



July 9, 2026

MONETARY POLICY COUNCIL

Bank of Canada Should Maintain Overnight Rate at 2.25 Percent for Next Six Months, Increase to 2.5 Percent by Next July, Says C.D. Howe Institute Monetary Policy Council

July 9, 2026 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) calls for the Bank of Canada to keep its target for the overnight rate, its benchmark policy interest rate, at 2.25 percent at its next announcement on July 15, maintain it at that level until January 2027, and raise it to 2.5 percent by July 2027.

The MPC is chaired by **Jeremy Kronick**, the Institute’s President and CEO, the Institute’s President and CEO, and includes the chief economists of the six largest Canadian banks, alongside six leading academic economists and financial market experts.

Acting as a shadow Bank of Canada Governing Council, the MPC provides an independent assessment of the monetary stance needed to achieve the Bank’s 2-percent inflation target. Its formal recommendation for each interest rate announcement is the median vote of members in attendance. Members vote on the upcoming announcement, the subsequent announcement, and the announcements six months and one year ahead.

All nine MPC members in attendance called for the Bank of Canada to hold the overnight rate target at 2.25 percent next week. Looking ahead to the next announcement in September, members again unanimously voted to hold the overnight rate target at 2.25 percent. Six months ahead, in January of next year, six members voted to hold the overnight rate target at 2.25 percent, while the remaining three members recommended increasing the rate to 2.5 percent. A year out, in July 2027, two members continued to recommend holding at 2.25 percent, four members called for an increase to 2.5 percent, two members argued for a target of 2.75 percent, while the remaining member voted for a rate of 3 percent (see table below).

Members discussed the many areas of uncertainty that continue to impact the Canadian economic outlook. The July 1 CUSMA review date came and went without a deal (as expected), and the ceasefire and memorandum of understanding to end the war in the Middle East between the United States and Iran are in trouble. Members pointed to some positive news on the data front since the Council last met, including in GDP and labour markets, but remained concerned that these gains were not sustainable given ongoing uncertainties and that the economy remained in excess supply.

The group also highlighted further uncertainty in the form of determining the economy’s potential, which will make it difficult for the Bank of Canada to properly assess inflationary pressures. Members focused on two major contributors to this uncertainty. First, falling annual population in 2025, and the likelihood of it happening again in 2026 before rebounding in 2027. Second, weak business investment combined with uncertainty surrounding CUSMA negotiations.

This led to further discussion about where the neutral rate lies. At 2.25 percent, the overnight rate is at the lower end of the Bank of Canada’s neutral rate range (2.25-3.25 percent). However, members argued that in typically interest-sensitive areas of the economy, such as housing, the lower end of the range has had little effect, implying that if more monetary stimulus is necessary, a cut to the overnight rate would be required.

Members also looked at the role fiscal policy will play in providing stimulus to the economy. On the one hand, members discussed significant spending beginning to occur, notably in defence. On the other, members noted that

fiscal policy on the whole might not be as stimulative as expected over the Bank's relevant timeframe, including for reasons of timing, cuts being made elsewhere, and whether that spending leads to larger capital investment.

Lastly, members noted that the Bank's preferred core inflation measures are at or near the 2 percent target, and inflationary pressures have not broadened beyond those sectors directly affected by the war in the Middle East.

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.

Votes of MPC Members and the Council Median for Each Announcement (percent)				
	July 15, 2026	Sept. 2, 2026	January 2027	July 2027
Steve Ambler Université du Québec à Montréal (UQAM)	2.25	2.25	2.25	2.50
Ted Carmichael Ted Carmichael Global Macro	2.25	2.25	2.50	3.00
Michael Devereux University of British Columbia	2.25	2.25	2.25	2.50
Frances Donald RBC	2.25	2.25	2.25	2.50
Stéfane Marion National Bank of Canada	2.25	2.25	2.50	2.75
Angelo Melino University of Toronto	2.25	2.25	2.25	2.25
Doug Porter BMO Capital Markets	2.25	2.25	2.25	2.25
Avery Shenfeld CIBC	2.25	2.25	2.25	2.50
Trevor Tombe University of Calgary	2.25	2.25	2.50	2.75
Median Vote	2.25	2.25	2.25	2.50

The MPC's next vote will take place on August 27, 2026, prior to the Bank of Canada's overnight rate announcement on September 2.

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