



BANK OF CANADA
BANQUE DU CANADA

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

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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.

Global economic growth is evolving essentially as the Bank had anticipated in its October *Monetary Policy Report* (MPR). The US economy continues to grow at a solid pace, although private domestic demand has proven slightly less robust than expected. Meanwhile, commodity prices have declined further. The ongoing terms-of-trade adjustments and shifting growth prospects across different regions are contributing to exchange rate movements. In this context, policy divergence is expected to remain a prominent theme.

In Canada, the dynamics of growth have been broadly in line with the Bank's MPR outlook. The economy continues to undergo a complex and lengthy adjustment to the decline in Canada's terms of trade. This adjustment is being aided by the ongoing US recovery, a lower Canadian dollar and the Bank's monetary policy easing this year. The resource sector is still contending with lower prices for commodities. In non-resource sectors, exports are picking up, particularly in exchange rate-sensitive categories. However, business investment continues to be weighed down by cuts in resource-sector spending. The labour market has been resilient at the national level, although with significant job losses in resource-producing regions. The Bank expects GDP growth to moderate in the fourth quarter of 2015 before moving to a rate above potential in 2016. While bond yields are slightly higher, financial conditions remain accommodative in Canada.

In the midst of all of these adjustments, inflation is in line with the Bank's October outlook. 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 effects of the lower dollar and the output gap continue to offset each other.

The Bank judges that the risks around the inflation profile remain roughly balanced over the projection horizon. Vulnerabilities in the household sector continue to edge higher while overall risks to financial stability are evolving as expected. Taking all of these developments into consideration, the Bank judges that the risks to the outlook for inflation remain within the zone for which the current stance of monetary policy is 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 20 January 2016. 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.
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