



PRESS RELEASE



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Bank of Canada keeps target for the overnight rate at 2 3/4 per cent

OTTAWA, Ontario, 2 December 2003 — The Bank of Canada today announced that it is maintaining its target for the overnight rate at 2 3/4 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 3 per cent.

Recent economic developments bearing on the prospects for economic activity and inflation in Canada reflect a number of cross-currents. Core and total CPI inflation have fallen below the 2 per cent inflation target and are poised to move lower in the short run. Economic growth in Canada in the third quarter was below expectations, owing principally to a sharp inventory correction. At the same time, final domestic demand remained strong, buoyed by vigorous household spending and a solid pickup in business investment. The U.S. economy has exhibited exceptional growth and overseas economies have been growing more strongly than expected, although this growth has yet to show up in Canada's export performance.

As a result of weak growth in Canada in the third quarter and downward revisions to growth rates in the first and second quarters of 2003, the output gap is now larger than the Bank had estimated in the October Monetary Policy Report. Therefore, stronger expansion than previously projected will be required in the fourth quarter of 2003 and through 2004 if the output gap is to be closed by early 2005, consistent with returning inflation to the target by mid-2005.

At this time, the Bank expects Canada's economic growth in the fourth quarter to rebound strongly from the effects of the August power outage in Ontario and from the inventory correction; the Bank also expects an increase in exports reflecting strong U.S. expansion. However, there is uncertainty about the extent to which the appreciation of the Canadian dollar will offset the effects of stronger world demand for Canadian goods and services, and whether the amount of monetary stimulus currently in the economy will support an increase in business investment and household spending sufficient to close the output gap by early 2005.

Given the information currently available, the Bank has decided to leave policy interest rates unchanged at this time. The Bank will watch closely for evidence that aggregate demand and output are expanding at a rate solidly above the growth of potential.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 20 January 2004. The *Monetary Policy Report Update* will be published on 22 January 2004.

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