



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada raises overnight rate target by 1/4 percentage point to 2 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 2 1/2 per cent. The operating band for the overnight rate is correspondingly increased, and the Bank Rate is now 2 3/4 per cent.

The Canadian economy is operating near its production capacity and continues to adjust to global economic developments. Recently, world oil prices have risen well above the Bank's earlier assumptions and the Canadian dollar has appreciated further.

Looking ahead over the period to the end of 2006, the Bank's base-case projection calls for aggregate demand for Canadian goods and services to expand, on average, at about the same rate as potential output. Given the effects of higher oil prices and the past appreciation of the Canadian dollar, the Bank projects growth to be slightly less than 3 per cent in 2005, and slightly more than 3 per cent in 2006. With the economy expected to remain near its production capacity throughout this period, core inflation is projected to move back to the 2 per cent target by the end of 2005. Reflecting higher world oil prices, total CPI inflation is projected to move well above core inflation in the first half of 2005 and fall slightly below core inflation in 2006.

Against this background, the Bank decided to raise its target for the overnight rate. Further reduction of monetary stimulus will be required over time to keep inflation on target, with the pace depending on the Bank's continuing assessment of the prospects for factors that affect pressures on capacity and, hence, inflation. The details of the Bank's outlook for output and inflation and an analysis of the significant risks and uncertainties associated with this outlook will be discussed in the *Monetary Policy Report*, to be released on 21 October 2004.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 7 December 2004.

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