

Review of the Bank of Canada’s Exceptional Policy Actions During the Pandemic: Governing Council’s Response to the External Assessment

In early 2024, the Bank of Canada began a comprehensive review of the exceptional policy actions it took in 2020–21 during the COVID-19 pandemic. The review focuses particularly on the Bank’s programs aimed at restoring market functioning and on its use of quantitative easing (QE) and extraordinary forward guidance (EFG). The review examines the effectiveness of the policy actions, outlines lessons learned and identifies areas for further work to inform future policy. The review is part of the Bank’s commitment to Canadians to be transparent and accountable for its policy actions.

As part of that accountability, the Bank’s Governing Council asked three external experts—Pablo Hernández de Cos, Kristin Forbes and Trevor Tombe¹—to conduct an independent assessment of the review and provide feedback. This document is Governing Council’s response to the review and to the findings and recommendations of the external experts.

The goal of the review and the external assessment is to ensure the Bank draws the right lessons from this unprecedented crisis. Learning from the experience of the pandemic and its immediate aftermath will sharpen the Bank’s response to the next crisis. This is critical to ensuring the Bank delivers the best policy for Canadians, whatever lies ahead.

¹ Pablo Hernández de Cos is a former Governor of the Bank of Spain, former chair of the Basel Committee on Banking Supervision and current Chair of the Advisory Technical Committee of the European Systemic Risk Board. Kristin Forbes is the Jerome and Dorothy Lemelson Professor of Management and Global Economics at MIT’s Sloan School of Management and former member of the Bank of England’s Monetary Policy Committee. Trevor Tombe is Professor at the University of Calgary’s Department of Economics and the Director of Fiscal and Economic Policy at The School of Public Policy.

Governing Council thanks Bank staff for the thorough research and analysis that went into the review. We also thank the external experts for their careful assessment and critique. We were reassured to see that they validated and agreed with the main conclusions of the review.

Key takeaways

The Bank's response to the pandemic was effective in restoring market functioning, preventing an even worse economic calamity, and supporting economic recovery. A quick and bold response to an unprecedented and rapidly developing crisis was critical.

In the early days of the pandemic, the Bank deployed a large-scale asset purchase program to prevent markets from freezing up and to ensure liquidity was sufficient to maintain market functioning. In [July 2020](#), the program transitioned to a second phase, QE, aimed at providing monetary stimulus required to achieve the Bank's inflation target. The external experts point to the need to distinguish between these types of programs more clearly, including explaining their different objectives and the circumstances under which they may be deployed.

Governing Council agrees with this assessment. The Bank has indicated that there are limited circumstances under which it would conduct these kinds of large-scale asset purchases. It has also clarified what financial markets can expect from the Bank if such operations are needed in the future.² This should help guard against moral hazard, which arises when market participants take bigger risks because they expect the central bank will always step in if things go wrong. In the event that the Bank needs to deploy such operations in the future, the Bank will make more concrete the distinction between asset purchases to restore market functioning and asset purchases for monetary stimulus. It will also clearly explain the purpose of each program and ensure that a well-defined and clearly communicated exit strategy is in place.

Regarding the use of extraordinary forward guidance, the external experts recommend that EFG should always be "conditional"—that is, clearly tied to the inflation outlook—and that its conditionality be clearly explained. Governing Council agrees with this

² See T. Gravelle, "[The end of quantitative tightening and what comes next](#)" (speech to VersaFi, Toronto, Ontario, January 16, 2025); T. Gravelle, "[Going back to normal: The Bank of Canada's balance sheet after quantitative tightening](#)" (speech to CFA Society Toronto, Toronto, Ontario, March 21, 2024); and T. Gravelle, "[The Bank of Canada's market liquidity programs: Lessons from a pandemic](#)" (speech to National Bank Financial Services Conference, Montréal, Quebec, March 29, 2023).

assessment that when EFG is used in the future, the Bank should continually and clearly stress the outcome-based nature of EFG in all Bank communications.

Going forward

While most of the policy tools the Bank deployed during the pandemic had been used by central banks in other jurisdictions, some were used for the first time in Canada. The use of exceptional policy tools provided an important opportunity to learn, and the Bank will incorporate what it has learned into any future crisis response. The Bank is taking on board not only the lessons gleaned from its own experience and review but also from the work being done by other central banks and academics. The Bank recognizes that these exceptional monetary policy tools should remain exceptional and be used only during periods of extreme economic stress. The Bank is continually working to enhance its capacity to support the Canadian economy in crisis situations.

The Bank is also improving its forecasting tools that underly its monetary policy decision-making. It has begun work on its next generation of economic models that incorporate the key lessons of recent years. This work includes developing models that better capture the role of supply chains in production and the connectivity between sectors. The new models will also distinguish between inflation that comes from higher demand and inflation that comes from higher input costs. This will help the Bank to better understand changes in price-setting behaviour. The new models will also support increased use of alternative scenario analysis.

The external experts made several recommendations targeted at improving communication and transparency. The Bank is continually seeking ways to improve its ability to explain its forecasts and policy decisions. Recent initiatives include press conferences after each monetary policy decision, comprehensive summaries of Governing Council deliberations, and a digital *Monetary Policy Report* that provides access to more of the data behind the forecast.

Conclusion

The review of the Bank's actions during the pandemic and the external comments on the review are comprehensive and important guides to improve the Bank's ability to respond to other crises that may arise. The Bank is a learning institution, committed to

improving its capacity to conduct monetary policy that promotes the economic well-being of Canadians, no matter what shocks may come.

Governing Council is grateful for the advice offered by the three external experts engaged for this review. We also benefit from similar work by academics and experts in Canada and around the world. Their advice helps the Bank of Canada, and all central banks, learn the lessons of the past and be best prepared for the future.