



BANK OF CANADA

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Bank of Canada releases *Monetary Policy Report Update*

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

Global and Canadian economic developments have been unfolding broadly as expected, and the Bank's outlook for output and inflation in Canada through to the end of 2006 is little changed from the scenario outlined in the April *Monetary Policy Report*. Strong growth in final domestic demand in Canada continues to offset the drag from net exports. Further progress has been made across sectors of the Canadian economy in adjusting to global developments, and the economy is operating close to its production capacity.

The Bank expects Canada's economy to grow by about 2.7 per cent in 2005 and 3.3 per cent in 2006. With the economy projected to continue to operate near capacity, and with inflation expectations firmly anchored, inflation is expected to return to 2 per cent by the end of 2006.

To support aggregate demand, the Bank has held the target for the overnight rate unchanged at 2 1/2 per cent since October 2004. However, in line with the Bank's outlook for growth and inflation, some reduction in the amount of monetary stimulus will be required in the near term to keep aggregate demand and supply in balance and inflation on target.

The risks to the outlook through 2006 relate primarily to the future path of prices for oil and non-energy commodities, the pace of growth in China, and the ongoing adjustment of the Canadian economy to global developments. These risks appear to be balanced. Over the medium term, however, there is increasing risk that the correction of global current account imbalances could involve a period of weakness in world aggregate demand.