BANK OF CANADA

FOR IMMEDIATE RELEASE
13 May 1998

CONTACT: Laurette Bergeron
(613) 782-8782

Bank of Canada Governor comments on release of the *Monetary Policy Report*

Bank of Canada Governor Gordon Thiessen today commented on the release of the semi-annual ***Monetary Policy Report,*** which discusses current economic trends and their implications for monetary policy.

Mr. Thiessen noted that since the release of the last *Report* in November, 1997, there have been an unusual number of developments which have had important economic and financial consequences. These include the crisis in Asia, declines in commodities prices, and the persistent weakness of the Japanese economy. At the same time, the U.S. economy has been considerably stronger than expected. At home, there were strikes by Ontario's teachers and by Canada's postal workers in the fourth quarter of 1997, as well as the January ice storm in eastern Canada. These developments have resulted in a higher-than-usual degree of uncertainty, Mr. Thiessen added.

"Adding up the effects of recent events, we see the economy continuing on a solid growth path, but not at the same rapid pace as in 1997," Mr. Thiessen said. "Despite the effects of developments in Asia, the economy is being supported by a vigorous U.S. economy and accommodative monetary conditions. Inflation is expected to remain inside our target range."

"While the uncertainty surrounding the outlook is greater than normal, the risks appear balanced. This outlook implies that the economy would reach a level close to full capacity during the course of 1999," Mr. Thiessen added.

On the implications for monetary policy, Mr. Thiessen said, "It is the Bank's judgment that over the next six months, the recent range of monetary conditions would be broadly appropriate in the absence of further shocks. However, given the degree of uncertainty that is likely to persist, monetary conditions may continue to fluctuate over a relatively wide range."

Looking further ahead, he added: "If the underlying momentum of activity remains as strong as is currently expected, less-stimulative monetary conditions would appear to be called for as the economy approaches and achieves full capacity. This would ensure that inflation remains low, and that continued gains in output and employment can be sustained."