

ESSENTIALS OF THE MONETARY POLICY

Central Banks in Europe

Interest Rate Hikes Announced in the United Kingdom and Norway to Counter Inflation

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HIGHLIGHTS

- ▶ **Bank of England (BoE)** – The key interest rate was raised to 0.25%, an increase of 15 basis points. The target for asset holdings is still £895B.
- ▶ **Norges Bank** – The key interest rate was raised to 0.50%, an increase of 25 basis points.
- ▶ **European Central Bank (ECB)** – The pace of net asset purchases will slow next quarter. The bank's pandemic emergency purchase program will end in March 2022. Its standard asset purchase program will be temporarily increased to €40B in the second quarter of 2022 and to €30B the following quarter. It will then be reduced back to €20B.
- ▶ **Swiss National Bank** – No change was made to monetary policy. The key interest rate is still -0.75%.

COMMENTS

Several European central banks met today before the start of the holidays. To counter inflation, the BoE finally decided to begin raising its key interest rate. In November, it expected inflation to peak at around 5% by April 2022 and signalled an interest rate hike within the next few months. We anticipated an announcement in this regard for February, but recent data appears to have convinced the BoE that it couldn't wait any longer, despite uncertainty over the Omicron variant. Inflation has already exceeded 5%, and the BoE now believes that price growth could hit 6% by the spring. Employment has also improved more quickly than anticipated, with an unemployment rate of 4.2%.

Norges Bank has also justified its interest rate hike with economic improvements and stronger inflationary pressure. This was

its second interest rate increase, having announced its first in September.

Although inflation in the euro zone is currently hovering at around 5%, the ECB seems less worried. Its latest forecasts show inflation rising in the short term but remaining below the 2% target over the medium term. Unlike other central banks, the ECB seems to still be counting on a temporary spike in inflation with a minimal impact in the medium term. That said, it's worth noting that the ECB is still taking a step toward starting to normalize its monetary policy. As expected, its pandemic emergency purchase program will end in March. The bank had already signalled that it might expand its other asset purchase program. This will only be the case for two quarters.

Inflation remains much lower in Switzerland. The franc's appreciation has also led the central bank to remain patient.

IMPLICATIONS

The major surprise today came from the BoE. We can expect it to gradually continue its monetary tightening next year. By taking action early, it may need less ammunition to reach its inflation target in the medium term. However, today's announcements by the ECB suggest that it won't introduce interest rate hikes next year. The bank has signalled that it will halt its asset purchases shortly before raising interest rates. We anticipate an end to asset purchases in the first quarter of 2023 at the earliest, followed by an initial interest rate increase in the second quarter. Obviously, we will need to keep a close eye on inflation developments. Many events could occur between now and then, which would lead us to adjust this scenario.

Schedule 2021 of Central Bank Meetings

| Date | Central banks | Decision | Rate | Date | Central banks | Decision | Rate |
|-----------------|-----------------------------|----------|-------|------------------|-----------------------------|-----------|-------|
| January | | | | July | | | |
| 14 | Bank of Korea | s.q. | 0.50 | 1 | Bank of Sweden | s.q. | 0.00 |
| 20 | Bank of Brazil | s.q. | 2.00 | 6 | Reserve Bank of Australia | s.q. | 0.10 |
| 20 | Bank of Canada* | s.q. | 0.25 | 13 | Reserve Bank of New Zealand | s.q. | 0.25 |
| 20 | Bank of Japan | s.q. | -0.10 | 14 | Bank of Canada* | s.q. | 0.25 |
| 21 | European Central Bank | s.q. | 0.00 | 14 | Bank of Korea | s.q. | 0.50 |
| 21 | Bank of Norway | s.q. | 0.00 | 15 | Bank of Japan | s.q. | -0.10 |
| 27 | Federal Reserve | s.q. | 0.25 | 22 | European Central Bank | s.q. | 0.00 |
| February | | | | 28 | Federal Reserve | s.q. | 0.25 |
| 1 | Reserve Bank of Australia | s.q. | 0.10 | August | | | |
| 4 | Bank of England | s.q. | 0.10 | 3 | Reserve Bank of Australia | s.q. | 0.10 |
| 10 | Bank of Sweden | s.q. | 0.00 | 4 | Bank of Brazil | +100 b.p. | 5.25 |
| 11 | Bank of Mexico | -25 b.p. | 4.00 | 5 | Bank of England | s.q. | 0.10 |
| 23 | Reserve Bank of New Zealand | s.q. | 0.25 | 12 | Bank of Mexico | +25 b.p. | 4.50 |
| 24 | Bank of Korea | s.q. | 0.50 | 17 | Reserve Bank of New Zealand | s.q. | 0.25 |
| March | | | | 19 | Bank of Norway | s.q. | 0.00 |
| 1 | Reserve Bank of Australia | s.q. | 0.10 | 25 | Bank of Korea | +25 b.p. | 0.75 |
| 10 | Bank of Canada | s.q. | 0.25 | September | | | |
| 11 | European Central Bank | s.q. | 0.00 | 7 | Reserve Bank of Australia | s.q. | 0.10 |
| 17 | Bank of Brazil | +75 b.p. | 2.75 | 8 | Bank of Canada | s.q. | 0.25 |
| 17 | Federal Reserve | s.q. | 0.25 | 9 | European Central Bank | s.q. | 0.00 |
| 18 | Bank of England | s.q. | 0.10 | 21 | Bank of Sweden | s.q. | 0.00 |
| 18 | Bank of Norway | s.q. | 0.00 | 21 | Bank of Japan | s.q. | -0.10 |
| 18 | Bank of Japan | s.q. | -0.10 | 22 | Bank of Brazil | +100 b.p. | 6.25 |
| 25 | Bank of Mexico | s.q. | 4.00 | 22 | Federal Reserve | s.q. | 0.25 |
| 25 | Swiss National Bank | s.q. | -0.75 | 23 | Bank of England | s.q. | 0.10 |
| April | | | | 23 | Bank of Norway | +25 b.p. | 0.25 |
| 6 | Reserve Bank of Australia | s.q. | 0.10 | 23 | Swiss National Bank | s.q. | -0.75 |
| 13 | Reserve Bank of New Zealand | s.q. | 0.25 | 30 | Bank of Mexico | +25 b.p. | 4.75 |
| 14 | Bank of Korea | s.q. | 0.50 | October | | | |
| 21 | Bank of Canada* | s.q. | 0.25 | 4 | Reserve Bank of Australia | s.q. | 0.10 |
| 22 | European Central Bank | s.q. | 0.00 | 5 | Reserve Bank of New Zealand | +25 b.p. | 0.50 |
| 26 | Bank of Japan | s.q. | -0.10 | 11 | Bank of Korea | s.q. | 0.75 |
| 27 | Bank of Sweden | s.q. | 0.00 | 27 | Bank of Brazil | +150 b.p. | 7.75 |
| 28 | Federal Reserve | s.q. | 0.25 | 27 | Bank of Japan | s.q. | -0.10 |
| May | | | | 27 | Bank of Canada* | s.q. | 0.25 |
| 4 | Reserve Bank of Australia | s.q. | 0.10 | 28 | European Central Bank | s.q. | 0.00 |
| 5 | Bank of Brazil | +75 b.p. | 3.50 | November | | | |
| 6 | Bank of England | s.q. | 0.10 | 1 | Reserve Bank of Australia | s.q. | 0.10 |
| 6 | Bank of Norway | s.q. | 0.00 | 3 | Federal Reserve | s.q. | 0.25 |
| 13 | Bank of Mexico | s.q. | 4.00 | 4 | Bank of England | s.q. | 0.10 |
| 25 | Reserve Bank of New Zealand | s.q. | 0.25 | 4 | Bank of Norway | s.q. | 0.25 |
| 26 | Bank of Korea | s.q. | 0.50 | 11 | Bank of Mexico | +25 b.p. | 5.00 |
| June | | | | 23 | Reserve Bank of New Zealand | +25 b.p. | 0.75 |
| 1 | Reserve Bank of Australia | s.q. | 0.10 | 24 | Bank of Korea | +25 b.p. | 1.00 |
| 9 | Bank of Canada | s.q. | 0.25 | 25 | Bank of Sweden | s.q. | 0.00 |
| 10 | European Central Bank | s.q. | 0.00 | December | | | |
| 16 | Bank of Brazil | +75 b.p. | 4.25 | 6 | Reserve Bank of Australia | s.q. | 0.10 |
| 16 | Federal Reserve | s.q. | 0.25 | 8 | Bank of Brazil | +150 b.p. | 9.25 |
| 17 | Bank of Norway | s.q. | 0.00 | 8 | Bank of Canada | s.q. | 0.25 |
| 17 | Bank of Japan | s.q. | -0.10 | 15 | Federal Reserve | s.q. | 0.25 |
| 17 | Swiss National Bank | s.q. | -0.75 | 16 | European Central Bank | s.q. | 0.00 |
| 24 | Bank of England | s.q. | 0.10 | 16 | Bank of England | +15 b.p. | 0.25 |
| 24 | Bank of Mexico | +25 b.p. | 4.25 | 16 | Bank of Norway | +25 b.p. | 0.25 |
| | | | | 16 | Swiss National Bank | s.q. | -0.75 |
| | | | | 16 | Bank of Mexico | | |
| | | | | 16 | 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.