Calls Grow for Bank of England to Cut Interest Rates as UK Economy Slows

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Economists are calling on the Bank of England to cut interest rates six times over the next 12 months to stimulate Britain's weakening economy.

Projections from analysts at Capital Economics suggest that the central bank, under the leadership of Governor Andrew Bailey, may need to reduce the base rate from the current 5.25% to 2.75% by the second half of 2026. The first of these cuts is widely expected as early as September this year, with subsequent reductions anticipated in regular intervals to support growth and alleviate pressure on households and businesses.

These predictions follow signs of stagnation in economic output, sluggish productivity, and declining consumer confidence. Rising borrowing costs have dampened spending and investment, with the property market also facing strain. Experts warn that unless monetary policy becomes more accommodative, the UK could face further economic deterioration.

Despite inflation falling closer to the Bank's 2% target, cautious messaging from Bailey has left financial markets uncertain over the speed and depth of rate reductions. However, Capital Economics believes the Bank may need to act more decisively if economic data continues to underperform.

A lower interest rate environment is expected to ease financial burdens for mortgage holders and small businesses, potentially improving living standards and preventing job losses. However, concerns remain over the risk of reigniting inflation if cuts are made too quickly or deeply.

The Bank has maintained a tight monetary stance since 2022 in response to soaring inflation, driven by global supply shocks and rising energy costs. With inflation now appearing more stable, the focus has shifted to preventing recession and restoring economic momentum.

While markets remain divided, some investors are now pricing in a steeper path of rate reductions than previously forecast. Should the Bank of England follow this course, it would mark the most significant loosening of monetary policy since the early pandemic response in 2020.

Governor Bailey has yet to confirm any change in strategy, though upcoming economic indicators and wage growth data are expected to guide the Monetary Policy Committee's next decisions.