



Bank of Canada -- Seated on the sidelines

The Bank of Canada (BoC)'s policy-setting Governing Council opted to, again, leave the policy overnight interest rate unchanged at 2.25% in [today's decision](#)¹, meeting market expectations (every economist polled by Bloomberg anticipated no change) and resulting in few waves in the market.

The statement accompanying the decision (provided below for ease of reference) noted that the economic outlook has largely evolved in line with the BoC's last set of forecasts from [October](#)², and their [updated forecasts](#)³ have not changed significantly with underlying momentum generally improving globally, while U.S. trade policies are hampering Canadian exports and restraining domestic growth. This is expected to keep growth "modest" in the near-term with the general caveat that the outlook is "vulnerable to unpredictable US trade policies and geopolitical risks" and a specific reference to the looming review of the trade pact with the U.S.

The BoC acknowledged the strength in Canadian employment data through the end of 2025, but cautioned that surveys show "relatively few businesses say they plan to hire more workers" and the unemployment rate "remains elevated." The indication of the economy operating with excess supply (the BoC's estimate of the output gap in the [Monetary Policy Report](#)⁴, released in tandem with today's decision, is -1.5% to -0.5%) is expected to keep inflation on a downward trajectory, with the BoC projecting core inflation falling back toward the 2% target by the end of the year (from its currently estimated 2.5%).

The balance of risks to growth and inflation left the BoC to, again, judge that "the current policy rate remains appropriate" at the bottom end of neutral range (again, assumed to be 2.25% to 3.25%), though policymakers continue to monitor risks closely since "uncertainty is heightened" and they are "prepared to respond" if the outlook changes.

Further to this point, BoC Governor Macklem noted in the [opening statement](#)⁵ to his post-meeting presser that the consensus at the BoC was "that elevated uncertainty makes it difficult to predict the timing or direction of the next change in the policy rate."

For what it is worth, my view is that the bar for further rate cuts, which would take the policy stance into the "easy" territory, is fairly high given concerns around inflation (the communications reiterated that monetary policy in Canada "is focused on keeping inflation close to the 2% target while helping the economy through this period of structural adjustment").

¹ Bank of Canada, Press Releases, *Bank of Canada maintains policy rate at 2¼%*, January 28, 2026, <https://www.bankofcanada.ca/2026/01/fad-press-release-2026-01-28/>

² Bank of Canada, Publications, *Monetary Policy Report, Monetary Policy Report—October 2025*, October 29, 2025, <https://www.bankofcanada.ca/publications/mpr/mpr-2025-07-30/section-8/>

³ Bank of Canada, Publications, *Monetary Policy Report—January 2026*, January 28, 2026, <https://static.bankofcanada.ca/uploads/pdf/mpr-2026-01-28.pdf>

⁴ Ibid.

⁵ Bank of Canada, Press Speeches and appearances, *Monetary Policy Report Press Conference Opening Statement, Opening statement, Tiff Macklem*, January 28, 2026, <https://www.bankofcanada.ca/2026/01/opening-statement-2026-01-28/>

At the same time, the bar for starting a tightening cycle any time soon is likely considerably higher given the domestic economy's estimated output gap and the uncertainty clouding the outlook ("uncertainty" is used **three** times in the policy statement, **seven** times in the Governor's opening statement and **22** times in the MPR).

Accordingly, unless there is a material and sustained shift in the outlook, one way or the other, it looks likely that the Bank of Canada will be comfortable sitting on the sidelines for the foreseeable future.

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STATEMENT

Bank of Canada maintains policy rate at 2¼%

FOR IMMEDIATE RELEASE | [Media Relations](#) | [Ottawa, Ontario](#)

January 28, 2026

The Bank of Canada today held its target for the overnight rate at 2.25%, with the Bank Rate at 2.5% and the deposit rate at 2.20%.

The outlook for the global and Canadian economies is little changed relative to the projection in the October Monetary Policy Report (MPR). However, the outlook is vulnerable to unpredictable US trade policies and geopolitical risks.

Economic growth in the United States continues to outpace expectations and is projected to remain solid, driven by AI-related investment and consumer spending. Tariffs are pushing up US inflation, although their effect is expected to fade gradually later this year. In the euro area, growth has been supported by activity in service sectors and will get additional support from fiscal policy. China's GDP growth is expected to slow gradually, as weakening domestic demand offsets strength in exports. Overall, the Bank expects global growth to average about 3% over the projection horizon.

Global financial conditions have remained accommodative overall. Recent weakness in the US dollar has pushed the Canadian dollar above 72 cents, roughly where it had been since the October MPR. Oil prices have been fluctuating in response to geopolitical events and, going forward, are assumed to be slightly below the levels in the October report.

US trade restrictions and uncertainty continue to disrupt growth in Canada. After a strong third quarter, GDP growth in the fourth quarter likely stalled. Exports continue to be buffeted by US tariffs, while domestic demand appears to be picking up. Employment has risen in recent months. Still, the unemployment rate remains elevated at 6.8% and relatively few businesses say they plan to hire more workers.

Economic growth is projected to be modest in the near term as population growth slows and Canada adjusts to US protectionism. In the projection, consumer spending holds up and business investment strengthens gradually, with fiscal policy providing some support. The Bank projects growth of 1.1% in 2026 and 1.5% in 2027, broadly in line with the October projection. A key source of uncertainty is the upcoming review of the Canada-US-Mexico Agreement.

CPI inflation picked up in December to 2.4%, boosted by base-year effects linked to last winter's GST/HST holiday. Excluding the effect of changes in taxes, inflation has been slowing since September. The Bank's preferred measures of core inflation have eased from 3% in October to around 2½% in December. Inflation was 2.1% in 2025 and the Bank expects inflation to stay close to the 2% target over the projection period, with trade-related cost pressures offset by excess supply.

Monetary policy is focused on keeping inflation close to the 2% target while helping the economy through this period of structural adjustment. Governing Council judges the current policy rate remains appropriate, conditional on the economy evolving broadly in line with the outlook we published today. However, uncertainty is heightened and we are monitoring risks closely. If the outlook changes, we are prepared to respond. The Bank is committed to ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.

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