BANK OF CANADA
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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.

The global economic recovery is under way, supported by continued improvements in financial conditions and stronger domestic demand growth in many emerging-market economies. While the outlook for global growth through 2010 and 2011 is somewhat stronger than the Bank had projected in its *October Monetary Policy Report*, the recovery continues to depend on exceptional monetary and fiscal stimulus, as well as extraordinary measures taken to support financial systems.

Economic growth in Canada resumed in the third quarter of 2009 and is expected to have picked up further in the fourth quarter. Total CPI inflation turned positive in the fourth quarter and the core rate of inflation has been slightly higher than expected in recent months. Nevertheless, considerable excess supply remains, and the Bank judges that the economy was operating about 3 ¼ per cent below its production capacity in the fourth quarter of 2009.

Canada's economic recovery is expected to evolve largely as anticipated in the October MPR, with the economy returning to full capacity and inflation to the 2 per cent target in the third quarter of 2011. The Bank projects that the economy will grow by 2.9 per cent in 2010 and 3.5 per cent in 2011, after contracting by 2.5 per cent in 2009.

The factors shaping the recovery are largely unchanged - policy support, increased confidence, improving financial conditions, global growth, and higher terms of trade. At the same time, the persistent strength of the Canadian dollar and the low absolute level of U.S. demand continue to act as significant drags on economic activity in Canada. On balance, these factors have shifted the composition of aggregate demand towards growth in domestic demand and away from net exports. The private sector should become the sole driver of domestic demand growth in 2011.

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 term Purchase and Resale Agreements based on existing terms and conditions and according to the accompanying **schedule**.

In its conduct of monetary policy at low interest rates, the Bank retains considerable flexibility, consistent with the framework outlined in the April 2009 MPR.

The risks to the outlook for inflation continue to be those outlined in the October MPR. On the upside, the main risks are stronger-than-projected global and domestic demand. On the downside, the main risks are a more protracted global recovery and persistent strength of the Canadian dollar that could act as a significant further drag on growth and put additional downward pressure on inflation. 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.

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 *Monetary Policy Report* on 21 January 2010. The next scheduled date for announcing the overnight rate target is 2 March 2010.

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