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**Preview: BoE Likely To Cut Rates In December,
With A Split MPC**

by

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16 December 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 cut its Bank Rate by 25 bps (BR) at 3.75% in December.* Regarding its *balance sheet policy*, in September 2025, the BoE decided to 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. Regarding *forward guidance*, we expect the BoE to reiterate that decisions are taken meeting by meeting. Guidance is likely to change little, reiterating a gradual easing path if disinflation continues. Bailey is expected to acknowledge labour market weakness and signal openness to further cuts, while keeping all doors open for February.
- **Policy Discussion:** *BoE is expected to cut rates this week, as easing inflation, a softer labour market and the tax-raising Budget tilt the balance toward policy easing.* We expect a 25bp cut to 3.75%, likely by a 6–3 vote, with Pill, Greene and Mann dissenting in favour of a hold. We cannot rule out an even tighter 5–4 split, if Lombardelli votes again to keep rates unchanged. In that case, Bailey’s vote will be determinant.

Since November, data have pointed to further labour market cooling, with unemployment rising above the Bank’s forecast and activity disappointing, including weaker-than-expected Q3 GDP. MPC communication continues to highlight divisions between members focused on downside growth and labour risks and those concerned about persistent inflation pressures.

Risks remain two-sided. Weaker labour data or Budget-related disinflation could prompt a more dovish tone, while emphasis on finely balanced policy or the need for more evidence could lean hawkish. Around two-thirds of economists expect a further cut to 3.50% by end-March, though views diverge beyond that. Our baseline assumes additional cuts in February, April and July, with timing dependent on incoming data.

Key Picture: BoE Key Forecasts

	Latest Reading	2025f		2026f		2027f		2028
		November Report	August Report	November Report	August Report	November Report	August Report	November Report
GDP (<i>real growth, y-o-y</i>)	1.3	1.5	1.3	1.2	1.3	1.5	1.3	1.2
Unemployment rate (<i>%, y-o-y</i>)	5.1	5.0	4.8	5.0	5.0	5.0	4.8	5.0
CPI inflation (<i>%, y-o-y</i>)	3.6	3.5	3.8	2.5	2.5	3.5	3.8	2.5
Bank rate (%)	4.00	3.9	3.8	3.5	3.5	3.9	3.8	3.5

Source: Bank of England ‘Monetary Policy Report’ (MPR), [November](#) and [August](#) 2025. Note: 1. GDP reading for Q3 2025; 2. Unemployment reading for October 2025; 3. Inflation reading for October 2025; 4. Bank Rate as implied by forward market interest rates.

Analysis

- ✦ **EXPECTED DECISION:** *On December 18, in line with consensus, we expect the Bank of England (BoE) to cut its Bank Rate by 25 bps 3.75%.* In November, the Committee was split, with five members voted to keep the rate at 4%, while four favoured a 25 bps cut to 3.75%.

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. Guidance is likely to see limited changes, with the Monetary Policy Summary reiterating that rates remain on a gradual downward path if disinflation continues. Governor Bailey is expected to acknowledge recent labour market weakness and signal openness to further easing if data evolve as expected, while avoiding explicit guidance for February.

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. 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 BoE is expected to cut rates, as easing inflation, a softer labour market and the recent tax-raising Budget tilt the balance toward policy easing.* The MPC is likely to cut Bank Rate by 25bp to 3.75% this week, with a potential likely 6–3 vote split. Since the last meeting, MPC communication has underscored internal divisions. Some members argue policy remains restrictive and warn of downside risks to consumption and the labour market, while others highlight persistent upside risks to inflation. Pill, Greene and Mann are most likely to dissent in favour of holding rates, while softer labour market data and the disinflationary impact of the Budget strengthen the case for easing.

After the MPC held rates in November, Governor Bailey signalled a possible cut at the Dec. 18 meeting, noting the Committee would have more data on disinflation and the Budget's impact by then. Since that decision, data have pointed to further labour market cooling. Unemployment rose to 5.0% in September, above the Bank's forecast, and is expected to climb to 5.1% in. Activity data have also disappointed, with Q3 GDP growth undershooting the Bank's projections. The vote of the governor may be the decisive factor if Claire Lombardelli remains in favour of no-change, like Huw Pill. In that case, the vote in favour of a cut would be a narrow 5-4 split.

Risks to this outlook are two-sided: a more dovish tone could emerge if weaker labour data or Budget measures shift the inflation risk balance further down, while a hawkish tilt could come from stronger emphasis on policy becoming more finely balanced or on the need for more evidence before additional cuts.

Around two-thirds of economists also expect a further cut to 3.50% by end-March, though there is no clear consensus beyond that, with the median forecast pointing to a trough of 3.25% in 2026. The timing will depend on incoming data, but our baseline assumes cuts in February, April and July, with a slower easing path possible if labour and inflation data prove more resilient.

- ✦ **MACROECONOMIC ANALYSIS:** *The Budget measures are expected to provide a modest near-term boost to growth rather than a drag, with Bank staff estimating they will lift GDP by around 0.2% by 2027.* Cost-of-living measures should also reduce headline inflation, lowering it by an estimated 0.4–0.5pp for about a year from Q2 2026. The economy weakened unexpectedly ahead of the Budget, underlining a broader loss of momentum. The UK economy grew just 0.1% q-o-q in Q3, undershooting expectations of 0.2% and slowing from 0.3% in Q2. The figures come ahead of the Nov. 26 Autumn Budget, where Chancellor Rachel Reeves to announce tax hikes.

Economic activity was weighed down by uncertainty ahead of the Budget, which appears to have dampened consumer and business spending. Growth weakened as services and construction slowed, while production contracted further. Manufacturing was a key drag, with a sharp fall in car output linked to a five-week production halt at Jaguar Land Rover following a cyberattack, alongside weaker pharmaceutical output. Overall production fell 0.5% over the three-month period, driven largely by a sharp drop in vehicle manufacturing, while the services sector showed no growth.

GDP contracted by 0.1% m-o-m in October, compared with expectations for 0.1% growth. October's contraction comes after the economy shrank by 0.1% in September and was flat in August. The economy's fragility and strengthen the case for a Bank of England rate cut next week, though persistently high inflation could limit the pace of further easing. Growth is expected to remain weak, with GDP likely flat in the final quarter of the year amid ongoing Budget-related uncertainty.

Inflation eased to 3.6% in October, in line with expectations and down from 3.8% in September. Core inflation also edged lower, to 3.4% from 3.5%. The slowdown was driven mainly by softer gas and electricity prices following changes to the Ofgem energy price cap, as well as falling hotel costs. These declines were partly offset by rising food prices and higher raw material costs for businesses.

Unemployment rate rose to 5.1% in the three months to October, up from 5.0% in the previous period, reaching its highest level since January 2021. The data point to a weakening labour market, with payroll employment down 149,000 year on year. Average wage growth excluding bonuses stood at 4.6%, still above inflation, but diverged across sectors: private-sector pay growth slowed to 3.9%, while public-sector wage growth accelerated to 7.6%.

✦ **MARKET IMPLICATIONS:** The British pound weakened last week on renewed UK political uncertainty, then rebounded briefly as gilt yields rose, before softening again after mixed BoE commentary and signs the autumn Budget could shave 0.5pp off inflation. Given that the MPC is likely to be split, any deviation from current expectations could cause a market reaction in either direction.

To put things into context, *in the fixed-income space*, as of December 16 and since the last meeting on November 6: *i)* the *2y Gilt yield* edged down by 1 bps to around 3.77% (-63 bps y-t-d); and *ii)* the *10y Gilt yield* rose by 8 bps to 4.53% (-7 bps y-t-d). *In the currency space*, the GBP/USD has edged higher as softer UK labour data eases pressure on the pound, though expectations of a BoE rate cut cap further gains. As of December 16, *GBP/USD* rose by 2.1% from the last meeting in November and trades around 1.34 (+7.1% y-t-d). *GBP/EUR* also increased by 0.2% since the November meeting to around 1.14 (-5.5% y-t-d). *In the equity space*, since the last meeting in November, the FTSE 100 decreased by 0.6% and trades around 9,716.37 at the time of writing (+17.6% y-t-d). The FTSE 100 edged lower in early Tuesday trading, tracking losses in US markets, even as investors priced in a potential BoE rate cut following fresh labour market data.

✦ **APPENDIX (MACRO ASSESSMENT): UK GDP shrank unexpectedly in October.** In Q2, the economy advanced marginally by 0.1% q-o-q (*p*: 0.3%) falling short of market expectations of 0.2%. *Household expenditure* and *government consumption* rose by 0.2% (*p*: 0.1% in Q2) and by 0.3% (*p*: 1.3% in Q2) respectively. *Gross fixed capital formation* expanded by 1.8% (*p*: 0.5% in Q2). There was an increase in net trade, with exports falling by 0.1% (*p*: 0.4%) and imports falling by 0.3% (*p*: 0.0%). The British economy expanded 1.3% y-o-y (*c*: 1.2%; *p*: 1.4%) in Q3. The British economy contracted by 0.1% m-o-m in October (*c*: 0.1%; *p*: -0.1%).

Manufacturing sector recorded its first expansion in 14 months. Retail sales volumes rose 0.2% y-o-y (*c*: 1.5%; *p*: 1.0%) in October. When looking at business confidence, in November, the *S&P Global/CIPS Flash UK Composite PMI* fell to 51.2 (*c*: 50.5; *p*: 52.2). Services PMI edged down to 51.3 (*c*: 50.5; *p*: 52.3). Manufacturing PMI was up to 50.2 (*c*: 50.2; *p*: 49.7).

UK jobless rate rose to the highest level since the three months to March 2021. In October, unemployment rate rose to 5.1% (*c*: 5.1%; *p*: 5.0%). Total average weekly earnings, including bonuses, increased by 4.7% y-o-y (*c*: 4.4%; *p*: 4.9%) in the three months leading up to October. Average wages rose in real terms, with an annual change of 0.4% excluding bonuses. The number of job vacancies increased to 729K in October.

UK inflation cools boosting chance of a rate cut. In October, CPI inflation eased to 3.6% y-o-y (*c*: 3.6%; *p*: 3.8%). Core inflation dropped to a six-month low of 3.4% y-o-y (*c*: 3.4%; *p*: 3.5%). Transport drove the increase, with prices up 3.8% (vs. 2.4% in August). Prices for transportation was unchanged at 3.8%, while it accelerated for food and non-alcoholic beverages to 4.9% (vs 4.5%). Prices eased for housing and utilities to 5.2% (vs 7.3%), including gas (2.1% vs 13%) and electricity (2.7% vs 8%) due to a change in the Office of Gas and Electricity Markets energy price cap in October.



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