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Bank of Canada keeps target for the overnight rate at 4 1/4 per cent

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

Overall, the outlook for economic growth and inflation in Canada is largely unchanged from the April *Monetary Policy Report (MPR)*.

The global economic expansion remains robust. Growth in Canada in the first half of 2006 appears to have been a little stronger and the Canadian dollar has traded in a somewhat higher range than was envisaged in the April *MPR*. As well, there was a further shift in the composition of demand towards consumption and away from exports. Total CPI inflation has remained above the 2 per cent target, mainly because of increases in consumer energy prices, while core inflation moved up to 2 per cent slightly sooner than expected. All factors considered, the Canadian economy is currently judged to be operating just above its production capacity.

In 2007 and 2008, growth is projected to be a little weaker than was set out in the April *MPR*. The additional strength that has developed in domestic demand is expected to persist into next year, but this should be more than offset by a weaker outlook for net exports, owing primarily to the recent strength of the Canadian dollar. With some anticipated moderation in U.S. growth, combined with past interest rate and exchange rate increases, the Canadian economy is projected to return to its production capacity by the end of 2008. Total CPI inflation is expected to average just over 1 1/2 per cent from mid-2006 to mid-2007, with the reduction in the Goods and Services Tax lowering the inflation rate by 0.6 percentage points over this period. Inflation should then return to the 2 per cent target. Core inflation should remain at about 2 per cent throughout the projection period.

In line with the Bank's largely unchanged outlook, the current level of the target for the overnight rate is judged at this time to be consistent with achieving the inflation target over the medium term. The Bank will monitor global and domestic economic and financial developments, including adjustments in the Canadian economy, relative to its projection. Risks to the projection remain roughly balanced, with a small tilt to the downside later in the projection period related to global imbalances.

Further details of the Bank's outlook for output and inflation will be discussed in the *Monetary Policy Report Update*, to be released on 13 July 2006.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 6 September 2006.