

Tiff Macklem: Central banking - navigating in a new world

Remarks by Mr Tiff Macklem, Governor of the Bank of Canada, at the 30th Conference of Montréal "International Economic Forum of the Americas", Montréal, Quebec, 12 June 2024.

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Good afternoon. It's always great to be back in Montréal, my hometown. And I could not be more pleased to be here with Joachim Nagel, President of the Deutsche Bundesbank. Thank you for visiting us in Canada.

Since I'm on my home turf, let me start us off with a few words about where we find ourselves in economic history.

Key lessons from high inflation

Canada and Germany have just come through the biggest inflation we've experienced in 40 years. And as painful as this has been, it has highlighted some lessons. I will focus on three in the Canadian context.

First, we ignore the supply-side of the economy at our peril. As central banks, we tend to focus on the demand side because that's what we influence with interest rates. But coming out of the pandemic, we learned that it is much easier to restore demand than supply. High inflation was a stark reminder that supply shocks can cumulate and persist—and when they intersect with periods of strong demand, the inflationary consequences can be large. Looking ahead, technological change, geopolitical tensions, climate change, and shifting trade and investment flows all suggest we may experience more supply shocks than we did in the past. Businesses and central banks need to be ready.

Second, inflation is painful—that's not a new lesson, but for many of our citizens it was their first experience with high inflation. And it has been painful. Inflation harms people and the economy, and it corrodes trust in our market-based system. The rising cost of living made life harder for everyone, especially those who had less to start with. People were working hard, but their paycheques didn't buy what they used to. That made people feel cheated and angry. Recent history has been a stark reminder that inflation is our common enemy.

The third lesson is the value of central bank credibility and public trust. We did not have that in the 1970s, and the costs of unwinding inflation were very high. This time, our track record on inflation control combined with our forceful monetary response brought inflation back down at much lower economic cost. But public trust and central bank credibility have been dented by the post-pandemic inflation. To keep the trust we have and to restore what trust we've lost, we need to continue delivering for our citizens. And we need to communicate clearly and broadly. We need to find ways to explain ourselves to a wide range of audiences—from financial market participants and business owners to families and individuals trying to navigate uncertain economic times. We need to meet people where they are and ensure that they understand what we're doing and why we're doing it.

Current policy

That brings me to the present and to the Bank of Canada's immediate focus.

Monetary policy has cooled the economy, inflation has come down, and underlying inflation continues to ease gradually. Last week, the Bank cut its policy interest rate by 25 basis points to 4.75%. With further and more sustained evidence that underlying inflation is easing, monetary policy no longer needs to be as restrictive as it has been. And last week the European Central Bank also lowered its policy rate. We have come a long way in our collective fight against inflation.

Adjustments ahead

Looking ahead, we still need to get inflation down further to our targets. And I will say that the shared resolve to restore price stability across major central banks has helped us all get inflation down without causing large increases in unemployment.

We've also learned some lessons from the post-pandemic inflation, and we will take these to heart.

But the challenges of the future are rarely the same as those of the past. Supply shocks are more likely in the future. New technologies not only have the potential to increase prosperity but also to disrupt. Interest rates may be easing in many economies, but global interest rates are unlikely to return to pre-pandemic levels. The new normal won't be the old normal. And if we're not going back, we'll all need to adjust.

These shared challenges are why discussions like this one are so important. They help each of us prepare to navigate in a new world.

I look forward to our discussion.