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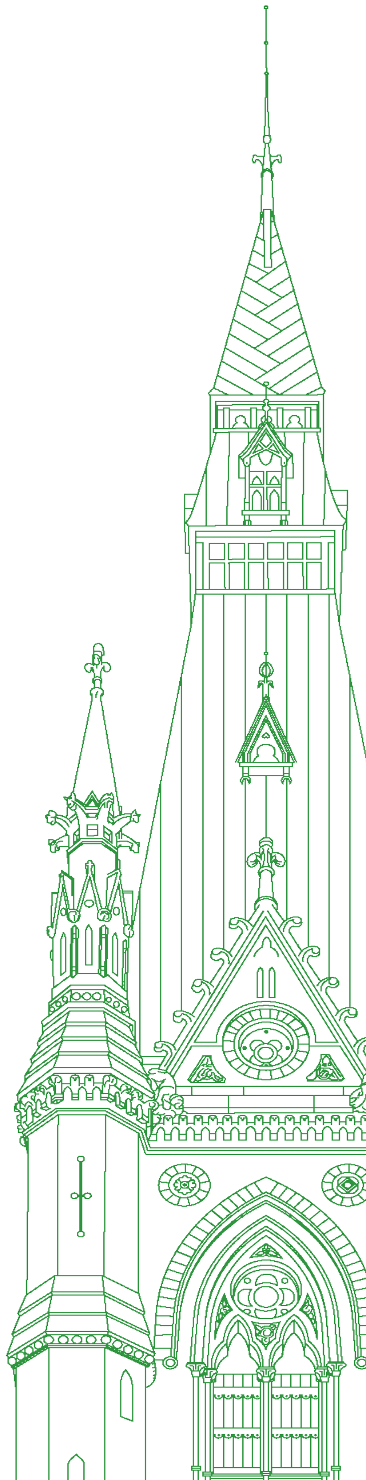

Chair: Mr. Peter Fonseca

Standing Committee on Finance

Thursday, March 3, 2022

● (1530)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): Welcome, members. I call this meeting to order.

Welcome to meeting number 24 of the House of Commons Standing Committee on Finance. Pursuant to the motion adopted in committee on January 12, 2022, the committee is meeting on inflation in the current Canadian economy.

Today's meeting is taking place in a hybrid format pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. The proceedings will be made available via the House of Commons website. The webcast will always show the person speaking, rather than the entirety of the committee.

Today's meeting is also taking place in the webinar format. Webinars are for public committee meetings and are available only to members, their staff and witnesses. Members enter immediately as active participants. All functionalities for active participants remain the same. Staff will be non-active participants and can, therefore, view the meeting only in gallery view.

I would like to take this opportunity to remind all participants to this meeting that screenshots or taking photos of your screen are not permitted.

Given the ongoing pandemic situation and in light of the recommendations from the health authorities, as well as the directive of the Board of Internal Economy on October 19, 2021, to remain healthy and safe, all those attending the meeting in person are to maintain two-metre physical distancing and must wear a non-medical mask when circulating in the room. It is highly recommended that the mask be worn at all times, including when seated. We must also maintain proper hand hygiene by using the provided hand sanitizer at the room entrance. As the chair, I will be enforcing these measures for the duration of the meeting, and I thank members in advance for their co-operation.

To ensure an orderly meeting, I would like to outline a few rules to follow.

Members and witnesses may speak in the official language of their choice. Interpretation services are available for this meeting. You have the choice at the bottom of your screen of floor, English or French audio. If interpretation is lost, please inform me immediately and we will ensure that interpretation is properly restored before resuming the proceedings. The “raise hand” feature at the bottom of the screen can be used at any time if you wish to speak or alert the Chair.

For members participating in person, proceed as you usually would when the whole committee is meeting in person in a committee room. Keep in mind the Board of Internal Economy's guidelines for mask use and health protocols.

Before speaking, please wait until I recognize you by name. If you are on the video conference, please click on the microphone icon to unmute yourself. For those in the room, your microphone will be controlled as normal by the proceedings and verification officer. When speaking, please speak slowly and clearly. When you're not speaking, your mike should be on mute. I would remind you that all comments by members and witnesses should be addressed through the Chair.

With regard to a speaking list, the committee clerk and I will do our best to maintain a consolidated order of speaking for all members, whether they are participating virtually or in person.

The committee agreed that during these hearings, the chair will enforce the rule that the response by a witness to a question take no longer than the time taken to ask the question. That being said, I request that members and witnesses mutually treat each other with respect and decorum. If you think the witness has gone beyond the time, it is the member's prerogative to interrupt or ask the next question, and to be mindful of other members' time allocation during the meeting.

I also request that members not go much over their allotted question time. Though we will not interrupt during a member's allotted time, I would like to keep you informed that our clerk has two clocks to time our members and witnesses.

I would now like to welcome today's witnesses. From the Bank of Canada, we have with us Governor Tiff Macklem. Welcome. We also have Senior Deputy Governor Carolyn Rogers. I would like to convey my sincere thanks to the governor and senior deputy governor. We understand this has been an extremely busy time for you. On behalf of the Standing Committee on Finance and its members, we want to thank you for honouring our request to come before our committee.

Governor, the floor is yours for opening remarks.

● (1535)

[*Translation*]

Mr. Tiff Macklem (Governor, Bank of Canada): Good afternoon.

Thank you for inviting me to participate in your study on inflation in the Canadian economy.

I'm pleased to be joined by Carolyn Rogers, the senior deputy governor of the Bank of Canada. This is her first appearance before the committee.

[*English*]

Since I was last here, the Bank of Canada and the Government of Canada have renewed our joint agreement on Canada's monetary policy framework. We agreed that the primary objective of monetary policy is price stability. Under the 2022–26 agreement, the cornerstone of our framework remains the 2% inflation target, at the midpoint of a 1%-3% control range.

Earlier today, I spoke to the CFA Society and explained our policy decision yesterday to raise our policy interest rate by 25 basis points to 0.5%. I also reviewed the drivers of the recent rise in inflation globally and in Canada. I know this is directly relevant to your study, so I have given my remarks to the clerk to share with committee members. I look forward to exploring these issues with you today.

Before moving to your questions, I'd like to talk to you and Canadians about three things.

First, I'd like to review the Bank of Canada's actions over the course of the pandemic, what we were trying to achieve, what happened, and what would have happened if we hadn't acted.

Second, I want to speak to the concerns many Canadians have about the rising cost of living. I know many people are worried about prices at the gas pump, and the costs at the grocery store. They worry about housing affordability and how to save enough for retirement. That angst has been compounded by everything we've gone through over these past two years of this pandemic.

Third, I want to talk about what's next. This latest wave of the pandemic is fading, and life is starting to return to normal, a new normal. I want to share what Canadians can expect to see in the economy, with inflation, and from the Bank of Canada.

At the outset of the pandemic, uncertainty skyrocketed, financial markets seized up, and economic activity fell off a cliff. About three million Canadians lost their jobs, and more than three million people were working less than half of their normal hours. Businesses closed up shop in record numbers. Inflation fell sharply, even dropping into negative numbers. We were staring down another Great Depression and the possibility of deflation. Deflation happens when prices across the economy actually fall. This might not sound so bad, but the truth is that persistent deflation is dangerous.

[*Translation*]

When unemployment rises rapidly and overall prices begin to fall, households may reduce spending if they think that goods and services will become even cheaper in the future. However, putting off spending results in less demand, leading to more job losses and business closures. This puts more downward pressure not only on prices but also on wages. Both can spiral downward, as they did in Canada during the Great Depression.

Deflation also makes repaying debt more expensive. This could have been a severe problem for a country like Canada, with high levels of household debt.

When the pandemic began and we were facing economic calamity, we took extraordinary actions. We lowered our policy interest rate as much as we could. We promised not to raise interest rates until slack in the economy was fully absorbed. We reinforced this commitment using quantitative easing.

Taken together, these actions kept borrowing rates low to stimulate spending and instilled much-needed confidence in the economy so that businesses and households could recover.

● (1540)

[*English*]

Thanks to the resilience of Canadians, effective vaccines, exceptional fiscal policy, and the Bank of Canada's actions, Canada avoided deflation, and our economy has recovered. However, I recognize that this reassurance may not reflect how many are feeling.

Even before the pandemic, many Canadians were worried about how they were faring economically. Not everyone was experiencing the benefits of a growing economy and a healthy labour market.

The pandemic intensified people's concerns, layering worries about their health and that of their loved ones on top of uncertainty about jobs and businesses, the value of their savings, and the prospects for retirement.

Reopening the economy has brought new complications, leading to higher inflation around the world and here at home.

The COVID-19 virus continues to circulate and mutate. We are seeing social upheaval here in Canada and in other countries. In the last week, shocking developments have unfolded in Ukraine at great human cost. The unprovoked Russian invasion is creating volatility and uncertainty in the global economy. We are living in anxious times.

Needless to say, monetary policy is not equipped to address most of these issues, but it is equipped and mandated to control inflation. Here in Canada, inflation is just above 5%. That’s too high. With oil prices rising further in recent weeks, we can expect inflation to move up again.

I am sure people are wondering why prices are so high, so let’s unpack it.

The inflation story in Canada has three key elements. The first is that through the pandemic many people shifted to buying more goods and fewer services. At the same time, the pandemic disrupted the production and delivery of many items. This caused the prices of many globally traded goods to rise sharply.

The second is that price increases have seeped into an increasingly wide array of goods, including everyday items like food and energy. Oil prices are higher because of strong demand, limited investment in new production and geopolitical tensions. This means higher transportation costs, which further add to the price of goods.

Food prices are also being affected by extreme weather, which has reduced harvests, and strong demand for housing—in the face of limited supply—has pushed those prices up.

[*Translation*]

The third is the strength of the recovery in Canada and the overall balance between demand and supply in our economy.

The current inflation isn't because of excess demand in the economy. A wide range of indicators suggest that slack in the economy has just now been absorbed.

In the future, spending growth needs to moderate so that demand doesn't significantly outpace supply and create a new domestic source of inflation. To help control inflation, we need to tighten monetary policy. In other words, we must raise interest rates.

[*English*]

Let me wrap up by explaining what Canadians can expect from us going forward. Monetary policy has a clear role to play in keeping supply and demand in balance and getting inflation back to target. To this end, we have taken deliberate steps to adjust the degree of monetary policy stimulus as the economy has recovered. We slowed our quantitative easing and we stopped it outright last October.

We made it clear to Canadians in January that with the economy operating at capacity, our guarantee of rock-bottom rates had ended. We need higher interest rates to bring inflation sustainably back down and keep the economy in balance.

Yesterday, the governing council took the decision to raise the policy interest rate by 25 basis points to half a per cent. We indicated that we expect interest rates will need to rise further. We also said that we will be considering when to end the reinvestment phase of our large-scale asset purchases and allow the Bank’s holdings of Government of Canada bonds to begin to shrink.

This is a process known as quantitative tightening, or QT. The timing and pace of further increases in the policy rate, and the start of QT, will be guided by the Bank’s ongoing assessment of the economy and its commitment to achieving the 2% inflation target.

In closing, I want to emphasize to all Canadians that the Bank is determined to control inflation.

With that, Senior Deputy Governor Rogers and I would be very pleased to answer your questions.

● (1545)

The Chair: Thank you, Governor, for your opening remarks.

We are going to be moving to our first round of questions from members.

In this round, each party will have up to six minutes for questioning the governor and senior deputy governor. We are starting with the Conservatives.

Mr. Chambers is up for six minutes.

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

Welcome, Governor and Senior Deputy Governor. It's nice to have you here for the first time. This is a very important study for us, and we very much value the Bank's view on these issues. Inflation is affecting the everyday lives of Canadians.

Governors, it's the first time I've seen you since your appointments. Congratulations.

Our time will go by quickly, so I'll ask for your co-operation to be as brief in your answers as possible, and I'll try to be brief in my questions.

Governor, in your speech today and what you've just outlined, you're starting to paint a picture of a different world, at least one that you thought might exist a year ago or even just in October. If you listen to the finance department today, their world view seems to diverge; it's a bit different.

The finance department is telling us that inflation is still temporary, that it's beyond the government's control and that the economy needs more investment and stimulus. We all know that the plan is for some fairly large deficit spending planned in the next budget.

Today, you outlined that the risks of inflation are here to stay, that they're lingering, that we can expect more interest rate hikes to deal with these risks, and that the economy is robust and the slack has been absorbed, which means it is operating near capacity. The question is this: Have you made your views on this well known to the government? Have you warned the Department of Finance of the risk to inflation of continued stimulus and large deficit spending?

Mr. Tiff Macklem: We make our views known to all Canadians; certainly I do by mandate have regular discussions with the Minister of Finance, and we share our outlook with the Department of Finance.

With respect to the economy, I think the important point to stress is that the economy has just gotten back to its capacity. It has recovered from the pandemic, and we are seeing considerable momentum. Omicron certainly dented growth in the first quarter—we lost 200,000 jobs in January—but if you look at a broader set of indicators, it looks like growth in the first quarter is holding up quite well.

As you're well aware, restrictions are easing, so we expect to see some increased strength going forward. What all that means is that the economy can handle higher interest rates, and we've been very clear in signalling to Canadians that they should expect a rising path for interest rates.

Mr. Adam Chambers: Thank you; I appreciate that forward-looking guidance.

The question is more around the risks of increased fiscal expansion. We've had testimony at this committee from a number of economists who have all said that increasing government spending and deficit spending will mean an upward pressure on inflation. Would you agree with that statement?

Mr. Tiff Macklem: I'm going to leave fiscal policy to our elected government. My job is to control monetary policy.

What I can tell you is that we will take the government's fiscal plans into consideration. We will put those in our outlook, and then we will do what we think is necessary to bring inflation back to target.

Mr. Adam Chambers: I understand that may be an uncomfortable question for you, Governor, but it has not prevented your predecessors sitting in the chair that you're sitting in from telling Canadians that they shouldn't be worried about deficit spending, because the economy is operating under capacity and we can handle deficit spending. The flip side now is that we're operating at capacity, and growth is robust. The question still is this: Won't additional fiscal policy lead to some higher inflationary pressures?

You spent some time in the Department of Finance. I know you think about these things, and I have great respect for your view on this. I just think that the view that you're presenting today and the view from the Department of Finance seem to be diverging.

● (1550)

Mr. Tiff Macklem: What I can say is that decisions on what to spend on and what to tax are decisions for the elected government to take. Those are decisions for parliamentarians to take.

When you're considering the impact of government deficits and government spending, you need to look at both the overall amount and what it's being spent on. The more spending creates additional supply in the economy—

Mr. Adam Chambers: I have about a minute left.

Mr. Tiff Macklem: —the less it's going to cause inflationary pressure. You need to look at both the amount and what it's being spent on.

Mr. Adam Chambers: Okay. Thank you.

The head of OSFI gave an interview in which he indicated that house prices could fall up to 20% as interest rates rise. Is that a view shared by the Bank of Canada?

Mr. Tiff Macklem: Well, let me talk about the base case and then about the risks around that.

In our base case projection, housing activity, as you're well aware, is very elevated. There are a number of reasons for that, which we may have the opportunity to explore.

Mr. Adam Chambers: Are we in a bubble?

Mr. Tiff Macklem: In our projection, we expect that the growth in housing activity will moderate. We do expect, though, and it's built into our projections, that housing activity is going to remain quite strong. Immigration is coming back up. Population growth is strong. People have jobs. Wages are going up. Incomes are healthy. All of those things are going to support strength in housing.

We do expect it to moderate. Raising interest rates will be a factor that will help moderate it, but we expect it to gradually diminish.

Mr. Adam Chambers: I think that's my time, Governor. Thank you.

The Chair: Thank you, Mr. Chambers.

We are moving to the Liberals.

Madame Chatel, you have six minutes, please.

[*Translation*]

Mrs. Sophie Chatel (Pontiac, Lib.): Thank you, Mr. Chair.

Mr. Macklem, thank you for being here. We know that this is quite a busy period for you. We sincerely appreciate the opportunity to spend some time with you.

[*English*]

I would like to come back a bit to something you said, which was really important, about how it depends on what we spend on as a government. At the core, inflation is a result of supply and demand. If we spend to increase the supply, that relieves the pressure on inflation. That was a good clarification. Thank you for that.

My question to you, Governor, is about global inflation and the global response to inflation by using monetary policy. As one example, I have in front of me the OECD chart on inflation, including the forecast for OECD members. It all follows the same pattern. There may be some isolated cases there, but overall, there's a global phenomenon of inflation. The forecast seems to be good news in 2022-23, but could you please put the inflation in Canada into global perspective?

Mr. Tiff Macklem: Let me just begin by saying that it is a pleasure to be here. Yes, we're busy. We're all busy, but this is very important, and we're very pleased to be here.

As you've highlighted, the same factors that have driven inflation up in Canada have driven it up globally. The supply constraints are a global phenomenon. Households shifting out of services into goods, because they can't consume a lot of the services they would normally consume during a pandemic, is a global phenomenon. Higher energy prices and higher food prices.... These goods are all priced in international markets, so you are seeing very similar inflation dynamics in most countries around the world.

In Canada's experience and in some advanced countries like the U.S., inflation is a bit higher than it is in the U.S. In some other countries, it's a little lower, like in France. Canada's experience is not dissimilar to those of many other countries, but for Canadians, knowing that people in other countries are facing this inflation is a bit of cold comfort. Canadians are still paying higher prices for groceries, higher prices for gasoline and higher prices for many goods. That's hitting them in the pocketbook. It is critically important that we bring this inflation back down. We also know that it hits the most vulnerable Canadians the most, those least able to afford it.

That's why we need to raise interest rates. We need to raise interest rates to keep demand and supply in balance, as I discussed. We also need to raise interest rates to keep inflation expectations well anchored. When these global supply disruptions, these shipping bottlenecks, ease back, inflation will come back down if we keep inflation expectations well anchored. If we don't, if they become unmoored, it will be much more difficult to get inflation back down.

● (1555)

[*Translation*]

Mrs. Sophie Chatel: Thank you, Mr. Macklem.

I want to ask about Canada's target, which was set in 1991. We have a fairly stable monetary policy and a 2% target, as you explained. The monetary policy, of course, is set by the bank's governing council. The council is autonomous and independent from the government.

How will your tools help reach that target? Based on the OECD predictions, the news looks good and we seem to be on top of things. Are you confident that we'll bring our target back to 2%?

Mr. Tiff Macklem: Yes, I'm hopeful, but it will take time. We have the tools, but it will take time to moderate spending growth and to reduce inflation.

As you just said, we've had an inflation target since 1991. Since 1995, that target has been 2%. Since then, the average inflation rate has been very close to 2%. There have been fluctuations, but we've always come back to a 2% inflation rate.

The current inflation rate is the highest that we've seen since we set an inflation target. However, since then, we've also been experiencing a pandemic for the first time. It's a unique situation.

Overall, I'm hopeful.

Mrs. Sophie Chatel: Thank you. This is—

[*English*]

The Chair: Thank you, Madame Chatel. That is the time. I know it goes quickly.

We are moving to the Bloc, and Mr. Ste-Marie, for six minutes.

[*Translation*]

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

Governor Macklem and Senior Deputy Governor Rogers, thank you for being here.

Mr. Macklem, thank you for your presentation and for your responses to the members' questions.

There's the issue of inflation related to the pandemic. You painted a clear picture of the past two years. Now, another major event has occurred, the Russian invasion of Ukraine. According to several economists, including Nouriel Roubini, there has been a paradigm shift. The risk of stagflation on a global scale is very high.

What are your thoughts on this major risk?

Mr. Tiff Macklem: The most significant impact of Russia's attack on Ukraine is being felt by the Ukrainian people. It's very difficult to see the human cost of this invasion.

Of course, this attack has increased global uncertainty. That said, in terms of trade, Canada's direct ties with Ukraine and Russia are very minimal. There isn't much of a direct impact on Canada. However, there are several indirect effects. The most significant effect concerns commodity prices. I'm thinking in particular of the cost of oil, which has increased significantly since the attack began. Today, a barrel of oil costs about $110 in American currency. This will increase inflation in Canada and around the world.

In addition, the prices in the agricultural sector are increasing, such as the price of wheat. This can affect the price of our food purchases.

Moreover, the financial markets have been highly volatile. The prices of government and corporate assets and bonds have changed. There has been more demand for American dollars. When people are scared, they all want the protection of American dollars.

Obviously, economic confidence has decreased. This attack is affecting the world order. That said, it's only the start of the second week of this war. It's hard to know what will happen. However, I can say that we'll consider the impact on Canada as we make our decisions.

● (1600)

Mr. Gabriel Ste-Marie: Mr. Macklem, I'll ask my question again.

As you said, the first victims of this invasion are the Ukrainian people. All our thoughts are with the Ukrainians, with whom we stand in solidarity.

I'll come back to my question. Are you concerned that the invasion will significantly increase the risk not only of inflation, but also of stagflation?

I should point out that, according to Nouriel Roubini, the impact is likely to be higher than what occurred during the two crises in the 1970s.

What are your thoughts on this?

Mr. Tiff Macklem: I want to emphasize that there's a great deal of uncertainty. Obviously, there will be an inflationary effect. However, the less obvious effect is the impact on growth and gross domestic product in Canada. Global confidence will be shaken, of course. That said, Canada exports many of its commodities, such as oil and wheat. One impact on Canada is that its export earnings will increase.

There will be multiple effects and we must consider all of them. It's really hard to give a specific answer at this point.

Mr. Gabriel Ste-Marie: That's fine. Thank you.

When we're faced with a stagflation situation or a supply crisis, what tools can the central bank use to follow a monetary policy designed to help us recover?

Mr. Tiff Macklem: In the 1970s, when we experienced stagflation, we learned that, if inflation expectations aren't anchored, we end up with a serious inflation issue and the economy doesn't work very well. During the 1970s, there were many strikes and conflicts in the labour market. Everyone was angry. They felt that nothing was being provided to compensate for the inflation.

We learned from that period that it's very important to anchor inflation expectations. The solution at that time would have been to target inflation directly. There was an attempt to target the growth rate of the money supply. However, the relationship wasn't very stable, so it didn't work well.

Ultimately, the decision was made to target inflation directly. This monetary policy framework has worked very well for about 30 years. I'm confident that it will continue to do so.

● (1605)

Mr. Gabriel Ste-Marie: Clearly.

Thank you.

[*English*]

The Chair: Thank you, Governor.

Thank you, Mr. Ste-Marie.

We are moving to the NDP, with Mr. Blaikie, for six minutes, please.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much, and thank you for your appearance here today. One of the things we've heard a lot of discussion about around this table since the election has been the role of quantitative easing in affecting prices in the housing market. There have been some around this table who have claimed that the quantitative easing program has been primarily responsible for the growth of prices in the housing market, or a further exceptional rate of increase, almost doubling over the last two years.

I'm very glad to have you here. I'm wondering if you would like to speak to the Bank's understanding of the role of quantitative easing in the housing market over the last two years, and the extent to which it may have contributed to increases in the price of housing overall.

Mr. Tiff Macklem: Yes, I'm very pleased to answer that question.

The reason we've seen strong mortgage growth in Canada is that Canadians want more housing, and there's limited supply. Banks are very happy to make loans to creditworthy Canadians. When people want more mortgages, banks make those loans.

There's no direct link between quantitative easing and the number of mortgage loans. What determines mortgage loans is how many houses people want to buy and what the costs of those houses are. Banks, as I said, are happy to provide the loans. They are subject to capital requirements, leverage requirements and liquidity requirements. Subject to those requirements, they can expand to provide those loans.

A number of witnesses have mentioned this to your committee. There are a number of reasons Canadians have wanted more houses during this pandemic. Probably the biggest reason is the obvious one, that we've all been spending a lot more time at home. Many of us have been working at home; our children have been studying at home; and recreation is at home. People have wanted more space. That has increased the demand for houses.

Monetary policy has also contributed to that increased demand in housing. Lowering our policy rate to the effective lower bound by using exceptional forward guidance, indicating to Canadians that they could expect interest rates to remain low for a considerable period, and supplementing that with quantitative easing all had the effect of lowering interest rates, including mortgage rates. When you lower mortgage rates, that encourages people to buy houses.

Our economy was in a huge hole. We needed that stimulus to get the Canadian economy out of that hole. It's worked. We ended QE last October. In January, we removed our exceptional forward guidance. Yesterday we raised the policy rate. It's time to get monetary policy back to a more normal setting. The economy has recovered.

Let me emphasize that there is no direct link between QE and mortgages.

Mr. Daniel Blaikie: Okay. I thank you for that.

Certainly, listening to some around this table at various times in the Parliament, you might have thought that quantitative easing was the reason we've seen such high increases in the cost of housing.

I want to talk to you about the other side of interest rates, which we don't often talk about. We spend a lot of time talking about the impact of interest rates on the cost of housing. We've had very low interest rates in Canada for a very long time now. The other side of the interest spectrum, of course, is retirement, and how low interest rates affect the retirement savings of Canadians, particularly those many Canadians who don't have company pensions. They rely on the CPP and their individual savings—and the performance of those savings—through either term deposits or investments in the market.

I'm wondering if you could you speak a little to the impact of low interest on people's retirement savings and what you think increases in the interest rate may mean for Canadians' retirement savings.

● (1610)

Mr. Tiff Macklem: We did an extended survey of Canadians leading up to the renewal of our inflation-control mandate. When we talk directly to Canadians, one of the things we hear from them—particularly from Canadians who are saving for retirement—is that very low interest rates make it hard for them to save.

One thing that was interesting when we surveyed Canadians was that Canadians care about themselves, but they also care about other Canadians. They weren't very enthusiastic about having negative interest rates, like those that have been implemented in other countries. They also don't like really high interest rates. Part of that reflects the notion that if you want to save, having higher interest rates makes that easier.

Overall, households' balance sheets have actually performed quite well through this pandemic. In fact, household savings are quite a bit higher. A lot of that has to do with people not being able to buy a lot of things. They haven't been able to travel. They haven't been able to go to restaurants. They've been buying more goods, but they haven't substituted one for one, so their savings have gone up.

The balance sheets of Canadians on average are actually in better shape. With interest rates higher, when they save, yes, they will get some more return on that.

Higher interest rates basically encourage less spending and more savings. That's how monetary policy works to moderate spending.

The Chair: Thank you, Mr. Blaikie. That is the time.

Members, we are moving into our second round. In this round, we are starting off with the Conservatives.

I have Mr. Fast for five minutes.

Hon. Ed Fast (Abbotsford, CPC): Thank you, Mr. Chair.

Thank you, Governor, for meeting with us. I believe it's the first time I've had a chance to ask you questions.

I want to stay with quantitative easing and monetary policy.

The question that Mr. Blaikie put to you, which was on whether there was a link between quantitative easing and mortgage loans, to me, is perhaps the wrong question to ask. The question is, what is the connection between quantitative easing and inflation? To what extent did the Bank of Canada underwrite the government borrowing that happened during the pandemic period—in other words, the bond buying—and how much liquidity was actually injected into our economy as a result?

Mr. Tiff Macklem: I guess there are two parts to that question. If you want just some numbers, our quantitative easing program is about $300 billion on our balance sheet. That would be our purchases of government bonds in the secondary market.

I would stress a few things. First of all, the inflation we're experiencing today in Canada is not the result of too much demand in the economy. The economy is just getting back to its capacity. We were in a big hole. We've had a very impressive recovery. Now that the economy has recovered, that slack has been absorbed.

It is not causing inflation from domestic sources. One way to see that is that if you look at different parts of the price increases, goods price inflation, which is largely internationally traded goods, that's a 7.2% service price inflation, setting aside housing. The service component of housing is only 1.6% in Canada. That's what's more directly linked to demand pressures in Canada. That's not what's causing the inflation.

Hon. Ed Fast: Governor, I didn't mean to suggest that quantitative easing in Canada was the sole source of inflationary pressures, or even the major part. There are a number of other things, for example, supply chain constraints and the spike in commodity prices, that are driving inflation. However, when you engage in QE, you are pumping liquidity into the economy. That's more dollars chasing the same number of goods.

I'm not suggesting that was the Bank's problem, but you did underwrite about $300 billion of Canadian government bonds, which the government then took and spent in the economy. Am I correct?

● (1615)

Mr. Tiff Macklem: To be clear, the government has to pay back those bonds.

Hon. Ed Fast: I understand.

Mr. Tiff Macklem: We're not monetizing those bonds; we're buying them. They're on their balance sheet. The government has to pay them back. When those bonds mature, the government will have to pay them back.

Hon. Ed Fast: I understand that.

When you underwrite those bonds, the government now has the capacity to spend the value of those bonds in the economy, and, in fact, it did. Is that correct?

Mr. Tiff Macklem: The government borrowed money in markets, which it has to pay back. We bought those bonds as a way.... Because our policy rate was at its effective lower bound, we couldn't lower our policy rate any more. A different way to lower interest rates is to buy government bonds, which pushes their price up and drops their interest rate. It's a different way to lower interest rates. It's not monetizing the debt. That did provide stimulus.

Hon. Ed Fast: Yes, I understand it provided stimulus and that the stimulus was required. I'm not challenging you on that. I'm suggesting to you that when you engage in bond buying, the government has the capacity to spend that money and does, which in fact injects stimulus into the economy.

Let me go to another question.

You mentioned high household debt, and that concerns me as well. Our household debt to disposable income ratio today is around 180%, which is significantly higher than in the U.S. Has the Bank of Canada done calculations on the impact that higher interest rates will have on highly indebted consumers, those who are indebted on big mortgages, big credit cards and other consumer loans? Have you done that work?

Mr. Tiff Macklem: I'm going to take the opportunity to bring Senior Deputy Governor Rogers into the conversation.

Carolyn, why don't you take that question?

Ms. Carolyn Rogers (Senior Deputy Governor, Bank of Canada): Thanks, Mr. Fast. It's an important question.

Most certainly this is something the Bank spends time thinking about and it's part of how we look at the effect of our monetary policy decisions on the Canadian economy.

A back-of-the-napkin calculation on today's interest rate announcement, for example, would be about $12 on $100,000 of mortgage debt. There are lots of assumptions in that calculation: the term and the rate on the mortgage.

What's important to know about mortgages, though, is most mortgages, even variable rate mortgages, in Canada have fixed-rate payments, so there isn't an immediate change to payments. There is a change to the portion of the payment that's going to principal. It will take longer to pay down the mortgage. We acknowledge that. It's certainly a more indebted economy.

The Chair: Thank you, Ms. Rogers.

We're well over six minutes, but thank you for that.

We are moving to the Liberals, with Ms. Dzerowicz, for five minutes, please.

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

I thank the governor and the deputy governor for being here today. Thank you so much for your important service to our nation.

I'll start off very quickly by correcting my Conservative colleague who started out the gate by indicating that the government continues to believe the economy needs more stimulus and investment. I want to put on the record what we have done as a government.

Since last summer we have been very deliberate about reducing the funding around our emergency programs, and it has been very targeted. What we wanted to try to do, as we're coming out of COVID, is reduce the amount of money we're giving, but not so quickly that it destabilizes the foundation of our economy, from which we want our businesses to continue to pivot and to rebound.

Governor, thank you. I appreciated your indicating to us that our fiscal policy was successful and that our generous emergency programs have worked both to stabilize the economy and to help it largely recover to where it is today.

My first question is actually about households. As you rightly pointed out, everybody is worried about the rising costs of, it seems, everything.

Have you done an analysis on how it's going to be impacting households in terms of interest rate increases?

● (1620)

Mr. Tiff Macklem: Households are in a wide diversity of situations. As Mr. Blaikie's question suggested, if you're getting close to retirement or are retired, you're looking at the interest return you can get on your savings. If you're younger and looking to buy your first house, of course you're going to be borrowing and you're going to be paying that interest. Among Canadians, there's a wide spectrum.

What I can say is that the balance sheets of Canadians on average are improved, actually, over the last year. There's about $200 billion of what economists call “excess savings” that households have built up, as I said, because they have been unable to buy a lot of the things they wanted to buy through the pandemic.

We're already seeing that, particularly through the fall as things reopened, they came back to restaurants and came back to recreation. Therefore, that savings rate is starting to come down, but there's still a stock of extra savings.

However, that's not every Canadian. Some Canadians have really stretched to buy that first house, and they are going to be more affected when interest rates go up. As I said earlier today, we recognize that higher interest rates are going to impact Canadians. We're going to be deliberate, we're going to be careful, we're going to be mindful as we do that, and we're going to assess the impacts along the way. The economy is strong and we certainly think it can handle higher interest rates. We think it needs higher interest rates, but being on a rising path doesn't mean we're on autopilot.

Ms. Julie Dzerowicz: As you rightly noted, we're very much engaged in Ukraine and the Russian aggression into Ukraine. Can we do both, spend on supporting Ukraine and tackle inflation at the same time?

Mr. Tiff Macklem: Again, spending decisions are really decisions for governments.

Spending on Ukraine.... I guess it depends what you're spending the money on, but if you're sending them aid, that's not really going to create inflation in Canada. It would create a bigger deficit, but it's not spending in Canada; it's spending in Ukraine.

Ms. Julie Dzerowicz: I know that the Bank is very much going to be working on reducing inflation. Are there any external factors that will also help support reducing inflation?

Perhaps there businesses that help to tackle the supply chain issue, or maybe there are some other things that might be helping to put a downward pressure on inflation, beyond the work that the Bank of Canada is going to be doing.

Mr. Tiff Macklem: I'm going to ask our senior deputy governor, Ms. Rogers, to lead off on this one.

Ms. Carolyn Rogers: One of the most important things that will help with inflation is an improvement in productivity. Lots of businesses have been affected by the pandemic. Their productivity has been affected by the pandemic. You see it when you walk into a grocery store or a restaurant. We've got extra staff checking vaccine passports, or providing support in cleaning, queuing or that sort of thing.

As the pandemic lifts and as the economy continues to recover, we expect productivity will pick up again. When productivity picks up, the economy can take more demand without the price pressure. Certainly, productivity will give it a lift. It will help us in the fight against inflation.

● (1625)

Mr. Tiff Macklem: I will just add that there are key investments—

The Chair: Governor, that was the time, but I'm sure you're going to have an opportunity in another round.

We are moving to the Bloc, with Monsieur Ste-Marie for two and a half minutes.

[*Translation*]

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

Mr. Macklem and Ms. Rogers, I want to know why you chose not to raise the policy interest rate in January. In particular, I want to know how the following factors may have influenced your decision. First, the fact that the economy hadn't returned to a high enough level, according to your criteria; second, the commitment not to raise rates for a certain amount of time, or until the economy returns to its full potential; and third, the alignment of your monetary policy with the American Federal Reserve's policy.

Mr. Tiff Macklem: First, the purpose of our currency, the Canadian dollar, is to ensure that our monetary policy is independent from the policies of other countries. Yes, we take into account the situation in the United States. However, we make our decisions here in Canada for Canadians.

Why did we make this decision in January? At that point, our economic capacity had recovered. We no longer needed to tell everyone in our forward guidance that we would keep the interest rate at the effective lower bound. We decided to end that commitment. We sent a very clear message to Canadians that they could anticipate an increase in interest rates. This was a fairly major change in direction for the monetary policy. We wanted to make sure that this choice was well thought out, that we were transparent and that the information was shared with Canadians. Yesterday, we implemented the first step in that interest rate increase.

Mr. Gabriel Ste-Marie: We can now expect a series of gradual increases in the policy interest rate over the next few quarters. Is that right?

Mr. Tiff Macklem: You can expect interest rates to keep increasing. Raising interest rates should normalize the monetary policy, because our economy has returned to a more normal pace.

Mr. Gabriel Ste-Marie: Clearly.

Thank you.

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

[*English*]

We are moving to the NDP and Mr. Blaikie for two and a half minutes.

Mr. Daniel Blaikie: I think one of the challenges right now for a lot of folks is trying to square things that we hear, like the numbers you cited earlier about household savings being up, with the pressure that so many Canadians are very clearly facing in terms of pricing.

There was a poll out earlier this week that says over half of Canadian households are worried that they can't keep up. We know that before the pandemic somewhere in the neighbourhood of half of Canadian households were about $200 a month away from insolvency.

It's trying to square some of the different messages that we're hearing, and it seems to me that in part the answer lies in this other component that's a lot less talked about, unfortunately. The Parliamentary Budget Officer put out a report in December, or thereabouts, saying that 40% of Canadians right now are sharing 1% of the wealth that's generated in Canada, and 1% of Canadians own or control 25% of the wealth.

When we talk about average household savings being up, that can be a positive thing overall, on a macroeconomic level, but those averages can really hide some disparities, depending on where people fall in terms of their revenue category and their socio-economic status.

I'm wondering if you might explain to us how the Bank analyzes that component of the problem. Also, when we talk about optimism because of average household savings, to what extent is that skewed by some households having proportionately much larger savings and so many others still living paycheque to paycheque?

● (1630)

Mr. Tiff Macklem: It's a big question, so let me offer a couple of things.

First of all, the monetary policy is, by its very nature, a very macro tool. We have one rate of inflation for the whole country, the CPI inflation. That is our target. We have one interest rate for the whole country. That's our instrument, and we obviously can't target specific groups.

One of the big costs of inflation is that it does hurt low-income, poorer people the most. When grocery and gas prices go up, it bites for them the most, and that's one important reason that you want to keep inflation low and stable.

This pandemic has been a very good example. You can't understand the macroeconomy without looking at a more granular level, at the experience of different Canadians in different sectors of men, women, youth, and of racialized Canadians. You need to look at the different experiences to get an understanding of that macro picture.

Probably the most important thing you can do to create more equality in this country is to get everybody back to work. If you look at the effects of this pandemic, you see that it wasn't just that three million people were out of work—an unbelievably huge number—but it was also how incredibly uneven it was. It was very concentrated on youth, low-income workers and women. As the economy has recovered, the good news is that those inequalities have dramatically diminished. In fact, youth and female employment is now above prepandemic levels; low-wage workers have come a long way back, but there's still some room there.

The Chair: Thank you, Governor, and thank you, Mr. Blaikie.

We are moving to the Conservatives. We have MP Albas.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair.

Thank you, Governor, and thank you, Deputy Senior Governor, for your presence here today.

Governor, before we go any further, you mentioned to MP Blaikie that there was no relationship between QE and mortgage prices. I was always under the impression that bond prices and mortgage interest rates have an inverse relationship. Maybe I heard that wrong. Could you clarify your remark?

Mr. Tiff Macklem: I'm happy to.

When you engage in QE, you're buying government bonds. That pushes their prices up, which lowers the yield on those bonds, and yes, as you suggested, if you lower the.... Government bonds are the benchmark that everything else is priced on, and as I responded in my earlier answer, QE contributed, along with the other monetary measures we took, to lower mortgage rates, which did support the housing market.

When I said there was no direct...what I meant was there's no quantitative.... Banks don't need our settlement balances to make mortgage loans. When we move to quantitative tightening, I can assure you that banks will still be making mortgage loans.

Mr. Dan Albas: Okay. Thank you, Governor.

Mr. Tiff Macklem: The prices will change, but it's not a quantity link.

Mr. Dan Albas: You said earlier that we may have the opportunity to explore housing further, and I certainly want to do that here, but in regard to that, we have a 43% increase in the average home price in two years. Now, I want to ask you specifically on that how you get that kind of increase, especially given the amount of quantitative easing that the Bank of Canada has undertaken over the past two years.

Could you maybe explain how that is? It sounds to me that, for whatever reason.... Look, I'm not looking backward. I'm looking forward. I'm trying to get an understanding of how you can have a 43% increase in just a two-year period.

Mr. Tiff Macklem: Housing prices have gone up a lot. The housing market is very elevated and we cannot continue to see the kinds of increases in housing prices or the kind of growth rate we've seen in housing. I just want to be very clear on that right off the top.

Why have housing prices gone up so much? It's a combination of the fact that there's been a lot of demand for housing and there's been limited supply. I know that a number of witnesses before the committee have talked quite a bit about supply—CMHC as well as others. The fundamental solution to reducing house price increases is to increase the supply of housing in this country. That's what's actually going to get people into the houses they want.

I am pleased to see that across different levels of government there is more focus on supply. This issue of high housing prices and elevated household indebtedness as people stretch to buy those houses has been going on for the last seven or eight years. This predates the pandemic. The pandemic has, like it has for so many things, intensified it.

● (1635)

Mr. Dan Albas: Governor, with all due respect, I'm asking about the last two years. Has quantitative easing affected interest rates and added fuel to the fire when it comes to our housing costs?

Mr. Tiff Macklem: Quantitative easing, together with the other measures we took, lowered mortgage rates, and that contributed to the strength of the housing market.

Mr. Dan Albas: Okay.

Again, some people might say that 43% is pushing home ownership, the goal and dream of many Canadians, away even farther.

Your predecessor mentioned once at committee that he'd like to see more different offerings of different types of mortgages. He said that we didn't have a variety of different mortgages that could meet different needs. Would you happen to agree with that? Should there be more innovation in the mortgage space than what we have today?

Mr. Tiff Macklem: Look, innovation that creates more opportunities for consumers, I'm...yes, I think that would be a good thing. I think one has to be careful about innovation. We have to make sure these are innovations that are robust and that will.... You know, we saw a lot of innovation in the mortgage market in the United States in 2004-05-06, and it ended very badly. Fortunately, in Canada we were not as innovative. We did have some of that going on in Canada, but it was much smaller.

Mr. Dan Albas: What would be some positive innovations, from your perspective?

Mr. Tiff Macklem: Well, I don't really have any specific suggestions. I mean, these are decisions for businesses to engage in.

I don't know if our senior deputy governor, Ms. Rogers, has some perspective on that.

Ms. Carolyn Rogers: I think the member is talking about some suggestions for longer-term mortgages. I remember when Governor Poloz spoke to you about that.

I think, as the governor said, innovation that comes along not at the expense of stability is good innovation, so certainly terms would be one thing to look at.

The Chair: Thank you for that.

Thank you, Mr. Albas.

We are moving to the Liberals.

Mr. MacDonald, you have five minutes.

Mr. Heath MacDonald (Malpeque, Lib.): Thank you.

Thank you, Governor and Deputy Governor, for being here today. These are very interesting conversations that we're having, clarifying a lot of issues and a lot of questions that many people are asking.

I want to go back to your quantitative tightening relative to the bonds. Can you describe when and how you analyze removing those bonds from your balance sheet?

Mr. Tiff Macklem: There are various phases, so we were engaging in quantitative easing; we began in October 2020 what we call tapering or reducing the amount of quantitative easing we were providing, so buying fewer bonds. We started with five billion per week; we went to four, to three, to two and then we ended quantitative easing, which means we entered something we call the reinvestment phase, in which we only buy enough government bonds to replace the bonds that are maturing on our balance sheet.

Right now, we are in the reinvestment phase. What we indicated yesterday is that we will be considering moving to the next phase. We had indicated that we would stay in reinvestment until we raised the policy rate. Yesterday, we raised the policy rate, so the logical next step is to consider not replacing the bonds that are maturing on our balance sheet, which is called quantitative tightening, and we indicated that we would be considering quantitative tightening and when to start it. As I said earlier today, I think you can take from that that at our next monetary policy decision in April we will have a live discussion about ending reinvestment and beginning quantitative tightening.

When we get to quantitative tightening, what that means is we won't be replacing the Government of Canada bonds that are maturing on our balance sheet, so our holdings of Government of Canada bonds would diminish. To give you a picture of the speed of that, about 40% of the government bonds on our balance sheet would roll off over two years.

● (1640)

Mr. Heath MacDonald: We hear all the time that we're moving too quickly or that we're not moving quickly enough relative to monetary and fiscal policy. What happens if those contract too quickly at the same time?

Mr. Tiff Macklem: What happens if there's too much tightening too quickly is that the economy is going to slow. Inflation will fall below the 2% target; there will be more people out of work and there will be less income in the economy. If there's less income in the economy, there's less spending and people aren't buying goods, so companies start discounting those goods and inflation comes down and gets too low, below our target. If you look at our projection, we have quite solid growth this year and next, with inflation coming back to target. Yes, it's a delicate job trying to balance those things, and we're going to assess that at each decision going forward.

Mr. Heath MacDonald: Thank you.

I want to come back to non-traded commodities, which I think a couple of members have already spoken about a little, and the effect of the Russian invasion of Ukraine.

People on the street are wondering about those non-traded commodities and the effect the war is going to have on them. I know you touched on some of it, but I'm interested in seeing how deep you can go on that to give us a more precise answer.

Mr. Tiff Macklem: In terms of the effects on Canada through commodity prices, just to be clear, what we're talking about is the price of oil, the price of natural gas, the price of wheat, the price of potash, the price of nickel, commodities that Russia and—

Mr. Heath MacDonald: Governor, the non-traded commodities though, I thought I would be dealing with health and education, that kind of stuff.

Mr. Tiff Macklem: I apologize. I misunderstood.

When you say non-traded commodities, do you mean services?

Mr. Heath MacDonald: Yes.

Mr. Tiff Macklem: In terms of the impacts on Canadian services, I don't expect there will be much impact. Global uncertainty has increased; there's more volatility in financial markets and we could see some supply disruptions, which could weigh on growth, but I don't see very big impacts on things like health and education in Canada.

Mr. Heath MacDonald: Thank you very much.

The Chair: Thank you.

Thank you, Mr. MacDonald.

We are moving to our third round, members. We have the Conservatives up first.

Mr. Lawrence, go ahead for five minutes.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you very much.

Thank you for appearing today, Governor.

I want to go through and focus on a particular area of inflation, and that's with respect to energy.

In seven of your last 11 press releases, you stated that energy, either gasoline or oil, was the cause or significant driver of inflation. If we were able to produce more energy, more oil, in Canada, and we were able to be more energy independent than we are currently—such as by not importing oil from Russia or other countries around the world—would Canada be in a better position to control inflation?

● (1645)

Mr. Tiff Macklem: We're big exporters of oil in global markets. Oil's—

Mr. Philip Lawrence: Governor, if we were able to increase the amount of oil and gas that we were able to put into the global market—and you've stated in seven out of 11 press releases that this is a major driver—that would reduce inflationary pressures.

Mr. Tiff Macklem: On the margin, if Canada produced and exported more oil, it could reduce the pressure on global markets.

Mr. Philip Lawrence: I can tell you that in my town of Orono, whereas you talk about excess savings, they're talking about how they can't pay their heating bill. They're talking about the fact that they can't afford their gas and their oil bills. If we saw, for example, a decrease of 10% in the gasoline, oil or fuel costs of Canadians, would that impact inflation?

Mr. Tiff Macklem: Yes. It would bring it down.

Mr. Philip Lawrence: The carbon tax equates to about a 10% additional cost on oil and gas. If we were able to give Canadians a holiday for a period of time, would this help them cope with the additional pressures they're facing as a result of inflation?

Mr. Tiff Macklem: In our monetary policy report, we report on the impact of the carbon tax on inflation. It's about 0.1% per year. The reason for that is that the carbon tax is increasing over a very long period of time.

Mr. Philip Lawrence: It's about ready to go up, but if you look at the cost of petroleum today to fill up your gas tank, to heat your home or, in farmers' cases, keep their livestock warm, it can equate to far more than 0.1%, I can assure you. According to Saskatchewan agricultural producers, it was costing their farmers, on average, an additional 10%.

If you look at the cost of gasoline at the pump, it's 10%, sir. Excuse me if I question your numbers.

Mr. Tiff Macklem: The 0.1% is the impact of increasing the carbon tax over time. Obviously, if you eliminate it, yes, that would have a bigger effect.

Mr. Philip Lawrence: What I was talking about was giving Canadians a holiday—not on the increase, but a holiday from the carbon tax.

Mr. Tiff Macklem: I don't have that number in front of me. I'm sorry.

Mr. Philip Lawrence: If you said that a 10% reduction in the cost of fuel would have an impact on inflation, and the carbon tax equates to about a 10% cost, it only makes sense. If *a* equals *b* and *a* equals *c*, it makes sense. Could we have those numbers? Could we have the impact of the carbon tax—in total, not the increase—on inflation?

Mr. Tiff Macklem: Yes, we could get those numbers.

Mr. Philip Lawrence: Thank you for that, Governor.

The other thing that I found a bit odd was that on one hand, you talked about the fact that monetary policy wasn't leading to inflation. However, at the same point, you gave yourself a pat on the back earlier on and said that it was monetary policy that saved us from deflation. Maybe I'm just not understanding.

Could you clarify that for me, Governor?

Mr. Tiff Macklem: Yes.

If the economy's operating below its capacity, that tends to put downward pressure on inflation. If it's operating above its capacity, that pushes inflation up. The economy's been below its capacity for the last two years. It was initially way below its capacity. It has recovered impressively, actually, and is now back to its capacity.

It's not in excess demand; it's not above its capacity, or at least not significantly above its capacity. The inflation we're seeing is not being generated by too much demand here in Canada. It's being generated by these international factors, which I mentioned.

Mr. Philip Lawrence: I will yield the time there.

The Chair: Thank you, Mr. Lawrence.

We are moving to the Liberals and Mr. Baker for five minutes.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thank you very much, Mr. Chair.

Governor, thank you very much for making the time to be with us today. I have to tell you; I have a finance background. I studied economics and have two business degrees. Just listening to your testimony over the last little while, I've learned a tremendous amount already, so I thank you for your time and for being here.

I also want to say that I was reading your bio. If I'm not mistaken, you studied at Queen's and, you said, at the University of Western Ontario. You were also, of course, dean at the Rotman School of Management. I'm a Schulich grad, and I'm going to try not to hold that against you as I ask the remainder of my questions, if you don't mind.

The first question goes back to our current rate of inflation relative to those of our international counterparts. I'm wondering, Governor, if the rate of inflation we're seeing in Canada is unique to Canada or if it is a global challenge.

● (1650)

Mr. Tiff Macklem: I'm going to begin by saying that there are a lot of great universities in this country, for which we can be very thankful.

I'm going to ask our senior deputy governor, Ms. Rogers, if she wants to say a few words about international inflation. She recently moved back from Europe, so she can give us a more global perspective.

Ms. Carolyn Rogers: The short answer would be covering some of the ground we've already covered today, Mr. Baker. As the governor said, the inflation we're seeing today is not a result of excess demand; it's a result of a number of unique factors stemming, in large part, from the pandemic. It's a result of problems in global supply chains and then increased prices for commodities that are traded globally, like oil. This is why you see a very consistent picture of inflation around the world, regardless of differences in economies.

I know in previous questions and discussions, there's been discussion about why different economies are seeing different rates of inflation. Again, as we put it earlier, the G7 countries all have quite different economies, but you see pretty consistent levels of inflation, and that's because they're coming from the same source.

Mr. Yvan Baker: Thank you for that.

It sounds like it's a global phenomenon.

Ms. Carolyn Rogers: Yes.

Mr. Yvan Baker: Can you share how our rate of inflation compares to those of other countries around the world? Are you able to indicate that to us?

Ms. Carolyn Rogers: Yes. I think earlier we talked about G7 countries—France, Italy, the UK, etc.—being fairly consistent. I think the latest numbers out of Europe are just above 5%, slightly above where we are. The U.S. inflation rate is a bit higher. There are small differences in the way inflation is measured in some of these countries that we can attribute some of the differences to. For example, used cars play a larger role in inflation measurements in the U.S. than they do here in Canada.

You've also seen the effect of the economy rebounding a bit more quickly in the U.S. because of differences in health measures. There's a variety of different factors that contribute to inflation, but again, you come back to what the largest contributing factors are. In all of these countries, you would hear supply chain pressures and commodity prices.

Mr. Yvan Baker: Thank you very much for that.

Governor or Senior Deputy Governor, how does the current economic recovery in Canada compare to the recovery from past recessions in Canada?

Mr. Tiff Macklem: I would say that everything about this recession has been very different from past recessions. First of all is its incredible severity and its suddenness. It's a fact that basically almost every country in the world went into recession on almost the same day.

The recovery has also been the strongest on record by far. To some extent, that reflects the fact that part of the cause of this recession was that truly exceptional public health measures needed to be taken that literally closed parts of the economy. When those were reopened, the economy bounced back very quickly.

The other element is the exceptional stimulus that has been provided here in Canada and in many other countries around the world. Faced with an economic catastrophe, many governments have deployed exceptional policies, and they've worked.

Mr. Yvan Baker: Great. Thanks very much, Governor.

The Chair: Thank you, Mr. Baker.

We are moving now to the Bloc and Monsieur Ste-Marie for two and half minutes.

[*Translation*]

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

Mr. Macklem, on February 7, 2022, American economist Joseph Stiglitz wrote an article entitled “A Balanced Response to Inflation.” I'll read two excerpts and then ask for your opinion on what he wrote.

At the start of the article, he wrote the following about inflation:

> Nonetheless, my biggest concern is that central banks will overreact, raising interest rates excessively and hampering the nascent recovery. As always, those at the bottom of the income scale would suffer the most in this scenario.

The other excerpt comes from the end of the article:

> This much we do know: A large across-the-board increase in interest rates is a cure worse than the disease. We should not attack a supply-side problem by lowering demand and increasing unemployment. That might dampen inflation if it is taken far enough, but it will also ruin people's lives.

I want to hear your thoughts on this matter.

● (1655)

Mr. Tiff Macklem: There are many aspects to consider in this assessment. I agree with some parts, but not with the entire analysis.

I agree that monetary policy alone can't address the very high price of oil or reduce bottlenecks in the global system. However, as I said before, it's very important for monetary policy to keep inflation expectations well anchored. When the price of oil goes down, or at least stops rising, and bottlenecks start to ease, the pressure on inflation decreases. Inflation will come down if inflation expectations are well anchored. Monetary policy must keep inflation expectations well anchored.

Mr. Gabriel Ste-Marie: Thank you.

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

[*English*]

We are moving to the NDP and Mr. Blaikie for two and a half minutes.

Mr. Daniel Blaikie: Thank you.

One of the questions I wanted to touch on is that there was a lot of discussion around the time that the mandate was being renewed on the question of full employment being one of the objectives within the mandate of the Bank of Canada. Of course, a decision was taken not to include that in the mandate of the Bank.

I wondered if you could take some time to speak to that decision and the big question mark that's out there for over 6% of Canadians for whom, despite a lot of talk in the economy of employers who need employees, there is nevertheless a stubbornly high unemployment rate.

Why was there a decision not to include that in the Bank of Canada's mandate, even though it's clearly something that it seems the Bank will be paying close attention to? What do you think the path out of that stubbornly high unemployment rate is, and how can monetary policy help in trying to bring that number down?

I thought of this in your reply to my last question. You said that the best way to fight inequality in Canada is to get everyone back to work, but of course there's the decision to say that that's not part of the mandate of the Bank of Canada. I'm hoping you can help us understand that decision a little better.

Mr. Tiff Macklem: It's a lot for six minutes, but let me try to go at it quickly.

I'm very pleased with the renewed mandate of the Bank of Canada. The renewal in some sense really reflects the success we've had over the last 30 years. It also clarifies the role of employment in our framework. I would stress that the economy has to be at full employment to keep inflation at target. If we're below full employment, the economy is missing jobs. It's missing wages. That means it's missing spending. That means inflation is going to be below the target.

One of the things I like about the new agreement is that it is clearer about that. It is clearer that we have a role to play, consistent with achieving price stability, in supporting employment. It's clear that our primary objective is price stability.

Also, as part of the agreement, we indicate that we will be providing more analysis of labour markets. We've already started that. If you look at our last monetary policy report, actually, you'll see an extensive discussion of a very wide range of labour market indicators. We are using those—not just the aggregate ones but also the inclusiveness of the labour market and the characteristics of jobs, such as the hours worked and the wages—as a way to come to that overall assessment of how much slack is in the economy.

● (1700)

The Chair: Thank you, Governor. You encapsulated all of that into a minute and a half. That was great. Thank you.

Thank you, Mr. Blaikie.

We're moving to the Conservatives.

Mr. Chambers, you're up for five minutes.

Mr. Adam Chambers: Thank you very much, Mr. Chair.

Thank you, Governor. I'd like to take you back to what you mentioned a couple of times—namely, the very unconventional time in which we found ourselves in 2020 and some of the tools we had never used before. We kind of brought them to bear on the market to make sure that interest rates...and that the market was continuing to function. That, of course, was the QE you've spoken about.

At some point, the QE became more of a regular policy tool that we used on an ongoing basis versus that really immediate short-term need we had when everything started. You also mentioned, when we last spoke, the Bank's making its policy choices based on some of the decisions made by the federal government's Department of Finance.

The question is this. We know that QE has helped keep interest rates low. The flip side is that had we not done it, had we not purchased government bonds, then interest rates would have gone up. I'm curious as to whether the Bank really had a choice whether it would do QE or not later in the pandemic, when it was presented with fiscal plans from the government that we knew would spend $100 billion, $200 billion, $350 billion.

Mr. Tiff Macklem: Well, the Bank certainly has a choice. We use our tools to achieve our inflation target. The reason we threw a lot at this problem at the beginning was that we were in the biggest, sharpest recession we've been in for many, many generations, so we threw a lot at it.

The other thing I would stress is that our primary instrument is interest rates. The reason we resorted to forward guidance and QE was that we'd lowered the rate as low as it could go. We've now increased the rate. We ended QE last October. We've now increased our policy rate. We are considering quantitative tightening. Our policy rate will remain the principal instrument.

Mr. Adam Chambers: That's fair. Thank you. It's just that when you're presented with the fiscal plan of a government, and we want to keep interest rates low, in my view it didn't leave the Bank much opportunity to change away from its course.

Let's move on to talking about low-income Canadians. You gave a speech a year ago, and you mentioned it here again today, to the effect that inflation has such a significant effect on low-income Canadians, those individuals who are cash-strapped, if you will, or living month to month, paycheque to paycheque. Our decision, the government's decision, the Bank's decision, to continue the lower interest rate policy for longer and longer still has had a significant effect on these individuals.

How would you recharacterize what you said just a year ago?

Mr. Tiff Macklem: I remain concerned that inflation has a disproportionate effect on lower-income Canadians. That is one of the reasons it's so important to maintain low, stable inflation. The people who suffer the most are the least able to afford it.

The inflation we're seeing today—as we've gone over a number of times—is largely driven by increases in globally traded prices. It is critically important that we move interest rates up to keep inflation expectations well anchored and moderate spending to get inflation back to target.

It will take some time to get there. Our tools do take some time, but I am confident we'll get there.

Mr. Adam Chambers: Thank you. I appreciate that. Hopefully we will continue on this path to getting inflation under control.

I have a final question.

We talk a lot about inflation expectations and anchoring, and I know that's something you think a lot about. In October, there were two risks that you put forward to the outlook of the economy, and they were inflation expectations and wage expectations.

The bank's own research in January indicated that businesses, for the first time in a really long time, believe that wages will be higher 12 months from now, and for the first time in a long time are the highest ever recorded. They expect prices to be well outside and above the inflation target range.

Are you concerned that this inflation expectation is now taking hold in the economy?

● (1705)

Mr. Tiff Macklem: I'm glad you're looking at our surveys very carefully.

Yes. As I highlighted today, and as we highlighted in our press release yesterday, we are concerned that the longer inflation stays well above our target, the bigger the risk is that inflation expectations start to drift up.

The other thing we're concerned about, which I talked about at some length today, is that inflation is high. It's also broadening. If you look at the various components—there are 165 components of the CPI—almost two-thirds of them are now rising above three per cent. What that means is that even if you're a very careful, diligent shopper and you look for the best deals, it's hard to avoid the inflation that we're experiencing today. That raises the risk that people start to think that these high price increases are going to continue. If that happens, the risk is that inflation expectations become unmoored and it gets a lot harder to get inflation back to target.

The Chair: Thank you, Governor, and thank you, Mr. Chambers. That's the time.

We are moving to the Liberals and Ms. Chatel.

You have five minutes, please.

Mrs. Sophie Chatel: Thank you, Chair.

I'd like to start by bringing in some inconsistencies that I see with the Conservatives' economic policy. On one hand, it seems that they think the government spending we did to protect our economy has created inflation, and at the same time, they're particularly concerned about inflation in housing.

Governor, as you said very well today, it's not about spending, it's what you spend on. If you spend to increase the supply of housing, for example, you actually reduce the inflationary pressure on housing.

I hope they will reflect and focus on that: What you spend on is really the key to increasing the supply in some pressure points.

[*Translation*]

In general, my concern right now is really climate change. As we know, and as you said, climate change will lead to droughts. This will put pressure on agriculture, increase food prices and cause supply chain disruptions.

Governments are certainly using their current tools to make a green shift. One of the best tools to help our economy transition to a green economy is to set a price on pollution. The OECD economists are sure of this.

How do you see climate change affecting inflation in the food sector? Food is a commodity for low-income Canadians. It's very important.

Mr. Tiff Macklem: We're starting to work on the impact of climate change in terms of monetary policy. Right now, it isn't really part of our monetary policy models. However, we're starting to look at this issue.

We conducted a study with the Office of the Superintendent of Financial Institutions and six major financial institutions in Canada, using a scenario analysis. It's very difficult to make predictions about climate change given the level of uncertainty. We looked at different scenarios and tried to determine the impact of each one, in order to help financial institutions manage the risks posed by climate change to their balance sheet. When these risks are better understood, the financial system is in a better position to allocate capital to more sustainable investments.

That said, it isn't our role to provide advice on climate change policy. It's really up to Canada's elected officials to determine those policies. However, we play a role in helping the financial markets manage these challenges.

We must work to better understand the impact of climate change on our monetary policy models.

● (1710)

Mrs. Sophie Chatel: Certainly, climate change is going to create inflation in terms of agricultural products. In fact, we are already seeing it.

Mr. Tiff Macklem: Yes. Last year, droughts and major storms affected crops. This is partly related to climate change. There were also droughts before climate change started. So we need science to separate the two phenomena.

That said, climate change is certainly having an effect on crops, as we've seen with droughts in western Canada.

[*English*]

The Chair: Ms. Chatel, that actually concludes our third round.

[*Translation*]

Mrs. Sophie Chatel: Thank you.

[*English*]

The Chair: Members, we are going into our final round. As we do on this committee, if there is not enough time for a full round, we divvy up the time among all the parties. I'm looking at about four and a half minutes for each party. We will start with the Conservatives, for four and a half minutes.

Mr. Fast, you have the floor.

Hon. Ed Fast: Thank you.

Governor, much of your analysis has focused on the supply side challenges that are driving inflation, such as supply chain constraints. You suggested that is the major driver, and I'm inclined to agree with you on that. However, there are some who are expressing concerns about the demand side.

For example, the chief economist from TD Bank recently said, “Demand driven by the rebounding economy and stronger household buying power will offset much of the relief on the supply side.”

Do you agree with her, or is there a risk on the demand side that we're going to see, effectively, a two-pronged pressure on inflation in Canada?

Mr. Tiff Macklem: I haven't actually read that publication from TD, but yes, what I've been saying is that the economy has recovered. Slack has been absorbed. There is solid momentum in demand. We had a very strong second half of last year. We're coming out of omicron and we're expecting to see continued strength.

That does mean there is a risk that demand starts to run significantly ahead of supply; if that happens, we will have a new domestic source of inflation. That really comes back to why we've started to raise interest rates and signalled that we expect that we will need to continue to raise interest rates, so that we can moderate that spending growth and keep demand and supply roughly in balance.

● (1715)

Hon. Ed Fast: Governor, is there any justification for further stimulus being injected into the economy, either through QE or through government spending?

Mr. Tiff Macklem: Well, we don't need QE anymore. We ended QE last October. In fact, we're now considering QT—

Hon. Ed Fast: What about on the government spending side?

Mr. Tiff Macklem: Look, I'm going to leave decisions on government spending to our members of Parliament.

Hon. Ed Fast: All right.

Let me ask you about Mr. David Rosenberg, someone you would be familiar with. He has suggested that by the end of 2022, this year, we will be looking at a recession rather than talking a lot about inflation.

Do you agree with him? If not, why not? Are there steps that you are taking to ensure we don't slip into a recession?

Mr. Tiff Macklem: Our forecast doesn't have anything that looks like a recession. Our forecast has really quite solid growth for this year and next year. It is moderating, but it is solid.

Look, we think interest rates need to go up to moderate growth. We think the economy can handle that. We think the economy needs that to bring inflation back to target, but we think we can grow this economy and bring inflation back to target.

Hon. Ed Fast: I want to go back to the testimony you gave on liquidity and quantitative easing, and its relationship to inflation.

Is it your testimony that in fact liquidity in the marketplace does not drive inflation?

Mr. Tiff Macklem: Just to be clear, what I was saying was that there's no direct quantitative effect between the size of settlement balances and the number of mortgages that are written in this economy. Banks don't need settlement balances or QE to write mortgages, and when we go to QT and we're reducing the size of our balance sheet, banks will continue to write mortgages.

That said, lowering interest rates, using forward guidance, supplementing that and reinforcing that with QE, all worked to lower interest rates and lower mortgage rates, and that definitely has contributed to the strength we've seen in the housing market. Our economy needed that stimulus. The economy has now recovered, and we're now on a path to normalizing monetary policy.

The Chair: Thank you, Governor, and thank you, Mr. Fast.

We are moving to the Liberals and Ms. Dzerowicz for four and a half minutes.

Ms. Julie Dzerowicz: Thank you so much, Mr. Chair.

I want to thank the governor and the deputy governor for being so great, for continuing to be with us and for being part of this really excellent conversation.

Governor, my colleague talked a bit about your academic background. One of the things I always remember very clearly is that you were part of writing a seminal report around sustainable finance that I have always read and have thought excellent.

I believe you know that we as a federal government have a very aggressive agenda to decarbonize and to move to net zero by 2050. We have committed about $100 billion in spending in over 100 different things we're planning on doing. Given the concerns around inflation, do you think we should be slowing down?

Mr. Tiff Macklem: Again, I'm really going to leave these decisions for our elected members of Parliament to take. These are spending decisions, taxation decisions. Those are decisions the government—

Ms. Julie Dzerowicz: I expected you might say that, Governor, but I do want to thank you for your excellent work around sustainable finance.

I will go back to productivity, then. Last time I was asking about this, we ended the conversation around productivity, and I think you were about to say something. I don't know if you recall that. If not, I will go on to a continuing question I have around productivity.

Mr. Tiff Macklem: I think what I was going to say is that a key part of productivity is for businesses to invest—invest in workers, invest in new capital—because when you give workers better tools, they are more productive, and higher productivity pays for higher wages. If wages go up because productivity went up, that is not inflationary.

One of the things I was pleased to see in the fourth quarter data was that actually we are starting to see that rebound in investment. When we talk to firms, their investment intentions have never been stronger, and we very much hope that companies follow through on those business plans and make those investments.

● (1720)

Ms. Julie Dzerowicz: One of the things we've heard on this committee through the years is that one of the best ways for us to improve productivity at a very low cost is by continuing to work on eliminating the different regulations between the provinces and the trade barriers between the provinces. Would you agree that this needs to be a continued focus and that it would greatly increase our productivity?

Mr. Tiff Macklem: I think that would be a very good idea. There are a number of things governments at all levels could do that wouldn't cost them any money and that would get this economy working better. It's partly productivity; it's partly that it would help workers. Workers could move between provinces and get jobs that were better suited to them. Yes, there are a number of regulations that have probably outgrown their usefulness, and it would be a good idea to look at those.

Ms. Julie Dzerowicz: Thank you, Governor. I'll say to you that you're good luck, just because from the opposite bench I'm hearing my colleagues say they very much support that as well, so I'm hoping we might undertake that as an urgent study. I think that, particularly as the world becomes more unpredictable and unstable, strengthening our internal economy and our Canadian economy will be beneficial for all Canadians and Canadian businesses.

Do I have time for one more quick question?

The Chair: Thirty seconds, yes, really quickly.

Ms. Julie Dzerowicz: Governor, this morning you noted that you expect inflation to come down in the second half of this year, as we see the challenges of the pandemic ease. Can you elaborate on this, please?

Mr. Tiff Macklem: Yes. As I've discussed, much of the inflation we're seeing is related to this combination of a big shift away from services into goods, because people couldn't buy a lot of the services during the pandemic, combined with supply bottlenecks and impaired global supply chains. As the pandemic eases, we expect that people will go back to buying all these services they want. They're going to start to travel; they're going to go to restaurants; they're going to go to a rock concert. They're going to spend more on services and less on goods. That will take some pressure off these global supply chains. At the same time, we're seeing a lot of investments to try to improve these logistics and strengthen the supply chains. Those things should ease and inflation should come down, but it will take some time.

The Chair: Thank you, Governor. Thank you, Ms. Dzerowicz.

We are moving to the Bloc and Mr. Ste-Marie for four and a half minutes.

[*Translation*]

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

Governor, I'm going to do the same exercise again, but taking the words of another economist. I will quote Mohamed El-Erian, an economist who is not at all of the same school of thought as Joseph Stiglitz. In his February 28 article, he is very critical of the management of inflation by the U.S. Federal Reserve, otherwise known as the Fed.

Towards the end of his article, he states:

> [...] Fed officials have offered different views publicly regarding how the central bank should approach both interest-rate hikes and reducing its bloated $9-trillion balance sheet.
>
> Lacking any proper guidance from the Fed, the market rushed to price seven or eight rate hikes in 2022 alone. Some Wall Street analysts went as far as ten, including a 50-basis-point hike as soon as the Fed's mid-March meeting. Others urged the Fed to implement an emergency intra-meeting rate increase.

I would like to hear your comments on what Mr. Mohamed El-Erian has written.

Mr. Tiff Macklem: I'm not sure I understood the question very well.

People can have different perspectives on what the U.S. Federal Reserve should do.

• (1725)

Mr. Gabriel Ste-Marie: First, Mr. El-Erian criticizes the Federal Reserve for not properly considering the importance of inflation. Furthermore, in the first part of the excerpt I read, he states that “Fed officials have offered different views publicly regarding how the central bank should approach [...] interest-rate hikes [...].”

Do you have a reaction to this? Do you agree with what the economist Mr. El-Erian wrote?

Mr. Tiff Macklem: Federal Reserve Chair Powell made statements yesterday and today about the situation in the United States. I will leave it to the U.S. Federal Reserve to talk about its monetary policy. Personally, I have enough challenges here in Canada. So I'm going to focus on inflation here in Canada.

Mr. Gabriel Ste-Marie: Indeed, but I think there is a certain interpenetration or an interconnectedness between what is done at the U.S. Federal Reserve and the decisions you make.

Economist El-Erian writes that there could be seven, eight, or even as many as ten interest rate hikes by the U.S. Federal Reserve during 2022. Is this a statement that surprises you? Would you, again, prefer not to comment on these statements?

Mr. Tiff Macklem: I prefer to focus on our challenges here in Canada. I'm more than willing to comment on Canadian monetary policy, but not that of other countries.

Mr. Gabriel Ste-Marie: All right.

In your opinion, is it conceivable that there could be seven or eight interest rate hikes in Canada during 2022?

Mr. Tiff Macklem: As I mentioned today, we anticipate that it will be necessary to raise interest rates further. We have to make a decision eight times during the year. On each of these occasions, we consider what we should do to bring inflation back towards our target. If the upside risks are greater, we may have to move more quickly with tighter measures. In these circumstances, we will raise interest rates more quickly. However, it is possible that after a few interest rate hikes, the effect of our monetary policy will be stronger than expected, so we might decide to take a little break from that. Time will tell. We will make these decisions in stages.

Mr. Gabriel Ste-Marie: That is very clear. Thank you.

I have one last question for you. It's a very short one.

Have you changed your inflation forecasting models, given what we have seen over the last year? If so, what were those changes?

Thank you, Mr. Macklem.

Mr. Tiff Macklem: We're always trying to improve our models, but we haven't really made any big changes to them.

In fact, we've started using all sorts of new data. As I mentioned earlier, we look at a wide range of labour market data. More recently, we're looking more and more at data around supply chains and bottlenecks and so on. During the pandemic, we used all sorts of new data to look at, for example, the mobility of people.

The Chair: Thank you, Mr. Macklem.

Thank you, Mr. Ste-Marie.

[*English*]

We are moving to the NDP. Mr. Blaikie, you'll be the last questioner.

Mr. Daniel Blaikie: Thank you.

I'm sorry that our time is coming to a close. There are certainly a number of other things I'd be happy to get your thoughts on. I'm going to put one out there in case you want to answer, but I think I might know your answer. I am interested in those who are far more exposed to hikes in interest rates, either because they just have lower incomes, or because they have a higher debt-to-income ratio.

What kinds of fiscal policies might complement rising interest rates in order to try to relieve the pressure on households that are going to be disproportionately affected by rising interest rates? I'm putting that out there in case you want to come to that.

I have a second question, for which I have more optimism about getting an answer, regarding central bank mandates.

In Canada, we just renewed the mandate. Full employment didn't enter into the mandate. We know that some of our other allies are incorporating other things into central bank mandates. I believe New Zealand has explicitly incorporated something on housing prices in its mandate. The United Kingdom has incorporated a kind of green financing or climate change-related principle to its mandate.

On that last point, what role do you believe the Bank of Canada could play in trying to transition Canada away from investments in fossil fuels and other carbon-intensive industries, and are there other ways the Bank of Canada might help the Canadian economy transition towards a more green and sustainable model?

• (1730)

Mr. Tiff Macklem: With respect to climate change, we have a mandate at the Bank of Canada to foster a stable and efficient financial system. A key role of the financial system is to channel savings to productive investments. As we learned in the last crisis in 2008-09—it didn't happen so much in Canada, but globally—if the financial system becomes unstable, everybody suffers.

One of the risks to the financial system is that climate risks are mispriced. The risk, to be frank, is that they're underpriced. A reckoning then comes and there's a very rapid repricing of that risk, which, if it were large, could lead to financial stability issues.

The other part of the job of the financial system is to efficiently allocate capital to its most productive investment. If you're underpricing climate risk, the risk is that you're not going to invest enough in renewable energy or more climate-friendly investments.

As I said in response to a previous question, it's very hard. There's so much uncertainty about climate change that it's very hard to make predictions. We undertook a study with OSFI and six financial institutions to look at scenario analysis. What came out of that study, which we published in January, is that there is a lot of adjustment for the Canadian economy to adapt to climate change—

Mr. Daniel Blaikie: If I may jump in, one of the issues and why the traditional rubric is frustrating for a lot of Canadians who are concerned about the very real threats of the climate crisis is that there doesn't seem to be the sense of urgency that I and many Canadians believe we have to have in order to try to get this problem under control. We continue to see huge investments in the fossil fuel industry and not enough of that being redirected towards initiatives that would lower our carbon footprint in order to try to follow the advice of the IPCC, for example, to keep warming around 1.5°C.

Do you think that incorporating these things more explicitly into the central bank's mandate could help foster a higher sense of urgency, not just in the Bank, but within the financial sector?

The Chair: Governor, this will be your final answer for our committee.

Mr. Tiff Macklem: There are elements of climate change that relate to the Bank of Canada's mandate, whether it's through a stable and efficient financial system or looking at the implications of climate change for monetary policy. I don't think we need a separate mandate. There is value in having a clear price stability mandate. Where climate change has implications for the mandates we have, we will take that very seriously.

This is a huge generational challenge, and it's going to take many parts of the system to address it.

The Chair: Thank you, Governor, and thank you, Mr. Blaikie.

I know I speak on behalf of all members, the clerk, the analysts, staff and interpreters who are here when I thank Governor Macklem and Senior Deputy Governor Rogers for appearing before our committee.

I know this is a very busy time for you. We asked you to appear before us on short notice. We thank you for your testimony and the answers to the many questions. Thank you very much.

● (1735)

Mr. Tiff Macklem: It's a pleasure, and it's important. Thank you for having us.

The Chair: Thank you.

Members, do I have a motion for adjournment? Yes.

(Motion agreed to)

The Chair: We are adjourned.