



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.

Economic data suggest that global economic conditions have strengthened, as the Bank anticipated in its October *Monetary Policy Report* (MPR). However, uncertainty, which has been undermining business confidence and dampening investment in Canada's major trading partners, remains undiminished. Following the election in the United States, there has been a rapid back-up in global bond yields, partly reflecting market anticipation of fiscal expansion in a US economy that is near full capacity. Canadian yields have risen significantly in this context.

In Canada, the dynamics of growth are largely as the Bank anticipated. Following a very weak first half of 2016, growth in the third quarter rebounded strongly, but more moderate growth is anticipated in the fourth quarter. Consumption growth was robust in the third quarter, supported by the new Canada Child Benefit, while the effects of federal infrastructure spending are not yet evident in the GDP data. Meanwhile, business investment and non-energy goods exports continue to disappoint. There have been ongoing gains in employment, but a significant amount of economic slack remains in Canada, in contrast to the United States. While household imbalances continue to rise, these will be mitigated over time by announced changes to housing finance rules.

Total CPI inflation has picked up in recent months but is slightly below expectations, largely because of lower food prices. Core inflation is close to 2 per cent because the effect of persistent economic slack is still being offset by that of past exchange rate depreciation, although the latter effect is dissipating.

Overall, the Bank's Governing Council judges that the current stance of monetary policy remains 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 18 January 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 at the same time.
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