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Chair: Mr. John Williamson

Standing Committee on Public Accounts

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● (1550)

[*Translation*]

The Chair (Mr. John Williamson (New Brunswick Southwest, CPC)): Good afternoon.

I call the meeting to order.

Welcome to meeting number 119 of the House of Commons Standing Committee on Public Accounts.

[*English*]

Today's meeting is taking place in a hybrid format, pursuant to the Standing Orders. Members are attending in person in the room and remotely by using the Zoom application.

[*Translation*]

Before we get started, I'd like to go over a few important safety measures for all the members and meeting participants in the room.

[*English*]

To prevent disruptive and potentially harmful audio feedback incidents that can cause injuries, all in-person participants are reminded to keep their earpieces away from all microphones at all times.

The following measures have been taken to help prevent audio feedback incidents.

By default, all unused earpieces will be unplugged at the start of the meeting. If you do plug your earpiece in and then you are not using it, please place it face down on the middle of the sticker that you will find on the table for this purpose, as indicated. It's generally on your right.

If you have any other concerns or questions, please consult the cards on the table for guidelines to prevent audio feedback.

These measures, I will remind you, are in place so that we can conduct our business without interruption and protect the health and safety of all participants, including and especially the interpreters.

[*Translation*]

Thank you for your co-operation.

[*English*]

This is a reminder that all comments today should be addressed through the chair.

[*Translation*]

Pursuant to Standing Order 108(3)(g), the committee is meeting to study the Public Accounts of Canada 2023, which were referred to the committee on Tuesday, October 24, 2023.

[*English*]

I would like to welcome our witnesses.

First, I apologize for starting a little late today. We had some votes over in the House of Commons, which I in particular am not able to control, as I'm sure you'll understand. These are decisions that are made by the House, and we, as members, are subject to them.

I'll proceed without further ado.

From the Bank of Canada, we have Carolyn Rogers, senior deputy governor. Thank you for coming in today.

Coralia Bulhoes is the managing director and chief financial officer. It's nice to see you as well.

From the Department of Finance, we have Evelyn Dancey, assistant deputy minister, fiscal policy branch.

Good day. It's nice to see you again.

As well, we have Nicolas Moreau, associate assistant deputy minister, financial sector policy branch.

To all the members, both the Bank of Canada and the finance department have indicated they do not have opening remarks, so I am going to turn it right over to our first round.

Mr. Chambers, you have the floor for up to six minutes, please.

Mr. Adam Chambers (Simcoe North, CPC): Thank you very much, Mr. Chair.

Welcome to the committee. It's one of my first times at the public accounts committee in a while. It's nice to see you again.

I want to stay on the bank losses for a moment. In 2022-23, the loss was $3.1 billion. Is that correct?

Ms. Carolyn Rogers (Senior Deputy Governor, Bank of Canada): There's a little bit of a transposition. Our year-end figure and the Department of Finance's year-end figure don't match up. If you're looking at the public accounts number, that's the correct number.

Mr. Adam Chambers: I don't have the number in front of me. Was there a loss recorded in the year prior?

Ms. Carolyn Rogers: On accounts, I'll turn to my colleagues.

Mr. Adam Chambers: It's for 2021-22.

Ms. Carolyn Rogers: I have 2022-23 numbers with me.

Mr. Adam Chambers: You don't have them. That's okay—

Ms. Coralia Bulhoes (Managing Director and Chief Financial Officer, Bank of Canada): It's a surplus. We had a surplus in the public accounts of $2.3 billion.

Mr. Adam Chambers: We went from a surplus in 2021-22 to a loss in 2022-23, and the expectation is for a loss again in this next year. Is that correct?

Ms. Coralia Bulhoes: That's correct.

Mr. Adam Chambers: My understanding is that the loss is actually very sensitive to the prevailing interest rates. That is, if the interest rate goes down, the losses will shrink. Is that correct?

Ms. Carolyn Rogers: That is correct.

Mr. Adam Chambers: If the interest rate stays where it is or goes up, the losses will grow. Is that correct?

Ms. Carolyn Rogers: That is correct. As you said, it's sensitive to interest rates.

Mr. Adam Chambers: The government's projections are that interest rates will actually go down. The government is projecting for its fiscal track or its fiscal health that interest rates will actually fall.

If interest rates just stay the same, that means the loss will actually be bigger than what the government projects. Is that correct?

● (1555)

Ms. Carolyn Rogers: I'm not able to speak for the government's projection. I'll maybe ask my colleagues to do that.

Ms. Evelyn Dancey (Assistant Deputy Minister, Fiscal Policy Branch, Department of Finance): We have a limited ability to forecast Crown corporation income into the future, but what you've described as the general relationship between interest rates holds.

Mr. Adam Chambers: Okay, but the Department of Finance does have a projection for losses of the bank going forward, does it not?

Ms. Evelyn Dancey: We do.

Mr. Adam Chambers: Okay. That projection was not shared in the budget. I'll note that the Bank of Canada losses were consolidated with the government's Canada mortgage bonds program.

I'll ask the bank. Am I correct that it wasn't the bank's choice to consolidate that line item in the budget? You weren't consulted on that.

Ms. Carolyn Rogers: We weren't, not that we're aware of.

Mr. Adam Chambers: This is for the finance department.

Negative $3 billion is a relatively material number. It would be very helpful for committee members and Parliament if we knew what the government projects these bank losses to be in the future. Is that something you could provide to the committee?

Ms. Evelyn Dancey: It is. For the presentational purposes in the budget, as you say, we aggregate with other Crown corporations, but we're able to follow up in writing.

Mr. Adam Chambers: Thank you very much. That would be very helpful.

Part of the other reasons that there are losses is that the bank purchased government bonds. Am I correct that these losses are a direct result of the quantitative easing activities that the bank undertook during COVID?

Ms. Carolyn Rogers: Correct.

Mr. Adam Chambers: I definitely look forward to the projections of the losses.

If I may, I'll just switch gears a little bit and talk about M2 money supply.

I saw a chart that showed the Bank of Canada's balance sheet shrinking over time, which makes sense with quantitative tightening, but I've also seen a chart showing M2 is actually growing. I'm trying to understand why that's the case. If the bank is shrinking the balance sheet, how is the measure of M2 growing? Where's the money coming from?

Ms. Carolyn Rogers: There are different definitions of the supply of money, and they measure different things.

M2 would largely grow or shrink according to demand for loans at banks. I think of M2 as the supply of money that's generated by commercial banks. As there is an increasing demand for loans, banks can increase the supply of M2 by providing more loans. Those loans ultimately end up in savings accounts and other places around the economy.

Generally the demand for credit has been coming down and the M2 numbers are relatively low over historical perspectives. They are lower, but you wouldn't necessarily see those show up on our balance sheet.

Mr. Adam Chambers: Thank you. I have two quick follow-ups on that.

Is it possible that the government's borrowing activities, which are very substantial—not the rollover in debt per year, but the new funds of $102 billion required this year and $63 billion last year—are contributing to the growth of M2? It's a demand for credit.

Ms. Carolyn Rogers: Not directly, but I guess indirectly, yes.

Mr. Adam Chambers: Okay, so it's potentially indirectly.

This is my last question, Mr. Chair.

Would you be able to share the components of M2, the parts of M2 that are growing, with the committee so that we might be able to understand and try to figure out where the money's coming from?

Ms. Carolyn Rogers: Yes, I think we can probably do that.

Mr. Adam Chambers: Okay, thank you very much. I appreciate your time.

The Chair: Thank you, Mr. Chambers.

I'll turn now to Ms. Khalid.

You have the floor for six minutes, please.

Ms. Iqra Khalid (Mississauga—Erin Mills, Lib.): Thank you very much, Chair, and thank you to the witnesses for being here today.

I'll start with the Bank of Canada representatives.

In the bank's latest monetary policy report, you note that there's been a downward momentum in core inflation and that should this continue, it will put inflation down further.

Can you expand on this a little bit and help us understand when we can expect to see inflation rates return to target?

Ms. Carolyn Rogers: My colleague and I are here on the assumption we wanted to talk about public accounts and the bank's financial statements today. The governor and I appeared twice last week—once in front of the House finance committee, once in front of the Senate bank committee—and we've answered most of these questions.

I can maybe give you a short answer.

We're tracking a number of things ahead of each interest rate decision. We pay close attention to core inflation, because it's a good measure of what we call the underlying momentum in inflation, and it strips out some of the more volatile elements. That's a number we pay close attention to, but we're looking at a number of variables each time we make a decision. Our next decision is in a couple of weeks.

● (1600)

Ms. Iqra Khalid: What are you projecting for that next decision?

Ms. Carolyn Rogers: I'm projecting that we'll make it with the data that we have in front of us at the time of that decision.

Ms. Iqra Khalid: Thanks.

After the budget was tabled, Governor Macklem made comments about the government's fiscal guardrails and about how the budget committing to those guardrails is helpful. As we see core inflation continue to come down, can you expand on your comments about how Canada's fiscal position has not really changed since the budget was presented?

Ms. Carolyn Rogers: Again, I would just repeat the remarks that we made last week.

Ms. Iqra Khalid: I'm sorry; I wasn't at that committee, so if you could....

Ms. Carolyn Rogers: Sure. I'm absolutely going to repeat them.

We look at the overall spending of all levels of government when we make our projections, and we take that as a given. The budget that came out most recently from the federal government came out between our projections, so we will take a close look at it, and it will be incorporated into our next forecast. However, as the governor said last week, the broad outline of the budget and the additional spending combined with the tax measures kept the government within its fiscal guardrails. To that degree, we don't expect that the budget will have a material impact on inflation.

Ms. Iqra Khalid: Thanks for that.

Many countries are dealing with very similar economic challenges and uncertainty in tackling the challenge of bringing inflation down. Can you perhaps speak to how Canada is faring in comparison to other G7 countries?

Ms. Carolyn Rogers: The country that many Canadians watch most closely would be the United States. I would say, broadly, that in the United States right now, the economy is relatively stronger compared to the Canadian economy, and inflation is a little “stickier”; that's the term we would use. They're having a more difficult time getting inflation down. Underlying inflation looks to be coming down a little more quickly in Canada. We need to see more data, but that has been what I would characterize as the most recent trend.

Ms. Iqra Khalid: Is it a fair comparison to compare the U.S. economy with the Canadian economy? I know we have significant differences between the two in how things operate. Is there a more comparable G7 nation that you think you can perhaps compare Canada to?

Ms. Carolyn Rogers: I think the reason we often compare Canada to the U.S. is that it's an economy that has a relatively big effect on our own. It's our largest trading partner. I think that's really the reason we often compare Canada to the U.S.

Ms. Iqra Khalid: I know we often say—and in fact it's accurate—that in the past eight years, we have signed more trade deals with other countries across the world than at any time in history, trying to diversify our own economic prospects here in Canada. Do you think that has had an impact on how our economic recovery has been going?

Ms. Carolyn Rogers: In general, for a small open economy like Canada, trade deals are an important part of strengthening our economy. I'll put it that way.

Ms. Iqra Khalid: Thanks very much.

I'll turn to our finance officials here.

The public accounts reported that the deficit was $17.5 billion lower than forecast. Given this fact and the fact that we maintain both the lowest deficit and the best net debt-to-GDP ratio of any G7 country, what does that say about the direction of our fiscal policy here in Canada?

Ms. Evelyn Dancey: The trends you've identified are again confirmed in the budget tabled, and we anticipate retaining that kind of fiscal strength in an international comparative context.

We have projected nominal deficits that are modest in size and projected to fall over our budgetary horizon, as well as a diminishing debt-to-GDP ratio, which is the government's fiscal anchor. Thus far—I'll just repeat the use of the terminology—the fiscal guardrails or guideposts that have been established by the government have supported a fiscal strength that has been noted by the credit rating agencies. We continue to have our AAA rating. We hope to continue that in the future, and I think our guardrails are a part of that.

● (1605)

Ms. Iqra Khalid: Thank you.

I have just one last question. Do you think that the impact of doom-and-gloom projections, by perhaps the Conservatives, have an impact on how people invest in Canada and on our economic outlook over the next year or so?

Mr. Nicolas Moreau (Associate Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): One way to look at it is to go back to the credit ratings agencies. Since we published the budget, they have looked at our numbers, and one of the rating agencies, Moody's, reiterated our AAA rating. S&P and Fitch also came out with a report saying that the track that we have there of declining debt to GDP was a positive thing, moving forward.

Overall, I don't think the investment mood in Canada changed that much following the budget. That was because of the well-received comments that we got from the ratings agencies.

The Chair: Thank you very much.

[*Translation*]

We now go to Mr. Lemire for six minutes.

Mr. Sébastien Lemire (Abitibi—Témiscamingue, BQ): Thank you, Mr. Chair.

My first question is for the Bank of Canada officials.

The figures show that money supply growth was very high in 2020 and 2021. Would you say that has to do with the Bank of Canada's monetary policy or the government's expansionary fiscal policy?

[*English*]

Ms. Carolyn Rogers: I'm sorry, but can you repeat your question? I didn't hear the...

[*Translation*]

Mr. Sébastien Lemire: We see that money supply growth was very high in 2020 and 2021. Does that have to do with the Bank of Canada's monetary policy or the government's expansionary fiscal policy?

Ms. Carolyn Rogers: Thank you for your question. I'm going to answer in English, if you don't mind.

Mr. Sébastien Lemire: By all means. Our interpreters are great.

[*English*]

Ms. Carolyn Rogers: If I understand your question, you're asking whether the expansion.... It's similar to the previous question from Mr. Chambers. Is the monetary base or the different monetary aggregates that we would use a result of the monetary policy of the Bank of Canada? Do I understand your question correctly?

[*Translation*]

Mr. Sébastien Lemire: We always hear Pierre Poilievre blaming the government's expansionary fiscal policy for inflation being so high, but then he also blames the Bank of Canada.

Can you enlighten us? Between the two arguments, where does the reality lie?

[*English*]

Ms. Carolyn Rogers: There are different measures of money supply, what we call different monetary aggregates. There are printed banknotes and there are central bank reserves that are held by members of Payments Canada at the bank and there is the measure that Mr. Chambers asked me about, M2, which includes bank accounts that people like you and me have. The measure of money supply that went up as a direct result of our monetary policy was the central bank reserves. Those have expanded significantly as a result of our monetary policy. It's a direct result of the quantitative easing that the bank undertook.

[*Translation*]

Mr. Sébastien Lemire: Thank you. It's helpful to hear that answer outside the political context. I was being non-partisan when I asked the question.

Inflation hit 5.1% in January 2022. The Bank of Canada did not start raising its key policy rate until March 2022, when inflation was at 6.7%.

Why did you wait so long to raise the rate if the bank's main objective is to keep inflation at 2%?

[*English*]

Ms. Carolyn Rogers: Again, I'm just going to repeat your question to make sure I understand it, sir. Were you asking about the pace of the increase in inflation relative to the pace of the increase in our policy rate, and asking why we waited? That is fundamentally what you asked. Is that correct?

[*Translation*]

Mr. Sébastien Lemire: If your target is 2%, why did you wait so long? You waited until inflation was up to 6.7% before you started raising the rate.

[*English*]

Ms. Carolyn Rogers: Yes, I understand.

I think initially there was a lot going on in the economy at the time, a lot of very unique circumstances. It was very difficult for us to really forecast and even understand in detail what was going on in the economy at the time. The models that we typically use to forecast inflation don't account for completely shutting down our economy for months on end and then restarting it.

I think initially the central banks around the world, including the Bank of Canada, understood that the drivers of inflation were largely what we would characterize as supply-driven. There was a lack of supply in the economy. Supply chains were recovering from being shut down, and there were some global forces that were also affecting inflation at the time. The invasion of Ukraine was causing a spike in commodity prices.

Typically, those are things that central banks “look through”. We wouldn't necessarily react immediately to things like that, because you could raise rates and slow the economy, and typically things like supply shocks or commodity shocks recover quickly, and then you may have slowed your economy needlessly when these supply shocks recover.

I think initially the Bank of Canada, and central banks around the world, were viewing what was happening in the economy, and as the member said earlier, this was happening globally, not just in Canada. Those shocks persisted longer than we anticipated, and at the same time, the demand in the economy came back quite aggressively as we had that reopening, so it was a combination of those two things.

I would agree. I think the governor has said publicly, and most governors have said publicly, that in hindsight on whether we waited longer than we should have, perhaps we did. Those supply shocks took longer to repair than we anticipated, and demand surged back more quickly than we anticipated.

● (1610)

[*Translation*]

Mr. Sébastien Lemire: I have a question about your decision-making process.

It is often said that the Bank of Canada is independent. Can you explain how you make decisions about the key policy rate? Who do you consult?

[*English*]

Ms. Carolyn Rogers: The bank has an ongoing consultation process. It isn't necessarily at each rate decision. We regularly meet with Canadians, with Canadian businesses, with organizations, industry associations and stuff. We are regularly talking to Canadians about conditions in the economy. At each rate decision, we go through quite a.... It might sound like we get in a room on the morning of the rate decision and make a decision, but it's actually quite a long decision-making process that starts with a projection that our staff presents to us. We go through a series of analyses and we run some scenarios and that type of thing. Each decision-making process is quite structured, quite lengthy, very deeply analytical.

As to your specific question about whom we consult, the bank has a robust ongoing consultation process that helps us stay in touch with the economy.

[*Translation*]

The Chair: Thank you, Mr. Lemire. You're out of time, but I did give you extra time because of the interpretation issues.

[*English*]

Mr. Desjarlais, you have the floor for six minutes, please.

Mr. Blake Desjarlais (Edmonton Griesbach, NDP): Thank you very much, Mr. Chair. I want to thank all the witnesses for being present today.

I'll start my questions with the Bank of Canada.

As noted, there were significant losses from 2020 to 2023. Your policies largely account for some of those challenges. Of course, there was a global pandemic. You just mentioned some of the decision-making processes around how your analysis for supply feeds into the policies you make, but in between that time, in addition to what you've already said, what is the total amount of losses, including the indemnities paid by the Government of Canada?

Ms. Carolyn Rogers: Again, I'll just clarify your question. Are you asking for the total losses to date?

Mr. Blake Desjarlais: Sorry. I mean between 2020 and 2023. In addition to your former answer on supply, what other factors led to these losses?

Ms. Carolyn Rogers: Okay. Coralia, do you want to go ahead with the total losses from 2020 to 2023?

Ms. Coralia Bulhoes: The public accounts for 2021-22 show that we had a surplus. The first year with a loss was 2022-23, at $3.1 billion.

● (1615)

Mr. Blake Desjarlais: In terms of the responses.... I'm sorry. Was that just the 2021 year?

Ms. Coralia Bulhoes: In the 2021-22 year, we had a surplus of $2.3 billion. The 2022-23 year is the first year public accounts showed a loss. It was $3.1 billion.

Mr. Blake Desjarlais: What about in 2020-21?

Ms. Carolyn Rogers: There was a surplus.

Ms. Coralia Bulhoes: There was a surplus.

Mr. Blake Desjarlais: I see. There was a surplus for 2021, 2022 and 2023.

Ms. Coralia Bulhoes: I'm sorry. The public accounts fiscal year is from April 1 to March 31. For the 2021-22 year of the public accounts, there was a surplus of $2.3 billion. For the year from April 2022 to March 2023, there was a loss of $3.1 billion.

Mr. Blake Desjarlais: I understand. Thank you for that.

In terms of the impact of COVID-19 on the policies of the Bank of Canada, in addition to the supply concerns that were just mentioned in the question of our Bloc colleague, what other concerns influenced those decisions that were made?

Ms. Carolyn Rogers: What were the contributing factors to our decisions to take extraordinary policy steps? I would characterize our policy decisions in two phases.

The first was in March 2020. This was at the very beginning of the pandemic. At that point in time, what we were facing was extreme market volatility. What often happens when there is a big shock to the economy is that everyone—investors, companies and households—wants to be cash rich. They want to liquidate investments into cash, so there was what we called a dash for cash. The market was swamped with people looking to liquidate investments.

What the bank did was intervene and ensure that there was enough liquidity in the market to keep markets moving and make sure that this dash for cash didn't result in a downward spiral in the price of assets. That is a role that central banks around the world play. We intervene in markets when there is a severe disruption that makes the markets not function effectively to support the economy.

That was the first phase of our response.

I think somewhere around May or June of 2020, the market volatility started to normalize and settle down, so markets went back to a more functioning condition. However, at that point, the GDP had plunged. There were about three million Canadians unemployed, and many more were not working as much as they wanted or needed to. There was no vaccine in sight at that point in time. We were still in lockdown. We were all locked in our houses. I think that at that time, the view was that were were staring down the potential for something on the scale of the Great Depression.

The other thing I remember distinctly is that oil was trading at about $18 and oil futures were negative. I had never seen that in my lifetime. Those were the conditions in June.

The judgment of the Bank of Canada and central banks around the world was that we needed to take extraordinary measures to support the economy. Just as in March 2020, it was our judgment that on top of a health crisis, Canadians didn't want to face a financial crisis. In June 2020, in addition to a health crisis, we didn't think Canadians should have to face an economic crisis. Therefore, we intervened to provide stimulus to the economy by ensuring that long-term rates stayed low and Canadians could access credit to keep the economy running.

Mr. Blake Desjarlais: Thanks for that.

This is for the Department of Finance. In that same period of time during the pandemic, we saw governments and particularly ministries of finance—I'll note the United Kingdom—bring in a windfall tax, especially during the period of recovery. This was largely when the vaccine had been developed and when governments were looking to stabilize prices, as well as revenues. We saw the United Kingdom bring in a windfall tax, for example.

Was there ever a moment when the Department of Finance considered recommendations toward a windfall tax?

I'm sorry. Did anyone hear that?

● (1620)

The Chair: Yes. They're getting organized.

Go ahead.

Ms. Evelyn Dancey: We were conferring amongst ourselves. Neither of us is likely the correct finance official to speak on tax issues. What I had whispered to my colleague was whether we had sufficient knowledge about the Canada recovery dividend to at least offer that explanation to you, but there have been measures coming out of the postpandemic context that have been particularly focused on financial institutions.

The Chair: Thank you very much.

That is your time, Mr. Desjarlais. We'll come back to you shortly.

Beginning our second round, Mr. Scheer, you have the floor for five minutes, please.

Hon. Andrew Scheer (Regina—Qu'Appelle, CPC): Thanks very much, Mr. Chair.

Ms. Rogers, you gave a speech a little while ago about productivity, and I just want to make sure that I totally understand what productivity means, because I know that there's a lot of jargon and terms that get thrown around here.

Productivity, as I understand it, is how much Canadians produce—how many trees they turn into lumber, how much grain they grow or how many cars roll off the assembly line. It's basically the things that individual Canadians make. Is that correct?

Ms. Carolyn Rogers: Yes. It's a function of the inputs it takes to make them.

Hon. Andrew Scheer: I think you also said in your speech that low productivity has a negative effect on inflation. In other words, low productivity will have the effect of higher inflation for longer if Canada doesn't start to produce more. Is that an accurate summary?

Ms. Carolyn Rogers: It's not exactly that. What I said in my speech is that improving productivity would help us buffer the Canadian economy against what we expect to be a potentially less benign inflationary environment going forward.

Hon. Andrew Scheer: In terms of policy tools that would help productivity, can you think of some things that would encourage or facilitate Canadians' being more productive, producing more things and having more goods in an economy?

Ms. Carolyn Rogers: Sure. I talked about a couple of them in my speech.

These are things that equip workers to be more productive in each hour they're at work, such as additional training or additional tools that help workers produce more per hour. Additional investment in infrastructure, a competitive environment and ensuring that we have an efficient regulatory approval process are some of the examples that I used.

Hon. Andrew Scheer: Would investments in capital also help with productivity?

Ms. Carolyn Rogers: Yes.

Hon. Andrew Scheer: Things that would be disincentives—in other words, policy tools that would punish investments in capital—I would assume would then have the opposite effect. Would that lower productivity?

Ms. Carolyn Rogers: With all policies in, you want to have an environment that encourages investment in capital, absolutely.

Hon. Andrew Scheer: We want to encourage investing in capital. Okay.

How long ago was it that you gave that speech? Was it about a month?

Ms. Carolyn Rogers: I think so. That sounds about right.

Hon. Andrew Scheer: Do you think that it's still time to break the glass?

Ms. Carolyn Rogers: We haven't fixed it in the last month, if that's your question.

Hon. Andrew Scheer: The reason I ask is that there was a budget tabled just recently.

Ms. Carolyn Rogers: I figured that's what it was.

Hon. Andrew Scheer: Would you give that same speech today? Would you warn people that it's still an emergency situation?

Ms. Carolyn Rogers: As I said, we haven't fixed it in a month, so I think the speech stands.

Hon. Andrew Scheer: I want to talk a little bit about Canada mortgage bonds. I understand that the Government of Canada is now purchasing, I believe, up to $40 billion a year.

Mr. Nicolas Moreau: It's up to a maximum of $30 billion.

Hon. Andrew Scheer: Thanks for the correction. Do you see any impact on the money supply because of the Government of Canada's bond purchase program?

Ms. Carolyn Rogers: I don't know if I could isolate that specific program, but Mr. Chambers asked us to give some additional data on what's affecting the money supply, and we'll be happy to do that.

Hon. Andrew Scheer: The Government of Canada will now own that mortgage debt under the bond purchase program. The Bank of Canada used to buy those bonds for a period of time. My understanding is that the Bank of Canada ended that program, but you do act as the financial agent for the Government of Canada to purchase these bonds. Will the Government of Canada will now own mortgage debt as a holding?

Ms. Carolyn Rogers: That's my understanding.

● (1625)

Mr. Nicolas Moreau: What we're doing exactly is we're basically borrowing money in order to finance those Canada mortgage bonds. Basically we own some of that debt, yes.

Hon. Andrew Scheer: The Government of Canada borrows money to buy mortgages from banks who have lent money to Canadians. Is that right?

Mr. Nicolas Moreau: Basically, the way it works is that CMHC borrows money in order to buy NHA MBS, mortgage-backed securities. Those are a pools of mortgages that are put together.

The way the market works is that when CMHC was issuing—and they're still issuing—there's a spread relative to the Government of Canada debt. The debt—the product they're issuing—is fully backed by the Government of Canada, so they should be issuing around the same rate. They're a AAA product.

Because of that spread, the government decided to issue its own debt in order to finance the CMBs, the Canada mortgage bonds. The debt that we are issuing is debt that basically CMHC doesn't have to issue on the market.

Hon. Andrew Scheer: It's guaranteed by the government itself. The government is both the backer of the debt and now the holder of the debt.

Mr. Nicolas Moreau: That debt was already guaranteed prior to issuing debt in order to buy CMBs.

The Chair: Thank you very much, Mr. Scheer.

Next up, we have Ms. Yip.

You have the floor for five minutes, please.

Ms. Jean Yip (Scarborough—Agincourt, Lib.): Thank you for coming.

If you have to repeat some of the answers from your previous committee work, that's okay. It's always good to learn a little bit more.

Governor Macklem confirmed that eliminating a price on pollution would lead to a one-time decrease in inflation. Is that correct?

Ms. Carolyn Rogers: Yes. A one-time change in a tax leads to a one-time change. If we were to eliminate the carbon tax outright, it would have a one-time impact. That's correct.

Ms. Jean Yip: Can you expand on what that means in terms of inflation in the long term?

Ms. Carolyn Rogers: The impact would last one year. The effect of the decrease in inflation would disappear one year later.

Ms. Jean Yip: Thanks.

It was confirmed that the annual increases in carbon pricing raise the average economy-wide price level by 0.1 percentage points.

Is it correct to say that would have a small effect within StatsCan's CPI calculations, as compared to other determinants of inflation?

Ms. Carolyn Rogers: I think you got the number right. I think the descriptor is relatively accurate.

Ms. Jean Yip: Conservatives keep arguing that eliminating a price on pollution would bring inflation back within target and would lead you to cut rates in turn, which would ease the pain Canadians may be feeling. However, during the rate announcement last month, it was clear that the rates weren't going to be cut until progress was seen toward price stability on a longer period.

Is it correct that eliminating a price on pollution would not lead to price stability in the economy?

Ms. Carolyn Rogers: I would come back to my first answer. Eliminating a tax measure—any tax measure—has a one-time impact.

Certainly we base our rate decisions on the long-term forecast and the long-term direction of inflation and of the economy.

Ms. Jean Yip: As we look ahead and consider our future economic position, how much will benefits to the elderly increase in the medium term?

Ms. Carolyn Rogers: I'm not sure I understand your question.

Ms. Jean Yip: Have the increasing costs as a result of an aging population had an effect on your long-term economic projections?

Ms. Carolyn Rogers: Demographics are definitely one thing that affects an economy.

I mentioned earlier in response to Mr. Scheer's question that when we look ahead at the different forces in the economy, some forces will have a greater or lesser degree on inflation. Demographics are definitely one. As people age, they spend more than they save, so it can be upward pressure on inflation.

Yes, demographics have an effect. I think I'm answering your question.

● (1630)

Ms. Jean Yip: What are your thoughts on the launching of the new Canada disabilities benefit in terms of the budget, future projections and so forth?

Ms. Carolyn Rogers: We take government policies as given and we incorporate them into our forecast. That benefit would be incorporated into our forecast.

Ms. Jean Yip: The PBO has reported how higher-than-projected spending by provincial governments poses an upside risk. If provincial governments step up to help Canadians the way we have, how much could that positively impact our federal finances?

Ms. Carolyn Rogers: I'm sorry. Can you repeat the question? You're cutting in and out. I'm having trouble hearing you.

Ms. Jean Yip: I might be too close to the mic. I'm sorry.

The PBO has reported how higher-than-projected spending by provincial governments poses an upside risk. If provincial governments step up to help Canadians the way we have, how much could that positively impact our federal finances?

Ms. Carolyn Rogers: I think that's a question for my colleagues.

Ms. Evelyn Dancey: There are probably a few ways, both direct and indirect, that federal finances could be affected. I'll offer a couple of thoughts, but that's all they are.

In the first instance, to the extent that provinces direct their expenditures to supporting Canadians in policy areas where the federal government is seeking provincial co-operation, some of those are identified in this budget. There are pre-existing areas like early learning and child care, for example. This could be a partnership that alleviates pressure to spend at the federal level when the federal and the provincial governments can work together to support Canadians.

I'm not sure if the question is more in relation to inflation or macroeconomic impacts. All I'll offer on that point is that we talked earlier about our strong credit ratings. That's a function of—

The Chair: Actually, Ms. Dancey, I'm going to interrupt you. The answer is repeating and your time is up. You're welcome to come back to it with maybe more precision instead of trying to kind of guess around the question.

[*Translation*]

It is now over to Mr. Lemire for two and a half minutes.

Mr. Sébastien Lemire: Thank you, Mr. Chair.

I'd like to ask you the question again so that everything is clear. I'm expecting more of a straightforward answer so that it's easier for me to understand.

Can you explain what caused the just over $3 billion in losses? How did those losses affect the Government of Canada's fiscal position?

Did the change in your rate practices have an impact? I'm talking about the operating band. Does the fact that you went from a corridor system to a floor system explain the $3-billion loss?

[*English*]

Ms. Carolyn Rogers: I'll try to be as direct as possible.

What caused the loss is that the rate we pay on our settlement balance is variable and it moves with our policy rate. The rate on the bond that we purchased is a fixed rate. When the policy rate exceeded the rate we're getting on the bond, we have an income differential. We have a net interest rate differential. That's what generates the loss.

[*Translation*]

Mr. Sébastien Lemire: Ultimately, Canadians are the ones on the hook.

The switch to the new system began in 2020. Wouldn't we be better off going back to the old system if the current one is causing losses, which are being passed on to Canadians?

[*English*]

Ms. Carolyn Rogers: I think I would separate what we call our extraordinary monetary policy, which is the actions we took during the pandemic that I described earlier. The losses are being generated by our government bond purchase program.

In our normal operations we also have settlement balances. In our normal operations we're able to manage our interest rate risk by offsetting those settlement balances with investments of a similar duration so that we don't get that interest income differential and we don't run losses.

That's normal operations. The losses are generated by the extraordinary monetary policy we took in response to the pandemic. The losses are temporary. We can give you the exact numbers and duration, but they are temporary. We will go back to a surplus position.

● (1635)

[*Translation*]

Mr. Sébastien Lemire: Thank you.

The Chair: Thank you, Mr. Lemire.

[*English*]

Mr. Desjarlais, you have the floor for two and a half minutes.

Mr. Blake Desjarlais: Thank you very much, Mr. Chair.

I'll return to the Department of Finance on its response to some of the serious deficit issues and their attempts to manage or get a hold on them. I believe we often talk about these issues in the House of Commons, but I think the policies and procedures related to the deficit are often missed and those nuances are missed.

We know there was a capital gains tax implemented in this last budget. It's something that we support, of course. We think that the very small upper 1% of the country should be paying its fair share. We know, however, that over the course of the last 20 years in Canada, we've seen the share of the tax burden decrease for the wealthiest 1%, particularly corporations, and we've seen this tax burden fall to regular Canadians. We often hear from the Liberals or the Conservatives that the only solution to this is to either cut services or ensure that regular Canadians pay more.

In fact, there's another solution to all of this, which is to ensure that those companies—like Loblaws, most particularly—are held more accountable for their actions. How does the department recommend or create policy recommendations to the government in relation to trying to curb the greed of mega corporations like Loblaws, the same corporation that was charged by our Competition Bureau just recently in a bread price-fixing scandal? There seems to be no path forward for Canadians who are seriously considering how they move forward in life when these kinds of outrageous bad actors are plaguing our system.

What advice do you have for Canadians who are suffering from this kind of greedflation that's predominant in groceries and in gas? Most particularly, what advice do you have with regard to solutions? What do we have in terms of tools that Canadians—particularly the government—have to ensure that this kind of greed is tempered so that situations like a price-fixing scandal don't happen again?

The Chair: Mr. Desjarlais, is that a question for the Department of Finance or for the government?

Mr. Blake Desjarlais: It's for the Department of Finance.

The Chair: Okay. Thank you.

Ms. Evelyn Dancey: I'll offer a short reply, recognizing, once again, that we came to support the public accounts versus this kind of broader policy area.

The government has taken a number of steps. Just to be economical with your time, I'll let you know that they're summarized in the budget that was tabled recently around supporting affordability for Canadians—including with regard to groceries and junk fees—using a suite of measures such as competition policy, among others, that are consistent with federal powers.

If Canadians are looking for answers in terms of what the federal government can do, there is quite a nice summary that's only a couple of weeks old in the budget on this.

The Chair: Thank you very much. That is your time, Mr. Desjarlais.

Next is Mr. Stewart. You have the floor for five minutes, please.

Mr. Jake Stewart (Miramichi—Grand Lake, CPC): Thank you, Mr. Chair.

I'd like to welcome the representatives from the Bank of Canada and the Department of Finance. Thanks for being with us today.

While it's a sunny day in Ottawa, dark clouds, storm clouds, are looming across Canada, as the Liberal government's inflationary spending has driven interest and mortgage rates way up. With all of this borrowed money and an astronomical annual interest payment of $53 billion on $1.3 trillion of debt, Canada is now spending more on debt interest than on health transfers. It's so sad to see more money being given to bankers and bondholders than to the provinces to pay nurses and doctors in our health care system, an unfortunate reality in my home province of New Brunswick.

Would the senior deputy governor agree that Canada's inflation problem, national debt problem and endless annual deficits under the Liberal government are closely related in damaging Canada's overall fiscal position?

Ms. Carolyn Rogers: I'm sorry. Could you repeat your question, sir?

Mr. Jake Stewart: Would the senior deputy governor agree that Canada's inflation problem, national debt problem and endless annual deficits under the Liberal government are closely related in damaging Canada's overall fiscal position?

Ms. Carolyn Rogers: I'm happy to give you the bank's view on what is causing inflation, what has caused inflation, and what is still causing inflation.

Inflation started in Canada, as it started in many countries around the world, as a result of the conditions I described earlier. As a result of the pandemic, we had a number of supply chain problems. We had a global shock to the economy with the invasion of Ukraine that—

● (1640)

Mr. Jake Stewart: Excuse me, but I have to cut you off there.

With all due respect, number one, that's not the question I asked. Number two, when you print money, that also drives up inflation. We could go there and just stay there, and talk about how, even though there might have been slight inflation, the current government made inflation much higher by printing money, which drove up the cost of goods and made fewer goods. I think that's an important point.

If you're not comfortable answering that question, then I'll move on to the next one.

Last week, the Governor of the Bank of Canada “confirmed that [the Liberal government's] $61 billion in new spending is 'not helpful' in bringing inflation down and lowering interest rates.” As I've just said, the Liberal government contributed heavily to inflation by printing money.

The latest wacko spending budget brought in by Finance Minister Freeland did not stop the inflationary deficits that are driving interest rates up sky-high. It will not stop endangering our social programs and jobs by adding more debt.

Over the past nine years, the Liberal government has doubled rent, mortgage payments and down payments. While life has gotten worse for all Canadians, the Liberal government is spending more than ever before, including $61 billion in reckless new inflationary spending. This is costing the average Canadian family an extra $3,687 per year.

Former Bank of Canada Governor David Dodge said that this is “the worst budget...since...1982”.

Does the senior deputy governor agree that struggling families cannot afford higher taxes and more inflationary spending that drives up the cost of everything and keeps interest rates so high?

Ms. Carolyn Rogers: I would agree it's been a very difficult time for Canadian households over the last few years. The combination of high inflation and the response to high inflation, an increase in interest rates, has been very difficult for Canadian families, absolutely.

Mr. Jake Stewart: Despite a record of nine years of failure, the Liberal government has doubled down on the same spending that has caused so much misery in the first place, pouring even more fuel on the inflationary fire and driving up interest rates.

Does the senior deputy governor agree that instead of giving more money to bankers and bondholders, we should be investing in our doctors and nurses?

Ms. Carolyn Rogers: The senior deputy governor doesn't make those decisions.

Mr. Jake Stewart: That's fair. Do you agree with the statement, though?

Ms. Carolyn Rogers: I don't make those decisions, so I don't weigh those choices. It's not my job.

Mr. Jake Stewart: You don't have an opinion on it. Okay.

Last week, the Bank of Canada governor also warned Canadians that unaffordable housing will continue into the future. This follows a recent report from the Canadian Mortgage and Housing Corporation that confirmed that housing construction is plummeting as houses get more expensive.

Under this current government, housing starts will be lower in 2025-26 than they were in 2020-21. On top of this, CMHC forecasted that rents will rise and vacancy rates will fall as more people compete for less housing.

Does the senior deputy governor agree that the Liberal government is simply not building enough homes for Canadians to live in?

Ms. Carolyn Rogers: The senior deputy governor of the Bank of Canada would agree that we have a housing supply shortage in this country and that it is driving up the price of housing. It's one of the things that's adding to the difficulty for many households.

That supply problem in housing has been with us for a long time, and it's not something that can be fixed quickly. The supply of houses is something that's going to take a long time, a concerted effort and a lot of co-operation from different levels of government to fix. We're pleased to see that the co-operation is accelerating.

The Chair: Thank you very much. That is the time.

Ms. Bradford, you have the floor for five minutes, please.

Ms. Valerie Bradford (Kitchener South—Hespeler, Lib.): Thank you, Mr. Chair.

Conservatives often scoff at the fact that we have a AAA credit rating, and I believe we're one of the only countries that managed to maintain that coming out of the financial situation imposed on us by COVID.

I was wondering if you could please explain, in simple terms, what this means to Canadians, how important a AAA credit rating is and why it shouldn't be casually dismissed.

● (1645)

Mr. Nicolas Moreau: Yes, I can. Thank you.

Basically, AAA is the highest rating that you can get in the market. It means that the debt we are showing in the market is the safest instrument that you can find, which, at the end of the day, basically makes our product priced higher than any other one. When the price is higher, the rates are lower, and it puts us in a better place to finance our debt at a much lower rate than any other country.

Ms. Valerie Bradford: Then that's a big advantage to Canada, to all of our companies and even consumer interest rates, because it's all relative. Am I correct?

Mr. Nicolas Moreau: Exactly. The Government of Canada's debt is the benchmark for all the other debt instruments in the country.

Ms. Valerie Bradford: Because we had a AAA credit rating going into COVID and we were in such good financial shape, the government was able to take on a lot of debt to help support Canadian families and businesses at a lower cost by taking advantage of that AAA credit rating. Is that correct?

Mr. Nicolas Moreau: That's correct.

Ms. Valerie Bradford: Thank you.

We also saw that the PBO reported how higher-than-projected spending by provincial governments has posed an upside risk. It's not just the federal government that spends public funds; the provinces do as well, and their debt ratio, I believe, is considerably higher in most cases than that of the federal government, so their borrowing costs are higher.

If provincial governments were to step up and help Canadians the way that we have at the federal level, how could that positively impact federal finances?

Mr. Nicolas Moreau: I think we kind of answered that question already. It depends on what exactly they will spend on, but at the end of the day, if they are helping customers in Canada, that should benefit Canadians in the aggregate and be a positive outcome.

Ms. Valerie Bradford: I wanted to turn now to look at the impact on the economy of climate change. The Bank of Canada has done substantial work on the potential financial stability implications of climate change, alongside other central banks.

Ms. Rogers, can you speak about this work and describe some of the key climate risks to the financial stability of Canada?

Ms. Carolyn Rogers: We really think of climate-related financial stability risk in two categories. The easiest and most obvious one is what we call physical risk. This is the actual damage to the economy from climate events and the knock-on damage that it causes to the financial system. We've done some work in this area, modelling things like flood risk to financial institutions. We looked at the impact on insurers, the impact on banks and the connection between those two things. We've done a number of studies. We cooperate with the financial institutions themselves and with the Office of the Superintendent of Financial Institutions. There are a number of reports on our website that look at this risk.

I would characterize that the conclusion is that we've not yet seen these risks on a scale that would destabilize the financial system as a whole, but the scale of the impact very much depends on the size of the shock and the transmission across different participants in the financial sector.

Ms. Valerie Bradford: There's a lot of concern that there are some places that won't be able to get insurance because of adverse weather conditions in the pattern. For example, in Florida, certain areas have uninsurable mortgages as a result of high climate risk. If we're looking at home insurance, if insurance becomes less available or prohibitively expensive, this could get in the way of home ownership. If you can't get home insurance, you can't get a mortgage at a lending institution. They aren't going to give you a mortgage if you can't get insurance. Is that correct?

Ms. Carolyn Rogers: You've described one of the risks, for sure.

Ms. Valerie Bradford: That's a bit of a concern, right?

Ms. Carolyn Rogers: Yes.

The other risk that we think of is what we call transition risk, which is the risk that the price or the value of assets will change as a result of climate risks themselves or policies to address climate risks. You could see sharp repricing of assets or repricing of risks in the economy that could be destabilizing. That's what we characterize—

The Chair: Thank you. That is your time, Ms. Bradford.

We'll turn now to Mr. Nater for our third round.

You have the floor for five minutes, please.

● (1650)

Mr. John Nater (Perth—Wellington, CPC): Thank you, Mr. Chair, and through you, thank you to our witnesses for joining us.

I'm going to begin with the Bank of Canada, and I hope we can get some general questions out of the way off the bat.

Reviewing what is currently there in terms of treasury bills and domestic marketable bonds, my understanding is that about $276 billion is outstanding in treasury bills and a little over a trillion dollars in bonds.

Am I right to assume that as these mature, they are reallocated and put out again for purchase at whatever the rate would be at the current time? Am I right in assuming that?

Ms. Carolyn Rogers: I'm going to start by asking Coralia to clarify the numbers.

Ms. Coralia Bulhoes: The numbers you're citing are on the government statements, so I will let the Department of Finance respond.

Mr. Nicolas Moreau: Those numbers are accurate. Basically we have around $270 billion in T-bills.

The way it works is that our debt will come to maturity. We issue our debt through auctions, and it's basically a priority dealer distribution. We have a number of dates that are already set up that we announce at the beginning of the quarter.

Most of the debt that we're showing is debt that's rolling over, as we call it. I think that this year 85% of the overall envelope as debt will be rolling over and will need to be reissued in the market.

Mr. John Nater: When it's reissued in the market, if it's at a higher rate than it was prior to maturity, does that increases our costs?

Mr. Nicolas Moreau: Of course. It will be issued at the market rate. Wherever the rate is will impact the interest and the debt charges that we'll have on that debt.

Mr. John Nater: That's exactly it. As it matures, if it stays high, it costs Canadians more money.

I want to look at the analysis of the bonds. Would you be able to tell us...or could you provide the committee with a breakdown of who owns those bonds, whether it's domestic ownership or international ownership?

Mr. Nicolas Moreau: Yes, I can.

In Canada, first of all, our debt is all issued in Canadian dollars. Most of the debt is owned by Canadians. About 30% of our debt is owned by foreigners. When we compare this share to other G7 countries. we're in the low range, which is really positive for Canada.

Otherwise, we have around 25% that's currently owned by the Bank of Canada. The rest of it will be owned by institutional investors through savings that individual Canadians will put in banks and be funnelled through an instrument that will include the Government of Canada debt.

Mr. John Nater: Looking at the international number, which is about 30%, give or take, how much of that is owned by foreign states? How much is that owned by foreign individuals or foreign entities?

Mr. Nicolas Moreau: That's a good question. I don't have have the exact number.

What we know is that a lot of our debt is owned by foreign banks. That's part of a portfolio that's highly recognized around the world, whereby banks will buy a set number of different commodities, including the Canadian dollar. In order to meet that target, they will buy GOC. Most of our debt that's on the foreign side is owned by central banks.

Mr. John Nater: Would you be able to—not today—provide the committee with a breakdown of which entities own that foreign debt?

Mr. Nicolas Moreau: We could try, but one thing that you should be aware of is that once we issue our debt through the foreign market, it's distributed in the security market, so we don't know exactly who owns our debt.

There's data available to Statistics Canada, and that's what I've been able to provide to you. I can validate if there's more information available, but I don't think we'll be able to provide a disaggregated number on this.

Mr. John Nater: I appreciate that. Anything you can provide would be useful for my own personal interest.

In the short time I may have left, I want to go back to the GDP per capita. Perhaps we'll go to Ms. Rogers with this one.

Can you compare our decline in GDP per capita with our peer countries? I'm thinking mainly about the United States, where we've seen their increase in per capita GDP growth compared to Canada's. Could you comment on that?

Ms. Carolyn Rogers: I don't have exact numbers in front of me, if you're asking me to give you exact data.

Mr. John Nater: I'm not asking for exact data, just how we compare to our friends south of the border.

● (1655)

Ms. Carolyn Rogers: Well, I think you characterized it accurately. Quite honestly, I don't have the GDP per capita in the U.S. and the GDP per capita in Canada, so it's difficult for me to give you a comparison.

The Chair: That is your time, Mr. Nater. Thank you.

I'm turning now to Ms. Shanahan. You have the floor for five minutes, please.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): Thank you very much, Chair.

I thank our witnesses for being here today, for answering our questions and for being very patient with questions coming from all over the field.

That's why my first question to you, Ms. Rogers, is around your mandate. There does seem to be some confusion in what we hear in the House of Commons and so on between monetary policy, fiscal policy, economic policy, social policy and so forth.

What is your mandate at the Bank of Canada? What is the Bank of Canada responsible for?

Ms. Carolyn Rogers: The Bank of Canada's mandate is to steer the Canadian economy in the long-term best interest of Canadians by keeping inflation low and stable, so we're responsible for monetary policy.

Mrs. Brenda Shanahan: Does the Government of Canada have anything to do, then, with monetary policy? The executive, I'm saying—the Prime Minister, the Minister of Finance—do any of those roles have anything to do with it?

Ms. Carolyn Rogers: Certainly there are a number of accountability mechanisms that are in place, the most important of which, or the cornerstone, is what we call our inflation target renewal agreement, which is an agreement that sets the bank's objectives, including the target rate of inflation. It also outlines the broad policy tool kit available to the bank.

That is an agreement that is renewed once every five years, following a broad round of consultation with the Canadian public. That process will get under way soon, because the next renewal date for the agreement is in 2026. We consider that to be our cornerstone mandate document, the agreement that we have with the government on what our objectives are.

Beyond that, there are a whole series of what I would call accountability mechanisms that support the independence of the Bank of Canada. We have an independent board of directors. We are audited annually by two separate audit firms. The Minister of Finance can, at any time, request an expansion of the scope of those audits or order a special audit.

The governor and I appear regularly before your colleagues at the House finance committee, at the Senate bank and finance committee and, of course, here today. At every rate decision, the governor and I hold a press conference and a press availability event. We also recently started publishing a summary of our deliberations that underpin each of our rate decisions. We annually publish an assessment of financial stability and hold a press availability event—we'll be doing that for this year on Thursday this week—and we publish an annual report.

Have I forgotten anything, Coralia? I think that's the long list of what I would call accountability mechanisms in place to support our mandate and our independence.

Mrs. Brenda Shanahan: If the Prime Minister doesn't like what you are doing, should the Prime Minister just be able to dismiss the governor of the Bank of Canada and interfere in that decision-making process?

Ms. Carolyn Rogers: The legislation puts the governor, as well as me, in place for a period of seven years. We're in for a term of seven years. The Prime Minister does not.... In that legislation, the dismissal of the governor does not occur by directive, no.

Mrs. Brenda Shanahan: Thank you very much for that comprehensive answer.

Can you explain how the Bank of Canada's financial results are presented in the Public Accounts of Canada 2023, given that it is the topic we are here today to discuss?

Ms. Carolyn Rogers: I'm going to ask my colleague to answer that because, as I said, it's a little complicated, given that our year-ends are different. It's not easy to find the same number in our financial statements as the same in their financial statements, but Coralia can give you that breakdown.

Ms. Coralia Bulhoes: We prepare our annual financial statements, which are from January to December, but then we also provide the data for the fiscal year of the public accounts, which is from April to March. We provide that to the Department of Finance and the Receiver General for Canada after the numbers are audited by our two auditors, so when it is rolled up into the public accounts, it's integrated into the overall public account numbers and you will see our results in the public accounts.

● (1700)

Mrs. Brenda Shanahan: Can you explain what led to the losses from 2020-23? What is the total amount of the losses, including the indemnities paid by the Government of Canada?

Ms. Coralia Bulhoes: Just to clarify, the losses have been incurred in the public accounts starting in 2022-23. The current public accounts loss is $3.1 billion. In the previous years, we had surpluses, including a surplus of $2.4 billion for the previous year.

Overall—and it's important to note that the forecast we have is based on the market view of the interest path and also assumptions on the evolution of our balance sheet—based on the latest forecast, we're forecasting that the total loss will be about $9 billion.

It will be over a period of an extra two years—this first year of losses and an extra two years—after which we expect to be back in a net income position. That net income will allow us to offset the accumulated losses, and we're forecasting that by 2029, we'll be back in a positive net position.

The Chair: Thank you. That is the time, I'm afraid, Mrs. Shanahan. We went well over.

[*Translation*]

We now go to Mr. Lemire for two and a half minutes.

Mr. Sébastien Lemire: Thank you, Mr. Chair.

I pay a lot of attention to the consultation processes organizations use and the symbolism or meaning attached to things.

Ms. Rogers, how did you consult indigenous populations? Specifically, I'd like to know whether you incorporated consultations into the process for the redesigned $20 note featuring His Majesty King Charles. The British monarchy is often seen by some communities as harmful or offensive. As a Quebecker, I will also say that Quebec has repeatedly said how detached it is from the monarchy.

Do you have a choice as to whether Charles the monarch appears on the note, or would you say that yesterday was an especially happy day for the Bank of Canada?

[*English*]

Ms. Carolyn Rogers: I would make two remarks in response to your question.

First, directly to your question about the choice of having King Charles appear on the $20 bill, I think it's a long-standing tradition to have the monarch on our $20 bill.

To your other question, we do broad consultation on the various images that appear on our currency, including with the indigenous community. You will have seen us incorporate a number of images on various bills over the last few years. We will continue to consult with the indigenous community going forward.

[*Translation*]

Mr. Sébastien Lemire: I realize it's a long-standing tradition to feature the monarch's image, but wasn't this an opportunity to modernize the Bank of Canada's image, even Canada's image?

[*English*]

Ms. Carolyn Rogers: We'll continue to modernize our bills. We'll continue to consult the public on the images we use on our currency, absolutely.

As I said, we do that now, and we do specifically consult with the indigenous community. We have incorporated their feedback on a number of our bills recently.

[*Translation*]

Mr. Sébastien Lemire: How do you consult with indigenous communities? I'm curious.

[*English*]

Ms. Carolyn Rogers: We have a number of advisory committees, but we do have an advisory committee of indigenous members and elders. We have gone out to communities. We've invited them into our premises. There's a variety of different ways.

[*Translation*]

Mr. Sébastien Lemire: That's interesting.

Thank you.

The Chair: Thank you.

[*English*]

Mr. Desjarlais, you'll have the floor for two and a half minutes, please.

Mr. Blake Desjarlais: Thank you very much, Mr. Chair.

I'm inclined to question who the indigenous communities are. It's oftentimes a large failure of the government to properly consult. I'll quickly ask the question to the Bank of Canada.

Who are the people or the nations? Can you name one of them?

Ms. Carolyn Rogers: I'm sorry; I came here prepared for public accounts, but I would be very happy to get that information back to the committee. I would be very pleased to provide some additional detail.

Mr. Blake Desjarlais: Sure.

I'll provide a recommendation, as well, to state that the Truth and Reconciliation Commission affects all of us, including the Bank of Canada and including you, Ms. Rogers. It's a commitment that all public officials, anyone who serves the public, must undertake a process to better understand how we can better serve our country to understand that legacy and how it may impact people.

I'll leave that as a note, and I'll look forward to the supply of documents.

In regard to the public debate on the deficit in Canada, it's been one that's been a long time coming. I was pleased to hear about the renewal date of 2026 for the target inflation rate. New Democrats, for a very long period of our history, stemming back even to the 1980s.... Our Conservative colleague mentioned the 1982 budget.

There are often two ways that are debated publicly to control public debt. One is to raise taxes and the other is to cut spending. We rarely hear of a third way, which is to reduce real interest rates.

Does the Bank of Canada have any comments on that? I guess it wouldn't be the Bank of Canada but more the Department of Finance.

Do you have any comments about the contemplation of policies related to reducing real interest rates or policies to affect that?

● (1705)

Mr. Nicolas Moreau: You referred to real interest rates. This is a combination of the nominal interest rate and the inflation.

The Government of Canada doesn't have any policy in order to fix or impact the real interest rate. This is more for the Bank of Canada, by setting up the inflation target and the nominal interest rate.

Mr. Blake Desjarlais: In terms of those agreements that set the Bank of Canada's target, who supplies information to those agreements? Is it the Department of Finance and the Prime Minister's Office? Who should we seek as being accountable to in relation to those agreements?

Ms. Carolyn Rogers: There's a broad public consultation as part of the inflation targeting renewal. Each time we renew the agreement, we do it a little bit differently, but it always includes consultation.

Certainly we seek out academic input. There's a lot of research, both from our own researchers at the bank and from the broader research community, that feeds into this. There are civil society groups, businesses, government organizations at the provincial and the federal level. It's a very broad, very robust engagement process to get input.

The Chair: Thank you. That is your time.

As chair, I'm often given the right to a few questions. I have a couple, so I'm going to take the time. I'm just looking for some quick responses.

First of all, Mrs. Shanahan, thank you for raising this, because the Bank of Canada was brought in here today to talk about the losses that it's incurring now.

Where previously you'd always been a net contributor, you have turned into a net debtor now. In responding to a previous question, you referenced the time you expect to go from deficit into surplus. Can we get that, and then even beyond that, if you see a time to arrive at a net-net to come out ahead, we would appreciate knowing that.

Is that something we can get?

Ms. Carolyn Rogers: Yes, for sure.

The Chair: Deputy Governor Rogers, it's your position—the bank's position—that the Government of Canada's deficit spending is not inflationary. Is that correct?

Ms. Carolyn Rogers: What we said at testimony last week is that from our initial look at the most recent federal budget, we don't expect it to contribute materially to inflation, but that the budget came out between forecasts, and as part of the next forecast, we will incorporate the budget.

The Chair: Did the governor himself reference that provincial deficit spending could be harmful to the inflationary outlook and could cause inflation? I read something about that.

Could you clarify that, please?

Ms. Carolyn Rogers: I think what the governor said is something he's said many times before, which is that when we do our forecast and when we look at inflation, we take all forms of government spending in. We don't distinguish between one government and another. We take it all in and we measure its impact on inflation.

Regardless of the source of the spending, if the spending is outpacing revenue—

The Chair: Let me ask you then, what's the bank's view currently on the amount of debt we're seeing spent at the provincial level? What impact is that having on inflation?

Ms. Carolyn Rogers: Different provincial governments have made different decisions.

Again, I would repeat what the governor has said. If governments are spending at a pace in excess of the growth rate of the economy, that is naturally going to be inflationary, no matter which government is doing that spending.

● (1710)

The Chair: Thank you.

You and Mr. Scheer were in a discussion about productivity gains. Your statement was that a more productive economy would be beneficial in—I don't know the term—sticky inflation or a less-conducive inflation environment. That's basically what you said.

Is that...in response to this question?

Ms. Carolyn Rogers: Yes. Basically, I said that when we look ahead.... Somebody asked me earlier about demographic shifts, and I've also talked a little bit today about—

The Chair: I want to talk about productivity.

Ms. Carolyn Rogers: I'm getting there.

I've talked about climate effects. There are a number of things going forward that we expect will make it a less benign inflationary environment. It will be more upward pressure on inflation.

A really good way to buffer the Canadian economy in that environment going forward would be to improve our productivity.

The Chair: You were saying that anything that kind of impacts capital flows would have a negative impact and therefore contribute to inflation, possibly. Is that right?

Ms. Carolyn Rogers: What I said was that one thing that would boost our productivity is to increase investment. Creating a climate to encourage investment would be—

The Chair: Mr. Scheer didn't go where I thought he would, which is this: What's the bank's view of the capital gains tax increase, which of course is the tax that most impacts capital flows in and out of a country?

The capital gains tax inclusion rate, of course, is going to go from 50% to two-thirds, and we see all kinds of warnings. What's the bank's view on that?

Ms. Carolyn Rogers: Thanks for your question, Mr. Chair.

We are not tax experts. We do not take a view on any one tax measure. The government has a number of decisions to make to balance its budget and to create the right conditions for the economy.

The Chair: Look, you're the Bank of Canada. You had a lot to say previously about the impact of climate policy. Are you telling me the bank does not have a position on a capital gains tax increase that investors are worried about?

Mr. Blake Desjarlais: I have a point of order, Chair.

The Chair: Yes. Go ahead, Mr. Desjarlais.

Mr. Blake Desjarlais: I believe that your latitude as our chair in this regard has stepped into overreach, and I believe that the questions you're now pursuing are largely in favour of the Conservative Party.

The Chair: Well, I can take the side. I don't believe that. I think I'm asking some pretty non-partisan questions that I'm hearing across the country, Mr. Desjarlais.

I have about 45 seconds, and I'd ask your leave to continue. I'm going to check with the clerk here, so just one second.

Why don't I finish my last bit of time, Mr. Desjarlais, and I'll let Ms. Yip take the chair. Would that satisfy you?

Mr. Blake Desjarlais: I'm happy for you to finish your questioning, just as long as we know the parameters of the questions.

The Chair: Thank you. I think it's a fair question. One leads to an example. I hope the deputy governor can give us any insights she might have, or the bank might have, on a tax that impacts capital flows, which she said would be a problem.

Mr. Blake Desjarlais: Do we all get this equal amount of time? Will I have another question to ask about why and not why?

The Chair: I'm sorry, Mr. Desjarlais. I've taken the Conservative spot. I thought I had said that at the top. Pardon me.

Mr. Blake Desjarlais: I understand. I apologize, Chair. I thought this was stepping into our other time. I understand. Please carry on.

The Chair: You have the floor.

Ms. Carolyn Rogers: I would repeat my previous answer. We at the Bank of Canada are not tax experts.

The Chair: Let me stop you, then, because you mentioned something else that is really interesting.

You said that at the height of the crisis, in 2020-21, when the government was looking at providing benefits to individuals, the bank took the position that it did not think it was worth hitting Canadians with a credit crunch.

It sounds like you put aside monetary policy as well, and made a policy decision. Instead of looking at the fundamentals, you made a decision to not worry about inflation.

I suppose my last question for you is this: Does the Bank of Canada have any responsibility for the inflation and affordability crisis that we find ourselves in today, given that you misjudged the inflationary cycle we were in, you waited to raise interest rates, and then when you finally hit the brakes, instead of tapping them, you had to slam them on? What's the bank's role in today's affordability crisis and interest rate environment that is also hurting home ownership?

Ms. Carolyn Rogers: I think what I said, Mr. Chair, was that in June 2020, when we were making the decision to take extraordinary monetary policy actions—

● (1715)

The Chair: I'm sorry, but I don't want you to repeat your.... I want you to answer my question about the bank's role in today's affordability crisis. That's what I want you to answer. You've mentioned the Ukraine war and you've mentioned all sorts of other variables, but you have not addressed the bank's role in today's environment.

What is it? Does the bank take any ownership of today's environment? That's my last question, and I look for your answer.

Ms. Carolyn Rogers: I think the best way for me to answer your question, Mr. Chair, is to say something that the governor and I have both said publicly before, which is we didn't get everything perfect. We didn't make every decision perfectly. We did not have perfect foresight. We were dealing with the same high level of uncertainty that all Canadians were facing at the time.

We took the best judgments in the interest of Canadians that we could with the amount of information that we had at the time. We did our job, which is to implement the policy that we judge to be the best to guide the Canadian economy in the long term.

The Chair: Thank you very much.

Mr. Sorbara, you have the last five minutes, please.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

Thank you to everyone this afternoon. It's great to be back on public accounts. I was here a couple of years ago, and I very much enjoyed it and look forward to picking it up again.

Deputy Governor, I take it that the Bank of Canada is solely responsible for monetary policy, not fiscal policy. Is that correct?

Ms. Carolyn Rogers: That's correct.

Mr. Francesco Sorbara: I wanted to put that on record.

Second, just to get something else on record, earlier this afternoon I had a chance to speak on the budget implementation act and the governor's comments when he presented at the House of Commons Standing Committee on Finance on May 2 with regard to the forecast and so forth.

I'll just read two lines. I want to make sure I have this correct. It says, "The second is that growth in the economy looks to be picking up. We expect GDP growth to be solid this year and to strengthen further in 2026."

That is from the statement that the Bank of Canada governor made. I would confirm that with you.

Ms. Carolyn Rogers: That sounds accurate.

Mr. Francesco Sorbara: He states:

> Overall, we forecast GDP growth in Canada of 1.5% this year and about 2% in 2025 and 2026. The strengthening economy will gradually absorb excess supply through 2025 and into 2026.

Deputy Governor, I tend to think of the world in the last thousand days in terms of what we've gone through and then look forward to the next 100 or 200 days, wherever you want to take it.

One comment is that we are seeing inflation go in the correct direction. Expectations are anchoring on both the consumer and business sides. Would you not concur with that?

Ms. Carolyn Rogers: We have seen inflation expectations in the business sector stay fairly anchored. They are still, in our view, a little bit elevated in the consumer sector, but they're coming down, yes.

Mr. Francesco Sorbara: Thank you.

I do very much enjoy reading the three public account books, in a weird way.

From the public accounts and the losses that are recorded, is there not a certain aspect of—if I remember my accounting correctly—unrealized gains and unrealized losses from holding securities? If you hold those securities to maturity or when rates revert to the mean, then they're reversed. Is that not correct?

Ms. Carolyn Rogers: Yes.

I think it was Mrs. Shanahan who asked earlier about the indemnity, and the indemnity is exactly that: It indemnifies the bank against change in the fair market value of our investment portfolio. That is not a realized loss. It would not move into the category of our income statement and our losses unless we disposed of those assets, unless we sold the assets, which is not our plan.

Mr. Francesco Sorbara: Exactly.

I'm going back to my banking days.

Thinking about what happened in the United States a few months ago with some of the smaller or the mid-sized banks or in terms of any financial system, even going back to the financial crisis, if you hold assets that may have been marked down in value, you are forced to sell and you end up in a liquidity situation. That is not a situation with a central bank. That's not the situation at all.

Ms. Carolyn Rogers: That's correct.

Mr. Francesco Sorbara: For my edification, I'll ask this. Our public accounts are not financed in terms of the way the bank executes monetary policy. Do you care to comment on that, please?

● (1720)

Ms. Carolyn Rogers: I'm sorry, I don't.... Can you...?

Mr. Francesco Sorbara: It's in terms of the monetary transmission index.

Ms. Carolyn Rogers: I'm sorry; I'm also having trouble hearing you.

Mr. Francesco Sorbara: I'm sorry; it's in terms of using the Bank of Canada rates, overnight rates, and obviously the posted rates.

Ms. Carolyn Rogers: It's about how monetary policy works. Okay. I'm sorry.

Our policy rate sets the overnight rate, and the overnight rate is the rate to which other interest rates are anchored. Really, we set a baseline interest rate that transmits into the rate that people pay for business loans, mortgages and other forms of debt.

Mr. Francesco Sorbara: How much time do I have, Chair?

The Chair: You have 20 seconds.

I've been pausing the clock whenever the question is restated to give everyone fair time.

Mr. Francesco Sorbara: Thank you, Chair. That is very kind of you.

I will go back to the inflationary front. We have seen a marked decrease, I would say. Where are the shelter component and rent component tracking? Are they tracking to the bank's expectations, or are they still sticky?

Ms. Carolyn Rogers: It's still sticky and it's still elevated. It is a big contributor to the above-target inflation right now. That's one of the reasons we look at a variety of measures. We're particularly focused on core measures, because they trim out the things that are outliers, including in shelter inflation right now. It is still contributing and it's still a reality for Canadians.

The Chair: That is your time. Thank you very much.

Thank you, Ms. Rogers.

[*Translation*]

Thank you very much, Ms. Rogers, Ms. Bulhoes, Ms. Dancey and Mr. Moreau.

[*English*]

We appreciate your all coming in and participating. Any information that you've promised us can be submitted to the analyst.

[*Translation*]

If you still have questions, please consult the clerk.

[*English*]

We'll suspend for five minutes to allow the witnesses to leave and for us to go in camera, and then we'll come back here. If any members are online—this is you, Mr. Desjarlais—sign out and then come back into Zoom, please.

Thank you very much. This meeting is suspended for five minutes.

[*Proceedings continue in camera*]