

ESSENTIALS OF THE MONETARY POLICY



Bank of Canada (BoC)

Key Interest Rates Continue Their Gradual Climb to a Less Expansionary Level

ACCORDING TO THE BOC

- ▶ The target for the overnight rate goes from 1.00% to 1.25%.
- ▶ Growth in advanced economies is projected to be stronger than in the BoC's October *Monetary Policy Report* (MPR). In particular, there are signs of increasing momentum in the U.S. economy, which will be boosted further by recent tax changes.
- ▶ In Canada, real GDP growth is expected to slow to 2.2% in 2018 and 1.6% in 2019, following an estimated 3.0% in 2017. Growth is expected to remain above potential through the first quarter of 2018 and then slow to a rate close to potential for the rest of the projection horizon.
- ▶ The BoC continues to monitor the extent to which strong demand is boosting potential, creating room for more non-inflationary expansion. In this respect, capital investment, firm creation, labour force participation, and hours worked are all showing promising signs. Recent data show that labour market slack is being absorbed more quickly than anticipated.
- ▶ The BoC expects CPI inflation to fluctuate in the months ahead as various temporary factors (including gasoline and electricity prices) unwind.
- ▶ While the economic outlook is expected to warrant higher interest rates over time, some continued monetary policy accommodation will likely be needed to keep the economy operating close to potential and inflation on target.

would be tied to economic performance, the strong performance by several indicators (such as the exceptional decrease in the unemployment rate) in recent weeks clearly opened the door to a further increase.

Despite the integration of certain negative factors into its economic scenario, such as the impact of uncertainty over the North American Free Trade Agreement (NAFTA) on investment and the moderating effect on the housing market caused by new mortgage rules, the BoC's projections remain generally positive. As excess capacity dissipates, it is clear that the Canadian economy no longer needs that much support.

IMPLICATIONS

At 1.25%, the target for the overnight rate is still considerably lower than the neutral rate (which is between 2.50% and 3.50%). Further increases will be required in the coming quarters to tighten monetary conditions across the country. The BoC seems less hesitant and has made it clear that further increases will likely be announced. However, the exact timing of these increases remains uncertain and depends on the performance of the Canadian economy. The conditions should be in place for an increase in the spring or summer, followed by another in fall 2018.

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COMMENTS

Today's rate increase came as no surprise and it was fully expected by financial markets and forecasters. With the BoC having previously indicated that future key interest rate changes

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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 2018 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
17	Bank of Canada	+25 b.p.	1.25
18	Bank of Korea		
22	Bank of Japan		
25	European Central Bank		
25	Bank of Norway		
31	Federal Reserve		
February			
5	Reserve Bank of Australia		
7	Bank of Brazil		
8	Bank of England		
8	Reserve Bank of New Zealand		
8	Bank of Mexico		
13	Bank of Sweden		
27	Bank of Korea		
March			
5	Reserve Bank of Australia		
7	Bank of Canada		
8	European Central Bank		
8	Bank of Japan		
15	Bank of Norway		
21	Bank of Brazil		
21	Federal Reserve		
22	Bank of England		
22	Reserve Bank of New Zealand		
22	Swiss National Bank		
April			
3	Reserve Bank of Australia		
12	Bank of Korea		
12	Bank of Mexico		
18	Bank of Canada		
25	Bank of Sweden		
26	European Central Bank		
26	Bank of Japan		
May			
1	Reserve Bank of Australia		
2	Federal Reserve		
3	Bank of Norway		
10	Bank of England		
10	Reserve Bank of New Zealand		
16	Bank of Brazil		
17	Bank of Mexico		
24	Bank of Korea		
30	Bank of Canada		
June			
5	Reserve Bank of Australia		
13	Federal Reserve		
14	European Central Bank		
14	Bank of Japan		
20	Bank of Brazil		
21	Bank of England		
21	Bank of Norway		
21	Bank of Mexico		
21	Swiss National Bank		
28	Reserve Bank of New Zealand		

Date	Central banks	Decision	Rate
July			
2	Bank of Sweden		
3	Reserve Bank of Australia		
11	Bank of Canada		
12	Bank of Korea		
26	European Central Bank		
30	Bank of Japan		
August			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Mexico		
7	Reserve Bank of Australia		
9	Reserve Bank of New Zealand		
16	Bank of Norway		
31	Bank of Korea		
September			
4	Reserve Bank of Australia		
5	Bank of Canada		
13	European Central Bank		
13	Bank of England		
18	Bank of Japan		
19	Bank of Brazil		
20	Bank of Norway		
20	Swiss National Bank		
26	Federal Reserve		
27	Reserve Bank of New Zealand		
*	Bank of Sweden		
October			
2	Reserve Bank of Australia		
4	Bank of Mexico		
16	Bank of Korea		
24	Bank of Canada		
25	European Central Bank		
25	Bank of Norway		
30	Bank of Japan		
31	Bank of Brazil		
*	Bank of Sweden		
November			
5	Reserve Bank of Australia		
8	Bank of England		
8	Reserve Bank of New Zealand		
8	Federal Reserve		
15	Bank of Mexico		
30	Bank of Korea		
December			
3	Reserve Bank of Australia		
5	Bank of Canada		
12	Bank of Brazil		
13	European Central Bank		
13	Bank of Norway		
13	Swiss National Bank		
19	Bank of Japan		
19	Federal Reserve		
20	Bank of England		
20	Bank of Mexico		
*	Bank of Sweden		

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. * To be determined.