

# MONETARY POLICY PRESS CONFERENCE

Thursday 30 April 2026

Opening remarks by Andrew Bailey, Governor

Today, we have held Bank Rate at 3.75%.

The conflict in the Middle East has significantly affected the outlook for UK inflation. The disruption the conflict has caused to energy supplies has led to a sharp rise in global energy prices. CPI inflation increased to 3.3% in March and is likely to be higher later this year.

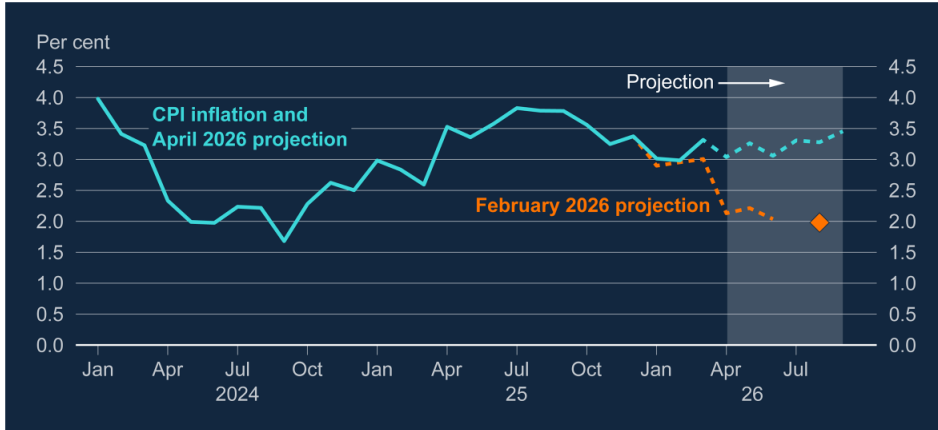
Monetary policy cannot prevent higher global energy prices from affecting the UK economy and inflation. Our job is to set monetary policy to make sure that the effects of the shock do not become embedded into broad-based inflationary pressures, so that inflation falls back to the 2% target and stays there.

I will now set out how we expect higher energy prices to affect consumer price inflation, before turning to the appropriate monetary policy response and the scenarios that have informed the Monetary Policy Committee's decision today. As I will explain, where we go from here will depend on the size and duration of the shock to energy prices – itself driven by how the conflict in the Middle East evolves – and how those higher energy prices affect consumer prices in the United Kingdom more broadly.

**Chart 1** shows twelve-month inflation in the Consumer Price Index since the start of 2024 (blue line) alongside our updated expectations for the rest of the year (shaded area). Before hostilities broke out in Iran in February, inflation was on track to fall to around the 2% target from April (red line). Recent data releases covering the period immediately before the conflict began suggest this expectation was reasonable. We now project that inflation will rise to a little over 3½% by the end of the year.

## Chart 1: Near-term CPI inflation is expected to be higher than in February

Annual CPI inflation



Sources: ONS and Bank calculations

This change in the inflation outlook is a direct consequence of the conflict in the Middle East.

## Chart 2: Oil and gas prices have risen notably

UK wholesale oil and gas prices



Sources: Bloomberg Finance L.P. and Bank calculations.

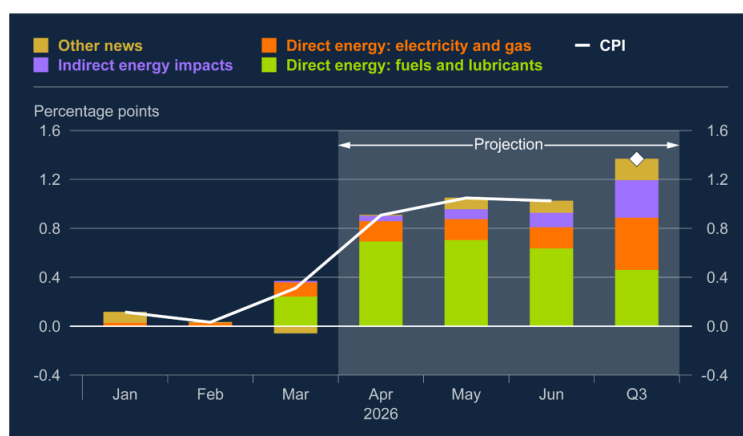
**Chart 2** shows the scale of the increases in global oil and gas prices. Volatility has been high, and the future path of oil and gas prices will depend on how the situation in the Middle East evolves.

Uncertainty around any projection of UK inflation is correspondingly high. Higher global oil and gas prices have a direct effect on UK consumer price inflation.

**Chart 3** shows how these direct effects have changed the outlook for inflation since February. The prices of fuels moved quickly as global oil prices rose, and higher prices for petrol and diesel have already pushed inflation up relative to our expectations before the conflict (green bars). Household utility bills (orange bars) will follow and will mostly be affected when Ofgem’s next energy price cap for the third quarter takes effect. At this horizon, higher energy costs will also feed through indirectly to consumer prices as firms pass higher costs through their supply chains (purple bars).

### Chart 3: Direct energy price effect is main driver of higher near-term inflation

News to CPI inflation relative to the February 2026 projection



Sources: ONS and Bank calculations

At first, the indirect effects on inflation are likely to be largest for food prices since food production and distribution are energy intensive. Further ahead, lower supply and higher prices of fertilisers may also push up on food price inflation through higher costs and lower yields for UK farmers and across the world.

There is nothing monetary policy can do to prevent these cost increases from affecting UK businesses and households. The longer the conflict in the Middle East continues, the worse the impact will become. A resolution at the source – reopening

the Strait of Hormuz and repairing the damage that has been done to the world's energy infrastructure – can, however, reduce the impact of this negative supply shock to our economy.

The task for monetary policy is to ensure that, as the adjustment to the supply shock happens, inflation returns sustainably to the 2% target. The 2% inflation target applies at all times. But the Monetary Policy Committee's remit recognises that attempting to bring inflation back to the target too quickly after a shock like this may cause undesirable volatility in output. Monetary policy must manage a trade-off between the speed with which it brings inflation back to target and the consideration that should be placed on the variability of output.

Monetary policy generally looks through the direct effects of energy prices on inflation. It takes time for changes in interest rate to affect the economy and inflation, so the direct effects from an energy price shock may disappear from headline inflation before monetary policy can take effect. In that case, higher interest rates would only push inflation below target once the energy price shock has passed, resulting in undesirable volatility in both inflation and activity.

Even if the lags in the effects of interest rate changes were shorter, offsetting the direct effect of an energy price shock would require pushing down core inflation by generating additional slack in the economy. Looking through the direct effects of an energy shock avoids such output volatility, as the MPC's remit allows for.

The remit also indicates that the MPC should manage a trade-off when considering how much to lean against the indirect effects from an energy price shock on inflation. But because they take longer to come through, the argument for looking through the indirect effects is weaker. Monetary policy can look through some of the inflationary impact from indirect effects to avoid undesirable volatility in output. But protracted indirect effects could keep inflation above target for too long unless monetary policy responds.

By leaning against indirect effects, monetary policy may also reduce the risk that higher inflation becomes embedded through higher inflation expectations and second-round round effects.

Second-round effects could arise, for example, if a rise in inflation expectations leads workers to bargain more strongly for wage increases, and firms raise wages to maintain real pay for their employees – which in turn would increase their costs and could lead them to set higher prices.

Monetary policy should not look through such effects. But the size of any second-round effects – in addition to the direct and indirect effects – is highly uncertain.

On the one hand, the larger and more persistent the energy price shock is – and the more inflation expectations respond to current inflation – the more likely it is that second-round effects arise. And inflation expectations have risen sharply in response to the current energy price shock. Repeated high inflation episodes over the past five years may have raised people's attentiveness to price increases.

On the other hand, the strength of second-round effects will depend on conditions in the labour market and the pricing power of firms given the state of the economy. The UK labour market has loosened and that trend has continued in recent months. This suggests that workers will be more cautious in wage bargaining. At the same time, firms may find it difficult to pass on cost increases to their customers given subdued demand. Higher fuel and utility bills will themselves weigh on consumer demand for other goods and services through lower real incomes and weaker consumer sentiment. The uncertainty of the situation is likely to weigh further on firms' investment intentions.

In addition to being highly uncertain, second-round effects build more slowly than direct and indirect effects. That leaves monetary policy with a difficult judgement call. Because interest rate changes take time to take their effect, monetary policy cannot wait for conclusive evidence of the strength of second-round effects. But responding too early may generate undesirable volatility in output – and inflation may drop below the 2% target in the medium term – if second-round effects turn out smaller than anticipated.

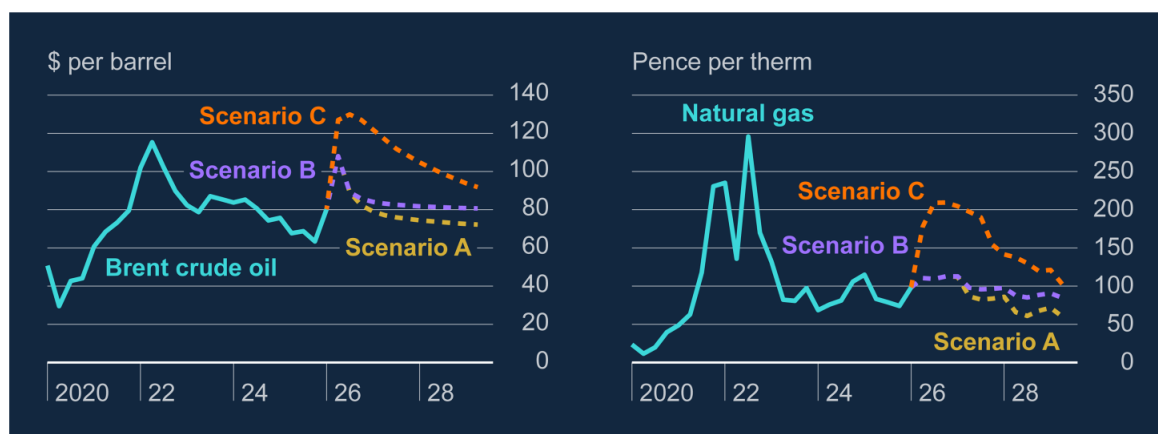
To inform its policy deliberations, the MPC has considered three scenarios for possible outcomes for the UK economy and inflation over the next three years. These scenarios illustrate that the path for inflation, conditional on a market-implied

path for Bank Rate in a 15-day window to 22 April, depends crucially on both the size of the energy shock and the extent of second-round effects.

**Chart 4** illustrates the assumed paths for oil and gas prices in each of the scenarios. In Scenario A, oil and gas prices are assumed to follow markets futures curves – based on the 15 working day average to 22 April 2026 – over the next three years (yellow lines). In Scenario B, oil and gas prices follow market futures curve for six months and an average of the futures curve and a constant price thereafter (purple line). This assumption reflects a more cautious view of the duration of the conflict and the time it will take to restore energy supplies through the Strait of Hormuz than implied by current market prices. Scenarios C goes further to reflect the risk of a continued substantial disruption to supplies through the Strait taking oil pushing oil prices to \$130 per barrel and gas prices to 210 pence per therm and remaining higher than in Scenario A and B for the entire projection period.

**Chart 4: Energy price paths in Scenarios A, B and C**

Brent crude oil and natural gas price paths



Sources: Bloomberg Finance L.P. and Bank calculations

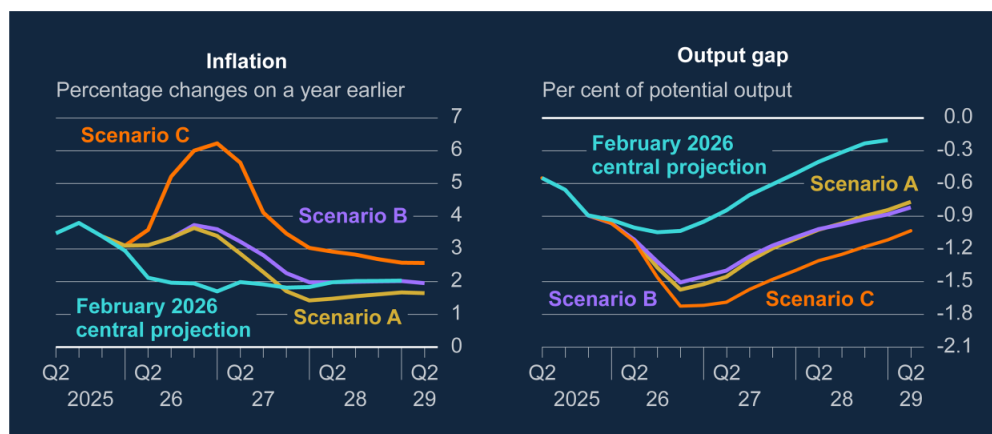
In Scenario A there are no second-round effects, in part because the energy shock is relatively short lived, and in part because it is assumed that workers' bargaining power and firms' pricing power are too weak for such effects to occur given slack in the labour market and subdued demand. Moreover, demand falls disproportionately

more than would normally be assumed to reflect weak consumer sentiment after another supply shock.

In Scenario B, with a more cautious view of how the conflict may play out, the energy price shock is large and persistent enough to lead to modest second-round effects – under the assumption that workers’ bargaining and firms’ pricing powers are only slightly affected by slack in the economy. Consumption responds broadly in proportion to what would normally be assumed in projections after an energy price shock in this scenario.

Scenario C is more severe. The energy price shock is large and very persistent – and I would emphasise here the persistence of oil and gas prices in this scenario – and global supply chain cost pressures intensify. Inflation expectations respond strongly to continued elevated inflation, and firms are assumed to have sufficient pricing power for higher wages and costs to feed through more fully to consumer prices, resulting in materially stronger second-round effects.

**Chart 5: Inflation is higher in the near term in all scenarios than in February**  
Annual CPI inflation and the output gap in Scenarios A, B and C



Sources: ONS and Bank calculations

**Chart 5** shows the paths of inflation and the output gap (a measure of slack in the economy) conditional on a market-implied path for Bank Rate based on a 15-day

average of forward interest rates to 22 April, along with the central projection from February.

In Scenario A (yellow lines), inflation falls back quickly once direct and indirect effects have fed through. As the energy shock unwinds and energy prices fall again, while economic slack persists, inflation falls below the target at the end of next year. In Scenario B, energy prices fall back more slowly, and CPI inflation remains elevated for longer. Inflation then returns gradually to 2% by the second and third year of the projection, but with spare capacity in the economy. In Scenario C, persistently high energy prices and second round effects combine to push inflation above 6%, with inflation ending the forecast horizon above the 2% target.

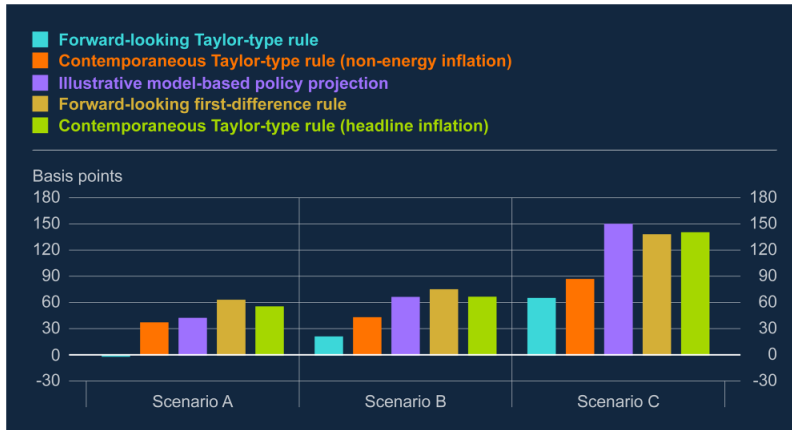
A materially tighter policy stance than embodied in the market-implied path for Bank Rate would therefore likely be necessary in Scenario C to counter second-round effects to ensure that inflation returns sustainably to the 2% target in the medium term.

But that is not the case in the other scenarios.

As **Chart 6** shows, five different illustrative policy rules all point to higher interest rates now than they did in February given the change in energy prices across all scenarios. But the market-implied path for Bank Rate has also moved higher – by about 55 basis points, measured by the 15-day average of forward interest rates to 22 April compared to the corresponding path to 26 January from the February Report. Since in February market pricing was expecting rates to fall by around 40 basis points this year, the chart shows that for Scenarios A and B, the illustrative interest rate responses would largely be accommodated by reversing out these assumed cuts without further increases in rates. But this would not be the case for Scenario C.

## Chart 6: Monetary policy is tighter than in February across different policy rules

Average change in Bank Rate path compared to same mechanical rule in February



Sources: Bank calculations

Since the end of 22 April, oil prices have risen by more than 20%, gas prices have risen by 8%, and the market-implied path for Bank Rate has moved higher by up to 35 basis points. But if we think back to early 8 April, we saw similarly-sized falls in energy prices and the path for Bank Rate in the day after the announcement of a US-Iran ceasefire. This volatility illustrates the unpredictability of the current situation as the markets are trying to assess the implications of the events and commentaries as they unfold.

Given the sheer unpredictability, and drawing on the evidence from Scenario B, there is a good case for holding rates now. But we must recognise that a prolonged spike in energy prices, as in Scenario C, could lead to a higher Bank Rate, while also recognising that a prompt end to the conflict and a re-opening of the Strait of Hormuz can take us to the more benign scenario, as in Scenario A.

Let me summarise. The MPC's decision to hold Bank Rate at 3.75% today is based on two key judgements. First, that continued weakness in activity and the labour market is likely to lessen the strength of second-round effects from higher global energy prices. But these effects are likely to be stronger, the larger and more persistent is the rise in global energy prices. Second, that uncertainty about the strength of second-round effects means that monetary policy needs to balance the

costs of leaning too little against these effects against the costs of responding too much. The right balance is likely to change depending on how events unfold.

The situation remains highly uncertain, and we will continue to monitor the situation in the Middle East and how it affects the UK economy and inflation very closely. This includes the size and duration of the energy price shock and its direct effects on UK inflation. It includes the state of the UK economy and how higher costs of energy and other inputs to production pass through to consumer prices. And it includes the potential for second-round effects via wage and price setting, drawing on the full range of source from economic data, over surveys of firms and households, to intelligence from our Agents.

And with that, Clare, Dave and I will be happy to take your questions.