



Monetary policy

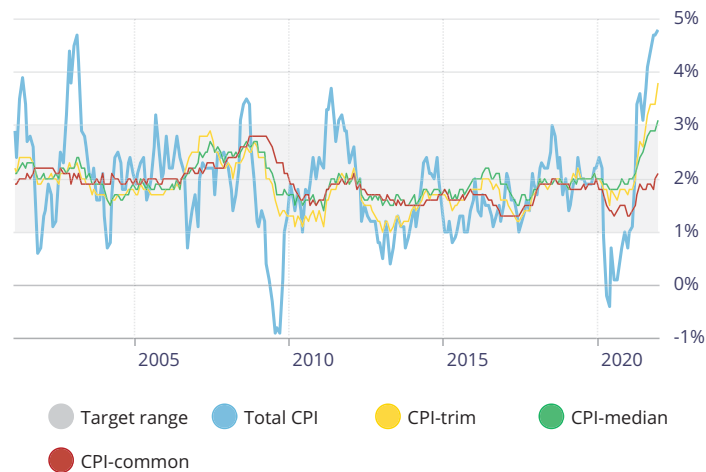
The Canadian economy continued to recover from the effects of the COVID-19 pandemic in 2021. As vaccination rates increased and health restrictions eased, growth—including in hard-to-distance services sectors—became more widespread.

The labour market also made impressive gains, and the very uneven impacts of the pandemic on the employment of women and youth were largely reversed. By the end of the year, employment had returned to its pre-pandemic level.

While the recovery was strong in 2021, reopening the economy brought new challenges. Disruptions to global supply chains pushed up the prices of many goods. Combined with higher energy and food prices, this contributed to rising inflation in Canada and in other countries. These supply disruptions also restrained economic activity.

Key inflation indicators and the target range

Year-over-year percentage change, quarterly data



Uncertainty remained heightened at the end of 2021. The spread of new variants of the virus continued to prolong the pandemic. The outlook for gross domestic product (GDP) and potential output remained difficult to assess due to:



<https://twitter.com/bankofcanada/status/1470409769739563009>

More information

[Our Renewed Monetary Policy Framework](#)

6. Staff used a model with a variety of households to assess the distributional effects of alternative frameworks. Robustness analyses with models using alternative expectations are important because private sector expectations play a crucial role in the economic performance of monetary policy frameworks.[←]

Improving technical understanding of possible designs

The anticipated features of a CBDC—universal accessibility, privacy, compliance, security and resilience—would be challenging to achieve. In 2021, the Bank made progress on the possible conceptual and technical designs of a CBDC. Collaborating with academics and specialists, the Bank investigated novel technologies, such as advances in cryptography, to:

- balance privacy with compliance requirements
- achieve the highest degree of security

This work must consider the pace of technological development, including the possibility that, in the future, quantum computers could challenge current security techniques.

The Bank also focused on expanding its expertise on accessibility issues. That's because the Bank strives to ensure that all Canadians—regardless of their personal circumstances—could use a CBDC if they wanted to. And it engaged three project teams from Canadian universities to develop fresh ideas on CBDC design independently of the Bank.

Monitoring the evolution of the Canadian payments landscape

Overseeing the rapidly evolving payments system helps the Bank determine whether the need to issue a CBDC might arise. This includes keeping track of new forms of digital money, such as stablecoins and CBDCs issued in other countries. In 2021, the Bank established a framework to support this process.

To reinforce its currency and payments functions, the Bank regularly conducts research exploring the Canadian payments landscape. This includes ongoing work to understand the:

- demand for and use of cash
- potential implications of a CBDC
- use and evolution of digital currencies and financial technologies (fintech)

Through models and laboratory experiments, staff conducted research on two-sided payment markets. This work will help the Bank estimate the likelihood of adoption of a CBDC. Researchers also used survey and administrative data as well as non-traditional data sources to better understand how a CBDC would compare with cash.

Toward the end of 2021, the Bank launched a project to explore the potential value proposition of a CBDC for consumers. This work reflects the Bank's ongoing commitment to ensure Canadians have an opportunity to share their views on this issue.

- upgrades to, and automation of, relevant Bank systems—including for risk monitoring and reporting—saving hundreds of hours of manual labour
- investments in information technology and processes to reduce heightened cyber risks arising from the Bank's shift to remote work

The Bank also took steps to align itself with industry best practices and to future-proof its operations. To this end, it initiated a comprehensive assessment of the maturity of its enterprise risk management (ERM), inviting input from Bank staff and external consulting firms. Results are being integrated into a new ERM strategic plan, which will be finalized in early 2022.

Strategic risk

Strategic risks arise from external conditions, such as widespread shifts in public perceptions of central banks. The Bank continued to be exposed to such risks because of the extraordinary nature of its response to the pandemic.

To manage these risks, the Bank continually monitored the situation and provided market participants and the public with clear communication on its policy actions.

Environmental and climate-related risk

In 2021, the Bank dedicated more resources to understanding and managing climate risks. It remained actively involved internationally, helping establish best practices for central banks and other financial sector participants.

The Bank also began developing a strategy for climate risk assessment to align its financial disclosures with the recommendations of the Task Force on Climate-Related Financial Disclosures.



Learn more about the Bank's [climate change work](#).

Looking forward

The Bank's risk management framework will continue to guide the Bank's efforts to support pandemic recovery. At the same time, the Bank will remain committed to improving its risk management strategy and tools.

In particular, in 2022 the Bank will:

- continue to monitor financial, operational and strategic risks arising from the current economic context and establish mitigation strategies as needed
- implement the final phases of its third-party risk management framework, which includes training, enhanced monitoring and reporting, and introducing new technologies and automation
- work toward publishing a report that follows the recommendations of the Task Force on Climate-Related Financial Disclosures and advance international standards for climate risk measurement and management

compensation adjustment.

- *Bank note research, production and processing* expenses were \$32 million (or 63%) higher during the year compared with 2020. This increase was driven by higher volumes of bank notes being printed. The timing of bank note production varies from one year to the next based on the annual production plan and market demand.

Other comprehensive income for the year was \$409 million. It consisted of remeasurement gains of \$422 million on the Bank's defined-benefit plans, offset by a decrease of \$13 million in the fair value of the Bank's investment in the BIS during the year. The remeasurement gains on the Bank's defined-benefit plans are mainly due to an increase both in the return on plan assets and in the discount rate used in the actuarial valuation.

Looking ahead through 2022

The Bank's 2022 plan (in millions of Canadian dollars)

	2021 budget		2021 actuals		2022 budget	
	\$	%	\$	%	\$	%
For the year ended December 31						
Staff costs	350	47	363	51	407	53
Bank note research, production and processing	91	12	83	12	55	7
Premises costs	36	5	34	5	32	4
Technology and telecommunications	109	14	95	13	101	13
Depreciation and amortization	60	8	67	9	71	10
Other operating expenses	104	14	72	10	100	13
Total expenditures	750	100	714	100	766	100

The year 2021 was the last year of the Bank's 2019–21 medium-term plan, *Leading in the New Era*. The Bank's financial management framework supports strategic planning and enables decision making for allocating resources to achieve the Bank's objectives, to mitigate risks and to invest in the Bank's people and tools in a prudent fiscal manner. The framework was updated in 2021 to better align the needs for financial management with the Bank's financial reporting structure.⁴⁰

In 2021, the Bank did not spend its full budget, mainly due to ongoing delays in projects. This resulted in revised workplans and shifting some expenditures to future years. Outside of *Staff costs*, which represents the largest portion of the Bank's core expenditures, other expenditures include the cost of enhancing systems and tools to support operations to sustain the Bank's resilience posture and prepare for the future. The expenditures are also put toward supporting the Bank's new mandates, continuing the Bank's digital transformation and reducing the Bank's risk.