

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Key Rates Will Remain at Their Floor for Many More Quarters

ACCORDING TO THE BOC

- ▶ The BoC maintained its target for the overnight rate at the effective lower bound of 0.25%.
- ▶ The BoC is also continuing its quantitative easing program, with large-scale asset purchases of at least \$5B per week of Government of Canada bonds. The BoC's short-term liquidity programs announced since March to improve market functioning are having their intended effect and, with reduced market strains, their use has declined. The provincial and corporate bond purchase programs will continue as announced. The BoC stands ready to adjust its programs if market conditions warrant.
- ▶ Economic activity is estimated to have dropped 15% in the second quarter from the level seen in the end of 2019.
- ▶ There are early signs that the reopening of businesses and pent-up demand are leading to an initial bounce-back in employment and output. In the central scenario, roughly 40% of the collapse in the first half of the year is made up in the third quarter. Subsequently, the BoC expects the economy's recuperation to slow as the pandemic continues to affect confidence and consumer behaviour and as the economy works through structural challenges.
- ▶ As a result, in the central scenario, real GDP declines by 7.8% in 2020 and resumes with growth of 5.1% in 2021 and 3.7% in 2022.
- ▶ The Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2% inflation target is sustainably achieved.

COMMENTS

Without completely overhauling its economic scenario, the *Monetary Policy Report* released today nevertheless includes a central scenario that tries to "balance the likelihood of better and worse scenarios." With respect to the BoC's April projections, this new scenario is much less pessimistic and is in the upper range of the spring forecasts.

All in all, the BoC's new scenario is fairly similar to our projections. That said, monetary authorities are remaining cautious about the intensity of the economic recovery as of the third quarter. Note that uncertainty remains very high as COVID-19 cases continue to be present in the Canadian population.

Despite adjustments to the scenario, the finding is the same: the Canadian economy is currently going through the worst crisis since the Great Depression of the 1930s.

IMPLICATIONS

Given the major difficulties facing Canada's economy, monetary policy will have to be very accommodating for an extended period of time. Today, the BoC committed itself to maintaining its key rates at their floor until surplus capacity has been absorbed, which will in all likelihood take many quarters.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
16	Bank of Korea	s.q.	1.25
20	Bank of Japan	s.q.	-0.10
22	Bank of Canada*	s.q.	1.75
23	European Central Bank	s.q.	0.00
23	Bank of Norway	s.q.	1.50
29	Federal Reserve	s.q.	1.75
30	Bank of England	s.q.	0.75
February			
3	Reserve Bank of Australia	s.q.	0.75
5	Bank of Brazil	-25 b.p.	4.25
11	Reserve Bank of New Zealand	s.q.	1.00
12	Bank of Sweden	s.q.	0.00
13	Bank of Mexico	-25 b.p.	7.00
26	Bank of Korea	s.q.	1.25
March			
2	Reserve Bank of Australia	-25 b.p.	0.50
3	Federal Reserve	-50 b.p.	1.25
4	Bank of Canada	-50 b.p.	1.25
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Reserve Bank of Australia	-25 b.p.	0.25
18	Bank of Brazil	-50 b.p.	3.75
19	Bank of England	-15 b.p.	0.10
19	Swiss National Bank	s.q.	-0.75
20	Bank of Norway	-75 b.p.	0.25
20	Bank of Mexico	-50 b.p.	6.50
26	Bank of England	s.q.	0.10
27	Bank of Canada	-50 b.p.	0.25
April			
7	Reserve Bank of Australia	s.q.	0.25
8	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
21	Bank of Mexico	-50 b.p.	6.00
28	Bank of Sweden	s.q.	0.00
28	Bank of Japan	s.q.	-0.10
29	Federal Reserve	s.q.	0.25
30	European Central Bank	s.q.	0.00
May			
5	Reserve Bank of Australia	s.q.	0.25
6	Bank of Brazil	-75 b.p.	3.00
7	Bank of England	s.q.	0.10
7	Bank of Norway	-25 b.p.	0.00
12	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Mexico	-50 b.p.	5.50
27	Bank of Korea	-25 b.p.	0.50
June			
2	Reserve Bank of Australia	s.q.	0.25
3	Bank of Canada	s.q.	0.25
4	European Central Bank	s.q.	0.00
10	Federal Reserve	s.q.	0.25
15	Bank of Japan	s.q.	-0.10
17	Bank of Brazil	-75 b.p.	2.25
18	Bank of England	s.q.	0.10
18	Bank of Norway	s.q.	0.00
18	Swiss National Bank	s.q.	-0.75
23	Reserve Bank of New Zealand	s.q.	0.25
25	Bank of Mexico	-50 b.p.	5.00

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden	s.q.	0.00
7	Reserve Bank of Australia	s.q.	0.25
14	Bank of Japan	s.q.	-0.10
15	Bank of Canada*	s.q.	0.25
16	European Central Bank		
16	Bank of Korea		
29	Federal Reserve		
August			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
11	Reserve Bank of New Zealand		
13	Bank of Mexico		
20	Bank of Norway		
27	Bank of Korea		
September			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Bank of Japan		
16	Federal Reserve		
17	Bank of England		
22	Reserve Bank of New Zealand		
22	Bank of Sweden		
24	Bank of Norway		
24	Bank of Mexico		
24	Swiss National Bank		
October			
6	Reserve Bank of Australia		
14	Bank of Korea		
28	Bank of Brazil		
28	Bank of Canada*		
28	Bank of Japan		
29	European Central Bank		
November			
3	Reserve Bank of Australia		
5	Bank of England		
5	Bank of Norway		
5	Federal Reserve		
10	Reserve Bank of New Zealand		
12	Bank of Mexico		
26	Bank of Korea		
26	Bank of Sweden		
December			
1	Reserve Bank of Australia		
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Bank of Japan		
17	Bank of Mexico		
17	Swiss National Bank		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * Monetary Policy Report published.