



PRESS RELEASE



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Bank of Canada lowers Bank Rate to 5 3/4 per cent

OTTAWA, Ontario, January 23, 2001 — The Bank of Canada today announced that it is lowering the Bank Rate by one-quarter of one percentage point to 5 3/4 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank's target for the overnight rate is reduced to 5 1/2 per cent.

The Bank's action was taken in light of a number of considerations bearing on the Canadian economic outlook and the future trend of inflation, in particular the slowdown in the United States.

Over recent months the underlying momentum of the Canadian economy has remained solid, bolstered by stronger-than-expected growth in domestic demand, and the economy has been operating close to full capacity. Information on consumer price inflation for December released last week indicates that core inflation, at 1.9 per cent, has moved up near the midpoint of the Bank's 1 to 3 per cent inflation-control target range sooner than expected. The rate of increase in the total CPI has remained above the top end of the target range, reflecting the large increases in energy prices over the past year.

Recent information indicates that the outlook for the U.S. economy has weakened more abruptly than had been anticipated. This development, together with other information received since the Bank's *Monetary Policy Report* last November, suggests that growth in Canadian output this year is likely to slow to a rate close to potential growth, whereas three months ago economic growth was expected to be above potential.

In the Bank's judgment, today's interest rate reduction will help maintain a balance between aggregate demand and supply in the economy and keep core inflation near the 2 per cent midpoint of the target range. The Bank projects that inflation measured by the total CPI will move down to a rate close to core inflation in the second half of this year, on the assumption that world energy prices stabilize at or below present levels.

Given current uncertainties, the Bank will continue to closely watch evolving domestic and external economic developments with a view to preserving the low inflation environment that has benefited the Canadian economy.

Information note:

The *Monetary Policy Report Update* will be published on 6 February 2001.

The next scheduled date for a Bank Rate announcement is 6 March 2001.

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