

October 22, 2020

Bank of Canada Should Keep Overnight Rate at 0.25 Percent and Maintain Government Bond Purchases: C.D. Howe Institute Monetary Policy Council

October 22, 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 October of 2021. A majority of MPC members recommended that the Bank of Canada continue its quantitative easing program of Government of Canada bond purchases.

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 December.

All ten 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 (see table below).

The dominant tone of the discussions at this meeting was uncertainty – principally about COVID-19 and its economic effects – and also about interpreting economic data, about fiscal policy, and about the impact of central bank actions on the economy.

Looking abroad, the group noted a generally more buoyant outlook for world economic growth than was the case at the time of the Bank’s last overnight rate announcement in September, but expressed caution about the potential for further waves of COVID-19 to trigger official restrictions and spontaneous declines in activity. Domestically, the group noted that many economic indicators signaled a vigorous rebound since the economic collapse last spring, but expressed concern that the labour-force numbers, in particular, might be unreliable, and noted that recent data releases suggested a weak – perhaps even contractionary – fourth quarter.

Many members mentioned uncertainty about the size and timing of fiscal supports. In the United States, the uncertainty largely relates to the November elections; in Canada, the federal government’s intentions are unclear. On the monetary front, much of the uncertainty related to the impact of quantitative easing, with members debating its effectiveness in spurring spending.

October 22, 2020

All these uncertainties about spending and demand overlay two others fundamental to the conduct of monetary policy: how much COVID-19 and the reactions to it have done long-lasting or permanent damage to the Canadian economy's productive capacity; and how strong the impact of economic slack on inflation is when inflation expectations appear to be so well anchored around 2 percent. On balance, MPC members judged that the current 25-basis-point level of the overnight rate is appropriate for the foreseeable future. While three members felt the Bank of Canada should scale down its purchases of Government of Canada bonds from the current commitment of at least \$5 billion per week, the other seven recommended that the Bank continue at that pace, at least until the recovery is on a firmer footing.

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

MPC Members	Oct 28	Dec 9	Apr 21, 2021	Oct 27, 2021	Vote on QE (\$billions/week)
Steve Ambler Université du Québec à Montréal (UQAM)	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
Stéfane Marion National Bank of Canada	0.25	0.25	0.25	0.25	Less than \$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
Douglas Porter BMO Capital Markets	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	0.25	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 December 3, 2020 prior to the Bank of Canada's interest rate announcement on December 9, 2020.

Contact: Farah Omran; e-mail: fomran@cdhowe.org.