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Bank of England Cuts Rates to 4% Amid Inflation Worries

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The Bank of England has reduced interest rates to 4 per cent, marking the first cut in over a year and offering limited relief to borrowers while reigniting concerns over persistently high inflation. The 0.25 percentage point reduction follows months of economic uncertainty and reflects a divided outlook on the path ahead for the UK economy.

The decision, announced on Thursday, was narrowly approved by the Bank's Monetary Policy Committee (MPC) with a 5–4 majority. It follows a tense 4–4 deadlock, eventually broken by Governor Andrew Bailey, underscoring the deep uncertainty surrounding the UK's economic trajectory.

Governor Bailey warned that while borrowing costs have eased, inflationary pressures remain a serious concern. "The path for interest rates remains downward, but there is genuine uncertainty about the direction and pace of change," he said. "Higher food inflation continues to contribute significantly to overall price rises and is expected to remain elevated in the coming months."

Inflation, which had shown signs of easing earlier this year, is now expected to rise again, potentially reaching 4 per cent by September. This uptick is largely driven by rising food costs and global trade tensions, including ongoing tariff disputes with the United States.

The interest rate cut will bring modest financial relief to UK households with tracker or variable-rate mortgages. According to UK Finance, the average monthly saving for such borrowers is expected to be around £29, totalling roughly £350 annually.

For those on fixed-rate mortgages, the change will not take effect immediately, though new borrowers could see slightly improved lending terms.

However, savers are likely to see reduced returns on deposits, especially pensioners and low-income households that rely on savings for income. With inflation still high, real returns on savings remain negative, continuing a trend that has disproportionately impacted older savers and those with fixed incomes.

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The Bank's move comes amid conflicting signals about the UK's recovery. GDP growth remains fragile, with retail spending stagnant and consumer confidence wavering. Although the job market has held relatively steady, wage growth has slowed, and business investment remains subdued.

Ashwin Kumar, Director of Research at the Institute for Public Policy Research (IPPR), said the cut was "a step in the right direction" but warned it might not be enough.

“The reduction to 4 per cent is welcome but insufficient,” Mr Kumar said. “With the UK economy slowing, ongoing trade frictions caused by tariffs, and continued inflation pressures, a larger cut of 0.5 per cent would offer more meaningful support to households and businesses.”

He added that energy and food prices continue to squeeze household budgets and urged the government to implement targeted relief. “The government should explore direct support to lower energy bills, protect vulnerable households in debt, and ensure fair pricing in the energy market,” he said.

While the interest rate cut signals a potential shift in policy, the Bank remains cautious. Any future reductions will likely depend on data from inflation, wage growth, and the global economic environment.

Several MPC members who voted against the cut cited concerns that reducing rates too quickly could fuel inflation and undermine the Bank’s efforts to stabilise prices. Others noted that overly tight monetary policy could hamper growth at a time when consumer demand is already softening.

“Rate setting is a balancing act,” said a former MPC adviser speaking anonymously. “If the Bank moves too fast, it risks inflation. If it hesitates too long, it risks stagnation. Neither outcome is desirable.”

Among the public, the decision has drawn mixed reactions. For homeowners and small businesses with existing debt, the cut may bring welcome relief. But for savers and those reliant on fixed incomes, the benefits are far less clear.

Financial analysts suggest that unless inflation begins to fall more consistently in the coming months, further rate cuts could be postponed.

With inflation projected to remain volatile through the Christmas period, many economists expect the Bank to maintain a cautious stance, balancing short-term relief with long-term price stability.

As Britain continues to navigate the dual challenges of inflation and sluggish growth, the interest rate decision reflects not only a shift in monetary policy but also the growing pressures on households across the country.