

# BOCs Poloz defends central bank independence against political attacks

By Paul Waldie

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Bank of Canada Governor Stephen Poloz has offered a vigorous defence of the independence of central banks, calling it a “bastion of stability” and taking a not-too-subtle shot at U.S. President Donald Trump, who has been highly critical of the U.S Federal Reserve.

Mr. Trump has routinely criticized the U.S. central bank in recent weeks for hiking interest rates and he has attacked the Fed as “ridiculous,” “loco” and “crazy.” After a speech in London on Monday, Mr. Poloz was asked about Mr. Trump’s criticisms and the threat they posed to central bank independence. While declining to comment specifically on the U.S. President, Mr. Poloz spoke about the importance of keeping central banks free from political interference.

“Central bank independence is not some theoretical concept. It is a bastion of the stability that we live in,” he told reporters. He cited high inflation in the 1970s, followed by soaring interest rates in the 1980s, as examples of what can happen when central banks don’t have clear, independent mandates.

“If you chip away at central bank independence, you’ll raise questions in the minds of investors, who in effect charge borrowers a risk premium around inflation, and with a long success of keeping inflation under control, they charge very little in terms of an inflation-risk premium. But if you chip away at the independence of the central bank, they’ll charge more,” he said, adding that all citizens would feel the consequences. “We all have a stake in central bank independence. Although it sounds abstract to people, in the end it’s very real arithmetic for ordinary people.”

Mr. Poloz cited Argentina and Turkey as current examples where that risk premium has become extreme.

During his speech, Mr. Poloz offered a glowing outlook of the global economy, saying, “The world economy is operating at close to potential and monetary policy has begun the process of normalization.”

He faced some criticism for that rosy outlook from one member of the audience, who suggested the overall picture has gotten worse in recent months with China slowing, the U.S. showing signs of moderating and Europe facing uncertainty. Mr. Poloz defended the bank’s outlooks, suggesting that it has taken all of the recent moves into account and is in line with other major forecasters.

“We have a positive outlook,” he acknowledged afterward. “The global economy is on firm footing and it’s growing at its capacity.... It’s bound to moderate slightly over the next year or two and that may be interpreted by markets as some major shift. I think that’s incorrect; it’s just a normal moderation to a steady state growth rate.”

Mr. Poloz also said the bank is monitoring the Brexit discussions and the possible effect on Canada if the United Kingdom leaves the European Union in March without any framework for the future relationship in trade and other matters. Many business leaders in the UK fear that would be catastrophic because the UK would likely face stiff tariffs from the EU, the country’s biggest trading partner. Mr. Poloz said a no-deal Brexit would figure into the bank’s analysis of global output, but he noted that the fallout for Canada would likely be minimal. “The UK is an important trading partner but of course dwarfed by the United States in our analysis,” he said.