



Bank of Canada keeps target for the overnight rate at 4 1/4 per cent

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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.

The Bank's outlook for Canadian economic growth and inflation in 2007-2008 is essentially unchanged from that set out in the October *Monetary Policy Report (MPR)*. Global growth has been strong, commodity prices have remained high, and employment growth in Canada and the United States has been sustained. Some recent indicators suggest that output growth in Canada and the United States in the fourth quarter of 2006 may be a little weaker than previously expected. Inflation in Canada has evolved broadly in line with the Bank's expectations.

All things considered, both total CPI and core inflation in Canada are still projected to converge at 2 per cent in the second half of 2007. In line with the Bank's 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.

The principal risks remain those identified in the October *MPR*. 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. The Bank judges 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 outlined in the *Monetary Policy Report Update*, to be published on 18 January 2007.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 16 January 2007.

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