

# ESSENTIALS OF THE MONETARY POLICY



## Bank of Canada (BoC)

### Status Quo for Key Rates, Pending Another Hike in October

#### ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 1.50%.
- ▶ Recent data on the global economy have been consistent with the BoC's July *Monetary Policy Report* (MPR) projections. The U.S. economy is particularly robust.
- ▶ The Canadian economy is evolving closely in line with the BoC's July projection for growth to average near potential. GDP growth is expected to slow temporarily in the third quarter, mainly because of further fluctuations in energy production and exports.
- ▶ The BoC expects CPI inflation to move back towards 2% in early 2019, as the effects of past increases in gasoline prices dissipate. The BoC's core measures of inflation remain firmly around 2%, consistent with an economy that has been operating near capacity for some time.
- ▶ Recent data **reinforce** Governing Council's assessment that higher interest rates will be warranted to achieve the inflation target. The BoC is also monitoring closely the course of North American Free Trade Agreement (NAFTA) negotiations and other trade policy developments, and their impact on the inflation outlook.

Although trade policy is shrouded in uncertainty, non-residential investment is up due to the disappearance of excess production capacity. Clearly, up until now the Canadian economy has been responding fairly well to rising key interest rates, as evidenced by the recent slowdown in household credit.

#### IMPLICATIONS

The addition of the verb "reinforce" in the BoC's assessment of the future direction of interest rates suggests that a further increase is imminent. Therefore, unless negotiations for a new NAFTA deal hit a snag, the door is wide open for another rate hike announcement at the October meeting. It is also worth noting that the next meeting will entail an MPR, which will enable the BoC to explain its decision in detail while keeping expectations in line with the gradual approach it prefers to take.

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#### COMMENTS

After raising its key interest rates by 25 basis points in July, the BoC opted to take a break in September by holding the target for the overnight rate at 1.50%. This decision falls directly in line with the gradual approach that has been recommended by the Canadian monetary authorities thus far.

For the time being, everything seems to point to a green light for monetary policy tightening. Despite the expected slowdown in consumer spending and the housing market, economic growth should remain at around 2% on average in the coming quarters.

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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
<b>January</b>			
17	Bank of Korea	s.q.	1.50
17	Bank of Canada*	+25 b.p.	1.25
22	Bank of Japan	s.q.	-0.10
25	European Central Bank	s.q.	0.00
25	Bank of Norway	s.q.	0.50
31	Federal Reserve	s.q.	1.50
<b>February</b>			
5	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of New Zealand	s.q.	1.75
7	Bank of Brazil	-25 b.p.	6.75
8	Bank of England	s.q.	0.50
8	Bank of Mexico	+25 b.p.	7.50
14	Bank of Sweden	s.q.	-0.50
26	Bank of Korea	s.q.	1.50
<b>March</b>			
5	Reserve Bank of Australia	s.q.	1.50
7	Bank of Canada	s.q.	1.25
8	European Central Bank	s.q.	0.00
8	Bank of Japan	s.q.	-0.10
15	Bank of Norway	s.q.	0.50
15	Swiss National Bank	s.q.	-0.75
21	Reserve Bank of New Zealand	s.q.	1.75
21	Bank of Brazil	-25 b.p.	6.50
21	Federal Reserve	+25 b.p.	1.75
22	Bank of England	s.q.	0.50
<b>April</b>			
3	Reserve Bank of Australia	s.q.	1.50
11	Bank of Korea	s.q.	1.50
12	Bank of Mexico	s.q.	7.50
18	Bank of Canada*	s.q.	1.25
26	European Central Bank	s.q.	0.00
26	Bank of Sweden	s.q.	-0.50
26	Bank of Japan	s.q.	-0.10
<b>May</b>			
1	Reserve Bank of Australia	s.q.	1.50
2	Federal Reserve	s.q.	1.75
3	Bank of Norway	s.q.	0.50
9	Reserve Bank of New Zealand	s.q.	1.75
10	Bank of England	s.q.	0.50
16	Bank of Brazil	s.q.	6.50
17	Bank of Mexico	s.q.	7.50
23	Bank of Korea	s.q.	1.50
30	Bank of Canada	s.q.	1.25
<b>June</b>			
5	Reserve Bank of Australia	s.q.	1.50
13	Federal Reserve	+25 b.p.	2.00
14	European Central Bank	s.q.	0.00
14	Bank of Japan	s.q.	-0.10
20	Bank of Brazil	s.q.	6.50
21	Bank of England	s.q.	0.50
21	Bank of Norway	s.q.	0.50
21	Bank of Mexico	+25 b.p.	7.75
21	Swiss National Bank	s.q.	-0.75
27	Reserve Bank of New Zealand	s.q.	1.75

Date	Central banks	Decision	Rate
<b>July</b>			
3	Reserve Bank of Australia	s.q.	1.50
3	Bank of Sweden	s.q.	-0.50
11	Bank of Korea	s.q.	1.50
11	Bank of Canada*	+25 b.p.	1.50
26	European Central Bank	s.q.	0.00
31	Bank of Japan	s.q.	-0.10
<b>August</b>			
1	Bank of Brazil	s.q.	6.50
1	Federal Reserve	s.q.	2.00
2	Bank of England	+25 b.p.	0.75
2	Bank of Mexico	s.q.	7.75
7	Reserve Bank of Australia	s.q.	1.50
8	Reserve Bank of New Zealand	s.q.	1.75
16	Bank of Norway	s.q.	0.50
30	Bank of Korea	s.q.	1.50
<b>September</b>			
4	Reserve Bank of Australia	s.q.	1.50
5	Bank of Canada	s.q.	1.50
6	Bank of Sweden		
13	European Central Bank		
13	Bank of England		
18-19	Bank of Japan		
19	Bank of Brazil		
20	Bank of Norway		
20	Swiss National Bank		
26	Reserve Bank of New Zealand		
26	Federal Reserve		
<b>October</b>			
2	Reserve Bank of Australia		
4	Bank of Mexico		
17	Bank of Korea		
24	Bank of Sweden		
24	Bank of Canada*		
25	European Central Bank		
25	Bank of Norway		
30-31	Bank of Japan		
31	Bank of Brazil		
<b>November</b>			
1	Bank of England		
5	Reserve Bank of Australia		
7	Reserve Bank of New Zealand		
8	Federal Reserve		
15	Bank of Mexico		
29	Bank of Korea		
<b>December</b>			
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	Federal Reserve		
19-20	Bank of Japan		
20	Bank of England		
20	Bank of Sweden		
20	Bank of Mexico		

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.