



Monetary Policy Statement

Bank of Canada

Date: 29 October 2025

The Bank of Canada today reduced its target for the overnight rate by 25 basis points to 2.25%, with the Bank Rate at 2.5% and the deposit rate at 2.20%.

With the effects of US trade actions on economic growth and inflation somewhat clearer, the Bank has returned to its usual practice of providing a projection for the global and Canadian economies in this *Monetary Policy Report* (MPR). Because US trade policy remains unpredictable and uncertainty is still higher than normal, this projection is subject to a wider-than-usual range of risks.

While the global economy has been resilient to the historic rise in US tariffs, the impact is becoming more evident. Trade relationships are being reconfigured and ongoing trade tensions are dampening investment in many countries. In the MPR projection, the global economy slows from about 3¼% in 2025 to about 3% in 2026 and 2027.

In the United States, economic activity has been strong, supported by the boom in AI investment. At the same time, employment growth has slowed and tariffs have started to push up consumer prices. Growth in the euro area is decelerating due to weaker exports and slowing domestic demand. In China, lower exports to the United States have been offset by higher exports to other countries, but business investment has weakened. Global financial conditions have eased further since July and oil prices have been fairly stable. The Canadian dollar has depreciated slightly against the US dollar.

Canada's economy contracted by 1.6% in the second quarter, reflecting a drop in exports and weak business investment amid heightened uncertainty. Meanwhile, household spending grew at a healthy pace. US trade actions and related uncertainty are having severe effects on targeted sectors including autos, steel, aluminum, and lumber. As a result, GDP growth is expected to be weak in the second half of the year. Growth will get some support from rising consumer and government spending and residential investment, and then pick up gradually as exports and business investment begin to recover.

Canada's labour market remains soft. Employment gains in September followed two months of sizeable losses. Job losses continue to build in trade-sensitive sectors and hiring has been weak across the economy. The unemployment rate remained at 7.1% in September and wage growth has slowed. Slower population growth means fewer new jobs are needed to keep the employment rate steady.



The Bank projects GDP will grow by 1.2% in 2025, 1.1% in 2026 and 1.6% in 2027. On a quarterly basis, growth strengthens in 2026 after a weak second half of this year. Excess capacity in the economy is expected to persist and be taken up gradually.

CPI inflation was 2.4% in September, slightly higher than the Bank had anticipated. Inflation excluding taxes was 2.9%. The Bank's preferred measures of core inflation have been sticky around 3%. Expanding the range of indicators to include alternative measures of core inflation and the distribution of price changes among CPI components suggests underlying inflation remains around 2½%. The Bank expects inflationary pressures to ease in the months ahead and CPI inflation to remain near 2% over the projection horizon.

With ongoing weakness in the economy and inflation expected to remain close to the 2% target, Governing Council decided to cut the policy rate by 25 basis points. If inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment. If the outlook changes, we are prepared to respond. Governing Council will be assessing incoming data carefully relative to the Bank's forecast.

The Canadian economy faces a difficult transition. The structural damage caused by the trade conflict reduces the capacity of the economy and adds costs. This limits the role that monetary policy can play to boost demand while maintaining low inflation. The Bank is focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.

Information note

The next scheduled date for announcing the overnight rate target is December 10, 2025. The Bank's next MPR will be released on January 28, 2026.