ROSA & ROUBINI
ASSOCIATES

MONETARY AFFAIRS:

Review: Bank of England Raises Rates, And Could Hike Again if Middle East Conflict Continues

by

Brunello Rosa and Nato Balavadze

5 November 2026

Brunello Rosa and Nato Balavadze

Review: Bank of England Raises Rates, And Could Hike Again if Middle East Conflict Continues

5 November 2026

Executive Summary

- **Decision Made**: *The Bank of England (BoE) raised its Bank Rate by 25 bps to 4.00%.* The MPC voted 8–1 to raise Bank Rate by 25 bps to 4.0%, its first increase in three years, with one member favouring a 50-bp hike. Despite limited evidence of broader wage and price pressures, persistently high energy costs and stronger-than-expected economic activity warranted tighter policy.

  In terms of forward guidance, the Committee stressed that monetary policy is not on a pre-set path. Future rate decisions will depend on the impact of elevated energy prices on wages, pricing behaviour and economic slack, with policy adjusted as needed to return inflation sustainably to the 2% target.

- **Policy Discussion**: *BoE Governor Andrew Bailey signalled that further rate hikes may be necessary unless the Middle East conflict is resolved*. The decision marked a shift from the Committee's previous wait-and-see approach, as persistently elevated energy prices, stronger-than-expected economic activity and signs of stalled domestic disinflation heightened inflation risks. Although indirect and second-round effects remain limited, prolonged energy pressures could increasingly feed into wages and prices as firms exhaust hedging arrangements and their capacity to absorb higher costs.

  BoE Governor Andrew Bailey indicated that further rate hikes may be necessary unless the Middle East conflict is resolved, a view broadly shared by Lombardelli, Greene and Pill. By contrast, Taylor characterised the move as a precautionary increase rather than the start of a sustained tightening cycle, while Dhingra and Breeden emphasised downside risks to demand and remaining economic slack. Mann advocated more aggressive tightening to prevent inflation expectations from becoming entrenched and safeguard policy credibility.

  Looking ahead, the Committee acknowledged that monetary policy remains restrictive, while higher energy costs, tighter financial conditions and fiscal consolidation are expected to weigh on growth. Future decisions will remain data-dependent, guided by developments in energy prices, wage growth, corporate pricing behaviour and economic slack.

- **Changes to Economic Forecasts:** *The BoE sharply revised up its inflation outlook amid persistently elevated energy prices stemming from the Middle East conflict.* CPI inflation is projected to peak at around 5% in Q2 2027, compared with July's forecast of 3.2%, and return to the 2% target in Q3 2028. While direct energy effects will drive the initial increase, indirect and second-round effects on wages and prices are expected to prolong inflationary pressures. Budget 2026 measures should temporarily reduce inflation by around 0.25 pp in H1 2027.

  Despite stronger-than-expected activity in 2026, GDP growth is projected to slow as higher energy costs, tighter financial conditions and fiscal consolidation weigh on demand. Spare capacity is expected to increase modestly, while unemployment rises to around 5.1%. Overall, the November MPR points to a more stagflationary outlook, with higher and more persistent inflation alongside weaker medium-term growth.

© Rosa&Roubini Associates 2025 - All Rights Reserved. No duplication, reproduction, transmission or redistribution of this document and its content, either in whole or in part, is by any means permitted without prior written consent of Rosa&Roubini Associates Limited.

Key Picture: BoE Key Forecasts From the November MPR

	Latest Reading	2026*f*		2027*f*		2028		2029
		November Report	July Report	November Report	July Report	November Report	July Report	November Report
GDP *(real growth, y-o-y)*	1.4	1.6	1.1	1.3	1.1	1.2	1.7	1.5
Unemployment rate *(%, y-o-y)*	4.7	4.8	5.0	4.9	5.3	5.1	5.2	5.0
CPI inflation *(%, y-o-y)*	3.5	3.8	3.2	4.0	2.1	2.0	1.9	1.8
Bank rate *(%)*	3.75	3.9	3.9	4.9	4.2	4.9	4.1	4.7

Source: Bank of England *'Monetary Policy Report'* (MPR), November and July 2026. *Note:* 1. GDP reading Q2 W2 2026; 2. Unemployment reading for August 2026; 3. Inflation reading for September 2026; 4. Bank Rate as implied by forward market interest rates.

Analysis

- **DECISION MADE**: *On October 5, in line with consensus, the Bank of England (BoE) rose its Bank Rate by 25 bps to 4.00%.* The MPC voted 8-1 to increase the Bank Rate to 4.0% for first time in 3 years. One member voted to increase Bank Rate by 50 bps to 4.25%.

  The Committee judges that higher energy costs continue to feed into household and business bills, although evidence of broader price and wage pressures remains limited. Nevertheless, mounting inflationary risks and stronger-than-expected economic activity support a modest increase in Bank Rate.

  In terms of *forward guidance*, the Committee underlines that the monetary policy is not on a pre-set path. The Committee will assess the broader impact of elevated energy prices at each meeting, monitoring wage growth, pricing behaviour and economic slack. Bank Rate will be adjusted as needed to return inflation to the 2% target over the medium term.

  In terms of *balance sheet policy*, the BoE will reduce its £368 billion stock of government bonds held for monetary policy purposes to zero by the end of 2034. Under the multi-year plan, holdings will be unwound at an average annual pace of £46 billion through £20 billion in yearly gilt sales alongside maturing bonds. As of 4 November, the BoE held £362 billion in UK government bonds purchased for monetary policy purposes.

- **POLICY DISCUSSION:** *BoE Governor Andrew Bailey indicated that further rate hikes may be necessary unless the Middle East conflict is resolved.* Until now, Bailey and other MPC members had adopted a wait-and-see approach to assess whether higher energy prices would generate broader inflationary pressures. Bailey said rising energy prices had generated sufficient inflationary pressures to justify an increase in Bank Rate. Bailey indicated that further rate hikes may be warranted unless the Middle East conflict eases inflationary pressures, with subsequent decisions dependent on energy prices and inflation dynamics.

  The decision marked a shift from the Committee's previous wait-and-see approach, as persistently elevated energy prices and stronger-than-expected economic activity increased concerns about inflation persistence. Although evidence of indirect and second-round effects on wages and prices remains limited, prolonged energy pressures could eventually feed through as firms exhaust hedging arrangements and become less able to absorb higher costs through reduced profit margins.

© Rosa&Roubini Associates 2025 - All Rights Reserved. No duplication, reproduction, transmission or redistribution of this document and its content, either in whole or in part, is by any means permitted without prior written consent of Rosa&Roubini Associates Limited.

Meanwhile, stabilising labour market conditions and signs of stalled domestic disinflation have reinforced the case for tighter policy.

Members acknowledged that monetary policy remains restrictive and some economic slack persists, although views differed on its extent and effectiveness. Higher energy costs, tighter financial conditions and fiscal consolidation are expected to weigh on growth, creating downside risks to demand. The Committee therefore emphasised a data-dependent approach, with future rate decisions guided by energy prices, wage growth, corporate pricing behaviour and economic slack.

The MPC voted 8-1 to raise Bank Rate by 25 bps to 4.0%, with Catherine Mann favouring a larger 50-bp increase. The majority judged that persistently elevated energy prices, stronger-than-expected economic activity and signs of stalling domestic disinflation warranted tighter policy, despite limited evidence of second-round effects on wages and prices.

However, members differed on the need for further tightening. Bailey, Lombardelli, Greene and Pill signalled that additional rate increases could be necessary, particularly if inflationary pressures persist. By contrast, Taylor characterised the decision as a precautionary, one-off hike rather than the beginning of a tightening cycle, while Dhingra and Breeden emphasised weak demand risks and remaining economic slack. Mann advocated a more aggressive response to prevent inflation expectations from becoming entrenched and safeguard policy credibility.

Looking ahead, the Committee acknowledged that monetary policy remains restrictive, while higher energy costs, tighter financial conditions and fiscal consolidation are expected to weigh on growth. Future rate decisions will therefore remain data-dependent, with particular attention to energy prices, wage growth, corporate pricing behaviour and economic slack.

- **CHANGES TO ECONOMIC FORECASTS:** *The BoE has revised its inflation forecast sharply higher amid persistently elevated energy prices stemming from the Middle East conflict.* CPI inflation, which reached 3.5% in September, is now projected to peak at around 5% in mid-2027, compared with July's forecast of 3.2% around the turn of the year. Inflation is expected to remain above the 2% target throughout 2027 and the first half of 2028, before returning to target in Q3 2028. Direct and indirect energy effects will drive the initial increase, while second-round effects through higher inflation expectations, wages and corporate pricing are expected to sustain inflationary pressures. Budget 2026 measures are projected to temporarily lower inflation by around 0.25 pp in H1 2027.

  GDP growth is expected to slow in the coming quarters as higher energy costs squeeze household real incomes, tighter financial conditions weigh on activity and fiscal consolidation restrains demand. Despite the economy's resilience in 2026, these headwinds are expected to increase spare capacity slightly, with output currently estimated at around 1% below potential. Unemployment is projected to rise modestly to 5.1%, without widespread labour market deterioration. Spare capacity and restrictive monetary policy are expected to support disinflation over the forecast horizon.

  Overall, the November MPR presents a more stagflationary outlook: substantially higher and more persistent inflation alongside weaker medium-term growth prospects, despite stronger near-term economic performance.

- **OUR TAKE:** *BoE could hike again if the effects of the conflict in the Middle East on oil prices persist*. With the Democratic victory in the US, the conflict with Iran will take a different path, and is unlikely to flare up again in the same way it did earlier this year. This means that oil prices are unlikely to generate as much inflation as in previous months, meaning that this tightening cycle may be quite short, with quarterly hikes likely to be the right pace, as the Fed and the ECB are doing.

- **MARKET REACTION AND IMPLICATIONS***: Traders increased bets on further BoE tightening*, with the probability of a December rate hike rising to 50% from 30% before the decision and nearly 75 bps of additional tightening priced in by end-2027. The 10-year gilt yield rose to 5.15% from 5.11% before

© Rosa&Roubini Associates 2025 - All Rights Reserved. No duplication, reproduction, transmission or redistribution of this document and its content, either in whole or in part, is by any means permitted without prior written consent of Rosa&Roubini Associates Limited.

the decision, but remained 1.2 bps lower on the day. The rate-sensitive two-year yield climbing around 3 bps to 4.77%. *In the currency space,* the Sterling strengthened following the BoE's rate hike, with GBP/USD rising to 1.3480 from session lows of 1.3450. The pound also reached its highest trade-weighted level since June 2016, supported by a weaker US dollar following the midterm elections and expectations of further monetary tightening. *In the equity space,* UK equities UK equities advanced, with the FTSE 100 gaining 0.8% to 10,914, while the FTSE 250 reached a record high of 25,176. The AIM All-Share rose 1.2%.

Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 75 King William Steet, London EC4N 7BE, United Kingdom.

For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

***Analyst Certification**: We, Brunello Rosa and Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships.We also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report.*

***Disclaimer**: All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the US SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.*

© Rosa&Roubini Associates 2025 - All Rights Reserved. No duplication, reproduction, transmission or redistribution of this document and its content, either in whole or in part, is by any means permitted without prior written consent of Rosa&Roubini Associates Limited.