



BANK OF CANADA

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

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

At this time, the key issue in the conduct of monetary policy in Canada is the extent of the current slowdown in the pace of economic activity stemming primarily from developments in the United States.

The slowdown in the U.S. economy has been greater than anticipated, but a strengthening is expected in the second half of 2001. Europe continues to exhibit positive momentum although at a slower pace. Emerging-market economies have been adversely affected by the U.S. slowdown. In Japan, the economy remains weak.

After slowing in the first half of 2001, economic growth in Canada is expected to pick up in the second half and rise somewhat further in 2002 to slightly above the economy's growth potential. This view reflects several factors: a second-half pickup in U.S. growth, completion of the current inventory correction, continued investment in new technology by businesses, recent tax cuts, and the easing in domestic monetary conditions.

Since January, the Bank has cut the Bank Rate by a total of 100 basis points to support growth in aggregate demand. This reduction in interest rates was consistent with the Bank's policy objective of keeping inflation close to the 2 per cent midpoint of its 1 to 3 per cent target range over the medium term.

Because of slowing activity and associated movement towards a position of excess supply, core inflation will likely average somewhat below 2 per cent over the remainder of 2001. It is expected to move back to 2 per cent by the end of 2002 as the economy grows above potential. The rate of increase in the total CPI is expected to be volatile over the next few months, before moving down to 2 per cent by the end of 2001 if world energy prices remain close to current levels.

The main risk to this outlook for the Canadian economy is the timing and strength of the projected pickup in U.S. growth. The Bank will continue to monitor developments in this area closely.