



PRESS RELEASE



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The Bank of Canada's Target for the Overnight Interest Rate: Policy Implementation Framework

OTTAWA, Ontario, May 17, 2007 — The Bank of Canada has released *The Bank of Canada's Target for the Overnight Interest Rate: Policy Implementation Framework*. This document outlines the framework within which the Bank implements monetary policy, including the target for the overnight interest rate, the operating band, open market buyback operations, and settlement balances.

Effective 18 May, 2007, this *Policy Implementation Framework* will replace the temporary measures announced on 9 March 2006 and 15 February 2007. This document is being made public in an effort to further clarify the Bank's approach with regards to the target for the overnight rate. Recent experience, reinforced by market consultations, has shown that it is important for the Bank to be clear about the policy implementation framework for the target overnight interest rate.

The main points of the *Policy Implementation Framework* are as follows:

- The Bank of Canada's target for the overnight interest rate henceforth refers to the rate on collateralized, market-based overnight transactions;
- The Bank will use the rate on overnight general collateral (GC) as its guide to conditions in the overnight market;
- The Bank will use open market Sale and Repurchase Agreements (SRAs) and Special Purchase and Resale Agreements (SPRAs) to reinforce the target. These operations will typically be conducted at 11:45. The Bank is prepared, however, to enter into multiple rounds of operations if necessary, and to conduct those operations outside of the regular time, including earlier in the morning, if necessary;
- The Bank has the option of not fully neutralizing the impact of open market operations as an additional tool to offset pressure on the overnight rate;
- The Bank will typically target a small positive amount of settlement balances (\$25 million). The Bank retains the right, however, to adjust the targeted level of settlement balances in either direction if warranted by conditions in the overnight market.

The Bank of Canada's Target for the Overnight Interest Rate: Policy Implementation Framework is available at www.bankofcanada.ca/en/monetary/monetary_framework.html.

The temporary measures announced 15 February 2007 are available at www.bankofcanada.ca/en/notices_fmd/2007/not150207.html. The temporary measures announced 9 March 2006 are available at www.bankofcanada.ca/en/notices_fmd/2006/not090306.html.

Further information about the implementation of monetary policy in the LVTS environment is available at www.bankofcanada.ca/en/lvts/lvts_primer_2007.pdf.

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The Canadian overnight market and its recent evolution are described in "The Canadian Overnight Market: Recent Evolution and Structural Changes," available in the the Spring 2007 issue of the *Bank of Canada Review*.