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## **MONETARY AFFAIRS:**

**Preview: BoE To Remain on Hold,  
While The Stagflationary Shock Builds Up**

**by**

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**27 April 2026**

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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 Bank Rate by 25 bps (BR) at 3.75% in April.* Regarding its *balance sheet policy*, in September 2025, the BoE 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.

➤ **Policy Discussion:** *Despite market pricing, the BoE is expected to stay on hold through 2026*, keeping options open but unlikely to hike unless energy-driven inflation risks becoming entrenched. The economy looks weaker than in 2022, with softening employment and subdued wage growth, limiting second-round inflation risks.

Polymakers remain divided: doves highlight weak fundamentals, while hawks, led by Huw Pill, keep the option of a hike alive to anchor expectations. With inflation seen peaking near 4%, the Bank is likely to stick to a data-dependent, scenario-based approach, arguing policy is already restrictive and earlier market tightening is doing part of the work.

Stagflation risks are rising. Growth is weakening while inflation remains sticky, with most economists now seeing a high risk of stagflation as the energy shock amplifies existing labour market softness.

➤ **Changes to Economic Forecasts:** *New forecasts will likely result in higher expected inflation and lower expected growth*, with BoE expected to rely on a scenario-based approach. Inflation is seen peaking near or just above 4% this summer, before easing to the 3.5–4% range in H2, driven by higher energy bills and some pickup in food prices. Growth expectations are deteriorating, with around 75% of economists downgrading forecasts and the International Monetary Fund cutting its outlook to 0.8%, while inflation expectations continue to edge higher.

Surveys reinforce the cautious outlook: business activity remains weak, firms expect higher costs and tighter margins, and hiring plans are being scaled back—pointing to sluggish growth alongside persistent inflation pressures.

#### Key Picture: BoE Key Forecasts From the February MPR

	Latest Reading	2026f		2027f		2028f	
		February Report	Nov. Report	February Report	Nov. Report	February Report	Nov. Report
GDP ( <i>real growth, y-o-y</i> )	1.0	0.9	1.2	1.5	1.6	1.9	1.8
Unemployment rate ( <i>%, y-o-y</i> )	4.9	5.3	5.0	5.2	5.0	5.1	4.8
CPI inflation ( <i>%, y-o-y</i> )	3.3	2.0	2.5	1.8	2.0	2.0	2.1
Bank rate (%)	3.75	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 Q4 2025; 2. Unemployment reading for February 2026; 3. Inflation reading for March 2025; 4. Bank Rate as implied by forward market interest rates.

## Analysis

✦ **EXPECTED DECISION:** *On April 30, in line with consensus, we expect the Bank of England (BoE) to hold its Bank Rate at 3.75%.* The BoE is firmly in wait-and-see mode, as stagflation risks—slow growth, rising unemployment, and persistent inflation—complicate policy choices. A Reuters poll shows unanimous expectations for rates to stay at 3.75% in April, with over half of economists seeing no change for the rest of the year. Views are now more split, with some expecting hikes and others cuts, reflecting heightened uncertainty. Page | 3

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 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.

✦ **POLICY DISCUSSION:** *Despite market pricing, the BoE is expected to stay on hold through 2026, keeping options open but unlikely to hike unless energy-driven inflation becomes more entrenched.* Recent data suggest the economy differs markedly from 2022: employment is weakening in consumer services and wage growth has slowed to levels consistent with the inflation target. Internal divisions are likely to re-emerge, with doves emphasizing softer fundamentals, while hawks, led by Huw Pill, may still push for a hike. While the Bank is unlikely to openly challenge market pricing for hikes, it will keep the option alive to anchor expectations. New forecasts are expected to show inflation peaking near 4%, with policymakers leaning on scenario-based guidance amid high uncertainty.

Policymakers argue current policy is already restrictive, and unless inflation expectations become unanchored, there is little case for tightening, especially if the shock proves temporary. Recent stronger-than-expected growth adds to the case for holding steady, while earlier market-driven tightening may already be doing part of the Fed's job. However, caution remains. Huw Pill warned that a wait-and-see stance should not be mistaken for complacency on inflation.

While inflation has risen due to higher fuel costs and expectations have increased, broader signals are mixed. Corporate pricing behaviour is uneven, and wage growth, key for persistent inflation, has not picked up, suggesting limited second-round effects.

The UK is moving deeper into a stagflationary environment, with weaker growth and stickier inflation reinforcing each other. The balance of risks is clearly shifting: 17 of 22 economists now see a high or very high risk of stagflation. The combination of persistent inflation and a softening labour market—already evident before the crisis—has been exacerbated by the energy shock linked to the Middle East conflict.

✦ **CHANGES TO ECONOMIC FORECASTS:** *New forecasts are unlikely to offer clear policy signals, and the Bank will likely raise the inflation forecasts and lower the growth projections.* Based on current pricing, inflation is expected to peak near 4% this summer/autumn, with the Bank likely relying on a scenario-based approach amid uncertainty. On ING's base case (oil at \$90–100/bbl and gas around €55/MWh), UK inflation is expected to peak just above 4% in August/September, before hovering in the 3.5–4% range in H2. This reflects a projected 25% rise in household energy bills when the Ofgem cap resets in July, alongside a modest pickup in food inflation. Around 75% of economists have downgraded growth forecasts, with the median now at 0.7% (down from 1.0%), while the IMF has cut its outlook to 0.8%. At the same time, inflation expectations are drifting higher, with many economists revising up their 2026 forecasts to around 3.2%.

The BoE remains cautious, with surveys pointing to weak business activity and persistent inflation following energy shocks. While official forecasts are due in May, April's Decision Maker Panel shows firms expect higher prices and tighter margins, with many scaling back hiring, signalling sluggish growth ahead.

✦ **MACROECONOMIC ANALYSIS:** *The surge in energy prices has clouded the outlook, heightening concerns over both inflation and growth.* UK GDP grew 0.1% q-o-q in Q4 2025, unchanged from the previous quarter and in line with estimates. Growth was driven by production (+1.2%), led by strong gains in manufacturing, while construction (-2%) contracted and services stagnated amid weakness in professional activities. The economy grew 0.5% m-o-m in February, beating expectations and marking the strongest monthly expansion in over two years, with broad-based gains across services, production, and construction.

However, that strength now looks backward-looking. The surge in energy prices following disruptions in the Gulf and the Strait of Hormuz has darkened the outlook, raising concerns about inflation and growth. Economists warn that the February rebound may do little to offset rising stagflation risks, especially as households and businesses face higher fuel costs.

The IMF has already downgraded UK growth forecasts to 0.8% for the year, the largest cut among G7 economies. Markets now expect the Bank of England to hold rates at 3.75% in the near term, while still pricing in tightening later this year as energy-driven inflation pressures build.

UK inflation picked up to 3.3% y-o-y in March, up from 3.0% and in line with expectations, marking the first clear signs of the Iran war feeding into domestic prices. The increase was driven largely by a surge in fuel costs, with motor fuels recording their biggest monthly rise since 2022, while services inflation also moved higher.

At the same time, the picture beneath the headline remains mixed. Core inflation eased slightly, suggesting that broader price pressures have not yet fully taken hold. However, input costs for manufacturers jumped by more than expected, pointing to potential pipeline pressures in the months ahead. For the BoE, the data reinforces a familiar concern: what begins as an energy shock risks evolving into more persistent inflation if cost pressures continue to pass through the economy.

The fall in UK unemployment to 4.9% is less encouraging than it appears. Rather than reflecting stronger job creation, it was largely driven by a rise in economic inactivity, with employment broadly unchanged and more people, particularly students, leaving the workforce. More timely data reinforces the weakness. Private-sector payrolls are declining, especially in consumer-facing sectors like hospitality and retail, where employment is falling at a 1.6% annualised pace.

✦ **MARKET IMPLICATIONS:** *The press conference may provide signs of a changing policy stance down the line.* UK gilt yields rose sharply as renewed US–Iran tensions pushed oil and gas prices higher and reignited inflation concerns. *in the fixed-income space*, as of April 24 and since the last meeting on March 19: *i)* the *2y Gilt yield* edged up by 30 bps to 3.36% (+1 bps y-t-d); and *ii)* the *10y Gilt yield* was up by 5 bps to around 4.91% (+37 bps y-t-d). *In the currency space*, the pound edged up 0.1% to \$1.348 on Friday but remained on track for a weekly loss, as markets focused on stalled US–Iran talks and rising geopolitical uncertainty. Stronger-than-expected UK retail sales—boosted by a surge in fuel purchases after the war began, offered limited support to sterling. As of April 24, *GBP/USD* increased by 0.9% from the last meeting in March to 1.35 (+0.5% y-t-d). *GBP/EUR* fell by 0.4% since the March meeting to around 1.15 (+0.5% y-t-d). *In the equity space*, the UK's FTSE 100 has continued to outperform US equities into 2026, rising about 5.3% year-to-date after a strong 21.5% gain in 2025, beating the S&P 500, Nasdaq Composite, and Dow Jones Industrial Average. Since the last meeting in March, as of April 24, the FTSE 100 increased by 3.1% to 10,379.08 (+4.3% y-t-d).

✦ **APPENDIX (MACRO ASSESSMENT): UK economy barely grows in fourth quarter.** In Q4, the economy advanced marginally by 0.1% q-o-q (c: 0.2%; p: 0.1%) lower than the market expectations. Household expenditure and government consumption rose by 0.1% (p: 0.1% in Q3) and by 0.1% (p: 0.3% in Q3) respectively. Gross fixed capital formation increased by 0.2% (p: 1.2% in Q3). Business investment contracted by 2.5% q-o-q (p: 1.1%). There was a decrease in net trade, with imports increasing by 0.7% (p: 0.5%) and exports shrinking 0.7% (p: 2.0%). The British economy expanded 1.0% y-o-y (c: 1.0%; p: 1.3%) in Q4. The British economy advanced by 0.5% m-o-m in February (c: 0.1%; p: 0.1%).

*Leading business indicators signalled renewed momentum in UK private-sector activity.* Retail sales volumes rose 4.5% y-o-y (c: 2.8%; p: 1.9%) in December. When looking at business confidence, in April, the S&P Global/CIPS Flash UK Composite PMI jumped to 52 (p: 51.8). Services PMI increased to 52.0 (p: 50.5). Manufacturing PMI was up to 51.8 (p: 49.2).

*UK jobless rate unexpectedly fell, while wage growth slowed to its weakest pace in five years.* In February, unemployment rate edged down to 4.9% (c: 5.2%; p: 5.2%). Total average weekly earnings, including bonuses, increased by 3.8% y-o-y (c: 3.6%; p: 4.1%) in the three months leading up to February. Average wages rose in real terms, with an annual change of 3.6% excluding bonuses. The number of job vacancies declined to 711K in February.

*Energy-driven pressures are pushing inflation higher again.* In March, CPI inflation rose to 3.3% y-o-y (c: 3.3%; p: 3.0%). Core inflation edged down to 3.1% y-o-y (c: 3.2%; p: 3.2%). Transport prices drove the increase, with prices rising by 4.7% down and food prices increasing by 3.7%. Services inflation, a key gauge of domestic price pressures for the BOE, edged up to 4.5% from 4.3%.



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