



BANK OF CANADA  
BANQUE DU CANADA

## Bank of Canada maintains overnight rate target at 1 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 1 per cent. The Bank Rate is correspondingly 1 1/4 per cent and the deposit rate is 3/4 per cent.

The heightened uncertainty around the global economic outlook has decreased in the weeks since the Bank released its January *Monetary Policy Report* (MPR). With tentative signs of stabilisation in European bank funding and sovereign debt markets, conditions in global financial markets have improved and risk aversion has decreased. However, the global economy is still expected to grow below its trend rate as the deleveraging process in advanced economies proceeds. The U.S. expansion is proceeding at a modest pace, reinforced by recent improvements in the labour market. Growth in China is moderating to a still-high rate as expected, in response to past policy tightening and weaker external demand. Commodity prices are higher than anticipated, supported by improved global economic conditions and a geo-political risk premium on oil. If sustained, the latter could ultimately dampen the improvement in global economic momentum.

Recent developments suggest that the outlook for the Canadian economy is marginally improved from the January MPR. Although the economy will likely grow faster than forecast in the first quarter due to temporary factors, underlying economic momentum remains around trend, balancing domestic strength and external weakness. Private demand is now expected to be slightly stronger than projected, owing to improved sentiment and highly-supportive financial conditions. Canadian household spending is expected to remain high relative to GDP as households add to their debt burden, which remains the biggest domestic risk. Net exports have been supported by stronger-than-anticipated U.S. activity but are expected to contribute little to growth, reflecting still-moderate foreign demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar.

The profile for core and total CPI inflation is somewhat firmer than previously anticipated as a result of reduced economic slack and higher oil prices. After moderating in the second quarter, total inflation is expected, along with core inflation, to be around 2 per cent over the forecast horizon, reflecting the combination of modest growth of labour compensation, an economy operating around its potential over time, and well-anchored inflation expectations.

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:

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

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