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FLASH REPORT

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BoE: Cautious Cut with Fiscal Boost to Inflation and Growth Forecasts

- **As widely expected, the BoE cut by 25bps to 4.75% this morning, in an 8–1 cautious decision and Monetary Policy Report that were shy on (unchanged) guidance—alike Bailey's presser. The BoE did not incorporate the results of the US election in its communications nor projections.**
- **UK yields and the GBP initially jumped on large revisions higher to inflation and growth but gilts unwound losses amid a broad bid in global rates and Bailey's neutral tone, though the GBP is holding to a small gain. At writing, markets are only pricing in about a 20% chance of a 25bps cut in December.**
- **For now, we keep our call for a 25bps cut but we're merely holding out to see if upcoming CPI, jobs, and GDP data undershoot as last week's Budget means the BoE will likely 'skip' its final meeting of the year.**

As widely expected, the BoE lowered its policy rate by 25bps to 4.75% this morning, in an 8–1 decision that was accompanied by a cautious communique and Monetary Policy Report that were generally shy on guidance, as well as a classically dry Gov Bailey press conference. Last week's UK Budget and Tuesday's US elections have given the BoE a lot to digest so soon before today's announcement and will likely continue to influence their thinking on whether to ease again in December.

That aside, there are two rounds of jobs/wages, CPI, and GDP numbers due for release between now and the December 19th gathering that may end up playing a bigger role. For now, we keep our call for a 25bps cut, but that would need undershoots in these data as as-expected figures and the Budget mean the BoE would likely 'skip' its final meeting of the year.

The overall tone of the statement and MPC minutes was initially taken as more hawkish than expected by markets given the large revisions higher to inflation and GDP growth for 2025 and an unchanged guidance paragraph that maintains that "a gradual approach to removing policy restraint remains appropriate." We had not expected that the BoE would alter its guidance, but the revisions to inflation were on the higher end of expectations.

The minutes section on the policy decision provided surprisingly little colour or distribution of views regarding the cut decision by eight members, noting only that they "put different probabilities on and risks around the three cases, but they believed that a cut […] was appropriate." For reference, the three cases are: 1) inflation persistence fading quickly as pay/price dynamics continue to normalize after the shocks of the past few years, 2) economic slack may be required to normalize those dynamics (the base case), and 3) inflationary persistence may reflect structural shifts in wage/price-setting behaviour.

UK 2s swung from 4.48% prior to the announcement to 4.52% prior to Bailey's presser (a 4bps rise) while pricing for the December meeting was trimmed from 7bps to 5bps. At writing, 13.15UK/8.15ET as Bailey's presser wraps up, UK 2s are sitting practically unchanged with the Gov sounding a more neutral tone than what markets gleaned from the statement and minutes—amid a broad bid in global rates, too. The GBP is 0.2% stronger against the EUR from pre-statement levels and about 0.5% higher against the USD.

The BoE's MPR updated projections reflect the assumptions of last week's Budget as it regards taxation and departmental spending increases, among others. For 2025, BoE economists lifted their GDP growth forecast to average 1.5%, up from 1.0% in August, with only a small 0.1 ppts revision higher to 2026 to 1.4%—though the quarterly path shows that this is mostly carry-over from the fiscal boost in 2025 as the BoE, in fact, forecasts lower q/q growth rates over 2026 than they did in August (average of 0.3% vs 0.4% in August).

As for inflation, it is seen averaging 2.6% and 2.4% in 2025 and 2026, respectively, from 2.5% and 1.8% in the August MPR. Compared to its previous forecast round, the BoE points to the rise in the cap for bus fares, VAT on private schools, and higher vehicle excise duties as driving the bulk of the revisions higher over 2025 and early-2026 (and a small impact from higher employer national insurance contributions via passing these on to consumers). Public investment is expected to “increase the productive capacity of the economy” and narrow the output gap over the forecast horizon, to result in a lift to inflation forecasts relative to the August round concentrated over 2026 and 2027.

The MPR made no clear mention of the risks posed to growth and/or inflation from another wave of US protectionism that we think biased the BoE’s GDP growth projections to the downside. Gov Bailey was repeatedly asked on the matter during his press conference but he generally avoided giving an opinion (fair enough). The GDP forecasts also incorporate a ~50bps or so lower implied interest rate curve than current market pricing, which also discounts growth forecasts.

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