MONETARY POLICY PRESS CONFERENCE

Thursday 30 July 2026

Opening remarks by Andrew Bailey, Governor

The situation in the Middle East remains volatile and – as a result – so do global energy prices. Oil prices in the five months since the conflict began have on average been almost 50% higher than in the months before it. Higher global energy prices will push up on inflation over the coming months.

Set against that, the underlying disinflation of the UK economy has continued. Economic activity is subdued and the labour market is soft. There is little as yet to suggest that higher energy prices are becoming embedded in broad-based inflationary pressures in the UK economy, although we cannot draw too much comfort from that as this stage.

Today we have kept Bank Rate at 3.75%. Monetary conditions have tightened for households and businesses since the conflict began. We see that, for example, in higher mortgage rates. That tightening reflects the underlying economics – in particular the expected increase in inflation from higher energy prices, which needs to be considered alongside whether the underlying disinflation in the domestic economy will continue.

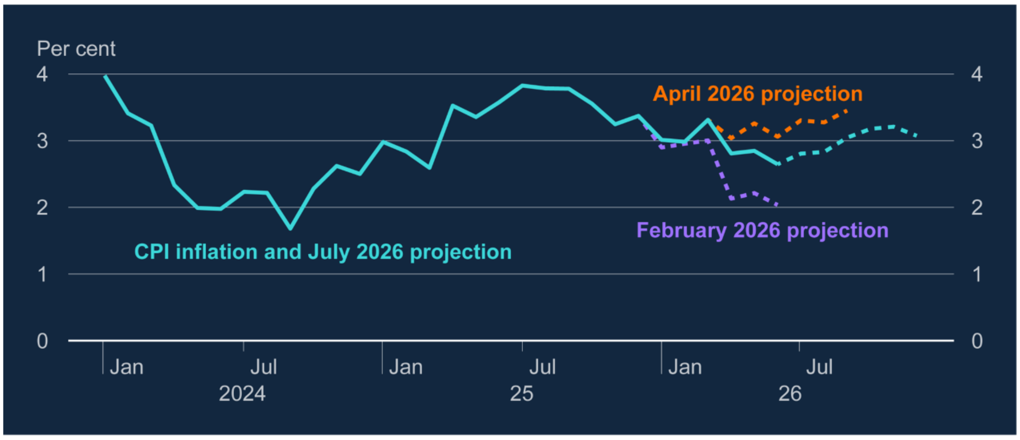
We will monitor the situation carefully and stand ready to adjust our stance as the evidence and our judgements on the outlook evolve. It is our job to ensure that inflation gets back to the 2% target and stays there, and that is what we will do.

I will now set out the outlook for inflation in further detail before turning to the projections and scenarios that have informed the Monetary Policy Committee's decision today.

Chart 1 shows how the near-term outlook for inflation has shifted in recent months as events in the Middle East have evolved. Twelve-month CPI inflation (blue line) has fallen by 0.7 percentage points since March, to 2.6% in the latest data for June (blue line). That is 0.4 percentage points lower than we expected in April's Monetary Policy Report (dotted orange line). Inflation has been lower across a wide range of goods and services, not least food. The underlying disinflation process has been offset by higher energy prices following the conflict in the Middle East. Motor fuel prices are currently contributing 0.6 percentage points. In our latest near-term projection (dashed blue line), higher energy prices push inflation up to a little above 3% by the end of the year.

Chart 1: The near-term outlook for inflation has shifted in recent months

Consumer Price Index (CPI) inflation and near-term projection



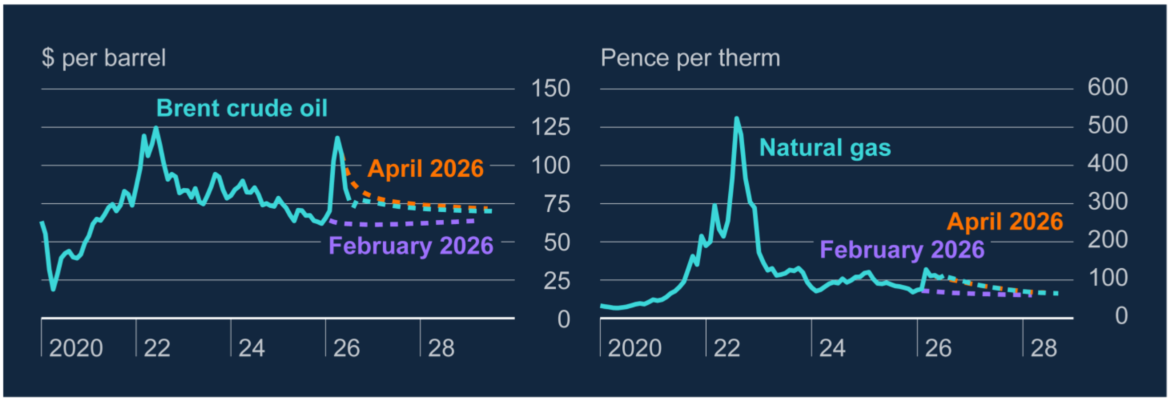
Sources: ONS and Bank calculations

Energy prices remain highly volatile, however. The analysis in today's Monetary Policy Report is based on an average of energy futures prices over the 15 working days to 20 July, shown in **Chart 2** (blue lines). Over this period, front-month Brent crude oil futures prices averaged $78 per barrel, below the $100 average ahead of the April Report but above the $64 average in the run-up to the February Report. Within those 15 working days, the price has ranged from close to $70 while a ceasefire was in place to close to $90 after it had ended. And in the few days since the cut-off date for our projections, the Brent oil price has spiked to above $100 before falling back to around $84 earlier this week. As of this morning, it had gone back up above $90. These are significant moves.

As a further word of caution, so-called crack spreads – the difference between the prices of refined petroleum products and Brent crude oil – have risen well above their pre-conflict levels, reflecting a fall in global refining output.

Chart 2: Wholesale energy futures prices remain elevated

Wholesale Brent crude oil and UK natural gas prices

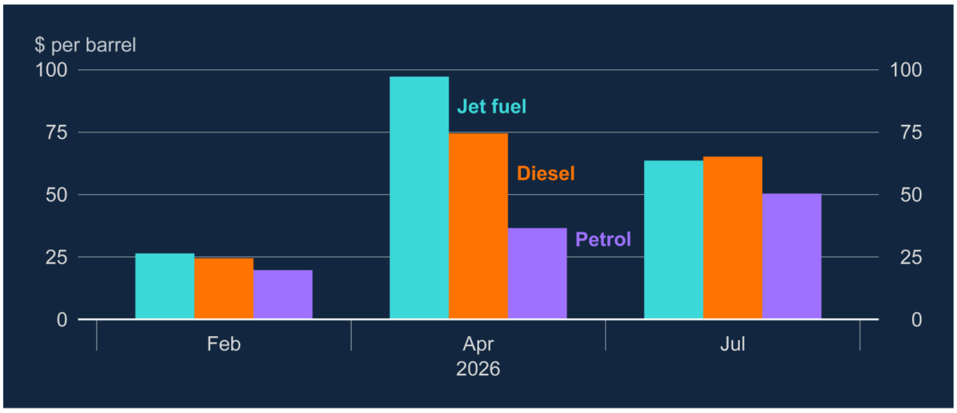


Sources: Bloomberg Finance L.P., LSEG Workspace and Bank calculations

Along with gas prices, it is the prices of these refined products rather than the price of crude oil that matter for domestic inflationary pressures. As **Chart 3** shows, crack spreads have fallen from recent peaks for jet fuel and diesel but continued to rise for petrol.

Chart 3: Crack spreads have eased for some products but remain elevated

Jet fuel, diesel and petrol crack spreads



Sources: LSEG Workspace and Bank calculations

Given this volatility, the size and duration of the energy price shock is a key uncertainty for the outlook for UK inflation.

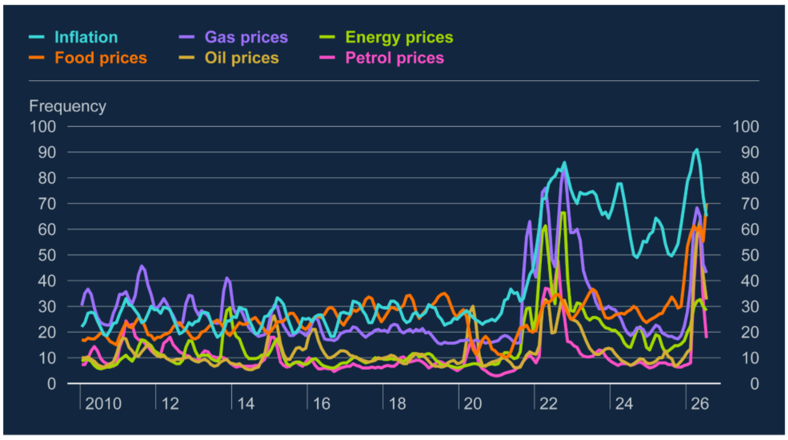
A second key uncertainty is how the shock will transmit through the UK economy.

We can already see the direct effects on the forecourts. And we expect Ofgem's price cap on household utility bills to rise further to around £1,680 in the fourth quarter of the year – although that is about £45 lower than it would have been without the temporary cut to value-added tax on electricity bills announced by the Government last week. Over the coming months, we also expect to see the effects on consumer prices from businesses passing some of the higher energy costs they are now facing through the supply chain. Model evidence and intelligence from the Bank's Agents both suggest that they will build more slowly than we expected in April, but we think these indirect effects will add nearly half a percentage point to inflation over the second half of the year.

We have to watch very carefully that these direct and indirect effects do not lead to more persistent inflation through second-round effects on domestic wage and price setting. Repeated inflationary episodes over the past five years have made households and businesses more attentive to inflation. Internet searches for inflation terms have spiked following the outbreak of conflict in the Gulf, for example, and remain well above historical norms, as shown in **Chart 4**. And while they have fallen notably from recent peaks, inflation expectations remain elevated.

Chart 4: Attentiveness to inflation is high

Frequency of UK Google searches for inflation-related terms



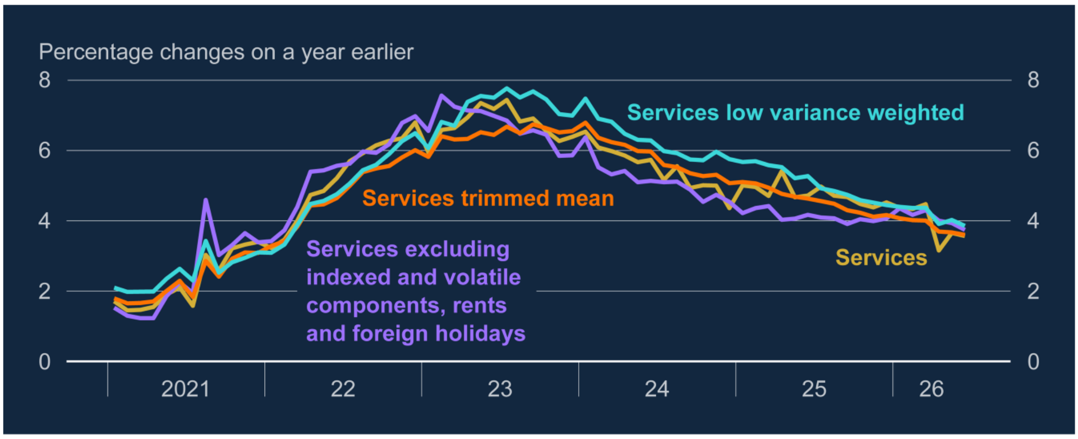
Sources: Google and Bank calculations

Reassuringly, there are few signs so far that second-round effects are generating more broad-based inflationary pressures. I will make three observations about this.

First, the process of underlying disinflation in the UK economy has continued. We can see this in **Chart 5**. It shows how services inflation fell from 4.5% in March to 3.6% in June (yellow line), and how underlying services inflation measures have fallen to below 4%. Although still somewhat above estimates of target-consistent levels, these falls point to a broader slowing in domestic inflationary pressures.

Chart 5: Measures of underlying services inflation have eased further

Measures of annual services price inflation

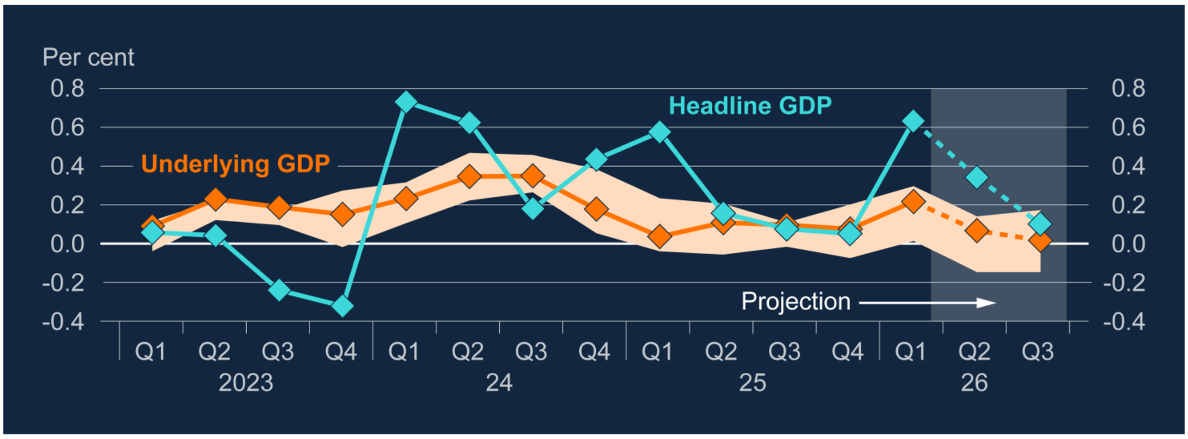


Sources: ONS and Bank calculations.

The second observation is that the backdrop of relatively weak household demand reduces the ability of firms to pass through cost increases to consumer prices. As **Chart 6** shows, underlying GDP growth is projected to weaken slightly further in the near term as the effects of the conflict weigh further on demand. Contacts of the Bank's Agents point to weak demand limiting pass-through of cost increases to prices. Consistent with this, two thirds of firms in the Bank's Decision Maker Panel are expecting higher energy to result in reduced margins, and firms do not seem to expect to raise prices more than the increase in their costs.

Chart 6: Underlying GDP growth is projected to weaken slightly

Quarterly growth in headline GDP and underlying growth implied by business surveys

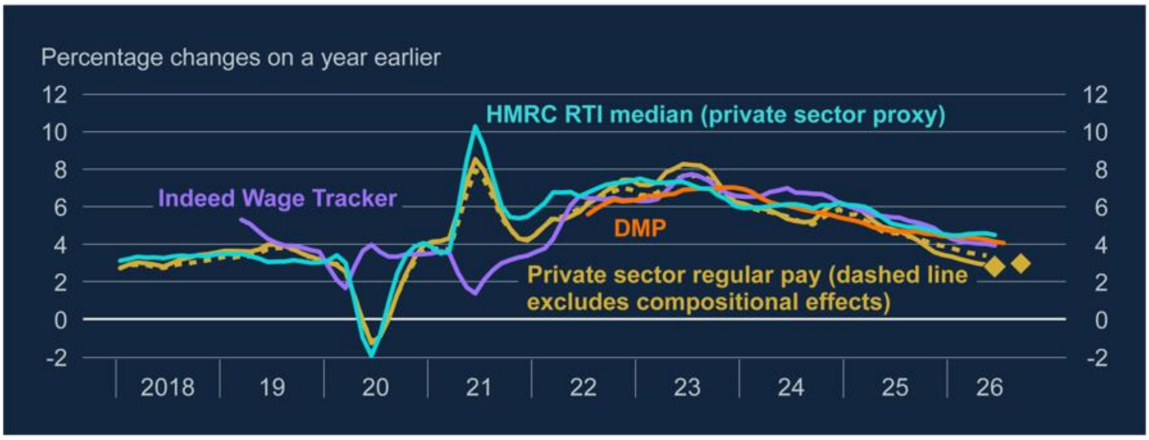


Sources: ONS, BCC, CBI, LLoyds Business Barometer, S&P Global and Bank calculations.

The third observation I will make is that spare capacity in the labour market is likely to reduce workers' ability to secure higher nominal wage growth in response to higher inflation. As **Chart 7** shows, private sector regular wage growth eased to 2.9% in three months to May (yellow line), and we expect it to remain around that level through the current quarter (yellow diamonds). Other measures of pay growth remain higher, at around 4%, but have also fallen gradually over recent months.

Chart 7: Private sector wage growth has continued to slow

Measures of private sector wage growth



Sources: DMP Survey, HMRC, Indeed, ONS and Bank calculations.

The Bank's Agents continue to report average pay settlements of 3.5% for 2026, below the average settlement of 4.0% in 2025, citing looser labour market conditions. In the three months to July, firms in the Decision Maker Panel expected average wage growth of 3.4% one year ahead, a little below expectations before the conflict.

But a lack of evidence so far does not rule out that wage and price setting could generate second-round effects in the future, especially if energy prices remain elevated. As firms tend to make wage settlements by the second quarter of the year, for example, the impact on wage growth may only emerge well into next year. So, while it is reassuring that indicators of second-round effects remain benign, the overall assessment is necessarily tentative.

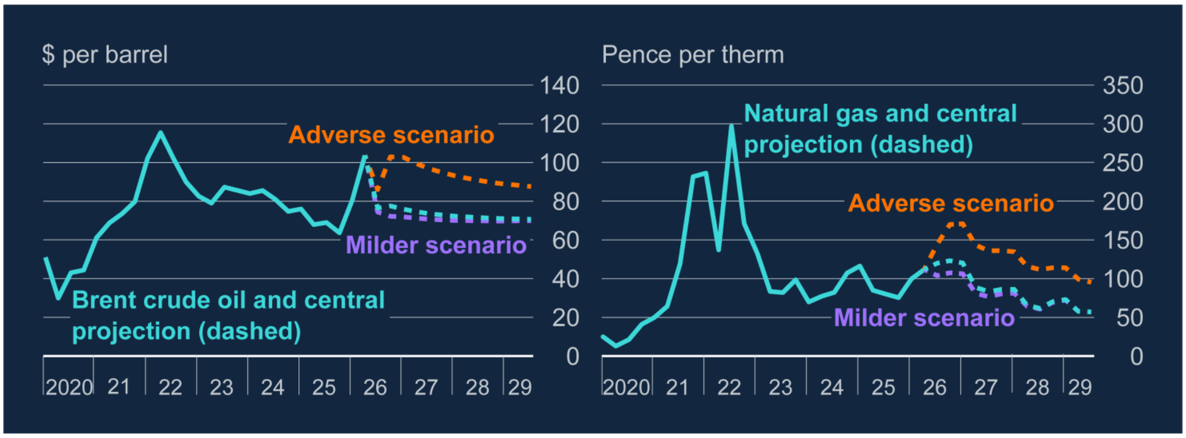
Given the uncertainty, monetary policy needs to balance the costs of leaning too little against potential inflationary pressures and the cost of responding too much. How much policy needs to lean against inflation, and the level of Bank Rate needed to achieve that, will depend on how the outlook evolves.

To inform its policy deliberations and explore the outlook, the MPC has considered a central projection and two scenarios. These projections are neither all-encompassing nor do they reflect the full distribution of risks. But they reflect key sources of continued uncertainty around the future paths of global energy prices and the strength of second round effects.

Chart 8 shows the assumed paths for oil and gas prices in each of these projections. The central projection is conditioned on wholesale energy prices evolving in line with gas and oil futures curve in the 15 working days to 20 July (dashed blue lines). Oil prices peak at just above $100 per barrel, before gradually declining to around $71. Gas prices peak at a little over 120 pence per therm, before gradually declining to a little under 60 pence. Second-round effects are assumed to be moderate. In the milder scenario (dashed purple lines), energy prices follow a lower path, calibrated to follow futures curves around the beginning of July shortly after a ceasefire was announced. There are no new second-round effects in this scenario. It represents a version of the future where a ceasefire agreement is fully implemented, and energy price volatility is lower. In the adverse scenario (dashed orange lines), by contrast, the conflict continues, perhaps in an episodic manner and with no clear resolution, so that energy prices rise materially above the path in the central projection and remain above it, while inflation expectations drift higher, leading to stronger second-round effects.

Chart 8: Energy prices in the central projection follows market prices

Brent crude oil and natural gas price paths



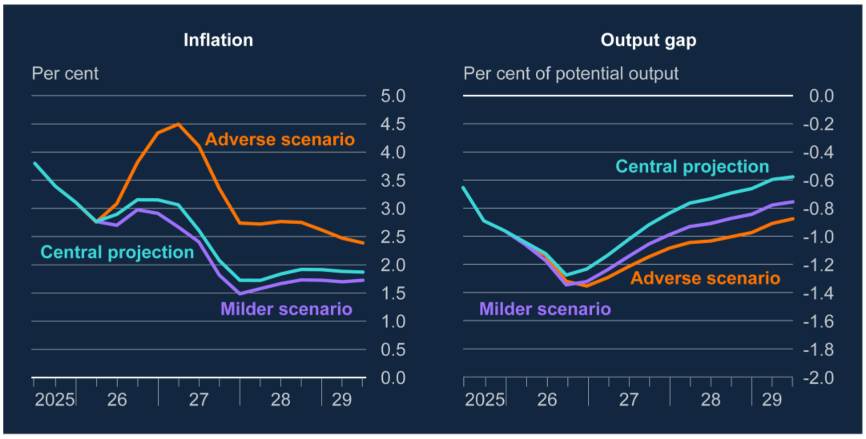
Sources: Bloomberg Finance L.P. and Bank calculations

Chart 9 shows the paths for inflation and the output gap in the three projections, conditional on the market curve for interest rates based on an average of forward interest rates in the 15 working days to 20 July. In the central projection, inflation is projected to fall from its near-term peak over next year as the effects of higher energy prices fade and be slightly under the 2% target in the medium term as energy prices fall back and the direct effects of energy prices turn negative. In the milder scenario, the path for inflation is lower throughout, while inflation rises significantly and persistently in the adverse scenario.

These paths illustrate that, if the assumptions underlying any particular projection or scenario came to pass, the appropriate stance of policy would likely vary from the market path on which they are conditioned. If the conflict in the Middle East persists for an extended period, for example, and we begin to see signs of emerging second-round effects, it is likely that we will have to tighten policy to counter inflationary pressures in the UK economy. Similarly, if the conflict is credibly resolved in the coming months, the paths would point to a looser policy stance than implied by the market curve.

Chart 9: Inflation is close to the 2% target in the central projection

Inflation projections conditional on a market-implied path for Bank Rate



Sources: ONS and Bank calculations

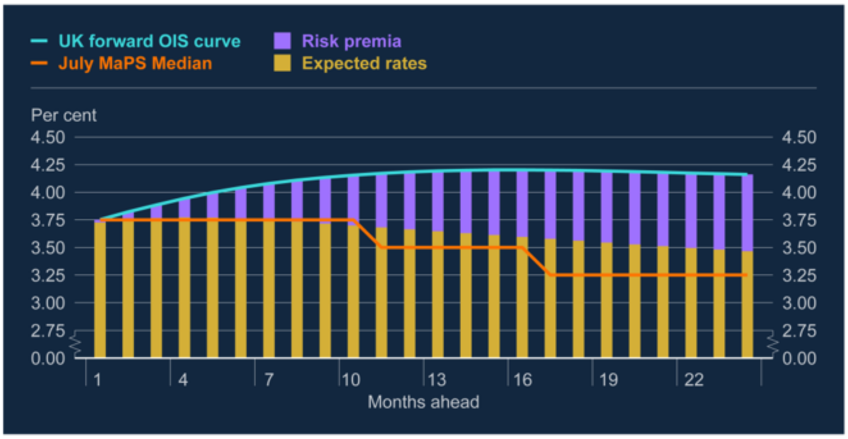
But we do not know how the future will play out – or indeed if it will play out in a way that resembles any of our projections and scenarios. The situation in the Middle East is highly uncertain. We have to set policy now, seeing through the day-to-day volatility and weighing all the risks and uncertainties we face.

Current market pricing for future interest rates similarly places weight on, and averages across, a range of outcomes for energy prices and second-round effects.

As **Chart 10** shows, model-based estimates suggest that the upward slope in the market curve (blue line) reflects risk premia (purple bars) rather than expectations of future levels of Bank Rate (yellow bars). Similarly, median expectations in the Bank's Market Participants Survey (orange line) are for Bank Rate to remain unchanged over the year ahead before declining further out. There is no contradiction here. Market participants find it most likely that Bank Rate will remain at its current level throughout this year, while investors quite reasonably require a premium to compensate for the risk that Bank Rate may have to go up should inflationary pressures from the energy shock prove more persistent.

Chart 10: The upward slope in the market curve reflects risk premia

Model decomposition of the UK OIS curve and most likely expectations from MaPS



Sources: Bloomberg Finance L.P., Consensus Economics and Bank calculations

That seems a reasonable position for now. The resulting upward slope in the interest rate curve has directly tightened monetary conditions for businesses and households, including through higher mortgage rates. When it comes to Bank Rate, the MPC will set monetary policy as appropriate given the evolution of the economy, balancing all the risks to the outlook for inflation in order to achieve the 2% target sustainably. In that light, a majority on the MPC voted to hold Bank Rate at 3.75% today.

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