



BANK OF CANADA
BANQUE DU CANADA

Bank of Canada increases policy interest rate by 100 basis points, continues quantitative tightening

FOR IMMEDIATE RELEASE

Media Relations

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The Bank of Canada today increased its target for the overnight rate to 2½%, with the Bank Rate at 2¾% and the deposit rate at 2½%. The Bank is also continuing its policy of quantitative tightening (QT).

Inflation in Canada is higher and more persistent than the Bank expected in its April *Monetary Policy Report* (MPR), and will likely remain around 8% in the next few months. While global factors such as the war in Ukraine and ongoing supply disruptions have been the biggest drivers, domestic price pressures from excess demand are becoming more prominent. More than half of the components that make up the CPI are now rising by more than 5%. With this broadening of price pressures, the Bank's core measures of inflation have moved up to between 3.9% and 5.4%. Also, surveys indicate more consumers and businesses are expecting inflation to be higher for longer, raising the risk that elevated inflation becomes entrenched in price- and wage-setting. If that occurs, the economic cost of restoring price stability will be higher.

Global inflation is higher, reflecting the impact of the Russian invasion of Ukraine, ongoing supply constraints, and strong demand. Many central banks are tightening monetary policy to combat inflation, and the resulting tighter financial conditions are moderating economic growth. In the United States, high inflation and rising interest rates are contributing to a slowdown in domestic demand. China's economy is being held back by waves of restrictive measures to contain COVID-19 outbreaks. Oil prices remain high and volatile. The Bank now expects global economic growth to slow to about 3½% this year and 2% in 2023 before strengthening to 3% in 2024.

Further excess demand has built up in the Canadian economy. Labour markets are tight with a record low unemployment rate, widespread labour shortages, and increasing wage pressures. With strong demand, businesses are passing on higher input and labour costs by raising prices. Consumption is robust, led by a rebound in spending on hard-to-distance services. Business investment is solid and exports are being boosted by elevated commodity prices. The Bank estimates that GDP grew by about 4% in the second quarter. Growth is expected to slow to about 2% in the third quarter as consumption growth moderates and housing market activity pulls back following unsustainable strength during the pandemic.

The Bank expects Canada's economy to grow by 3½% in 2022, 1¾% in 2023, and 2½% in 2024. Economic activity will slow as global growth moderates and tighter monetary policy works its way through the economy. This, combined with the resolution of supply disruptions, will bring demand and supply back into balance and alleviate inflationary pressures. Global energy prices are also projected to decline. The July outlook has inflation starting to come back down later this year, easing to about 3% by the end of next year and returning to the 2% target by the end of 2024.

With the economy clearly in excess demand, inflation high and broadening, and more businesses and consumers expecting high inflation to persist for longer, the Governing Council decided to front-load the path to higher interest rates by raising the policy rate by 100 basis points today. The Governing Council continues to judge that interest rates will need to rise further, and the pace of increases will be guided by the Bank's ongoing assessment of the economy and inflation. Quantitative tightening continues and is complementing increases in the policy interest rate. The Governing Council is resolute in its commitment to price stability and will continue to take action as required to achieve the 2% inflation target.

Information note

The next scheduled date for announcing the overnight rate target is September 7, 2022. The Bank will publish its next full outlook for the economy and inflation, including risks to the projection, in the *MPR* on October 26, 2022.

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Monetary Policy Report – July 2022

The Canadian economy is now clearly in excess demand, and inflation is high and broadening. The Bank is projecting inflation to decline to about 3% by the end of 2023, and to return to the 2% target by the end of 2024.

Press Conference: Monetary Policy Report – July 2022

Release of the Monetary Policy Report — Press conference by Governor Tiff Macklem and Carolyn Rogers, Senior Deputy Governor (11:00 (ET) approx.).

Monetary Policy Report Press Conference Opening Statement

Governor Tiff Macklem discusses key issues involved in the Governing Council's deliberations about the policy rate decision and the MPR.