)

Key responsibilities: Funds management

Our objective: To act as fiscal agent and provide banking services to the federal government and other key players in the financial system.

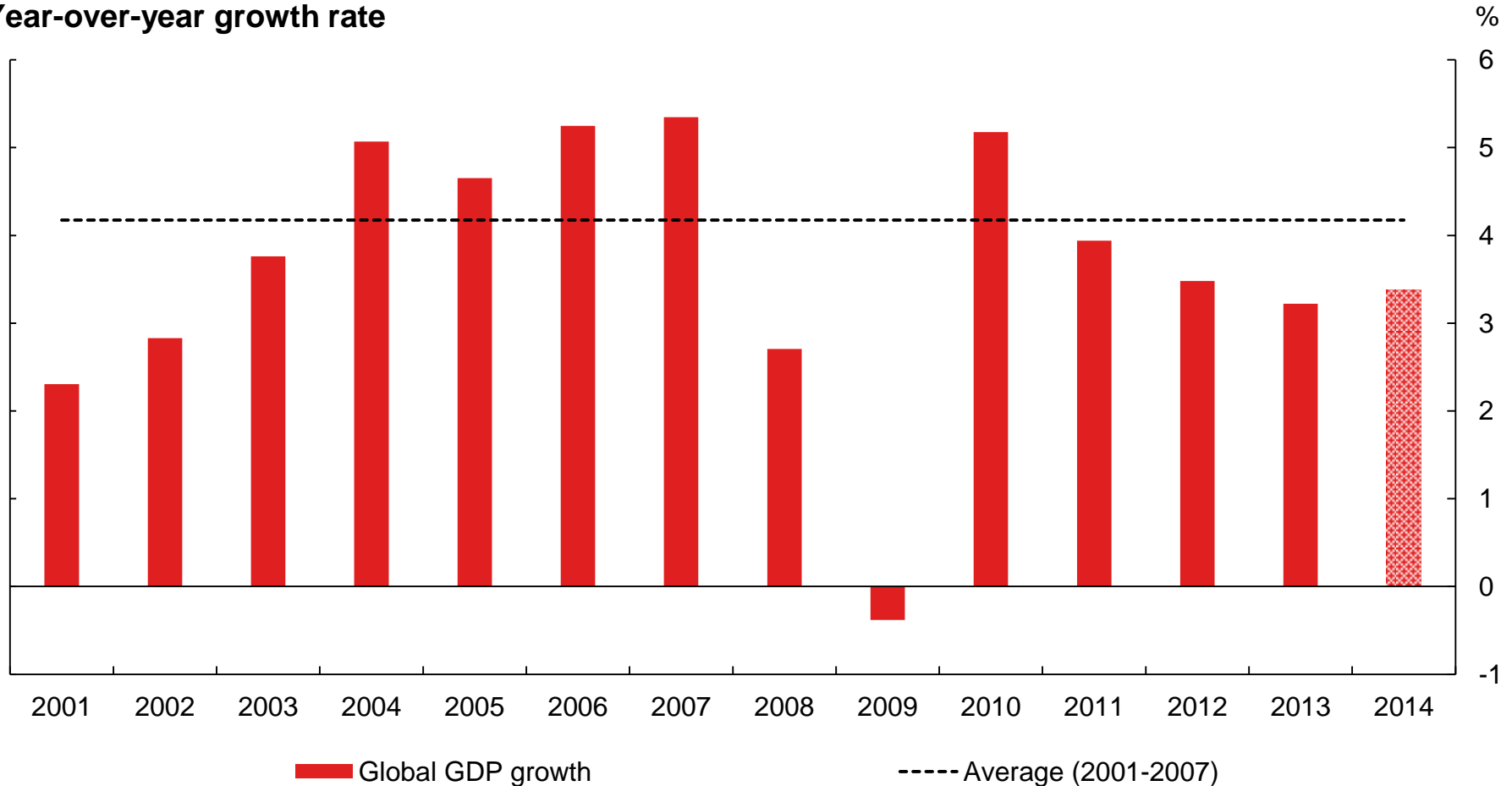
- Manage Canada's foreign exchange reserves and federal government's cash balances as well as public debt in collaboration with the Department of Finance
- Administer the Canada Savings Bonds program
- Provide the means of final settlement of daily flows of payments among financial institutions

Economic outlook



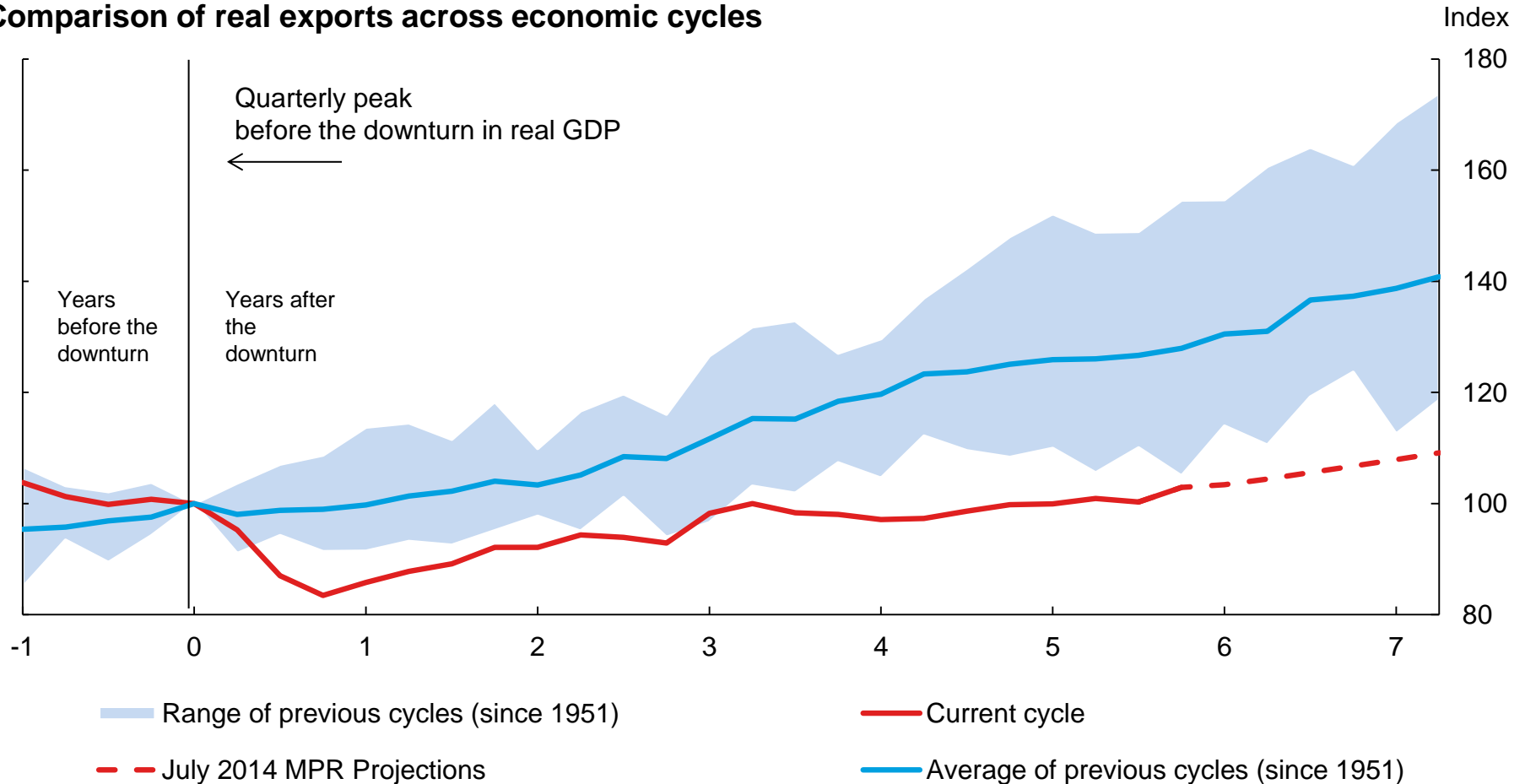
Shock 1: The financial crisis and weak global recovery

Year-over-year growth rate



Canadian exports were hit hard

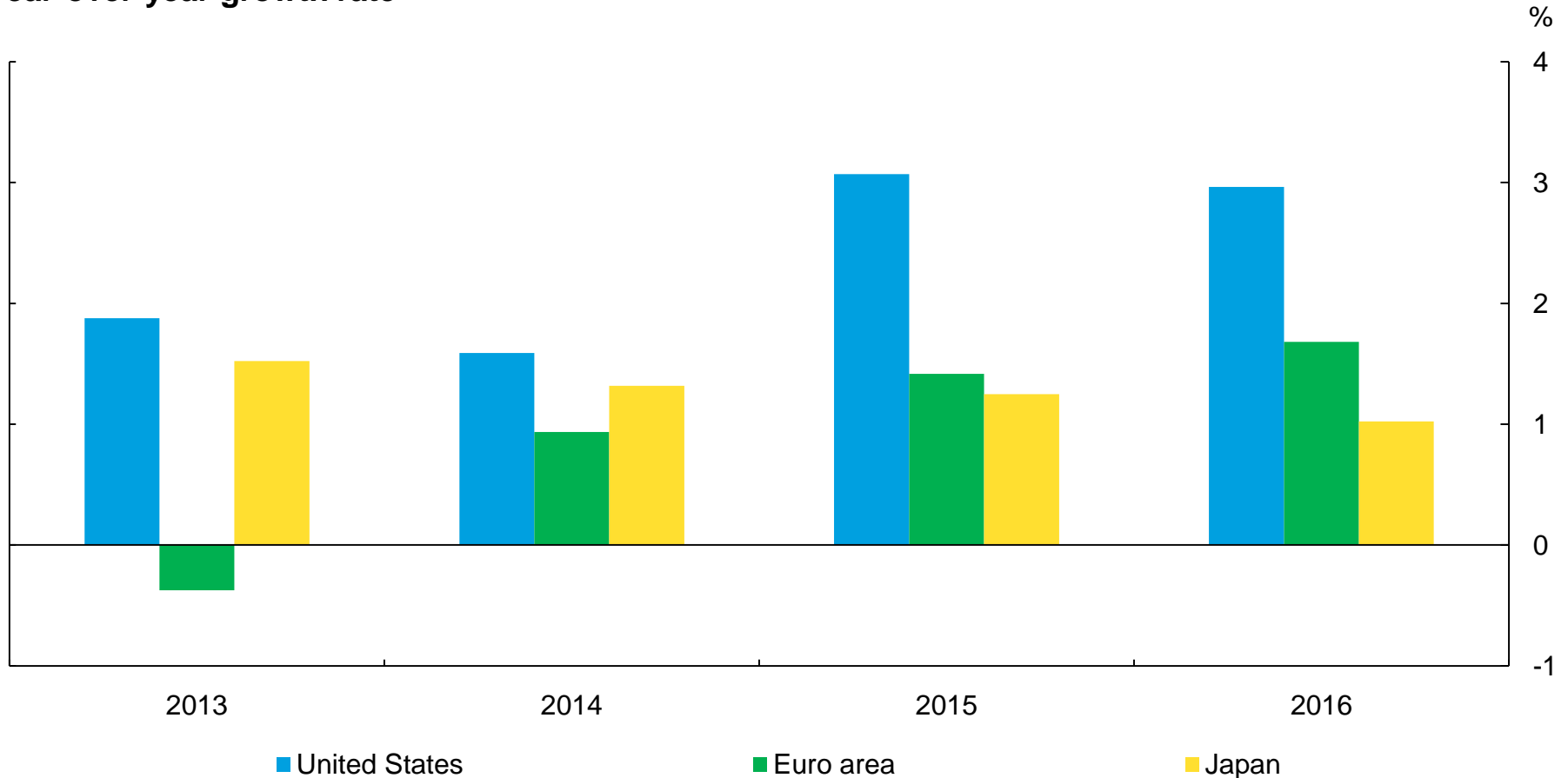
Comparison of real exports across economic cycles



Source: Statistics Canada and Bank of Canada calculations and projections

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

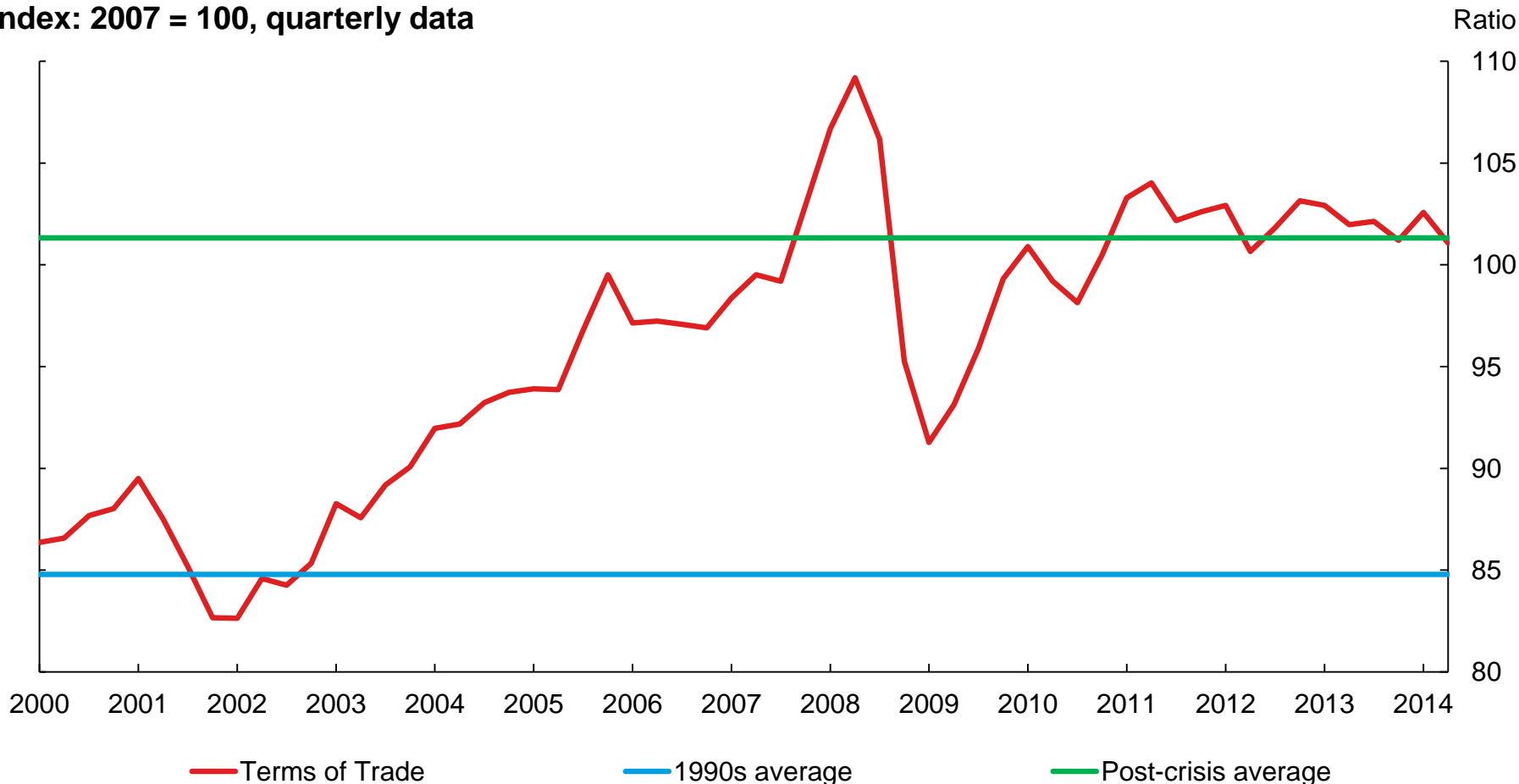
Year-over-year growth rate



Source: Bank of Canada projections (July 2014 MPR)

Shock 2: Improvement in the terms of trade since the 1990s

Index: 2007 = 100, quarterly data

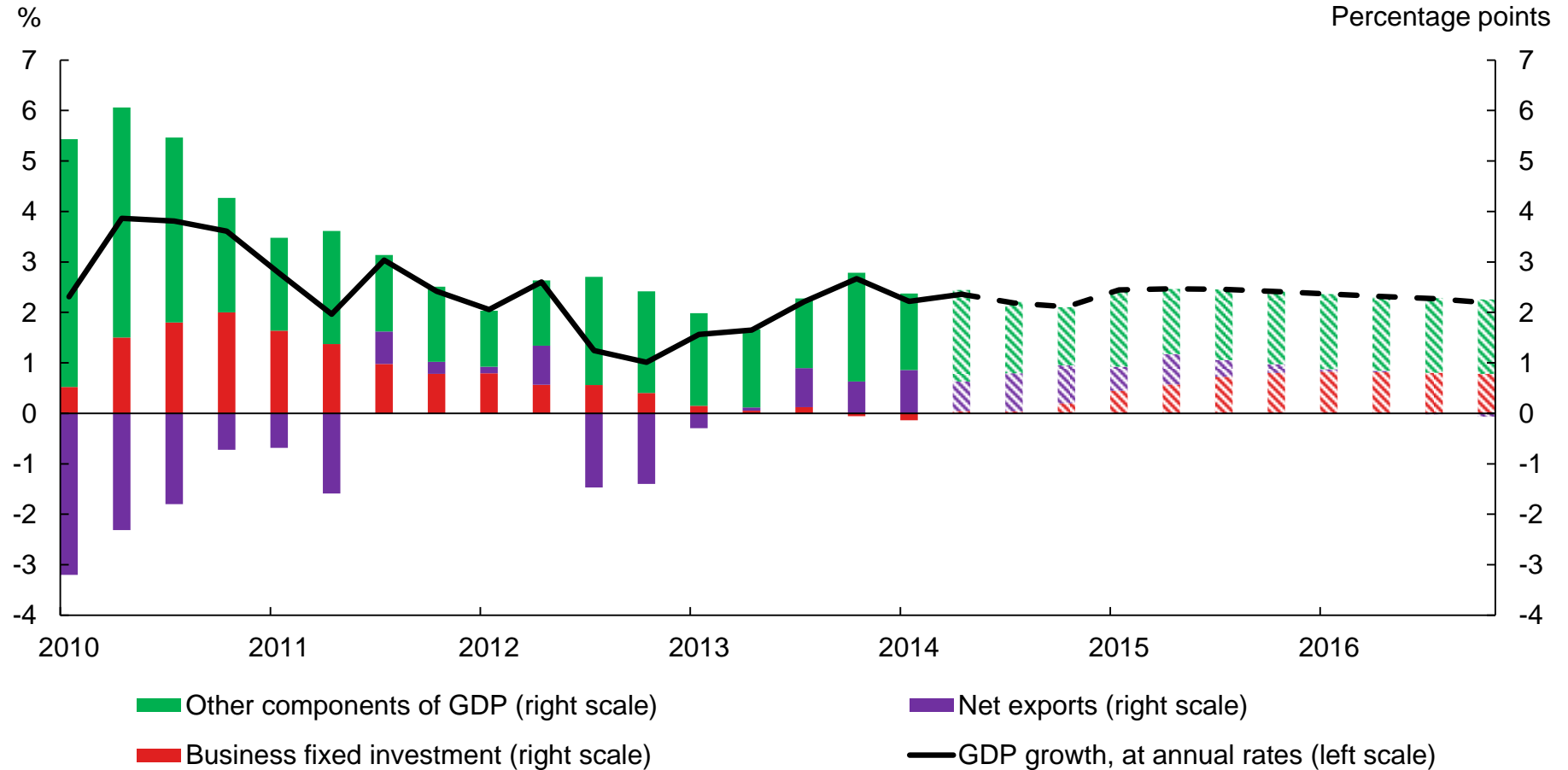


Sources: Statistics Canada and Bank of Canada calculations

Last observation: 2014Q2

More balanced growth expected for Canada's economy

Contributions to real GDP growth; 4-quarter moving average



Sources: Statistics Canada and Bank of Canada calculations and projections (July 2014 MPR)

Growth slowing in the Saguenay—Lac Saint-Jean since 2011

Annual percentage change of nominal GDP

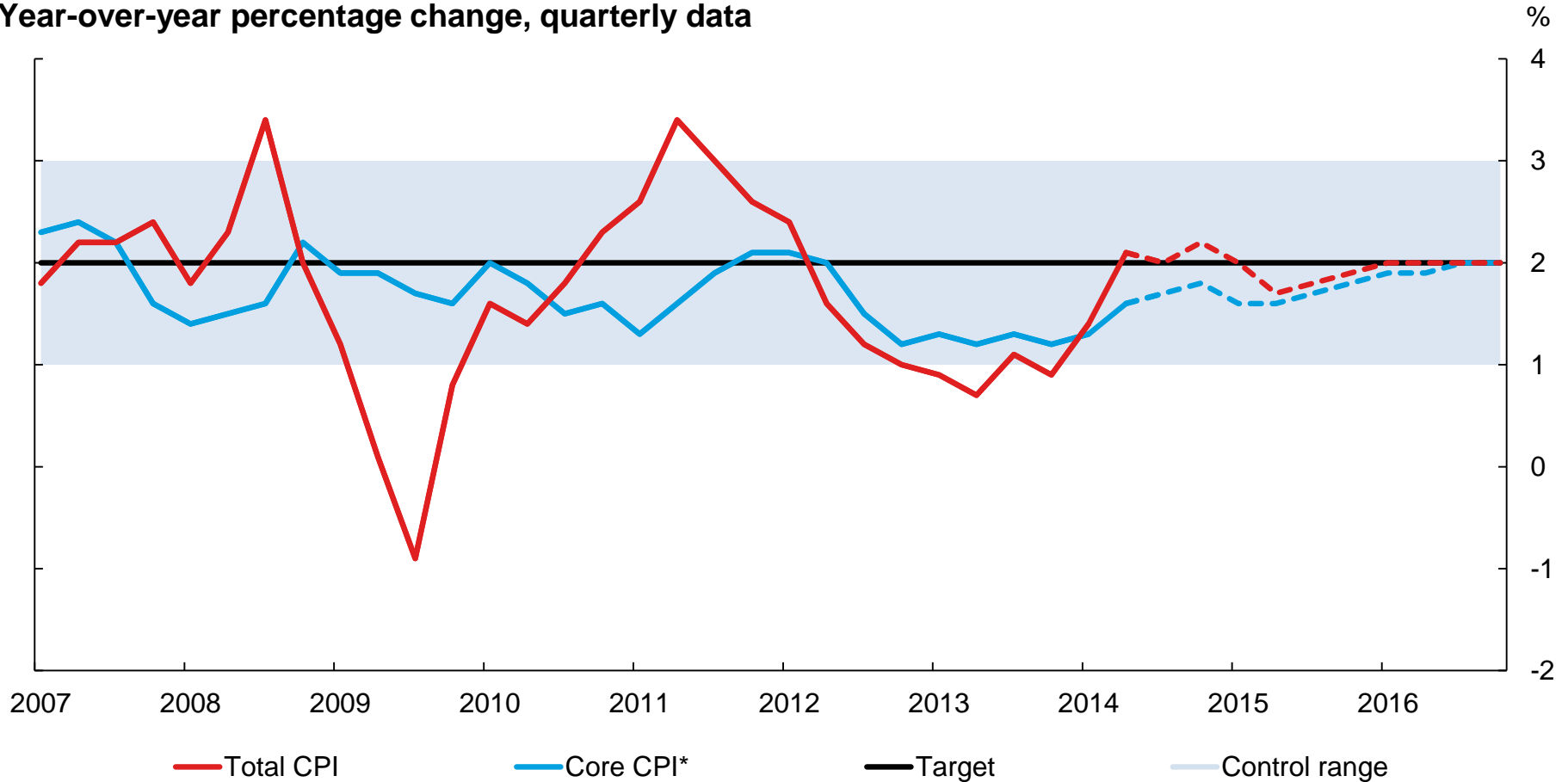


Sources: Institut de la statistique du Québec, Desjardins Economic Studies

Note: f = forecast

Inflation expected to fluctuate close to 2 per cent over the next two years

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 (July 2014 MPR)