



PRESS RELEASE



Canadian Mortgage News - National Archive 2005

Bank of Canada keeps target for the overnight rate at 2 1/2 per cent

OTTAWA, Ontario, 12 July 2005 — The Bank of Canada today announced that it is maintaining its target for the overnight rate at 2 1/2 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 2 3/4 per cent.

Global and Canadian economic developments since the 25 May interest rate announcement have been broadly consistent with the Bank's expectations. In Canada, further progress has been made in adjusting to global developments, and the economy is operating close to its production capacity.

The Bank's outlook for output and inflation in Canada is little changed from the April *Monetary Policy Report*. The economy is thus projected to continue to operate near its production capacity this year and next, and inflation is expected to return to 2 per cent by the end of 2006.

To support aggregate demand and facilitate the adjustment of the Canadian economy to global developments, the Bank has held the target for the overnight rate unchanged since October 2004. However, in line with the Bank's outlook, some reduction in the amount of monetary stimulus will be required in the near term to keep aggregate demand and supply in balance and inflation on target.

The risks to the outlook through 2006 appear balanced, but over the medium term risks related to global imbalances are increasing.

The Bank's outlook for output and inflation will be discussed in the *Monetary Policy Report Update*, to be published on 14 July 2005.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 7 September 2005.

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