



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada keeps target for the overnight rate at 4 1/4 per cent

FOR IMMEDIATE RELEASE

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The Bank of Canada today announced that it is maintaining its target for the overnight rate at 4 1/4 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 4 1/2 per cent.

Global economic expansion has remained robust, although economic growth in the United States slowed during 2006. With weaker U.S. growth, output growth in Canada decelerated, likely averaging about 1.6 per cent in the second half of 2006. This was largely due to reduced U.S. demand for building materials and motor vehicles — which has adversely affected Canada's exports — and to the need for Canadian businesses to adjust inventories. Final domestic demand in Canada has continued to contribute strongly to growth. Inflation has evolved largely in line with the Bank's expectations in the October *Monetary Policy Report (MPR)*, with total CPI inflation slightly lower than projected and core inflation slightly higher. The Bank judges that at the end of 2006, the Canadian economy was operating at, or just above, its production capacity.

There are signs that a significant amount of the adjustment in the U.S. housing and automotive sectors has already taken place and that the inventory correction in Canada is well advanced. Accordingly, the Bank projects that economic growth in Canada will pick up to about 2 1/2 per cent in the first half of 2007, and that the economy will continue to operate near its production capacity throughout 2007 and 2008. Total CPI inflation should average just above 1 per cent in the first half of 2007, returning to the 2 per cent inflation target in early 2008. Core inflation should return to 2 per cent in the first half of 2007 and remain there. The Bank continues to judge that the risks to the inflation projection are roughly balanced, but the main upside and downside risks outlined in the October *MPR* have diminished somewhat. In line with the Bank's outlook, the current level of the target for the overnight rate is judged, at this time, to be consistent with achieving the inflation target over the medium term.

An analysis of economic developments, trends, and risks will be outlined in the *Monetary Policy Report Update*, to be published on 18 January 2007.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 6 March 2007.

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