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Economic Research

Economic Briefing

# Bank of England delivers first rate cut

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**The Bank of England cut Bank Rate by 25 basis points today, as we and most other watchers expected. However, we expect further rate cuts only slowly and to a limited extent. Today's decision was very close with a 5:4 vote and the BoE also recognizes that inflation is still quite stubborn and that interest rates will therefore have to remain at a restrictive level for a while yet.**

As expected, the Bank of England cut Bank Rate today by 25 basis points to 5.00% (Chart 1). However, the decision was very close with a 5 - 4 vote; 4 members of the Monetary Policy Committee voted to leave rates unchanged.

The Bank said that it is "now appropriate to reduce slightly the degree of policy restrictiveness". This is because there has been some progress in reducing the risk of persistent high inflation.

In May and June, the inflation rate fell to 2%, which is in line with the BoE's target. For the second half of the year, however, the bank expects the inflation rate to rise again to 2 <sup>3</sup>/<sub>4</sub> %. This is mainly due to the fact that last year's fall in energy prices will be excluded from the year-on-year comparison. The persistence of domestic inflationary pressure would then become more apparent.

Meanwhile, the real economy has performed better than the BoE had expected in May. The Bank discussed the risks to the growth outlook and estimates that these are pointing upwards for domestic demand overall, even if growth in the first half of the year was probably somewhat overstated.

Against this backdrop, monetary policy "will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further". A rapid succession of interest rate cuts is therefore not to be expected. We continue to assume that the BoE will cut interest rates by 25 basis points every three months, next in November and then in February and May 2025.

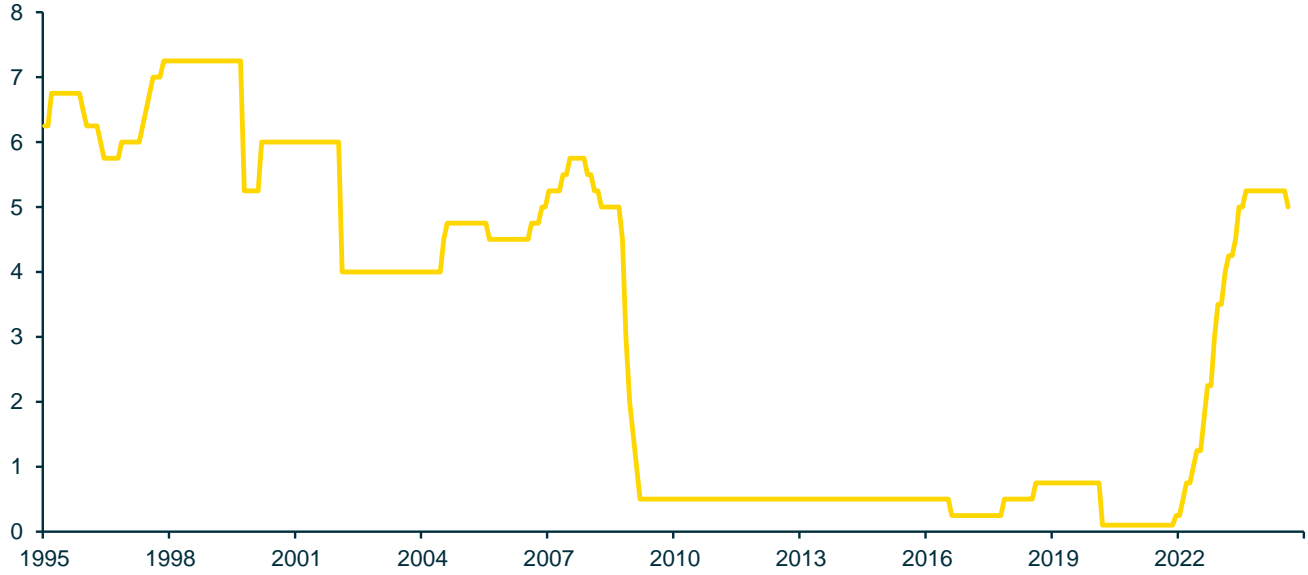


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**Chart 1 - Bank of England cuts rates for the first time in current cycle**

Bank rate in %



Source: S&P Global, Commerzbank Research



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