



## PRESS RELEASE



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

**OTTAWA, Ontario, 3 September 2003** — The Bank of Canada today announced that it is lowering its target for the overnight rate by one-quarter of one percentage point to 2 3/4 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is now 3 per cent.

Since the Bank's last interest rate announcement on 15 July, inflation pressures have continued to ease. Core inflation has declined below the 2 per cent inflation target earlier than the Bank anticipated, and it appears that lower inflation will persist over the coming months.

As expected, economic growth was interrupted in the second quarter of the year, and the pace of growth in the third quarter will likely remain below potential. This recent weakness reflects the impact of a number of near-term factors such as severe acute respiratory syndrome (SARS), the effect of an isolated case of bovine spongiform encephalopathy (BSE) on exports of Canadian beef and cattle, the power blackout in Ontario, and the forest fires in Western Canada.

Notwithstanding these developments, there are clear indications that conditions are in place for a strengthening of economic growth. Final domestic demand growth has remained robust and the adverse effects of the near-term factors are beginning to dissipate. The economic rebound in the United States began earlier, and will be stronger, than previously expected. As well, the tone of capital markets remains favourable. Overall, despite current weakness, the accumulation of economic evidence to date reinforces the Bank's view that growth in the Canadian economy will strengthen towards the end of 2003 and through 2004.

With today's decision, policy interest rates will support the return to levels of economic activity consistent with achieving an overall balance of aggregate demand and supply and thus keeping inflation near the target over the medium term.

**Information note:**

The Bank of Canada's next scheduled date for announcing the overnight rate target is 15 October 2003. The *Monetary Policy Report* will be published on 22 October 2003.

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