

Bank of Canada - Upside risks to inflation countered by downside risks to growth keep policymakers on the sidelines

The Bank of Canada (BOC) made no changes to its policy stance in today's decision, keeping the overnight policy rate target at 2.25% for the seventh consecutive meeting since moving to the lower end of the central bank's "neutral" range last October. The non-decision at a meeting without updated forecasts (the next Monetary Policy Report will be released in conjunction with the next policy decision on October 28) was as universally expected, so the market response has been minimal (Canadian yields are up a little bit while the Loonie is a bit firmer against the U.S. dollar).

The [statement accompanying today's decision](#)¹ (text provided below for ease of access) offered a reasonably balanced assessment of the current economic backdrop.

While domestic growth strengthened in Q2 as anticipated following a period of weakness, with the "broad-based" pickup in activity reaffirming the view of a "broadening recovery of the Canadian economy", the BOC flagged that "some of the recent strength reflected temporary factors" and that "indicators point to continued excess supply in the economy". Looking forward, "uncertainty is high" and the new U.S. tariffs, and threats of more to come, "pose risks to the sustainability of the recovery" and "make growth prospects more uncertain" — Bank of Canada Governor Macklem noted in his press conference opening statement that policymakers "don't expect them to have a large direct impact on the overall level of economic activity", but that the "added uncertainty about the future of Canada-US trade relations may lead businesses more broadly to delay investment and hiring decisions".

On inflation, the BOC sees "little evidence of higher energy prices spreading into other components of inflation" and notes that measures of core inflation "remained close to 2%". That said, there has been limited progress in resolving the conflict in the Middle East, with the likelihood of higher energy prices for longer raising the risks of spillovers to other prices and resulting in upside risks to the BOC's inflation forecasts. Further, the new wave of tariffs (and counter-tariffs) also put upward pressure on costs for some businesses that "could feed into consumer prices over time".

The Bank of Canada also acknowledged that "financial conditions have tightened" since the last policy meeting in July, as long-term bond yields have moved up and the Canadian dollar "has appreciated slightly on US-dollar weakness".

So, increased upside risks to inflation are being countered by increased downside risks to growth — the slight bear-flattening of the curve this morning could suggest that the market is placing a bit more emphasis on the former (the overnight index swap-implied path for policy rates is marginally higher post-decision, though the probability of a hike by year-end remains around 60%).

¹ Bank of Canada, Press Releases, September 2, 2026, <https://www.bankofcanada.ca/2026/09/fad-press-release-2026-09-02/>

The increased “uncertainty” (a variation of the word appeared twice in the policy statement and five times in the opening statement for the presser) over the outlook combined with the view that Canada has an output gap, underlying inflation has been fairly well-behaved and financial conditions have tightened, however, does not suggest there is much impetus for the BOC to do much of anything for the foreseeable future other than wait and see how things develop.

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STATEMENT

Bank of Canada maintains policy rate at 2¼%

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

September 2, 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 continuing conflict in the Middle East is keeping energy prices high. As well, new US tariffs and Canadian counter-measures have been announced following the breakdown of trade talks between Canada and the United States. Both situations remain fluid.

In the United States, economic growth continues to be solid, driven by consumer spending and AI-related investment. Growth in the euro area was stronger than expected in the second quarter, while China's economy slowed. Overall, the global economy has shown resilience in the face of geopolitical headwinds, with growth broadly consistent with the July *Monetary Policy Report* (MPR) projection. With still-high oil prices and elevated margins for refined energy products, inflation in most countries remains high.

Financial conditions have tightened since July. Long-term bond yields have moved up globally, including in Canada. The Canadian dollar has appreciated slightly on US-dollar weakness.

As expected, Canadian economic activity strengthened in the second quarter, with GDP up by 3.3%, following very weak growth in the first quarter. While some of the recent strength reflected temporary factors, the pick-up in activity was broad-based. Consumption showed solid gains. Following several weak quarters, there was some rebound in housing activity. Exports and business investment were up sharply. Labour market conditions have improved in recent months, with the unemployment rate edging down to 6.4% in July. Still, demand for labour remains subdued and indicators point to continued excess supply in the economy.

Overall, recent data reaffirm Governing Council's view of a broadening recovery in Canada's economy. However, uncertainty is high and new US tariffs and threats of further action pose risks to the sustainability of the recovery.

CPI inflation has been hovering around 3% in recent months, mainly because of persistently higher gasoline prices. So far, there has been little evidence of higher energy prices spreading to other components of inflation: excluding gasoline, inflation was 2.2% and measures of core inflation remained close to 2% in July. However, with the Middle East conflict still ongoing and little progress reopening the Strait of Hormuz, upside risks to the Bank's inflation forecast have increased. The longer that high oil prices and elevated refinery margins persist, the greater the risk of spillover to the prices of other goods and services. New US tariffs and Canadian counter-tariffs will also raise costs for some businesses and could feed into consumer prices over time.

With the economy and inflation evolving broadly as forecast in the July MPR, Governing Council agreed to leave the policy rate unchanged. However, the upside risks to inflation have increased, while new tariffs make growth prospects more uncertain. Governing Council will assess the sustainability of the economic rebound and the outlook for inflation, and is prepared to adjust monetary policy as needed. The Bank remains committed to maintaining Canadians' confidence in price stability through this period of global upheaval.

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