Bank of Canada ~~lowers~~maintains policy rate ~~to~~at 2¼%

~~October 29~~December 10, 2025

The Bank of Canada today ~~reduced~~held its target for the overnight rate ~~by 25 basis points to~~at 2.25%, with the Bank Rate at 2.5% and the deposit rate at 2.20%.

~~With the effects of US trade actions on economic growth and inflation somewhat clearer, the Bank has returned to its usual practice of providing a projection for the global and Canadian~~

Major economies ~~in this *Monetary Policy Report* (MPR). Because US trade policy remains unpredictable and~~ around the world continue to show resilience to US trade protectionism, but uncertainty is still ~~higher than normal, this projection is subject to a wider-than-usual range of risks.~~

~~While the global economy has been resilient to the historic rise in US tariffs, the impact is becoming more evident. Trade relationships are being reconfigured and ongoing trade tensions are dampening investment in many countries.~~high. In the ~~MPR projection, the global economy slows from about 3¼% in 2025 to about 3% in 2026 and 2027.~~

~~In the~~ United States, economic ~~activity has been strong,~~ growth is being supported by ~~the boom~~strong consumption and a surge in AI investment. ~~At the same time, employment growth has slowed and tariffs have started to push up consumer prices. Growth in the euro area is decelerating due to weaker exports and slowing domestic demand. In China, lower exports to the United States have been offset by higher exports to other countries, but business investment has weakened.~~ The US government shutdown caused volatility in quarterly growth and delayed the release of some key economic data. Tariffs are causing some upward pressure on US inflation. In the euro area, economic growth has been stronger than expected, with the services sector showing particular resilience. In China, soft domestic demand, including more weakness in the housing market, is weighing on growth. Global financial conditions ~~have eased further since July and~~, oil prices ~~have been fairly stable. The~~ , and the Canadian dollar ~~has depreciated slightly against the US dollar.~~are all roughly unchanged since the Bank's October Monetary Policy Report (MPR).

~~Canada's economy contracted by 1.6% in the second quarter, reflecting a drop in exports and weak business investment amid heightened uncertainty. Meanwhile, household spending grew at a healthy pace. US trade actions and related uncertainty are having severe effects on targeted sectors including autos, steel, aluminum, and lumber. As a result, GDP growth is expected to be weak in the second half of the year. Growth will get some support from rising consumer and government spending and~~

~~residential investment, and then pick up gradually as exports and business investment begin to recover.~~

Canada's economy grew by a surprisingly strong 2.6% in the third quarter, even as final domestic demand was flat. The increase in GDP largely reflected volatility in trade. The Bank expects final domestic demand will grow in the fourth quarter, but with an anticipated decline in net exports, GDP will likely be weak. Growth is forecast to pick up in 2026, although uncertainty remains high and large swings in trade may continue to cause quarterly volatility.

Canada's labour market ~~remains soft.~~is showing some signs of improvement. Employment has shown solid gains in ~~September followed two~~the past three months ~~of sizeable losses. Job losses continue to build~~and the unemployment rate declined to 6.5% in November. Nevertheless, job markets in trade-sensitive sectors ~~and~~remain weak and economy-wide hiring ~~has been weak across the economy. The unemployment rate remained at 7.1% in September and wage growth has slowed. Slower population growth means fewer new jobs are needed~~intentions continue to ~~keep the employment rate steady.~~

~~The Bank projects GDP will grow by 1.2% in 2025, 1.1% in 2026 and 1.6% in 2027. On a quarterly basis, growth strengthens in 2026 after a weak second half of this year. Excess capacity in the economy is expected to persist and~~ be ~~taken up gradually~~subdued.

CPI inflation ~~was~~slowed to 2.~~4% in September, slightly higher than the Bank had anticipated. Inflation excluding taxes was 2.9%. The Bank's preferred measures of core~~ 2% in October, as gasoline prices fell and food prices rose more slowly. CPI inflation ~~have been sticky around 3%. Expanding the range of indicators to include alternative~~has been close to the 2% target for more than a year, while measures of core inflation ~~and the distribution of price changes among CPI components suggests~~remain in the range of 2½% to 3%. The Bank assesses that underlying inflation ~~remains~~is still around 2½%. ~~The Bank expects inflationary pressures to ease in the months ahead and~~In the near term, CPI inflation ~~to remain near 2% over the projection horizon.~~

~~With ongoing weakness in the economy and~~is likely to be higher due to the effects of last year's GST/HST holiday on the prices of some goods and services. Looking through this choppiness, the Bank expects ongoing economic slack to roughly offset cost pressures associated with the reconfiguration of trade, keeping CPI inflation

~~expected to remain~~ close to the 2% target~~, Governing Council decided to cut the policy rate by 25 basis points.~~ .

If inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment. Uncertainty remains elevated. If the outlook changes, we are prepared to respond. ~~Governing Council will be assessing incoming data carefully relative to the Bank's forecast.~~

~~The Canadian economy faces a difficult transition. The structural damage caused by the trade conflict reduces the capacity of the economy and adds costs. This limits the role that monetary policy can play to boost demand while maintaining low inflation.~~ The Bank is focused on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval.