

April 15, 2021

Bank of Canada Should Hold Overnight Rate at 0.25 Percent, Reduce Government Bond Purchases: C.D. Howe Institute Monetary Policy Council

April 15, 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 at its next policy rate announcement on April 21st, but reduce its purchases of Government of Canada bonds below \$4 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. At recent MPC meetings, members have also voted on the Bank’s quantitative easing program.

All 11 members of the MPC attending this meeting agreed that the Bank should hold the overnight rate target at 0.25 percent on April 21st and at the subsequent announcement on June 9th. By October, one member called for an increase to 0.50 percent, and one called for an increase to 0.75 percent. By April of 2022, two more members called for increases, with one member recommending 0.50 percent, two recommending 0.75 percent, and one recommending 1.50 percent (see table below). The recommendation that the Bank should reduce the pace of its bond purchases was unanimous.

The group’s assessment of the outlook for global and domestic economic activity was generally positive. The group cited consumer spending and housing as particularly strong, with considerable pent-up demand from income supports, and the likelihood of further expansionary fiscal measures, notably in the United States and in the upcoming federal budget. The major concern was about timing, with variants of the coronavirus already suppressing output and spending in several sectors and regions, the slow pace of vaccinations in Canada, and the potential for more curtailments into the summer.

The group’s discussion of inflation emphasized price increases, notably in commodities. Members did not express major concerns about inflation overshooting the Bank’s 2 percent target in a sustained way, however. The MPC’s discussion of the output gap and potential inflationary pressure highlighted the fact that correlations between the output gap and inflation have been statistically weaker during the inflation-targeting period and that assessing the economy’s productive capacity during the COVID crisis is particularly difficult. While the strength of the housing market and related concerns about financial stability were a theme of the conversation, some members mentioned their preference for macroprudential measures as tools to rein in excesses, and none called for the Bank to raise the overnight rate for that reason alone. The majority of members were therefore comfortable with the overnight rate target staying at 0.25 percent for the next year.

April 15, 2021

The unanimous call for the Bank to reduce its bond purchases reflected a number of factors, notably the underlying strength of the economy, the opportunity provided by the bond market's rally since mid-March, and several members' concerns about the Bank becoming too big a purchaser and holder of government debt.

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

MPC Members	Apr 21, 2021	Jun 9, 2021	Oct 27, 2021	Apr 2022	Vote on QE (\$billions/week)
Steve Ambler Université du Québec à Montréal (UQAM)	0.25	0.25	0.50	0.75	Less than \$4B
Beata Caranci TD Bank	0.25	0.25	0.25	0.25	Less than \$4B
Edward A. Carmichael Ted Carmichael Global Macro	0.25	0.25	0.75	1.50	Less than \$4B
Michael Devereux University of British Columbia	0.25	0.25	0.25	0.50	Less than \$4B
Stéfane Marion National Bank of Canada	0.25	0.25	0.25	0.25	Less than \$4B
Angelo Melino University of Toronto	0.25	0.25	0.25	0.25	Less than \$4B
Douglas Porter BMO Capital Markets	0.25	0.25	0.25	0.25	Less than \$4B
Avery Shenfeld CIBC	0.25	0.25	0.25	0.25	Less than \$4B
Pierre Siklos Wilfrid Laurier University	0.25	0.25	0.25	0.25	Less than \$4B
Stephen D. Williamson Western University	0.25	0.25	0.25	0.75	Less than \$4B
Craig Wright RBC	0.25	0.25	0.25	0.25	Less than \$4B
Median Vote	0.25	0.25	0.25	0.25	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 June 3, 2021 prior to the Bank of Canada's interest rate announcement on June 9, 2021.

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