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## Bank of England Ready to Cut Rates If Job Market Shows Strain

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Governor Andrew Bailey of the Bank of England has confirmed that the Bank could move to cut interest rates more assertively if the job market continues to show signs of slowing, offering a cautious signal that monetary easing may be on the horizon.

In a recent interview with *The Times*, Bailey stated that interest rates are likely to head downward, though any decision would be handled carefully. “I really do believe the path is downward,” he said, referring to the Bank’s base rate, which currently stands at 4.25%. The next Monetary Policy Committee (MPC) meeting is scheduled for August 7.

Bailey noted that early signs of strain in the jobs market are becoming clearer, with companies trimming hours and easing off on pay rises. These changes, he said, may reflect the higher cost of employment following the increase in National Insurance contributions introduced by Chancellor Rachel Reeves in April.

Under the new policy, the employer contribution rate rose from 13.8% to 15%, a move the Treasury estimates will generate £25 billion annually. While aimed at shoring up public finances, the increase has triggered concern from businesses, especially smaller firms already grappling with tight margins and soft demand.

## Economic Pressure

Bailey explained that the U.K. economy is operating beneath its full potential, creating spare capacity, or what economists refer to as “slack” in both the jobs market and production. This should help ease inflation over time. He added that while the Bank remains committed to its 2% inflation target, it must also respond to shifts in growth and employment.

“We continue to use the words ‘gradual and careful’ because... some people say to me, ‘why are you cutting when inflation’s above target?’,” Bailey said. He stressed the importance of judging the broader landscape, not just headline figures.

Recent data support his caution. The Office for National Statistics (ONS) reported that the U.K.’s Gross Domestic Product (GDP) fell by 0.1% in May, following a similar dip in April. Retail sales were flat, and manufacturing output dropped, suggesting an economy running low on energy.

This economic slowdown is testing the Labour government’s promise to deliver growth. With productivity stalling and consumer spending under pressure, the rise in employer costs has only added to the challenge. Critics argue the policy risks further straining businesses as they try to stabilise.

Interest rates directly affect mortgage repayments, loan costs, and savings returns for everyday people. The Bank’s decisions in the coming months will shape how households and companies navigate this uncertain period.

Bailey’s remarks make clear that the Bank of England is not ignoring the signs. If the job market cools further and inflation continues to fall, August may bring the next step in a slow

but steady shift towards lower borrowing costs.