

## BoC prefers government spending over lower interest rates

April 20, 2016 – *The Globe and Mail* / Reuters

Fiscal policy is more effective than monetary policy in boosting productivity and growth when interest rates are low, Bank of Canada senior deputy governor Carolyn Wilkins said in an interview published on Wednesday.

In the interview with Maclean's magazine, Ms. Wilkins said it was a good thing that the federal government had implemented fiscal stimulus because lowering interest rates even further than Canada has done increases risk in financial markets.

"There are concerns about the effects of persistently low interest rates and the quantitative easing that other countries have done, in terms of increasing risk-taking by financial market players and individuals," Ms. Wilkins said.

"If fiscal policy can do some of the heavy lifting, that's a positive thing. Fiscal policy at low interest rates is also just more effective. In a world where growth is going to be structurally slower because of demographic changes, monetary policy can't fix that," she added.

The Bank of Canada held rates steady last week, saying the fiscal stimulus that is coming from the new Liberal government will boost economic growth. Without the federal spending revealed in the government's March budget,

the central bank would have considered cutting rates again from the current 0.5 percent, officials said last week.

The statements by the bank in its April monetary policy report and by Bank of Canada Governor Stephen Poloz afterward were seen as supportive of the Liberal government's decisions to run big budget deficits, and some observers questioned the bank's independence.

But Ms. Wilkins said in the Maclean's interview the Bank is trusted to give its best views on issues, and it should be clear that central banks can not fix every problem.

"Monetary policy works to affect demand, and it's something that is needed to ensure low and stable prices. At the same time, it's not the only game in town," she said.

"I like the fact there is increased recognition that other policies, like fiscal policy, like structural policies, can be brought to bear to underpin Canada's macro economy, and global economies in general."

Mr. Poloz and Ms. Wilkins will appear later on Wednesday before the Senate standing committee on banking, trade and commerce, where lawmakers will likely press them on the strength of the Canadian economy and the appropriate level for the Canadian currency.