

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Monetary Authorities Stay the Course Despite Improved Economic Conditions and High Inflation

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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 global economy continues to recover from the effects of the COVID-19 pandemic. Economic growth in the United States has accelerated, led by consumption, while growth in some other regions is moderating after a strong third quarter.
- ▶ In Canada, recent economic indicators suggest the economy had considerable momentum into the fourth quarter. This includes broad-based job gains in recent months that have brought the employment rate essentially back to its pre-pandemic level. Job vacancies remain elevated and wage growth has also picked up.
- ▶ The devastating floods in British Columbia and uncertainties arising from the Omicron variant could weigh on growth by compounding supply chain disruptions and reducing demand for some services.
- ▶ Consumer price index (CPI) inflation is elevated and the impact of global supply constraints is feeding through to a broader range of goods prices. The effects of these constraints on prices will likely take some time to work their way through, given existing supply backlogs. The BoC continues to expect CPI inflation to remain elevated in the first half of 2022 and ease back towards 2% in the second half of the year.
- ▶ 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 October projection, this happens sometime in the middle quarters of 2022.

COMMENTS

As expected, the BoC opted to maintain the status quo at today's meeting. Note that it took a further step toward normalization of monetary policy back in October with the announcement of the end of quantitative easing and the start of the reinvestment phase, during which it will buy Government of Canada bonds only to replace maturing bonds.

While economic conditions are relatively good with solid job gains and real GDP growth, it would have been premature to move to the next stage of monetary policy normalization at this point, namely gradual key interest rate hikes. A number of uncertainties remain, including the spread of the new Omicron variant and, specifically in Canada, the potential effects of recent flooding in British Columbia. However, with the economic recovery and current high-flying inflation rates, it's becoming increasingly difficult to justify keeping the target rate at the effective lower bound for several more quarters.

IMPLICATIONS

Under the current conditions, we could see the first rate hike in April. That's assuming concerns about COVID-19 ease and the Canadian economy continues to recover. For the time being, the BoC does not appear to be rushing to raise key rates, but it will keep a close eye on high inflation and impacts on wages and inflation expectations in the months ahead.

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 Brazil	+150 b.p.	7.75
27	Bank of Japan	s.q.	-0.10
27	Bank of Canada*	s.q.	0.25
28	European Central Bank	s.q.	0.00
November			
1	Reserve Bank of Australia	s.q.	0.10
3	Federal Reserve	s.q.	0.25
4	Bank of England	s.q.	0.10
4	Bank of Norway	s.q.	0.25
11	Bank of Mexico	+25 b.p.	5.00
23	Reserve Bank of New Zealand	+25 b.p.	0.75
24	Bank of Korea	+25 b.p.	1.00
25	Bank of Sweden	s.q.	0.00
December			
6	Reserve Bank of Australia	s.q.	0.10
8	Bank of Canada	s.q.	0.25
8	Bank of Brazil		
15	Federal Reserve		
16	European Central Bank		
16	Bank of England		
16	Bank of Norway		
16	Bank of Mexico		
16	Bank of Japan		
16	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.