



BANK OF CANADA

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Bank of Canada releases its semi-annual *Monetary Policy Report*

Today the Bank of Canada released its tenth *Monetary Policy Report* in which it discusses economic and financial trends in the context of Canada's inflation-control strategy. The *Monetary Policy Report* is published every May and November.

In this edition of the *Report*, the Bank notes that Canada's economic growth is expected to remain strong. With exports growing strongly and domestic spending rising, the Canadian economy in 1999 is likely to register growth close to 3¾ per cent on an annual average basis. Inflation in Canada has been broadly in line with expectations over the past six months and has moved towards the middle of the Bank's 1 to 3 per cent target range.

The increased momentum in the Canadian economy has taken place against a backdrop of continuing improvement in the international economic environment. The U.S. economy continues to show surprising strength and relatively low inflation despite a tight labour market. A number of the Asian economies that were hurt by the 1997-98 financial crisis have recovered more rapidly than expected. Japanese output has increased sharply following two years of recession, and growth in Europe has picked up. There has also been a significant turnaround in world commodity prices.

For 2000, the U.S. economy is expected to slow to a more sustainable pace. On this basis, the Bank projects economic growth in Canada to be in the range of 2¾ to 3¾ per cent. Given this growth projection, and with inflation expectations settling around the midpoint of the Bank's target range, the Bank expects core inflation to remain close to 2 per cent through next year.

However, there are some important risks to this projection of economic growth and inflation. These risks relate to the possibility of a stronger momentum of demand from domestic as well as international sources and to potential inflation pressures in the United States.

In order to preserve the low trend of inflation incorporated in this projection, the Bank must be ready to adjust monetary conditions in a timely manner. The challenge will be to assess carefully, using all available coincident and leading indicators, when adjustments are needed. Any resurgence of inflation in Canada would undermine our prospects for a durable expansion.