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Chair: The Honourable Wayne Easter

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● (1535)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I now call the meeting to order.

Welcome to meeting number seven of the House of Commons Standing Committee on Finance.

Pursuant to the motion adopted by the committee on Thursday, November 19, the committee is meeting on its study of the report of the Bank of Canada on monetary policy. Today's meeting is taking place in a hybrid format pursuant to the House order of September 23. The proceedings will be made available via the House of Commons' website.

Just so that you are aware, the webcast will show the person speaking, rather than the entire committee.

To ensure an orderly meeting, I would like to outline a few of the rules. Seeing that we have witnesses, I will go through them today. Members and witnesses may speak in the official language of their choice. Interpretation services are available for this meeting. You have a choice at the bottom of your screen of either the floor, English or French audio. For members participating in person, proceed as you usually would when the whole committee is meeting in person in this committee room. There are four of us here. Before speaking, please wait until I recognize you by name. If you're on the video conference, please click on the microphone icon to unmute yourself. As a reminder, all comments by members and witnesses should be addressed through the chair. When you're not speaking, your microphone should be on “mute”.

Committee members have sent me the order of questioners, so we will go by that.

I'd now like to welcome our witnesses. We're pleased to have with us today the Governor of the Bank of Canada, Tiff Macklem.

Let me say, Mr. Macklem, congratulations on your appointment as Governor of the Bank of Canada and welcome to this committee. I know you've been here before, and I guess before most of our times here, but welcome again.

With the governor is the senior deputy governor of the Bank of Canada, Carolyn Wilkins.

Carolyn, you've been at this committee many times before the members who sit on this committee. I know that before too long you're going on to other ventures. We wish you well in those ventures. I sincerely want to thank you for your work with the Bank of Canada over the last number of years and for your appearances at the committee. I don't think any member can deny that your information was always forthright and valuable. Thank you, then, for your appearances before this committee and for your work with the Bank of Canada. All the best in new ventures.

I'll turn it over to you, Mr. Macklem. The floor is yours. You have a number of remarks, and then we'll go to questions.

First on our questioners list, I believe, is Ms. Jansen, followed by Mr. Fraser.

Mrs. Tamara Jansen (Cloverdale—Langley City, CPC): I'm going to be splitting my time with Mr. Falk.

The Chair: Okay, that's great. Thank you.

Mr. Macklem, go ahead.

Mr. Tiff Macklem (Governor, Bank of Canada): Thank you, Chair, for your kind words to both of us. Senior Deputy Governor Wilkins and I are very pleased to be back to discuss our monetary policy report with you and the committee, and also to discuss the outlook for the Canadian economy.

The main message is that we will get through this pandemic, but it's going to be a tough slog, and the Bank of Canada will be there with Canadians every step of the way.

Let me briefly summarize our outlook for the economy.

[*Translation*]

Our projection is highly conditional on our assumptions about the virus.

We assumed that authorities won’t need to reinstate the sort of extensive and widespread containment measures we saw in the spring. But we can expect successive waves of the virus to require localized restrictions. We also assumed that vaccines and effective treatments will be widely available by mid-2022. Since we released the Monetary Policy Report, the MPR, four weeks ago, news about vaccines has been encouraging, while virus cases have continued to rise and containment measures have escalated.

Since June, the Canadian economy has bounced back sharply as many businesses have reopened. We have regained close to 80% of the jobs lost since the start of the pandemic. But the economy still has more than 600,000 fewer jobs than it did before the pandemic. The current job losses are concentrated in the services sector, particularly in lower-wage jobs where physical distancing is difficult. That is why the income support measures put in place have been so important for the recovery.

We judge that the very rapid growth of the reopening phase is now over, and the economy has entered in the slower-growth recuperation phase. For 2020 as a whole, we expect that the economy will have shrunk by about 5.5% percent. Given the math involved in calculating annual growth rates, we expect annual growth to average almost 4% in 2021 and 2022. But we anticipate that this growth will be uneven across sectors and choppy over time. Some parts of the economy will simply be unable to completely reopen until a vaccine becomes widely available. And some regions that were weaker before the pandemic—such as the energy-intensive parts of Canada—will face greater difficulties than others. When we add it up, we project that the economy will still be operating below its potential into 2023.

Inflation is also unusually weak. and should remain below our target range of 1 to 3% until early next year. After that, we project it will rise gradually. But with the economy continuing to operate below its potential, inflation is projected to remain less than 2% into 2023.

● (1540)

[*English*]

The outlook and the historic nature of the COVID-19 shock mean that the economy will continue to need extraordinary monetary policy support as it recuperates, so let me spend a few minutes discussing our policy response.

We lowered our policy interest rate to 0.25%, which we judge to be its effective lower bound. We have committed to keeping our policy interest rate at its effective lower bound until slack is absorbed so that the 2% inflation target is sustainably achieved. In our current outlook, this takes us into 2023.

Our forward guidance is being reinforced and supplemented by a program of quantitative easing, or QE. I want to take a moment to explain how QE works and discuss the adjustments to our program that we announced last month.

Normally, when we want more monetary stimulus to achieve our inflation target, we lower the target for the overnight interest rate. That leads to lower interest rates further out on the yield curve at the maturities where households and businesses typically borrow.

When our policy interest rate is at its effective lower bound, QE provides an additional way of reducing the interest rates that matter for households and businesses. By increasing the demand for government bonds, QE acts to lower their interest rates. This reduces the borrowing costs for households and businesses. In this way, QE is another tool that supports the spending and investments that are needed to help create jobs and get the economy back to capacity, and to achieve our inflation target. We buy these bonds on the secondary market from financial institutions, and we pay for the bonds by creating settlement balances, or central bank reserves. This ability to create reserves is a very special ability. It's something that only central banks have. That's why it's important that central banks are independent from governments.

At the outset of the pandemic, in March and April, core credit markets were seizing up as economic activity plummeted and uncertainty soared. If core funding markets aren't working, neither is the economy, and we can't implement monetary policy. So the bank launched a number of programs to restore market functioning, including the Government of Canada bond purchase program. The program was launched at a pace of at least $5 billion per week. Purchases were mostly of shorter-maturity bonds where issuance was strongest.

These purchases led to a substantial increase in the size of our balance sheet. We were able to move more aggressively because before the pandemic, the bank's balance sheet was small compared with those of other central banks. In the first chart, which we have provided to you, you can see that the value of assets we hold relative to the size of our economy remains relatively low compared with that of our peers.

As other central banks took similar actions, global financial conditions stabilized. This, together with our own actions, restored market functioning in Canada. Since July we have scaled back or ended the active use of many of the programs we had set up when markets were not functioning properly. In particular, we stopped buying bankers' acceptances. We're not buying Canada mortgage bonds or provincial money market securities. Our corporate bond purchase program has been used very infrequently since July. We also took a series of steps to reduce our purchases of Government of Canada treasury bills in the primary market. At the peak, we were buying as much as 40% of the T-bill auction. As of November 24, we're buying in a range of zero to 10%. The focus of our bond purchases has now shifted squarely to providing the monetary stimulus required to support the recovery and get inflation back to target. As you can see in the second chart, our balance sheet has been relatively stable since July.

This brings me to today. Markets continue to function well. We're providing exceptional forward guidance, reinforced and supplemented by our bond purchases. Our guidance has anchored interest rates at the short end of the yield curve. That means we no longer need to buy as many short-term government bonds as we did at the start of the pandemic.

We've recalibrated, or adjusted, our quantitative easing program. To increase the efficiency of our purchases, we're buying fewer bonds at shorter maturities, and more at longer maturities. This shift is increasing the stimulative impact of our QE program per dollar purchased. Essentially by concentrating on purchase at longer maturities, we can have a bigger impact on the interest rates—

● (1545)

Mr. Ted Falk (Provencher, CPC): I have a point of order, Mr. Chair.

The Chair: Mr. Macklem, just hold for a minute.

Yes, Mr. Falk.

Mr. Ted Falk: Mr. Chair, the translation seems to have been skewed for the last minute.

The Chair: Can we just check on the translation?

Mrs. Tamara Jansen: I think it was mixed up for a short time there. It seems to be fixed.

The Chair: Okay, just interrupt again, Mr. Falk, if there's a further problem with the translation. Thank you, Mr. Falk.

Go ahead, Mr. Macklem.

Mr. Tiff Macklem: Do you want me to back up at all?

The Chair: Just go back a sentence or two, if you could.

Mr. Tiff Macklem: This shift is increasing the stimulative impact of our quantitative easing program per dollar purchased. By concentrating purchases at longer maturities, we can have a bigger impact on the interest rates that are most important for households and businesses. This is allowing us to reduce our total minimum weekly purchases to $4 billion while still providing as much monetary stimulus.

Our QE program will continue until the recovery is well under way.

I hope this provides a good explanation of the bank's outlook and the policy response.

We work for Canadians, and it's essential that we be accountable to them, and appearances like this one are an important part of that accountability. Beyond this, monetary policy works better when it's well understood. The pandemic and the extraordinary actions we are taking in response only make it more important that we speak clearly and listen attentively to Canadians.

We want to be very clear: Canadians can be confident that borrowing costs are going to remain very low for a long time. In this way, our forward guidance combined with the QE program reduce one source of uncertainty. These efforts will help support the spending and investment that the economy needs to restore the lost jobs and achieve our inflation target.

Finally, Chair, if I can take a minute, at the risk of embarrassing my colleague, to say a few words, as you did, to recognize our deputy governor, Carolyn Wilkins.

As you know, Ms. Wilkins has decided not to seek a second term, and she's going to be leaving us after our next monetary policy decision in December. Ms. Wilkins has spent her entire career working for the people of Canada, with the past 20 years at the Bank of Canada. As senior deputy governor, she's provided tremendous leadership as a policy-maker. In particular, her experience has been instrumental in helping design the bank's response to the pandemic. She has been a champion for research and diversity at the bank and has driven the work that will underpin the next renewal of our inflation-targeting agreement. Thanks to Ms. Wilkins, the bank has become a global thought leader in fintech and digital currencies. She has served Canada with distinction as the bank's representative at the G7 and the G20 and the Financial Stability Board.

On a more personal note, I can tell you that her deep understanding of the Canadian economy and her insights at the policy table are going to be very difficult to replace. Her commitment to Canadians, her intellectual leadership and her good judgment are second to none. On behalf of every Canadian, I want to thank her for her service and wish her every future success.

Thank you, Chair. With that, Senior Deputy Governor Wilkins and I would be very pleased to answer your questions.

The Chair: Thank you very much, Mr. Governor. Those are words well deserved, and I can see Ms. Wilkins on my screen. She didn't even blush. If you were here, Ms. Wilkins, and these were normal times around the table, we'd give you a round of applause. To the Governor's remarks, these are certainly not normal times.

With that, we will go to the first round of six minutes. We'll have Ms. Jansen for the first three, followed by Mr. Falk for about three and then Mr. Fraser.

Ms. Jansen, the floor is yours.

Mrs. Tamara Jansen: Thank you.

Mr. Macklem, you briefed us by saying “the Governing Council agreed that extraordinary monetary policy support will continue to be needed.” I'm wondering if I understand you correctly. Are you saying that you need to keep buying government debt, basically printing money, for Canada to remain solvent?

● (1550)

Mr. Tiff Macklem: No, that's not what we're saying at all. What we're saying is that our inflation target is well below the target. The Canadian economy is weak. There are still more than 600,000 Canadians who've lost their jobs and haven't got them back. That's putting downward pressure on inflation. Against that background, we need a lot of monetary stimulus, extraordinary monetary stimulus, to support the recovery and get Canadians back to work and inflation back to target.

Mrs. Tamara Jansen: What you're saying is that you would not have to continue that. We could remain solvent without it. Is that what you're saying?

Mr. Tiff Macklem: That is what I'm saying. We are not financing the government. Our actions, by lowering interest rates and by buying government bonds, are lowering the cost of financing the government. In fact, they're lowering the cost of borrowing for everybody.

Mrs. Tamara Jansen: I have one more question.

Mr. Tiff Macklem: We're not financing the government.

Mrs. Tamara Jansen: The level of aggressiveness the Bank of Canada takes on future economic distresses will be the most significant economic events of the next decade. Can you commit to stop purchasing government debt once the inflation rate reaches your 2% target, yes or no?

Mr. Tiff Macklem: In fact, if you look at the guidance we have provided, we have committed to stop buying government bonds once the recovery is well under way.

Mrs. Tamara Jansen: So is that at the 2% target?

Mr. Tiff Macklem: That would probably happen before we actually get to the 2% target.

Mrs. Tamara Jansen: Okay. I will cede my time now to my colleague. Thank you.

The Chair: Mr. Falk, the floor is yours.

Mr. Ted Falk: Thank you, Mr. Chair.

Thank you, Mr. Macklem and Ms. Wilkins for your presentation.

I am just wondering how much of the federal debt the Bank of Canada holds.

Mr. Tiff Macklem: We hold roughly 30%.

Mr. Ted Falk: That amount would be what?

Mr. Tiff Macklem: You mean the actual number? It is $343,905,000,000 as of about a week ago.

Mr. Ted Falk: Of that amount, how much has been added since March?

Mr. Tiff Macklem: The main source of additions would be the government bond purchase program, and that would be $162,979,000,000. There are also some additions: some treasury bills have been added. Those are very short-term debts, so those are rolling off.

Mr. Ted Falk: Has the current government come to the Bank of Canada and asked for a credit limit?

Mr. Tiff Macklem: No.

Mr. Ted Falk: Have you provided it some guidance on a credit limit?

Mr. Tiff Macklem: No. Let me just underline—

Mr. Ted Falk: So, it's—

Mr. Tiff Macklem: —that we are not funding the government. The government issues its debt in markets; market participants buy that debt, and then we're buying it in the marketplace from those participants. When that debt matures, whether it is on our balance sheet or anybody else's, the government will need to pay it back.

Mr. Ted Falk: What level is the Bank of Canada comfortable with?

Mr. Tiff Macklem: Do you mean what level of purchases?

Mr. Ted Falk: What level of federal government bond purchases is the bank comfortable with?

Mr. Tiff Macklem: Currently we're at about 30%. Other central banks have issued guidance that if the central bank holds more than 50% to 70%, that could start to impair market functioning. The Federal Reserve has indicated that for them it would be about 60%. We're at 30%, and keep in mind that before the crisis we were at about 15%. We regularly hold some on the balance sheet, but we have quite a lot of room. Something in that range would start to get uncomfortable.

Mr. Ted Falk: How much of the current debt—

Mr. Tiff Macklem: We have a long way to go to get there.

Mr. Ted Falk: That's correct. What percentage of the debt that you currently hold has short-term or less than 10-year maturity?

Mr. Tiff Macklem: I can—

Ms. Carolyn A. Wilkins (Senior Deputy Governor, Bank of Canada): I know the average term to maturity of the government—

Mr. Tiff Macklem: I have those numbers, if you want to hold on for a second. When you get to—

● (1555)

Mr. Ted Falk: I know you mentioned—

Mr. Tiff Macklem: They're changing every week.

Mr. Ted Falk: While you're looking for that, you did mention that you've been switching more to long-term purchases. What is the rationale for that?

Mr. Tiff Macklem: In the initial March and April part of the crisis, the focus was very much on restoring market function. The whole financial system was clogged. Credit markets were very strained. We came in and bought heavily at the very short end of the curve, which was key to restoring market functioning.

As market functioning has been restored, we've discontinued a number of our programs. We've continued our government bond purchase program, though, as a way to provide quantitative easing. With that, we've shifted to buying further up the curve. Households and businesses typically borrow for three, five, 10, or 15 years. That's the part of the yield curve where they're borrowing the most. Our QE program is really targeted at lowering their cost of borrowing, so we're concentrating our purchasing power at that part of the curve. In that way, it sort of maximizes the per dollar impact of our purchases.

The Chair: We will have to end that round there. Sorry, Mr. Falk.

Just to be clear, for the federal reserve at 60%, I assume you meant the U.S. Federal Reserve?

Mr. Tiff Macklem: That's correct.

The Chair: Thank you.

Mr. Fraser.

Mr. Sean Fraser (Central Nova, Lib.): Thank you very much, Mr. Chair. Thank you to our witnesses for being here.

I'm going to start on a line of questioning about the intersection between fiscal and monetary policy as part of the pandemic response.

Mr. Macklem, you've led off your remarks describing the fact that there's a public health threat that has posed a serious risk to our economy. It's not as though there's some fundamental, underpinning problem with the economy, but instead, an exogenous shock to the economy.

You've made a number of decisions, as the Bank, to reduce our interest rate to the effective lower bound, as well as the quantitative easing that you described in your opening testimony. This says to me that you may have used the tools in your tool bag, and if I'm looking to find the tools to continue to solve the pandemic response, either from a public health or economic perspective, the remaining tool is really fiscal policy.

Can you describe to me where you think the federal government should aim its sights to most effectively deal with the pandemic? Specifically, should we be targeting public health measures that will help eliminate this virus quickly and, second, getting cash to those households and businesses that are in need by extending life support to them effectively, so they're still here when this pandemic is over to help the economy come back once the virus is behind us?

Mr. Tiff Macklem: I'm really going to leave those decisions to parliamentarians. As I highlighted in my opening remarks, clearly the evolution of the pandemic has very important implications for the economy. Lives and livelihoods are very closely related. People need to feel safe. They need to feel like they can conduct their business and remain healthy and their families can remain healthy. That's core to their confidence. That's going to be core to their ability to participate in the economy. I don't see that there's really a big trade-off here. The two need to go together.

With respect to the specific fiscal measures, I'm going to leave those to parliamentarians. I will say, though, that we are providing a considerable amount of monetary policy stimulus. We've indicated that will need to continue for some time. Certainly, the amount of monetary space we have is limited, but I wouldn't want to give the impression that there are not other things we can do. We do have the capacity to do more if needed.

As I was just highlighting, we own about 30% of the government debt. There's ample potential to scale up our quantitative easing if that were needed. There are other types of programs. Other central banks have used things like yield curve control. We could potentially lower the effective lower bound, even without going negative to 25 basis points. It could be a little bit lower.

Negative interest rates are in our toolkit, although that is not something we're actively discussing and we don't think it would be terribly helpful at this time.

I don't want to give the impression there's nothing else we can do. If needed, there are things we could do.

● (1600)

Mr. Sean Fraser: I appreciate that.

You mentioned during your responses to previous questions that the bank doesn't finance the government, but reduces the cost of financing the government. To date, with the fiscal measures that have been put in place, certainly, the debt is much larger than it was pre-pandemic.

Can you identify for us what impact that has had on the cost of servicing the debt for Canadians and for the federal government?

Mr. Tiff Macklem: Are you asking me what would the debt service cost be if we hadn't lowered interest rates?

Mr. Sean Fraser: No, I'm asking, effectively, because of the measures that you've taken to reduce the cost of borrowing for the federal government, has the cost of servicing the federal government's debt changed? Has it become more expensive to service the debt? Has it become cheaper to service the debt?

Mr. Tiff Macklem: It's become less expensive to service the debt, certainly per unit of debt.

Mr. Sean Fraser: On the whole, has the actual cost of servicing a much larger debt now, on the back end of these measures, actually decreased?

Mr. Tiff Macklem: Yes, debt service costs now are quite low.

Mr. Sean Fraser: You mentioned specifically near the end of your remarks that you expect that interest rates will remain low for a very long time.

The last time you were before this committee, you explained part of the reason behind that was that the bigger risk facing the economy was deflation, not inflation. Do you still hold that view today, and if not, why do you believe the rate of interest will remain low for a long time?

Mr. Tiff Macklem: Yes, we continue to believe what I said the last time. In fact, we've been a little more precise about it. In our October monetary policy report, we indicated that in our current projection—and I'd underline that there's a lot of uncertainty around these projections and they depend heavily on the evolution of the virus—we expect slack to be absorbed sometime in 2023. We're indicating that we'd hold the interest rate at the effective lower bound until slack is absorbed, so that takes us into sometime in 2023.

That also provides the conditions for when we would exit. It gives you an outlook, based on our current projection.

The Chair: Mr. Fraser, I'm sorry, but we're out of time with you as well.

We'll go on to Mr. Ste-Marie, who will be followed by Mr. Julian.

Mr. Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

First, I would like to thank Governor Macklem for his interesting presentation.

I would also like to thank Senior Deputy Governor Carolyn Wilkins.

I would like to go back to your comments to Mr. Wayne Easter, the chair of our committee, and to tell you once again how grateful we are for each of your appearances here with the committee.

Your comments were clear and informative. When you answered our questions, we always learned something. I also commend you and Mr. Macklem on your command of the French language.

I'll begin by talking about inflation.

Mr. Macklem or Ms. Wilkins, has maintaining control over inflation, a key criterion of the Bank of Canada for several decades, been a factor during the crisis so far?

Mr. Tiff Macklem: I'll ask Ms. Wilkins to answer that, because she directed the research into our inflation target.

Ms. Carolyn A. Wilkins: I'd like to begin by thanking you for your comments. I appreciate them and it's very good of you.

The short answer is yes, very much so. Inflation appears to be remote from the current problems people are facing, such as losing their jobs and uncertainty. At the same time, a low and stable inflation rate is very important for business and personal planning.

Our methods for stabilizing inflation also include stabilizing the economy and placing it on a strong foundation. This makes it possible for jobs to come back, for the economy to recover and for businesses to become more profitable. Even though our target is inflation, some of the factors we take into account, like production capacity and employment, affect people directly.

There are of course other ways of handling monetary policy. I suggest that you go to our website and consult all of our communications pertaining to possible frameworks for monetary policy other than those we are discussing at the moment.

● (1605)

Mr. Gabriel Ste-Marie: Thank you.

One of my concerns is that inflation has remained below the target during the current crisis, as the Governor reminded us in his introduction. In his final answer to my colleague, Mr. Fraser, he even mentioned that we were more likely in a period of deflation than inflation at the moment.

Although I understand that it may be only temporary, I'm worried about some disparities in a number of economic sectors, particularly for certain assets. While inflation has remained below the targets, I'm afraid that bubbles might form in some sectors, like the stock market or real estate. Examples of this might include principal and secondary residences in the residential sector.

Do you look at and analyze these aspects of the economy? If so, what is your reading on the possible risk of bubbles in these sectors?

Ms. Carolyn A. Wilkins: We look at financial markets very closely, and the price of assets in these markets. We also look at the real estate market. My colleague Toni Gravelle gave a speech this week specifically on the topic of households and businesses.

We all noticed a strong rebound in the real estate market this summer. We believe this was largely because of suppressed demand, by which I mean that there were people who wanted to buy a house, but could not. So when things began to open up again, everyone jumped on the bandwagon.

What we are seeing at the moment in these markets is not exactly what happened in Vancouver and elsewhere in 2016. There is not much speculation yet, but we need to continue to monitor it. It's too early in the recovery phase to really know. We're going to keep a close eye on it.

As for assets like the stock market or the fixed income market, it is unwise for a banker working at the Bank of Canada to comment. I can say that when we look at what's happening, it's normal for prices to increase when the interest rate goes down. It's part of the monetary policy transmission mechanism.

I am not commenting here on prices or on the fact that they appear normal and fair. It's up to the financial market to decide.

Mr. Gabriel Ste-Marie: Thank you.

The chair has indicated that I have time for a short question.

Many are out of pocket as a result of the economic crisis caused by the pandemic, like local companies and businesses, and the people who lost their jobs.There are others though—individuals, households and businesses—that have maintained the same level of income and very high savings. I can't remember ever seeing such high savings, particularly given that we're in a crisis.

Do you have any concerns about high savings in the economy?

What impacts might there be?

Mr. Tiff Macklem: I can take this one.

You're right that there's strong growth in savings. In our forecasts, we assumed that most of these higher savings would be permanent. Households will use them to pay down debt or to invest. We believe that they will spend some, but not most, of these savings.

It's also possible, particularly once there is a vaccine, that households will spend more than we have forecast. If so, the economy will bounce back more quickly. We shall see.

We use our judgment when making forecasts. There are a few upside risks, but also some downside risks.

● (1610)

[*English*]

The Chair: We'll go to Mr. Julian, for six minutes, and then to the next round with Mr. Poilievre, for five minutes.

Mr. Peter Julian (New Westminster—Burnaby, NDP): Thank you, Mr. Chair, and thank you, Governor Macklem and Deputy Governor Wilkins, for being here today. We always appreciate your visits to the finance committee.

Deputy Governor Wilkins, we wish you all the best in your future. We certainly hope, during this pandemic, that your families and your loved ones are safe and healthy.

This has been a traumatic and tragic period in Canadian history, what many people have attributed as the biggest convulsion, brought on by this pandemic, since the Second World War.

As you will recall, through the Second World War and in the aftermath, there was a change in function and mandate for the Bank of Canada. This week, many people, including dozens of economists in Le Devoir, have pointed to other central banks, for example, in New Zealand, where the mandate has been enlarged

For a generation, we've been focused on inflation control. People are saying, and many economists are in agreement, that the mandate should include, for example, pushing back against the massive inequality we've seen through this pandemic, dealing with and supporting the transition we have to make to deal with the climate emergency, and even looking at full employment.

I'd like your reaction, Governor Macklem, to these voices saying that the mandate needs to be broadened, so that we can tackle the challenges we have going through the pandemic, and the aftermath.

Mr. Tiff Macklem: You packed a lot into that question, so let's take it in two parts. I'm going to ask Ms. Wilkins to lead off. She's been leading our review of our inflation-targeting framework. I'll pick up on some of the points after we've heard from Ms. Wilkins.

Ms. Carolyn A. Wilkins: I'll be very brief in order to give you time, Governor. That was a big question, and an important one.

You're right. There has been a lot of focus on whether central banks can do better than their flexible inflation targeting. Our own research shows that in some dimensions, some other frameworks can do better. As an example, a dual mandate whereby you take into account both inflation and full employment might do better in stabilizing the economy in income space—stabilizing jobs.

At the same time, it does a little worse in stabilizing inflation. That's pretty intuitive. It comes at a cost of not being as simple and as straightforward in what we're actually trying to achieve. It makes it a little more difficult to be accountable for it, in part because you have two targets with one tool, but also because you have a target that is not really observable: no one knows what full employment is.

When it comes to the other objectives—climate change, income inequality—income inequality is certainly something we can take into account when we pick a framework, but monetary policy is a blunt instrument and can't pick and choose where growth happens.

I'll turn it over now to Governor Macklem.

Mr. Tiff Macklem: The points you raise are extremely important.

As Ms. Wilkins highlighted, we are doing a thorough review of our framework. I think what it's showing is that under some circumstances, some modifications can do better, but there's nothing that does systematically better.

We're not finished that review. and it would be premature to provide any conclusions. We are certainly looking at these issues.

What I will say, though—and I want to stress it—is that we take these things into account. The Bank of Canada Act tells us to promote the economic and financial well-being of Canadians. The inflation target, really, is the way we do that.

In order to keep inflation sustainably at 2%, we need to be very conscious of what's going on in labour markets. If there's a lot of unemployment, inflation is going to fall.

We are seeing that this crisis is widening divides in society, and inequality is something we have been talking about. It is a concern. If this recovery leaves some people behind, the productive capacity of our economy will be reduced. The sustainability of our own recovery will be reduced.

These things are factored in, but I think what we've learned over time is that we have to keep control of inflation while we do what we can for these other factors. If we lose sight of anchoring inflation expectations, then nothing works better: there are worse inflation outcomes, there are worse employment outcomes.

Climate change—I spoke about this last week—is going to be a major force in the economy over the next few decades. It's really important that the Bank of Canada understand the implications of climate change for the economy and for inflation.

We also have a role to promote the efficiency and stability of the financial system. We're already doing a fair amount of work on the stability of the financial system. If we have a very disruptive adjustment to climate change, we're going to see a big re-pricing of assets, a big revaluation of companies. That could spill into our financial system. It could certainly impair the ability of the financial system to support the real economy. It could even lead to instability in the financial system.

We began last year, in our financial system review, analyzing and discussing climate risks, largely those to the financial system. Last week we announced a pilot project with the Office of the Superintendent of Financial Institutions and six financial institutions to develop scenario analysis.

That's a tool, effectively. There's a lot of uncertainty about climate change and what the implications are, but the idea is that uncertainty shouldn't be an excuse for inaction. We're going to work with OSFI and these six financial institutions to develop some scenarios that financial institutions could use to assess their own risks. We'll use it to help them with risk management and work with them to develop a methodology and an approach to doing so. The idea is to make this easier for everyone.

● (1615)

The Chair: We will have to end that round there. That's the first time ever I've seen Mr. Julian only ask one question in six minutes. It was a heavy question for sure, Peter, but you'll be on a little later in another round.

We have Mr. Poilievre for five minutes, followed by Ms. Koutrakis.

Mr. Poilievre.

Hon. Pierre Poilievre (Carleton, CPC): What share of the new debt the federal government has added since March is locked in at current rates for 10 years or more?

Mr. Tiff Macklem: You'll have to ask the Minister of Finance, who does the debt management. You're going to get an update on, I guess, next Monday, so—

Hon. Pierre Poilievre: Okay. So you can't answer that question.

Mr. Tiff Macklem: No. That's a question for the Minister of Finance.

I can tell you what's on our balance—

Hon. Pierre Poilievre: I'm not asking about your balance sheet. I will get to that in a moment.

Who sells the federal government's debt into the market?

Mr. Tiff Macklem: We are the agent of the government. We run the government office—

Hon. Pierre Poilievre: You are responsible for it, then. You would know what share of the new debt is locked in for 10 years or more.

The Chair: Pierre, we will have to give the Governor time to answer. This is a very important issue, and I don't want to take this time from you. I don't want to be down to a four-second question and a four-second answer with the Governor of the Bank of Canada, so we are going to have to give at least minimal time.

Go ahead, Pierre.

● (1620)

Hon. Pierre Poilievre: I'm done. I asked my question. I'm still waiting for an answer.

Mr. Tiff Macklem: I don't have the full-term structure of the government's debt in front of me. These numbers change regularly. As you well know, the debt is evolving, the term structure is evolving. The government is in the process of terming out the debt—

Hon. Pierre Poilievre: Okay, you don't know. That's all right. Your bank is the one that's issuing the debt, but you don't know how much of it is long versus short term.

We keep being told there is no risk to all this debt because it's all going to be locked in for the long run, but the data on your website shows that 91% of it is for terms of less than 10 years and susceptible to interest rate hikes. Back in 1978 through to 1980, interest rates rose. They tripled. They went from 8% to 22%. No central banker planned that or anticipated it and yet it happened, and the Canadian economy suffered as a result.

Forget a triple increase. What would be the cost to the federal government of a one percentage point increase in the effective rate of interest on its debt?

Mr. Tiff Macklem: The current debt is about a trillion dollars, so you can multiply 0.01 by a trillion. That gives you the steady-state increase. In practice, of course, that debt is of varying maturity, so in the first year it will be the amount that rolls over in the first year. In the second year it will.... When the whole thing rolls over it will be 0.01 times a trillion. That could take several years.

Hon. Pierre Poilievre: What would be the effect of the cost to the Canadian economy of a 1% effective increase in the interest rate?

Mr. Tiff Macklem: Do you want a GDP number? What do you want exactly?

Hon. Pierre Poilievre: Dollars.

Mr. Tiff Macklem: The situation in which we'd increase interest rates is if the economy is in a better situation than it is now, so we're not—

Hon. Pierre Poilievre: So you can't give a number for that.

Mr. Tiff Macklem: As we've indicated from our forward guidance, we're not contemplating raising interest rates at the moment.

Hon. Pierre Poilievre: As I pointed out earlier, the governors don't always contemplate interest rate hikes and they happen anyway because of changes to market conditions and unforseen situations.

Let's move on now to the QE program, which is the massive purchase of government securities by the central bank.

You said a moment ago that your bank actually sells these securities to the marketplace and then buys them right back from the same investors to whom you sold them. What is to stop an investor from profiting off the difference between the price of a government bond or treasury that you sell them and the price you pay to buy them right back?

Mr. Tiff Macklem: Both of these are done in competitive auctions. The auctions are heavily oversubscribed. There are lots of bidders on both sides, so it's a competitive process. I think that should give you some assurance that—

Hon. Pierre Poilievre: I have no doubt it's competitive.

You've stated the purpose of quantitative easing is to drive up bond prices, so presumably you're paying more for the bond after you've increased its price through your actions than you sold it for. The difference is profit to the investor who bought them from you and sold them back. Ultimately, that cost has to fall on somebody's shoulders. Who actually pays that price?

Mr. Tiff Macklem: As I said, it's a competitive process. Exactly as you indicated, the way quantitative easing works is that by buying the bonds, that creates more demand, which pushes up the price and lowers the yield. That is how we're delivering monetary policy, lowering the cost of borrowing for Canadians. That's what it's doing.

Hon. Pierre Poilievre: Yes, but you're pumping $400 billion into financial markets, inflating financial assets and enriching the people who own those assets and who are overwhelmingly affluent and well-to-do people. In the process, you are diluting the wages of working class people.

Your own policy paper from your bank shows that inflationary costs are borne disproportionately by the poor and the disadvantaged. You're effectively transferring an enormous sum of wealth to those who have financial assets, while diluting the wages of working-class people. Are you not worried that this is going to expand the gap between rich and poor?

● (1625)

Mr. Tiff Macklem: There are a couple of parts to that question, so let me unpack it.

First of all, I agree with you entirely that inflation is borne disproportionately by the less wealthy people. They tend to operate more in cash, so they tend to disproportionately bear the cost of inflation. That's exactly why—that's an important reason why—the mandate of the Bank of Canada is to maintain low, stable and predictable inflation. That's something we can do for society.

Right now, inflation is actually too low. It's below our 2% target. It was 0.7% in October. As you're well aware, over 600,000 Canadians are unemployed. There's a lot of downward pressure on inflation. We're more worried about it going even lower, which can be harmful for other reasons.

Hon. Pierre Poilievre: Right. Thank you.

I would just point out that—

The Chair: We are considerably over time, Pierre.

Hon. Pierre Poilievre: Can I ask a 10-second question?

The Chair: No. We're already a minute over.

I'm not sure if Mr. Macklem had finished his answer. I was going to give him time to finish that very deep question.

Are you complete, Mr. Macklem?

Mr. Tiff Macklem: Yes, I think I've completed it.

The Chair: All right.

We'll likely have a little time later, Mr. Poilievre, because we have an hour and a half with these witnesses.

Ms. Koutrakis.

Hon. Pierre Poilievre: Thank you.

Ms. Annie Koutrakis (Vimy, Lib.): Thank you, Governor and senior deputy governor, for appearing before our committee this afternoon, and thank you for the service for all Canadians across this beautiful land.

I believe that the government's response has measured up to the unprecedented health and financial crises. We are starting to see the rebound leading to a better outcome in economic and employment growth, as virtually all public and private sector economists expected in the spring. I also believe that the federal government response was fully in line with the Bank of Canada's.

Having said that, I would like to ask a few questions on the Bank of Canada's balance sheet. Can you outline how the Bank of Canada plans on managing expanded balance sheets? What would you say to Canadians who are concerned with the rapid expansion of the bank's balance sheet? Is there a timeline for reducing the balance sheet to normal levels of assets and liabilities?

Mr. Tiff Macklem: I'll underline a couple of things. First of all, using balance sheet is part of our extended tool kit. It is an unusual thing. It's not something we've done before, but we haven't had a pandemic before. We have never before had the type of collapse in economic activity we've seen in recent months.

There is more uncertainty about it, and I could certainly understand that Canadians would have questions about it, but as I tried to outline in my opening remarks, it's really an alternative way for us to lower interest rates. Normally, we lower interest rates by simply lowering the policy rate, but now that the policy rate is at its effective lower bound, we can't do that anymore. Therefore, to lower rates further out the yield curve where households and businesses borrow, we buy government bonds and that pulls it down. Yes, it's a different tool, but it works effectively in the same way as our traditional tool.

In terms of our balance sheet, we've been very careful in our policies to define the conditions under which we would exit. With respect to quantitative easing, we've indicated that we will continue the program until the recovery is well under way. Once we decide that the recovery is sufficiently self-sustaining, it's well under way and it doesn't need quantitative easing anymore, other central banks have exited from this and there are a number of steps you could take.

That's still some time off, so we haven't made any decisions yet. However, to give you a picture of what that looks like, the first thing is that you'd buy less; then you'd stop buying, but keep reinvesting the bonds that roll off, to keep your balance sheet stable. The next thing you could do would be to stop reinvesting, so as things roll off, your balance sheet would go down gradually, and if you needed to, you could even sell assets and tighten monetary policy more quickly. Certainly if you became concerned that inflation was breaking out, that is something you could do.

With respect to interest rates, we've indicated that we would hold the policy rate at the effective lower bound until slack is absorbed. Again, that defines the conditions for exit. Once slack is absorbed, I think you could expect that we would begin to raise interest rates. Again, that's some time into the future. In our own projection, it's in 2023.

● (1630)

Ms. Annie Koutrakis: Thank you.

That's a great segue into my next question, because your most recent monetary policy report notes that a significant amount of slack and excess capacity in the economy will likely hold inflation down until 2022 or 2023. In addition to this, the PBO fiscal sustainability report published on November 6 says that the federal government's current fiscal policy is sustainable, with room to permanently increase spending. While federal levels of spending and debt are widely considered sustainable, there are concerns that the spending of some provinces is unsustainable.

What can the Bank of Canada do to address the fiscal sustainability of provinces, and is there a role that the federal government can play in managing provincial debt?

The Chair: Mr. Macklem, we'll try to get you to hold that to a minute, if you can.

Mr. Tiff Macklem: Okay. I think I can be pretty brief.

On the first part of the question, it's up to the provinces to manage their fiscal affairs responsibly. By lowering the yield curve for Government of Canada debt, that helps provincial governments too. They fund at a premium over the Government of Canada curve, so when you lower the Government of Canada curve, it tends to lower the provincial curve as well. Indirectly, we are reducing their cost of financing as well, but that would really be the extent of it.

The Chair: Thank you both.

We'll go to a short round by Mr. Ste-Marie, followed by Mr. Julian, for two and a half minutes each, and then we'll go on to Mr. Kelly for five minutes.

Mr. Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

At the beginning of the crisis in the spring, many stakeholders had concerns about the stability of Canada's financial system and the solvency of some provincial governments.

Now, eight or nine months later, how would you rate these two levels of stakeholders?

Mr. Tiff Macklem: I would ask Ms. Wilkins to answer you in a moment, because she was here in March and April.

To summarize, during that period, the Bank of Canada launched a program to purchase provincial bonds. The program was a way of providing support to help relaunch the market. It worked, and we have now discontinued our Provincial Bond Purchase Program.

The other program will remain in place until April. However, demand is very low because the market for provincial bonds is working very well at the moment.

Ms. Wilkins, could you add something? You were there when these programs were established.

Ms. Carolyn A. Wilkins: Yes.

It's true that there has for a long time been talk about high debt levels among certain stakeholders, both businesses and households, not only in Canada, but internationally as well. I can't speak about the solvency of the provinces individually. That question would have to go to someone else.

One way of understanding the financial markets' standpoint on risk is to look at risk premiums when provinces issue bonds. When we launched our program, it was very low, but the goal was to find a way of improving market performance. It was not intended to finance the provinces, but it worked for them. For Ontario and Quebec, the risk premium went to 120 basis points, which is nevertheless quite high. Today, it stands at half that figure. Risk premiums have dropped in all provinces.

Because the market is working better, we are no longer required to perform the same role that we did in the spring.

● (1635)

Mr. Gabriel Ste-Marie: Thank you.

[*English*]

The Chair: Mr. Julian, go ahead.

Mr. Peter Julian: I have three quick questions. Thank you for your fulsome answer to my last question.

Governor Macklem, you're in the process of doing a review for the renewal of the Bank of Canada's mandate next fall. Do you have a timeline for that, and is it something you would be able to share with the finance committee once that's completed?

Mr. Tiff Macklem: The current agreement goes to the end of 2021, so we would need to renew it before the end of next year. Yes, we would be very pleased to come to talk to the finance committee.

Mr. Peter Julian: Secondly, OSFI told us in testimony earlier this year that about $750 billion has been offered in liquidity supports to the banking sector. The Bank of Canada's share would have been about $300 billion.

Can you confirm what actual amount of liquidity support was offered to Canada's big banks?

Mr. Tiff Macklem: There are several programs, but the largest program is called the term repo program. It's basically a program where we lend them money. That money is critical to allow them to fund mortgages, personal loans and business loans.

Mr. Peter Julian: Yes, I'm aware of that. I'm looking for a figure.

Mr. Tiff Macklem: It changes, but on July 15, which would probably have been close to the peak, term repos were $195,905,000,000.

Mr. Peter Julian: That would be the complete support in liquidity offered by the Bank of Canada.

Mr. Tiff Macklem: That would be the biggest program. We stood up about 11 programs in the space of two weeks. Term repos would be the main tool to support their funding, but we were buying all sorts of assets: Canada mortgage bonds, Canadian government bonds—

Mr. Peter Julian: Is it possible—

Mr. Tiff Macklem: There are all sorts of—

Mr. Peter Julian: Sorry to cut you off.

Mr. Tiff Macklem: I can't just give you one number. There are 11 programs. They're changing every week.

Mr. Peter Julian: Would you—

The Chair: I wonder, to simplify this, could we get a bit of a written response to explain that? That might be the best way to go.

Your third question—

Mr. Tiff Macklem: That's a good suggestion, Chair. I'm happy to do that.

Mr. Peter Julian: Thank you so much.

Billionaires have increased their wealth by $53 billion. Deputy Governor Wilkins indicated that international tax policies needed to be changed so that digital companies contribute their fair share.

Are you worried—and I'm asking both of you—about this perception that some very big players have made a ton of money during this pandemic and regular folks are being left behind?

Mr. Tiff Macklem: We are concerned that this pandemic is widening divides in society. If you look at employment in particular, there's no question that this pandemic has particularly affected low-income Canadians. In our monetary policy report, one chart, which I find really quite stunning, shows that if you look at job losses since the beginning of the pandemic, low-wage Canadians have certainly regained some jobs, but these remain roughly 20% below pre-pandemic levels. Other Canadians are back to their pre-pandemic levels of employment, on average. What this really highlights is that this pandemic has particularly affected low-wage workers. Many of them are youth, women and recent immigrants, and we are concerned that the longer people are unemployed, their skills deteriorate and it's harder to get back into the labour force and, therefore, they may become discouraged and give up looking for a job. That's why it's really important that we do everything we can to help the economy recover and get Canadians back to work. That really is why we are providing this extraordinary amount of monetary policy stimulus, to get people back to work and get inflation back to target. That's the best contribution we can make to try to reverse the widening divides that this pandemic has created.

● (1640)

The Chair: Okay. Thank you.

We will have to move on.

I'll give you the round out to conclude at 5 p.m. We have Mr. Kelly, Mr. Fragiskatos, Mr. Poilievre, I believe, and Ms. Dzerowicz, and we'll try to fit Mr. McLeod in at the end so that everybody has an opportunity.

Mr. Kelly.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): How much does the Bank of Canada stand to lose if interest rates rise prior to the maturity dates of the securities you hold?

Mr. Tiff Macklem: The Bank of Canada's purchase programs are indemnified by the Government of Canada, so we wouldn't lose.

Mr. Pat Kelly: If rates rise, what is the risk to the Canadian economy and to Canadians?

Mr. Tiff Macklem: There is the potential that if we were to sell the bonds before they reach maturity, there could be capital gains or losses on them. That's just normal. If we hold them to maturity, of course, those don't get realized. It's a difficult question to answer. We've indicated that our quantitative easing program will continue until the recovery's well under way—

Mr. Pat Kelly: You've said that—

Mr. Tiff Macklem: I expect that we would then hold those bonds for some time.

Mr. Pat Kelly: You have said several times today that.... You were asked by Ms. Jansen if you were going to discontinue quantitative easing when inflation hits 2%. You said that you expect recovery to be well under way before that. When we know we have recovery well under way, when can you commit to ending quantitative easing?

Mr. Tiff Macklem: I'd love to be able to put this on a calendar for everybody, but there's a very high degree of uncertainty about the evolution of the economy, which really is closely linked to the uncertainty about the evolution of the virus. Unfortunately, we're living that as we speak, as we see cases rise and new restrictions having to be imposed on the economy. We've been very clear about the conditions under which we would do this. We're not in a position to put that on a calendar with any high degree of confidence, and I wouldn't want to give you a false sense of precision.

Mr. Pat Kelly: Okay. It seemed less clear when it was no longer about the 2% inflation threshold.

I have only a few moments, so I will cede my time to Mr. Poilievre. I think he has a question he wants to get in.

The Chair: He will have another round as well, Mr. Kelly.

Go ahead, Mr. Poilievre. You have about three minutes.

Hon. Pierre Poilievre: Yes.

Mr. Governor, let me tell you that it gives me no comfort whatsoever that you are indemnified by the Government of Canada. That means that the taxpayer has to pick up any losses you have.

Mr. Kelly's question was a good one. You're buying these bonds at inflated prices, because of course you've inflated them by pumping $400 billion into markets. As interest rates return to normal, those bond prices go down, because of course bond prices are inversely correlated with rates of interest. In other words, you would be in a financial loss position on those bonds. We're talking about almost half a trillion dollars' worth of bonds and treasuries here.

How much would the Bank lose if interest rates over the medium term returned to normal levels?

Mr. Tiff Macklem: As I said to the previous question, if you hold them to maturity, you're not going to realize that loss. I think what you need to keep in mind is that we don't run monetary policy to maximize our revenue. We run monetary policy to support the Canadian economy and bring inflation back to target.

Hon. Pierre Poilievre: Right. But—

Mr. Tiff Macklem: That's the goal of monetary policy.

Hon. Pierre Poilievre: Right.

Mr. Tiff Macklem: That's what guides us in our decisions.

Hon. Pierre Poilievre: You say that if you just keep holding on to these bonds until they mature, you won't have a capital gain or loss. That is of course true, but you'll have a loss every single year, as the interest rates you have to pay your depositors under normal circumstances rise above the amount you're collecting from the Government of Canada, which means that you would be in an annual loss position. As you admitted earlier on, that loss is borne by the Canadian taxpayer. If you're paying your depositors a higher rate of interest, as you would be under normal interest rate levels, then you're collecting from the Government of Canada on the treasuries and bonds you hold, you're losing money every year, and taxpayers are picking up the cost.

Explain to us why we should be comforted at all that you're holding all of this stuff when the losses you incur are all passed on to our taxpayers.

● (1645)

Mr. Tiff Macklem: The Bank of Canada normally makes money. If you look back, it's made money every year. Because we earn the seigniorage on the currency that we produce, and our expenses use up only a part of that seigniorage, we remit a cheque every quarter to the Government of Canada.

The Chair: We are—

Hon. Pierre Poilievre: Would that be the case if interest rates rose?

Mr. Tiff Macklem: You know, it's very difficult to provide forecasts against a whole series of hypotheticals here.

The Chair: We'll end that round on the hypotheticals, for the moment, and we'll be back to it, Mr. Poilievre, in the next round.

We have Mr. Fragiskatos, who I think will be followed by Pierre again.

Mr. Fragiskatos.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Mr. Chair.

Thank you, Governor Macklem and Senior Deputy Governor Wilkins, for being here today.

Governor, first of all, you talked about the need for citizens to be able to trust their institutions and those who run their institutions. We have some members of the opposition who have perpetuated a theory that has developed since the onset of the pandemic that suggests there is a plot under way to impose some sort of socialist world order onto the world in the interests of the elite—the elite being in the financial sector, the politicos of the world—who want to remake the world in some sort of socialist image, if I can put it that way.

That's what I understand about this conspiracy theory called the “great reset”. I can't believe I'm asking this question at a parliamentary committee, but trust is the essential glue of democracy. Is there any merit to this idea?

Mr. Tiff Macklem: Um, I'm not exactly sure what the question is—

The Chair: I'll bet that's the first time you were ever asked that question, Mr. Macklem.

Mr. Tiff Macklem: Yes. As a rule, central bankers don't usually comment on conspiracy theories, but let me just underline that—

Mr. Peter Fragiskatos: This is the world we live in, unfortunately, and unfortunately, MPs in the opposition are perpetuating such theories.

The Chair: Let Mr. Macklem answer the question, Peter.

Mr. Tiff Macklem: What I will say is that I entirely agree that trust is an essential ingredient. In many ways, the central bank is in the business of trust or confidence. Our job is to ensure that people can have confidence in the value of money; they can have confidence in the stability of the economy; they can have confidence in the stability of the financial system. Our system really relies on that trust or confidence.

As I said in my opening remarks, these types of appearances in front of parliamentarians are part of maintaining the trust of Canadians and being accountable to them.

Mr. Peter Fragiskatos: I appreciate that, and I see no nefarious plot behind any policies that seek to deal with climate change, that seek to reduce inequalities or that aim to deal with other challenges over time.

Thank you to your entire team for the work you are doing.

I also want to ask you to be crystal clear about our finances. Are the debt and deficits facing Canada sustainable?

Mr. Tiff Macklem: Currently markets are funding your debt fine. Canada has the lowest debt to GDP ratio in the G7, and the programs that are supporting the economy have certainly been very helpful in underpinning it, and preventing a much worse outcome, and they're going to be very important in supporting the recovery.

As I said last time, we've learned a few things from past recessions and past episodes. We know that, in 2008-09, globally the stimulus was withdrawn too quickly, which caused the recovery to be much slower than it otherwise could have been.

On the other hand, we know from our own experience in Canada in the 1990s that if we get ourselves into a situation of a structural deficit, that will create a new problem, so you do have to guard against that on the other side.

● (1650)

Mr. Peter Fragiskatos: Thank you very much.

I have a minute remaining for the subject of climate change, which I know you are incredibly passionate about. I think it is fair to say that after the 2008 recession, the issue of climate change was more or less ignored by governments, not just at the federal level in this country but in other democracies as well.

We have an opportunity now to get serious about climate change, and I'm glad to see the government move in the direction of embracing a net-zero vision going forward, but what would you say to those who suggest that, instead of seizing the day and focusing on climate change, we should put that aside in favour of more traditional approaches to economic growth and the economic recovery that will follow the pandemic?

Governor, what are your thoughts on that? Can we still focus on climate change and do what's right by the economy? Can we chew gum and walk at the same time, so to speak?

Mr. Tiff Macklem: Last week at the Public Policy Forum, I did make some remarks on the topic of climate change, in particular what the Bank of Canada is doing with respect to climate change.

What I would say is that climate change is becoming a competitiveness issue for Canadian businesses. Increasingly, consumers, investors and workers care about the environmental footprint of the products they buy, the companies they work for and the companies they are investing in, and that's being reflected in capital flows. As you mentioned, and I would agree with you, coming out of 2008-09, climate change was put on the back burner.

This time, interestingly, this crisis seems to have elevated people's attention to the need to build greater resilience and avoid catastrophes, and with that, you're seeing very large flows of capital into environmental, social and governance, so-called ESG types of investments. The rapid acceleration of money into those types of investments has not slowed down through this crisis.

The Chair: We will have to end it there.

I'm assuming, Mr. Poilievre, that you up are for the official opposition in this next round.

We'll go to Mr. Poilievre followed by Ms. Dzerowicz.

Hon. Pierre Poilievre: The three measurements of core inflation have inflation almost on target already. They're in the 1.6 to 1.8 range, so we're getting near the target. The only reason that the CPI is below that is the one-time drop in fuel prices and some peculiarities in the costs of accommodation because of the collapse of the hotel sector, but other than that, inflation is basically at target.

Why are you continuing to print money and buy government bonds when we're on target on inflation?

Mr. Tiff Macklem: There are a couple of things. First of all, as I think you know, the target is total CPI inflation. That's what matters to Canadians in what they buy. It was 0.7 in October, and, yes, as the oil price shock falls out of the year-over-year number, we would expect inflation to come up gradually, but there is a tremendous amount of excess or unused capacity in the economy.

More than 600,000 Canadians have not got their jobs back, and our view is that we're in a very slow phase of the recovery. We started the reopening phase with a very impressive bounce back in economic activity. That reopening phase is now over and we're into a slower, choppier, bumpier, tougher recuperation phase where we still have a lot of unemployment. Just to put that 600,000 in perspective, at the worst part of the 2008-09 financial crisis in Canada, we lost about 430,000 jobs. We still have more than that to get back.

Hon. Pierre Poilievre: Yes.

Mr. Tiff Macklem: That's putting a lot of downward pressure on inflation, so we're leaning against that downward pressure to try to keep inflation from falling and, in fact, nudge it back up toward the target.

Hon. Pierre Poilievre: That being said, you're quite right that the economy is much worse here than it was in 2008, both in absolute and in relative terms to our competitors. We are the second worst in terms of unemployment in the G7 right now. That was not the case back then.

It is possible for inflation and high unemployment to coexist. In fact, we had something called “stagflation” in the seventies and eighties. It's incredible that we have core inflation almost at target, even with exceptionally high unemployment, which suggests that you cannot necessarily expect that inflation is going to stay low until unemployment comes down.

What makes you so sure that we will not experience the same kind of bout of stagflation that happened back in the late seventies and early eighties, when governments were pursuing the exact same policies as now, which are big deficits financed by printing at central banks?

● (1655)

Mr. Tiff Macklem: I agree with you. There are important supply elements to this shock, as well as demand elements. To effect that supply is constrained, it adds cost pressure that will counterbalance some of the downward pressure coming from lack of demand. We are seeing that in some parts of the economy, where we've seen increases in demand or particularly severe supply constraints.

However, certainly from what we've seen so far and that we expect to continue, we think the disinflationary aspects outweigh those cost-push elements, so we think the net effect is negative.

Hon. Pierre Poilievre: Could I just ask one last question, Mr. Chair?

Mr. Tiff Macklem: It may not be that we're entirely right. That's one of the beauties of an inflation target. Our goal is the inflation target and that keeps us grounded. That is what we're focusing on. If it turns out that we're wrong and there's more inflationary pressure than we expect, we will adjust. We have the tools to adjust.

Hon. Pierre Poilievre: Can you commit to this committee that you will not abandon the current inflation target? It's a yes or no.

Mr. Tiff Macklem: Yes.

Hon. Pierre Poilievre: Thank you.

The Chair: Thank you both.

We'll go to Ms. Dzerowicz and then we'll follow with Mr. McLeod for a couple of minutes.

Ms. Dzerowicz.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you, Mr. Chair.

I want to start by saying an enormous thanks to you, Governor, and to the deputy governor, for your tremendous leadership during this pandemic and for your wonderful service to our nation.

I'm going to start with you, Governor. I have three sets of questions, so I'm going to try to get through them very quickly.

You mentioned that Canada has the lowest debt to GDP ratio. You also mentioned that the emergency support programs we've implemented have been very helpful to our economy and prevented a worse outcome.

Can you please tell us how Canada compares with our G7 allies in how we are doing?

Mr. Tiff Macklem: How it compares on what dimension?

Ms. Julie Dzerowicz: It's in terms of how well we're doing with our debt to GDP ratio and our programs. You heard Mr. Poilievre mention that we have a really bad unemployment rate compared with the other G7 nations, even though 76% of all jobs that were lost during the pandemic have returned.

How is Canada doing economically, as we're moving through this pandemic, compared with other G7 nations?

Mr. Tiff Macklem: The short answer is that all of the G7 countries have been hugely impacted by this pandemic. It has spared no country around the world.

Canada and the G7 countries in general are fortunate to be pretty rich countries and have the fiscal capacity to respond to help the most vulnerable. They have a history of credible, low, stable inflation and therefore have the ability to implement extraordinary monetary policies.

Sadly, many other countries around the world are not so fortunate, and their outcomes are considerably worse.

Ms. Julie Dzerowicz: Thank you.

You have spent quite a bit of time today talking about how this pandemic has widened the divide in our country and saying that it could worsen further if we don't have the right response. You also indicated, a little earlier in your testimony, that our income supports have been very helpful.

We are known, I believe, to be very generous with our emergency supports. We've created a very flexible EI system, we have the Canada recovery benefit, we've put in a tremendous amount into training and retraining, and I believe that it's anticipated that we will be providing—I don't know when this will be happening—sector supports to those sectors that have been disproportionately impacted.

What more could we be doing? I think this government, from the very beginning when we were elected in 2015—when we increased taxes on the top 1% or reduced them on the middle class and then introduced the Canada child benefit—has been extraordinarily concerned about income inequality. All of our measures are very much concerned about this as well. Is there something we're not doing that we should be doing?

● (1700)

Mr. Tiff Macklem: I'm going to leave these questions for parliamentarians to debate and come to conclusions on. Let me just highlight a few things, though, that I think you want to make sure are top of mind.

One thing that is important to keep in mind is that what we really have to avoid is longer-term unemployment, because that is really where you will have ongoing costs to society. Just to give you a simple statistic, somebody who is permanently laid off takes twice as long to get their job back as somebody who is temporarily laid off.

Ms. Julie Dzerowicz: Mr. Macklem, I'm sorry, but I have one more question for you. I apologize, but I want to get to this one more question, if that's okay.

Mr. Tiff Macklem: Okay.

Ms. Julie Dzerowicz: Then maybe, if you have time at the end, you can finish off what you were mentioning, if that's okay.

It's that so much misinformation is proffered and comes out during this committee's meetings. I believe that my colleague, Mr. Fragiskatos, tried to address this. It's the belief that there's a secret movement afoot whereby the wealthy and elite of our society are trying to use this pandemic to enrich themselves to the detriment of the middle and the working classes.

I want to ask you two very specific questions

Are the Bank of Canada's measures and actions—the bond market purchase and the quantitative easing—specifically designed to negatively impact lower- and middle-class Canadians?

Mr. Tiff Macklem: Obviously not.

Ms. Julie Dzerowicz: Okay.

Is the Bank of Canada devising its measures and actions to positively impact the wealthy in Canada?

Mr. Tiff Macklem: No.

Let me just say that any policy that anybody takes is going to have different distributional effects. We're certainly doing everything we can to minimize those.

We're very focused on using our tools to support the economy, get people back to work and get inflation back to target. We change interest rates. Obviously that's bad for savers: they are getting a lower return; borrowers are getting a better borrowing rate.

There are inevitable distributional effects, but the goal really is to get Canadians back to work and get inflation back to target, and that is a broad-based benefit for society.

Ms. Julie Dzerowicz: Thank you.

The Chair: Thank you both.

I want all of our members to be able to ask a question, so Mr. McLeod, you will have to wrap it up. If you can go to one question and a supplementary, that would be great.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair, I'll be quick.

Mr. Tiff Macklem: I'm going to give this last question, if possible, to Senior Deputy Governor Wilkins and give her the opportunity to have the last word.

The Chair: Okay, if you folks don't mind staying a little longer, we'll do that. Then we'll go to Mr. McLeod.

Mr. Tiff Macklem: Well, why don't you let Mr. McLeod ask his question? Then we'll go to the deputy governor.

The Chair: All right. We'll sort it out; there's no problem.

Mr. McLeod, go ahead.

Mr. Michael McLeod: Thank you, Mr. Chair.

I want to ask a question regarding something that was asked earlier about the cost of borrowing if the interest rate went up by 1%. I want to know what kind of conditions we would need to see before considering a 1% increase in interest rates.

You mentioned earlier that the Bank doesn't finance governments but affects the cost of borrowing, so I'd like to ask that question.

Mr. Tiff Macklem: I think that's a perfect final question.

We can get our last bit of policy advice at this committee from Senior Deputy Governor Wilkins.

● (1705)

Ms. Carolyn A. Wilkins: We've said publicly that we commit to keeping interest rates where they are, which is low, until the output gaps and the economy are operating at full capacity. According to our forecast, that's not soon; that's somewhere in 2023. To get an increase after that of 1% or more is a function of how well the economy is doing.

If we're in a situation where we can raise interest rates back to a more neutral level, which we now think is about two and a quarter per cent, that's very good news for Canadians, and it's very good news for businesses and households. That's point number one.

In terms of those costs, when you talk about raising interest rates, we raise the short-term interest rate but the markets decide what longer-term interest rates are going to be. This includes rates that are faced by businesses, households and governments. The ultimate impact on borrowers depends on what happens to that interest rate curve. You can do calculations but they're all going to be hypothetical until it actually happens.

We're not trying to be coy by not giving specific numbers; we're trying to be realistic about what we can know for sure.

Back to your question, when interest rates start to rise it's going to be because the Canadian economy is on a solid footing.

I would like to say one last word.

The last six and a half years as senior deputy governor have been an honour. You show a lot of respect for the Bank of Canada and a lot of confidence in me. I'd like to thank you for that. I'm really proud of what the bank has accomplished with the team, and I know going forward that it is in excellent hands with Tiff Macklem and the whole team.

The Chair: Thank you, both.

Mr. Michael McLeod: Thank you.

The Chair: Thank you.

Ms. Wilkins, you've given us lots of reason to show confidence in you. That's the bottom line.

I do want to thank both of you for your appearance here today.

Hon. Pierre Poilievre: I have a point of order, Mr. Chair.

The Chair: What's your point of order?

Hon. Pierre Poilievre: I think you'll find unanimous consent for the committee to thank the senior deputy governor for her many years of service to Canada and for her hard work.

We wish her well in all her future endeavours.

The Chair: I don't see any objection to that point of order.

Not from you, Gabriel?

Mr. Ste-Marie said he just wanted to say the same thing in French.

I think that's a good note to end on.

Thank you, both, for your appearance.

I do know that at the Bank of Canada, certainly during the early times of this pandemic, every single one of the staff within the bank would be working long hours trying to figure out solutions.

Please pass our thanks to them as well.

Again, thank you very much for your appearance.

Steering committee members, we will reconvene in a few moments. You'll have to sign out and then sign back in.

This meeting is adjourned.

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