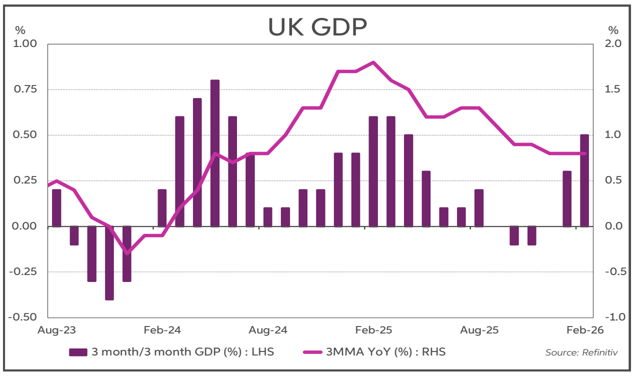
BoE Watch

AIB Treasury Economic Research Unit

30th April 2026

BoE remains on hold, at 3.75%

The April policy setting meeting of the Bank of England's Monetary Policy Committee (MPC), saw the central bank leave the Bank Rate unchanged today, at 3.75%. This represents the third successive meeting where the official rate has been left unaltered. This outcome was very much in line with market expectations. The most recent rate cut from the BoE occurred at its December meeting, when it lowered the Bank Rate by 25bps. This represented the fourth 25bps rate cut from the BoE last year. The BoE has lowered rates by 150bps in total since August 2024.

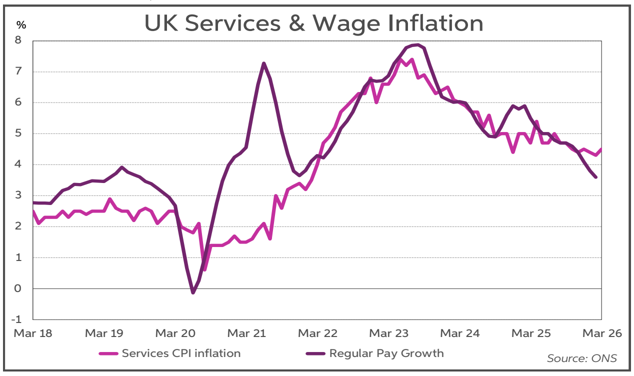


After having unanimity for the first time since 2022, at its March meeting, today's decision to leave rate on hold was not unanimous. The vote was split 8:1, with one member (Huw Pill) voting for a 25bps rate hike. He referenced the "clear upward shift in risks" to the BoE achieving its inflation target. **Even within the majority of eight, there was a "range of views across members".** This ranged from (1) the risk of weaker growth mitigating to some degree second-round inflation effects to (2) "tighter financial conditions" providing some "insurance against a more adverse outcome for inflation" with policy being able to be reassessed over the coming months as more data become available and (3) "differing views on whether and when policy might need to the tightened".

Today's BoE meeting also coincided with the publication of the Bank's assessment of the UK economic outlook, with the release of its quarterly Monetary Policy Report (MPR). Against the backdrop of uncertainty surrounding Middle East conflict the MPC considered three different scenarios for the economic outlook. Scenario A is the most benign, with no second-round inflation effects. Scenario B assumes a more prolonged conflict and incorporates "modest additional second-round effects". Meanwhile, Scenario C assumes a much more disruptive conflict including "stronger and more persistent second round effects" over the full horizon of its 3-year forecasting period.

In terms of the growth outlook, Scenario A and B are very similar. GDP is forecast to rise, in both, by 0.8% and 1.0% in 2026 and 2027, respectively. Scenario A envisages 1.8% GDP growth in 2028, while Scenario B is at 1.7%. This compares to its February MPR central projection GDP growth profile of 0.9% (2026), 1.5% (2027) and 1.9% (2028). Meanwhile, Scenario C has growth at 0.7% (2026), 0.8% (2027) and 1.7% (2028). **On the inflation front, Governor Bailey stated in the press conference that the BoE is now expecting the headline rate to be a "little above" 2.5% by the end of this year** as a "direct consequence" of the Middle East conflict. Scenario A and B see inflation in a 3.6-3.7% range by end year. Scenario A has inflation falling below its 2% inflation target by end'27, whereas Scenario B sees it returning to 2% by early 2028. Scenario C envisages inflation remaining above 2% throughout the 3-year forecast horizon. **The post-meeting press conference was dominated by questions on these three scenarios and what each would mean for monetary policy, specifically rate hikes.** Governor Bailey was careful not to assign rate hike projections to the scenarios.

In summary, today's various communications from the BoE indicate a further hawkish shift in the central bank's mindset regarding the interest rate outlook. Governor Bailey stated that today's decision was an "active hold" rather than a "passive hold". Therefore, if oil prices remain elevated or rise further, it could see the BoE start to raise rates. Futures contracts continue to price in at least 50bps of rate hikes by the end of this year, with the first 25bps hike fully priced in by July. Governor Bailey, who previously had pushed back against this market pricing stated today that he did not think the "interest rate curve" was in the "wrong pace". He also stated that "there are paths" through which the BoE "don't have to increase rates" and "paths where we do". Overall then, the BoE rate outlook remains very much dependent on how the conflict in the Middle East evolves but clearly there is now a greater chance of the BoE tightening policy over the course of this year.



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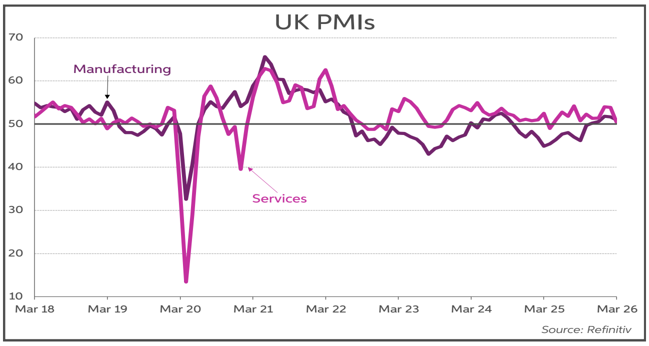
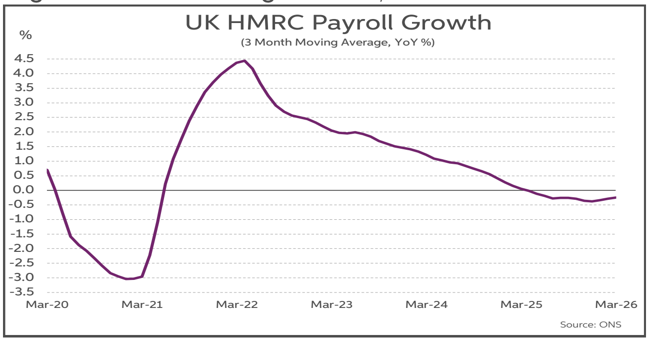
Energy price shock to UK economic momentum



The UK economy gathered some momentum in 2025, particularly in the first half of the year. GDP rose by 0.7% q/q in Q1 and by 0.2% q/q in Q2. However, growth slowed markedly thereafter, with GDP rising by just 0.1% q/q in the final two quarters of the year. Overall, the UK economy expanded by 1.3% in 2025, up from 1.1% in 2024 and just 0.3% in 2023. Crucially, GDP per capita increased by 1.0% in 2025, having flatlined in 2024 and contracted by 1.0% in 2023. Solid consumer spending, a marked rise in investment - especially business investment - and higher government spending, all contributed to the rise in growth last year. Net trade was a drag on GDP, as imports rose at a sharper pace than exports.

In a similar pattern to last year, the available hard data indicate that the economy gathered some steam in the first quarter. The monthly reading of GDP rose by just 0.1% m/m in January but jumped by 0.5% m/m in February, its fastest rate of increase since January 2024. Elsewhere, industrial production, which has been volatile recently, increased by 0.5% m/m in February also. Meanwhile, retail sales excluding fuel, a better measure of consumer activity given the recent surge in energy prices, rose by 1.4% in Q1 compared to Q4 2025. In year-on-year terms, core sales were up by 1.7% in March.

Recent survey data also suggest that activity levels have increased at the start of the year. The manufacturing PMI reached its highest level since August 2024 in January, and averaged 51.5 in Q1, up from 50.2 in Q4. Similarly, the services PMI jumped sharply higher in January, and averaged 52.8 overall in the first quarter of 2026 compared to 51.7 in the final quarter of 2025. Somewhat surprisingly, the flash reading of both surveys improved in April also. However, consumer confidence has deteriorated markedly in recent months. It rose to –16.0 at the start of the year, its highest level since August 2024, but it has fallen in the three months since, and stood at –25.0 in April.



In terms of the labour market, conditions have softened over the past year. The unemployment rate increased steadily, from 4.4% at the start of 2025 to 5.2% in December, its highest level since January 2021. Furthermore, although it dropped to 4.9% in February, this was largely driven by people leaving the labour force rater than a significant drop in the number unemployed. Worryingly, payrolls have contracted in twelve of the past eighteen months to March. Against this backdrop, wage inflation has cooled. Average earnings growth fell to +3.8% y/y in the three months to February. Meanwhile, the BoE Agent's Summary Survey for Q1 suggests that pay settlements may average around 3.4% in 2026.

However, inflation has re-accelerated recently, and it is likely to rise further because of the conflict in the Middle East. Headline inflation fell to 3.0% in January and February, before moving up to 3.3% in March, largely due to a rise in fuel costs. Indeed, core inflation slowed slightly to 3.1% in March, despite a rebound in services inflation to 4.5% from 4.3%. The Monetary Policy Report released today indicates that the BoE has revised higher its inflation forecasts across all of its scenarios though, due to the recent surge in wholesale energy prices stemming from the war in the Middle East.

In summary, the UK economy enjoyed a solid start to the year following a weak end to 2025. At the same , inflationary pressures were continuing to cool at the start of 2026, which had opened the door to further rate cuts this year. **However, the emergence of the war in the Middle East has narrowed the chances of any rate cuts this year.** The war poses a stagflationary shock to the UK economy, meaning it will simultaneously increase inflation and weigh on growth. At the same time, the UK government continues to lack a coherent growth strategy, with little in the Autumn Budget or recent Spring Statement that is likely to alleviate the UK's ongoing problem of weak productivity. Thus, the IMF has recently revised down its UK GDP forecasts to 0.8% (was 1.3%) this year and 1.3% (from 1.5%) next year.