

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Key Rates Will Probably Stay at Their Lower Bound until 2023

ACCORDING TO THE BOC

- ▶ The BoC maintained its target for the overnight rate at the effective lower bound of 0.25%.
- ▶ The BoC is recalibrating [its quantitative easing (QE) program] to shift purchases towards longer-term bonds, which have more direct influence on the borrowing rates that are most important for households and businesses. At the same time, total purchases will be gradually reduced to at least \$4B a week.
- ▶ The global and Canadian economic outlooks have evolved largely as anticipated in the July *Monetary Policy Report* (MPR), with rapid expansions as economies reopened giving way to slower growth[.]
- ▶ In the fourth quarter, [Canada's] growth is expected to slow markedly, due in part to rising COVID-19 case numbers. The economic effects of the pandemic are highly uneven across sectors and are particularly affecting low-income workers.
- ▶ After a decline of about 5.5% in 2020, the BoC expects Canada's economy to grow by almost 4% on average in 2021 and 2022. Growth will likely be choppy as domestic demand is influenced by the evolution of the virus and its impact on consumer and business confidence.
- ▶ The Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2% inflation target is sustainably achieved. In our current projection, this does not happen until into 2023.

of the economy, very modest growth is expected in the fourth quarter due to the negative effects of the second wave of COVID-19. Real GDP growth should pick up speed in early 2021, but everything will depend greatly on how the pandemic evolves.

The monetary authorities also took advantage of the opportunity to downgrade their estimates for the economy's growth potential and the neutral nominal policy rate for the coming years. For example, the mid-point of the range for potential output declined from 1.7% to 0.7% for 2020. The neutral nominal policy rate now lies between 1.75% and 2.75%, compared with the previous estimate of 2.25% to 3.25%.

IMPLICATIONS

It's clear that the consequences of the pandemic will affect the Canadian economy for a few more years. In this context, the BoC was more specific in its forward guidance this morning, stating that key rates would probably remain at their effective lower bound until 2023. Changes to the quantitative easing program also aim to support the economy more effectively.

Benoit P. Durocher, Senior Economist

COMMENTS

For the first time since the beginning of the pandemic, the new MPR includes a detailed economic and financial scenario. Overall, the BoC's projections are similar to our most recent forecasts. In addition, after a spectacular rebound in the Canadian real GDP in the third quarter thanks to the reopening

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Benoit P. Durocher, Senior Economist • Hendrix Vachon, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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
26	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
8	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
21	Bank of Mexico	-50 b.p.	6.00
28	Bank of Sweden	s.q.	0.00
28	Bank of Japan	s.q.	-0.10
29	Federal Reserve	s.q.	0.25
30	European Central Bank	s.q.	0.00
May			
5	Reserve Bank of Australia	s.q.	0.25
6	Bank of Brazil	-75 b.p.	3.00
7	Bank of England	s.q.	0.10
7	Bank of Norway	-25 b.p.	0.00
12	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Mexico	-50 b.p.	5.50
27	Bank of Korea	-25 b.p.	0.50
June			
2	Reserve Bank of Australia	s.q.	0.25
3	Bank of Canada	s.q.	0.25
4	European Central Bank	s.q.	0.00
10	Federal Reserve	s.q.	0.25
15	Bank of Japan	s.q.	-0.10
17	Bank of Brazil	-75 b.p.	2.25
18	Bank of England	s.q.	0.10
18	Bank of Norway	s.q.	0.00
18	Swiss National Bank	s.q.	-0.75
23	Reserve Bank of New Zealand	s.q.	0.25
25	Bank of Mexico	-50 b.p.	5.00

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden	s.q.	0.00
7	Reserve Bank of Australia	s.q.	0.25
14	Bank of Japan	s.q.	-0.10
15	Bank of Korea	s.q.	0.50
15	Bank of Canada*	s.q.	0.25
16	European Central Bank	s.q.	0.00
29	Federal Reserve	s.q.	0.25
August			
4	Reserve Bank of Australia	s.q.	0.25
5	Bank of Brazil	-25 b.p.	2.00
6	Bank of England	s.q.	0.10
11	Reserve Bank of New Zealand	s.q.	0.25
13	Bank of Mexico	-50 b.p.	4.50
20	Bank of Norway	s.q.	0.00
26	Bank of Korea	s.q.	0.50
September			
1	Reserve Bank of Australia	s.q.	0.25
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	s.q.	2.00
16	Bank of Japan	s.q.	-0.10
16	Federal Reserve	s.q.	0.25
17	Bank of England	s.q.	0.10
22	Reserve Bank of New Zealand	s.q.	0.25
22	Bank of Sweden	s.q.	0.00
24	Bank of Norway	s.q.	0.00
24	Bank of Mexico	-25 b.p.	4.25
24	Swiss National Bank	s.q.	-0.75
October			
5	Reserve Bank of Australia	s.q.	0.25
13	Bank of Korea	s.q.	0.50
28	Bank of Canada*	s.q.	0.25
28	Bank of Brazil		
28	Bank of Japan		
29	European Central Bank		
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		
25	Bank of Korea		
26	Bank of Sweden		
30	Reserve Bank of Australia		
December			
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Bank of Japan		
17	Bank of Mexico		
17	Swiss National Bank		

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.