# C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate at 5.00 Percent, Cut to 3.50 Percent by April 2025

April 4, 2024 – The C.D. Howe Institute's **Monetary Policy Council** (MPC) calls for the Bank of Canada to maintain its target for the overnight rate, its benchmark policy interest rate, at 5.00 percent at its next announcement on April 10th. The MPC further calls for the Bank to lower the target to 4.75 at the following announcement in June, on the way to a target of 3.50 percent by April of 2025.

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. MPC members make recommendations for the Bank of Canada's target for the overnight rate at its upcoming 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. If the median vote is not a multiple of 25 basis points, as occurred this time in the Council's call for the June setting, the mean vote determines the direction of rounding.

While the median vote for the Bank's interest-rate setting next week was for no change, the longer-term direction of the Council's recommendations indicates their assessment that Canadian inflation is likely to return to the 2 percent target, and that a lower overnight rate will be appropriate over time. Six of the 10 MPC members attending the meeting voted for a target of 5.00 percent next week, while four voted for a reduction to 4.75. For the June setting, five members voted for 5.00 percent, two for 4.75 percent, and three for 4.50 percent. By October, all 10 members voted for a lower target, with individual calls ranging from 3.75 to 4.75 percent. By April of 2025, six voted for 3.50, with two voting for targets above, and two for targets below, that rate (see table below).

The Council also offers a view on whether the Bank should accelerate, maintain, or slow the planned reduction in its holdings of Government of Canada bonds. The Bank of Canada's current policy is to buy nothing and let its holdings shrink as the bonds mature. Nine of the 10 members attending the meeting called for the Bank to maintain its schedule between now and its June overnight-rate announcement. One member called for the Bank to accelerate that schedule by selling its real return bonds.

An overarching theme in the MPC's discussions on this occasion was progress toward the "soft landing" of continued economic growth along with declining inflation. Several members highlighted the robust US economy, with its positive influence on Canadian exports, as well as higher oil prices and improving

Canadian terms of trade. The resilience of Canadian households was a major topic, with some members noting that signs of stress from a slowing economy and higher borrowing rates were limited so far, and that a lower overnight rate might trigger higher spending, notably on housing. Members generally agreed that aggregate demand in Canada has recently outpaced growth in productive capacity, which is lagging because of weak business investment. Yet with inflation trending downward and inflation expectations close to 2 percent, the current level of the overnight rate looks quite restrictive, which largely explains the group's tendency to favour a lower overnight rate over the next year.

In discussing the timing of cuts in the rate, the group considered several arguments. It noted that the US Federal Reserve is dealing with an even stronger economy and more stubborn inflation, but concluded that the Bank of Canada should not let the differential between its policy rate and the Fed's policy rate, or movements in the Canadian-US dollar exchange rate, influence its decisions. Fiscal policy also received attention: several members emphasized that provincial budgets already prefigure more spending and borrowing that will aggravate inflationary pressure, and the federal budget is likely to do the same. Along with the potential for a surge in spending by households, fiscal concerns explain the group's caution about advocating faster reductions in the overnight rate target.

| Votes of MPC Members and the Council Median for Each Announcement (*percent*) | | | | | |
|---|---|---|---|---|---|
| **MPC Members** | **10 April, 2024** | **5 June, 2024** | **23 Oct, 2024** | **April, 2025** | **Reduction in Bond Holdings** |
| **Steve Ambler**<br>Université du Québec à Montréal (UQAM) | 4.75 | 4.50 | 4.25 | 3.50 | Maintain |
| **Beata Caranci**<br>TD Bank Group | 5.00 | 5.00 | 4.25 | 3.00 | Maintain |
| **Ted Carmichael**<br>Ted Carmichael Global Macro | 5.00 | 5.00 | 4.75 | 4.25 | Maintain |
| **Michael Devereux**<br>University of British Columbia | 4.75 | 4.50 | 4.00 | 3.50 | Maintain |
| **Stéfane Marion**<br>National Bank of Canada | 5.00 | 5.00 | 4.50 | 3.50 | Maintain |
| **Angelo Melino**<br>University of Toronto | 4.75 | 4.75 | 4.25 | 3.50 | Accelerate |
| **Jean-François Perrault**<br>Scotiabank | 5.00 | 5.00 | 4.50 | 3.50 | Maintain |
| **Doug Porter**<br>BMO Capital Markets | 5.00 | 5.00 | 4.50 | 4.00 | Maintain |
| **Stephen Williamson**<br>Western University | 4.75 | 4.50 | 3.75 | 3.25 | Maintain |
| **Craig Wright**<br>RBC | 5.00 | 4.75 | 4.00 | 3.50 | Maintain |
| **Median Vote** | 5.00 | 4.75 | 4.25 | 3.50 | Maintain |

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. Forecasters' recommendations may differ from their predictions.

The MPC's next vote will take place on May 30, 2024, prior to the Bank of Canada's overnight rate announcement on June 5.

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