



PRESS RELEASE



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Bank of Canada increases overnight rate target to 3/4 per cent

OTTAWA, Ontario, July 20, 2010 — The Bank of Canada today announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 3/4 per cent. The Bank Rate is correspondingly 1 per cent and the deposit rate is 1/2 per cent.

The global economic recovery is proceeding but is not yet self-sustaining. Greater emphasis on balance sheet repair by households, banks, and governments in a number of advanced economies is expected to temper the pace of global growth relative to the Bank's outlook in its *April Monetary Policy Report* (MPR). While the policy response to the European sovereign debt crisis has reduced the risk of an adverse outcome and increased the prospect of sustainable long term growth, it is expected to slow the global recovery over the projection horizon. In the United States, private demand is picking up but remains uneven.

Economic activity in Canada is unfolding largely as expected, led by government and consumer spending. Housing activity is declining markedly from high levels, consistent with the Bank's view that policy stimulus resulted in household expenditures being brought forward into late 2009 and early 2010. While employment growth has resumed, business investment appears to be held back by global uncertainties and has yet to recover from its sharp contraction during the recession.

The Bank expects the economic recovery in Canada to be more gradual than it had projected in its April MPR, with growth of 3.5 per cent in 2010, 2.9 per cent in 2011, and 2.2 per cent in 2012. This revision reflects a slightly weaker profile for global economic growth and more modest consumption growth in Canada. The Bank anticipates that business investment and net exports will make a relatively larger contribution to growth.

Inflation in Canada has been broadly in line with the Bank's April projection. While the Bank now expects the economy to return to full capacity at the end of 2011, two quarters later than had been anticipated in April, the underlying dynamics for inflation are little changed. Both total CPI and core inflation are expected to remain near 2 per cent throughout the projection period. The Bank will look through the transitory effects on inflation of changes to provincial indirect taxes.

Reflecting all of these factors, the Bank has decided to raise the target for the overnight rate to 3/4 per cent. This decision leaves considerable monetary stimulus in place, consistent with achieving the 2 per cent inflation target in light of the significant excess supply in Canada, the strength of domestic spending, and the uneven global recovery.

Given the considerable uncertainty surrounding the outlook, any further reduction of monetary stimulus would have to be weighed carefully against domestic and global economic developments.

Information note:

A full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR on 22 July 2010. The next scheduled date for announcing the overnight rate target is 8 September 2010.