



BANK OF CANADA

FOR IMMEDIATE RELEASE
1 August 2001

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Bank of Canada releases *Monetary Policy Report Update*

The Bank of Canada today released its *Update* to the May *Monetary Policy Report*, in which it discusses economic and financial trends in the context of Canada's inflation-control strategy.

The Bank's outlook for economic activity and inflation has not fundamentally changed from that presented in the May *Report*. After increasing modestly in the first half of 2001, economic activity in Canada is expected to pick up pace in the second half and to make further gains in 2002. Growth for 2001 is still projected to be in a range between 2 and 3 per cent. The factors that support this outlook continue to include: substantial progress in adjusting inventory levels, a turnaround in business investment, the easing that has taken place in domestic monetary conditions, tax cuts boosting disposable incomes, and the expectation of a modest recovery in U.S. economic growth.

Since January, the Bank has cut the Overnight Rate Target by a total of 150 basis points. This cumulative reduction in interest rates is underpinning domestic economic growth in the face of weak conditions outside North America and uncertainty about the recovery of U.S. business investment spending. These reductions are consistent with keeping inflation close to 2 per cent – the Bank's target rate – over the medium term.

The slowing in economic activity in Canada during the first half of 2001 has eased pressures on capacity and inflation. Core inflation is thus projected to moderate to about 2 per cent in the second half of the year and stay close to that level through 2002. With the recent decline in energy prices, the rate of increase in the total CPI is projected to move down to about 2 per cent by the end of 2001.