



PRESS RELEASE



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Bank of Canada lowers overnight rate target by 3/4 percentage point to 1 1/2 per cent

OTTAWA, Ontario, December 09, 2008 — The Bank of Canada today announced that it is lowering its target for the overnight rate by three-quarters of a percentage point to 1 1/2 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is now 1 3/4 per cent.

The outlook for the world economy has deteriorated significantly and the global recession will be broader and deeper than previously anticipated. Global financial markets remain severely strained. Measures taken by major governments are beginning to encourage credit flows, although it will take some time before conditions in financial markets normalize. In addition, a series of recently announced monetary and fiscal policy actions will also support global economic growth.

While Canada's economy evolved largely as expected during the summer and early autumn, it is now entering a recession as a result of the weakness in global economic activity. The recent declines in terms of trade, real income growth, and confidence are prompting more cautious behaviour by households and businesses.

All of these factors imply a lower profile for core inflation than had been projected at the time of the last *Monetary Policy Report* in October.

Several factors are helping to counterbalance the negative drag from the global economic and financial developments. The depreciation of the Canadian dollar will continue to provide an important offset to the effects of weaker global demand and lower commodity prices. As well, money markets and overall credit conditions in Canada are responding to significant and ongoing efforts to provide liquidity to the Canadian financial system.

In light of the weakening outlook for growth and inflation, the Bank of Canada lowered its policy interest rate by a total of 75 basis points in October and by an additional 75 basis points today. These monetary policy actions provide timely and significant support to the Canadian economy.

The Bank will continue to monitor carefully economic and financial developments in judging to what extent further monetary stimulus will be required to achieve the 2 per cent inflation target over the medium term.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 20 January 2009.

A full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the *Monetary Policy Report Update* on 22 January 2009.