



Bank of Canada increases policy interest rate by 50 basis points, continues quantitative tightening

FOR IMMEDIATE RELEASE

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The Bank of Canada today increased its target for the overnight rate to 3¾%, with the Bank Rate at 4% and the deposit rate at 3¾%. The Bank is also continuing its policy of quantitative tightening.

Inflation around the world remains high and broadly based. This reflects the strength of the global recovery from the pandemic, a series of global supply disruptions, and elevated commodity prices, particularly for energy, which have been pushed up by Russia's attack on Ukraine. The strength of the US dollar is adding to inflationary pressures in many countries. Tighter monetary policies aimed at controlling inflation are weighing on economic activity around the world. As economies slow and supply disruptions ease, global inflation is expected to come down.

In the United States, labour markets remain very tight even as restrictive financial conditions are slowing economic activity. The Bank projects no growth in the US economy through most of next year. In the euro area, the economy is forecast to contract in the quarters ahead, largely due to acute energy shortages. China's economy appears to have picked up after the recent round of pandemic lockdowns, although ongoing challenges related to its property market will continue to weigh on growth. Overall, the Bank projects that global growth will slow from 3% in 2022 to about 1½% in 2023, and then pick back up to roughly 2½% in 2024. This is a slower pace of growth than was projected in the Bank's July *Monetary Policy Report* (MPR).

In Canada, the economy continues to operate in excess demand and labour markets remain tight. The demand for goods and services is still running ahead of the economy's ability to supply them, putting upward pressure on domestic inflation. Businesses continue to report widespread labour shortages and, with the full reopening of the economy, strong demand has led to a sharp rise in the price of services.

The effects of recent policy rate increases by the Bank are becoming evident in interest-sensitive areas of the economy: housing activity has retreated sharply, and spending by households and businesses is softening. Also, the slowdown in international demand is beginning to weigh on exports. Economic growth is expected to stall through the end of this year and the first half of next year as the effects of higher interest rates spread through the economy. The Bank projects GDP growth will slow from 3¼% this year to just under 1% next year and 2% in 2024.

In the last three months, CPI inflation has declined from 8.1% to 6.9%, primarily due to a fall in gasoline prices. However, price pressures remain broadly based, with two-thirds of CPI components increasing more than 5% over the past year. The Bank's preferred measures of core inflation are not yet showing meaningful evidence that underlying price pressures are easing. Near-term inflation expectations remain high, increasing the risk that elevated inflation becomes entrenched.

The Bank expects CPI inflation to ease as higher interest rates help rebalance demand and supply, price pressures from global supply disruptions fade, and the past effects of higher commodity prices dissipate. CPI inflation is projected to move down to about 3% by the end of 2023, and then return to the 2% target by the end of 2024.

Given elevated inflation and inflation expectations, as well as ongoing demand pressures in the economy, the Governing Council expects that the policy interest rate will need to rise further. Future rate increases will be influenced by our assessments of how tighter monetary policy is working to slow demand, how supply challenges are resolving, and how inflation and inflation expectations are responding. Quantitative tightening is complementing increases in the policy rate. We are resolute in our commitment to restore price stability for Canadians 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 December 7, 2022. The Bank will publish its next full outlook for the economy and inflation, including risks to the projection, in the MPR on January 25, 2023.

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Monetary Policy Report – October 2022

While inflation has come off its peak, it remains too high. As the economy responds to higher interest rates and as the effects of elevated commodity prices and supply disruptions fade, the Bank expects inflation to fall to about 3% in late 2023, then return to 2% in 2024.

Press Conference: Monetary Policy Report – October 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.