Monetary Policy Statement

Bank of Canada

Date: 28 October 2026

The Bank of Canada today increased its target for the overnight rate by 25 basis points to 2.5%, with the Bank Rate at 2.75% and the deposit rate at 2.45%.

Since the July Monetary Policy Report, global economic activity has remained resilient, despite higher energy prices. In the United States, the economy continues to grow at a robust pace, supported by consumer spending and AI-related investment. Growth in the euro area has been resilient and broad-based. After slowing in the second quarter, Chinese growth rebounded in the third quarter, owing to strength in exports and a pickup in fiscal spending. With persistently elevated oil prices and refinery margins, inflation has risen in most countries.

Given the ongoing resilience of the global economy, the Bank has revised up global GDP growth slightly to 3.1% in 2026, while growth in 2027 and 2028 remains unchanged from the July projection at 3.2%.

Global financial conditions have tightened since July. Advanced economy sovereign bond yields are higher. Equity and credit markets have been volatile due to uncertainty about the outlook for the AI sector. The Canadian dollar had weakened somewhat on US-dollar strength but has since recovered to around 71 cents – the same as assumed in the July Report.

Growth picked up in Canada through the middle of the year. GDP growth was 3.3% in the second quarter, and recent indicators point to growth of about 2% in the third quarter. This is stronger than expected in the July Report. Consumer spending has been solid, even with slow population growth. Business investment rebounded, reflecting oil and gas sector activity and spending on machinery and equipment. Despite ongoing weakness in sectors affected by US tariffs, exports overall have strengthened, owing to robust US demand, higher energy production and increasing signs that businesses are adapting to the changing trade environment. The unemployment rate has been around 6½% for several months. A broad set of indicators continue to point to some excess supply in the economy.

Owing to new US tariffs, growth is expected to slow in the fourth quarter of 2026, before picking up again in 2027. This rebound is supported by business investment, exports and fiscal measures. Consumption growth is expected to moderate and housing to remain relatively weak.

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The Canadian economy is expected to grow 1% in 2026, and 2% in 2027 and 2028. This is a somewhat stronger overall growth projection than the July Report. This forecast is still subject to considerable uncertainty, particularly regarding Canada-US trade relations.

Given persistently high oil prices, CPI inflation has been around 3% since April and is expected to rise to about 3½% by the end of the year. Excluding gasoline, inflation was 2.2% in September and measures of core inflation remain close to 2%. But cost pressures are building, with high fuel prices raising the costs of production and transportation. Imported industrial and electronics input prices have also increased. While businesses have mostly absorbed higher input costs so far, Bank surveys suggest cost pass-through will increase over the next year. Near-term household and business inflation expectations have risen, while longer-term inflation expectations remain well anchored.

The conflict in the Middle East is now in its eighth month and there is no clear path to resolution. The combination of higher-for-longer energy prices and increased pass-through adds to the persistence of inflation in the projection. CPI inflation is expected to average 3% in 2027, a percentage point above the July projection, then come down to 2% in the middle of 2028. The main sources of uncertainty around this forecast are developments in the Middle East and businesses' responses to cost pressures.

In the outlook, inflation is higher and more persistent than in the July Report. Growth has picked up this year and is expected to recover further. Against this backdrop, Governing Council decided to increase the policy rate to reduce the risk that continuing high energy prices spread broadly to the prices of other goods and services. There could be a need to increase the policy rate further, but given uncertainties, Governing Council agreed to proceed carefully. The Bank remains committed to maintaining Canadians' confidence in price stability.

Information note

The next scheduled date for announcing the overnight rate target is December 9, 2026. The Bank's next Monetary Policy Report will be released on January 27, 2027.

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