The Bank of Canada lowers its key interest rates

- The overnight funds rate and bank rate both drop, from 3.25% to 3.00% and from 3.50% to 3.25%, respectively.
- Consequently, the prime rate of the Caisse centrale Desjardins and major charter Canadian banks will decline, effective tomorrow, from 5.00% to 4.75%.

Excerpts from the BoC Press Release:

[…] 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 percent 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. […]

Conclusion: This morning, the Bank of Canada chose to cut its key lending rates at the bimonthly meeting on monetary policy management. After two consecutive hikes this winter, followed by a period of status quo in the spring, our central bank decided to loosen its policy. Given the recent trend in the country’s economic situation, this comes as a very pragmatic move that contrasts with the rather dogmatic stance of recent decades. Hence, this is seen as a very positive move. The arrival of David Dodge as Governor, in early 2001, corresponds to this new philosophy adopted by our central bank.

The series of negative events in recent months, specifically, the sharp rise in the loonie, have substantially altered the economic landscape of Canada. Over the months ahead, inflationary pressures will be much more subdued whereas the margin of unused production capacities will rise more than expected. These factors, combined with a difficult economic recovery in the United States and overseas, could bring about another drop in the cost of money in Canada at the next meeting of the Bank on September 3rd next.