7 August 2025

Bank of England Review

A 25bp cut with a hawkish twist

- **The Bank of England cut the Bank Rate by 25bp to 4.00% as widely expected.**
- **The vote split was more hawkish than expected, with four members voting for an unchanged decision.**
- **The guidance included a hawkish twist and forecasts for inflation were revised significantly higher.**
- **The market reacted by trading Gilt yields a bit higher and sending EUR/GBP below the 0.87 mark.**

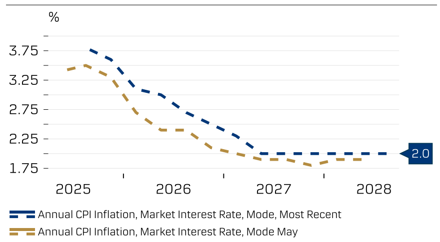
The Bank of England (BoE) cut the Bank Rate to 4.00% as widely expected. The vote split delivered a hawkish surprise, with five members voting for a cut and four members voting for an unchanged decision. Alan Taylor favoured a larger 50bp cut but joined the 25bp camp to secure a majority for a cut. Thus, the balance of the MPC was indeed skewed towards cutting the Bank Rate.

The overall guidance was unchanged, as the BoE noted that "*a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate*". However, a hawkish twist was added to the wording, as they also note that the monetary policy stance has become less restrictive and future cuts will depend on the perspectives for further disinflation. To us, this indicates that the cutting cycle is nearing its end. Additionally, the MPC revised its inflation forecast significantly higher in the new monetary policy report (MPR). with Q4 inflation forecasts now at 3.8, 2.7 and 2% for years 2025, 2026 and 2027 vs. 3.5, 2.4 and 1.9% back in May (see chart 1). GDP forecasts were largely unchanged at very modest growth rates.

BoE call. We continue to expect the BoE to deliver the next cut in the Bank Rate in November, followed by quarterly rate cuts next year leaving the Bank Rate at 2.75% by end-2026. After today's somewhat hawkish surprise, we think the risk is that the cutting cycle will come to an end earlier than previously thought, which is also what markets price. That said, recent increasingly negative employment growth and lower wage growth suggest further cuts will be necessary.

Market reaction. Gilt yields traded a couple of basis points higher and EUR/GBP dropped below the 0.87 mark on the hawkish twist, particularly in the short-end as markets now price 20bp for the remainder of the year against 25bp ahead of the meeting. We expect EUR/GBP to move higher towards 0.89 on a 6–12-month horizon on a weakening of the UK growth outlook and a positive correlation to a USD negative environment.

Chart 1. Inflation forecast revised higher



Source: Bank of England, Macrobond Financial

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Expected updates

None

Date of first publication

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