

Bank of Canada cuts key interest rate; Morneau announces fresh stimulus for businesses

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The federal government took immediate actions Friday to stimulate the economy by extending additional credit to business and the Bank of Canada announced an emergency rate cut.

Bank of Canada Governor Stephen Poloz joined Finance Minister Bill Morneau and the Superintendent of Financial Institutions Jeremy Rudin at an hastily called news conference to announce the second concrete step in Ottawa's response to the economic fallout from COVID-19.

Earlier this week, the government announced \$1-billion for health research, unemployment insurance measures and help for the provinces.

The Bank of Canada Governor Poloz said he's cutting the key overnight lending rate by 50 basis points to 0.75 per cent.

Finance Minister Bill Morneau announced that \$10-billion of immediate credit will be available to Canadian businesses impacted by the coronavirus through Ottawa's Business Development Bank and Export Development Canada

He also promised to unveil a "significant stimulus package" next week, well before the March 30 federal budget.

"This are extraordinary times and that means we are ready to take extraordinary means," Mr. Morneau told a news conference. "We know this virus has created impact on our economy and we are ready to address these impacts."

Mr. Morneau said Prime Minister Justin Trudeau will have a conference call with leaders of the G-7 about the impact of coronavirus.

Mr. Poloz said the message should be clear to Canadians that the government is ready to do whatever it takes to keep the economy sound.

"There are significant measures happening today and next week which I think people should see as a co-originated and very powerful package," he said.

The Governor said he remains concerned about how consumer and business confidence can weather the economic fallout and warned recovery could be prolonged if there isn't any confidence.

"So these actions are meant to buttress that confidence and get us a bridge across the trouble."

Bank of Montreal chief economist Douglas Porter said the late Friday announcement "speaks to just how unusual these times are."

He noted the Bank of Canada's cut in its benchmark overnight rate is the second reduction in a little more than one week. The overnight rate sets the basis for the prime interest rates charged by Canadian banks.

Mr. Porter said he was a bit surprised by the timing of this second rate cut. He thought Canada's central bank might have waited until the next decision by the U.S. Federal Reserve.

"Obviously urgent times call for urgent measures," Mr. Porter said.

"We need to consider carefully the implications of much lower oil prices for the economy ...because the effects could across the entire economy," he said.

Mr. Rudin, the federal banking regulator, said the Office of the Superintendent of Financial Institutions would lower the required "domestic stability buffer" for "domestic

systematically-important banks.” This is an obligation to hold an additional amount of capital – a requirement “which is built up in good times and released when needed” Mr. Rudin said.

He said the buffer was last set at 2.25 per cent of banks’ risk-weighted assets and with this announcement is lowered to 1 per cent.

Mr. Rudin said this reduction will reinforce banks’ ability to supply credit to the economy during the disruption caused by COVID-19.

He said OSFI calculates this measure will support “in excess of \$300-billion of additional lending capacity by the major banks. “We are encouraging these institutions to use this capital ... as required.”