



Bank of Canada will hold current level of policy rate until inflation objective is achieved, continues quantitative easing

OTTAWA – The Bank of Canada today held its target for the overnight rate at the effective lower bound of $\frac{1}{4}$ percent, with the Bank Rate at $\frac{1}{2}$ percent and the deposit rate at $\frac{1}{4}$ percent. The Bank is maintaining its extraordinary forward guidance, reinforced and supplemented by its quantitative easing (QE) program, which continues at its current pace of at least \$4 billion per week.

The COVID-19 pandemic continues to take a severe human and economic toll in Canada and around the world. The earlier-than anticipated arrival of effective vaccines will save lives and livelihoods, and has reduced uncertainty from extreme levels. Nevertheless, uncertainty is still elevated, and the outlook remains highly conditional on the path of the virus and the timeline for the effective rollout of vaccines.

The economic recovery has been interrupted in many countries as new waves of COVID-19 infections force governments to re-impose containment measures. However, the arrival of effective vaccines combined with further fiscal and monetary policy support have boosted the medium-term outlook for growth. In its January Monetary Policy Report (MPR), the Bank projects global growth to average just over 5 percent per year in 2021 and 2022, before slowing to just under 4 percent in 2023. Global financial markets and commodity prices have reacted positively to improving economic prospects. A broad-based decline in the US exchange rate combined with stronger commodity prices have led to a further appreciation of the Canadian dollar.

Canada's economy had strong momentum through to late 2020, but the resurgence of cases and the reintroduction of lockdown measures are a serious setback. Growth in the first quarter of 2021 is now expected to be negative. Assuming restrictions are lifted later in the first quarter, the Bank expects a strong second-quarter rebound. Consumption is forecast to gain strength as parts of the economy reopen and confidence improves, and exports and business investment will be buoyed by rising foreign demand. Beyond the near term, the outlook for Canada is now stronger and more secure than in the October projection, thanks to earlier-than-expected availability of vaccines and significant ongoing policy stimulus. After a decline in real GDP of $5\frac{1}{2}$ percent in 2020, the Bank projects the economy will grow by 4 percent in 2021, almost 5 percent in 2022, and around $2\frac{1}{2}$ percent in 2023.

CPI inflation has risen to the low end of the Bank's 1-3 percent target range in recent months, while measures of core inflation are still below 2 percent. CPI inflation is forecast to rise temporarily to around 2 percent in the first half of the year, as the base-year effects of price declines at the pandemic's outset — mostly gasoline — dissipate. Excess supply is expected to weigh on inflation throughout the projection period. As it is absorbed, inflation is expected to return sustainably to the 2 percent target in 2023.

In view of the weakness of near-term growth and the protracted nature of the recovery, the Canadian economy will continue to require extraordinary monetary policy support. The Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2 percent inflation target is sustainably achieved. In our projection, this does not happen until into 2023. To reinforce this commitment and keep interest rates low across the yield curve, the Bank will continue its QE program until the recovery is well underway. As the Governing Council gains confidence in the strength of the recovery, the pace of net purchases of

Government of Canada bonds will be adjusted as required. We remain committed to providing the appropriate degree of monetary policy stimulus to support the recovery and achieve the inflation objective.

Information note

The next scheduled date for announcing the overnight rate target is March 10, 2021. The next full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR on April 21, 2021.

As announced, starting with this decision the target for the overnight rate will take effect on the business day following each rate announcement.