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Bank of England Poised for Rate Cut as Economic Pressures Mount

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The Bank of England (BoE) is widely expected to lower interest rates this Thursday, even amid a recent surge in inflation. The Monetary Policy Committee (MPC) is anticipated to cut the benchmark rate by 25 basis points, bringing it down to 4 %, as the British economy faces headwinds from government tax increases and softening consumer confidence.

While inflation hit its highest level in 17 months, the BoE appears more concerned with stagnating growth and a weakening labour market. Unlike the U.S. Federal Reserve, which opted to hold rates steady again this week, the BoE is moving forward with a cautious, quarterly rate-cutting cycle. This decision comes after consecutive contractions in the United Kingdom's gross domestic product (GDP) and a slowdown in job creation, partly due to fiscal changes under the Labour government's first budget.

BoE Governor Andrew Bailey has consistently guided markets toward gradual monetary easing and has labelled the recent inflationary spike as temporary. On Thursday, officials will release updated economic forecasts, which are expected to reflect more conservative inflation estimates following the higher-than-expected price increases reported in May. Market analysts will also be looking for direction on how the central bank plans to manage its bond holdings ahead of its next decision on quantitative tightening scheduled for September.

There is growing speculation that the BoE may scale back active gilt sales amid instability in long-term UK bond yields. While no formal shift has been announced, investors remain attentive to any changes in the Bank's strategy for reducing its balance sheet.

As the BoE prepares its next move, the broader global economic landscape remains highly reactive to political and trade developments, particularly from Washington. Despite persistent inflation concerns, growth fragility appears to be the deciding factor for monetary authorities in the UK and beyond.