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Lloyds' Chief Expects Two UK Rate Cuts

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The head of the UK's largest mortgage lender believes the Bank of England (BoE) could cut interest rates two more times before the end of 2025, potentially bringing the base rate down to 3.75%. Lloyds Banking Group CEO Charlie Nunn told *Sky News* that a 0.25 percentage point cut is likely in August, with investors already anticipating two reductions this year.

Analysts also expect the central bank to lower its base rate to 4% at next month's monetary policy meeting. Market pricing suggests an 80% likelihood of a 25-basis-point cut.

Bloomberg's economic model points to a more cautious stance by policymakers, citing easing in the UK job market. However, BoE Governor Andrew Bailey has warned that an August rate cut is not guaranteed, due to persistent inflation pressures.

The BoE previously indicated it could make up to four cuts in 2025 if economic conditions allow. Meanwhile, Goldman Sachs has forecast as many as six rate cuts by mid-2026.

So far this year, the central bank has reduced rates twice, once in February and again in May, each by 0.25 percentage points, bringing the base rate to 4.25%. Rates were held steady in June.

Interest rate movements directly affect those on tracker and standard variable rate (SVR) mortgages. Around 600,000 homeowners in the UK are on tracker deals. UK Finance estimates that each 0.25 percentage point change shifts tracker mortgage payments by roughly £29 per month and SVR payments by about £14.

For example, a 0.50 percentage point cut would reduce tracker mortgage bills by nearly £58 per month and SVR payments by £28. Fixed-rate borrowers, on the other hand, are insulated from immediate rate changes, though new mortgage offers are influenced by base rate expectations.

Despite possible future cuts, average mortgage rates remain elevated. As of July 16, the average two-year fixed mortgage stood at 5.03%, and the five-year fixed rate was 5.01%, according to comparison site *Moneyfacts*. The average two-year tracker rate was 4.91%, significantly higher than rates seen over the past decade.

Looking forward, around 800,000 fixed-rate mortgage deals with rates of 3% or below are due to expire each year until 2027. Borrowers switching off these rates will likely see a sharp rise in repayments.

"We helped 34,000 first-time buyers in the first half alone, 64,000 last year," said Nunn. "It was driven by the stamp duty changes in Q1. Q2 was a bit slower, but there's still strong demand among customers wanting to buy homes and take mortgages."

The comments follow Lloyd's latest financial results, which showed a half-year profit of £3.5 billion, beating market expectations. Lending and deposit volumes increased, while the bank benefited from higher interest income.

Lloyds also posted a 14% rise in new mortgage lending, reaching £5.6 billion. Its net interest margin, the difference between interest earned and paid, has widened in the past six months, thanks to elevated borrowing costs.

Nunn acknowledged the growth in mortgage and small business lending, but also expressed caution about potential future tax increases targeting the financial sector.