



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada raises overnight rate target by 1/4 percentage point to 2 3/4 per cent

FOR IMMEDIATE RELEASE

Media Relations

Ottawa, Ontario

September 7, 2005

The Bank of Canada today announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 2 3/4 per cent. The operating band for the overnight rate is correspondingly increased, and the Bank Rate is now 3 per cent.

Information received since the July *Monetary Policy Report Update (MPRU)* indicates that the global and Canadian economies have generally evolved in line with the Bank's expectations, but world energy prices have moved above levels assumed at that time. Core and total CPI inflation in July were slightly below expectations, and the pace of growth and level of activity in the Canadian economy in the second quarter were somewhat higher than had been expected. With the economy operating close to full capacity, and consistent with the Bank's analysis in the *MPRU*, today's interest rate increase will help to promote a balance between aggregate demand and supply in the economy and keep inflation on target over the medium term.

Hurricane Katrina has taken a tragic human toll in the U.S. gulf states. The Bank's preliminary assessment is that the hurricane's disruption to the U.S. economy is likely to translate into somewhat lower output growth in the United States over the balance of 2005 and somewhat higher growth in 2006. The overall impact on Canadian economic activity will probably be modest, although there will be a temporary spike in consumer prices, reflecting higher prices for gasoline and heating fuels.

Despite developments associated with higher energy prices, risks to the Bank's outlook for the Canadian economy through 2006 still appear to be reasonably balanced. Over the medium term, however, there is increasing risk that the correction of global current account imbalances could involve a period of weakness in world aggregate demand.

With the Canadian economy operating close to capacity and the stance of monetary policy still stimulative, the Bank will be monitoring developments closely and continuing to assess underlying trends in the economy and their implications for keeping inflation on target over the medium term.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 18 October 2005.

The *Monetary Policy Report* will be published on 20 October 2005.

Content Type(s): **Press, Press releases**