



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.

Total CPI inflation has moved up to around the 2 per cent target, sooner than anticipated in the Bank's April *Monetary Policy Report* (MPR), largely due to the temporary effects of higher energy prices and exchange rate pass-through. Core inflation remains significantly below 2 per cent although it has drifted up slightly, partly owing to past exchange rate movements.

Global economic growth in the first quarter of 2014 was weaker than anticipated in the MPR and recent developments give slightly greater weight to downside risks. The U.S. economy is rebounding after a pause in the first quarter, but there could be slightly less underlying momentum than previously expected. Globally, long-term bond yields have continued their decline, reflecting in part growing market anticipation that interest rates will remain low over the long term. This, along with buoyant stock markets and tight credit spreads, indicates that financial conditions remain very stimulative.

The Canadian economy grew at a modest rate in the first quarter, held back by severe weather and supply constraints. The ingredients for a pickup in exports remain in place, including the lower Canadian dollar and an anticipated strengthening of foreign demand. Improved corporate profits, especially in exchange rate-sensitive sectors, should also support higher business investment in the coming quarters. There are continued signs of a soft landing in the housing market and a constructive evolution of household imbalances. We still expect excess supply to be absorbed gradually as the fundamental drivers of growth and inflation in Canada strengthen.

Weighing recent higher inflation readings against slightly increased risks to economic growth leaves the downside risks to the inflation outlook as important as before. At the same time, the risks associated with household imbalances remain elevated. The Bank judges that the balance of 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 16 July 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 at the same time.