

APPENDIX 8

Classification: Confidential

Interest Rate Forecast Update

26 MARCH 2026

MUFG CORPORATE MARKETS INTEREST RATE FORECAST

Updating of our forecasts 26 March 2026

Comparison of forecasts for Bank Rate today v. previous forecast

Bank Rate	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
25.03.26	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25
22.12.25	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Change	0.00	0.25	0.25	0.50	0.50	0.25	0.25	0.00	0.00	0.00	0.00	0.00

- Our last interest rate forecast update was undertaken on 22 December. At that juncture it looked as if domestic inflation would soften through the spring and summer and that the Monetary Policy Committee (MPC) would be in a strong position to reduce Bank Rate to 3.25% by this time 2027.
- However, although tepid domestic growth remains a concern (0.1% q/q GDP for Q4 2025) and the current level of annual CPI inflation was recorded as 3% for February, the US/Israel conflict with Iran has somewhat derailed the prospect of looser monetary policy conditions for at least the next few months.
- The primary reason for that sea-change in policy expectations is the energy supply-side shock impacting the world economy, with energy infrastructure coming under attack from both sides of the conflict. Consequently, with clear difficulties remaining as to whether oil can be safely moved via the Strait of Hormuz, and natural gas fields in Qatar, in particular, having suffered significant damage, these are the types of supply-side set back that cannot be rectified quickly.
- For context, on 19 March, Qatar's Ras Laffan, the largest liquified natural gas (LNG) terminal in the world, built over decades in several phases and costing many billions of dollars to construct, and supplying one-fifth of the world's super-chilled fuel, was hit by Iranian missiles and drones. Fires raged across the gas-to-liquids facility within the complex, which covers 295 square kilometres – the size of a large city.
- Damage was estimated to be so extensive that Qatar Energy's CEO suggested the company may have to declare a "*force majeure*" (non-fulfilment of orders due to circumstances outside their control) on long-term contracts, potentially impacting LNG supplies to Italy, Belgium, Korea and China "for up to five years".
- Our colleagues at Capital Economics have noted that the UK entered the energy price shock with household inflation expectations still elevated and CPI inflation far higher than the euro-zone's rate of 1.9%. But the surge in oil prices has already caused the average petrol/diesel price to rise to 159p per litre, which probably raised CPI inflation by 0.3ppts in March. And petrol/diesel prices could rise by a further 9.8% in the coming weeks to 175ppl. Their working assumptions about gas prices suggest the Ofgem utility price cap may rise by 30% on 1 July, which would add an extra 1.0ppts to CPI inflation in July. And that's before the indirect boost from businesses passing on some of their energy costs in the prices of non-energy items. In their baseline scenario, they now think CPI inflation could rise to a peak of 4.6% in Q4 2026.
- With that backdrop, and warnings from the MPC that they will be alert to any impetus to inflation (and implicitly the need to raise Bank Rate), we have had to think long and hard over our revised forecast. Ultimately, although we acknowledge there is upside risk to Bank Rate movements over the course of the coming months, with the energy price shock likely to extinguish growth and add to the already elevated unemployment rate (5.2%), we have concurred with Capital Economics' central view that an extended interest rate pause is more likely than interest rate hikes.

- If that assumption proves incorrect, we would be surprised if any tightening cycle were anything other than small and short.
- Accordingly, the MUFG Corporate Markets forecast has been revised to reflect that the MPC is unlikely to feel comfortable with cutting rates until the likely rise in inflation has worked its way through the system over the next 12 months. Our first Bank Rate reduction in the new forecast is set at Q3 2027. Invariably, with geo-political factors so volatile – let's not forget there is still war raging between Russia and Ukraine – we will look to update our forecasts if any material changes to the scenario outlined above occurs.
- Moreover, with local elections being held around the UK in May, we will soon have a better handle on whether the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party. Medium to long-term gilt yields are already at multi-year highs and there is clear evidence that a deteriorating UK fiscal position has the potential to propel yields even higher. With CPI inflation due to rise above 4% in the coming months, not only will there be upward pressure on gilt yields from this source, but also additional budgetary considerations arising from the maintenance of the triple lock on pension and benefit payments. The April 2027 increase will be based on the September 2026 reading. Furthermore, debt interest costs will almost certainly be higher than when the Chancellor set out her Autumn Statement, and the Prime Minister will need to identify at what juncture the increase in defence spending to 3% of GDP is going to manifest itself.
- As for the influence of international markets, we said back in December that the US is likely to hold sway, with President Trump seeking to reverse his decline in the polls with populist policies such as tax refunds to households ahead of the US mid-term elections in November. Any movement, up or down, in US treasury yields is likely to ripple into UK markets.
- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2027.

MUFG Corporate Markets Interest Rate View 25.03.26												
	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	3.90	3.80	3.80	3.70	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.10	4.00	3.90	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.60	4.50	4.40	4.20	4.20	4.00	4.00	3.80	3.80	3.80	3.80	3.80
5 yr PWLB	5.00	5.00	4.90	4.80	4.60	4.40	4.20	4.20	4.10	4.10	4.10	4.10
10 yr PWLB	5.50	5.50	5.40	5.30	5.10	4.90	4.70	4.70	4.60	4.60	4.60	4.60
25 yr PWLB	6.00	6.00	5.90	5.80	5.60	5.40	5.20	5.20	5.20	5.20	5.10	5.10
50 yr PWLB	5.80	5.80	5.70	5.50	5.40	5.20	5.00	5.00	5.00	5.00	4.90	4.90

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The MUFG Corporate Markets forecast for average earnings are averages i.e., rates offered by individual entities may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts in the near-term are generally to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB borrowing	Current borrowing rates as at 25.03.26 p.m. %	Target borrowing rate now (end of Q1 2028) %	Target borrowing rate previous (end of Q1 2028) %
5 years	5.19	4.20	4.10
10 years	5.64	4.70	4.70
25 years	6.21	5.20	5.30
50 years	6.02	5.00	5.10

Borrowing advice: Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.5%. As all PWLB certainty rates are considerably above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve (<5 years PWLB maturity/<10 years PWLB EIP) and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, be in line with or above Bank Rate whilst market sentiment is skewed towards Bank Rate increases (currently two are fully priced in by the market to a peak of 4.25% during 2026).

Our suggested **budgeted earnings rates for investments** up to about three months' duration in each financial year are set out below. (Please note there is likely to be some near-term elevation above the budgeted rates for 2026/27 whilst market sentiment is geared towards potential rate increases in 2026.)

Average earnings in each year	Now %	Previously %
2026/27	3.90	3.40
2027/28	3.50	3.30
2028/29	3.30	3.30
2029/30	3.50	3.50
Years 6-10	3.50	3.50
Years 10+	3.50	3.50

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad-hoc basis as required.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

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