

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Monetary Authorities Stay the Course

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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 \$2B per week.
- ▶ The global economic recovery continued through the second quarter, led by strong U.S. growth, and had solid momentum heading into the third quarter.
- ▶ In Canada, GDP contracted by about 1% in the second quarter, weaker than anticipated in the BoC's July *Monetary Policy Report* (MPR). This largely reflects a contraction in exports, due in part to supply chain disruptions, especially in the auto sector.
- ▶ The BoC continues to expect the economy to strengthen in the second half of 2021, although the fourth wave of COVID-19 infections and ongoing supply bottlenecks could weigh on the recovery.
- ▶ Inflation as measured by the consumer price index (CPI) remains above 3% as expected, boosted by base-year effects, gasoline prices, and pandemic-related supply bottlenecks.
- ▶ [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 July projection, this happens in the second half of 2022.
- ▶ The BoC's QE program continues to reinforce this commitment and keep interest rates low across the yield curve. Decisions regarding future adjustments to the pace of net bond purchases will be guided by Governing Council's ongoing assessment of the strength and durability of the recovery.

COMMENTS

Since today's decision was not accompanied by an MPR, it's hard to know what impact the latest disruptive factors (including difficulties in certain supply chains) will have on the BoC's scenario. While the disappointing second quarter results will somewhat delay the full recovery of Canada's economy, the BoC does not appear to be overly concerned.

The monetary authorities continue to say that absorbing excess capacity should require an increase in key rates in the second half of 2022. Bear in mind that the balance of risks is quite stable right now. On one hand, supply difficulties and a resurgence of COVID-19 cases could lead to weaker-than-expected economic growth in the coming months. On the other, Canada's economy could once again show surprising resilience and grow faster than expected.

That said, the balance of risks to inflation remains on the upside as the current strong price growth could be more persistent than anticipated.

IMPLICATIONS

In the end, today's decision and the BoC's statement do not affect our outlook for Canadian monetary policy. We still believe that a further reduction in quantitative purchases could be announced on October 27 and that the target for the overnight rate could be raised starting in October 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	s.q.	0.50
16	Bank of Japan	s.q.	-0.10
22	European Central Bank	s.q.	0.00
28	Federal Reserve	s.q.	0.25
August			
3	Reserve Bank of Australia	s.q.	0.10
4	Bank of Brazil	+100 b.p.	5.25
5	Bank of England	s.q.	0.10
12	Bank of Mexico	+25 b.p.	4.50
17	Reserve Bank of New Zealand	s.q.	0.25
19	Bank of Norway	s.q.	0.00
25	Bank of Korea	+25 b.p.	0.75
September			
7	Reserve Bank of Australia	s.q.	0.10
8	Bank of Canada	s.q.	0.25
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.