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Opening Statement by Tiff Macklem
Governor of the Bank of Canada
Standing Senate Committee on Banking, Trade and the Economy
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Ottawa, Ontario

Good evening. I'm pleased to be here with Senior Deputy Governor Carolyn Rogers to discuss our recent policy announcement and the Bank of Canada's *Monetary Policy Report* (MPR).

Last week, we raised the policy interest rate by 50 basis points to 3.75%. This is the sixth consecutive increase since March. Quantitative tightening continues and is complementing increases in the policy rate. We also expect our policy rate will need to rise further. How much further will depend on how monetary policy is working to slow demand, how supply challenges are resolving and how inflation and inflation expectations are responding to this tightening cycle.

Our decision last week reflected several considerations.

First, inflation in Canada remains high and broad-based, reflecting large increases in both goods and services prices. Inflation has come down in recent months, but we have yet to see a generalized decline in price pressures. About two-thirds of the components of the consumer price index (CPI) have risen by more than 5% over the last year. And rising prices for essentials like groceries and rent are hitting lower-income Canadians particularly hard.

Second, and related, the economy is still in excess demand—it's overheated. Job vacancies have declined from their peak but remain high, and businesses continue to report widespread labour shortages. With the economy now fully reopened, households want to enjoy many of the close-contact services they have missed, but businesses can't keep up, and we have seen prices for services rise rapidly.

Third, higher interest rates are beginning to weigh on growth. This is increasingly evident in interest-rate-sensitive parts of the economy, like housing and spending on big-ticket items. But the effects of higher rates will take time to spread through the economy.

Fourth, there are no easy outs to restoring price stability. We need the economy to slow down to rebalance demand and supply and relieve price pressures. We expect growth will stall in the next few quarters—in other words, growth will be close to zero. But once we get through this slowdown, growth will pick up, our economy will grow solidly, and the benefits of low and predictable inflation will be restored.

To put this in numbers, growth in gross domestic product (GDP) is projected to decline from about 3¼% this year to just under 1% next year and then rise to 2% in 2024. And inflation is expected to hover around 7% in the final quarter of this year,

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fall to around 3% by the end of next year and return to the 2% target by the end of 2024.

Finally, we are trying to balance the risks of under- and over-tightening.

If we don’t do enough, Canadians will continue to endure the hardship of high inflation. And they will come to expect persistently high inflation, which will require much higher interest rates and, potentially, a severe recession to control inflation. Nobody wants that.

If we do too much, we could slow the economy more than needed. And we know that has harmful consequences for people’s ability to service their debts, for their jobs and for their businesses.

This tightening phase will draw to a close. We are getting closer, but we are not there yet.

The Bank of Canada’s job is to ensure inflation is low, stable and predictable. We are still far from that goal. We view the risks around our forecast for inflation to be reasonably balanced. But with inflation so far above our target, we are particularly concerned about the upside risks.

We are mindful that adjusting to higher interest rates is difficult for many Canadians. Many households have significant debt loads, and higher interest rates add to their burden. We don’t want this transition to be more difficult than it has to be. But higher interest rates in the short term will bring inflation down in the long term. Canadians are looking for ways to protect themselves from rising prices, and we are working to protect them from entrenched inflation. It will take time to get back to solid growth with low inflation. But we will get there. By working through this difficult phase, we will get back to price stability with sustained economic growth, which benefits everyone.

With that summary, Senior Deputy Governor Rogers and I are now pleased to take your questions.