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Bank of Canada releases Monetary Policy Report

OTTAWA, Ontario, 23 April 2003 — Since the October 2002 Monetary Policy Report, both core and total CPI inflation have been well above the 2 per cent inflation target. In this environment, inflation expectations have edged up.

In view of the domestic inflation situation and the underlying momentum of domestic demand, the Bank raised its target overnight rate on each of its last two policy announcement dates by 25 basis points, bringing it to 3.25 per cent.

Economic, financial, and geopolitical uncertainty has figured prominently in the global economic picture over the past six months. Some of the geopolitical and financial uncertainty has lifted more recently, and the Bank expects that it will continue to recede. However, over the near term, a degree of global economic uncertainty remains, and in Canada there is uncertainty about the possible economic impact of severe acute respiratory syndrome (SARS), particularly in the Greater Toronto Area. Overall, the risks confronting the world economy now appear to be better balanced compared with last autumn, and by year-end, business and household confidence levels should be higher.

Economic activity should begin to strengthen towards the end of this year and through 2004, particularly in North America. In Canada, most of the small amount of economic slack that is likely to open up during 2003 will have closed by the end of 2004.

Core inflation is expected to remain near 3 per cent through mid-2003. It is projected to fall to about 2 per cent by early 2004. Total CPI inflation will continue to be importantly affected by swings in crude oil prices.

The Bank continues to believe that further reductions in monetary stimulus will be necessary over time to return inflation to the 2 per cent target and to sustain output levels close to capacity. The timing and pace of further increases in policy interest rates will depend on the strength of domestic demand, the evolution of inflation expectations, and the pace of economic expansion in the United States and in overseas economies.

CONTACT: Pierre Laprise
(613) 782-8782