

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Unlike in the United States, Key Rates Are Not Expected to Move Anytime Soon

ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 1.75%.
- ▶ Evidence has been accumulating that ongoing trade tensions are having a material effect on the global economic outlook. Central banks in the United States and Europe have signalled their readiness to provide more accommodative monetary policy [...] and global financial conditions have eased substantially.
- ▶ In Canada, growth in the second quarter appears to be stronger than predicted due to some temporary factors. Consumption is being supported by a healthy labour market. At the national level, the housing market is stabilizing [...] A material decline in longer-term mortgage rates is supporting housing activity. Exports rebounded in the second quarter and will grow moderately [...] However, ongoing trade conflicts and competitiveness challenges are dampening the outlook for trade and investment. The BoC projects real GDP growth to average 1.3% in 2019 and about 2% in 2020 and 2021. Recent data show the Canadian economy is returning to potential growth.
- ▶ Inflation remains around the 2% target, with some recent upward pressure from higher food and automobile prices. Core measures of inflation are also close to 2%. Inflation, as measured by the consumer price index (CPI), will likely dip this year because of the dynamics of gasoline prices and some other temporary factors.
- ▶ Taken together, the degree of accommodation being provided by the current policy interest rate remains appropriate.

COMMENTS

The global economic situation, particularly the risks associated with trade tensions, is still what is worrying BoC leaders. These concerns about the global economy had, however, been widely anticipated in its previous scenarios. Moreover, the easing of global financial conditions is being reflected in Canadian rates and is helping to prop up the housing market. The BoC scenario for the Canadian economy was therefore upgraded slightly for 2019 (but downgraded for 2020). The BoC now predicts annualized real GDP growth of 1.3% for the second quarter, a gain supported primarily by the recent rebound in net exports.

In terms of inflation, BoC expectations have changed little, and the central bank seems to be fairly satisfied with the recent change in measures of core inflation, which unlike in the United States, are much closer to the 2% target.

IMPLICATIONS

With significant international risks and a better outlook for Canada, the BoC finds itself in a balance that should keep the monetary policy unchanged in the coming quarters. The BoC is therefore not expected to follow the Federal Reserve's forthcoming monetary easing, even if it means a slight appreciation in the Canadian dollar.

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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 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
9	Bank of Canada*	s.q.	1.75
22	Bank of Japan	s.q.	-0.10
23	Bank of Korea	s.q.	1.75
24	European Central Bank	s.q.	0.00
24	Bank of Norway	s.q.	0.75
30	Federal Reserve	s.q.	2.50
February			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Brazil	s.q.	6.50
7	Bank of England	s.q.	0.75
7	Bank of Mexico	s.q.	8.25
12	Reserve Bank of New Zealand	s.q.	1.75
13	Bank of Sweden	s.q.	-0.25
27	Bank of Korea	s.q.	1.75
March			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Canada	s.q.	1.75
7	European Central Bank	s.q.	0.00
14	Bank of Japan	s.q.	-0.10
20	Bank of Brazil	s.q.	6.50
20	Federal Reserve	s.q.	2.50
21	Bank of England	s.q.	0.75
21	Bank of Norway	+25 b.p.	1.00
21	Swiss National Bank	s.q.	-0.75
26	Reserve Bank of New Zealand	s.q.	1.75
28	Bank of Mexico	s.q.	8.25
April			
1	Reserve Bank of Australia	s.q.	1.50
10	European Central Bank	s.q.	0.00
17	Bank of Korea	s.q.	1.75
24	Bank of Canada*	s.q.	1.75
24	Bank of Japan	s.q.	-0.10
25	Bank of Sweden	s.q.	-0.25
May			
1	Federal Reserve	s.q.	2.50
2	Bank of England	s.q.	0.75
7	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of New Zealand	-25 b.p.	1.50
8	Bank of Brazil	s.q.	6.50
16	Bank of Mexico	s.q.	8.25
29	Bank of Canada	s.q.	1.75
30	Bank of Korea	s.q.	1.75
June			
4	Reserve Bank of Australia	-25 b.p.	1.25
6	European Central Bank	s.q.	0.00
13	Swiss National Bank	s.q.	-0.75
19	Bank of Brazil	s.q.	6.50
19	Bank of Japan	s.q.	-0.10
19	Federal Reserve	s.q.	2.50
20	Bank of England	s.q.	0.75
20	Bank of Norway	+25 b.p.	1.25
25	Reserve Bank of New Zealand	s.q.	1.50
27	Bank of Mexico	s.q.	8.25

Date	Central banks	Decision	Rate
July			
2	Reserve Bank of Australia	-25 b.p.	1.00
3	Bank of Sweden	s.q.	-0.25
10	Bank of Canada*	s.q.	1.75
17	Bank of Korea		
25	European Central Bank		
29	Bank of Japan		
31	Bank of Brazil		
31	Federal Reserve		
August			
1	Bank of England		
6	Reserve Bank of Australia		
6	Reserve Bank of New Zealand		
15	Bank of Mexico		
29	Bank of Korea		
September			
3	Reserve Bank of Australia		
4	Bank of Canada		
5	Bank of Sweden		
12	European Central Bank		
18	Bank of Brazil		
18	Bank of Japan		
18	Federal Reserve		
19	Bank of England		
19	Bank of Norway		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of Mexico		
October			
1	Reserve Bank of Australia		
16	Bank of Korea		
24	European Central Bank		
24	Bank of Sweden		
30	Bank of Brazil		
30	Bank of Canada*		
30	Bank of Japan		
30	Federal Reserve		
November			
5	Reserve Bank of Australia		
7	Bank of England		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
December			
3	Reserve Bank of Australia		
4	Bank of Canada		
11	Bank of Brazil		
11	Federal Reserve		
12	European Central Bank		
12	Swiss National Bank		
18	Bank of Japan		
19	Bank of England		
19	Bank of Norway		
19	Bank of Sweden		
19	Bank of Mexico		

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.