



BANK OF CANADA  
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## Bank of Canada keeps target for the overnight rate at 4 1/4 per cent

FOR IMMEDIATE RELEASE

**Media Relations**

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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.

Growth of the Canadian economy has been essentially in line with the Bank's expectations as set out in the January *Monetary Policy Report Update*. But inflation has been higher than expected. Pressures on capacity over the past year have been stronger than previously judged. Also, food and gasoline prices have recently risen more than expected. After considering the full range of indicators, the Bank now judges that the Canadian economy was operating just above its production capacity in the first quarter of this year.

Robust domestic demand continues to support Canada's economic growth. Stronger-than-expected growth outside North America has led to rising demand for, and prices of, many commodities. However, the slowing U.S. economy has had a moderating effect on growth in Canada.

Over the projection horizon, domestic demand is the main driver of growth in Canada. With the U.S. slowdown now expected to be somewhat more prolonged than previously projected, net exports should exert a slightly greater drag on growth in 2007. The Canadian economy is projected to grow by 2.2 per cent in 2007 and 2.7 per cent in both 2008 and 2009, returning to its production capacity in the second half of 2007 and remaining there through 2008 and 2009. Core inflation is projected to decline to 2 per cent by the end of 2007. Total CPI inflation is projected to rise above the 2 per cent inflation target in the second half of this year, before returning to the target by mid-2008.

The upside risk to the Bank's inflation projection is that the recent strength of inflation could be more persistent than projected. The downside risk continues to come from the possibility of a more pronounced slowdown in the U.S. economy. The Bank continues to judge that the risks to its inflation projection are roughly balanced, although there is now a slight tilt to the upside.

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.

A full analysis of economic and financial developments, trends, and risks will be set out in the Bank's *Monetary Policy Report*, to be published on 26 April 2007.

*Information note:*

The Bank of Canada's next scheduled date for announcing the overnight rate target is 29 May 2007.

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