MONETARY POLICY PRESS CONFERENCE

Thursday 5 November 2026

Opening remarks by Andrew Bailey, Governor

The conflict in the Middle East is now in its ninth month. It has led to further increases and volatility in global energy prices. Those elevated energy prices have caused inflation to rise in every G7 economy since February, including the UK. Based on the 15 working days to 27 October, used for our central projection, the war's impact on pump prices and household energy bills will see inflation rise to around 5% in the first half of next year. I will come to developments in the last 48 hours at the end.

As yet, there are few signs in the data that higher energy prices are feeding into the prices of other goods and services. Moreover, businesses are telling the Bank's Agents of a tough demand environment with limited ability to pass on costs. My colleagues and I hear that first hand as we meet with companies around the country. But, with every month that passes without a resolution to the conflict, the more inflationary pressure builds up in the pipeline. We need to act to limit the impact. Today we have raised Bank Rate by 25-basis points to 4.0%.

More positively, both global and domestic activity have been more resilient than expected in the face of these shocks. By the end of the year, we expect annual GDP growth to reach over 2%. There are initial signs that growth in some sectors of the UK economy is being driven by AI-related investment. There is also tentative evidence that the softening in the labour market has stabilised. But that does not take away from the hardship caused by higher inflation, particularly amongst the lower paid and those struggling to find work. Not surprisingly, consumer confidence has recently weakened. We hear that first hand too.

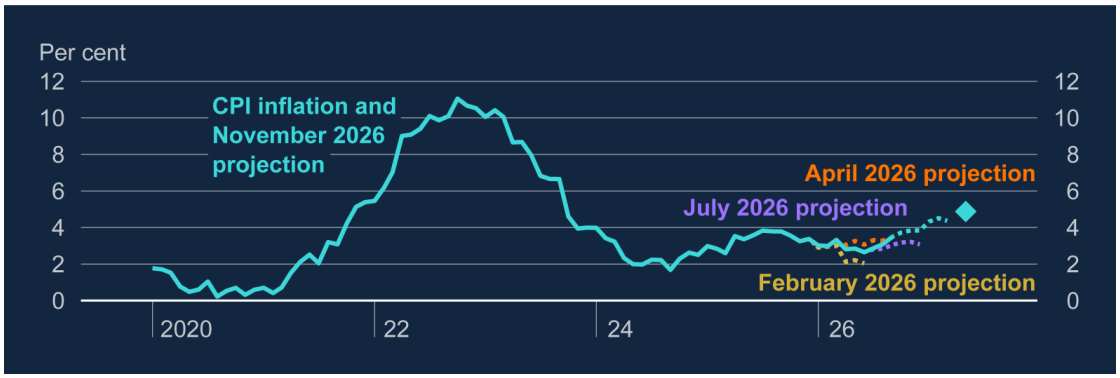
These are factors we need to take into account when judging what to do with interest rates in future. Today's increase shouldn't be seen as the first in an inevitable long sequence of hikes. That is not inevitable. But, unless the conflict is resolved, neither does it seem likely to be the last increase. The MPC will judge the outlook at each meeting, responding as necessary to bring inflation sustainably back to our 2% target.

I will now set out the outlook for inflation 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 changed since the July Monetary Policy Report. Twelve-month CPI inflation (blue line) increased to 3.5% in September, 0.4 percentage points higher than forecast in the July Report (dotted purple line). Much of the increase reflects higher energy prices, with household energy bills and motor fuel prices together accounting for around 60% of the overshoot of inflation relative to the 2% target. The Ofgem price cap rose to £1,723 in 2026 Q4 and is expected to increase to around £2,150 in 2027 Q1. These increases in energy prices, other things unchanged, mean we expect inflation to rise materially, up to around 5% by the middle of next year (blue diamond).

Chart 1: The near-term outlook for inflation has risen

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

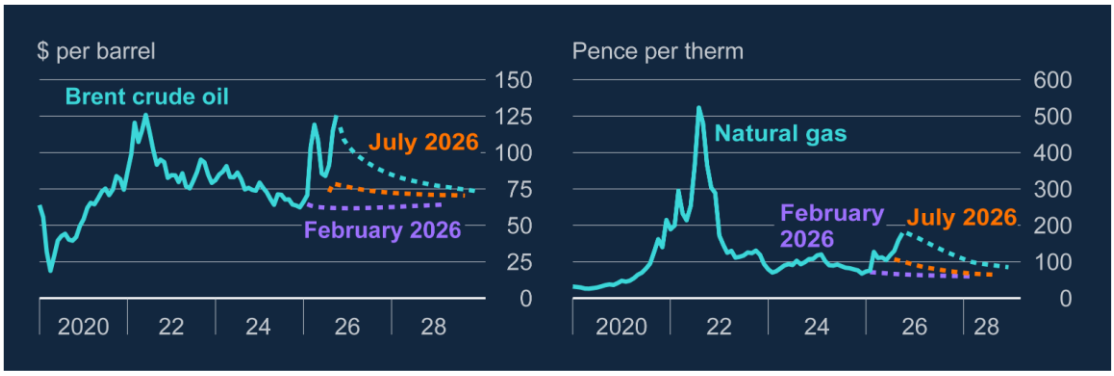


Sources: ONS and Bank calculations

Those higher energy prices are a direct result of the continuing conflict in the Middle East, which is putting upwards pressure on oil, gas and refined product prices. As **Chart 2** shows, energy prices have risen significantly since our July Report. Wholesale Brent crude oil (left hand panel) and UK natural gas prices (right hand panel) averaged $108 per barrel and 216 pence per therm respectively in the 15 UK working days ending 27 October, 38% and 81% higher than at the time of the July Report. Refined product prices also remain elevated, with petrol, diesel and jet fuel prices 59%, 105% and 118% higher, respectively, than at the start of the conflict.

Chart 2: Wholesale energy prices have risen since the July Report

Wholesale Brent crude oil and UK natural gas prices



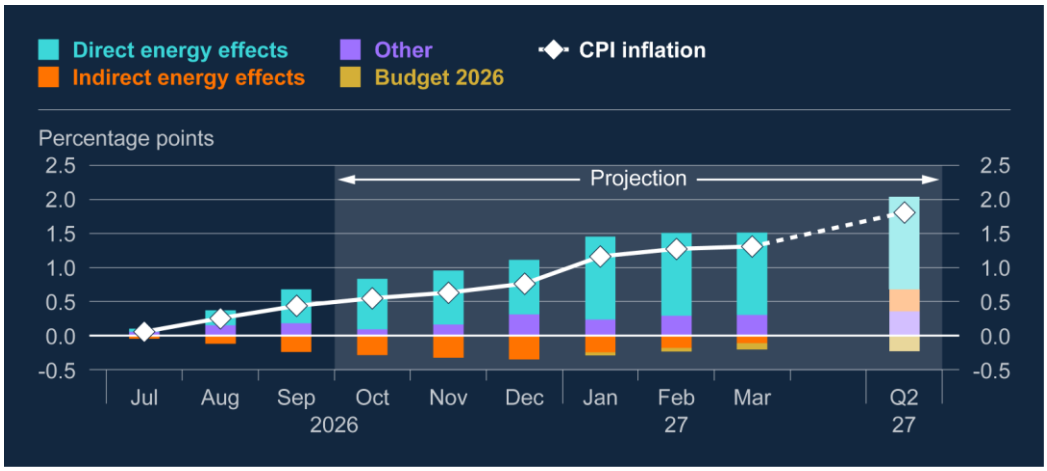
Sources: Bloomberg Finance L.P., LSEG Workspace and Bank calculations

Monetary policy cannot influence global energy prices. In setting Bank Rate, we are focused on how those higher global energy prices may pass through into domestic price and wage setting.

So far, there has been limited evidence that these higher energy costs have fed through more broadly into consumer goods and services prices. As **Chart 3** shows, the direct energy effects I've described (blue bar) have almost entirely driven the rise in inflation relative to the July projection, whilst indirect energy effects (orange bar), which reflect higher energy costs passing through supply chains, have not materialised to the extent we had expected. As the chart shows they have been negative relative to expectations in July.

Chart 3: Indirect effects have been smaller than projected in the July Report

CPI inflation relative to the projection in the July Report



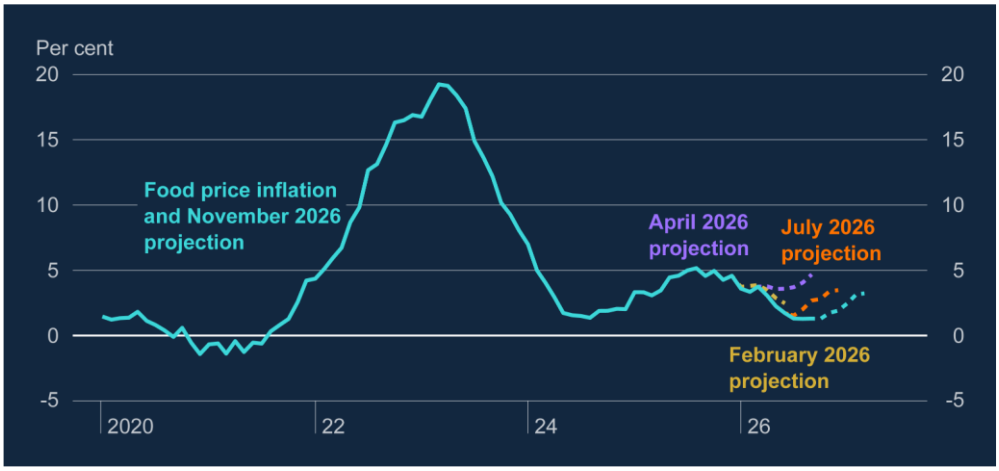
Sources: ONS and Bank calculations

There are a few reasons for that. First, some firms are on fixed-priced energy contracts or have energy hedging arrangements in place, and so will not face rising energy costs until their contracts or hedging arrangements come up for renewal. Second, Agents' contacts and survey data suggest some firms are absorbing higher costs into profit margins, or cutting other costs, such that higher energy costs are not being passed through to consumers. In both cases, the extent to which energy cost rises can be absorbed by firms is temporary, and it is likely therefore that some of these costs will be passed through gradually into goods and services prices.

Food price inflation is a large component of the indirect energy effects we had expected to see by now. But, as **Chart 4** shows, food price inflation has consistently undershot our forecasts this year. Annual food and non-alcoholic beverage price inflation was 1.3% in September (blue line), well below the 2.7% forecast in the July Report (dotted orange line). Easing domestic cost pressures, as well as easing pressures in some agricultural commodity prices, have contributed to the subdued food price inflation. But as those factors wane, and firms start to pass on their higher energy costs through to consumers, we expect to see food price inflation rise to around 3% by 2027 Q1 (dotted blue line).

Chart 4: Food price inflation has eased in 2026

Annual food price inflation and near-term projections



Sources: ONS and Bank calculations

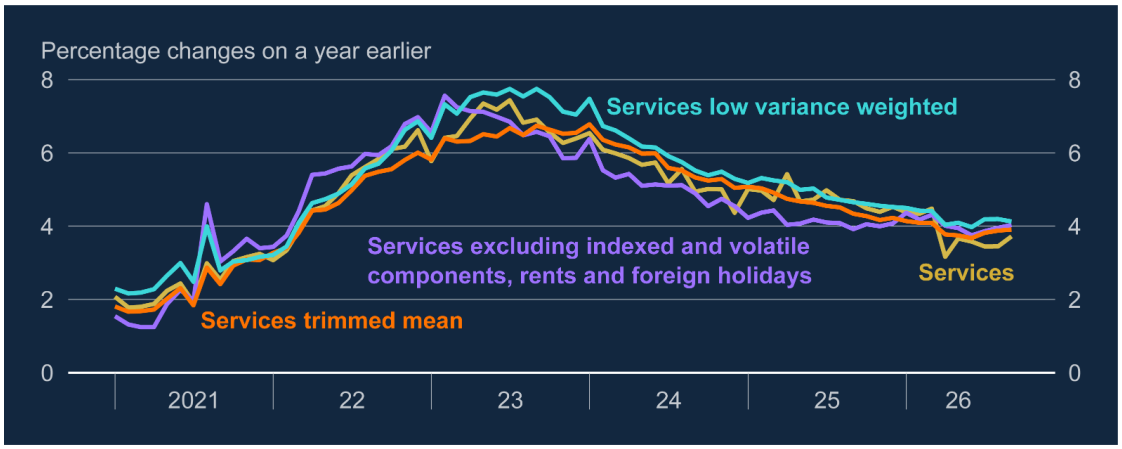
As higher energy costs transmit through the economy via direct and indirect effects, we must monitor very carefully whether those higher prices become embedded into broad-based inflationary pressures.

There are three aspects I would like to highlight here, relevant to the MPC's assessment of the extent to which the energy shock is propagating through the UK economy.

First, pre-existing domestic inflationary pressures remain somewhat elevated. **Chart 5** shows services price inflation was 3.7% in September (yellow line), flat since the middle of the year. This could indicate a slowing of the domestic disinflation process that had been progressing before the outbreak of the Middle East conflict. This is not, in itself, evidence of emerging second round effects. But is a relevant point of context for how we might see domestic price pressures develop over the coming months.

Chart 5: Measures of services price inflation were broadly flat in 2026 Q3

Measures of annual services price inflation



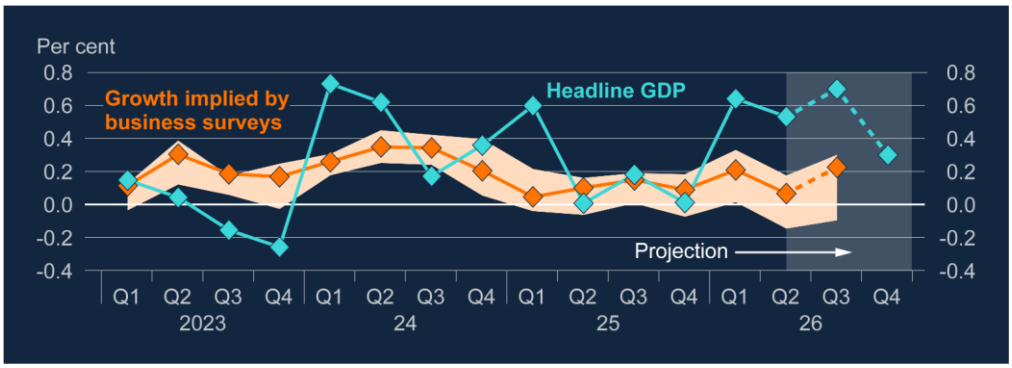
Sources: ONS and Bank calculations

At the same time, core goods inflation was 1.0% in September, and has been subdued this year, somewhat offsetting the elevated services price inflation. As indirect effects build, and expected import price pressures emerge partly from demand for AI-related products, we expect core goods inflation to increase somewhat. The extent of that increase is uncertain and dependent on developments in the Middle East and their resulting impact on wholesale energy prices.

Second, economic activity has been more resilient than expected. As shown in **Chart 6**, GDP grew by 0.5% in 2026 Q2 and we expect growth of 0.7% in Q3 (blue line).

Chart 6: GDP growth has been strong in recent quarters

Quarterly growth in headline GDP and growth implied by business surveys



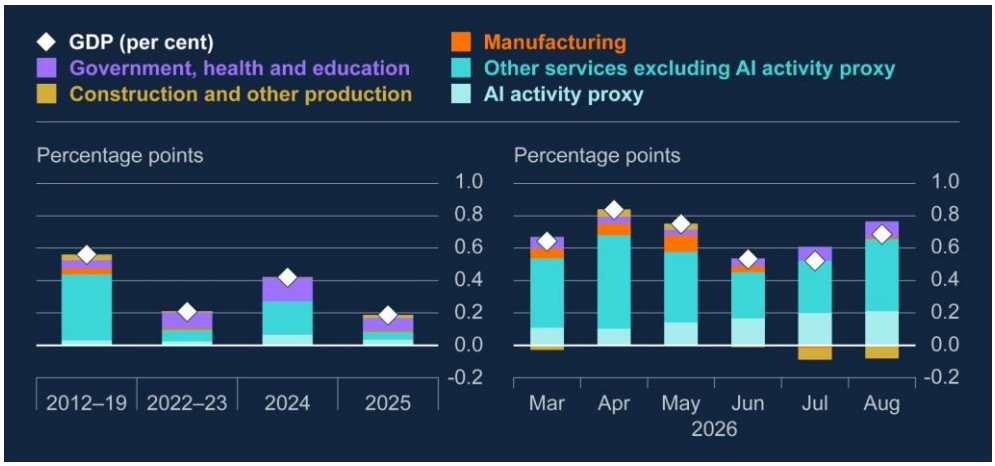
Sources: Bank of England Agents, BCC, CBI, Lloyds Business Barometer, ONS, S&P Global and Bank calculations

Much of the recent strength in GDP has been concentrated in business-to-business services, and business investment has been robust, growing by 1.8% in 2026 Q2. That growth was not expected, particularly in the context of the global shocks that have pushed up energy prices and tightened financial conditions, weighing on real incomes and demand.

At least some part of the recent strength appears to have been driven by AI investment. Bank staff have developed an AI Activity Proxy, shown in the pale aqua bar in **Chart 7**, which combines the output of computer programming and consulting, information services and application software. The measure suggests that just under a fifth of GDP growth since the start of 2026 has been accounted for by AI-related activity.

Chart 7: AI-related activity has supported growth

Average quarterly (left panel) and three-month-on-three-month (right panel) GDP growth and contributions by sector



Sources: ONS and Bank calculations

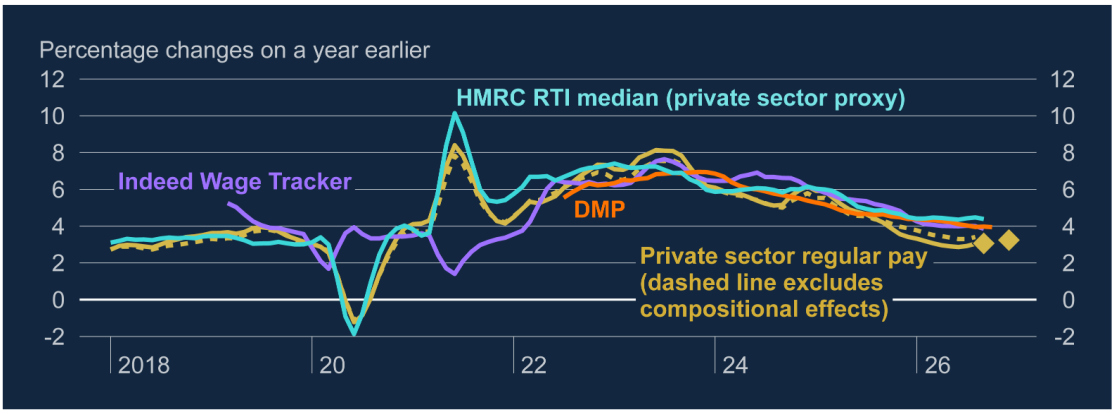
This activity is concentrated in a subset of sectors, and Agents' intelligence suggests strength in the economy has not been broad based, with some sectors facing more challenging demand environments than others. Whether the strength in activity persists into next year is an important judgement for the MPC.

Third, a range of indicators point to there being spare capacity in the labour market, which should weigh against the emergence of wage pressures next year. **Chart 8** shows that headline private sector regular average weekly earnings growth was 3% in August (yellow line) and is projected to remain around that level over the

remainder of 2026 (yellow diamonds). A broader range of indicators suggest wage growth is around 4%, and underlying wage growth is judged to be slightly above its target-consistent rate. How wage growth progresses into 2027 and 2028 will be an important measure of emerging second round effects for the MPC to monitor in coming meetings.

Chart 8: Private sector wage growth is expected to be little changed over the coming months

Measures of private sector wage growth



Sources: DMP survey, HMRC, Indeed, ONS and Bank calculations

As an initial assessment, forward-looking indicators of firms' wage expectations have seen little change this year. This is an encouraging sign that the early stages of the war do not seem to have driven higher wage pressures. But it remains early days. The more recent escalation since July has increased the likelihood that more persistent inflationary pressures, including via wages, could build next year. We will receive further news over the coming months on expected wage settlements for 2027, including via the Agents' pay survey. More broadly, the way in which the energy shock propagates through the economy is central to the outlook for inflation.

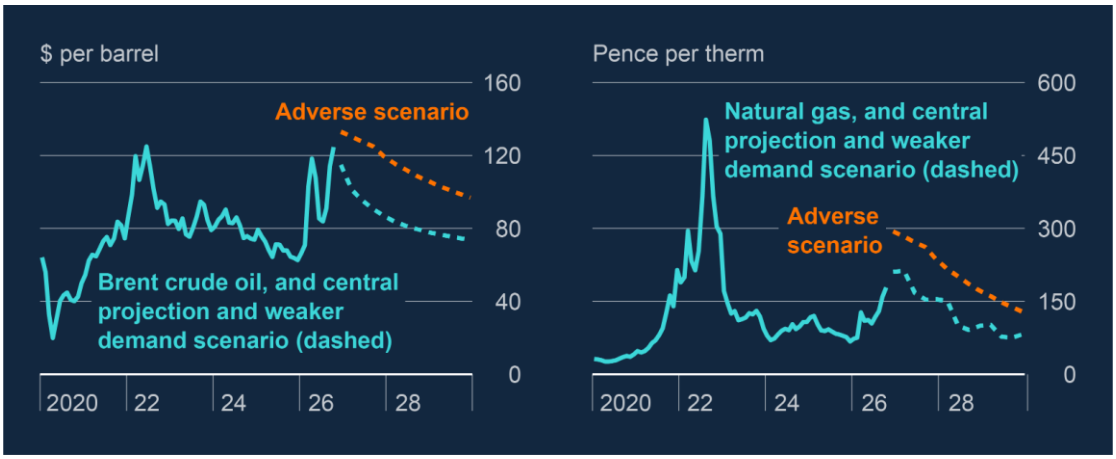
To inform its policy deliberations and explore the outlook, the MPC has considered a central projection, an 'adverse inflation' scenario and a 'weaker demand' scenario, all conditioned on the market curve for interest rates based on an average of forward interest rates in the 15 working days to 27 October. The three projections outline how different outcomes for the conflict, the extent of second-round effects, and resilience of the domestic economy can have different implications for inflation and policy.

Chart 9 shows the assumed paths for oil and gas for the three projections. The central projection and weaker demand scenario are conditioned on wholesale energy prices evolving in line with the market futures curves over the 15 working days to 27 October (dashed blue line). Oil prices peak at $116 per barrel in 2026 Q4, before falling to $74 in 2029 Q4. Gas prices peak at 215 pence per therm in 2026 Q4, before declining to 83 pence per therm in 2029 Q4. Under these paths, it is likely that some form of resolution to the conflict is agreed such that disruption to wholesale energy markets is reduced through next year.

The adverse inflation scenario considers the case where no such resolution is found for an extended period of time. Energy prices rise materially higher than the central projection and remain persistently higher over the forecast period (orange dotted line). Compared to the central projection, the price of oil is assumed to be around a third higher on average and natural gas is two thirds higher over the forecast period.

Chart 9: Energy price paths are higher in the adverse scenario

Brent crude oil and natural gas price paths in the central projection and scenarios



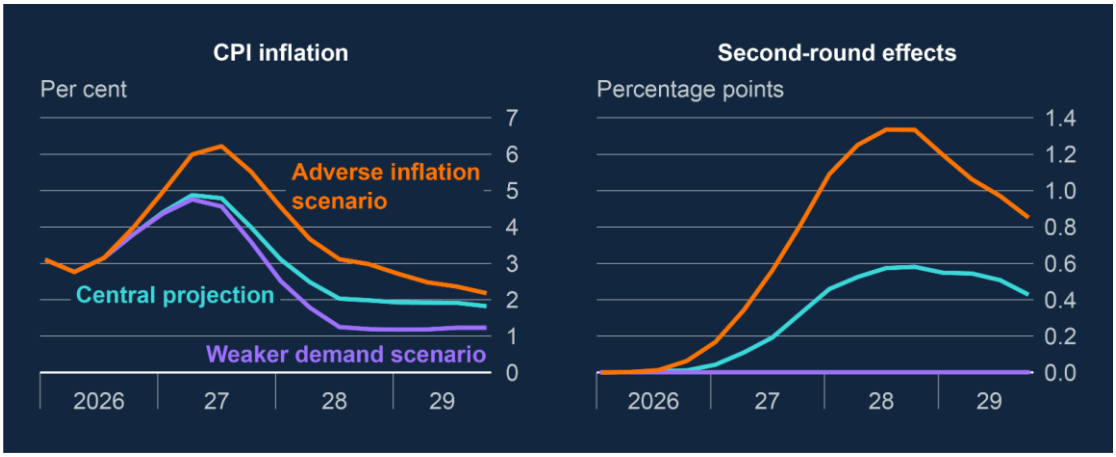
Sources: Bloomberg Finance L.P., LSEG Workspace and Bank calculations

The weaker demand scenario explores an alternative outlook. Domestic demand is assumed to be less resilient than the central projection, with households unwilling or unable to smooth through the real income shock from high energy prices, resulting in materially more spare capacity in the economy.

Chat 10 shows how the alternative paths for energy prices and domestic resilience impact inflation, and the assumed emergence of second-round effects under each projection.

Chart 10: Inflation is expected to rise in 2027 before falling back in 2028

Annual CPI inflation and second-round effects in the central projection and scenarios



Sources: ONS and Bank calculations

Under the central projection (blue lines), inflation peaks at 4.9% in 2027 Q2, primarily driven by direct and indirect energy effects. Second-round effects then begin to emerge more materially from 2028, contributing on average 0.5 percentage points to CPI inflation in the second half of the forecast period. Disinflation occurs as downward sloping energy futures curves result in negative direct energy effects in 2028, and a degree of spare capacity in the economy weighs on inflation through the forecast, resulting in inflation falling slightly below target by the end of the forecast.

Under the adverse inflation scenario (orange lines), inflation peaks at 6.2% and stays above the 2% target throughout the forecast period. The persistently elevated energy prices in the scenario are modelled to result in higher longer-term inflation expectations, leading to substantially stronger second-round effects than in the central projection.

Under the weaker demand scenario (purple lines), inflation peaks at 4.8%, similar to the central projection as both reflect the same direct and indirect effects from the energy shock. The path for inflation thereafter deviates materially from the central projection due to the different demand dynamics assumed in the scenario. Firms'

pricing and workers' wage bargaining powers weaken such that second round effects do not materialise. As a result, inflation falls below target during 2028 and remains below target, reaching 1.2% in 2029.

The forecast and scenarios illustrate that the longer the conflict persists and elevates energy prices, as in the adverse scenario, the more likely persistent inflationary effects will take hold and the higher the level of interest rates will need to be. But, of course, this is highly uncertain in the current environment – it is a risk rather than a commitment to further tightening and depends not only on energy prices but also on the evolution of inflation persistence, labour markets and activity in the economy.

Today's move confirms a tightening which is consistent with the prolonged conflict. Unless progress towards resolving the conflict is made, or there is other news which softens the risks to inflationary pressures, a further increase in Bank Rate may be warranted. Thereafter, whilst the market curve prices further restrictiveness into next year, that is largely a reflection of risk premia, not expected rates. I think that is a fair assessment of the risks and volatility in energy prices.

That volatility has been evident in the past 48 hours. Wholesale Brent crude oil and UK natural gas prices are down around 15% since the start of the week, at $95 per barrel and 218 pence per therm, respectively, this morning That is positive news. But, there is already a significant amount of inflationary pressure in the pipeline.

The three-month Ofgem observation window for the 2027 Q1 price cap ends in less than a fortnight, and we were already over three quarters of the way through the window by the end of the 15-day period used to condition our central projection. The expected rise in utility bills in January alone adds around 0.4 percentage points to headline inflation and builds on an existing contribution of around 0.3 percentage points in 2026 Q4. Of the overall headline CPI forecast of 4.4% in 2027 Q1, around three quarters of a percentage point is coming from utility bills. Our decision will act against the potential impact of those inflationary pressures already in the pipeline.

Of course, if we continue to get good news on the conflict, that would reduce the risk of further inflationary pressures building. Whilst the Ofgem cap level for 2027 Q1 is largely now determined, we would in this case see lower pump prices. So inflation would peak somewhat below 5%. As a reference point, our forecast did not have oil falling to $95 per barrel until May 2027 based on the 15-day period for the energy

conditioning path. Whilst wholesale gas prices, at 218 pence per therm, is still around the 2026 Q4 peak in the central projection.

Monetary policy is not on a pre-set path. The Committee will continue to assess the evidence at each meeting, in particular how likely high energy prices are to feed through to other prices and the economy more broadly, by monitoring the evolution of underlying pay, pricing behaviour, and slack.

The Committee will adjust Bank Rate as necessary to ensure inflation returns to the 2% target consistent with the remit.

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