

# ESSENTIALS OF MONETARY POLICY

## Central Banks in Europe

### Monetary Tightening Continues in Europe, With 50 Bps Rate Hikes in the Eurozone and the United Kingdom

By Hendrix Vachon, Principal Economist

#### HIGHLIGHTS

- ▶ The **European Central Bank (ECB)** announced a 50 bps hike in its key rates. The interest rates on the main refinancing operations, the marginal lending facility and the deposit facility were increased to 2.50%, 2.75% and 2.00%, respectively.
- ▶ The ECB signalled that it expects to raise rates significantly further in 2023 and that it will begin reducing the size of its balance sheet in March.
- ▶ Inflation forecasts have been revised upwards, from 5.5% to 6.3% for 2023 and from 2.3% to 3.4% for 2024. In terms of economic growth prospects, the ECB is forecasting weaker real GDP growth in 2023.
- ▶ The **Bank of England (BoE)** announced a 50 bps hike to its main bank rate, taking it to 3.50%. It signalled that further increases might be required for a sustainable return of inflation to target.
- ▶ The **Swiss National Bank** also announced a 50 bps rate hike today, bringing its main policy rate to 1.00%. **Norges Bank**, the Norwegian central bank, announced a 25 bps increase in its policy rate, which now stands at 2.75%.

#### COMMENTS

On the heels of Fed Day, today saw a fresh batch of monetary policy announcements from several European central banks. It's clear inflation remains a global challenge that will require continued interest rate rises in many countries. That said, the BoE and ECB both slowed the pace of their hikes, stepping down from the 75 bps increases that had come out of their last meetings.

We think the ECB could have announced another 75 bps hike today, given that it had a late start to its monetary tightening cycle and that the inflation picture remains pretty worrisome. That said, despite today's more moderate increase, the ECB has signalled that it's far from ending its monetary tightening cycle and that we can expect a 50 bps hike per meeting for some time to come.

The BoE, on the other hand, is already a year into its tightening cycle and has been able to make more headway. Its messaging about upcoming decisions is less clear than what we're seeing from the ECB. Two members of its Monetary Policy Committee would have preferred to halt the rate hikes at this meeting, and all the BoE will say is that further increases might be required. We're seeing similar messaging out of Norges Bank, which forecasts a policy rate of around 3.00% in 2023.

#### IMPLICATIONS

Despite a slowdown in the pace of monetary tightening from the ECB, it remains committed to continued rate hikes. It seems fairly likely that it will announce at least two more 50 bps increases in 2023, bringing the main refinancing operations rate to 3.50% by the end of the first quarter. That's a bit higher than what we had been predicting so far. Our prediction for the BoE remains unchanged: two more rate hikes, both 25 bps, bringing the main bank rate to 4.00%.

# Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
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
<b>February</b>			
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	s.q.	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	s.q.	1.25
28	Reserve Bank of Australia	s.q.	0.10
<b>March</b>			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	+100 b.p.	11.75
16	Federal Reserve	+25 b.p.	0.50
17	Bank of England	+25 b.p.	0.75
17	Bank of Japan	s.q.	-0.10
24	Bank of Norway	+25 b.p.	0.75
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	s.q.	-0.75
<b>April</b>			
5	Reserve Bank of Australia	s.q.	0.10
12	Reserve Bank of New Zealand	+50 b.p.	1.50
13	Bank of Korea	+25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	s.q.	0.00
27	Bank of Japan	s.q.	-0.10
28	Bank of Sweden	+25 b.p.	0.25
<b>May</b>			
3	Reserve Bank of Australia	+25 b.p.	0.35
4	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	s.q.	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
<b>June</b>			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia	+50 b.p.	0.85
9	European Central Bank	s.q.	0.00
15	Bank of Brazil	+50 b.p.	13.25
15	Federal Reserve	+75 b.p.	1.75
16	Bank of England	+25 b.p.	1.25
16	Bank of Japan	s.q.	-0.10
16	Swiss National Bank	+50 b.p.	-0.25
23	Bank of Norway	+50 b.p.	1.25
23	Bank of Mexico	+75 b.p.	7.75
30	Bank of Sweden	+50 b.p.	0.75

Date	Central banks	Decision	Rate
<b>July</b>			
5	Reserve Bank of Australia	+50 b.p.	1.35
12	Bank of Korea	+50 b.p.	2.25
12	Reserve Bank of New Zealand	+50 b.p.	2.50
13	Bank of Canada*	+100 b.p.	2.50
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	+50 b.p.	0.50
27	Federal Reserve	+75 b.p.	2.50
<b>August</b>			
2	Reserve Bank of Australia	+50 b.p.	1.85
3	Bank of Brazil	+50 b.p.	13.75
4	Bank of England	+50 b.p.	1.75
11	Bank of Mexico	+75 b.p.	8.50
16	Reserve Bank of New Zealand	+50 b.p.	3.00
18	Bank of Norway	+50 b.p.	1.75
24	Bank of Korea	+25 b.p.	2.50
<b>September</b>			
6	Reserve Bank of Australia	+50 b.p.	2.35
7	Bank of Canada	+75 b.p.	3.25
8	European Central Bank	+75 b.p.	1.25
20	Bank of Sweden	+100 b.p.	1.75
21	Bank of Brazil	s.q.	13.75
21	Bank of Japan	s.q.	-0.10
21	Federal Reserve	+75 b.p.	3.25
22	Bank of England	+50 b.p.	2.25
22	Bank of Norway	+50 b.p.	2.25
22	Swiss National Bank	+75 b.p.	0.50
29	Bank of Mexico	+75 b.p.	9.25
<b>October</b>			
3	Reserve Bank of Australia	+25 b.p.	2.60
4	Reserve Bank of New Zealand	+50 b.p.	3.50
11	Bank of Korea	+50 b.p.	3.00
26	Bank of Brazil	s.q.	13.75
26	Bank of Canada*	+50 b.p.	3.75
27	European Central Bank	+75 b.p.	2.00
27	Bank of Japan	s.q.	-0.10
31	Reserve Bank of Australia	+25 b.p.	2.85
<b>November</b>			
2	Federal Reserve	+75 b.p.	4.00
3	Bank of England	+75 b.p.	3.00
3	Bank of Norway	+25 b.p.	2.50
10	Bank of Mexico	+75 b.p.	10.00
22	Reserve Bank of New Zealand	+75 b.p.	4.25
23	Bank of Korea	+25 b.p.	3.25
24	Bank of Sweden	+75 b.p.	2.50
<b>December</b>			
5	Reserve Bank of Australia	+25 b.p.	3.10
7	Bank of Brazil	s.q.	13.75
7	Bank of Canada	+50 b.p.	4.25
14	Federal Reserve	+50 b.p.	4.50
15	European Central Bank	+50 b.p.	2.50
15	Bank of England	+50 b.p.	3.50
15	Bank of Norway	+25 b.p.	2.75
15	Swiss National Bank	+50 b.p.	1.00
15	Bank of Mexico		
20	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.