

# Bank of Canada Governor Poloz speaks about household debt

## Hilliard MacBeth

Hilliard's Weekend Notebook – Friday May 4, 2018

Bank of Canada Governor Poloz spoke in Yellowknife, N.W.T., on May 1, 2018. He explained that household debts are large and increasing and represent a threat to the stability of the Canadian financial system.

He concluded the speech with, "There is good reason to think that we can continue to manage these risks successfully. "

How does the governor propose to manage the risks of elevated household debt?

The full speech is [here](#).

The title is "Canada's Economy and Household Debt: How Big is the Problem?"

The speech starts with a quote, "Shakespeare wrote, "Neither a borrower nor a lender be." This famous quote is from Hamlet, Act 1, Scene 3 and Shakespeare's character Polonius continues, "For loan oft loses both itself and friend, and borrowing dulls the edge of husbandry. This above all: to thine own self be true. And it must follow, as the night the day. Thou canst not then be false to any man." In the play, Polonius holds the position of counsellor to king, and is the father of Laertes and provides advice to him as he departs for Paris.

Some literary critics believe that the character Polonius is based on a real-life Lord Treasurer and Principal Secretary, William Cecil, in Queen Elizabeth's court in 1869. And the "sententious platitudes" Polonius offers his son are some of the most-quoted in literature.

So, if the governor of the Bank of Canada were playing the role of Polonius as counsellor to the king today, what advice does he give?

He points out that "debt is a fact of life" but that the amount of debt is putting the economy at risk as it reaches \$2 trillion. But the governor/counsellor fails to mention that this amount of private sector debt and the rapid pace of growth in debt has been noticed by the central bank of central banks, the Bank for International Settlement (BIS). The BIS says that Canada's economy and financial system is in the danger zone:



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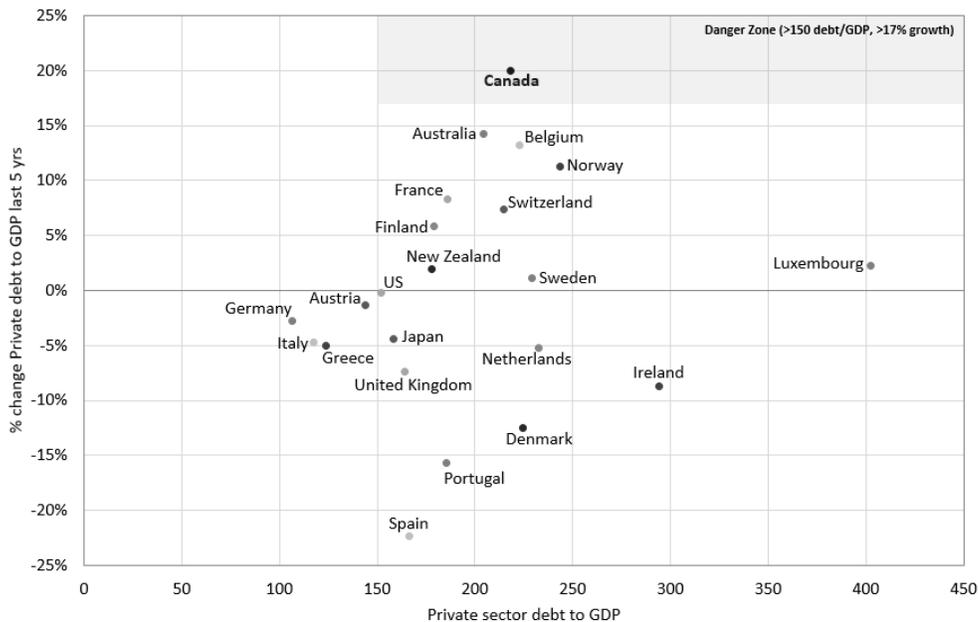
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### Private debt-to-GDP ratio and growth rate over past 5 years (advanced economies)



Sources: Bank for International Settlements, David Macdonald CCPA

Of all advanced economies, Canada is most vulnerable to a financial crisis due to debt.

Poloz talks about the demand for housing and the increase in house prices to explain the rapid increase in household debt. He mentions demographics and “a long period of low long-term interest rates” as well as geography, “in the form of mountains and water”.

He recounts the policy actions taken after 2008 to stimulate the economy and says, “Policy stimulus has a cost, whatever form it takes.” He goes on, “Stimulus encourages growth by bringing forward household spending and business investment, financed with debt.”

The speech concludes with another reference to Hamlet when Poloz says, “Our financial system gives Canadians more choices than ever in deciding ‘to be or not to be’ in debt.”

He claims that “our financial system is resilient”. He limits the role of the BOC in this crisis-in-the-making by stating that, “Ultimately the Bank’s job is to look at the economy as a whole and judge the outlook for inflation.” And he suggests that, because inflation is under control, we shouldn’t worry too much about elevated household debt levels. And the Bank “will continue to watch how households ... are reacting to higher interest rates.”

We hope that the governor is right about things being “under control”. But it’s more likely that he doesn’t emphasize enough the seriousness of Canada’s looming debt crisis.

As Hamlet said, “There are more things in Heaven and Earth, Horatio, than are dreamt of in your philosophy.”

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