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BoE’s Taylor Flags Recession Risk, Backs Deeper Rate Cuts to Support UK Economy

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Bank of England policymaker Alan Taylor has warned that the UK’s soft landing is at risk, pointing to weakening demand and trade. He said up to five rate cuts may be needed this year to support the slowing economy, signalling a shift toward more aggressive easing.

At a central banking forum in Portugal, Taylor emphasized that the UK economy faces mounting headwinds, including falling investment, a softening labor market, and global trade pressures. He warned that while headline inflation is easing, economic momentum is deteriorating, justifying additional rate reductions. Taylor projected that interest rates could drop to around 2.25% by late 2026, down from the current 4.25%, if downside risks materialize. He acknowledged that although the scale of cuts would not need to be drastic, the Bank must act swiftly and strategically.

Taylor, who has consistently voted for rate cuts since joining the Monetary Policy Committee (MPC), highlighted what he called the “integer problem”, a logistical challenge posed by the limited number of policy meetings each year. This restricts the central bank’s ability to respond quickly to shifting economic data. He called on the BoE to provide clearer forward guidance to help steer market expectations and maintain credibility.

The policymaker’s comments come as financial markets react nervously to signs of economic fragility. UK bond yields have fluctuated, and investors are increasingly betting on additional monetary easing by year-end. Taylor’s call for five rate cuts reflects growing concern within parts of the MPC that the current monetary stance may be too tight for a slowing economy. His view also signals a divergence within the committee, as Governor Andrew Bailey remains more cautious, emphasizing a gradual, data-led approach.

Labor market data, including the sharpest monthly drop in payroll employment since early 2020, and business uncertainty, reinforce calls for policy action. Taylor argued that delaying rate cuts could worsen the economic slowdown and erode the UK’s chances of a smooth transition out of high inflation. As global conditions remain volatile, Taylor’s remarks pressure the BoE to respond more decisively in the months ahead, balancing inflation control with the need to support faltering growth.