



Bank of Canada maintains overnight rate target at 3/4 per cent

OTTAWA – The Bank of Canada today announced that it is maintaining its target for the overnight rate at 3/4 per cent. The Bank Rate is correspondingly 1 per cent and the deposit rate is 1/2 per cent.

Total CPI inflation is at 1 per cent, reflecting the drop in consumer energy prices. Core inflation has remained close to 2 per cent in recent months, as the temporary effects of sector-specific factors and pass-through of the lower Canadian dollar have offset the disinflationary forces from slack in the economy.

The Bank expects global growth to strengthen and average 3 1/2 per cent per year over 2015-17, in line with the projection in the January *Monetary Policy Report* (MPR). This is in part because many central banks have eased monetary policies in recent months to counter persistent slack and low inflation, as well as the effect of lower commodity prices in some cases. At the same time, economies continue to adjust to lower oil prices, which have fluctuated at or below levels assumed in the January MPR. Strong growth in the United States is expected to resume in the second quarter of 2015 after a weak first quarter.

The Canadian economy is estimated to have stalled in the first quarter of 2015. The Bank's assessment is that the impact of the oil price shock on growth will be more front-loaded than predicted in January, but not larger. The ultimate size of this impact will need to be monitored closely. Underneath the effects of the oil price shock, the natural sequence of stronger non-energy exports, increasing investment, and improving labour markets is progressing. This sequence will be bolstered by the considerable easing in financial conditions that has occurred and by improving U.S. demand. As the impact of the oil shock on growth starts to dissipate, this natural sequence is expected to re-emerge as the dominant trend around mid-year. Real GDP growth is projected to rebound in the second quarter and subsequently strengthen to average about 2 1/2 per cent on a quarterly basis until the middle of 2016. The Bank expects real GDP growth of 1.9 per cent in 2015, 2.5 per cent in 2016, and 2.0 per cent in 2017.

The very weak first quarter has led to a widening of Canada's output gap and additional downward pressure on projected inflation. However, the anticipated recovery in growth means that the output gap will be back in line with its previous trajectory later this year. Consequently, the effects on core inflation of the lower dollar and the output gap will continue to offset each other. As the economy reaches and remains at full capacity around the end of 2016, both total and core inflation are projected to be close to 2 per cent on a sustained basis.

Risks to the outlook for inflation are now roughly balanced and risks to financial stability appear to be evolving as expected. The Bank judges that the current degree of monetary policy stimulus remains appropriate and therefore is maintaining the target for the overnight rate at 3/4 per cent.

Information note:

The next scheduled date for announcing the overnight rate target is 27 May 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 on 15 July 2015.