



PRESS RELEASE



Canadian Mortgage News - National Archive 2001

Bank of Canada lowers key policy rate* by 1/4 per cent

OTTAWA, Ontario, May 29, 2001 —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 1/2 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is reduced by one-quarter of one percentage point to 4 3/4 per cent.

The slowing in economic growth in Canada that began in late 2000 has continued through the first part of this year, largely as a result of reduced U.S. demand for Canadian products. At the same time, final domestic demand in Canada has continued to exhibit underlying momentum. Overall, the pace of expansion in the first half of this year has fallen below the growth rate of potential output, leading to some slack in the economy. These conditions should put downward pressure on core inflation,** which is expected to fall from above 2 per cent currently to just below 2 per cent by the end of 2001. Total CPI inflation, which has recently been above the Bank's 1 to 3 per cent inflation-control target range because of rising energy prices, is expected to remain above 3 per cent over the next few months, before moving down to about 2 per cent by the end of the year.

In these circumstances, today's reduction in interest rates will support aggregate demand in the economy consistent with keeping inflation close to the Bank's inflation-control target of 2 per cent over the medium term.

The Bank continues to view the possibility that the economic slowdown in the United States could last longer than anticipated as the main risk to the outlook for the Canadian economy. At the same time, given the sustained increases in energy prices, the Bank will need to be vigilant for signs of broader effects on consumer prices generally.

Information note: The Bank's next scheduled date for announcing policy interest rates is 17 July 2001. The *Monetary Policy Report Update* will be published on 1 August 2001.

* The Bank's key policy rate is the *target for the overnight rate*. This is the appropriate policy rate for international comparisons — for example, with the target for the federal funds rate in the United States and with the two-week repo rate in the United Kingdom. The target for the overnight rate is the midpoint of a 50-basis-point operating band. The Bank Rate is the top end of this band.

** The Bank has refined the measure of core inflation it uses as an operational guide to policy. For more information, visit www.bankofcanada.ca.

Contact:

Pierre Laprise
(613) 782-8782