

Annual Report to the Treasury Select Committee

Megan Greene, External Member of the Monetary Policy Committee

13 February 2026

This report covers the period from February 2025 to February 2026. I began this period believing that the overall trend of disinflation towards our target continued and so some further removal of monetary policy restrictiveness was likely to be appropriate.

My subsequent voting record reflects my view that there have been two-sided risks to our central projection, but that the risk of inflation persistence has outweighed that of weaker demand over the past year. My voting record also reflects the high importance I have placed on ensuring inflation returns sustainably to target given we are now in the fifth year of inflation remaining significantly above 2%. In this rate cutting cycle, my monetary policy strategy has been one of risk management, in which I have weighed the costs of maintaining too much versus too little restrictiveness. I believe the cost of the latter is greater.

Generally, the data over this period has suggested the disinflation process continued. The data has also shown the UK real economy to be more resilient than forecast (in year-on-year terms, particularly in the first half of 2025), though consumption had remained subdued and the labour market had loosened slightly more than we'd expected. I voted to cut Bank Rate last May, but then - given subsequent reductions in Bank Rate - voted to hold Bank Rate to ensure monetary policy remained sufficiently restrictive to reduce the risk of greater inflation persistence.

Economic Developments and Voting Record

March 2025

At the **March 2025** meeting, I voted to hold Bank Rate at 4.5% along with the majority of my colleagues on the MPC. Incoming data continued to suggest that we were in uncomfortable trade-off territory. Activity at the end of 2024 had been weak, and staff expected this weakness to extend into 2025. Results from the Bank's SVAR model suggested that the slowdown in activity since 2024H2 had been driven by both demand and supply, but I continued to place more weight on supply weakness as the dominant factor.

Inflation expectations were rising, buoying wage growth. This continued to bolster inflation in both services and core goods. Services inflation remained the largest contributor to the headline figure and, while underlying measures of services inflation proved relatively more encouraging, wage pressures would need to recede further for inflation to sustainably reach our target. Forward-looking indicators suggested that wage growth would likely still be well above its target-consistent rate by year-end.

While the domestic narrative had not changed substantially, the same could not be said for the international environment. Trade policy announcements from the US vis-à-vis Canada, Mexico and China had led to heightened global uncertainty. Given this uncertainty, I felt it

was reasonable to assume that the global environment posed two-sided risks to the medium-term outlook.

Overall, my assessment of the domestic outlook and balance of risks had not changed materially from our previous meeting, when I voted for a cut in Bank Rate. The biggest change since that meeting had stemmed from developments further afield, leaving uncertainty high.

May 2025

The **May 2025** meeting was held in the wake of an historically large trade policy shock emanating from the United States on so-called “Liberation Day”. Given a significant jump in trade policy uncertainty alongside signs the disinflation process remained on track, I felt it was appropriate to vote to cut Bank Rate to 4.25%, along with the majority of the MPC.

Broadly speaking, domestic economic conditions had not changed much since our March meeting: underlying activity was weak, the labour market was loosening, and the disinflationary process was slowly unfolding – though with a temporary near-term hump in inflation on the horizon.

I saw risks stemming from both the supply and demand side. In terms of supply, I was concerned about our assumption about a sharp recovery in productivity growth, almost back to its 1% trend, which seemed unrealistic given its recent trajectory. I believed risks here were firmly to the downside. In terms of demand, I remained sceptical about our forecasted recovery in consumption and fall in the savings ratio. The mortgage cashflow channel and precautionary savings channel of the monetary transmission mechanism casted some doubt over this assumption.

Overall, I believed the risk to inflation was to the upside. Staff analysis had shown that inflation expectations are more sensitive to outturns when inflation is 3-4%, and so the risk of second-round effects is higher. The peak of our forecasted near-term hump in inflation was in this range.

Widespread tariff announcements introduced a new risk this round. Overall I felt the risks here were two-sided but, on balance, there was a greater downside risk from trade policy to inflation. In my view, we had underestimated the impact on the UK of trade diversion in our forecast. This outweighed a concern that tariffs could pose a negative supply shock to the UK economy through supply chain disruptions.

So, while domestic risks tilted towards the upside on inflation, risks stemming from the international environment pushed back against this. Given this balance of risks, I felt it appropriate to reduce the restrictiveness of our monetary policy stance at this meeting.

June 2025

There had been little data news, both domestically and internationally, between the May and **June 2025** meeting. As a result, I did not feel there had been a significant shift in the balance of risks, which remained two-sided but skewed to the upside. Therefore, I felt it appropriate to hold Bank Rate at 4.25%, along with the majority of the MPC.

Incoming data gave us little signal on activity, with some upside news to GDP growth in Q1 driven by idiosyncratic factors (including exports to the US front-running tariffs, a bounce back in business investment following a weak Q4 and some activity driven by volatile sectors), and downside news in April. Looking ahead, staff had showed us a bimodal distribution for the growth outlook, with opposite but equally likely outcomes. I placed more weight on the weaker outcome, given recent survey data and Agents' intelligence.

A clearer weakening in the labour market corroborated this view as slack continued to emerge. Although there had been a stark downside signal from payroll data, the ONS had advised that this should be viewed with caution. Underlying employment growth pointed to stagnation, rather than contraction. In my view, the evolution of data suggested the labour market was undergoing a sustained and gradual loosening as expected rather than a significant deterioration.

Inflation rose to 3.5% in April, close to what we had expected at the time of our May forecast. However, the near-term hump we had previously forecasted now resembled more of a plateau – with inflation expected to hover around 3.5% for the rest of the year, peaking at 3.7% in September. This was concerning given the potential consequences for the next year's wage setting process, particularly as inflation expectations continued to be elevated.

Trade remained a key risk on the horizon, with trade policy uncertainty falling back from recent peaks in April but remaining elevated. There was a risk that trade policy uncertainty could spike again, though some trade deals had been struck since our previous interest rate round, including between the US and UK and a skeleton for a US-China trade deal. The latter diminished the risk of significant trade diversion to the UK moderately.

August 2025

In **August 2025**, I continued to view risks as two-sided but placed more weight on the risk of inflation persistence and less weight on the downside risk to demand. As a result, I voted to hold Bank Rate at 4.25%.

We had seen some small changes to the forecast since May. The level of GDP was broadly unchanged, unemployment was now expected to be a little higher in the near-term and lower from mid-2026 onwards, with the output gap's trough now less negative.

The most important news had been on wage growth, which surprised to the downside, and inflation, which surprised to the upside. This upside news in inflation helped shift the near-term peak in the short-term inflation forecast (STIF) up to 4% - the top of the threshold range at which the risk of second-round effects increases - and household inflation expectations remained elevated.

Overall, I felt that the risk to our inflation forecast was to the upside. Disinflation so far had been concentrated in interest rate sensitive sectors, suggesting that the low hanging fruit of disinflation had already been picked and the last mile might be tougher. Elevated inflation expectations had the potential to feed through into second round effects. And while the labour market was loosening, wage growth remained inexplicably high.

My concerns about weaker demand and a labour market shakeout had lessened. Weak consumption outturns had been offset by stronger-than-expected business investment. Previously alarming weak payroll data had been revised away and, while still tepid, our underlying employment metric was stable. Risks from trade persisted but had abated following a flurry of trade deals.

The staff provided a series of analysis using different metrics to measure our policy stance suggesting it was no longer materially restrictive. The data and analysis presented this round led me to believe that monetary policy would need to remain restrictive for the disinflation process to stay on track.

September 2025

At our **September 2025** meeting, I felt that my view of the balance of risks had not changed materially from the previous round and voted with the majority of my colleagues on the MPC to hold Bank Rate at 4%.

I remained concerned about further inflation persistence owing partly to the risk of elevated inflation expectations feeding into second round effects. Inflation had been above the 3-4% threshold for several months, with much of the upside news in recent months stemming from food inflation—a particularly salient part of the inflation basket for the formation of expectations. An asymmetric attentiveness to food price changes meant that even once food inflation receded, expectations might be slow to return to their historical averages. Pay growth continued to moderate, with our constellation of pay growth indicators suggesting further easing ahead. However, wage growth was still elevated beyond what our suite of models could explain.

I continued to place less weight on the downside risk to demand relative to the upside risk to inflation. Q2 GDP had surprised to the upside relative to our forecast and policy uncertainty stemming from the Spring Statement and tariffs had waned. Some downside risks remained, as Agents pointed to weak consumer confidence and growing uncertainty around the forthcoming Autumn Budget. A major deterioration in the labour market had become less of a worry. The underlying employment growth measure was still around 0% with Agents suggesting that much of the adjustment to the NICs and NLW had already occurred. Further falls in employment were likely to be gradual and a result of natural turnover.

At this meeting, I also voted with the majority of the MPC for a £70 billion unwind of the balance sheet (with a skew away from Gilts with longer maturities). I felt this amount struck the best balance between continuing to shrink the balance sheet and keeping QT operating in the background while minimising risks to market functioning.

November 2025

At our **November 2025** meeting I continued to believe the risks to inflation were skewed to the upside and was concerned the disinflation process had slowed. I recognised the presence of a downside risk to demand through weaker consumption, though believed this

to be outweighed by the risk of inflation persistence. As a result, I voted to hold Bank Rate at 4% alongside the majority of my colleagues, to ensure the disinflation process continued.

Household inflation expectations remained high and had been above the threshold at which the risk of second-round effects increases for 6 months. Wage growth remained well above target-consistent levels. Results from the Decision Maker Panel (DMP) survey and Agents' intelligence suggested this was likely to remain the case for the next year – indicating that the wage-setting process may have changed.

I noted at this meeting that there was a risk of weaker consumption. However the cause of weak consumption was important in determining the policy prescription; if it was brought on by scarring from past inflationary episodes, it would be best addressed by bringing inflation back to target.

I remained unsure that our current policy stance was materially restrictive. As we approached the neutral interest rate, the risk of cutting too far was likely to increase and with it the risk of a policy reversal was higher. This would undermine our credibility.

December 2025

By the **December 2025** meeting, I felt that incoming data and budget measures meant the upside risk to inflation had diminished in relative terms but remained the dominant risk in absolute terms. As a result, I voted against the proposition to cut Bank Rate in favour of holding it at 4%.

Policies announced in the Budget were now expected to mechanically bring inflation down from the 3-4% threshold, in particular through energy prices—which are particularly salient for expectation setting. Headline, services and food inflation had also surprised to the downside in the latest print. These developments suggested that the risk of second-round effects were lower.

However, I remained concerned that the disinflation process had slowed and could stall further. Forward-looking indicators of wage-growth from both the DMP and Agents' steers remained well above target-consistent levels, with the potential to further buoy services inflation. Core goods inflation continued to print above its pre-Covid average as well.

I saw little evidence of an imminent shake out in the labour market, nor a non-linear rise in the unemployment rate. Nonetheless, slack had continued to open and redundancies remained a concern. On the other hand, easy credit conditions and resilient corporate balance sheets could act as a buffer to any labour market adjustments.

Relatively loose financial and credit conditions suggested monetary policy was not materially restrictive. Given high uncertainty about the neutral rate and my preference to avoid a policy reversal, I believed it would be prudent to act with caution as we approached neutral.

February 2026

At our most recent meeting in **February 2026**, I continued to believe that the risks to inflation had become more balanced but that the upside risk to inflation outweighed the downside risk to demand. I voted in the majority to hold Bank Rate at 3.75%.

The data news had been small since our last meeting, with some welcome downside news on inflation and wages. Taking a step further back, over 2025 activity had proven more resilient than expected, with year-on-year headline GDP growth surprising to the upside for much of the year. This led me to believe the output gap may be less negative than we had embedded in our central projection. While unemployment had also surprised to the upside, broader labour market metrics suggested that the labour market may be stabilising.

There were three main reasons I continued to worry more about inflation persistence than weaker demand: forward-looking wage growth indicators in the DMP and Agents' pay surveys pointed to continued wage growth above a rate consistent with inflation at target over the course of 2026; firms in the DMP expected little change in their own-price growth over the next year; and household inflation expectations remained elevated, with both short- and long-term measures ticking up in the latest YouGov/Citi release. Lower inflation outturns should bring these forward-looking indicators down, which would be necessary to bring inflation to target. But even with headline inflation coming off its peak last September and both the OBR and our December Minutes suggesting inflation would be around 0.5ppts lower in April than expected before the budget, these indicators had hardly budged. Evidence suggests that inflation expectations are less reactive to falling than rising inflation. Therefore, I would continue to monitor these indicators closely.

While the risk to inflation persistence had reduced, I didn't think the risk of weaker demand had shifted. Though the much-anticipated recovery in consumption remained elusive as ever, there had been some signs of stabilisation in the labour market. The LFS redundancy rate fell back in November, our measure of underlying employment had continued to trend sideways and official vacancies ticked up in December. In my view, there continued to be limited evidence for a non-linear deterioration in the labour market.

At our February meeting, I also believed that the cost of a policy error was greater if we followed the market path and ended up with inflation persistence versus weaker demand. I continued to believe that Bank Rate might not be materially above neutral, so as Bank Rate continued on a downward path holding rates higher for longer might not be an option if inflation proved to be more persistent than expected. And having failed to bring inflation sustainably to target for the best part of five years, hiking interest rates to tame inflation might not succeed in further anchoring inflation expectations. I therefore felt a cautious approach to removing restrictiveness was appropriate.

Economic Outlook

I believe the disinflationary process is still on track and the risk that inflation remains persistently above target has diminished, partly due to the restrictive stance of monetary policy. That said, the cost of removing restrictiveness too quickly is greater than that of removing it too slowly.

The macroeconomic news over the past few months has indicated that disinflation continues broadly as expected and growth remains subdued.

There is a risk activity will be weaker than that embodied in our central forecast. We've had repeated downside surprises in consumption and upside surprises in unemployment. Staff analysis suggests recent retail sales and consumer confidence data indicate consumption is picking up moderately, in line with our February forecast. I think it is too early to take much comfort in this. In terms of the labour market, a broader range of indicators, including staff's measure of underlying employment and vacancy data, suggest it may be beginning to stabilise. I have not seen evidence in the data that the risk of weaker demand has shifted considerably.

While disinflation has proceeded broadly as expected in recent months, headline inflation remains over a percentage point above our target. Services inflation – a measure of more domestically-generated inflation that monetary policy can bear on – remained elevated at 4.5% in December. Private sector regular wage growth was 3.6% in November, which is still around half a percentage point above what I think is a target-consistent rate (around 3%, assuming productivity growth will remain weaker than in our forecast). And if the Agents' pay settlement and DMP surveys are to be believed, wage growth will broadly stay at that rate all year.

In February, we forecast that inflation will return to around the 2% target in the third quarter of this year and remain close to that level over the outlook period. This is a significantly earlier return to target than we were expecting back in November, driven largely by energy prices, including as a result of the policies announced by the government in last year's Budget. The budget measures mechanically and temporarily bring inflation down by a peak of around half a percentage point in April. However, they will unwind by next April and government policy will flip from pushing down on inflation to pushing it up very moderately, by somewhere between 0.1 and 0.2 percentage points. Our forecast rests on inflation remaining at target nevertheless because wage growth and underlying inflation have eased off sufficiently by next April to prevent any uptick as fiscal policy shifts to a moderate tailwind.

I think this narrative is reasonable, but that there are risks this hand-off doesn't go as planned. Although recent data for inflation and wages have come in moderately weaker than we had expected, forward-looking metrics for both are less comforting. The DMP and Agents' pay surveys suggest wage growth will remain above target-consistent rates this year. For this to be avoided, we may need to see negative pay drift. On top of this, if 2025 was any guide, there is a risk pay settlements turn out higher than forecast; firms told Agents they expected average pay settlements to be 3.7% but they came in at 4%. Household inflation expectations continue to remain elevated and ticked up in the latest data, while the DMP survey shows firms expect little change in their own-price growth over the next year. Going forward, I will continue to look for evidence that lower inflation outturns have caused these forward-looking indicators to come down.

My monetary policy strategy is guided in part by risk management. We are currently better positioned to respond to the risk of weaker demand than the risk that inflation proves more persistent. If over the course of the next few months we discover that inflation is likely to undershoot our target and unemployment rises faster than we expect, we can accelerate and extend our rate cutting cycle. On the other hand, if we cut rates too fast only to discover that underlying inflation is proving more persistent, we will be in more of a bind. It is possible that at that point monetary policy will no longer be restrictive, and so holding rates “higher for longer” to squeeze out remaining inflation persistence would no longer be an option. We might instead need to raise rates, but this could damage our credibility, which may in turn make it harder for us to convincingly anchor inflation expectations. It is for this reason that I believe it is appropriate to slow the pace of further cuts until we can be more confident inflation is returning sustainably to target.

Explaining Monetary Policy

Since my report last February, I have accompanied the Bank’s Agents on seven in-person agency visits, delivered three on-the-record speeches and carried out a range of other activities to inform MPC communications.

I have done seven agency visits this past year (North West, West Midlands, Greater London x2, Wales, Scotland, Yorkshire and the Humber), which included company visits across a broad range of industries including retail, manufacturing, financial and professional services, transport, hospitality, agriculture, human resources, as well as entrepreneurs and the self-employed, and including firms that are engaged in international trade as well as those serving the domestic market. In addition, I spoke at roundtables with local business leaders and at meetings organised by local Chambers of Commerce. I also attended a youth panel with A-level students and presented to economics teachers on what sort of debates the MPC is having to aid them in planning their own lessons. The work of our Agents is invaluable in helping us understand the economy, especially around inflection points. These regional visits are extremely useful, giving me first-hand insight into the challenges people and businesses face, their sector outlooks, and their broader views on the economy.

In my speech in June last year at the National Institute for Economic and Social Research – “A feature not a bug” - I compared how the Bank of England, ECB and Federal Reserve manage their balance sheets from a monetary policy perspective and whether these shifts create trading opportunities in financial markets. I explained how these evolving balance sheet dynamics influence the practical implementation of monetary policy, and how the different approaches of different central banks create some limited arbitrage opportunities for global banks operating in all these jurisdictions. However, I concluded that rather than undermining monetary policy implementation, these opportunities strengthen it.

In my speech in September last year at the Adam Smith Business School, University of Glasgow – “The supply side demands more attention” – I made the case that the long held view that central banks should simply look through supply shocks needed to be reconsidered. Drawing on the UK’s recent experience with the pandemic and the war in Ukraine, I highlighted the lessons these events offer for how policymakers should better

identify supply shocks and adapt policy in response. I argued that we are entering an era in which such supply shocks will become more frequent and more severe, driven by forces such as climate change, geoeconomics and economic statecraft. Given this, monetary policymakers must rethink the traditional approach of looking through supply shocks and instead consider responding to offset their effects. I finished by setting out my monetary policy views, noting that in the face of more persistent inflation a more cautious approach to rate cuts going forward was warranted.

Finally, in January 2026, I gave a speech at the Resolution Foundation titled – “Forks in the Curve: whether and how to respond to monetary policy divergence” – I argued that decisions by other major central banks—especially the Federal Reserve and the European Central Bank—play a role in shaping the UK economy. Using past episodes and new evidence, I showed how monetary policy divergence affects UK financial conditions, inflation, and growth. I argued that as a UK policy maker, although I cannot affect what is decided beyond our borders, I need to consider the impact those decisions have on domestic conditions and set policy accordingly.

In addition to delivering speeches, I have written two columns entitled “Uncertainty remains the only certainty for UK on tariffs” and “Central banks need to learn lessons about supply shocks” to discuss key issues in monetary policy and the implications of these for the current outlook. I have also done TV interviews with Bloomberg and CNBC.

I have spoken at numerous other external events, both to explain the Bank’s decisions on monetary policy, and as part of my ongoing work as a global economist. I delivered the Keynote speech at the Society of Professional Economists Annual Conference, gave the Keynote speech at the Women in Economics Network Annual Networking Event, spoke at the Goodbody Annual Conference, presented at the Central Bank of Ireland and National Association for Business Economics conference, and provided opening remarks at the ECONDAT conference.

I have appeared on panels at the Bank Watchers’ Conference, a Chatham House event on central bank independence, the UBS European Conference, the Greek Public Policy Forum, the Delphi Economic Forum, the Climate and Inflation conference hosted by the ECB, Oxford Women* in Government Society, the 31st Dubrovnik Economic Conference, a “Climate change and implications for the financial sector” conference in Copenhagen, a Centre for Central Banking Studies conference on “Transforming Monetary Policy”, the Central Reserve Bank of Peru conference on "Reordering Global Trade & Finance in a Shock-Prone World" and a panel on “Global Economic Fragmentation” at the Centre for European Reform CER/EDAM 21st Bodrum conference.

Over the next few months, I have several more speaking engagements planned, including a fireside chat at the PEI Infrastructure Investor Global Summit and a fireside chat at the Atlantic Council alongside the IMF/World Bank meetings.