

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Key Rates Hit All-Time Lows

The BoC Announces Two Securities Purchase Programs

ACCORDING TO THE BOC

- ▶ The target rate for overnight funds drops from 0.75% to 0.25%.
- ▶ This unscheduled rate decision brings the policy rate to its effective lower bound and is intended to provide support to the Canadian financial system and the economy during the COVID-19 pandemic.
- ▶ The spread of COVID-19 is having serious consequences for Canadians and for the economy, as is the abrupt decline in world oil prices. The pandemic-driven contraction has prompted decisive fiscal policy action in Canada to support individuals and businesses and to minimize any permanent damage to the structure of the economy.
- ▶ The BoC is playing an important complementary role in this effort. The intent of our decision today is to support the financial system in its central role of providing credit in the economy, and to lay the foundation for the economy's return to normalcy.
- ▶ BoC launches two new programs today:
 - The Commercial Paper Purchase Program (CPPP) will help to alleviate strains in short-term funding markets and thereby preserve a key source of funding for businesses.
 - The BoC will begin acquiring Government of Canada securities in the secondary market.
- ▶ Purchases will begin with a minimum of \$5B per week, across the yield curve. The program will be adjusted as conditions warrant, but will continue until the economic recovery is well underway. The BoC's balance sheet will expand as a result of these purchases.

COMMENTS

Desperate times call for desperate measures. Given the never-before-seen negative consequences on the Canadian economy and financial markets due to COVID-19, the monetary authorities have lowered the key rates to their lowest levels. With this, Canadian key interest rates have now reached the threshold last seen in 2009 and 2010 during the Great Recession, a clear indication of the magnitude of the current crisis. The BoC is following in the footsteps of many of the other central banks—including the Federal Reserve—that have already reduced interest rates to their lowest levels.

Although it refrained from doing so during the Great Recession of 2008–2009, the BoC decided today to introduce a quantitative purchase program. With commercial paper and Government of Canada bond purchases totalling \$5B a week, the BoC's balance sheet will expand significantly in the coming months. This should alleviate the tension on the financial markets, especially regarding credit, and apply downward pressure across the entire yield curve.

IMPLICATIONS

Today's decision should allow the financial markets to operate more smoothly and ease the tension seen in recent days. Now, all that remains to be seen is how long these extraordinary measures will remain in place. It appears clear, however, that interest rates will remain low for several quarters.

Benoit P. Durocher, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Benoit P. Durocher, Senior Economist • Hendrix Vachon, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
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
February			
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
27	Bank of Korea	s.q.	1.25
March			
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
April			
9	Bank of Korea		
15	Bank of Canada*		
28	Bank of Sweden		
28	Bank of Japan		
29	Federal Reserve		
30	European Central Bank		
May			
5	Reserve Bank of Australia		
6	Bank of Brazil		
7	Bank of England		
7	Bank of Norway		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
June			
2	Reserve Bank of Australia		
3	Bank of Canada		
4	European Central Bank		
10	Federal Reserve		
16	Bank of Japan		
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
18	Swiss National Bank		
23	Reserve Bank of New Zealand		
25	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
7	Reserve Bank of Australia		
15	Bank of Canada*		
16	European Central Bank		
16	Bank of Korea		
22	Bank of Japan		
29	Federal Reserve		
August			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
11	Reserve Bank of New Zealand		
13	Bank of Mexico		
20	Bank of Norway		
27	Bank of Korea		
September			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Japan		
17	Bank of England		
22	Reserve Bank of New Zealand		
22	Bank of Sweden		
24	Bank of Norway		
24	Bank of Mexico		
24	Swiss National Bank		
October			
5	Reserve Bank of Australia		
14	Bank of Korea		
28	Bank of Brazil		
28	Bank of Canada*		
29	European Central Bank		
29	Bank of Japan		
November			
2	Reserve Bank of Australia		
5	Bank of England		
5	Bank of Norway		
5	Federal Reserve		
10	Reserve Bank of New Zealand		
12	Bank of Mexico		
26	Bank of Korea		
26	Bank of Sweden		
30	Reserve Bank of Australia		
December			
7	Bank of Mexico		
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Swiss National Bank		
18	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.