RESPONSE TO PETITION

Prepare in English and French marking 'Original Text' or 'Translation'

PETITION NO.: **421-00858**

BY: **MR. ALBAS (CENTRAL OKANAGAN-SIMILKAMEEN-NICOLA)**

DATE: **NOVEMBER 2, 2016**

PRINT NAME OF SIGNATORY: **THE HONOURABLE BILL MORNEAU**

Response by the Minister of Finance

SIGNATURE
Minister or Parliamentary Secretary

SUBJECT

BANK OF CANADA

ORIGINAL TEXT

REPLY

Government of Canada marketable debt, which includes treasury bills and marketable bonds, is distributed through competitive auctions to Government Securities Distributors, a group of banks and investment dealers in the Canadian market. These Government Securities Distributors then resell securities bought at auctions to their wholesale and retail clients in private sector markets. Ultimately, Government of Canada marketable securities are mostly held by Canadians, and can be found in retail and institutional investment portfolios, insurance and pension funds, as well as a variety of other investment vehicles. For more information, you may review the *Debt Management Report 2014-2015* on the Department of Finance Canada website at http: www.fin.gc.ca/dtman/2014-2015/dmr-rgd15-eng.asp

It is sometimes suggested that the Government of Canada should fund part or all of its debt by borrowing from the Bank of Canada at a low or zero interest rate, rather than by borrowing in private sector markets.

This approach would require the Bank of Canada to either borrow the funds that it loaned to the Government, or create new Canadian currency.

If the Bank of Canada borrowed the funds for the loan, it would have to pay whatever interest rates that prevailed in private sector markets to obtain the funds. Accordingly, it could not afford to re-lend the funds to the Government at lower or zero interest rate.

Alternatively, the Bank of Canada would have to create new Canadian currency, which could lead to adverse economic conditions and costs. The experience of many nations has demonstrated that relying on domestic currency creation to finance government expenditures results in excessive inflation, erodes the value of a country's currency and often leads to a misallocation of scarce resources.

Since 1991, the Government and the Bank of Canada have jointly agreed that the central objective of monetary policy should be for the Bank of Canada to target an inflation rate of 2 percent. This is the best contribution monetary policy can make to solid economic performance.

Canada's policy of low, stable and predictable inflation has served Canadians extremely well. This policy has contributed to creating a more stable economic environment relative to that of previous decades and has allowed households and businesses to make better long-term financial plans.