



BANK OF CANADA

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Bank of Canada to adopt fixed dates for announcing Bank Rate changes

OTTAWA – The Bank of Canada today outlined details of its plan to adopt a system of eight “fixed” or pre-specified dates each year for announcing any changes to the official interest rate it uses to implement monetary policy – the rate of interest it charges on short-term loans to financial institutions. The new system will replace the current approach to announcing changes to the Bank Rate under which the Bank can, in principle, announce an adjustment on any business day in the year.

In releasing the details of the plan, the Bank said that adopting fixed announcement dates will improve the implementation and effectiveness of Canadian monetary policy.

The basic features of the new approach are:

- Eight specified announcement dates each year, tentatively scheduled for
 - the third or fourth week of January
 - the first week of March
 - the third or fourth week of April
 - the last week of May
 - the third or fourth week of July
 - the last week of August
 - the third or fourth week of October
 - the last week of November
- Announcements at 9 a.m. on either a Tuesday or Wednesday (subject to consultation)
- A press release, whether or not there is a Bank Rate change
- Integration of the system of eight announcements with other key Bank monetary policy announcements throughout the year to provide a more regular, frequent, and continuous process of public communication on monetary policy

Following consultation with interested Canadians on the implementation of this approach, the Bank will make public, in late October, the specific announcement dates through to the end of 2001. The new system of fixed announcement dates will go into effect in November 2000.

The Bank expects that there will be a number of benefits from fixed announcement dates that will make monetary policy more effective. In particular, fixed dates will reduce uncertainty in financial markets associated with not knowing exactly when the Bank might announce an interest rate change. They should also focus greater attention on the economic and monetary situation in Canada; put greater emphasis on the medium-term perspective that underlies monetary policy; and increase the Bank's transparency, accountability, and ongoing dialogue with the public. Together, these improvements should contribute to better public understanding of the factors influencing monetary policy and increase the public's ability to anticipate the direction of policy.

Under the new approach, the Bank would still have the option of acting between fixed announcement dates, but it would exercise this option only in the event of extraordinary circumstances.

By adopting fixed announcement dates, the Bank of Canada will join many other central banks in the industrialized countries, including the U.S. Federal Reserve System, the Bank of England, the European Central Bank, the Bank of Japan, the Swedish Riksbank, the Reserve Bank of Australia, and the Reserve Bank of New Zealand, all of which use a fixed-date approach to announcing interest rate changes.

Attachment: Information/Consultation Paper



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INFORMATION/CONSULTATION PAPER

A NEW SYSTEM OF FIXED DATES FOR ANNOUNCING CHANGES TO THE BANK RATE

Introduction

Beginning in November 2000, the Bank of Canada will introduce a new system of eight “fixed” or pre-specified dates each year for announcing any changes to the official interest rate it uses to implement monetary policy. After considerable analysis, the Bank has concluded that a fixed-date approach will lead to more effective monetary policy for Canada. Fixed announcement dates will replace the current approach to announcing monetary policy actions under which the Bank can, in principle, adjust interest rates on any business day. In introducing the new approach, the Bank of Canada will join many other central banks in the industrialized countries, including the U.S. Federal Reserve System, the Bank of England, the European Central Bank, the Bank of Japan, the Swedish Riksbank, the Reserve Bank of Australia, and the Reserve Bank of New Zealand, all of which have adopted pre-set dates for announcing interest rate changes.

This paper describes the basic features of the proposed approach, elaborates its key advantages, and identifies issues for consultation.

Monetary Policy, Inflation Control, and the Current Approach to Bank Rate Adjustments

The goal of monetary policy in Canada is to contribute to a productive, well-functioning economy by preserving an environment of low and stable inflation. To achieve this goal, the Bank and the Government of Canada have agreed on an explicit target for inflation control, which is currently within a range of from 1 to 3 per cent. The instrument that the Bank uses to ensure that inflation remains within this target range is the Bank Rate – the rate of interest that the Bank charges on short-term loans to financial institutions.* The Bank announces a change to the Bank Rate when it concludes that an adjustment is needed to keep the future

* More specifically, the Bank sets a target band for the market rate for overnight transactions. The upper end of the band is the Bank Rate, the rate charged on loans to financial institutions participating directly in the payments system. The bottom end of the band is the rate the Bank pays on settlement balances held by participating financial institutions.

rate of inflation within the 1 to 3 per cent target range. These adjustments take into account the fact that it takes between 18 and 24 months for a change in interest rates to work through the economy and have its full effect on inflation.

Until now, the Bank has maintained a relatively flexible approach to announcing changes to the Bank Rate. Technically, the Bank can adjust the rate on any business day (Monday to Friday) it considers appropriate. Within this approach, the Bank has assured financial markets that any such announcements would be made at 9 a.m. In theory, therefore, financial markets have to be prepared for possible changes to the Bank Rate at 9 a.m. on any business day throughout the year.

Basic Features of the Bank's Fixed-Date Approach

The key features of the Bank's new approach to announcing monetary policy actions are:

1. Eight specified announcement dates each year

There will be eight specified dates during the year when the Bank may announce a change to the Bank Rate. Eight is an appropriate number of announcement dates because they tie in naturally with the Bank's current processes of analysis of economic developments and their effect on future inflation. Given that the underlying factors affecting the economy and inflation tend to change relatively slowly, eight dates spaced over the course of the year provide both a reasonable amount of time for the Bank to assess inflation trends in the economy and a sufficient number of opportunities for it to take any necessary action. By way of comparison, the U.S. Federal Reserve System and the Reserve Bank of New Zealand use eight fixed dates a year, the Bank of England has opted for 12, and the European Central Bank has 25.

The specific scheduling of the eight dates reflects the flow of data and information that the Bank uses to gauge changing trends in the economy and in inflation pressures. These data include, for example, national income and expenditure accounts and data on inflation, production, and demand in the economy. Four of the fixed dates will occur after a detailed analysis of economic trends and their implications for possible monetary policy actions that the Bank undertakes following the release of the quarterly Canadian National Accounts (typically at the end of November, February, May, and August). Decisions based on this analysis will be announced on dates to be established in the third or fourth week of January, April, July, and October. The other four fixed dates will be scheduled roughly mid-way between these dates, or in the first week of March and in the last week of May, August, and November. Decisions announced on these latter four dates will be based on an updated economic analysis, which takes into account data released or revised since the previous announcement date.

Announcement dates will be at least five, and at most eight, weeks apart. The Bank will make public the precise fixed dates for the period November 2000 to the end of 2001 by the end of October 2000, following further analysis and consultation.

Under a fixed-date approach, the Bank would retain the option of taking action between fixed dates, although it would exercise this option only in the event of extraordinary circumstances.

2. Announcements at 9 a.m., on either a Tuesday or Wednesday (subject to consultation)

The Bank is proposing that, subject to consultation, it will make the announcements at 9 a.m., as is the current practice, on either a Tuesday or Wednesday.** Since it is preferable that announcement dates not coincide with the release of major Canadian economic data, which could result in confusion about the rationale for monetary policy actions, Thursdays and Fridays should be avoided. Economic data releases tend to be scheduled towards the end of the week.

Some announcement dates could occur in weeks when the federal government holds a periodic Tuesday treasury bill auction. Hence, a Tuesday announcement date could occur the same day as a treasury bill auction. The Bank would therefore like to hear the views of interested Canadians on which announcement day – Tuesday or Wednesday – would best preserve the smooth functioning of financial markets. (Please see the section “We invite your views” at the conclusion of this paper for details about how to submit views to the Bank.)

3. A press release whether or not there is a Bank Rate change

On each of the eight fixed dates, the Bank will issue a press release announcing its decision either to change the Bank Rate or to leave it unchanged. The announcement will be made simultaneously on the Telerate Page and on the Bank’s Web site. The release will include a short explanation of the key factors influencing the decision. The release will also set out the Bank’s view of the balance of risks for inflation in the period ahead.

4. Integration with other key Bank monetary policy announcements

The fixed-date announcements will be integrated with other key Bank monetary policy announcements, including the semi-annual *Monetary Policy Report* and the semi-annual *Monetary Policy Report Update*, as well as speeches and other public pronouncements by the Governor and other members of the Governing Council. The purpose is to provide a more regular, frequent, and continuous process of public communication on the Canadian economic and financial situation and what it means for monetary policy.

** Statutory holidays may at times require exceptions to the regular day of the week for announcements.

For example, decisions announced on the fixed dates in April and October will be based on the analysis completed for the *Monetary Policy Report* that will be published two weeks later, in May and November, respectively. Similarly, decisions announced on the fixed dates in January and July will be based on the analysis completed for the *Monetary Policy Report Update* that will be published two weeks later, in early February and August, respectively.

Advantages and Benefits of the Fixed-Date Approach

The Bank believes that adopting a fixed-date approach to announcing monetary policy actions will improve the implementation and effectiveness of monetary policy in Canada. The key advantages and benefits of the new approach include:

Reduced uncertainty in financial markets

The new system will reduce the uncertainty in financial markets associated with not knowing exactly what day the Bank might announce a Bank Rate change, and it will permit market participants to prepare more fully for that possibility. In particular, it will eliminate the so-called “9 a.m. watch” that has occurred in the past when participants in the foreign exchange and fixed-income markets thought the Bank might announce an interest rate change and slowed trading activity while waiting to see if there would be such an announcement at 9 a.m. With announcement dates specified in advance, and with a press release issued whether or not there is a Bank Rate change, fixed dates will allow market participants to plan and operate more efficiently.

Enhanced focus on the Canadian context

Fixed announcement dates will create eight new, regular opportunities for the Bank of Canada to report to the public about the economy and the conduct of monetary policy, and to provide individuals, businesses, and governments with further information that they can use in their decision-making. This should help market participants and the public to better understand the Bank’s assessment of the balance of forces that affect inflation in Canada, and to anticipate the direction of monetary policy. In addition, since the Bank’s schedule of fixed announcement dates will be different from the fixed-date schedule of the U.S. Federal Reserve System, it will allow more attention to be focused on Canadian economic circumstances in the lead-up to, and following, monetary policy announcements here in Canada.

Greater emphasis on medium-term policy

Fixed dates will also provide a regular opportunity for the Bank to emphasize the medium-term perspective of monetary policy and to relate recent economic and financial developments to the underlying trends over a medium-term horizon. This is important because monetary

policy actions are based largely on considerations about the economy and inflation 18 to 24 months down the road, not on the most recent individual data releases. Improving public awareness and understanding of the underlying trends that drive monetary policy decisions, as opposed to short-term fluctuations in the economy and individual data releases, should help increase understanding of the monetary policy responses based on those trends.

Enhanced transparency, accountability, and dialogue with the public

Regularly explaining the reasons for either changing or not changing interest rates will enhance the transparency of monetary policy and should help financial markets to better understand and anticipate the Bank's actions. The eight new occasions to communicate will also reinforce the Bank's accountability by further enabling it to link the conduct of monetary policy with the achievement of the inflation-control target. Finally, the new communication opportunities, coupled with Bank publications such as the *Monetary Policy Report* and the *Monetary Policy Report Update*, and with speeches by the Governor and other members of the Governing Council, will provide the basis for more regular commentary by analysts and the media and for greater continuity, over time, in the Bank's dialogue with key audiences and the public.

We Invite Your Views – Consultation Questions

Before finalizing and implementing the new fixed-date system for monetary policy announcements, the Bank would like to hear the views of interested individuals. We invite you to respond to the questions below by Friday, 13 October 2000. You can do so directly on the Bank of Canada Web site (<http://www.bankofcanada.ca/fixed-dates>) or by sending your responses by e-mail to dates@bank-banque-canada.ca, or by mail to: Consultation on Fixed Dates, Bank of Canada, 234 Wellington St., 9th Floor West, Ottawa, Ontario, K1A 0G9. We ask that you include your name and, if applicable, the company or organization you represent, when you submit your views.

1. Which day of the week – Tuesday or Wednesday – would be a preferable announcement day and why?
2. If a Tuesday announcement date were to coincide with a treasury bill auction day, would this pose a problem for the smooth functioning of markets? Why?
3. Would a 9 a.m. announcement time, as is the Bank's current practice, continue to be appropriate? If not, why?
4. Do you have any other comments on details of the Bank's approach to fixed announcement dates?