



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.

Uncertainty about the global outlook is undiminished, particularly with respect to policies in the United States. The Bank has made initial assumptions about prospective tax policies only, resulting in a modest upward revision to its US growth outlook. Overall, the global economy is strengthening largely as expected and prices of some commodities, including oil, have risen. The rapid back-up in global bond yields, partly reflecting market anticipation of US fiscal expansion, has pulled up Canadian yields relative to the October *Monetary Policy Report* (MPR).

In contrast to the United States, Canada's economy continues to operate with material excess capacity. While employment growth has remained firm, indicators still point to significant slack in the labour market. The resource sector's adjustment to past commodity price declines appears to be largely complete, but negative wealth and income effects will persist. Meanwhile, the Canadian dollar has strengthened along with the US dollar against other currencies, exacerbating ongoing competitiveness challenges and muting the outlook for exports. Consumption is expected to remain solid, while residential investment will be tempered by previously announced changes to housing finance rules and by mortgage rates that have risen in response to higher bond yields. Federal and provincial fiscal measures are still expected to support growth in 2017.

Bearing in mind the important assumptions embedded in its forecast, the Bank projects that Canada's real GDP will grow by 2.1 per cent in both 2017 and 2018. This implies a return to full capacity around mid-2018, in line with October's projection.

Inflation in Canada has been lower than anticipated since October, mainly because of declines in food prices. Measures of core inflation are below 2 per cent, reflecting material excess capacity in the economy. As consumer energy prices rise and the impact of lower food prices dissipates, inflation is expected to move close to the 2 per cent target in the months ahead and remain there throughout the projection horizon while excess capacity is being absorbed.

In the context of a projection that is largely unchanged, the Bank's Governing Council judges that the current stance of monetary policy is still appropriate and maintains the target for the overnight rate at 1/2 per cent. Governing Council will continue to assess the impact of ongoing developments, mindful of the significant uncertainties weighing on the outlook.

Information note:

The next scheduled date for announcing the overnight rate target is 1 March 2017. 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 12 April 2017.