

BANK OF CANADA

Press Release

For Immediate Release

OTTAWA, Feb. 7: Announcement that the Bank of Canada rediscount rate will be reduced from $2\frac{1}{2}$ to $1\frac{1}{2}$ per cent, effective Feb. 8, was made in Ottawa today following a meeting of the Bank's Board of Directors. The rate in question is that charged by the Central Bank on advances to chartered or savings banks.

In announcing the reduction in rate Graham Towers, Governor of the Bank, said it was intended as an assurance regarding interest rate policy after the war.

Mr. Towers added that it did not imply any less need for people to save now. "The utmost effort to maintain and increase our saving is still necessary", he said, "and the first and foremost concern of financial policy must be with winning the war. The stage has come, however, when many are also having to give thought to the economic problems which will arise after the war."

"One factor which will affect decisions is the prospective cost of borrowing. It therefore seems appropriate that the Bank should, by reducing its Rate, signify its intention to continue the kind of monetary policy which has brought about the current level of interest rates."

"A policy aimed at higher interest rates would only become intelligible if, after war shortages are over, consumers' expenditure and capital development were to proceed at a rate which would overstrain our productive capacity. I see no prospect of such a situation arising in a form which would call for a policy of raising interest rates", Mr. Towers said.

"Admittedly, the rate of interest is only one of many factors influencing Canada's economic position," he said, "and it is probably not as important an instrument of control as was once supposed. It remains true, however, that the prospect of unstable interest rates could make it exceedingly difficult for business to formulate long-term plans. Moreover, high borrowing costs would hamper new investment in plant, equipment and housing, would restrict the expansion of employment, and would seriously complicate the task of government financing."

"There can be little doubt that the easy money policy which has been pursued since 1935 assisted in promoting recovery from the depression and facilitated the adjustments which have been required during the war period", Mr. Towers said. "Indication that the Bank intends to continue this easy money policy should be helpful in making plans for the future."