



BANK OF CANADA  
BANQUE DU CANADA

## Bank of Canada keeps overnight rate target at 3 per cent

FOR IMMEDIATE RELEASE

**Media Relations**

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The Bank of Canada today announced that it is maintaining its target for the overnight rate at 3 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 3 1/4 per cent.

Three major developments are affecting the Canadian economy: the protracted weakness in the U.S. economy; ongoing turbulence in global financial markets; and sharp increases in many commodity prices. The first two developments are evolving roughly in line with expectations in the April *Monetary Policy Report*. However, commodity prices are continuing to outstrip earlier expectations. This has led to further increases in Canada's terms of trade and real national income, and has altered the outlook for global and domestic inflation.

Although Canadian economic growth in the first quarter was weaker than expected, final domestic demand continues to expand at a solid pace. The economy is judged to have moved into slight excess supply in the second quarter of this year; excess supply is expected to increase over the balance of the year. High terms of trade, accommodative monetary policy, and a gradual recovery in the U.S. economy are expected to generate above-potential growth starting early next year, bringing the economy back to full capacity around mid-2010. Canadian GDP is projected to grow by 1.0 per cent in 2008, 2.3 per cent in 2009, and 3.3 per cent in 2010.

Total CPI inflation over the next year is expected to be much higher than projected at the time of the April *Report*. Assuming energy prices follow current futures prices over the projection period, total CPI inflation is projected to rise temporarily above 4 per cent, peaking in the first quarter of 2009. As energy prices stabilize and with medium-term inflation expectations remaining well anchored, total inflation is then projected to converge to the core rate of inflation at the 2 per cent target in the second half of 2009. Core inflation is projected to remain well contained and broadly in line with earlier expectations, averaging close to 1.5 per cent through the third quarter of this year and then rising to 2 per cent in the second half of 2009.

The three major developments affecting the Canadian economy pose significant upside and downside risks to the Bank's base-case projection. Weighing the implications of these, the Bank views the risks to its base-case projection for inflation as balanced.

Against this backdrop, the Bank judges that the current level of the target for the overnight rate remains appropriate. The Bank will continue to monitor carefully the evolution of risks, together with economic and financial developments in the Canadian and global economies, and set monetary policy consistent with achieving the inflation target over the medium term.

The Bank's detailed projection for the economy and inflation, and its assessment of risks to the projection, will be published in the *Monetary Policy Report Update* on 17 July 2008.

*Information note:*

The Bank of Canada's next scheduled date for announcing the overnight rate target is 3 September 2008.

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