

January 23, 2025

## C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Cut Overnight Rate to 3.00 Percent Next Week and 2.75 Percent by July

January 23, 2025 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) calls for the Bank of Canada to lower its target for the overnight rate, its benchmark policy interest rate, to 3.00 percent at its next announcement on January 29<sup>th</sup>. The MPC further calls for the Bank to maintain its target at 3.00 percent at the following announcement in March and reduce it to 2.75 percent at subsequent settings.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada’s 2 percent inflation target. MPC co-chair **William Robson**, Institute’s President and CEO, chaired this meeting. MPC members make recommendations for the Bank of Canada’s target for the overnight rate at its upcoming announcement, the subsequent announcement, and the announcements six months and one year ahead. The Council’s formal recommendation for each announcement is the median vote of members attending the meeting.

This meeting took place amid major uncertainty about US policies, in particular the size, timing and duration of potential tariffs on Canadian exports. That uncertainty is evident in the divergence of views among MPC members about the appropriate level for the overnight rate in the near term, and in different paths for the rate over the coming year.

Five of the eight MPC members attending the meeting recommended the cut to 3.00 percent expressed in the median vote for next week, while one recommended cutting to 2.75 percent and two recommended holding at 3.25 percent. The range of votes for the March setting was also from 2.75 to 3.25 percent, although the mean shifted down. By July, the range was wider: from 2.25 to 3.25 percent, and the same range held for January 2026, although the mean had again shifted down (see table below).

The discussion at the meeting exposed no major differences of opinion with respect to Canada’s economy and the outlook for inflation. Some members noted that household spending seemed to be responding to previous reductions in short-term interest rates, but that business investment remained weak, and overall spending was not pushing up against productive capacity, prefiguring continued inflation readings close to the 2 percent CPI target.

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With respect to potential US protectionism, the discussion highlighted the deliberate unpredictability of US policy and the difficulty of anticipating how opposing political forces – President Trump’s enthusiasm for tariffs versus the imperative of avoiding increases in US consumers’ cost of living – would play out. Some members thought the likeliest scenario was for tariffs in the 5-to-10 percent range on Canadian goods for a limited period of time, which would allow the Bank of Canada to steer a relatively straight course through any impacts on the exchange rate, prices, and aggregate demand. Others thought higher tariffs for longer were likely, which would require the Bank to offset a bigger hit to demand and anticipate long-lasting damage to Canada’s ability to produce from supply-chain disruptions. The group generally agreed that the high uncertainty was, in and of itself, a negative for demand and spending in the near term.

Looking farther ahead, some members noted the potential for Canada to respond to US pressure with trade and regulatory liberalization that would increase productivity. Others noted that chronic US deficits would put upward pressure on long-term bond yields. Both phenomena could mean that the long-term neutral rate of interest would be higher than otherwise – a further complicating factor as the Bank seeks a level for the overnight rate consistent with 2 percent inflation.

The two members whose recommendations were for a steady overnight rate – one calling for 3.25 percent and one calling for 3.00 percent over the coming year – noted that their recommendations reflected the unusual uncertainties affecting the Bank of Canada during this period, with future developments likely to change those recommendations. Other members noted that this unusual period could justify the Bank of Canada changing the overnight rate target between its fixed announcement dates – if, for example, the United States implemented significant tariffs on February 1<sup>st</sup>.

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## Votes of MPC Members and the Council Median for Each Announcement (*percent*)

	Jan. 23, 2025	March 12, 2025	July 30, 2025	Jan. 26, 2026
<b>Steve Ambler</b> Université du Québec à Montréal (UQAM)	3.00	2.75	2.75	2.75
<b>Beata Caranci</b> TD Bank Group	3.00	2.75	2.50	2.25
<b>Ted Carmichael</b> Ted Carmichael Global Macro	3.25	3.25	3.25	3.25
<b>Michael Devereux</b> University of British Columbia	3.25	3.00	2.75	2.50
<b>Angelo Melino</b> University of Toronto	3.00	3.00	3.00	3.00
<b>Doug Porter</b> BMO Capital Markets	3.00	3.00	2.75	2.50
<b>Avery Shenfeld</b> CIBC	3.00	2.75	2.25	2.25
<b>Stephen Williamson</b> Western University	2.75	2.75	2.75	2.75
<b>Median Vote</b>	3.00	3.00	2.75	2.75

The views and opinions expressed by the participants are their own and do not necessarily reflect the views of the organizations with which they are affiliated, or those of the C.D. Howe Institute. Forecasters' recommendations may differ from their predictions.

The MPC's next vote will take place on March 6, 2025, prior to the Bank of Canada's overnight rate announcement on March 12.

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