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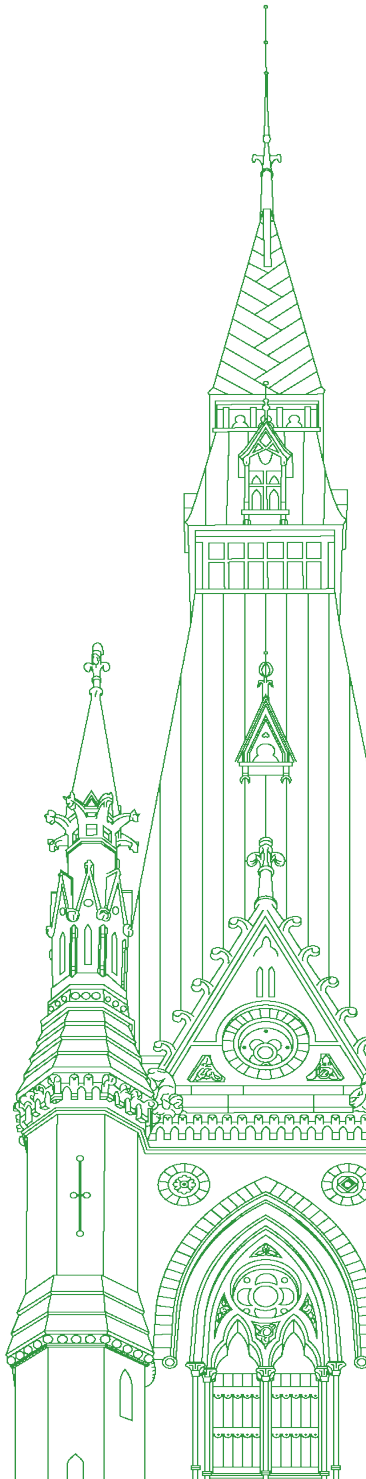
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● (1100)

[*English*]

The Chair (Hon. Karina Gould (Burlington, Lib.)): I call this meeting to order.

Good morning, colleagues. Welcome to meeting number 58 of the House of Commons Standing Committee on Finance.

Pursuant to Standing Order 108(2), the committee is meeting to study the Bank of Canada's report on monetary policy.

I would like to welcome our witnesses.

Joining us, we have the Governor of the Bank of Canada, Mr. Tiff Macklem, and the senior deputy governor, Ms. Carolyn Rogers.

Welcome to the committee. We're delighted to have you with us. You have five minutes for your opening remarks.

Tiff Macklem (Governor, Bank of Canada): Thank you and good morning. I'm very pleased to be here with the senior deputy governor to discuss our monetary policy decisions, as well as our outlook, as laid out in our “Monetary Policy Report”.

Last week, we raised the policy interest rate by 25 basis points, bringing it to 2.5%. This was our first interest rate increase since July 2023. We also published our outlook for the Canadian economy.

In raising the policy rate, we highlighted two important economic developments since our July report.

First, unfortunately, the outlook for inflation has deteriorated. With the war in the Middle East persisting, global oil prices have increased and are expected to remain higher for longer. This is hitting Canadians at the pump, and it is increasing costs for many businesses.

Second, the growth outlook for Canada has improved modestly, despite continued trade actions by the United States. Growth picked up through the middle of the year, while exports, business and government investment are expected to support a further recovery.

With the outlook for inflation substantially higher and the economy showing resilience, an increase in the policy rate was needed to reduce the risk that elevated energy prices could spill over and become generalized inflation. We are mindful that uncertainty is still elevated. Developments in the Middle East and in Canada-U.S. trade relations both remain fluid. There's also uncertainty about the impact of new U.S. tariffs and how much energy costs will seep into consumer prices more broadly.

Let me briefly expand on what we're seeing in the economy.

Growth picked up through the middle of the year. GDP growth was 3.3% in the second quarter, and recent indicators point to growth of about 2% in the third quarter. Consumer spending has been solid, and exports and business investment have rebounded. The unemployment rate has remained around 6.5% for several months, and a broad set of indicators continue to point to some excess supply in the economy.

[*Translation*]

Growth will likely slow in the fourth quarter as new U.S. tariffs weigh on activity. But growth should pick up again in 2027 as consumer spending continues, exports pick up and business investment strengthens, supported by fiscal measures. Following GDP growth of 1% in 2026, the economy is projected to grow by about 2% in 2027 and 2028.

Given persistently high oil prices and high refinery margins, CPI inflation has been around 3% since April and is expected to rise to about 3.5% by year end. Inflation is projected to remain at or above 3% through much of 2027 before returning close to the 2% target by the middle of 2028.

The prices of gasoline, diesel and heating oil are high and are expected to remain so for longer. This is directly hitting consumers and raising business costs for production and transportation. While businesses have mostly absorbed higher input costs so far, past experience and bank surveys suggest that cost pass-through will increase over the next year. The combination of higher energy prices and pass-through increases the persistence of inflation. In addition, with the economy expected to recover, there is less downward pressure on prices to offset these cost pressures.

● (1105)

[*English*]

With elevated inflation expected to last longer and the economy showing resilience, the governing council agreed that the risk to inflation has increased and there is less scope for monetary accommodation. Looking ahead, the governing council agreed that we will take future decisions one meeting at a time. There could be a need to raise the policy rate further, but given the uncertainties, we will proceed carefully.

The bank remains committed to maintaining Canadians' confidence in price stability through this period of global upheaval.

With that introduction, Chair, we look forward to the committee's questions.

The Chair: Thank you very much, Governor.

With that, we will begin this round with Mr. Chong.

Welcome to the finance committee.

Hon. Michael Chong (Wellington—Halton Hills North, CPC): Thank you, Madam Chair.

Thank you, Governor Macklem, for appearing in front of our committee.

Affordability remains an issue for many Canadians, particularly Canadians in the first three quintiles of income. Inflation, particularly, as you've pointed out, in the prices for gasoline, diesel and heating oil is a challenge for those households and is eroding affordability for those quintiles.

Now we see interest costs going up, both because of the longer end of the bond curve and because of the overnight hike. Interest expenses for lines of credit, credit cards and mortgages are now going up for those quintiles as well.

In your view, what would be more helpful and consistent with your actions of reining in inflation by tightening monetary policy? If governments want to assist households with the affordability crisis using additional measures, should those be further demand-side subsidies or supply-side reforms?

Tiff Macklem: I'm going to leave fiscal policy decisions to governments and elected parliamentarians. Our job is monetary policy.

I would agree with you that, yes, Canadians are facing higher energy prices every time they fill their cars. Winter is coming. They're buying heating oil in many parts of the country. Diesel costs are higher.

We can't open the Strait of Hormuz, and we can't lower global energy prices, but what we can do is reduce the pass-through of those higher energy prices to the prices of everything else, and that's why we raised interest rates. What we don't want to see is higher inflation persisting.

Hon. Michael Chong: Three years ago, you commented on fiscal policy. You said that the government's fiscal policy of the day was working at odds with the government's monetary policy. That's why I asked the question.

Do you believe that—

Tiff Macklem: I'm happy to clarify that.

What we normally do is take fiscal policy as given. We build government plans into our outlook, and that's what we've done, as we always do.

There are two situations where we will comment on fiscal policy. The first would be if fiscal policy had become unsustainable and it was spilling back into markets and affecting monetary policy. The second would be if fiscal and monetary policy were working at cross-purposes and fiscal policy was making it harder to get inflation back to the target.

In the current circumstances, I don't think either of those criteria are met.

Hon. Michael Chong: Thank you. I appreciate that answer.

I'd like to ask about productivity and the emergency.

Senior Deputy Governor, just over two years ago, you said that there was an emergency in Canada, that it was “time to break the glass”, and that one of the root causes of that emergency was flatlining productivity growth.

In your view, since then, has productivity growth materially or substantially improved?

Carolyn Rogers (Senior Deputy Governor, Bank of Canada): Substantially, no, but are we starting to turn the corner? We do see some promising indications.

What I did in that speech was talk about some of the sources of that weak productivity. Investment was a key risk to our productivity growth, and we are starting to see that rebound. That's a promising early indicator that we hope to see—

● (1110)

Hon. Michael Chong: If we look at chart 15 in your most recent monetary report, business investment levels have continued to decline over the last year and a half. There's an uptick just in the last bit of that chart, but it's still substantially lower than it was 18 months ago. I don't know how we can conclude that, up to this present point in time, business capital formation has substantially improved in Canada.

Carolyn Rogers: I don't think that's what we said.

The drop that we've seen in the last 18 months...you would not be surprised to see something like that, given the big hit to uncertainty—

Hon. Michael Chong: Yes, so it's safe to say, up to this point, overall business capital formation on the data has yet to materially improve.

Carolyn Rogers: That's fair.

Hon. Michael Chong: Okay.

Do you believe that we still have an emergency with respect to productivity in Canada, seeing that—

Carolyn Rogers: We'd still really like to see productivity improve. Productivity is the way to improve wages. It's a way to improve everybody's standard of living. It's a way to improve the ability of the economy to absorb supply shocks and fend off inflation. Absolutely, we'd like to see it improve.

Hon. Michael Chong: Do you have any categorization of our current productivity relative to your statement of two and a half years ago?

Carolyn Rogers: There's still room to improve.

Hon. Michael Chong: I have one final quick question.

A December 2024 study from the Bank of Canada posted on your website regarding the upper decile of income earners in Canada noted:

> [T]he striking pattern of implied net out-migration for Canadians in the top 2–10 percentiles is similar to that in the top 1 percent, though the relative magnitudes are smaller. Implied net migration suggests that roughly one-third to one-half of these earners resided in the United States between 1960–1970, while just over 20 percent chose to do so by the early 2000s. Since then, this fraction is predicted to have risen to 30–50 percent.

I find it incredible that the bank estimates that 30% to 50% of Canadians in the top decile now reside in the United States. It seems to me that we have a return of the brain drain that we saw in the mid-1990s. I wonder if you could speak to this.

The Chair: You'll have to do it in another response.

Tiff Macklem: I think we'd have to go back and look at that study—

The Chair: Sorry, Mr. Governor, but that concludes Mr. Chong's time.

We'll continue now with Mr. Leitão for six minutes.

[*Translation*]

Carlos Leitão (Marc-Aurèle-Fortin, Lib.): Thank you, Madam Chair.

Good afternoon, Governor and Senior Deputy Governor. Thank you for coming back to our committee.

I'd like to talk about monetary policy; you recently published your report on the subject. What I would like to discuss with you is obviously inflation. If I understood correctly, you've identified the main source of inflation today, and noted that we're above the preferred target and that we're probably even going to reach a 3.5% rate. The main cause or factor behind that is the price of energy. If you exclude energy, the rest of the CPI is doing pretty well so far.

Those are two different things.

[*English*]

Perhaps you could speak on those two issues. I will stop talking; otherwise you will not have time to address that.

One is the source of inflation that we are witnessing now, and the second is the nature of the increase in interest rates that we saw with the 25 basis points. You and many other commentators have mentioned that it's a risk management type of decision.

Perhaps you could elaborate on those two issues.

Tiff Macklem: Certainly.

As you indicated, the principal cause for higher inflation is higher global energy prices, and there are two things that are compounding it.

The first is that the global price of oil is considerably higher. Back in July, the last time we did our forecast, it was about $80. I looked at the screen before I came down, and Brent was about $105, so it's considerably higher.

The other factor is there has been ongoing damage to global refining capacity, so the margins on refined products, which are the things people actually buy—gasoline, heating oil, diesel—are unusually large. That is further boosting the prices of energy products that people and businesses actually buy.

Together, those have pushed inflation up. It's been around 3% now for a number of months. If prices stay around where they are, we expect it to rise to around 3.5% by the end of the year.

The other reality is there's no real resolution in sight to the conflict in the Middle East. You saw new strikes overnight. We'd certainly all welcome a rapid improvement, but certainly the market's expectations are that it's going to take some time. Against that background, that pushes our inflation forecast up for longer.

The other part of it, though, is that we're now in month eight of the war with no resolution in sight. Businesses have been paying these higher energy costs now for eight months, and so far they've absorbed those. That's why the CPIX, which doesn't include gasoline, is up 2.2% and our measures of core are very close to two, but you can see the buildup of costs in the data.

If you look at the usual lags, after about seven or eight months, they can only absorb it for so long, and they start to pass it on. Indeed, when we go and talk to businesses and we ask them, they say, "Yes, over the next year, we do expect to pass through more," so that further pushes out the forecast for inflation.

If you put those things together against a background of an economy that is showing impressive resilience, there's less room for monetary accommodation. What I would stress here is that at 2.5%, our policy rate is still not restraining growth. We've been supporting growth, but the economy doesn't need quite as much support. It's doing better, and the risks that inflation stays too high for too long have gone up.

● (1115)

Carlos Leitão: The other thing that I think is very important in the context of the public discourse is this difference between inflation—the rise in prices—and the price level here and elsewhere. We see in France there are people in the streets. What worries people the most these days is the price level. Prices are high. Although inflation is probably coming under some form of control, the price level is high.

Is there something that monetary policy can do? I suspect not for the price level. What monetary policy can address is the rate of increase in prices, but perhaps we can, in the few seconds that we have left, talk about that.

The Chair: You have about 30 seconds.

Tiff Macklem: It's a really important question.

I fully agree. People go shopping, and they pay prices. They're focused on what things are costing them, and that's prices. Inflation gets the rate of change in prices down. We had very high inflation in 2023. We did get inflation back down to 2%, but prices stayed high.

We'll have to come back, I think, on what we can or cannot do about that.

Carlos Leitão: I'll have another chance.

The Chair: Okay.

[*Translation*]

Thank you, Mr. Leitão.

Mr. Garon, you have the floor for six minutes.

Jean-Denis Garon (Mirabel, BQ): Thank you, Madam Chair.

Governor and Senior Deputy Governor, thank you for joining us.

I'm going to pick up on the same topic as my colleague Mr. Leitão's first question. Obviously, the Canadian economy, like most other economies, is affected by the increase in oil prices, which leads to an increase in the price of fuel. Of course, there is also the issue of refining margins, which are very high in Canada. There seems to be a kind of bottleneck in the refining margin. There is obviously the issue of supply, but that is not within the purview of the Bank of Canada. The government decided to reduce the excise tax on gasoline and diesel. In her latest analysis, the Parliamentary Budget Officer estimated this would impact demand. Therefore, this measure could lead to an increase in consumption for a number of households.

You'll say this is a temporary measure, but let's assume it becomes permanent; that's often what happens with temporary measures. Have you assessed the inflationary pressures this could cause in the medium term?

Tiff Macklem: As always, we assessed the government's policies, including the elimination of the excise tax. It brings inflation down by 0.2% to 3.1%. If the government had not eliminated that tax, inflation would be 3.3%. It's certainly a temporary measure. The Financial Management Institute of Canada and most economists believe the situation is probably temporary and the measure should be temporary as well. I think having a temporary measure is—

● (1120)

Jean-Denis Garon: I understand that for your calculations, you consider it a temporary measure. Obviously, we hope it is.

You talked about productivity. We know there is a problem there. We also know our main competitor and partner, last I heard, is south of the border. Productivity has been stalling for many years, and yet, Canada is being hyped as one of the OECD countries with the highest number of university graduates, for example. I'd like to know what we're doing wrong in terms of workforce training for that to have such a low impact on the gross domestic product.

My underlying question is this: Are we in a potential gross domestic product crisis? I fear we are and that it could eventually limit the Bank of Canada's ability to adjust its monetary policy. That would quickly lead to inflationary issues, which could obviously be detrimental to households.

Are we in a potential gross domestic product crisis and must it be resolved quickly?

Tiff Macklem: I completely agree that a higher productivity growth rate would increase potential and allow the economy to grow without creating inflationary pressure.

Jean-Denis Garon: I'll be more specific: Does the economy's weak potential considerably complicate your work?

Tiff Macklem: We have a forecast for GDP, which is growing at about 1.5%. That reflects a population growth of about 0.5%. The rest is increasing productivity.

As the senior deputy governor mentioned, we think productivity will increase. We started seeing more investments in the middle of the year, which clearly reflects the investments being made in AI. More and more computers and all kinds of AI-related equipment is being imported in Canada.

Unlike the Americans, Canada doesn't have any major AI companies. However, the beauty is that productivity will increase when every business uses AI. Considering there is more investment in AI, we increased the productivity growth rate somewhat in our forecast.

If you look at economists' estimates around the world on AI, there's a pretty wide target range—

Jean-Denis Garon: I understand, I have read the report. I have very little time left.

I understand you are less pessimistic than I am, and I respect that. I have a quick question for you.

We've seen significant increases in interest rates on longer-term bonds. Obviously, the Bank of Canada does not play a direct role in setting those rates, but central banks usually have certain tools they can use. I'm talking about forward guidance, for example, sending signals to markets.

How do you see your role right now, given what's happening in the longer-term bond market?

Tiff Macklem: Around the world, interest rates on bonds are on the rise. They have shrunk a bit in recent weeks, but overall, they have been on the rise since July. It reflects a number of things. In fact, there is a whole section of the report on that. It is something we take into account when we make our decisions.

This increase follows the increase in the inflation rate around the world. The market is anticipating that central banks will need to raise their interest rates, so it's not something permanent.

Rates will come down. There is probably an ongoing aspect. We take that into account.

The Chair: Thank you, Mr. Macklem. That concludes Mr. Garon's speaking time.

● (1125)

[*English*]

The Chair: Mr. Macklem, the time is up. Thank you.

We're going to continue now with Mr. Guglielmin for five minutes, please.

Michael Guglielmin (Vaughan—Woodbridge, CPC): Thank you, Chair.

First, I'd like to take the opportunity to welcome to committee the Governor of the Bank of Canada and the senior deputy.

Governor, sir, I'm going to begin with you and pick up where my colleague left off when he was talking about top-tier income earners and productivity workers that are tending to leave Canada.

A staff report said that about 40% of Canadians with the potential to be in the top 1% of income earners are choosing to reside outside of Canada. It's also noted in this report that Canadian-born people who reside in the United States tend to be higher-educated people.

I know that in the 1970s and the mid-1990s, we had a similar problem. People referred to it as the brain drain. That flattened off, but it seems to have accelerated more recently. What do you think is the cause of this, in your opinion?

Tiff Macklem: I have not seen a lot of evidence that the brain drain is accelerating.

We've had a long tradition in this country.... Yes, we do lose some people to other countries, often to the United States. We also benefit tremendously from many people coming to Canada from other countries. On net, we've been a big benefiter from net immigration. I haven't seen a lot of studies suggesting that the brain drain is really accelerating.

Michael Guglielmin: I'm sorry to interrupt you.

Just to interject for a second and read from this report, it says:

> Implied net migration suggests that roughly one-third to one-half of these earners resided in the United States between 1960–1970, while just over 20 percent chose to do so by the early 2000s. Since then, this fraction is predicted to have risen to 30–50 percent.

That's the context in which I'm asking the question.

We're seeing a bit of a trend where this is true more often than not or maybe 50% of the time, according to this report. People are tending to want to seek employment opportunities elsewhere, I guess. Is there any economic circumstance that you can speak to? What's your opinion as to why that might be happening?

Tiff Macklem: I'd have to look at this evidence. As I said, that may be if you look at this over broad decades, but I haven't seen a lot of Canadians moving to the United States. In fact, I've seen some coming back to Canada.

Michael Guglielmin: Okay.

I will ask you a different question, then. If we have a situation in which more of our skilled workers are leaving, what do you think the opportunity loss might be for people who choose to stay here, in this country?

Tiff Macklem: You're getting a bit into a hypothetical. Obviously, if a country is losing its talent, that's a challenge. As I said, over history, Canada has been a big net benefiter from migration.

Michael Guglielmin: Okay.

Your latest business outlook survey from about two weeks ago found that business is reducing investment in Canada and shifting it abroad, particularly in the steel and automotive sectors.

I ask this question because it's an industry that I come from and am quite familiar with: How widespread is that concern?

Tiff Macklem: Look, businesses are adapting to U.S. tariffs.

The industries you just mentioned have been hit by punitive U.S. tariffs, and they're using a variety of strategies to adjust to those. There's no question that, if you look at the Canadian economy, employment is down in the sectors that have been hit by U.S. tariffs. That's why the economy didn't grow much between the first quarter of 2025 and the first quarter of 2026, or thereabouts.

What we are seeing is that companies are starting to adapt to U.S. tariffs. They're starting to manage the uncertainty. They're finding some new markets outside of the United States. They're finding ways to work with their U.S. clients to manage uncertainty—

Michael Guglielmin: I have one last quick question.

Tiff Macklem: —but it's certainly not perfect.

Michael Guglielmin: I'm almost out of time.

Are you at all concerned that some of the temporary trade pressure we're seeing could result in permanent loss of Canadian manufacturing capacity?

Tiff Macklem: I am certainly very concerned about the Canada-U.S. trade relationship. It has been a trade relationship that has benefited both countries a great deal. To me, it makes absolutely no sense for this to have gone in reverse. I am optimistic that, because it's in both countries' best interest, we'll get back to a better place. However, I'm not involved in the trade negotiations, and I can't predict when that's going to happen.

● (1130)

The Chair: Thank you, Mr. Macklem. Thank you, Mr. Guglielmin.

We will continue now with Mr. Sawatzky for five minutes.

Jake Sawatzky (New Westminster—Burnaby—Maillardville, Lib.): Thank you, Chair.

Thank you, Governor Macklem and Senior Deputy Governor Rogers, for joining us today.

The report's outlook assumes that shipping through the Strait of Hormuz will gradually return to normal. However, the situation remains highly uncertain. Just yesterday, the United States carried out strikes against Iran's Qeshm Island, near the Strait of Hormuz. At this stage, it's difficult to know whether the conflict will escalate further or begin to de-escalate, or whether negotiations will resume and lead to a successful resolution. If this uncertainty and volatility continue over the medium term, what are the main downside risks to the global economy, and how could prolonged disruptions to energy supplies and higher oil prices affect global growth and the outlook for interest rates?

Tiff Macklem: Actually, thus far the global economy has been impressively resilient to higher oil prices. I think the main reason for this is that the AI boom has been, to some extent, compensating for higher oil prices weighing on global growth.

I think that, certainly, the longer this goes on, the risks do increase. You can release strategic reserves only so many times. The reserves are down. For Europe, which is much closer to the conflict, it is much more affected by energy, particularly natural gas prices. Obviously, winter is coming. It's going to get colder. If there's a cold winter—we know that natural gas inventories are lower than normal coming into the winter—there are some risks, certainly.

I will say that Canada is fortunate. First of all, we're geographically a lot farther from the conflict, and we are a net exporter of oil. Certainly, while higher oil prices are tough on households and many businesses, for Canada as a country, there is more revenue coming into the country for every barrel of oil we export. That, actually, is one factor, as you can see, that has supported the recovery in exports and that is supporting more investment in the energy sector. Canada is relatively well positioned compared to many other countries.

Jake Sawatzky: Thank you, Governor.

Canada has one of the lowest deficit-to-GDP ratios in the G7, alongside the lowest net-to-debt GDP ratio, giving us a strong fiscal position as we navigate this global economic uncertainty. At the same time, inflationary pressures stemming from the ongoing conflict in the Middle East are affecting economies around the world.

Could you explain how Canada's economic situation compares with that of the United States, Europe and the rest of the world? To what extent are these interest rate decisions part of a broader international response to energy-driven inflation?

Tiff Macklem: That's a big question.

Maybe I'll compare us mostly to the United States, since we tend to compare ourselves mostly to the United States. I mean, look, the U.S. economy is the centre of the global AI boom. Its economy has been boosted much more by AI. In Canada, as I mentioned, we don't have big AI companies in the way that the United States does. Really, the benefit for Canada from AI is going to be more in the adoption of AI by many companies, and we are starting to see some increase in investment there.

Inflation is also much higher in the United States. In Canada, we got inflation all the way back down to our 2% target. It was there for about a year and a half until the war in the Middle East hit. In the United States, they never quite got all the way back. Inflation everywhere has gone up, but it started from a higher base in the United States.

To give you a number, CPI inflation in the United States is 3.7%. It's 3.1% here in Canada. If you put those two things together, not surprisingly, interest rates in the United States are quite a bit higher than they are in Canada. That's true at the policy rates—the U.S. policy rate, I think, is 3.75% to 4% and, obviously, we're at 2.5%—but it's true, right at the yield curve. Depending on where you are on the yield curve, rates in the United States are 120 to 140 basis points higher than in Canada. That reflects different situations in our economy. We have a flexible exchange rate in this country, and that allows the Bank of Canada to run a monetary policy that's geared to the needs of Canada, and Canada needs a lower interest rate than the United States.

● (1135)

Jake Sawatzky: Thank you.

Chair, how much time do I have?

The Chair: You have 15 seconds.

Jake Sawatzky: Deputy Governor Rogers, have you seen an increase in AI-driven attacks on financial infrastructure?

Carolyn Rogers: Yes, but so far those attacks have been fended off. We have good protections in place.

The Chair: Thank you, Deputy Governor.

Thank you, Governor.

Thank you, Mr. Sawatzky.

[*Translation*]

Mr. Garon, you have the floor for two and a half minutes.

Jean-Denis Garon: Thank you, Madam Chair.

Governor, in the House of Commons, this government talks a lot about inflationary spending. You're not going to comment on that, but I'm sure you all follow our debates. You have lots of time for that.

Obviously, growth is weak at the moment and the unemployment rate is above the natural rate. That said, we are facing a supply shock, which means inflation is following the rise in the price of fuel. Technically, I don't think we're in a situation of inflationary spending in the short term. However, there are a lot of concerns about long-term debt servicing. There are significant deficits and the debt-to-GDP ratio could increase. We will see what happens when the budget is tabled. I'm not asking you to comment on it, but we're all looking forward to reading that budget on Thursday.

Sooner or later, when things get back to normal, that debt will still be there and debt servicing will still be there. That could put pressure on public spending at a time when things will be back closer to potential. Should we be concerned that today's public spending might ultimately make monetary policy more complicated for Canada through debt servicing, which will be persistent over time?

Tiff Macklem: We will see what's in the budget soon. I think it's important to look at what the spending is on. If these are transfers, it is mainly because they increase demand. There's a lack of demand, so it's not a big deal. However, when we are closer to potential, if demand is still increasing, then yes, it can create problems.

That said, a large part of government spending in the current plan is investment. Because it manages to increase productivity, including the potential growth rate, the economy can grow faster without inflationary pressures.

Jean-Denis Garon: Does that mean we shouldn't worry about accumulated deficits?

Tiff Macklem: What I'm saying is you should look at certain things. It's really up to you to do that. I think there are two things to look at: the amount and what it is used for. It's not just about the amount. We have to ask ourselves whether this spending only increases demand in the short term or whether it will increase supply in the future. We have to look at both of those things.

The Chair: Thank you, Mr. Macklem.

That concludes the member's speaking time.

[*English*]

We'll continue with Mr. McLean for five minutes.

Greg McLean (Calgary Centre, CPC): Welcome, Governor and Deputy Governor. Thanks for joining us today.

I'm going to refer to the PBO's report and ask how it meshes with some of your forecasts going forward.

To begin with, we have five-year cumulative deficits amounting to an additional $333 billion in the government's forecast, and yet the borrowing is going up $732 billion, according to the Parliamentary Budget Officer, for a total of $2.7 trillion in 2030, up from $2 trillion or so today. That's a significant increase in how much Canada is going to have to pay.

As much as the government would like to say that its debt is manageable at this point in time, and it has reclassified some spending as investment, we are still paying interest on $2 trillion, going up to $2.7 trillion. They estimate that the cost we're going to have to pay for that is going from $59 billion this year up to $83 billion in interest payments alone in 2030.

I would like you to comment on how it's affecting the economy, as 13.7% of government revenues will go towards paying interest. What's the impact that's going to have on our economy going forward?

Tiff Macklem: Well, the reason that you have the PBO is precisely to do these kinds of forecasts. We don't forecast the same things that they're forecasting.

What I can tell you about is what we have built into our projection that we published last week. We've taken government spending plans as they've announced. Obviously, there's going to be a budget on Thursday, and when we get that, we will update it. I think the broad thrust of the government's direction has been pretty clear.

As I mentioned, a good part of that spending is increased infrastructure spending coming through the Major Projects Office. There's also fiscal spending in the form of incentives to increase private investment. Together, those do contribute to a stronger investment profile in our projection. It's not the only factor. Higher energy prices are also supporting more investment, in particular, obviously, in the energy sector. Those government policies are having an impact on the outlook. You can see it in the—

● (1140)

Greg McLean: Thank you, sir.

One of your predecessors, David Dodge, developed a rule, post his role as the governor, that, once the government is beyond 10% of its revenues being spent in interest, it is a fiscal anchor that should not be broken. Now, that's his opinion as a former Bank of Canada governor.

Going from over 10% now—10.6%—to over 13% in four years indicates a bit of a runaway. If you were in financial markets and you're looking at a company that had this amount of debt interest payable, you'd be looking at the price of those bonds. You'd also be looking at getting rid of the equity in that company. Can you comment on that, as far as what it means as far as Canada's sustainability is concerned, that it isn't just spending from taxpayer dollars?

Tiff Macklem: I'm not going to comment on fiscal rules. Those really are the responsibility of parliamentarians. Maybe I could comment, though, on how Canada's fiscal position is seen in global markets.

As others have mentioned, we've seen a backup of global yields recently. If you look at Canada, though, the long rates in Canada are substantially below those of most major countries, certainly well below those of the United States—about 120 basis points of the 10 years. They've also gone up less than those of other countries.

At the Bank of Canada, we use various models to try to separate out why long bonds have gone up. To the extent that they've gone up because inflation is higher and markets think central banks are going to do what's needed to control inflation, that's actually a good thing, and they'll come back down. To the extent, though, that there are fiscal concerns, it shows up in the term premium. The term premium in Canada has gone up quite a bit less than for other countries. Markets are looking around the world and, certainly, the message from markets is that they're still quite happy to buy Canadian dollar debt.

Greg McLean: Thank you.

I have one last question. You talk about the sustainability of—

The Chair: Mr. McLean, you've concluded your time, but thank you. I think you're coming back up, so you can ask another question then.

We have Mr. MacDonald for five minutes.

Kent MacDonald (Cardigan, Lib.): Thank you, Chair.

Thank you to the governor and the deputy governor for appearing here today.

Governor, I'm going to delve into your decision to raise the interest rate last week.

I come from a region where the primary industries are the economic driver, farming, fishing and value-added industries in processing. It's been a challenge, because input costs are hitting those industries directly. Diesel, fertilizer and those type of things have already slowed investment decisions.

Your policy of raising the rate seems to be diverging from our policy as a government of creating incentive. Obviously, they have to invest and take advantage of the mega deduction. Operations like farms that want to expand have to build in the costs of interest, which are capital intensive, so it is higher for their sector than for the service industries that they might be comparing to.

I know your policy can't do everything for everybody, but can you explain to those small business owners why the decision was made and why it was important to make it? I'm having a hard time explaining that to them.

● (1145)

Tiff Macklem: We will certainly do our best.

Farming and fishing are good examples where those energy costs are hitting hard. Tractors and fishing boats all run on diesel. Fertilizer is, in many cases, a petrochemical, so some global fertilizer costs are up. Obviously, we can't fix that.

Food is a good example, where you have the farmers, and then it goes in a truck, gets processed and eventually becomes food in a grocery store. There's a lot of value-added that has to happen between the farm and the grocery store. Through that process, those cost increases get passed on and then eventually they end up in the prices that everybody's paying at the grocery store.

We can't lower global energy prices, but what we can do is reduce the amount of accommodation we're providing to slow and reduce that pass-through of those higher energy prices to the prices that people are paying in the grocery store. Food price inflation has actually come down. The latest number was 1.7%. Unfortunately, we think it is probably going to go back up because those costs are going to get passed through.

By raising interest rates, what it does in the economy is it keeps people's expectations of inflation tempered. It makes companies think twice about passing everything through so that it's going to help keep inflation under control and ultimately get inflation back down to target.

We totally understand that there is no immediate benefit of raising interest rates, but that's the tool we have to moderate this pass-through of costs to get inflation back to target. If we don't do it, what it means for consumers is that the prices of everything will be going up, not just gasoline. That's exactly what we want to avoid.

Kent MacDonald: Go ahead.

Carolyn Rogers: The other thing we would want your constituents to know, your farmers and fishermen, is that a lower interest rate might help on balance with the incentive investing, but not if it comes with increasing inflation. If we kept interest rates low and the trade-off was that inflation got away on us, then I don't think that's an environment where they would feel comfortable investing either.

That's the other thing we're trying to prevent, an environment where they're no longer feeling comfortable to invest.

Kent MacDonald: My counter-argument on that is that the bond markets are already setting the rate of interest at banks. They seem to pre-price that into any negotiation you do with our central bank system. What's the link there? If those banks are anticipating a rate hike, they're building it into their costing.

Is your Bank of Canada rate as relevant as it was two decades ago?

The Chair: Give a very brief response, please.

Tiff Macklem: Very quickly, the markets are anticipating that central banks will raise rates to control inflation. That's a measure of our credibility. Obviously, if we don't do it, markets will be surprised. Long rates would probably go up even more because markets would then be concerned that we're not going to control inflation. They'd want to be compensated for that.

The Chair: Thank you, Mr. Macklem. We're going to have to end it there.

Thank you, Mr. MacDonald.

Ms. Jansen, you have five minutes.

Tamara Jansen (Cloverdale—Langley City, CPC): Governor, in 2024, your colleague Ms. Rogers called Canada's productivity problem “an emergency”. Two and a half years later, the PBO is forecasting just 0.9% growth this year, and your number is not much higher.

Would you agree that Canada's productivity issues are still with us, yes or no?

Tiff Macklem: Yes.

Tamara Jansen: When government spending grows faster than what Canadian businesses can produce, that puts forward pressure on prices.

Is this right?

Tiff Macklem: If that's what they do....

Tamara Jansen: According to your report, you've just raised interest rates because you're concerned that higher energy costs will spread throughout the economy.

Is that correct?

Tiff Macklem: Yes.

Tamara Jansen: Higher interest rates also make it more expensive for businesses to borrow, build and expand production, as my colleague mentioned.

Would you agree with that?

Tiff Macklem: Why don't you just get all your questions out?

Tamara Jansen: I'm just asking whether you agree with that.

● (1150)

Tiff Macklem: Yes. However, you can't look at each thing in isolation. Our decisions reflect everything together.

Tamara Jansen: Yes, I understand that, but you've identified energy costs as the main concern behind this increase.

Would reducing those costs lower the inflation forecast, all else being equal?

Tiff Macklem: Lower global oil prices would certainly reduce inflation and reduce the upward pressure on inflation, yes.

Tamara Jansen: Governor, the concern is over higher fuel costs spreading into the price of groceries, transportation and other goods.

If those fuel costs were reduced by, say, 10¢ per litre here in Canada, would that ease some of the inflationary pressure?

Tiff Macklem: If oil prices are lower, there will be less inflationary pressure.

Tamara Jansen: Has your bank calculated how much a sustained reduction in fuel prices would lower inflation by?

Tiff Macklem: We have alternative scenarios, different scenarios for oil prices. Yes, if oil prices come down faster than we've built in, inflation will also come down faster.

Tamara Jansen: Could you provide the committee with that analysis?

Tiff Macklem: We've already provided it. It's all out there.

Tamara Jansen: That's excellent.

Is this in your energy shock model? Did it talk about whether you could lower it by 10¢?

Tiff Macklem: We've done different scenarios for different oil prices. We've published various forecasts over time. The war in Iran started eight months ago.

If you look at our forecast of last July, we had a price of $80, and inflation was a lot lower.

Tamara Jansen: Governor, in 2023, you said that fiscal and monetary policy should be “rowing in the same direction”.

Is that still your opinion?

Tiff Macklem: Yes.

Tamara Jansen: Years ago, Paul Martin, as the Liberal finance minister, established fiscal targets and then met them.

Would you agree that meeting credible fiscal targets is important for maintaining investor confidence?

Tiff Macklem: I'm going to leave fiscal policy to elected governments.

Tamara Jansen: I'm just asking whether or not you think that will make a difference. You must use this in your analysis—whether or not there's confidence.

Tiff Macklem: We use the government's fiscal plans in our analysis. It's not our role to provide fiscal guardrails.

Tamara Jansen: I'm not asking you to—

Tiff Macklem: We provide inflation guardrails. We're here to control inflation. That's what we're doing.

Tamara Jansen: Absolutely. I'm not asking you that. I'm just asking whether hitting fiscal targets is an issue for maintaining investor confidence.

Tiff Macklem: I'm going to stick to monetary policy.

Tamara Jansen: You don't look at that in your analysis.

Carolyn Rogers: We put actual government spending in our model. We don't put targets in our model.

Tamara Jansen: When governments repeatedly miss their targets, it can put investor confidence and borrowing costs at risk.

Is that correct?

Tiff Macklem: If governments don't follow through on their plans, whatever they are, it's not going to be good for their credibility.

As I replied to previous questions, if you look at the market's assessment of Canada's fiscal credibility, it looks pretty good.

Tamara Jansen: Governor, do you have to incorporate federal spending into your inflation forecasts?

Tiff Macklem: Yes.

Tamara Jansen: Does your latest forecast show federal spending adding to inflationary pressure?

Tiff Macklem: No, not really.

Tamara Jansen: That's interesting.

Do you have documents showing what your analysis was in regard to—

Tiff Macklem: Here it is.

Tamara Jansen: Would you say which page it is?

Carolyn Rogers: You can have this copy.

Tiff Macklem: What exactly is your question? I can tell you the page.

Tamara Jansen: The federal spending forecast—

Tiff Macklem: That's table 2, page 40.

Tamara Jansen: Are you suggesting that there's no inflationary pressure based on the current federal spending?

Tiff Macklem: Let me say a couple of things.

The economy is currently in a situation of excess supply. Growth has been affected by—

Tamara Jansen: I believe my time is up, unfortunately.

Tiff Macklem: Okay.

Tamara Jansen: That is a shame, but thank you for that.

The Chair: Ms. Jansen, if you'd like to take the chair position....

[*Translation*]

Mr. Lavoie, you have the floor for five minutes.

Steeve Lavoie (Beauport—Limoilou, Lib.): Thank you, Madam Chair.

Governor and Senior Deputy Governor, thank you for being here with us. It's a real pleasure to see you again.

I read the monetary policy report and would like to go over a few points that really stood out to me. We know that the new U.S. tariffs are slowing export activity in some sectors and discouraging investment and hiring decisions.

I recently met with entrepreneurs in Quebec City whom I worked closely with in the past. It will come as no surprise to you that they're concerned about everything that's going on. Uncertainty is probably investment's worst enemy. When investment doesn't happen, the consequences are long-lasting. The effects are exponential: Modernization is delayed, business competitiveness and growth are held back, and confidence is undermined. At one point in the report, you discuss these issues, and I'd like to hear your thoughts on them here today.

Despite the fact that some businesses are discouraged at the prospect of investing, you nevertheless state the following on page 23: “Rising business investment—bolstered by federal tax incentives such as the Productivity Mega Deduction—and increased adoption of artificial intelligence (AI) support production and labour productivity”. If the productivity mega deduction is included in the report, it's because it's expected to have a significant impact. Could you speak to the importance of that measure and its effect in encouraging productive investment in Canada?

● (1155)

Tiff Macklem: First, you're right: Uncertainty is not good for investment. One of the consequences of the U.S. tariff threats is that uncertainty has risen sharply and investment has declined. What we've seen in recent quarters and months is that businesses are starting to navigate that uncertainty more effectively and adapt to it. Of course, it would be much better if there were less uncertainty. Business owners tell us that, despite the uncertainty, they still have decisions to make and want to move their companies forward. It's difficult, but they still need to invest and hire. As a result, we're seeing a little more activity.

You're also right to point out that Quebec has been heavily affected by U.S. tariffs. In fact, it's one of the provinces that have been hit hardest. That said, even in Quebec, businesses are finding new markets. In the aluminum sector, for example, producers are developing new markets in Europe. Ultimately, the Americans still need our aluminum and they're paying the tariffs. So we're seeing a degree of adjustment.

Looking ahead, we've incorporated the productivity mega deduction into our projections and we assume that it will encourage investment. We've made what we believe is a reasonable estimate, although the impact could be even greater. The effect could exceed what we've currently projected. Much will depend on the level of uncertainty. If Canada and the United States reach an agreement on trade, the impact will likely be greater because there would be less uncertainty.

Steeve Lavoie: You spoke about uncertainty and noted that people have nevertheless found ways to navigate it. There's a saying: Don't wait for the rain to stop. Learn how to dance in the rain. I think that's what you're getting at. Our businesses are learning how to dance in the rain.

On the next page, you discuss the productivity mega deduction and state: “How strongly and how quickly businesses will respond to the new incentive remains uncertain.” In your opinion, what would the best-case and worst-case scenario be for the uptake of this new incentive?

Tiff Macklem: Businesses will invest if they believe those investments will be profitable. Therefore, less uncertainty, greater confidence in the economic outlook and a stronger belief that demand will be there are all factors that would increase the impact of the productivity mega deduction.

That said, there remains some uncertainty around all of those factors. We've incorporated an estimate of the measure's impact into our projections, but it's not a huge impact. We'd certainly welcome even more investment in this country, because that would help raise productivity.

Steeve Lavoie: Okay.

Thank you.

The Chair: Thank you, Mr. Lavoie.

Mr. Thériault, you have two and a half minutes.

Luc Thériault (Montcalm, BQ): Thank you, Madam Chair.

Senior Deputy Governor and Governor, I'm pleased to have the opportunity to speak with you today as a substitute for my very distinguished colleague, Mr. Garon.

Both in its previous monetary policy report and in the one before us today, the Bank of Canada noted that there is continued slack in the labour market.

Is that slack concentrated in the same sectors in October 2026 as it was in July? If so, should workers in those sectors be retrained and redirected elsewhere, or do you expect that employment growth will rebound in those sectors experiencing continued slack?

● (1200)

Tiff Macklem: If I understand the question correctly, I would make the following point. Chart 4 shows employment trends across various sectors. In the sectors most directly affected by U.S. tariffs, employment declined significantly during the first half of 2025, when those tariffs were introduced. Since then, employment levels have stabilized. They remain low. They haven't continued to fall, but they haven't rebounded either.

In the rest of the economy, however, we're seeing moderate employment growth. More recently, employment in government and administrative services has been declining, while private sector employment continues to increase. Those developments must be considered together.

On the previous page, chart 3 presents a number of labour market indicators. It shows that there's still some slack in the labour market, with the unemployment rate at approximately 6.5%. So, yes, there's still some slack.

The Chair: Thank you, Mr. Macklem.

Thank you, Mr. Thériault.

Mr. Lefebvre, you have the floor for five minutes.

Eric Lefebvre (Richmond—Arthabaska—des-Sources, CPC): Thank you, Madam Chair.

Governor and Senior Deputy Governor, thank you for appearing today.

I'd like to acknowledge Mr. Lavoie's poetic side. He spoke about dancing in the rain. Given the weather we're expecting in Ottawa this week, he'll no doubt be pleased.

Governor, according to the official figures, the federal deficit stood at $36.3 billion in 2024-25. In her October 2026 report, the Parliamentary Budget Officer projects that it will reach $70.2 billion in 2027-28, nearly double that amount. At the same time, she forecasts economic growth of 0.9% in 2026 and 1.5% in 2027.

My question is this: When a government significantly increases its deficits in a low-growth environment without a corresponding increase in productive capacity, what risks does that pose for inflation, interest rates and private sector investment?

Tiff Macklem: As I mentioned, we've incorporated the government's plans into our projection. So the question is: What do the government's plans and developments in the Middle East imply for inflation? What's the combined effect of all those factors? When we incorporate them into the outlook, they produce a forecast for inflation and GDP.

As I mentioned earlier, the government's plans don't have a significant impact on inflation. The economy still has excess supply; we aren't dealing with excess demand.

The government's plans reduce operating expenditures and increase investment. In the short term, investment has an effect on demand, but over the longer term, if those investments are effective, they will increase the economy's productive capacity. In other words, they create more room for the economy to grow without generating inflationary pressures.

I've emphasized that it will be very important for those plans to be implemented effectively and to genuinely increase supply capacity.

Eric Lefebvre: You do have concerns about the implementation and effectiveness of those plans, don't you?

Tiff Macklem: I do.

Eric Lefebvre: Senior Deputy Governor, we've been talking about challenges related to productivity.

In your opinion, why do we need to improve productivity, and what impact would that have on the government's financial situation?

● (1205)

[*English*]

Carolyn Rogers: Would you mind if I answered you in English, so I can be a bit more precise?

Eric Lefebvre: Yes, no problem.

Carolyn Rogers: The speech that one of your colleagues mentioned earlier laid out the answer to your question in general. If you look at the situation that our economy is in right now, we're experiencing a supply shock. The risk that it gets passed through to prices is the thing that has us worried and it's the thing that led us to increase our interest rate last week to try to head off that pass-through.

Ultimately, an increase in productivity would increase the economy's productive capacity, increase its ability to grow and to absorb shocks, and it would prevent us from having to raise our interest rate as quickly as we need to. The ability of the economy to grow supply in response to increases in demand or to grow supply in response to shocks to supply creates a buffer that helps in an environment where you're experiencing those shocks. It helps you respond.

[*Translation*]

Eric Lefebvre: With respect to artificial intelligence, I think you'd agree that it can help increase productivity. It could be one solution, couldn't it?

[*English*]

Carolyn Rogers: I think, in the long term, it is the hope and the expectation that AI is going to add to the productive capacity of the economy. Right now, it's adding more demand than it is adding to productive capacity. Over time, and assuming we get broad-based adoption—it's not just big businesses that adopt AI; it's small businesses that also benefit from that increase in productive capacity—then the overall economic capacity will increase and that will help productivity. It's going to take time, though.

[*Translation*]

Eric Lefebvre: Do you agree that it's important to establish a legislative framework for artificial intelligence and provide clear guardrails?

[*English*]

The Chair: Give a very quick response—10 seconds.

Carolyn Rogers: Yes.

The Chair: Great, thank you.

Mr. Turnbull, you have five minutes.

Ryan Turnbull (Whitby, Lib.): I have a quick question off the top to start.

Governor, can you confirm that the energy price shock is what has driven inflation beyond the target range?

Tiff Macklem: By far it's the main factor, yes.

Ryan Turnbull: Is the risk that you're most concerned about that those added costs due to that energy price shock get passed through the supply chains and through the entire economy?

Tiff Macklem: Yes.

Ryan Turnbull: What is strong in the Canadian economy right now? There's some underlying strength, as I understand. There's some resilience that we've seen. At the Department of Finance, we've looked at those numbers. There are lots of stats and indicators you can point to. What are the ones that stand out to you that show the underlying strength in the economy?

Tiff Macklem: There are two things that stand out for us. First of all, if I just take you back, from the first quarter of 2025 to roughly the first quarter of 2026, this year, the economy was bumpy, but on average it didn't really grow. Consumption through that period was actually impressively resilient. Consumers were shopping. They were spending money. That was underpinning the economy.

What was very weak was exports. They were very weak because they were hit hard by U.S. tariffs. Because exports were weak, investment was weak. There's a very good chart—chart 2 in the "Monetary Policy Report"—where you can see that exports really plummeted in the first half of 2025. They remained pretty weak for about a year, but in 2026 they've actually rebounded.

You're asking where you're seeing some strength. You're seeing some strength in exports. An important element of that is energy exports. Obviously, energy prices and oil prices are high. That is bringing income that's improved profitability in the energy sector. They are investing and they are building their capacity to extract oil and gas. That's showing up on our exports. It's also showing up in our investment.

The other thing boosting investment is, as we were just talking about, investment in AI. Businesses in Canada are increasingly investing in AI. That shows up in investment. It also shows up in spending. You can see it in our imports. Those are the encouraging signs that the economy is beginning to rebound. I wouldn't say the economy is strong. After a week of zero growth, there is excess supply in the economy. There is, certainly, more room for the economy to grow without creating inflationary pressures.

● (1210)

Ryan Turnbull: We also have seen, based on the productivity superdeduction, a spike in new business investment. The last number I saw was 8.9%, which is pretty significant, given the historical trend. We've seen, specifically, spikes in the purchasing of new machinery and equipment and of IP protection, both of which are covered under the productivity superdeduction. Have you factored that into your modelling, and are you seeing the same trend that there's some increase to new business investment in some of those enablers or supporters of productivity?

Tiff Macklem: Yes, as you mentioned, investment in the second quarter was up over 8.8%. I don't think that's the superdeduction. It's too early.

What we're seeing there is that the boost in investment, as I mentioned, is coming from two sources. One is more investment, particularly in the energy sector, and the other is more investment in AI. You can see those pretty quickly and pretty clearly in the data. One thing I would say that is encouraging is that the increase in investment is reasonably broad-based. It's not just in the energy sector. The energy sector is an important part, but it is in other parts of the economy, too.

Ryan Turnbull: TD Bank and others coming out of the Prime Minister's investment summit speculated about Canada entering an investment supercycle. It's speculation, of course, but what would you say to that? Do you see some trends that indicate that we may be entering an investment supercycle? How do you respond to that?

Tiff Macklem: We have revised up slightly our growth outlook. The two main reasons for that are a bit better recovery in exports and more investment. Part of the increase in investment reflects higher energy prices and more investment in energy, as well as more investment in AI. The superdeduction, together with some big projects through the Major Projects Office, is boosting it.

The Chair: Thank you, Mr. Macklem and Mr. Turnbull. That concludes the time.

We're going to continue now with Mr. Guglielmin for five minutes.

Michael Guglielmin: Thank you, Madam Chair.

Governor, sir, I want to return to something one of my colleagues said, which made me think of a quick question. I'm not going to belabour the point. On the discussion of fiscal anchors—and forget about the fiscal policy side—from a market-signalling perspective, is it important that governments have a fiscal framework that they constantly achieve and that they consider sustainable?

Tiff Macklem: Yes. What do markets look for? Markets look for a credible fiscal plan, and they look for delivering relative to the plan.

Michael Guglielmin: What are the consequences, potentially, if that signal is not there?

Tiff Macklem: You're seeing this in other countries. I don't like picking on other countries, but France has been in the news a lot. France is running relatively high deficits, certainly much higher than in Canada, a little over 5%. It's having a lot of difficulty reducing its deficit. I think the market is losing confidence that it has a plan, and that is being reflected in higher long-term interest rates in France.

Michael Guglielmin: Let's not be like France.

Tiff Macklem: Let's not be like France.

Michael Guglielmin: Would you consider the federal debt-to-GDP ratio an indicator when assessing the sustainability of a government's finances?

Tiff Macklem: That is certainly an indicator. I think you want to look at the level. You want to look at the rate of change. As I mentioned earlier, you want to look at, if governments are spending more, what they are spending it on. Are they spending it on things that are just going to boost the economy in the short term, or are they investing for the future and building the capacity of the economy to grow? If you build the capacity of the economy to grow, you build your future tax base. You build future revenues.

You have to look at all of those things. That's what credit rating agencies do. Canada still has a AAA credit rating. That's what markets do. That's what you want to look at.

● (1215)

Michael Guglielmin: Ms. Rogers, at this committee today, we've been talking about the speech you gave on productivity and breaking the glass, and we've been talking a little bit about our lagging indicators on productivity. At one point, you called it an emergency. I'm curious. I believe in that same speech you said that one of the big issues was investment in machinery. Would you say that's a large portion of the gap: where machinery investment, IP, equipment and things of that nature are concerned?

Carolyn Rogers: It's investment in general.

Michael Guglielmin: It's just investment in general.

Would you say that's persisting and still adding to the fact that our productivity is not taking off, or are we waiting to see if some investment starts occurring in these areas?

Carolyn Rogers: I think the previous line of questioning answered what we're seeing right now in investment. We're seeing a promising tick upwards. There's going to be some time before that investment translates into a higher productive capacity for the economy.

We're seeing signs for business investment right now that we haven't seen in a long time, so it's promising.

Michael Guglielmin: How long do you think the lag is, usually?

Carolyn Rogers: I think it would vary across different industries. It can show up really quickly in large companies or big industries. It will show up quicker for energy. For small businesses, for things like IP, it takes longer.

Michael Guglielmin: Governor, Deputy Governor Vincent reported in 2025 that the regulatory environment has been “cumbersome and complex”, and has deterred investment here.

How significant of a problem is the regulatory complexity for productivity?

Tiff Macklem: I don't think we can put a number on it. It's hard to separate. I think there have been a number of barriers to investment in Canada, but that has certainly been one of them.

While I've been governor, I have travelled a lot around the world, and I've heard repeatedly from foreign investors that they'd like to invest more in Canada, but the regulatory approvals take too long, and they're too complicated.

Michael Guglielmin: In your opinion, if we improved and got rid of some of the regulatory barriers, would that improve the investment outlook in Canada?

Tiff Macklem: I think it would.

Regulations are there often for good reasons. You can't just get rid of them willy-nilly. However, you do want to get approvals on a more timely basis.

Investors don't like uncertainty. They want predictability. If we can make this have shorter timelines with more predictability, that would make Canada more investable. That would improve investment.

The Chair: Thank you, Mr. Macklem and Mr. Guglielmin.

We're going to continue now with Mr. Leitão for five minutes.

Carlos Leitão: Thank you, Madam Chair.

I will time myself.

The last time, we were talking about the price level and the constructive tension between the price level and the rate of inflation. At some point, there was even a discussion within the Bank of Canada and other central banks about whether the central banks should target the price level instead of inflation. That discussion was settled relatively quickly saying that, no, they have to stay with targeting inflation.

How can central banks contribute to making sure that the price level—what actually hits individuals—is cushioned and then people can move on?

Tiff Macklem: Maybe we'll share this one.

I'll let the senior deputy governor lead off.

Carolyn Rogers: I would go back to where the governor started on your question before.

I think this is something that frustrates people a lot. As the governor said, people pay prices; they don't pay inflation. Inflation measures the rate of change. It doesn't measure the accumulated change that happens after a period of high inflation, so it's very frustrating.

You hear that people feel that they're having trouble keeping up. We hear a lot about the affordability crisis. Then you hear us saying that inflation is back to target or close to target, and it doesn't reconcile for most people. I think that's the dissonance. It's that complexity of understanding what inflation is.

The most important thing we can do right now is to make sure that we don't have another period of persistent inflation that adds, yet again, to price levels so that Canadians have to find more room in their budgets to absorb those higher prices.

That is our determination, that we don't let an energy shock become that persistent level of inflation that spreads across the economy and prices take another level shift up, and then Canadians are left to find more room in their budgets to absorb that cost.

● (1220)

Carlos Leitão: Thank you.

Go ahead, Mr. Macklem.

Tiff Macklem: I would just add that there are two elements to affordability. One element is prices. Our commitment is to get inflation back to 2% and do our best to keep it close to 2%.

The other element of affordability is incomes. The more you can grow your income, the more you can afford and the more things become affordable.

That gets back to so many of the questions we've had about improving investment and raising productivity. That will increase wages. That will grow incomes. With higher wages, everything becomes more affordable. It's those two things together. We work on part of it. You work on the other part of it.

Carlos Leitão: Thank you.

On that note, Madam Rogers, you made what I think was a very important speech on October 1 in Victoria. It was on affordability and on the complexity and the dilemma that sometimes policymakers want a policy.... The dilemma we face when addressing that issue is that what might be good for someone is somebody else's loss of wealth. Maybe you could elaborate on that in the one minute we have left.

Carolyn Rogers: That speech was particularly about what I called the housing dilemma that we have now. We find ourselves in a situation where we all want housing to be more affordable, particularly for young people who are trying to enter the market but, over a long period of time, as a result of a number of policy choices—and I go through some of them in the speech—a lot of our wealth has become tied up in the housing market, and our ability to borrow relates a lot to the equity we have in our homes. That relates a lot to the price of homes. We have a big portion of our population for whom that price represents a big part of their wealth, and they're not keen to see that price come down. However, if that price doesn't come down, we have a whole other sector of our population who are going to have trouble getting into the market, owning a home and, likewise, building wealth over time.

This is a policy dilemma that's going to take some time to unwind. It has built up over many years. Certainly we had a run-up during the pandemic but, in my speech, I went back 20 years over my entire career and talked about a series of policy decisions that got us here. It's going to take time to come back.

[*Translation*]

The Vice-Chair (Eric Lefebvre): Thank you for your response.

Thank you, Mr. Leitão.

Mr. Thériault, you have two and a half minutes.

Luc Thériault: Governor, if I may, I'd like to continue the discussion we were having earlier about chart 2.

On the one hand, as you noted, the Canadian economy is performing strongly in terms of exports, not only in the energy sector but also across other products, except for those affected by tariffs. Do you expect that strong performance to continue?

In addition, while we're at it, what are your expectations for upcoming quarters, specifically with respect to the manufacturing sector?

Tiff Macklem: In the short term, the Americans introduced new tariffs in August, and they affect roughly 5% of our goods exported to the United States. Unfortunately, the tariff rates are quite high, and they will affect many small and medium-sized enterprises. It will be very difficult for them, both in Quebec and across the country. We expect GDP growth to be lower in the fourth quarter. We project growth of 0.75%, that is, less than 1%.

However, these new tariffs aren't affecting major sectors the way the 2025 tariffs did. Those tariffs targeted the steel, softwood lumber, automotive and aluminum sectors. They are large sectors of the economy where the impact is much more significant. As a result, we expect these new tariffs to be very challenging for some businesses, but for the economy as a whole, we don't believe their overall effect will be substantial.

We expect that, following the slowdown in the fourth quarter, exports will continue to recover and investment will increase. Is there any uncertainty surrounding that outlook? Yes, there are several types of uncertainty.

● (1225)

The Chair: Thank you, Mr. Macklem.

Thank you, Mr. Thériault.

[*English*]

We will continue now with Mr. McLean for five minutes.

Greg McLean: Thank you, Madam Chair.

I'll go back to the Parliamentary Budget Officer's report and how it contradicts some of the numbers in your revised forecast, which said that Canada's real GDP growth was 1.1% and the Parliamentary Budget Officer said that growth was 0.9%. Those are slight differences, and I appreciate that people have different perspectives.

The interesting part is that the Parliamentary Budget Officer measures Canada's GDP growth at 5.6% and 0.9% real, a GDP deflator of, more or less, 4.7%. We're looking at something like a proxy for inflation, if you will. We're also looking at your numbers, up to 3.5% next year. They're not quite at that amount right now. That's a little lower, in terms of the effect on the economy and pumping money into the economy. We're noticing this in the government's rabid spending in the economy.

If real GDP is going up 0.9% and nominal GDP is going up 5.6%, would you say it's an indication that the government's fiscal policy of running deep deficits and plunging public money into the economy is not having the desired effect of pulling more private money into the economy?

Tiff Macklem: As I said, I'm not going to comment on fiscal policy. I'm here to talk about monetary policy.

What I can tell you is that, if you compare the PBO's forecast with ours, yes, ours is a little stronger, but they both move broadly in the same direction. They have 0.9% for this year, and we have 1%. I think they have 1.7% for next year, and we have 2%. We have pretty similar growth this year. We both have a pickup. Both forecasts are well within the uncertainty bands, but they're both broadly going in the same direction.

As I've said repeatedly, we built the government's fiscal plans into our projection. We're obviously getting a new fiscal plan with the budget. When we come to our next projection, we'll incorporate that one.

Greg McLean: You stated earlier that Canada needs a lower interest rate than the U.S. for this reason.

One thing is that Canada, in the debt picture, doesn't count debt as being just provincial and federal government debt. It also counts private debt and corporate debt. In that measure, Canada has the highest debt profile per GDP in the OECD, save for Luxembourg, which has a unique situation.

I appreciate that the market is the judge at the end of the day in terms of what our interest rate should be. Can you tell us why the international community—international bond buyers, or one pool of money—is somehow discounting Canada's interest rate to be lower than its peers, given the fact that Canada is so exposed in its debt profile across all three of our sectors?

● (1230)

Tiff Macklem: Canadians have relatively high household debt by international standards. There's no question that this is a vulnerability for Canada. We've been highlighting this for some time. We have seen some improvement in the direction of travel of household debt. It has kind of levelled off. It came down during the pandemic. There are different ways to measure it, but if you look at liquid assets, they're up a bit. It has been moving in the right direction, but it certainly remains high and remains a vulnerability.

The implication for monetary policy means that household spending is probably more sensitive to interest rates than it would be if Canadians had less debt. That's something we need to factor in when we think about how much we need to move our interest rates in order to achieve our inflation target.

Greg McLean: Your own balance sheet, the balance sheet you manage for the Government of Canada, is now $600 billion you're going to have to refinance in this fiscal year—29% of the outstanding balance. The increase you're going to have to enforce is going to affect the Government of Canada's interest rate payments as well.

Is that correct?

Tiff Macklem: Are you talking about the Bank of Canada's balance sheet or the government's balance sheet?

Greg McLean: I'm talking about the one you manage for the Government of Canada.

Carolyn Rogers: We don't manage the Government of Canada's balance sheet.

Is your question about whether a change in interest rates will affect the Government of Canada's cost of borrowing? It will affect everybody's cost of borrowing.

Greg McLean: Could you repeat that, please?

The Chair: Thank you, Mr. McLean. That concludes your time.

Monsieur Lavoie, go ahead for five minutes.

[*Translation*]

Steeve Lavoie: Thank you, Madam Chair.

Governor, earlier we spoke about business investment, the productivity mega deduction and the impact it could have. In the same section of the report, and along similar lines, you also discuss the adoption of artificial intelligence at considerable length. You talk about investment, and say that it will help increase output.

When it comes to artificial intelligence and businesses, three factors are often cited as being critical: time, money and know-how. In many cases, companies need all three at the same time in order to succeed. In the past, I've seen surveys conducted by consulting firms showing that those three ingredients need to come together. That's one reason businesses have had so much difficulty embracing these kinds of changes. At the same time, you often say that AI adoption is one of the measures that could make a real difference.

How close are we to the point where AI will start having an impact right away? To what extent have businesses acquired those three ingredients? Are we only talking about big companies, or does this also apply to small and medium-sized businesses? I'd like to hear you expand on that. People talk about artificial intelligence in every context imaginable these days. Where exactly are businesses at in that process, and what needs to happen before the impact becomes as significant as you suggest?

Tiff Macklem: First, I agree with you. There are many factors that influence investment decisions, and you've highlighted several of them. With respect to artificial intelligence, we survey businesses. We conduct surveys of large firms, and we also have a separate survey of SMEs. What those surveys show is that most businesses are using AI in one form or another. You probably all use artificial intelligence yourselves.

[*English*]

I don't know if you have Claude, ChatGPT or Copilot AI.

[*Translation*]

However, not many businesses have truly integrated artificial intelligence into their production processes and fundamentally changed the way they operate.

Our surveys, and similar surveys conducted by Statistics Canada, show that only about 10% or 12% to 15% of businesses say they have substantially redesigned a service delivery or production process using AI. When businesses reach that stage, the impact on productivity becomes much more significant. Based on our assessment, we're still at the early stages of that process.

Steeve Lavoie: So businesses are beginning that transition.

Tiff Macklem: If you'd asked that question two years ago, the number of businesses using artificial intelligence would have been very small. Usage has increased significantly, but we're still in the early stages of the process.

● (1235)

Steeve Lavoie: Exactly. We're still at the beginning stages, as they say, but the process is clearly under way.

I've spent a lot of time talking about businesses and investment, so I'd now like to ask a question on behalf of ordinary Canadians. One thing that stood out to me in the report is the amount of analysis and modelling you present in it. You discuss inflation and the consumer price index, both including and excluding gasoline prices. You even highlight the Prima model right at the beginning of the document.

Why is it so important to present these calculations repeatedly throughout the report, and with respect to costs, why do you include and exclude gasoline prices?

Tiff Macklem: I think it is important for monetary policy to look to the future. There is a certain time lag between when we change our interest rate and when that has an impact on the economy and inflation. Right now, inflation is too high. We can't do anything about what's happening now, but we can influence the future.

Now, what are we seeing?

Inflation, if you exclude the cost of oil, is still low, but what we're seeing is that business costs have risen significantly. These costs will be passed on to the prices of other goods and services if we do nothing. It is therefore important to explain why it is necessary to raise interest rates now. This is to prevent the prices of all other goods and services from rising in the future. We cannot do anything about the price of oil, but we can reduce the pass-through to other prices.

The Chair: Mr. Macklem, I must interrupt you.

Thank you, Mr. Macklem and Mr. Lavoie.

[*English*]

We're going to continue with Mr. Chambers for five minutes.

Adam Chambers (Simcoe North, CPC): Thank you very much, Madam Chair.

It's a pleasure to be here. It's not my regular committee.

Governor, it's wonderful to have you in front of Parliament. I think it's an important accountability measure, and I respect that you come and submit yourself to questions.

Is it clear that the bank is now making money again? That is, it's no longer losing money, as I understand.

Carolyn Rogers: That's correct.

Adam Chambers: Thank you.

You may recall a previous interaction—it might have been a year and a half ago—when I had asked whether the bank would be interested in pursuing quantitative easing again. I don't want to put words in your mouth, but I believe you said that is not something you're looking at doing. Is that still the case today?

Tiff Macklem: That's correct.

Adam Chambers: We've spent some of our time thinking about where the next financial crisis will come from. I note that the bank highlighted a growing vulnerability, or a risk, in the makeup of the purchasers of government debt. At least 40% of those who purchase government debt are non-bank financial actors.

Do you still view that as a vulnerability?

Tiff Macklem: Yes.

You're seeing this globally. We've seen a shift in the investor base for government debt around the world. Much more of it is being bought by hedge funds. That by itself is not really a source of concern. Actually, the hedge funds have been very effective in buying, distributing and selling government debt. That's been a benefit to governments everywhere.

The concern is that they buy a lot of it using a lot of leverage. They borrow money very short term in the repo market, and they use that to buy the debt. The risk there is that if there were a period of very heightened interest rate volatility, those trades could come out of the money, and then they could pull back from the government debt market, and there would be a problem.

We have been highlighting this for some time and encouraging hedge funds to make sure they have the necessary buffers so that they can be there every day.

Adam Chambers: Right. Your warnings, or at least raising of this issue.... I note that the government, in this year and in the next two years, will borrow historical record amounts of money in the bond markets. If there is an issue, the government fiscal situation would be felt acutely. Is that not a fair assessment?

Tiff Macklem: That's a fair assessment.

Adam Chambers: I think you're in the toughest spot, both of you, in the country right now. We have an inflationary environment. We have low growth, some may say on the path to stagflation. I won't ask you to comment on that.

As you've heard policy-makers talk about immigration, I note that in 2024, the bank suggested that heightened immigration levels affected rental markets. As well, just last year, another deputy governor suggested they had a negative impact on unemployment, specifically for youth.

Do you think policy-makers should be reminded of the bank's views? Are they still your views about the concerns of immigration, and should we be concerned?

● (1240)

Carolyn Rogers: My colleagues have given a number of speeches on this topic. I think the point we've consistently made is that immigration adds to both sides of the economy. It can add productive supply to the economy; it can add workers, and it can add consumers.

The important thing is to keep things in balance. What we saw and I think the comments you're referring to came following a period when we were bringing in more people than we had housing and other services to meet the needs of. That was happening in a period when the economy was overheating anyway, so it was adding to inflationary pressure.

The bottom line on immigration is that our demographics are going to require us to have a certain level of immigration to make our economy healthy. We have to find a balance. We have to get back to a place where we're in balance.

Adam Chambers: Can I try to make a connection with productivity? Do you think it would help productivity in this country if the supply of labour was restricted? It would force businesses to adopt new technologies to become more productive. Is that a potential upside to—

Carolyn Rogers: You don't want to use immigration as a release valve of cheap labour. Absolutely.

Ideally, you want to be bringing in the types of workers where you have a demand in your economy that you can't otherwise meet. It shouldn't be a function of just being unwilling to pay the salary for it.

Adam Chambers: Thank you, Madam Chair.

The Chair: Thank you, Mr. Chambers.

Mr. Turnbull, you have five minutes.

Ryan Turnbull: Thanks, Madam Chair.

Governor and Deputy Governor, I know that both of you have mentioned at times fiscal and monetary policy being complementary and working together, or at least ideally that's the case. The textbook example, I think, is that normally you'd see unmet demand in the economy pushing up prices, and you would raise rates to kind of cool that demand. Obviously, that's not the case. In this particular instance, we have, as you said, excess supply or excess capacity in the economy. We're experiencing a supply-side shock from the conflict in the Middle East, which is raising energy prices. The risk is the price being passed through and creating more persistent inflation.

On the one hand, the government is trying to grow the economy. When you raise rates even 25 basis points, it contracts the economy. How are these things complementary? This is the kind of question my constituents would ask me. How can you say that we're working together? I think you probably have a good answer for this. That's why I wanted to set you up to give me your explanation.

Tiff Macklem: Yes. I think we do have a good answer.

Rather than focusing so much on the change in the interest rate, I think you want to look at the level. The policy rate, even with the increase, is at 2.5%. That is not restrictive monetary policy. It's still on the accommodative side of neutral. It's not restricting growth. We're not trying to restrain growth. We provided some additional monetary stimulus when the economy was weak. The economy is doing better. Inflation is higher. Against that background, it made sense to take out some of that monetary accommodation.

I mean, yes, the government—I'll let you speak for the government—has put in place a number of plans, or is putting in place a number of plans, to try to grow the economy. The key there will be growing the supply side of the economy. In other words, in simple terms, it will be growing the capacity of the economy to produce goods and services. To the extent that government policies succeed in doing that, yes, monetary policy and fiscal policy can work well together.

Our job is going to be to keep inflation close to target. The government is going to increase the capacity of the economy to grow without creating inflationary pressures. Those things can work together. On both our sides, we've got to execute. We've got to execute and do our best to look forward, to anticipate where the economy is going and to use our interest rate to nudge inflation back to target. The government's got to execute on their plans to actually deliver and grow the capacity of the economy.

● (1245)

Ryan Turnbull: The counterfactual is that it would be worse if you didn't do what you just did. That's obviously what you're looking at in your modelling, that in fact if you didn't raise rates by 25 basis points, you would anticipate that things would be worse in the future. That's how you answered one of my previous colleagues. Is that not true?

Tiff Macklem: Yes. If we don't raise interest rates, inflation's already too high. If we let it stay too high or if it goes higher, that's not going to do anybody any good. It's going to hurt consumers. Businesses will face a more uncertain environment. It's not going to be good for investment.

The record from history is pretty clear. When inflation is high and when there's uncertainty about inflation, the economy does not work well.

Ryan Turnbull: The excess supply that's in the economy is not part of the problem. It's actually a good thing, in the sense that—

Tiff Macklem: I'm not sure I'd go that far.

Ryan Turnbull: Well, hear me out here. The government is trying to increase the productive capacity in the economy and is making strategic investments to do that. We can evaluate how successful that's been, but excess supply at a time when we have lost a lot of the relationship with one of our closest trade partners and are aggressively pursuing non-U.S. diversified trade.... I think we can all acknowledge that a lot of effort is being put into that. Is accessing those foreign markets not part of how the economy expands in the future?

Tiff Macklem: Yes, but I don't view accessing global markets is really...it's growing the capacity of the Canadian economy to grow.

Ryan Turnbull: No, it's what releases the excess supply within the economy in order to shift it.

Tiff Macklem: Yes, to the extent that the excess supply is largely because of U.S. tariffs, finding alternative markets could take up that slack.

The Chair: Thank you, Mr. Macklem and Mr. Turnbull.

[*Translation*]

Mr. Garon, you have the floor for two and a half minutes.

Jean-Denis Garon: Thank you, Madam Chair.

Good morning once again, Mr. Macklem and Ms. Rogers.

In the Canadian economy, we have certain very large sectors which probably attract the Bank of Canada's particular attention, such as the oil and mining sectors, the banking sector and telecommunications, and so on. Of course, there is also the property and housing sector, which is a very large sector.

For some time now, we have been experiencing what many call a housing crisis. We needed to speed up construction and boost housing starts. We hadn't seen an increase in interest rates for some time. Now, we have two phenomena occurring simultaneously: a rise in very short-term interest rates and a rise in bond prices.

I would like to know your view on the market for new housing construction in Canada. How does this influence the decisions you have taken or intend to take?

Tiff Macklem: I'll say a few words, and then I'll ask the senior deputy governor to add a few points.

In our forecasts, we indicate that the housing sector is not particularly strong. It has contributed very little to growth. You are right to say that a higher interest rate will not improve the situation in the housing sector.

However, I would like to highlight two points.

Firstly, we do not use the interest rate to target the housing sector. We use the interest rate to target inflation, and we must look at the economy as a whole.

Secondly, the problems in the housing sector are primarily structural and relate to affordability. The situation is starting to improve, but this is a problem that has been building up over several years, and it will take several years to resolve.

[*English*]

You might want to add something. You've been talking about this.

● (1250)

Carolyn Rogers: I think we answered your question.

[*Translation*]

Jean-Denis Garon: You may add your comments, Ms. Rogers.

[*English*]

Carolyn Rogers: As I said when I was answering MP Leitão's question earlier, the situation we're in with housing has taken almost two decades to get to. We're not going to unwind it in a year or even two years. If we did, I think it would happen in a way that would be more damaging to the economy than helpful.

The Chair: Thank you, Ms. Rogers. We're going to have to conclude it there.

We're going to continue now with Mr. McLean for three minutes.

Greg McLean: Thank you.

The government recently talked about needing to prepare for dislocations in the economy that we might face going forward. We're talking about things like what we faced twice in the past 20 years, with the global financial crisis in 2008 and the pandemic in 2020. However, our balance sheet seems to be impaired at this point in time. With the last two, the Bank of Canada seemed to be prepared to enter into things, like quantitative easing, where it became the buyer of last resort for the Canadian debt that was required.

Are we prepared at this point in time, given our debt profile?

Carolyn Rogers: The governor answered earlier that quantitative easing is a monetary policy tool that we use in very extreme circumstances. We've used it once in history. It was when we were experiencing a global pandemic. We had an extremely sharp contraction in our economy. We had dislocations in the financial markets. Those are the circumstances under which we would use it.

Greg McLean: Yes, I understand. It was proposed in the global financial crisis as well. Mr. Macklem was on staff then as well. It wasn't utilized at that point in time.

Do you feel you have the bandwidth now, given our current debt profile, to act as a buyer of last resort?

Tiff Macklem: The tool is there if we need it. First of all, the policy rate is at 2.5%. We have quite a bit of room to lower the policy rate in the event of a severe adverse situation. Quantitative easing is in the tool kit, but as the senior deputy governor just said, it's there to be used only in the most extreme situations. We've only ever used it once. I certainly hope we don't have to use it again, but if we get ourselves in an extremely dire situation, it is something we can turn to.

Greg McLean: Thank you.

I know your major role for the Government of Canada is trying to keep inflation in check, but keeping inflation in check entails a monetary response that affects our Canada-U.S. dollar policy, which also impacts inflation. Have you analyzed at all how keeping the Canadian dollar low—and how it hasn't responded to the increase in the price of oil, as it usually does—is impacting the rate of inflation Canadians are facing at this point?

Tiff Macklem: I have a couple of comments.

First, as I'm sure you know, we don't target the exchange rate. The exchange rate floats freely in the global marketplace. Actually, Canada hasn't intervened in an exchange market since 1998. It's one of the deepest, most liquid markets. We didn't intervene in the foreign exchange market even during COVID. We intervened in the Canadian bond market, as you just mentioned.

The exchange rate responds to a number of things. It responds to the price of oil. We're a big energy exporter. Over time, it has become less responsive to the price of oil than it was historically. We're less of a petro-economy than we were in some parts over history, so it's less responsive, but it does respond.

Second, the other thing it is affected by quite a bit is the Canada-U.S. interest rate differentials. Obviously, the Canadian rate is well below the—

The Chair: Thank you, Mr. Macklem. We're going to have to conclude it there.

Thank you, Mr. McLean.

We're going to continue now with Mr. Sawatzky for three minutes.

Jake Sawatzky: Thank you, Chair.

Deputy Governor Rogers, coming back to the last question, I know there wasn't a lot of time to answer on a very complicated topic.

We are seeing an escalation in AI-driven attacks on global and Canadian financial infrastructure. Is our system resilient enough? What examples are we seeing of this around the world?

Carolyn Rogers: I would come back to the most recent example, where we had a vulnerability that was in a platform technology that I think something like 75% of the websites in the world use. That vulnerability was discovered by AI. Before the patch could be designed, distributed and implemented by everybody that had the vulnerability, it was reported. That required some of us to take our websites down, including parts of the government.

That's an example where, I think, we were using AI both to discover vulnerabilities and to figure out how to patch them, but it becomes a race, because the bad actors out there are also using AI to discover these vulnerabilities. If they find them before the good guys find them and figure out how to patch them, then you have a problem. AI is working on both sides.

You asked about our financial system. I would say our banks invest an enormous amount of both attention and money in making sure that they are resilient to cyber-attacks. We've all had to invest more time and money in that ever since the AI threat was added to cyber-technology. It's something we're very focused on. Certainly, AI is adding to what was already a threat that our banks took quite seriously.

● (1255)

Jake Sawatzky: For my next question, the report projects business investments to grow by around 4% annually in 2027 and 2028. Could you speak, in the last 30 seconds, to what impact you expect this increased investment to have on Canada's productive capacity over time?

Carolyn Rogers: One of the biggest contributors to the productivity gap that we've been talking about is a lack of business investment. It's extremely promising that we're seeing an uptick in business investment. It will take some time for that investment to translate into greater productive capacity. That time varies on the type of investment, the type of industry and the type of business, but it's promising. It's going in the right direction.

Jake Sawatzky: Thank you very much for your time.

The Chair: Thank you, Mr. Sawatzky.

[*Translation*]

Before adjourning the meeting, I give the floor to Mr. Garon for two minutes.

Jean-Denis Garon: Thank you, Madam Chair.

Mr. Macklem, I would like you to tell us about final domestic demand.

When you were here last time, we were in an economy where final demand had proved more resilient than you had anticipated. Now, however, we find ourselves in a vulnerable situation, with new tariffs in place and greater uncertainty. This is concentrated in certain markets. Interest rates are being raised. Obviously, I'm not criticizing that. It's your job to do so. Your job is to target inflation.

I'd like you to talk to us about the resilience of final domestic demand, your forecasts for Canadian demand, and perhaps even its geographical distribution.

Tiff Macklem: As regards the resilience of final domestic demand, as I mentioned, consumption was fairly robust throughout last year.

One point to highlight is that the growth rate of consumption is influenced by two factors: the rate of population growth—and therefore the number of consumers—and expenditure per consumer. As population growth is slower, the growth in consumption stems instead from an increase in per capita consumption. This suggests a certain level of consumer confidence, which has provided a foundation for final demand.

In our forecasts, we indicate that there will be an increase in the growth of final demand, and this is really because investment is on the rise.

So, consumption remains stable and consumption in terms of final demand is on the rise.

Jean-Denis Garon: In the long run, what always surprises us is the resilience of domestic consumption. So, in the long run, we may also find ourselves in a situation where there is a problem with household confidence. At one time, all of this was artificially sustained by immigration and population growth. Today, it is sustained by investment.

Will there be a problem in the long run?

The Chair: Thank you, Mr. Garon, that was all the time you had.

On behalf of the committee, I would like to thank the witnesses for spending two hours with us.

[*English*]

I would also like to thank committee members for what I think was a very productive discussion today.

I will allow our witnesses to take a step back.

Colleagues, I have a couple of housekeeping items for you before you all run off.

First, you will have all received a routine motion in your inboxes. I will read it into the record:

> That, notwithstanding the usual practices of the committee concerning access to and distribution of documents,
>
> (a) up to three associate members of the committee per party be authorized to receive the notices of meetings and notices of motion and be granted access to the digital binder;
>
> (b) the associate members be designated by the offices of the whips of each recognized party and sent to the committee clerk;
>
> (c) the offices of the whips of each recognized party may each designate one staff member from their office to be included on the committee's distribution list; and
>
> (d) the provisions of this motion remain in effect for the duration of the 45th Parliament, unless otherwise ordered.

(Motion agreed to)

The Chair: I have a couple more housekeeping points.

For the study on HST/GST on used goods, please submit witnesses by 5 p.m. this Thursday. For the study on AI and financial fraud, send witnesses by 5 p.m. this Friday.

As you all know, Thursday is budget day. Therefore, there will be no finance committee meeting on Thursday, as I'm sure everyone will be very preoccupied with what's going to be in the budget.

With that, colleagues, thank you very much. Have a great week and a good remembrance week.

I look forward to seeing you upon our return.

Thank you.

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