

Bank of England Split Exposes UK Economy's Fragile State

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LONDON – A rare split among the Bank of England's top officials has highlighted the precarious state of the UK economy as policymakers grapple with how best to respond to inflation and slowing growth.

In an unprecedented decision on Thursday, Governor Andrew Bailey voted to cut interest rates from 4.25% to 4%, while two senior colleagues, Deputy Governor Clare Lombardelli

and Chief Economist Huw Pill, opposed the move, favouring holding rates steady amid inflation concerns.

The Monetary Policy Committee (MPC), composed of nine members, was so divided that a second vote was required to break a deadlock, resulting in a narrow 5-4 majority favouring a rate cut, the first since March 2023.

The split reveals deep uncertainty over how to tackle the UK's economic challenges. The country's economy contracted in April and May. Meanwhile, unemployment has risen to 4.7%, a four-year high, with job vacancies falling to a record low, signalling a possible "hiring recession."

Despite these indicators, some officials downplayed recent labour market weaknesses, focusing instead on high inflation, which rose to 3.6% in June and is expected to reach 4% by September. Rising food prices and wage growth contribute to inflation staying well above the Bank's 2% target.

Policymakers are divided over the risks of inflation versus slowing growth. Rate-setter Alan Taylor broke ranks by backing a larger 0.5 % point cut, concerned about a faltering jobs market. Others, including Lombardelli and Pill, remained cautious, wary of persistent inflation.

The National Institute of Economic and Social Research recently warned Chancellor Rachel Reeves may face a £50 billion fiscal shortfall, potentially forcing tax increases that could further weigh on the fragile economy.

"This masks the uncommon level of dissent amongst the committee," said Matthew Swannell, chief economic adviser at EY Item Club. Derek Halpenny from MUFG bank added, "The elephant in the room is the potential huge fiscal tightening that looks inevitable... today's Bank of England update doesn't really incorporate that negative risk."

For British families already struggling with the cost of living, the outlook remains uncertain as the Bank balances inflation control against supporting growth.