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FLASH REPORT
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Bank of England: Hawkish Rate Cut Risks No More Easing in 2025

- **The BoE lowered its policy rate by 25 bps to 4.00% as was universally expected by economists and markets, but did so in a narrowly split 5–4 decision that was more hawkish than anticipated.**
- **BoE Gov Bailey highlighted during his press conference that there is "genuine uncertainty now about the course" of the direction of rates. Key guidance phrasing on future policy moves was left unchanged, with a "gradual and careful approach" to additional easing.**
- **The BoE's updated forecasts lifted the inflation outlook across the projection horizon with prices growth now expected to settle around 2% until mid-2027 compared to late-2026 in the May MPR.**
- **We still expect that the BoE's next cut will likely come at its November announcement but are cognizant of the risks that recent and expected upside inflationary pressures pose for this call. There is a scenario where the BoE opts to stay put for the balance of 2025.**

The Bank of England (BoE) lowered its policy rate by 25 bps to 4.00% as was universally expected by economists and markets, but did so in a narrowly split decision that was more hawkish than anticipated. The five members majority in favour of a cut included Governor Bailey against four members who voted to hold, notably counting among them two internal Monetary Policy Committee policymakers (Chief Economist Pill and Dep Gov for Monetary Policy Lombardelli). The 5–4 vote split was preceded by a 1–4–4 split with super-dove Taylor having to switch his 50 bps cut vote to the final 25 bps reduction in a rare second round of voting.

BoE Gov Bailey highlighted during his press conference that there is "genuine uncertainty now about the course" of the direction of rates, reinforcing the view that the BoE will continue to act cautiously in its easing of monetary policy, sticking to a quarterly, every two meetings, pace of rate cuts. As for the statement, the key guidance phrasing on future policy moves was left unchanged, with a "gradual and careful approach" to additional easing. On the other hand, the BoE remarked that the "the restrictiveness of monetary policy has fallen as Bank Rate has been reduced". This is, of course, a truism but its inclusion in the policy statement is noteworthy.

The vote split, greater concerns about upside inflation risks and the associated increase in inflation forecasts (more below) tee up the possibility that the BoE waits a bit longer before their next move, thus 'skipping' the November meeting. The bank may be pushed to hold at that decision as September inflation data that they forecast will come in at 4% (i.e. double their target) will be released a couple of weeks before the November decision, complicating the messaging of delivering a rate cut when inflation is clearly far from target.

We still expect that the BoE's next cut will likely come at its November announcement (holding in September) alongside the bank's refreshed Monetary Policy Report (MPR) forecasts but are cognizant of the risks that recent and expected upside inflationary pressures pose for this call. There is a scenario where the BoE opts to stay put for the balance of 2025, only to resume cuts in 1Q26 (possibly alongside an updated MPR, though this is not a requirement). Markets are currently pricing in only about a toss-up chance of a rate cut at the November meeting after slashing implied cuts by ~7 bps. In 2026, we project that the BoE will keep to a once-a-quarter cadence of easing, to end the year at 2.75%.

The BoE's updated forecasts lifted the inflation outlook across the projection horizon with prices growth now expected to settle around 2% until mid-2027 compared to late-2026 in the May MPR, and with the statement now highlighting that the BoE "judges that the upside risks around medium-term inflationary pressures have moved slightly higher since May". The path for GDP growth was left practically unchanged anticipating only a slightly greater (but still soft) expansion of 1.25% in 2025 compared to a 1% projection previously.

Food prices inflation was singled out as a point of concern as it plays a key role in shaping household inflation expectations, while services inflation remains elevated partly owing to still-strong wages growth (note April's National Living Wage hike) and higher mandated National Insurance employer contributions (partially passed on to consumers). Notably, the BoE also highlighted that "pay growth has remained higher than can be explained by its usual economic determinants", which would support the bank staying in a restrictive stance for longer than may usually be necessary.