



PRESS RELEASE



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Bank of Canada lowers key policy interest rate by 1/4 percentage point to 4 1/4 per cent

OTTAWA, Ontario, July 17, 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 1/4 per cent. The operating band for the overnight rate is correspondingly lowered, and the Bank Rate is now 4 1/2 per cent.

The slower pace of economic growth in Canada, largely stemming from developments in the United States, continued through the second quarter of 2001. As a result, pressures on production capacity have eased, thus reducing inflation pressures. Core inflation, which is currently a little above 2 per cent, is projected to move down to about 2 per cent in the second half of this year. Total CPI inflation, which has lately been well above the Bank's 1 to 3 per cent inflation-control target range, is expected to fall in the coming months to about 2 per cent by the end of the year. Recent declines in the prices of gasoline, natural gas and crude oil are mitigating the risk that high energy prices earlier this year could more broadly affect Canadian consumer prices.

Today's rate cut brings the total reduction in interest rates by the Bank this year to 1 1/2 percentage points. This cumulative reduction will underpin domestic economic growth in the face of weaker-than-anticipated economic conditions outside North America and continuing uncertainty about the timing and strength of the recovery in investment in the United States. The Bank continues to expect that the pace of growth in Canada will increase in the second half of 2001, with further gains in 2002. This would be consistent with keeping inflation close to the inflation-control target of 2 per cent through 2002. The Bank will remain alert to further developments.

Information note: The *Monetary Policy Report Update* will be published on 1 August 2001. The Bank's next scheduled date for announcing policy interest rates is 28 August 2001.

* The *target for the overnight rate* is the Bank's key policy interest 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.

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