BANK OF CANADA
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Monetary Policy Report Summary

April 2009

This text is a commentary of the Governing Council of the Bank of Canada. It presents the Bank's updated outlook based on information received up to 21 April 2009.

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 G-20, 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.

Global developments continue to pose significant risks to the Bank's inflation projection for Canada, on both the upside and the downside. On the upside, confidence may return more rapidly than anticipated if convincing action is taken more quickly than

Highlights

- The economic recovery in Canada will be delayed by one quarter and will be more protracted than projected in the January *Monetary Policy Report Update*. This reflects a more intense and synchronized global recession, exacerbated by delays in the implementation of measures to restore financial stability around the world.
- Canadian real GDP is projected to decline by 3.0 per cent in 2009 and to grow by 2.5 per cent in 2010 and by 4.7 per cent in 2011.
- After declines in 2009, core inflation and total CPI inflation are projected to gradually return to 2 per cent in the third quarter of 2011.
- The Bank lowered its policy rate to 1/4 per cent - its effective lower bound - and, conditional on the outlook for inflation, committed to hold the rate at that level until the end of the second quarter of 2010.
- As a consequence of conducting monetary policy at the effective lower bound, the Bank judges that the risks to its inflation projection are tilted slightly to the downside.
- The Bank's current policy stance is appropriate to move the economy back to full production capacity and to achieve the 2 per cent inflation target.

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assumed to address financial system weaknesses in major economies. This could result in a stronger-than-projected recovery in the global economy as the aggressive and coordinated macroeconomic policy actions already being implemented take effect. On the downside, the global recession could be deeper and more protracted than envisaged if the resolution of these financial system problems is delayed further. More generally, there are risks around the resolution of global imbalances. The underlying macroeconomic risks are roughly balanced.

When monetary policy is conducted at the effective lower bound, the uncertainty regarding the effects of unconventional monetary policies in the event that the recession turns out to be more protracted than expected, and the resulting need for prudence in the use of these instruments, imply that the overall risks to the Bank's inflation projection are tilted slightly to the downside.

On 21 April, the Bank lowered 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. 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 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 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.

Summary of the Base-Case Projection[a]

	2008	2009				2010		2011	
	Q4	Q1	Q2	Q3	Q4	H1	H2	H1	H2
Real GDP (quarter-over-quarter percentage change)[b]	-3.4 *(-2.3)*	-7.3 *(-4.8)*	-3.5 *(-1.0)*	-1.0 *(2.0)*	2.4 *(3.5)*	3.5 *(4.7)*	4.6 *(4.9)*	5.0	4.5
Real GDP (year-over-year percentage change)	-0.7 *(-0.3)*	-2.4 *(-1.3)*	-3.4 *(-1.7)*	-3.8 *(-1.6)*	-2.4 *(-0.1)*	1.2 *(3.0)*	3.7 *(4.6)*	4.6	4.8
Core inflation (year-over-year percentage change)	2.2 *(2.2)*	1.9 *(2.1)*	1.6 *(1.5)*	1.3 *(1.2)*	0.9 *(1.1)*	1.1 *(1.3)*	1.4 *(1.8)*	1.8	2.0
Total CPI (year-over-year percentage change)	2.0 *(2.0)*	1.2 *(1.2)*	-0.1 *(-0.6)*	-0.8 *(-1.0)*	1.0 *(1.1)*	1.6 *(1.6)*	1.7 *(1.8)*	1.9	2.0
WTI[c] (level)	58 *(58)*	43 *(43)*	51 *(52)*	57 *(56)*	60 *(58)*	63 *(62)*	67 *(64)*	69	71

a. Figures in parentheses are from the base-case projection in the January *Monetary Policy Report Update*.

b. For half years, the number reported is the average of the respective quarter-to-quarter percentage growth at annual rates.

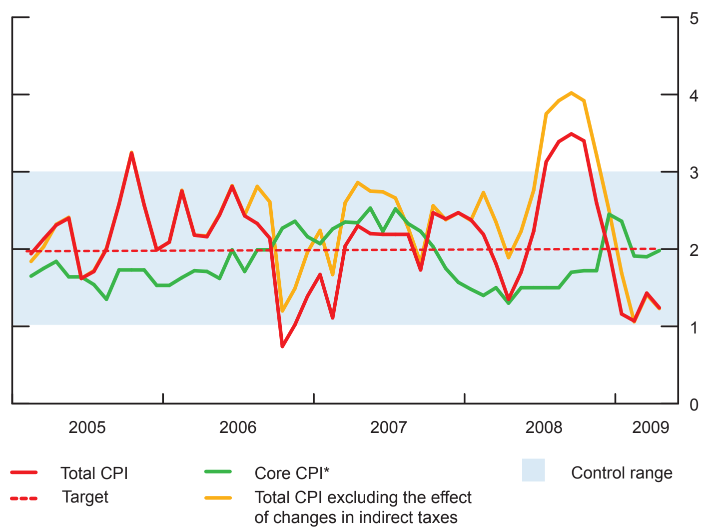
c. Assumption for the price of West Texas Intermediate crude oil (US$ per barrel), based on an average of futures contracts over the two weeks ending 17 April 2009.

The 21 April decision 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. The Annex to this report describes the Bank of Canada's approach to conducting monetary policy when the overnight interest rate is at the effective lower bound. Additional stimulus could be provided, if needed, through quantitative and/or credit easing. Definitions of these actions and the principles guiding their possible use can be found in the Annex.

Inflation has diminished as expected

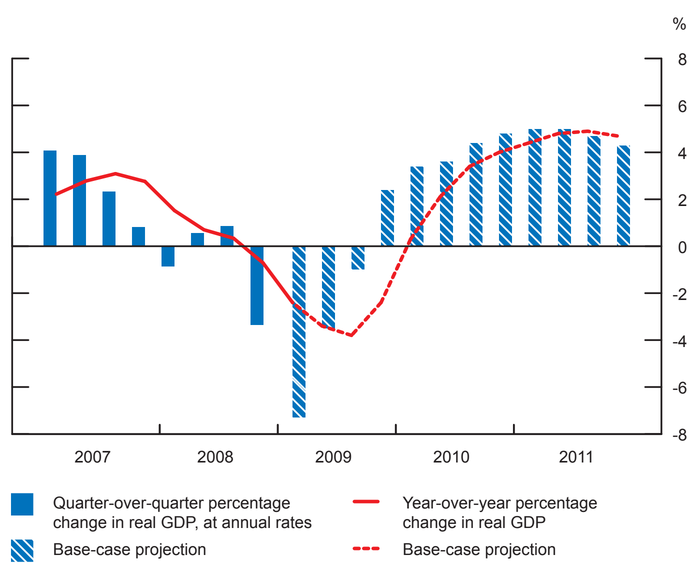
Year-over-year percentage change



* CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components

Source: Bank of Canada

Growth in real GDP expected to rebound in 2010



Sources: Statistics Canada and Bank of Canada calculations