



PRESS RELEASE



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Bank of Canada keeps target for the overnight rate at 2 3/4 per cent

OTTAWA, Ontario, 21 January 2003 — The Bank of Canada today announced that it is maintaining its target for the overnight rate at 2 3/4 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 3 per cent.

Since the Bank's last interest rate announcement on 3 December, both core and total CPI inflation have risen somewhat more than expected. This reflects not only a stronger-than-anticipated increase in insurance premiums but also some broadening of price pressures. Based on analysis of the inflation data and other indicators of pressures on capacity, it is the Bank's view that the economy may be operating closer to its production capacity than previously believed.

As expected, economic growth in Canada slowed in the second half of 2002 to a growth rate close to potential, constrained by the effects of financial and geopolitical uncertainties and weakness in the global economy. While conditions in financial markets are improving, significant geopolitical and economic uncertainties remain. Accordingly, the Bank has decided to leave its policy interest rates unchanged at this time. However, with the stance of monetary policy currently very stimulative, a reduction of stimulus will be required in order to return inflation to the 2 per cent target over the medium term. An elaboration of the Bank's views on the economy and the outlook for inflation will be set out in the Monetary Policy Report Update, to be published on 23 January 2003.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 4 March 2003.

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