

## MONETARY POLICY PRESS CONFERENCE

Thursday 7 August 2025

Opening remarks by Andrew Bailey, Governor

Today, we have cut Bank rate by 0.25 percentage points, to 4%.

There has been substantial disinflation over the past two and a half years, supported by the restrictive stance of monetary policy. Domestic price and wage pressures have generally continued to abate in recent months. That has allowed us to take another step in reducing Bank Rate today.

But the picture is more complex than that. Headline inflation rose to 3.6% in the latest data for June, owing to increases in energy, food and administered prices. We have been expecting this move up. And we think inflation will increase to around 4% in September.

Our job is to ensure that inflation falls back to the 2% target once these temporary factors pass, as we expect to see. So it remains important that we do not cut Bank Rate too quickly, or by too much.

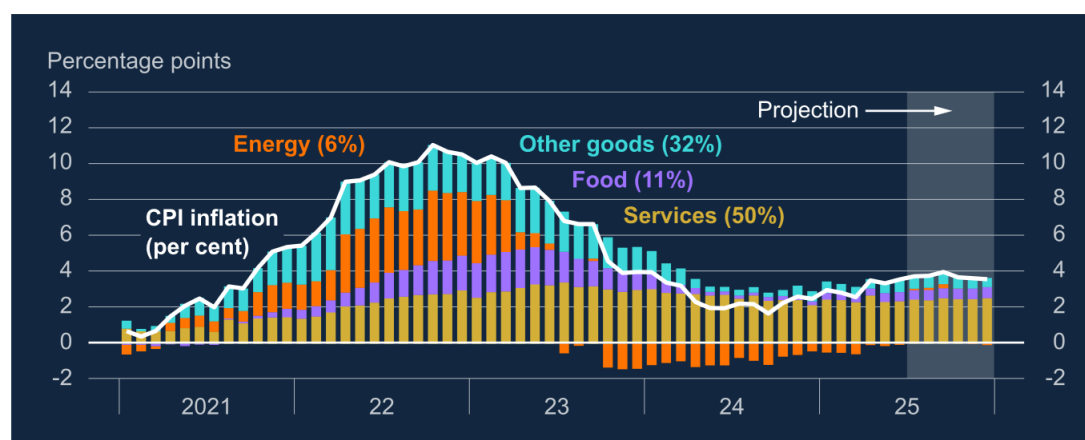
Today's decision is based on three key judgements on the outlook for the UK economy and inflation – and our assessment of the risks around them. I will set out each of these key judgements in turn, before concluding with the implications for monetary policy.

The first key judgement is that disinflation in underlying domestic price and wage pressures is generally continuing, albeit to different degrees. Headline inflation is likely to pick up slightly further in the coming months. But we do not expect this increase to persist.

**Chart 1** shows the development of twelve-month consumer price inflation since 2021 (white line) along with its components (coloured bars). The largest driver of the rise in headline inflation over the past year has been energy prices, which are no longer pushing inflation down (orange bars), while the contribution from services price inflation (yellow bars) has remained elevated. More recently, higher food price inflation has also contributed to higher headline inflation (purple bars). In the shaded area, the Chart shows how we expect headline inflation to peak at about 4% in September.

## Chart 1: Inflation is expected to peak at 4.0% in September

Contributions to CPI inflation (with CPI basket weights)

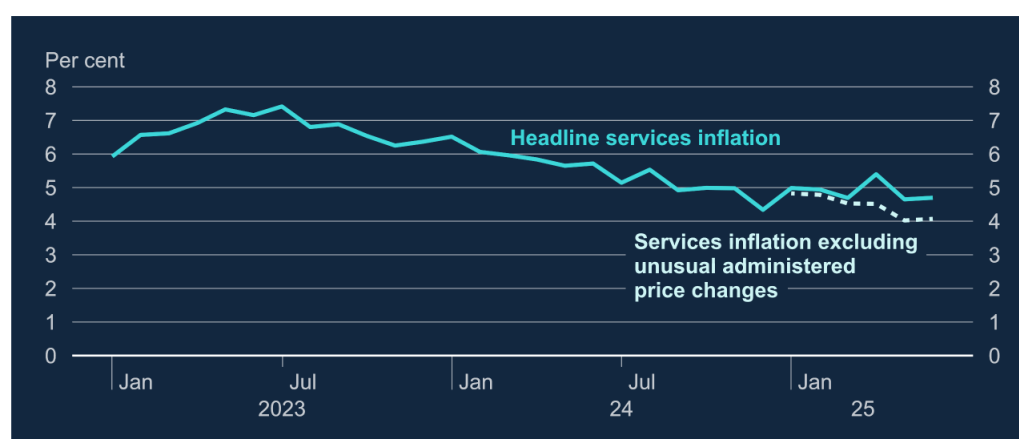


Sources: Bloomberg Finance L.P., Department for Energy Security and Net Zero, ONS and Bank calculations

In addition to the contributions from energy and food prices, inflation will continue to be held up over the coming months by a number of increases in regulated and administered prices, such as water bills and vehicle excise duty, that are not directly linked to underlying cost pressures in the UK economy. There are good reasons to think that this rise in headline inflation will not persist.

## Chart 2: Administered prices add to services inflation

Measures of annual services inflation



Sources: ONS and Bank calculations

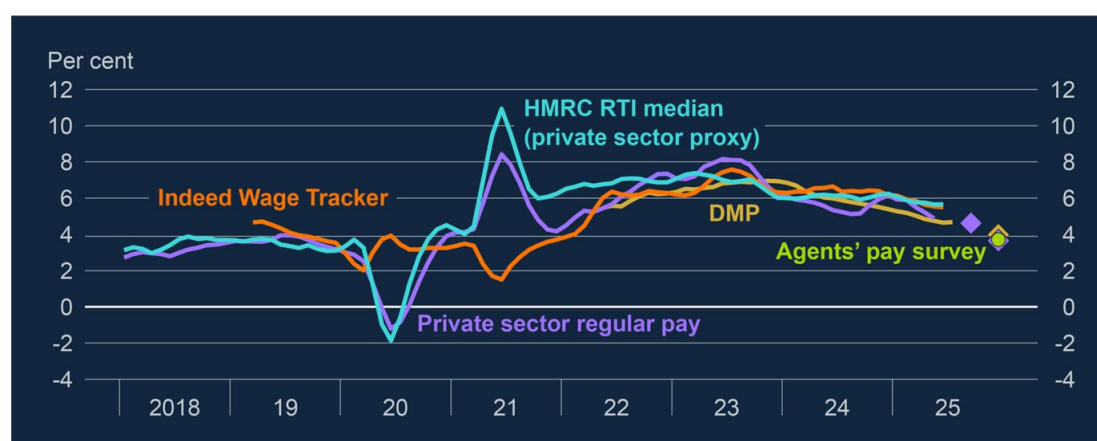
As **Chart 2** shows, excluding the impact of administered prices, there has been some further progress on disinflation in services inflation. Inflation in services prices that are more directly linked to cost pressures in the UK economy has therefore continued to ease, albeit gradually.

And pay growth – a key component of cost pressures in the UK economy – has declined further recently.

Annual private sector regular pay growth, shown in **Chart 3** (purple line), was 4.9% in the three months to May, about half a percentage point weaker than we had expected in the May Monetary Policy Report. This is in line with a range of other indicators also pointing to a gradual slowing in pay growth. Annual pay growth is likely to ease further over the second half of the year (purple diamonds). Intelligence from the Bank's Agents continues to point to average pay rises for 2025 of between 3.5% and 4% (green dot), and the Bank's Decision Maker Panel expects pay growth to be just under 4% by the end of the year (yellow diamond).

**Chart 3: Wage growth has declined and is expected to fall below 4%**

Measures of private sector wage growth



Sources: Bank Agents, DMP Survey, HMRC, Indeed, KPMG/REC UK Report on Jobs, Lloyds Business Barometer, ONS and Bank calc.

We should expect this gradual normalisation in pay growth to feed through to lower services price inflation as we look ahead.

But the risk that the recent rise in prices could feed more inflation – as illustrated in the inflation persistence scenario set out in our May Report – has come into sharper focus. Higher food and energy price inflation, and some additional pressure from other components, have increased the peak in headline inflation we expect in September by about 0.3 percentage points compared to our May projections. Food and energy prices are salient to consumers and often affect inflation expectations more than other prices. We have to be very careful that this does not lead to any additional second-round effects on wage and price setting in the UK economy.

The slight increase in the upside risk to inflation makes the second and third key judgements underlying our decision today all the more important. And these key judgements have not changed since May.

The second key judgement is that a margin of slack has opened up in the UK economy and the labour market is continuing to loosen. While we expect it to pick up a little in coming quarters, growth in the UK economy remains subdued. Employment growth is weak and the ratio of vacancies to unemployment has fallen further. Surveys of capacity utilisation suggest growing spare capacity within firms.

And here, risks are more to the downside. While real household incomes have risen over the past couple of years, consumption has not followed suit. The saving ratio remains notably above pre-pandemic levels, and we have for some time been expecting it to decline and support consumer spending. Consumers appear to remain more cautious than we have expected, perhaps exacerbated by broader downside risks to activity and the risk of more sudden adverse developments in the labour market.

The third key judgment is that the margin of slack will act against remaining persistence in domestic price and wage setting to return inflation to the 2% target in the medium term.

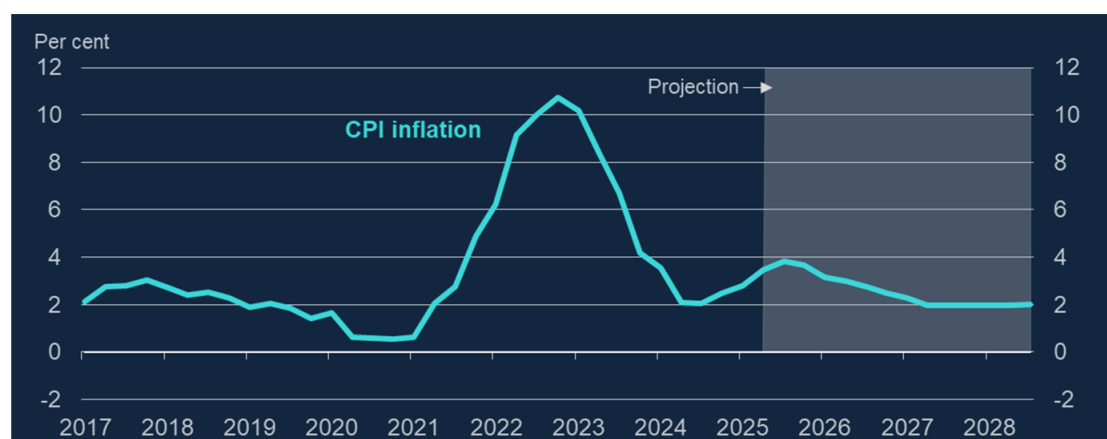
While inflation is somewhat higher in the first two years of our August baseline projection than in May, a margin of slack in the economy helps fully to normalise pay and price setting dynamics in the medium term.

Accordingly, as **Chart 4** shows, conditional on the market-implied path for Bank Rate, inflation returns to the 2% target in the second quarter of 2027 in our baseline projection and remains at target thereafter.



**Chart 4: CPI inflation is projected to return to the 2% target**

UK CPI inflation and projection



Sources: ONS and Bank calculations.

There are risks on both sides of this projection. The extent of the shift in global trade patterns and how this may come to affect external pressures on UK inflation remain uncertain. Recent domestic news suggests that the risks to inflation have shifted slightly more to the upside. The near-term peak is likely to be a bit higher than we previously expected and the risk of second-round effects means that it may take somewhat longer for inflation to return to target. At the same time, there are slightly more downside risks to activity. Economic growth is subdued, the labour market continues to loosen, and consumption growth may take longer to pick up. That, in turn, could lead to inflation falling below the 2% target further ahead.

So do we put more weight on the recent pickup in inflation and the risk it poses to inflation persistence? Or do we put more weight on the risk that the recent weakness in activity could lead to inflation weakness further out?

The answer is that we set monetary policy to reflect our assessment of the balance of risks. And we set monetary policy in a forward-looking manner to return inflation to the 2% target sustainably over the medium term. That sometimes means that we will be able to look through developments that we think are unlikely to last. But we stand ready to adjust our course if we see shifts in the balance of risks to the medium-term outlook for inflation. We will do what it takes to return inflation to our 2% target.

At this meeting, the Monetary Policy Committee judged that a further 0.25 percentage points reduction in Bank Rate was appropriate.

Based on the outlook for inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate. The restrictiveness of monetary policy has fallen as Bank Rate has been reduced. The timing and pace of future reductions in the restrictiveness of policy will depend on the extent to which underlying disinflationary pressures continue to ease. Monetary policy is not on a pre-set path, and the Committee will remain responsive to the accumulation of evidence.

With that, Dave, Clare and I will be happy to take your questions.