



Bank of Canada maintains overnight rate target at 1/2 per cent

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The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1/2 per cent. The Bank Rate is correspondingly 3/4 per cent and the deposit rate is 1/4 per cent.

The global economy is evolving largely as the Bank projected in its April *Monetary Policy Report* (MPR). In the United States, despite weakness in the first quarter, a number of indicators, including employment, point to a return to solid growth in 2016. Financial conditions remain accommodative, with ongoing geopolitical factors contributing to fragile market sentiment. Oil prices are higher, in part because of short-term supply disruptions.

In Canada, the economy's structural adjustment to the oil price shock continues, but is proving to be uneven. Growth in the first quarter of 2016 appears to be in line with the Bank's April projection, although business investment and intentions remain disappointing. The second quarter will be much weaker than predicted because of the devastating Alberta wildfires. The Bank's preliminary assessment is that fire-related destruction and the associated halt to oil production will cut about 1 1/4 percentage points off real GDP growth in the second quarter. The economy is expected to rebound in the third quarter, as oil production resumes and reconstruction begins. While the Canadian dollar has been fluctuating in response to shifting expectations of US monetary policy and higher oil prices, it is now close to the level assumed in April.

Inflation is roughly in line with the Bank's expectations. Total CPI inflation has risen recently, largely due to movements in gasoline prices, but remains slightly below the 2 per cent target. Measures of core inflation remain close to 2 per cent, reflecting the offsetting influences of past exchange rate depreciation and excess capacity.

Canada's housing market continues to display strong regional divergences, reinforced by the complex adjustment underway in the economy. In this context, household vulnerabilities have moved higher. Meanwhile, the risks to the Bank's inflation projection remain roughly balanced. Therefore, the Bank's Governing Council judges that the current stance of monetary policy is still appropriate, and the target for the overnight rate remains at 1/2 per cent.

Information note

The next scheduled date for announcing the overnight rate target is 13 July 2016. The next full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR at that time.

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