

Release of the *Monetary Policy Report*

7 November 2001

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Opening Statement for the Press Conference

Since our May 2001 *Report*, a further weakening of the world economy and the terrorist acts in the United States have forced a reappraisal of global economic prospects.

By midsummer, evidence began to accumulate that the economic slowdown, globally and in Canada, would be deeper and more protracted than previously anticipated. Thus, in late August, the Bank scaled back its projections for the Canadian economy.

The terrorist acts in the United States, and their worldwide repercussions, have dramatically heightened the degree of uncertainty, further dampening near-term growth prospects. When we consider the direct effects of those acts, their immediate impact on consumer and business confidence, and adjustments to address increased security risks, economic growth in Canada is now expected to be close to zero or slightly negative in the second half of 2001. For all of 2001, this implies growth of about 1½ per cent.

As we look to 2002, the timing and strength of a recovery will depend crucially on geopolitics and on how soon confidence returns to normal in North America. With respect to confidence, one can envisage two scenarios. In one, confidence could be restored quickly, and robust growth could resume, supported by the substantial fiscal and monetary stimulus already in place. In the other, confidence could stay weak for some time and, consequently, growth would remain anemic through most of 2002.

Under either scenario, by the end of 2002, our economy would still be operating at levels that are below capacity. Core inflation is thus expected to fall to about 1½ per cent by the second half of 2002. Total CPI inflation is also expected to drop to about 2 per cent by the end of 2001 and to move below that during 2002, if energy prices stay at or below their early-September levels.

Based on these considerations, on 23 October, we again lowered our key policy interest rate by ¾ of a percentage point. The cumulative reduction of 3 full percentage points since January aims to support growth and to keep inflation close to the 2 per cent target over the medium term.

Given the high degree and unique nature of the current uncertainty, the Bank will continue to monitor developments very closely.