The Bank of Canada Rules in Favour of an Increase of 0.25% in the Key Lending Rates

- The overnight rate is increased from 2.75% to 3.00%.
- The bank rate is raised from 3.00% to 3.25%.

1. The inflation rate has exceeded the target set by the Bank of Canada (between 1 and 3%) for the past several months.
2. In spite of the fact that the Canadian economy is cooling off, as witnessed by a downturn in exports in the fourth quarter, domestic demand remains robust. Further, given the upward revisions of the growth rate of previous quarters, the economy has still been expanding close to the limits of its production potential.
3. The changing geopolitical context and the global economy continue to hamper the growth of the Canadian economy over the short term. However, the growth outlook over the medium term remains favourable.

Extracts from Press Release:

[...] both core and total CPI inflation remain well above the Bank’s 2 per cent inflation target. Persistent above-target inflation rates over the past few months reflect not only the impact of higher-than-expected crude oil and natural gas prices, but also continuing increases in auto insurance premiums and price pressures in certain sectors such as housing, food, and some services. [...] Economic growth in Canada moderated in the final three months of 2002, largely because of weaker exports, most notably a decline in automotive shipments to the United States. However, final domestic demand, particularly household expenditure, continued to expand at a robust pace. [...] the level of economic activity at the end of 2002 was slightly higher than had been expected. Accordingly, the level of economic activity in Canada remains near full production capacity. In these circumstances, the persistence of above-target rates of inflation has elevated the risk of an increase in inflation expectations.

Significant geopolitical and global economic uncertainties continue to overhang the short-run economic outlook. Nonetheless, the Bank continues to expect demand for Canadian output to pick up in the second half of 2003 and into 2004, as global uncertainties diminish. [...]