NEWS RELEASE

Federal government's failure to restrain spending undermines Bank of Canada's effort to tame inflation

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VANCOUVER—The federal government's decision to increase already high levels of spending and continued budget deficits will hinder the Bank of Canada's efforts to tame inflation, finds a new study released today by the Fraser Institute, an independent, non-partisan, Canadian public policy think-tank.

"Until the federal government shows some spending restraint, Canadians may continue to face higher prices for goods and services," said Philip Cross, former chief economic analyst at Statistics Canada, senior fellow at the Fraser Institute and author of ***Canada's Fiscal Policy Has Undermined Efforts to Tackle Inflation***.

During the COVID lockdowns in 2020, the federal government, which was already spending at record-high levels (as measured by per-person spending adjusted for inflation), further increased spending while the Bank of Canada lowered interest rates to near zero.

These two decisions—to dramatically increase government spending and lower interest rates—helped trigger higher inflation, which peaked in July 2022 but remains high today.

In response, the Bank of Canada has markedly increased its policy interest rate to discourage consumer spending and cool price increases.

At the same time, however, the federal government has continued to increase deficit-financed spending and ran a string of large deficits including a projected $40.1 billion deficit for 2023-24.

Because high government spending and deficits helped trigger today's higher inflation, Ottawa's refusal to restrain spending will undermine the Bank of Canada's efforts to tame inflation.

"Monetary policy and fiscal policy must work together to reduce inflation—a lesson the current federal government seems slow to learn," Cross said.

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