With one year to go at Bank of Canada, Poloz still struggling to bring economy ‘home’

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In early June, 2013, Stephen Poloz was only a few days into his dream job when he was tossed into the deep end – testifying to the House of Commons standing committee on finance.

He started by apologizing if he stumbled over some of the finer details of his new gig as Governor of the Bank of Canada – a seven-year term as the chief arbiter of the country’s monetary policy and one of the most powerful economic decision-makers in the land.

He then spent the next quarter-hour talking about the central bank’s role in “delivering confidence” to a Canadian economy still clawing its way back from the 2008-2009 financial crisis and Great Recession. He talked about the need for the economy to pivot from a consumer-led recovery primed by extremely low interest rates, to a more “self-sustaining, self-generating” expansion driven by export growth and business investment. He suggested this shift “may already be under way.”

This Monday, Mr. Poloz will have his sixth anniversary as the Bank of Canada Governor. The economy has generally improved under his watch, inflation has returned to the central bank’s 2-per-cent target, and the bank has lifted interest rates from their historic financial-crisis lows – but none of it has come without some setbacks along the way.

As the one-year countdown to the end of Mr. Poloz’s term in office begins, some of those key issues from five years ago stubbornly remain – the below-capacity economy, the nagging uncertainties, the need for growth in exports and business investment to lead the economy to the promised land or “home,” as Mr. Poloz often calls it. The confident economic renaissance he set out to achieve six years ago remains elusive.

While technically a Bank of Canada governor can seek a second term, the last two-termer was five governors and more than 30 years ago. Mr. Poloz will be just a few months shy of his 65th birthday by the time next June rolls around. The widespread assumption is that Mr. Poloz’s tenure has entered its twilight.

By perhaps the most important measure, Mr. Poloz has his mission well in hand. The Bank of Canada’s prime objective with monetary policy is to maintain low and stable inflation, as defined by its 2-per-cent target. For nearly a year and a half, the bank’s three measures of core inflation – designed to filter out the noise in month-to-month consumer price movements – have all hovered within a couple of decimal points of that target, the very picture of stable, on-target inflation.

“Given that inflation is right at 2 per cent, it’s very hard to say anything other than that he has done a terrific job,” says C.D. Howe Institute president and CEO William Robson, who is also chairman of the economic think tank’s Monetary Policy Council.

But in other meaningful ways, Mr. Poloz has not completed the task he set out six years ago. The economy isn’t “home” – which Mr. Poloz has defined as operating at full capacity with inflation in line with the 2-per-cent target. Crucially, the bank’s key policy interest rate, currently on hold at 1.75 per cent, remains well short of its “neutral” level – estimated at 2.25 to 3.25 per cent – that would signify an economy in the sought-after state of balance. A decade after the end of the recession and crisis, the Bank of Canada is still propping up the economy with below-neutral interest rates. Those, in turn, have contributed to persistent high household debt levels – a nagging potential threat to the country's economic and financial stability that continues to hang over Mr. Poloz.

Mr. Poloz declined to be interviewed for this article. In an interview with The Globe and Mail last December, he admitted he might feel that his job is incomplete if his term ends without bringing the economy back home.

"When I [started] in 2013, I honestly thought that within a couple of years, we would be at home, or close to home," he said. "We got reasonably close – but then the oil shock was a three-year detour."

Indeed, the oil crash of 2014-2015 was the biggest challenge of his tenure and, quite likely, his legacy-defining triumph, though it remains a controversial one. While the bank's two rate cuts in 2015 angered many financial market participants who felt sideswiped by the surprise moves, Mr. Poloz's quick action is generally credited with stabilizing a badly wobbling economy and speeding up the subsequent recovery.

Another oil-related slowdown in late 2018 was the latest setback in the economy's journey toward full capacity. Nevertheless, the economy is expected to return to solid, if unspectacular, growth for the remainder of the year and into 2020 – enough to likely whittle away at what remains of the excess capacity in the economy, inching it closer to home by the time Mr. Poloz's term expires next June.

A couple of key policy challenges have emerged that could keep Mr. Poloz busy during that time. One is trying to get a better grasp on why wage growth – usually a major part of the inflation equation as an economy closes in on full capacity – remains so tame, despite decades-low unemployment. Another is attempting to quantify how the increasing global trade wars could alter the economic outlook, the potential for future growth, and, by extension, the direction of monetary policy not only in Mr. Poloz's final year, but also in the years to come.

"Governor Poloz probably has to lay out a road map for how the Bank of Canada is going to respond if tariffs continue to climb," says Frances Donald, chief economist at Manulife Investment Management." He may not need to react to them specifically in the next 12 months. But if he could leave a road map for how future central bankers should respond to it, that would probably be very helpful."

David Dodge, who was governor of the Bank of Canada from 2001 to 2008, says governors approaching the end of their tenure have to focus on the immediate job at hand, while making sure they don't throw up any road blocks that will complicate their successor's task.

"You've got to do your job all the time," says Mr. Dodge, recalling that his last year on the job was complicated by Canada's asset-backed commercial paper *(*ABCP) scare and the beginnings of the financial crisis. "We had things on our plate that we really had to deal with. You're not thinking about legacy."

However, he says, an out-bound governor is also thinking about a succession plan – being keenly aware of handing over a healthy and well-functioning central bank for his successor.

"You really feel responsible for leaving the institution in at least as good shape as you found it, and obviously strive to leave the institution in better shape."

Meanwhile, the year will feature much speculation about Mr. Poloz's successor – a decision that's in the hands of the Bank of Canada's board of directors and, ultimately, must be approved by the federal government. Effectively, it's the prime minister's call.

Experts say the government and the board have an opportunity to make a historic first with the next governor. Two strong candidates within the bank's senior ranks – senior deputy governor Carolyn Wilkins, Mr. Poloz's highly regarded second-in-command; and Paul Beaudry, a former University of British Columbia economist who joined the bank last year as a deputy governor – raise the prospect that the bank could have its first woman or its first francophone governor.

Economist Steven Ambler of Université du Québec à Montréal says the time "may have come" for the bank to choose from within its own ranks, after passing over internal candidates in recent recruitment rounds, including former senior deputies Tiff Macklem and Paul Jenkins.

Mr. Ambler says Mr. Beaudry brings better academic credentials to the table, while Ms. Wilkins has several years of administrative experience at the bank.

"[Ms. Wilkins] has less academic qualifications, but that's not necessarily what you need to be a good Bank of Canada governor," Mr. Ambler says.

Whoever comes next will inherit a central bank that has fundamentally changed the way it communicates with Canadians, and financial markets. Mr. Poloz has worked hard to make the work of the bank more accessible, with clearer language about what it does, but also with less precision about where it's going. He has readily acknowledged that forecasting isn't perfect, and that message hasn't always been well received, says McGill University economist Christopher Ragan, who has worked at both Bank of Canada and the Finance Department.

"Stephen Poloz started by embracing uncertainty," Mr. Ragan says. "He wanted people to understand that there are things we don't understand."

If that message lives on after Mr. Poloz's final year, then maybe he will have found his way home after all – even if it's not quite the home he talked about six years ago.