



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada maintains overnight rate target at 1 per cent

FOR IMMEDIATE RELEASE

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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 global economy continues to expand broadly as expected, but its dynamic has moderated. In the United States, the process of normalization of long-term interest rates has begun in the context of stronger private domestic demand. Recent data, however, point to slightly less momentum overall than anticipated. In Europe, there are early signs of a recovery, and Japan's situation remains promising. In a number of emerging market economies, financial volatility has increased, adding uncertainty to growth prospects, although China continues to grow at a solid pace. Commodity prices have been relatively stable, with geopolitical stresses putting some upward pressure on global oil prices.

Uncertain global economic conditions appear to be delaying the anticipated rotation of demand in Canada towards exports and investment. While the housing sector has been slightly stronger than anticipated, household credit growth has continued to slow and mortgage interest rates are higher, pointing to a continued constructive evolution of household imbalances. Looking through the choppiness of the recent data, the level of Canada's GDP is largely consistent with the Bank's July forecast. The output gap is expected to begin to narrow in 2014.

Inflation in Canada remains subdued. With inflation expectations well-anchored, both core and total CPI inflation are expected to return slowly to 2 per cent as the output gap closes.

Against this backdrop, the Bank has decided to maintain the target for the overnight rate at 1 per cent. As long as there is significant slack in the Canadian economy, the inflation outlook remains muted, and imbalances in the household sector continue to evolve constructively, the considerable monetary policy stimulus currently in place will remain appropriate. Over time, as the normalization of these conditions unfolds, a gradual normalization of policy interest rates can also be expected, consistent with achieving the 2 per cent inflation target.

Information note:

The next scheduled date for announcing the overnight rate target is 23 October 2013. 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 the same time.
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