



BANK OF CANADA

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Bank of Canada releases semi-annual *Monetary Policy Report*

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

During the past summer, evidence began to accumulate that the economic slowdown in North America would be deeper and longer-lasting than anticipated. The terrorist attacks in the United States have added a further element of weakness and uncertainty for the global economy and for Canada. Economic growth in Canada is expected to be close to zero or slightly negative in the second half of 2001.

Beyond the immediate impact, the size and duration of the economic consequences of the terrorist attacks in the United States are very difficult to assess. How quickly levels of activity recover and economic growth resumes will depend crucially on geopolitical developments and on how soon consumer and business confidence in the United States and Canada return to normal.

Because of the unusual nature of the uncertainty we face, the Bank is not presenting a conventional forecast, but rather an economic outlook based on working assumptions. These assumptions are that there will be no further major escalation of terrorism and that business and consumer confidence will return to normal levels in the second half of 2002.

Based on the Bank's working assumptions and given the amount of monetary and fiscal stimulus that has been provided, the economy will gain speed through 2002, with growth averaging about 2 per cent in the first half and 4 per cent in the second half (above the rate of potential output growth).

With more slack opening up in the economy, core inflation is expected to fall to about 1½ per cent in the second half of 2002. Total CPI inflation in 2002 is also projected to move below the 2 per cent midpoint of the Bank's inflation-control target range, if energy prices remain at or below their levels of early September.

This outlook and analysis will guide the Bank's judgment about the appropriate course for monetary policy, as more information becomes available.