

REPORT TO THE TREASURY COMMITTEE

Andrew Bailey, Governor of the Bank of England

13 February 2026

In the 15 months since my last report to the Treasury Committee in November 2024, monetary policy has had to navigate an increase in headline inflation against the backdrop of continuing underlying disinflation. To ensure a sustainable return of inflation to the 2% target, monetary policy has been set to balance, on the one hand, upside risk to inflation from lingering persistence in domestic inflationary pressures stemming from the big inflationary shocks of recent years, and downside risks to inflation from subdued economic growth and a weakening labour market on the other. Gradual progress on underlying disinflation and receding risks from prolonged cost pressures have allowed the Monetary Policy Committee (MPC) to cut Bank Rate four times, from 4.75% in November 2024 to 3.75% today.

Twelve-month inflation in the Consumer Price Index (CPI) was 3.4% in the latest data for December 2025, up from its most recent trough of 1.7% in September 2024 – the latest datapoint at the time of my previous report – but down from a peak of 3.8% in July, August and September 2025. Looking ahead, Bank staff expect CPI inflation to decline further to about 3% in January, February and March this year, before reaching a level close the 2% target from April. In the latest Monetary Policy Report (MPR) from February 2026, in the central case, inflation is then projected to stay close to the 2% target for the rest of the three-year forecast period, conditional on a market-implied path for interest rates.

So, while inflation is now higher than 15 months ago and remains above the 2% target, recent developments provide more confidence that inflation will return to the target in coming months. As underlying disinflation remains on track, there should be scope for some further easing of monetary policy. But when and how much will depend on how the outlook for inflation evolves. For every cut in Bank Rate, how much further to go becomes a closer call as we approach a neutral rate. The absolute priority for the MPC remains to return inflation to the 2% target sustainably.

Before setting out my policy decisions over the past 15 months in greater detail, I should note that this has been a period characterised by remarkable resilience in the global economy in the face of significant policy uncertainty. Although this uncertainty, associated for the most part with tariffs and trade, has weighed on the level of global activity, the world economy has shown an impressive ability to adapt to the shifting landscape. This means that, despite all the uncertainties in the world, we are currently not facing a situation in which monetary policy has to deal with the fallout from new big shocks.

As the November 2024 MPR went to press, the vagaries of global trade policies were still in the future. CPI inflation had fallen faster than expected and had hovered around the 2% target for about six months. In the central projection, CPI inflation was expected to rise somewhat again – to a peak of about 2.8% in the third quarter of 2025 – as a drag from lower energy bills waned and the contribution from elevated underlying inflation came to dominate. Measures announced in the 2024 Autumn Budget were expected to add up to just under half a percentage point to CPI inflation over the projection period. With an emerging margin of slack in the UK economy, CPI inflation was then projected to fall gradually back to the 2% target. It was clear at the time, however, that the MPC would have to monitor progress on underlying disinflation closely and continue with a gradual approach to the withdrawal of monetary policy restrictiveness. A new unknown was how businesses would respond to a higher cost of employment from increases in employer National Insurance contributions and the National Living Wage.

At the time of the February 2025 MPR three months later, my assessment was that the path of underlying disinflation remained in place and that a 0.25 percentage point cut in Bank Rate to 4.5% was the right cause of action. Services price inflation had fallen more than expected, to 4.4% in December 2024, and measures of underlying services price inflation had been gradually easing. Private sector regular pay growth had increased to 6% in the official data for the three months to November, which was uncomfortable and a possible sign that the disinflationary process had slowed. But the signal from other measures of private sector pay growth was mixed. Bank staff analysis pointing to a lower rate of underlying wage growth, and the survey conducted by the Bank's Agents pointed to a material fall in pay settlements over the year ahead, to around 3.7%.

At the same time, activity in the UK economy had been weaker than we had expected in November. GDP had been broadly flat since March of the previous year. It remained unclear to what extent weaker activity was caused by supply or demand, but a deterioration in business and consumer confidence was at least consistent with a slowdown in demand. Data issues surrounding the Labour Force Survey continued to cloud the sight of labour market developments, but it was clear from the various alternative data sources, including intelligence from the Bank's Agents, that the labour market was cooling. These developments would support further disinflation in the UK economy over the medium term.

In the near term, however, the outlook for inflation had changed markedly. Inflation had ticked up to 2.6% and 2.5% in November and December 2024, respectively, and Bank staff now expected it to rise further, to a peak of around 3.7% towards the middle of 2025. This was a full percentage point higher than the peak we had expected in November. Key to our assessment of the right course of action was the fact that this expected near-term rise in inflation was caused by factors that we could reasonably expect to be temporary and that were not directly linked to the balance between demand and supply in the UK economy. In addition to the combined effects of regulated price changes and fiscal measures, core goods and food price inflation had ticked up. But the single largest driver was household energy prices, which given wholesale energy prices at the time, could be expected to add as much as three quarters of a percentage point to headline inflation towards the middle of 2025.

As I set out at the time, monetary policy cannot prevent such short-term influences on headline inflation, nor should monetary policy respond to factors that will fade by the time it takes its effect. But the MPC recognised that this short-term pick-up in inflation introduced further uncertainty into the outlook for inflation that would have to be monitored. Utility and food prices are salient prices to consumers, and we had to make sure that temporary increases in them did not feed through to new second-round effects on wages and other prices of the kind we had seen after the pandemic and Russia's war on Ukraine. With a restrictive monetary policy stance in place, and the underlying disinflation process well underway, we could be reasonably confident that the pick-up in inflation would be temporary, and much smaller and less prolonged than the one we had just put behind us. But we would have to monitor all

the risks very closely along the way. A gradual and careful approach to further withdrawal of monetary policy restraint would be appropriate.

The period leading up to our next Monetary Policy Report in May 2025 can hardly be described as starved of news. The US administration made a series of announcements with significant changes to tariff policies, with responses from some of its trade partners, and volatility in financial markets. But although these events understandably dominated the headlines, they were only one source of risk to the outlook for the UK economy. For the MPC, it was important to start from the underlying story for the UK economy and inflation and assess the international news in that context. Moreover, while it was likely that new tariffs and elevated trade policy uncertainty would weigh on global economic activity, the overall impact on the UK economy and the outlook for UK inflation was highly uncertain. On the one hand, lower US demand for global exports, particularly from China, could lead to lower global export prices and hence lower prices for the UK. On the other hand, higher costs in the global supply chain could push up on prices.

The evidence, as it presented itself at the time of the May 2025 MPR, was again consistent with a view that underlying disinflation in the UK economy was continuing. While the upcoming 'hump' in inflation was looming, its expected scale had not changed. And while their levels remained elevated, measures of underlying services price inflation continued to ease gradually as pressures from non-labour input costs faded. Wage growth was now the main driver of continued high levels of service price inflation. With private sector regular pay growth remaining close to 6% in the latest data for the three months to February 2025, wage growth normalisation still had quite a long way to go. But forward-looking indicators also still pointed to a slowing in wage growth in the period ahead against the backdrop of a labour market that continued to loosen. Labour market developments, survey indicators of capacity utilisation and statistical estimates all suggested that weaker demand had led to a small margin of economic slack opening up. With risks to inflation on both sides – from persistence in wage and price setting on the one side, and from weaker demand on the other – a careful and gradual withdrawal of monetary policy restraint remained appropriate. In my view that was consistent with a further 0.25 percentage point cut in Bank Rate at the MPC's May 2025 meeting, to 4.25%.

As we were approaching the MPC meeting in August 2025, the news we had to digest was more limited and, in some ways, it was more about what had not happened since our previous meetings in May and June than what had. There had been a substantial increase in trade restrictions, but the impact on the UK economy had been limited so far. Activity in the UK economy had developed much as we had expected and there had been further progress on disinflation in pay growth and services inflation. That was the basis for my vote to cut Bank Rate by a further 0.25 percentage point, to 4%, at the August 2025 MPC meeting.

But the overall picture was becoming more complex. Headline inflation had increased to 3.6% in the latest data for June 2025, and Bank staff now expected it to increase further to around 4% in September, about 0.3 percentage points higher than in May, driven by higher food and energy prices. While there were good reasons to continue to believe that the rise in inflation would be temporary, the risk that it could feed more inflation, and interact with lingering persistence from previous shocks, had come into sharper focus. At the same time, it was becoming clearer that a margin of slack had opened up in the UK economy and the labour market was continuing to loosen. Real household incomes had risen over the past couple of years, but consumption had not followed suit. Consumers appeared to remain more cautious than we had expected, perhaps exacerbated by broader downside risks to activity and the risk of more sudden adverse developments in the labour market.

Monetary policy would have to balance these risks to ensure that inflation would return to the 2% target sustainably. A gradual and careful approach to further withdrawal of monetary policy remained appropriate in my view, and it was important for me to emphasise at the time that Bank Rate was not on a pre-set path. Further decisions on Bank Rate would depend on how the underlying disinflation process and the risks to the outlook for inflation would evolve.

At both our next two MPC meetings in September and November 2025, my conclusion was that Bank Rate should be held at 4%. The restrictiveness of monetary policy had fallen as Bank Rate had been reduced. A gradual and careful approach had served us well, allowing us to assess the balance of risks to inflation – on the upside from more inflation persistence, and on the downside from weaker

activity – as the evidence had evolved. And at these meetings there was an argument to wait and see that the downward path in inflation became more established.

Upside risks to inflation had become less pressing again. By November 2025, CPI inflation looked to have peaked at 3.8%, lower than expected in August, and underlying wage and price pressures had continued to ease. Private sector regular pay growth, for example, had slowed to 4.4% in the three months to August 2025, down from 4.9% in the three months to May. At the same time, the downside risks to inflation from weaker demand had become more apparent given subdued economic growth and continued caution amongst consumers and businesses. In the central projection, conditional on market interest rates at the time, inflation was set to fall close to 3% by early 2026 and then decline gradually towards the 2% target after that, while a gradual pick-up in growth would support a gradual erosion of economic slack. That pick-up in growth could prove harder to achieve if consumers remained cautious about spending in the face of high uncertainty and a weakening labour market. The risk was that inflation could drift below the 2% target without further easing of monetary policy.

Nevertheless, the assessment that inflation was on track to return to target was based on just a few data points. In my view, given the balance of risks, it was prudent in November 2025 to await further confirmation that the downward path of inflation was established before cutting Bank Rate again. A further consideration was that the MPC would be able to analyse how the 2025 Budget might affect the economy and the outlook for inflation at its December 2025 meeting.

My assessment at the December 2025 meeting was that the incoming data news had confirmed that disinflation was now more established. The data had continued to show that CPI inflation had fallen from its recent peak and that upside risks to inflation had eased. Measures in the Budget might reduce recorded inflation by as much as half a percentage point over the following year. That raised the prospects that inflation could return to the 2% target sooner than in our central projection from November, which in turn would support a normalisation in wage growth and underlying inflationary pressures through inflation expectations. For me, this

continued progress warranted a further 0.25 percentage point cut in Bank Rate at the December 2025 meeting, to 3.75%.

The February 2026 MPR provided further confirmation of the progress we have made on disinflation. In the central three-year projection for inflation – which is conditional on the market path for interest rates – inflation falls to around the 2% target in the second quarter of this year and remains close to that rate over the forecast period. The risk from greater inflation persistence has continued to become less pronounced, while some risks to inflation from weaker demand and a loosening labour market remain. But while recent developments provide more confidence that inflation is on track to return to the target soon, we need to ensure that inflation falls all the way back to the 2% target and stays there. And with every cut in Bank Rate we have made, reducing the restrictiveness of monetary policy, how much further to go becomes a closer call. In my view, it was therefore appropriate that we held Bank Rate at 3.75% at our latest meeting.

Having said that, with inflation returning to target, there should be scope for some further easing in monetary policy. This does not mean that I expect to cut Bank Rate at any particular meeting. But it means that I will go into the coming meetings asking whether a cut is justified.

I will conclude by noting that we have presented a new and improved package of communication in November 2025. In our minutes, the Monetary Policy Summary is shorter and more focused, while individual paragraphs set out the views of each member of the Monetary Policy Committee. In the MPR, a Monetary Policy Overview sets out the main economic narrative underpinning our decision, while a range of boxes presents the key pieces of analysis that have informed it. And the MPR now presents detailed scenarios with illustrative monetary policy responses in addition to our central projection.

Together, the new MPR and minutes are designed to allow us to adapt and respond in a world of greater uncertainty – putting greater weight on the key judgements behind our decisions, emphasising the underlying economics as much as precise numbers, drawing on a wider range of analysis and framing our discussions within a broader discussion of risks. This is a milestone in our response to the Bernanke review, one that is testament to the hard work and dedication of our excellent staff.

External engagement

Over the past 15 months, I have given a number of speeches on monetary policy and related issues. I have been on 13 regional visits with the Bank's Agents, which have included 17 roundtables and events with participation of about 460 business leaders, 28 company visits, 4 visits to schools, a visit to a university and a citizens panel.

Speeches

The world today - AIUla Conference for Emerging Market Economies 2026, AIUla, 8 February 2026

<https://www.bankofengland.co.uk/speech/2026/february/andrew-bailey-speech-at-the-imf-saudi-ministry-of-finance>

Global imbalances in a more fragmented world – Bellagio Group event, London, 16 January 2026

<https://www.bankofengland.co.uk/speech/2026/january/andrew-bailey-meeting-of-the-bellagio-group-2026-at-the-boe>

Panel remarks – Global Economic Outlook Panel, Washington DC, 18 October 2025

<https://www.bankofengland.co.uk/speech/2025/october/global-economic-outlook-panel-panel-remarks-by-andrew-bailey>

Investment in Scotland – Scotland Global Investment Summit 2025, Edinburgh, 6 October 2025

<https://www.bankofengland.co.uk/speech/2025/october/andrew-bailey-keynote-speech-at-scotland-global-investment-summit-2025>

The future of the multilateral economic system, and some news on the UK payments infrastructure – Mansion House Financial and Professional Services Dinner, London, 15 July 2025

<https://www.bankofengland.co.uk/speech/2025/july/andrew-bailey-speech-at-the-annual-financial-and-professional-services-dinner-mansion-house>

The meaning of reserve currency – Andrew Crockett Memorial Lecture, Basel, 3 July 2025

<https://www.bankofengland.co.uk/speech/2025/july/meaning-of-reserve-currency-remarks-andrew-bailey>

The UK economy in an unpredictable world – British Chamber of Commerce 2025 Global Annual Conference, London, 26 June 2025

<https://www.bankofengland.co.uk/speech/2025/june/andrew-bailey-keynote-speech-at-the-british-chambers-of-commerce-global-annual-conference>

Revisiting the Norman Conquest of \$4.86. Thoughts for the world today - Britain's Return to the Gold Standard in 1925 Revisited Conference, London, 24 June 2025

[Revisiting the Norman Conquest of \\$4.86. Thoughts for the world today - speech by Andrew Bailey | Bank of England](https://www.bankofengland.co.uk/speech/2025/june/andrew-bailey-keynote-speech-at-the-norman-conquest-of-4.86-thoughts-for-the-world-today)

Central Banking in extreme adversity – 9th NBU-NBP Annual Research Conference, Kyiv, 20 June 2025

<https://www.bankofengland.co.uk/speech/2025/june/andrew-bailey-speech-at-the-annual-research-conference-kyiv>

State of trade – Irish Association of Investment Managers Annual Dinner 2025, Dublin, 29 May 2025

<https://www.bankofengland.co.uk/speech/2025/may/andrew-bailey-speech-followed-by-fireside-chat-with-francine-lacqua-bloomberg>

Monetary policy in uncertain times – Reykjavík Economic Conference, Reykjavik, 9 May 2025

<https://www.bankofengland.co.uk/speech/2025/may/andrew-bailey-keynote-address-at-the-reykjavik-economic-conference-2025>

Growth: What does it take in today's world? – Chancellor's Distinguished Lecture Series, The University of Leicester, 24 March 2025

<https://www.bankofengland.co.uk/speech/2025/march/andrew-bailey-university-of-leicester-chancellors-distinguished-lecture>

A Central Banker's view of global challenges and expectations for the Bretton Woods Institutions' response – King's College, Cambridge, 17 January 2025

<https://www.bankofengland.co.uk/speech/2025/january/andrew-bailey-remarks-at-bretton-woods-institutions-cambridge>

Growth – Mansion House Financial and Professional Services Dinner, London, 14 November 2025

<https://www.bankofengland.co.uk/speech/2024/november/andrew-bailey-speech-at-the-annual-financial-and-professional-services-dinner>

Regional visits

Wales – 6 February 2026

South West – 7 November 2025

North East – 8 October 2025

North West – 7 October 2025

South East & East Anglia – 30 September 2025

West Midlands – 23 September 2025

Yorkshire & the Humber – 10 July 2025

Scotland – 5 June 2025

Northern Ireland – 28 May 2025

Central Southern – 11 April 2025

Greater London – 27 March 2025

Wales – 14 February 2025

North East – 21 November 2024