



BANK OF CANADA
BANQUE DU CANADA

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

FOR IMMEDIATE RELEASE

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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 1/4 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is now 4 1/2 per cent.

Since the October *Monetary Policy Report (MPR)*, there have been a number of economic and financial developments that have a bearing on the prospects for output and inflation in Canada.

Consistent with the outlook in the *MPR*, the global economic expansion has remained robust and commodity prices have continued to be strong. The Canadian economy has been growing broadly in line with the Bank's expectations, reflecting in large part underlying strength in domestic demand. However, both total CPI inflation and core inflation in October, at 2.4 per cent and 1.8 per cent respectively, were below the Bank's expectations, reflecting increased competitive pressures related to the level of the Canadian dollar. The Bank now expects inflation over the next several months to be lower than was projected in the *MPR*. In the context of exceptional volatility in global financial markets, the Canadian dollar spiked well above parity with the U.S. dollar in November, but it has recently traded closer to the 98-cent-U.S. level assumed in the October *MPR*.

Overall, the Canadian economy continues to operate above its production capacity. Given the strength of domestic demand and weak productivity growth, there continue to be upside risks to the Bank's inflation projection.

However, other developments since October suggest that the downside risks to the Bank's inflation projection have increased. Global financial market difficulties related to the valuation of structured products and anticipated losses on U.S. sub-prime mortgages have worsened since mid-October, and are expected to persist for a longer period of time. In these circumstances, bank funding costs have increased globally and in Canada, and credit conditions have tightened further. There is an increased risk to the prospects for demand for Canadian exports as the outlook for the U.S. economy, and in particular the U.S. housing sector, has weakened.

All these factors considered, the Bank judges that there has been a shift to the downside in the balance of risks around its October projection for inflation through 2009. In light of this shift, the Bank has decided to lower the target for the overnight rate. At its next interest rate decision in January, the Bank will assess all economic and financial developments and the balance of risks. A full projection for the economy and inflation 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 22 January 2008.

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