



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada maintains overnight rate target at 1 per cent

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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 outlook for the global economy has deteriorated and uncertainty has increased since the Bank released its October *Monetary Policy Report* (MPR). The sovereign debt crisis in Europe has intensified, conditions in international financial markets have tightened and risk aversion has risen. The recession in Europe is now expected to be deeper and longer than the Bank had anticipated in October. The Bank continues to assume that European authorities will implement sufficient measures to contain the crisis, although this assumption is clearly subject to downside risks. In the United States, while the rebound in real GDP during the second half of 2011 was stronger than anticipated, the Bank expects the U.S. recovery will proceed at a more modest pace going forward, owing to ongoing household deleveraging, fiscal consolidation and the spillovers from Europe. Chinese growth is decelerating as expected towards a more sustainable pace. Commodity prices – with the exception of oil – are expected to be below the levels anticipated in the October MPR through 2013.

The Bank's overall outlook for the Canadian economy is little changed from the October MPR. While the economy had more momentum than anticipated in the second half of 2011, the pace of growth going forward is expected to be more modest than previously envisaged, largely due to the external environment. Prolonged uncertainty about the global economic and financial environment is likely to dampen the rate of growth of business investment, albeit to a still-solid pace. Net exports are expected to contribute little to growth, reflecting moderate foreign demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar. In contrast, very favourable financing conditions are expected to buttress consumer spending and housing activity. Household expenditures are expected to remain high relative to GDP and the ratio of household debt to income is projected to rise further.

The Bank estimates that the economy grew by 2.4 per cent in 2011 and projects that it will grow by 2.0 per cent in 2012 and 2.8 per cent in 2013. While the economy appears to be operating with less slack than previously assumed, given the more modest growth profile, the economy is only anticipated to return to full capacity by the third quarter of 2013, one quarter earlier than was expected in October.

The dynamics for inflation are similar to those anticipated in the October MPR, although the profile for inflation is marginally firmer. Both total and core inflation are expected to moderate in 2012 and subsequently rise, reaching 2 per cent by the third quarter of 2013 as excess supply is slowly absorbed, labour compensation grows modestly and inflation expectations remain well-anchored.

Several significant upside and downside risks are present in the inflation outlook for Canada. Overall, the Bank judges that these risks are roughly balanced over the projection horizon.

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:

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 January 2012. The next scheduled date for announcing the overnight rate target is 8 March 2012.

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