



BANK OF CANADA
BANQUE DU CANADA

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.

Since the July *Monetary Policy Report Update (MPRU)*, total CPI inflation, excluding the temporary effect of the GST reduction, has been above 2 per cent and domestic demand has continued to grow at a robust pace. However, GDP growth over the second and third quarters of 2006 has been weaker than expected, largely because of weaker net exports. Labour productivity growth has also been somewhat lower than expected. All factors considered, the Bank judges that the Canadian economy continues to operate just above its production capacity.

Although global economic growth is expected to be a little higher than previously anticipated, a weaker short-term outlook for the U.S. economy has curbed the near-term prospects for Canadian exports and growth. As well, given developments in labour productivity growth, the Bank has reduced its assumption for potential growth to 2.8 per cent for the 2006-2008 period. As a result of these factors, the Bank has revised its projection for economic growth in Canada to 2.8 per cent this year, 2.5 per cent in 2007, and 2.8 per cent in 2008. This growth profile implies that the small amount of excess demand now in the economy will be eliminated by the second half of 2007, and that the economy will then remain roughly in balance through to the end of the projection period. Consistent with this profile, core inflation is expected to move slightly above 2 per cent in coming months, and to return to 2 per cent by the middle of 2007. Lower energy prices have led to a downward revision to the near-term projection for total CPI inflation. Total inflation (which includes the temporary impact of the GST reduction) will likely average about 1 1/2 per cent through to the second quarter of 2007, before returning to the 2 per cent target and remaining there through to the end of 2008.

In line with this updated outlook, 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.

As the Bank indicated in its 6 September interest rate press release, risks around the base-case projection are judged to be a little greater than they were at the time of the July *MPRU*. The main upside risk relates to the momentum in household spending and housing prices. The main downside risk is that the U.S. economy could slow more sharply than expected, leading to lower Canadian exports. It is the Bank's judgment that, overall, risks around the inflation projection are roughly balanced. The Bank will continue to pay close attention to the evolution of risks, together with economic and financial developments in the Canadian and global economies.

A full analysis of economic developments, trends, and risks will be set out in the *Monetary Policy Report*, to be published on 19 October 2006.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 5 December 2006.

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