

July 24, 2025

C.D. Howe Institute Monetary Policy Council Calls for Bank of Canada to Leave Overnight Rate Unchanged at 2.75 Percent Next Week, Cut to 2.50 Percent at Following Meeting

July 24, 2025 – The C.D. Howe Institute’s **Monetary Policy Council** (MPC) calls for the Bank of Canada to leave its target for the overnight rate, its benchmark policy interest rate, unchanged at 2.75 percent at its next announcement on July 30th. The MPC further calls for the Bank to cut the target to 2.50 percent at its subsequent announcement in September, and leave it there until next July.

The MPC provides an independent assessment of the monetary stance consistent with the Bank of Canada’s 2 percent inflation target. MPC co-chair **Jeremy Kronick**, the Institute’s Vice-President, Economic Analysis and Strategy, 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.

Six of the eight MPC members attending the meeting recommended the Bank of Canada leave the target for the overnight rate unchanged next week, with the other two recommending a cut to 2.50 percent. Looking ahead to September, four members recommended a 25 basis point cut by the Bank, with two cutting to 2.50 percent and two cutting to 2.25 percent. The other four members left their target at 2.75 percent. By the new year, three members recommended 2.25 percent, two recommended 2.50 percent, while three continued to leave the target unchanged. Members voted similarly in July 2026, with the exception of one member who lowered their recommendation to 2 percent (see table below).

The impact of tariffs and their negotiations on inflationary pressures and the economy weighed heavily in discussions. Members pointed to the different signals being sent by headline inflation – which sits just below the 2 percent target at 1.9 percent – and the Bank’s preferred core inflation measures, CPI-trim and CPI-median, which now sit at or above the top of the 1-3 percent inflation-control target range at 3 and 3.1 percent respectively. With respect to the economy, members discussed the surprising resiliency here in Canada and abroad, most notably in the US. However, cracks were showing in the data, including, among others, retail spending, business investment plans, and the end of the front-running of exports from Canada to the US.

Members discussed the role of fiscal policy in supporting the economy. Members highlighted moves by governments to speed up the advancement of major projects and reduce barriers to internal trade. Members also noted the stimulative effect of upcoming increases in defence spending, though many argued that this stimulus would only start to show up in the data in 2026.

Members noted some divergence in longer-term data. While central banks have been lowering policy rates from their earlier peaks, longer-term rates have remained elevated, leading to a steepening of the yield curve (in Canada and elsewhere) and the implications this has for economic activity. Members

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highlighted reasons for this persistence of longer-term rates, including inflation and economic uncertainty from tariffs, large budget deficits, and US political interference with the Federal Reserve. However, one member pointed out that despite this steepening of the yield curve, longer-term inflation expectations remain well-anchored.

Lastly, returning to the economy and the Bank's upcoming decision next week, members referenced the most recent Labour Force Survey data, which surprised to the upside with the economy creating over 80,000 jobs in June and the unemployment rate falling to 6.9 percent. Combined with inflationary pressures, for some members, this swayed their decision to leave the overnight rate target unchanged.

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

	July 30, 2025	Sept. 17, 2025	Jan. 2026	July 2026
Steve Ambler Université du Québec à Montréal (UQAM)	2.50	2.25	2.25	2.25
Ted Carmichael Ted Carmichael Global Macro	2.75	2.75	2.50	2.50
Michael Devereux University of British Columbia	2.75	2.50	2.50	2.50
Frances Donald RBC	2.75	2.75	2.75	2.75
Angelo Melino University of Toronto	2.75	2.75	2.75	2.75
Jean-François Perrault Scotiabank	2.75	2.75	2.75	2.75
Doug Porter BMO Capital Markets	2.75	2.50	2.25	2.00
Avery Shenfeld CIBC	2.50	2.25	2.25	2.25
Median Vote	2.75	2.50	2.50	2.50

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 September 11, 2025, prior to the Bank of Canada's overnight rate announcement on September 17.

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