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Upcoming mortgage renewals part of why Bank of Canada held rate at 5%: Macklem

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OTTAWA - Bank of Canada governor Tiff Macklem says the central bank held its key interest rate at five per cent in part because of the effect a wave of upcoming mortgage renewals is expected to have on the economy.

Macklem appeared before a Senate committee alongside senior deputy governor Carolyn Rogers on Wednesday following the Bank of Canada's most recent interest rate decision and monetary policy report.

The governor says the central bank maintained its policy rate because it knows the effect of previous rate hikes are still filtering through the economy, including through mortgage renewals.

“One of the important reasons why we held our policy rate of five per cent is that we know that those renewals are coming. So we know that there's more to come from what we've already done,” Macklem said. “That's why we have a forecast for weaker growth.”

As more people renew their mortgages at higher interest rates, households are expected to feel the squeeze from rate hikes more directly, leading to more softness in the economy.

Macklem says the Bank of Canada does not want to see the country enter a recession, but a period of slower growth is necessary to fight inflation.

“We want to avoid a recession,” the governor said in French.

In its most recent monetary policy report, the central bank lowered its economic growth forecast and increased its inflation forecast for the short run. The Bank of Canada still expects inflation to return to two per cent in 2025.

Recent data from Statistics Canada suggests the economy may have teetered into a mild technical recession as higher interest rates weigh on spending.

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