# Report to the Treasury Select Committee

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28 August 2026

Macroeconomically, the UK year in retrospect played out in two distinct halves.

In the first half, September 2025 to February 2026 the underlying disinflationary process continued, activity was increasingly subdued, and slack accumulated in the labour market. The temporary hump in headline inflation from the Q1 2025 one-off tax and administered price changes, and moderate energy disturbances, began to subside, whilst wage growth and services price inflation moved closer to target-consistent rates, and successive forecasts shifted towards lower inflation and higher unemployment. These developments had felt somewhat predictable to me, and increasingly confirmed my sense of the underlying conditions, and my view that monetary policy remained too restrictive and that, with my estimate of the neutral rate at around 3%, we should have been moving there sooner rather than later.

In the second half, March 2026 up to now, the conflict in the Gulf and the disruption to global energy supplies materially changed the near-term outlook. Higher oil and gas prices raised headline inflation through direct and (milder) indirect effects, but monetary policy could do little to prevent those initial effects and had instead to focus on the potential risk of more persistent second-round changes in wage and price-setting. This shock also arrived in a very different economy from that of 2022: demand was weaker, the labour market was looser, wage settlements had already fallen towards target-consistent rates, and monetary and financial conditions were restrictive. I therefore viewed the historical experience of 2011 as a more appropriate comparison, with the energy shock creating a difficult trade-off between temporarily higher inflation (above target) and further weakness in activity (below equilibrium).

Everyone had to adjust to this abrupt change. Faced with uncertainty, I shifted from voting for cuts to supporting a hold in Bank Rate. This was not because my assessment of the domestic economy had changed. Rather, holding provided insurance while we learned more about the scale and duration of the conflict, the path of energy prices, and the strength of any second-round effects. Financial conditions tightened materially when conflict began, adding further restriction without a change in Bank Rate. By July, there was little evidence of second-round effects, while wage growth and private-sector pay had reached target-consistent rates, inflation had surprised to the downside, and the labour market continued to loosen.

The central challenge has been to balance volatile and potentially inflationary global shocks against benign and disinflationary domestic conditions. I remain alert to the possibility that persistent energy-price increases could alter wage and price-setting behaviour, in which case policy would need to respond forcefully. But evidence for that is scant as of now, and meanwhile there is also a material risk that maintaining restriction for too long might well deepen the output gap, increase unemployment, cause lasting labour-market and investment scarring, and eventually even push inflation below target.

For now, absent an extreme scenario, I judge that holding Bank Rate at a moderately restrictive level provides material and reasonable insurance against the external risks; but if the conflict subsides, energy prices moderate and underlying disinflation continues, the case for resuming rate cuts would become stronger.

## State of the economy and voting record

At the time of my last report in August 2025, I had just (effectively) dissented and had preferred a half-percentage point reduction in Bank Rate to 3.75%. My main concern then was that monetary policy was braking too hard: for me, the pace of rate cuts had been too slow in the first half of 2025 as well as in expectation. We were far from neutral, the labour market was continuing to loosen, and wage and underlying services price inflation were firmly on a downward path. Although headline inflation had risen in a temporary hump, much of the increase reflected one-off tax and administered price changes, energy base effects and specific food-price shocks, rather than a change in the underlying path of inflation. Meanwhile, higher US tariffs were likely to drag on UK demand and inflation over time via trade diversion. I therefore placed greater weight on the risk of maintaining restriction for too long, potentially causing inflation to undershoot the target and turning a gradual slowdown into a sharper deterioration.

**At the meeting in September 2025**, I again voted in the minority to reduce Bank Rate by a quarter point to 3.75%. The inflation hump was expected to normalise, with much of it explained by temporary factors rather than excess demand. Meanwhile, consumer spending and investment remained subdued, wage settlements had fallen further from around 3.5% in the first half of the year, and slack continued to build in the labour market. I judged that a less restrictive policy path was warranted as insurance against the growing risks of recession, below-target inflation and further damage to the economy’s supply capacity. I also voted with the majority to reduce the stock of government bonds held for monetary policy purposes by £70 billion over the following twelve months.

**At the November meeting,** I voted in a larger minority to reduce Bank Rate by a quarter point to 3.75%. Disinflation had become more clearly established, CPI inflation had peaked, and the risks from inflation persistence had become less pronounced. I disagreed with the central projection and thought that current slack was larger, the neutral rate lower, and the stance of policy consequently more restrictive than implied by the forecast. Demand and confidence remained weak, the saving rate was likely to stay elevated, and the labour market continued to soften, with the projected peak in unemployment repeatedly revised higher. I placed more weight on downside risks, which would materialise if current trends continued, than on upside risks, which required new developments to emerge. I therefore favoured reducing restrictiveness as insurance against depressed activity and a medium-term inflation undershoot, while retaining scope to pause later or respond if upside risks materialised.

**By December 2025,** I voted with the majority to reduce Bank Rate by a quarter point to 3.75%. Recent developments continued to align with my view of steadily mounting downside risks and inflation firmly on track towards the target. CPI inflation had fallen to 3.4%, food inflation was abating faster than expected, and tax and administered price increases were set to drop out of the annual comparison in April. High-frequency measures of headline and core inflation were close to target, while incoming settlements data suggested more strongly that wages were on a target-consistent path. At the same time, unemployment and redundancies were rising, demand remained subdued, and surveys pointed to weak output, deteriorating investment intentions and low consumer confidence. These trends created a risk of an inflation undershoot and, if policy continued to brake too hard, a sharper deterioration in activity and the labour market. With my estimate of the neutral rate at around 3%, and given the lags in monetary transmission, I judged that policy should be moving there sooner rather than later

As the New Year arrived, hopes of a return to normal flourished more widely, as the evidence had shifted further in the direction I had anticipated. Inflation had fallen from 3.8% in September 2025 to 3.4% in December and was expected to return to around the 2% target from April, considerably earlier than had been expected only a few months before. Pay growth and services inflation had continued to ease, the unemployment rate had risen to just over 5%, and the economy was operating with a greater degree of slack.

The cumulative changes to the forecast were especially notable: since February 2025, successive forecast rounds had produced lower paths for inflation and greater slack in 2026 and 2027, even as the assumed path for Bank Rate had also moved lower. If inflation persistence had been a more dominant force in the economy, these revisions should have gone in the opposite direction.

The pay data also provided further evidence that underlying inflationary pressures were normalising. The Agents' pay survey pointed to settlements slowing to around 3.4% in 2026, close to target-consistent rates, while softer price and wage dynamics and emerging slack were expected to exert downward pressure on inflation throughout the forecast period. The fall in inflation was therefore not simply the mechanical result of one-off factors dropping out of the annual comparison or new fiscal measures lowering energy prices. Higher-frequency measures suggested that inflation was already close to the target, and I expected lower realised inflation to bring elevated household inflation expectations down significantly over the course of the year.

**At the February 2026 meeting**, I voted in the minority to reduce Bank Rate by a quarter point to 3.5%. I judged that the risk of greater inflation persistence had receded materially, while the risks from weaker demand and a loosening labour market had become more important. Households remained cautious, the saving rate risked staying higher than projected, and unemployment could rise more than expected. With inflation expected to be at or below target and significant slack emerging within about six months, I thought that a neutral rate of around 3% should already be in our sights. Monetary policy was still too restrictive and, in my view, waiting too long to reduce rates risked requiring a sharper policy adjustment later, after avoidable damage had already been done to activity and employment.

**Events intervened, however.** The outlook changed abruptly with the outbreak of conflict in the Middle East and the disruption to global energy supplies. Oil and gas prices rose, financial conditions tightened, and the inflation outlook moved materially higher. It was time to rethink and evaluate what this new, potentially large, and possibly long-lasting shock would mean, even with all the surrounding uncertainty.

**In the March meeting**, right after the outbreak of hostilities, and with little information to go on, I voted to hold bank rate at 3.75%. I reasoned that, given the new situation, the appropriate policy stance was to pause and take stock of the situation as activity on one side showed slack building up, which would support lower policy rates, but still the extent of the conflict and energy shocks were too uncertain, and it was too early at that time to assess the potential spillovers.

By April, CPI inflation had increased to 3.3%, and the projection for the third quarter was 1.4 percentage points higher than it had been in February, mostly attributable to direct and indirect energy effects. These developments represented a new adverse supply shock: monetary policy could do little about the direct effect of higher global energy prices, and would operate too slowly to prevent much of the indirect pass-through into production costs and consumer prices. The relevant issue for policy was whether the shock would generate more persistent second-round effects in wage and price-setting further down the road.

This energy shock nevertheless arrived in an economy that was quite different from the one that had faced the previous energy shock of 2022. Demand was now weaker, the labour market was looser, monetary policy was restrictive, and wage growth had already softened towards target-consistent rates. Moreover, most private-sector wage settlements for 2026 had been agreed before the shock occurred. These conditions were likely to constrain the propagation of higher energy prices into wages. Weak demand and compressed household incomes would limit firms’ ability to raise prices, while the shock itself could further weaken consumption and increase precautionary saving. In this respect, I viewed 2011 as a more appropriate historical comparison than 2022, both in terms of the magnitude of the shock and the weak starting point of the economy, and this led me to judge that unless a worst-case scenario played out we could hold at a still restrictive level for some time until the risks abated.

**At the April meeting**, I therefore voted with the majority to maintain Bank Rate at 3.75%. This was a substantial change in circumstances rather than a change in my assessment of the underlying domestic disinflation process, which had been on track before the conflict. With little information about the eventual scale and duration of the energy shock, and with wage settlements largely fixed for the year, it would take time to learn whether material second-round effects were developing. I placed most weight on outcomes between the mild scenario and the path incorporating the standard treatment of the energy shock, in which the conflict subsided and energy prices moderated towards the end of the year, but left some lasting damage to the UK and global economies. Under such an outcome, the appropriate strategy would be to hold Bank Rate for a time and then move towards a neutral stance.

Risk management also supported holding at that meeting. Financial conditions had tightened materially since the conflict began, with higher financing costs already providing additional restriction for households and firms. In my judgement, this tightening was amply restrictive and provided insurance against the possibility that the economy instead evolved closer to a scenario with more persistent energy prices and stronger second-round effects. Raising Bank Rate immediately would have risked adding unnecessary monetary restraint to an economy that had already been weak before the shock. But continuing to cut without first learning more about the conflict and its propagation would also have provided insufficient insurance against the renewed upside risks to inflation.

**At the June meeting** I voted to hold Bank Rate again at 3.75%, as the conflict and its impact on energy prices remained important. But the data did not support tighter policy. Economic slack and restrictive monetary and financial conditions would limit second-round effects on wages and prices. I thought an active hold was appropriate, with lower rates preferred if the conflict subsided and inflation risks diminished.

By the July meeting, these two opposing forces were still shaping the outlook. Crude oil, gas and refined-product prices remained volatile and above their pre-conflict levels, and there continued to be a risk that renewed escalations in the Middle East could prolong the shock. CPI inflation had nevertheless fallen to 2.6% in June, with services and food inflation continuing to moderate. There was little evidence so far of material second-round effects in inflation expectations, firms’ own-price expectations, wage-price feedback or food inflation, although the lags involved meant that this evidence could not yet be treated as conclusive. In particular, the effects on wage-setting might not become clear until negotiations for 2027 were further advanced.

The domestic data continued to point in a more benign direction. Wage growth and private-sector average weekly earnings growth had reached target-consistent rates, recent CPI outturns had surprised to the downside, and the labour market remained loose. Households and firms were cautious, monetary and broader financial conditions were restrictive, and limited fiscal space meant that there was little prospect of an offsetting demand stimulus. I therefore continued to place substantial weight on the risk that the economy was drifting further towards deficient demand, with the possibility of a larger output gap, labour-market scarring and weaker growth over the following year or two. The inflation outlook was thus being shaped by two opposing forces: benign and disinflationary domestic trends on the one side, and volatile global shocks of uncertain magnitude and duration on the other.

**At the July meeting**, I again voted with the majority to maintain Bank Rate at 3.75%. We presented a new MPR forecast with more moderate projections for near-term inflation than we had in April. I judged that the more likely outcomes lay between the central projection and the milder scenario, although the distribution had a long right-hand tail reflecting the possibility of further escalation and more persistent energy-price pressures. Crack spreads had widened and refinery capacity was impaired globally, and thus key refined products could de-link from crude oil prices. Holding Bank Rate, at a level higher than the path implied before the conflict, provided appropriate insurance against those risks while allowing more time to assess whether second-round effects were developing. At the same time, I did not think the external shock invalidated the underlying case for lower rates once the uncertainty cleared. If geopolitical risks subsided durably and domestic disinflation continued, I expected that it would be appropriate to resume the withdrawal of monetary restriction.

## Explaining Monetary Policy

Over the last year, I have continued to explain my views about the state of the economy, monetary policy strategy, and the wider economic forces that shape the environment in which monetary policy operates. I have given five on-the-record speeches, covering international trade, central bank mandates, the implications of a new global energy shock, the relationship between economic history and policymaking, and the role of the central forecast in the monetary policy process.

In October 2025, I delivered a speech at King's College, Cambridge, on the implications of higher US tariffs and the resulting diversion of global trade. Drawing on economic theory, historical evidence from the 1930s, and emerging real-time data, I argued that exporters shut out of the US market would increasingly redirect goods towards other relatively open markets, including the UK, lowering import prices and adding to disinflationary pressures. These effects were likely to unfold gradually, but they reinforced my view that risks to UK activity and inflation were tilted to the downside and that monetary restriction should be withdrawn before weak demand and rising unemployment caused a lasting damage.

In January 2026, I delivered a speech at the National University of Singapore on the evolution and future of international trade. I placed the recent levelling off in global trade within a much longer historical perspective, tracing its development from the limited long-distance exchange of the pre-modern world, through the two major eras of globalisation, and into the more turbulent period that has followed the global financial crisis. I argued that it is still too early to conclude that globalisation has reached a permanent peak. Although higher tariffs and geopolitical tensions have created significant short-term headwinds, deeper forces such as technological change, differences in factor endowments, improvements in infrastructure, stronger institutions, and the growth of human and intangible capital may continue to support greater international integration over the longer run. I therefore viewed the current period as one in which the global economy may be passing over a false summit rather than entering a lasting retreat from trade.

In March 2026, I spoke at the Monetary Policy Mandate Conference at Norges Bank in Oslo, where I considered the historical evolution of central bank mandates and how the MPC's remit has shaped my own policy decisions. I argued that a clear inflation target, operational independence, and robust accountability provide the essential institutional foundations for effective monetary policy. At the same time, the remit appropriately recognises that monetary policy is forward-looking and that, following large shocks, returning inflation to target too quickly can impose unnecessary costs on output and employment. Using counterfactual policy exercises, I showed that a substantially tighter response to the post-pandemic inflation shock would still have left inflation elevated for a time, while producing a much deeper and more persistent recession. I also argued that the inflation increase during 2025 largely reflected identifiable one-off factors and that underlying inflationary pressure was continuing to normalise as wage settlements fell and labour-market slack increased. In my view, policy had therefore remained restrictive for longer than necessary, contributing to weaker activity, higher unemployment, and growing downside risks to inflation.

Later that month, I delivered a speech at Exante Data's tenth-anniversary conference in New York, following the outbreak of hostilities in the Persian Gulf and the resulting disruption to global oil and gas supplies. I discussed the challenges presented by another large adverse supply shock at a time when the UK economy was already operating below potential and underlying inflationary pressure had been easing. I argued that monetary policy needed to distinguish carefully between the direct and temporary effects of higher energy prices and the risk that these effects might become embedded in wage and price-setting behaviour. The appropriate policy response would therefore depend on the balance between the inflationary effects of higher energy costs and the disinflationary effects of weaker demand, greater uncertainty, and a widening output gap. I set out different scenarios for how the shock might evolve and argued that the MPC should remain focused on its price-stability mandate, preserve its credibility, and avoid responding mechanically to movements in headline inflation when the medium-term implications remained uncertain and potentially two-sided.

In April 2026, at a joint conference organised by the Paris School of Economics and the Banque de France, I reflected on the relationship between macroeconomic policy and economic history. I described this relationship as a two-way street. Questions arising from monetary policy, financial crises, and international spillovers have helped shape the modern field of macroeconomic history. In return, historical research has provided policymakers with evidence on events, mechanisms, and policy regimes that cannot be understood using the relatively short span of modern macroeconomic data alone. I discussed how a variety of historical evidence has influenced contemporary policy thinking. I also argued that history should be used to identify mechanisms rather than to draw superficial analogies, since institutional structures and economic conditions can differ substantially across episodes. For policymakers facing rare shocks and structural change, however, history remains the only available record of how economies behave beyond the narrow range of recent experience.

In June 2026, I spoke at the Barclays–CEPR Monetary Policy Forum about the role of the central forecast in the Bank of England’s monetary policy process. I argued that the central forecast has historically provided an important framework for organising the MPC’s analysis and communicating its view of the outlook, but that weaknesses in its construction have sometimes distorted the policy narrative. In particular, conditioning the forecast mechanically on the market interest-rate curve can introduce volatility and risk premia that do not represent genuine expectations for Bank Rate. In recent forecast rounds, this had contributed to an excessively restrictive medium-term policy path and required the forecasting framework to generate positive demand shocks that did not subsequently materialise. The result was a sequence of downward revisions to inflation and wage growth alongside upward revisions to unemployment and economic slack. I argued that scenarios are a valuable complement to the central forecast, especially during periods of uncertainty, but cannot replace it. Every scenario must be constructed relative to an underlying baseline, so improving the central projection remains essential even if that projection is given less prominence in public communications. I therefore supported continued investment in the Bank’s models, data, conditioning assumptions, scenario capabilities, and broader forecasting infrastructure.

Alongside these major speaking engagements, I have continued to engage with businesses, parliamentarians, journalists, and communities across the United Kingdom and internationally. These engagements have allowed me both to explain my policy views and to gather information about economic conditions from a wide range of perspectives.

I have undertaken eight visits through the Bank of England's Agency Network in the last year. In October 2025 I made visits to businesses in Cambridge and London. February saw me in the East Midlands to visit locations in Nottingham and Derby. In March, I visited Wales, with events in Cardiff alongside Randy Kroszner (FPC). In April, I visited the South East and East Anglia Agency, with meetings at the port in Dover. In June, I visited the West Midlands with David Roberts (chair of Court), which included a Citizens' Panel. I subsequently undertook a visit to the South West. At the end of July and beginning of August, I also visited Scotland over 4 days to include Glasgow and the Isles of Harris and Lewis. These visits involved discussions with businesses, local organisations, and members of the public, helping me understand how prices, demand conditions, labour costs, financing pressures, uncertainty, and global developments were affecting different parts of the economy.

I have also continued to engage with elected representatives and other public audiences and think tanks. Also, in June, I participated in an IPT briefing event for MPs and Peers at the Bank of England, arranged by Parliamentary Affairs. These engagements form an important part of the MPC's accountability and help ensure that monetary policy decisions and the judgements underlying them are explained clearly beyond specialist economic and financial audiences.

I have also engaged internationally with other central banks, policy makers, market participants, academics and analysts. In October I was in Frankfurt, and spoke in a research seminar and met staff at the ECB and Bundesbank. I attended the IMF/World Bank Spring Meetings in Washington, DC, in April, where I also attended an event at the British Embassy, and gave panel presentations at the Peterson Institute and at the meetings of the Reinventing Bretton Woods Committee. In January I had visiting stints at the RBA in Sydney and the MAS in Singapore, and I was privileged to be granted a meeting with the President of Singapore to discuss global economic matters. Whilst in Singapore I also met with the British High Commissioner who had invited me to give an all-staff briefing. In June I made visits to Tokyo and Beijing. The former included a week-long visit at the BOJ's research department, meetings with BOJ policymakers, and a briefing at the British Embassy. The latter was a 3-day stay with the British Ambassador to China, including an all-staff briefing and visits with PBOC and other policymakers, academics, market experts, and informed observers.

Finally, my media engagements have included several conversations and most prominently an all-day televised tour and interview with Ed Conway from Sky News as part of my West Midlands Agency visit.

Through all these activities and contacts, I have sought to be accountable for my policy views. I feel it is essential for me to discuss with all interested parties the thinking behind my monetary policy outlook, the changing balance of risks around inflation and activity, and especially now the importance of looking beyond short-term movements in headline inflation when assessing the appropriate path for policy.