

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Monetary Authorities to Dial Back QE Purchases

ACCORDING TO THE BOC

- ▶ The BoC maintained its target for the overnight rate at the effective lower bound of 0.25%.
- ▶ Effective the week of April 26, weekly net purchases of Government of Canada bonds will be adjusted to a target of \$3B (instead of \$4B). This adjustment to the amount of incremental stimulus being added each week reflects the progress made in the economic recovery.
- ▶ The outlook has improved for both the global and Canadian economies. Activity has proven more resilient than expected in the face of the COVID-19 pandemic, and the rollout of vaccines is progressing.
- ▶ In Canada, growth in the first quarter appears considerably stronger than the BoC's January forecast, as households and companies adapted to the second wave and associated restrictions. As vaccines roll out and the economy reopens, consumption is expected to rebound strongly in the second half of this year and remain robust over the projection. The BoC now forecasts real GDP growth of 6.50% in 2021, moderating to around 3.75% in 2022 and 3.25% in 2023.
- ▶ The BoC has revised up its estimate of potential output in light of greater resilience to the pandemic and accelerated digitalization.
- ▶ Over the next few months, inflation is expected to rise temporarily to around the top of the 1%–3% inflation-control range. The BoC expects CPI inflation to ease back toward 2% over the second half of 2021.
- ▶ Even as economic prospects improve, the Governing Council judges that there is still considerable excess capacity, and the recovery continues to require extraordinary monetary policy support. The BoC remain committed to holding the policy interest rate at the effective lower bound until economic

slack is absorbed so that the 2% inflation target is sustainably achieved. Based on the BoC's latest projection, this is now expected to happen some time in the second half of 2022.

COMMENTS

As expected, the BoC's press release and its *Monetary Policy Report* are decidedly more upbeat. The economy is showing tremendous resilience, several economic sectors are continuing to recover and the vaccination campaign is progressing faster than anticipated. As a result, the BoC's latest scenario is now similar to our own estimates.

That being said, there is still a lot of uncertainty, and the economic recovery remains uneven within different sectors. Caution is still warranted. Nonetheless, the economy clearly no longer needs the BoC to do as much heavy lifting. Therefore, it was hoped that the monetary authorities would start by tapering their QE purchases on the financial markets. This would help to reduce the downward pressure on bond yields in the country.

IMPLICATIONS

If the economic conditions continue to improve as forecast, other gradual reductions in QE purchases will be expected in the coming quarters. Concerning the key rate, the BoC is leaving the door open to the first hike in the second half of 2022, when enough excess capacity will have been used up.

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

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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
19	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.	0.20
14	Bank of Korea	s.q.	0.50
21	Bank of Canada*	s.q.	0.25
22	European Central Bank		
27	Bank of Sweden		
27	Bank of Japan		
28	Federal Reserve		
May			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
6	Bank of Norway		
13	Bank of Mexico		
25	Reserve Bank of New Zealand		
26	Bank of Korea		
June			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Norway		
17	Swiss National Bank		
18	Bank of Japan		
24	Bank of England		
24	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden		
6	Reserve Bank of Australia		
13	Reserve Bank of New Zealand		
14	Bank of Korea		
14	Bank of Canada*		
16	Bank of Japan		
22	European Central Bank		
28	Federal Reserve		
August			
3	Reserve Bank of Australia		
4	Bank of Brazil		
5	Bank of England		
12	Bank of Mexico		
17	Reserve Bank of New Zealand		
19	Bank of Norway		
25	Bank of Korea		
September			
7	Reserve Bank of Australia		
8	Bank of Canada		
9	European Central Bank		
22	Bank of Brazil		
22	Bank of Japan		
22	Federal Reserve		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
**	Bank of Sweden		
October			
4	Reserve Bank of Australia		
5	Reserve Bank of New Zealand		
11	Bank of Korea		
27	Bank of Brazil		
27	Bank of Canada*		
28	European Central Bank		
28	Bank of Japan		
November			
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		
**	Bank of Sweden		
December			
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	Swiss National Bank		
17	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; ** To be determined.