



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada raises overnight rate target by 1/4 percentage point to 3 per cent

FOR IMMEDIATE RELEASE

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The Bank of Canada today announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 3 per cent. The operating band for the overnight rate is correspondingly increased, and the Bank Rate is now 3 1/4 per cent.

The global and Canadian economies have continued to grow at a solid pace. At the same time, there have been significant movements in energy prices and the Canadian dollar has traded in a higher range against the U.S. dollar and other major currencies. Overall, the Canadian economy now appears to be operating at its full production capacity.

The Bank projects that the Canadian economy will continue to operate at about its production potential through 2007. CPI and core inflation are projected to be 2 per cent in the second half of 2006, although CPI inflation is expected to average near 3 per cent until then, boosted by high energy prices. Short-term risks to this projection appear to be balanced. But as we look further out to 2007 and beyond, there are increasing risks that the unwinding of global economic imbalances could involve a period of weak global growth.

In line with the Bank's outlook, and given that the Canadian economy now appears to be operating at capacity, some further reduction of monetary stimulus will be required to maintain a balance between aggregate supply and demand over the next four to six quarters, and to keep inflation on target. However, with the risks to the global outlook tilted to the downside as we look to 2007 and beyond, the Bank will monitor international developments particularly closely. More generally, the Bank will continue to assess the adjustments and underlying trends in the Canadian economy, as well as the balance of risks, as it conducts monetary policy to keep inflation on target over the medium term.

The details of the Bank's outlook for output and inflation and an analysis of the risks and uncertainties related to this outlook will be discussed in the *Monetary Policy Report*, to be released on 20 October 2005.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 6 December 2005.

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