



Central Banks Announce Coordinated Interest Rate Reductions

OTTAWA, Ontario, October 08, 2008 — Throughout the current financial crisis, central banks have engaged in continuous close consultation and have cooperated in unprecedented joint actions such as the provision of liquidity to reduce strains in financial markets.

Inflationary pressures have started to moderate in a number of countries, partly reflecting a marked decline in energy and other commodity prices. Inflation expectations are diminishing and remain anchored to price stability. The recent intensification of the financial crisis has augmented the downside risks to growth and thus has diminished further the upside risks to price stability.

Some easing of global monetary conditions is therefore warranted. Accordingly, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, Sveriges Riksbank and the Swiss National Bank are today announcing reductions in policy interest rates. The Bank of Japan expresses its strong support of these policy actions.

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

The Bank of Canada today announced that it is lowering its target for the overnight rate by 1/2 percentage point to 2 1/2 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is now 2 3/4 per cent.

The intensification of the global financial crisis is having a marked impact on all countries. In recent weeks conditions in global financial markets have deteriorated sharply, the U.S. economy has weakened further, and commodity prices have fallen abruptly.

As a result of these developments, credit conditions in Canada have tightened significantly, despite the relative health of our financial institutions. Weaker growth in the United States and other important trading partners will increase the drag on the Canadian economy coming from net exports. The deterioration of our terms of trade will act to moderate the growth of domestic demand. While the recent depreciation of the Canadian dollar will help cushion the effects of the weaker global outlook on the domestic economy, it will not completely offset them.

Below-potential growth in aggregate demand through 2009, combined with a lower profile for commodity prices, will significantly ease inflation pressures in Canada. Inflation expectations remain well anchored.

In view of these developments, the Bank of Canada decided to join other major central banks and lower its target for the overnight rate by 50 basis points today. This action will provide timely and significant support to the Canadian economy. The Bank will continue to monitor carefully economic and financial developments, along with the evolution of risks, in judging whether any further action might be required to achieve its 2 per cent inflation target over the medium term.

Canadian Mortgage News - Central Banks Announce Coordinated Interest Rate Reductions

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 21 October 2008. A full update of the Bank's outlook for growth and inflation, including risks to the projection, will be set out in the *Monetary Policy Report*, to be published on 23 October 2008.