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Bank of Canada's continued focus on inflation right for current economic times: Governor Carney

HALIFAX, Nova Scotia, January 27, 2009 — Canadians can be confident that monetary policy will maintain a "relentless" focus on controlling inflation, whether it rises above or drops below the official target range, Bank of Canada Governor Mark Carney said today.

Experience has shown that controlling inflation is the best contribution that monetary policy can make to Canadians' economic and financial well-being, an issue that is particularly crucial during this period of extraordinary global financial turmoil, the Governor said in a speech to the Halifax Chamber of Commerce.

"In time, the global financial crisis will end, and the global economy will recover, although the speed with which this will happen is subject to a high degree of uncertainty," the Governor said. "The relentless focus of monetary policy on inflation control is essential in this time of financial crisis and global recession, and remains the best contribution that monetary policy can make to the economic and financial welfare of Canada."

Governor Carney noted that the Bank's inflation-targeting framework, established jointly with the Government of Canada, takes a symmetrical approach to controlling inflation. This means that the Bank worries as much when inflation falls below the target of 2 per cent as when it rises above target, he said.

Although the severe global financial crisis has raised concerns about deflation in some countries, the possibility of such a sustained fall in prices is remote in the Canadian economy for several reasons, said Governor Carney. Canada's labour, product, and capital markets are flexible; its banking system is one of the soundest in the world; and households, businesses, and the public sector have considerable financial flexibility. As well, Canada's floating exchange rate allows for an independent monetary policy which ensures that "we are in control of our own monetary destiny," he said.

Moreover, Canada has the clearest, most powerful monetary policy framework in the world. "The advantages of that framework have been demonstrated, with inflation brought down and kept low and stable since the early 1990s, and they are equally relevant in times of disinflationary pressures," he said.

The Governor reiterated the Bank's economic projection as outlined in its *Monetary Policy Report Update* published on 22 January. Although economic activity in Canada is projected to decline this year, it should accelerate to above-potential growth in 2010, supported by policy actions and the past depreciation of the Canadian dollar. On an annual average basis, real GDP is projected to decline by 1.2 per cent in 2009 and to rebound by 3.8 per cent in 2010.