BANK OF CANADA
BANQUE DU CANADA

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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 in Canada remains low. Core inflation is expected to stay well below 2 per cent this year due to the effects of economic slack and heightened retail competition, and these effects will persist until early 2016. However, higher consumer energy prices and the lower Canadian dollar will exert temporary upward pressure on total CPI inflation, pushing it closer to the 2 per cent target in the coming quarters. We expect total CPI inflation will remain close to target throughout the projection, even as upward pressure from energy prices dissipates, because the impact of retail competition will gradually fade and excess capacity will be absorbed.

The global economic expansion is expected to strengthen over the next three years as headwinds that have been restraining activity dissipate. The economic recovery in the United States appears to be on track, despite soft readings in the last few months largely due to unusual weather. Indeed, private demand could turn out to be stronger than anticipated. Europe's economy is growing modestly, but inflation remains too low and the nascent recovery could be undermined by risks emanating from the Russia-Ukraine situation. In China and other emerging-market economies growth is expected to be solid, although there are growing concerns about financial vulnerabilities. Overall, global growth is expected to pick up to 3.3 per cent in 2014 and increase further to 3.7 per cent in 2015 and 2016 – largely unchanged from the January *Monetary Policy Report* (MPR).

The Bank continues to expect Canada's real GDP growth to average about 2 1/2 per cent in 2014 and 2015 before easing to around the 2 per cent growth rate of the economy's potential in 2016. Competitiveness challenges continue to weigh on Canadian exporters' ability to benefit from stronger growth abroad. However, a range of export subsectors have been growing in line with fundamentals, which suggests that as the U.S. recovery gathers momentum and becomes more broadly-based, many of our exports will benefit. The lower Canadian dollar should provide additional support. We continue to believe that rising global demand for Canadian goods and services, combined with the assumed high level of oil prices, will stimulate business investment in Canada and shift the economy to a more sustainable growth track.

Recent developments are in line with the Bank's expectation of a soft landing in the housing market and stabilizing debt-to-income ratios for households. Still, household imbalances remain elevated and would pose a significant risk should economic conditions deteriorate.

In sum, the Bank continues to see a gradual strengthening in the fundamental drivers of growth and inflation in Canada. This view hinges critically on the projected upturn in exports and investment. With underlying inflation expected to remain below target for some time, the downside risks to inflation remain important. At the same time, the risks associated with household imbalances remain elevated. The Bank judges that the balance of these risks remains within the zone for which the current stance of monetary policy is appropriate and therefore has decided to maintain the target for the overnight rate at 1 per cent. The timing and direction of the next change to the policy rate will depend on how new information influences the balance of risks.

Information note:

The next scheduled date for announcing the overnight rate target is 4 June 2014. 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 on 16 July 2014.