



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada maintains overnight rate target at 1 per cent

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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.

Uncertainty around the global economic outlook has increased in the weeks since the Bank released its October *Monetary Policy Report* (MPR). Conditions in global financial markets have deteriorated as the sovereign debt crisis in Europe has deepened. Additional measures will be required to contain the European crisis. The recession in Europe is now expected to be more pronounced than the Bank had anticipated in October, as a result of increased deleveraging and tighter financial conditions, as well as necessary fiscal austerity and structural reforms.

Recent economic data suggest that growth in the United States has been slightly more robust than anticipated, largely as a result of continued vigour in consumer spending and business investment. Nonetheless, household deleveraging, fiscal consolidation and negative spillover effects from the European crisis are all expected to weigh on U.S. growth. Growth in China and other emerging-market economies continues to be strong, although there are signs that it is moderating to a more sustainable pace in response to weaker external demand and the lagged effects of past policy tightening.

On balance, recent economic indicators in Canada suggest that growth in the second half of this year is slightly stronger than the Bank projected in October. Household expenditures have more momentum than had been expected and business investment remains solid. Going forward, the weaker external outlook is expected to dampen GDP growth in Canada through financial, confidence and trade channels. The economy also continues to face competitiveness challenges, including the persistent strength of the Canadian dollar.

Although total CPI inflation has been slightly higher than projected, the Bank continues to expect the inflation rate to decline as a result of reduced pressures from food and energy prices and ongoing excess supply in the economy. Core inflation has also been slightly firmer than projected and is expected to ease as the output gap persists well into 2013.

Reflecting all of these factors, the Bank has decided to maintain the target for the overnight rate at 1 per cent. With the target interest rate near historic lows and the financial system functioning well, there is considerable monetary policy stimulus in Canada. The Bank will continue to monitor carefully economic and financial developments in the Canadian and global economies, together with the evolution of risks, and set monetary policy consistent with achieving the 2 per cent inflation target over the medium term.

Information note:

The next scheduled date for announcing the overnight rate target is 17 January 2012. 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 18 January 2012.

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