

## The Bank of England is deeply divided, but we're expecting a rate cut this week

The Bank of England is heavily divided. Four of the nine-strong committee are pushing for faster rate cuts; another four think the opposite. Nothing that's happened since November's meeting is likely to change their minds, though we think Governor Andrew Bailey will swing in favour of a cut this week. We expect further cuts in February and April 2026



Bank of England Governor Andrew Bailey may tip the scales toward a rate cut this week

### A rate cut is more contentious than market pricing suggests

Could the Bank of England shock everyone and keep rates on hold when it meets on 18 December?

For investors, it certainly would be a shocker; markets are pricing a cut on Thursday with a 90% probability. We agree that a cut is likely – particularly with that level of conviction among investors.

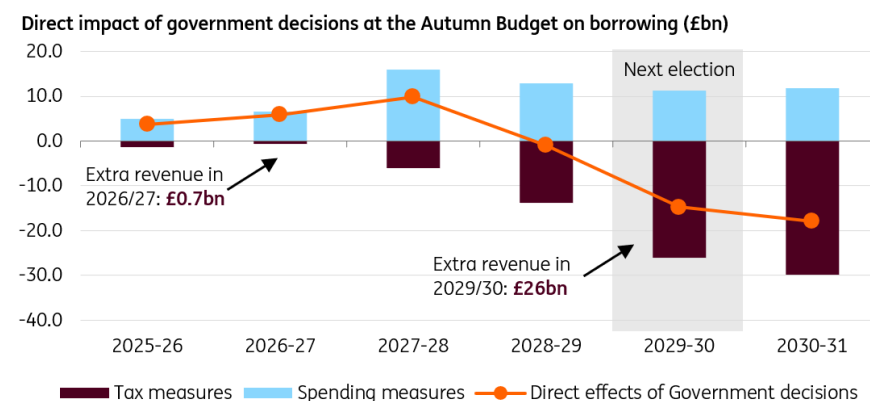
Yet the news since November's decision – when the Bank narrowly voted to keep rates on hold – hasn't exactly been a slam dunk for a cut this time. [October's inflation](#) data saw a rebound in food inflation and ongoing stickiness in services, once airfares were stripped out – even if both are

fractionally below the BoE's November forecasts.

The long-awaited [Autumn Budget](#) also failed to move the dial materially in favour of more rate cuts. Certain measures – the cut to energy bills, the freeze in train fares – will shave a few tenths of a percentage point off headline inflation next year. That is helpful at a time when the Bank is worried about elevated rates of headline CPI – currently 3.6% – and the potential knock-on impact on expectations.

But more importantly, the Budget, if anything, will result in a small fresh stimulus next year. Taxes may ultimately be going up by £26bn/year, but in FY2026, revenues are expected to be up by less than £1bn as a result of new measures contained in the Budget. It would have required a more upfront tightening to shift the case for monetary policy easing.

## For all the talk of tax hikes, the Budget resulted in a small net stimulus next year



The background here is that the Bank is heavily divided over where inflation is headed next. The four dovish committee members point to the weaker jobs market and falls in wage growth. The four hawks worry about elevated rates of food inflation, as well as ongoing supply-side constraints.

Nothing that's happened in the past eight weeks since the November decision is likely to have changed their minds – though we do get another set of inflation and jobs figures ahead of Thursday's announcement.

Stuck in the middle of it all is Governor Andrew Bailey. He sits between those two camps and almost certainly holds the deciding vote this week. Crucially, though, he wrote in the November meeting minutes that he has more sympathy with the doves.

It sounded like he was edging towards voting for a cut last month, but wanted more evidence that inflation was coming down. On the basis that inflation has largely come in line with the Bank's forecasts since then, and if anything a tad below, we suspect he will favour a cut this week. That sets up a 5-4 vote in favour of lowering rates to 3.75%.

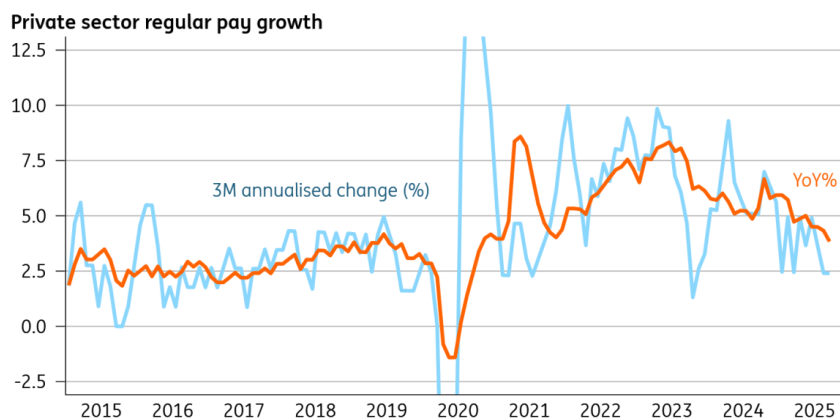
## We expect two more cuts in 2026

What comes next is more uncertain. The fact that the committee is this divided means that it only

takes one or two officials to shift their view to completely reshape the pace of rate cuts. But as we wrote in [our 2026 outlook](#), we think it will become more apparent over the coming months that the UK is becoming less of an inflation outlier.

Wage growth is coming down rapidly; private sector pay growth on a three-month annualised basis sits at just 2.4%. And while the fall in private sector employment has eased, it is nevertheless falling. The unemployment rate is edging higher. Hiring surveys have stayed weak.

## Wage growth is slowing rapidly



Source: Macrobond, ING

That points to further downside in service sector inflation, helped by rapidly slowing rental growth. Data from the eurozone also suggests that food inflation should start to come down from early next year, if it hasn't already. Remember that has been a key obsession of BoE hawks in recent months. Overall, we think headline inflation will fall back to 2.3/2.4% by May.

All of this at a time when GDP growth has been disappointing. October's surprise fall in output makes it hard to see the economy expanding overall in the fourth quarter.

That all helps build the case for further easing. We currently expect further cuts in February and April next year, taking the policy rate down to 3.25%, though it's possible those moves come a meeting or so later than we expect.

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