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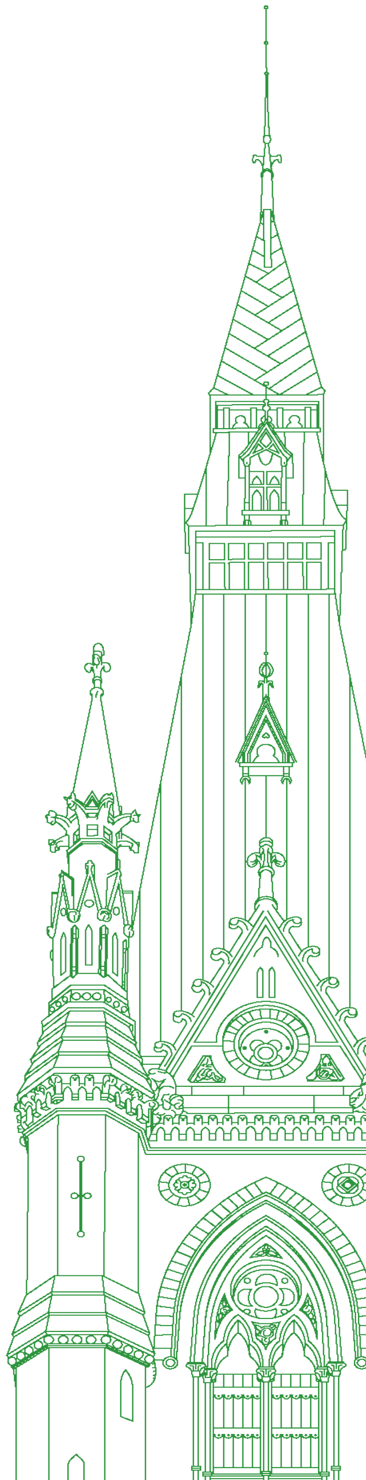

Chair: Mr. Peter Fonseca

Standing Committee on Finance

Wednesday, November 23, 2022

● (1630)

[*English*]

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

Welcome to meeting number 68 of the House of Commons Standing Committee on Finance. Pursuant to Standing Order 108(2) and the motion adopted by the committee on Wednesday, November 16, 2022, the committee is meeting to discuss the report of the Bank of Canada on monetary policy.

Today's meeting is taking place in a hybrid format, pursuant to the House order of June 23, 2022. Members are attending in person in the room and remotely using the Zoom application.

I would like to make a few comments for the benefit of the witnesses and members. Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike. Please mute yourself when you are not speaking.

For interpretation, for those on Zoom, you have the choice, at the bottom of your screen, of floor, English or French. For those in the room, you can use the earpiece and select the desired channel. All comments should be addressed through the chair. For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the "raise hand" function. The clerk and I will manage the speaking order as well as we can. We appreciate your patience and understanding in this regard.

Members, just before we get to our witnesses, I will update you that we will have the Deputy Prime Minister and Minister of Finance, Chrystia Freeland, here this upcoming Monday.

I would now like to welcome our witnesses from the Bank of Canada: Tiff Macklem, Governor of the Bank of Canada, and Carolyn Rogers, senior deputy governor.

Welcome to both of you. We will hear your opening statements or remarks before we move to questions from members.

Mr. Tiff Macklem (Governor, Bank of Canada): Thank you, Chair.

It's a real pleasure to be back with Senior Deputy Governor Carolyn Rogers. We're here to discuss our monetary policy report and our most recent monetary policy decision.

In October, we raised the policy interest rate by 50 basis points to 3.75%. This is the sixth consecutive increase since March. We also expect that our policy interest rate will need to rise further; how much further will depend on how monetary policy is working to slow demand, how supply challenges are resolving and how inflation and inflation expectations are responding to this tightening cycle.

[*Translation*]

Last week's decision reflected several considerations.

First, inflation in Canada remains high and broad-based, reflecting large increases in both goods and services prices. Inflation has come down in recent months, but we have yet to see a generalized decline in price pressures.

Second, and related, the economy is still in excess demand—it's overheated. Job vacancies have declined from their peak but remain high, and businesses continue to report widespread labour shortages.

Third, higher interest rates are beginning to weigh on growth. This is increasingly evident in interest-rate-sensitive parts of the economy, like housing and spending on big-ticket items. But the effects of higher rates will take time to spread through the economy.

Fourth, there are no easy outs to restoring price stability. We need the economy to slow down to rebalance demand and supply and relieve price pressures. We expect growth will stall in the next few quarters—in other words, growth will be close to zero. But once we get through this slowdown, growth will pick up, our economy will grow solidly, and Canada will once again benefit from low and predictable inflation.

To put this in numbers, growth in gross domestic product (GDP) is projected to decline from about 3¼% this year to just under 1% next year and then rise to 2% in 2024. And inflation is expected to hover around 7% in the final quarter of this year, fall to around 3% by the end of next year and return to the 2% target by the end of 2024.

Finally, we are trying to balance the risks of under- and overtightening.

[*English*]

If we don't do enough, Canadians will continue to endure the hardship of high inflation and they will come to expect persistently high inflation, which will require much higher interest rates and potentially a severe recession to control inflation. Nobody wants that. If we do too much, we could slow the economy more than needed. We know that has harmful consequences for people's ability to service their debts, for their jobs and for their businesses.

This tightening phase will draw to a close. We're getting closer, but we're not there yet.

I also want to update you on the bank's balance sheet, which has been declining as a result of quantitative tightening. The balance sheet peaked in March 2021 at $575 billion. As of last week, it was about $415 billion, which is a decline of about 28%. The decline primarily reflects the maturity of our repo operations and the reduction in our holdings of Government of Canada bonds following the decisions to end quantitative easing in October 2021 and begin quantitative tightening last April.

After a period of above-average income, our net interest income is now turning negative. Following a period of losses, the Bank of Canada will return to positive net earnings. The size and duration of the losses will ultimately depend on a number of factors, which include, in particular, the path for interest rates, the evolution of the economy and the balance sheet. The losses do not affect our ability to conduct monetary policy. I would also stress that our policy decisions are driven by our price and financial stability mandates. We don't make policy to maximize our income.

The bank's job is to ensure that inflation is low, stable and predictable. We are still far from that goal. We view the risks around our forecast for inflation to be reasonably balanced, but with inflation so far above our target, we are particularly concerned about the upside risks.

We are mindful that adjusting to higher interest rates is difficult for many Canadians. Many households have significant debt loads and higher interest rates add to this burden. We don't want this transition to be more difficult than it has to be, but higher interest rates in the short term will bring inflation down in the long term. Canadians are looking for ways to protect themselves from rising prices and we are working to protect them from entrenched inflation.

It will take time to get back to solid growth with low inflation, but we will get there. By working through this difficult phase, we will get back to price stability with sustained economic growth, which benefits everyone.

● (1635)

With that summary, the senior deputy governor and I would be very pleased to take your questions.

The Chair: Thank you, Governor Macklem and Senior Deputy Governor Rogers.

As you can see, we have a full house. We have many members eager to ask questions.

We're going to move into our first round. In that round, each party will have up to six minutes to ask questions.

We're starting with the Conservatives and MP Hallan for six minutes, please.

Mr. Jasraj Singh Hallan (Calgary Forest Lawn, CPC): Thank you, Chair.

Thank you to the governor and senior deputy governor for being here.

I'll get right into it.

In a speech on October 6, Governor, you told the Halifax Chamber of Commerce that "inflation in Canada increasingly reflects what's happening in Canada." In the lead-up to that statement, Canada had already seen $110 billion added to the debt before COVID and half a trillion dollars in the past two years, 40% of which we know had nothing to do with COVID or anything COVID-related.

Now there is $52.2 billion in new spending this year according to the PBO. Would you agree that all this spending is going to add more to fuel this homegrown inflation?

Mr. Tiff Macklem: Well, let me say a couple of things.

First of all, you don't get to 8.1% inflation because of one thing. A whole number of things happened. As I discussed in Halifax, the initial push to inflation was largely from global factors, like higher goods prices and higher oil prices.

As you highlighted, increasingly the inflation we see in Canada reflects what is happening in Canada. Our economy is in excess demand. It is overheated. Essentially, businesses can't produce as many goods and services as consumers want to buy, so prices are going up.

Why is the economy in excess demand? We went through the deepest recession in history, which was followed by the fastest recovery ever. Now we're on the other side of that.

Yes, inflation is certainly too high and we are committed to restoring price stability.

Mr. Jasraj Singh Hallan: Considering that the fall economic statement and supplementary estimates (B) both contain even more government spending, and seeing as more spending is only going to drive up inflation, is the government counteracting the measures you and the bank are taking?

Mr. Tiff Macklem: With respect to government spending, those are your decisions as parliamentarians.

What we do at the Bank of Canada is take into account the federal and provincial governments' plans. We build those into our projections and that feeds into our forecast and outlook for inflation. That is an important input into the interest rates decisions that we take.

The outlook that I gave you and that we published in our monetary policy report a few weeks ago reflects the spending plans of the government.

● (1640)

Mr. Jasraj Singh Hallan: Governor, would you agree that you have to change your projections as there's more spending by the government?

Mr. Tiff Macklem: I would agree that we take those into account. There are many things going on in the economy. Governments' decisions are one of those things. We take those into account when we make our decisions.

When governments add to—

Mr. Jasraj Singh Hallan: I'll give a small example. If there is $52.2 billion in new spending, would you agree that you would have to increase your rate again?

Mr. Tiff Macklem: It depends on what else is happening in the economy.

Other things being equal, as economists like to say, the more demand.... First of all, government actions can have both demand and supply consequences. For example, the government has increased the target for the number of immigrants coming into the country. That's going to add supply. It's going to add workers. It's going to add new Canadians. It's also going to add demand because they're going to need housing. They're going to get incomes and they're going to spend them. We are going to take both of those into account.

Yes, other things being equal, the more demand there is in the economy, the higher the interest rates would have to be to bring inflation back to target.

Government policies have a range of effects, and we do our best to take those into account. We have a clear mandate and we make our policy decisions in pursuit of our mandate.

Mr. Jasraj Singh Hallan: Changing gears, at a previous appearance at this committee, you noted that the carbon tax is inflationary and adds to homegrown inflation. The government will be increasing that on April 1, 2023 and it eventually will triple it to $170 per tonne by 2030.

How will the increase in the tax increase its impact on inflation?

Mr. Tiff Macklem: I don't have the number of the chart, but in our monetary policy report there is a chart with our outlook for inflation. In that, we break out the various pieces.

One piece is the increase in the carbon tax and, as you're well aware, there are a series of increases in the carbon tax. Roughly speaking, they add 0.1% to inflation in each of the years going forward in our forecast.

Mr. Jasraj Singh Hallan: It would be inflationary, the higher it goes.

Mr. Tiff Macklem: It will add 0.1%.

Mr. Jasraj Singh Hallan: Yes, but it is inflationary, in your opinion.

Mr. Tiff Macklem: It is adding 0.1%.

Mr. Jasraj Singh Hallan: According to Statistics Canada, Canadians' debt-to-disposable income ratio is now 184%. As Canadians run out of money, you are continuing to raise interest rates as a result of homegrown inflation. One in five Canadians is skipping meals or cutting back on food. Almost 50% of Canadians say their finances are worse than a year ago. Half of variable mortgage holders have hit the trigger rate.

How many Canadians will have to default on loans, miss mortgage payments or not be able to buy groceries before the bank considers the interest rate to be too high?

Mr. Tiff Macklem: I would highlight that we are acutely aware that high inflation is making life very difficult for Canadians.

As you highlighted, Canadians have been surprised by this rapid rise in their cost of living. Many Canadians are finding it very difficult to stretch their paycheques to cover their bills.

Mr. Jasraj Singh Hallan: What would be the trigger rate, in your opinion?

The Chair: That is the time, MP Hallan. Thank you.

We are moving to the Liberals.

MP Dzerowicz, you have six minutes, please.

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

I want to thank you, Governor and Deputy Governor, for being here today. Thanks for your outstanding work during these unprecedented times.

You talked a little bit about this during your remarks at the front end. I want to talk to you about negative equity position. The Bank of Canada undertook extraordinary measures during the pandemic to put a floor under the Canadian economy and protect people and businesses. Some of these measures have arguably led to the potential of the bank entering a negative equity position very soon.

What is your reaction to the concerns that have been raised in the press recently?

Mr. Tiff Macklem: I'll turn to the senior deputy to respond to this in more detail, but as I underlined in my opening remarks, yes, we are, as a result of the actions we took.... We undertook quantitative easing in the first part of the crisis. That created extra income for the Bank of Canada. Now, as interest rates increase, we are starting to incur net interest rate losses.

There are various solutions to that problem. The senior deputy governor will say a word about that in a second. I want to stress that whatever solution is chosen, it's not going to affect how we run monetary policy. As a central bank, we are a going concern. We have liquidity. We will continue to run monetary policy guided by our mandate. We do not run monetary policy to maximize our income. Low inflation is a public good. We run monetary policy to deliver low, stable inflation. Obviously, it will have some impacts on our balance sheet. Those are largely accounting issues.

I will turn to the senior deputy governor, who is a CPA, to talk about those issues.

● (1645)

Ms. Carolyn Rogers (Senior Deputy Governor, Bank of Canada): Yes, as the governor said, we actually expect that the bank will show negative equity in the coming months. This isn't a problem that's unique to the Bank of Canada. All of our peer central banks in G7 countries are experiencing the same thing.

There are a variety of different options in how to deal with it, though. For example, our peer central bank in the U.S. uses U.S. GAAP accounting standards. They will take the negative equity and turn it into a deferred asset, and then they will run that deferred asset down over time as earnings turn positive again.

At other central banks, the governments have put an indemnity in place that offsets the negative equity. The Bank of Canada has an indemnity in place right now, but that indemnity covers what we call market losses. Those losses would occur if we were to sell assets. We're not planning to do that. These are operating losses. Another option would be to extend the range of that indemnity.

A third option would be to change the legislation, which would allow the bank to retain its earnings. Right now the Bank of Canada is required, under legislation, to return its earnings to the government each year. In a normal year, that would be about $1 billion in earnings. Over the last several years, we've returned an additional $2.6 billion to government. A third option would require a change to our act to allow us to retain our earnings, and then over time those would offset the losses. When we are back into a positive position, we would go back to returning our revenue to the government each year.

This is a decision for government. They're actively working on it right now. We expect that in the coming future they will make a final decision.

Ms. Julie Dzerowicz: Okay. Thank you so much. I wanted to make sure we gave you the time to explain that—

Ms. Carolyn Rogers: It is a bit complex.

Ms. Julie Dzerowicz: —because I know that there is a lot of concern in the media. I appreciate your mentioning that other G7 countries are also experiencing this. I really appreciate your laying out those options. Thank you.

Governor, you did a wonderful job of articulating where you think inflation is going to be at the end of this year, next year and 2024. Thank you for that. Could you articulate what the risks are, going forward, that could push inflation higher?

Mr. Tiff Macklem: I'd highlight two sources of risk. Look, there is a lot of uncertainty in the global economy. There is a horrific war in Europe. China continues to deal with COVID, with recurring waves, resulting in new shutdowns. We can't control global events. A number of the important prices in our economy—particularly the price of oil, which feeds directly the price of gasoline and the price of many imported foods—are determined in global markets. We can't control those. There are certainly risks that oil prices could go sharply higher. That would definitely affect gasoline prices and heating prices, and it would definitely affect headline inflation.

Another source of risk is that service prices, as we know, tend to be among the stickiest in the economy. Service price inflation in Canada now is running at about 5%. The good news is that after rising rapidly, it hasn't moved up further. What we're watching for very closely are signs that it's really starting to come down. We've yet to see really convincing evidence that it's starting to come down, but we are hopeful that this will come as we get into the new year.

There is a risk that the inflation in Canada is more embedded, that it is more entrenched and it proves harder to get down than we expect. There are also some possibilities that things could come down faster. We do think that our forecast is reasonably balanced, but as I said in my opening remarks, when inflation is 7%, you're more worried about the upside risks than the downside risks.

Thank you.

● (1650)

Ms. Julie Dzerowicz: Thank you so much.

The Chair: Thank you, MP Dzerowicz.

Now we'll have questions from the Bloc.

MP Ste-Marie, go ahead, please. You have six minutes.

[*Translation*]

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

Ms. Rogers and Mr. Macklem, thank you for being with us today.

You are not forecasting any real growth for the first three quarters of next year. Is that correct?

Mr. Tiff Macklem: Growth will be around zero for the fourth quarter of this year, and we expect the same for the first and second quarters of the coming year. It is possible that growth will then be very weakly negative or positive, but we expect it to be positive from the middle of next year.

Mr. Gabriel Ste-Marie: I know that your mandate is to control inflation, which is currently high. Given this objective, to what extent, in your assessment, will the current tight monetary policy contribute to the stagnation of the economy in the three quarters mentioned?

Mr. Tiff Macklem: Monetary policy is not the only factor, but it is an important one. We have been quick to raise interest rates and we are starting to see the effects of that, especially in the interest rate sensitive sectors of the economy. I am thinking in particular of housing, as well as the large purchases that households often make on credit. The full effect of interest rate rises will take time to be felt across the economy.

Monetary policy is indeed contributing to the economic slowdown, but it is not the only factor. There is also the global economy. We have revised down our forecast for the global economy, especially for the U.S. Our exports to the U.S. are very important.

The reality is that the economy is overheating, so there has to be a period of slowdown. We can reduce inflationary pressures.

Mr. Gabriel Ste-Marie: Are the inflationary surges and the job market the main indicators that make you say that the economy is currently overheating?

Mr. Tiff Macklem: There are a number of indicators, one of which is the labour market. You are right to mention this. Businesses are struggling to find enough workers to produce all the goods and provide all the services that households want to buy. But that is not the only factor.

Many elements of the economy are overheating. For example, businesses are also experiencing increases in input costs and are having to raise their prices faster than usual, leading to rapidly rising prices for consumers. Indeed, the effects are felt most strongly by consumers. This is an indicator that the economy is overheating. Companies can pass on cost increases to consumers because they are not able to meet all the demand.

These are two important factors, among others, that contribute to an overheating economy.

Mr. Gabriel Ste-Marie: Many economists are wondering about the labour market in the context of the aging population. For every two baby boomers who retire, only one person enters the labour market. Some economists believe that this will lead to a structural change and that traditional labour market indicators will no longer be as valuable, as there will be a dichotomous break.

Do you take into account this possibility of structural change in your analyses? These same economists, and not just those in Canada, are saying that central banks may be too restrictive in their policies, given this new labour market reality.

● (1655)

Mr. Tiff Macklem: If there's one thing that's easy to forecast, it's the aging of the population: every year, everyone ages by a year. We take this factor into account.

You're right that in Canada, labour force growth is slowing down because of the aging population and the increasing number of retiring baby boomers. Canada is fortunate to have a much higher rate of immigration compared to other G7 countries. This is one of the main reasons why, in our forecast, Canada's GDP growth trend is higher than that of other countries, even the United States.

Mr. Gabriel Ste-Marie: I would like to refer to the study by economist Alexander Lam in relation to the Beveridge curve, which the Bank of Canada published and which you quoted. The study does not attempt to make a concrete prediction of the rise in the unemployment rate, but does predict, in the base case, a 1.5 percentage point rise in the unemployment rate.

For the Bank of Canada, is it a good thing that the unemployment rate is rising, in the current economic climate?

Mr. Tiff Macklem: It is never a good thing when the unemployment rate rises. But I want to point out that when the unemployment rate is between 4.9% and 5.2%, it is not sustainable. The demand for labour is much higher than the supply, and this is one of the factors that increases inflation. Inflation is not going to go away by itself. We have to take measures to slow down the economy, which means an increase in the unemployment rate. On the other hand, we don't think the unemployment rate will be as high as it has been in past recessions.

Mr. Gabriel Ste-Marie: This will be an increase of around 1.5 percentage points.

Mr. Tiff Macklem: This is not a forecast, but an analysis of the Beveridge curve, as you mentioned.

That said, historically, increases in the unemployment rate during a recession are normally between three and six percentage points. We think the increase will be below that this time.

Mr. Gabriel Ste-Marie: Thank you.

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

[*English*]

Now we're going to go to the NDP.

We usually go to our standing member, Mr. Blaikie, who does a lot of heavy lifting and, I'll add to that, mediation work here on this committee, but we have the leader of the NDP, MP Singh, with us.

MP Singh, you have six minutes. Go ahead, please.

Mr. Jagmeet Singh (Burnaby South, NDP): Thank you very much, Mr. Chair.

I thank my honourable colleague for ceding his time to me.

Thank you to the representatives of the Bank of Canada for being here.

I'll start with some opening comments, and then I look forward to your answers to my questions.

We understand and respect that the Bank of Canada is an independent body, and we believe it should remain that way. We understand that you set monetary policy and the federal government sets the fiscal policy.

I want to direct your attention to something you've already acknowledged—that the decisions being made by the Bank of Canada have real impacts on real Canadians. I know you know that, but I want to highlight the real impacts. High interest rates will mean that some families will lose their homes. High interest rates will potentially trigger a recession in Canada, which will mean that workers might lose their jobs.

I'm going to start with some of the comments you made about wages. Since the beginning of the year, I think it's very fair to say, at no point have wages kept up with inflation. In fact, the opposite has happened—wages not keeping up with inflation has meant that most workers, with the cost of living and inflation going up, have experienced a pay cut, and yet, last summer you advised employers not to increase wages.

Do you think it's appropriate to tell employers to keep wages low despite wages not keeping up with inflation and despite how this will keep workers even further behind, when there is no evidence that wage increases are driving inflation? Coupled with that, why have you never mentioned a similar concern with the high profits of corporations, but you have referenced concerns about wages potentially going up, which hasn't been the case?

● (1700)

Mr. Tiff Macklem: Thank you for the question, because it is an opportunity to clarify what I said.

It's not the Bank of Canada's job to tell businesses what they should pay their workers. It's not the Bank of Canada's job to tell workers what wage they should work for. But it is the Bank of Canada's job to control inflation. What I said last summer, last month and last week to Canadian workers and to Canadian businesses is that Canadians should not expect inflation to stay where it is now. My message was not to plan on inflation staying where it is now, but to plan on inflation coming down. We have taken forceful actions. The forecast I outlined has it coming down to 3% by the end of next year and 2% by the year after.

There are probably going to be new shocks. There will be new curveballs along the way, but our message to Canadians is that we are resolute about getting inflation back to our target.

With respect to the second part of your question, on corporate profits, as I responded to the previous question, when your economy is overheated and you have these inflationary pressures, there are a number of dimensions to that. Part of it is the labour market. As I mentioned, the labour market is very tight. Another—

Mr. Jagmeet Singh: You never mentioned profits.

Mr. Tiff Macklem: I'm just getting to it. Another element is the behaviour of companies, and I was just talking about that. One of the things we see is that as inflation has gone up and input costs for companies have gone up, they have been changing their prices more rapidly than usual. They've been passing those increased prices very quickly through to consumers, so consumers are bearing the burden of inflation. Companies have been able to keep their margins.

One of the things we're looking for, and we have seen oil prices come down—

Mr. Jagmeet Singh: You still haven't said the word “profit”, though.

Mr. Tiff Macklem: I'll say the word “profit”. I mean, profits, as you've heard—

Mr. Jagmeet Singh: I mean, it's so easy to use the term. You were concerned about wages, but I don't see that same concern reflected with respect to some significant corporate profits.

Mr. Tiff Macklem: Look, our concern is about inflation, and there are many elements—

Mr. Jagmeet Singh: Isn't inflation the cost of goods being higher, and some corporations have raised their prices?

Mr. Tiff Macklem: What we're seeing is that businesses are passing on higher costs very quickly and they are maintaining their profits. Overall, if you look at profits as a share of GDP, they are up. A big part of that is that oil prices, energy prices, have gone up a lot. The input prices in the energy field have not gone up as much as the selling price, so their profits are up. But my comments are actually much broader than that. The fact that you're seeing companies pass through higher prices very quickly is impacting consumers.

I would stress two things. First of all, what we're expecting to see from businesses is that we have seen oil prices come down, and we have seen the prices of some agricultural products come down. They're still pretty high, but they've started to come down. With shipping costs—

Mr. Jagmeet Singh: Let's move on to some other topics as well, though.

Mr. Tiff Macklem: Okay. It's an important question. We are expecting to see businesses pass those input price decreases as quickly back down to consumers as we did on the way up.

Mr. Jagmeet Singh: That's interesting. Okay.

The other area of concern you raised.... What you know is going to happen is that as the interest rates go up, people might lose their homes. That's going to be pain. You know that decisions you make will cause pain for workers. How much pain is too much pain, or is that a consideration that you make?

Coupled with that, you've talked about how a higher unemployment rate might be important to bring down inflation. How much unemployment is the target that you think needs to be attained before interest rates cool down?

Mr. Tiff Macklem: There are a few questions in there.

Let me just begin by highlighting that we are very aware that the actions we are taking are having an unusually large impact on Canadians. Canadians have a lot of tough questions for us. Their elected representatives have a lot of tough questions for us. Actually, we understand that.

We don't want to make this more difficult than it has to be. We are really trying to balance the risks of not doing enough versus the risks of doing too much. If we don't do enough and are half-hearted in our efforts to control inflation, Canadians are going to have to continue to endure inflation. That is a cost that every Canadian is bearing. For the average Canadian, inflation at 7% instead of 2% is costing them about $3,500 extra a year. That's a cost that every Canadian is bearing. If we don't do enough, they're going to continue to do that. Worse still, if we don't do enough, ultimately we're probably going to have to raise interest rates even higher and generate an even sharper slowing to get inflation back under control.

By moving forcefully, we're really trying to avoid that. If we do too much, it's going to be more painful than it has to be. We are trying to balance those two things.

● (1705)

The Chair: Thank you, Governor, and thank you, MP Singh. That's the time.

We are moving into our second round.

Welcome, MP Scheer, to our committee. You have five minutes.

Hon. Andrew Scheer (Regina—Qu'Appelle, CPC): Thank you very much.

I want to pick up on a line of questions from my colleague Mr. Singh.

You were talking about your message to employers and workers asking for wage increases. I just want to make sure I understand this right. What you're saying is, “Inflation isn't going to stick around forever, so before you go and ask for big wage increases, just keep that in mind.” You wouldn't want wage increases to put pressure on inflation staying high. Is that a good summation?

Mr. Tiff Macklem: I'm saying to plan on inflation coming down.

Hon. Andrew Scheer: When inflation comes down, though, it doesn't mean that prices necessarily come down. It just means that prices go up more slowly.

Mr. Tiff Macklem: That's correct.

Hon. Andrew Scheer: Okay. So workers would still lose on the difference between what they're being paid today and what those prices will be in the future. They're not going to drop below where they are today.

Mr. Tiff Macklem: Well, yes, I mean, our mandate is to control inflation. We don't have a price level target. We have an inflation target. So we're trying to get the rate of increase of inflation back—

Hon. Andrew Scheer: But inflation is defined as “prices going up”, so they are linked. I just wanted to make that point, because your message to employers and workers is basically to exercise restraint so as not to contribute to inflationary pressures.

In 2021, the Bank of Canada gave 18.4 million dollars' worth of bonuses to its own staff. Would you consider those bonuses to staff working at the bank as contributing to inflation?

Mr. Tiff Macklem: I actually think the Bank of Canada has been pretty restrained, but the senior deputy governor can take you through—

Hon. Andrew Scheer: It's just a matter of opinion. Do you think they added to inflation? I want your opinion.

Mr. Tiff Macklem: No, I don't think that added to inflation.

Hon. Andrew Scheer: Have you received a bonus yourself since March 2020?

Mr. Tiff Macklem: No. In fact, as per the legislation under which I'm appointed, I have no ability to get a bonus.

Hon. Andrew Scheer: Okay.

You talked about the bank's negative position. I just want to make sure I understand this properly. The bank is losing money because it has to pay interest on the settlement accounts, and now that the rates have gone up, the interest payments are greater than what the bank receives from the government for the bond rate itself. Is that correct?

Mr. Tiff Macklem: Yes. What we're paying in interest on our settlement balances—which are our liabilities—is larger than the interest we're receiving on our assets, which are largely Government of Canada bonds.

Hon. Andrew Scheer: Who's receiving those higher-interest payments? Would those be the large financial institutions that have accounts with the bank?

Mr. Tiff Macklem: That's correct.

Hon. Andrew Scheer: So the big five Canadian banks would be included in that.

Mr. Tiff Macklem: It's a bit more than that, but yes.

Hon. Andrew Scheer: But they are included in that.

Mr. Tiff Macklem: Yes.

Hon. Andrew Scheer: So they're getting paid more than what the bank is receiving. Who covers the delta on that? Do you just write them an IOU? Do you create more money to pay them? Where does the money come from to cover those losses?

Mr. Tiff Macklem: As the senior deputy governor was just explaining, there are different possible solutions to that problem. It's ultimately a decision of the government how that gets resolved.

The government could indemnify us—in other words, instead of us making a remittance, there would be a reverse remittance. The Fed uses a deferred asset accounting solution, and another solution would be to change our legislation and allow us to basically run a deficit for a period and then use the future surpluses to repay that deficit.

Hon. Andrew Scheer: Barring a legislative change, the Government of Canada will have to bail out the Bank of Canada for its need to pay large financial institutions higher-interest payments.

Mr. Tiff Macklem: The Bank of Canada can continue to operate. There does need to be a solution to this problem, and we expect that one is coming.

Hon. Andrew Scheer: When the bank was involved in the government bond purchase program, the bank was buying the bonds off the secondary market, but the government was selling them. As the bank was buying them, the government was selling them.

Who sells those bonds into the market?

Mr. Tiff Macklem: The Bank of Canada is the agent of the Government of Canada. The government issues the debt, so we issue it on behalf of the Government of Canada.

Hon. Andrew Scheer: So the bank was selling it on behalf of the government and then buying it back.

Was the price identical between what the bank was selling the government's bond for and what they were buying it back for?

Mr. Tiff Macklem: The prices won't be identical, but they're pretty close because it's a competitive market. Both of these things are run in competitive auctions. There's strong competition, so the prices are.... Every auction is going to be a little bit different. Because of the competitive process, the prices will be close, but they're not going to be exactly the same.

● (1710)

Hon. Andrew Scheer: Can you provide to this committee how much the total value would be on the difference between what the bank sold the bond for on behalf of the government and what they bought it back for?

You may talk about a small difference, but when we're talking about a scale of $400 billion, even half a percentage point would mean tens or hundreds of millions of dollars that would be going as a direct gift to the large financial institutions of Canada.

Mr. Tiff Macklem: We publish all the data on both our issuances and our buys. It's all on our website.

Hon. Andrew Scheer: I have one tiny quick question. When was the last time the Bank of Canada lost money?

Mr. Tiff Macklem: The Bank of Canada has not lost money before.

The Chair: Thank you, MP Scheer.

We're now moving to the Liberals with MP MacDonald for five minutes.

Go ahead, please.

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

It's great having you here again, Governor and Deputy Governor.

I'm going to change it up a bit. After today in Parliament, I think there needs to be more of a discussion on cryptocurrency.

My question is for the governor. The last time you were here, the senior deputy governor confirmed that crypto is not a way to opt out of inflation. Would you agree with that point of view?

Mr. Tiff Macklem: I'm going to turn to the senior deputy in a second, but I would certainly agree that even the word “cryptocurrencies” is somewhat misleading. These are not currencies, in the sense that it's very difficult to buy your groceries with a cryptocurrency or to fill up your car.

The other nice feature you'd want in a currency is that its value is fairly stable. The value of these cryptocurrencies is anything but stable.

I'll allow the senior deputy governor to say a few more things on this and give a little more detail.

Ms. Carolyn Rogers: Did you have other questions on cryptocurrency?

Mr. Heath MacDonald: Yes, actually, I do.

Obviously, there's been a sharp downturn in recent months. I've even had people come up to me about the investments they made.

It's an interesting topic, obviously, but with these changes, what are these people facing today? Are they facing a total loss? Where is it at? Can you give us a bit of an insight?

Ms. Carolyn Rogers: I think you're talking specifically about FTX.

Mr. Heath MacDonald: Yes.

Ms. Carolyn Rogers: At this stage, I think we don't know for sure, but certainly, probably like you, I've been reading the coverage on this issue every day, and it doesn't look good. It does look like it will be potentially a total loss for people who were holding assets on that platform.

What is striking to me is that it's.... We follow cryptocurrency closely. We're trying to understand the role it plays in the economy and particularly in financial stability. I've always struggled to understand how they generate value, but as I read the description of how they have failed, it sounds quite familiar.

As I understand it, the trading platform was transferring assets to a more speculative part of the business, to an investment side, and it looks like that side of the business took a lot of losses, so those assets that were supposed to be held in custody for trading purposes in the platform have disappeared.

That's exactly the type of thing that more mainstream financial regulation has dealt with years ago.

Mr. Heath MacDonald: I know that billionaire Warren Buffet says it's basically putting people in a room who are handing cash around to each other and getting something in return.

How concerned are you about the destabilizing effects? What does that do to the markets? If this is so and if what we read is true—the fraud and so on—does it have any effect on our normal markets, our normal investments, in Canada?

Ms. Carolyn Rogers: At this point, it doesn't appear that there is a lot of contagion between the crypto trading markets and the more conventional financial markets. That is something that we're watching carefully for, though. The mechanism that tends to translate or transition from crypto markets into the more traditional financial markets is something called a “stablecoin”. It's how you basically translate.

As the governor said, you can't buy your groceries or pay your rent with cryptocurrency, so you ultimately need to turn it into a fiat currency. The mechanism to do that right now is something called a “stablecoin”, and that is the point where the two sorts of universes of the financial sector do meet, so that is an area that we pay particular attention to.

● (1715)

Mr. Heath MacDonald: On the downfalls and potential security concerns, you mentioned regulation or no regulation. Can you touch on that? What are the issues? What is the major security issue with cryptocurrency?

Ms. Carolyn Rogers: On the two things that we are paying the most attention to, I think one would be the issue I just described: any transmission between the more traditional financial sector and the cryptocurrency sector.

The other one is consumer protection. Particularly in Canada, I think, if a business tells you, look, we're going to put your money in custody and it's going to be there so that you can trade and make payments, you are used to having some assurance around that being a regulated form of business.

These businesses tend to look a lot like things that are regulated, and they pitch themselves as things that Canadians are used to being regulated. Our concern would be that consumers don't understand the risk they're taking. They don't understand the degree of speculation in this business and, as you pointed out earlier, may suffer losses.

Mr. Heath MacDonald: Thank you.

The Chair: Thank you, MP MacDonald. That's the time.

Now we'll go to the Bloc and MP Ste-Marie, please.

[*Translation*]

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

As I only have two and a half minutes, I'm going to ask you my two questions together.

First, do you believe that the current overheating situation is mainly generated by a tightening of supply rather than a strong increase in demand?

Second, one understands the imperative to control inflation, hence the restrictive policy, but this generates inequalities. Unemployment could rise, and it could be higher for women, for example. Obviously, it is the role of government to reduce these inequalities, but in your view, can the Bank of Canada play a role in reducing the inequalities generated by its restrictive monetary policy?

Mr. Tiff Macklem: As for the question of whether the problem is supply or demand, I would say it is both.

As is well known, there are a lot of problems related to supply chains and crops. This summer the crops were better, but last year there were big problems on that side. Supply-side issues are a big part of it, and we think that these issues will continue to be resolved gradually. The situation has already improved, but there is still work to do.

The other important aspect is demand. What happened was that after the Omicron variant wave, the economy opened up. There were no further waves of the virus and everyone wanted to buy all the services they hadn't been able to buy for over two years. The surge in demand meant that companies were not able to meet all the demand, which put pressure on prices.

The tool we have is the interest rate, and that has an effect on demand. There are other policies that can increase supply. For example, increasing the immigration rate will increase supply, but it will take time. So we still need to use our tools to reduce demand. At the end of the day, the more we do on the supply side, the less we need to do on the demand side.

The second question was about inequality and the role of the Bank of Canada in that regard.

I want to point out that during the most serious recession caused by the pandemic, inequality was very high. We were very concerned that this would have a permanent effect on women, young people and marginalized employees. The good news is that, thanks to the actions of the Bank of Canada, the government and the vaccines, we have had a faster rebound, which has greatly reduced inequality. Indeed, women and young people have returned to work quickly. So most of these people will not feel any permanent effects, which is very important.

There are two aspects to inequality. High inflation does lead to inequality. It has a much greater effect on people with low incomes than on those with high incomes. Also, a downturn in the economy will indeed affect the more vulnerable. We do not welcome this. That said, the only other option would be not to control inflation, but that is not an appropriate solution.

● (1720)

Mr. Gabriel Ste-Marie: Thank you very much.

The Chair: Thank you, Governor.

Thank you, Mr. Ste-Marie.

[*English*]

Now we go to the NDP with MP Blaikie, please, for two and a half minutes.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much, Mr. Chair.

In the last week or so, Global News has reported that the Bank of Canada has investigated about six harassment complaints under its policy in the last two years. I would say that the bank was pretty tight-lipped in its response to Global's questions about, for instance, whether anyone who had “violated the policy is still employed at the bank” and whether those “broken internal rules”—I think in three out of the six cases—“resulted in financial settlements”. The bank referred to privacy legislation as the reason they wouldn't provide any further comment.

I'm wondering if you believe that level of protection of privacy is appropriate in a context where Canadians are dramatically increasing their expectations of accountability and transparency when it comes to harassment in the workplace and particularly in our federal institutions. Hockey Canada is a recent example, where transparency meant that the organization has had to deal much more seriously with the nature of harassment in its organization than if it had been left to its own devices.

Mr. Tiff Macklem: I'm going to start, but I think the senior deputy governor is going to want to say something in response to this question as well.

First of all, let me say that I raised the issue of harassment. I was speaking last week at a conference hosted jointly by the Bank of Canada, the Fed, the ECB and the Bank of England on diversity, inclusion and equity in economics, finance and central banking. I talked about the very unequal effects of the pandemic. I also used the opportunity to underscore the importance of eliminating harassment in the workplace.

At the Bank of Canada, we have no tolerance for harassment. I wanted to make that very clear. That led to some questions, and I'm going to let the senior deputy governor say a few words about those.

Ms. Carolyn Rogers: I want to come at your specific question very directly. I actually think protecting employees' privacy in this situation is exactly the kind of thing you need to do to encourage the kind of environment we want to create. We are legally obligated not to disclose certain information. I can tell you that what really motivates us is that we want to create the kind of environment in which our employees feel safe and able to come forward. As the governor said, we are an organization that cares deeply about improving diversity in our business. Our business—central banking and the financial sector in particular—is not one that is known for its diversity. We are actively trying to fix that. Part of that is creating the kind of environment in which employees can come forward.

We are an organization of 2,000 people. You're talking about a two-year period. I would be concerned if we had nobody coming forward. That would suggest to me that we hadn't created the kind of environment in which people can step forward. I actually am quite encouraged. I'm quite proud of our track record. I can tell you, as a woman who has worked in the financial sector, that I have done my due diligence. I would not work at this place if I thought we were an environment that tolerated harassment. In fact, I wouldn't work at this place if I thought it wasn't an organization that was actively seeking diversity.

I'm quite proud of our track record. We'll continue to be transparent about it.

The Chair: Thank you, MP Blaikie. That is the time. It was a great answer and great questions.

We're going over to the Conservatives now. I have MP Chambers for five minutes.

Go ahead, please.

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

Welcome back. It's always a pleasure to have you both here at committee.

In answer to an earlier question, you mentioned GDP over the next couple of quarters and it being quite close to potential negative territory. I'm curious. Canada is a country rich in natural resources, a sector that has been quite strong given commodity prices. If it weren't for the natural resource sector, would we almost certainly be in negative territory over the next few quarters?

● (1725)

Mr. Tiff Macklem: Look, the way I can respond is that.... If you look at our forecast for other countries, we do forecast a recession. We think Europe is already moving into recession. The Eurozone and the U.K. are importing energy. They are importing most of their commodities. They're facing a double problem. The stuff that they buy on global markets is costing more. They are less well off. That is certainly affecting their economies. That's one main reason they are headed into a recession.

As you suggested, higher energy prices, higher wheat prices and higher fertilizer prices—these are important materials, commodities that we export—are bringing more income into the country. That is supporting the Canadian economy. Yes, that is something that is built into our forecast.

Mr. Adam Chambers: Thank you.

You mentioned that any slowdown might be temporary, transitory. Is it fair to bring back that word? I'm sorry, but I couldn't help myself.

Mr. Tiff Macklem: I don't think I'm going to be using that word again. It didn't work out too well.

Mr. Adam Chambers: You previously said that inflation would cost a couple of thousand dollars a year for a family. I think I heard you say today that inflation would cost a family about $3,500 dollars. Is that for a year?

Mr. Tiff Macklem: Inflation is roughly 7% now, so yes.

Mr. Adam Chambers: Okay, so that number has increased.

We often debate in this chamber about the best way to help individuals cope with inflation. There are proposals to increase direct transfers to those in the lower-income brackets. There are also proposals to provide families or consumers with some kind of energy relief package as we have seen in other jurisdictions.

From your perspective, in terms of having to deal with the outcomes of the decisions that we make on the fiscal side, is one of those two competing options worse or more preferable than the other? How should we as policy-makers think about that?

Mr. Tiff Macklem: I'm glad you're discussing this. Look, Canadians are really feeling inflation. We're very aware that it's hitting lower-income Canadians a lot harder. The main reason for that is that they don't have buffers or they have very small buffers. The inflation is in groceries. It's in rent. It's in transportation. These are not things you can avoid, so it is affecting them more.

In terms of my advice, I think the advice from the IMF is very sound. Policies aimed at mitigating the effects of inflation on citizens really need to be targeted—targeted to the most vulnerable—and temporary—temporary while there is an inflation problem. The danger of very widespread measures is.... You know, the price system works. You have to let it work. That's part of getting inflation back down. You don't want monetary and fiscal policy to work at cross-purposes.

Mr. Adam Chambers: Thank you.

We have historically high levels of debt in every major part of the economy: consumers, governments and businesses. We talked about the challenges that households will have with higher interest rates and refinancing. I know the bank put something out yesterday.

Are you worried that there is not a lot of room left for the bank to move interest rates up before the rest of the stuff starts to break, before the model starts to break, before people can't afford...? Just briefly, how much room do you have left to move before you're worried?

Mr. Tiff Macklem: Actually, the senior deputy just gave a speech on this the other day, so I'll let her speak to it.

Ms. Carolyn Rogers: In answer to an earlier question, we outlined the variety of things we're watching as we make our decisions each time. One of them is how rates are being absorbed by the economy. As we've said, we know that for some Canadians, particularly those who are more indebted, interest rates are really biting. We understand that.

We are paying very close attention. Ultimately, we do need to see the effects of monetary policy pull demand down.

● (1730)

Mr. Adam Chambers: Thank you.

Thank you, Mr. Chair.

The Chair: Thank you, MP Chambers.

Now, moving to the Liberals, we have MP Chatel for five minutes.

[*Translation*]

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

Ms. Rogers and Mr. Macklem, thank you for being with us today.

My riding includes two RCMs that are among the poorest in Quebec. I have visited the food banks in our area, and the situation is difficult, I will not hide it from you. But what I'm hearing today is that we're going to suffer for the time being, but that good news is coming. When people are suffering, but they can see the light at the end of the tunnel, it helps them a lot.

Can you repeat, in simple terms, how the measures you are putting in place are going to control inflation and get it back to 3% by the middle of next year, which is a few months from now?

I would like to hear the message you have to offer to the people who are suffering today.

Mr. Tiff Macklem: There are two important aspects.

First, the economy is slowing down, that's true. We expect almost zero growth for about three quarters, the fourth and last quarter of this year and the first and second quarter of next year. In the second part of next year, growth will pick up again and, towards the end of next year, the inflation rate will fall to 3%. Currently it is around 7%. Unfortunately, we expect it to remain quite high for the rest of this year. It will start to come down next year, to about 3% towards the end of next year. So it's going to take a while.

That said, we see that monetary policy is already starting to have an effect in those sectors that are interest-rate sensitive. Inflation has not really come down, but it has stopped rising. We are following the indicators closely and we think that inflation will start to fall early next year.

Mrs. Sophie Chatel: I think that not only the legislator, but all the actors, like the Bank of Canada, are doing the right things at the moment, and we are aligned to solve the inflation problem. Do you agree?

Mr. Tiff Macklem: We are not there yet. It is important that the competition system work better.

As I said before, we are currently seeing that companies are able to pass on price increases to consumers. When inflation is low and the economic situation is more normal, companies don't want to raise their prices, because they are afraid that their customers will go shopping at other companies. The problem when inflation is high is that everyone sees that prices are going up, so companies are not afraid of losing customers.

Mrs. Sophie Chatel: So we need more competition.

Mr. Tiff Macklem: In fact, reducing inflation allows, among other things, competition to work better.

Mrs. Sophie Chatel: One of the points mentioned earlier was the aging population, which creates a labour shortage in the employment sector. Immigration will replace this labour force, but retirees will not stop consuming and immigrants will also consume.

Do you think that investing very seriously in creating good jobs, well-paid jobs, is a good strategy, given that there is always going to be some pressure on that side?

● (1735)

Mr. Tiff Macklem: It's always better to have a better job. Everyone wants a good job.

The important thing here is training. We need more immigration, of course, but it has to be said that technology is becoming more and more important in almost every job. It is the productivity of a company that allows it to offer higher wages. If a company provides more training and invests in the best tools available, then workers will be more productive, and their wages will be higher.

Education is the responsibility of governments, especially provincial governments. Training is also the responsibility of business, especially in a very tight labour market, where it is difficult to find people with more training. In this context, it is wise to hire people who do not yet have the required knowledge, but to offer them training, and to offer this training also to people who are already employed by the company, so that they can be more productive.

[*English*]

The Chair: Thank you, Governor.

Thank you, MP Chatel.

Now, members, we're moving to our third round.

We're starting off with the Conservatives, with MP Morantz, for five minutes.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair.

Governor, there are a couple of areas I want to explore with you.

One thing I'd like some clarity on is this: You've explained that quantitative tightening is designed to reduce inflation, but you maintain that quantitative easing wasn't the cause of it. I want to bring you back to the testimony you gave on November 1 to the Senate, where you were asked a similar question about this and you went into interest rates. You said that quantitative easing was simply a tool of the bank to control interest rates.

The trouble I'm having is that there seems to be an inherent conflict between these two positions. How can you, on the one hand, say you're relying so heavily on quantitative tightening to get inflation under control, but you won't go so far as to say that it was quantitative easing, the creation of an expansion of the money supply, that was a major factor in causing inflation?

Mr. Tiff Macklem: I don't think there's any contradiction.

First of all, I underline that our primary instrument, whether we're lowering interest rates or raising interest rates, is the interest rate. Quantitative easing and quantitative tightening are complementary tools. When you can't lower your policy interest rate any further, you have to find a different way to lower interest rates, and that's what quantitative easing does. It pushes interest rates further down the yield curve.

Our primary instrument is interest rates. We're raising those rapidly. We're also using quantitative tightening. That is complementing the increase in our policy rate by pushing interest rates further up the yield curve. So they—

Mr. Marty Morantz: I'm sorry, but I have limited time.

Mr. Tiff Macklem: I don't see that there's a contradiction.

Mr. Marty Morantz: Okay. Simply put, do you think quantitative easing was a factor in increasing inflation?

I want to bring you to Professor Ambler's point. He basically asked why the bank won't admit that there's a causal relationship between quantitative easing and inflation. It seems like a fairly straightforward question for an economist: Is there or isn't there?

Mr. Tiff Macklem: I think quantitative easing was used together with our lowering of interest rates and exceptional forward guidance. That package of monetary stimulus was very important to delivering a very strong recovery. With hindsight, if we had known a year ago everything we know today, yes, we probably would have started tightening monetary policy sooner. I would remind you that we ended quantitative easing more than a year ago.

Mr. Marty Morantz: Okay. I appreciate that answer.

There's another aspect to this that I want to talk about and that I haven't been able to get clarity on from the bank either. It has to do with government stimulus spending.

We've had a unique event happen in terms of the government's fiscal position over the last two and a half years, which is that they have borrowed an additional $500 billion and ballooned the deficit from $725 billion to $1.2 trillion. Doesn't that event, in and of itself, become a factor that would cause increased inflation?

● (1740)

Mr. Tiff Macklem: So—

Mr. Marty Morantz: Is it a factor? You said there were a number of factors.

Mr. Tiff Macklem: Yes.

Mr. Marty Morantz: I'm asking you to parse that one out: Is it a factor in increasing inflation?

Mr. Tiff Macklem: The fiscal stimulus, together with the monetary stimulus, was an important factor that generated the very strong recovery. Certainly, from a monetary policy perspective, as I've already indicated, if we knew everything a year ago that we know today, yes, I think we should have started tightening interest rates sooner to withdraw the stimulus.

Mr. Marty Morantz: Do you think that if the government....? For example, if the deficit spending had been half of that—$250 billion instead of $500 billion—would inflation have been less?

Mr. Tiff Macklem: There would have been less stimulus in the economy.

Mr. Marty Morantz: Could you repeat that? I couldn't hear you.

Mr. Tiff Macklem: Yes, there would have been less demand.

Mr. Marty Morantz: It would have been less.

Thank you. Those are my questions.

The Chair: Thank you, MP Morantz.

We're moving to the Liberals. I have MP Damoff.

Welcome to our committee, MP Damoff.

Ms. Pam Damoff (Oakville North—Burlington, Lib.): Thank you, Chair. Thank you for letting me come and visit today.

Thanks to both of you for being here.

Governor, if I'm not mistaken, I heard you say that for the price on pollution, its impact on inflation was 0.1%. Is that correct?

Mr. Tiff Macklem: That's the contribution to inflation, our estimate going forward each year, so that's correct.

Ms. Pam Damoff: By my math, if it's 0.1%, that would be one cent on every $10 that prices go up.

We know, just as an example, that for lettuce right now, you can't find it, and if you can find it, it's extremely expensive. That's because of droughts that happened in California. I'm just wondering, can you tell this committee if there is a cost to our economy and an impact on economic growth from these extreme weather events like droughts, flooding and wildfires?

Mr. Tiff Macklem: Look, there's no doubt that we are seeing with increasing frequency extreme weather events—floods, forest fires, heat waves—and those are affecting people's lives. They're affecting people's livelihoods.

I think the other thing we're seeing is that even.... You can go back to B.C. a couple of summers ago. You had the drought and then you had severe flooding. Well, the infrastructure damage caused by that is still being repaired—roads were knocked out, bridges were knocked out—so the other effect we're seeing is that this can disturb supply chains.

More recently, in Europe the Rhine was very low this year. It was very dry. That was creating shipping bottlenecks. More recently, the Mississippi has been very low. That's creating shipping bottlenecks.

There's no doubt that these things are having very significant local effects on the citizens, but they can also have broader economic effects—on harvests and on supply chain infrastructure. That is something that really speaks to the importance of investing in transition, but also investing in adaptation and mitigation.

Ms. Pam Damoff: Thank you.

We heard the term “homegrown inflation” used earlier.

I met recently with Emily O'Brien, who founded Comeback Snacks, which is a gourmet popcorn company with a purpose. I didn't realize that sunflower oil is used to make popcorn and that it comes from Ukraine. She's had trouble getting sunflower oil. In the U.S., the corn crops now have been turned to sunflowers to meet the demand for sunflower oil, so she has had difficulty not only in getting sunflower oil but also in getting the corn to make the popcorn. She is concerned that she's going to have to raise her prices.

All of those are events that have happened beyond our borders, so when we talk about homegrown inflation, I'm wondering, is Canada the only country being impacted by inflation? How do we compare with other countries, such as the U.S., the U.K., the EU and others?

Mr. Tiff Macklem: To respond directly to the second part of your question, if you want some numbers, inflation in the U.K. is 11.1%. In the Eurozone it's 10.6%. In the U.S. it's 7.7%. In Germany it's 10.4%. In France it's 7.1%. In Canada it's 6.9%. In Japan it's 3.7%. You can see that in all these countries, with the exception of Japan, inflation is high, and I can also tell you that it's broad. It tends to be higher in Europe because they have been more affected by the kind of supply chain disruptions you talked about and by Ukraine, and the energy price increase in Europe has been much bigger than it has been in North America, particularly for natural gas.

Yes, this is certainly a global phenomenon. I think that largely reflects the fact that we've all gone through the pandemic at almost the same time. Our economies plunged into deep recessions. Fortunately the actions taken globally have supported strong recoveries, but we are now on the other side of that. There's a war in Europe. A number of these economies are overheated, and supply chain disruptions continue, so you're seeing inflation around the world being too high.

That doesn't do Canadians any good, though. Canadians are living today with inflation that's too high, and we have to get it down.

● (1745)

Ms. Pam Damoff: Thank you. I have only 15 seconds left, so I will end it there. Thank you very much.

Thank you, committee members, for having me here.

The Chair: Thank you, MP Damoff, and you're welcome to be here anytime.

Now we go to the Bloc and MP Ste-Marie for two and a half minutes.

Go ahead, please.

[*Translation*]

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

A November 21 article in The Globe and Mail by Ms. Erica Alini and Ms. Rachelle Younglai discusses a practice adopted by at least two of Canada's major banks, TD and CIBC, and possibly by the Bank of Montreal as well. In the context of mortgages, these banks allow their distressed customers to defer the portion of the monthly interest that the customer is unable to pay during the month against the total mortgage amount, thereby inflating the total value of the mortgage. In the same article, if I understand correctly, they say that there are more and more mortgages being paid off over a period that exceeds 30 years.

I would like to hear what you, as Governor of the Bank of Canada, have to say about this.

Mr. Tiff Macklem: Our senior deputy governor may wish to add something. For my part, I would reiterate that we are not a prudential regulator or a consumer regulator.

There are indeed Canadians who bought their homes when prices were at their peak and chose a variable rate mortgage, so the sharp increases in interest rates are now having a big impact on them. When banks can find a way to help their customers not lose their homes, that's good. However, we don't want the banks to create new risks.

If you want to get more detail on this, you really should be asking the prudential and consumer regulators these questions.

Mr. Gabriel Ste-Marie: Can the senior deputy governor, Ms. Rogers, answer that question?

[*English*]

Mr. Tiff Macklem: Ms. Rogers, do you want to add anything?

Ms. Carolyn Rogers: If you'll permit me to answer in English—

[*Translation*]

Mr. Gabriel Ste-Marie: Yes, that's fine.

[*English*]

Ms. Carolyn Rogers: —I was just at a meeting today. The governor wasn't at this meeting, but it was with the Financial Consumer Agency of Canada, which is the regulator that works with banks on how they treat their customers on these issues of fairness and stuff. I can tell you that they are actively monitoring this issue.

On one hand, it's encouraging that banks are working with clients who are under stress and making sure that they find ways to help them make payments, but we don't want them to get, in the long term, further into debt.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

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

[*English*]

Now we move to MP Blaikie with the NDP for two and a half minutes.

Go ahead, please.

Mr. Daniel Blaikie: Thank you very much.

I am wondering if you can help us locate the inflationary demand in the economy. We talk a lot about this, but we know that, for instance, this year, 1.5 million Canadians have been using food banks. Presumably these aren't Canadians who are causing inflation. We know that a lot of Canadians are now having trouble paying their mortgage. They don't have a surplus of funds that they're using to bid up the price of consumer goods.

When we talk about whether it's government money being pumped into the economy that is then spurring inflationary demand or we talk about the role of corporate profits in spurring demand and investment spurring demand, what are the areas of inflationary demand? I think a lot of Canadians, when they hear the kind of talk around Parliament Hill, think, “I'm not bidding up the price of goods at the supermarket. I'm just trying to keep up.”

Whether it's excess corporate profits or certain kinds of government spending, how does that translate into higher grocery prices or higher housing costs? Where does that inflationary demand manifest in the economy, and who are the people or the organizations or the corporations behind that inflationary demand?

● (1750)

Mr. Tiff Macklem: As I've tried to outline, you don't get to 8.1% inflation because of one thing. It's multiple things. Where is the excess demand? Where are the price pressures? The fact is that, yes, inflation was at 8.1% and it's now down to 6.9%. However, that's still 6.9% inflation. Where is that coming from?

The first part of the inflation came from global goods. What happened? Well, Canadians were at home all day. They couldn't get many of the services they wanted. They wanted more space, bigger houses, home entertainment and home gyms. They couldn't use services, so they substituted those with goods. At the same time, the global supply chain was gummed up by COVID, so you had this big increase in demand and limited supply, and you saw an unprecedented increase in global goods prices.

The rate of inflation on those has started to come down. Shipping costs have come down, and some commodity prices have come down. Now, as things normalize, consumers are shifting out of goods and back into services. There is now excess demand on services. Household economies have reopened quickly. People want to buy, go to a restaurant, and take a holiday.

A lot of Canadians actually saved a lot of money during the pandemic, because they couldn't go on vacation. They have extra money in their bank account and they're spending that now. They want to buy more goods and services than the economy can produce, and that is driving prices up.

As I said, we're starting to see this level off. I think our actions have something to do with that. We are expecting it to turn around and come down, but it is going to take some time.

The Chair: Thank you, Governor.

Mr. Tiff Macklem: This is important. Could I just say one more thing?

The Chair: Sure, please finish.

Mr. Tiff Macklem: There isn't one Canadian; there is a diversity of Canadians and, yes, some Canadians are really being squeezed. We understand that.

The Chair: Thank you, Governor.

We like the fulsome answers, and I try to give—

Mr. Tiff Macklem: They're fulsome questions.

The Chair: Yes, that's correct.

Members, we are now moving on to the Conservatives.

I have MP Scheer for five minutes.

Hon. Andrew Scheer: Thanks very much.

I want to pick up on a point my colleague Ms. Damoff brought up: the idea that there are global shocks and this war in Ukraine affecting prices.

Correct me if I'm wrong, but inflation was already well above the 3% target before the war in Ukraine. Is that correct?

Mr. Tiff Macklem: That's correct.

Hon. Andrew Scheer: You're telling us that quantitative tightening is part of the solution to inflation. Just so I understand, "quantitative tightening" is when the Bank of Canada allows the bonds it holds to lapse, basically. The bank is retiring that money out of circulation—out of existence. Is that correct?

Mr. Tiff Macklem: Yes. What we're doing is allowing the bonds we have on our balance sheet to come to maturity and not purchasing any more, so that balance sheet is shrinking.

Hon. Andrew Scheer: Okay.

Is the money supply shrinking in correspondence with that?

Mr. Tiff Macklem: If you look at broad measures for money—at M2 growth, for example—it has come down considerably, yes. That doesn't just reflect quantitative easing. It also reflects the fact that we have raised interest rates a lot, which tends to reduce money growth, as well.

Hon. Andrew Scheer: It's part of the tool kit.

Mr. Tiff Macklem: It's part of it.

Hon. Andrew Scheer: Quantitative tightening retires the money the Bank of Canada created to purchase the bonds, but you are simultaneously saying that quantitative easing, which is the creation of that money to purchase those bonds, had nothing to do with inflation, at all. Quantitative tightening has this magical ability to solve part of the problem—

Mr. Tiff Macklem: That's not what I said. I said there—

Hon. Andrew Scheer: —that quantitative easing had nothing to do with.

Mr. Tiff Macklem: That's not what I said.

What I said—

Hon. Andrew Scheer: Simply, did quantitative easing contribute to inflation, yes or no?

Mr. Tiff Macklem: There is nothing uniquely special about QE or QT. They are part of our monetary policy response. They complement our interest rates. If you look at all those things together, yes, we've put a lot of monetary stimulus in place. With the benefit of hindsight, we should have started taking it out earlier. We actually stopped QE more than a year ago.

Hon. Andrew Scheer: With the benefit of hindsight, do you wish you had stopped QE earlier?

Mr. Tiff Macklem: When we get inflation back down to 2%, I think we are going to need a thorough review of how all our tools worked through this pandemic—

● (1755)

Hon. Andrew Scheer: I was looking for a yes or no.

Mr. Tiff Macklem: —and I'm not saying we got everything right. We didn't get everything right.

Hon. Andrew Scheer: I only have a couple of minutes left. I don't mean to cut you off.

Mr. Tiff Macklem: I think we got a lot of things right. We have some lessons to learn.

Hon. Andrew Scheer: I only have two and a half minutes left, so I have to move on to other topics.

I want to make sure I fully understand the loss, and who's on the hook for that loss.

The Bank of Canada has an obligation to pay, in interest payments, money to the large financial institutions that have accounts at the Bank of Canada. It's now paying more in interest than it's receiving from the Government of Canada for the rate of the bond itself. What you've told the committee is that, barring any legislative change—which is hypothetical—the loss has to be covered by the taxpayers, in real terms.

Is that correct?

Mr. Tiff Macklem: We need a solution. What I'm telling you is that the bank will make losses for a period. It will go back to profitability, and provided we can use those profits in some way to fill in the deficit—

Hon. Andrew Scheer: However, today, you can't, right?

Mr. Tiff Macklem: Yes, today.... We need a solution to allow us to do that. That is correct.

Hon. Andrew Scheer: Under the existing framework of the bank, the solution for this operating loss is that Canadian taxpayers will be bailing out the Bank of Canada so it can continue to pay those interest payments to large financial institutions here in Canada.

Mr. Tiff Macklem: Well, we need a solution to this problem.

Hon. Andrew Scheer: Barring a legislative change, that is what will happen, right? We have to deal with the terms that exist as they do today.

Mr. Tiff Macklem: I think what's going to happen is that there will be a solution to the problem.

Hon. Andrew Scheer: You're counting on that. You're counting on something that does not exist today.

Mr. Tiff Macklem: That's correct.

Hon. Andrew Scheer: Okay.

You talked about the inflation being unrelated to monetary policy, and related more to a gap between supply and demand—supply shrank while demand increased.

Would you be less dependent on interest rate hikes if the government pursued a pro-growth policy and increased the ability of Canadian companies and businesses to increase their supply? If supply went up, would the pressure on you to raise interest rates diminish?

Mr. Tiff Macklem: As I responded to a previous question, there are two elements to getting demand and supply in balance: supply and demand. Demand is well above supply. The more supply comes up, the less demand will need to come down. Given that any actions taken on supply will take time, and that the economy is clearly in excess demand, there is a need to slow demand. From a monetary policy point of view, the tool we have affects demand, not supply.

Yes, the more governments and parliamentarians take actions that augment the supply side of the economy, the more room there is for the economy to grow without inflation.

The Chair: Thank you, MP Scheer.

To finish off this round, we're moving to the Liberals.

I have MP Dzerowicz for five minutes.

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

Thank you for this excellent discussion today.

During the pandemic, Governor, you were very cautious about raising rates. There was concern that, if you raised rates too quickly, companies would not be able to come back. On the other side, we're seeing the fastest, most dramatic rate increases in history in this country. There are those who believe that, perhaps, you're moving slightly too quickly—not giving workers and companies a chance to adjust to these increases and try to minimize some of the downsides to both.

My question to you is twofold: First, how would you respond to this? Second, how do you weigh the trade-off of risks between increasing rates of inflation and a possible recession?

Mr. Tiff Macklem: Thank you for the question.

As you highlighted, we have been raising rates very rapidly, and that is deliberate. The reason for this is that we think the best chance of getting inflation back to target, without a severe contraction, is front-loading the response. One of the big dangers, when inflation goes up, is everybody starting to believe it's going to stay up. It's then much harder to get it back down. By front-loading the response and being very clear that we are determined to get inflation back.... I think that has been helpful in keeping inflation expectations well anchored, so inflation will come back to the 2% target.

The other element is that you want to, fairly quickly, stop inflation from going up and get it to come down. Yes, we're out there promising Canadians that inflation is going to come down, but they're only going to be convinced when they see it starting to come down. By front-loading the response, that.... It takes time for monetary policy to work through. Interest rates were very low. They needed to come up quickly to prevent inflation from going higher and to start getting it on a downward path.

Yes, it has been a historically rapid increase. We think that's the best way to avoid having to do even bigger increases in the future and having an even more severe slowdown.

● (1800)

Ms. Julie Dzerowicz: Thank you.

The other question I have is this. I believe that when you came before us in an earlier session, there were savings of around $11 billion of what Canadians have put into their bank accounts. To what extent are you looking at where those savings land in some of your decisions?

To what extent are you also looking at other factors, like bankruptcy rates of companies and fixed mortgages? I believe 80% of all mortgages in Canada are fixed at five-year rates. I could be wrong on that, but I think that's what CMHC has said.

To what extent do you look at those types of factors to see how quickly and how much you might be increasing your rates?

Mr. Tiff Macklem: We look at all those factors. With respect to bankruptcies, they have been very low for the last two years. If you look at things like credit card delinquencies, they have been very low. Those things are moving back up to more normal levels, so that's something we're keeping an eye on, but they are not above normal levels. They are just getting back.

I don't know if the senior deputy wants to say a few words about the proportion of fixed versus variable.

Ms. Carolyn Rogers: Sure.

To your previous point about what we called excess savings—savings over what would have been the normal rate—for some time, I think the bank anticipated that savings would eventually be drawn down, particularly once the economy fully opened. We thought Canadians would spend more of that savings.

We have since adjusted our expectation. We haven't seen Canadians draw down that savings on a large scale. In our forecast, we now expect that will probably stay in people's savings accounts.

Ms. Julie Dzerowicz: I want to point out something. It seems weird that there's that savings, but also that you're seeing this increase in debt levels of Canadians. It's this really weird contradiction.

How do you explain that?

Ms. Carolyn Rogers: As we've said, inflation and adjustments in interest rates both affect.... There is no one Canadian. There are young Canadian homeowners who are just starting out and are new in their career. They have just purchased a house. House prices have been elevated. They are carrying large debt loads. Fast-forward 20 or 30 years, and hopefully you have paid down your house and accumulated more savings.

The averages can hide a lot of diversity across Canadians. If you think about the different generations, different households and different socio-economic groups, there is a lot of diversity. Inflation and adjustments in interest rates don't affect everybody.

Ms. Julie Dzerowicz: Thank you.

The Chair: Thank you, MP Dzerowicz.

Members, I'm looking at the time. I believe we have enough to get through one final round here. I will be very strict with the time. I know you have very detailed questions and detailed answers, and they have been terrific, but we will have to be quite strict with the time right now for this final round.

We're starting off with the Conservatives and MP Scheer for five minutes, please.

Hon. Andrew Scheer: At the very end of my first round, I asked if you could provide to the committee the valuation of the difference between the bid and the ask price on the government bond, so that we could see how much those large institutions that were involved in the swaps would have made off them.

I want to verify that's something you can provide to the committee.

Mr. Tiff Macklem: The information is all on our website.

Hon. Andrew Scheer: Is it there in an aggregate form?

Mr. Tiff Macklem: We may be able to roll it up for you—

● (1805)

Hon. Andrew Scheer: Okay. That would be great.

Mr. Tiff Macklem: —if you have a specific calculation you're looking for.

Hon. Andrew Scheer: Basically, it's cumulatively. If the bank is acting as the selling agent and simultaneously buying it back, the scenario is very probable that a big Canadian bank could have bought a government bond from you and sold it back to you. I don't know that the banks do anything for free, so I would be interested if.... It's like what they do with currency swaps: When you buy a $100 American bill, you can turn it right back and flip it and there would be a difference.

If you could give us a cumulative—

Mr. Tiff Macklem: We could give you the average spread with the average volume, or something like that.

Hon. Andrew Scheer: Fantastic.

One other thing I would like to see is if you could commit to providing the committee some information on the justification for the rate increase as it relates to cooling demand. You have raised interest rates several times now. They're monster hikes that are now cascading through the economy in everything from lines of credit to mortgage renewals. You have indicated they hit low-income Canadians the hardest. We all know the suffering Canadians are experiencing right now.

You have also said today that the reason for that inflation is the gap between the demand and the supply. You have indicated that supply has fallen and demand has skyrocketed, so we should be able to see some data. We should be able to see some metrics that you can use to justify that. Can you provide this committee with examples of declines in production and declines in output, and corresponding increases in the volume of sales? It's not dollar amounts, but the volume of sales.

If what you have said is true, we should either see massive drops in outputs—forestry companies producing far less lumber, farmers producing less food—or corresponding huge hikes in the volume of sales at retailers and wholesalers, and things like that. Could you provide the committee the data that you used to justify your interest rate hikes?

Mr. Tiff Macklem: We have a wide range of data. Most of it is published in our monetary policy report and on our website. I'll take some specific examples that you referred to.

On the supply side, you can't observe the supply of the economy directly, just like you can't observe where maximum sustainable employment is in the labour market. You can't observe that directly. On the supply side, what you can observe is a whole range of indicators, including delivery times, shipping costs and transportation costs. We have a whole range of indicators. What they show is that supply chains have been very gummed up. They're starting to improve. We can certainly give you those.

On the demand side, yes, you can see the strength of demand, particularly more recently. First, as I mentioned, is goods. More recently, you can see the strong demand for services.

Hon. Andrew Scheer: Would you have that in terms of the volume of units being moved and sold?

Mr. Tiff Macklem: We don't create this data ourselves. Statistics Canada, our statistical agency, publishes a wide range of data, and there are other sources of data we use. Particularly, through the pandemic, we've been using some different measures like mobility indices.

Yes, we can give you all of that.

Hon. Andrew Scheer: I would just hope that there would be some specific data points, even if they are from other agencies. We don't expect the bank itself to have this kind of—

Mr. Tiff Macklem: We do have our own surveys, and we can certainly share them as well.

Hon. Andrew Scheer: For example, Statistics Canada in September indicated that, in terms of volume of sales, retail sales declined, yet inflation continued. There was still a higher than target inflation rate in September.

I hope that you weren't just guessing the reason for these price increases. I understand that you refuse to bear any responsibility as it relates to the quantitative easing that you initiated at the bank as a cause of that problem. I understand why you wouldn't want to do that. Hopefully, you didn't just look at the economy and say, “Well, we guess it's a drop in supply, and we estimate that it's an increase in demand.”

I hope that you would have some very specific numbers to justify the rate hikes. That is having a very real impact on Canadians. You should be able to show your work to justify the decisions that you've made.

The Chair: Give a very short answer.

Mr. Tiff Macklem: I can assure you, we have a lot of analysis, and we'd be happy to share it with the committee.

The Chair: Thank you, Governor.

Thank you, MP Scheer.

We're moving to the Liberals and MP MacDonald for five minutes, please.

Mr. Heath MacDonald: Thank you.

Is there anything else you want to add? You were cut off there.

Mr. Tiff Macklem: Maybe I'll just come back on QE, because I know there's a lot of interest.

We will take full responsibility for our monetary policy actions.

What I want to stress is that there's nothing particularly special about QE. When you look through history, sometimes QE has been followed by inflation—we're seeing that now—and other times it has not. After the global financial crisis, the Fed embarked in large amounts of quantitative easing. It was not followed by a big increase in inflation.

If you look right now around the world, two of the countries that have had the biggest increases in their balance sheets are Japan and Switzerland. They have among the lowest inflation. In fact, the reason they've had such big increases in their balance sheet is that they've been trying to fight low inflation. They've been trying to get inflation up, but inflation has been low. What effect monetary stimulus has in your economy is very dependent on the situation in your economy.

I'm certainly not saying that too much monetary stimulus can't cause inflation. What I'm saying is that you do your best to provide the right amount of stimulus in the situation.

● (1810)

Mr. Heath MacDonald: Yes, you did say that we had the deepest recession and the fastest recovery. It's not doing Canadians any good to say we're at 7%. When you look around the world, stability is in our favour and on our side.

Recently Bloomberg said, “The Bank of Canada’s No. 2 official”—I assume that's you—“said the country’s financial system will be able to weather growing stability risks stemming from higher interest rates and inflation that’s causing hardship for many households.”

Quickly, back to the stress test that the Liberal government brought in and the Conservative government voted against, how is that having a positive effect now on where we're going and what we're seeing with interest rates?

Ms. Carolyn Rogers: Are you talking about the mortgage stress test?

Mr. Heath MacDonald: That's correct.

Ms. Carolyn Rogers: The mortgage stress test was actually implemented by the Office of the Superintendent of Financial Institutions. It was designed to make sure that Canadians who were taking out a mortgage at a time when we had historically low interest rates could continue to make their mortgage payments if those rates went up. You'll remember the debate, and as you said, there was.... I remember that at the time the prospect that interest rates would increase by 2% seemed unreasonable.

Now, I think what we have is a macroprudential measure that has sort of helped us weather this period of rising interest rates. It has helped borrowers, and it has helped preserve stability in our financial sector.

Mr. Heath MacDonald: The government recently made targeted investments in doubling the GST tax credit and in a one-time rent fee payment of $500. Would those be the types of investments the Bank of Canada would like to see when we deal with the most vulnerable Canadians? We know the importance of them going forward.

Mr. Tiff Macklem: The first thing I'll say is that fiscal measures are the responsibility of our elected governments and parliamentarians.

On those specific measures, I do think the advice from the IMF to employ measures that are targeted and temporary is good advice. The GST credit does target the lowest-income Canadians, and it was set up as temporary, so it does meet the hurdle of that advice.

The Chair: Thank you.

Thank you, MP MacDonald.

Now to the Bloc, MP Ste-Marie, you have two and a half minutes.

[*Translation*]

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

I have some questions about the relationship between the Minister of Finance and the Governor of the Bank of Canada.

The Bank of Canada Act stipulates that “[t]he Minister [of Finance] and the Governor [of the Bank of Canada] shall consult regularly on monetary policy and on its relation to general economic policy.”

If I understand correctly, you usually meet with the Minister of Finance on a weekly basis. You can tell me whether that was the case this fall, once I've finished asking my question.

In the event that the Bank of Canada and the government did not agree on the monetary policy to be followed, the Minister of Finance could give the governor a written directive that the bank would have to comply with. The directive would have to be published, and shortly after it was given, the government would have to lay the directive before Parliament. Thus far, the practice has never been used.

Can you please confirm, first, whether I'm right about that and, second, whether you meet weekly with the Minister of Finance?

● (1815)

Mr. Tiff Macklem: I would correct you on one thing only. The act stipulates that the minister and the governor should consult often. I'm not sure whether that's the exact wording, but it's something along those lines.

Mr. Gabriel Ste-Marie: It says that you shall consult regularly.

Mr. Tiff Macklem: We do consult regularly, but not necessarily every week. Some weeks, we meet more than once, and others, we may not meet at all. Regardless, we speak regularly.

Mr. Gabriel Ste-Marie: I see.

Quickly, I'd like to discuss another topic before I wrap up. There are financial institutions, companies and individuals that use tax havens for tax avoidance or tax evasion purposes. Is there anything the Bank of Canada can do in that regard? Can it limit the use of tax havens?

Mr. Tiff Macklem: I didn't quite understand your question.

Mr. Gabriel Ste-Marie: I'm talking about financial institutions, companies and individuals that use tax havens for tax avoidance and tax evasion purposes.

Mr. Tiff Macklem: I see. Now I understand.

That isn't really within the purview of the Bank of Canada. It falls under the Department of Finance's authority.

Mr. Gabriel Ste-Marie: Thank you.

[*English*]

The Chair: Thank you, MP Ste-Marie and Governor.

Now to the NDP, MP Blaikie, you have two and a half minutes.

Mr. Daniel Blaikie: Thank you very much.

I just want to come back to this question of where inflationary demand lives because it matters a lot for the debates we have in this place. Any light that you can shed on that I think is helpful in respect of the debates we have about fiscal policy.

For instance, there is currently a dental benefit for households with a household income of $90,000 or less. Some in this place say that's inflationary government spending and that when families with a household income of $90,000 or less receive that money, it's going to contribute to overheated demand in the economy. There is a Canada housing benefit targeted at low-income renters: a one-time payment of $500. There are some in this place who say that's more inflationary spending by government.

It matters where that inflationary demand lives, because if it doesn't live in households with a household income of $90,000 or less, then it's hard to believe that the claim—should anyone care to make it—that that's inflationary spending is true.

While I respect that your domain is not fiscal policy, you do spend a lot of time analyzing the economy. I think it would be helpful to understand better where the inflationary demand is coming from. Is there a household income threshold or range within which you think certain households are more likely to contribute to inflationary demand than others?

Mr. Tiff Macklem: I think I'm going to ask the senior deputy governor. I've given quite a few answers on inflation. I'm going to let her give her perspective.

Ms. Carolyn Rogers: I know there's a very strong desire to figure out who's responsible for inflation, but it's a very difficult thing to do. Excess demand is excess demand in the economy. To say that this demand is worse than that demand is very difficult.

The only other thing I would add to the comments the governor has already made is that it's important to understand demand in relation to supply. We've answered this question in a number of different ways. Ultimately, the pressure on prices comes from a mismatch between those two things. You can act on both things. You can improve supply, but supply constraints, buying more when there's excess demand—

Mr. Daniel Blaikie: What does government taking action on supply look like in a globalized economy? We hear sometimes, “Well, if the government would just get out of the way and let more oil and gas development happen, Canadians would get cheaper energy prices.” Is there really that direct a line between the rate of energy output in Canada and energy prices in Canada when you're selling on a global market?

The Chair: That's a great question, but we need a very short answer.

Mr. Tiff Macklem: Yes, in a very short answer, supply is not within the domain of the Bank of Canada, but just to give you some domestic examples, the supply of housing, the supply of affordable housing, gateway transportation that means we can get our products to market so we can sell them to the world, and immigration.... There are supply-oriented policies that are geared to and important to the Canadian economy.

You're right. We can't really affect global supply chains very directly, but there are things in Canada that governments can influence.

● (1820)

Ms. Carolyn Rogers: Supply chains are starting to help, too, but there's a bit of a lag and it's not a substitute for monetary policy.

The Chair: Thank you.

Thank you, MP Blaikie.

Now, for the Conservatives, I have MP Hallan.

Mr. Jasraj Singh Hallan: I'll be quick.

Governor, you said that the carbon tax is contributing to inflation. Would you agree that cutting the carbon tax, even if it's temporary, would help to fight inflation, yes or no?

Mr. Tiff Macklem: Do you mean if the carbon tax was completely eliminated?

Mr. Jasraj Singh Hallan: Or even paused....

Mr. Tiff Macklem: Okay. Well, if you take the carbon tax down to zero, we estimate that would reduce inflation for one year by about half of a percentage point.

Mr. Jasraj Singh Hallan: Okay. Thank you.

Mr. Tiff Macklem: Then, after that year, it would have no further effect.

The Chair: Go ahead, MP Chambers.

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

Recently, the Deputy Prime Minister asked for ideas on how to encourage Canadians to spend the money they were saving, and for businesses to spend the money on their balance sheets. Is that something you're also hoping for at this point?

Mr. Tiff Macklem: I must admit that I didn't see those comments, but—

Mr. Adam Chambers: It was about a year and a half ago.

Mr. Tiff Macklem: Well, a year and a half ago, the economy was in a pretty different situation, but—

Mr. Adam Chambers: Are you hoping that businesses and consumers spend now?

Mr. Tiff Macklem: Look, we need some spending in the economy, but we want to see spending slow so that supply can catch up and we can take the steam out of inflation. That's why we've been raising interest rates. Higher interest rates reduce spending, particularly on things you buy on credit.

Mr. Adam Chambers: Thank you.

We're coming up on the one-year anniversary of the mandate renewal. The mandate was slightly changed from previous versions to include another measure on which the bank should be focused. It was solely focused on inflation before, but the government added a focus on “maximum sustainable employment”, whatever that means.

Did that change in the mandate cause a delay in your response to inflation such that you had something else to worry about in addition to inflation?

Mr. Tiff Macklem: I can give you a very short answer to that one. The answer is no. The revised mandate that was agreed on last December was very much consistent with the previous mandate. I think what it did was that it was clearer, but it was.... The primary objective continued to be price stability. The target continued to be a 2% inflation target.

The recognition that we care about the labour market is not something new. We've always cared about the labour market. In fact, maximum sustainable employment and low inflation go hand in hand. If you're missing jobs, if you're missing incomes, you're going to be missing spending and the inflation is going to be below—

Mr. Adam Chambers: All right. The short answer is no.

Mr. Tiff Macklem: The short answer is no.

Mr. Adam Chambers: The annual run rate spending of the government is up 30% since 2019 levels. That's pre-COVID. Forget about all the spending during COVID. Annual spending was up 30%.

Would you classify that as fiscal restraint?

Mr. Tiff Macklem: Fiscal spending is the role of the government and you, as Parliament.

We have a very clear mandate. What we do is take into account the fiscal spending decisions that you make, and then we make the decisions that we need to make to fulfill our mandate.

Mr. Adam Chambers: I have a final question, Mr. Chair.

There is a lot of discussion about the decoupling of supply chains, or friend-shoring, if you will. How does that factor into inflation? Can Canadians expect that inflation will take longer to come down because we are revamping supply chains, which may lead to higher prices? Is that a headwind that you're factoring in?

Mr. Tiff Macklem: I think it is a headwind.

At the outset of the pandemic, when we didn't all recognize how long it was going to be, we thought supply chains would come back to normal more quickly. This pandemic has gone on for a long time.

Certainly, when you talk to businesses, what you hear is that they're looking for ways to build more resilience into their supply chain. They need to simplify it, they need to shorten it and they need to standardize it. That will add costs to the supply chains. Businesses are going to be holding more inventories and their supply chains are not going to be as efficient. That doesn't create permanently higher inflation, because inflation is a perpetual increase in prices, but if there's a higher cost structure for a period of time, that could make inflation more difficult to get down.

That is something that we're watching and we're concerned about, and it is something we're factoring in.

● (1825)

Mr. Adam Chambers: Thank you, Governor.

Thank you, Mr. Chair.

The Chair: Thank you, MP Chambers.

We'll now move to the Liberals and MP Chatel.

MP Chatel, you'll be the final questioner.

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

I have a quick question.

In Quebec, B.C. and other provinces, federal carbon pricing does not apply. Can you clarify what the cost of inflation would be in those provinces if, as suggested by the Conservatives, there was no carbon pricing?

Mr. Tiff Macklem: I don't have numbers for every province. I can't give you that number. I don't have the calculation by every province.

Mrs. Sophie Chatel: If you cancel federal carbon pricing that does not apply in Quebec, because Quebec has its own system, it will have no impact in Quebec on any inflation. It cannot, because carbon pricing at the federal level does not apply to Quebec.

Even if you cancel federal carbon pricing, it cannot have any impact, because it doesn't apply now. Would you agree with that?

Mr. Tiff Macklem: Different provinces have taken different routes, since provinces have the ability to impose their own measures, so yes.

Mrs. Sophie Chatel: Thank you.

I thought it was important to make that point, because in my perspective, and that of every Quebecker, especially with the pricing on pollution, what is being proposed by the Conservatives on cancelling the carbon pricing is irresponsible, and it will undermine all of the effort made by the Province of Quebec. Carbon pricing was made to create a level playing field among provinces, so that when there's an effort made by one province, it's not cancelled by other provinces.

Thank you for the clarification.

My colleague was talking a bit about something I'm very interested in, which is the inflation on food pricing. Even if we stabilize the economy and we get to a 2% inflation rate, I'm concerned that when it comes to food prices—given that many regions in the world are facing permanent drought and recurring weather patterns—it's not favourable to agriculture. We've seen it over and over in the last couple of years, and the predictions by experts and scientists were not great.

You talked about the river drying up and creating supply chain issues in Europe and the United States. The St. Lawrence River had a bit of a warning last summer as well. I'm concerned that if we do nothing about pollution and reducing our greenhouse gas emissions, we'll see even more of that.

Will that create permanent inflation on food?

Mr. Tiff Macklem: Well, we're not climate experts. The climate experts are doing a lot of analysis, and I will leave it to them to give us an analysis of what the effect will be on harvest. I think we've seen that with more variable weather patterns, we're getting more variable harvests. That certainly does affect food prices.

From our perspective of monetary policy, I can tell you what we're doing. We're doing a couple of things.

We need to understand that better in order to conduct monetary policy. If weather disturbances are going to be more frequent, then that will affect agriculture. It could affect transportation. Those are things that we're going to have to factor in. Because there's a lot of uncertainty, we have been doing scenario analysis. We don't have a forecast, but you can put together scenarios. These are based on global scenarios that have been worked out, and then we customize them to Canada.

We will be working to figure out what that could mean for monetary policy. That is something that is on our work agenda.

● (1830)

The Chair: Thank you, MP Chatel.

On behalf of the committee, let me thank you, Governor Macklem and Senior Deputy Governor Rogers, for answering a multitude of very detailed questions, from all members here, with very detailed answers on monetary policy.

Members, before we adjourn, on Monday we have the Deputy Prime Minister and Minister of Finance coming in for the first hour. For the second hour, it's been suggested that we possibly have the PBO come in, if members are good with that. I see everyone's head shaking in the right direction. Okay. We'll look to invite the PBO to our committee here for Monday.

Again, Governor and Senior Deputy Governor, thank you very much for your appearance. We always like having you here and answering the many questions from the members. We appreciate it.

Mr. Tiff Macklem: Thank you, and thank you for the work you do.

The Chair: Thank you.

We are adjourned.