



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada keeps overnight rate target at 3 per cent

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The Bank of Canada today announced that it is maintaining its target for the overnight rate at 3 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 3 1/4 per cent.

The three global developments highlighted in the July *Monetary Policy Report Update* continue to have a major influence on the Canadian economy. Two of them - the course of the U.S. economy and the ongoing turbulence in global financial markets - have evolved broadly in line with the Bank's expectations. However, there is an increased risk of a more pronounced interplay between weakness in the U.S. economy and tightness in credit conditions that could affect the U.S. outlook for 2009.

With respect to the third highlighted development, the sharp increases in commodity prices, the risk identified in July that these prices could be weaker than assumed has materialized. This has been largely due to the impact of slower global growth on the demand for energy. Given tight inventories, commodity prices can be expected to remain volatile. The reduction in commodity prices has been a significant factor in the decline of the Canadian dollar against the U.S. dollar. The weaker global growth and the decline of the Canadian dollar will have opposing effects on the demand for Canadian goods and services.

In Canada, domestic demand has slowed modestly but remains strong. It continues to be supported by financial conditions that remain significantly better than those in most other major economies and by income gains stemming from past improvements in the terms of trade. Overall, the level of economic activity is slightly lower than expected in July but still close to the economy's production capacity.

Global inflationary pressures remain elevated, with potential implications for import prices and the dynamics of inflation in Canada. While total CPI inflation has moved above 3 per cent, core inflation has stayed at 1.5 per cent as expected. The temporary factors affecting both of these measures should dissipate over the coming quarters, and the Bank continues to expect that total and core inflation will converge on 2 per cent in the second half of 2009. However, the recent decline in both spot and futures prices for energy means that the spike in total CPI inflation expected between now and the first quarter of 2009 will be lower than projected in July.

Given these developments, the Bank judges that the current level of the target for the overnight rate remains appropriately accommodative. 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 Bank of Canada's next scheduled date for announcing the overnight rate target is 21 October 2008. A full update of the Bank's outlook for growth and inflation, including risks to the projection, will be set out in the *Monetary Policy Report*, to be published on 23 October 2008.

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