Monetary Policy Council

Communiqué

September 3, 2020

Bank of Canada Should Keep Overnight Rate at 0.25 Percent and Maintain Federal Bond-Buying Program: C.D. Howe Institute Monetary Policy Council

September 3, 2020 – 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 September of 2021. Most MPC members also recommended that the Bank of Canada continue its quantitative easing program through the period until its next overnight rate announcement on October 28th.

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. The Council's principal recommendations are about the overnight rate target. 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. On this occasion, members also voted on whether the Bank should continue its quantitative easing program – buying at least $5 billion of Government of Canada bonds per week – between now and the overnight rate announcement in late October.

All eleven members of the MPC attending this meeting called for the Bank to keep the overnight rate low for at least the next year. Nine called for maintaining the target at 0.25 percent. One called for lowering it to 0.10 percent and maintaining it there. One called for lowering it to 0.10 in October, and returning it to 0.25 percent by the spring of 2021 (see table below).

The general tone of the group's discussion of economic developments since the Bank of Canada's last overnight rate announcement in July was positive. Notwithstanding the continuing damage inflicted by COVID-19, the outlook for world growth has improved, and recent indicators point to robust demand in North America and Canada particularly through to the fourth quarter. Thanks in large part to fiscal transfers that have more than offset losses of employment income, household finances are stronger – and spending on housing and consumption are correspondingly stronger – than expected in the spring.

Looking further ahead, the group noted contrasting influences on the Canadian economy's ability to sustain growth. Business investment is weak, and some sectors have suffered damage that will persist at least until the disease abates. On the workforce side, some members observed that the impact of the recession and changes in government income-supports may have raised the natural rate of unemployment, while others noted that immigration may be less affected by COVID-19 than expected, with positive implications for workforce growth. On balance, MPC members judged that there was enough slack in the Canadian economy to ensure that inflation would not exceed the Bank's 2 percent target over the forecast horizon, and that keeping the overnight rate at or below 25 basis points for the next year was appropriate.

Turning to quantitative easing, nine of the 11 members attending the meeting urged the Bank of Canada to continue its quantitative-easing commitment to purchase at least $5 billion of Government Canada bonds a week until late October. Two urged the Bank to scale the program back to less than $5 billion a week.

Notwithstanding the majority in favour of the current purchases, the discussion uncovered unease about this program among many members. Several noted that the original justification for these purchases – improving the functioning of financial markets under stress in the early period of the COVID crisis – no longer applied. While several members voted for continuity because they thought the Bank should not surprise financial market participants by cutting back soon, there was a widespread desire on the MPC for the Bank to explain more clearly how these purchases support its pursuit of the inflation target. Some members noted that the combination of large and potentially persistent fiscal deficits and large-scale buying of government bonds by central banks may compromise central bank independence and undermine inflation control in the long run.

Votes of MPC Members and the Council Median for Each Announcement (*percent*)					
MPC Members	**Sept. 9**	**Oct. 28**	**Mar. 10, 2021**	**Sept. 8, 2021**	**Vote on QE (*$billions/week*)**
Steve Ambler Université du Québec à Montréal (UQAM)	0.25	0.25	0.25	0.25	Greater than $5B
Beata Caranci TD Bank	0.25	0.25	0.25	0.25	At least $5B
Edward A. Carmichael Ted Carmichael Global Macro	0.25	0.25	0.25	0.25	Less than $5B
Michael Devereux University of British Columbia	0.25	0.25	0.25	0.25	At least $5B
Stéfane Marion National Bank of Canada	0.25	0.25	0.25	0.25	At least $5B
Angelo Melino University of Toronto	0.10	0.10	0.10	0.10	At least $5B
Jean-François Perreault Scotiabank	0.25	0.25	0.25	0.25	At least $5B
Avery Shenfeld CIBC	0.25	0.25	0.25	0.25	At least $5B
Pierre Siklos Wilfrid Laurier University	0.25	0.10	0.25	0.25	At least $5B
Stephen D. Williamson Western University	0.25	0.25	0.25	0.25	Less than $5B
Craig Wright RBC	0.25	0.25	0.25	0.25	At least $5B
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 October 22, 2020 prior to the Bank of Canada's interest rate announcement on October 28, 2020.

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