



BANK OF CANADA  
BANQUE DU CANADA

# Bank of Canada increases policy interest rate by 75 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 3¼%, with the Bank Rate at 3½% and the deposit rate at 3¼%. The Bank is also continuing its policy of quantitative tightening.

The global and Canadian economies are evolving broadly in line with the Bank's July projection. The effects of COVID-19 outbreaks, ongoing supply disruptions, and the war in Ukraine continue to dampen growth and boost prices.

Global inflation remains high and measures of core inflation are moving up in most countries. In response, central banks around the world continue to tighten monetary policy. Economic activity in the United States has moderated, although the US labour market remains tight. China is facing ongoing challenges from COVID shutdowns. Commodity prices have been volatile: oil, wheat and lumber prices have moderated while natural gas prices have risen.

In Canada, CPI inflation eased in July to 7.6% from 8.1% because of a drop in gasoline prices. However, inflation excluding gasoline increased and data indicate a further broadening of price pressures, particularly in services. The Bank's core measures of inflation continued to move up, ranging from 5% to 5.5% in July. Surveys suggest that short-term inflation expectations remain high. The longer this continues, the greater the risk that elevated inflation becomes entrenched.

The Canadian economy continues to operate in excess demand and labour markets remain tight. Canada's GDP grew by 3.3% in the second quarter. While this was somewhat weaker than the Bank had projected, indicators of domestic demand were very strong – consumption grew by about 9½% and business investment was up by close to 12%. With higher mortgage rates, the housing market is pulling back as anticipated, following unsustainable growth during the pandemic. The Bank continues to expect the economy to moderate in the second half of this year, as global demand weakens and tighter monetary policy here in Canada begins to bring demand more in line with supply.

Given the outlook for inflation, the Governing Council still judges that the policy interest rate will need to rise further. Quantitative tightening is complementing increases in the policy rate. As the effects of tighter monetary policy work through the economy, we will be assessing how much higher interest rates need to go to return inflation to target. The Governing Council remains resolute in its commitment to price stability and will continue to take action as required to achieve the 2% inflation target.

## Information note

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

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