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Meeting No. 56

**MINUTES OF PROCEEDING**

Wednesday, November 26, 1997

The Standing Committee on Finance met in a televised session at 3:30 o'clock p.m., this day, in Room 253-D, Centre Block, the Chair, Maurizio Bevilacqua, presiding.

*Members of the Committee present:* Mark Assad, Maurizio Bevilacqua, Roger Gallaway, David Iftody, Gilles A. Perron, Gary Pillitteri, Karen Redman, Gerry Ritz and Paddy Torsney.

*Acting Members present:* Murray Calder for Paul Szabo; Odina Desrochers for Yvan Loubier; André Harvey for Jim Jones; Stan Keyes for Tony Valeri; Lorne Nystrom for Nelson Riis.

*Associate Member present:* Nick Discepola.

*Other Members present:* Tony Ianno.

*In attendance: From the Research Branch of the Library of Parliament:* Richard Domingue and Marion Wrobel, Research Officers.

*Witnesses: From the Bank of Canada:* Gordon Thiessen, Governor; Bernard Bonin,

Senior Deputy Governor; Charles "Chuck" Freedman, Deputy Governor.

In accordance with its mandate under Standing Order 108(2), the Committee considered the Bank of Canada "Monetary Policy Report, November 1997".

Gordon Thiessen made a statement and, with the other witnesses, answered questions.

At 5:19 o'clock p.m., the Committee adjourned to the call of the Chair.

Carol Chafe

Clerk of the Committee

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## STANDING COMMITTEE ON FINANCE

## COMITÉ PERMANENT DES FINANCES

### EVIDENCE

[Recorded by Electronic Apparatus]

Thursday, November 27, 1997

• 1535 

[English]

[Editor's Note: Technical Difficulty]

**Mr. Gordon Thiessen (Governor of the Bank of Canada):** ...to us and there are also potential effects on our other trading partners to be taken into account. These developments are probably reflected to some extent in the softening of some global commodity prices that are of importance for Canada.

[Translation]

Taking all these influences into account our judgement is that the impact on Canada does not, at this stage, look likely to be large. But we are sensitive to the fact that some industries and regions will be affected more than others.

Moreover, a good deal of uncertainty remains about likely developments in Asia. Let me reassure you that we are monitoring the situation very closely.

[English]

We're following the events in Asia and their likely impact on Canada very closely. I must say, even with the uncertainty about Asia, the suggestion that one hears these days of a risk of world-wide deflation strikes me as being far too pessimistic. While developments in Asia will lower somewhat the pace of economic expansion in the world, the largest economy in the world, the United States, is in fact pressing the limits of its capacity and is much more at risk of having upward pressure on its inflation rate than the reverse. Certainly, for Canada, it is the United States economy that is by far the most important. Moreover, the outlook for the economies in Europe and Mexico have been improving recently.

I'd now like to turn to Canadian monetary policy. I don't propose to summarize what we say in our report about likely developments over the next six months. I believe our assessment is reasonably clear both in the report and in the summary.

[Translation]

I would like to say a few words about our focus on keeping inflation low and what we are trying to accomplish with this objective. To see the benefits of low and stable inflation, we need only look to the

United States these days.

That country is experiencing an improving rate of productivity growth, a stable and prolonged economic expansion and the best employment performance in decades. And that is what low inflation should help to deliver.

[*English*]

In Canada the economic cycle has been running a few years behind that of the United States because of the restructuring in our private sector and because of the need for fiscal restraint. However, our economy is now beginning to gain momentum and we are starting to see improvements in productivity and employment. For these improvements to continue, the crucial requirement will be to keep our expansion on a non-inflationary and therefore sustainable path.

What we've learned at considerable cost over the past 25 years is that a willingness to live with increased inflation inevitably sets the economy on a course of boom and bust, and what you may think you're gaining in the boom you more than lose in the bust.

[*Translation*]

I would also like to underline the fact that reductions in unemployment lag well behind the expansion in the economy. That is why a prolonged expansion is also important for achieving sustained reductions in unemployment.

[*English*]

A prolonged economic expansion is important if we're going to get sustainable, sustained declines in unemployment.

Finally, Mr. Chairman, I just want to provide a word of explanation about our increase in the bank rate yesterday. That action was in response to the recent persistent weakness of the Canadian dollar. With low interest rates, a low value for the Canadian dollar and rapid money supply growth, monetary conditions in Canada have been highly stimulative for some time.

• 1540



The economy has gained momentum this year and while it is by no means overheated, it does not need still more stimulus coming from a further weakness in our currency. Perhaps even more important is that this decline in the dollar potentially puts at risk our ability to have medium- and long-term interest rates below those in the United States.

Lower interest rates here are only possible if there is an expectation that the Canadian dollar is going to rise in value. Having low-, medium- and long-term rates is particularly important for our economy because of the role these rates play in the financing of housing, new technology, machinery and equipment, and production capacity more generally.

That's all I'd like to say by way of introduction.

**The Chairman (Mr. Maurizio Bevilacqua (Vaughan—King—Aurora, Lib.)):** Thank you very much, Mr. Thiessen.