

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Rate Hikes Very Likely as Early as March

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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 global recovery from the COVID-19 pandemic is strong but uneven. The U.S. economy is growing robustly while growth in some other regions appears more moderate, especially in China due to current weakness in its property sector.
- ▶ In Canada, GDP growth in the second half of 2021 now looks to have been even stronger than expected. The economy entered 2022 with considerable momentum, and a broad set of measures are now indicating that economic slack is absorbed. The Omicron variant is weighing on activity in the first quarter. While its economic impact will depend on how quickly this wave passes, it is expected to be less severe than previous waves.
- ▶ Persistent supply constraints are feeding through to a broader range of goods prices and, combined with higher food and energy prices, are expected to keep CPI inflation close to 5% in the first half of 2022. As supply shortages diminish, inflation is expected to decline reasonably quickly to about 3% by the end of this year and then gradually ease towards the target over the projection period.
- ▶ The Governing Council judges that overall slack in the economy is absorbed, thus satisfying the condition outlined in the BoC's forward guidance on its policy interest rate. The Governing Council therefore decided to end its extraordinary commitment to hold its policy rate at the effective lower bound. Looking ahead, the Governing Council expects interest rates will need to increase, with the timing and pace of those increases guided by the BoC's commitment to achieving the 2% inflation target.

COMMENTS

As we expected, the BoC has opted to stick with the status quo on its monetary policy for now. Still, both the BoC's statement and its *Monetary Policy Report* have cleared the way for key rate hikes to begin as early as the next meeting in March.

Not only is economic growth still strong despite the temporary unforeseen events arising from the Omicron variant, but also the monetary authorities appear to be increasingly concerned about the inflationary pressures. Furthermore, the BoC significantly raised its inflation forecast for 2022 from 3.4% to 4.2%. Inflation could also remain at or near the current level (near 5%) longer than initially anticipated.

Under these circumstances, keeping the target for the overnight rate at its effective lower bound is getting harder and harder to justify. Therefore, the withdrawal of the BoC's forward guidance is the first step before the key rate rises. The hike planned for March will probably be the first of many in the coming quarters to gradually bring the target for the overnight rate back to its neutral level, which would be between 1.75% and 2.75% according to the BoC.

IMPLICATIONS

The fun and games will soon end: the gradual normalization of key rates will probably include the gradual reduction in the size of the BoC's balance sheet. Therefore, all interest rates will be under pressure to rise in the coming quarters. There is no doubt that this will significantly limit demand. The housing market, in particular, will have to be closely watched.

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
18	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
26	Bank of Japan	s.q.	-0.10
27	Bank of Sweden	s.q.	0.00
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	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
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
15	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	s.q.	0.00
21	Bank of Sweden	s.q.	0.00
21	Bank of Japan	s.q.	-0.10
22	Bank of Brazil	+100 b.p.	6.25
22	Federal Reserve	s.q.	0.25
23	Bank of England	s.q.	0.10
23	Bank of Norway	+25 b.p.	0.25
23	Swiss National Bank	s.q.	-0.75
30	Bank of Mexico	+25 b.p.	4.75
October			
4	Reserve Bank of Australia	s.q.	0.10
5	Reserve Bank of New Zealand	+25 b.p.	0.50
11	Bank of Korea	s.q.	0.75
27	Bank of Brazil	+150 b.p.	7.75
27	Bank of Japan	s.q.	-0.10
27	Bank of Canada*	s.q.	0.25
28	European Central Bank	s.q.	0.00
November			
1	Reserve Bank of Australia	s.q.	0.10
3	Federal Reserve	s.q.	0.25
4	Bank of England	s.q.	0.10
4	Bank of Norway	s.q.	0.25
11	Bank of Mexico	+25 b.p.	5.00
23	Reserve Bank of New Zealand	+25 b.p.	0.75
24	Bank of Korea	+25 b.p.	1.00
25	Bank of Sweden	s.q.	0.00
December			
6	Reserve Bank of Australia	s.q.	0.10
8	Bank of Brazil	+150 b.p.	9.25
8	Bank of Canada	s.q.	0.25
15	Federal Reserve	s.q.	0.25
16	European Central Bank	s.q.	0.00
16	Bank of England	+15 b.p.	0.25
16	Bank of Norway	+25 b.p.	0.25
16	Bank of Mexico	+50 b.p.	5.50
16	Bank of Japan	s.q.	-0.10
16	Swiss National Bank	s.q.	-0.75

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.

Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate	Date	Central banks	Decision	Rate
January				July			
13	Bank of Korea	+25 b.p.	1.25	5	Reserve Bank of Australia		
17	Bank of Japan	s.q.	-0.10	12	Reserve Bank of New Zealand		
20	Bank of Norway	s.q.	0.50	13	Bank of Korea		
26	Bank of Canada*	s.q.	0.25	13	Bank of Canada*		
26	Federal Reserve			20	Bank of Japan		
31	Reserve Bank of Australia			21	European Central Bank		
February				August			
2	Bank of Brazil			2	Reserve Bank of Australia		
3	European Central Bank			3	Bank of Brazil		
3	Bank of England			4	Bank of England		
10	Bank of Sweden			11	Bank of Mexico		
10	Bank of Mexico			16	Reserve Bank of New Zealand		
22	Reserve Bank of New Zealand			18	Bank of Norway		
23	Bank of Korea			24	Bank of Korea		
28	Reserve Bank of Australia			September			
March				6	Reserve Bank of Australia		
2	Bank of Canada			7	Bank of Canada		
10	European Central Bank			8	European Central Bank		
16	Bank of Brazil			15	Bank of England		
16	Federal Reserve			21	Bank of Brazil		
17	Bank of England			21	Bank of Japan		
17	Bank of Japan			21	Federal Reserve		
24	Bank of Norway			22	Bank of Norway		
24	Bank of Mexico			29	Bank of Mexico		
**	Swiss National Bank			**	Bank of Sweden		
April				**	Swiss National Bank		
5	Reserve Bank of Australia			October			
12	Reserve Bank of New Zealand			3	Reserve Bank of Australia		
13	Bank of Korea			4	Reserve Bank of New Zealand		
13	Bank of Canada*			13	Bank of Korea		
14	European Central Bank			26	Bank of Brazil		
27	Bank of Japan			26	Bank of Canada*		
28	Bank of Sweden			27	European Central Bank		
May				27	Bank of Japan		
3	Reserve Bank of Australia			31	Reserve Bank of Australia		
4	Bank of Brazil			November			
4	Federal Reserve			2	Federal Reserve		
5	Bank of England			3	Bank of England		
5	Bank of Norway			3	Bank of Norway		
12	Bank of Mexico			10	Bank of Mexico		
24	Reserve Bank of New Zealand			22	Reserve Bank of New Zealand		
25	Bank of Korea			23	Bank of Korea		
June				**	Bank of Sweden		
1	Bank of Canada			December			
7	Reserve Bank of Australia			5	Reserve Bank of Australia		
9	European Central Bank			7	Bank of Brazil		
15	Bank of Brazil			7	Bank of Canada		
15	Federal Reserve			14	Federal Reserve		
16	Bank of England			15	European Central Bank		
16	Bank of Japan			15	Bank of England		
23	Bank of Norway			15	Bank of Norway		
23	Bank of Mexico			15	Bank of Mexico		
30	Bank of Sweden			19	Bank of Japan		
**	Swiss National Bank			**	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.