Bank of Canada doesn't need to move 'in step' with world counterparts on rates, deputy governor says

By David Parkinson

December 5, 2019 – *The Globe and Mail*

Bank of Canada deputy governor Timothy Lane defended the central bank's unique course on interest rates, saying that the "resilient" Canadian economy has dictated that the bank not move in lock-step with rate cuts this year in the United States and elsewhere.

In the prepared text of a speech in Ottawa Thursday, Mr. Lane said the divergence of Canadian and U.S. rate policy this year – the U.S. Federal Reserve has cut three times, while the Bank of Canada has held steady – reflects not only the different paths the two countries' economies have taken in recent years, but also the risks Canada faces from elevated, rate-sensitive household debts.

The speech follows the Bank of Canada's decision Wednesday to once again maintain its key rate at 1.75 per cent, where it has sat for the past 14 months, despite a wave of rate cuts at the Fed and its global peers.

"In part, this is because inflation and [the Bank of Canada's economic] outlook remain on target, and also because our policy rate was lower to begin with," he said. "Moreover, because Canada already has high levels of household debt, lowering rates further could make those vulnerabilities worse and amplify future shocks."

Mr. Lane argued that despite the Canadian economy's close ties to the U.S., it often doesn't make sense for the Bank of Canada to match Fed rate moves – something that some critics have argued the Bank of Canada should be doing, to avoid too much divergence in the two countries' interest rates. He also noted that despite often pursuing different rate paths over the past decade since the financial crisis and recession, including this year, the rates of the two central banks are now essentially even.

"There is no reason for the Bank of Canada to move in step with the Fed. On the contrary, the experience of the past decade shows that Canada and the United States have followed different roads, reflecting differences in our economic conditions," Mr. Lane said.

Mr. Lane said the central bank's economic outlook from its quarterly Monetary Policy Report in October "remains on track." The bank projected at that time that the economy would grow at a 1.3-per-cent annualized pace in the third and fourth quarters of this year, before accelerating to 1.7 per cent in 2020. He also reiterated the bank's view, expressed in Wednesday's interest-rate announcement, that the economy is "near capacity," and that inflation "remains broadly on target," with core inflation readings around the bank's 2-per-cent goal that is the primary guide for its rate policy.

But he noted that the global environment, with deep uncertainties surrounding the U.S.-China trade war, remains a potential threat, despite the Canadian economy's resilience so far in the face of these global headwinds.

"The world economy continues to be buffeted by trade conflict, and relations between the United States and China are on a roller coaster," he said. "Canada is resilient, but it's not immune."