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**Preview: BoE on Hold in September,
After the August Three-Way Split**

by

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15 September 2025

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Executive Summary

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- ✦ **Expected Decision:** *In line with consensus, we expect the Bank of England (BoE) to hold its Bank Rate (BR) at 4.00% in September.* Regarding its *balance sheet policy*, we expect the BoE to announce a reduced pace of QT compared to that of September 2024 (100bn a year), likely around GBP 75-80bn a year. Regarding *forward guidance*, we expect the BoE to reiterate that decisions are taken meeting by meeting, still with a “gradual and careful approach.” In August, it noted the “restrictiveness of monetary policy has fallen,” a remark some saw as a sign cuts were nearing an end.
- ✦ **Policy Discussion:** *The Bank of England is expected to hold rates at 4% on September 18, with markets watching for signals on a possible November cut.* Most economists still expect one cut next quarter and another in early 2026, though a growing minority think easing has ended. Inflation, which briefly returned to the 2% target last year, has climbed back toward 4%, and Governor Andrew Bailey has warned of uncertainty over the pace of cuts amid persistent cost-of-living pressures. The vote split will be key, with six officials likely to favor no change and three pushing for a 25bp cut.

The outlook is complicated by fiscal policy. Finance minister Rachel Reeves has pledged tighter spending controls and tax hikes in the November 26th budget to contain borrowing costs, though investors fear this could hurt growth. Gilt yields have already risen to their highest since 1998, reflecting concerns over the UK’s fiscal outlook. A tighter budget could reinforce the case for rate cuts, but much depends on inflation and labor data, which remain volatile.

Meanwhile, the BoE continues quantitative tightening, having reduced its bond portfolio from £875bn to £558bn since 2022. Markets expect the pace of reduction to slow, amid mounting losses on QE/QT and pressure in long-dated gilts. With UK growth weakening and business sentiment softening, the balance between fiscal tightening and sticky inflation will be decisive in shaping the BoE’s next moves.

Key Picture: BoE Key Forecasts From the May MPR

	Latest Reading	2025f		2026f		2027f	
		August Report	May Report	August Report	May Report	August Report	May Report
GDP (<i>real growth, y-o-y</i>)	1.2	1.3	1.0	1.3	1.3	1.5	1.5
Unemployment rate (% <i>y-o-y</i>)	4.7	4.8	4.8	5.0	5.0	4.8	5.0
CPI inflation (% <i>y-o-y</i>)	3.8	3.8	3.3	2.5	2.0	2.0	1.8
Bank rate (%)	4.25	3.8	3.7	3.5	3.6	3.6	3.6

Source: Bank of England ‘Monetary Policy Report’ (MPR), [May](#) and [August](#) 2025. Note: 1. GDP reading for Q2 2025; 2. Unemployment reading for June 2025; 3. Inflation reading for July 2025; 4. Bank Rate as implied by forward market interest rates.

Analysis

- ✦ **EXPECTED DECISION:** *On September 18, in line with consensus, we expect the Bank of England (BoE) to keep its Bank Rate at 4.00%.* In August, for the first time ever, the MPC held a second vote after the initial round resulted in a 4–4–1 deadlock. The BoE ultimately cut its policy rate by 25 basis points in an exceptionally close decision, reflecting deep divisions among policymakers.

In terms of *forward guidance*, the Bank will remain evidence-based, and data dependent, with decisions made meeting-by-meeting. The MPC will continue to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting. In August, it noted the “restrictiveness of monetary policy has fallen,” a remark some saw as a sign cuts were nearing an end.

The prospect of a November cut remains uncertain, with this meeting closely watched for clues. The vote split will be key: six officials are expected to back holding rates, while three may support a 25bp cut, likely including Swati Dhingra, Alan Taylor, and possibly Deputy Governor Dave Ramsden.

In terms of *balance sheet policy*, each September, the Bank sets its annual target for reducing government bond holdings, fixed at £100bn in recent years through gilt sales and maturing bonds. This continues until reserves reach their equilibrium, estimated at £380–550bn. At the current pace, reserves could near the upper end of that range by next year. BoE Governor Andrew Bailey said the pace of quantitative tightening remains undecided ahead of this month’s policy meeting. The bank has cut its bond holdings from £875bn (2009–21) to £558bn since 2022 through sales and maturities.

In September 2024, the BoE announced the new pace of QT: the Committee unanimously agreed to decrease the stock of UK government bond purchases, held for monetary policy purposes and financed through central bank reserves, by £100 billion over the next 12 months, bringing the total to £558 billion. The active gilt sales are being significantly reduced to £13 billion, compared to £80 billion last year. The remaining £87 billion will come from maturing gilts, with proceeds not being reinvested. There are reasons to believe that, when the BoE will review its pace of QT in September, this will be reduced potentially to GBP 75-80bn a year.

- ✦ **POLICY DISCUSSION:** *Policymakers are set to hold rates at 4% in September, but markets will watch closely for signals on whether a November cut remains possible.* The BoE is expected to hold rates on September 18, with most economists in a Reuters poll forecasting one cut next quarter and another early next year. But a growing minority think the cutting cycle is over. Inflation, once above 11%, briefly hit the 2% target last year but has since nearly doubled, and Governor Andrew Bailey has warned of uncertainty over the pace of future cuts amid persistent cost-of-living pressures.

The prospect of a November cut is still uncertain, with markets watching the vote split closely. Six officials are expected to back holding rates, while three — likely Swati Dhingra, Alan Taylor, and possibly Deputy Governor Dave Ramsden — as mentioned above may support a 25bp cut.

Britain’s finance minister Rachel Reeves said the government will back the BoE’s fight against inflation while preparing a November 26th budget expected to raise taxes. She pledged tighter spending controls to curb borrowing costs, with inflation at 3.8% in July and forecast to peak at 4% this month. Reeves stressed growth remains a priority, though investors worry tax hikes could dent activity and even add to price pressures, as gilt yields hit their highest since 1998 amid concerns over the UK’s fiscal outlook.

Last year’s Budget lifted both taxes and spending, helping keep GDP resilient and public-sector jobs strong, though markets priced in higher rates on growth and inflation risks. This year looks different: modest spending increases but a £20bn shortfall from weaker growth, productivity, and immigration forecasts. That likely means fresh tax hikes, possibly on employer National Insurance, despite labor market strains.

A tighter budget would strengthen the case for rate cuts, depending on timing relative to the 6 November meeting. One more cut this year and two in 2026, bringing rates to 3.25%, though upside inflation surprises could derail this path. Indeed, stubborn inflation and policy uncertainty might delay their forecasts for BoE rate cuts. The upcoming data will be critical, with UK inflation recently hitting an 18-month high. Markets

widely expect the BoE to hold steady at its 18 September meeting, with traders pricing a 97% chance of no change.

The BoE cut rates by 0.25 points in August, though a larger-than-expected number of policymakers favored holding steady, leaving the outlook for further easing uncertain. Another cut in November as wage growth cools, but stronger jobs or inflation data could delay action until 2026. The BoE has also flagged unreliable labor data from the ONS as a challenge, with Bailey stressing its importance. Meanwhile, UK growth is slowing amid weaker exports, high energy costs, cautious consumers, and looming tax hikes, with only a quarter of firms planning to hire in the next three months.

BoE Governor Andrew Bailey said the pace of quantitative tightening remains undecided ahead of this month's MPC meeting, where the annual target is set alongside the rate decision. Since 2022, the BoE has cut bond holdings from £875bn to £558bn, reducing £100bn over the past year, though investors expect this to slow to £72bn in the next 12 months. Some lawmakers have urged halting gilt sales altogether amid taxpayer-backed QE/QT losses of £115bn and rising long-dated yields, which Bailey said the BoE is monitoring closely.

- ✦ **MACROECONOMIC ANALYSIS:** *The UK GDP beat forecasts as higher government spending and inventories offset weak consumer demand and falling investment.* The UK economy grew 0.3% q-o-q in Q2 2025, slowing from 0.7% in Q1 but beating BoE and market forecasts of 0.1%. Growth, the second-fastest in the G7, was supported by higher public spending and stockpiling ahead of U.S. tariffs, while business investment fell 4% and consumer spending stayed weak. GDP rose 1.2% y-o-y, with June output rebounding 0.4% after earlier declines. Sterling edged higher on the data, offering a boost to Finance Minister Rachel Reeves, though economists warn tax hikes and Trump's trade war continue to weigh on jobs and investment.

UK inflation rose to 3.8% y-o-y in July, above forecasts of 3.7% and the BoE's 2% target for a 10th straight month, driven by higher food prices and a 30% surge in fares. The overshoot reduces chances of another rate cut this year, with markets now expecting easing only by spring. Rail fares are set to climb 5.8% next year, while food inflation hit 4.9% amid drought-driven supply pressures. Analysts said the latest data makes near-term rate cuts less likely, though not impossible. CPI rose 0.1% month-on-month, beating expectations of a 0.1% drop but easing from June's 0.3% rise, while core inflation edged up to 3.8% from 3.7%.

UK unemployment climbed to 4.7% in the three months to June, up from 4.5% earlier in the year, marking the highest level in four years. Payrolls dropped by 26K between May and June, with early estimates showing another 8,000 fall in July, extending a run of monthly declines. Vacancies slipped nearly 6% to around 718K, while pay growth excluding bonuses eased to 5%, its weakest pace since early 2022. Economists linked the slowdown to higher payroll taxes, a minimum wage hike, and weak business confidence, though revisions suggested the overall hit to jobs from Labour's first budget may be less severe than initially feared. The BoE noted easing wage pressures but still sees risks from recent inflationary upticks, with markets now pricing strong odds of another rate cut next month.

The UK S&P Global Composite PMI was revised up to 53.5 in August from 53.0, the highest since August 2024 and marking a fourth month of growth. Services surged to a 16-month high (54.2), offsetting deeper manufacturing weakness (47). Stronger output and new orders supported the expansion, though job cuts continued as firms froze hiring amid spare capacity and rising labor costs.

- ✦ **MARKET IMPLICATIONS:** *Despite gilt yields at 1998 highs, sterling has held firm, supported by the BoE's hawkish stance and attractive carry.* With inflation high, growth steady, and fiscal risks lingering, UK yields would stay elevated. A slower pace of QT may ease long-end pressure, but rates are unlikely to fall until inflation cools. As this month's decision is almost certain, the initial market reaction is likely to be muted, so all eyes will be on detecting signals on a possible cut in November. To put things into context, *in the fixed-income space*, as of September 12 and since the last meeting on August 7: *i)* the 2y Gilt yield edged up by 11 bps to 3.99% (-41bps y-t-d); and *ii)* the 10y Gilt yield increased by 12 bps to 4.67% (+8 bps y-t-d).

In the currency space, the pound fell against the dollar after UK data showed zero growth in July, but remained on track for a second weekly gain ahead of next week's BoE meeting. Sterling later recovered as softer U.S. inflation and jobs data fueled bets on a more dovish Fed. As of September 12, *GBP/USD* rose by 0.9% from the last meeting in August and trades around 1.36 (+8.3% y-t-d). *GBP/EUR* increased by 0.3% since the August meeting to around 1.16 (-4.2% y-t-d). *In the equity space*, since the last meeting in August, the FTSE 100 rises by 2.0% to 9,283.29 (+12.4% y-t-d). The UK stock benchmark is outperforming Europe, lifted by oil majors and large multinationals.

- ✦ **APPENDIX (MACRO ASSESSMENT):** *UK growth beat expectations in Q2, though momentum slowed from early-year strength under pressure from tax hikes and Trump's trade war.* In Q2, according to the preliminary estimate, the economy advanced by 0.3% q-o-q-q (p: 0.7%) above the forecasted 0.1% . *Household expenditure* and *government consumption* rose by 0.1% (p: 0.4% in Q1) and by 1.2% (p: -0.6% in Q1) respectively. *Gross fixed capital formation* contracted by 1.1% (p: 2.0% in Q1). There was an increase in net trade, with exports rising by 1.6% (p: 3.3%) and imports rising by 1.4% (p: 2.0%). The British economy expanded 1.2% y-o-y (c: 1.0%; p: 1.3%) in Q2. The British economy expanded by 0.4% m-o-m in June (c: 0.1%; p: -0.1%).

UK Business activity rose for a fourth straight month, recording its fastest pace since August 2024. Retail sales volumes increased by 1.1% y-o-y (c: 1.3%; p: 0.9%) in July. When looking at business confidence, in May, the *S&P Global/CIPS Flash UK Composite PMI* was revised slightly higher to 53.5 (c: 53.0; p: 51.5). Services PMI edged up to 54.2(c: 53.6; p: 51.8). Manufacturing PMI was down to 47 (c: 47.3; p: 48.0).

UK jobless rate held the highest since mid-2021, with more people jobless for 6–12 months and over a year. In June, unemployment rate stood at 4.7% as expected. Total average weekly earnings, including bonuses, increased by 4.6% y-o-y (c: 4.7%; p: 5.0%) in the three months leading up to June. Average wages rose in real terms, with an annual change of 0.8% excluding bonuses. The number of job vacancies fell to 718K in May, to the lowest level in nearly four years.

UK inflation picks up to hotter-than-expected 3.8%. In July, CPI inflation jumped to 3.8% y-o-y (c: 3.7%; p: 3.6%). Transport drove the increase, with prices up 3.2% (vs. 1.7% in June), led by a 30.2% jump in airfares tied to school holidays. Prices for restaurants and hotels as well as food and non-alcoholic drinks rose by 3.4% (vs. 2.6%) and by 4.9% (vs. 4.5%) Respectively. Prices eased for housing and utilities to 6.2% (vs 6.7%) on lower owner-occupier costs and rents. Core inflation increased to 3.8% y-o-y (c: 3.7%; p: 3.7%).



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