

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Monetary Authorities Stay the Course despite the Improved Economic Outlook

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.
- ▶ The global economy is recovering from the economic effects of COVID-19, albeit with ongoing unevenness across regions and sectors. The U.S. economic recovery appears to be gaining momentum as virus infections decline and fiscal support boosts incomes and consumption.
- ▶ In Canada, the economy is proving to be more resilient than anticipated to the second wave of the virus and the associated containment measures. Although activity in hard-to-distance sectors continues to be held back, recent data point to continued recovery in the rest of the economy.
- ▶ Despite the stronger near-term outlook, there is still considerable economic slack and a great deal of uncertainty about the evolution of the virus and the path of economic growth.
- ▶ Inflation as measured by the consumer price index is near the bottom of the 1%–3% target band but is likely to move temporarily to around the top of the band in the next few months.
- ▶ 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. In the BoC's January 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. As the Governing Council continues to gain confidence in the strength of the recovery,

the pace of net purchases of Government of Canada bonds will be adjusted as required.

COMMENTS

This was expected, even if the economic outlook has improved significantly recently; the BoC didn't announce any change in the way it's managing its monetary policy. That said, with no *Monetary Policy Report* (MPR) available, the time wasn't right for the BoC to make any major changes.

With the next MPR update scheduled for April 21, it's possible that some of the uncertainty will have cleared by then. For example, we'll know more about how the vaccination rollout is going and how Canada's economic recovery is progressing. If all goes as expected, the BoC could revise its forecasts upward in its next MPR. In addition, the absorption of excess production capacity could be ahead of schedule.

IMPLICATIONS

Under these circumstances, the BoC could start to adopt a different tone concerning the way it's managing its monetary policy in the next few months. Of course, we won't see higher key interest rates and an end to its asset purchases in the short term, but the BoC could start to lay the groundwork. For example, it could soon decide to taper its asset purchase program on the financial markets.

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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		
17	Bank of Brazil		
17	Federal Reserve		
18	Bank of England		
18	Bank of Norway		
19	Bank of Japan		
25	Bank of Mexico		
25	Swiss National Bank		
April			
6	Reserve Bank of Australia		
13	Reserve Bank of New Zealand		
14	Bank of Korea		
21	Bank of Canada*		
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.