



## PRESS RELEASE



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### **Bank of Canada lowers overnight rate target by 1/2 percentage point to 3 1/2 per cent**

**OTTAWA, Ontario, March 04, 2008** — The Bank of Canada today announced that it is lowering its target for the overnight rate by one-half of one percentage point to 3 1/2 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is now 3 3/4 per cent.

Information received since the January *Monetary Policy Report Update (MPRU)* indicates that economic growth in Canada through the four quarters of 2007 was broadly in line with expectations. Domestic demand has remained buoyant, as rising commodity prices and high employment have continued to support income growth. Canada's net exports weakened further in the fourth quarter, reflecting the slowing U.S. economy and the impact of the past appreciation of the Canadian dollar. Overall, the Canadian economy remained above its production capacity at year-end. Core and total CPI inflation – at 1.4 per cent and 2.2 per cent, respectively, in January – have also been consistent with the Bank's expectations.

At the same time, there are clear signs that the U.S. economy is likely to experience a deeper and more prolonged slowdown than had been projected in January. This stems from further weakening in the residential housing market, which is adversely affecting other sectors of the U.S. economy and contributing to further tightening in credit conditions. The deterioration in economic and financial conditions in the United States can be expected to have significant spillover effects on the global economy. These developments suggest that important downside risks to Canada's economic outlook that were identified in the *MPRU* are materializing and, in some respects, intensifying.

The Bank now judges that the balance of risks around its January projection for inflation has clearly shifted to the downside, and, as a result, the Bank is lowering the target for the overnight rate. Further monetary stimulus is likely to be required in the near term to keep aggregate supply and demand in balance and to achieve the 2 per cent inflation target over the medium term.

The Bank will publish a new projection for the economy and inflation, including risks to the projection, in the *Monetary Policy Report* on 24 April 2008.

#### **Information note:**

The Bank of Canada's next scheduled date for announcing the overnight rate target is 22 April 2008.