



BANK OF CANADA  
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## Bank of Canada maintains overnight rate target at 1 per cent

FOR IMMEDIATE RELEASE

**Media Relations**

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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.

The global economic recovery is proceeding broadly as expected in the Bank's April *Monetary Policy Report* (MPR). The U.S. economy continues to grow at a modest pace, limited by the consolidation of household balance sheets. Growth in Europe is maintaining momentum, although the risks related to peripheral economies have increased. The disasters that struck Japan in March are severely affecting its economic activity and causing temporary supply chain disruptions in advanced economies. Commodity prices have declined recently but are expected to remain at elevated levels, supported by tight global supply and very strong demand from emerging markets. These high prices, combined with persistent excess demand conditions in major emerging-market economies, are contributing to broader global inflationary pressures. Despite the challenges that weigh on the global outlook, financial conditions remain very stimulative.

In Canada, the economic expansion is proceeding largely as expected in the April MPR. The economy grew at an annual rate of 3.9 per cent in the first quarter, reflecting continued strong business investment, smaller contributions from household and government spending, and a modest drag from net exports. Although temporary supply chain disruptions are expected to restrain growth sharply in the current quarter, this is expected to be unwound in subsequent quarters.

While underlying inflation is relatively subdued, the Bank expects that high energy prices and changes in provincial indirect taxes will keep total CPI inflation above 3 per cent in the short term. Total CPI inflation is expected to converge with core inflation at 2 per cent by the middle of 2012 as excess supply in the economy is gradually absorbed, labour compensation growth stays modest, productivity recovers and inflation expectations remain well-anchored.

The possibility of greater momentum in household borrowing and spending in Canada represents an upside risk to inflation. On the other hand, the persistent strength of the Canadian dollar could create even greater headwinds for the Canadian economy, putting additional downward pressure on inflation through weaker-than-expected net exports and larger declines in import prices.

Reflecting all of these factors, the Bank has decided to maintain the target for the overnight rate at 1 per cent. To the extent that the expansion continues and the current material excess supply in the economy is gradually absorbed, some of the considerable monetary policy stimulus currently in place will be eventually withdrawn, consistent with achieving the 2 per cent inflation target. Such reduction would need to be carefully considered.

### Information note:

The next scheduled date for announcing the overnight rate target is 19 July 2011. A 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 July 2011.

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