Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 6 August 2025

7 August 2025

These are the minutes of the Monetary Policy Committee meeting ending on 6 August 2025.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/august-2025**.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 17 September will be published on 18 September 2025.

Monetary Policy Summary, August 2025

The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

At its meeting ending on 6 August 2025, the MPC voted by a majority of 5–4 to reduce Bank Rate by 0.25 percentage points, to 4%, rather than maintaining it at 4.25%.

There has been substantial disinflation over the past two and a half years, following previous external shocks, supported by the restrictive stance of monetary policy. That progress has allowed for reductions in Bank Rate over the past year. The Committee remains focused on squeezing out any existing or emerging persistent inflationary pressures, to return inflation sustainably to its 2% target in the medium term.

The path of disinflation in underlying domestic price and wage pressures has generally continued, albeit to different degrees. Twelve-month CPI inflation increased to 3.5% in 2025 Q2, owing to developments in energy, food and administered prices. Pay growth remains elevated, but has declined further recently, and is still expected to slow significantly over the rest of the year. Services consumer price inflation has been broadly flat over recent months. The Committee continues to be vigilant about the extent to which easing pay pressures will feed through to consumer price inflation.

CPI inflation is forecast to increase slightly further to peak at 4.0% in September. Inflation is expected to fall back thereafter towards the 2% target, although the Committee remains alert to the risk that this temporary increase in inflation could put additional upward pressure on the wage and price-setting process. Overall, the MPC judges that the upside risks around medium-term inflationary pressures have moved slightly higher since May.

Underlying UK GDP growth has remained subdued, consistent with a continued, gradual loosening in the labour market. A margin of slack is judged to have emerged in the economy. Downside domestic and geopolitical risks around economic activity remain, although trade policy uncertainty has diminished somewhat.

At this meeting, the Committee voted to reduce Bank Rate to 4%. 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.

Minutes of the Monetary Policy Committee meeting ending on 6 August 2025

1. Before turning to its immediate policy decision, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices. The latest data on these topics were set out in the accompanying **August 2025 Monetary Policy Report**.

2. The Committee discussed recent developments in international trade policies and their implications for the UK. US tariff rates had remained at higher levels than in the period preceding the initial announcements by the US administration in April. However, uncertainty around trade had reduced since the May Monetary Policy Report as the US had reached trade agreements with some countries. The reduction in tariff rates relative to those assumed in the May Report implied that global demand would be slightly stronger in the baseline projection. Global developments had, nevertheless, not played a large role in the policy discussions at this MPC meeting.

3. Developments in international trade policies had also generally supported sentiment in financial markets, such that financial conditions had loosened a little since the MPC's June meeting. Measures of financial market volatility had either remained stable or fallen somewhat. UK and US equity prices had increased, with estimates of equity risk premia across advanced economies falling. Spreads on investment grade corporate bonds had tightened.

4. The near-term market-implied path for Bank Rate was relatively little changed since the Committee's June meeting but was a little higher than the path assumed in the May Report. Almost all respondents to the Bank's latest Market Participants Survey (MaPS) expected a reduction in Bank Rate at this meeting, similar to market pricing. The median profile in the August MaPS implied a cumulative 50 basis point reduction in Bank Rate by the end of this year, broadly in line with market pricing.

5. Monthly UK GDP growth in April and May had been -0.3% and -0.1% respectively. These outturns suggested that stronger GDP growth earlier in the year had, in part, been driven by international tariff or domestic tax-related front-loading. The S&P Global UK PMI future output index had risen over past months, and the output index had also risen but by less. Bank staff estimated that GDP growth had been 0.1% in 2025 Q2, in line with the projection in the May Report, and growth was expected to pick up to 0.3% in Q3.

6. The Committee discussed the extent to which developments in activity had fed through to spare capacity in the economy. There had continued to be a gradual loosening in the

labour market. Weak underlying employment growth in recent quarters had largely been ascribed to weakness in underlying demand and, more recently, an increase in firms’ costs. The LFS unemployment rate had increased further in the three months to May, as expected. Vacancies had remained below their estimated equilibrium levels, with other indicators and statistical models pointing to further increases in spare capacity.

7. The evidence from a range of sources and Bank staff analysis suggested that disinflation in underlying price and wage pressures had generally continued, albeit to different degrees. Annual private sector regular AWE growth had declined further in the most recent data, to just below 5%. This was weaker than expected in the May Report, but consistent with a range of other indicators. AWE growth nevertheless remained above what Bank models could explain. Developments in pay settlements, the latest DMP Survey and Agents’ intelligence suggested a further weakening in pay growth in coming quarters, to around 3¾% by the end of the year.

8. Twelve-month CPI inflation had increased to 3.6% in June, slightly above expectations at the time of both the May Report and the Committee’s June meeting, reflecting upside news in food, energy and services prices. Services price inflation had remained unchanged at 4.7% in June. Underlying services price inflation had continued to moderate, but at a slower pace than last year based on some measures.

9. CPI inflation was expected to rise a little further, to just over 3¾% in 2025 Q3, before falling back towards the 2% target. The return of inflation towards target would be supported by an expected gradual reduction in food price inflation next year. Box E in the August Report discussed the risks related to food price inflation, including the potential for it to have an outsized influence on households’ formation of inflation expectations. The Committee discussed the extent to which the lag from wage growth through to services price inflation was operating in line with historical trends. Looking beyond the temporary factors putting upward pressure on prices this year, wage and services price disinflation would be key drivers of CPI inflation settling sustainably at the target.

The immediate policy decision

10. The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

11. The Committee’s policy deliberations at this meeting had focused on a number of factors, including the extent to which disinflation was continuing, the degree of slack building in the economy, and the current and future restrictiveness of the monetary policy stance.

12. Disinflation in underlying domestic price and wage pressures had generally continued, albeit to different degrees. Core CPI and services price inflation had been broadly unchanged in recent months. Continued moderation in wage growth was likely to feed through to lower services price inflation, although this process could take time and Committee members varied in their confidence in it. Headline inflation had risen and was projected to rise slightly further in the near term, although in the baseline projection this was not expected to lead to additional second-round effects on underlying domestic inflationary pressures. The increase in headline inflation was explicable by factors such as supply issues in certain food items and changes in administered prices. However, increases in food and energy price inflation might prove salient for households' formation of inflation expectations. As illustrated in the inflation persistence scenario set out in the May Monetary Policy Report, this could place upward pressure on the wage and price-setting process. Overall, the MPC judged that the upside risks around medium-term inflationary pressures had moved slightly higher since May.

13. UK economic activity had remained subdued. A margin of spare capacity was estimated to have opened up, which was expected to act against some continuing inflationary persistence. There was a range of views around the extent to which it had opened and would continue to build. The labour market was continuing to loosen gradually. For some members, weak employment growth pointed to further spare capacity building. For others, potential structural changes in the labour market meant that sufficient slack might not have emerged and might not build further to weigh on inflation. Members concurred that there were generally downside risks around consumption growth in the baseline forecast and upside risks around the path of the saving ratio, including from the risk of greater precautionary saving behaviour by households.

14. The Committee considered Bank staff's latest assessment of monetary policy restrictiveness, as set out in Box A in the accompanying August Report. Reflecting the usual lags of policy, past restrictiveness was estimated to be weighing on the current level of demand, which would contribute to the disinflationary process. For those members placing greater weight on downside risks to inflation, the impact of past and current restrictiveness was likely to be sufficient to lean against inflationary pressures and less restrictiveness was probably required going forward. Those members who were more concerned about inflationary pressures persisting judged that a more prolonged period of policy restrictiveness was likely to be warranted.

15. In considering the approach to removing remaining policy restraint at this meeting and beyond, all members were balancing various considerations. This included risks in different directions to growth and inflation, the degree of continued impact from past tightening in policy, the costs of loosening policy too quickly or too slowly, and whether and how long to wait and observe further incoming evidence before reducing Bank Rate further.

16. Five members preferred a reduction in Bank Rate at this meeting.

17. Four of these five members preferred a 0.25 percentage point reduction in Bank Rate at this meeting. There had been sufficient progress in underlying disinflation albeit, for some of these members, with a risk that this momentum could slow. There remained greater signs of disinflation from labour market quantities and wages, than from developments in domestic prices. Activity remained weak. The pace of disinflation from here would help inform these members' views on how quickly to remove remaining policy restraint. On the one hand, higher food prices could raise inflation expectations and generate greater inflation persistence. On the other hand, signs of weaker demand, for example as a result of the impact of continued high saving on consumption, could lead to a more rapid opening up of slack in the labour market.

18. One of these five members preferred a 0.5 percentage point reduction in Bank Rate at this meeting. Underlying disinflation continued. Absent external shocks, domestic inflation, especially in services, was tightly linked to wages. The labour market had slack and was deteriorating further. Wage settlements had fallen to around 3.5% in the first half of 2025 and were expected to fall further in the second half. The inflation hump was expected to normalise, being dominated by one-off changes in tax and administered prices, and food inflation in a limited set of items, neither related to demand pressure. Energy futures curves were flat. With a US average tariff rate near 20%, trade diversion would slowly permeate, pushing down on inflation. UK sentiment was weak, with subdued consumption and investment. This picture was one of downside risks in coming years, namely: inflation below forecast, and activity weak or an increased risk of recession. For insurance against this balance of risks, a less restrictive policy was warranted.

19. Four members preferred to hold Bank Rate at 4.25% at this meeting. The disinflationary process had slowed and the risk of inflation expectations feeding through to second-round effects had risen. Business and household inflation expectations remained elevated, inflation was expected to peak at 4% and much of the recent near-term upside news in inflation had been driven by highly salient food and energy prices. Firms' own-price expectations remained more sensitive to upside inflation surprises as well. These members would continue to assess the pace of disinflation, being alert to downside pressures on pricing power from domestic demand and global forces, alongside the risk of greater inflation persistence from structural changes in goods and labour markets. A slower loosening of policy would reduce the risk of inflation not meeting the target sustainably.

20. The Committee judged that a gradual and careful approach to the further withdrawal of monetary policy restraint remained appropriate. The restrictiveness of monetary policy had fallen as Bank Rate had been reduced. The timing and pace of future reductions in the restrictiveness of policy would depend on the extent to which underlying disinflationary

pressures would continue to ease. Monetary policy was not on a pre-set path, and the Committee would remain responsive to the accumulation of evidence.

21. The Chair invited the Committee to vote on the proposition that:

> Bank Rate should be reduced by 0.25 percentage points, to 4%.

22. Four members voted in favour of the proposition (Andrew Bailey, Sarah Breeden, Swati Dhingra and Dave Ramsden). Four members (Megan Greene, Clare Lombardelli, Catherine L Mann and Huw Pill) preferred to maintain Bank Rate at 4.25%. One member (Alan Taylor) preferred to reduce Bank Rate by 0.5 percentage points, to 3.75%.

23. In order to secure a majority decision on Bank Rate, the Chair invited the Committee to vote on whether:

> Bank Rate should be reduced by 0.25 percentage points, to 4%, or Bank Rate should be maintained at 4.25%.

24. Five members (Andrew Bailey, Sarah Breeden, Swati Dhingra, Dave Ramsden and Alan Taylor) voted to reduce Bank Rate by 0.25 percentage points, to 4%. One of these members (Alan Taylor), who would otherwise have preferred to reduce Bank Rate by 0.5 percentage points, voted for a 0.25 percentage points reduction rather than maintaining Bank Rate. Four members (Megan Greene, Clare Lombardelli, Catherine L Mann and Huw Pill) voted to maintain Bank Rate at 4.25%.

25. On this basis, the MPC voted by a majority of 5–4 to reduce Bank Rate by 0.25 percentage points, to 4%, rather than maintaining it at 4.25%.

Operational considerations

26. On 6 August, the stock of UK government bonds held for monetary policy purposes was £586 billion.

27. The following members of the Committee were present:

Andrew Bailey, Chair
Sarah Breeden
Swati Dhingra
Megan Greene
Clare Lombardelli
Catherine L Mann
Huw Pill
Dave Ramsden

Alan Taylor

Sam Beckett was present as the Treasury representative.

David Roberts was present on 30 July and 4 August, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank’s Court of Directors.