

PRESS RELEASE

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Inflation-Control Targets Extended

The Bank of Canada today released a joint statement of the Government of Canada and the Bank of Canada on the extension of the inflation-control targets, as well as additional information on the Bank's approach to implementing the targets.

Joint statement

The objective of Canadian monetary policy is to contribute to sustainable economic expansion, high levels of employment, and rising standards of living. The best contribution monetary policy can make to these goals is through preserving confidence in the value of money by providing an environment of stable average prices. Accordingly, the Government of Canada and the Bank of Canada today reaffirmed that monetary policy in Canada will continue to be oriented towards achieving and maintaining price stability and announced that the current inflation-control targets will be extended until the end of 2001.

Targets for reducing inflation were adopted in February 1991. In December 1993, the government and the Bank of Canada agreed to extend the targets from the end of 1995 to the end of 1998 with the objective of holding inflation inside the range of 1 to 3 per cent. It was also agreed that the targets would be re-examined by the end of 1998 and that a new long-term target range consistent with price stability would be set at that time.

Since the initial adoption of these targets, considerable progress has been made in reducing inflation and maintaining it at a low level. Economic decisions are increasingly being made on expectations of a continuation of low inflation, and Canadians are beginning to experience the benefits from such an environment. For example, low inflation, together with the progress made by all levels of government in Canada to restore fiscal balance, has resulted in a substantial decline in interest rates, with medium- and long-term interest rates near their lowest level in decades. However, over the past several years the Canadian economy has been through a difficult period of private and public sector restructuring, and the full benefits for economic performance from low inflation have yet to be realized.

It would be helpful to have a longer period of time in which the economy demonstrated more fully its ability to perform well under conditions of low inflation before determining the appropriate long-run target consistent with price stability. Consequently, the

Government of Canada and the Bank of Canada have agreed to extend the existing inflation-control targets, which are to hold inflation inside the range of 1 to 3 per cent, to the end of 2001. The government and the Bank plan to determine the long-run target for monetary policy before the end of 2001. Providing Canadians with such a long-term commitment will help to secure the benefits that a stable price environment can bring to the growth of incomes and employment in Canada.

Implementation of policy under the targets

The Bank will continue the current approach to implementing the targets, as set out in 1991 and developed over the years. This will include the following elements.

- The target will continue to be defined in terms of the 12-month rate of increase in the total CPI, and the operational guide for policy will continue to be the CPI excluding food and energy prices and adjusted for the effects of indirect tax changes, as before.
- Monetary policy actions will continue to focus on countering persistent upward or downward pressures on the trend rate of inflation, not temporary pressures that are expected to reverse, or one-off price level changes.
- In the case of large unforeseen shifts in supply or demand, inflation may temporarily move outside the target range. Monetary policy actions would then be directed to bringing the trend rate of inflation back towards the centre of the range over a period of about two years.
- More generally, since monetary actions have their effects on economic activity and inflation with long lags, policy actions must always be directed to responding to expected developments in inflation six to eight quarters in the future.
- The Bank of Canada will continue to report in its semi-annual *Monetary Policy Report* on inflation developments, actions to achieve the targets, and its assessment of the outlook for inflation in light of economic trends.