



BANK OF CANADA
BANQUE DU CANADA

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

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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 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.

Both core and total CPI inflation remain below the 2 per cent inflation target. While inflation is exhibiting some volatility, underlying price pressures and the presence of spare capacity point to a core rate of inflation that will likely persist below the inflation target late into 2005. Despite stronger global economic growth, the rapid appreciation of the Canadian dollar against the U.S. currency has cut into the overall growth of aggregate demand for Canadian goods and services through weaker exports and increased imports. In addition, although employment growth has continued to be vigorous, recent indicators of domestic demand in the fourth quarter of 2003 have been somewhat weaker than projected. As a consequence, the output gap at the end of 2003 appears to be somewhat larger than the Bank was expecting. In light of these demand and inflation factors, and the likelihood that they will persist through this year and into 2005, the Bank has decided to lower the target for the overnight rate to provide additional support for growth in aggregate demand and thus help return inflation to the target over the medium term.

An elaboration of the Bank's views on the outlook for inflation, the economy, and the uncertainties surrounding aggregate demand growth will be provided in the *Monetary Policy Report Update*, to be released on 22 January 2004.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 2 March 2004.

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