

BoE Faces Fifth Rate Cut Amid Inflation Fears

August 7, 2025

— Categories: Economics



Download IPFS

The Bank of England is expected to cut interest rates to 4% this afternoon, marking the lowest level in over two years as policymakers balance a faltering economy with renewed inflationary pressures.

Markets are widely pricing in a 25-basis-point reduction, continuing the Bank's once-per-quarter pace of monetary easing. It would be the fifth consecutive cut since August 2024, placing UK rates below the US Federal Reserve's benchmark, which currently stands between 4.25% and 4.5%.

The Monetary Policy Committee (MPC) is likely to retain its “gradual and careful” approach to rate reductions. However, inflation remains a concern. In June, inflation rose to 3.6%, exceeding the Bank’s 3.4% forecast and reaching a 17-month high. The increase, driven by energy and food prices, may force the BoE to revise its year-end inflation outlook closer to 4%.

Governor Andrew Bailey has described the inflation bump as temporary, but Chief Economist Huw Pill and other MPC members have warned of knock-on effects from rising wages and persistent core inflation.

The UK economy has posted consecutive contractions this year, while the labour market shows clear signs of distress. Unemployment has surged following Chancellor Rachel Reeves’ controversial hike in employer national insurance contributions, amounting to £26 billion. Since April, over 180,000 jobs have been lost, with the jobless rate now at its highest since 2021.

Despite those challenges, recent economic figures hint at a possible revision to growth forecasts. The Bank had previously projected GDP growth of just 1% in 2025 and 1.25% in 2026, but stronger-than-expected performance in the first half of the year could prompt an upgrade.

The vote within the nine-member MPC is expected to be split. Most members are likely to back a 25bp cut, while two may push for a more aggressive 50bp move, and another two are expected to vote for no change. External members Catherine Mann and Huw Pill have previously opposed easing, while Swati Dhingra and Alan Taylor are seen as more dovish.

Traders are focused on any shift in forward guidance. While a November rate cut is expected, there are signs the BoE may slow its pace of easing. “The committee may suggest it’s rethinking the one-cut-per-quarter approach,” said Dan Hanson of Bloomberg Economics. “A November cut is no longer a certainty.”

Markets are also watching for signals on the Bank’s bond sales strategy. Quantitative tightening has so far reduced the Bank’s holdings by around £100 billion per year, but recent turbulence in long-dated gilts has prompted speculation of a shift.

Governor Bailey recently expressed concern over surging 30-year gilt yields, now at levels not seen since the late 1990s. Analysts suggest the BoE may reduce its annual active sales

target, currently £26 billion or shift focus to shorter-dated bonds when it updates its strategy in September.

Sanjay Raja, Chief UK Economist at Deutsche Bank, said the BoE may soon acknowledge growing liquidity concerns, paving the way for a more flexible approach to bond sales.