Monetary Policy Council

Communiqué

July 8, 2021

C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate Target at 0.25 Percent until Fall, Hike to 0.50 Percent by Next July, Reduce Bond Purchases

July 8, 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 least until January of 2022, and raise it to 0.50 percent by July of 2022. It also recommends that the Bank reduce its quantitative-easing purchases of Government of Canada bonds below its current pace of $3 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.

All 10 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 July 14th and at the subsequent announcement on September 8th. Looking ahead to the announcement in six months' time, six members called for a target of 0.25 percent, three for 0.50 percent, and one for 0.75 in January of 2022. Looking one year ahead, one member called for a target of 0.25 percent, five called for 0.50 percent, one for 0.75 percent, and three for 1.00 percent (see table below). All 10 members voted for the Bank to reduce the pace of its bond purchases below $3 billion per week.

In assessing the current state of, and outlook for, the global and domestic economies, MPC members noted many signs that the economic impact of COVID-19 pandemic is abating. The group judged that demand abroad and in Canada has considerable momentum, and that the reopening of activities suppressed by the pandemic will support robust growth in output. Concerns about the spread of coronavirus variants, especially in emerging markets, tempered the positive assessment, however. Several

members noted that forecasters needed to have a pessimistic alternative in mind alongside their brighter baseline projections, and cited the recent decline in bond yields as evidence of a deteriorating outlook for growth.

The continuing effects of the pandemic were also a focus of the group's discussion of particular indicators of activity and any inflationary or disinflationary gap between activity and the economy's productive potential. Some members emphasized the difficulty of reading labour-market indicators, notably in the United States and Canada, when fiscal supports, government restrictions, and spontaneous reactions to changing news about COVID were affecting household and payroll measures. Continuing effects of the pandemic also complicated the group's discussion of price pressures, particularly the degree to which supply constraints were creating temporary increases in prices of raw materials and intermediate products, as opposed to ongoing inflationary pressures from demand outpacing productive capacity more broadly.

The group's median call for a higher overnight rate over time reflected its baseline expectation that the recovery from the pandemic will continue, and that inflation will continue to run above the Bank of Canada's 2 percent target for some time. Some members noted signs that inflation expectations are rising, which reinforced their view that the overnight rate target should rise from its emergency low level.

The group's unanimous call for the Bank of Canada to reduce its pace of government of Canada bond purchases reflected many of the same considerations. Some members noted that quantitative easing might be complicating the Bank's task of managing overnight interest rates, which have been persistently below the overnight rate target since last fall. Others noted that the recent decline in bond yields created a good opportunity for the Bank to reduce its purchases.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)					
MPC Members	**Jul 14, 2021**	**Sep 8, 2021**	**Jan 2022**	**Jul 2022**	**Vote on QE (*$billions/week*)**
Steve Ambler Université du Québec à Montréal (UQAM)	0.25	0.25	0.75	1.00	Less than $3B
Michael Devereux University of British Columbia	0.25	0.25	0.50	0.75	Less than $3B
Stéfane Marion National Bank of Canada	0.25	0.25	0.25	0.50	Less than $3B
Angelo Melino University of Toronto	0.25	0.25	0.25	0.50	Less than $3B
Jean-François Perrault Scotiabank	0.25	0.25	0.25	0.50	Less than $3B
Douglas Porter BMO Capital Markets	0.25	0.25	0.25	0.50	Less than $3B
Avery Shenfeld CIBC	0.25	0.25	0.25	0.25	Less than $3B
Pierre Siklos Wilfrid Laurier University	0.25	0.25	0.50	1.00	Less than $3B
Stephen D. Williamson Western University	0.25	0.25	0.50	1.00	Less than $3B
Craig Wright RBC	0.25	0.25	0.25	0.50	Less than $3B
Median Vote	0.25	0.25	0.25	0.50	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 September 2, 2021 prior to the Bank of Canada's interest rate announcement on September 8, 2021.

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