

ESSENTIALS OF THE MONETARY POLICY

Central Banks in Europe

A Second Straight Rate Hike for the United Kingdom

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HIGHLIGHTS

- ▶ **Bank of England (BoE)** – The BoE raised its key interest rate 25 basis points today to 0.50%. It also decided to reduce its asset holdings by ending the reinvestment of maturing government bonds and announced a new program of corporate bond sales.
- ▶ A slim 5-4 majority of the Monetary Policy Committee voted for the interest rate hike. The others voted for a 50 basis point hike.
- ▶ The BoE expects inflation to peak around 7% this spring before returning to its 2% target in about two years.
- ▶ **European Central Bank (ECB)** – The ECB expects its key interest rates to remain at their present or lower levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term.
- ▶ As announced in December, the ECB will discontinue net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) at the end of March. It will continue reinvesting principal payments from maturing securities purchased under the program until at least the end of 2024.
- ▶ Meanwhile the ECB is still planning to ramp up its Asset Purchase Programme (APP) this year. It will temporarily increase purchases to €40B per month in the second quarter and €30B in the third quarter before pulling them back to €20B.

COMMENTS

The BoE chose to strike while the iron is hot, raising interest rates for the second straight meeting. Inflation was likely a determining

factor. The bank again upgraded its inflation forecast, expecting it to peak around 7% this spring before easing as supply issues subside.

One interesting tidbit in today's BoE announcement: it is starting to trim its balance sheet. The Federal Reserve and Bank of Canada have also signaled they'll do so earlier than expected. Central banks appear to be taking a different tack than they did during the last cycle of monetary tightening.

The ECB kept its monetary policy unchanged despite rising prices in the eurozone. Inflation hit 5.1% in January, well above the 4.4% consensus forecast. The ECB said it plans to continue making asset purchases under the APP this year. That means it's unlikely to raise interest rates before 2023. And in yet another sign the ECB is taking a cautious approach, its press release again mentioned that the bank could lower key interest rates if inflation doesn't stabilize at 2% over the medium term. Given current conditions, it would be pretty surprising if it did.

IMPLICATIONS

After two straight rate hikes, the BoE could hold off on further increases for a few months. The BoE said its inflation forecasts are contingent upon the key rate rising to around 1.50% by mid-2023. That suggests gradual monetary tightening over the coming quarters unless inflation continues to rise faster than expected. The ECB remains much more patient on the inflation front. After several years struggling to get inflation on target even with negative interest rates, it looks like it wants to be sure inflation will reach 2% durably over the medium term before raising rates. But the ECB's tone could change in March when it releases its updated inflation forecasts. After all, ECB President Christine Lagarde did say today that inflation risks are currently tilted to the upside.

Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia	s.q.	0.10
February			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	s.q.	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
28	Reserve Bank of Australia		
March			
2	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of England		
17	Bank of Japan		
24	Bank of Norway		
24	Bank of Mexico		
**	Swiss National Bank		
April			
5	Reserve Bank of Australia		
12	Reserve Bank of New Zealand		
13	Bank of Korea		
13	Bank of Canada*		
14	European Central Bank		
27	Bank of Japan		
28	Bank of Sweden		
May			
3	Reserve Bank of Australia		
4	Bank of Brazil		
4	Federal Reserve		
5	Bank of England		
5	Bank of Norway		
12	Bank of Mexico		
24	Reserve Bank of New Zealand		
25	Bank of Korea		
June			
1	Bank of Canada		
7	Reserve Bank of Australia		
9	European Central Bank		
15	Bank of Brazil		
15	Federal Reserve		
16	Bank of England		
16	Bank of Japan		
23	Bank of Norway		
23	Bank of Mexico		
30	Bank of Sweden		
**	Swiss National Bank		

Date	Central banks	Decision	Rate
July			
5	Reserve Bank of Australia		
12	Reserve Bank of New Zealand		
13	Bank of Korea		
13	Bank of Canada*		
20	Bank of Japan		
21	European Central Bank		
27	Federal Reserve		
August			
2	Reserve Bank of Australia		
3	Bank of Brazil		
4	Bank of England		
11	Bank of Mexico		
16	Reserve Bank of New Zealand		
18	Bank of Norway		
24	Bank of Korea		
September			
6	Reserve Bank of Australia		
7	Bank of Canada		
8	European Central Bank		
15	Bank of England		
21	Bank of Brazil		
21	Bank of Japan		
21	Federal Reserve		
22	Bank of Norway		
29	Bank of Mexico		
**	Bank of Sweden		
**	Swiss National Bank		
October			
3	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
13	Bank of Korea		
26	Bank of Brazil		
26	Bank of Canada*		
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
November			
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
**	Bank of Sweden		
December			
5	Reserve Bank of Australia		
7	Bank of Brazil		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
19	Bank of Japan		
**	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; ** To be determined.