

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Key Rates Hold at Their Effective Lower Bound

The BoC Expands Its Market Operations

ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at its effective lower bound of 0.25%.
- ▶ The Canadian economy was in a solid position ahead of the COVID-19 outbreak, but has since been hit by widespread shutdowns and lower oil prices.
- ▶ The outlook is too uncertain at this point to provide a complete forecast. However, BoC analysis of alternative scenarios suggests the level of real activity was down from 1% to 3% in the first quarter of 2020, and will be from 15% to 30% lower in the second quarter than in the fourth quarter of 2019.
- ▶ Inflation measured by the consumer price index is expected to be close to 0% in the second quarter of 2020. This is primarily due to the transitory effects of lower gasoline prices.
- ▶ The BoC will continue to purchase at least \$5B in Government of Canada securities per week in the secondary market, and will increase the level of purchases as required to maintain proper functioning of the government bond market. Also, the BoC is temporarily increasing the amount of Treasury Bills it acquires at auctions to up to 40%, effective immediately.
- ▶ The BoC is also announcing today the development of a new Provincial Bond Purchase Program of up to \$50B, to supplement its Provincial Money Market Purchase Program. Further, the BoC is announcing a new Corporate Bond Purchase Program, in which the BoC will acquire up to a total of \$10B in investment grade corporate bonds in the secondary market. Both of these programs will be put in place in the coming weeks. Finally, the BoC is further enhancing its term repo facility to permit funding for up to 24 months.

COMMENTS

The *Monetary Policy Report* released by the BoC does not contain a specific economic and financial outlook due to the high degree of uncertainty. The range mentioned by the BoC for the decline in real GDP in the first quarter (non-annualized), that is, between -1% and -3%, is in line with the -2.6% that Statistics Canada reported today for the period. Annualized, the pullback during the first quarter could therefore settle at around -10% according to Statistics Canada.

Taking this Statistics Canada projection into account, the range established by the BoC for the second quarter means that the drop in real GDP could be between -12.7% and -28.1% (or between -42% and -73%, annualized) during the period. The various scenarios contemplated by the monetary authorities are therefore very negative, even in the best case. However, BoC projections show that these difficulties should be short-lived, as a fairly quick recovery in production appears to be expected starting in the third quarter.

IMPLICATIONS

There is still a high degree of uncertainty about the extent of the economic downturn in Canada in the first half of 2020, a very difficult period to get through. That said, the monetary authorities and governments have implemented a number of measures to help the Canadian economy recover as much as possible as of the third quarter, with further initiatives still possible if necessary.

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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 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
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Reserve Bank of Australia	-25 b.p.	0.25
18	Bank of Brazil	-50 b.p.	3.75
19	Bank of England	-15 b.p.	0.10
19	Swiss National Bank	s.q.	-0.75
20	Bank of Norway	-75 b.p.	0.25
20	Bank of Mexico	-50 b.p.	6.50
26	Bank of England	s.q.	0.10
27	Bank of Canada	-50 b.p.	0.25
April			
7	Reserve Bank of Australia	s.q.	0.25
9	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
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.