MPC UPDATE

Kensington

BANK EXTENDS RATE PAUSE AS INFLATIONARY PRESSURES BUILD

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The Bank of England's (BoE) Monetary Policy Committee (MPC) voted today to hold interest rates at 3.75% by a majority of 6-3, marking the sixth consecutive meeting at which Bank Rate has been left unchanged. Three MPC members voted for an immediate 0.25 percentage point increase to 4%, highlighting continued concern among some policymakers that inflationary pressures could prove more persistent than anticipated.

The decision comes against a less favourable inflation backdrop than the Bank faced at its previous meeting. Inflation rose to 3.1% in August, up from 2.9% in July, with higher motor fuel costs making the largest contribution to the monthly increase. This leaves inflation well above the Bank's 2% target and suggests that recent progress towards bringing price pressures under control remains fragile.

Energy markets continue to represent one of the biggest uncertainties facing the UK economy. Sustained global instability has contributed to further increases in wholesale energy prices since the Bank's previous meeting, with prices remaining both elevated and volatile. The Bank now expects inflation to rise further over the coming quarters, with its latest projections suggesting inflation could reach slightly above 4% in early 2027.

At the same time, there remains some evidence that domestic inflationary pressures are easing. The Bank said there has so far been little evidence of material second-round effects on wages and price-setting, while softer labour market conditions and tighter financial conditions should continue to weigh on inflation over time. However, the MPC also warned that the risk of broader and more persistent inflationary effects increases the longer energy prices remain elevated.

Borrowers have already seen some movement in fixed-rate pricing, with a number of lenders increasing fixed rates in recent weeks as market expectations shifted, with reported rises of up to 0.3 percentage points. The Bank itself noted that the quoted rate on a two-year fixed-rate mortgage was around 95 basis points higher than before the recent energy shock.

For borrowers approaching the end of a fixed-rate deal, this reinforces the value of reviewing options sooner rather than later, as lenders continue to assess pricing in response to changing market conditions. Meanwhile, borrowers on Bank Rate-linked tracker mortgages will see no change to their interest rate as a result of today's decision, providing some welcome short-term stability.

While the latest announcement extends the Bank's run of rate holds, the outlook for monetary policy is becoming less straightforward. The 6-3 split shows that there remains a clear divergence of views within the MPC, while the Bank has indicated that if higher energy prices persist and evidence of second-round effects becomes stronger, it may need to tighten policy. For the mortgage market, this means the path ahead has also become less predictable. While earlier in the year expectations had been building around further reductions in Bank Rate, renewed inflationary pressures have made the timing and pace of any future cuts less certain.

Periods of uncertainty can also reinforce the value of professional advice. As lenders continue to review their product ranges and pricing, brokers can play an important role in helping customers understand how their options are evolving and identify solutions suited to their individual circumstances, whether they are purchasing a property or preparing to remortgage.

Andy Bickers
Commercial Director

Andy has nearly 30 years of experience across a range of business functions and industries. He joined Kensington in February 2025 as Commercial Director with responsibility for proposition development, product management, marketing, customer experience and sales.

Prior to joining Kensington, Andy spent 13 years at Lloyds Banking Group in senior Product, Commercial and Transformation Director roles across UK Mortgages and Savings. In his earlier career, he worked in a variety of strategy, sales, marketing, pricing, proposition and finance roles across the Energy, Telecoms and FMCG sectors.

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