

**September 8, 2004**

# Bank of Canada raises interest rates

OTTAWA - The Bank of Canada raised a key interest rate on Wednesday to 2.25 per cent, and dropped hints that more hikes could be in the works.

The bank raised its overnight rate— what banks charge each other for overnight loans — by the one-quarter of a percentage point, meeting the expectations of many economists.

The increase in interest rates was the first by the central bank since April 2003.

The rate hike comes amid signs of solid performance by the Canadian economy. Gross domestic product grew at an annual rate of 3.4 per cent in the second quarter of this year, Statistics Canada reported last week.

Canada's economic growth in the first half of this year was somewhat stronger than the bank had been expecting, mainly due to foreign demand for Canadian goods and services, the central bank said Wednesday.

The country's rate of inflation, which stood at 2.3 per cent in July, has also been higher than the bank's expectations, due to continued high oil prices.

"Looking forward, the bank expects aggregate demand to grow at, or marginally above, the rate of growth of production capacity," the bank said in a commentary.

"With the economy operating close to its capacity, monetary stimulus needs to be reduced to avoid a buildup of inflationary pressures," the bank added.

Canada's big banks responded to the Bank of Canada's move by bumping up their prime rates by one-quarter of a percentage point to 4 per cent.

The central bank's next decision on interest rates is set for Oct. 19.

All banks are following suit and raising their prime rates .25%.

Canadian rate moves	
<b>Sept. 8/04</b>	Up .25% 2.25%
<b>July 20/04</b>	Unchanged 2.00%
<b>June 8/04</b>	Unchanged 2.00%
<b>April 13/04</b>	Down .25% to 2.00%
<b>Mar. 2/04</b>	Down .25% to 2.25%
<b>Jan. 20/04</b>	Down .25% to 2.50%
<b>Dec. 2/03</b>	Unchanged 2.75%
<b>Oct. 15/03</b>	Unchanged 2.75%
<b>Sept. 3/03</b>	Down .25% to 2.75%