BANK OF CANADA
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Remarks by

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Canada's monetary policy framework: A trusted anchor in uncertain waters

Introduction

Good afternoon. I want to thank the Economic Club of Canada for the invitation to speak with you today. I look forward to hearing from many of you after the speech. The discussion is always the best part.

Earlier this month, the federal government and the Bank of Canada renewed the country's monetary policy framework for another five years. We agreed that the best contribution monetary policy can make to the economic and financial well-being of Canadians is to keep inflation low, stable and predictable.

At the centre of the framework is a renewed commitment to the 2% inflation target, the midpoint of a 1% to 3% control range. The 2% target has served Canadians well for more than three decades. It is a clear and well-understood objective that guides our decisions.

Renewing the framework gave us an opportunity to assess its performance and to ask ourselves what worked and what we might do differently. The goal was simple: to ensure that Canada has the best framework for the challenges ahead.

In June, we published the results of our consultations with Canadians on the monetary policy framework. Today, we are publishing our research and overall

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conclusions.[1] We are also launching a new inflation dashboard with a range of inflation indicators.

The past five years have been the biggest test yet of our inflation-targeting monetary policy framework. And the framework has performed well.

That doesn't mean we got everything right or that we can't do better. Our review considered some important issues for the implementation of monetary policy. Today I'll focus on two of these issues: how monetary policy should respond to larger and more frequent supply shocks, and how we assess and communicate about inflation. The review also looked at the interaction between monetary policy and the housing market—an important topic for Canadians. Senior Deputy Governor Carolyn Rogers spoke about this recently, so I won't cover that same ground today.[2]

There's a lot to talk about. And the place to start is the post-pandemic surge in inflation.

Post-pandemic inflation surge

As Canadians rang in the new year in 2020, high inflation looked like a problem of the distant past. From 1995—when the 2% target began—to the end of 2019, inflation averaged 1.9%.[3] Inflation was within the 1% to 3% range 83% of the time, and periods with inflation above or below the range were brief. In short, for 25 years, inflation had been low and stable. Indeed, you had to be at least as old as me to remember the high inflation of the 1970s and '80s (**Chart 1**).

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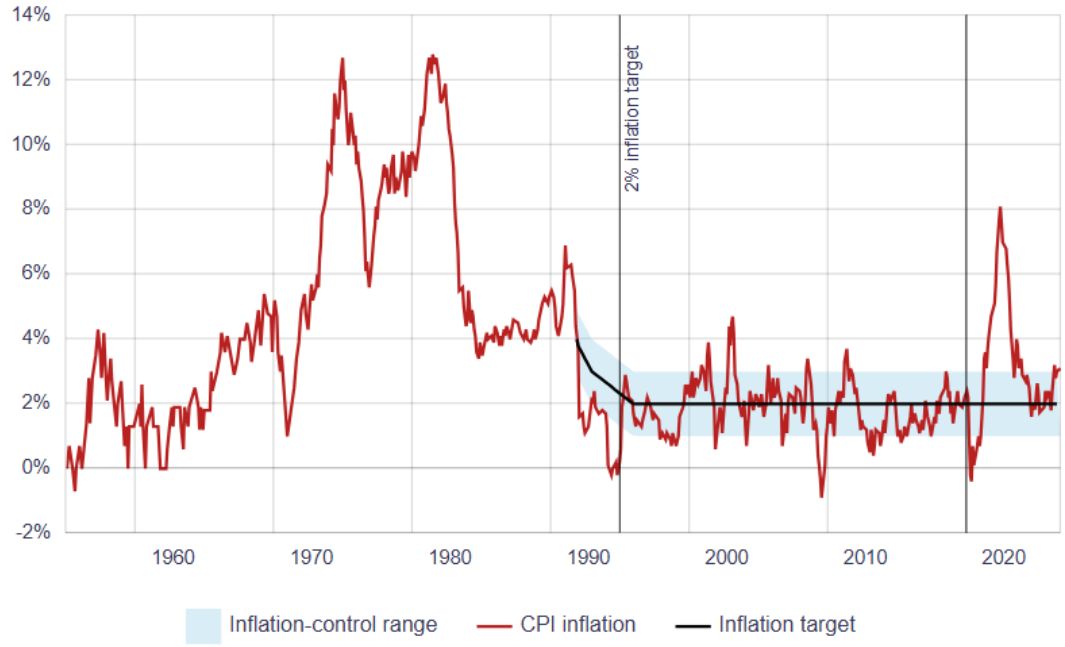
[1] See Bank of Canada, *Monetary Policy Framework Renewal: Background Information* (November 2026) and 2027–2031 Monetary Policy Framework—Governing Council's Statement (November 2026).

[2] See C. Rogers, "Canada's housing affordability dilemma" (speech to the Greater Victoria Chamber of Commerce and CFA Society Victoria, Victoria, British Columbia, October 1, 2026).

[3] Canada's inflation-targeting framework was introduced in 1991. The initial agreement called for inflation to be reduced from about 5% in 1990 to 2% in 1995. After that objective was achieved, the 1995 renewal established 2%—the midpoint of a 1% to 3% range—as the ongoing target.

Chart 1: Introducing a target brought inflation down

12-month rate of increase, monthly data



Sources: Statistics Canada and Bank of Canada calculations
Last observation: October 2026

At the onset of the pandemic in 2020, inflation fell as large parts of the economy shut down and many businesses lowered prices to clear inventory. But as we prepared to renew the monetary policy framework in 2021, inflation was climbing. As the economy reopened, demand rebounded quickly while supply disruptions continued. By the end of the summer, inflation was over 4%. And things were about to get worse. Early in 2022, Russia's invasion of Ukraine further disrupted supply chains and drove up energy and many agricultural prices. Within months, inflation in Canada reached 8.1%—its highest rate in nearly 40 years.

The Bank raised its policy interest rate forcefully to bring demand back into balance with supply and inflation back to target. That wasn't easy on Canadians. Higher borrowing costs piled more pressure on households and businesses that were already stretched by inflation.

But it worked. Inflation came back to 2%. And as it came down, we were able to lower the policy interest rate.

For many Canadians, it was their first experience with high inflation. And they didn't like it. As we reviewed our framework, we held consultations across the country to hear from Canadians. We heard a lot of anger.

They told us how rising prices for essentials squeezed their family budgets, making it harder to pay their bills and plan for the future. When prices rose faster than

wages, people were working hard but still falling behind. That felt unfair. We also heard their frustration that even when inflation returned to target, prices did not go back down.

The inflation surge was also a reminder that the economy works better when households and businesses have confidence in price stability.

What stands out from the post-pandemic inflation surge is that inflation came back down relatively quickly. This is very different from the ’70s and ’80s. Back then, there was no inflation target to anchor monetary policy, and inflation stayed high. It came down only as the result of severe recessions in the early ’80s and the early ’90s.

Our job was easier this time because of the credibility of our monetary policy framework. After 25 years, the 2% target was well understood. And our record of keeping inflation close to the target had built credibility. This meant that even when inflation rose sharply, Canadians expected us to bring it back down. Yes, higher interest rates were tough on many Canadians and slowed spending and growth. But unlike in those earlier high-inflation episodes, inflation came down quickly without a recession.

Most of the surge in inflation following the pandemic was unavoidable. We could not foresee when the waves of the virus and lockdowns would end or that Russia would launch a war in Ukraine. But with the benefit of hindsight, our implementation of monetary policy could have been better. We were too slow to recognize the persistence of inflationary pressures and how broadly they were spreading through the economy.

Since the pandemic, we have not had another economic disruption on this scale. But the world has become more prone to shocks—particularly supply shocks.

A more fraught world

The pandemic exposed vulnerabilities in global supply chains. Since then, wars, trade conflict, extreme weather and artificial intelligence have added new layers of disruption. Shocks are now likely to be larger, more frequent and more difficult to assess in real time.

We can’t prevent those shocks or their ripple effects. But monetary policy can keep them from undermining price stability. And in uncertain waters, it’s more important than ever to have a trusted anchor.

Charting the course back to the target depends on the kinds of shocks we face.

When demand shocks hit the economy, inflation and economic activity tend to move in the same direction. So, for example, when global demand weakens, there are fewer buyers for our exports. And growth, employment and inflation all tend to

slow. Monetary policy can lean against this by lowering interest rates to support spending and employment while also helping bring inflation back to target.

Supply shocks are different. Disruptions to supply push prices up while slowing growth. We're seeing that today with higher energy prices and tariffs. Households face higher prices while job prospects worsen. Businesses face higher input costs while demand softens. And monetary policy has to weigh the risk of persistent inflation against the risk of further weakening the economy. Unlike with demand shocks, monetary policy cannot stabilize output and inflation at the same time. This is the fundamental trade-off inflationary supply shocks create for monetary policy.

In a world with more and bigger supply shocks, we're likely to face these situations more often. Inflation is likely to be pushed off course more frequently and for longer. That makes it especially important to be clear about our objective and how best to achieve it.

Implementing the framework

Keeping the focus on total CPI inflation

We target 2% inflation, as measured by the consumer price index (CPI). That's the rate of inflation that matters most to Canadians. CPI is based on a typical consumption basket—the prices people actually pay for groceries, rent, gas and everything else they buy.

It's been the target for decades, but renewing that commitment is a deliberate choice. When the economy is less predictable and monetary policy is more likely to face difficult trade-offs, keeping inflation close to the 2% target can be harder. But the alternative—not controlling inflation and letting economic disturbances lead to persistent inflation or deflation—is worse.

It is also important that our communication be grounded in what matters to Canadians. Total CPI inflation is our target, and it will be front and centre in all our communications. Various indicators help us understand where inflation is headed and the risks around that forecast. But they are inputs to our analysis, not targets.

We need to be as clear as we can because monetary policy works best when people understand what we are trying to achieve and how we make decisions. Our destination is crystal clear. And we need to be prepared to navigate through uncertain waters to get there.

Inflation persistence matters for policy

One of the most important judgments we have to make along the way is whether inflation pressures are likely to fade or persist. Because monetary policy affects

inflation with a lag, we care not only about where inflation is today, but also where it is headed.

If inflation goes up but is expected to come down on its own, we generally don't need to respond. But if it is going to stay too high for too long, we would need to raise the policy interest rate to steer inflation back toward the target.

Sometimes it's clear that inflation is likely to persist, and monetary policy needs to respond. Demand shocks tend to have sustained effects on inflation. And as we just discussed, monetary policy can stabilize inflation and output at the same time.

Supply shocks are trickier. They are often temporary. For example, a spike in oil prices caused by a disruption to global supply can push inflation up sharply, but if oil prices come down quickly, so will inflation. But sometimes, supply shocks can be longer-lasting.

The pandemic also taught us that temporary supply shocks can add up, causing persistent inflation. Over roughly two years, a chain of events hit the global economy—from the COVID-19 lockdowns to the war in Ukraine. Any one of those disruptions might have been temporary. But the next shock arrived before the previous one had fully faded. The result was a prolonged period of inflationary pressure. While this was a series of shocks, what Canadians experienced was prices that kept rising too quickly.

The difficulty for monetary policy is that identifying the source of the shock is not enough. The persistence of a shock's impact on inflation also depends on its size, duration, how broadly its effects spread through the economy, and the state of demand. A temporary disruption to supply can have bigger, broader and longer-lasting effects on inflation if the economy is already running hot and demand is strong.

Of course, there's no way we can know all this in real time. So it's hard to know how monetary policy should respond. We don't want to react too strongly to temporary price pressures and needlessly weaken the economy. Nor do we want to be too slow to respond in the face of shocks that may let inflation spread. If inflation gains momentum, the central bank usually has to raise rates further and for longer to get it back down.

To disentangle temporary and persistent inflation forces in real time, we look at the evidence from several angles.

Assessing inflation through several lenses

We look at the CPI data in different ways to see what they tell us about the breadth and persistence of inflation pressures. These indicators show us how broadly prices are rising and which categories are driving inflation.

We also look beyond consumer price data. We follow costs through the supply chain to understand where pressures are building and whether businesses are absorbing them or passing them on to consumers. And we assess labour market and other capacity indicators to gauge the balance between supply and demand in the economy.

Our main macroeconomic model, Prima, gives us a more forward-looking perspective. It helps us understand where cost pressures are coming from and how they may evolve and feed into consumer prices.

And we complement the data and models with what we hear directly from businesses and households. Surveys and outreach give us timely signals about how businesses and households expect sales, costs, prices and wages to evolve, and about changes in behaviour that may emerge before they appear in the hard data.

We bring all this evidence together to inform our outlook for total CPI inflation and the balance of risks around that outlook.

Core inflation and dashboard: indicators, not the target

Our measures of core inflation provide particularly important slices of the CPI data. Total CPI inflation can move around a lot from month to month because of large price changes that may not last. Measures of core inflation help us filter out those temporary bumps to get a better sense of the underlying pattern. Put simply, they help us get a clearer read on the persistence of inflationary pressures.

So a key question in our framework review was how to get a clear picture of underlying inflation in a more shock-prone world. To understand where we landed, it's helpful to see how we have measured core inflation over time.

Early on, we used core measures that excluded components of the CPI that had historically been volatile. In the 1990s, we looked at CPI excluding all the food and energy components. In 2001, we shifted to CPIX, which excludes eight particularly volatile items. These exclusion measures were simple and easy to understand. But they also had a limitation. They assumed that what was volatile in the past would be volatile in the future.

In 2016, we started putting more emphasis on a different set of more statistical measures. Rather than exclude a fixed set of components, they identify unusual price movements each month. We focused on three in particular: CPI-trim, CPI-median and CPI-common. The idea was that, taken together, these statistical measures could give us a more robust read on underlying inflation.

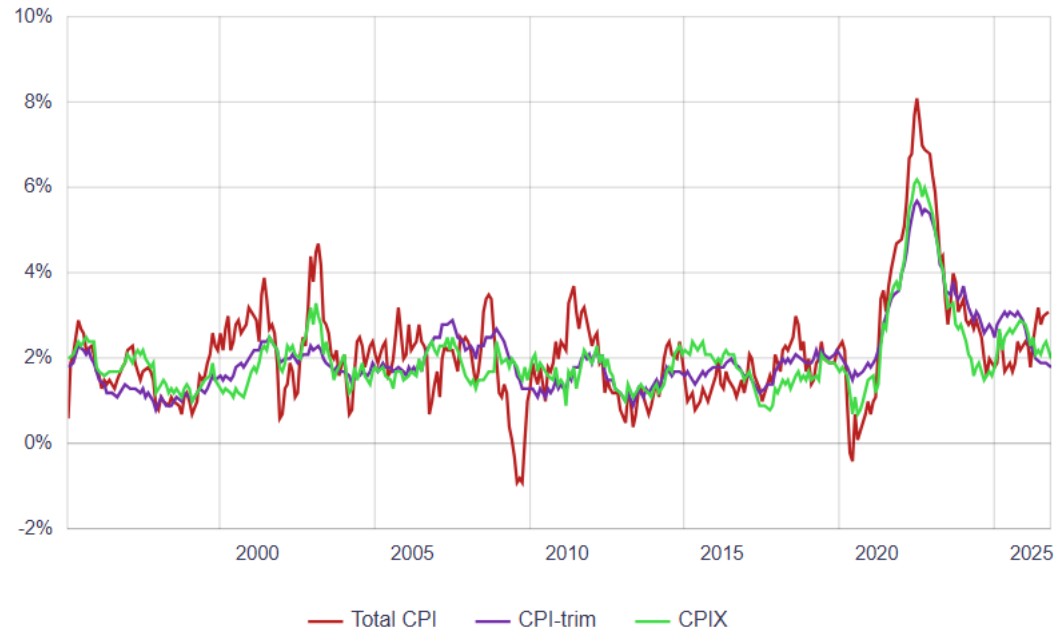
We've learned that both approaches have advantages and disadvantages. Their usefulness can change depending on the shocks hitting the economy.

We also learned that we need to be clearer about which core measures we find most useful. We've refined the group of core measures we look at and will be relying a little more on two that look at underlying inflation in different ways.

The first is CPI-trim. It strips away the most extreme price changes each month. And the second is CPIX, which excludes a fixed set of items (**Chart 2**). One adapts as the pattern of price changes shifts. The other provides a consistent benchmark. Together, they give us complementary views of underlying inflation.

Chart 2: Core measures help assess underlying inflation pressures

Year-over-year percentage change



Sources: Statistics Canada and Bank of Canada calculations
Last observation: October 2026

And there is another lesson from our recent experience: we need to communicate more clearly how we use core inflation measures. During the post-pandemic inflation surge, we emphasized different core measures at different times. We wanted to be transparent about where we saw inflation pressures and where we did not. But we weren't as clear as we hoped.

Canadians found it confusing when we discussed measures that strip out volatile prices such as food and gasoline. After all, these are important parts of the family budget. And financial market participants sometimes felt that we were moving the inflation goalposts.

So we're going to sharpen the distinction: our 2% target applies to total CPI inflation. Core measures are an input into our outlook for total CPI, not a target.

I also want to be clear that looking at two measures of core inflation does not mean relying on them exclusively. Our main core measures can miss parts of the inflation story. No single measure can give us the whole picture. So we look at a broad range of indicators.

We're bringing this broader set of indicators together in a new dashboard we are launching on our website today. In addition to our main core measures, the dashboard includes alternative measures of core, the rate of price changes in major CPI subcomponents and measures of the breadth of inflationary pressures.

Think of these indicators as navigational instruments: each gives us different information and each has strengths and limitations.

But they all ultimately serve the same purpose: helping us assess the outlook for total CPI inflation.

Conclusion

Let me conclude by bringing this back to where we are today.

The duration of the war in the Middle East and our ongoing trade conflict with the United States are giving us unwanted practice at applying the lessons I've discussed.

When global oil prices first spiked at the start of the Middle East war, the shock looked like it might be short-lived. And by late June, prices were back down near pre-war levels. But the relief didn't last. Oil rose again, while gasoline and diesel prices climbed further as damage to global refining capacity escalated.

Here in Canada, inflation has been around 3% since last April. And in October, our forecast was for it to rise to about 3½% by the end of the year. Since October, oil prices and refinery margins have both come down, suggesting inflation may not be quite as high.

But with the persistence of high energy prices, cost pressures have been building since the spring. So far, businesses have largely absorbed the higher production and transport costs. But historical lags and our own business surveys suggest more pass-through to consumer prices in the year ahead. This second-round effect of the oil shock will add to inflation persistence. At the same time, the economy has shown more resilience than we expected.

The combination of increased inflation persistence and modestly better economic performance supported our decision in October to raise the policy interest rate by 25 basis points to 2.5%.

Monetary policy can't lower global energy prices. But it can limit how much they spill over. Our goal is to avoid a situation where Canadians face rising prices for a wide range of goods and services.

Looking ahead, we can expect developments in the Middle East and our trade relationship with the United States to continue to evolve. The build-out and adoption of artificial intelligence could be bumpy, and there may well be new unforeseen shocks. Our assessment of inflationary pressures will change with them.

But our anchor will not. Canadians can continue to count on the Bank to keep inflation anchored at 2%.

Thank you.