BANK OF CANADA
BANQUE DU CANADA

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OTTAWA—The Bank of Canada today released its April *Monetary Policy Report*, which discusses current economic and financial trends in the context of Canada's inflation-control strategy.

In the *Report*, the Bank noted that 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 under way 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 *Report* notes that core inflation is expected 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 conducting monetary policy 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 has announced that it will roll over a portion of its existing stock of 1- and 3-month term purchase and resale agreements (PRAs) into 6- and 12-month terms at minimum and maximum bid rates that correspond to the target rate and the Bank Rate, respectively.

Against this background, the Bank lowered its policy rate by 25 basis points on Tuesday, 21 April, bringing 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.

This is consistent with the framework outlined in today's *Monetary Policy Report* for conducting monetary policy when the overnight interest rate is at the effective lower bound. The framework sets out the instruments that the Bank would consider using, if required, to achieve its inflation objective. These instruments are: conditional statements about the future path of policy rates; quantitative easing; and credit easing. It also describes principles guiding the possible use of these instruments.