

April 15, 2003

## The Bank of Canada Raises Its Key Lending Rates Again

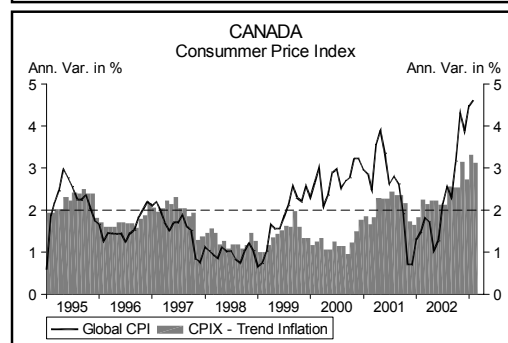
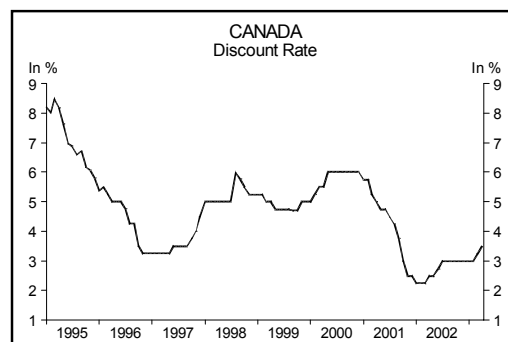
- The overnight rate is raised by 25 basis points, to 3.25%.
  - The discount rate is raised to 3.50%.
- 1) The short-term economic outlook in the world and in Canada has slightly deteriorated compared to the situation prevalent at the last meeting of the Bank of Canada.
  - 2) However, now the risks facing the global economy are better balanced due to the mitigation of certain geopolitical concerns and the falling price of oil.
  - 3) According to the Bank of Canada's projections, the Canadian economy will expand at a rate close to its capacity limits in 2004.



Excerpts from the BoC Press Release:

*[...] Economic growth in Canada in the second half of 2002 and in early 2003 eased from its earlier vigorous pace, but domestic demand has remained firm and employment gains have continued. As a result, the level of economic activity in Canada remains near full production capacity.*

*The near-term outlook for the global and Canadian economies is somewhat weaker than was expected at the time of the Bank's last interest rate announcement. Nonetheless, with geopolitical uncertainties diminishing and world oil prices declining significantly, the risks confronting the global economy are now better balanced. The Bank thus expects that economic expansion in Canada and the United States will begin to strengthen towards the end of 2003 and will strengthen further in 2004. In view of the domestic inflation environment and the expectation that the Canadian economy will be operating near potential in 2004, the Bank has decided to further reduce the amount of monetary stimulus by raising the target for the overnight rate. [...]*



**Conclusion:** Today, the Bank of Canada had to decide between two conflicting forces influencing our economy. On the one hand, the uncertainties surrounding the economic outlook in the world, in particular, in the United States, are still very much present. On the other hand, several signs seem to confirm that the Canadian economy is already operating close to production capacity, raising concerns that inflationary pressures will be fanned over the months ahead. In such circumstances, the significant improvement in some of the American economic indicators last week and the control over Iraq taken by the US forces paved the way to another hike in Canadian key interest rates. The discourse of the Bank of Canada is no longer ambiguous: since the forecast shows that the Canadian economy will be operating near full production capacity in 2004, more hikes in the key lending rates can be expected over the next few months. The upcoming meeting of the Bank of Canada is set for June 3<sup>rd</sup> and, if the geopolitical situation allows and if the recovery of the US economy is confirmed as we expect, another rise in the key interest rates should be decreed at that time.

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