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## **MONETARY AFFAIRS:**

**Review: BoE Remains Committed to its “Active Hold,”**

**With Two Dissenters Emerging**

**by**

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**18 June 2026**

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### Review: BoE Remains Committed to its “Active Hold,” With Two Dissenters Emerging

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#### Executive Summary

- ✦ **Decision Made:** *The Bank of England (BoE) kept its Bank Rate at to 3.75%.* The MPC voted 7 to 2 to hold Bank Rate at 3.75% in June, with Huw Pill and Megan Greene favouring a 25bp hike. Dissenters Huw Pill and Megan Greene argued that a rate hike was needed to prevent higher energy prices from becoming embedded in inflation expectations, noting that household inflation expectations remain elevated despite some recent moderation.

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:** *Most MPC members remained committed to Governor Andrew Bailey’s “active hold” strategy, viewing current policy as sufficiently restrictive given that markets had expected rate cuts before the conflict.* While a tentative US-Iran truce and the prospect of lower energy prices reduced some inflation risks, the BoE warned that the effects of recent energy price increases were still working their way through the economy.

The MPC voted 7–2 to keep Bank Rate at 3.75%, arguing that underlying disinflation remains on track, the labour market is gradually softening, and tighter financial conditions are already restraining demand. Although members acknowledged that the Middle East energy shock could keep inflation above target for longer, most saw little evidence of significant second-round effects and preferred to wait for more data.

Megan Greene and Huw Pill dissented in favour of a 25bp hike, warning that higher energy costs could become embedded in inflation expectations and wage-setting behaviour. Meanwhile, markets have sharply repriced the BoE outlook since the conflict began: investors now expect rates to remain unchanged over the next year, while the OIS curve still implies around 30bp of tightening by end-2026, largely reflecting higher risk premia and geopolitical uncertainty rather than expectations of further rate increases.

#### 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 June 18, in line with consensus, the Bank of England (BoE) held its Bank Rate at 3.75%. The MPC voted 7-2 to hold the Bank Rate at 3.75%, with Megan Greene and Huw Pill 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.*

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 17 June, the stock of UK government bonds held for monetary policy purposes was £522 billion.

- ✦ **POLICY DISCUSSION:** *Most MPC members showed little inclination to raise rates, instead maintaining what Governor Bailey has described as an “active hold”, a stance viewed as effectively restrictive given that markets had expected rate cuts before the conflict.* Ahead of the June meeting, a tentative US-Iran truce eased concerns over energy supplies by promising to reopen the Strait of Hormuz and lower oil prices, a positive development for the UK given its reliance on imported gas. However, the BoE cautioned that the inflationary effects of the past four months of elevated energy prices were still feeding through the economy.

The MPC voted 7-2 to keep Bank Rate at 3.75%, arguing that underlying disinflation remains intact, the labour market is gradually softening, and tighter financial conditions are already restraining demand. While members acknowledged that the Middle East energy shock could keep inflation above target for longer, most saw little evidence so far of significant second-round effects and preferred to wait for more data. Those favouring no change stressed weak demand, easing wage pressures, falling vacancies, and growing spare capacity, viewing current policy as sufficiently restrictive despite upside inflation risks. Most members remained committed to what Governor Andrew Bailey has described as an “active hold.”

Megan Greene and Huw Pill dissented in favour of a 25bp hike to 4.0%, warning that higher energy prices could become embedded in inflation expectations, wages, and pricing behaviour. They argued that a pre-emptive increase would better safeguard inflation credibility and reduce the risk of more persistent inflation.

Financial markets have sharply repriced the BoE outlook since the conflict began. The June Market Participants Survey showed investors now expect Bank Rate to remain unchanged over the next year, compared with expectations of rate cuts before the conflict. Despite this, the UK OIS curve remains above pre-conflict levels and implies around 30bp of tightening by end-2026. BoE analysis suggests this reflects higher risk premia and uncertainty rather than expectations of higher policy rates, with investors demanding greater compensation for inflation and geopolitical risks.

- ✦ **ECONOMIC ASSESSMENT:** *Economic activity has remained subdued despite stronger-than-expected Q1 GDP growth of 0.6%.* Business surveys suggest the headline figure overstated underlying momentum, with monthly GDP contracting in April and the composite PMI slipping below 50 in May. The BoE estimates underlying quarterly growth at around 0.2% in both Q1 and Q2. While the conflict has not yet caused a sharp deterioration in growth prospects, business confidence remains weak, demand expectations have softened, and concerns about future supply shortages are increasing.

UK inflation remained below expectations in May, easing to 2.8% from 3.3% in March and undershooting the Bank of England’s April forecast by 0.4 percentage points. The downside surprise was broad-based across food, goods and services, with food inflation falling sharply to 2.2%. Despite the recent energy shock, lower energy and non-energy prices led the BoE to revise down its inflation

outlook, although CPI is still expected to rise slightly above 3¼% by late 2026. Household inflation expectations have increased noticeably since the conflict began, while business price expectations remain elevated but have moderated.

Wage growth remains relatively resilient despite signs of easing. Private-sector regular pay growth slowed to 2.9% in the three months to April, though adjustments for industry composition and strong bonus payments suggest underlying wage pressures are firmer. Pay settlements are still expected to average 3.5% in 2026, with businesses warning that energy-related inflation could slow the pace of wage disinflation. Labour market conditions continue to loosen gradually, with vacancies falling further and firms reporting weak demand, although unemployment and employment data have been slightly stronger than expected.

- ✦ **OUR TAKE: MPC Remains Ready to Move:** Consistently with its “active hold” line, the BoE stayed on hold also in June. If inflation risked becoming entrenched the BoE may move sooner rather than later, possibly as early as July 30<sup>th</sup>. But if oil prices were to fall as a result of the deal between US and Iran, the MPC may opt for keeping rates steady for longer. The next few weeks will suggest what direction the MPC will take.
- ✦ **MARKET REACTION AND IMPLICATIONS:** *The BoE delivered a hawkish hold, arguing that while recent inflation data have improved, lingering upside risks justify maintaining a restrictive stance as policymakers await clearer evidence on the inflation outlook.* As UK 10-year gilt yields rose to 4.78%, rebounding from two-month lows as investors digested the BoE's latest policy decision. At the time of the writing, it trades around 4.74%. 2-year gilt yield fell to as low as 4.18% up from around 4.22%. *In the currency space,* the Sterling fell to a two-month low near \$1.322, while EUR/GBP climbed to a three-week high of 0.8674 following the BoE's rate decision. *In the equity space,* stocks slipped ahead of BoE decision. FTSE 100 was down 107 points to 10,402.