

# "Bank of Canada Drops Rates, Again"

*Overnight Rate Sliced to 0.25%*



**EHSAN**  
REAL ESTATE SERVICES

OTTAWA - The Bank of Canada has taken its influential target interest rate to the lowest practical level in an effort to combat what it says is deeper and more widespread global recession.

The central bank sliced the overnight rate in half to 0.25 per cent - the lowest it says is practical - and signaled strongly it will have to keep it there **until at least mid-2010.**

In addition, the bank has extended the term of its purchase and resale agreements it uses to inject liquidity into money markets from one-and-three months to six-and-12 months, while setting minimum and maximum bids that correspond to the historically low target rate.

The bank said it will target a daily level of settlement balance in the financial system at \$3 billion, a move it says will help drive the overnight rate to the bottom of the trading band.

The Bank of Montreal (TSX:BMO) was the first of Canada's major banks to announce that it would lower its own prime rate in step with the central bank, dropping the benchmark around which it calculates variable mortgages and other loans to 2.25 per cent.

Shortly after, Royal Bank (TSX:RY) said it too would lower its prime rate to 2.25 per cent, signaling that the other chartered banks would likely follow suit.

The dramatic actions - and more are expected Thursday when bank governor Mark Carney unveils options for increasing the money supply - signal a new and darker view of the global and domestic recession than the Bank of Canada has previously admitted to.

"In an environment of continued high uncertainty, the global recession has intensified and become more synchronous since (January)," Carney wrote in an unusually lengthy note accompanying the interest rate decision.

"Deteriorating credit conditions have spread quickly through trade, financial and confidence channels. While more aggressive monetary and fiscal policy actions are underway across the G20 (countries), measures to stabilize the global financial system have taken longer than expected to enact."

As a result, Carney has basically thrown out the playbook for the Canadian economy that he outlined in January.

**Ehsan Sharenejad**

**604 626 5332**

[Ehsan@EhsanRealty.Com](mailto:Ehsan@EhsanRealty.Com)

[www.VancouverCondoMarket.Com](http://www.VancouverCondoMarket.Com)



# "Bank of Canada Drops Rates, Again"

*Overnight Rate Sliced to 0.25%*



**EHSAN**  
REAL ESTATE SERVICES

Then, the recession was supposed to be over by the summer and accompanying growth was to be built in the third quarter on the way to a robust recovery in 2010, with output growth of 3.8 per cent. Total economy shrinkage this year would be limited to 1.2 per cent.

Now Carney says the economy won't stop falling until at least the fourth quarter and in total will contract three per cent this year. That is in line with the Organization for Economic Co-operation and Development projection and that of a growing number of private sector economists.

Carney remains a relative optimist on how strong the rebound will be, however, predicting a bounce-back of 2.5 per cent next year and 4.7 per cent in 2011. While lower than his previous prediction of 3.8 per cent growth in 2010, it is still far ahead of the OECD's 0.3 per cent flat line forecast for next year.

"Given significant restructuring in a number of sectors, potential growth has been revised down," he says.

"The recovery will be importantly supported by the bank's accommodative monetary stance."

The new pessimism, or realism as some economists would call it, has increased the odds that Carney will do more than outline options for so-called quantitative easing later this week - a technical way of saying printing more money to get credit markets functioning better - but that he will soon move into the uncharted territory.

The central bank sees no immediate danger of inflation for all the stimulus it is injecting into the dormant economy.

In fact, Carney said he expects inflation to be minus 0.8 per cent in the third quarter and not to return to the central bank's desired two-per-cent target until the third quarter of 2011.

**Chartered bank prime is now 2.25%. It looks like the variable rate option will remain viable for many months. It is time to buy!!**

**Ehsan Sharenejad**

**604 626 5332**

[Ehsan@EhsanRealty.Com](mailto:Ehsan@EhsanRealty.Com)

[www.VancouverCondoMarket.Com](http://www.VancouverCondoMarket.Com)

