

April 9, 2020

Bank of Canada Should Keep Overnight Rate at 0.25 Percent, Support Financial Market Stability through COVID-19 Crisis: C.D. Howe Institute Monetary Policy Council

April 9, 2020 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) recommends that the Bank of Canada maintains its target for the overnight rate, its benchmark policy interest rate, at 0.25 percent for at least a year.

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 President and 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.

Although the votes for individual members varied somewhat (see table), reflecting the unusual crisis-related situation where the overnight rate target is close to zero, and the deposit rate is equal to the target, the eleven members of the Council attending this meeting saw little reason for the Bank to move the overnight rate appreciably over the next year. With the COVID-19 crisis having dramatically reduced economic activity in many sectors, and virtually shut it down in some, judgements about the size of any gap between actual and potential economic activity, and implications for inflation, are extraordinarily hard to make. The group judged that the focus of the Bank’s actions in the months ahead would be on supporting the financial system by ensuring sufficient liquidity to keep payments flowing and ensuring that credit markets continue to function.

The group devoted considerable attention to the challenges created by the Bank of Canada’s need to support credit markets through purchases of assets different from those it normally holds. There was little disagreement about the appropriateness of the Bank’s holding much larger amounts of federal government debt, and of longer maturities, than usual, but much debate about the merits of central-bank purchases of the debt of other levels of government and private borrowers.

Some members noted that other central banks, notably the US Federal Reserve, were buying private-sector securities in an effort to ensure that their support for credit markets was benefitting borrowers throughout the economy, and felt that the Bank of Canada should emulate that. Others emphasized the dangers of the Bank of Canada becoming a significant allocator of credit, both because of economic distortions, and because choices about buying non-federal government debt blur the lines between monetary policy and fiscal policy. Some members noted that Canada has Crown lenders and other mechanisms for providing fiscal support that made such actions less necessary than in the United States. A theme of some comments was the desirability of clarity from the Bank and the federal government about the Bank’s operational independence, so that extraordinary measures during the crisis did not create longer-term concerns about the integrity of the 2 percent inflation target.



April 9, 2020

Votes of MPC Members and the Council Median for Each Announcement (<i>percent</i>)				
MPC Members	April 15	June 3	October 28	April 2021
Steve Ambler Université du Québec à Montréal (UQAM)	0.25	0.25	0.25	0.25
Beata Caranci TD Bank Group	0.25	0.25	0.25	0.25
Edward A. Carmichael Ted Carmichael Global Macro	0.00	0.00	0.00	0.00
Michael Devereux University of British Columbia	0.25	0.25	0.25	0.25
Thorsten Koeppl Queen's University	0.00	0.00	0.00	0.50
Stéfane Marion National Bank of Canada	0.25	0.25	0.25	0.50
Angelo Melino University of Toronto	0.00	0.00	0.00	0.00
Doug Porter BMO	0.25	0.25	0.25	0.25
Avery Shenfeld CIBC	0.25	0.25	0.25	0.25
Pierre Siklos Wilfrid Laurier University	0.25	0.25	0.25	0.25
Craig Wright RBC	0.25	0.25	0.25	0.25
Median Vote	0.25	0.25	0.25	0.25

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 May 28, 2020 prior to the Bank of Canada's interest rate announcement on June 3, 2020.

Contact: Kristine Gray – phone: 416-865-1904; e-mail: kgray@cdhowe.org.