Bank of Canada Interest Rate Announcement (September 2, 2026)

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Bank of Canada Holds Rates Unchanged, Flags Renewed Trade Risk

The Bank of Canada (BoC) left its policy rate unchanged at 2.25%, in line with expectations. The opening statement noted that the continuing conflict in the Middle East as well as breakdown in trade talks between Canada and the U.S. have kept uncertainty elevated.

The Bank acknowledged that Canada's economy posted stronger-than-expected growth in the second quarter, supported by firm domestic demand and a rebound in exports. Renewed trade uncertainty will continue to weigh on business and consumer confidence, while the Bank pointed to ongoing excess supply in the economy.

On inflation, the Bank said that that headline CPI inflation has moved somewhat higher in recent months (around 3%), reflecting the impact of higher energy prices. However, it also argued that underlying price pressures remain broadly contained. The Bank did flag that "upside risks to the Bank's inflation forecast have increased" due to stalled progress in the Middle East and new U.S tariffs/Canadian counter-tariffs.

Governing Council judged that the current policy rate remains appropriate given the balance of risks facing the economy. The statement reiterates that monetary policy is well positioned to respond should conditions materially change "and is prepared to adjust monetary policy as needed.

Financial markets interpreted the statement as slightly hawkish. Canadian two-year bond yields edged by a few basis points (bps) higher, while the Loonie strengthened by about three-tenths against the USD. Markets modestly increased the odds of a 25-bps hike by year-end (65% vs 60% prior to the announcement).

Key Implications

Today's statement struck an even-handed assessment of the economy. Recent data suggest growth has regained some momentum, but policymakers remain wary of renewed trade tensions and ongoing geopolitical uncertainty that could alter the outlook quickly. Absent an updated MPR, the next BoC decision (October 28th) will likely carry added significance as the first opportunity to provide fresh forecasts in light of recent developments.

For now, that leaves the BoC in a comfortable holding pattern. With core inflation pressures still broadly contained and tariff-related risks pulling growth and inflation in opposite directions, we continue to expect rates to remain unchanged through next year, while the Bank preserves the flexibility should conditions deteriorate or inflation prove more persistent than anticipated.

Source: https://economics.td.com/ca-boc-interest-rate-announcement