



BANK OF CANADA

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Bank of Canada releases *Monetary Policy Report Update*

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

While robust growth is not yet underway, geopolitical developments have evolved positively and consumer confidence has improved. Thus, the likelihood that economic growth in 2002 will strengthen as the year progresses has increased. Business confidence, however, remains weak in many countries, with the timing and strength of the recovery in global business investment being the major area of uncertainty for the outlook.

The profile for economic growth in Canada provided in the *Update* indicates that the amount of economic slack through 2002 will likely be somewhat greater than anticipated last November. With greater economic slack, core inflation is now expected to average just under 1 ½ per cent in the second half of 2002. Total inflation should remain below core inflation until late 2002, if world energy prices increase only moderately from the current levels.

By lowering its target rate for the overnight interest rate a further 75 basis points since the November *Report*, for a cumulative decline of 375 basis points over the past twelve months, the Bank has taken vigorous action to support domestic demand growth. As a result, economic slack should start to diminish in the second half of 2002, as the economy begins to expand at rates above that of potential output, and would be expected to disappear by late 2003. Consequently, both core and total CPI inflation should be back close to 2 per cent in about two years.