12 December 2025

Bank of England Preview

Slowdown paves way for rate cut

- **We expect the Bank of England to cut the Bank Rate by 25bp to 3.75% in line with market expectations. The MPC is split in half, and we expect a 5-4 vote.**
- **Although key data releases ahead of the meeting could change circumstances, we believe a significantly hawkish surprise is needed to put a rate cut in jeopardy.**
- **With a divided MPC, we will need more disinflationary signs before we get the final rate cut in April. This will also most likely be reiterated in the guidance.**
- **If we are right, we expect slightly weaker GBP on announcement.**

We expect the Bank of England (BoE) to cut the Bank Rate to 3.75% on Thursday 18 December, which is also largely priced in by investors. At the November meeting, the MPC decided to keep rates unchanged by a narrow 5-4 vote. Governor Bailey casted the deciding vote for hold with the view: "*Rather than cutting Bank Rate now, I would prefer to wait and see if the durability in disinflation is confirmed in upcoming economic developments this year*". We believe it has been confirmed.

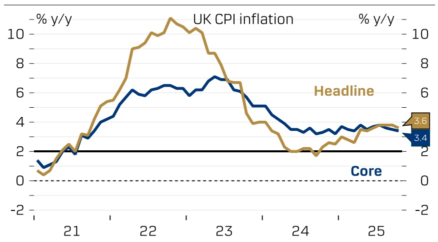
CPI inflation declined to 3.6% in October in line with BoE projections with service inflation slightly lower than consensus. This was not in itself a low print, but it confirmed that the soft September print was not just a blip. On the labour market, job losses have accelerated in the fall with most recent data, showing a 32K decline in September and October. The unemployment rate increased to 5% and wage growth has been edging lower in September. GDP data for October also disappointed with another 0.1% mom contraction driven by a weak service sector. The economy has not grown since June.

The fiscal stance laid out in the 2026 budget was mildly contractionary with no new inflation headaches from VAT hikes but with modest cuts to energy bills. We think the news since the November meeting will suffice for Governor Bailey to journey into the camp voting for a rate cut, although the labour market report and CPI data released in the days ahead of the meeting is a joker. According to November PMIs it does not look like, these releases will change the dovish picture much. They suggest, price pressures have eased further, and job losses have accelerated.

BoE call. Considering the recent tunes from the most hawkish members of the MPC, we see neither Lombardelli, Pill, Mann or Greene voting for a rate cut any time soon. Particularly not to 3.50%. Thus, rate cuts need to be taken with a slim 5-4 decision. Ramsden, who voted for cut in November, has also stressed the need for gradual cuts to borrowing costs. We think Bailey will take a cautious approach and listen to both sides when timing the next rate cut and that a majority will vote for a final rate cut at the April meeting.

Market reaction. We expect slightly weaker GBP on announcement. More broadly, we stay negative on GBP FX on a relatively weak growth outlook and a positive correlation to a USD negative environment.

October data confirmed softer price pressures



Source: ONS, Macrobond

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Expected updates

None

Date of first publication

See the front page of this research report for the date of first publication.

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