



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada raises target for the overnight rate by 1/4 percentage point to 2 1/4 per cent

FOR IMMEDIATE RELEASE

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The Bank of Canada today announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 2 1/4 per cent. The operating band for the overnight rate is correspondingly increased, and the Bank Rate is now 2 1/2 per cent.

Data received since the July *Monetary Policy Report Update* indicate that Canada's economic growth in the first half of this year was somewhat stronger than the Bank had been expecting, largely as a result of more robust external demand for Canadian goods and services. The Bank judges that the economy is now operating close to its production capacity. Core inflation, which was 1.9 per cent in July, is consistent with this assessment. Total CPI inflation, at 2.3 per cent in July, has remained above expectations, primarily because oil prices have been persistently higher than the Bank had assumed.

Looking forward, the Bank expects aggregate demand to grow at, or marginally above, the rate of growth of production capacity. With the economy operating close to its capacity, monetary stimulus needs to be reduced to avoid a buildup of inflationary pressures. In this context, the Bank decided to raise its target for the overnight rate.

Uncertainties around the economic outlook continue to relate primarily to three factors: the estimated size of the output gap, the future growth of Canadian exports and imports, and the overall effect on the Canadian economy of current and future movements in the world prices of oil and non-energy commodities. In conducting monetary policy, the Bank will continue to pay attention to these factors as it assesses the evolving prospects for pressures on capacity and inflation.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 19 October 2004.

The *Monetary Policy Report* will be published on 21 October 2004.

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