Tiff Macklem: Monetary Policy Decision

Opening statement by Mr Tiff Macklem, Governor of the Bank of Canada and Ms Carolyn Rogers, Senior Deputy Governor of the Bank of Canada, at the press conference following the monetary policy decision, Ottawa, Ontario, 28 January 2026.

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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%.

Our forecast for economic growth and inflation in Canada has not changed significantly since our October projection. As the Canadian economy continues to adjust to US trade restrictions, we expect GDP to grow modestly and inflation to stay close to the 2% target.

However, uncertainty around our forecast is heightened, and the range of possible outcomes is wider than usual. US trade policy remains unpredictable, and geopolitical risks are elevated.

Our monetary policy decisions are focused on keeping inflation close to the 2% target while helping the economy through this period of structural change. Governing Council judges the current policy rate remains appropriate, conditional on the economy evolving broadly in line with the outlook we published today. With heightened uncertainty, we are monitoring risks closely. If the outlook changes, we are prepared to respond.

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

Tariffs and uncertainty continue to disrupt the Canadian economy. After a strong third quarter, economic growth likely stalled in the fourth quarter. Exports continue to be buffeted by US tariffs, while domestic demand appears to be picking up.

Household spending is expected to continue growing moderately, supported by past cuts in interest rates and rising disposable incomes.

US tariffs and related uncertainty have held back business investment. But we expect some modest strengthening in investment as businesses adjust to the new trade environment and governments increase infrastructure spending.

The impact of US tariffs can also be seen in the labour market. Employment weakened in the first half of 2025 as sectors hit hard by US tariffs cut production and jobs. In recent months, overall employment has risen, led by hiring in services like health care, and slowing population growth is reducing the number of new entrants into the labour market. Still, the unemployment rate remains high at 6.8%, youth unemployment is particularly elevated, and relatively few businesses say they plan to hire more workers in coming months.

Overall, economic growth is expected to pick up gradually. The Bank of Canada projects annual average GDP growth of 1.1% in 2026 and 1.5% in 2027, broadly in line with our October projection.

Turning to inflation, it averaged 2.1% last year, and has now been within the 1% to 3% band for two years. If we focus on recent movements, CPI inflation rose to 2.4% in December, boosted by base-year effects linked to last winter's GST/HST holiday. The Bank's preferred measures of core inflation have eased from 3% in October to around 2½% in December. The Bank expects CPI inflation to stay close to the 2% target over the projection as tariff-related cost pressures are offset by excess supply.

Uncertainty around this outlook is unusually high.

Geopolitical risks are elevated and the upcoming review of the Canada-United States-Mexico Agreement is an important risk to the outlook.

It's also too early to tell how well the Canadian economy will adjust to current tariffs and ongoing uncertainty. The transition to the new trade environment could be smoother than we expect, with stronger business and household spending. Alternatively, the labour market could weaken further as trade impacts deepen, leading to lower household spending. Financial conditions could also tighten if volatility returns to markets.

Considering both our baseline forecast and the risks, Governing Council discussed the future path of monetary policy. While Council judges the current policy rate is appropriate based on our outlook, the consensus was that elevated uncertainty makes it difficult to predict the timing or direction of the next change in the policy rate.

Let me wrap up. The Canadian economy is adjusting to the structural headwinds of US protectionism. Businesses are reconfiguring supply chains and investing in new markets. We also expect to see some reallocation of capital and workers as new opportunities open up. This restructuring, including more diversified trade and a more integrated internal market, will support some recovery in our productive capacity. But it will all take some time.

Monetary policy cannot compensate for the structural damage caused by tariffs, and it cannot target hard-hit sectors of the economy. But it can play a supporting role, helping the economy through this period of structural change, while maintaining inflation close to the 2% target.

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 would be pleased to take your questions.