

Bank of Canada lowers overnight rate target by 1/4 percentage point to 1/4 per cent and, conditional on the inflation outlook, commits 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 lowering its target for the overnight rate by one-quarter of a percentage point to 1/4 per cent, which the Bank judges to be the effective lower bound for that rate. The Bank Rate is correspondingly lowered to 1/2 per cent. The deposit rate - the rate paid on deposits held by financial institutions at the Bank of Canada - is left unchanged at 1/4 per cent and provides the floor for the overnight rate. Details of the Bank's operating framework at the effective lower bound can be found [here](#) .

In an environment of continued high uncertainty, the global recession has intensified and become more synchronous since the Bank's January *Monetary Policy Report Update*, with weaker-than-expected activity in all major economies. Deteriorating credit conditions have spread quickly through trade, financial, and confidence channels. While more aggressive monetary and fiscal policy actions are underway across the G20, measures to stabilize the global financial system have taken longer than expected to enact. As a result, the recession in Canada will be deeper than anticipated, with the economy projected to contract by 3.0 per cent in 2009. The Bank now expects the recovery to be delayed until the fourth quarter and to be more gradual. The economy is projected to grow by 2.5 per cent in 2010 and 4.7 per cent in 2011, and to reach its production capacity in the third quarter of 2011. Given significant restructuring in a number of sectors, potential growth has been revised down. The recovery will be importantly supported by the Bank's accommodative monetary stance.

The Bank expects core inflation to diminish through 2009, gradually returning to the 2 per cent target in the third quarter of 2011 as aggregate supply and demand return to balance. Total CPI inflation is expected to trough at -0.8 per cent in the third quarter of 2009 and return to target in the third quarter of 2011. 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.

With monetary policy now operating at the effective lower bound for the overnight policy rate, it is appropriate to provide more explicit guidance than is usual regarding its future path so as to influence rates at longer maturities. 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. The Bank will continue to provide such guidance in its scheduled interest rate announcements as long as the overnight rate is at the effective lower bound.

To reinforce its conditional commitment to maintain the overnight rate at 1/4 per cent, the Bank will roll over a portion of its existing stock of one- and three-month term Purchase and Resale Agreements (PRAs) into six- and twelve-month terms at minimum and maximum bid rates that correspond to the target rate and the Bank Rate, respectively. These longer-term PRAs will be issued according to the [schedule](#)  released today.

Today's decision to lower the policy rate by 25 basis points brings the cumulative monetary policy easing to 425 basis points since December 2007. It is the Bank's judgment that this cumulative easing, together with the conditional commitment, is the appropriate policy stance to move the economy back to full production capacity and to achieve the 2 per cent inflation target. The Bank retains considerable flexibility in the conduct of monetary policy at low interest rates, consistent with the framework to be outlined in the Bank's *Monetary Policy Report* on 23 April.

Information note:

The next scheduled date for announcing the overnight rate target is 4 June 2009.

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