



BANK OF CANADA

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Bank of Canada releases *Monetary Policy Report Update*

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

The outlook for the Canadian economy continues to be shaped by global developments, including the realignment of world currencies. The near-term outlook for the global economy is a touch weaker than projected in the October *Report*, but more solidly based because of somewhat lower oil prices and greater confidence in the momentum of the U.S. economy.

The Canadian economy is expected to operate a little further below its full production capacity in 2005 than was anticipated at the time of the last *Report*, largely reflecting the dampening effects on aggregate demand of the recent appreciation of the Canadian dollar. For 2006, growth is projected to pick up to slightly more than 3 per cent, consistent with returning the economy to its production capacity in the second half of the year, and returning core inflation to 2 per cent around the end of 2006. In line with this revised outlook, the pace of reduction in monetary stimulus is likely to be slower than that envisioned in the October *Report*.

This outlook is subject to both upside and downside risks and to uncertainties. While the near-term risks surrounding the global economic outlook have lessened, there are still significant medium-term risks related to the evolution of oil prices, the pace of expansion in China, the way in which current account balances in the United States and East Asia will be resolved, and geopolitical developments.