



BANK OF CANADA
BANQUE DU CANADA

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

FOR IMMEDIATE RELEASE

Media Relations

Ottawa, Ontario

July 21, 2009

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.

The global economy has suffered an intense, synchronous recession and considerable excess supply has opened up. There are now increasing signs that economic activity has begun to expand in many countries in response to monetary and fiscal policy stimulus and measures to stabilize the global financial system. However, the recovery is nascent. Effective and resolute policy implementation remains critical to sustained global growth.

The dynamics of the recovery in Canada remain broadly consistent with the Bank's medium-term outlook in its April *Monetary Policy Report* (MPR). Stimulative monetary and fiscal policies, improved financial conditions, firmer commodity prices, and a rebound in business and consumer confidence are spurring domestic demand growth. However, the higher Canadian dollar, as well as ongoing restructuring in key industrial sectors, is significantly moderating the pace of overall growth.

Some of the early strength in domestic demand represents a bringing forward of household expenditures, which modestly alters the profile of growth over the projection period relative to the April MPR. The Bank projects that the economy will contract by 2.3 per cent in 2009 and then grow by 3.0 per cent in 2010 and 3.5 per cent in 2011, reaching production capacity in the middle of 2011.

Total CPI inflation declined to -0.3 per cent in June and should trough in the third quarter of this year before returning to the 2 per cent target in the second quarter of 2011 as aggregate supply and demand return to balance. Core inflation held up at 1.9 per cent in the second quarter of 2009. The Bank still expects core inflation to diminish in the second half of this year before gradually returning to 2 per cent in the second quarter of 2011.

While the underlying macroeconomic risks to the projection are roughly balanced, the Bank judges that, as a consequence of operating at the effective lower bound, the overall risks to its inflation projection are 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. Consistent with this conditional commitment, the Bank will continue to conduct longer-term Purchase and Resale Agreements based on existing terms and conditions and according to the accompanying **schedule**.

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:

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. The next scheduled date for announcing the overnight rate target is 10 September 2009. Content Type(s): **Press, Press releases**