

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

The BoC Pulls the Plug on QE

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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 BoC is ending quantitative easing (QE) and moving into the reinvestment phase, during which it will purchase Government of Canada bonds solely to replace maturing bonds.
- ▶ In the face of strong global demand for goods, pandemic-related disruptions to production and transportation are constraining growth.
- ▶ In Canada, robust economic growth has resumed, following a pause in the second quarter. The BoC now forecasts Canada's economy will grow by 5.00% this year before moderating to 4.25% in 2022 and 3.75% in 2023. On the supply side, shortages of manufacturing inputs, transportation bottlenecks, and difficulties in matching jobs to workers are limiting the economy's productive capacity. Although the impact and persistence of these supply factors are hard to quantify, the output gap is likely to be narrower than the BoC had forecast in July.
- ▶ The recent increase in inflation as measured by the consumer price index (CPI) was anticipated in July, but the main forces pushing up prices – higher energy prices and pandemic-related supply bottlenecks – now appear to be stronger and more persistent than expected. The BoC now expects CPI inflation to be elevated into next year, and ease back to around the 2% target by late 2022.
- ▶ 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 projection, this happens sometime in the middle quarters of 2022.

COMMENTS

As expected, the BoC just announced that it will stop buying bonds on the financial markets. It's worth remembering that it had already begun to cut back in the spring. There was no longer any reason to continue with this kind of monetary easing, what with the Canadian economy continuing to recover and inflationary pressures persistently higher than forecast.

Still, the BoC seems confident that inflation will gradually slow in 2022 and drop back to the target median (2%) at the end of the year. This forecast matches our most recent scenario. However, the risks associated with this forecast are on the upside while the pervasive supply-demand imbalances may last longer than thought. And then there's the rise in salaries, which is starting to accelerate in response to the labour shortage.

IMPLICATIONS

The BoC thinks excess production capacity could be absorbed by the second or third quarter of 2022. This forecast is in line with ours concerning the first key rate hike in Canada that we recently moved forward from October 2022 to July 2022. Still, there's a lot of uncertainty, and determining how much excess capacity actually exists is difficult under the current circumstances.

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 Canada* | s.q. | 0.25 |
| 27 | Bank of Brazil | s.q. | |
| 27 | Bank of Japan | s.q. | |
| 28 | European Central Bank | s.q. | |
| November | | | |
| 1 | Reserve Bank of Australia | s.q. | |
| 3 | Federal Reserve | s.q. | |
| 4 | Bank of England | s.q. | |
| 4 | Bank of Norway | s.q. | |
| 11 | Bank of Mexico | s.q. | |
| 23 | Reserve Bank of New Zealand | s.q. | |
| 24 | Bank of Korea | s.q. | |
| 25 | Bank of Sweden | s.q. | |
| December | | | |
| 6 | Reserve Bank of Australia | s.q. | |
| 8 | Bank of Brazil | s.q. | |
| 8 | Bank of Canada | s.q. | |
| 15 | Federal Reserve | s.q. | |
| 16 | European Central Bank | s.q. | |
| 16 | Bank of England | s.q. | |
| 16 | Bank of Norway | s.q. | |
| 16 | Bank of Mexico | s.q. | |
| 16 | Bank of Japan | s.q. | |
| 16 | Swiss National Bank | s.q. | |

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.