



Bank of Canada Rate Announcement

March 18 2026

Bank of Canada holds policy rate steady as risks increase

With mounting inflation risks from the war in the Middle East and evidence of a weakening domestic labour market, the Bank of Canada looked through the rise in oil prices and held its target for the overnight rate at 2.25 per cent today. At the same time, it signaled a willingness to adjust rates to ensure inflation expectations remain anchored. The Bank rate was held steady at 2.50 per cent and the deposit rate at 2.20 per cent.

The Bank's communique highlighted the high level of uncertainty from the current war in the Middle East. With the war still unfolding, the ultimate duration and severity is still unknown, as are the full economic impacts. The immediate impacts of the effective closure of the Strait of Hormuz have been higher energy prices which will boost near-term inflation, while disrupting flows of other commodities through the strait. Financial market conditions have tightened, and bond yields have risen. The impact on global growth, which had been evolving as expected, is still unclear.

Domestically, the Bank noted a weaker evolution in the economy than it had forecast in its January Monetary Policy Report. While the weak Q4 GDP reading owed mostly to inventory drawdown, the latest labour market figures have been soft with deep employment declines and a higher unemployment rate. Exports have also weakened. The Bank deems it too early to assess the impact of the Middle East conflict in Canada. However, we see higher prices as potentially curbing global growth, while boosting nominal income in Canada as a net exporter, but with consumers taking a retail price hit at the pump.

Inflation has fallen to 1.8 per cent and remains close to two per cent on a core basis and adjusted for indirect taxes, although higher oil prices will boost near-term inflation readings.

The Bank is caught in a difficult position. Economic growth in Canada has weakened and risk to the outlook is to the downside. However, inflation risk is clearly higher due to oil prices, and trade policy risks that remain ever-present. Previously, the Bank has noted that its tools are limited to fix structural challenges from the trade war. We expect inflation to reach 3 per cent in coming quarters. While it looks through the current oil price risks, persistence of high oil prices could spread through into the prices of other goods and services, and the Bank may find itself leaning against higher inflation expectations on the part of consumers.

As its statement noted, *"The Bank is committed to ensuring that Canadians continue to have confidence in price stability through this period of global upheaval."* Our forecast remains consistent for a hold through 2026 with a rate hike coming in 2027.

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