



## PRESS RELEASE



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

**OTTAWA, Ontario, January 22, 2008** — The Bank of Canada today announced that it is lowering its target for the overnight rate by one-quarter of one percentage point to 4 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is now 4 1/4 per cent.

In the second half of 2007, the Canadian economy grew broadly in line with the Bank's expectations in the October *Monetary Policy Report (MPR)*. Despite some slowing in growth in the fourth quarter, the Canadian economy continues to operate above its production capacity. Both core and total CPI inflation have been lower than projected in the *MPR*, largely reflecting a price-level adjustment related to increased competitive pressures in the retail sector stemming from the level of the Canadian dollar.

Financial market conditions have deteriorated since October, leading to a tightening of credit conditions in industrial countries. Given this, and a deeper, more prolonged decline in the U.S. residential housing sector, the 2008 outlook for the U.S. economy is now significantly weaker than at the time of the October *MPR*.

For Canada, the effects of the weaker U.S. economic outlook will lead to additional downward pressure on export growth. However, despite tighter credit conditions, domestic demand in Canada is projected to remain strong. This strength is supported by continued income growth associated with the increase in commodity prices since October, which has led to further gains in our terms of trade. Overall, the Bank now projects weaker growth in 2008 than was expected in October, with the economy moving into modest excess supply in the second quarter of this year. Somewhat stronger growth in 2009 brings the Canadian economy back into balance in early 2010. The inflation projection has also been revised down since October, especially for 2008, primarily reflecting the price-level adjustment noted above and the recent one-percentage-point cut in the GST. Both core and total CPI inflation should fall below 1 1/2 per cent by the middle of this year before returning to the 2 per cent target by the end of 2009. On the whole, the Bank judges that the risks to this inflation projection are roughly balanced.

In line with this outlook, the Bank has decided to lower the target for the overnight rate and further monetary stimulus is likely to be required in the near term to keep aggregate supply and demand in balance and to return inflation to target over the medium term.

The Bank's detailed projection for the economy and inflation, and risks to the projection, will be published in the *Monetary Policy Report Update* on 24 January 2008.

#### **Information note:**

The Bank of Canada's next scheduled date for announcing the overnight rate target is 4 March 2008.