 BANK OF CANADA
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Bank of Canada raises overnight rate target by 1/4 percentage point to 3 1/2 per cent

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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 3 1/2 per cent. The operating band for the overnight rate is correspondingly increased, and the Bank Rate is now 3 3/4 per cent.

Information received since the last interest rate announcement on 6 December indicates that the Canadian and global economies are evolving essentially in line with the Bank's expectations as set out in the October *Monetary Policy Report (MPR)*. The Canadian economy continues to adjust to global developments and to the associated changes in relative prices. CPI inflation, at 2.3 per cent in the fourth quarter of 2005, was lower than expected primarily because of lower gasoline prices. As anticipated, core inflation remained stable at 1.6 per cent. The level of economic activity at year end was close to expectations.

The outlook for growth and inflation in Canada is similar to that in the October *MPR*. The Bank continues to judge that the Canadian economy is operating at its production capacity and will grow roughly in line with production potential through 2007. CPI and core inflation should return to the 2 per cent target by the first half of 2007. Risks to the Bank's projection remain balanced for 2006 and tilted to the downside through 2007 and beyond. Further details of the Bank's outlook for output and inflation will be discussed in the *Monetary Policy Report Update*, to be released on 26 January 2006.

In line with the Bank's base-case projection and current assessment of risks, some modest further increase in the policy interest rate would be required to keep aggregate supply and demand in balance and inflation on target over the medium term.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 7 March 2006.

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