

# World economy faces risks, but growth likely: Bank of Canada

By Allison Lampert

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While the global economy faces a number of risks, including the potential for a shock from China, the most likely scenario is that growth continues, with some headwinds starting to slowly fade, a senior Bank of Canada official said on Wednesday.

Nonetheless, the world economy's potential growth will be lower than it was 10 years ago, partly due to demographic shifts that policy cannot fully address in the short term, Senior Deputy Governor Carolyn Wilkins said.

"There are a lot of downside risks, but I would say though that the most likely thing is that the economy is going to keep growing," Wilkins told a panel.

"There's not the typical inflation pressures you see that would result in very abrupt increases in interest rates and that's often what triggers downturns."

The Bank of Canada cut interest rates twice last year to cushion the shock of cheaper oil. While the bank is expected to hold steady when it meets later this month, odds of another cut this year have risen following disappointing trade

data and oil production disruptions due to wildfires in Alberta.

One risk the Bank of Canada thinks about is the potential for a shock out of China, which affects Canada not only through demand for exports but also the effect China has on commodity prices, Wilkins said.

While the central bank expects China will experience slower but more sustainable growth, the risks are "pretty important," she said.

But there are signs that some headwinds facing the global economy are dissipating, Wilkins said, pointing to the U.S. recovery.

"It's not going to go in a straight line but we see it recovering," Wilkins said. A stronger U.S. economy is key for Canada's export outlook.

"I think the focus is on the downside risks because there just seem to be so many of them and we try to take some of those on board so we have a balanced forecast," Wilkins added.

With the potential for world economic growth lower, the neutral interest rate is also going to be lower and is in the range of 2.75 to 3.75 percent for Canada, Wilkins said.