

# MNI Bank Of Canada Review: Mar 2026

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## MNI View: BOC Leans Dovish In Energy “Dilemma”

Mar 18, 2026 - By Tim Cooper

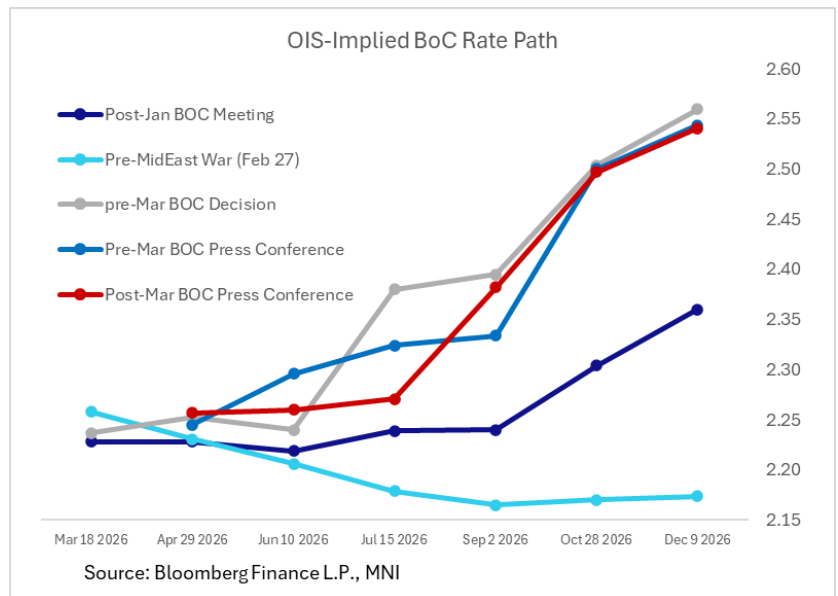
The Bank of Canada’s March meeting came with the overwhelmingly expected rate hold (overnight rate at 2.25% for the 3<sup>rd</sup> consecutive meeting), as well as the anticipated focus on the new risks presented to the outlook from the conflict in the Middle East.

In our view, while the overall messaging on rates was largely neutral, the BOC’s take on the impact of higher energy prices leans slightly dovish. The communications emphasized downside risks to growth, and Gov Macklem mused that without the energy price shock and associated inflationary pressures, the BOC might have been talking about cutting rates this year given weaker-than-expected growth and soft labour market data. In some ways that vindicated inter-market market pricing which ended February pricing in a slight easing bias through year-end on the back of softening data, but now prices in a hike by year-end.

The press conference emphasized that the BOC would take its time to assess the war’s impact, and while it would look through near-term headline inflation increases, it would be looking carefully at core metrics to gauge whether there was an impact on broader price pressures. Macklem said “I don’t think you measure this in weeks”, but the current assessment is that “the risk that higher energy prices are going to quickly spread to other goods and services looks contained” due in part to excess supply in the economy.

Markets took the meeting fairly neutrally, with a slight dovish move in the June and July meeting-dated OIS implied rates, though volatility was more attributable to actual developments in the Middle East/energy prices on the day than to the BOC itself.

At the conclusion of the press conference there were around 28bp of hikes priced through 2026, vs around 30bp prior to the decision, with a 25bp hike seen roughly by the October meeting.



**Statement: Initial Communications Notable For Highlighting Growth Risks:** The BOC's new policy statement leans a little more dovish than expected in our view, having been heavily revised with multiple mentions of the growth trajectory appearing weaker than previously expected. Clearly the BOC is trying to strike a balance between the risks of elevated inflation vs weaker growth stemming from the Mideast crisis, but most analysts see the higher energy prices as a net positive for Canadian GDP, so the BOC's caution on this front is notable. Additionally, the communications sound like they are trying to anchor inflation expectations by mentioning that the Bank is wary of the coming near-term increase in energy price-driven headline CPI, but the underlying message is that for now they can look through that bump given economic weakness containing broader inflation rises.

- The Statement contains a prominent mention just below the rate decision of the war in the Middle East, which "has increased volatility in global energy prices and financial markets, and heightened the risks to

the global economy. The breadth and duration of the conflict, and hence its economic impacts, are highly uncertain."

- While "It's too early to assess the impact of the conflict in the Middle East on growth in Canada" (Gov Macklem's opening statement notes it has "has broadened the range of possible outcomes"), "the sharp increase in global energy prices has led to increases in gasoline prices, and this will push up total inflation in the coming months."
- But as Macklem notes, "economic weakness combined with rising inflation is a dilemma for central banks" as "raising interest rates to slow inflation could further weaken the economy. Easing interest rates to support growth risks pushing inflation well above target."
- We took note that Macklem highlighted slack in the economy as helping absorb the inflation impact. "With inflation close to target and the economy in excess supply, the risk that higher energy prices quickly spread to the prices of other goods and services looks contained. But the longer this conflict lasts and the wider it gets, the bigger the risks."
- Governing Council wasn't worried about the Q4 GDP miss vs its projections (attributing it to a large drawdown in inventories), but "recent data suggest that near-term economic growth will be weaker than anticipated in January. " And "the labour market remains soft".
- January's guidance: "Monetary policy is focused on keeping inflation close to the 2% target while helping the economy through this period of structural adjustment. Governing Council judges the current policy rate remains appropriate, conditional on the economy evolving broadly in line with the outlook we published today. However, uncertainty is heightened and we are monitoring risks closely. If the outlook changes, we are prepared to respond"
- However, March's guidance highlights both upside inflation risks and downside growth risks: "With recent data pointing to weaker economic activity and uncertainty elevated, risks to growth look tilted to the downside. At the same time, inflation risks have gone up due to higher energy prices. We will continue to assess the impact of US tariffs and trade policy uncertainty, and how the Canadian economy is adjusting. We are also monitoring the unfolding conflict in the Middle East closely and assessing its impact on growth and inflation. As the outlook evolves, we stand ready to respond as needed."

**Gov Macklem: If Didn't Have Inflation Jump, Could Be Talking About Cuts:** Indeed, in the press conference, Gov Macklem mused that without the energy price shock and associated inflationary pressures, the BOC might have been talking about cutting rates this year given weaker-than-expected growth and soft labour market data.

- "When we look at the data today compared to what we forecast for Q1 growth back in January, it looks like it's going to come in lower than what we previously forecast. So the risks are tilted to the downside on growth."
- As 2026 economic data comes in, "we would be looking at, how's that risk materializing? And, yes, if it was materializing further and we didn't have inflationary pressures, I expect we would be talking about lower rates. But you know, we're operating a world where there's more than one thing going on. We're now facing increased inflation risks. And you know, those two things go in opposite directions for monetary policy."

**Macklem: Too Early To Tell Growth Impact Of Mideast Conflict:** Asked whether a higher oil price is a net positive or negative for the Canadian economy, Gov Macklem said that the impact is mixed, and overall it's too early to tell:

- "There are multiple effects of higher oil prices on the Canadian economy and as you suggest, it depends, very importantly, on the duration. If oil prices stay high for an extended period, that does mean that the income coming into the country from our exports of [energy]. That will tend to support the economy. The other side, of course, is that for consumers, for most businesses, most other businesses higher oil prices are going to squeeze them...There are also some other effects...since the start of the war. You've seen some tightening in in financial conditions..."
- "The longer this conflict goes on, there is more potential for for wider implications. Oil and natural gas are not the only commodities that go through the Strait of Hormuz. Other petrochemical commodities, fertilizers, in particular, if they're blocked, that will have other global impacts. So also say, I think the short answer, look is, it's too early to assess the effect on growth. It's going to depend importantly on duration, and it's going to depend on sort of how this this conflict materializes. I think what we can say is that certainly, if it lasts, whether it's net positive or net negative, I think you will see some shifts in the

composition of growth. Obviously, the energy sector will do better. Consumers will be more squeezed.

**Macklem: Got Some Time To Assess Energy Shock:** MNI's Greg Quinn asked whether the current "dilemma" mentioned in the statement means that the BOC has a balanced view of policy moves, or is leaning more toward a potential hike. Gov Macklem is typically non-committal and says they've "got some time" to assess the situation:

- "The short answer, Greg, is: uncertainty is high...This [the impact from the conflict in the Middle East] is an economic shock. How big it is is going to depend a lot on how long it lasts, whether it widens, how disruptive it is."
- "Our measures of core [inflation] have been decelerating, and the economy is in excess supply. So what that tells us is that the risk that higher energy prices are going to quickly spread to other goods and services that looks contained, that doesn't look too high. So we've got some time. So it made sense to hold today. We know inflation is going to go up in the near term...the issue for us is not really the immediate increase in inflation. We know that's going to happen. It's, does that start to get generalized, start to spread, start to look more persistent. That's certainly what we're going to be looking for closely."

**Macklem Lays Out Criteria For Energy-Driven Inflation Persistence:** Asked how the BOC will assess whether the energy shock is posing upside pressures on broader inflation, Gov Macklem said they'll be looking at 1) whether core inflation is moving up "a lot", 2) the breadth/distribution of price increases ("the more components, the more worried we'll be getting"), and 3) inflation expectations.

- That's in addition to the impact of tariffs on economic slack, employment/hiring intentions, and spillovers from "hard hit sectors" to the rest of the economy - and ultimately what that all means for inflation.
- Deputy Gov Rogers added that "this is an environment where we put a real high price on really high frequency data and near term data and on things like our surveys and our outreach."
- She also contrasted the current situation with the Covid inflation jump: "when we went into the supply shock coming out of the pandemic, the economy was overheated. That made it easy for price increases to get passed on that were coming from a supply shock. We're not in that same situation now."

### BOC Links:

- **Interest Rate Announcement:** <https://www.bankofcanada.ca/2026/03/fad-press-release-2026-03-18/>
- **Press Conference Statement:** <https://www.bankofcanada.ca/2026/03/opening-statement-2026-03-18/>
- **Press Conference Video:** <https://www.bankofcanada.ca/multimedia/press-conference-policy-rate-announcement-march-2026/>

### Instant Answers For BOC Rate Decision

- Overnight Rate Target (level in x.xx%): **2.25%**
- Does the Bank signal it is prepared to lower rates in the future? **Not Answered**
- Does the Bank signal it is prepared to raise interest rates in the future? **Not Answered**
- Does the Bank say the policy rate appears appropriate if its economic forecast is realized? **No**
- Does the Bank signal it intends to leave rates on hold? **Not Answered**

## Changes In The Rate Decision Statement – Mar vs Jan

## Bank of Canada maintains policy rate at 2¼%

January 28 ~~March 18~~, 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 ~~outlook for the global and Canadian economies is little changed relative to the projection~~war in the ~~October~~Middle East has increased volatility in global energy prices and financial markets, and heightened the risks to the global economy. The breadth and duration of the conflict, and hence its economic impacts, are highly uncertain.

~~Prior to the war, the global economy was on pace to grow at around 3%, as expected in the January Monetary Policy Report (MPR). However, the outlook is vulnerable to unpredictable US trade policies and geopolitical risks.~~

Economic growth in the United States ~~continues to outpace expectations and is projected to remain~~has moderated but remains solid, driven by ~~consumption and strong AI-related investment and consumer spending. Tariffs are pushing up~~ US inflation, although their effect is ~~remains above target and has evolved largely as~~ expected to fade gradually later this year. In the euro area, ~~growth has been supported by activity in service sectors and will get additional support from fiscal policy. China's GDP growth is expected to slow gradually, as weakening domestic demand offsets~~is supporting growth while exports have contracted. China's economy continues to be boosted by strength in exports. Overall, ~~the Bank expects global growth to average about 3% over the projection horizon.~~

Global financial conditions have remained accommodative overall. ~~Recent weakness in the US dollar has pushed the Canadian dollar above 72 cents, roughly where it had been since the October MPR. Oil prices have been fluctuating in response to geopolitical events and, going forward, are assumed to be slightly below the levels in the October report.~~

US trade restrictions and uncertainty continue to disrupt growth in Canada. ~~After a strong third quarter, GDP growth in the fourth quarter likely stalled. Exports continue to be buffeted by US tariffs, while~~ but domestic demand appears to be picking up. Employment has risen in recent months. Still, the unemployment rate remains elevated at 6.8% and relatively few businesses say they plan to hire more workers. ~~remains weak.~~

Economic growth is projected to be modest in the near term as population growth slows and Canada adjusts to US protectionism. In the projection, consumer spending holds up and business investment strengthens gradually, with fiscal policy providing some support. The Bank projects growth of 1.1% in 2026 and 1.5% in 2027, broadly in line with the October projection. A key source of uncertainty is the upcoming review of the Canada-US-Mexico Agreement.

CPI inflation picked up in December to 2.4%, boosted by base-year effects linked to last winter's GST/HST holiday. Excluding the effect of changes in taxes, inflation has been slowing since September. The Bank's preferred measures of core inflation have eased from 3% in October to around 2¼% in December. Inflation was 2.1% in 2025 and the Bank expects inflation to stay close to the 2% target over the projection period, with trade-related cost pressures offset by excess supply.

Monetary policy is focused on keeping inflation close to the 2% target while helping the economy through this period of structural adjustment. Governing Council judges the current policy rate remains appropriate, conditional on the economy evolving broadly in line with the outlook we published today. However, uncertainty is heightened and we are monitoring risks closely. If the outlook changes, we are prepared to respond. Since the outbreak of the conflict in the Middle East, global oil and natural gas prices have risen sharply, and this will boost global inflation in the near term. In addition to energy supply disruptions, transportation bottlenecks stemming from the effective closure of the Strait of Hormuz could impact the supply of other commodities, such as fertilizer. Financial conditions have tightened from accommodative levels. Global bond yields have risen, equity market prices have declined, and credit spreads have widened. The Canada-US dollar exchange rate has remained relatively stable.

After expanding by 2.4% in the third quarter of last year, GDP in Canada contracted 0.6% in the fourth quarter. This was weaker than expected at the time of the January MPR, but mainly because of a larger-than-expected drawdown in inventories. Domestic demand grew by more than 2% due to strength in consumer and government spending, even as housing markets remained weak.

We continue to expect the Canadian economy to grow modestly as it adjusts to US tariffs and trade policy uncertainty, but recent data suggest that near-term economic growth will be weaker than anticipated in January. The labour market remains soft. Employment gains in the fourth quarter of 2025 were largely reversed in the first two months of 2026, and the unemployment rate rose to 6.7% in February. Looking through the volatility, recent data also suggest ongoing weakness in exports. It's too early to assess the impact of the conflict in the Middle East on growth in Canada.

CPI inflation eased further to 1.8% in February, down from 2.3% in January. CPI inflation excluding changes in indirect taxes as well as core inflation measures have also come down and are all close to 2%. Food inflation slowed in February but remains elevated. The sharp increase in global energy prices has led to increases in gasoline prices, and this will push up total inflation in the coming months.

Against this overall backdrop, Governing Council decided to maintain the policy rate at 2.25%. With recent data pointing to weaker economic activity and uncertainty elevated, risks to growth look tilted to the downside. At the same time, inflation risks have gone up due to higher energy prices. We will continue to assess the impact of US tariffs and trade policy uncertainty, and how the Canadian economy is adjusting. We are also monitoring the unfolding conflict in the Middle East closely and assessing its impact on growth and inflation. As the outlook evolves, we stand ready to respond as needed. The Bank is committed to ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.

## Press Conference Opening Statement

Good morning. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss today's monetary policy decision.

Today, Governing Council maintained the policy interest rate at 2.25%. We've held the policy rate at this level since October.

The Canadian economy continues to face heightened uncertainty related to US trade policy and geopolitical risks. Now the war in Iran has added a new layer of uncertainty. Its impact on the global and Canadian economies will depend on how long the conflict lasts and the extent to which it spreads across the Middle East.

Inflation in Canada has been close to the 2% target for more than a year. But, as we've seen, the war in Iran is causing oil prices to move sharply higher and this will push up inflation in the short term.

Canada's economy is dealing with a lot, and now we face more volatility. The Bank of Canada's role is to be a source of stability. We're supporting economic activity while ensuring that a jump in energy prices doesn't turn into persistent inflation.

Let me expand on what we've seen in the economy since we published our January *Monetary Policy Report* (MPR), and what we see ahead.

Recent data show the Canadian economy remains in excess supply and is growing slowly as it adjusts to US tariffs and uncertainty.

After growing 2.4% in the third quarter of last year, GDP shrank by 0.6% in the fourth quarter. This was weaker than we forecast at the time of the January MPR, but that was mainly because inventories were drawn down by more than we expected. Domestic demand grew by 2.4% because of strength in consumer and government spending, while housing was weak.

Data received for early 2026 suggest the economy is expanding again, but at a slower pace than we had forecast in January. The labour market remains soft. The job gains we saw late last year were largely reversed in the first two months of 2026, and the unemployment rate rose to 6.7% in February. Recent trade data have been volatile but they suggest ongoing weakness in exports.

Inflation eased further to 1.8% in February, down from 2.3% in January. CPI inflation excluding taxes and measures of core inflation have also come down and are all now close to 2%. Food inflation slowed in February but is still elevated. The recent sharp increase in global energy prices is causing higher prices at the pump, which will push up inflation in the coming months.

It is too early to assess the impact of the war on growth in Canada. If higher oil prices are maintained, this will boost income from energy exports. At the same time, higher oil prices squeeze consumers, leaving them with less income for other spending. Beyond the jump in energy prices, the war in Iran will affect households and businesses in other ways. Financial conditions have already tightened: global bond yields are higher, stock markets are lower, and credit spreads are wider. Transportation bottlenecks caused by the effective closure of the Strait of Hormuz could also impact supplies of other commodities, such as fertilizer.

In its monetary policy deliberations, Governing Council is considering both the most likely path for the economy and inflation, and the risks to our outlook. Uncertainty is acute. Trade and geopolitical uncertainties remain, and the conflict in the Middle East has broadened the range of possible outcomes.

Relative to our January forecast, risks to economic growth are tilted to the downside. Near-term growth looks weaker than expected and the review of the Canada-United States-Mexico Agreement is a big unknown. At the same time, risks to inflation are tilted to the upside, because of the sharp increase in energy prices.

Economic weakness combined with rising inflation is a dilemma for central banks. Raising interest rates to slow inflation could further weaken the economy. Easing interest rates to support growth risks pushing inflation well above target. Canada's outlook is further complicated by structural change—shifting trade relationships, the adoption of AI, and changes in demographics.

With inflation close to target and the economy in excess supply, the risk that higher energy prices quickly spread to the prices of other goods and services looks contained. But the longer this conflict lasts and the wider it gets, the bigger the risks. Governing Council will look through the war's immediate impact on inflation but if energy prices stay high, we will not let their effects broaden and become persistent inflation.

At our meeting this week, we decided to maintain the policy rate at 2.25%. As the outlook evolves, we stand ready to respond as needed. We are continuing to assess the impact of US tariffs and trade policy uncertainty, and how the Canadian economy is adjusting. And we are closely monitoring the unfolding conflict in the Middle East.

The Bank is committed to ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.

With that, the Senior Deputy Governor and I are pleased to take your questions.

### **Press Conference Transcript (Unedited, Check Against Delivery)**

[https://media.marketnews.com/BOC\\_Transcript\\_Mar2026\\_3b4293f1e5.pdf](https://media.marketnews.com/BOC_Transcript_Mar2026_3b4293f1e5.pdf)

## MNI POLICY TEAM

### MNI BOC WATCH: Rate Hold, Won't Let Energy Inflation Stick

By Greg Quinn (Mar 18, 2026)

OTTAWA - The Bank of Canada left its key interest rate at 2.25% Wednesday while replacing guidance about a hold with a hawkish comment about making sure higher energy prices triggered by the Iran war don't become stubborn inflation and noting the range of outcomes is wider because of risks of both slower growth and higher prices.

Governor Tiff Macklem said the recent jump in oil prices will create a near-term boost to inflation, a risk that will grow the longer the war goes on. "Governing Council will look through the war's immediate impact on inflation but if energy prices stay high, we will not let their effects broaden and become persistent inflation" he said in a press conference opening statement.

"As the outlook evolves, we stand ready to respond as needed," Macklem said. "Trade and geopolitical uncertainties remain, and the conflict in the Middle East has broadened the range of possible outcomes."

Disruption to global oil supplies adds an upside inflation risk contrasting with the drag Canada faces from the biggest trade dispute with the U.S. since the 1930s, and officials say recent data suggests downside growth risks have escalated since their January forecast. While exports and incomes can see a boost from a sustained rise in oil and gas prices, Governing Council said their job is guarding price stability as the economy adjusts to global shocks.

"Economic weakness combined with rising inflation is a dilemma for central banks. Raising interest rates to slow inflation could further weaken the economy. Easing interest rates to support growth risks pushing inflation well above target," Macklem said. Before the war core inflation had been slowing towards 2% and headline inflation was also close to target. Consumer prices advanced 1.8% in February from a year earlier.

"With inflation close to target and the economy in excess supply, the risk that higher energy prices quickly spread to the prices of other goods and services looks contained. But the longer this conflict lasts and the wider it gets, the bigger the risks," Macklem said.

The decision to hold rates was expected by all 20 economists in an MNI survey, but there was a split on the need for a hike or a cut later this year, while a recent rise in bond yields suggested investors saw an upward move. The Bank cut rates four times last year to what they called the bottom of the neutral range.

The Bank's base case before the Middle East conflict was for growth of about 1% this year and inflation holding around its 2% target, and the dominant risk was U.S. trade talks and tariffs. Gasoline prices in Ottawa have jumped to more than CAD1.60 a liter in recent days from CAD1.20 before the conflict.