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BOE Cuts Rates, Growth View

Stubborn inflation, tariff threats spur U.K. central bank's quarter-point trim

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The Bank of England cut its key interest rate Thursday, a response to a troubling mix of stuttering economic growth, stubborn inflation and President Trump's tariff threats.

The BOE cut rates, by a quarter percentage point to 4.5%, for the third time since August and lowered its forecasts for U.K. economic growth, which is already trailing far behind the U.S. Britain faces a slew of uncertainties, including the possibility that trade conflicts initiated by the U.S. will chill global growth and demand for U.K. exports— even if the country escapes direct tariffs itself.

"We'll be monitoring the U.K. economy and global developments very closely and taking a gradual and careful approach to reducing rates further," BOE Gov. Andrew Bailey said.

The pound slumped more than 1% against the dollar, the U.K.'s benchmark FTSE 100 stock index rose 1.6% and yields on shorter-term government bonds edged lower. Two of the bank's nine rate-setters voted for half-point cuts, a move that surprised investors and signaled support for more-aggressive cutting ahead.

The BOE reduced its forecast for U.K. growth, taking into account a recent rise in government-bond yields and weakened confidence. The bank now sees gross domestic product rising 0.75% this year, compared with 1.5% in November. It expects the U.S. economy to grow 2.25%.

The BOE warned that growth could be even slower if U.S. tariffs on imports rise, or even if there are high levels of uncertainty about U.S. trade policy following Trump's recent announcements of new tariffs on imports from Canada, Mexico and China.

The Federal Reserve last week left its key rate unchanged and said it was in no hurry to lower borrowing costs. By contrast, the European Central Bank cut for the fifth time this cycle, with investors expecting further reductions at each of its next three policy meetings.

Policymakers indicated they would support further reductions this year, but at a gradual pace given persistent worries over rapid rises in wages and services prices. Derivatives markets suggest rates will fall to 3.75% by year-end, implying three more quarterpoint cuts, according to LSEG.

Complicating the BOE's task is the weakness of the pound against the dollar. A weak pound has pushed prices of energy and other imports higher. The currency could weaken further the more the BOE cuts rates, especially if the Fed keeps rates where they are, as many analysts expect. Investors tend to flock to currencies with higher-yielding returns.

The BOE and other central banks appear more concerned by signs of weak growth, which could push inflation rates below their targets over the coming years.

While Trump this week said the U.S. would "definitely" raise tariffs on goods from the European Union, he has also said trade with the U.K., although out of line, can be worked out.

Tariffs that "fragmented" the global economy would weaken growth but their impact on inflation would be unclear, Bailey told reporters on Thursday.

The U.K.'s ruling Labour Party, which took over last year, has promised a major increase in spending to recharge growth. However, the BOE left its estimate for the U.K. economy's potential growth rate over the next three years broadly unchanged, concluding that it will take time for new investments to have an impact. It also raised its inflation forecast for this year to take into account a rise in energy prices, and sees it peaking at 3.7% by the end of the summer, before falling back toward its target at the end of 2027. —*Chelsey Dulaney contributed to this article.*

