



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 has risen by more than expected. The increase in inflation over the past year is largely due to the temporary effects of a lower Canadian dollar and some sector-specific factors, notably telecommunications and meat prices. Underlying inflation has edged up but remains below 2 per cent.

The U.S. economy has clearly strengthened, particularly business investment, which has benefitted Canada's exports. Growth in the rest of the world, in contrast, continues to disappoint, leading authorities in some regions to deploy further policy stimulus. Oil prices have continued to fall, due to both supply and demand developments. In this context, global financial conditions have eased further.

Canada's economy is showing signs of a broadening recovery. Stronger exports are beginning to be reflected in increased business investment and employment. This suggests that the hoped-for sequence of rebuilding that will lead to balanced and self-sustaining growth may finally have begun. However, the lower profile for oil and certain other commodity prices will weigh on the Canadian economy.

The net effect of these recent developments, together with upward revisions to historical data, is that the output gap appears to be smaller than the Bank had projected in the October *Monetary Policy Report* (MPR). However, the labour market continues to indicate significant slack in the economy.

While inflation is at a higher starting point relative to the October MPR, weaker oil prices pose an important downside risk to the inflation profile. This is tempered by a stronger U.S. economy, Canadian dollar depreciation, and recent federal fiscal measures. Household imbalances, meanwhile, present a significant risk to financial stability. Overall, the balance of risks remains 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.

Information note:

The next scheduled date for announcing the overnight rate target is 21 January 2015. The next full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR at the same time.