



Bank of Canada maintains overnight rate target at 1 per cent

OTTAWA – The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1 per cent. The Bank Rate is correspondingly 1 1/4 per cent and the deposit rate is 3/4 per cent.

Inflation is close to the 2 per cent target and is evolving as the Bank anticipated in its July *Monetary Policy Report* (MPR). Recent data reinforce the Bank's view that the earlier pickup in inflation was attributable to the temporary effects of higher energy prices, exchange rate pass-through, and other sector-specific factors rather than to any change in domestic economic fundamentals.

The global economy is performing largely as expected. The recovery in Europe appears to be faltering as the situation in Ukraine weighs on confidence. In the United States, a solid recovery seems to be back on track, with business investment now making a significant contribution to growth. Global financial conditions remain very stimulative and longer-term bond yields have eased even further.

In Canada, stronger growth in the second quarter has brought GDP to almost exactly the level the Bank had projected in July's MPR. Canadian exports surged in the second quarter after a weak winter, supported notably by stronger U.S. investment spending and the past depreciation of the Canadian dollar. While an increasing number of export sectors appear to be turning the corner toward recovery, this pickup will need to be sustained before it will translate into higher business investment and hiring. Meanwhile, activity in the housing market has been stronger than anticipated. The Bank still expects excess capacity in the economy to be absorbed during the next two years.

Overall, the risks to the outlook for inflation remain roughly balanced, while the risks associated with household imbalances have not diminished. The balance of these risks is still within the zone for which the current stance of monetary policy is appropriate and therefore the target for the overnight rate remains at 1 per cent. The Bank remains neutral with respect to the next change to the policy rate: its timing and direction will depend on how new information influences the outlook and assessment of risks.

Information note:

The next scheduled date for announcing the overnight rate target is 22 October 2014. The next full update of the Bank's outlook for the economy and inflation, including risks to the projection as well as the Bank's annually-updated estimate of the economy's potential, will be published in the MPR at the same time.