



BANK OF CANADA
BANQUE DU CANADA

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

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The Bank of Canada today increased its target for the overnight rate to 4¼%, with the Bank Rate at 4½% and the deposit rate at 4¼%. The Bank is also continuing its policy of quantitative tightening.

Inflation around the world remains high and broadly based. Global economic growth is slowing, although it is proving more resilient than was expected at the time of the October *Monetary Policy Report* (MPR). In the United States, the economy is weakening but consumption continues to be solid and the labour market remains overheated. The gradual easing of global supply bottlenecks continues, although further progress could be disrupted by geopolitical events.

In Canada, GDP growth in the third quarter was stronger than expected, and the economy continued to operate in excess demand. Canada's labour market remains tight, with unemployment near historic lows. While commodity exports have been strong, there is growing evidence that tighter monetary policy is restraining domestic demand: consumption moderated in the third quarter, and housing market activity continues to decline. Overall, the data since the October MPR support the Bank's outlook that growth will essentially stall through the end of this year and the first half of next year.

CPI inflation remained at 6.9% in October, with many of the goods and services Canadians regularly buy showing large price increases. Measures of core inflation remain around 5%. Three-month rates of change in core inflation have come down, an early indicator that price pressures may be losing momentum. However, inflation is still too high and short-term inflation expectations remain elevated. The longer that consumers and businesses expect inflation to be above the target, the greater the risk that elevated inflation becomes entrenched.

Looking ahead, Governing Council will be considering whether the policy interest rate needs to rise further to bring supply and demand back into balance and return inflation to target. Governing Council continues to assess 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 achieving the 2% inflation target and restoring price stability for Canadians.

Information note

The next scheduled date for announcing the overnight rate target is January 25, 2023. 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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