

## Contributors

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## BoE: Dovish? Hawkish? Call It Neutral and Expect a March Pause

- **In line with expectations the Bank of England lowered its key policy rate today by 25bps to 4.50%, with an unexpected call for a 50bps cut by super-hawk Mann that misled markets that had a tough time with the 7–2 vote split and weaker growth forecasts versus a massive revision higher to inflation projections.**
- **We expect that the BoE will pause at its March decision, followed by a cut once a quarter with the possibility of an additional reduction in Q2 in light of weak growth and despite a temporary jump in headline inflation.**

In line with our expectation, and that of economists and markets, the Bank of England lowered its key policy rate today by 25bps to 4.50%. Overall, we remain comfortable with our view that the BoE will pause at the March decision, to follow it with a cut once a quarter with the possibility of an additional reduction in Q2 in light of weak growth, to close the year at 3.50%; this is 25bps below what is implied by markets and projected by the median economist polled by Bloomberg.

Markets and economists had a tough time interpreting today's decision given some contradictions in what the BoE messaged this morning in its suite of statement, minutes, Monetary Policy Report, and press conference. Most notably, BoE super-hawk Mann decided to join super-dove Dhingra in voting for a 50bps cut (in a 7–2 vote split), all the while the bank's updated projections show inflation peaking nearly a full percentage-point higher than in the November MPR—but also weaker GDP growth.

While gilt yields initially dipped on the statement, they quickly u-turned to sit only about 3bps lower in 2s (and unchanged in 10s), while the GBP is only about 0.3% lower vs pre-statement. Year-end BoE pricing sits about 5bps lower compared to yesterday's close, at ~3.80%, implying about 65bps in additional 2025 cuts from a post-cut effective rate of ~4.45%.

The statement, and later Bailey at his press conference, ironed out some of the kinks that were left by the revised inflation path which would have suggested a hawkish tone was perhaps necessary. The statement right away highlights that “there has been substantial progress on disinflation over the past two years” (ok, but... your new forecasts?), which is a new addition from December when they merely pointed out recent data and even highlighted expectations for a near-term uptick.

Regarding future inflation, the statement notes that “higher global energy costs and regulated price changes are expected to push up headline CPI inflation [...] even as underlying domestic inflationary pressures are expected to wane further.” This bit is key as it highlights that the BoE remains focused on core inflation and is not too troubled by the incoming acceleration in inflation seen in its new forecasts, a point that was echoed by Gov Bailey at his presser as he pointed to “factors that we expect to be temporary” (namely, household energy bills).

The BoE's growth path is considerably weaker than at the November MPR forecast round. These new GDP forecasts have the new market-implied path partly to blame as the BoE incorporates a 4.16% end-2025 policy rate this time around versus 3.72% in November (and compared to ~3.85% at yesterday's close); for end-2026, it now has 4.11% vs 3.66% in the previous MPR. From expecting growth in Q4–25 at 1.7% in November, the BoE has sliced 1ppt off that shows a 0.7% predicted expansion to close out the year. In contrast, Q4–26 growth was revised higher to 1.4% from 1.1%, though base effects and a recovery from depressed growth (with the weaker Q4–25 forecast) are the likely driver.

Nevertheless, the BoE notes that growth has been weaker than expected, and confidence metrics have worsened while job markets have continued to ease and are “broadly in

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balance”. The statement also does not highlight recent trends in wages growth as it had in the December decision, which maybe suggests they’re finally coming to terms with the backwards-looking nature of pay growth figures (which are also of dubious quality).

In terms of guidance, the main change to the statement was in the BoE now saying that “a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate”, where “careful” is now part of the BoE’s assessment. It could go both ways, thinking that the BoE is wary of having too high of a policy rate, or that the BoE is still cautious about removing restrictiveness too quickly to then be surprised by inflation overshoots. But, Bailey has the answer, the inclusion of “careful” is in reference to global economic uncertainty—where, of course, tariff/trade war risks reign supreme.

Finally, regarding the strange vote flip by hawk Mann, the minutes to the decision provide some insight into this strange decision where the justification is quite different to that of Dhingra. While Dhingra has rested her case on continued demand weakness that should keep inflation (especially underlying) at the target in the medium term, Mann believes that “a more activist approach” would give “a clearer signal of financial conditions appropriate for the UK, even as monetary policy would need to remain restrictive”. Put another way, Mann seems to think there’s a case for resetting rates to a more adequate level given current conditions, perhaps anticipating risks to market yields from the upcoming acceleration in inflation that would prevent rate action when these take place. Her emphasis on the need to remain restrictive implies that she’s not calling for a much lower rate over the medium-term than she previously envisioned.

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