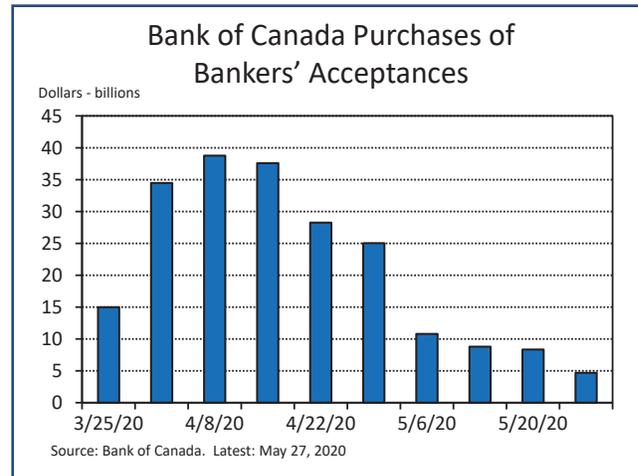


No change in the Bank of Canada's policy rates came as no surprise given its recent emergency rate cuts to the zero lower bound or 0.25 per cent for its overnight target rate. This accommodative monetary setting is expected for the next several rate setting meetings due to the economy's excess capacity and disinflationary condition.

On a positive note, the Bank announced that it will be reducing its support for short-term market liquidity following significant strains in March. Short-term funding conditions have improved, and the Bank is reducing the frequency of its term repo operations to once per week, and its program to purchase bankers' acceptances to bi-weekly operations.



The Bank's assessment of the economy and its near-term outlook improved from its *Monetary Policy Outlook* released last April. The impact of the COVID-19 pandemic on the global economy appears to have peaked, though the recovery path is highly uncertain and looks to be uneven across countries. Large fiscal measures to support income losses combined with stimulative monetary conditions are seen facilitating the economic recovery.

Canada's economy in the second quarter of 2020 is expected to see a contraction of 10 to 20 per cent from the first quarter, which contracted 2.1 per cent, or 8.2 per cent annualized, from the fourth quarter. Central 1's forecast for the second quarter calls for a 50 per cent annualized decline, or 12.5 per cent in actual terms, and is in the lower end of the Bank's range. Commodity prices are rising, housing activity is beginning to rebound, and pandemic restrictions are easing gradually. This severe but short economic recession is seen ending this quarter with recovery beginning in the third quarter.

The next rate announcement is July 15, 2020.

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Terms

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