



## PRESS RELEASE



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### **Bank of Canada raises overnight rate target by 1/4 percentage point to 3 per cent**

**OTTAWA, Ontario, 4 March 2003** — The Bank of Canada today announced that it is raising its target for the overnight rate by one-quarter of one percentage point to 3 per cent. The operating band for the overnight rate is correspondingly increased, and the Bank Rate is now 3 1/4 per cent.

Consumer price data since the Bank's last interest rate announcement on 21 January indicate that both core and total CPI inflation remain well above the Bank's 2 per cent inflation target. Persistent above-target inflation rates over the past few months reflect not only the impact of higher-than-expected crude oil and natural gas prices, but also continuing increases in auto insurance premiums and price pressures in certain sectors such as housing, food, and some services. More broadly, as noted in the January 2003 Monetary Policy Report Update, the fact that relative price increases are having a large impact on measures of trend inflation reflects an underlying firmness in the price-setting environment.

Economic growth in Canada moderated in the final three months of 2002, largely because of weaker exports, most notably a decline in automotive shipments to the United States. However, final domestic demand, particularly household expenditure, continued to expand at a robust pace. Owing to upward revisions to measures of Canadian economic growth in previous quarters, the level of economic activity at the end of 2002 was slightly higher than had been expected. Accordingly, the level of economic activity in Canada remains near full production capacity. In these circumstances, the persistence of above-target rates of inflation has elevated the risk of an increase in inflation expectations.

Significant geopolitical and global economic uncertainties continue to overhang the short-run economic outlook. Nonetheless, the Bank continues to expect demand for Canadian output to pick up in the second half of 2003 and into 2004, as global uncertainties diminish. In light of domestic inflation pressures, the expectation that Canadian economic activity will remain near potential in 2003, the stimulative stance of monetary policy, and improved conditions in capital markets, the Bank has decided to raise the target for the overnight rate.

As indicated in the MPR Update, further reductions in monetary stimulus will be required to return inflation to the target over the medium term. The timing and pace of increases in policy interest rates will continue to depend on a number of considerations. These include the strength of demand pressures, the evolution of inflation expectations, the impact on confidence of geopolitical and global economic uncertainties, and the way in which developments in the Middle East affect demand and inflation, both globally and in Canada. The Bank will continue to monitor closely all these factors.

#### **Information note:**

The Bank of Canada's next scheduled date for announcing the overnight rate target is 15 April 2003. The Monetary Policy Report will be published on 23 April 2003.

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