



PRESS RELEASE



Canadian Mortgage News - National Archive 2009

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

OTTAWA, Ontario, December 08, 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.

While significant fragilities remain, global economic developments have been slightly more positive and the global outlook has improved modestly relative to the Bank's projection in its October *Monetary Policy Report* (MPR).

In Canada, as expected, the composition of aggregate demand is shifting towards final domestic demand and away from net exports. In the third quarter, the balance of these shifts resulted in weaker-than-projected GDP growth. Core inflation in recent months has been slightly higher than the Bank had projected, although total CPI inflation remains close to projections.

The main drivers and the profile of the projected recovery in Canada remain consistent with the Bank's views in the October MPR. The Bank continues to expect economic growth to become more solidly entrenched over the projection period and inflation to return to the 2 per cent target in the second half of 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. In its conduct of monetary policy at low interest rates, the Bank retains considerable flexibility, consistent with the framework outlined in the April 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 in the Canadian dollar that could act as a significant further drag on growth and put additional downward pressure on inflation. The Bank views all of these risks through the prism of achieving the 2 per cent inflation target.

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:

The next scheduled date for announcing the overnight rate target is 19 January 2010. 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.