



BANK OF CANADA  
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# Bank of Canada increases overnight rate target to 1/2 per cent and re-establishes normal functioning of the overnight market

FOR IMMEDIATE RELEASE

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The Bank of Canada today announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 1/2 per cent. The Bank Rate is correspondingly raised to 3/4 per cent and the deposit rate is kept at 1/4 per cent, thus re-establishing the normal operating band of 50 basis points for the overnight rate.

The global economic recovery is proceeding but is increasingly uneven across countries, with strong momentum in emerging market economies, some consolidation of the recovery in the United States, Japan and other industrialized economies, and the possibility of renewed weakness in Europe. The required rebalancing of global growth has not yet materialized.

In most advanced economies, the recovery remains heavily dependent on monetary and fiscal stimulus. In general, broad forces of household, bank, and sovereign deleveraging will add to the variability, and temper the pace, of global growth. Recent tensions in Europe are likely to result in higher borrowing costs and more rapid tightening of fiscal policy in some countries – an important downside risk identified in the April *Monetary Policy Report* (MPR). Thus far, the spillover into Canada from events in Europe has been limited to a modest fall in commodity prices and some tightening of financial conditions.

Activity in Canada is unfolding largely as expected. The economy grew by a robust 6.1 per cent in the first quarter, led by housing and consumer spending. Employment growth has resumed. Going forward, household spending is expected to decelerate to a pace more consistent with income growth. The anticipated pickup in business investment will be important for a more balanced recovery.

CPI inflation has been in line with the Bank's April projections. The outlook for inflation reflects the combined influences of strong domestic demand, slowing wage growth, and overall excess supply.

In this context, the Bank has decided to raise the target for the overnight rate to 1/2 per cent and to **re-establish the normal functioning of the overnight market**.

This decision still leaves considerable monetary stimulus in place, consistent with achieving the 2 per cent inflation target in light of the significant excess supply in Canada, the strength of domestic spending, and the uneven global recovery.

Given the considerable uncertainty surrounding the outlook, any further reduction of monetary stimulus would have to be weighed carefully against domestic and global economic developments.

## Information note:

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The next scheduled date for announcing the overnight rate target is 20 July 2010. 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 22 July 2010.

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