BANK OF CANADA
BANQUE DU CANADA

Remarks by Tiff Macklem
Governor of the Bank of Canada
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Good afternoon, Chair and committee members. I'm pleased to be back before you to discuss the Bank of Canada's latest *Monetary Policy Report* (MPR), the outlook for the Canadian economy and our actions to support the recovery.

If I had to sum up my messages for you in three words, they would be *progress, time* and *commitment*.

First, the economy is making good *progress*. Canadian households and businesses have shown impressive resilience to the pandemic. The economy is doing better than we expected. And with more and more Canadians getting vaccinated, we anticipate better times ahead. Reflecting these developments, last week we revised up our outlook for the Canadian economy.

But second, a complete recovery will still take some *time*. The third wave of the virus is a new setback. It is straining health care systems in many regions and again hitting sectors where physical distancing is difficult. Important parts of the economy remain very weak, and too many Canadians are still unemployed.

Third, the Bank remains steadfast in our *commitment* to support Canadian households and businesses through the full length of the recovery. For working Canadians, a complete recovery means a healthy job market with good opportunities. And that includes low-wage workers, women and young people who have been hit hard by this pandemic. A complete recovery means companies have confidence that the pandemic is over and are investing to seize new business opportunities. And for both households and businesses, a complete recovery means they can count on inflation being sustainably at our 2 percent target.

Let me briefly expand on these themes.

At the time of our last MPR in January, Canada was facing a second wave of the pandemic and we expected the economy to contract modestly in the first quarter of 2021.

As it turns out, it now looks like the economy grew strongly in the first quarter. This is partly because the global economy is stronger, particularly in the United States. But the most important factor is the resilience and adaptability of Canadian households and businesses. They have found new ways to shop, serve customers and work remotely. As a result, lockdowns through the second wave had much less economic impact than they did through the first wave. And as restrictions were eased, the economy bounced back with substantial job gains in February and March.

Housing construction and resales have been particularly strong, rising to historic highs. This is being driven by the desire for more living space, low mortgage rates and limited supply. But we are seeing signs of extrapolative expectations in some housing markets, and there are risks that some households may overstretch financially. We will continue to watch this area closely.

With vaccinations progressing, we are expecting strong consumption-led growth in the second half of this year. Fiscal stimulus from the federal and provincial governments will also make an important contribution to growth. Strong foreign demand and higher commodity prices are expected to drive a solid rebound in exports and business investment, leading to a more broad-based recovery. We now project that the economy will grow by around 6½ percent this year, about 3¾ percent in 2022 and 3¼ percent in 2023.

With this improved outlook, we are hopeful that there will be less labour market scarring and lost capacity than we earlier feared, and we have revised up our estimate of the economy's potential output.

But I want to emphasize that considerable uncertainty surrounds our estimate of potential output. As the recovery continues, we will be paying attention to a broad spectrum of indicators of slack, including a range of labour market measures.

Last week, we saw that inflation rose slightly above our 2 percent target in March. This increase was expected. Indeed, over the next couple of months, we anticipate inflation will rise further to around the top of our 1 to 3 percent inflation-control target range. This largely reflects base-year effects combined with the recent rise in gasoline prices. Governing Council is looking through these temporary increases in inflation because we expect the ongoing excess supply in the economy to pull inflation back down. Inflation should return to 2 percent on a sustained basis as slack is absorbed in the second half of 2022.

Taking into account the improved economic outlook and the considerable slack that remains, Governing Council judged last week that the economy still needs extraordinary monetary policy support. We remain committed to holding the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2 percent inflation target is sustainably achieved. As I just mentioned, based on our latest projection, this is expected to happen sometime in the second half of 2022, although this timing is unusually uncertain given the difficulties in assessing the economy's supply capacity.

Our forward guidance on our policy rate continues to be reinforced and supplemented by the Bank's quantitative easing (QE) program. Effective this week, we have adjusted our weekly purchases of Government of Canada bonds to a target of $3 billion, down from the previous minimum of $4 billion. This adjustment reflects the progress that we have already seen toward economic recovery.

Before I turn to your questions, let me just say a few words about our QE program and its impact on our balance sheet, as I know this is a topic of interest for many committee members.

Around this time last year, the Bank launched a number of extraordinary programs—11 in all—to help restore functioning in financial markets and keep credit flowing. These programs worked, and with markets now functioning well, we have wound down or announced the termination of all but one of our extraordinary programs. The one remaining is our QE program. It is still providing needed monetary stimulus by lowering borrowing costs for households and businesses across the yield curve.

With the other programs winding down and QE continuing, the size and composition of our balance sheet has shifted in the past several months. The size of our balance sheet peaked back in February at about $575 billion. It has since decreased to about $475 billion. This decline reflects the maturing of some shorter-term assets and the termination of most of our extraordinary programs.

We continue to buy government bonds to provide stimulus in pursuit of our inflation objective. The Bank currently holds $354 billion of Government of Canada bonds, comprising more than 70 percent of the assets on our balance sheet. This is up from 55 percent at the time of our January MPR.

I’ve provided a chart that shows the evolution of our balance sheet, and a table that provides more detail on the maturity composition of our holdings. As you can see from the table, the Bank of Canada currently owns just over 40 percent of the outstanding stock of Government of Canada bonds. Across the maturity spectrum of nominal bonds, our ownership ranges from 48 percent for 5-year bonds to 36 percent for 10-year bonds. We routinely make available high-demand bonds through our securities-lending program, which helps promote the smooth functioning of Canada’s bond market.

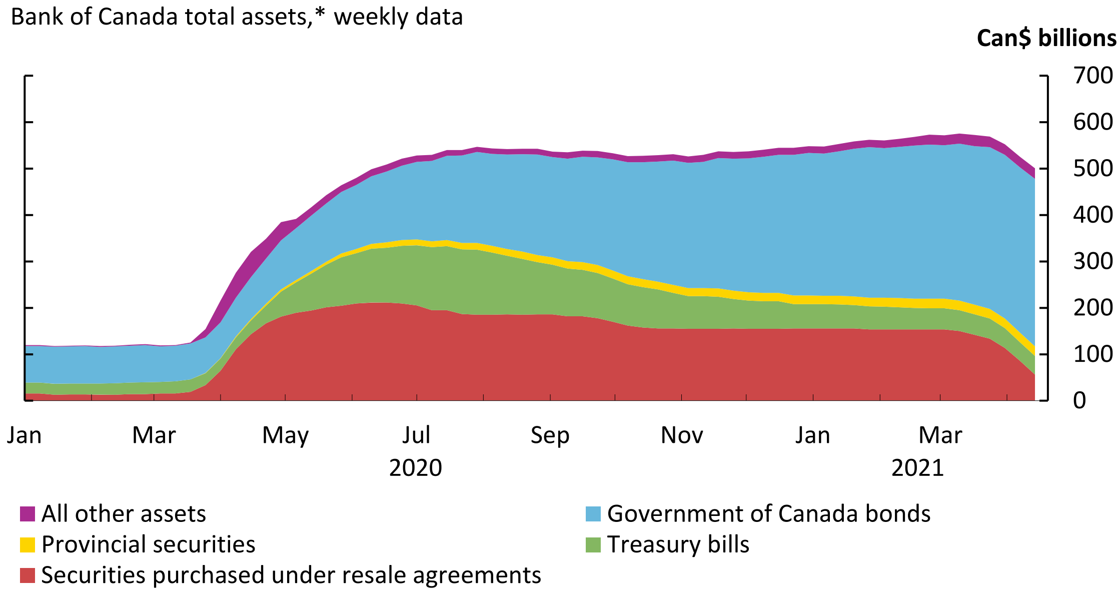
I’ve given you a lot of numbers. The message I want to leave you with is that our purchases have provided a lot of stimulus to the economy. With the progress toward economic recovery that we have already seen, we adjusted the amount of incremental stimulus we are adding each week with our purchases.

Looking ahead, further adjustments to the pace of net purchases will be guided by our ongoing assessment of the strength and durability of the economic recovery. If the recovery evolves in line with or stronger than in our latest projection, the economy won’t need as much QE stimulus over time. Further adjustments to our QE program will be gradual, and we will be deliberate in both our assessment of incoming data and the communication of our analysis.

We remain committed to providing the appropriate degree of monetary policy stimulus to support the recovery and achieve the inflation objective.

With that, let me stop and turn to you for questions.

Chart: The Bank's total assets have shifted in composition



* Government of Canada (GoC) bonds purchased in primary markets are measured at amortized cost. All other bonds, including GoC bonds purchased in secondary markets, are measured at fair value. "All other assets" includes provincial treasury bills and bonds, corporate bonds and commercial paper. A full list of assets can be found on the Bank of Canada's website.

Source: Bank of Canada — Last observation: April 14, 2021

Table: Government of Canada bond holdings, par value

	at July 15, 2020		Current (April 14)	
Maturity	**Holdings ($ millions)**	**Percentage of outstanding bonds (%)**	**Holdings ($ millions)**	**Percentage of outstanding bonds (%)**
Less than 2 years	48,980	32	77,764	42
2–3 years	48,855	28	103,370	44
5 years	32,865	29	77,605	48
10 years	22,205	23	47,558	36
30 years	17,621	24	40,330	39
Total:	170,526	28	346,626	42