

Appendix 2: Economic Commentary Economic & Interest Rate Forecast November 2025

Underlying assumptions:

- The economic data, monetary and fiscal commentary have heightened the downside risks to our Bank Rate forecast, making rate cuts beyond 3.75% increasingly likely. As noted in the September forecast, however, we expect the Budget on 26th November 2025 to be the deciding factor for the path for interest rates. We will therefore review our interest rate forecast after this event.
- The MPC maintained Bank Rate at 4.0% in a dovish 5-4 vote, but a cut to 3.75% looks increasingly likely as the Governor teeters precariously on the divide between the hold and cut camps. While denying the Budget was an influence on his decision, it surely played into his desire to have more information before easing policy.
- Inflation surprised by holding at 3.8% in September and is forecast to fall to 3.5% by year end. However, household inflation expectations have picked up, likely largely the result of the noticeable rise in food prices, feeding caution among some policymakers.
- While services inflation remains somewhat elevated, spare capacity has opened up in the labour market and wage growth is moderating, which should place further downward pressure on inflation. Continuation of the rapid growth in administered prices is also unlikely to occur to the same extent.
- Underlying GDP growth remains subdued. While H1 2025 has been relatively strong, Q3 GDP growth has slowed, with July/August's figures suggesting a lack of momentum. Business investment is lackluster and private sector output constrained by weaker domestic demand and spending. Ongoing uncertainty over the global outlook is still discouraging capital investment, particularly in the manufacturing sector. Downside risks persist, most notably the high probability of a tighter fiscal environment after the Budget, which may place downward pressure on consumption and growth.
- A more hawkish fiscal stance and easing inflation expectations have delivered lower gilt yields for the government. Given the outlook for growth and inflation, the key risk for yields appears to be Labour getting its own party on side with broad-based tax rises. Failure to do so could once again undermine credibility and lift gilt yields. Other factors continue to influence yields and boost term premia, the persistence of which is difficult to estimate.

Forecast:

- Bank Rate was retained at 4.0% in November. We continue to forecast a 0.25% rate cut in December to 3.75%.
- The UK Budget is an inflection point that may materially change the interest rate outlook. We will further review our interest rate forecast after this event; if in line with our expectations, our central forecast for Bank Rate will likely decrease below 3.75%.
- Short yields have declined to reflect a lower path for Bank Rate.
- Medium and long-term gilt yields have also declined but remain elevated for various reasons, both domestic and international. These issues may not be resolved quickly, but the UK Budget will be a key market driver.

	Current	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
Official Bank Rate													
Upside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central Case	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central Case	3.90	3.80	3.75	3.80	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.94	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Downside risk	0.00	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-1.00	-1.05	-1.10	-1.10	-1.10	-1.10
10yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.47	4.45	4.45	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40
Downside risk	0.00	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-1.00	-1.05	-1.10	-1.10	-1.10	-1.10
20yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.13	5.10	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	0.00	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-0.95	-0.95	-0.95	-0.95	-0.95	-0.95
50yr gilt yield													
Upside risk	0.00	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.73	4.70	4.75	4.65	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70
Downside risk	0.00	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-0.95	-0.95	-0.95	-0.95	-0.95	-0.95

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

National Wealth Fund (NWF) Rate = Gilt yield + 0.40%