



Interest Rates. Why Does this Matter?

Bank of Canada interest rates have a significant impact on the financial lives of average Canadians, influencing everything from mortgage payments to the cost of borrowing and saving.

When the Bank of Canada raises interest rates, borrowing becomes more expensive. This means higher payments on variable-rate mortgages, lines of credit, and credit cards, which can reduce household cash flow. It may also cool the housing market and discourage new debt. On the flip side, savers may benefit from better returns on savings accounts and GICs. Conversely, when the Bank lowers interest rates, borrowing costs drop, making it cheaper to finance homes, cars, or education, often boosting consumer spending and stimulating the economy. However, lower rates can also mean lower returns on savings, which may impact retirees or conservative investors.

In short, the Bank's rate decisions directly influence consumer confidence, affordability, and spending behavior, with ripple effects across the entire economy.

The current key policy rate (the overnight rate target) set by the Bank of Canada (BoC) is 2.75%, unchanged since the March 12 decision. That was the fourth cut in a series of reductions totaling 225 basis points, down from a high of 5.00% in mid-2023. Despite uncertainty tied to inflation trends and global trade dynamics, markets still expect about two more 25 bp cuts, possibly to 2.25% by year-end. Mark your calendars for July 30th when the BoC meets to make the next interest rate announcement.