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.

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 3rd 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.