28 November 2025

Report to the Treasury Committee

Dave Ramsden, Deputy Governor Markets and Banking at the Bank of England

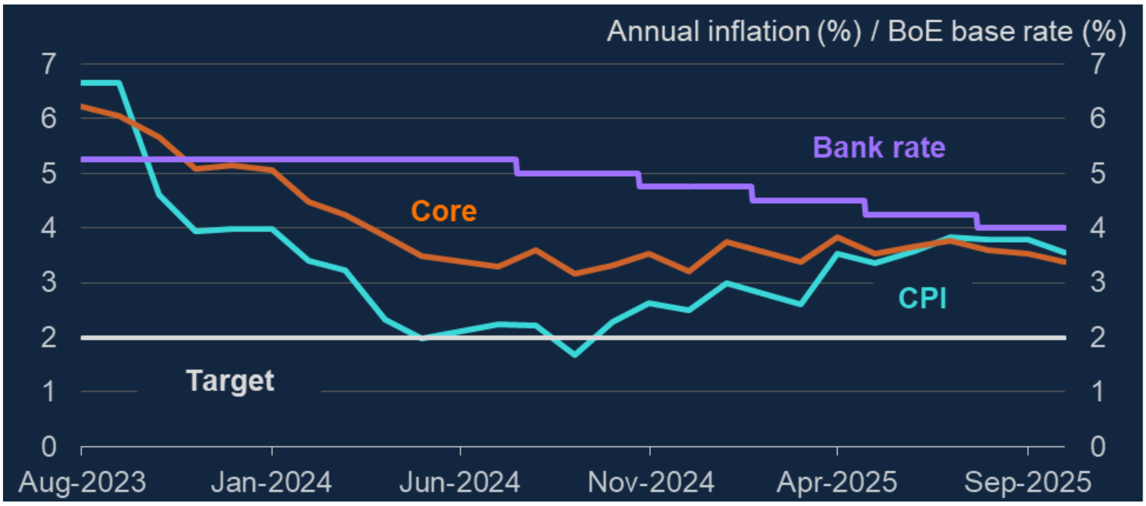
This report covers the period since my last report to the Treasury Committee, submitted on 14 November 2023.

Economic developments, November 2023 to November 2025

To frame my comments on the evolution of the UK economy since my last report I think it's helpful to show the path of headline and core CPI inflation, along with the level of Bank Rate.

Chart 1 illustrates two distinct periods over the two years: a fall in headline CPI to the MPC's 2% target and then over the last year, the emergence of an inflation hump, which now appears to have peaked.

Chart 1: Bank Rate, headline and core CPI inflation



Throughout the whole period two economic mechanisms have been at the forefront of the MPC's and my deliberations. First, domestic inflationary persistence, and the extent to which those inflationary pressures have been receding. Second, the state of the labour market and implications for second round effects and wage growth, which underpins the extent to which the domestic disinflationary process has remained intact.

2024 was marked by a rapid phase of disinflation which saw inflation return to the MPC's 2% target by May, but this return to target wasn't sustainable. Beneath the positive developments on headline inflation was a more complex set of divergent trends in the contributions of the main components of inflation. The rapid disinflation principally reflected the unwinding of earlier energy and goods price shocks, whilst services inflation, which is relatively labour intensive and where second round effects are most evident, remained elevated; and hence the elevated level of core inflation relative to headline through 2024 as shown in Chart 1.

Alongside these trends in inflation, by the end of 2024 underlying activity had been subdued and the labour market had loosened substantially, with vacancies down over a third from their post pandemic peak. There were various developments towards the end of 2024. First, there was a significant upside surprise in annual private sector regular average weekly earnings (AWE) growth in the three months to October 2024 coming in at 5.4%, leaving the level of AWE 1% above the November 2024 forecast, and well above the swathe of estimates which could be explained by our forecasting models. Second, the autumn Budget announced a significant increase in employer National Insurance Contributions (NICs) as well as a large increase in the living wage, both of which would have material impacts on the labour market. Third a range of administered and regulated price increases were announced, which cumulatively would add to headline inflation in 2025.

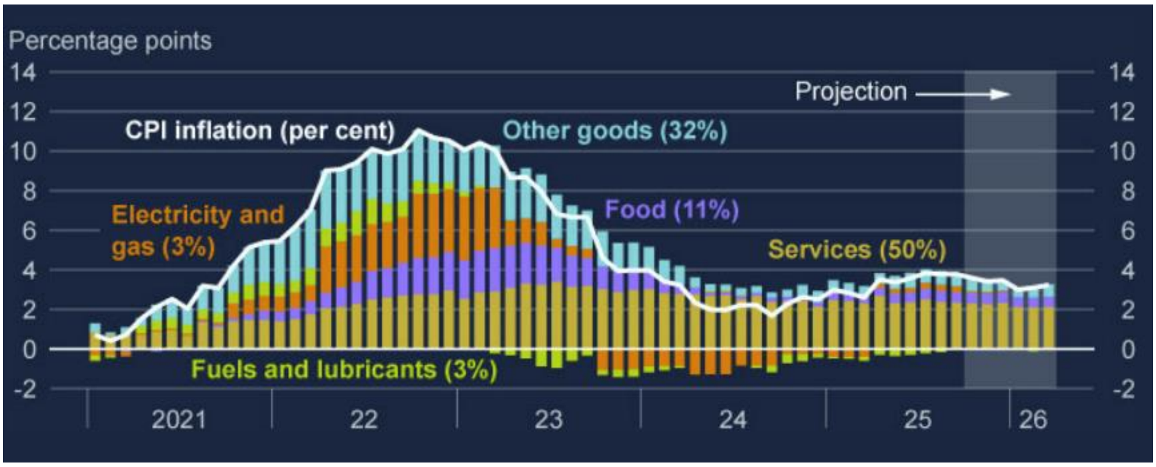
By the time of our February 2025 forecast it became apparent that we would see a large short-term hump in inflation, pushing headline inflation close to 4% by 2025 Q3, almost double our 2% target.

I would single out four key features of UK economic developments over 2025: (1) the hump in headline CPI inflation; (2) the implications of the hump for inflation expectations and potential additional second round effects on wages; (3) the cumulative evidence of loosening in the labour market and an increase in unemployment, consistent with an emergence of slack in the economy; (4) falling wage growth in line with the Agents' pay survey, and the support that provides to the core disinflation process. Taking each in turn:

(1) Headline inflation picked up from 2.5% in December 2024 to a peak of 3.8% in July, August and September 2025 before falling back to 3.6% in the latest data for October 2025. As set out in the November 2025 Monetary Policy Report (MPR)[1], the unusually large increases in administered prices are estimated to have accounted for 0.4% of the overshoot in CPI inflation from target. Food, beverage and tobacco prices are estimated to be contributing a further 0.4%, with much of the remaining 1% of the overshoot judged to reflect elevated labour cost growth, due to past strength in wage growth as well as higher NICs, which in turn has pushed up services, and to a lesser extent, goods inflation.

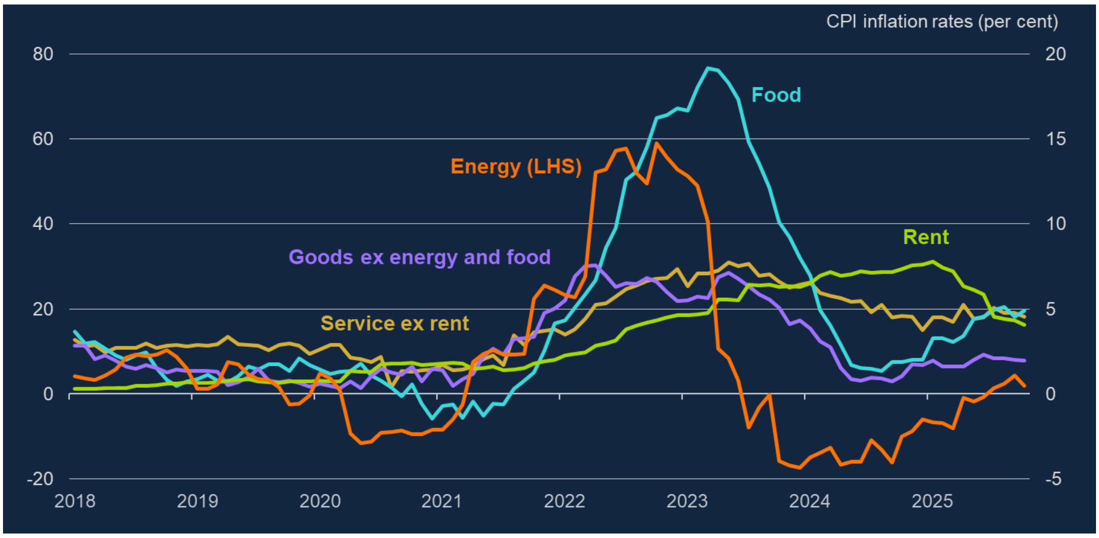
[1] See section 1.1 of the Monetary Policy Report - November 2025 | Bank of England

Chart 2: Contributions to CPI inflation



(2) When assessing the developments in inflation and inflation expectations I find it useful to look at the relative pace of the increase and subsequent fallback of the different components of CPI inflation – the 'waves' of inflation I've highlighted in a number of speeches over this period, and shown in Chart 3. It shows, first, the negative impact of energy prices falling out of the annual comparison, providing upward pressure on headline CPI inflation. Second, the services ex. rents disinflation process – central to the domestic inflationary persistence challenge – stalled in 2025, staying at 4.6% in October 2025 the same rate as in October 2024. Much of that can be explained by one-off impacts from administered prices, with higher frequency measures of underlying measures of services inflation having continued to trend downward. Third, food prices notably picked up, from 2.0% in December 2024 to a peak of 5.1% in August 2025.

Chart 3: Inflation rates of the components of CPI inflation



The pick-up in food prices has been pertinent for inflation expectations given the salience of food prices to household expectations. Measures of household inflation expectations – like the Bank/Ipsos survey – have picked up this year with short and medium-term expectations elevated relative to historical averages and these can contribute to additional second round effects in wages.

(3) In assessing the labour market, the MPC has consistently turned to the ratio of vacancies to unemployment as a measure of labour market tightness, as well as indicators like the Agents' scores on recruitment difficulties. These point to cumulative evidence of material labour market loosening through the year, with the V/U ratio now some way below the Bank's estimate of the equilibrium V/U and the unemployment rate rising to 5.0% in the three months to September.

The state of the labour market has been key in assessing the risk that second round effects would emerge. Whilst elevated CPI inflation does appear to have increased inflation expectations, the labour market slack appears to have mitigated the risk that elevated expectations would feed through into wage negotiations through the inflation/inflation expectations/wages nexus.[2]

(4) Through 2025, the MPC has anchored its forecast for wage growth in the Agents' annual pay survey which reported average settlements falling from 5.4% in 2024 to an average of 3.7% in 2025. That process has largely borne out, with the latest annual private sector regular AWE growth falling to 4.2% in the three months to September 2025, down from 6.2% in the three months to December 2024.

Voting record

In the 16 MPC decisions from December 2023 to November 2025 I have voted in the minority five times; on each occasion I've voted for a 25bp cut against the majority decision to hold Bank Rate.

In the first half of 2024, I was focused on the extent to which the UK's inflation performance and degree of persistence made it an outlier among advanced economies. As I set out in a speech in April 2024, I saw the developments in headline inflation, the labour market and wage growth as evidence that the UK was less of an outlier and more of a laggard. With the restrictive stance of monetary policy – held at 5.25% since August 2023 – usual economic mechanisms would therefore apply and bring us back in line with trends of international counterparts in experiencing inflation returning to lower and more stable rates. I therefore voted in the minority for a 25bp cut in both the May and June 2024 MPC meetings.

The MPC began reducing Bank Rate from August 2024, describing the approach as a 'gradual' removal of policy restraint from September 2024, and subsequently cutting by 25bp again in November 2024.

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[2] See Outlier or laggard: divergence and convergence in the UK's recent inflation performance for further detail on the inflation/inflation expectations/wages nexus

By December 2024, I saw concerning signs of a larger than expected labour market shakeout, with UK job-to-job flows weakening significantly, and the Agents' recruitment difficulties scores turning negative for the first time in the post pandemic period. Together economic developments pointed to a need for further easing in policy restrictiveness and I voted in the minority for a 25bp cut.

The turn of 2025, with the significant nominal developments in prices and wages I described in the prior section, led to a reset of my view of the outlook. The clearer evidence of a break in nominal data from the continued weakness in real activity put the MPC in clear trade-off territory, and posed a challenging question on the extent of slack in the economy.

The Bank's work in response to the Bernanke review has proven very helpful in this regard, by setting out different, plausible, scenarios of the state of the UK economy. When faced with a complex and uncertain outlook, it has been useful to consider different scenarios that help to illustrate how different economic mechanisms might manifest in terms of upside and downside risks to the inflation outlook.

At the beginning of this year, in my approach to the MPC's forecasts and February decision, I found it helpful to consider two different qualitative scenarios around the central forecast: a weaker demand and a weaker supply scenario. I set this thinking out in a speech in February this year[3].

It seemed plausible that weaker demand could emerge as a result of increased uncertainty about the outlook for the economy. That could keep household savings elevated for precautionary reasons, and business investment subdued as businesses postponed investment. This would weigh on activity, increase spare capacity and exert more downwards pressure on wages and prices.

At the same time, I was also of the view that a weak supply scenario – that the growth in supply capacity, or 'speed limit' of the economy, has been even weaker than assessed by the MPC – was plausible. And could be explained by the set of supply shocks the UK economy has faced over the last ten years, including Brexit and the Covid pandemic. If that were the case that could help to explain why wages and prices remained more persistently sticky than I had expected at the end of 2024.

Against these two-sided risks, I voted with the majority of the MPC for a 25bp cut in Bank Rate in February and May. At the June MPC meeting, I saw more cumulative evidence of labour market loosening, which I explained further in a speech at the time[4], and voted in the minority for a 25bp cut. I then voted with the majority for a 25bp cut in August. I consider all these votes as consistent with a gradual and careful approach to setting monetary policy.

[3] Surveys, forecasts and scenarios: setting UK monetary policy under uncertainty — speech by Dave Ramsden | Bank of England

[4] Navigating an uncertain outlook: the signals from the labour market — speech by Dave Ramsden | Bank of England

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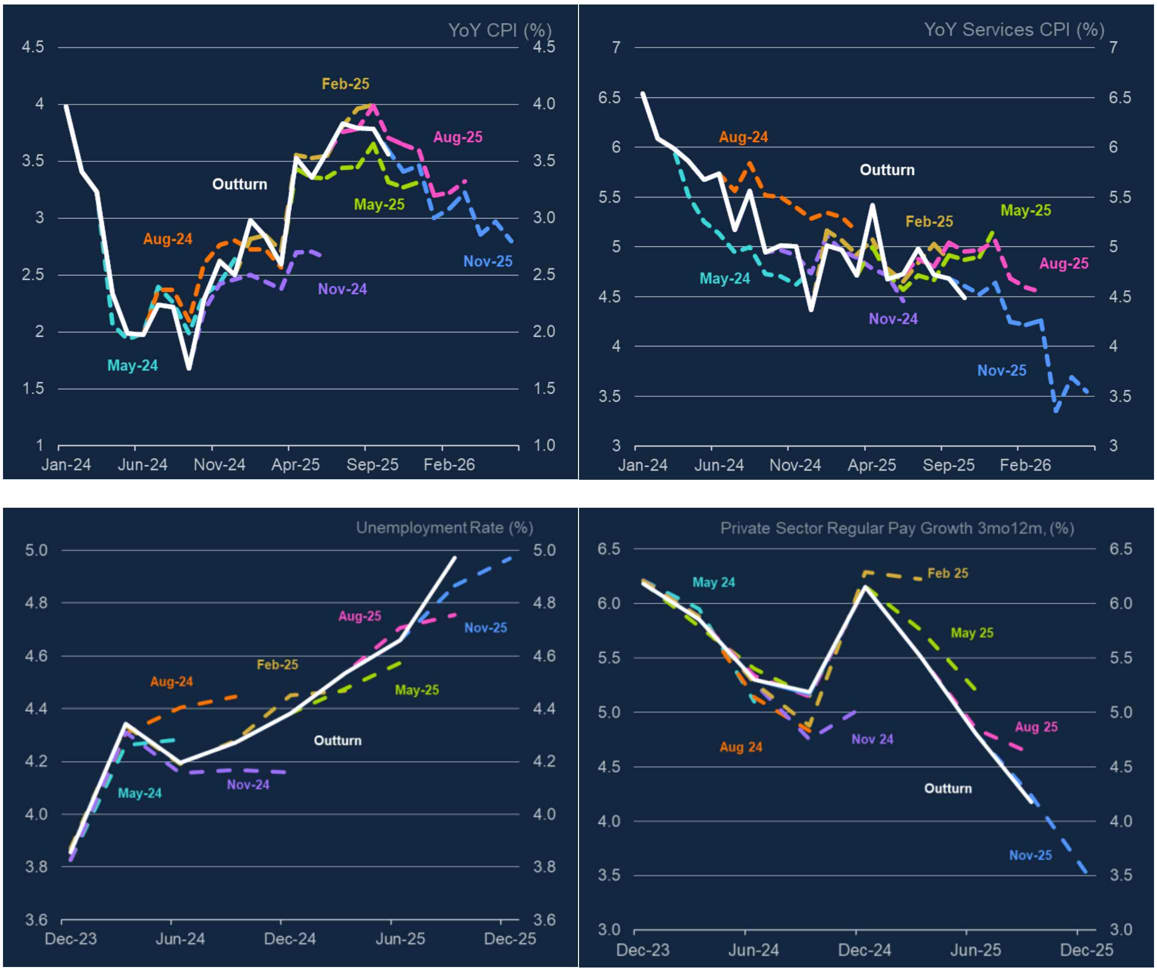
My assessment of the balance of upside and downside risks to inflation has evolved over the last few months in response to the emerging evidence. By the time of the November 2025 MPC decision I saw the risks as broadly balanced, around a baseline forecast which showed inflation declining steadily from its peak in 2025 Q3 to below 3% by next spring and returning to close to target by the start of 2027.

I have become increasingly confident in the outlook represented by our baseline forecast during the course of 2025. One reason for this is that our short-term forecasts – now or near-casts – for CPI inflation, services inflation, unemployment and wage growth have performed much better this year than they did in 2024, as shown in Panel A. In particular, the forecast of the peak and duration of the increase in inflation, the hump, has proved accurate, as has our assessment of the underlying drivers for the hump, including the marked pick-up in food price inflation. In addition, our short-term wage forecasts have turned out to be too high; the opposite of what happened at the end of 2024. This is important because it helps support the MPC's long standing judgement that second-round effects and therefore inflation persistence pressures would start to ease.

Panel A: "Porcupine" charts of recent now-/near-casts for key UK variables



Against this backdrop I voted in the minority for a 25bp cut at our most recent meeting in November. I will expand on my decision to vote for a cut at the November meeting, alongside my views on the outlook, in the next section.

Throughout this period the MPC has continued with its programme of quantitative tightening (QT), underpinned by the three key principles first set out in the August 2021 MPR. In September 2024, the MPC voted to reduce the stock of UK government bond purchases by £100 billion from October 2024 to September 2025. And in September 2025, the MPC voted to reduce the stock of UK government bond purchases by £70 billion from October 2025 to September 2026, reflecting £20.9bn of active sales and £49.1bn of maturities.

For this year's QT sales programme, the Bank Executive will aim to sell fewer long maturity sector gilts than gilts at other maturities, to better reflect demand conditions. It decided that approximately 40% of the MPC's target would be met by selling short maturity sector bonds, 40% medium maturity sector bonds, and 20% by long maturity sector bonds, measured in initial proceeds terms. Five auctions have taken place in Q4 2025, two short, two medium and one long maturity.

Given my executive responsibilities at the Bank for financial markets and the Bank's balance sheet I will also briefly comment on the ongoing transition to a repo-led, demand driven framework for the supply of reserves. As a result of QT and the unwind of the Term Funding Scheme with additional incentives for Small and Medium Sized Enterprises (TFSME), the quantity of reserves has been steadily falling since February 2022. Since balance sheet unwind began, the quantity of reserves have so far decreased by c.£325bn to stand at £654bn at present, and continue to trend lower.

To meet our objectives for monetary and financial stability the Bank intends to let the level of reserves be driven by our counterparties' demand in the lending facilities we offer them. In particular, we have two weekly market-wide facilities to supply the majority of reserves to the market: the Short-Term Repo (STR) and the Indexed Long-Term Repo (ILTR). Consistent with that transition, we have seen increased use of both our STR and ILTR operations. We welcome this; it is intended and consistent with a gradual move from a supply-led framework, largely determined by assets bought through earlier Quantitative Easing programmes, to a demand-led one. Reserves would have been much lower if our facilities had not been broadly used and, together, the STR and ILTR currently supply £158bn of reserves.

More broadly, our financial markets' function continues to monitor market developments. I'll highlight three specific developments this year:

- First, uncertainty has led to some substantial bond market price moves through the year, and particularly in April following the US government's trade policy announcements. Notably, increases in US treasury yields spilt over into UK government bond yields, as well as other advanced economies, explained further in the May 2025 MPR.[5]

- Second, concerns over fiscal sustainability and geopolitical uncertainty have increased term premia – which is the additional compensation that investors require to hold longer-term bonds. This has been reflected in bond markets by a steepening in the yield curve, a common theme across advanced economies, and apparent in gilts. As noted in the November 2025 MPR[6], market concerns about sovereign debt sustainability could lead to fiscal consolidation measures, weighing on UK and global demand.
- Third – a longer-term trend – the increased role of leveraged non-bank financial institutions, particularly hedge funds, in core government bond markets. Given this long-term trend, we have been closely monitoring risks of rapid deleveraging in government markets and the associated risks of such an event; I set out some of these risks in a speech in December 2024[7]. Despite the increased uncertainty over geopolitical and market developments, and resulting impacts on bond prices and term premia, there have been no significant impacts on UK macroeconomic developments.

The outlook for the economy and policy

Our short-term forecasts have had a good record this year and I've been progressively more confident in the outlook and the key judgements which underpin our baseline forecast. Whilst I find some of the mechanisms at play in the scenarios considered by the MPC this year plausible, I do not currently think there is evidence to suggest that the economy is developing out of line with our baseline forecasts. For me, the burden of proof has to be on proving that upside or downside risks to the central outlook are materialising, rather than the other way round.

At the time of our November decision I saw risks around our central projection as broadly balanced, although the downside risks were more prominent for me relative to August. Returning to my labour market lens, I found Bank staff analysis in the November MPR informative, highlighting how we're now in the flatter part of the Beveridge curve with indications that further labour market loosening may be jobs heavy. [8] This would be consistent with using the LFS flows data, which shows a pick-up in the separation rate (inflows to unemployment), something I highlighted in a speech in June[9]. I find the mechanisms in the downside scenario plausible[10]; households' worries about the outlook

[5] Monetary Policy Report - May 2025 | Bank of England
[6] Monetary Policy Report - November 2025 | Bank of England
[7] Getting the balance right: ensuring the Bank's balance sheet can support financial stability — speech by Dave Ramsden | Bank of England
[8] See Box E of the November 2025 Monetary Policy Report
[9] Navigating an uncertain outlook: the signals from the labour market — speech by Dave Ramsden | Bank of England
[10] See Box D of the November 2025 Monetary Policy Report

may continue to keep the saving ratio elevated. When assessing upside risks, analysis on the salience of different components for inflation expectations has persuaded me that the impact on the current wage-setting process will be modest; in part due to the looser state of the labour market limiting the impact of elevated inflation expectations on the wage bargaining process.[11] A more compelling potential upside risk comes from the supply side, as I've already highlighted, though there is currently little supporting evidence.[12]

In the face of all these considerations I voted for a 25bp reduction in Bank Rate at the November MPC meeting. Disinflation had become better established, and current and prospective slack should allow underlying inflation to return to target-consistent rates. I attached a greater weight than previously to downside risks, given that these would reflect a continuation of current trends, with particular concerns that household saving would remain elevated and weigh on consumption.

That outlook is dependent on two important judgements. First, the MPC's key policy judgement that underlying domestic wage and price pressures will continue to ease. Second, the restrictiveness of policy and the extent to which it will continue supporting the disinflation process.

On the first judgement, the latest evidence provides some comfort that underlying inflationary pressures are still easing, But I will remain watchful of any indications of additional inflation persistence. Indeed, I will be focused on the findings of the upcoming Agents' annual pay survey to inform my view for wage growth in the coming year.

On the second judgement, the November MPC minutes noted discussion MPC members have had on the equilibrium, or neutral, level of Bank Rate. The MPC has previously published an estimated range of 2-4%, based on different approaches to estimation, for the neutral rate. From my perspective, in terms of my assumption for the neutral rate, my starting point is that it has certainly risen since we last provided a full analysis in 2018 and most likely now lies relatively close to the middle of the 2-4% range. I therefore judge that our policy stance continues to be restrictive.

Absent any unforeseen shocks, I therefore think we can have increasing confidence that the currently restrictive level of Bank Rate will support the disinflation process, and bring headline inflation below 3% by spring 2026 and back towards the 2% target by 2027, in line with our central forecast.

However, I do want to flag the considerable uncertainties around any assumption or judgement on the neutral rate, as exemplified by the wide range of estimates. As such, as Bank Rate approaches neutral, the contribution of monetary policy to underlying disinflation will become harder to discern, making the case for further policy easing more finely

[11] See Box B of the November 2025 Monetary Policy Report
[12] See Box F of the November 2025 Monetary Policy Report

balanced. I therefore think a gradual removal of policy restraint remains appropriate, allowing the MPC to assess carefully the balance of risks to inflation as the evidence evolves, with a focus on returning inflation to the MPC's 2% target sustainably in the medium term.

Explaining monetary policy

Since my last report to the Treasury Committee in November 2023 I have given 10 on the record speeches. Five of these speeches were specifically on monetary policy issues.

- "Going with the flow: how liquidity risks have evolved in the higher rate environment" given at the European Systemic Risk Board annual conference, November 2023
- "Back to the future" given at the Society of Professional Economists Annual Conference, November 2023
- "The weekend starts here" given at Deloitte, London, December 2023
- "Bond trading, innovation and evolution: a Bank of England Perspective" given at Glaziers Hall, AFME Bond Trading, Innovation and Evolution Forum, February 2024
- "Outlier or laggard: divergence and convergence in the UK's recent inflation performance" given at the Peterson Institute of International Economics, Washington DC, April 2024
- "Back to the Future 2: Keeping inflation close to the 2% target" given at Leeds University Business School, Leeds, November 2024
- "Getting the balance right: ensuring the Bank's balance sheet can support financial stability" given at the Official Monetary and Financial Institutions Forum, December 2024
- "Surveys, forecasts and scenarios: setting UK monetary policy under uncertainty" given at the Bureau for Economic Research, Stellenbosch University, Cape Town, February 2025
- "Renewed RTGS: Digital public infrastructure as a platform for innovation" given at Innovate Finance Global Summit 2025, the Guildhall, London, April 2025
- "Navigating an uncertain outlook: The signals from the labour market" given at the Barclays-CEPR Monetary Policy Forum, June 2025

I have given three interviews to Bloomberg (November 2023), the Yorkshire Post (November 2024), and themoneystocker (November 2025) and have given numerous off-the-record talks to explain monetary policy and the wider work of the Bank, mainly to business and financial sector groups.

I have made nine visits to different areas of the UK over the last two years, to the East Midlands, North West, Scotland, Central Southern, West Midlands, Yorkshire & the Humber (twice), South East & East Anglia and Northern Ireland. During these visits I have also joined five Bank Community Forums with a range of local charities and other civil society groups, which I find valuable in complementing the rest of my external engagement.