

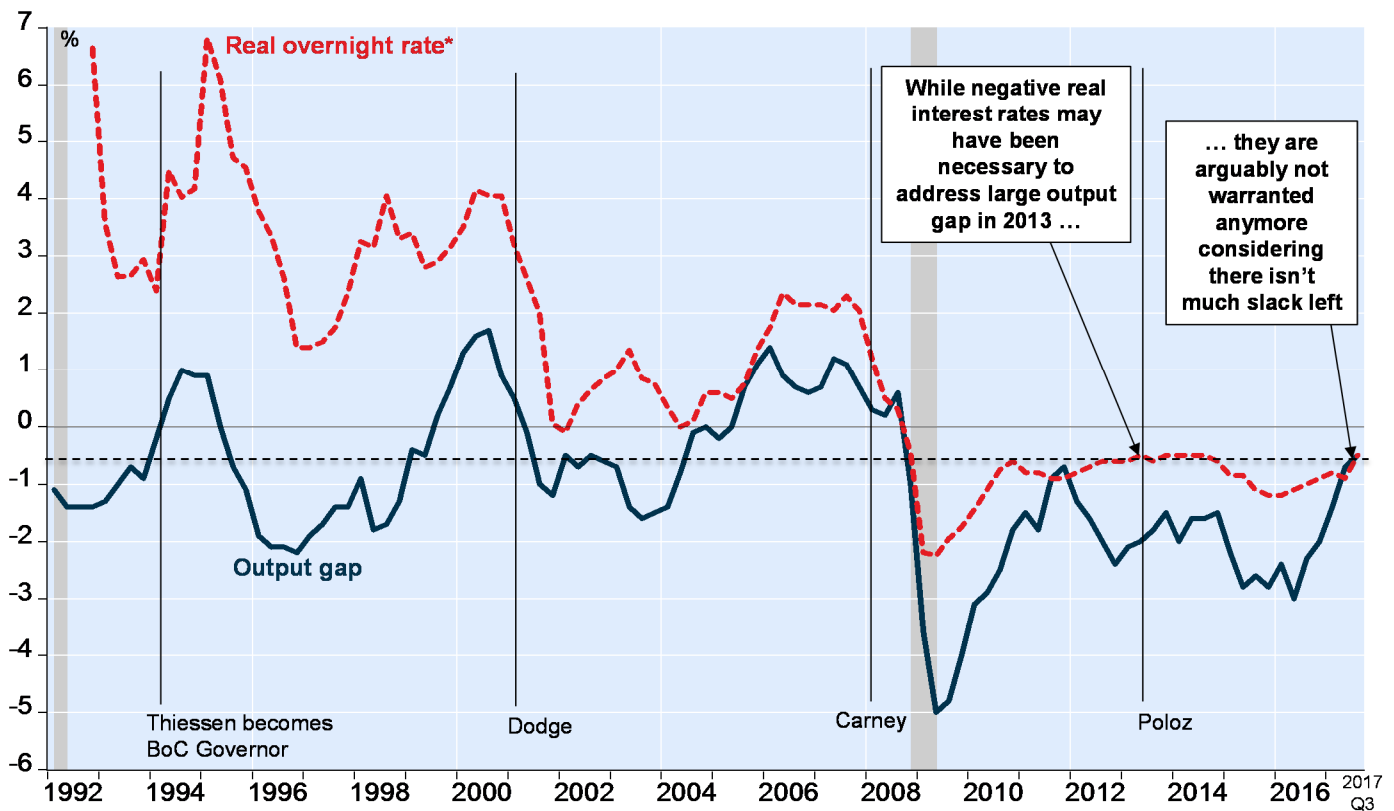
Canada Watch

Bank of Canada Governor Stephen Poloz reiterated in a speech yesterday that the central bank will be cautious in making adjustments to the policy rate. Sure, some degree of caution is warranted considering uncertainties brought by NAFTA negotiations and the economy’s enhanced sensitivity to rate hikes. But one has to ask: Does Canada still need negative real interest rates amidst a booming economy? The real overnight rate is currently -0.5%, roughly unchanged from mid-2013 when Stephen Poloz became Governor, even though the output gap has dropped from 2% four years ago to almost zero today. As today’s *Hot Chart* shows, one would be hard-pressed to find prior instances outside of a recession with a similar combination of a near-zero output gap and a negative real overnight rate. So, monetary policy is currently too loose and that is likely to raise financial stability risks further via overleveraging and inflated asset prices (including housing).

Krishen Rangasamy

Canada: Are negative real interest rates still necessary?

Output gap (integrated framework) versus Real overnight rate*



* Overnight rate minus annual core inflation rate (common component)
NBF Economics and Strategy (data via Statistics Canada, Bank of Canada)

Hot Charts

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