

# ESSENTIALS OF THE MONETARY POLICY

## Federal Reserve (Fed)

### Another Step toward a Tapering of Asset Purchases

By Francis Généreux, Senior Economist

#### ACCORDING TO THE FED

- ▶ The Committee decided to keep the target range for the federal funds rate at 0.00% to 0.25%.
- ▶ The Committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time.
- ▶ Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least US\$80B per month and of agency mortgage-backed securities by at least US\$40B per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals. If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted.
- ▶ With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery. Inflation is elevated, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

#### COMMENTS

For the first time since the onset of the pandemic, Fed officials formalized in their statement that we could soon see a reduction in the level of monetary stimulus. However, this is highly dependent on how the economic and public health situations

unfold. The statement also mentioned that the most recent spike in COVID-19 cases is hindering the recovery of the U.S. economy.

Fed officials downgraded their projection for growth in real GDP for 2021 (but upgraded it for 2022). This is undoubtedly due to weaker-than-expected growth in the spring and disappointing results for certain indicators over the summer. The economy will therefore need to continue to show clear growth for the Fed to begin tapering its purchases. Meanwhile, inflation is still a concern. The Fed's projections for the annual change in the consumer expenditure deflator at the end of 2021 were significantly upgraded (from 3.4% to 4.2%). However, inflation forecasts for subsequent years changed little or stayed the same (2.2% for 2022 and 2023). The Fed therefore still expects inflation to calm down once temporary factors are absorbed.

In the press conference, the Fed Chair pointed out that several members of the monetary policy committee believe that the conditions for beginning to reduce asset purchases have been met or are close to being met. In that sense, a tapering could be officially announced at the Fed's next meeting, which will end on November 3. Once begun, the tapering of purchases could be gradually implemented and end around mid-2022.

#### IMPLICATIONS

Today's openness to an upcoming monetary policy adjustment was less decisive than anticipated. However, it was an important step that suggests that a reduction in asset purchases could begin in November. The first key rate hikes are expected to occur in late 2022.

# Schedule 2021 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
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
<b>February</b>			
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
<b>March</b>			
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
18	Bank of Japan	s.q.	-0.10
25	Bank of Mexico	s.q.	4.00
25	Swiss National Bank	s.q.	-0.75
<b>April</b>			
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
26	Bank of Japan	s.q.	-0.10
27	Bank of Sweden	s.q.	0.00
28	Federal Reserve	s.q.	0.25
<b>May</b>			
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
<b>June</b>			
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	Bank of Japan	s.q.	-0.10
17	Swiss National Bank	s.q.	-0.75
24	Bank of England	s.q.	0.10
24	Bank of Mexico	+25 b.p.	4.25

Date	Central banks	Decision	Rate
<b>July</b>			
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
15	Bank of Japan	s.q.	-0.10
22	European Central Bank	s.q.	0.00
28	Federal Reserve	s.q.	0.25
<b>August</b>			
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
<b>September</b>			
7	Reserve Bank of Australia	s.q.	0.10
8	Bank of Canada	s.q.	0.25
9	European Central Bank	s.q.	0.00
21	Bank of Sweden	s.q.	0.00
21	Bank of Japan	s.q.	-0.10
22	Federal Reserve	s.q.	0.25
22	Bank of Brazil		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
<b>October</b>			
4	Reserve Bank of Australia		
5	Reserve Bank of New Zealand		
11	Bank of Korea		
27	Bank of Brazil		
27	Bank of Japan		
27	Bank of Canada*		
28	European Central Bank		
<b>November</b>			
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		
<b>December</b>			
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	Bank of Japan		
16	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.