

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC) No Change in Monetary Policy

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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 \$3B per week.
- ▶ With COVID-19 cases falling in many countries and vaccine coverage rising, global economic activity is picking up. Growth remains uneven across regions, however.
- ▶ In Canada, economic developments have been broadly in line with the outlook in the April *Monetary Policy Report*.
- ▶ With vaccinations proceeding at a faster pace, and provincial containment restrictions on an easing path over the summer, the Canadian economy is expected to rebound strongly, led by consumer spending. Housing market activity is expected to moderate but remain elevated.
- ▶ As expected by the BoC, inflation as measured by the consumer price index (CPI) rose close to the top of the 1%–3% inflation-control range. Core measures of inflation have also risen, due primarily to temporary factors and base year effects, but by much less than CPI inflation. While CPI inflation will likely remain near 3% through the summer, it is expected to ease later in the year, as base-year effects diminish and excess capacity continues to exert downward pressure.
- ▶ The BoC remain committed to holding the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2% inflation target is sustainably achieved. In the BoC's April projection, this happens sometime in the second half of 2022.

COMMENTS

As anticipated, the BoC made no changes to its monetary policy. Note that a reduction in weekly purchases on the financial markets, from \$4B to \$3B, had been announced at the previous meeting. It would have been far too hasty to announce another reduction in purchases in June.

The third wave of COVID-19 has had a fairly significant impact in some parts of the country, which will tarnish the results for the second quarter economic accounts. That said, a rebound is expected as of the third quarter with lockdown lifting and the resumption of several activities. Under these conditions, the profile of excess production capacity remains largely unchanged.

As for inflation, although projections indicate a slowdown in the coming months due to weakening base effects associated with gasoline, the risks remain on the upside in our view. Some imbalances remain between supply and demand for some goods and services, which is putting upward pressure on prices.

IMPLICATIONS

With economic conditions improving, all indications are that the BoC will need to continue gradually normalizing its monetary policy over the next few quarters. Further reductions in quantitative purchases in the financial markets are therefore to be expected, perhaps as early as July. However, it will likely be October 2022 before the BoC is ready to raise its key interest rates.

Schedule 2021 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
14	Bank of Korea	s.q.	0.50
20	Bank of Brazil	s.q.	2.00
20	Bank of Canada*	s.q.	0.25
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	s.q.	0.00
21	Bank of Norway	s.q.	0.00
27	Federal Reserve	s.q.	0.25
February			
1	Reserve Bank of Australia	s.q.	0.10
4	Bank of England	s.q.	0.10
10	Bank of Sweden	s.q.	0.00
11	Bank of Mexico	-25 b.p.	4.00
23	Reserve Bank of New Zealand	s.q.	0.25
24	Bank of Korea	s.q.	0.50
March			
1	Reserve Bank of Australia	s.q.	0.10
10	Bank of Canada	s.q.	0.25
11	European Central Bank	s.q.	0.00
17	Bank of Brazil	+75 b.p.	2.75
17	Federal Reserve	s.q.	0.25
18	Bank of England	s.q.	0.10
18	Bank of Norway	s.q.	0.00
19	Bank of Japan	s.q.	-0.10
25	Bank of Mexico	s.q.	4.00
25	Swiss National Bank	s.q.	-0.75
April			
6	Reserve Bank of Australia	s.q.	0.10
13	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Korea	s.q.	0.50
21	Bank of Canada*	s.q.	0.25
22	European Central Bank	s.q.	0.00
27	Bank of Sweden	s.q.	0.00
27	Bank of Japan	s.q.	-0.10
28	Federal Reserve	s.q.	0.25
May			
4	Reserve Bank of Australia	s.q.	0.10
5	Bank of Brazil	+75 b.p.	3.50
6	Bank of England	s.q.	0.10
6	Bank of Norway	s.q.	0.00
13	Bank of Mexico	s.q.	4.00
25	Reserve Bank of New Zealand	s.q.	0.25
26	Bank of Korea	s.q.	0.50
June			
1	Reserve Bank of Australia	s.q.	0.10
9	Bank of Canada	s.q.	0.25
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Norway		
17	Swiss National Bank		
18	Bank of Japan		
24	Bank of England		
24	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
6	Reserve Bank of Australia		
13	Reserve Bank of New Zealand		
14	Bank of Korea		
14	Bank of Canada*		
16	Bank of Japan		
22	European Central Bank		
28	Federal Reserve		
August			
3	Reserve Bank of Australia		
4	Bank of Brazil		
5	Bank of England		
12	Bank of Mexico		
17	Reserve Bank of New Zealand		
19	Bank of Norway		
25	Bank of Korea		
September			
7	Reserve Bank of Australia		
8	Bank of Canada		
9	European Central Bank		
21	Bank of Sweden		
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		
October			
4	Reserve Bank of Australia		
5	Reserve Bank of New Zealand		
11	Bank of Korea		
27	Bank of Brazil		
27	Bank of Canada*		
28	European Central Bank		
28	Bank of Japan		
November			
1	Reserve Bank of Australia		
3	Federal Reserve		
4	Bank of England		
4	Bank of Norway		
11	Bank of Mexico		
23	Reserve Bank of New Zealand		
24	Bank of Korea		
25	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		

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.