MONETARY AFFAIRS:

Review: BoE Unanimously on Hold,

While Being Ready to Act in Either Direction

Depending on the Duration of the War

by

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19 March 2026

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Executive Summary

- **Decision Made**: *The Bank of England (BoE) kept its Bank Rate at to 3.75%.* All members voted to hold rates, reflecting heightened uncertainty after the Middle East energy shock. While monetary policy cannot offset higher global energy prices, the key concern is preventing second-round effects. Looking ahead, policy remains conditional: a prolonged shock could warrant tighter policy or hikes, while a short-lived shock or weaker demand could allow for cuts. The Committee stands ready to act to ensure inflation returns to the 2% target, while closely monitoring developments in the Middle East and their impact on global energy markets.
- **Policy Discussion**: *The decision was unusually unanimous, with all nine members voting to hold rates and "assess how events unfold," while signaling the next move could be a hike*. The tone signals a pause in easing as policymakers assess the energy shock. Bailey noted spare capacity, suggesting weak demand could help contain inflation. Before the US-Israel attack on Iran, markets expected falling inflation and possible rate cuts as early as March. However, the conflict has sharply raised oil and gas prices, increasing the risk of renewed inflation as higher energy costs feed through to fuel, fertiliser, and broader prices.

  Governor Andrew Bailey noted that the impact is already visible in fuel prices and could push up household energy bills if disruptions persist. While restoring safe shipping routes in the Gulf is key, the Bank's focus is on preventing second-round effects and ensuring inflation returns to its 2% target. Inflation, which stood at 3% in January, is now expected to rise again, with markets pricing in up to two rate hikes by year-end. Despite earlier expectations of cuts, the shock has shifted risks to the upside, with inflation likely to remain above 3% and potentially become more persistent. At the same time, higher energy costs will weigh on demand and growth, creating a policy trade-off. Given this uncertainty, the MPC has chosen to pause, with future policy dependent on how the shock evolves.

Key Picture: BoE Key Forecasts From the February MPR

	Latest Reading	2025*f*		2026*f*		2027*f*		2028	
		February Report	November Report	February Report	Nov. Report	February Report	Nov. Report	February Report	Nov. Report
GDP *(real growth, y-o-y)*	1.3	**1.4**	**1.5**	**0.9**	**1.2**	**1.5**	**1.6**	**1.9**	**1.8**
Unemployment rate *(%, y-o-y)*	5.1	**4.8**	**4.8**	**5.3**	**5.0**	**5.2**	**5.0**	**5.1**	**4.8**
CPI inflation *(%, y-o-y)*	3.4	**3.4**	**3.5**	**2.0**	**2.5**	**1.8**	**2.0**	**2.0**	**2.1**
Bank rate *(%)*	3.75	**4.0**	**3.9**	**3.3**	**3.5**	**3.5**	**3.5**	**3.7**	**3.6**

Source: Bank of England *'Monetary Policy Report'* (MPR), November 2025 and February 2026. *Note:* 1. GDP reading for Q3 2025; 2. Unemployment reading for October 2025; 3. Inflation reading for December 2025; 4. Bank Rate as implied by forward market interest rates.

Analysis

- **DECISION MADE**: *On March 19, in line with consensus, the Bank of England (BoE) hold its Bank Rate at 3.75%.* The Committee voted unanimously. Policy restrictiveness has eased, with Bank Rate cut by 150 basis points since August 2024. Explaining today's decision, the Bank noted that the conflict is expected to deliver an economic shock, driving inflation higher in the near term. Before the war, most forecasters had expected the Bank to cut rates today.

  In terms of *forward guidance*, the Committee stands "ready to act" as needed to ensure inflation returns to the 2% target over the medium term. The Committee will closely monitor developments in the Middle East and their impact on global energy supply and prices.

  In terms of *balance sheet policy*, in September, 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. On 18 March, the stock of UK government bonds held for monetary policy purposes was £528 billion.

- **POLICY DISCUSSION:** *Unusually, the decision was unanimous, with all nine committee members opting to hold rates and "assess how events unfold," while signaling that the next move could be a hike.* The overall tone signals a pause in the easing cycle, as policymakers wait to gauge the scale and duration of the energy shock before adjusting policy. Governor Andrew Bailey highlighted remaining slack in the economy, indicating inflation pressures may be partly contained if demand remains subdued. Before the US-Israel attack on Iran, economists expected inflation and interest rates to continue falling, with some anticipating a rate cut as early as March. However, the conflict has sharply pushed up oil and gas prices, itensified by recent attacks on energy infrastructure, raising the risk of renewed inflation as higher energy costs feed into fuel, fertiliser, and broader prices.

  BoE Governor Andrew Bailey warned that while the immediate impact is already visible at the petrol pump, prolonged disruption would lift household energy bills later in the year. Restoring safe shipping routes in the Gulf is key to easing pressures, but the Bank's primary focus remains on preventing second-round effects and ensuring inflation returns to its 2% target.

  The policy outlook has shifted markedly. Inflation stood at 3% in January, but is now expected to rise again. While February's meeting showed a split vote, the latest decision was unanimous in holding rates, the first such consensus since 2021, with discussions now even turning to possible rate hikes. Markets are pricing in up to two increases, potentially taking rates to 4.25% by year-end.

  This shift comes amid broader global caution. With uncertainty around the duration of the conflict and its impact on energy prices, major central banks are pausing. The Federal Reserve has kept rates unchanged while signaling it is too early to assess the fallout, the Bank of Japan also held steady, and the European Central Bank is expected to follow suit.

  Several members noted that, absent the conflict, they would have supported a rate cut given ongoing disinflation, weak growth, and labour market slack. However, the shock has shifted risks to the upside, with inflation likely to stay above 3% and potentially become more persistent, especially if energy disruptions are prolonged.

  At the same time, members highlighted a growing policy trade-off: higher energy prices will also weigh on demand, squeeze real incomes, and weaken activity. This could limit inflation pressures over the medium term. Given these opposing forces and significant uncertainty around the duration of the shock, the Committee preferred to pause and reassess.

  Looking ahead, the policy path remains highly conditional. A persistent shock with stronger second-round effects could require tighter policy or even rate hikes, while a short-lived shock or weakening demand could justify rate cuts later in the year. The MPC stands ready to adjust policy as needed to ensure inflation returns sustainably to the 2% target.

- **ECONOMIC ASSESSMENT**: *Before the Middle East conflict, the near-term UK outlook had changed little*. Inflation eased to 3.0% in January but remained slightly above forecasts due to sticky services prices, and was expected to stay just above 3% in February. Growth was weak, with GDP barely expanding and labour market conditions subdued, while inflation expectations had generally declined.

  The conflict has significantly increased uncertainty, mainly through energy prices. Rising oil and gas costs are expected to delay the return to the 2% inflation target, pushing CPI to around 3.5% in March and keeping it near 3% in Q2—higher than previously expected. Further increases in household energy bills are likely later in the year, with both direct and indirect effects potentially lifting inflation to around 3.5% in Q3.

  Second-round effects remain uncertain, though wage growth expectations have edged up slightly. Financial conditions have tightened modestly, with higher market rates feeding into mortgage pricing, while money growth remains relatively strong despite softer lending signals.

- **OUR TAKE:** *BoE Read to Act, in Either Direction.* The BoE set out a clear policy response: in case the conflict proves short-lived, the BoE may resume its rate cutting cycle, as higher energy prices may hurt aggregate demand. If the conflict proves to be more prolonged, the risk is that of a de-anchoring of inflation expectations, and so the BoE will most likely continue to pause or even hike rates to prevent second round effects from materializing.

- **MARKET REACTION AND IMPLICATIONS**: *The overall tone points to a pause in the easing cycle, as policymakers assess the scale and duration of the energy shock before adjusting policy.* The UK gilt yields rose as the BoE warned that the Iran conflict is driving a new inflationary "shock" via higher energy and commodity prices. The 10-year yield climbed 14.7 bps to 4.89%, the 30-year rose 6 bps to 5.47%, and the 2-year jumped 32.4 bps to 4.43%. *In the currency space,* the p GBP/USD trades near 1.3300, up 0.28% on the day, supported by a mildly positive market response to the BoE's policy decision. *In the equity space,* London stocks fell sharply by midday as investors reacted to the BoE decision and escalating Middle East tensions driving a surge in oil prices. The FTSE 100 dropped 2.4% to 10,054, the FTSE 250 fell 2.2% to 21,601, and the AIM All-Share declined 3.0% to 730.