Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 7 May 2025

8 May 2025

These are the minutes of the Monetary Policy Committee meeting ending on 7 May 2025.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/may-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 18 June will be published on 19 June 2025.

Monetary Policy Summary, May 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 7 May 2025, the MPC voted by a majority of 5–4 to reduce Bank Rate by 0.25 percentage points, to 4.25%. Two members preferred to reduce Bank Rate by 0.5 percentage points, to 4%. Two members preferred to maintain Bank Rate at 4.5%.

There has been substantial progress on disinflation over the past two years, as previous external shocks have receded, and as the restrictive stance of monetary policy has curbed second-round effects and stabilised longer-term inflation expectations. That progress has allowed the MPC to withdraw gradually some degree of policy restraint, while maintaining Bank Rate in restrictive territory so as to continue to squeeze out persistent inflationary pressures.

Underlying UK GDP growth is judged to have slowed since the middle of 2024, and the labour market has continued to loosen.

Progress on disinflation in domestic price and wage pressures is generally continuing. Twelve-month CPI inflation fell to 2.6% in March from 2.8% in February, close to expectations in the February Monetary Policy Report. Although indicators of pay growth remain elevated, a significant slowing is still expected over the rest of the year. Wholesale energy prices have fallen back since the February Report. Previous increases in energy prices are still likely to drive up CPI inflation from April onwards, to 3.5% for 2025 Q3. Inflation is expected to fall back thereafter. Measures of household inflation expectations have risen recently.

Uncertainty surrounding global trade policies has intensified since the imposition of tariffs by the United States and the measures taken in response by some of its trading partners. There has subsequently been volatility in financial markets, and market-implied policy rates have moved lower. Prospects for global growth have weakened as a result of this uncertainty and new tariff announcements, although the negative impacts on UK growth and inflation are likely to be smaller.

The Committee remains focused on returning CPI inflation sustainably to target in the medium term. In deciding the appropriate degree and pace of monetary policy adjustments required to achieve this, the Committee has considered a range of possibilities for how domestic inflationary pressures could evolve, as well as the broader circumstances that could necessitate varying the course of policy.

The May Report sets out two illustrative scenarios. In one scenario, there could be weaker supply and more persistence in domestic wages and prices, including from second-round effects related to the near-term increase in CPI inflation. In another scenario, inflationary pressures could ease more quickly owing to greater or longer-lasting weakness in demand relative to supply, in part reflecting uncertainties globally and domestically.

Monetary policy is not on a pre-set path. The Committee will remain sensitive to heightened unpredictability in the economic environment and will continue to update its assessment of risks.

At this meeting, the Committee voted to reduce Bank Rate to 4.25%, reflecting continued progress in disinflation though with risks to inflation remaining in both directions.

Based on the Committee’s evolving view of the medium-term outlook for inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate. The Committee will continue to monitor closely the risks of inflation persistence and what the evidence may reveal about the balance between aggregate supply and demand in the economy. 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. The Committee will decide the appropriate degree of monetary policy restrictiveness at each meeting.

Minutes of the Monetary Policy Committee meeting ending on 7 May 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 May 2025 Monetary Policy Report.

2. The Committee discussed recent global economic developments, and in particular the likely impact on the outlook for UK inflation of the various changes to trade tariffs that had recently been announced by the United States and some of its trading partners. These potential impacts were discussed in more detail in Box C of the May Report.

3. These trade policy developments were likely to reduce UK activity, and to create further risks to the downside. The impact on UK inflation was more ambiguous at this stage. The baseline expectation was that these developments would push down slightly on inflation over the forecast period. There were material risks on both sides around this judgement, however, including from: weaker global demand; the degree of diversion of exports to non-US markets; how closely the pass-through from global export prices to domestic consumer prices matched previous experience; the level of disruption to supply chains; the extent of further tariff policy announcements; and the risk of broader fragmentation of the global economy and financial system. The Committee would monitor the relevant indicators closely, and would continue to use multiple analytical approaches to evaluate the impact of these developments.

4. Financial markets had been volatile globally following the trade policy announcements in early April, as set out in the May Report. Almost all respondents to the Bank’s latest Market Participants Survey (MaPS) were expecting a 25 basis point reduction in Bank Rate at this MPC meeting, in line with market pricing. Since the MPC's previous meeting the median MaPS respondent expected 75 basis points of further Bank Rate cuts this year, although the overall distribution was now skewed towards more cuts. This was consistent with the market-implied path declining by just under 100 basis points over the rest of the year.

5. The Committee discussed the extent to which movements in UK markets had reflected international factors. International considerations had clearly been the most prominent influence during this period, although, given the US-specific nature of the tariff policy announcements, it was not surprising that the previously close relation between US and UK markets had weakened appreciably in recent weeks. MaPS respondents reported that international factors had generally pushed down on the prospects for activity and inflation,

and therefore on near-term UK policy rate expectations, partly offset by the upward impact of domestic factors on inflation.

6. Monthly GDP growth in February had been much stronger than expected, at 0.5%, and Bank staff now estimated that headline GDP growth in 2025 Q1 had been 0.6%. But this news had been accounted for largely by erratic factors, for instance those that had affected output in the manufacturing sector. Bank staff estimated that underlying growth in Q1 had been around zero. Headline GDP growth was projected to slow sharply in Q2, to 0.1%, with risks to the downside, given the signal from high-frequency data. The S&P Global UK composite output PMI had fallen sharply in April, although it remained unclear how much of this decline stemmed from a potentially reversible deterioration in business sentiment.

7. The Committee discussed the extent to which developments in activity had reflected underlying demand and supply drivers, acknowledging that both were likely to have played a role. In the baseline forecast, a margin of slack was expected to continue to open up over the coming years, sufficient to remove remaining excess inflation persistence. Conditioned on the market-implied path for Bank Rate, monetary policy was expected to continue to restrain aggregate demand, while fiscal consolidation was expected to play a greater role in the latter part of the forecast. Potential productivity growth was also expected to pick up. The balance of risks around the baseline forecast for GDP growth was judged to be somewhat to the downside.

8. Twelve-month CPI inflation had fallen to 2.6% in March. The latest evidence from key indicators suggested that progress on underlying disinflation in domestic prices and wages had generally continued, supported by the restrictiveness of monetary policy.

9. The Committee discussed the outlook for a range of nominal indicators. Private sector regular pay growth was expected to slow significantly further by the end of 2025, to around 3¾%, consistent with the latest indications from the Bank's Agents' contacts, and from the DMP Survey. That said, survey measures of household inflation expectations had risen further in recent months, perhaps suggesting that households had become more sensitive to inflationary pressures, having recently experienced very high rates of inflation in 2022. Businesses' medium-term CPI inflation expectations had increased slightly recently, although indicators of medium-term inflation expectations derived from financial markets had generally continued to trend downwards.

10. CPI inflation was expected to rise to a peak of 3.5% on average in 2025 Q3, in large part reflecting developments in household energy bills and, to a lesser degree, regulated prices. This projected increase in headline inflation was still expected to be temporary. The Committee recognised the risk that this projected increase in headline inflation, along with the current trajectory of household inflation expectations, might pose additional risks to persistence if non-linearities were to emerge beyond specific inflation thresholds.

The immediate policy decision

11. 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.

12. Underlying UK GDP growth was judged to have slowed since the middle of 2024, and the labour market had continued to loosen.

13. Progress on disinflation in domestic price and wage pressures had generally continued. Twelve-month CPI inflation was 2.6% in March, close to expectations in the February Monetary Policy Report. Although indicators of pay growth had remained elevated, a significant slowing was still expected over the rest of the year. Wholesale energy prices had fallen back since the February Report. Previous increases in energy prices were still likely to drive up CPI inflation from April onwards, to 3.5% on average in 2025 Q3. Inflation was expected to fall back thereafter.

14. Uncertainty surrounding global trade policies had intensified since the imposition of tariffs by the United States and the measures taken in response by some of its trading partners. There had subsequently been volatility in financial markets, and market-implied policy rates had moved lower. Prospects for global growth had weakened as a result of this uncertainty and new tariff announcements, although the negative impacts on UK growth and inflation were likely to be smaller.

15. The Committee remained focused on returning inflation sustainably to the target. In the baseline forecast set out in the May Monetary Policy Report, inflation was expected to return to around the 2% target in the medium term. Overall, the Committee judged that the risks around GDP growth in the baseline forecast were somewhat to the downside, while the risks around the CPI projection were two-sided.

16. In reaching its judgement, and against a backdrop of increased uncertainty, the Committee had been assessing a wide range of risks around the baseline forecast, from both domestic and global factors. The May Monetary Policy Report set out two illustrative scenarios from a much broader set of plausible paths the economy could take. These were intended to explore different economic mechanisms, to which members attached different weights.

17. In the first scenario, greater or longer-lasting weakness in demand relative to supply, in part reflecting uncertainties globally and domestically, might further mitigate inflationary pressures over the medium term. Underlying GDP growth had been weak, and global trade policy uncertainty had risen sharply, which was likely to weigh on household consumption

and business investment. It was possible in this environment of uncertainty that precautionary saving could rise and consumption could weaken.

18. In the second scenario, greater persistence in domestic wage- and price-setting, both from additional second-round effects related to the near-term increase in headline CPI inflation and from weaker aggregate supply, might exacerbate the persistence of inflation. Underlying services consumer price inflation and indicators of wage growth had been moderating, but remained at elevated levels. There was evidence that the near-term inflation expectations of firms and households had recently become more reactive to changes in current CPI inflation than they had been pre-Covid. In addition, there were upside risks to inflation stemming from softer growth in potential productivity.

19. More broadly, there were growing risks from potential global trade arrangements. Depending on how trade policies unfolded, UK inflation could be affected by a wide range of factors such as shifts in trade patterns, supply chain disruptions in the UK and abroad, and movements in global exchange rates. It was possible that the ultimate net effect of these developments could be materially more disinflationary for the UK than in the baseline forecast, but it was also possible that the effect could be slightly inflationary in the longer term. Overall, it was too early to conclude over what period and to what degree different economic effects could materialise.

20. All members stressed that monetary policy was not on a pre-set path. The Committee would remain sensitive to heightened unpredictability in the economic environment and would continue to update its assessment of risks.

21. At this meeting, five members voted to reduce Bank Rate to 4.25%. Prior to the latest global developments, most members in this group had judged that this policy decision would be finely balanced between no change in Bank Rate and a further reduction. Although the current impact of the global trade news should not be overstated, the news was sufficient for those members to judge that a reduction in Bank Rate was warranted. This level of Bank Rate would still leave the stance of monetary policy sufficiently restrictive to bear down on inflationary pressures, were they to re-intensify. For the other members in this group, even in the absence of the latest global news, the case for a reduction in Bank Rate at this meeting had been fairly clear. Underlying domestic disinflation was progressing as expected and monetary policy restrictiveness was bearing down on activity.

22. Two members preferred a 0.5 percentage point reduction in Bank Rate at this meeting based on the outlook. The most significant contributions to the expected pickup in inflation would come from one-off tax and administered prices and past energy shocks. Incoming wage settlements had so far been close to the Agents' annual pay survey figure for the end of 2025, and were approaching sustainable rates, while consumer spending remained weak and investment subdued. Along with domestic demand shifts and emerging slack, recent

global developments in energy and trade policy pointed to potential downward risks to global growth and world export prices. In the medium term, a continued monetary policy stance that was too restrictive risked inflation deviating from the 2% target on a sustained basis and the opening up of an unduly large output gap. Given this balance of risks, a less restrictive policy path was warranted.

23. Two members preferred to hold Bank Rate at 4.5%, recognising that short-end market interest rates had already eased by around 40 basis points since the MPC's previous meeting. For these members, the labour market was proving more resilient than expected, business surveys signalled continued inflationary pressures, and household expectations of inflation had firmed. All these indicators pointed to continued inflation persistence owing in part to structural rigidities on the supply side of the economy. Holding Bank Rate unchanged at this meeting would ensure that monetary policy remained sufficiently restrictive to weigh against stubborn inflationary pressures.

24. Based on the Committee's evolving view of the medium-term outlook for inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint remained appropriate. The Committee would continue to monitor closely the risks of inflation persistence and what the evidence may reveal about the balance between aggregate supply and demand in the economy. Monetary policy would need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term had dissipated further. The Committee would decide the appropriate degree of monetary policy restrictiveness at each meeting.

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

> Bank Rate should be reduced by 0.25 percentage points, to 4.25%.

26. Five members (Andrew Bailey, Sarah Breeden, Megan Greene, Clare Lombardelli and Dave Ramsden) voted in favour of the proposition. Four members voted against the proposition. Two members (Swati Dhingra and Alan Taylor) preferred to reduce Bank Rate by 0.5 percentage points, to 4%. Two members (Catherine L Mann and Huw Pill) preferred to leave Bank Rate unchanged, at 4.5%.

Operational considerations

27. On 7 May, the stock of UK government bonds held for monetary policy purposes was £620 billion. The MPC had been briefed on the amended operational arrangements for gilt sales in 2025 Q2, ahead of their publication in a Market Notice on 10 April.

28. 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 also present on 29 April and 2 May, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.