



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada maintains overnight rate target at 1/4 per cent; removes conditional commitment

FOR IMMEDIATE RELEASE

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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.

Global economic growth has been somewhat stronger than projected, with momentum in emerging-market economies increasing noticeably. Exceptional stimulus from monetary and fiscal policies continues to provide important support in many countries. The recovery in the major advanced economies is still expected to be relatively subdued, reflecting ongoing balance sheet adjustments and the gradual withdrawal of fiscal stimulus commencing later this year. Despite recent progress, considerable uncertainty remains about the durability of the global recovery.

In Canada, the economic recovery is proceeding somewhat more rapidly than the Bank had projected in its January *Monetary Policy Report* (MPR). The profile for growth is more front-loaded than that presented in the January MPR. The Bank now projects that the economy will grow by 3.7 per cent in 2010 before slowing to 3.1 per cent in 2011 and 1.9 per cent in 2012.

This profile reflects stronger near-term global growth, very strong housing activity in Canada, and the Bank's assessment that policy stimulus resulted in more expenditures being brought forward in late 2009 and early 2010 than expected. At the same time, the persistent strength of the Canadian dollar, Canada's poor relative productivity performance, and the low absolute level of U.S. demand will continue to act as significant drags on economic activity in Canada. The Bank expects the economy to return to full capacity in the second quarter of 2011.

The outlook for inflation reflects the combined influences of stronger domestic demand, slowing wage growth, and overall excess supply. Core inflation, which has been somewhat firmer than projected in January, is expected to ease slightly in the second quarter of 2010 as the effect of temporary factors dissipates, and to remain near 2 per cent throughout the rest of the projection period. Total CPI inflation is expected to be slightly higher than 2 per cent over the coming year, before returning to the target in the second half of 2011.

In response to the sharp, synchronous global recession, the Bank lowered its target rate rapidly over the course of 2008 and early 2009 to its lowest possible level. With its conditional commitment introduced in April 2009, the Bank also provided exceptional guidance on the likely path of its target rate. This unconventional policy provided considerable additional stimulus during a period of very weak economic conditions and major downside risks to the global and Canadian economies. With recent improvements in the economic outlook, the need for such extraordinary policy is now passing, and it is appropriate to begin to lessen the degree of monetary stimulus. The extent and timing will depend on the outlook for economic activity and inflation, and will be consistent with achieving the 2 per cent inflation target.

In accordance with the removal of the conditional commitment, there will be no additional term Purchase and Resale Agreements issued by the Bank.

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 22 April 2010. The next scheduled date for announcing the overnight rate target is 1 June 2010.

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