24 October 2016

Joint Statement of the Government of Canada and the Bank of Canada on the Renewal of the Inflation-Control Target

The primary objective of Canada's monetary policy is to promote the economic and financial welfare of Canadians by contributing to sustained economic growth, rising levels of employment and improved living standards. Experience has clearly shown that the best way monetary policy can achieve this goal is by maintaining a low and stable inflation environment, which preserves confidence in the value of money.

Twenty-five years ago, in 1991, Canada adopted an inflation-targeting framework to guide its monetary policy. During this time, Consumer Price Index (CPI) inflation has been reduced and maintained at a level of close to 2 per cent, with no persistent episodes of inflation outside of the 1-to-3 per cent inflation-control range. Real output has expanded at an average rate of close to 2 1/2 per cent per year and the performance of the labour market has been better. In addition, there has been much lower volatility in inflation, real GDP growth, the unemployment rate, and interest rates.

This improved macroeconomic performance has been fostered by the joint commitment of the Government of Canada and the Bank of Canada to the inflation target, which has helped to anchor inflation expectations and provided a more stable economic environment in which Canadians can plan their investment and spending decisions.

Over the past decade, the global economy has undergone significant economic and financial shocks. Monetary authorities have dramatically extended the limits of their policy toolkits to combat persistent weakness, guard against deflation, repair financial system functioning, and restore confidence. Given such challenges, monetary policy frameworks have themselves come under intense scrutiny.

Throughout this period, the Bank of Canada's flexible inflation targeting framework has continued to demonstrate its value. The well-established credibility of this framework has reinforced the Canadian public's confidence that monetary policy will continue to achieve the inflation target, and helped underpin the Canadian economy through challenging times. These benefits continue to be evident in the wake of the global commodity price shock, enabling monetary policy to support the complex adjustment in the Canadian economy while maintaining overall price stability.

Based on this experience, the Government of Canada and the Bank of Canada agree to renew the inflation target on the following basis:

- The target will continue to be defined in terms of the 12-month rate of change in the total CPI.

- The inflation target will continue to be the 2 per cent mid-point of the 1 to 3 per cent inflation-control range.

- The agreement will run for another five-year period, ending 31 December 2021.

The Bank will continue its research into potential improvements in the monetary policy framework. Before the end of 2021, the Government and the Bank will review the experience over the five-year period, as well as any research insights, and determine the appropriate framework for the years ahead.

The commitment by the Government and the Bank to this inflation-control target will ensure that Canadians continue to derive the economic and social benefits from low, stable and predictable inflation and underpin confidence in Canada's economic prospects in the coming years.