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Review: BoE Leaves Rates Unchanged,

But The Split Vote Suggests Further Easing Ahead

by

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Executive Summary

- **Decision Made**: *The Bank of England (BoE) hold its Bank Rate at 4.25% amid Middle East uncertanties.* The vote was split: 6 members supported to hold the rates, three wanted a 25 bps cut. In terms of *forward guidance*, future decisions will be data-dependent and made meeting-by-meeting, with a "gradual and careful approach" to easing policy restraint if no significant developments occur. No changes to the *balance sheet* policy.
- **Policy Discussion**: *The BoE noted that "global uncertainty remains elevated," pointing to rising energy prices amid escalating Middle East tensions.* The Committee pledged to remain alert to geopolitical and economic risks, closely monitoring two scenarios: persistent domestic inflation and faster disinflation driven by weak demand. Global challenges—including trade tensions and soft UK growth, with GDP contracting 0.3% in April—add complexity to policy decisions.

  Earlier this year, the Bank forecast inflation to peak at 3.7% in Q3 before easing into 2025. However, ongoing uncertainty around U.S. tariff policy and external shocks could sustain inflationary pressures. Against this backdrop, economists polled by Reuters expect a 25-bps rate cut in August, followed by another in the fourth quarter.

  Although policy has eased slightly over the past year, it remains in restrictive territory to contain inflation. The MPC is divided: six members voted to hold the Bank Rate at 4.25%, citing continued disinflation but insufficient justification for a cut. They see balanced inflation risks—weak demand could open further labour market slack, while supply constraints and food prices may keep inflation elevated. Three members supported a 25-bps cut, pointing to softening in labour market indicators, slower wage growth, and stabilising pay settlements. They argued that with inflation easing and growth subdued, maintaining overly tight policy risks a prolonged undershoot of the 2% target and a widening output gap.

Key Picture: BoE Key Forecasts From the May MPR

	Latest Reading	2025*f*		2026*f*		2027*f*	
		May Report	Feb. Report	May Report	Feb. Report	May Report	Feb. Report
GDP *(real growth, y-o-y)*	1.3	**1.0**	**0.8**	**1.3**	**1.5**	**1.5**	**1.5**
Unemployment rate *(%, y-o-y)*	4.6	**4.8**	**4.5**	**5.0**	**4.8**	**5.0**	**4.8**
CPI inflation *(%, y-o-y)*	3.4	**3.3**	**3.5**	**2.0**	**2.5**	**1.8**	**2.0**
Bank rate *(%)*	4.25	**3.7**	**4.2**	**3.6**	**4.1**	**3.6**	**4.0**

Source: Bank of England *'Monetary Policy Report'* (MPR), May and February 2025. *Note:* 1. GDP reading for Q1 2025; 2. Unemployment reading for April 2025; 3. Inflation reading for May 2025; 4. Bank Rate as implied by forward market interest rates.

Analysis

- **DECISION MADE**: *On June 19, in line with consensus, the Bank of England (BoE) hold its Bank Rate (BR) at 4.25%*. The Committee was divided. Six members (Bailey, Breeden, Greene, Lombardelli, L Mann and Pill) backed the proposal. Three opposed: Dhingra, Ramsden and Taylor favored a 0.25 cut to 4%.

  In terms of *forward guidance*, the Bank will remain evidence-based, and data dependent, with decisions made meeting-by-meeting. Given the level of high uncertainty, the MPC maintained a piece of rhetoric to its forward guidance, saying that the Bank will pursue a "gradual and careful" approach in its policy easing.

  MPC acknowledges that over the past two years, disinflation has taken hold as external shocks eased and tight monetary policy curbed second-round effects and anchored inflation expectations. This has enabled the MPC to begin easing policy gradually, while keeping rates high enough to contain lingering inflationary pressures.

  In terms of *balance sheet policy*, in September the BoE announced the new pace of QT: the Committee unanimously agreed to decrease the stock of UK government bond purchases, held for monetary policy purposes and financed through central bank reserves, by £100 billion over the next 12 months, bringing the total to £558 billion. The active gilt sales are being significantly reduced to £13 billion, compared to £80 billion last year. The remaining £87 billion will come from maturing gilts, with proceeds not being reinvested. As of June 18, the stock of UK government bonds held for monetary policy purposes was £590 billion.

- **POLICY DISCUSSION:** *The BoE noted that "global uncertainty remains elevated," citing rising energy prices driven by Middle East tensions.* The Committee stated it will remain alert to economic and geopolitical uncertainty and continue reassessing risks to the UK economy. It is monitoring two main scenarios: persistent domestic inflation and, alternatively, faster disinflation driven by weak demand. Global risks—such as trade tensions, geopolitical instability, and rising energy prices—remain elevated and could significantly influence the economic outlook.

  Earlier this year, the BoE projected inflation to peak at 3.7% in Q3 before easing in 2025. However, uncertainty around President Trump's global tariffs and Middle East tensions could add further inflationary pressure. Combined with weak UK growth—following a 0.3% contraction in April—these risks complicate the Bank's decision on when to cut rates. Economists surveyed by Reuters widely expect the BoE to cut rates by 25 basis points in August, followed by another 25-basis-point reduction in the fourth quarter.

  While monetary policy has eased slightly over the past year, it remains restrictive to counter persistent inflation. Members differ on how tight policy should remain going forward. Six members (Bailey, Breeden, Greene, Lombardelli, L Mann and Pill) voted to hold the Bank Rate at 4.25%, citing continued disinflation but no strong case for easing. Inflation is expected to hover around 3.5% in late 2025 before falling towards target. Labour market data showed clearer signs of disinflation than domestic price trends, and recent global events had minimal impact on this decision. These members saw balanced risks to medium-term inflation. Future decisions will hinge on assessing disinflation, with weak demand potentially accelerating slack, while supply constraints or rising food prices could sustain inflation.

  Three members (Dhingra, Ramsden and Taylor) supported a 0.25% rate cut, pointing to further loosening in the labour market and subdued growth. They noted that wage growth is slowing, pay settlements are stabilising, and the disinflation trend remains intact. With demand weak and inflation risks shifting, they warned that an overly tight policy could lead to a persistent undershoot of the 2% target and a widening output gap, justifying a less restrictive stance.

- **ECONOMIC ASSESSMENT:** *Underlying UK GDP growth remains weak, and a looser labour market points to growing economic slack.* UK GDP grew by 0.7% in Q1 2025, slightly above expectations. Household consumption rose by 0.2%, and business investment rebounded by 5.9% after a weak Q4. Net trade (excluding valuables) and inventory changes contributed a combined 0.8 percentage points to growth, likely boosted by front-loaded activity ahead of new U.S. tariffs. However, GDP fell 0.3% in April, partly reversing earlier gains, as temporary boosts from tax changes and trade front-loading faded. Goods exports to the U.S. saw a record monthly drop.

  Business surveys indicate continued weak underlying growth. While the PMI rose above 50 in May, it remained below average, with global factors driving weakness. Most firms did not expect tariffs to significantly affect their plans, but overall business sentiment remains subdued, with recovery not expected until 2026. Recent survey data suggest flat to slightly positive growth.

  CPI inflation rose to 3.4% in May, up from 2.6% in March, driven mainly by regulated and energy prices. May's outturn aligned with expectations, while core inflation came in slightly below forecast at 3.5%. Core goods inflation rose to 1.6%, with food inflation reaching 4.4%, led by higher prices for meat, chocolate, and soft drinks. Rising wholesale costs and regulatory pressures were contributing factors. Services inflation returned to 4.7% in May, down from 5.4% in April, but underlying pressures remain high and stable across multiple measures. CPI is expected to stay just under 3.5% for the rest of 2025, with a brief rise to 3.7% in September, in line with earlier forecasts, though some cost pass-through risks remain.

  Labour demand has weakened, with PAYE data showing a 0.4% drop in employment and surveys confirming softening hiring trends. Slack is building, though unemployment remains stable for now. Wage growth is easing but still high.

- **OUR TAKE:** *We expect two further cuts this year*. The split vote in a non-MPR meeting suggests that another 25-bps cut in August is virtually a done deal, at this stage (but developments in the middle East may change the picture in the next six weeks). With unchanged circumstances (a heroic assumption at this stage), we expect a second cut in November. In September, the pace of QT will be revised, possibly slightly lower, to GBP 80bn a year.

- **MARKET REACTION AND IMPLICATIONS:** *Middle East tensions dampen sentiment*. As a result: *i)* after the decision, the *2y Gilt yield* fell by 2 bps to 3.89%; and ii) the *10y Gilt yield* edged down by 3 bps to as high as 4.51% and fluctuated since then around 4.52%. *In the currency space, the Pound fell against major currencies.* GBP/USD fell to as low as 1.340, but then recovered to 1.343. GBP/EUR also declined to 1.69 but now trades around 1.17. *In the equity space,* the FTSE 100 and European stocks dipped as markets reacted to the BoE's rate decision and rising tensions in the Middle East. The FTSE 100 slipped 0.2%, putting it around 1% below its highest level ever reached during a trading day. FTSE 100 now trades around 8,810.

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Analyst Certification*: We, Brunello Rosa and Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships.We also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report.*