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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

OTTAWA – 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 and financial developments have been broadly in line with the Bank's expectations. Following a deep, synchronous recession, recent indicators point to the start of recovery in major economies, supported by aggressive policy stimulus and the stabilization of global financial markets. In Canada, economic growth, the output gap, and inflation in the first half of 2009 have evolved largely as expected in the Bank's July *Monetary Policy Report* (MPR).

Stimulative monetary and fiscal policies, improved financial conditions, firmer commodity prices, and a rebound in business and consumer confidence are supporting domestic demand growth in Canada. Combined with recent information on inventory adjustments and automotive production, this suggests that GDP growth in the second half of 2009 could be stronger than the Bank projected in July. Total CPI inflation is still expected to trough in the current quarter before returning to the 2 per cent target in the second quarter of 2011 as aggregate supply and demand return to balance.

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.

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.

Persistent strength in the Canadian dollar remains a risk to growth and to the return of inflation to 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.

Information note:

The next scheduled date for announcing the overnight rate target is 20 October 2009. 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 October 2009.

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