

Bank of Canada cuts lending rate to record low of 1%

Last Updated: Tuesday, January 20, 2009 | 10:11 AM ET [Comments90](#)[Recommend78](#)
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The Bank of Canada on Tuesday cut borrowing costs to a record low as it warned the economy will shrink this year.

In a further move to bolster the sagging economy, the bank reduced its key overnight rate by half a percentage point to one per cent. The bank has now trimmed 3.5 percentage points from the overnight rate since it started its latest cycle of cuts.

Tuesday's cut reduced borrowing costs below 1.12 per cent, which had been the lowest point set back in 1958.

More rate reductions may also be in the offing, as the Bank of Canada said more stimulus could be needed to boost the sagging economy.

"Major advanced economies, including Canada's, are now in recession and emerging-market economies are increasingly affected," the bank said.

"Canadian exports are down sharply, and domestic demand is shrinking as a result of declines in real income, household wealth, and consumer and business confidence."

Bank sees recovery in 2010

The Canadian economy is expected to contract by 1.2 per cent in 2009, but the bank sees a recovery in 2010, when the economy is projected to expand by 3.8 per cent.

Back in October, the bank projected growth of 0.6 per cent in 2009, and 3.4 per cent in 2010.

The bank will provide more details on its outlook for the economy on Thursday, when it releases its Monetary Policy Update.

The bank also signalled that inflation fears have abated. The so-called core inflation rate is expected to fall to 1.1 per cent in the fourth quarter of this year, while the overall inflation rate is expected to dip below zero for two quarters in 2009 because of lower energy prices.

"With inflation expectations well-anchored, total and core inflation should return to the two per cent target in the first half of 2011 as the economy returns to potential," the bank said.

The major Canadian banks quickly moved to reduce their prime rates to three per cent. That differed from some of the past moves by the Bank Canada, when the big banks either delayed lowering their prime rates or did not pass along the full cut. The banks cited the tight credit markets as the reason why they were not passing along the cuts to customer borrowing rates.

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CoreyP wrote:Posted 2009/01/20

at 11:00 AM ETI'm quite surprised by the bitterness pitched toward banks.

Firstly, if you do not like paying interest on loans, don't take out any loans. If you don't like mortgage rates, sell your home and rent -- no-one forced you to take on such a loan at whatever interest rate (fixed or variable), it was your choice.

Secondly, anyone who owns some form of Canadian mutual fund invests in banks. It is absurd that we would wish them not to make a profit.

Overall, I think the vast majority of the public needs to improve their financial literacy and economic acumen. Perhaps then you would recognize that the Canadian banks are not responsible for the current financial problems felt around the world. The far larger economies of the world dictate the health of our economy.

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frozen eskimo wrote:Posted 2009/01/20

at 10:56 AM ETWillieTheCat wrote:

Posted 2009/01/20

at 9:51 AM ET

"Woohoo for floating mortgage rates!!"

Unfortunately variable mortgage rates are tied into the individual banks prime rate and not the boc over night lending rate.

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lulu02_lsl wrote:Posted 2009/01/20

at 10:52 AM ETwaveoverwave wrote:

Posted 2009/01/20

at 10:43 AM ETWhy is this the lead story CBC and not the Obama Inauguration, like it is with your competition CTV? Have you no sense of history??? This is a historical day in the making...

If I wanted to read about Obama's Inauguration why on earth would I look to CBC??? I'm on the net, I can go to a US news site and get better details. I'd be on CNN. However I'm on CBC.ca, which means I'm looking for some canadian content. Personally I found the article much more of interest than Obama's Inauguration. I KNOW that is happening today, that isn't NEWS (notice the NEW part in the word News). However I didn't know that the rates had actually dropped, that was NEWS. Good grief, the world doesn't stop running just because the US is getting a new president.

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skirts wrote:Posted 2009/01/20

at 10:51 AM ETIt is not going to make any difference. What it will do is keep our rates in line with the American ones. Too much of a difference would result in a higher loony that would effectively cut our exports to the USA when their own economy eventually recovers. We are a North American economy and we are not the tail wagging the dog

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[heyeng](#) wrote: Posted 2009/01/20

at 10:51 AM ET Conducktr.....I don't think our your going to make any friends in the finance industry. Great advice!

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