



Treasury Management Quarter 3 Report to 31 December 2025

EXECUTIVE SUMMARY

- Treasury Management is the management of the Council's cash flows on a day-to-day basis and is carried out in accordance with legislation and Codes of Practice. The Treasury Management Strategy for 2025-26 was approved by Council on 26 February 2025.
- UK consumer price inflation (CPI) rose by 3.4% in the 12 months to December 2025, up from 3.2% in November 2025. On a monthly basis, CPI rose by 0.2% in December 2025, after falling by 0.4% in November.
- The Bank of England's Monetary Policy Committee (MPC) voted 5-4 to cut Bank Rate to 3.75% in December 2025, as was expected. Policymakers wanting a cut judged that disinflation was established while those preferring to hold Bank Rate at 4% argued that inflation risks remained sufficiently material to leave it untouched at this stage.
- Total external borrowing at 31 December 2025 was £95.65 million, a slight reduction from the previous quarter of £95.82 million due to scheduled repayments of several Salix loans.
- Total investments at 31 December 2025 were £56.95 million, a reduction from £64.95 million at the previous quarter.
- Average interest rates on investments as at 31 December 2025 were 3.66%, a reduction from those at 30 September 2025 of 3.77%. This reduction is as expected given the reduction in the Bank of England base rate.
- The Council's investments are diversified across a number of institutions, including Money Market Funds, Debt Management Office and banks. Security of the Council's cash resources is always the primary factor when investing cash resources.
- The Council may need to borrow long term during 2025-26, however, this is dependent on the actual expenditure incurred on capital projects and the use of earmarked reserves. In the short term the Council uses the cash available from earmarked reserves to finance capital expenditure, known as internal borrowing. This is prudent whilst the Council has resources available, but these will need to be replaced with borrowing as the reserves are used.
- The liability benchmark indicates the Council will need to borrow £6.39 million during 2025-26.
- The Council has operated within the approved limits set out in the Treasury Management Strategy 2025-26.

1.0 INTRODUCTION

Treasury management activities are the *'management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.'* (Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (CIPFA TM Code).

The definition of 'Investments' includes:

- Treasury Management investments (held for the prudent management of financial affairs), and
- non-Treasury Investments, undertaken as part of a Capital Strategy either in the course of provision of services, or made for commercial reasons purely to make a financial gain. These are managed outside of normal treasury management activity.

The Council carries out its treasury management function in accordance with the CIPFA TM Code and the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code and Welsh Government Guidance.

The Council has an integrated Treasury Management Strategy where borrowing and investments are managed in accordance with best professional practice, which is assessed either from internal expertise or consultation with our external advisers. The Council will look to borrow money if needed to either meet short term cash flow needs or to fund capital schemes approved within the capital programme. Therefore, any actual loans taken are not generally associated with particular items of expenditure or assets.

The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer. The Governance and Audit Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies and regular reports will be presented to the Committee for their consideration.

2.0 ECONOMIC CONTEXT

UK consumer price inflation (CPI) rose by 3.4% in the 12 months to December 2025, up from 3.2% in November 2025. On a monthly basis, CPI rose by 0.2% in December 2025, after falling by 0.4% in November. The annual Core CPI rate (excluding food, energy, tobacco, alcohol and owner-occupied housing) was 3.2% in December 2025, the same as November 2025.

Data released during the period showed the UK economy expanded by a modest 0.2% in Quarter 3, following an increase of 0.7% in the previous period. Predictions of a modestly growing economy were echoed by the Office for Budget Responsibility in its Economic and Fiscal Outlook published with the Autumn Statement which revised down its estimate of annual GDP to around 1.5% between 2025 and 2030.

The labour market continued to ease over the period as unemployment rose, vacancies fell and inactivity remained flat. In the three months to October 2025, the unemployment rate rose to 5.1%, higher than the level previously expected by the Bank of England, while the employment rate slipped to 74.9%.

The Bank of England's Monetary Policy Committee (MPC) voted 5-4 to cut Bank Rate to 3.75% in December 2025, as was expected. Policymakers wanting a cut judged

that disinflation was established while those preferring to hold Bank Rate at 4% argued that inflation risks remained sufficiently material to leave it untouched at this stage.

Arlingclose, the authority's treasury adviser, held a central view that Bank Rate would be cut further in 2025-26 with most Bank of England policymakers remaining more worried about weak GDP growth than higher inflation. In line with Arlingclose's central forecast, Bank Rate was reduced to 3.75% in December. Further cuts are expected in 2026, with the central forecast being that Bank Rate will be eased to around 3.25%.

3.0 EXTERNAL DEBT AND INVESTMENT POSITION

The Council's external debt and investments at 31 December 2025 is set out in Table 1 below. The Council held £95.65 million of Long Term Borrowing comprising:

- Public Works Loan Board (PWLB - UK government) at fixed rates and duration
- Lender's Option Borrower's Option (LOBO) which may be rescheduled ahead of their maturity of 22 July 2054 (no call was made in January 2026)
- 2.12 million of Salix interest-free loans and £0.03 million of Salix loans at a rate of 2.15%

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB), and this was the case when the Council borrowed £5 million for a duration of 16 months in February 2025. The Council will however consider long term loans from other sources including banks, pension funds and other local authorities if appropriate. The Council will also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA TM Code

At 31 December 2025 the Council had £56.95 million of investments for treasury management purposes and £4.89 million of investments for commercial purposes.

Table 1: Council's external debt and investment position as of 31 December 2025

Investments for Treasury Purposes	Principal as at 31/03/2025 £m	Principal as at 31/12/2025 £m	Average Rate 31/12/2025 %
External Long Term Borrowing			
Public Works Loan Board (PWLB)	77.04	74.25	4.75
Lenders Option Borrowers Option (LOBO)	19.25	19.25	4.65
Salix Loans (Interest Free)	2.51	2.12	-
Salix Loans (Other)	NIL	0.03	2.15
Short Term Borrowing	5.00	NIL	-
Total External Borrowing	103.80	95.65	4.62
Other Long Term Liabilities			
Private Finance Initiative*	11.97	11.16	
IFRS 16 Leases	3.69	3.69	
Total Other Long Term Liabilities	15.66	14.85	
Total Gross Debt	119.46	110.50	
Investments for treasury management purposes			
Debt Management Office	18.00	26.00	3.73
Money Market Funds (instant access)	12.75	23.50	3.90
Banks	6.00	7.45	2.63
Total Treasury Investments	36.75	56.95	3.66
Net Debt	82.71	53.55	

Investments for Commercial Purposes	Fair Value as at 31/03/2025 £m	Anticipated return 31/03/2026 £m
Investments	4.890	0.458

* (PFI) arrangement for the provision of a Secondary School in Maesteg with a remaining term to 30 September 2033

The current profile of repayment of the Council's long-term debt is set out in the Liability Benchmark chart below. The table assumes that the Public Works Loan Board and Lender's Option Borrower's Option loans will be repayable on their maturity date. However, although shown as maturing in 2054, the £19.25 million of Lender's Option Borrower's Option loans may be called sooner than this, the next call date being 22 July 2026.

PWLB lending criteria requires that the Council does not invest purely for financial return if it wishes to access any new PWLB borrowing. The CIPFA TM Code sets out that it is not prudent for local authorities to invest for financial return.

All borrowing by the Council is as a single pool of debt rather than having loans specific to individual schemes. Where a Council finances capital expenditure by debt, it must put aside revenue to repay that debt in later years, known as Minimum Revenue

Provision (MRP). The forecast MRP for 2025-26 as set out in the Capital Strategy is £4.624 million, which includes supported and unsupported borrowing, the PFI for Maesteg School and leases recognised on the balance sheet as from 1 April 2024.

Liability benchmark

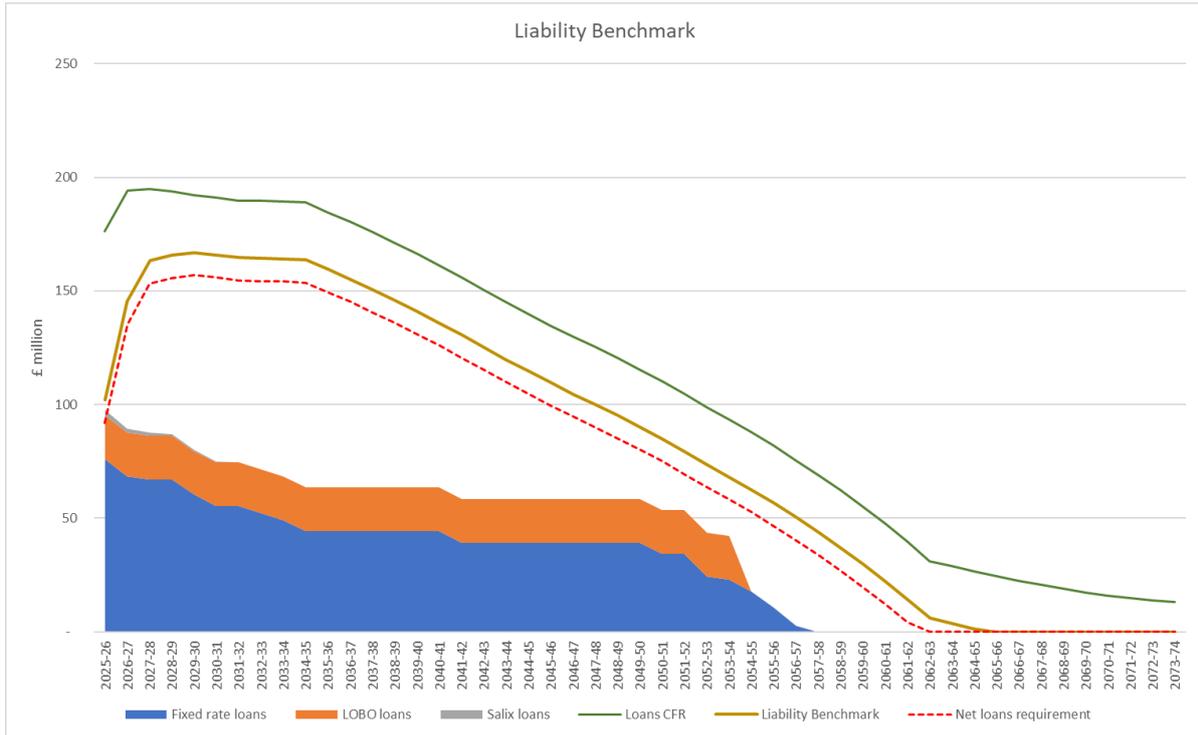
The liability benchmark is a tool which helps to assess the lowest level of borrowing the Council needs, taking into account available cash resources to fund capital expenditure in the short term. A minimum level of investments is factored into the calculation, set at £10 million, which are held as reasonably liquid to ensure the Council has available cash resources to meet day-to-day cash flow requirements. Forecast borrowing needs are based on capital expenditure estimates and available usable reserves. The underlying need to borrow to fund capital expenditure (known as the Capital Financing Requirement or CFR) is the amount of capital expenditure which is not funded via grants, capital receipts or contributions from revenue and earmarked reserves.

Table 2 below shows the Capital Financing Requirement and the calculation of the liability benchmark. It is important to note that the graph is based on the current approved capital programme and the borrowing associated therewith. Any new schemes which require debt financing will increase the CFR and loans requirement.

Table 2: Liability benchmark

	31 March 2025 actual £m	31 March 2026 estimate (TMS) £m	31 March 2026 forecast £m	31 March 2027 forecast £m	31 March 2028 forecast £m
Capital Financing Requirement	181.09	183.22	190.71	207.01	206.29
Less: Other debt liabilities	(15.65)	(15.12)	(14.66)	(13.19)	(11.65)
Loans Capital Financing Requirement	165.44	168.10	176.05	193.82	194.64
Less: Balance Sheet Resources	(108.44)	(58.52)	(84.37)	(58.79)	(41.62)
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	67.00	119.58	101.68	145.03	163.02

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its **current** capital plans while keeping treasury investments at the minimum level to manage day-to-day cash flow.



The Council may need to borrow long term in the final quarter of 2025-26 although this is based on a number of assumptions including the forecast capital programme expenditure and the level and use of reserves.

The Section 151 Officer will monitor and update the liability benchmark assumptions on an on-going basis and report any significant changes within the treasury management monitoring reports to Cabinet, the Governance and Audit Committee and Council as appropriate. This could be as a result of changes in the level of usable reserves at year end, slippage within the Capital Programme or changes within the working capital assumptions which may affect the Council’s need to take new long-term borrowing.

4.0 BORROWING

As at 31 December 2025 the Council held £95.65 million of Long-Term Borrowing, £93.50 million of which is fixed long term loans as part of its strategy for funding previous years’ capital programmes.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB), and this was the case when the Council borrowed £5 million for a duration of 16 months in January 2025. The Council will however consider long term loans from other sources including banks, pension funds and other local authorities if appropriate. The Council will seek to minimise interest costs and reduce over-reliance on one source of funding where appropriate in line with the CIPFA TM Code.

The Council has loans from PWLB maturing within the next 3 financial years that it will need to repay. Given the anticipated level of expenditure within the capital programme over the current and next financial years, it is likely that new borrowing will be required to replace these maturing loans. The value of the loans due to be repaid over the next 3 years is shown in Table 3.

Table 3: Value of PWLB maturing debt

	2025-26 £ million	2026-27 £ million	2027-28 £ million
Value of maturing debt	0.918	7.790	1.395

The £0.918 million due for repayment during 2025-26 will be maturing at the end of the current financial year, 31 March 2026. There will be £7.790 million maturing next financial year, 2026-27, £5 million due for repayment on 5 June 2026 and £2.790 million on 31 March 2027. It is likely that the Council will need to borrow to replenish these funds over the forthcoming periods.

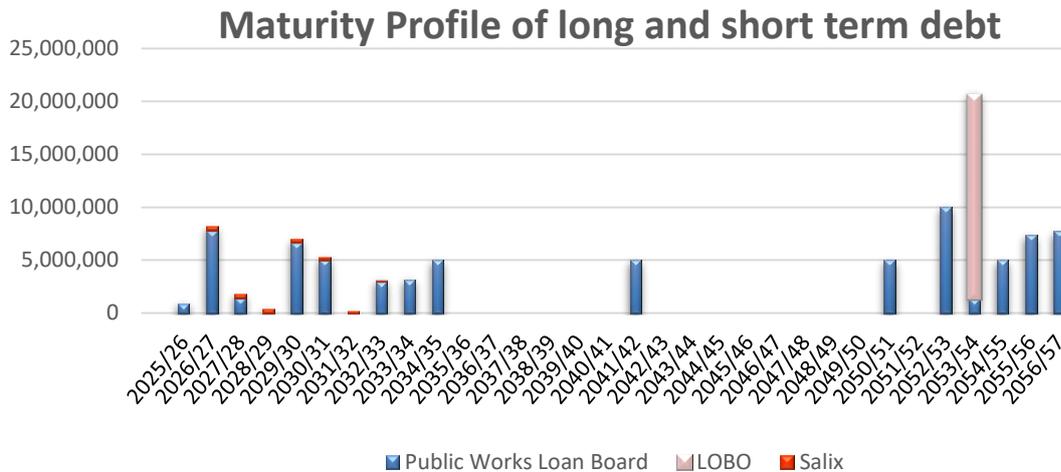
Maturity structure of borrowing

The maturity structure of borrowing indicator is set to control the Council's exposure to refinancing risk with respect to the maturity of the Council's external borrowing. The limits are set to avoid having large amounts of debt maturing in a short space of time and is the amount of projected borrowing maturing in each period as a percentage of total projected borrowing. Where the maturity date of borrowing is unknown, as in the case of LOBO loans, the maturity should normally be determined by reference to the earliest date at which the lender can require repayment. The £19.25 million of LOBO loans has therefore been included in the 'Under 12 months' category. This table also reflects the PWLB repayable in 2025-26.

Table 4: Maturity Structure of Borrowing 2025-26

Maturity structure of borrowing	Upper limit	lower limit	£ million	As at 31 December 2025
Under 12 months	50%	0%	25.37	26.53%
12 months and within 24 months	25%	0%	3.19	3.32%
24 months and within 5 years	25%	0%	9.09	9.50%
5 years and within 10 years	40%	0%	16.61	17.36%
10 years and within 20 years	50%	0%	5.00	5.26%
20 years and above	60%	25%	36.39	38.03%

As can be seen from the above table the maturity structure remains within the limits approved as part of the Treasury Management Strategy 2025-26. The following chart provides the maturity profile of the Council's long term debt.



All the LOBO loans are subject to the lender having the right to change the rate of interest payable during the financial year at either of two trigger points in January and July, with the Council having the right to refuse the change, triggering early repayment and the need to re-finance. This is a manageable risk should repayment be needed during the current financial year as the Council has sufficient cash funds available in the short term, but would, however, need to consider taking out new debt to replace these loans during the current financial year. These loans were not called at the July 2025 call date, and the next call date is 22 July 2026.

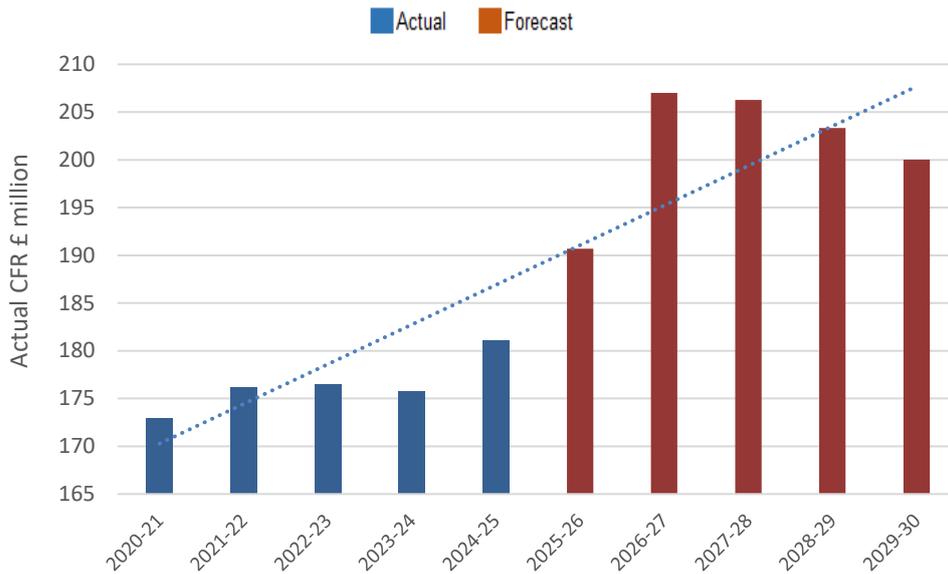
Table 5: LOBO loans

Commencement date	Loan value £m	Potential repayment date	Option frequency	Full term maturity
22 January 2004	4.00	22 January 2026	6 months	22 January 2054
22 January 2004	5.00	22 January 2026	6 months	22 January 2054
22 January 2004	10.25	22 January 2026	6 months	22 January 2054

In accordance with the Treasury Management Strategy, the Council is internally borrowing, which is when it uses temporary cash balances it holds in the short term instead of undertaking external borrowing. Internal borrowing is estimated to be £78.56 million as at 31 March 2026. This is shown by the Council’s Capital Financing Requirement (CFR) net of its external level of debt including other long term debt liabilities. The Council’s forecast CFR as at 31 March 2026 is £190.71 million, external borrowing £97.49 million and other long term debt liabilities £14.66 million, which is primarily the PFI Maesteg School scheme plus the lease commitments of right of use assets.

The chart below shows the trend in the CFR based on **current** capital commitments within the approved capital programme. The CFR is anticipated to increase in the current and following year assuming capital expenditure is incurred as currently anticipated. The CFR in future years shows a marginal reduction, however, this is on the assumption that there will be no new schemes added to the capital programme which require debt financing. If new schemes requiring debt financing are added, the CFR will continue to increase.

Capital Financing Requirement Trend



5.0 TREASURY INVESTMENTS

The Council holds treasury investments as a result of temporary cash balances arising from its day-to-day activities. The management of the day-to-day cash requirements of the Council is undertaken in-house with advice from Arlingclose, the Council’s Treasury Management advisors. This may involve temporary borrowing to meet cash-flow needs or temporary lending of surplus funds. Investment balances can fluctuate daily and arise as a result of a range of circumstances, including timing differences of revenue and capital cash flows, reserves and other balances held for future use.

Investments are made in institutions approved by the Council as part of its Treasury Management Strategy and in accordance with investment guidelines issued by the Welsh Government. As part of the Markets and Financial Instruments Directive II, the Council elected for ‘professional’ status, which covers national and regional governments and public bodies. The categories of investments the Council can invest in can be changed with any proposed changes being presented to Council for approval. Treasury investments are made primarily on the basis of ensuring security of the funds invested, whilst managing liquidity, and only then considering a commensurate return on the investment. As at 31 December 2025, the Council held £56.95 million of investments, with a weighted average return (based on the rate of return of each investment over the 3 month period) of 4.00% (£64.95 million at 4.08% as at 30 September 2025). This compares to the average interest rate of investments as at 30 December 2025 of 3.66%, as shown in Table 1 and indicates that returns are falling, as expected when the Bank of England base rate reduces.

Table 6 below shows the investment profile as at 31 December 2025.

Table 6: Investments by counterparty type

Investment Category	Balance 1 April 2025	Investments made in period	Investments repaid in period	Balance 31 Dec 2025	Weighted interest rate 1 Oct 2025 to 31 Dec 2025
	£m	£m	£m	£m	%
Government DMO	18.00	499.50	(491.50)	26.00	4.08
Money Market Funds	12.75	25.50	(14.75)	23.50	4.17
Banks (instant access/notice accounts)	6.00	31.50	(30.05)	7.45	3.10
TOTAL	36.75	556.50	(536.30)	56.95	4.00

The following should be noted:

- During the period to 31 December 2025 all investments made were in line with the approved counterparties within the Treasury Management Strategy.
- Investments are diversified over a number of organisations across different sectors, demonstrating a diversified investment portfolio.
- All investments are in sterling and are rated A- and above as per the approved criteria or with a public body.
- The weighted average rates are for all investments made during 1 April 2025 to 31 December 2025.

The overall interest receivable from treasury investments for the period 1 April 2025 to 31 December 2025 was £3.554 million. Interest rates have continued to fall over the period reducing to 3.75% when the Bank of England's Monetary Policy Committee met on 18 December 2025. This is the 6th reduction since the interest rates reached their peak of 5.25% in July 2024. The Council will continue to take a cautious approach to investing to ensure as its primary concern the security of any investments made. The risk of default for investments held is considered negligible.

All investments longer than 364 days will be made with a cautious approach to cash flow requirements and advice from the Council's Treasury Management advisors will be sought as necessary. All investments as at 31 December 2025 were short term of less than one year duration, as shown in Table 7 below.

Table 7: Sums invested for periods longer than a year

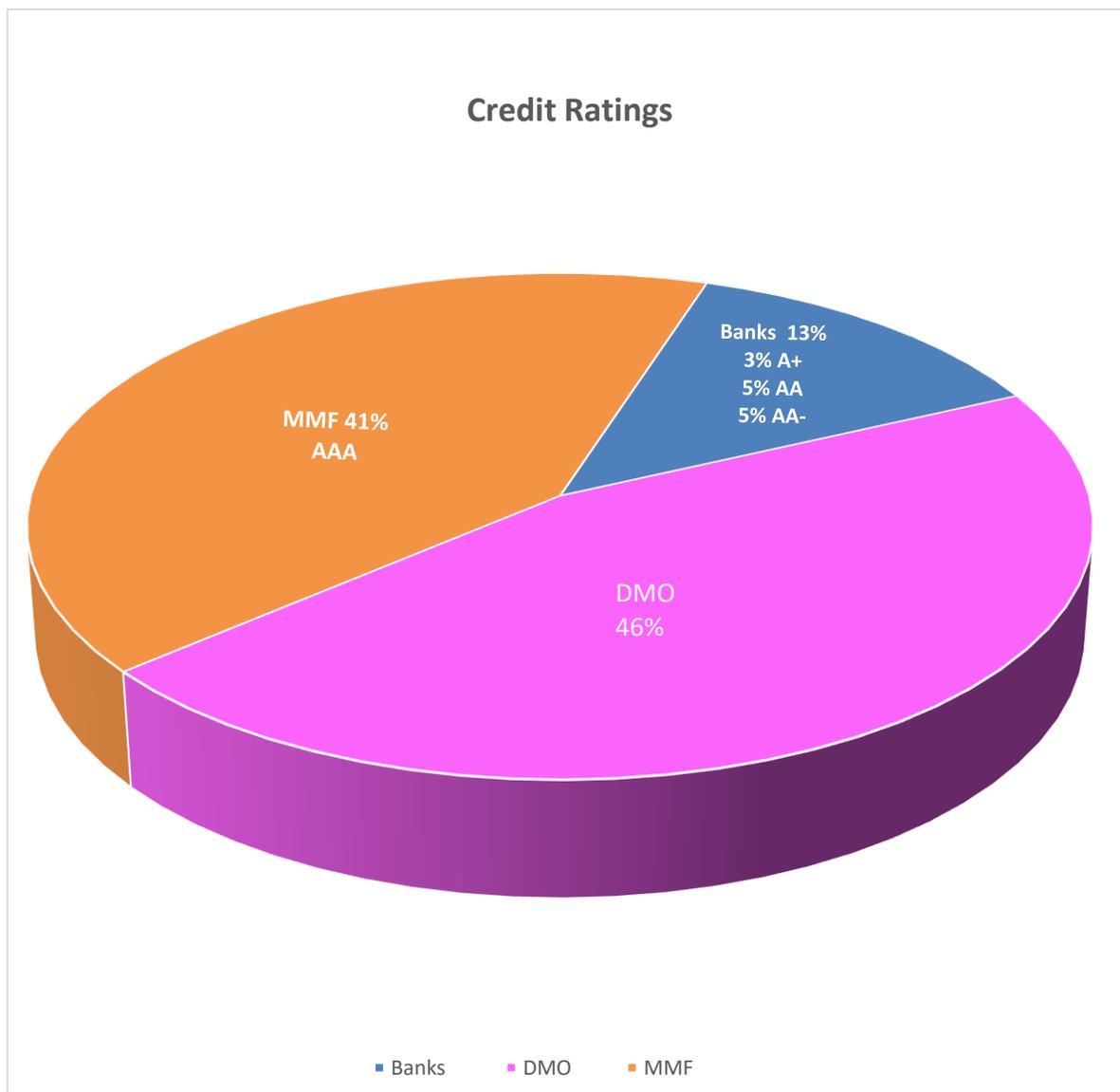
Price risk indicator	TMS 2025-26 £m	Actual £m	Full term maturity
Limit on principal invested beyond financial year end	10	NIL	NIL

The below table details the Council’s investments by counterparty and maturity profile.

Table 8: Investments by maturity

Counterparty Category	Instant Access £m	Deposits maturing within 1 month £m	Deposits maturing within 2-3 months £m	Deposits maturing within 4-12 months £m	TOTAL £m
Government DMO	-	26.00	-	-	26.00
Money Market Funds	23.50	-	-	-	23.50
Banks	7.45	-	-	-	7.45
Total	30.95	26.00	0.00	0.00	56.95

The pie chart below summarises the distribution of the Council’s investments by credit ratings. The DMO are the UK government and rated AA-.



6.0 INTEREST RATE EXPOSURES

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. Short term and variable rate loans expose the Council to the risk of short-term interest rate rises and are therefore subject to the Treasury Management indicator below.

The following Table is based on investments at 31 December 2025.

Table 9: Interest Rate Exposure

Interest rate risk indicator	£ million
One year revenue impact of a 1% rise in interest rates	(0.107)
One year revenue impact of a 1% fall in interest rates	0.299

It is important to note that this is an indicator, not a limit. It is calculated at a point in time on the assumption that maturing loans and investments would be replaced at rates 1% higher or lower than they are currently, and that the treasury investment and borrowing portfolios remain unchanged over the next 12 months, which in practice is not the case. The figure for the 1% fall in interest rates indicator is not the same figure as the 1% increase (but reversed) as the borrowing relates to variable LOBO loans where it is assumed that the lender would only exercise their option if there was an increase in interest rates. All other borrowing does not have a rate reset in the next year and is with the PWLB at fixed rates.

A comparison of interest payable on borrowings excluding other long term liabilities (PFI and lease interest), and interest income due for the period 1 April 2025 to 31 December 2025 is shown below. Also shown is the interest payable and received for the 12 months July 2024 to September 2025.

Table 10: Interest

	Financial Year 2024-25	2025-26 Interest to 31 December 2025	Estimated Interest to 31 March 2026
Interest expenditure payable on long term borrowing	-6.100	-3.662	-4.674
Interest income receivable in period	4.771	3.554	4.265
Net Interest cost	-1.329	-0.108	-0.409

7.0 NON-TREASURY INVESTMENTS

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities include investments in subsidiaries and investments in property. A schedule of the Council's existing non-treasury investments (currently limited to owned property) is set out in Table 11 below. Recent PWLB guidance requires that local authorities should review their investment portfolio if they

wish to secure PWLB borrowing but does not require the local authority to sell existing investment assets. This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. These assets are valued on an annual basis to reflect market conditions and the current value at the time they are valued, otherwise known as Fair Value, which provides security of their value and continued benefit to the Council.

Table 11: Non-treasury investments

Non-treasury investments	£ million
Bridgend Science Park - Units 1 & 2	3.070
Waterton Cross Land	0.560
Brynmenyn Industrial Estate Plot 53	0.675
Village Farm Plots 32,119 & 120	0.385
Tyrewise Bridgend	0.200
Total at Fair Value	4.890
Anticipated annual return 2025-26	0.458

The Council considers that the scale of its investment properties is proportionate to the resources of the Council as the investment represents less than 1% of its total long-term assets. In addition, the value of these investments has increased from the previous year.

In accordance with Welsh Government Investment Guidance these are classified as non-treasury investments.

Schedule A – Credit Rating Equivalence Table

Credit Rating Equivalence Table

	Description	Fitch		Moody's		Standard & Poor's	
		Long	Short	Long	Short	Long	Short
INVESTMENT GRADE	Extremely strong	AAA	F1+	Aaa	P-1	AAA	A-1+
	Very strong	AA+		Aa1		AA+	
		AA		Aa2		AA	
	Strong	AA-	Aa3	A+	A-1		
		A+	A1	A			
		A	A2	A-			
	Adequate	A-	A3	P-2	A-2		
		BBB+	F2	Baa1	BBB+		
		BBB	F3	Baa2	BBB		
SPECULATIVE GRADE	Speculative	BBB-	B	Baa3	P-3	BBB-	A-3
		BB+		Ba1	Not Prime (NP)	BB+	
		BB		Ba2		BB	
	Very speculative	BB-	Ba3	B+			
		B+	B1	B			
		B	B2	B-			
	Vulnerable	B-	B3	C	C		
		CCC+	Caa1			CCC+	
		CCC	Caa2			CCC	
CCC-		Caa3	CCC-				
Defaulting	CC	Ca	C	C			
	C		D	D			

Schedule B – Arlingclose Economic & Interest Rate Forecast – December 2025

	Current Mar-26			Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
Official Bank Rate														
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate														
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.82	3.55	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.35	3.35	3.35	3.35
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield														
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.96	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.80	3.80
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
10yr gilt yield														
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
20yr gilt yield														
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.16	5.00	4.95	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.95	4.95	4.95	4.95
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
50yr gilt yield														
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.74	4.65	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

- The Bank of England duly delivered on expectations for a December rate cut, but, despite softer economic data over the past two weeks, the minutes highlighted increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.
- Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While, the Bank's measure of household expectations ticked lower in December, it remains above levels consistent with the 2% target at 3.5%.
- While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October after barely growing in Q3. Business surveys pointed to marginally stronger activity and pricing intentions in December but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.
- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to our Bank Rate forecast have increased. Having said that, we believe inflation expectations will naturally decline alongside headline inflation rates.
- Investors appear to have given the UK government some breathing space following the Budget, with long-term yields continuing to trade at slightly lower levels than in

late summer/early autumn. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.