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Bank of England Cuts Interest Rates to 4% Amid Sluggish Economic Outlook

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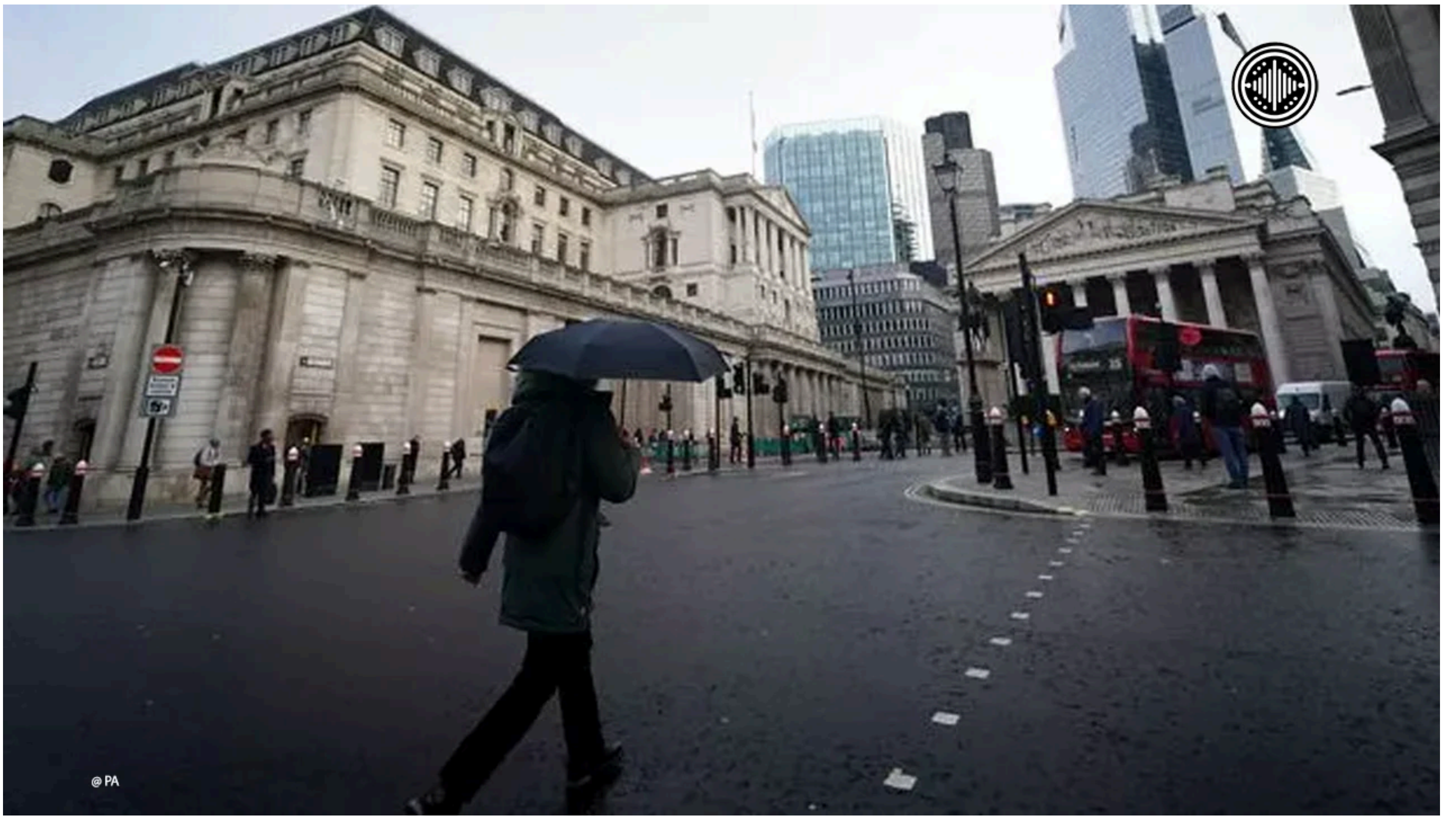

The Bank of England has lowered interest rates to 4%, marking the third rate cut this year and the lowest level in over two years. The decision, made by a narrow vote within the Monetary Policy Committee (MPC), reflects continued efforts to stimulate the economy amid rising inflation, weak growth, and increasing unemployment.

The MPC, which is comprised of nine members, voted 5–4 in favour of reducing the Bank Rate by 0.25 percentage points from 4.25%. Unusually, the decision followed a second vote after an initial deadlock: four members supported a reduction, four favoured maintaining the current rate, and one member, Alan Taylor, initially pushed for a steeper 0.5 percentage point cut. Governor Andrew Bailey called a second round of voting, during which Taylor shifted his support to the 0.25 percentage point reduction, delivering the narrow majority.

Bailey acknowledged the complexity of the decision, stating, “We’ve cut interest rates today, but it was a finely balanced decision. Interest rates are still on a downward path, but any future rate cuts will need to be made gradually and carefully.”

The Bank Rate, set by the Bank of England, is the key interest rate that influences the cost of borrowing and the return on savings across the United Kingdom. Lowering this rate typically makes borrowing more affordable for households and businesses, which can help stimulate spending and investment. Homeowners with variable-rate mortgages are also likely to see reduced monthly payments as a result.

Thursday’s decision coincided with the release of the Bank’s latest economic report, which painted a mixed picture. Gross Domestic Product (GDP) growth remains sluggish, and recent data show that the economy contracted in both April and May. The unemployment rate has also edged up in recent months.

Inflation, measured at 3.6% in June, continues to exceed the Bank’s 2% target. According to the report, inflation is now expected to rise further to a peak of 4% in September before easing later in the year. This upward revision is a change from the earlier estimate of a 3.5% peak.

The Bank’s report also indicated that domestic and global risks persist, with ongoing uncertainty in areas such as trade and geopolitical developments. It further noted that a “margin of slack” appears to have developed in the economy, suggesting that overall demand remains weaker than supply.

Additionally, many businesses are facing higher operational costs. These include increases in National Insurance Contributions and the national minimum wage, which employers say are putting further strain on payroll budgets. Some business groups have warned that such measures may lead to higher prices for consumers or reduced hiring.

Despite the rate cut aiming to support economic recovery, the overall outlook remains cautious. While reduced interest rates may ease financial pressure for borrowers and encourage activity in the short term, sustained economic growth will likely depend on broader improvements in productivity and stability in the global economic environment.