

# **Bank of England**

## Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 17 June 2026

18 June 2026

These are the minutes of the Monetary Policy Committee meeting ending on 17 June 2026.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2026/june-2026>.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 29 July will be published on 30 July 2026.

# Monetary Policy Summary, June 2026

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At its meeting ending on 17 June 2026, the Monetary Policy Committee (MPC) voted by a majority of 7–2 to maintain Bank Rate at 3.75%. Two members voted to increase Bank Rate by 0.25 percentage points, to 4%.

Global energy prices have fallen since the previous meeting in response to events in the Middle East. But they remain higher than pre-conflict and have continued to be volatile. The impact of the energy shock on the UK economy remains uncertain. Monetary policy cannot influence energy prices but is being set to ensure that the economic adjustment to them occurs in a way that achieves the 2% inflation target sustainably. The policy stance required to achieve this will depend on the scale and duration of the shock, and how it propagates through the economy.

CPI inflation has fallen to 2.8% since the previous meeting, although it is expected to rise later this year as the effects of higher energy prices continue to pass through. The risk of material second-round effects in price and wage-setting, against which policy needs to lean, is greater the longer higher energy prices persist. But the labour market continues to loosen, and signs of a weakening economy could contain inflationary pressures. Interest rates faced by households and businesses remain higher than prior to the conflict, which will act to reduce inflation over time.

Taking all the risks to the economic outlook into account, the Committee judges that it is appropriate to maintain Bank Rate at this meeting.

The Committee will continue to monitor closely the situation in the Middle East and how its impact propagates through the economy. The Committee stands ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target in the medium term.

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# Minutes of the Monetary Policy Committee meeting ending on 17 June 2026

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1. Before turning to its immediate policy decision, the Monetary Policy Committee (MPC) discussed recent developments in global and UK economic and financial conditions, and how these could affect the medium-term outlook and the MPC's strategy.

## Global economic and financial conditions

2. Global energy prices had fallen since the previous meeting in response to events in the Middle East. But they remained higher than pre-conflict and had continued to be volatile. The spot price of Brent crude and UK wholesale gas had averaged \$100 per barrel and 116 pence per therm respectively since the April Monetary Policy Report, compared to \$66 per barrel and 87 pence per therm in the period leading up to the February Report. In the days immediately leading up to the June MPC meeting, plans for a Middle East peace deal had been announced. Oil and gas prices had fallen in response to around \$79 per barrel and 100 pence per therm respectively. Futures curves continued to slope downwards for both oil and gas.

3. The Committee discussed the risks around the outlook for energy prices. Prior to the announcement of a peace deal, there had been some partial mitigants to the impact of the disruption to global energy supply on energy prices, but it was uncertain how long these could be sustained. The coordinated release of strategic oil reserves by the member countries of the International Energy Agency was one such mitigant. There had also been some switching from the use of gas to coal as well as evidence of reduced demand for energy in response to higher prices, particularly in Asia. To some extent this reduction in demand might reflect the temporary deferral of economic activity, meaning it was uncertain how long it could persist in the event of a more prolonged reduction in energy supply from the Middle East.

4. Oil products and broader commodity prices had remained higher than before the conflict and there had been some emerging signs of global supply chain disruption. The price of diesel and jet fuel had increased significantly relative to Brent crude oil when the conflict began. These spreads had remained elevated relative to pre-conflict but had reduced since the Committee's April meeting. Other commodity prices, such as for fertiliser and metals, had also remained higher than pre-conflict. Some indicators of global supply chain disruption had risen sharply since the start of the war, including some shipping cost indices and a PMI-based global supply chain index calculated by Bank staff.

5. Interest rates faced by households and businesses had remained higher than prior to the conflict. This tightening in financial conditions had been driven mainly by a significant upward shift in short-term overnight index swap (OIS) rates. These rates had also risen materially in the United States and in the euro area, reflecting the global nature of the energy supply shock and its implications for inflation. UK two-year OIS rates were currently around 70 basis points above their pre-war level. There had been full and fast pass-through from increases in such rates to key lending rates for households and businesses. The quoted rate on two-year fixed-rate mortgages was around 80 basis points higher than prior to the conflict and UK investment grade corporate bond yields had risen by around 50 basis points.

6. In the June Market Participants Survey (MaPS), median expectations had been for Bank Rate to remain unchanged at this MPC meeting and, thereafter, for Bank Rate to remain unchanged for the year ahead. That represented a tightening in the median path of around 50 basis points relative to expectations prior to the conflict, at which point reductions in Bank Rate had been expected.

7. In contrast to market participants' broadly flat most likely path for Bank Rate, the UK short-term interest rate curve sloped upwards over the year ahead. The conflict had led to increased volatility that was correlated across energy, inflation-linked and interest rate markets. The UK OIS curve had continued to oscillate since the April meeting, but within a range that was consistently materially higher than the pre-conflict curve. In the lead up to this MPC meeting, the announcement of a peace deal had contributed to a shift in the OIS curve towards the bottom of its recent range, with an upward slope of around 30 basis points by end-2026. Models used by Bank staff suggested that the upward slope of the OIS curve was driven largely by risk premia. Consistent with that, respondents to the June MaPS survey had attributed most of the gap between the April MaPS median Bank Rate profile and the current market curve to asymmetric risks and compensation for uncertainty.

## UK current economic conditions

8. Twelve-month CPI inflation had been 2.8% in May, unchanged from April, but down from 3.3% in March. The May outturn had been 0.4 percentage points below the short-term forecast published in the April Report. Downside news relative to the April Report had been spread across food, core goods and services, with an outsized contribution to the news from food price inflation, which had fallen to 2.2%. Some direct effects of the energy shock, especially from the initial post-conflict increase in fuel prices, had already pushed up on CPI inflation.

9. Energy prices had remained volatile. Based on energy prices as of close of business on 15 June, CPI inflation was now expected to be a little under 3% in 2026 Q3 and pick up to a

little over 3¼% in Q4. This was below the path expected in the April Report, reflecting both lower energy and non-energy prices.

10. Ofgem's headline energy price cap for July to September had been increased by £221 (13.5%) to £1862, broadly in line with expectations at the time of the April Report. On 21 May, the government had announced a postponement of the increase in fuel duty planned for September, as part of a set of policy measures to support households and energy-intensive industries.

11. Forward-looking survey indicators of the indirect effects of the energy shock had remained consistent with near-term expectations in the April Report projections. For businesses responding to the DMP Survey, one-year-ahead own-price inflation expectations had fallen in May to 4.0%, from 4.4% in April, although this was 0.6 percentage points higher than the pre-conflict rate in February.

12. Households' near-term inflation expectations had picked up materially since the start of the conflict. The Bank/Ipsos measure of year-ahead expected inflation had risen sharply, from 3.2% in February to 4.0% in May. The corresponding Citi/YouGov measure had remained well above its pre-Covid average at 4.7% in May, although it had fallen back from its immediate post-conflict peak. Medium-term household expectations had also risen, with the Bank/Ipsos two and five-year ahead measures having increased by 0.3 and 0.2 percentage points respectively in May relative to February.

13. Annual growth in private sector regular Average Weekly Earnings in the three months to April had been 2.9%, a touch lower than had been expected in the April Report. On the face of it, this was below the estimates of target-consistent wage growth published in the February Report, but, adjusting for changes in industry mix, private sector AWE growth was around half a percentage point higher. Growth in bonus payments, which were not included in measures of regular pay, had also been strong. In addition, public sector regular pay had grown by 5.1%, although this strength had in part reflected that the twelve-month comparison had included both the 2025 and 2026 uplifts for some NHS staff.

14. There had been no change since the April Report to the Bank's Agents' estimate that basic private sector pay settlements were expected to average 3.5% over 2026. The Agents reported that most of these settlements had been agreed before the recent rise in energy prices, and that contacts did not generally expect that they would be re-opened. Some contacts had expressed concerns that the pace of wage disinflation could slow next year as a result of the conflict. DMP respondents had reported that they expected one-year-ahead wage growth of 3.4%, which had been stable since before the start of the conflict.

15. UK GDP had increased by 0.6% in 2026 Q1, 0.1 percentage points higher than had been expected in the April Report. Evidence from business surveys, however, suggested that this headline figure overstated the underlying momentum, which had remained subdued. In April, monthly GDP had fallen by 0.1%, consistent with a partial unwind of the strength in activity in Q1. The S&P Global UK composite output PMI in May had fallen below the 50 no-change mark for the first time in more than a year as growth in manufacturing had been offset by weaker growth in services. Bank staff estimated that underlying quarterly GDP growth had been around 0.2% in Q1, and would remain at around that rate in Q2.

16. To date, surveys and faster indicators had not generally provided much evidence that the conflict had led to a rapid deterioration in the outlook for growth, although growth was expected to be subdued. The Bank's Agents' contacts had reported a further weakening in demand expectations in May, alongside growing concerns about potential future supply shortages. Confidence more generally had been weak, as, according to a range of opinion polls, households and firms had reported persistent negative economic sentiment, both relative to the past and relative to other countries.

17. There had been a mixed picture on labour demand in recent data. The Labour Force Survey (LFS) unemployment rate had fallen to 4.9% in the three months to April, slightly lower than had been expected in the April Report. LFS employment had grown by 0.3%, slightly higher than had been expected in the April Report, but underlying employment growth had remained close to zero. Vacancies had continued to decline, by 2.6% in the three months to May compared to the previous three months, although the redundancy rate had also fallen. Overall, these data continued to be consistent with a gradual loosening in the labour market. This was supported by intelligence from the Bank's Agents' contacts, many of whom had reported that weak or delayed demand was leading them to operate below desired utilisation.

## Overview and the Committee's discussions

18. The conflict in the Middle East, and its impact on energy prices and the UK economy, remained the dominant source of uncertainty for the inflation outlook. As had been outlined in the April Monetary Policy Report and Minutes, monetary policy could not influence global energy prices. And it would take time for monetary policy to work through the economy, so any action the MPC might take would not prevent higher inflation in coming months. What the MPC would do is set monetary policy to make sure that the effects of the shock did not become embedded into broad-based inflationary pressures, so that inflation fell back to the 2% target and stayed there.

19. In setting policy at this meeting, the Committee continued to judge that weakness in demand and the labour market was likely to lessen the strength of second-round effects from higher global energy prices. But these effects were likely to be stronger, the larger and more persistent was the rise in global energy prices. In ensuring that inflation returned sustainably to the 2% target, monetary policy would continue to need to balance the costs of leaning too little against second-round effects and the costs of responding too much. The right balance was likely to change depending on how events unfolded and propagated through the economy.

20. The Committee was also continuing to consider the three scenarios set out in the April Report, which illustrated a range of possible outcomes for the UK economy given the uncertainty stemming from the conflict. In Scenario A, energy prices were conditioned on market futures curves in the 15 days to 22 April 2026. In Scenarios B and C, the paths of energy prices were assumed to be higher and more persistent to varying degrees. There were no second-round effects from the energy shock in Scenario A. Second-round effects were incorporated in Scenarios B and C, and materially so in Scenario C.

21. At this meeting, the Committee's discussions focused on: the extent of underlying UK disinflation prior to the conflict; the near-term outlook for inflation and energy prices; the degree to which economic slack would continue to restrain inflation persistence; the evidence of any second-round effects from the energy shock so far; and what continued uncertainty around the impact of geopolitical tensions on the UK economy implied for current and prospective policy-setting.

22. Recent data outturns had provided some greater reassurance that there had been sustained disinflation pre-conflict. Prior to the conflict, expectations had been for inflation to be close to the 2% target from April, and news in energy prices owing to the conflict had more than accounted for the higher outturns in headline inflation in April and May, relative to the February Report. Non-energy price inflation, particularly of goods, had been moderating but in aggregate remained above a target-consistent pace. Wage growth was close to target-consistent levels, although forward-looking indicators suggested that the pace of decline could stall in future.

23. The immediate direct effects of the energy shock on inflation, and some indirect effects through higher input costs for firms, had so far evolved broadly as had been expected in April. The short-term inflation forecast was lower than at the time of the previous meeting, reflecting recent news in energy prices as well as downside news in the May CPI outturn. The Committee re-iterated that monetary policy should typically look through the direct effects and some indirect effects of an energy price shock, but should act to the extent required to prevent those effects becoming embedded in domestic wage and price-setting.

24. Members judged that risks to energy prices were still skewed to the upside. While noting global energy prices had recently moved lower, members judged that even in the event of prompt conflict resolution there could be a logistical delay in restoring energy production and transportation, and they noted the possibility of lingering instability. Accordingly, members were attentive to the risk that prices could remain elevated for a longer period, even if the risk of another sharp spike upwards had diminished somewhat.

25. In considering the potential impact of energy prices on medium-term inflation, as in April, the Committee judged that continued weakness in activity would limit the strength of some second-round effects. Members broadly agreed that a margin of slack had continued to emerge including in the labour market. Demand had remained subdued and consumption growth weak, and both household and business sentiment was weak. Taken together, this would restrain firms' ability to pass through higher costs to higher prices, and would dampen wage bargaining. At the same time, some members cautioned that the attentiveness of households' and firms' inflation expectations after a period of above-target inflation, or structural changes, could increase the magnitude of second-round effects.

26. Clear evidence of signs of second-round effects would only ever emerge with a lag, and the Committee therefore agreed that it was too early to conclude one way or the other from the initial tentative and mixed evidence. On the one hand, firms' own-price expectations were a little softer than had been expected in April. On the other hand, some members noted that household inflation expectations could have become more sensitive to near-term inflation news than in the past. This could affect the economy via price-setting behaviour as well as wage-setting in 2027.

27. The Committee would monitor the evolution of a wide range of forward-looking data and intelligence to allow timely assessments of the inflation outlook. The size and duration of direct effects of energy prices on UK inflation would clearly be important, as would the scale of indirect effects via increased business costs and the extent to which these were passing through via higher consumer prices or reduced profit margins. Second-round effects were also being monitored through indicators of price and wage-setting behaviour, including inflation expectations, firms' own price expectations and future wage growth and settlements. The impact of the shock on the real economy would also be monitored, including through indicators of the labour market and economic slack.

28. In considering the near-term policy outlook, members agreed that financial conditions had tightened materially since before the conflict, which was already imparting some restraint to the economy. There had been a significant upward shift in UK short-term interest rates that had passed through to mortgage rates. This in part reflected the pricing out of Bank Rate cuts that had been expected before the conflict. Some of the upward slope in the yield curve also

reflected ongoing uncertainty around the scale and duration of the conflict in the Middle East and the associated upside risks to the inflation outlook.

29. The Committee discussed how best policy should respond to uncertainty about the scale and duration of the energy shock. There were risks to balance from the trade-off between returning inflation to target too slowly and prolonged weakness in economic activity. All members nevertheless agreed that the appropriate policy response would depend primarily on the outlook for second-round effects. If higher inflation were to reflect mainly direct energy effects and second-round effects were to remain contained, there was a stronger case for tolerating a slower return of inflation to target, in the context of weak activity. However, there would be a more challenging trade-off if higher energy prices appeared to be feeding into more persistent domestic inflation. In that event, the weight placed on output stabilisation would be likely to diminish, and policy would need to remain restrictive for longer, or become more restrictive.

30. Members agreed that the appropriate policy response should be robust across a range of scenarios, given the uncertainty around how the outlook could evolve. There was a range of views around whether the tightening in financial conditions relative to pre-conflict was sufficient, was reflected in real restrictiveness, and would endure. Most members judged that this tightening provided insurance against inflation risks, while preserving optionality to adjust course as more conclusive evidence emerged. Some members noted that a modest rise in Bank Rate would help to ensure that financial conditions remained consistent with the intended degree of monetary restraint and reduce the risk of later, larger tightening.

## **The immediate policy decision**

31. Seven members preferred to maintain Bank Rate at 3.75% at this meeting. For six of these members (Andrew Bailey, Sarah Breeden, Swati Dhingra, Clare Lombardelli, Dave Ramsden and Alan Taylor), recent data outturns provided some further evidence that underlying disinflation had been on track pre-conflict. Upside risks to energy prices had receded, although they remained. The higher interest rates facing households and businesses were already acting to reduce inflation over time and therefore a hold in Bank Rate at this meeting was appropriate. There was nevertheless a range of views on how the energy shock might propagate and therefore the policy response that might be required in future. For one member (Catherine L Mann) upside inflation risks were more prominent across possible future outcomes, but an immediate increase in Bank Rate was not required given their view that policy tightening would transmit to the economy rapidly.

32. Two members (Megan Greene and Huw Pill) preferred a 0.25 percentage point increase in Bank Rate at this meeting. These members were less confident in the pace of the

underlying disinflation pre-conflict. They were more concerned that households' and firms' greater attention to inflation outturns than in the past would lead to larger second-round effects for a given energy price profile. And they noted that the tightening in financial conditions could reverse in the absence of an increase in Bank Rate. Given significant uncertainty about the extent of second-round effects, they preferred to raise rates as part of a risk management strategy.

33. The Chair invited the Committee to vote on the proposition that:

Bank Rate should be maintained at 3.75%.

34. Seven members (Andrew Bailey, Sarah Breeden, Swati Dhingra, Clare Lombardelli, Catherine L Mann, Dave Ramsden and Alan Taylor) voted in favour of the proposition. Two members (Megan Greene and Huw Pill) voted against the proposition, preferring to increase Bank Rate by 0.25 percentage points, to 4%.

## **MPC members' views**

35. Members set out the rationale underpinning their individual votes on Bank Rate.

Members are listed alphabetically under each vote grouping. References to scenarios relate to those set out in Section 3 of the April Monetary Policy Report.

### **Votes to maintain Bank Rate at 3.75%**

**Andrew Bailey:** There has been a marked fall in energy prices in recent days, reflecting progress on talks involving US and Iran. But the situation remains unpredictable, and there is clearly a risk that energy prices remain elevated for an extended duration. Recent inflation outturns give greater confidence that gradual underlying disinflation has continued. Labour market data show some further softening, and there are further signs of demand weakness. Our remit recognises that attempting to bring inflation back to the target too quickly may cause undesirable volatility in output. Given the context at present of softness in the real economy and uncertainty around the scale and duration of the shock to energy prices, tolerating temporarily above-target inflation as part of a return to target is an appropriate way to approach the trade-off, providing inflation expectations remain contained. I am content at the present time with holding, while accepting that risks to inflation and interest rates are on the upside, as reflected in the upward slope in the sterling yield curve, which appears to be accounted for more by risk premia than expected rates. I would respond promptly to any signals that an extended period of elevated energy prices could be leading to stronger possible second-round effects.

**Sarah Breeden:** Despite recent developments, the outlook for energy prices remains highly uncertain. Monetary policy should look through the direct effects of the energy shock, partially through the indirect effects and act forcefully and early against any material second-round effects. The economic environment means the chance of material second-round effects is small and, although it is early days, there has been nothing in the news since April to change that assessment. Recent releases suggest that, absent the shock, disinflation was firmly on track, and the weak demand outlook should continue to feed through to firms' pricing decisions. The financing conditions facing households and firms have tightened materially since the conflict, leaning against inflationary pressures and leaving us well placed to monitor how the economy evolves. There are risks around this. Household inflation expectations have risen materially, and although their impact on wage growth should be moderated by the loose labour market, they pose an upside risk to inflation. On the other side, weak demand might pull inflation below target in the medium term. In my view, the current stance of financial conditions balances these risks, but I remain committed to acting early and decisively should material second-round effects become likely.

**Swati Dhingra:** Although the likelihood of extreme outcomes on both sides appears to have receded, I continue to see the uncertainty around the size of the global commodity shock as dominating the degree to which inflationary pressures risk getting embedded in domestic sources of inflation. Absent the shock, monetary policy would be too restrictive for the cyclical position. Disinflation appeared on track pre-conflict, with nominal indicators trending consistently in the right direction, and broad-based evidence of emerging slack and cumulative weakness in the economy. While these initial conditions would dampen momentum in second-round effects, there remain significant risks from overlapping adjustments to the subsequent supply shocks that have occurred in the recent past. I see the balance of risks to the upside on prices and downside on activity. Maintaining current restrictiveness would weigh against second-round effects and provide time to learn more about the size and duration of the first-round energy and commodity price shocks in the near term. If the situation were to worsen, this may warrant some further tightening. But I do not see a compelling case to increase Bank Rate pre-emptively without new evidence of more intense first-round shocks.

**Clare Lombardelli:** Developments since our last meeting point in different directions for inflation. Disruption to energy prices and supply chains from events in the Middle East has persisted. This will prolong the time that inflation will remain above target due to direct and indirect effects, increasing the risk of second-round effects. Whereas the economic data has continued to show that, absent the energy shock, disinflation was gradually continuing. It is too early to draw any conclusions on second-round effects from the energy shock. So far, evidence has been mixed and the signal is broadly consistent with standard pass-through. To

date there is also no evidence of a rapid deterioration in demand. There are risks for inflation in both directions. Consumers and businesses have faced sustained above-target inflation in recent years which will affect behaviour, expectations and reactions to price rises. They also report negative sentiment which risks further weakening demand. Financing costs have risen since before the conflict, which continues to weigh against the greater inflation pressures. Holding Bank Rate remains appropriate as we learn more about the scale and duration of the shock and its propagation. Were signals to indicate inflation would persist above target, this would require policy to respond more forcefully to inflationary pressures.

**Catherine L Mann:** Activity, labour market, and nominal pressures have moderated. However, there remain differences in pace across public and private sector, as well as between the most recent data and inflation expectations. Private sector wage growth is near target-consistent, but whole economy wage growth has increased. Market-sector services output is soft, although manufacturing and government have provided some momentum to GDP. Volatility in both inflation and financial markets has increased; both are headwinds for business investment. Higher inflation and volatility tend to encourage households to maintain high savings buffers. Hypotheticals for the Middle East conflict include resolution, sporadic continuance, and escalation. Consider the first two. With rapid resolution, activity rebounds, uncertainty clears, but energy prices remain high with infrastructure and inventory rebuild: an activist hike could be needed. With sporadic continuance, uncertainty weighs on activity, but energy prices increase, which could trigger threshold effects: a worsening trade-off, but needing an activist hike. Why wait? Research shows that a forceful Bank Rate decision can have a quick effect on inflation and inflation expectations. So I have time to continue to evaluate measures of inflation expectations and financial restrictiveness to determine whether firms' pricing and 2027 wage negotiations are on a target-consistent path for the medium term.

**Dave Ramsden:** Events in the Middle East remain the key determinant for inflation, and there remain upside risks from continued energy supply disruption as well as downside risks from subdued activity. There has been a material tightening in financial conditions, which is providing necessary restrictiveness, weighing against the upside balance of risks in the near term. I continue to place about equal weight on Scenarios A and B materialising after the summer, but even less weight than before on Scenario C. The evidence so far on how the economy will be impacted by the energy price shock is uncertain. Data outturns continue to confirm our understanding of the pre-conflict economy. The labour market has continued to loosen steadily, and the domestic disinflation process has also continued. Early, necessarily tentative, indications suggest that second-round effects might be limited, absent further escalation of the energy cost shock. Holding Bank Rate at this meeting keeps options open as we continue to learn more about the path of the conflict. My reaction function will remain

state-contingent on both the development of the conflict, and what that means for the outlook for the economy.

**Alan Taylor:** The conflict and its implications for energy prices remain of central importance, even as a deal emerges. Potential second-round effects are an endogenous consequence of the shock. That does not negate a key role for the starting position of slack in the economy and of our restrictive policy stance. Recent data point further against a need for tightening. Absent mechanical direct and indirect energy effects from the conflict, CPI inflation would have been at target in April. Backward-looking wage data suggest that pay growth did not get stuck at elevated levels. Material second-round effects require changes in price and wage-setting behaviour. I believe this channel is likely to be weak given the slack that has accumulated. Policy is restrictive, 75 basis points above my estimate of neutral and where we might have been quite soon. The yield curve shows we have tightened a lot just by holding. One could articulate a case for tightening in risk space, but that is far from my assessment given my own scenario probabilities and trade-offs. Absent worse news, I cannot see a case for tightening now, and an active hold is reasonable. If the conflict resolution holds, and risks diminish, lower rates could be preferred.

#### **Votes to increase Bank Rate to 4%**

**Megan Greene:** The implementation of a reported peace deal and the evolution of energy prices remain uncertain. Slack should mitigate the extent of second-round effects triggered by the energy shock, but households and businesses are more attentive to rises in inflation today. This is reflected in households' and firms' inflation expectations and the sensitivity of long-term expectations to short-term inflation surprises, which suggest expectations may be less solidly anchored. Given significant uncertainty about the extent of second-round effects, we should pursue a risk management strategy. Analysis conducted using the Bank's endogenous policy toolkit demonstrates that holding Bank Rate assuming lower second-round effects (Scenario B) but discovering next year they were greater (Scenario M, from my latest speech) and course-correcting results in inflation that peaks higher and remains above target the entire outlook. Hiking Bank Rate assuming greater second-round effects, then discovering they were smaller and course-correcting results in a very moderately lower output gap and inflation returns to target at the end of the forecast period. These risks are asymmetric, so we should insure against the possibility of larger second-round effects until we have evidence to determine they are not materialising. A proactive hike now in Bank Rate should help anchor inflation expectations.

**Huw Pill:** Upside risks to the lasting achievement of the 2% inflation target have increased in recent months on account of events in the Gulf and their implications for commodity prices and supply chains. Recognising the significant uncertainty that surrounds the UK inflation

outlook, raising Bank Rate to 4% continues to be the most robust monetary policy response to the intensification of these risks. Global energy prices remain volatile, and elevated compared with their pre-hostilities level, despite the announcement of a new ceasefire. Even with a looser labour market, the risk that second-round effects will create greater intrinsic persistence in UK inflation remains. One potentially pernicious channel of second-round effects is catch-up dynamics in pricing decisions as firms and households seek to defend their margins and purchasing power in the face of higher food and energy prices. While overall UK financial conditions have tightened since the conflict began, I continue to favour prompt but modest action on Bank Rate now. This would establish a stance of monetary policy that is well-placed to address the significant uncertainties the MPC faces. It will also put the MPC in a good place from which to respond to the evolution of events from here.

## Operational considerations

36. On 17 June, the stock of UK government bonds held for monetary policy purposes was £522 billion.

37. The following members of the Committee were present:

Andrew Bailey, Chair  
Sarah Breeden  
Swati Dhingra  
Megan Greene  
Clare Lombardelli  
Catherine L Mann  
Huw Pill  
Dave Ramsden  
Alan Taylor

Brian Bell was present as the Treasury representative.

Jonathan Bewes was present on 9 June, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.