



PRESS RELEASE



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Bank of Canada Raises Target Overnight Rate by ½ Percentage Point to 5¾ Per Cent

OTTAWA, Ontario, May 17, 2000 — The Bank of Canada raised its target for the overnight rate by one-half of one percentage point to 5¾ per cent. The operating band for the overnight rate was correspondingly increased, and the Bank Rate is now 6 per cent.

In its latest Monetary Policy Report, released last week, the Bank took note of the strength of demand in Canada from both international and domestic sources, some early signs of pressures on capacity limits, and the need to lean against these trends in order to preserve the low and stable inflation environment that has been benefiting the Canadian economy.

An important source of this strong growth in demand has been the U.S. economy. Yesterday's action by the U.S. Federal Reserve to raise its target level for the federal funds rate by 50 basis points underscores the strength of that economy and the continued risk of demand and inflation pressures spilling over from the United States into Canada.

This move by the Bank of Canada reflects the judgement that a tightening in monetary conditions in Canada is warranted, given that the underlying momentum of demand growth and the high levels of activity risk putting excessive pressure on the economy's capacity limits, and thus on inflation.

It is through the Bank's commitment to a low and stable inflation environment that monetary policy can best contribute to sustained economic expansion in Canada, which will increase the likelihood of lower unemployment and improved productivity.

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