



BANK OF CANADA

Opening Statement
Monetary Policy Report Press Conference
17 November 1999

Good morning. The Bank of Canada has just released its tenth *Monetary Policy Report*. This morning, we also raised our target for the overnight interest rate by 1/4 of one percentage point to 4 3/4 per cent. This follows a similar increase yesterday in the U.S. Federal Funds rate to 5 1/2 per cent.

The Canadian economy has steadily gathered strength since our previous *Report* in May. Exports have been growing strongly and domestic spending by consumers and businesses has increased.

The increased momentum in the Canadian economy has been encouraged by continuing improvement in the international economic environment. Of most significance to Canada is that the U.S. economy has shown surprising strength. 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.

Real GDP growth in the Canadian economy was about 4 per cent for the first nine months of 1999, and the economy is likely to register growth close to 3 3/4 per cent for the year as a whole. Inflation has been broadly in line with expectations over the past six months as it has moved towards the middle of the Bank's 1 to 3 per cent target range.

For 2000, our projection in the Report is that the U.S. economy would slow to a more sustainable pace. On this basis, we projected economic growth in Canada to be in the range of 2 3/4 to 3 3/4 per cent. Given this growth projection, and with inflation expectations settling around the midpoint of the Bank's target range, we indicated that core inflation should remain close to 2 per cent through next year.

However, as we pointed out in the Report, 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. Yesterday's move by the Federal Reserve which suggests continued excess demand in the U.S. economy underlines these risks.

In order to preserve the low trend of inflation in Canada, the Bank must be ready to adjust monetary conditions in a timely manner. And that is what we did this morning. However, the challenge for monetary policy remains, and we will be carefully monitoring all available indicators of future inflation pressures. Any resurgence of inflation in Canada would undermine our prospects for a durable expansion.