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**Review: BoE On Hold in April But Ready To Act,
Depending on What Scenario Materialises**

by

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Executive Summary

- **Decision Made:** *The Bank of England (BoE) kept its Bank Rate at to 3.75%.* The MPC voted 8 to 1 to hold Bank Rate at 3.75%, with Huw Pill the sole dissenter favouring a 25bp hike, in line with expectations as the BoE assesses the transmission of the Iran war-driven energy shock to inflation.

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:** *Bailey signalled that an interest rate increase may not be necessary under more benign scenarios of the Iran war’s economic impact, stressing that the current decision to hold reflects an ‘active hold’ rather than a tightening bias.* While Scenario B supports maintaining rates, he emphasised that policy remains contingent on how the energy shock evolves, with more severe outcomes such as Scenario C potentially requiring higher rates.

On timing, Bailey cautioned against waiting for clear evidence of second-round effects, noting that policy must be set on a meeting-by-meeting basis under high uncertainty. The outlook will depend on the scale and persistence of the energy shock and its pass-through to consumer prices, particularly food, while second-round dynamics in wages and prices are slower-moving and harder to assess in real time.

Within the MPC, most members—including Sarah Breeden, Swati Dhingra, Megan Greene, Clare Lombardelli, Catherine L Mann, Dave Ramsden and Alan Taylor—favoured holding rates given tighter financial conditions and weaker demand. However, views diverged on inflation persistence, with some MPC members favouring a ‘hold with tightening bias’, with Huw Pill dissenting in favour of an immediate 25bp hike.

- **Changes to Economic Forecasts:** *Amid heightened uncertainty stemming from the Iran war, the Bank of England moved away from a single central projection in its April 2026 MPR, instead presenting three scenarios to capture a range of possible macroeconomic outcomes.* The UK economy has been hit by a significant energy price shock since February, with uncertainty around its duration, impact on global supply and trade, and transmission to domestic inflation and activity. Drawing on lessons from recent shocks and the Ben Bernanke Review, the Bank has placed greater emphasis on scenario-based analysis in assessing risks.”

Section 3 outlines three scenarios based on differing paths for energy prices and second-round effects. Scenario A assumes a relatively short-lived shock with weaker demand limiting pass-through, preventing second-round effects. Scenario B envisages more persistent energy prices with modest second-round pressures. Scenario C reflects a larger and more prolonged shock, generating materially stronger and more persistent inflationary dynamics.

Key Assumptions and Judgements In Scenarios from April MPR

	Scenario A	Scenario B	Scenario C
Energy prices	Energy prices for oil and gas follow the market futures curves over the scenario period.	Energy prices follow the market futures curves for six months and then follow the average of the futures curves and a constant spot price at six months for the remainder of the scenario period.	Energy prices rise sharply-to a level in the upper tail of option-implied distributions- and remain elevated for a prolonged period.
Second-round effects from new energy shock	No second-round effects from the new energy shock due to weaker worker bargaining and firm pricing power stemming from weaker demand, driven by less consumption smoothing than in other scenarios.	Modest additional second-round effects, consistent with some wage effects from the scale of the energy shock.	Stronger and more persistent additional second-round effects, relative to the other scenarios stemming from greater effect of the energy shock to inflation expectations and wages and prices.

Source: Bank of England

Analysis

- ✦ **DECISION MADE:** *On April 30, in line with consensus, the Bank of England (BoE) held its Bank Rate at 3.75%.* The MPC voted 8-1 to hold the Bank Rate at 3.75%, with Chief Economist Huw Pill the sole dissenter, backing a 25bp hike. The BoE was widely expected to hold rates as it gauges how the Iran war-induced energy shock and resurgent inflation pressures transmit through the UK economy.

The April Monetary Policy Report outlines three scenarios to illustrate a range of possible outcomes for the UK economy.

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 £525 billion.

- ✦ **POLICY DISCUSSION:** *Bailey said an interest rate increase may not be necessary under some of the more benign scenarios of the Iran war’s economic impact considered by the Bank.* Governor Bailey emphasised that the decision to hold rates should be seen as an ‘active hold’, not a signal of an imminent tightening bias. While current conditions justify maintaining Bank Rate, particularly under more moderate scenarios such as Scenario B, he stressed that policy remains contingent on how the energy shock evolves. In particular, a more persistent or severe shock, as in Scenario C, could still warrant higher rates.

On the timing of policy adjustments, Governor Andrew Bailey stressed that waiting for clear evidence of second-round effects would risk acting too late, underscoring the need for continuous, meeting-by-meeting judgement. He highlighted that the outlook will hinge on the scale and persistence of the energy shock, driven by the evolution of the Middle East conflict, and its pass-through to UK consumer prices, particularly via food, where energy-intensive production amplifies indirect inflationary pressures.

Most MPC members—including Andrew Bailey, Sarah Breeden, Swati Dhingra, Megan Greene, Clare Lombardelli, Catherine L Mann, Dave Ramsden, and Alan Taylor—judged that, despite rising inflation risks from the energy shock, the current degree of monetary restrictiveness was sufficient to justify holding Bank Rate while further evidence accumulates. A weaker demand backdrop and increasing labour market slack were seen as key offsets to second-round effects, supporting a patient, data-dependent approach.

However, views diverged on the persistence of inflation. Sarah Breeden and Dave Ramsden emphasised that slack and subdued demand would likely limit pass-through, while Megan Greene, Clare Lombardelli, and Catherine L. Mann highlighted stronger pricing power, elevated inflation expectations, and the risk of more persistent second-round effects. Swati Dhingra stressed the importance of scenario uncertainty, noting that outcomes could vary significantly depending on the duration and scale of the energy shock.

This dispersion in views resulted in a “hold with tightening bias” stance for some members. While most members preferred to wait for clearer evidence, they signalled readiness to tighten if inflation proves more persistent. Huw Pill dissented, voting for an immediate 25bp rate hike, citing heightened risks of entrenched inflation and stronger second-round effects.

- ✦ **CHANGES TO ECONOMIC FORECASTS:** *Amid heightened uncertainty driven by the Iran war, the BoE shifted away from a single central projection in its April 2026 Monetary Policy Report, instead presenting three alternative scenarios to capture the range of possible macroeconomic outcomes.* Since the February 2026 Report, the UK economy has been hit by a significant energy price shock

following the onset of the Middle East conflict. Heightened uncertainty around the severity and duration of the shock, its impact on global energy supply and trade, and its transmission to the domestic economy has made the outlook for inflation and activity highly uncertain. Reflecting lessons from recent shocks, and the Ben Bernanke Review, the Bank places greater weight on scenario analysis and a range of inputs when assessing risks under such conditions.

Section 3 outlines three scenarios illustrating how different paths for global energy prices and associated second-round effects in wages and prices could shape the UK outlook. In **Scenario A**, energy prices follow futures curves and a sharper-than-usual fall in household spending limits pass-through, preventing second-round effects. **Scenario B** assumes a more persistent energy price shock with household behaviour in line with historical norms, resulting in modest second-round effects. **Scenario C** envisages a larger, more prolonged energy shock, generating materially stronger second-round pressures.

- ✦ **OUR TAKE:** *Decisions will be taken meeting-by-meeting.* With a 8-1 vote the MPC signalled that “hold” was the only sensible decision at this stage. The situation is fluid and may evolve in any direction. A rapid resolution of the conflict and a fall of energy prices may allow the MPC to look through the shock and resume its easing in a few months. The continuation of the conflict may lead to two scenarios: one in which inflation is persistent, in which case the BoE will have to increase rates; and one in which the damage to economic activity is larger than the rise in inflation; and this would advocate for an unchanged stance for some time, to balance the risk of high inflation. The next few weeks will clarify where we are, and the MPC will act accordingly.
- ✦ **MARKET REACTION AND IMPLICATIONS:** *The Bank of England held rates and signalled a cautious, wait-and-see approach to the Middle East shock, while outlining scenarios in which a more forceful tightening could be required.* As a result, Sterling strengthened against a weaker dollar. Market sentiment remains cautious as earnings, global developments, and policy expectations intersect, shaping direction and sector performance across UK equities. The two-year gilt yields fell around 10bps to 4.49%, down from roughly 4.53% earlier in the day, but remain nearly 100bps above pre-war levels. The ten-year gilt yield also wobbles around 5.00%, but is on track to head for highest close since 2008.. *In the currency space*, the pound rose 0.2% to \$1.3503 and was broadly flat against the euro, but fell sharply against the yen, down 2.1%, as the Japanese currency surged following intervention warnings from the BoJ. *In the equity space*, the FTSE 100 rose 1.3% after the announcement, supported by a global equity rally led by US tech stocks, which shrugged off oil prices climbing to \$126.



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