



BANK OF CANADA

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21 March 1995

Note to editors

**Something new at the Bank of Canada**

As you know, the activities of the Bank of Canada affect the lives of *all* Canadians.

With this in mind, the annual report has been changed to increase the public's understanding of what the Bank of Canada does -- and why. The new report focusses primarily on the Bank's operations and puts particular emphasis on the manner in which its affairs were managed in 1994.

We think that your readers would like to know more about the activities of their central bank. For this reason -- and for your convenience -- we have enclosed a camera-ready feature article that provides an overview of the 1994 annual report.

To obtain a copy of the report, simply call Publications Distribution at (613) 782-8248. You may also request a copy by fax at (613) 782-8874 or by writing to the following address: Publications Distribution, Secretary's Department, Bank of Canada, 234 Wellington Street, Ottawa, Ontario K1A 0G9. Copies of the report are also available at any of the bank's nine agencies across the country.

Your co-operation is appreciated.

# Low inflation paying off

Canada's low inflation rate policy has begun to pay big dividends — and should produce further gains in the year ahead.

Much, however, will depend on how well we stay on track, says Bank of Canada Governor Gordon Thiessen, in his first annual report.

These dividends include more jobs, a rising level of exports, a cost-conscious, more competitive industrial sector and, eventually, lower interest rates.

"I want to underline just how important these successes are," said Thiessen.

"At times it has seemed to me that we in Canada have lost sight of what it takes to have a growing economy that generates increased incomes and employment.

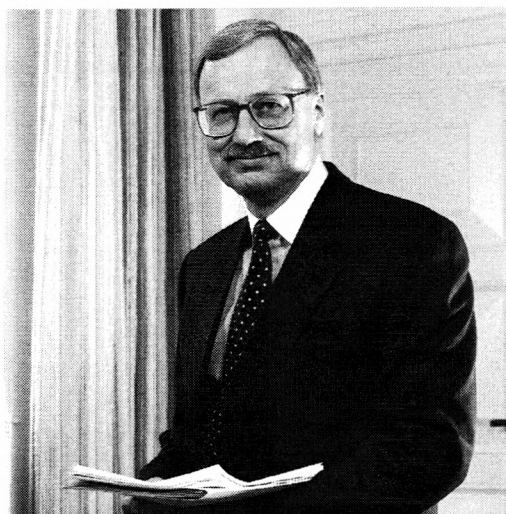
"There is no magic formula — just businesses and their employees that are highly sensitive to their customers, constantly looking for improved ways of producing and marketing their products and willing to make changes when needed."

Without the productivity improvement that comes from this kind of activity, he warned, there can be no sustained gains in incomes.

That's the lesson of the 1970s and 1980s when productivity gains slowed down and almost disappeared.

At the same time, he added, many Canadians are concerned about the sharp increases in interest rates and the decline in the value of the Canadian dollar — despite gains posted by the economy in 1994.

They're wondering why interest rates should be rising when Canada has one of the lowest inflation rates



**Bank of Canada Governor Gordon Thiessen.**

in the world and, just as importantly, whether these rates will stifle economic expansion.

"Contrary to widely held beliefs," Thiessen added, "the Bank of Canada cannot set interest rates at any arbitrary level it pleases.

"Interest rates are determined primarily by the views of savers, investors and borrowers — domestic and foreign — as to what constitutes a fair return in financial markets."

Thiessen also noted that interest rates rose in Canada this past year because of "heightened concerns about the implications of budgetary deficits and the rising level of our public debt".

That's why, he added, it is crucial that there be "a credible commitment by governments to get budgets on a sustainable track".

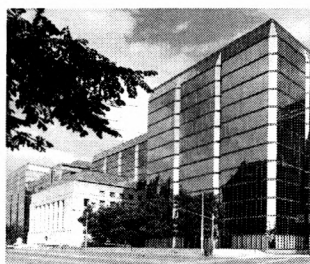
The Bank of Canada's most significant achievement in 1994, said Thiessen,

was keeping the lid on inflation for the third straight year — "a promising sign for the economic future of Canada".

**The Bank of Canada will be introducing a new semi-annual report on monetary policy this spring.**

**The report will measure the Bank's performance and examine how current economic circumstances and monetary conditions are likely to affect future inflation.**

## ***BANK OF CANADA DOES MORE THAN INFLUENCE INTEREST RATES***



**Bank of Canada head office in Ottawa.**

That's what usually grabs the headlines. But, as its new annual report shows, the Bank is also responsible for:

- Maintaining the value of our money by keeping inflation under control.
- Meeting the needs of Canadians for bank notes. This includes designing, printing and distributing all notes in circulation and protecting them from counterfeiting.
- Contributing to the safety and soundness of the country's financial system.
- Managing the public debt and providing services to holders of Canada Savings Bonds and other federal government securities.

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