# **ESSENTIALS OF MONETARY POLICY**

### Federal Reserve (Fed)

### The Fed Raises Rates Another 25bp in What Could Be Its Last Hike of the Cycle

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#### ACCORDING TO THE FED

- The Committee decided to raise the target range for the federal funds rate by 0.25 %. It is now in a range of 5.00% to 5.25%.
- The U.S. banking system is sound and resilient. Tighter credit ► conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.
- In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.
- Economic activity expanded at a modest pace in the first quarter. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

### COMMENTS

As expected, the Fed raised rates another 25 basis points today after identical hikes in February and March. With 97 of 104 forecasters surveyed by Bloomberg predicting the move, markets and analysts are more focused on what comes next. Will the Fed tighten further, or is this the end of the line? Today's statement suggests the latter without overly committing. Previous statements said the Fed expects some additional policy firming may be appropriate to bring inflation back to target, but today's statement dropped that language. It says the Fed will take into account economic and financial conditions when determining whether additional policy firming is appropriate.

Tighter credit conditions are probably already having the same effect as monetary tightening. While the Fed believes the banking system remains sound, it did acknowledge that credit conditions are tightening. And it had the results of the latest quarterly Senior Loan Officer Opinion Survey in time for today's decision. The survey probably showed that financial institutions are tightening credit conditions in response to the crisis roiling the banking sector since mid-March, which could slow economic activity.

It's therefore no surprise the Fed signalled that today's rate hike could be the last. The Fed hasn't completely closed the door to further increases, but Jerome Powell said the statement change was meaningful. The Fed seems to be betting that the 500 basis points it's already raised rates will continue to work its way through the economy and tamp down inflation. Meanwhile credit conditions are tightening and the Fed continues to trim its balance sheet. Ongoing banking sector risks and growing concerns about the debt ceiling are undoubtedly factoring into the Fed's calculus as well.

#### IMPLICATIONS

Today's rate hike likely marks the end of the current monetary tightening cycle. Look for the Fed to pause for the rest of the year

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Bank of Canada 14 Federal Reserve

16 Bank of Japan

Bank of Brazil

Bank of England

Bank of Norway

Bank of Mexico 22 Swiss National Bank 29 Bank of Sweden

European Central Bank

# **2023 Schedule of Central Bank Meetings**

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
Februar	v		
1	Bank of Brazil	unchanged	13.75
1	Federal Reserve	+25 b.p.	4.75
2	European Central Bank	+50 b.p.	3.00
2	Bank of England	+50 b.p.	4.00
6	Reserve Bank of Australia	+25 b.p.	3.35
9	Bank of Sweden	+50 b.p.	3.00
9	Bank of Mexico	+50 b.p.	11.00
21	Reserve Bank of New Zealand	+50 b.p.	4.75
23	Bank of Korea	unchanged	3.50
March			
6	Reserve Bank of Australia	+25 b.p.	3.60
8	Bank of Canada	unchanged	4.50
10	Bank of Japan	unchanged	-0.10
16	European Central Bank	+50 b.p.	3.50
22	Bank of Brazil	unchanged	13.75
22	Federal Reserve	+25 b.p.	5.00
23	Bank of England	+25 b.p.	4.25
23	Bank of Norway	+25 b.p.	3.00
23	Swiss National Bank	+50 b.p.	1.50
30	Bank of Mexico	+25 b.p.	11.25
April			
4	Reserve Bank of Australia	unchanged	3.60
4	Reserve Bank of New Zealand	+50 b.p.	5.25
12	Bank of Canada*	unchanged	4.50
13	Bank of Korea	unchanged	3.50
26	Bank of Sweden	+50 b.p.	3.50
28	Bank of Japan	unchanged	-0.10
May			
2	Reserve Bank of Australia	+25 b.p.	3.85
3	Bank of Brazil	120 o.p.	5.05
3	Federal Reserve	+25 b.p.	5.25
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			
5une 6	Reserve Bank of Australia		
0	Nescive Darik of Australia		

Date	Central bank	Decision	Rate
luly			
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		
Septem	ber		
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		
	· ·		
Vovemb			
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		
Decemb			
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		
	Bank of Mexico		
14			
14 14	Swiss National Bank		

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points. \* Monetary Policy Report published; \*\* To be determined.