BANK OF CANADA

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

Bank of Canada Governor Gordon Thiessen today commented on the release of the Bank's ninth ***Monetary Policy Report.*** First published four years ago, the twice-yearly ***Report*** is released in May and November and discusses current economic trends in the context of monetary policy.

Mr. Thiessen noted that the outlook for the world economy has become more positive. The turbulence that characterized international markets last autumn has subsided and investor confidence is being restored. Supported by a robust U.S. economy, accommodative domestic monetary conditions, and recovery from labour disruptions last summer, the pace of economic activity in Canada picked up in the fourth quarter of 1998 and early 1999. "The Canadian economy is regaining its momentum," said Mr. Thiessen.

Mr. Thiessen said that, compared with six months ago, the Bank has raised its projection for growth in the economy in 1999 to between 2¾ and 3¾ per cent. This is higher than the latest consensus among private sector forecasters. Mr. Thiessen said Canadian exports should continue to grow because of Canada's good price and cost performance relative to its trading partners.

"Household spending should continue to recover," he added, "spurred by gains in employment and an improvement in consumer confidence."

"Looking forward, we expect core inflation to rise modestly over the next 18 months," said Mr. Thiessen, "but remain in the lower half of the Bank's 1 to 3 per cent target range for inflation." There is a high level of confidence among sophisticated investors that Canada's inflation will remain low, he pointed out.

Mr. Thiessen stressed that, while the risks to the outlook for the economy and inflation appear balanced, several significant uncertainties remain. One of the main risks is the divergent economic performance of the major industrial countries. On the domestic side, there is uncertainty regarding the margin of unused capacity in the economy. The Bank plans to place increasing weight on a wide range of economic indicators for signs of pressures on production capacity and on inflation.