COVID-19: Actions to Support the Economy and Financial System

Learn about the **economic impact** of the COVID-19 pandemic and the **Bank's actions** to support the Canadian economy and financial system.

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COVID-19 and the economy

The COVID-19 pandemic represents a serious health threat to people around the world and a significant disruption to daily life. It is having a major impact on the global and Canadian economies. Every sector of the Canadian economy is affected. Some sectors, such as the energy, travel and hospitality, and service industries, are particularly hard hit.

The public health actions needed to contain the spread of the virus, such as school closures, states of emergency, and physical distancing measures, while necessary, are themselves significantly impacting economic activity.

However, it's important to underscore that while the impact is large, it will be temporary. Authorities around the world have taken bold and necessary measures to contain the spread of the virus and to support people and businesses through a very challenging time.

What the Bank is doing

At first, our goal was to help Canadians bridge this difficult period by making credit affordable and available. As many economic activities are temporarily shut down, companies rely on credit to continue to pay their employees, and households need credit to continue to meet their basic needs. But they may be unable to borrow if financial turmoil curtails lending activity.

The central bank must therefore intervene to prevent a sudden contraction of credit when credit is most needed. If Canadians can't borrow to weather an economic storm, the impact on the economy would be worse, the recovery will take longer and there will be long-lasting damage to Canada's productive capacity.

Achieving our primary mandate of keeping inflation close to target requires us to stabilize the economy and employment first. In normal times, we can achieve our inflation objective by setting the policy interest rate at the appropriate level. However, during major disruptions to the economy and financial markets such as those we are experiencing with COVID-19, we need to take more comprehensive measures to ensure that the financial system continues to play its role of providing credit where it is needed.

For these reasons, the Bank of Canada is acting in several ways to support the economy and financial system and stands ready to take any and all actions that we can to protect the well-being of Canadians during this difficult time.

See also what the Bank is doing to promote the acceptance of cash, so all Canadians can access the goods and services they need.

Monetary policy

In response to the economic impacts stemming from COVID-19, we lowered interest rates to ¼ per cent to support economic activity. These moves support consumers and businesses by lowering payments on existing and new loans throughout the economy.

We also launched a range of liquidity facilities and purchase programs to keep markets functioning, credit flowing and allow interest rate cuts to work their way through the economy.

To support the recovery, the Bank has committed to continuing large-scale asset purchases of longer-term debt. The combination of the very low policy interest rate and asset purchases is providing considerable monetary stimulus.

The Bank has additional tools in its **monetary policy toolkit** that can be used to further support the economy and achieve the inflation target.

See **related announcements**.

Support to key financial markets

We are intervening to support key financial markets to ensure they continue to function properly.

In times of market turmoil, financial institutions may be reluctant to act in their normal role as market makers for bonds and other financial assets. Market makers hold inventories of securities and quote prices at which they will buy and sell—activities that may become prohibitively risky when the prices of these securities are fluctuating widely. Buyers and sellers may then find it difficult to trade—in other words, the market becomes illiquid.

This is particularly problematic in the case of friction in the market for Government of Canada bonds, which are often held as the safest Canadian-dollar asset. Those holding a bond may find it difficult to sell it to obtain cash, while those wishing to buy a bond for its safety may be unable to obtain it. Given the central role of Government of Canada bonds, including as a benchmark for other interest rates, such market illiquidity can have pervasive effects through the financial system.

As key financial markets became strained during this period, the Bank established several large-scale asset purchase programs **to increase liquidity in core funding markets**. With core markets functioning normally and the economy reopening, we have discontinued the market liquidity facilities.

See **related announcements**.

Asset purchases

The following programs are in active operation:

- **Government of Canada Bond Purchase Program (GBPP)**: The Bank purchases Government of Canada bonds in the secondary market to support market functioning and provide monetary stimulus. The focus of the GBPP is to provide **quantitative easing** to support the resumption of growth in output and employment and to achieve our inflation target.

The following programs have been discontinued:

- **Bankers' Acceptance Purchase Facility (BAPF)**: This program supported the market for bankers' acceptances, a key source of financing for small and medium-sized corporate borrowers.
- **Canada Mortgage Bond Purchase Program (CMBP)**: Financial institutions use Canada Mortgage Bonds (CMBs) to finance their mortgage lending to Canadian homeowners. By purchasing CMBs in the secondary market, this program helped provide the means for financial institutions to renew mortgages during this period, as well as supported the flow of credit more generally.
- **Corporate Bond Purchase Program (CBPP)**: This program supported the liquidity and proper functioning of the corporate debt market. (A liquid and efficient market for Canadian-dollar corporate bonds allows companies, currently challenged by the impact of the COVID-19 pandemic, to continue to obtain necessary longer-dated financing to support their operations, ultimately aiding the Canadian economy. It also strengthens the pass-through of monetary policy actions to borrowers.)
- **Commercial Paper Purchase Program (CPPP)**: This program supported the flow of credit to the economy by alleviating strains in Canada's commercial paper markets, a key source of short-term financing to support the ongoing needs of a wide range of firms and public authorities.
- **Provincial Bond Purchase Program (PBPP)**: This program aimed to further support the liquidity and well-functioning of provincial government funding markets by purchasing eligible securities in the secondary market.
- **Provincial Money Market Purchase Program (PMMP)**: This program was an asset purchase facility that supported a liquid and well-functioning market for short-term provincial borrowing.

Balance sheet expansion

These interventions, which involve **acquiring financial assets and lending to financial institutions**, increase the size of the Bank's **balance sheet**. This balance sheet expansion, in conjunction with our other actions, helps get the financial system functioning properly. A well-functioning financial system helps the economy recover once the restrictions to contain the virus have been lifted.

Get an overview on the role and key elements of the Bank's balance sheet.

Risk mitigation

The Bank has designed these programs in a way that prudently manages the financial risk to taxpayers. These programs mitigate risk by including term-to-maturity limits, minimum credit ratings, counterparty limits and concentration limits. When external asset managers are used, they are subject to strict conflict-of-interest requirements, well-defined mandates with limited discretion and strong Bank oversight.

While the ***Bank of Canada Act*** provides the legal authority to undertake these purchases, we have collaborated closely with the federal government to obtain indemnity agreements on the major purchase programs. Government indemnification against losses provides additional assurance that our use of these programs will remain closely tied to the Bank's inflation control objective and is a common approach taken by other jurisdictions for these types of central bank programs.

Reporting

The Bank regularly reports on the results of its large-scale asset purchase programs. Our goal is to be transparent while protecting commercially sensitive information and trade-specific detail that could impact the fair market value of the Bank's purchases.

We report the total holdings of assets purchased through these programs on our **weekly** and **monthly** balance sheets. These programs also have dedicated webpages where the terms and conditions, as well as results of purchase operations, are available.

Finally, we will release transaction-level details of these programs with a five-year lag, or shortly after the programs are wound up, whichever comes first.

Liquidity for individual financial institutions

Given that the size and duration of the impact of COVID-19 are highly uncertain, credit markets may become impaired. This is both because financial institutions face difficulties in obtaining funding for their lending as well as because they may become reluctant to lend in fear that many borrowers may be unable to pay. The problem of funding is partly system-wide and partly specific to individual institutions: in the context of market turmoil there is a generalized desire for safer assets, but even if that demand is satisfied in aggregate, some financial institutions may have difficulty obtaining funding.

See **related announcements**.

Enhanced term repo operations and Standing Liquidity Facility (SLF)

Our interventions included enhancing our standard liquidity tools such as term repo operations (now **suspended**) and the Standing Liquidity Facility (SLF) to provide ready access to funding to individual financial institutions. We have lengthened the term over which we lend money to banks, widened the collateral we accept to provide lending, and expanded the list of eligible institutions that can access our lending. Widening accepted collateral helps in two ways: it enables institutions holding that collateral to obtain financing so they can continue other lending, and it supports the functioning of markets for those assets accepted as collateral.

Standing Term Liquidity Facility (STLF)

We established a new Standing Term Liquidity Facility (STLF) to help banks better manage their liquidity risks and continue to provide their customers with access to credit. To access the STLF, financial institutions can pledge a broader set of collateral, including mortgages, which significantly increases their funding capacity. The Bank of Canada encourages the use of the STLF by banks to help them continue to provide loans to households and businesses when they need it most.

Contingent Term Repo Facility (CTRF)

This facility, now **suspended**, aimed to counter severe market-wide liquidity stresses and support the stability of the Canadian financial system. It offered eligible counterparties liquidity on a standing, bilateral basis against securities issued or guaranteed by the Government of Canada or a provincial government.

Securities Repo Operations

The Bank of Canada's Securities Repo Operations program provides a temporary source of Government of Canada nominal bonds and treasury bills to primary dealers to support liquidity in the securities financing market. The Bank makes a portion of its holdings of these securities available on an overnight basis through daily repurchase operations.

Our actions work together

The actions we are taking are mutually reinforcing:

- Liquidity for individual financial institutions improves market functioning.
- Well-functioning markets positively affect the ability of financial institutions to operate.
- Monetary policy easing (a lower interest rate) is more effective when markets are functioning, and banks have the liquidity they need to lend to business and households.

International co-operation

The Bank is coordinating with international policy-makers, such as G7 central banks, and economic and financial partners in Canada.

The Bank established foreign exchange swap lines with other central banks to ensure Canada's financial institutions have access to foreign currency liquidity. Should a Canadian bank need to borrow in any of the major foreign currencies, the swap lines give the Bank of Canada the ability to meet that need. This facility provides the Bank with additional flexibility to address rapidly evolving developments in financial markets.

See **related announcements**.

Speeches and statements

The Bank will continue to ensure Canadians have access to up-to-date information on its actions to support the economy and promote a safe and sound financial system in the face of the COVID-19 pandemic.

See **related announcements** and find out more about the actions we've taken in response to COVID-19 in ***The Economy, Plain and Simple***.