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Bank of England Poised to Cut Interest Rates Amid Slowing Economy

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The Bank of England (BoE) is widely expected to lower interest rates this Thursday, as concerns about declining economic activity and subdued inflation mount. Analysts believe the Monetary Policy Committee (MPC) will cut the base rate by 0.25 percentage points, signalling a shift in policy aimed at cushioning the UK economy from further stagnation.

Economic indicators have turned increasingly negative in recent weeks. Gross Domestic Product (GDP) contracted in both May and June, prompting economists to warn that elevated borrowing costs could be doing more harm than good. While inflation remains slightly above the Bank's 2 per cent target, wage growth and employment figures have shown signs of easing, reducing the pressure to maintain higher rates.

BoE Governor Andrew Bailey has previously stated that policymakers must strike a careful balance between controlling inflation and supporting economic growth. With global trade uncertainty and ongoing geopolitical instability continuing to cast a shadow over recovery, the case for a rate cut has strengthened.

Some lenders have already moved in anticipation of a lower base rate. According to Moneyfacts, the average two-year fixed mortgage rate has fallen from 5.2 per cent three months ago to 5.03 per cent. This trend suggests that expectations of a cut have already been priced into financial products, making borrowing slightly more affordable for consumers.

Sarah Coles, head of personal finance at Hargreaves Lansdown, commented on the trend: "Fixed mortgage deals have been drifting gradually down for some time, with the average two-year fixed rate falling from 5.2% three months ago to 5.03% according to Moneyfacts. They had bumped up slightly in the recent past, so in the last couple of days, some banks have been cutting them in anticipation of a Bank of England rate cut. Assuming the rate is cut … we could see some competitive deals emerge after the announcement. However, further out, we may see cuts slow in the coming weeks. This is partly because expectations haven't changed as much recently and are increasingly priced in. It's also because lenders don't want to go too far or too fast, or people who have already agreed a rate in advance will abandon it in favour of a cheaper one."

There's also been a significant development in fixed-rate mortgage trends. For the first time since September 2022, the average two-year and five-year fixed mortgage rates have levelled at 4.52 per cent. This reflects growing confidence in the market that borrowing costs will continue to decline, offering further relief to prospective homeowners.

Matt Smith, mortgage expert at Rightmove, noted: "Over the last week, average mortgage rates have remained pretty flat in the build-up to next week's interest rate decision. Expectations are currently set on a cut… and I expect lenders will use this moment as an opportunity to reduce mortgage rates a little further. Rate drops have been very slow and steady this year, but someone looking to take out a mortgage right now is likely to see a notable reduction in the rate they'd have been offered this time last year, particularly someone looking to fix for two years. With average two-year and average five-year fixed currently level, it would appear to only be a matter of time before the typical two-year rate is cheaper than the five-year equivalent."

The housing market has also shown signs of renewed activity. According to Mark Harris, chief executive of SPF Private Clients, borrower confidence has begun to return as lenders ease both rates and criteria. "Transaction numbers have risen again as base rate reductions encourage activity and enable borrowers to plan ahead with more confidence. Lenders continue to trim their mortgage rates, while easing of criteria should also enable borrowers to take on bigger mortgages in the coming months."

Although any rate cut would offer some short-term relief, analysts caution that further reductions may be gradual. With many changes already priced in and financial institutions wary of undercutting too quickly, the pace of mortgage rate reductions is expected to slow as the market absorbs the Bank's decision.

Thursday's announcement will be watched closely, as it could shape the UK's financial landscape heading into the latter part of the year.