



BANK OF CANADA

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CONTACT: Pierre Laprise
(613) 782-8782

Bank of Canada releases *Monetary Policy Report Update*

OTTAWA - The Bank of Canada today released its *Update* to the April *Monetary Policy Report*. The *Update* reviews economic and financial trends in the context of Canada's inflation-control strategy.

The July *Update* highlights a number of unanticipated developments that have changed the outlook for economic activity and inflation in Canada.

Inflation and inflation expectations have eased, and near-term domestic activity has been weakened by severe acute respiratory syndrome (SARS), an isolated case of bovine spongiform encephalopathy (BSE), and weaker-than-expected foreign demand for Canadian products. As well, the substantial rise in the value of the Canadian dollar against the U.S. dollar will have a dampening effect on the future growth of demand for Canadian goods and services. As a result, more slack is developing in the economy than was previously expected. It now appears that, by the end of this year, core inflation will fall below the 2 per cent target.

To support growth in domestic demand and aggregate levels of economic activity, the Bank left its target for the overnight rate unchanged on 3 June, and lowered it by 25 basis points to 3 per cent on 15 July.

The Bank expects that growth in Canada's economy will strengthen towards the end of 2003 and through 2004. Growth during 2004 will likely be higher than previously projected, suggesting that the economic slack that is expected to develop in 2003 will be largely absorbed by the end of next year.

The Bank will closely monitor the strength of domestic and external demand with a view to keeping inflation on track to meet the 2 per cent target over the medium term.