MONETARY AFFAIRS:

Review: BoE Leaves Rates Unchanged,

With Minimal MPC Split

by

Brunello Rosa and Nato Balavadze

18 September 2025

Brunello Rosa and Nato Balavadze

Review: BoE Leaves Rates Unchanged, With Minimal MPC Split

18 September 2025

Executive Summary

- **Decision Made**: *The Bank of England (BoE) hold its Bank Rate at 4.25% amid geopolitical and macroeconomic uncertainties.* The Committee was split: seven members (Bailey, Breeden, Greene, Lombardelli, L. Mann, Pill, Ramsden) voted to hold rates, while Dhingra and Taylor preferred a 25bp cut. In terms of *forward guidance*, future decisions will remain data-dependent and made meeting-by-meeting, with a "gradual and careful approach" to easing policy restraint.

  On *balance sheet policy*, the BoE will cut gilt holdings by £70bn over the next year (down from £100bn), reducing the stock to £488bn. The plan includes £21bn of active sales, up from £13bn, with fewer maturities expected; only 20% will be long-dated gilts, versus a third previously.

- **Policy Discussion**: *The Bank of England was split 7–2 on both interest rates and its bond sale plan.* On rates, seven MPC members voted to hold at 4%, stressing limited new data and the need to weigh upside risks from inflation expectations and wage dynamics against downside risks from weak demand. Two members backed a 0.25pp cut to 3.75%, arguing disinflation is advancing, consumption and investment are subdued, wage growth is easing, and global risks warrant a less restrictive stance to guard against recession and below-target inflation.

  The MPC agreed to cut gilt holdings by £70bn between October 2025 and September 2026, including £21bn in active sales, reducing the stock to £488bn. Seven members backed the plan; Huw Pill preferred maintaining £100bn, while Catherine Mann favoured £62bn with balanced maturities. The FPC was briefed, and members stressed changes outside the annual review would face a high bar.

  The move comes amid concern that QT is adding to gilt market volatility, lifting long-term borrowing costs and deepening losses on the BoE's balance sheet. Thirty-year yields have risen to their highest since the 1990s, worsening fiscal strains. While economists had expected the slowdown to £70bn, in line with forecasts, the decision may ease some pressure on Chancellor Rachel Reeves. Facing tight budget rules and a £20bn shortfall ahead of November's fiscal review, she risks further tax rises or spending cuts. Some economists caution, however, that slower QT could increase taxpayer exposure to the BoE's bond losses, leaving the policy trade-off unresolved.

Key Picture: BoE Key Forecasts From the May MPR

	Latest Reading	2025*f*		2026*f*		2027*f*	
		August Report	May Report	August Report	May Report	August Report	May Report
GDP *(real growth, y-o-y)*	1.2	**1.3**	**1.0**	**1.3**	**1.3**	**1.5**	**1.5**
Unemployment rate *(%, y-o-y)*	4.7	**4.8**	**4.8**	**5.0**	**5.0**	**4.8**	**5.0**
CPI inflation *(%, y-o-y)*	3.8	**3.8**	**3.3**	**2.5**	**2.0**	**2.0**	**1.8**
Bank rate *(%)*	4.00	**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 July 2025; 3. Inflation reading for August 2025; 4. Bank Rate as implied by forward market interest rates.

Analysis

- **DECISION MADE**: *On September 18, in line with consensus, the Bank of England (BoE) held its Bank Rate at 4.00%.* The Committee was divided. Seven members (Bailey, Breeden, Greene, Lombardelli, L Mann, Pill and Ramsden) backed the proposal. Two members (Dhingra and Taylor) preferred a 25-bps cut in Bank Rate.

  In terms of *forward guidance*, the Bank will remain evidence-based, and data dependent, with decisions made meeting-by-meeting. Policy decisions are not on a pre-set course, and the Committee will adjust its approach in response to incoming data. Given the level of high uncertainty, the MPC maintained a piece of rhetoric to its forward guidance, saying that the Bank will pursue a "gradual and careful" approach in its policy easing. Monetary policy has become less restrictive following the recent reduction in the Bank Rate. The *timing* and *pace* of any further easing will depend on how underlying disinflationary pressures evolve.

  MPC acknowledges that domestic price and wage pressures have continued to ease, though unevenly. The Committee remains alert to how easing wage pressures may affect overall inflation. Overall, medium-term inflation risks have risen slightly since May.

  In terms of *balance sheet policy*, the BoE agreed to cut its government bond holdings by £70 billion (from £100 billion) over the next year, bringing the total to £488 billion. The plan includes £21bn of active bond sales, up from £13bn last year, with fewer maturities expected. Only 20% of sales will be long-dated gilts, down from a third previously. Catherine Mann favoured a £62bn reduction, while Huw Pill backed the idea of keeping a pace of £100bn a year of reduction.

  On 17 September, the Bank held £558bn of UK government bonds for monetary policy. Th Q4 sales details set out in a Market Notice. Since sales began in late 2022, auctions have been spread across maturities. For 2025 Q4–2026 Q3, around 40% of sales will be short-dated gilts, 40% medium-dated, and 20% long-dated. BoE governor Andrew Bailey said the new QT target allows the Bank to shrink its balance sheet in line with policy goals while limiting disruption to gilt markets.

- **POLICY DISCUSSION:** *The Bank of England was split 7-2 over interest rate decision as well as bond sale plan.* Looking ahead, the BoE said a "gradual and careful" easing of policy remains appropriate, signaling further rate cuts if inflation continues to fall. It also noted that monetary policy has become less restrictive as Bank Rate has been lowered, underscoring the impact of recent cuts.

  Regarding the rate decision, seven MPC members voted to hold Bank Rate at 4%, citing little new data and a need to balance upside risks to inflation from expectations and wage-price dynamics against downside risks from weaker demand. Two members (Swati Dhingra and Alan Taylor) backed a 0.25pp cut, arguing disinflation is progressing, domestic demand and investment are weak, wage growth is easing, and global risks justify a less restrictive stance to guard against recession and below-target inflation.

  Britain's debate over central bank independence has turned to whether the BoE should continue gilt sales that worsen government debt costs. Over the past 12 months, the Bank reduced its gilt holdings by £100bn, including £13bn through active sales. For the coming year (October 2025–September 2026), the Committee considered a £70bn reduction, of which £21bn would be achieved via sales. This would lower total gilt holdings to £488bn.

  Seven members supported the £70bn reduction, viewing it as consistent with MPC principles and appropriate in light of market conditions. One member (Pill) argued for maintaining the previous £100bn pace to ensure continuity and consistency, while another preferred slowing to £62bn (Mann), keeping sales at £13bn spread evenly across maturities to reduce volatility in short and medium-term rates. The FPC was briefed ahead of the decision. All members reaffirmed that any change outside the annual review would face a high bar to preserve predictability and financial stability.

The decision follows concern that QT is amplifying volatility in the gilt market, driving up long-term borrowing costs, and adding to losses on the BoE's balance sheet. Thirty-year gilt yields have climbed to their highest since the 1990s, compounding fiscal strains. City economists had expected the reduction in QT to around £70bn, so the move came in line with forecasts.

For Chancellor Rachel Reeves, the slower pace of QT could offer some relief as tighter budget rules already leave the government facing a £20bn shortfall ahead of November's fiscal review, raising the risk of more tax rises or spending cuts. But some economists caution that reducing QT only increases taxpayer exposure to BoE losses on its bond portfolio, leaving the trade-off unresolved.

- **ECONOMIC ASSESSMENT**: *UK GDP growth remains weak, reflecting a gradual labour market loosening and spare capacity in the economy, with domestic and geopolitical risks still tilted to the downside.* UK GDP rose 0.3% in Q2 2025, stronger than the 0.1% expected, with household consumption up 0.1%, government spending up 2%, but business investment down 4% after a Q1 rise. Exports to the US dropped 27% on weaker vehicle and metal sales, though July data showed a 20% rebound following the UK-US Economic Prosperity Deal. Monthly GDP was flat in July after a 0.4% gain in June, as services activity stalled and manufacturing contracted. Business surveys, including the composite PMI at 53.5 in August, point to modest growth, though sentiment remains weak and a significant pickup is not expected until 2026. Bank staff project GDP growth of about 0.25% per quarter in the second half of 2025, with headline Q3 growth around 0.4%.

  Labour market conditions continued to loosen gradually. Vacancies fell further in the three months to August, though at a slower pace, while unemployment held steady. Pay growth is moderating: private sector regular earnings growth slipped to 4.7% in the three months to July, down from 4.8%, with further declines expected toward 3.8% by year-end.

  Inflation remained elevated. CPI was 3.8% in August, unchanged from July, with core CPI at 3.6%. Food inflation rose to 5.1% on higher global commodity prices, packaging costs, and labour expenses, while services inflation eased slightly to 4.7% from 5.0% in July but remains high due to past wage growth, NICs increases, and administered prices. Inflation is projected to stay close to 3.75% in the second half of 2025, peaking temporarily at 4% in September before easing as core goods and energy prices decline.

- **OUR TAKE:** *BoE to cut not faster than on a quarterly basis.* With the economy moderating and inflation above target the Bank faces a dilemma. Most likely the Bank will continue cutting rates on a quarterly basis, with the next move likely coming in November. We don't see space for an acceleration in the easing cycle – if anything, it would be harder to slot in another rate cut before year end. One factor could be the November 26th Budget, in case the Bank wants to observe what the Government does before making another move.

- **MARKET REACTION AND IMPLICATIONS:** *Market reaction was muted:* 30-year gilt yields edged higher as looser QT was already priced in, while shorter maturities dipped slightly. Sterling eased from intraday highs but stayed mid-range among G10 currencies. Yields on UK government bonds fell, with the 2-year yield, sensitive to rate changes, down 2.5 basis points to 3.94%. The 10-year benchmark declined to 4.62%, but then rose again to 4.65%. *In the currency space,* Sterling slipped into negative territory, last trading at $1.3619, while the euro rose to 86.81 pence. *In the equity space,* London stocks rose in line with European markets after the Fed's rate cut, though the FTSE 100 lagged, edging up only slightly after the BoE held rates. After the BoE decision, the FTSE 100 rises 26 points to 9,235.

ROSA & ROUBINI ASSOCIATES

Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom.

For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

***Analyst Certification**: We, Brunello Rosa and Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships.We also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report.*