

September 2, 2021

C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Hold Overnight Rate Target at 0.25 Percent through Fall, Maintain Bond Purchases at \$2 Billion per Week

September 2, 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 October, before raising it to 0.50 percent by March of 2022, and to 0.75 percent by September of 2022. It also recommends that the Bank maintain its quantitative-easing purchases of Government of Canada bonds at 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. When the median vote is not an increment of 25 basis points, as occurred this time for the March 2022 vote, the mean of the recommendations determines the direction of rounding. 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 September 8th, and at the subsequent announcement on October 27th. Looking ahead to the announcement in six months’ time, five members called for a target of 0.25 percent, two for 0.50 percent, and three for 0.75 percent. Looking one year ahead, two members called for a target of 0.25 percent, three for 0.50 percent, two for 1.25 percent, and one for 1.50 percent (see table below). While four members voted for the Bank to reduce the pace of its bond purchases below \$2 billion per week, six voted for a continued \$2-billion-per-week pace.

Notable features of the MPC’s recommendations from this meeting were the dispersion of views about the appropriate level of the overnight rate in a year’s time, the fact that even members who recommended a higher overnight rate over time did not recommend a hike next week, and the divided vote with respect to QE. These outcomes reflected several points of contrast and uncertainty in the Council’s discussion of economic activity, inflation, and politics.

With respect to economic activity, the group noted many indicators of strength in Canada and abroad, notably in jobs, incomes, and many high-frequency indicators of spending. Tempering their optimism about the course of the economy, however, were recent disappointing GDP figures, and uncertainty about the developing wave of COVID-19 infections and its potential economic effects.

With respect to inflation, the group debated the extent to which recent price increases are rebounds from recession-induced declines. Many cited evidence of continuing or intensifying price pressures. Others

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pointed out that the complex impact of COVID-19 and income supports on aggregate demand and aggregate supply made forecasts of productivity, the output gap and future inflation unusually hard. As with the discussion of economic activity, these considerations tempered the enthusiasm of members for near-term increases in the overnight rate target.

Although the current federal election campaign did not feature in most of the group's discussion, it did affect some members' votes about QE. Some members expressed concern about the appearance or reality of the Bank of Canada financing the federal government's borrowing. Others felt that, particularly in view of the signal a reduced pace of bond purchases would send about potential increases in the overnight rate target, the Bank should delay any reduction until after the election.

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

MPC Members	Sep 8, 2021	Oct 27, 2021	Mar 2, 2022	Sep 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
Edward A. Carmichael Ted Carmichael Global Macro	0.25	0.25	0.75	1.50	Less than \$2B
Michael Devereux University of British Columbia	0.25	0.25	0.50	0.75	Less than \$2B
Stéfane Marion National Bank of Canada	0.25	0.25	0.25	0.50	\$2B
Angelo Melino University of Toronto	0.25	0.25	0.25	0.25	\$2B
Jean-François Perrault Scotiabank	0.25	0.25	0.25	0.50	\$2B
Avery Shenfeld CIBC	0.25	0.25	0.25	0.25	\$2B
Pierre Siklos Wilfrid Laurier University	0.25	0.25	0.50	0.75	\$2B
Stephen D. Williamson Western University	0.25	0.25	0.75	1.25	Less than \$2B
Craig Wright RBC	0.25	0.25	0.25	0.50	\$2B
Median Vote	0.25	0.25	0.50	0.75	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 October 21, 2021 prior to the Bank of Canada's interest rate announcement on October 27, 2021.

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