MPC UPDATE

# BOE HOLDS FIRM AS INFLATION PRESSURES LINGER

**ANDY BICKERS | COMMERCIAL DIRECTOR**

**The Bank of England's (BoE) Monetary Policy Committee (MPC) held interest rates at 3.75% today in its first meeting of 2026. The decision was approved by a narrow majority of five to four, with the minority supporting a 0.25% cut to 3.5%. The pause follows the Bank's decision to lower rates in December last year after holding at 4% from August 2025. With the next meeting due to take place in March, markets are increasingly pricing in a further cut, provided economic data continues to move in the right direction.**

Today's decision reflects the delicate balancing act facing policymakers. On the one hand, inflationary pressures are easing as the labour market softens. Unemployment increased to 5% in the three months to September 2025, the highest rate since the period covering December 2020 to February 2021. Meanwhile, wage growth slowed to 4.5% between September and November last year, the slowest pace in five years. Together, these indicators point to a gradual reduction in domestically driven inflation pressures.

Nevertheless, the latest UK inflation data for the twelve months to December 2025 came in at 3.4%, up from 3.2% in November, with tobacco duties and airfares among the factors driving prices higher. While inflation is expected to continue falling, price growth is still forecast to remain above the BoE's 2% target for some time. In the BoE's latest Market Participants Survey, the expectation is that inflation will drop below 3% by Q2 2026 but shows no sign of falling below the Bank's 2% target.

Encouragingly, the UK economy has shown greater resilience than expected, with GDP estimated to have increased by 0.3% in November 2025. While still only moderate growth, analysts had expected just a 0.1% increase, with November's figures also following a 0.1% contraction in October. Just under half of November's growth was driven by a rise in industrial output, with the services sector also growing more than expected.

With a rate hold mostly priced in by lenders, today's decision is unlikely to lead to significant immediate impact on mortgage pricing. Swap rates have been relatively stable, and many lenders had already adjusted pricing in recent weeks. Several larger lenders – including Nationwide, Santander, and NatWest – had also begun to raise mortgage rates after weeks of cuts in anticipation of today's announcement.

Looking ahead, borrowers and brokers will be watching the March meeting closely. Provided inflation continues to ease, further rate cuts this year remain a realistic prospect. In the meantime, today's decision reinforces the expectation that any easing cycle is likely to be gradual, with modest improvements over time rather than any sudden shift in borrowing conditions.

**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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