



B A C K G R O U N D E R S

The Bank Rate

The Bank Rate is the rate of interest that the Bank of Canada charges on one-day loans to major financial institutions.

The Bank Rate is closely related to the Target for the Overnight Rate

The Bank Rate is closely related to the [Target for the Overnight Rate](#) —the key tool used by the Bank of Canada to conduct [monetary policy](#).

The Target for the Overnight Rate is the rate at which the Bank wants major financial institutions participating in the [Large Value Transfer System \(LVTS\)](#) to borrow and to lend one-day funds among themselves to settle their transactions at the end of each day.

Normally, the Target for the Overnight Rate is the midpoint of an [operating band](#) that is half a percentage point wide. The Bank Rate always sits at the top of that band. For example, if the band is 2.25 to 2.75 per cent, the target for the overnight rate would be 2.50 per cent and the Bank Rate 2.75 per cent. The bottom of the band (2.25 per cent) is the deposit rate—the rate that the Bank of Canada pays on any surplus funds that LVTS participants leave on deposit at the Bank overnight.

In exceptional circumstances,¹ when the Target for the Overnight Rate is at its lowest possible level—the

1 In April 2009, the Bank set the policy rate at the effective lower bound of 0.25 per cent and kept it at this level until June 2010 to provide aggressive monetary stimulus to the Canadian economy in response to the large external shock from the 2007–09 global financial and economic crisis.

effective lower bound—the operating band is only one-quarter of a percentage point wide (0.25 to 0.50 per cent). In this instance, the Target for the Overnight Rate is the bottom of the band, rather than the midpoint, and is the same as the deposit rate (0.25 per cent). The Bank Rate, on the other hand, is still at the top of the band (0.50 per cent).

The Bank Rate now plays a less-prominent role in the conduct of monetary policy

Over the years, the Bank of Canada has refined the way it conducts monetary policy. In the past, the Bank Rate was defined differently and played a more prominent role in monetary policy.

Under the current system, monetary policy actions are clearly signalled by changes in the Target for the Overnight Rate. The operating band and the Bank Rate are correspondingly adjusted at the same time. Since December 2000, the Bank of Canada has introduced a [schedule of eight pre-set days](#) a year when it announces whether the target for the overnight rate will be changed.

For a detailed description of the Bank’s standard operating framework, see “[A Primer on the Implementation of Monetary Policy in the LVTS Environment](#).”

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