



BANK OF CANADA

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**Bank of Canada releases its April *Monetary Policy Report***

OTTAWA – 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.

Canada's economic outlook has improved significantly since the November *Monetary Policy Report*. Indeed, information on the fourth quarter of last year and the first quarter of 2002 indicates that the recovery in the Canadian economy began sooner and has been considerably stronger than anticipated.

The Bank now projects that the Canadian economy will grow between 3 ½ and 4 ½ per cent at annualized rates in the first half of 2002. It is expected to continue to expand at a rate above that of its production capacity in the second half of 2002 and in 2003. Thus, the economy is expected to be operating at full capacity in the second half of 2003.

In light of this outlook, the Bank began to reduce the substantial amount of monetary stimulus in the economy, raising the target for the overnight rate of interest by 25 basis points to 2.25 per cent on 16 April.

Nonetheless, important risks and uncertainties remain. Given the amount of monetary stimulus in place, growth in Canada could be stronger than projected. It is also possible that growth in household spending may not be as strong as anticipated, if more of the recent strength than assumed was borrowed from future expenditures. There is also uncertainty regarding the timing and strength of the pickup in business investment and exports, and how developments in the Middle East could affect crude oil prices and the global economy.

The challenge for monetary policy over the remainder of this year and through 2003 is to help the economy move back to, and then sustain, levels of production at capacity by taking actions aimed at achieving the Bank's 2 per cent target for inflation control. This means reducing, in a timely and measured manner, the substantial amount of stimulus in place.