Monetary Policy Council

Communiqué

October 21, 2021

C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate Target at 0.25 Percent Next Week, Hike to 1.00 Percent Next Year, Cut Bond Purchases

October 21, 2021 – The C.D. Howe Institute's **Monetary Policy Council** (MPC) recommends that the Bank of Canada keep its target for the overnight rate, its benchmark policy interest rate, at 0.25 percent through December, before raising it to 0.50 percent by April of 2022, and to 1.00 percent by October of 2022. It also recommends that the Bank reduce its quantitative-easing purchases of Government of Canada bonds from the current pace of $2 billion per week.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada's 2 percent inflation target. **William Robson**, the Institute's CEO, chairs the Council. Council members make recommendations for the Bank of Canada's upcoming interest-rate announcement, the subsequent announcement, and the announcements six months and one year ahead. The Council's formal recommendation for each announcement is the median vote of members attending the meeting. Over the past year, members have also voted on the Bank's quantitative easing program.

Ten of the 11 members of the MPC attending this meeting called for the Bank to hold the overnight rate target at 0.25 percent at its upcoming announcement on October 27th, while one member called for an increase to 0.50 percent. Looking ahead to the announcement on December 8th, eight members called for a target of 0.25 percent, and three for a target of 0.50 percent. In six months' time, four members called for a target of 0.25 percent, with the other seven calling for targets ranging from 0.50 to 1.00 percent. A year ahead, all 11 members called for an increase, with the individual recommendations ranging from 0.50 percent to 1.50 percent (see table below). The call for the Bank to cut the pace of its bond purchases from $2 billion per week was unanimous.

While the group noted that some forecasters were reducing their projections for global growth, mainly because of concerns about China, its assessment of the near-term outlook for demand in Canada was generally positive. Among the indicators contributing to this assessment were robust job growth and high participation rates, the strong housing market, healthy household balance sheets, robust terms of trade, and positive business sentiment.

The group's views about the economy's productive capacity, and the related question of whether inflation will drop back to 2-percent without significantly tighter monetary policy, were more mixed. Members who leaned toward a view that slack in the economy is relatively low and that inflation is likely to remain above target cited global supply pressures, notably in energy markets, and worried that inflation expectations will rise. Members who leaned the other way argued that many bottlenecks will ease as COVID wanes, and noted that key measures, notably wages in Canada, are not signaling higher inflation. Since the latter group envisioned a path toward more normal conditions, which would in time justify raising the overnight rate target from its current emergency level, these contrasts in views did not prevent the group from calling for a higher target in a year's time.

The federal government's fiscal policy came up repeatedly in the group's deliberations. Several members observed that inflation well above target made less fiscal stimulus desirable, and that federal plans to spend and borrow more might oblige the Bank of Canada to be more restrictive than it would otherwise be. The question of whether coordination of fiscal and monetary policy in responding to COVID might be compromising the Bank of Canada's independence was a concern for some. Along with a view that ending quantitative easing made sense before raising the overnight rate, these considerations help explain the group's unanimous call for the Bank to buy less Government of Canada bonds.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)

MPC Members	Oct 27, 2021	Dec 8, 2021	April 13, 2022	Oct 2022	Vote on QE ($billions/week)
Steve Ambler Université du Québec à Montréal (UQAM)	0.25	0.25	0.75	1.25	Less than $2B
Beata Caranci TD Bank	0.25	0.25	0.25	0.50	Less than $2B
Edward A. Carmichael Ted Carmichael Global Macro	0.50	0.50	1.00	1.50	Less than $2B
Michael Devereux University of British Columbia	0.25	0.50	0.75	1.00	Less than $2B
Stéfane Marion National Bank of Canada	0.25	0.25	0.25	0.75	Less than $2B
Angelo Melino University of Toronto	0.25	0.25	0.25	0.50	Less than $2B
Douglas Porter BMO Capital Markets	0.25	0.25	0.50	0.75	Less than $2B
Avery Shenfeld CIBC	0.25	0.25	0.25	0.50	Less than $2B
Pierre Siklos Wilfrid Laurier University	0.25	0.50	0.75	1.25	Less than $2B
Stephen D. Williamson Western University	0.25	0.25	0.75	1.25	Less than $2B
Craig Wright RBC	0.25	0.25	0.50	1.00	Less than $2B
Median Vote	0.25	0.25	0.50	1.00	N/A

The views and opinions expressed by the participants are their own and do not necessarily reflect the views of the organizations with which they are affiliated, or those of the C.D. Howe Institute.
The MPC's next vote will take place on December 2, 2021 prior to the Bank of Canada's interest rate announcement on December 8, 2021.

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