



Economics

Bank of Canada Expands Authority to Buy and Sell Securities

By [Erik Hertzberg](#)

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- ▶ Central bank updates policy amid financial system stress
- ▶ Many analysts see QE as inevitable next step for BoC



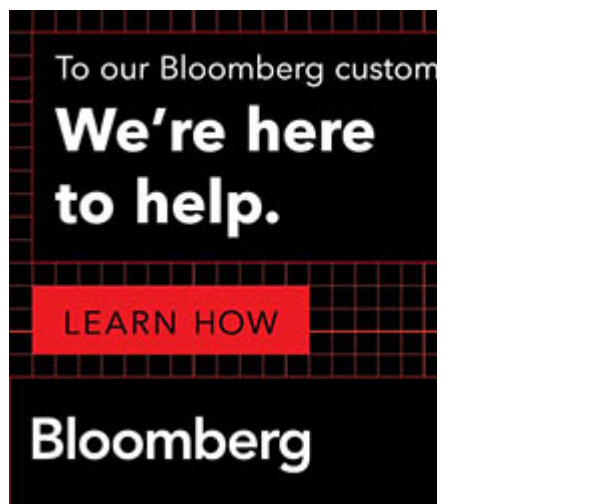
Stephen Poloz leaves a news conference in Ottawa on March 18, 2020. *Photographer: David Kawai/Bloomberg*

The Bank of Canada has expanded its authority to buy and sell securities outright, according to a public notice by the central bank.

The central bank added the right to buy and sell the debt of companies and municipalities, along with other instruments when it is “addressing a situation of financial system stress that could



to conduct buybacks on various products, including corporate debt.



“The ability to purchase securities outright is a crucial step in arresting the impairment in system-wide liquidity in Canada” Ian Pollick, Global Head of FICC Strategy at the Canadian Imperial Bank of Commerce, said by email. “Price-discovery has collapsed on the back of these stresses, so it is crucial for the Bank to respond in-kind with a program that targets both public and private sector assets.”

Spokeswoman Louise Egan confirmed the amendments were made primarily to enable the central bank to conduct operations under its new Bankers’ Acceptance Purchasing Facility. The changes are significant because the central bank can now make outright purchases of securities that were previously only allowed to be acquired via term repo buybacks.

The central bank has taken a series of measures to inject liquidity into the country’s financial system, to prevent funding markets from seizing up. Analysts say it may be forced to introduce a more formal quantitative easing program as the country contends with a dramatic rise in unemployment.

Bank economists now expect the Canadian economy to shrink between 10% and 24% on an annualized basis, a recession deeper than the worst of the 2008-09 financial crisis. Many see it as inevitable that Poloz and his governing council will cut the overnight rate to near zero, then start rummaging deeper into their toolbox.



question of when and not if.”

Sharp Economic Slide

Quantitative easing, which sees central banks buy government bonds as part of an effort to keep borrowing costs low for a prolonged period of time, would be a first for the Bank of Canada, which didn't follow its peers to such lengths during the 2008 crisis.



The global outlook is deteriorating rapidly, forcing central banks into new territory. The Federal Reserve said Monday it will buy unlimited amounts of Treasury bonds and mortgage-backed securities to suppress borrowing costs and ease the flow of credit amid a historic economic shock.

The Bank of Canada's governing council often distances itself from monetary policy decisions south of the border. But the Fed's move opens the door to a more robust response from Canadian policy makers.

“The Bank of Canada doesn't like being pushed by the Fed, but now it's global,” said Benjamin Reitzes, an economist at Bank of Montreal, which sees an 80% chance the central bank will need to start quantitative easing.





While Poloz said last week that other options are on the table, he made it clear the measures the bank has taken so far -- including upping the purchases of mortgage-backed securities -- don't constitute quantitative easing.

"The programs the bank has introduced are very important in unlocking funding markets," Pollick said. "The problem is, liquidity is so distressed that they are not working as planned. They need to bring out the Canadian bazooka," adding that he's certain the central bank will "imminently" launch QE.



(A previous version of this story was corrected to remove reference to government granting BoC new authority.)

(Updates with comments from analyst, spokeswoman from third paragraph.)

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