

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Monetary Authorities Dial Back QE Purchases and Revise Their Inflation Forecasts Upwards

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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%.
- ▶ The BoC is reducing the pace at which it purchases Government of Canada Bonds, setting a new weekly target of \$2B (instead of \$3B). This adjustment reflects the Canadian economy's improved outlook.
- ▶ The global economy is continuing to recover from the pandemic and the vaccine rollout has been impressive. The BoC slightly upgraded its forecast for global GDP growth from 6.8% to 6.9% in 2021 and from 4.1% to 4.4% in 2022.
- ▶ In Canada, the negative effects of the third wave of the pandemic are waning, as the lifting of public health restrictions and the decline of new COVID cases should lead to strong GDP growth in the second half of the year. However, economic activity was slightly weaker than expected during the first half of 2021 because of supply chain disruptions and the effect of lockdown measures. The BoC is now forecasting real GDP growth of 2.0% in the second quarter of 2021 (vs. 3.5% in April), but a strong comeback of 7.3% in the third quarter. It expects annual growth of 6.0% in 2021, 4.6% in 2022 and 3.3% in 2023.
- ▶ The BoC also strongly upgraded its inflation forecasts. The central bank is now forecasting that inflation as measured by the CPI will stay at a level equal to or greater than 3% until the end of 2021 before moderating in 2022. CPI growth forecasts increased to 3.0% in 2021 and 2.4% in 2022 (vs. 2.3% and 1.9% in the BoC's previous forecast in April).
- ▶ The Governing Council nevertheless considers that there is still a significant amount of slack in the economy. The BoC remains committed to maintaining its key rate at the effective

lower bound until this excess capacity is absorbed to ensure that the inflation target rate of 2% is sustainably achieved. According to the current projection, this would occur in the second half of 2022.

COMMENTS

As expected, the BoC tapered its weekly asset purchases by \$1B, as the outlook for the Canadian economy continues to improve. Canada has still not experienced the increase in COVID-19 cases observed worldwide, and the vaccine rollout is going well.

That said, there is still a lot of uncertainty, starting with the COVID-19 pandemic. Many highly vaccinated countries are currently dealing with a surge of COVID-19 cases; a similar situation in Canada would certainly affect the BoC's forecasts. In addition, we consider that inflation risks are tilted to the upside, as there is still an imbalance between supply and demand for many goods and services.

IMPLICATIONS

Economic conditions are continuing to improve, prompting the Bank of Canada to continue the normalization process of its monetary policy. Further reductions in quantitative purchases are therefore expected, probably as early as this October, when the next Monetary Policy Report is released. We also expect the first rate hike to occur in fall 2022.

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	s.q.	0.00
16	Bank of Brazil	+75 b.p.	4.25
16	Federal Reserve	s.q.	0.25
17	Bank of Norway	s.q.	0.00
17	Swiss National Bank	s.q.	-0.75
18	Bank of Japan	s.q.	-0.10
24	Bank of England	s.q.	0.10
24	Bank of Mexico	+25 b.p.	4.25

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden	s.q.	0.00
6	Reserve Bank of Australia	s.q.	0.10
13	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Canada*	s.q.	0.25
14	Bank of Korea		
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.