

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

In Like a Lion, Out Like a Lamb in 2023?

By Randall Bartlett, Senior Director of Canadian Economics

ACCORDING TO THE BOC

- ▶ The Bank of Canada hiked the overnight rate by 25 bps today, matching market expectations. This was the smallest hike since March 2022, taking the Bank's policy rate to 4.50%, 425 bps higher than where we were a year ago. It has now reached a level we haven't seen since November 2007, which is well outside of the estimated range of the nominal neutral rate (2-3%).
- ▶ The Governing Council also watered down its hawkish language further in the press release, saying that "[i]f economic developments evolve broadly in line with the MPR outlook, Governing Council expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases." It nonetheless kept the option of further hikes on the table if they proved necessary.
- ▶ According to the Bank, stronger-than-expected growth recently and still tight labour markets point to "... persistent excess demand putting continued upward pressure on many prices, ..." Indeed, it revised up its forecast for real GDP growth in 2022 and 2023 to 3.6% and 1.0%, respectively, while marking down 2024 growth to a still solid 1.8%. At the same time, the Bank left its outlook for potential GDP growth unchanged.
- ▶ Meanwhile, the Bank made clear that "... there is growing evidence that restrictive monetary policy is slowing activity, especially household spending. Consumption growth has moderated from the first half of 2022 and housing market activity has declined substantially." The Bank also expects consumer services and business investment to slow as the effect of interest rate increases continue to work their way through the economy. Foreign demand should also slow further as a result of rate hikes abroad.

- ▶ Importantly, the Bank of Canada recognized that while inflation remains elevated, it looks to have come off its peak and "... is projected to come down significantly this year." Progress to date has largely been on the back of lower energy prices, and this is expected to continue to weigh on the inflation outlook this year. However, improvements in global supply chains also play an important role supporting a moderation in durable goods prices. A further slowing in domestic demand anticipated for the coming year should have an ongoing disinflationary impact, helping to reduce core inflation in the process. That said, the Bank is of the view that growth in the prices of food, shelter and other services will remain more persistent in 2023. It doesn't see inflation returning to its 2% target until late 2024.

IMPLICATIONS

Today's rate hike was hardly a surprise. And with forward guidance back in vogue, we anticipate the Bank of Canada to remain on hold for the foreseeable future. In fact, as per our recent [Economic & Financial Outlook](#), we expect developments in the Canadian economy to be weaker than the Bank currently does. This suggests to us that the next move by the Bank of Canada is likely to be a cut as inflation falls through the year on the back of a recession starting in the first half of 2023. The cut could come before the year is out, helping to spur a rebound in 2024.

Schedule 2022 of Central Bank Meetings

Date	Central bank	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	nchanged	-0.10
20	Bank of Norway	nchanged	0.50
26	Bank of Canada*	nchanged	0.25
26	Federal Reserve	nchanged	0.25
31	Reserve Bank of Australia	nchanged	0.10
February			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	nchanged	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden	nchanged	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	nchanged	1.25
28	Reserve Bank of Australia	nchanged	0.10
March			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	nchanged	0.00
16	Bank of Brazil	+100 b.p.	11.75
16	Federal Reserve	+25 b.p.	0.50
17	Bank of England	+25 b.p.	0.75
17	Bank of Japan	nchanged	-0.10
24	Bank of Norway	+25 b.p.	0.75
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	nchanged	-0.75
April			
5	Reserve Bank of Australia	nchanged	0.10
12	Reserve Bank of New Zealand	+50 b.p.	1.50
13	Bank of Korea	+25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	nchanged	0.00
27	Bank of Japan	nchanged	-0.10
28	Bank of Sweden	+25 b.p.	0.25
May			
3	Reserve Bank of Australia	+25 b.p.	0.35
4	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	nchanged	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
June			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia	+50 b.p.	0.85
9	European Central Bank	nchanged	0.00
15	Bank of Brazil	+50 b.p.	13.25
15	Federal Reserve	+75 b.p.	1.75
16	Bank of England	+25 b.p.	1.25
16	Bank of Japan	nchanged	-0.10
16	Swiss National Bank	+50 b.p.	-0.25
23	Bank of Norway	+50 b.p.	1.25
23	Bank of Mexico	+50 b.p.	10.50
30	Bank of Sweden	+50 b.p.	0.75

Date	Central bank	Decision	Rate
July			
5	Reserve Bank of Australia	+50 b.p.	1.35
12	Bank of Korea	+50 b.p.	2.25
12	Reserve Bank of New Zealand	+50 b.p.	2.50
13	Bank of Canada*	+100 b.p.	2.50
20	Bank of Japan	nchanged	-0.10
21	European Central Bank	+50 b.p.	0.50
27	Federal Reserve	+75 b.p.	2.50
August			
2	Reserve Bank of Australia	+50 b.p.	1.85
3	Bank of Brazil	+50 b.p.	13.75
4	Bank of England	+50 b.p.	1.75
11	Bank of Mexico	+75 b.p.	8.50
16	Reserve Bank of New Zealand	+50 b.p.	3.00
18	Bank of Norway	+50 b.p.	1.75
24	Bank of Korea	+25 b.p.	2.50
September			
6	Reserve Bank of Australia	+50 b.p.	2.35
7	Bank of Canada	+75 b.p.	3.25
8	European Central Bank	+75 b.p.	1.25
20	Bank of Sweden	+100 b.p.	1.75
21	Bank of Brazil	nchanged	13.75
21	Bank of Japan	nchanged	-0.10
21	Federal Reserve	+75 b.p.	3.25
22	Bank of England	+50 b.p.	2.25
22	Bank of Norway	+50 b.p.	2.25
22	Swiss National Bank	+75 b.p.	0.50
29	Bank of Mexico	+75 b.p.	9.25
October			
3	Reserve Bank of Australia	+25 b.p.	2.60
4	Reserve Bank of New Zealand	+50 b.p.	3.50
11	Bank of Korea	+50 b.p.	3.00
26	Bank of Brazil	nchanged	13.75
26	Bank of Canada*	+50 b.p.	3.75
27	European Central Bank	+75 b.p.	2.00
27	Bank of Japan	nchanged	-0.10
31	Reserve Bank of Australia	+25 b.p.	2.85
November			
2	Federal Reserve	+75 b.p.	4.00
3	Bank of England	+75 b.p.	3.00
3	Bank of Norway	+25 b.p.	2.50
10	Bank of Mexico	+75 b.p.	10.00
22	Reserve Bank of New Zealand	+75 b.p.	4.25
23	Bank of Korea	+25 b.p.	3.25
24	Bank of Sweden	+75 b.p.	2.50
December			
5	Reserve Bank of Australia	+25 b.p.	3.10
7	Bank of Brazil	nchanged	13.75
7	Bank of Canada	+50 b.p.	4.25
14	Federal Reserve	+50 b.p.	4.50
15	European Central Bank	+50 b.p.	2.50
15	Bank of England	+50 b.p.	3.50
15	Bank of Norway	+25 b.p.	2.75
15	Bank of Mexico	+50 b.p.	10.50
15	Swiss National Bank	+50 b.p.	1.00
20	Bank of Japan	nchanged	-0.10

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.

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Date	Central bank	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	3.50
18	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
February			
1	Bank of Brazil		
1	Federal Reserve		
2	European Central Bank		
2	Bank of England		
6	Reserve Bank of Australia		
9	Bank of Sweden		
9	Bank of Mexico		
21	Reserve Bank of New Zealand		
23	Bank of Korea		
March			
6	Reserve Bank of Australia		
8	Bank of Canada		
10	Bank of Japan		
16	European Central Bank		
22	Bank of Brazil		
22	Federal Reserve		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
April			
4	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Bank of Sweden		
28	Bank of Japan		
May			
2	Reserve Bank of Australia		
3	Bank of Brazil		
3	Federal Reserve		
4	European Central Bank		
4	Bank of Norway		
11	Bank of England		
18	Bank of Mexico		
23	Reserve Bank of New Zealand		
25	Bank of Korea		
June			
6	Reserve Bank of Australia		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
16	Bank of Japan		
21	Bank of Brazil		
22	Bank of England		
22	Bank of Norway		
22	Bank of Mexico		
22	Swiss National Bank		
29	Bank of Sweden		

Date	Central bank	Decision	Rate
July			
4	Reserve Bank of Australia		
11	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Federal Reserve		
27	European Central Bank		
28	Bank of Japan		
August			
1	Reserve Bank of Australia		
2	Bank of Brazil		
3	Bank of England		
10	Bank of Mexico		
15	Reserve Bank of New Zealand		
17	Bank of Norway		
24	Bank of Korea		
September			
5	Reserve Bank of Australia		
6	Bank of Canada		
14	European Central Bank		
20	Bank of Brazil		
20	Federal Reserve		
21	Bank of England		
21	Bank of Norway		
21	Swiss National Bank		
22	Bank of Japan		
28	Bank of Mexico		
**	Bank of Sweden		
October			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
19	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
31	Bank of Japan		
November			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Norway		
6	Reserve Bank of Australia		
9	Bank of Mexico		
28	Reserve Bank of New Zealand		
30	Bank of Korea		
**	Bank of Sweden		
December			
4	Reserve Bank of Australia		
6	Bank of Canada		
13	Bank of Brazil		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
19	Bank of Japan		

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