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Bank of England Ready to Lower Rates if Labour Market Weakens

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The Bank of England has said it is prepared to deliver larger interest rate cuts if the nation's labour market continues to show signs of strain. Governor Andrew Bailey said he believes the path for borrowing costs is trending downward as businesses scale back hiring and limit pay increases in the face of rising costs and a sluggish economy.

In an interview with The Times, Bailey emphasised that while the central bank is committed to reducing interest rates gradually and carefully, the persistent weakness in economic activity could warrant more decisive action.. The Bank's base rate currently stands at 4.25%, following two cuts earlier this year, and will be reviewed again on August 8. These rates directly impact mortgages, credit cards, and savings returns for households across the United Kingdom.

Bailey highlighted that companies are already adjusting working hours and offering smaller wage increases after United Kingdom Chancellor of the Exchequer Rachel Reeves raised employers' National Insurance contributions from 13.8% to 15% in April, a measure the government claims will raise £15 billion. Critics argue the measure risks burdening businesses at a time when economic output is lagging.

The United Kingdom economy shrank by 0.1% in May after flatlining in April, with the Office for National Statistics reporting that manufacturing and retail activity were especially weak. Bailey pointed out that the economy is growing below its potential, creating slack that could help bring inflation closer to the central bank's 2% target over time.

While inflation remains above the official goal, Bailey defended the bank's intention to gradually ease rates, saying, "I do believe the path is downward." However, he acknowledged that some policymakers and the public remain sceptical about cutting rates before inflation fully recedes.

The continued slowdown is likely to increase pressure on the current government, which has made economic growth a central promise but faces criticism over policies that many business leaders see as counterproductive. As the Bank of England prepares for its next decision, households and companies alike will be watching closely to see whether a more aggressive shift in monetary policy finally materialises.