



Bank of Canada maintains overnight rate target at 1/2 per cent

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

Inflation has evolved in line with the outlook in the Bank's July *Monetary Policy Report* (MPR). Total CPI inflation remains near the bottom of the Bank's target range, owing to declines in consumer energy prices. Core inflation is close to 2 per cent as the transitory effects of the past depreciation of the Canadian dollar are roughly offsetting disinflationary pressures from economic slack, which has increased this year. The Bank judges that the underlying trend in inflation continues to be about 1.5 to 1.7 per cent.

Global economic growth has been a little weaker than expected this year, but the dynamics pointing to a pickup in 2016 and 2017 remain largely intact. Uncertainty about China's transition to a slower growth path has contributed to further downward pressure on prices for oil and other commodities. These factors are weighing on growth in many emerging markets and some other economies. Looking ahead to 2016 and 2017, the positive effects of cheaper energy and broadly accommodative financial conditions should become increasingly evident. In the United States, the economy is expected to continue growing at a solid pace with particular strength in private domestic demand, which is important for Canadian exports.

Canada's economy has rebounded, as projected in July. In non-resource sectors, the looked-for signs of strength are more evident, supported by the stimulative effects of previous monetary policy actions and past depreciation of the Canadian dollar. Household spending continues to underpin economic activity and is expected to grow at a moderate pace over the projection period. However, lower prices for oil and other commodities since the summer have further lowered Canada's terms of trade and are dampening business investment and exports in the resource sector. This has led to a modest downward revision to the Bank's growth forecast for 2016 and 2017.

The Bank projects real GDP will grow by just over 1 per cent in 2015 before firming to about 2 per cent in 2016 and 2 1/2 per cent in 2017. The complex economic adjustments to the decline in Canada's terms of trade will continue to play out over the projection horizon. The weaker profile for business investment suggests that, in the near term, growth in potential output is more likely to be in the lower part of the Bank's range of estimates. Given this judgment about potential output, the Canadian economy can be expected to return to full capacity, and inflation sustainably to target, around mid-2017.

The Bank judges that the risks around the inflation profile are roughly balanced. Meanwhile, as financial vulnerabilities in the household sector continue to edge higher, risks to financial stability are evolving as expected. Taking all of these developments into consideration, the Bank judges that the current stance of monetary policy remains appropriate. Therefore, the target for the overnight rate remains at 1/2 per cent.

Information note:

The next scheduled date for announcing the overnight rate target is 2 December 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 20 January 2016.