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Bank of Canada releases *Monetary Policy Report*

OTTAWA, Ontario, 15 April 2004 — The Bank of Canada today released its April *Monetary Policy Report*, which reviews economic and financial trends in the context of Canada's inflation-control strategy.

The Canadian economy continues to adjust to developments in the global economy, such as stronger world demand, higher commodity prices, and the realignment of world currencies, including the Canadian dollar. Emerging-market economies, especially China and India, are contributing to intensified competition but are also creating new trading opportunities for Canada.

These developments require shifts in activity among sectors and create a need for adjustments by many businesses. Monetary policy is facilitating these adjustments by supporting aggregate demand, with the goal of keeping the economy near its full potential and inflation on target.

The Canadian economy was affected by a number of shocks in 2003. Thus, despite a broadening of the global economic recovery and higher commodity prices, economic growth in Canada at the end of the year was well below the level projected by the Bank in its October *Monetary Policy Report*. Preliminary indications are that growth in the first quarter of this year was marginally below 3 per cent. The Bank's view is that the economy is operating significantly below its potential.

The Bank's outlook for economic growth and inflation is essentially unchanged from that of the January *Monetary Policy Report Update*. The economy is expected to grow by about 2 3/4 per cent in 2004, picking up to about 3 3/4 per cent in 2005. This stronger growth is expected to come from private domestic demand, reflecting the current monetary stimulus in the economy and high levels of business and consumer confidence. Such growth would return the economy to close to its production potential by the third quarter of 2005. Core inflation—which removes the most volatile components of the consumer price index and the impact of indirect taxes on the remaining components—should average 1 1/2 per cent over the remainder of this year. As excess supply in the economy diminishes, core inflation is expected to move back to 2 per cent by the end of 2005.

The main uncertainty for the outlook continues to relate to how the Canadian economy adjusts to global developments. Overall, the risks to the outlook appear balanced.

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