

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

The Monetary Authorities Have Closed the Door on Lowering the Target Rate

ACCORDING TO THE BOC

- ▶ The BoC maintained its target for the overnight rate at the effective lower bound of 0.25%.
- ▶ Quantitative easing (QE) program continues at its current pace of at least \$4B per week.
- ▶ The economic recovery has been interrupted in many countries as new waves of COVID-19 infections force governments to re-impose containment measures. However, the arrival of effective vaccines combined with further fiscal and monetary policy support have boosted the medium-term outlook for growth.
- ▶ Canada's economy had strong momentum through to late 2020, but the resurgence of cases and the reintroduction of lockdown measures are a serious setback. Growth in the first quarter of 2021 is now expected to be negative. Assuming restrictions are lifted later in the first quarter, the BoC expects a strong second-quarter rebound.
- ▶ Beyond the near term, the outlook for Canada is now stronger and more secure than in the October projection, thanks to earlier-than-expected availability of vaccines and significant ongoing policy stimulus. After a decline in real GDP of 5.5% in 2020, the BoC projects the economy will grow by 4% in 2021, almost 5% in 2022, and around 2.5% in 2023.
- ▶ CPI inflation is forecast to rise temporarily to around 2% in the first half of the year, as the base-year effects of price declines at the pandemic's outset—mostly gasoline—dissipate. Excess supply is expected to weigh on inflation throughout the projection period.
- ▶ 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 projection, this does not happen until into 2023.

- ▶ As the Governing Council gains confidence in the strength of the recovery, the pace of net purchases of Government of Canada bonds will be adjusted as required.

COMMENTS

As the second wave of COVID-19 continues to spread and several public health measures are reintroduced, the economic conditions have deteriorated significantly across the country. As a result, the BoC's latest scenario includes the Canadian economy slumping further, with a 2.5% reduction (quarterly annualized variation) in real GDP in the first quarter. We believe that this decline may end up being even greater, since the toughness of the measures introduced recently has reached a level similar to that last seen in the spring of 2020. Under these circumstances, some investors were hoping that the BoC would slightly reduce the lower bound of its key rates. Still, the monetary authorities have closed the door by reiterating their intention to leave the target for the overnight rate at its lower bound of 0.25% until 2023.

It is worth noting that the latest challenges should be short-lived. Real GDP will probably rebound significantly in the second quarter thanks to the gradual easing of the public health measures and the benefits of the immunization campaign.

IMPLICATIONS

Before it modifies key rates, the BoC will adjust the pace of its net bond purchases as the economic conditions change. If the immunization campaign progresses as planned, the BoC could begin to gradually reduce its purchases in 2021.

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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
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 Brazil	s.q.	2.00
28	Bank of Canada*	s.q.	0.25
28	Bank of Japan	s.q.	-0.10
29	European Central Bank	s.q.	0.00
November			
2	Reserve Bank of Australia	-15 b.p.	0.10
5	Bank of England	s.q.	0.10
5	Bank of Norway	s.q.	0.00
5	Federal Reserve	s.q.	0.25
10	Reserve Bank of New Zealand	s.q.	0.25
12	Bank of Mexico	s.q.	4.25
25	Bank of Korea	s.q.	0.50
26	Bank of Sweden	s.q.	0.00
30	Reserve Bank of Australia	s.q.	0.10
December			
9	Bank of Brazil	s.q.	2.00
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Federal Reserve	s.q.	0.25
17	Bank of England	s.q.	0.10
17	Bank of Norway	s.q.	0.00
17	Bank of Japan	s.q.	-0.10
17	Bank of Mexico	s.q.	4.25
17	Swiss National Bank	s.q.	-0.75

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.

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6	Reserve Bank of Australia		
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17	Reserve Bank of New Zealand		
19	Bank of Norway		
26	Bank of Korea		
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7	Reserve Bank of Australia		
8	Bank of Canada		
9	European Central Bank		
22	Bank of Brazil		
22	Bank of Japan		
22	Federal Reserve		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
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October			
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27	Bank of Canada*		
28	European Central Bank		
28	Bank of Japan		
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3	Federal Reserve		
4	Bank of England		
4	Bank of Norway		
11	Bank of Mexico		
25	Bank of Korea		
29	Reserve Bank of New Zealand		
*	Bank of Sweden		
December			
6	Reserve Bank of Australia		
8	Bank of Brazil		
8	Bank of Canada		
15	Federal Reserve		
16	European Central Bank		
16	Bank of England		
16	Bank of Norway		
16	Bank of Mexico		
16	Swiss National Bank		
17	Bank of Japan		

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