



Market Update - March 2, 2010

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.

The ongoing global economic recovery is being driven largely by strong domestic demand growth in many emerging-market economies and supported in advanced economies by exceptional monetary and fiscal stimulus, as well as extraordinary measures taken to support financial systems.

The level of economic activity in Canada has been slightly higher than the Bank had projected in its January *Monetary Policy Report* (MPR). The economy grew at an annual rate of 5 per cent in the fourth quarter of 2009, spurred by vigorous domestic spending and further recovery in exports. The underlying factors supporting Canada's recovery are largely unchanged - policy stimulus, increased confidence, improved financial conditions, global growth, and higher terms of trade. At the same time, the persistent strength of the Canadian dollar and the low absolute level of U.S. demand continue to act as significant drags on economic activity in Canada.

Core inflation has been slightly firmer than projected, the result of both transitory factors and the higher level of economic activity. The outlook for inflation should continue to reflect the combined influences of stronger domestic demand, slowing wage growth, and overall excess supply.

Conditional on the current 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 risks to the outlook for inflation continue to be those outlined in the January 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 of the Canadian dollar. The Bank judges that the main macroeconomic risks to the inflation projection are roughly balanced.

Information note:

The next scheduled date for announcing the overnight rate target is 20 April 2010.

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 April 2010.