POLICY COMMENTARY · JULY BOC

Bank of Canada stays on hold at 2.25%

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Jay Zhao-Murray
Chief Economist

Thompson Richards
Economist

Khoi Pham
Research Analyst

THE TAKE

"The Bank of Canada sounds upbeat about the economy, and seems more comfortable with its policy stance than it did in June."

— JAY ZHAO-MURRAY · CHIEF ECONOMIST · SIBLEY CREEK

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Bank of Canada holds for sixth straight meeting.

The Bank of Canada held its policy rate at 2.25% for the sixth consecutive meeting, as widely expected by the market. The bank called its current policy rate “appropriate,” while reiterating that it could adjust if needed. Overall, the bank seemed more upbeat about the strength of the economy, and seemed unconcerned about headline inflation breaking above 3% on the rise in gasoline prices.

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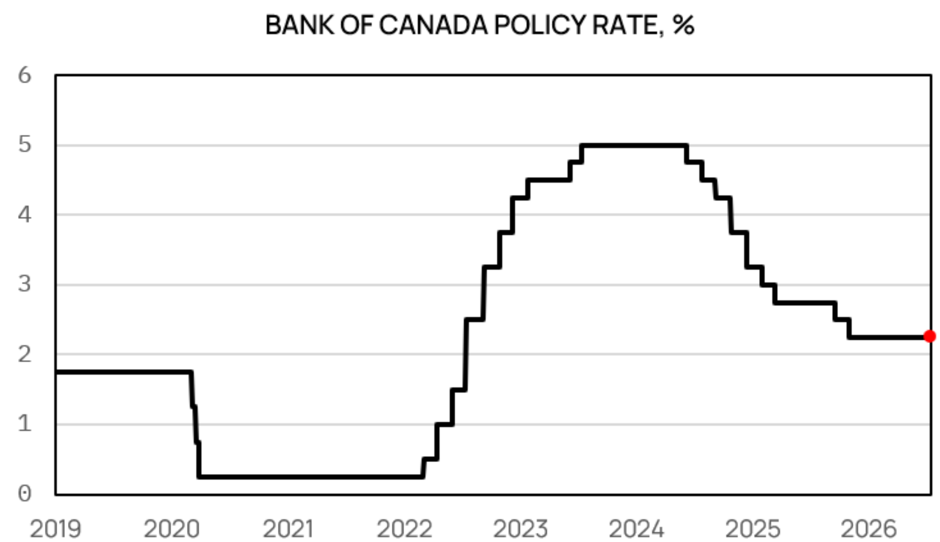

Source: Bank of Canada.

Back in June, it seemed like officials were getting closer to deciding which of its two main offsetting risks would eventually dominate–war and energy-driven inflation, or tariff-impacted economic weakness. But since then, both of the two risks receded. On the war front, while the situation is still highly volatile, markets clearly believe an end to the conflict is potentially getting closer with how much oil prices have come down from their highs. On the trade side, the CUSMA renegotiation date has come and gone, and even though the US declined to renew or extend the existing term, the agreement remains in force for another decade. The bank also noted that “more businesses report they are finding ways to navigate” the trade tensions.

With the bank sounding more comfortable with its policy stance than last meeting and both main risks—while still high—eased somewhat since then, we expect officials to stay in monitoring mode until a clear development warrants an adjustment in policy.

Contact

Jay Zhao-Murray
Chief Economist
(613) 883-0774
jay@sibleycreek.ca

Thompson Richards
Economist
(819) 328-2809
thompson@sibleycreek.ca

Khoi Pham
Research Analyst
(506) 897-2466
khoi@sibleycreek.ca

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