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Bank of England Poised for One More Rate Cut This Year

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The Bank of England is expected to deliver only one more interest rate cut before the end of 2025, according to a Reuters poll of economists conducted between August 13 and 19. The survey suggests the central bank will opt for a modest reduction of 25 basis points, most likely in November, before pausing further easing into the new year. This cautious approach reflects the ongoing challenge of high inflation, which remains above target despite signs of slowing.

The UK's annual consumer price inflation stood at 3.6 per cent in June and is projected to have edged up to 3.7 per cent in July. Both readings remain well above the Bank's 2 per cent target, underlining the difficulty of bringing price pressures under control without damaging growth. Persistent inflation has forced policymakers to balance the need to normalise monetary policy with the risk of reigniting inflationary momentum.

Complicating the outlook further is wage growth, which continues to run at around 5 per cent year-on-year. While higher earnings support household spending power, economists warn that such sustained increases could entrench inflation expectations. If wages continue rising at this pace, inflation may struggle to return to target, even if headline price growth has peaked. The Bank must therefore calibrate its decisions carefully to avoid easing policy too aggressively.

Despite these pressures, the UK economy has demonstrated resilience. The most recent quarterly figures showed growth of 0.3 per cent, outperforming several G7 peers. Analysts say this modest expansion highlights underlying economic strength, even as households and businesses face high borrowing costs and elevated living expenses. The combination of steady growth and stubborn inflation points to a likely path of limited and gradual rate reductions rather than an aggressive easing cycle.

Financial markets have adjusted to this outlook. Futures contracts tied to UK interest rates suggest traders do not expect another cut until early 2026, following a possible move in November. This reflects growing consensus that the so-called "neutral rate", the level of interest that neither stimulates nor slows the economy, is now higher than before the recent inflation shock. If correct, rates could remain elevated compared with the ultra-low levels of the previous decade.

Most economists surveyed by Reuters agree inflation has peaked, but caution that progress toward the 2 per cent target will be uneven. Energy prices, global supply chain risks, and tight labour markets are among the factors that could keep inflation higher than policymakers would like well into next year. As a result, any move to loosen policy will need to be backed by clear data showing inflation is firmly declining.

For households and businesses, the expectation of only one further cut this year offers limited relief. Mortgage holders in particular will continue to feel pressure as fixed-term deals expire and refinancing occurs at higher rates. At the same time, savers may benefit from improved returns, reflecting a shift away from the near-zero interest environment that defined much of the past decade.

Attention now turns to upcoming inflation and wage growth figures, which will heavily influence the Monetary Policy Committee's final decision of the year. While the era of sharp rate hikes appears to have ended, the journey back to lower interest rates is expected to be slow, cautious, and measured.