



BANK OF CANADA  
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## 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 global economic growth has weakened in recent weeks. Some of the risks around the European crisis are materializing and risks remain skewed to the downside. This is leading to a sharp deterioration in global financial conditions. While the U.S. economy continues to expand at a modest pace, economic activity in emerging-market economies is slowing a bit faster and a bit more broadly than had been expected. More modest global momentum and heightened financial risk aversion have reduced commodity prices.

Although economic growth in Canada was slightly slower than expected in the first quarter, underlying economic momentum appears largely consistent with expectations. However, the composition of growth is less balanced. In particular, housing activity has been stronger than expected, and households continue to add to their debt burden in an environment of modest income growth. Despite external events, business and household confidence has held up and domestic financial conditions remain very stimulative. The contribution of government spending to growth is expected to be quite modest over the projection horizon, in line with recent federal and provincial budgets. The recovery in net exports is likely to remain weak in light of modest external demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar.

The Canadian economy continues to operate with a small degree of excess capacity. Total CPI inflation is expected to fall below 2 per cent in the short term, as a result of lower gasoline prices, while core inflation is expected to remain around 2 per cent.

Reflecting all of these factors, the Bank has decided to maintain the target for the overnight rate at 1 per cent. To the extent that the economic expansion continues and the current excess supply in the economy is gradually absorbed, some modest withdrawal of the present considerable monetary policy stimulus may become appropriate, consistent with achieving the 2 per cent inflation target over the medium term. The timing and degree of any such withdrawal will 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 17 July 2012. 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 July 2012.

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