

Bank of England

Monetary Policy Report June 2025

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Bank of England



Progress in reducing inflationary pressures allows us to cut interest rates again



Inflation is following a bumpy path. It will increase temporarily this year before falling back to the 2% target



Changes in global trade policies will impact the economy



To ensure inflation stays low, we will judge carefully how far and how fast to cut interest rates

Chart 2.5: Global trade policy developments are projected to weigh on near-term global activity growth

Four-quarter UK-weighted world GDP growth with contributions by region^(a)

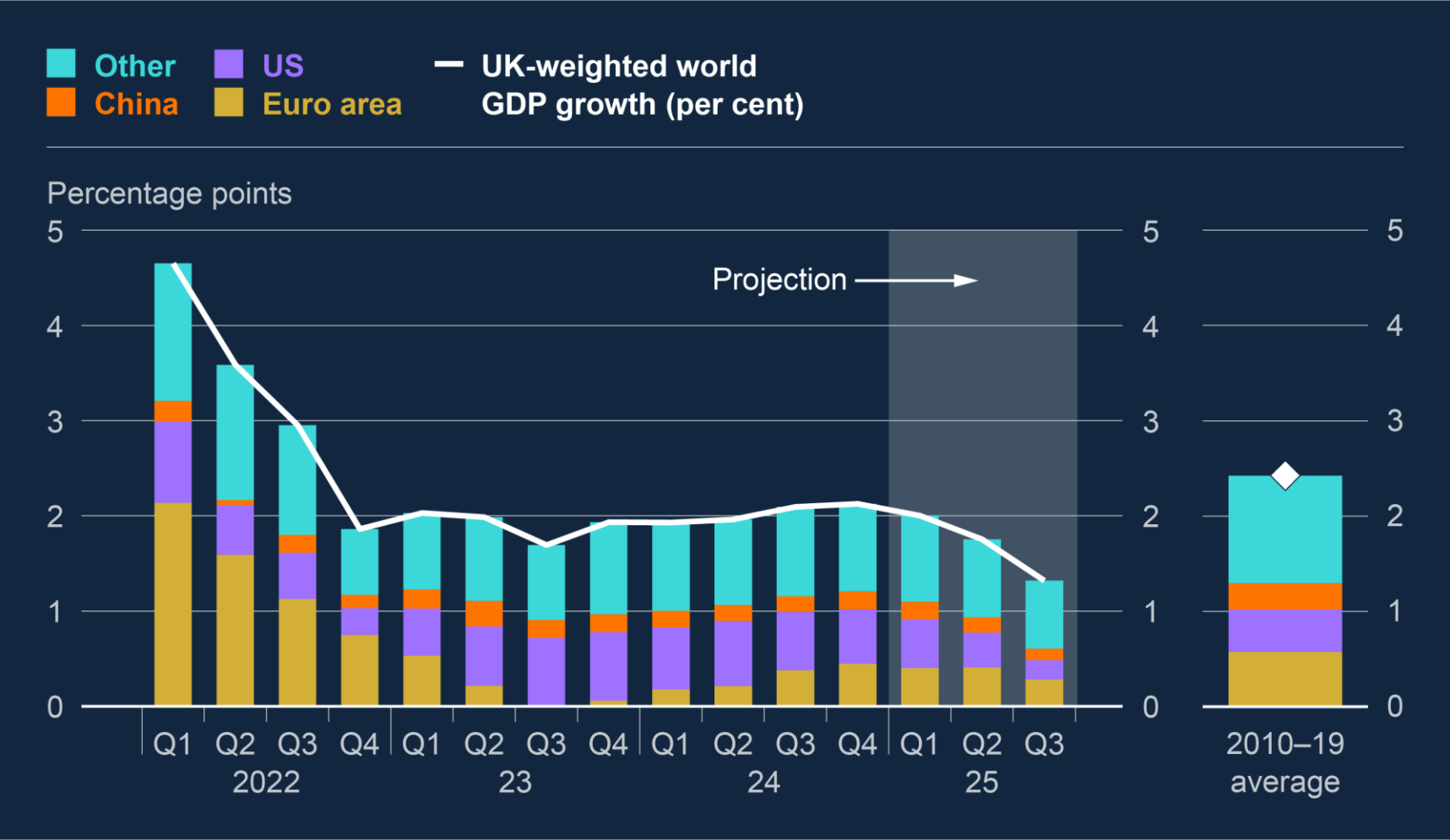


Chart A: Effective US tariff rates have risen significantly under the new US administration

US effective tariff rates over time and by region^(a)

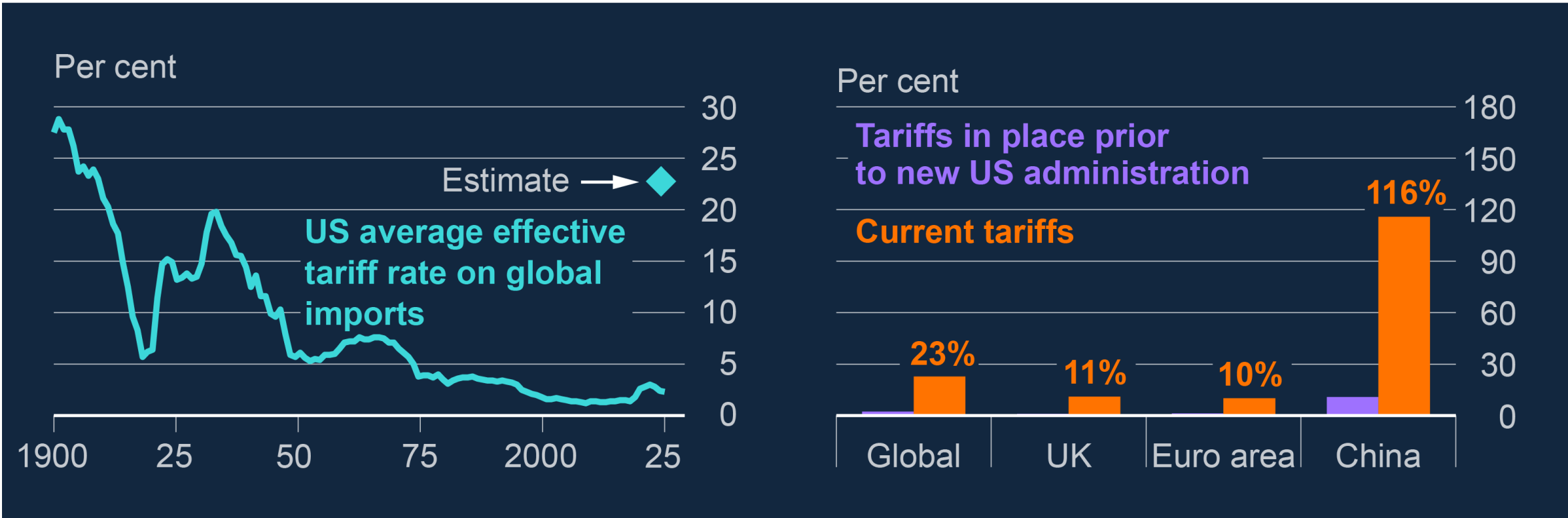


Chart 2.8: Underlying GDP growth has slowed and has been less volatile than growth in headline GDP

Three-month on three-month growth in GDP and quarterly GDP growth implied by business surveys^(a)

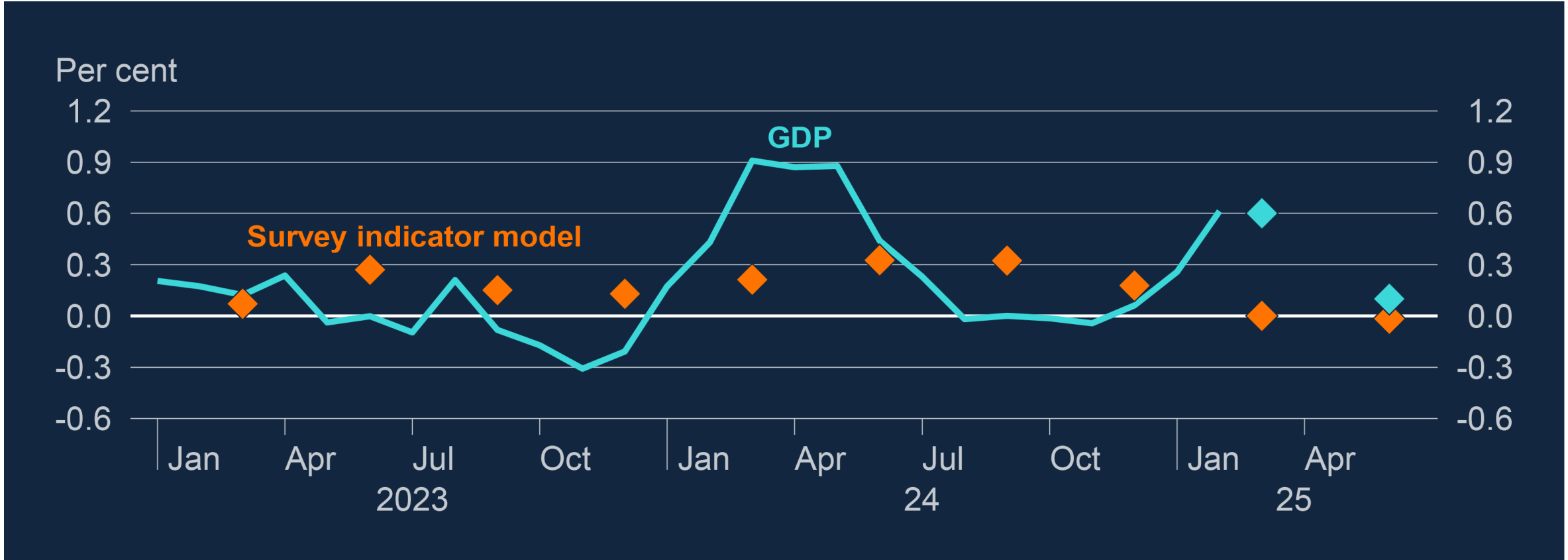


Chart 2.9: Business investment intentions have weakened, consistent with heightened uncertainty

Percentage of respondents to the DMP Survey reporting high or very high uncertainty; four-quarter business investment growth and survey indicators of investment intentions^(a)

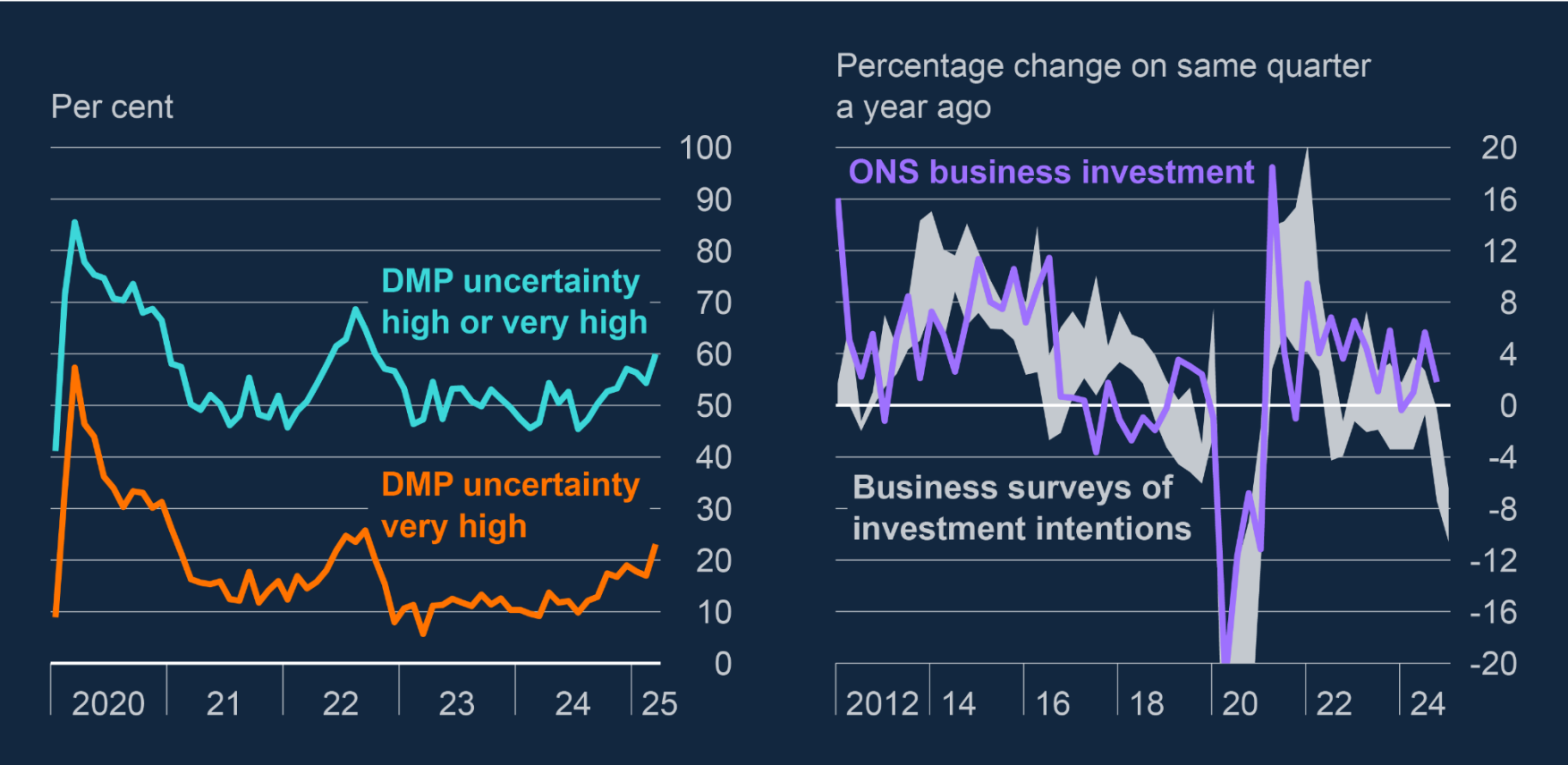


Chart 2.10: The household saving ratio has risen further

Household saving ratio^(a)

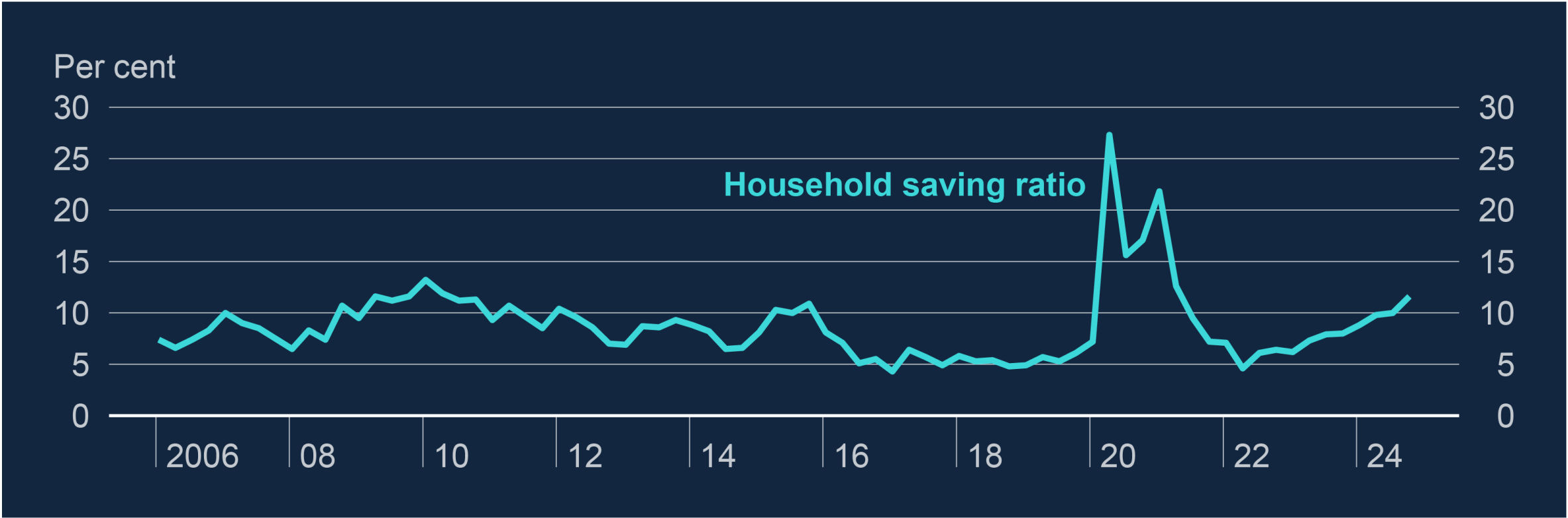


Chart 1.2: GDP growth projection based on market interest rate expectations, other policy measures as announced

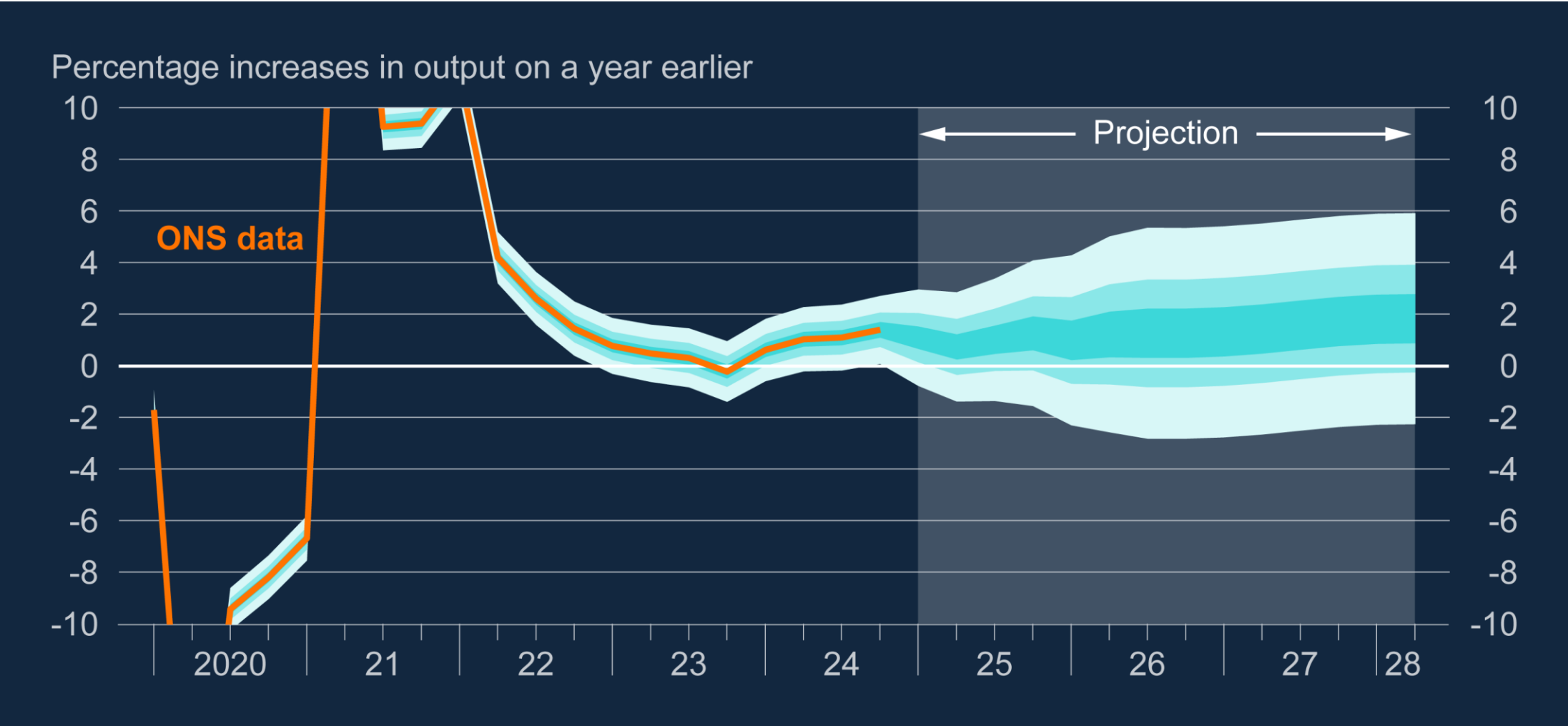


Chart 2.12: Underlying employment growth is judged to have softened
Measures of employment growth^(a)

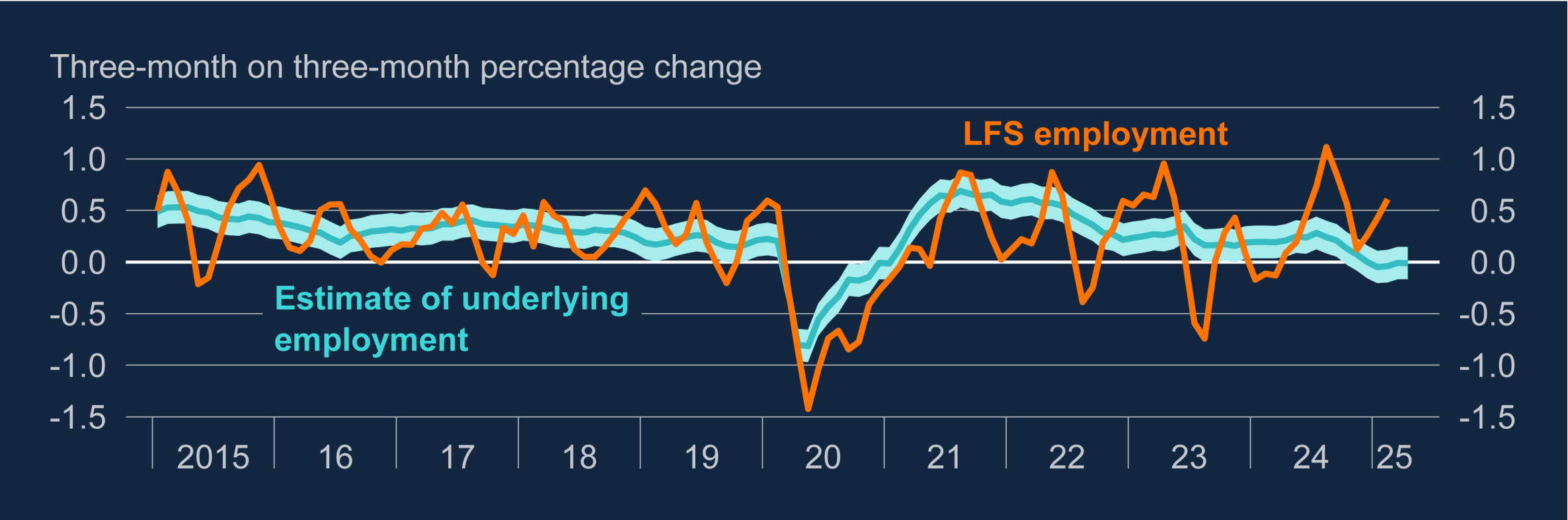


Chart 2.13: The vacancies to unemployment ratio is estimated to be below its equilibrium, while net additional desired hours have increased

Vacancies to unemployment ratio and its estimated equilibrium value and net additional desired hours as a percentage of average weekly hours^{(a)(b)}

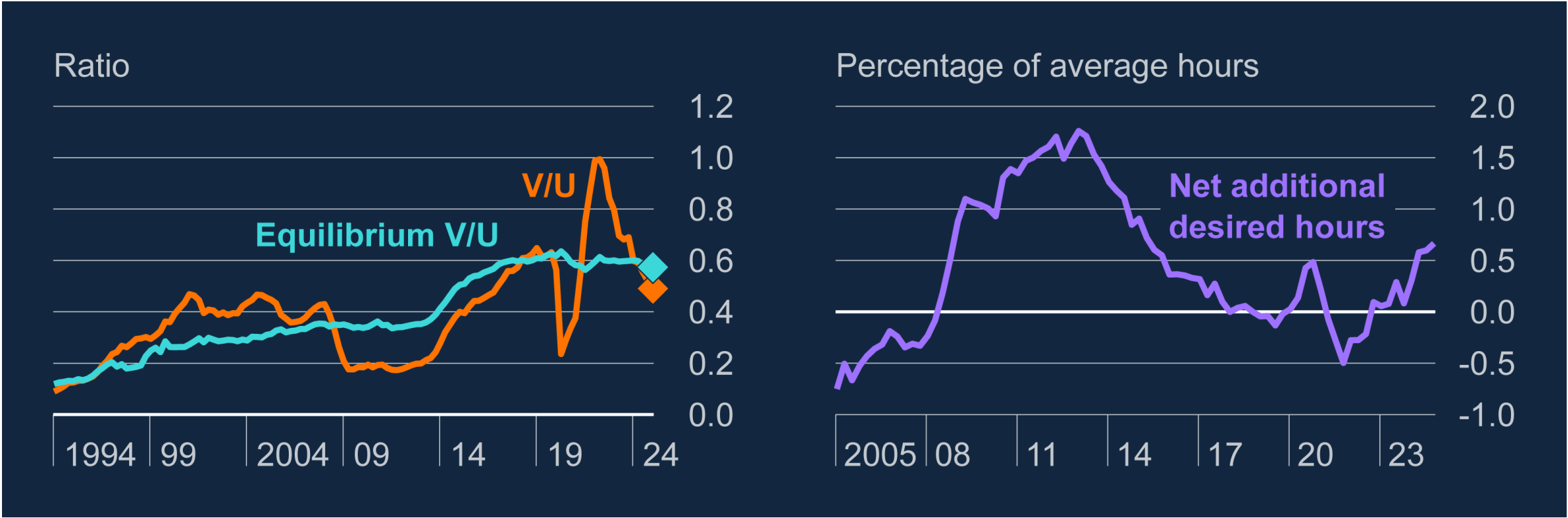


Chart 2.16: Official AWE growth picked up at the end of 2024, but underlying measures have been more stable and point to a slightly lower rate of pay growth

Measures of private sector wage growth^{(a)(b)}

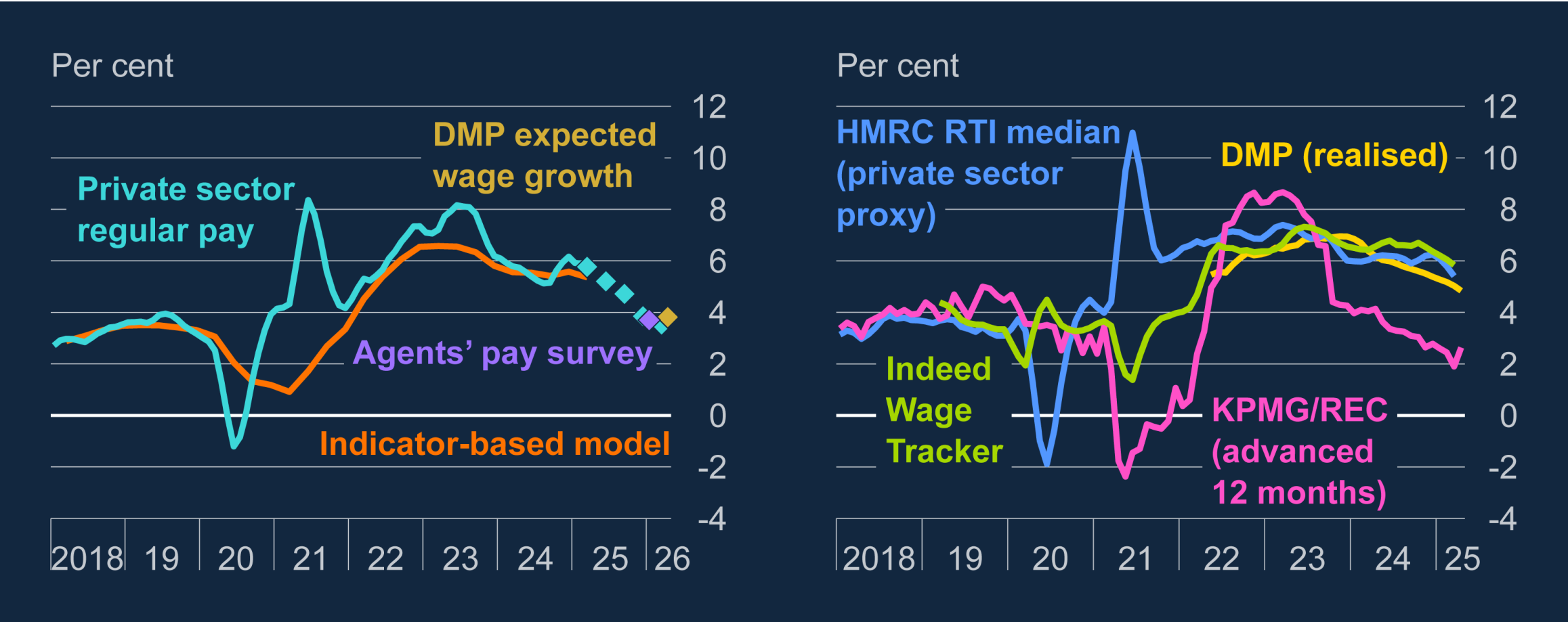


Chart 1.3: Unemployment rate projection based on market interest rate expectations, other policy measures as announced

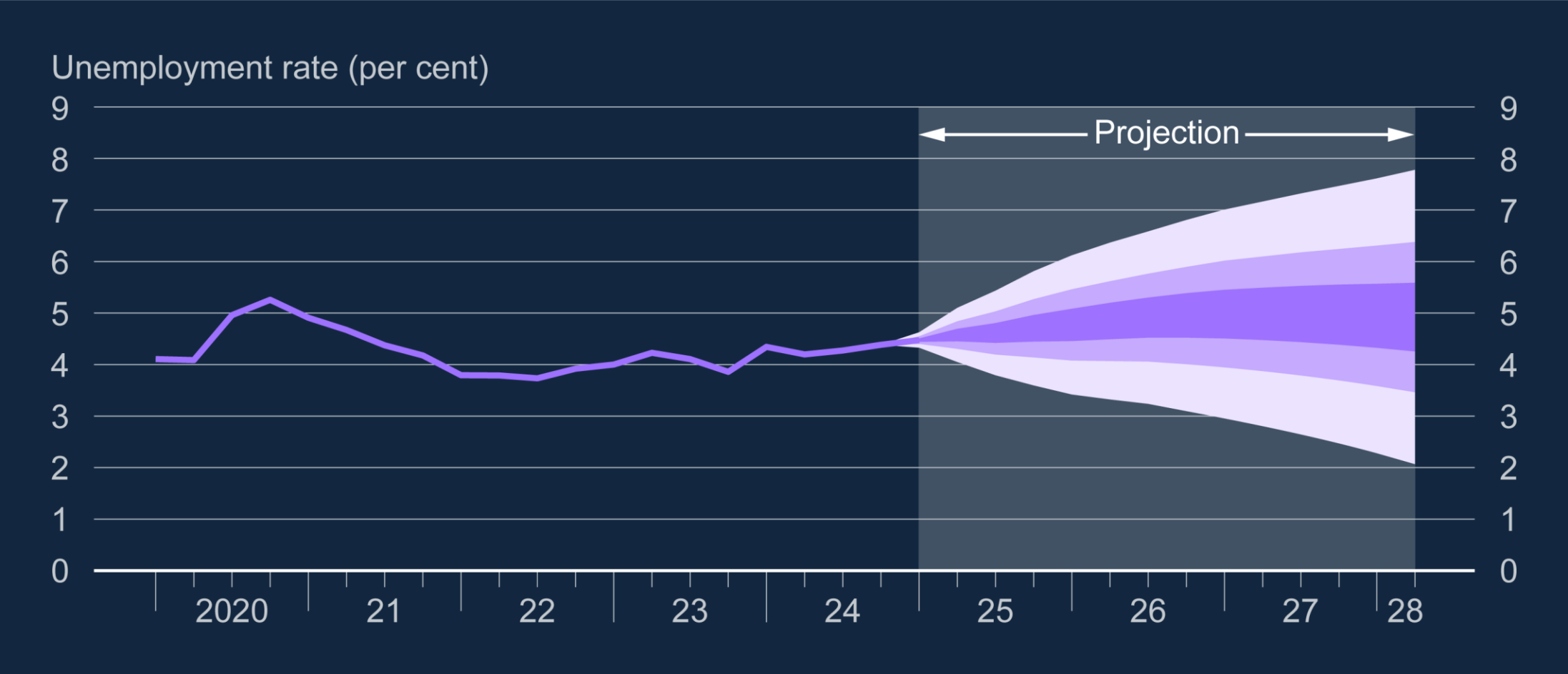


Chart 2.19: CPI inflation was 2.6% in March and is expected to have risen in April
Contributions to CPI inflation^(a)

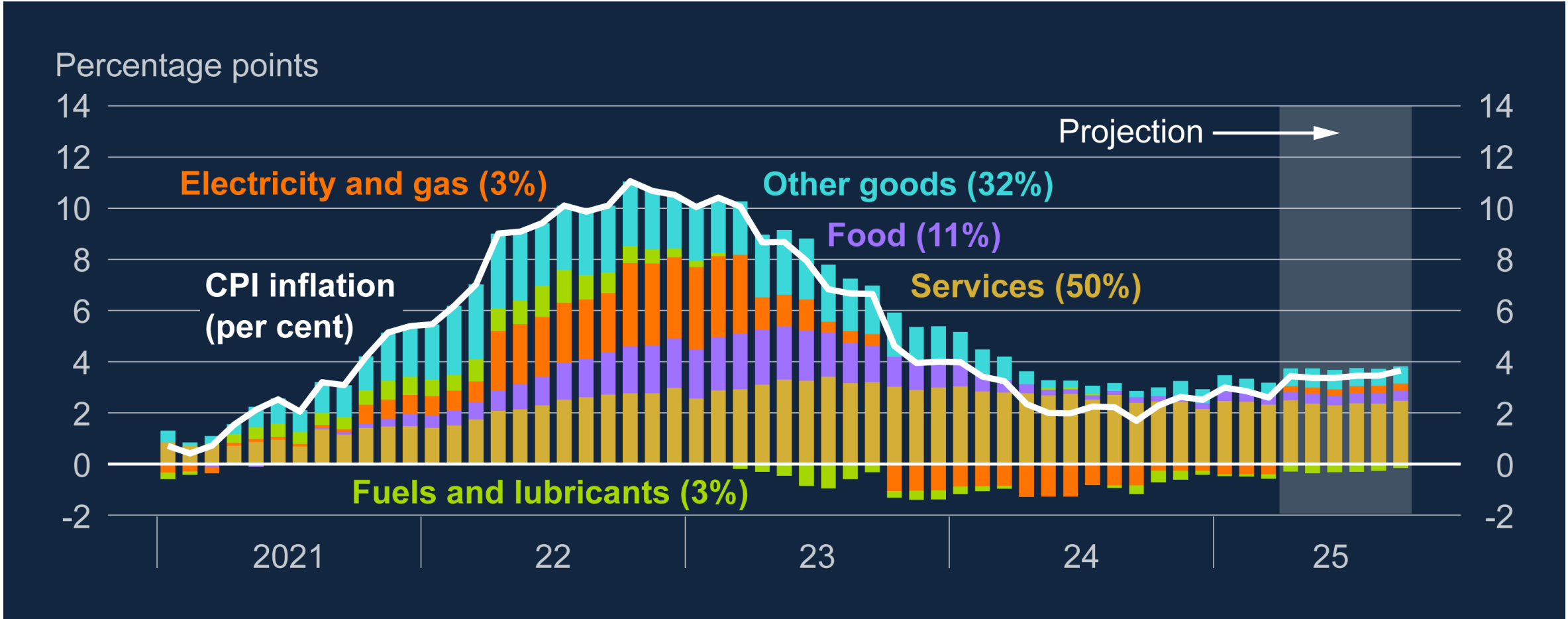


Chart 1.1: CPI inflation and CPI inflation excluding energy^(a)

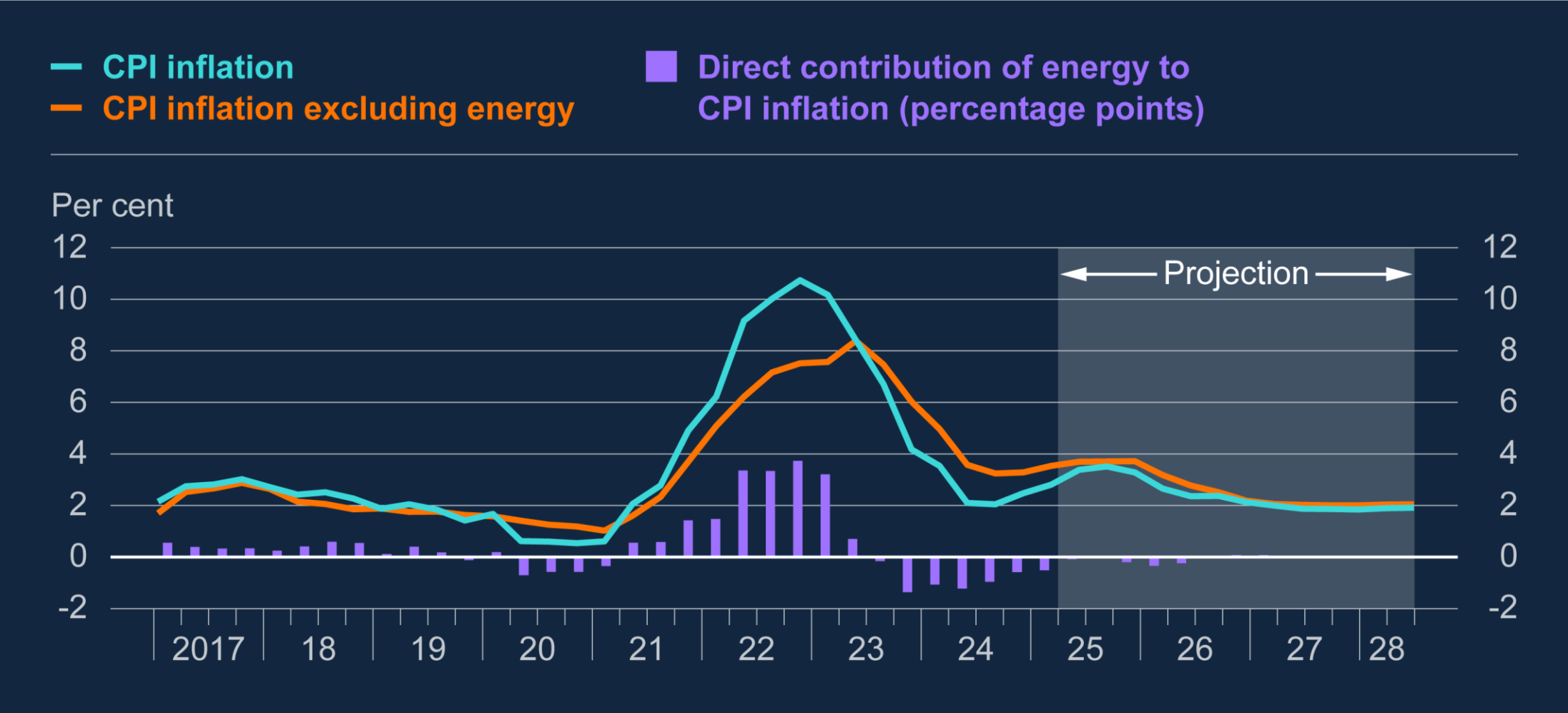


Chart 1.4: CPI inflation projection based on market interest rate expectations, other policy measures as announced

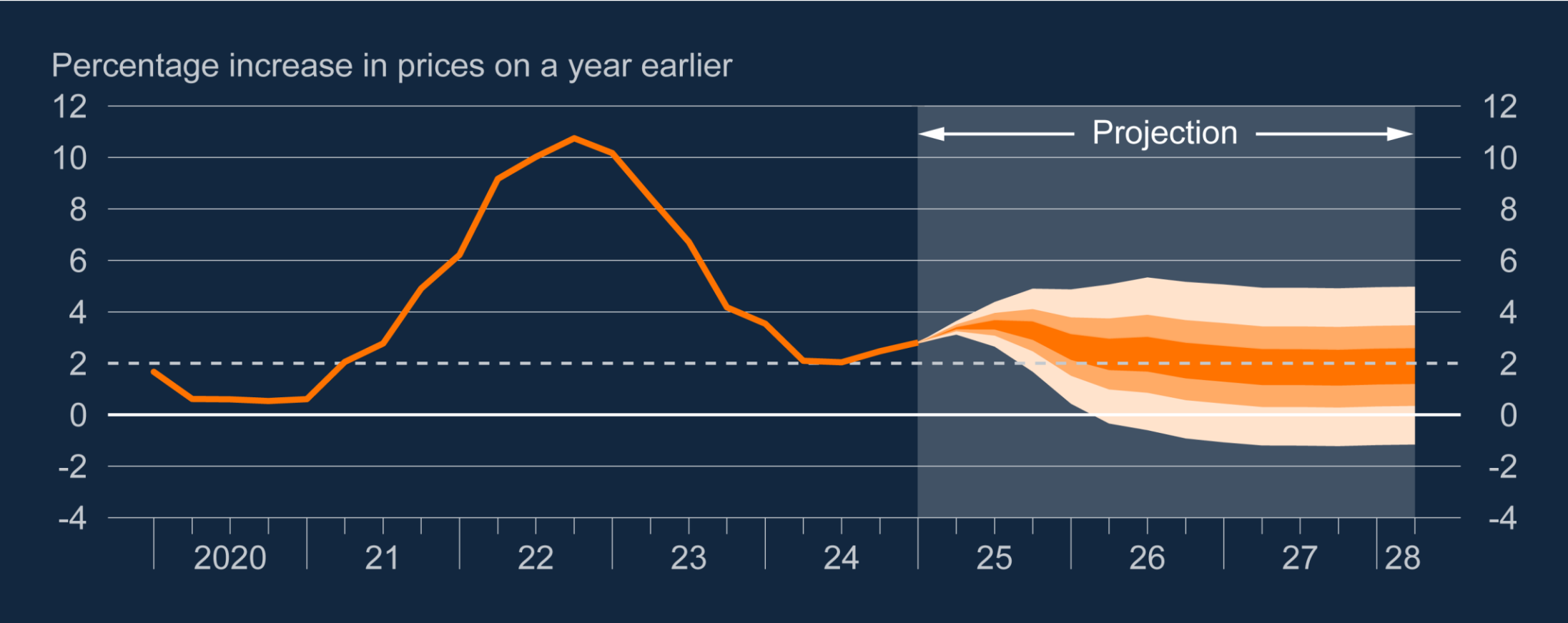
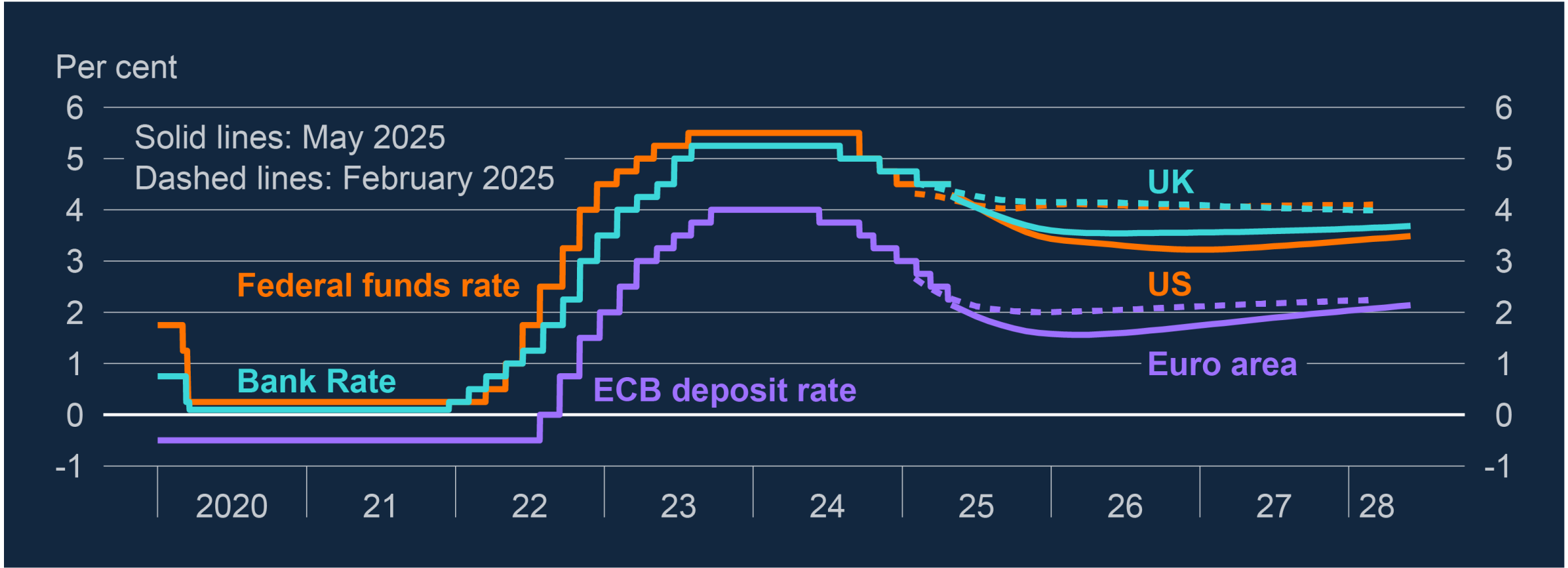


Chart 2.3: The market-implied path for US policy rates has shifted notably lower since the February Report, while the UK and euro-area paths have also fallen

Policy rates and instantaneous forward curves for the UK, US and euro area^(a)



Policy

- At its June meeting, our Monetary Policy Committee (MPC) voted by a majority of 6-3 to maintain Bank Rate at 4.25%, having voted to reduce it from 4.50% in May. Three members preferred to reduce Bank Rate by 0.25 percentage points to 4.00%.
 - In support of returning inflation sustainably to the 2% target, the Committee judges that there has been substantial progress on disinflation in domestic prices and wages.
 - Given the outlook, and continued disinflation, a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate.
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Questions for discussion

- What is your view on current trading conditions:
 - How strong is demand for your goods/services?
 - What are your intentions for employment and investment?
 - How do you see wage and price growth developing?
 - How do you view the outlook for the remainder of 2025 and into 2026?
 - Have you been affected by the disruption to trade policies or broader geopolitical uncertainty?
 - What do you perceive to be the main impediments to growth?
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