

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Concerns over COVID-19 Take Key Rates Down by 50 Basis Points

ACCORDING TO THE BOC

- ▶ The target rate for overnight funds drops from 1.75% to 1.25%.
- ▶ While Canada's economy has been operating close to potential with inflation on target, the COVID-19 virus is a material negative shock to the Canadian and global outlooks, and monetary and fiscal authorities are responding.
- ▶ [...] COVID-19 represents a significant health threat to people in a growing number of countries. In consequence, business activity in some regions has fallen sharply and supply chains have been disrupted. This has pulled down commodity prices and the Canadian dollar has depreciated.
- ▶ It is becoming clear that the first quarter of 2020 will be weaker than the BoC had expected. The drop in Canada's terms of trade, if sustained, will weigh on income growth. Meanwhile, business investment does not appear to be recovering as was expected following positive trade policy developments.
- ▶ In light of all these developments, the outlook is clearly weaker now than it was in January. As the situation evolves, Governing Council stands ready to adjust monetary policy further if required to support economic growth and keep inflation on target.

said, it usually takes several months for the economy to feel the full benefits of an interest rate reduction. Given the temporary nature of the current difficulties, the impact of the interest rate decrease may only be fully felt after the problems have resolved. Clearly, the main objectives of today's decision are to reassure the financial markets and curb the expected drop in business and consumer confidence.

IMPLICATIONS

The BoC was fairly vague about what comes next. Its next decision is six weeks away. By then, the COVID-19 situation will have evolved substantially, and we will know more about its adverse impacts on Canada's economy. If the problems were to intensify, the BoC could follow up with another key interest rate cut. On the other hand, if the situation changes for the better, the monetary authorities could opt to stand pat.

It remains to be seen at what point the BoC could then reverse its interest rate reduction. The housing market is lively, and high household debt loads remain a concern. Keeping key rates low for too long could intensify the risks in those areas.

Benoit P. Durocher, Senior Economist

COMMENTS

Like yesterday's move by the Federal Reserve, today the BoC opted for an aggressive cut to its key interest rates. Clearly, the concerns over the coronavirus weighed heavily, although the problems triggered by the interruptions to rail service no doubt also had a hand in the decision.

While the scope of the damage to the Canadian economy caused by the coronavirus is not yet certain, the BoC is taking no chances by relaxing its monetary policy now. That being

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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
27	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
12	European Central Bank		
18	Bank of Brazil		
18	Federal Reserve		
19	Bank of Norway		
19	Bank of Japan		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of England		
26	Bank of Mexico		
April			
7	Reserve Bank of Australia		
9	Bank of Korea		
15	Bank of Canada*		
28	Bank of Sweden		
28	Bank of Japan		
29	Federal Reserve		
30	European Central Bank		
May			
5	Reserve Bank of Australia		
6	Bank of Brazil		
7	Bank of England		
7	Bank of Norway		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
June			
2	Reserve Bank of Australia		
3	Bank of Canada		
4	European Central Bank		
10	Federal Reserve		
16	Bank of Japan		
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
18	Swiss National Bank		
23	Reserve Bank of New Zealand		
25	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
7	Reserve Bank of Australia		
15	Bank of Canada*		
16	European Central Bank		
16	Bank of Korea		
22	Bank of Japan		
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	Federal Reserve		
17	Bank of Japan		
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			
5	Reserve Bank of Australia		
14	Bank of Korea		
28	Bank of Brazil		
28	Bank of Canada*		
29	European Central Bank		
29	Bank of Japan		
November			
2	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		
30	Reserve Bank of Australia		
December			
7	Bank of Mexico		
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Swiss National Bank		
18	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.