

# ESSENTIALS OF THE MONETARY POLICY

## Bank of Canada (BoC)

### As Anticipated, Key Interest Rates Stay at Their Effective Lower Bound

#### 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 at least \$4B per week.
- ▶ More recently, news on the development of effective vaccines is providing reassurance that the pandemic will end and more normal activities will resume, although the pace and breadth of the global rollout of vaccinations remain uncertain. Near term, new waves of infections are expected to set back recoveries in many parts of the world.
- ▶ In Canada, national accounts data for the third quarter were consistent with the BoC's expectations of a sharp economic rebound following the precipitous decline in the second quarter.
- ▶ Economic momentum heading into the fourth quarter appears to be stronger than was expected in October but, in recent weeks, record high cases of COVID-19 in many parts of Canada are forcing re-imposition of restrictions. This can be expected to weigh on growth in the first quarter of 2021 and contribute to a choppy trajectory until a vaccine is widely available.
- ▶ The outlook for inflation remains in line with the October *Monetary Policy Report* (MPR) projection. Measures of core inflation are all below 2%, and considerable economic slack is expected to continue to weigh on inflation for some time.
- ▶ The Governing Council will hold 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 October projection, this does not happen until into 2023.

- ▶ To reinforce this commitment and keep interest rates low across the yield curve, the BoC will continue its QE program until the recovery is well underway and will adjust it as required to help bring inflation back to target on a sustainable basis. We remain committed to providing the monetary policy stimulus needed to support the recovery and achieve the inflation objective.

#### COMMENTS

The BoC's statement accompanying today's decision didn't contain any real surprises. As expected, the monetary authorities reiterated their intention to keep key interest rates at their effective lower bound and to continue their quantitative purchases. We should point out that the Canadian economy is still a long way from regaining the ground lost during the Great Lockdown in the spring. Although the second wave of the pandemic recently required new restrictive measures, the economic outlook in the BoC's October MPR still holds up. Furthermore, a significant slowdown in economic growth is anticipated in late 2020, and the 2021 outlook suggests a difficult start to the year.

#### IMPLICATIONS

Uncertainty is still very high. The BoC's next MPR will be released on January 20. Until then, we may get a clearer picture of the impact of the second wave of the pandemic, and there will likely be more information made available about the vaccination campaign.

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# Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
16	Bank of Korea	s.q.	1.25
20	Bank of Japan	s.q.	-0.10
22	Bank of Canada*	s.q.	1.75
23	European Central Bank	s.q.	0.00
23	Bank of Norway	s.q.	1.50
29	Federal Reserve	s.q.	1.75
30	Bank of England	s.q.	0.75
<b>February</b>			
3	Reserve Bank of Australia	s.q.	0.75
5	Bank of Brazil	-25 b.p.	4.25
11	Reserve Bank of New Zealand	s.q.	1.00
12	Bank of Sweden	s.q.	0.00
13	Bank of Mexico	-25 b.p.	7.00
26	Bank of Korea	s.q.	1.25
<b>March</b>			
2	Reserve Bank of Australia	-25 b.p.	0.50
3	Federal Reserve	-50 b.p.	1.25
4	Bank of Canada	-50 b.p.	1.25
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Reserve Bank of Australia	-25 b.p.	0.25
18	Bank of Brazil	-50 b.p.	3.75
19	Bank of England	-15 b.p.	0.10
19	Swiss National Bank	s.q.	-0.75
20	Bank of Norway	-75 b.p.	0.25
20	Bank of Mexico	-50 b.p.	6.50
26	Bank of England	s.q.	0.10
27	Bank of Canada	-50 b.p.	0.25
<b>April</b>			
7	Reserve Bank of Australia	s.q.	0.25
8	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
21	Bank of Mexico	-50 b.p.	6.00
28	Bank of Sweden	s.q.	0.00
28	Bank of Japan	s.q.	-0.10
29	Federal Reserve	s.q.	0.25
30	European Central Bank	s.q.	0.00
<b>May</b>			
5	Reserve Bank of Australia	s.q.	0.25
6	Bank of Brazil	-75 b.p.	3.00
7	Bank of England	s.q.	0.10
7	Bank of Norway	-25 b.p.	0.00
12	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Mexico	-50 b.p.	5.50
27	Bank of Korea	-25 b.p.	0.50
<b>June</b>			
2	Reserve Bank of Australia	s.q.	0.25
3	Bank of Canada	s.q.	0.25
4	European Central Bank	s.q.	0.00
10	Federal Reserve	s.q.	0.25
15	Bank of Japan	s.q.	-0.10
17	Bank of Brazil	-75 b.p.	2.25
18	Bank of England	s.q.	0.10
18	Bank of Norway	s.q.	0.00
18	Swiss National Bank	s.q.	-0.75
23	Reserve Bank of New Zealand	s.q.	0.25
25	Bank of Mexico	-50 b.p.	5.00

Date	Central banks	Decision	Rate
<b>July</b>			
1	Bank of Sweden	s.q.	0.00
7	Reserve Bank of Australia	s.q.	0.25
14	Bank of Japan	s.q.	-0.10
15	Bank of Korea	s.q.	0.50
15	Bank of Canada*	s.q.	0.25
16	European Central Bank	s.q.	0.00
29	Federal Reserve	s.q.	0.25
<b>August</b>			
4	Reserve Bank of Australia	s.q.	0.25
5	Bank of Brazil	-25 b.p.	2.00
6	Bank of England	s.q.	0.10
11	Reserve Bank of New Zealand	s.q.	0.25
13	Bank of Mexico	-50 b.p.	4.50
20	Bank of Norway	s.q.	0.00
26	Bank of Korea	s.q.	0.50
<b>September</b>			
1	Reserve Bank of Australia	s.q.	0.25
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	s.q.	2.00
16	Bank of Japan	s.q.	-0.10
16	Federal Reserve	s.q.	0.25
17	Bank of England	s.q.	0.10
22	Reserve Bank of New Zealand	s.q.	0.25
22	Bank of Sweden	s.q.	0.00
24	Bank of Norway	s.q.	0.00
24	Bank of Mexico	-25 b.p.	4.25
24	Swiss National Bank	s.q.	-0.75
<b>October</b>			
5	Reserve Bank of Australia	s.q.	0.25
13	Bank of Korea	s.q.	0.50
28	Bank of Brazil	s.q.	2.00
28	Bank of Canada*	s.q.	0.25
28	Bank of Japan	s.q.	-0.10
29	European Central Bank	s.q.	0.00
<b>November</b>			
2	Reserve Bank of Australia	-15 b.p.	0.10
5	Bank of England	s.q.	0.10
5	Bank of Norway	s.q.	0.00
5	Federal Reserve	s.q.	0.25
10	Reserve Bank of New Zealand	s.q.	0.25
12	Bank of Mexico	s.q.	4.25
25	Bank of Korea	s.q.	0.50
26	Bank of Sweden	s.q.	0.00
30	Reserve Bank of Australia	s.q.	0.10
<b>December</b>			
9	Bank of Canada	s.q.	0.25
9	Bank of Brazil		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Bank of Japan		
17	Bank of Mexico		
17	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.