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Bank of England Eyes Rate Cut Amid Economic Strains

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The Bank of England is expected to cut interest rates this Thursday, as a slowing economy, rising inflation, and weaker job figures pile pressure on the central bank to ease financial conditions.

The Monetary Policy Committee is widely forecast to lower the base rate by 25 basis points to 4%, maintaining its quarterly pace of reductions. The move comes despite elevated inflation, which hit a 17-month high, prompting concern from economists and investors alike.

While the US Federal Reserve chose to hold rates steady again this week, the Bank of England is prioritising economic growth, after consecutive contractions in GDP and a noticeable drop in employment this spring.

Many firms have slowed hiring following the Labour government's first budget, which introduced a £26 billion increase in payroll taxes and a significant rise in the minimum wage. These changes have led to higher business costs and reduced demand for new staff across multiple sectors.

According to Dan Hanson, Bloomberg's chief UK economist, "The central bank is likely to remain cautious when signalling further rate cuts. Inflation has surprised on the upside, and price expectations remain high."

Bank Governor Andrew Bailey has continued to emphasise that the surge in inflation is temporary, suggesting that interest rates will be brought down gradually. The Bank is also set to release updated economic forecasts, after previous inflation estimates were exceeded in May.

Markets will be closely watching for any indication of how quickly the central bank intends to shrink its bond holdings. A decision on the future of quantitative tightening is due in September, with analysts speculating that the Bank may limit gilt sales following recent stress in long-dated bond markets.

Elsewhere, global economic activity remains in focus. Trade data from key markets and a potential rate cut by Mexico's central bank are also on the agenda this week. Meanwhile, some governments are seeking to renegotiate new US tariffs introduced by former President Donald Trump, set to take effect on 7 August.