Annual Report to the Treasury Select Committee

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This report covers the period from November 2025 to November 2026.

A year ago, monetary policy appeared to be excessively restrictive. Nominal indicators had largely normalised, and underlying inflation trends resembled those in euro area peer countries. Interest rates remained higher in the UK though, where household consumption growth had been notably more subdued since 2022. I worried this protracted squeeze on living standards risked weighing on growth of supply capacity and eventually increasing the output cost of achieving a given reduction in inflation.

The outbreak of severe disruption to energy supply and shipping in the Middle East threatened to derail domestic disinflation in the UK and raised the possibility that a more restrictive policy stance would be necessary to contain renewed price pressures. Against the backdrop of subdued demand and a stagnant labour market, limited evidence of pass-through in the months that followed supported maintaining Bank Rate in restrictive territory. Together with tighter financial conditions, this provided insurance against upside inflation risks while allowing a clearer assessment of the durable scale of the first-round shock before the crucial winter wage- and price-setting period.

By November, the available evidence pointed to a large and persistent energy shock, with higher energy bills and fuel prices already pushing up inflation. Growth had been firmer than anticipated, partly supported by AI-related services and investment, although energy and mortgage costs continued to constrain consumption. Labour market conditions appeared to have stabilised, with vacancies at a much lower level than before the pandemic. On balance, clarity around the magnitude of the shock, coupled with the resilience of activity, convinced me to support a modest tightening.

The MPC aims to ensure the economic adjustment to higher global energy prices unfolds in a manner that is consistent with achieving the inflation target sustainably.[1] This will require a policy stance sufficiently restrictive to contain mutually reinforcing wage and price pressures that amplify the original shock while allowing necessary changes in real income and relative prices to occur. Therefore, a key challenge for monetary policy in the months ahead will be to distinguish these dynamics in real time.

[1] March 2026 Monetary Policy Summary and Minutes

I. MPC voting record

CPI inflation had picked up in mid-2025, peaking around 3.8% before easing slightly to 3.6% ahead of the MPC's November meeting. Bank Rate had been reduced by 100 basis points over the previous twelve months, but the policy stance was still judged to be restrictive. At the time, there was a range of views about what signal to take from this acceleration in headline inflation for underlying momentum in the disinflation process and the implications for how quickly the policy stance should normalise.

At our meeting in **November 2025**, I voted with a minority of the Committee to reduce Bank Rate to 3.75% because I judged that the conditions underpinning the disinflation process remained intact.

Upward contributions to inflation from base effects in energy, price spikes in specific food commodities, and one-off increases in administered prices were not informative about the underlying balance of supply and demand in the economy, and did not reflect renewed strain on domestic resources. Moreover, differences in food consumption patterns and services price-setting meant that comparison of inflation trends with the euro area gave a misleading suggestion of domestically-driven inflation persistence.

On the inflation outlook, my central expectation was that headline inflation would continue to fall back, with risks around this balanced. I was most concerned by upside risks from global food prices, whereas I attached less weight to the risk that higher inflation outturns would put upward pressure on pay growth through higher household inflation expectations given the progressive loosening of the labour market.

At our meeting in **December 2025**, I voted with a majority of the Committee to reduce Bank Rate to 3.75% as my interpretation of incoming data had reinforced my position.

Headline inflation came in lower than expected in November. Though the trend in underlying disinflation had been obscured to an extent by one-off shocks to the price level, I took reassurance from the observation that nominal indicators had trended consistently in the right direction and that upside risks from global food prices appeared to have receded, with pass-through to domestic prices relatively limited.

The demand conditions that contributed to disinflation and contained any resurgence of second-round effects were still very much at play. Global activity had proved somewhat more resilient than expected in the face of tariffs and trade policy uncertainty, but household consumption growth remained very subdued. A continuing drag from the higher mortgage payments and a rise in precautionary savings meant that a sustained rebound in household spending looked unlikely even as policy became less restrictive.

Incoming data pointed to labour market conditions deteriorating more quickly than I had anticipated, with the unemployment rate reaching 5.1% in the three months to October alongside an increase in net additional desired hours. However, in view of how

activity and real wages had evolved and alongside other labour market indicators, my central case remained one in which a modest margin of slack emerged gradually.

At our meeting in **February 2026**, I voted with a minority of the Committee to reduce Bank Rate to 3.50%. News since our December meeting provided further evidence of a moderation in the inflation outlook. Against the backdrop of weak demand and labour market conditions, this supported a swifter normalisation of the policy stance.

Aside from the short-lived acceleration in mid-2025 due to administered prices and global food prices, UK inflation had evolved broadly in line with inflation in the euro area. Consumption growth, however, had been notably weaker in the UK, while interest rates remained higher.[2] On the basis of this comparison, our policy stance appeared more restrictive than warranted by relative inflation developments.

During this period, Bank Rate in the region of 3-3.5% seemed a reasonable estimate for neutral and acceptable as a terminal rate, giving room to cut to support in case new shocks called for an accommodative policy stance. Given the balance of risks over this period, I preferred a faster normalisation of the policy stance than the market-implied path for Bank Rate. The costs of making a policy mistake appeared much greater on the downside, especially given weak labour demand and prolonged period of subdued consumption. And the strategy of holding Bank Rate then cutting aggressively would be no panacea for a sharper downturn in activity and employment.

At the time, I indicated that the crystallisation of upside risks from higher food inflation and firmer household consumption growth would lead me to reconsider the pace at which policy should normalise. However, the implications of further demand weakness for inflation were less clear. While weaker demand could initially be expected to increase slack and reduce inflationary pressure, if that weakness persisted for long enough, it could also impair supply capacity. The resulting increase in slack, and therefore the disinflationary effect of weaker activity, could diminish over time. This would risk prolonging economic stagnation, while increasing the output cost of achieving a given reduction in inflation.

Ahead of the March MPC meeting, there was a sharp rise in both the level and volatility of energy prices amid an escalating series of attacks on shipping through the Strait of Hormuz and energy infrastructure in the Middle East more broadly. This threatened to materially disrupt global energy supply and thereby put upward pressure on UK inflation as higher wholesale prices raised households' energy bills and businesses' costs.

[2] By the end of 2025, household consumption per capita in the UK was 3% lower in real terms than in 2019. In the euro area, real household consumption per capita grew by 5% over the same period.

At our meeting in **March 2026**, I voted with the rest of the Committee to hold Bank Rate at 3.75% in recognition of the stark realignment of risks since February. There was value in pausing to assess the extent of the terms-of-trade deterioration in prospect.

Ofgem had determined the price cap for April to June prior to the surge in wholesale gas prices, delaying households' exposure until the following quarter. Elsewhere, there was limited news on the domestic outlook: headline inflation eased further, growth fell slightly short of expectations, and labour demand remained subdued.

Looking ahead, surging energy prices posed clear upside risks to medium-term inflation. A common, well-publicised cost shock could be passed through to prices more easily, and it was likely that households and firms would be more attentive to any new inflationary shock, especially when concentrated in salient food and energy items. However, unlike in 2022, the economy was operating with a margin of spare capacity, which limited the scope for significant pass-through and second-round effects. Higher energy prices also squeezed real incomes, posing some downside risks to medium-term inflation to the extent that this forced firms' margins to absorb rising costs.

I put greater weight on the upside risks to inflation, and took the view that a large and persistent rise in wholesale energy prices could warrant a hold or increase in Bank Rate to stabilise price-setting dynamics. I was conscious that this would create a difficult trade-off with activity following a prolonged period of weakness; even with well-anchored expectations and credible policy, when inflation is externally driven and concentrated in sectors with inelastic demand, disinflation must occur primarily though weaker activity in other sectors. Overall financial conditions had tightened sufficiently since February to wait for a better read on developments in energy markets.

At our meeting in **April 2026**, I voted with a majority on the Committee to hold Bank Rate at 3.75% as upside risks to inflation from geopolitical developments had not receded.

There was upside news to headline inflation from higher fuel prices, and the eventual pass-through of energy prices to household bills and through supply chains was expected to put significant upward pressure on headline inflation through the rest of the year despite the weak growth outlook. This was unlikely to be reflected in pay settlements before the turn of the year though, as the settlement cycle for the current year had concluded prior to the change in the outlook for energy prices.

It remained unclear to what extent the demand environment would support pass-through of higher energy prices, and how quickly this might take place. But, in my view, the size of the shock was of first-order importance in deciding the appropriate policy response. A swift resolution of the conflict looked less likely than in March, and the balance of risks around the inflation outlook remained to the upside.

At our meeting in **June 2026**, I voted in the majority to hold Bank Rate at 3.75%.

There had been news of positive developments since our previous meeting. On the announcement of plans for a Middle East peace deal in the days leading up to the June meeting, global energy prices retreated but remained above their pre-conflict level, as did prices of refined products and some other commodities. Incoming data corroborated the view that sustained disinflation had been underway pre-conflict.

However, household energy bills would rise in the second half of the year, contributing to the anticipated acceleration in headline inflation. And activity appeared to have remained resilient despite weak sentiment and supply disruption, though growth was expected to remain subdued. Soft labour demand would limit the extent to which higher prices fed through into wage growth, but I still saw significant risks from overlapping adjustments to the subsequent supply shocks that have occurred in the recent past.

At our meeting in **July 2026**, I voted in the majority to hold Bank Rate at 3.75%.

A mixed picture began to emerge in the backward-looking data. Headline inflation eased in June, coming in lower than expected in April but higher than expected in February. Upside news in energy was only partially offset by downside news elsewhere.

Global energy prices surged in the wake of re-escalation of the conflict in the Middle East. By the time of the July meeting, the available evidence suggested that inflationary pressures remained concentrated in a limited number of upstream sectors. The domestic economy was unlikely to amplify second-round effects as demand remained subdued, the labour market continued to loosen with vacancies below pre-pandemic levels and margins not expanding in a way that magnified the shock. Holding Bank Rate, combined with the significant tightening of financial conditions that had occurred since the conflict started, was providing sufficient insurance for the time being against the upside risks to inflation stemming from fluctuations in energy prices.

At our meeting in **September 2026**, I voted in the majority to hold Bank Rate at 3.75%.

News this round did not substantially shift my view of the outlook relative to July. It was notable that the conflict was still ongoing, without signs of a clear resolution. Bank Rate remained materially higher than in peer European economies, financial conditions had tightened rapidly since the conflict began, and domestic demand remained subdued. I still saw value in waiting for a clearer read on the durable scale of the shock over the coming months, including evidence on first-round energy effects and the conditions for 2027 wage and price-setting. With consumption subdued, vacancies below pre-pandemic levels and margins not expanding, the domestic economy appeared unlikely to sustain second-round effects that would magnify the initial impulse.

Even as underlying inflation normalised in line with peer countries, I voted to maintain Bank Rate in restrictive territory to guard against immediate inflation risks from the

unfolding energy shock. An 'active hold' strategy was warranted so long as we could expect to get a cleaner read of the outlook for energy prices. In the meantime, a restrictive policy stance against the backdrop of a weak demand environment appeared to be sufficient to contain any nascent inflationary pressures.

At our meeting in **November 2026**, I voted with the majority to raise Bank Rate to 4.00%.

There was further upside news to headline inflation, reflecting higher than anticipated household energy bills and motor fuel prices. Wholesale energy prices had risen significantly since July on re-escalation of hostilities in the Middle East, and crack spreads remain elevated for some refined products. Services inflation and wage growth appears to have plateaued in recent months, likely reflecting a combination of higher energy prices and an expansion in business services that appears to be driven by AI/technology upgrading. Broad-based price pressures remain subdued, however, and we cannot yet distinguish between delayed pass-through and weaker pass-through on the evidence available.

Growth has been firmer than anticipated this year, partly reflecting tailwinds from AI-related business-to-business services and investment. Set against this, the combined drag from higher energy prices and higher mortgage rates continues to weigh on real disposable incomes, limiting consumption growth and activity in consumer-facing services. Consistent with this mixed sectoral picture, labour market conditions appear to have stabilised, with a range of indicators pointing to a modest degree of slack.

Household energy prices look set to increase by more than anticipated at the time of the July MPR. Headline inflation is now expected to rise to around 5% by the middle of next year. The near-term outlook remains dependent on geopolitical developments.

Evidence since March points to an energy shock that will be large and persistent. Moreover, there is comparatively little to be learned over the next couple of months about how the shock propagates, so the value of patience may be waning. Raising Bank Rate by 25 basis points provides additional insurance against upside risks from stronger pass-through and firmer growth in demand.

II. Economic outlook

Disruption to shipping and energy supply in the Middle East has lasted for nine months now. As set out in the November Monetary Policy Report, the outlook for inflation is shaped by uncertainties around how long energy prices will remain elevated, the extent to which second-round effects generate inflation persistence, and the extent to which higher energy prices weigh on demand.

To my mind, the magnitude and persistence of the energy price shock continue to be of first-order importance in determining the trajectory of inflation in the medium term. The

central projection published in November contains a useful illustration of how the combined drag from higher energy prices, tighter financial conditions, and the ongoing fiscal consolidation eventually returns inflation to target following an energy price shock that broadly resembles what is embodied in futures curves. This would involve second-round effects and the emergence of a moderate degree of slack in the labour market. Barring new shocks, these outcomes are consistent with my view that the energy shock will primarily result in an adjustment in relative prices, rather than a sustained rise in inflation, and that a non-linear downturn in the labour market remains unlikely.

There are specific risks to which I remain particularly attentive. Indirect effects have not materialised in food inflation yet, though the balance of risks here remains to the upside due to higher energy prices and the possibility of supply disruption associated with El Niño. Secondly, widespread AI adoption presents two-sided risks to the inflation outlook. The relative response of supply and demand will depend on the nature of the productivity shock, particularly its persistence, timing, and breadth. So far, there is evidence of only a modest AI-driven rise in UK productivity growth, as might be expected from the experience of previous general-purpose technologies, whose measured effects on productivity have typically taken time to materialise. Finally, overlapping adjustments to large shocks can obscure price signals, leading to a slower normalisation of the economy. This may be compounded by stronger behavioural responses than observed in 2022, although we have yet to see evidence of this.

To support maintaining Bank Rate at a higher level for an extended period, I would need to see clear evidence of a recovery in firms' pricing power and households' purchasing power alongside signs of mutually reinforcing wage and price pressures. To my mind, it is important not to conflate a sequential feedback process in wage- and price-setting with a mutually-reinforcing wage-price spiral that amplifies the shock. Monetary policy should lean against second-round effects to the extent that they risk become self-reinforcing, while recognising that some of the impact from higher energy prices will need to be absorbed across the economy for it to settle at a new equilibrium.

III. Quantitative tightening

In September, I voted with the Committee in favour of a multi-year plan to completely unwind the stock of UK government bonds held for monetary policy purposes.[3]

This portfolio was acquired to help the MPC meet its inflation target and support the economy during specific episodes once Bank Rate had reached its effective lower bound. If these purchases are not unwound eventually, what were intended as temporary interventions become permanent expansions of the balance sheet. In my

[3] September 2026 Monetary Policy Summary and Minutes

view, our commitment to unwinding fully, and within a reasonable timeframe, was paramount to safeguarding the credibility of monetary policymaking.

Since setting out our guiding principles for undertaking quantitative tightening (QT), the MPC has used Bank Rate as the active tool of monetary policy while conducting sales in a gradual and predictable manner and with due regard for market functioning.[4] By allowing QT to unfold in the background, it is hoped that any tightening effect will be reflected in our regular assessment of financial conditions. Giving greater clarity around the pace and trajectory of QT should help in this respect. Nonetheless, we should be humble about our estimates of QT's impact. Any estimate must disentangle the effect of domestic QT from a much broader set of forces affecting yields simultaneously, which is hard to do with much precision. Unlike Bank Rate, where there is a large body of evidence on transmission, uncertainty around QT remains sufficiently wide that equally plausible estimates can imply meaningfully different assessments of monetary conditions. I remain alert to the risk that QT operations interact in unanticipated ways with changing market conditions.

I welcome the fact that QT has worked smoothly so far. But this should not be taken as vindication of the decisions taken with respect to QE in the past. Before the MPC undertakes similar large-scale interventions in the future, my hope would be that we had not only avoided a permanent rachet in the size of the balance sheet but that we had also built a broader evidence base around how asset purchases can support the real economy, especially as the transition to a demand-driven framework for supplying reserves will limit the need for interventions in response to liquidity-driven market stress. As it stands, my overarching concern is that the design of large-scale asset purchases as a monetary policy tool receives further consideration outside periods of crisis, with efficiency and distributional criteria used to evaluate the various policy tools available to the MPC around the effective lower bound for interest rates.

IV. Public engagement

I have given two on-the-record speeches in the last year, drawing on excellent analytical work done at the Bank and in the wider research community across the UK to address some of the most pressing issues for monetary policy.

My speech at the Central Bank of Ireland took stock of the evidence from key episodes of global disruption over the last decade – Brexit, the 2018 US-China trade war, and the energy crisis precipitated by Russia's invasion of Ukraine – and considered what the appropriate monetary policy response might be to the expansion of US tariffs. I argued

[4] Bank of England Monetary Policy Report August 2021

that greater trade fragmentation was a headwind for growth in the UK, but that the consequences for inflation would depend on the nature of the trade disruption.[5]

I explored the relevance of energy security, climate change, and the green transition for monetary policy in a speech at London Climate Action Week 2026. While the transition may create inflationary pressures in the short run, it can also reduce vulnerability to some of the most important sources of supply-side inflation over the longer term. As climate and energy related shocks become more frequent, maintaining price stability will require understanding how these factors affect inflation, and the distinct roles of monetary, fiscal, and climate policy in building a more resilient economy.[6]

Elsewhere, I have explained my understanding of issues related to monetary policy with a range of audiences. In the Knoop Public Lecture at the University of Sheffield, I reflected on recent efforts to reconcile the apparent strength in income growth in the UK with weakness in consumption growth over the same period.[7] In the Marshall-Paley Lecture at the Bristol Festival of Ideas and in a keynote address at the launch of UCL MacroMonitor, I returned to a familiar theme – the critical importance of better data for policymaking– to highlight how recent empirical work had influenced my understanding of the UK economy. I also spoke at the UK Macro Policy Forum at NIESR.

I have provided commentary on economic issues in the press. In the Times and Economics Observatory, I explored the divergence between food and services price inflation in the UK and the euro area, arguing that this did not point to greater domestically-generated inflation persistence in the UK.[8][9] In the Financial Times, I wrote about the need for measures to bolster economic resilience in an unstable world.[10] In the interest of explaining monetary policy to those less engaged with standard outlets for financial journalism, I have also appeared on the Making Money podcast.[11]

It is just as important to listen to a wide range of audiences as it is to speak to them. Over the last year, I have accompanied the Bank's Agents on six visits around the UK (North West, North East, Yorkshire and the Humber, Central Southern, South West, and Greater London) to hear the perspectives of businesses operating across a wide range of sectors. Insight from business leaders informs and enriches our understanding of the economic developments that underlie the trends in aggregate data, which is especially crucial at a time of sectoral divergence amid multiple overlapping shocks.

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[5] Tariffed with the same brush: confronting today's challenges to trade
[6] Running on empty: Climate risks and the fragility of global energy and food supply chains
[7] Unpacking the puzzle of income growth and weak consumption in the UK and other mysteries
[8] Inflation looks like a particularly British problem - but it isn't (The Times, 26 September 2025)
[9] Can we explain why inflation in the UK is higher than in the euro area? (Economics Observatory, 24 November 2025)
[10] Without a resilient economy, central banks have limited choices (Financial Times, 28 September 2026)
[11] Who really pays when interest rates go up? (Making Money Podcast, 28 September 2026)

In addition to visits with the Agents' business contacts, I have benefitted from attending citizen panels and community forums convened across the UK by the Bank's Outreach team. During a period of divergent household experiences amid high inflation and multiple shocks, the opportunity to hear lived experiences of the cost-of-living crisis directly from third-sector organisations and the general public has helped to shape my understanding of economic developments during my time on the MPC. In my view, these initiatives make an important contribution to the accountability of policymaking.