



PRESS RELEASE



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Bank of Canada lowers target for the overnight rate by 1/4 percentage point to 3 per cent

OTTAWA, Ontario, 15 July 2003 — The Bank of Canada today announced that it is lowering 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 lowered, and the Bank Rate is now 3 1/4 per cent.

In recent months, there have been a number of unanticipated developments that bear on the outlook for inflation and economic activity in Canada. Both inflation and inflation expectations have declined more rapidly than the Bank had expected. Near-term domestic economic activity has been undercut by the effects of Severe Acute Respiratory Syndrome (SARS) and an isolated case of Bovine Spongiform Encephalopathy (BSE) in Canada. Foreign demand for Canadian products has also been weaker than earlier anticipated. In addition, the rapid and sizable appreciation of the Canadian dollar against the U.S. currency will tend to have a dampening effect on the demand for tradable Canadian goods and services.

In this context, inflation pressures have eased and more economic slack is opening up in Canada than was previously projected. Today's interest rate reduction will provide support for domestic demand growth, and consequently for levels of aggregate demand consistent with keeping inflation on a track to meet the 2 per cent target over the medium term.

Looking ahead, the Bank still expects that growth in the Canadian economy will strengthen towards the end of 2003 and through 2004, underpinned by domestic demand, by the favourable conditions in capital markets, and by the anticipated rebound in the U.S. economy. An elaboration of the Bank's views on the economy and the outlook for inflation will be provided in the Monetary Policy Report Update, to be released this Thursday, 17 July.

Information note:

The Bank of Canada's next scheduled date for announcing the overnight rate target is 3 September 2003.

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