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GLOBAL ECONOMICS

FLASH REPORT
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Contributors

Juan Manuel Herrera
Senior Economist
+52.55.2299.6675 (Mexico)
juanmanuel.herrera@scotiabank.com

BoE Holds but Leans Towards a December Cut

- **The Bank of England went ahead with a third consecutive rate hold at 4.00%, meeting the expectations of most economists and traders, albeit with a more dovish 5–4 vote split after September's 7–2 rate hold.**
- **The statement and meeting minutes, fresh though little-changed projections, and Bailey's presser (when he said each decision is becoming a "closer call") point to the BoE lowering Bank Rate by 25bps at its final meeting of the year, on December 18th. Markets are assigning about 70% odds to a cut then.**
- **Expectations for December's decision could significantly change over the next few weeks, with the Budget announcement on the 26th, two GDP releases, two monthly employment reports, and two monthly CPI readings all on tap.**
- **The BoE's decision statement was brief, but highlighted that "CPI inflation is judged to have peaked" and that risks to the inflation picture "are now more balanced."**
- **Today's meeting minutes also presented the individual opinion of officials for the first time, which should serve as a reference against how their stance on easing evolves ahead of the December announcement.**
- **We continue to expect the BoE will cut rates in December (with the information at hand), followed by one 25bps rate cut during each of 1Q and 2Q26 to a terminal rate of 3.25%.**

The Bank of England went ahead with a third consecutive rate hold at 4.00%, meeting the expectations of nearly all economists and in line with the ~75–80% odds that markets were assigning to a hold. The vote split of 5–4 marks a dovish turn from the 7–2 breakdown of the December announcement and against expectations for a 6–3 split. Doves Dhingra and Taylor, both external members of the Monetary Policy Committee (MPC), were today joined by Breeden and Ramsden, both being BoE Dep Govs (Financial Stability, and Markets and Banking, respectively), in support of a reduction today. Despite the more dovish tilt to today's decision, the market reaction was relatively muted with gilts and the GBP generally moving in line with peers aside from a slight increase in near-term cut expectations.

Ultimately, BoE Gov Bailey, who said each decision is becoming a "closer call", sided with the more hawkish half of the MPC to keep policy steady today. However, the statement and meeting minutes, a fresh Monetary Policy Report (MPR), and Bailey's comments during the press conference point to the BoE lowering Bank Rate by 25bps at its final meeting of the year, on December 18th. The BoE's updated economic projections for the quarters ahead were little changed from the August round, with no surprises for markets and economists, showing a continued deceleration in inflation from 3.5% in Q425 to 2.5% at end-2026 and to 2% at end-2027 with GDP growth remaining around the mid-1s over the medium-term to pick up a bit of speed from 2H27 and beyond (below 2%).

A year-end 3.75% BoE rate with a rate cut in 4Q has been our expectation throughout most of the year, with the BoE keeping to a quarterly, gradual, cadence of policy easing, but we must admit this forecast looked a bit more touch-and-go at the time of the September announcement. Then, the BoE's cautious stance and its worries about the inflation path indicated the next rate cut may not come until 1Q26, with markets then only assigning about 25% odds of additional easing in 2025.

Today's decision has left markets pricing in about 70% odds of 25bps rate cut at the December decision, which may be as high as certainty can get at the moment given the flood of information that awaits in the interim. Over the next five weeks, we'll have the Budget announcement on the 26th, Q3/September and October GDP, two monthly employment reports, and two monthly CPI readings that could massively shift economists' and markets' expectations.

That said, the information that we have at hand today after the BoE's announcement reinforces our expectation for quarterly rate cuts to continue until 2Q26 to leave the policy rate at 3.25% over the forecast horizon.

The BoE's decision statement was brief, but highlighted that "CPI inflation is judged to have peaked" and that risks to the inflation picture "are now more balanced." This acknowledgement of reduced upside risks to inflation is a key component of today's announcement that suggests the BoE will be more confident in lifting policy restriction, with the communiqué also noting that "the extent of further reductions will therefore depend on the *evolution of the outlook for inflation*. If progress on disinflation continues, Bank Rate is likely to continue *on a gradual downward path*."

This closing section contrasts with the September text saying "a gradual *and careful* approach to the further withdrawal of monetary policy restraint remains appropriate," and also has a more forward-looking or proactive component noting the evolution of the inflation outlook versus September's seemingly more reactive stance conditioning rate cuts on "the extent to which underlying disinflationary pressures continue to ease." The removal of the focus on "underlying" inflationary pressures also reflects the BoE paying closer attention to the broader prices basket as food inflation can have an outsized impact on households' inflation expectations (misaligned with its weight in the basket).

Today's meeting minutes also presented each official's views separately for the first time, outlining their reasoning for their respective hold or cut votes as officials struggle in determining the balance of weak demand-side indicators (employment and spending) against still-elevated current and forward-looking inflation metrics. The MPC's individual views could serve as a guide in monitoring public comments to gauge how their easing stance evolves ahead of the December gathering. With Bailey, Breeden, and Lombardelli sitting in between the doves and the hawks, it will likely be their views that get the most attention.

The Governor said that "upside risks to inflation have become less pressing since August, and I see further policy easing to come if disinflation becomes more clearly established in the period ahead" and that "current market pricing is close to the path suggested by a forward-looking Taylor rule, which is a fair description of my position at present" (markets are eyeing between 50–75bps in additional cuts). Breeden justified her cut vote on easing concerns of upside risks to inflation, but also highlighted that "we will need a higher accumulation of evidence on disinflation as we feel our way towards neutral next year, where I see benefits in retaining some insurance against potential structural changes in the labour market." Finally, Lombardelli (hold) said she worries that "there may be more underlying inflationary pressure in the economy than embodied in the central projection. Despite recent softer-than-expected data, forward-looking indicators of inflation have been less benign, particularly around pay settlements next year."