



PRESS RELEASE



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Bank of Canada keeps target for the overnight rate at 3 1/4 per cent

OTTAWA, Ontario, 3 June 2003 — The Bank of Canada today announced that it is maintaining its target for the overnight rate at 3 1/4 per cent. The operating band for the overnight rate is unchanged, and the Bank Rate remains at 3 1/2 per cent.

Data released since the Bank's last interest rate announcement indicate that both core and total CPI inflation declined in April more than expected. Some of this decline was due to transitory factors, most notably the rebate on electricity prices in Ontario. The Canadian economy continued to expand in the first quarter of 2003, reflecting firmness in domestic demand. This was broadly in line with expectations in the April Monetary Policy Report. More recent developments bearing on aggregate demand for Canadian output, including continuing weakness in the U.S. and global economies and concerns about the economic impact of Severe Acute Respiratory Syndrome (SARS), point to the likelihood of some near-term softness in the Canadian economy. There has also been significant adjustment in the value of the U.S. dollar against major currencies, including the Canadian dollar.

Looking forward, it remains the Bank's view that growth in the Canadian economy will be underpinned by the underlying strength of domestic demand and by the expected rebound in the U.S. economy towards the end of 2003 and through 2004. And, while there is likely to be some increase in core inflation in the coming months as a result of the unwinding of the transitory factors mentioned above, it now appears that both core and total CPI inflation will return to the 2 per cent target somewhat earlier than the Bank expected in April. In these circumstances, the Bank has decided to leave its policy interest rates unchanged.

The Bank will monitor closely inflation developments, the strength of domestic demand, and signs of recovery in the U.S. and global economies, and will continue to assess the effects of the appreciation of the Canadian dollar on aggregate demand and price levels in Canada. An update of the Bank's views on the economy and the outlook for inflation will be provided in the July Monetary Policy Report Update.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 15 July 2003. The Monetary Policy Report Update will be published on 17 July 2003.

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