The Bank of Canada Chooses Status Quo due to Uncertainties

*The bank rate is held at 3.00% and the overnight target rate remains at 2.75%*

1. First, inflation has risen at a higher-than-expected rate in recent months.
2. Further, the economy may be operating closer to its production capacity than the Bank of Canada had initially thought.
3. However, due to certain geopolitical and economic uncertainties, the Bank of Canada has opted to keep its key interest rates unchanged.
4. Since current monetary policy is at a very expansionary level, our central bank is stressing that it will have to raise the key lending rates at a later time.

**Extracts from the Press Conference**

[...] Since the Bank’s last interest rate announcement on 3 December, both core and total CPI inflation have risen somewhat more than expected. This reflects not only a stronger-than-anticipated increase in insurance premiums but also some broadening of price pressures. Based on analysis of the inflation data and other indicators of pressures on capacity, it is the Bank’s view that the economy may be operating closer to its production capacity than previously believed.

As expected, economic growth in Canada slowed in the second half of 2002 to a growth rate close to potential, constrained by the effects of financial and geopolitical uncertainties and weakness in the global economy. While conditions in financial markets are improving, significant geopolitical and economic uncertainties remain. Accordingly, the Bank has decided to leave its policy interest rates unchanged at this time. However, with the stance of monetary policy currently very stimulative (sic), a reduction of stimulus will be required in order to return inflation to the 2 per cent target over the medium term. [...]