



Bank of Canada maintains overnight rate target at 1/4 per cent and reiterates conditional commitment to hold current policy rate until the end of the second quarter of 2010

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The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1/4 per cent. The Bank Rate is unchanged at 1/2 per cent and the deposit rate is 1/4 per cent.

Information received since the Bank's April *Monetary Policy Report* (MPR) is broadly consistent with the Bank's medium-term outlook for output and inflation in Canada. The economy is undergoing major restructuring in a number of sectors. The already significant output gap will continue to widen through the third quarter, putting downward pressure on inflation. The Bank continues to expect that the global and Canadian recoveries will be more muted than usual.

In recent weeks, financial conditions and commodity prices have improved significantly, and consumer and business confidence have recovered modestly. If the unprecedentedly rapid rise in the Canadian dollar (which reflects a combination of higher commodity prices and generalized weakness in the U.S. currency) proves persistent, it could fully offset these positive factors.

The outlook is subject to considerable uncertainty. While the underlying macroeconomic risks are roughly balanced, the Bank judges that, as a consequence of operating at the effective lower bound, the overall risks to its inflation projection remain tilted slightly to the downside.

Conditional on the outlook for inflation, the target overnight rate can be expected to remain at its current level until the end of the second quarter of 2010 in order to achieve the inflation target.

The Bank retains considerable flexibility in the conduct of monetary policy at low interest rates, consistent with the framework outlined in the April MPR.

Information note:

The next scheduled date for announcing the overnight rate target is 21 July 2009. 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 23 July 2009.

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