



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.

Recent indicators point to the start of a global recovery from a deep, synchronous recession. Global economic and financial developments have been somewhat more favourable than expected at the time of the July *Monetary Policy Report* (MPR), although significant fragilities remain.

A recovery in economic activity is also under way in Canada. This resumption of growth is supported by monetary and fiscal stimulus, increased household wealth, improving financial conditions, higher commodity prices, and stronger business and consumer confidence. However, heightened volatility and persistent strength in the Canadian dollar are working to slow growth and subdue inflation pressures. The current strength in the dollar is expected, over time, to more than fully offset the favourable developments since July.

Given all of these factors, the Bank now projects that, relative to the July MPR, the composition of aggregate demand will shift further towards final domestic demand and away from net exports. Growth is expected to be slightly higher in the second half of this year than previously projected but to average slightly lower over the balance of the projection period. The Canadian economy is projected to grow by 3.0 per cent in 2010 and 3.3 per cent in 2011, after contracting by 2.4 per cent this year. This is a somewhat more modest recovery in Canada than the average of previous economic cycles.

The Bank now expects that the output gap will be closed in the third quarter of 2011, one quarter later than it had projected in July. Correspondingly, inflation is also expected to return to the 2 per cent target in the third quarter of 2011, one quarter later than in July's projection.

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**.

In its conduct of monetary policy at low interest rates, the Bank retains considerable flexibility, 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 Thursday, 22 October. The next scheduled date for announcing the overnight rate target is 8 December 2009.

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