

# Economic Commentary

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## EUROPEAN CENTRAL BANK CUTS RATES A QUARTER OF A POINT TO 2.5%

The European Central Bank (ECB) announced that it cut its benchmark refinancing rate by a quarter of a point to 2.5% to boost the euro-zone's struggling \$7 trillion economy. The move was not unexpected. ECB central bank governor Duisenberg had hinted two weeks ago that the inability of the EU economy to recover might require more help from the central bank and in my Commentary of February 6th I had stated the same. At the same time the central banks of Switzerland and Denmark also trimmed their rates by a quarter of a percentage point to 0.25% in Switzerland and 2.75% in Denmark. It must also be remembered that the Bank of England cut its rate by a quarter point to 3.75% in early February.

Today's move reduces the risk that euro-zone's economy might contract and it will help moderate the advance in the euro which surpassed the 1.10 mark in intra-day trading yesterday. Analysts consider the 1.10 exchange rate with the USD a critical level in terms of the euro-zone's international competitiveness. If the euro keeps climbing well passed this level it will start to hurt euro-zone based companies' ability to export vis-a-vis the USA.

The expected rate cut in Europe must have also been a factor in last week's meteoric rise in the value of the Canadian dollar. Canadian denominated securities are now much more competitively priced which increases the allure of swapping US treasury bonds for Canadian bonds. Today's action from Frankfurt will further consolidate the recent gains in the Canadian dollar and set the stage for a further advance in the loonie when Canada's central bank moves next with a quarter point probable rise in Canadian rates on April 15th.

Kenneth Matziorinis, Ph.D.

**Canbek Economic Consultants Inc.**