

## Bank of England holds interest rates, signals caution ahead

The Bank of England kept rates on hold this month and is pretty vague about what comes next amid visible nervousness surrounding the inflation outlook. We suspect that anxiety is overdone and think the Bank will continue with a gradual pace of rate cuts throughout this year and into next



Governor of the Bank of England Andrew Bailey

### At the margin, the Bank is getting more hawkish

If you had to draw one headline out of the latest Bank of England decision to keep rates unchanged at 4.5%, it would be that Catherine Mann has dropped her short-lived call for faster rate cuts.

Having never previously voted for cuts, Mann shocked just about everyone by abruptly voting for a 50 basis-point cut in February, citing the risk of “non-linear” falls in employment. This time, it was only long-standing dove Swati Dhingra who went against the grain in voting for an immediate rate cut.

The truth is that the committee’s four external members – which includes both Dhingra and Mann

– have always tended to be more activist than the ‘core’ members, which includes Governor Bailey and his deputies. The read-across from these changes in vote split between months is very limited in terms of what it means for future rate decisions.

But it does raise an interesting question: is the committee as a whole getting more hawkish again? The answer, at the margin, seems to be yes. Since Mann aired her concerns about the jobs market back in February, the data since has been remarkably resilient. Employment and redundancy levels haven’t budged despite repeated surveys showing hiring appetite has fallen ahead of next month’s tax hikes.

That could change of course, and the Bank does acknowledge in its latest statement that an unexpected hit to demand could yet force it to accelerate the pace of easing. We think that the weekly data on redundancy notices, published by the government, will become the key numbers to watch between now and the next meeting in May. For now those notices aren’t showing a pick-up in layoffs.

## The Bank is getting more nervous about inflation again

At the same time, it’s clear the committee is becoming more nervous about this year’s rise in headline inflation. It has already hit 3%, and we think it will briefly get close to 4% in the second half of the year. On paper, this shouldn’t be a concern, given that it overwhelmingly reflects rising utility bills. But it’s clear the Bank is still scarred by the experience of 2-3 years ago, where rising natural gas prices fed through to higher service-sector inflation much more aggressively than it had first thought.

The experience today looks very different, and we’re sceptical that this is a major risk this year. Indeed, though services inflation is still uncomfortably high at 5%, we think it will be closer to 4% and perhaps below by the end of the second quarter. That would represent a more aggressive fall than the Bank of England is forecasting and is premised on the idea that April’s annual price hikes will be less significant than at the same time a year ago.

In short, barring a surprise collapse in the jobs market or an equally surprising energy-driven pick-up in services inflation, we think the Bank is poised to continue making quarterly rate cuts throughout 2025.

Financial markets are a little more sceptical, pricing just 53bp of further easing over 2025 and virtually nothing more in 2026. Not only do we expect 75bp worth of rate cuts this year, we expect another 50bp in total next year.

### Author

#### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group*

*(being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).