



BANK OF CANADA

FOR IMMEDIATE RELEASE
22 January 2004

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Bank of Canada releases *Monetary Policy Report Update*

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

Since the October *Monetary Policy Report*, three developments have led the Bank to modify its outlook for economic growth and inflation in Canada: stronger-than-expected world economic activity, the continued sharp depreciation of the U.S. dollar against major world currencies (including the Canadian dollar), and a somewhat larger output gap in Canada at the end of 2003. Weighing these developments and their likely persistence, the Bank lowered its projection of output in Canada over the next year and a half. In this context, the Bank cut policy interest rates to support aggregate demand and thus return inflation to 2 per cent over the medium term.

In Canada, economic growth in the period ahead will need to come primarily from private domestic demand, supported by monetary stimulus and by strong business confidence. The Bank now projects growth to average about 2 3/4 per cent in 2004, and to pick up to about 3 3/4 per cent in 2005. This would imply that the output gap would not change materially before the end of 2004, but would be substantially closed by the third quarter of 2005.

Core inflation is projected to fall below 1 1/2 per cent in early 2004, before gradually moving back to the 2 per cent target by the end of 2005. If oil prices ease to about US\$30 per barrel in the second half of 2004 and US\$28 in 2005, as suggested by futures contracts, total CPI inflation should remain below core inflation through 2005.

The main uncertainties in the outlook relate to the adjustment of the Canadian economy to global changes. These include a stronger world economy, higher commodity prices, and the realignment of world currencies, including the Canadian dollar. Canadian monetary policy facilitates the overall adjustment process by helping to sustain aggregate demand in Canada.