

MONETARY POLICY PRESS CONFERENCE

Thursday 5 February 2026

Opening remarks by Andrew Bailey, Governor

My main message today is one of good news. Disinflation is on track and looks to be ahead of the schedule we expected in November. CPI inflation has fallen from 3.8% in September to 3.4% in December, a little lower than we expected. We expect inflation to decline further to about 3% in January, February and March, before reaching a level close to the 2% target from April and staying there. That is nearly a year earlier than we expected in November.

As inflation has fallen, we have been able to ease our foot off the brake – making monetary policy less restrictive by cutting Bank Rate six times, including at our meeting in December. Recent developments provide more confidence that inflation is on track to return to the target soon, but we need to ensure that inflation falls all the way back to the 2% target and stays there.

So today, we have held Bank Rate at 3.75%.

Despite all the uncertainties in the world – and we do not underestimate these – we are not currently facing a situation in which monetary policy is being hit by big new shocks. The world economy was more resilient last year than we expected. Our course remains the same – it is to get inflation to the 2% target and for it to remain there, and to put the big external shocks that drove inflation up behind us. This means that, with inflation returning to target, there should be scope for some further easing in monetary policy.

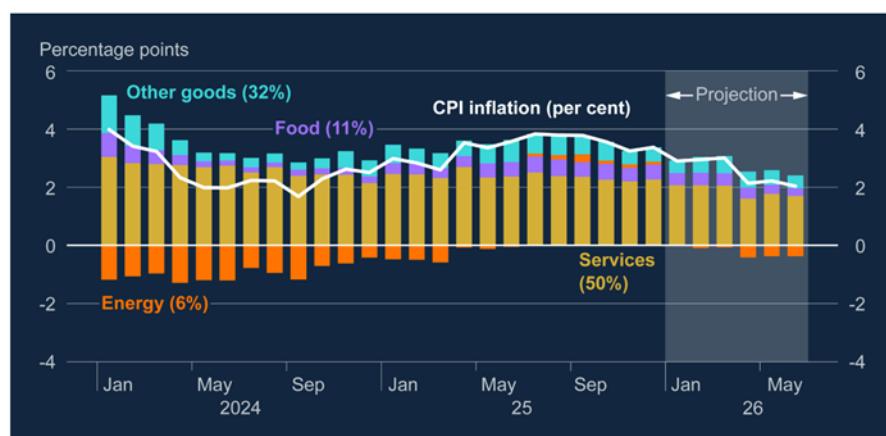
But risks remain – and the MPC's policy decisions will be shaped by how they unfold. On the one hand, the period of high inflation could have affected the way wages and prices are determined in the economy, creating more persistent inflationary pressure. On the other hand, weaker labour demand and subdued household spending could push inflation further down. Monetary policy is being set to balance these risks.

I will now briefly turn to the near-term outlook for inflation before setting out the two key policy judgements underpinning our approach to setting interest rates, including today's decision.

Chart 1 shows twelve-month inflation in the Consumer Price Index since the start of 2024 (white line) along with its components (coloured bars). CPI inflation remains above the 2% target, reflecting in part unusually large increases in administered prices and food prices. Elevated labour cost growth has also pushed up inflation, particularly for services, which remain the largest contributor to headline inflation (yellow bars). But the shaded area in the chart shows how we expect inflation to fall to a level close to the 2% target in the second quarter of this year. A fall in the contribution of utility prices represents around one third of the overall expected decline in CPI inflation in the first six months of 2026 (orange bars). A reduction in the contribution from other administered and regulated prices, and indirect taxes is also expected to support the fall in inflation towards the target.

Chart 1: Inflation was 3.4% in December

Contributions to CPI inflation (with CPI basket weights)



Sources: Bloomberg Finance L.P., Department for Energy Security and Net Zero, ONS and Bank calculations

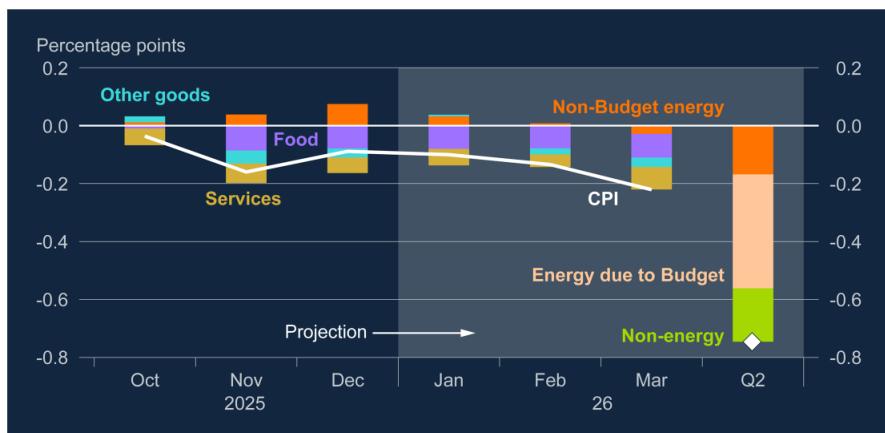
And the fall is further supported by a broad-based slowing in cost pressures, including from lower wage growth and a fading impulse from last year's increase in National Insurance contributions for employers.

Overall, the fall in the second quarter is 0.7 percentage point larger than we expected in the November Report. As **Chart 2** shows, that news largely reflects the

energy measures announced in Budget 2025, which, alongside a fall in wholesale gas prices, is expected to result in a decline in the Ofgem price cap in April to just over £1,600 from £1,758.

Chart 2: Inflation is projected to slow much more than expected in November

News to CPI inflation relative to the November 2025 projection



Sources: ONS and Bank calculations

While we can now be more confident that inflation will fall back to around the 2% target in coming months, monetary policy needs to ensure that inflation will stay close to the target sustainably.

That takes me to our first key policy judgement, that 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.

The recent experience of high inflation could still be affecting wages and prices. This could create more persistent inflationary pressure, requiring tighter monetary policy than otherwise. Services price inflation and wage growth still need to fall further for the MPC to be confident that inflation will return to the target and stay there. In addition, weak productivity growth could put upward pressure on companies' costs.

But evidence suggests that this upside risk to inflation has continued to diminish. Lower inflation in coming months should feed through into lower inflation expectations among households and businesses, reducing the risk that inflation expectations will add further to inflationary pressures. And, while wage growth may

only be falling slowly, new Bank staff analysis provides reassurance that structural changes in wage setting will not keep adding to inflationary pressures.

As **Chart 3** shows, annual private sector regular pay growth (blue line) slowed to 3.6% in the three months to November, down from 4.4% in the three months to August and a little below our November projection. Looking ahead, the Agents' Pay Survey (pink diamond) suggests that pay settlements will average 3.4% over 2026, down from 4% in 2025. With a looser labour market and falling inflation supporting a fall in inflation expectations, we expect actual pay growth to fall somewhat below current expectations for pay settlements, to about 3.2% by the end of the year. That is close to Bank staff estimates for a level of pay growth consistent with the inflation target.



Chart 3: Wage growth has fallen and is expected to moderate further

Measures of private sector wage growth and pay settlement



Sources: Bank Agents, Brightmine, CIPD, DMP Survey, Incomes Data Research, Labour Research Department, ONS and Bank calculations

Supported by the cooling in labour costs, we expect services price inflation to ease from 4.5% in December to 3.3% by June.

Risks to the outlook for inflation from weaker demand and a loosening labour market remain.

Labour market conditions have loosened further, and Bank staff estimate that underlying employment has been flat over the past year. The rate of unemployment has risen to 5.1%, and measures of recruitment difficulties have eased. While the

Bank's Agents report that firms are managing headcount mainly through natural attrition, the redundancy rate has ticked up in the official data.

UK economic activity remains subdued, especially in market-facing sectors. Bank staff estimate that underlying GDP growth, abstracting from volatility in the headline measure, was 0.1% in the fourth quarter of 2025, slightly lower than both headline GDP growth and estimates of potential supply growth. Contacts of the Agents continue to expect subdued growth throughout the year, citing weak confidence and subdued global demand.

In the central projection, GDP growth is expected to strengthen to nearly 2% per year by 2028, underpinned by a recovery in consumption and a strong housing market. But there is a risk that consumption growth will be slower than we expect. Despite past reductions in Bank Rate, the household saving rate remains above historical levels. That could indicate that household spending growth will remain weak as households are more cautious following the recent shock to their finances. In turn, weaker demand in the economy could further weaken the labour market with larger rises in unemployment. Spare capacity could build to such an extent that inflation could settle below the 2% target unless monetary policy is loosened further.

That said, there are also upside risks to inflation in the period ahead. The near-term fall in inflation might not affect inflation expectations and through that wage growth to the extent that we expect. There may be less slack in the labour market than our current estimates suggest, and structural changes in wage and price setting could still assert themselves. And productivity growth may disappoint relative to our expectations and generate greater inflationary pressures. But overall, concerns about upside risk from greater inflation persistence continue to become less pronounced, while some risks from weaker demand and a loosening labour market remain.

That takes me to our second key judgement that – based on the current evidence – Bank Rate is likely to be reduced further. But judgements around further policy easing will become a closer call.

As always, the extent and timing of further easing in monetary policy will depend on the evolution of the outlook for inflation. On the one hand, cutting Bank Rate too quickly or by too much could lead to inflationary pressures persisting, requiring policy

to change course. On the other hand, waiting too long to ease policy could come at the cost of a sharper downturn in activity, and subsequently inflation, requiring greater policy easing to ensure inflation returns sustainably to target.

The central projection described in the Monetary Policy Report provides a reasonable baseline for how the majority of the MPC judges the economy is likely to evolve if neither of the remaining risks around inflation persistence and demand weakness materialise to a meaningful degree.

As shown in **Chart 4**, in the current 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.



Sources: ONS and Bank calculations

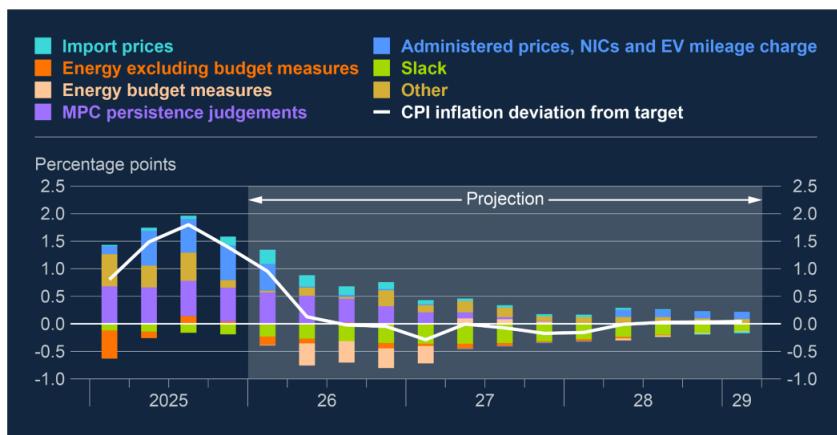
The effect of the budget measures on the central projection is shown in **Chart 5** (faded orange bars), along with other underlying drivers of the deviation from target of our medium-term projection for inflation. The contribution from administered prices and costs related to National Insurance contributions are assumed to dissipate in the second quarter of this year (blue bars). Lingering second-round effects on wage and price-setting from the big global shocks of recent years (purple bars) also fade and largely dissipate by the middle of next year. In part reflecting the

restrictive stance of monetary policy, a margin of slack widens a little further in the near-term and weighs on inflation throughout the forecast (green bars).



Chart 5: Inflation is expected to slow sharply in 2026Q2

Percentage point deviation from the 2% inflation target



Sources: ONS and Bank calculations

While monetary policy continues to weigh on inflation and activity – with the progress we have made on disinflation – we have been able to make monetary policy less restrictive. And if the economy and the outlook for inflation evolve as we expect, there should be scope for some further easing in monetary policy in the period ahead. But for every cut in Bank Rate, how much further to go becomes a closer call.

As always, the MPC remains squarely focused on our remit to return inflation to the 2% target sustainably.

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