

David Dodge: Summary of the latest Monetary Policy Report

Opening statement by Mr David Dodge, Governor of the Bank of Canada, at a press conference following the release of the Monetary Policy Report, Ottawa, 14 April 2005.

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This morning, we released our April *Monetary Policy Report*. In the report, we said that the global economy has been unfolding largely as expected, and the outlook for the Canadian economy is essentially unchanged from that in January's *Monetary Policy Report Update*. There is increasing evidence that the Canadian economy is adjusting to major global developments, including the realignment of currencies and higher commodity prices.

The Bank expects Canada's economy to grow by about 2 1/2 per cent in 2005 and 3 1/4 per cent in 2006, with growth this year and next coming primarily from strength in domestic demand. To continue to support aggregate demand, we decided to leave the target for the overnight rate unchanged at 2.5 per cent on 12 April.

The Bank continues to judge that the economy is operating slightly below its production capacity, and we expect that it will move back to full capacity in the second half of 2006. Core inflation is expected to return to 2 per cent around the end of 2006. Based on the scenario implied by oil-price futures, total CPI inflation is projected to remain slightly above 2 per cent this year, and to move slightly below 2 per cent in the second half of 2006. In line with this outlook for growth and inflation, a reduction of monetary stimulus will be required over time.

This outlook is subject to both upside and downside risks and to uncertainties. The risks include the pace of expansion in Asia and the prices of oil and non-energy commodities. A further risk relates to the resolution of global current account imbalances. Should these imbalances persist, the risk of a disorderly correction would grow over time. Most of the uncertainties with respect to the Canadian outlook relate to how the economy is adjusting to the relative price changes associated with major global developments.

Monetary policy continues to facilitate the adjustment process by aiming to keep inflation at the 2 per cent target and the economy operating near its production capacity.