

ESSENTIALS OF THE MONETARY POLICY



Bank of Canada (BoC) A Second Consecutive Key Rate Hike

ACCORDING TO THE BOC

- ▶ The target for the overnight rate is increased by 25 basis points, to 1.00%.
- ▶ Recent economic data have been stronger than expected, supporting the Bank's view that growth in Canada is becoming more broadly-based and self-sustaining. The Bank continues to expect a moderation in the pace of economic growth in the second half of 2017, for the reasons described in the July *Monetary Policy Report* (MPR), but the level of GDP is now higher than the Bank had expected.
- ▶ The global economic expansion is becoming more synchronous, as anticipated in July, with stronger-than-expected indicators of growth, including higher industrial commodity prices. However, significant geopolitical risks and uncertainties around international trade and fiscal policies remain, leading to a weaker US dollar against many major currencies. In this context, the Canadian dollar has appreciated, also reflecting the relative strength of Canada's economy.
- ▶ While inflation remains below the 2 per cent target, it has evolved largely as expected in July.
- ▶ Future monetary policy decisions are not predetermined and will be guided by incoming economic data and financial market developments as they inform the outlook for inflation. Particular focus will be given to the evolution of the economy's potential, and to labour market conditions. Furthermore, given elevated household indebtedness, close attention will be paid to the sensitivity of the economy to higher interest rates.

surprise. Canada's sharp economic growth since the start of the year and real GDP's cumulative annualized performance of 4.1% clearly weighed heavily in the balance.

This type of real GDP advance has greatly contributed to reducing excess capacity in Canada. And it's not over: the carryover for the third quarter is relatively high, meaning that real GDP could very well remain above its potential in the second half of 2017. Under these conditions, maintaining a very expansionist monetary policy is no longer necessary. This certainly justifies the key rate increase ordered today, but truth be told, the BoC appeared somewhat hasty to hike its key rate when it could have easily waited until October to do so.

IMPLICATIONS

Key rate increases are certainly not over. That said, the exact timing of the next hike is not easy to predict. This depends largely on Canada's economic growth, level of inflation and the loonie's value in the next few months. The monetary authorities should however adopt a more gradual approach, to the extent possible, to properly assess the impact of rising interest rates on households, given the high level of household debt.

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COMMENTS

Whereas most forecasters and investors expected the BoC to maintain the status quo on key rates, this second straight key rate increase announced by the monetary authorities caused some

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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 2017 of Central Bank Meetings

Date	Central banks	Decision	Rate	Date	Central banks	Decision	Rate
January				July			
11	Bank of Brazil	-75 b.p.	13.00	4	Reserve Bank of Australia	s.q.	1.50
12	Bank of Korea	s.q.	1.25	4	Bank of Sweden	s.q.	-0.50
18	Bank of Canada	s.q.	0.50	12	Bank of Korea	s.q.	1.25
19	European Central Bank	s.q.	0.00	12	Bank of Canada	+25 b.p.	0.75
30	Bank of Japan	s.q.	-0.10	19	Bank of Japan	s.q.	-0.10
February				20	European Central Bank	s.q.	0.00
1	Federal Reserve	s.q.	0.75	26	Federal Reserve	s.q.	1.25
2	Bank of England	s.q.	0.25	26	Bank of Brazil	-100 b.p.	9.25
6	Reserve Bank of Australia	s.q.	1.50	August			
8	Reserve Bank of New Zealand	s.q.	1.75	1	Reserve Bank of Australia	s.q.	1.50
9	Bank of Mexico	+50 b.p.	6.25	3	Bank of England	s.q.	0.25
15	Bank of Sweden	s.q.	-0.50	9	Reserve Bank of New Zealand	s.q.	1.75
22	Bank of Korea	s.q.	1.25	10	Bank of Mexico	s.q.	7.00
22	Bank of Brazil	-75 b.p.	12.25	30	Bank of Korea	s.q.	1.25
March				September			
1	Bank of Canada	s.q.	0.50	5	Reserve Bank of Australia	s.q.	1.50
6	Reserve Bank of Australia	s.q.	1.50	6	Bank of Brazil	-100 b.p.	8.25
9	European Central Bank	s.q.	0.00	6	Bank of Canada	+25 b.p.	1.00
15	Federal Reserve	+25 b.p.	1.00	7	European Central Bank		
15	Bank of Japan	s.q.	-0.10	7	Bank of Sweden		
16	Bank of England	s.q.	0.25	14	Bank of England		
16	Bank of Norway	s.q.	0.50	14	Swiss National Bank		
16	Swiss National Bank	s.q.	-0.75	20	Bank of Japan		
22	Reserve Bank of New Zealand	s.q.	1.75	20	Federal Reserve		
30	Bank of Mexico	+25 b.p.	6.50	21	Bank of Norway		
April				27	Reserve Bank of New Zealand		
4	Reserve Bank of Australia	s.q.	1.50	28	Bank of Mexico		
12	Bank of Korea	s.q.	1.25	October			
12	Bank of Brazil	-100 b.p.	11.25	3	Reserve Bank of Australia		
12	Bank of Canada	s.q.	0.50	18	Bank of Korea		
26	Bank of Japan	s.q.	-0.10	25	Bank of Brazil		
27	European Central Bank	s.q.	0.00	25	Bank of Canada		
27	Bank of Sweden	s.q.	-0.50	26	European Central Bank		
May				26	Bank of Norway		
2	Reserve Bank of Australia	s.q.	1.50	26	Bank of Sweden		
3	Federal Reserve	s.q.	1.00	30	Bank of Japan		
4	Bank of Norway	s.q.	0.50	November			
10	Reserve Bank of New Zealand	s.q.	1.75	1	Federal Reserve		
11	Bank of England	s.q.	0.25	2	Bank of England		
18	Bank of Mexico	+25 b.p.	6.75	7	Reserve Bank of Australia		
24	Bank of Korea	s.q.	1.25	8	Reserve Bank of New Zealand		
24	Bank of Canada	s.q.	0.50	9	Bank of Mexico		
31	Bank of Brazil	-100 b.p.	10.25	29	Bank of Korea		
June				December			
6	Reserve Bank of Australia	s.q.	1.50	5	Reserve Bank of Australia		
8	European Central Bank	s.q.	0.00	6	Bank of Brazil		
14	Federal Reserve	+25 b.p.	1.25	6	Bank of Canada		
15	Bank of England	s.q.	0.25	13	Federal Reserve		
15	Bank of Japan	s.q.	-0.10	14	European Central Bank		
15	Swiss National Bank	s.q.	-0.75	14	Bank of England		
21	Reserve Bank of New Zealand	s.q.	1.75	14	Bank of Norway		
22	Bank of Norway	s.q.	0.50	14	Bank of Mexico		
22	Bank of Mexico	+25 b.p.	7.00	14	Swiss National Bank		
				20	Bank of Sweden		
				20	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.