



Central bank depository.

Monetary policy is all over the map.

SEI's View

Most of the world's major central banks remain in monetary policy easing mode, but the divergences that developed in the second half of 2024 appear to be widening. As expected, the Federal Reserve (Fed) refrained from cutting its benchmark interest rate in January and probably is on a prolonged pause until there is more clarity on the fiscal outlook and trade policy. The Bank of England (BOE) appears to be shadowing the Fed's policy moves; both central banks are concerned that inflation pressures have accelerated in recent months. In contrast, the European Central Bank (ECB) and the Bank of Canada (BOC) continue to pursue a steady pace of rate-cutting, although the BOC must now contend with the additional uncertainty of a pending tariff war with the U.S. Europe may soon face the same issue. Meanwhile, the Bank of Japan (BOJ) has become more aggressive in the other direction, raising its overnight rate by 25 basis points (0.25%) in January, with more rate hikes likely in the offing.

U.S. Federal Reserve (Fed)



- The Federal Open Market Committee (FOMC), the policy decision-making arm of the Fed, left the federal-funds rate unchanged in a range of 4.25% to 4.50% during its meeting on Tuesday and Wednesday, ending a string of three consecutive rate cuts totaling 1.00% in September, November, and December of last year.
- In a statement announcing the rate decision, the FOMC noted that "the risks to its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate." The FOMC also said that it "would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."
- Deviating from recent policy statements, the FOMC did not include any reference to inflation making progress toward the Fed's 2% target rate. At a news conference following the Committee meeting on Thursday, Fed Chair Jerome Powell commented that the omission "was not meant to send a signal." Regarding the possible economic impact of the Trump administration's policies and how the central bank would respond, Powell said, "The Committee is very much in the mode of waiting to see."

European Central Bank (ECB)



- The ECB reduced its benchmark interest rate by 0.25% to 2.75% on January 30—its fifth rate cut over its past six meetings. The ECB previously implemented rate cuts of 0.25% in June, September, October, and December of last year—the first reductions since September 2019.
- In a news release announcing the rate decision in January, the ECB's Governing Council stated, "The disinflation process is well on track...Domestic inflation remains high, mostly because wages and prices in certain sectors are still adjusting to the past inflation surge with a substantial delay. But wage growth is moderating as expected, and profits are partially buffering the impact on inflation."
- The ECB also noted that its policy decisions going forward "will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path."

Bank of England (BOE)



- In a split vote at its meeting on February 5, the BOE reduced the Bank Rate by 0.25% to 4.50%. Two BOE Monetary Policy Committee (MPC) members voted for a 0.50% rate cut.
- In its announcement of the rate decision, the MPC commented, "There has been substantial progress on disinflation over the past two years, as previous external shocks have receded, and as the restrictive stance of monetary policy has curbed second-round effects and stabilised longer-term inflation expectations. That progress has allowed the MPC to withdraw gradually some degree of policy restraint, while maintaining [the] Bank Rate in restrictive territory so as to continue to squeeze out persistent inflationary pressures."
- However, the MPC also cautioned that the risk of persistent inflation remains, noting that its "evolving view of the medium-term outlook for inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate."

Bank of Japan (BOJ)



- The BOJ raised its benchmark interest rate by 25 basis points to a 17-year high of 0.50% at its meeting on January 23-24. The central bank had been on hold since it raised the rate from 0.1% to 0.25% following its meeting at the end of July.
- In a statement announcing the rate decision, the BOJ noted, "Regarding wages, with a continued improving trend in corporate profits and a growing sense of labor shortage, there have been many views expressed by firms stating that they will continue to raise wages steadily in this year's annual spring labor-management wage negotiations, following the solid wage increases last year. On the price front, underlying [consumer-price index] inflation has been increasing gradually toward the price stability target of 2 percent."
- The BOJ also acknowledged that it is monitoring the global financial markets, implying that it is evaluating the reaction to the policies of the Trump administration in the U.S.

Bank of Canada (BOC)



- The BOC cut its policy rate by 0.25% to 3.00% following its January 28 meeting. In total, the central bank has reduced the rate by 1.25 percentage points at its last three meetings.
- The central bank also announced that it will resume asset purchases in early March, thereby normalizing its balance sheet and ending its quantitative monetary policy tightening. In its news release, the BOC stated, "The cumulative reduction in the policy rate since last June is substantial. Lower interest rates are boosting household spending and, in the outlook published today, the economy is expected to strengthen gradually and inflation to stay close to target."
- However, the central bank acknowledged that the U.S. President Donald Trump's threatened tariffs on goods imported from Canada could weigh on the nation's economy. The BOC stated that "if broad-based and significant tariffs were imposed, the resilience of Canada's economy would be tested. We will be following developments closely and assessing the implications for economic activity, inflation and monetary policy in Canada."

Summary Table

Central Bank	Current Rate	Prior Rate	Change	Next Meeting
Fed	4.25%-4.50%	4.25%-4.50%	Unchanged	March 18-19, 2025
ECB	2.75%	3.00%	-0.25%	March 5-6, 2025
BOE	4.50%	4.75%	-0.25%	March 20, 2025
BOJ	0.50%	0.25%	+0.25%	March 18-19, 2025
BOC	3.00%	3.25%	-0.25%	March 12, 2025

Sources: Fed, ECB, BOE, BOJ, BOC. As of February 6, 2025.

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