



# Bank of Canada increases overnight rate target to 1 per cent

FOR IMMEDIATE RELEASE

**Media Relations**

**Ottawa, Ontario**

September 8, 2010

The Bank of Canada today announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 1 per cent. The Bank Rate is correspondingly 1 1/4 per cent and the deposit rate is 3/4 per cent.

The global economic recovery is proceeding but remains uneven, balancing strong activity in emerging market economies with weak growth in some advanced economies. In the United States, the recovery in private demand is being held back by high unemployment and recent indicators suggest a more muted recovery in the near term.

Economic activity in Canada was slightly softer in the second quarter than the Bank had expected, although consumption and investment have evolved largely as anticipated. Going forward, consumption growth is expected to remain solid and business investment to rise strongly. Both are being supported by accommodative credit conditions, which have eased in recent weeks mainly owing to sharp declines in global bond yields.

The Bank now expects the economic recovery in Canada to be slightly more gradual than it had projected in its July *Monetary Policy Report* (MPR), largely reflecting a weaker profile for U.S. activity. Inflation in Canada has been broadly in line with the Bank's expectations and its dynamics are essentially unchanged.

Against this backdrop, the Bank decided to increase its target for the overnight rate to 1 per cent. As a result of monetary policy measures taken since April, financial conditions in Canada have tightened modestly but remain exceptionally stimulative. This is consistent with achieving the 2 per cent inflation target in an environment of significant excess supply in Canada.

Any further reduction in monetary policy stimulus would need to be carefully considered in light of the unusual uncertainty surrounding the outlook.

**Information note:**

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The next scheduled date for announcing the overnight rate target is 19 October 2010. 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 20 October 2010.

Content Type(s): **Press, Press releases**