# Canada: More, more, more

After cutting rates 50bp last week the Bank of Canada has cut by a further 50bp in an emergency move this afternoon. We look set to soon hit the 0.25% low hit in the wake of the Global Financial Crisis

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The Bank of Canada has followed up last week's 50bp policy rate cut with an additional 50bp of easing in a surprise emergency move. The decision was taken "in light of the negative shocks to Canada's economy arising from Covid-19 pandemic and the recent sharp drop in oil prices".

In a joint press conference with Finance Minister Bill Morneau, Governor Stephen Poloz also announced a new funding facility for small and medium sized firms "at a time when they may have increased funding needs and credit conditions are tightening". He also reinforced the message that "the Governing Council stands ready to do what is required to support economic growth... and we will continue to ensure that the Canadian financial system has sufficient liquidity".

We expect that the BoC will have to do more. As elsewhere, the plunge in equities and bond yields means the economy is also dealing with a financial shock that is increasing the strains in lending markets and depressing both household and corporate sentiment. This is in addition to the demand shock as a sense of fear leads to consumers and businesses to change behaviour. This is most obviously being felt in the services sector with travel, leisure, accommodation and personal services sectors looking vulnerable to a sharp drop in demand. Add in the plunge in commodity prices, most notably oil, and business investment will weaken with the growing threat of job losses in the sector given the intensifying tensions between Russia and Saudi Arabia. An outright contraction in economic activity is now a virtual certainty for 2Q20.

Fiscal policy may deliver more meaningful support than monetary policy at this stage, but we are not expecting swift action on that front. Nonetheless, the BoC has more room than most central banks to provide support to the economy and financial markets with the policy rate still up at 0.75% and the tool is not impotent since Canada has relatively high household debt levels. We now expect the policy rate to be cut to the 0.25% low reached in the wake of the global financial crisis.

## Author

**James Knightley**
Chief International Economist, US
james.knightley@ing.com