

Tiff Macklem: Release of the Monetary Policy Report

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, 18 March 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%. 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.