

# BoE 2026 Outlook

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To assess the Bank of England's (BoE) economic strategy for 2026, we must look at the "independent consensus" of forecasts compiled by HM Treasury, which serve as the baseline for monetary policy expectations. These forecasts, as of February 2026, generally anticipate a cooling of inflation and a cautious easing of interest rates, but these projections are highly sensitive to the energy price shocks that a protracted war with Iran would trigger.

## 1. The 2026 Outlook: Baseline Projections

According to the HM Treasury summary of independent forecasts (February 2026), the UK economy is expected to follow a path of modest growth and stabilizing prices:

\* Official Bank Rate: The independent average for the official Bank Rate in 2026 is projected at 3.33%. However, there is a range of expectations, with some forecasters seeing it as high as 3.75% and others as low as 3.00%.

\* Inflation (CPI): The consensus for Q4 2026 CPI inflation is 2.2%. Most forecasters expect inflation to remain near the 2.0% target, with a narrow range between 1.7% and 3.1%.

\* GDP Growth: Economic growth is forecast to be a modest 1.1% for 2026.

\* Energy Prices (Brent Oil): The baseline assumption for oil prices in 2026 is an average of \$63.6 per barrel.

## 2. Contrast: The "Iran War" Scenario vs. 2026 Projections

The current conflict with Iran and its proxies introduces significant "upside risks" to inflation that the February 2026 outlook may not fully incorporate. A protracted war would likely disrupt the Strait of Hormuz—a vital artery for 20% of the world's oil and LNG supply.

### Projected Divergence in Prices and Services

If the conflict escalates into a protracted war, the following deviations from the 2026 outlook are probable:

\* Energy and Utility Spikes: While the 2026 forecast anchors oil at \$63.6/bbl, a major disruption could see Brent oil exceed \$120-\$150/bbl. This would not only increase petrol prices but also drive up manufacturing and home heating costs, likely pushing CPI inflation well above the 2.2% target.

\* Supply Chain Inflation: A "contracted war" involving regional proxies would threaten shipping routes in the Red Sea and Persian Gulf. This leads to higher insurance premiums and freight costs, resulting in a "second-round" spike in the price of imported goods (electronics, clothing, and food).

\* Service Sector Contraction: As disposable income is diverted toward essential energy costs, the service sector (hospitality, leisure) would see reduced demand. The forecast for 1.1% GDP growth would likely be revised downward toward stagnation or a mild recession.

## 3. Impact on Monetary Strategy

The BoE's strategy of maintaining a 3.33% Bank Rate assumes a return to price stability. In a war scenario, the BoE faces a "stagflationary" trap:

\* If they raise rates to fight the energy-driven inflation, they risk deeper economic contraction and higher unemployment (currently forecast at 5.1% for 2026).

\* If they hold or cut rates to support growth, they risk allowing inflation to become "embedded" in wages and expectations, potentially mirroring the double-digit inflation seen in the early 2020s.

#### Forecasting Summary: Baseline vs. War Scenario

| Indicator | Feb 2026 Forecast (Baseline) | Potential War Impact (Forecast Change) |

| CPI Inflation | 2.2% | 4.5% - 6.0%+ (High risk) |

| Oil (Brent) | \$63.6/bbl | \$100 - \$150/bbl (Extreme risk) |

| GDP Growth | 1.1% | -0.5% to 0.2% (Recession risk) |

| Bank Rate | 3.33% | 4.0% - 5.0% (Aggressive tightening) |

In conclusion, the BoE's current strategy is built on a "peace-time" assumption of declining energy costs. A protracted conflict with Iran would effectively invalidate the 2026 price stability projections, forcing a return to restrictive monetary policy to curb runaway inflation.