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Floating Loonie Essential to the Bank of Canada's Inflation-Targeting Regime, Says Governor Stephen S. Poloz

Drummondville, Quebec—The Bank of Canada's commitment to keep inflation low and stable requires that the value of the Canadian dollar be determined by markets, Bank of Canada Governor Stephen S. Poloz said today in Drummondville.

The Bank of Canada fosters strong, sustainable economic growth by aiming to keep inflation at the 2 per cent midpoint of a target range of 1 to 3 per cent, Governor Poloz told members of the Société de développement économique de Drummondville. Manipulating the value of the Canadian dollar is incompatible with this primary objective of the Bank, the Governor explained.

“Without a freely floating currency, prices, wages and unemployment could fluctuate markedly, and that would create havoc for people and businesses,” the Governor said, illustrating the point with a hypothetical scenario that examines what would have happened had the Bank tried to prevent the dollar from appreciating between 2005 and 2008. “A flexible exchange rate is essential for us to be able to pursue an independent monetary policy in the interests of Canada.”

Attempts to influence the exchange rate would do more harm than good, Governor Poloz said, adding that it is only in the event of an emergency that the Bank would consider intervening in currency markets. He also rejected the suggestion that the Bank could offer the exchange market verbal guidance on the value of the dollar.

“I believe in markets. Manipulating or trying to guide them is just not in our game plan,” Governor Poloz said. “It is the job of the *market* to watch the economic data unfold and grind out the implications for other financial markets, including the exchange rate, on a daily basis. That ... is a tough job, but it is not ours.”

The Bank expects that the Canadian economy eventually will return to a sustainable, natural growth track as exports and business investment replace household spending as the main engines of growth. As foreign demand revives exports and investment, job markets will improve, the economy's spare capacity will be absorbed, and inflation will return sustainably to the Bank's target.

The Governor noted that “the global economy remains an uncertain place” but said the Bank is starting to see some encouraging signs, including higher investment spending in the United States, which is usually associated with stronger exports from Canada.