

# ESSENTIALS OF MONETARY POLICY

## Central Banks in Europe

### The European Central Bank and Bank of England Raise Rates Another 50 Points

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#### HIGHLIGHTS

- ▶ The European Central Bank (ECB) decided to raise its key interest rates by 50 basis points. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 3.00%, 3.25% and 2.50% respectively.
- ▶ In view of the underlying inflation pressures, the Governing Council intends to raise interest rates by another 50 basis points at its next monetary policy meeting in March and it will then evaluate the subsequent path of its monetary policy.
- ▶ Eurozone economic growth and inflation risks look more balanced.
- ▶ The Bank of England (BoE) also announced a 50 basis point hike, lifting its main Bank Rate to 4.00%. Seven members of the Monetary Policy Committee voted for the increase, while two voted to hold.
- ▶ The BoE is a bit more upbeat on its new economic growth and inflation forecasts.
- ▶ But the UK labour market remains tight and domestic price and wage pressures have been stronger than expected, suggesting risks of greater persistence in underlying inflation.
- ▶ If future data shows evidence of more persistent inflationary pressures, then further tightening in monetary policy would be required.

#### COMMENTS

Unlike the Federal Reserve yesterday, the ECB and BoE didn't slow their rate hikes today, opting instead to raise rates another 50 basis points. This came as no surprise to markets.

But the BoE appears closer to a pause than the European Central Bank. Two members of the Monetary Policy Committee voted to keep rates where they are. The BoE is less committed to further rate hikes, suggesting it could take a break if inflation falls as expected and the labour market begins to loosen.

For its part, the ECB was clear that monetary tightening isn't over yet. It plans to raise rates another 50 points in March, then take a data-dependent approach. During her press conference, Christine Lagarde said the ECB doesn't expect to pause after its March meeting, but it could downshift to 25-point hikes at subsequent meetings.

#### IMPLICATIONS

We expected the BoE's Bank Rate to top out at 4.00%. We're already there. But if the next round of UK economic data isn't reassuring enough, it could go higher. The BoE will be looking for weaker employment numbers in particular. On the other hand, it's pretty clear the ECB's terminal rates will be higher than predicted. The central bank could tack on one or two 25-point increases, bringing the interest rate on the main refinancing operations close to 4% by summer.

# Schedule 2023 of Central Bank Meetings

Date	Central bank	Decision	Rate
<b>January</b>			
13	Bank of Korea	+25 b.p.	3.50
18	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
<b>February</b>			
1	Bank of Brazil	unchanged	13.75
1	Federal Reserve	+25 b.p.	4.75
2	European Central Bank	+50 b.p.	3.00
2	Bank of England	+50 b.p.	4.00
6	Reserve Bank of Australia		
9	Bank of Sweden		
9	Bank of Mexico		
21	Reserve Bank of New Zealand		
23	Bank of Korea		
<b>March</b>			
6	Reserve Bank of Australia		
8	Bank of Canada		
10	Bank of Japan		
16	European Central Bank		
22	Bank of Brazil		
22	Federal Reserve		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
<b>April</b>			
4	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Bank of Sweden		
28	Bank of Japan		
<b>May</b>			
2	Reserve Bank of Australia		
3	Bank of Brazil		
3	Federal Reserve		
4	European Central Bank		
4	Bank of Norway		
11	Bank of England		
18	Bank of Mexico		
23	Reserve Bank of New Zealand		
25	Bank of Korea		
<b>June</b>			
6	Reserve Bank of Australia		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
16	Bank of Japan		
21	Bank of Brazil		
22	Bank of England		
22	Bank of Norway		
22	Bank of Mexico		
22	Swiss National Bank		
29	Bank of Sweden		

Date	Central bank	Decision	Rate
<b>July</b>			
4	Reserve Bank of Australia		
11	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Federal Reserve		
27	European Central Bank		
28	Bank of Japan		
<b>August</b>			
1	Reserve Bank of Australia		
2	Bank of Brazil		
3	Bank of England		
10	Bank of Mexico		
15	Reserve Bank of New Zealand		
17	Bank of Norway		
24	Bank of Korea		
<b>September</b>			
5	Reserve Bank of Australia		
6	Bank of Canada		
14	European Central Bank		
20	Bank of Brazil		
20	Federal Reserve		
21	Bank of England		
21	Bank of Norway		
21	Swiss National Bank		
22	Bank of Japan		
28	Bank of Mexico		
**	Bank of Sweden		
<b>October</b>			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
19	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
31	Bank of Japan		
<b>November</b>			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Norway		
6	Reserve Bank of Australia		
9	Bank of Mexico		
28	Reserve Bank of New Zealand		
30	Bank of Korea		
**	Bank of Sweden		
<b>December</b>			
4	Reserve Bank of Australia		
6	Bank of Canada		
13	Bank of Brazil		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
19	Bank of Japan		

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.