

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 Update*, Ottawa, 27 January 2005.

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Today, we released the *Update* to our October *Monetary Policy Report*. The *Update* reviews economic and financial trends in the context of Canada's inflation-control strategy.

The outlook for the Canadian economy continues to be shaped by global developments, including the realignment of world currencies. The near-term outlook for the global economy is a touch weaker than projected in the October *Report*, but more solidly based because of somewhat lower oil prices and greater confidence in the momentum of the U.S. economy.

We expect the Canadian economy to operate a little further below its full production capacity in 2005 than was anticipated at the time of the last *Report*, largely reflecting the dampening effects on aggregate demand of the recent appreciation of the Canadian dollar.

For 2006, we project growth to pick up to slightly more than 3 per cent, consistent with returning the economy to its production capacity in the second half of the year, and returning core inflation to 2 per cent around the end of 2006.

In line with this revised outlook, the pace of reduction in monetary stimulus is likely to be slower than that envisioned in the October *Report*.

There are both upside and downside risks around the outlook, which continue to relate to the adjustment to global developments. As circumstances change, we always need to be ready to re-assess the policy implications.