

ESSENTIALS OF THE MONETARY POLICY

Central Banks in Europe

A Second Straight Rate Hike for the United Kingdom

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HIGHLIGHTS

- ▶ **Bank of England (BoE)** – The BoE raised its key interest rate 25 basis points today to 0.50%. It also decided to reduce its asset holdings by ending the reinvestment of maturing government bonds and announced a new program of corporate bond sales.
- ▶ A slim 5-4 majority of the Monetary Policy Committee voted for the interest rate hike. The others voted for a 50 basis point hike.
- ▶ The BoE expects inflation to peak around 7% this spring before returning to its 2% target in about two years.
- ▶ **European Central Bank (ECB)** – The ECB expects its key interest rates to remain at their present or lower levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term.
- ▶ As announced in December, the ECB will discontinue net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) at the end of March. It will continue reinvesting principal payments from maturing securities purchased under the program until at least the end of 2024.
- ▶ Meanwhile the ECB is still planning to ramp up its Asset Purchase Programme (APP) this year. It will temporarily increase purchases to €40B per month in the second quarter and €30B in the third quarter before pulling them back to €20B.

COMMENTS

The BoE chose to strike while the iron is hot, raising interest rates for the second straight meeting. Inflation was likely a determining

factor. The bank again upgraded its inflation forecast, expecting it to peak around 7% this spring before easing as supply issues subside.

One interesting tidbit in today's BoE announcement: it is starting to trim its balance sheet. The Federal Reserve and Bank of Canada have also signaled they'll do so earlier than expected. Central banks appear to be taking a different tack than they did during the last cycle of monetary tightening.

The ECB kept its monetary policy unchanged despite rising prices in the eurozone. Inflation hit 5.1% in January, well above the 4.4% consensus forecast. The ECB said it plans to continue making asset purchases under the APP this year. That means it's unlikely to raise interest rates before 2023. And in yet another sign the ECB is taking a cautious approach, its press release again mentioned that the bank could lower key interest rates if inflation doesn't stabilize at 2% over the medium term. Given current conditions, it would be pretty surprising if it did.

IMPLICATIONS

After two straight rate hikes, the BoE could hold off on further increases for a few months. The BoE said its inflation forecasts are contingent upon the key rate rising to around 1.50% by mid-2023. That suggests gradual monetary tightening over the coming quarters unless inflation continues to rise faster than expected. The ECB remains much more patient on the inflation front. After several years struggling to get inflation on target even with negative interest rates, it looks like it wants to be sure inflation will reach 2% durably over the medium term before raising rates. But the ECB's tone could change in March when it releases its updated inflation forecasts. After all, ECB President Christine Lagarde did say today that inflation risks are currently tilted to the upside.

Schedule 2022 of Central Bank Meetings

| Date | Central banks | Decision | Rate |
|-----------------|-----------------------------|-----------|-------|
| January | | | |
| 13 | Bank of Korea | +25 b.p. | 1.25 |
| 17 | Bank of Japan | s.q. | -0.10 |
| 20 | Bank of Norway | s.q. | 0.50 |
| 26 | Bank of Canada* | s.q. | 0.25 |
| 26 | Federal Reserve | s.q. | 0.25 |
| 31 | Reserve Bank of Australia | s.q. | 0.10 |
| February | | | |
| 2 | Bank of Brazil | +150 b.p. | 10.75 |
| 3 | European Central Bank | s.q. | 0.00 |
| 3 | Bank of England | +25 b.p. | 0.50 |
| 10 | Bank of Sweden | | |
| 10 | Bank of Mexico | | |
| 22 | Reserve Bank of New Zealand | | |
| 23 | Bank of Korea | | |
| 28 | Reserve Bank of Australia | | |
| March | | | |
| 2 | Bank of Canada | | |
| 10 | European Central Bank | | |
| 16 | Bank of Brazil | | |
| 16 | Federal Reserve | | |
| 17 | Bank of England | | |
| 17 | Bank of Japan | | |
| 24 | Bank of Norway | | |
| 24 | Bank of Mexico | | |
| ** | Swiss National Bank | | |
| April | | | |
| 5 | Reserve Bank of Australia | | |
| 12 | Reserve Bank of New Zealand | | |
| 13 | Bank of Korea | | |
| 13 | Bank of Canada* | | |
| 14 | European Central Bank | | |
| 27 | Bank of Japan | | |
| 28 | Bank of Sweden | | |
| May | | | |
| 3 | Reserve Bank of Australia | | |
| 4 | Bank of Brazil | | |
| 4 | Federal Reserve | | |
| 5 | Bank of England | | |
| 5 | Bank of Norway | | |
| 12 | Bank of Mexico | | |
| 24 | Reserve Bank of New Zealand | | |
| 25 | Bank of Korea | | |
| June | | | |
| 1 | Bank of Canada | | |
| 7 | Reserve Bank of Australia | | |
| 9 | European Central Bank | | |
| 15 | Bank of Brazil | | |
| 15 | Federal Reserve | | |
| 16 | Bank of England | | |
| 16 | Bank of Japan | | |
| 23 | Bank of Norway | | |
| 23 | Bank of Mexico | | |
| 30 | Bank of Sweden | | |
| ** | Swiss National Bank | | |

| Date | Central banks | Decision | Rate |
|------------------|-----------------------------|----------|------|
| July | | | |
| 5 | Reserve Bank of Australia | | |
| 12 | Reserve Bank of New Zealand | | |
| 13 | Bank of Korea | | |
| 13 | Bank of Canada* | | |
| 20 | Bank of Japan | | |
| 21 | European Central Bank | | |
| 27 | Federal Reserve | | |
| August | | | |
| 2 | Reserve Bank of Australia | | |
| 3 | Bank of Brazil | | |
| 4 | Bank of England | | |
| 11 | Bank of Mexico | | |
| 16 | Reserve Bank of New Zealand | | |
| 18 | Bank of Norway | | |
| 24 | Bank of Korea | | |
| September | | | |
| 6 | Reserve Bank of Australia | | |
| 7 | Bank of Canada | | |
| 8 | European Central Bank | | |
| 15 | Bank of England | | |
| 21 | Bank of Brazil | | |
| 21 | Bank of Japan | | |
| 21 | Federal Reserve | | |
| 22 | Bank of Norway | | |
| 29 | Bank of Mexico | | |
| ** | Bank of Sweden | | |
| ** | Swiss National Bank | | |
| October | | | |
| 3 | Reserve Bank of Australia | | |
| 4 | Reserve Bank of New Zealand | | |
| 13 | Bank of Korea | | |
| 26 | Bank of Brazil | | |
| 26 | Bank of Canada* | | |
| 27 | European Central Bank | | |
| 27 | Bank of Japan | | |
| 31 | Reserve Bank of Australia | | |
| November | | | |
| 2 | Federal Reserve | | |
| 3 | Bank of England | | |
| 3 | Bank of Norway | | |
| 10 | Bank of Mexico | | |
| 22 | Reserve Bank of New Zealand | | |
| 23 | Bank of Korea | | |
| ** | Bank of Sweden | | |
| December | | | |
| 5 | Reserve Bank of Australia | | |
| 7 | Bank of Brazil | | |
| 7 | Bank of Canada | | |
| 14 | Federal Reserve | | |
| 15 | European Central Bank | | |
| 15 | Bank of England | | |
| 15 | Bank of Norway | | |
| 15 | Bank of Mexico | | |
| 19 | Bank of Japan | | |
| ** | 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; ** To be determined.