# Bank of England poised to hold rates amid stubborn food inflation and Middle East tensions



The Bank of England is widely expected to maintain its interest rate at 4.25% during its upcoming Monetary Policy Committee (MPC) meeting, reflecting ongoing inflationary pressures and heightened geopolitical risks. This pause in the Bank’s quarterly rate cuts, which began last August from a peak of 5.25%, comes amid nuanced economic signals and concerns over the impact of rising food prices and surging oil costs on the UK’s cost of living.

Recent inflation data released in May highlighted persistent challenges. Although the headline Consumer Prices Index (CPI) eased slightly to 3.4%—down from 3.5% in April—it remained above economists’ forecasts and notably above the Bank’s 2% target. This moderation owes partly to falls in airfares and transport costs, but these gains were significantly offset by a sharp rise in food and non-alcoholic drink prices, which grew by 4.4% year-on-year, marking the highest increase in over a year. Particularly striking were price jumps in items such as chocolate, which soared by nearly 18%, alongside increases in ice cream, coffee, cheese, and meat. Such food inflation adds considerable pressure on household budgets, especially for lower-income groups.

Services inflation—a critical component of the overall CPI—showed some easing, dropping from 5.4% in April to 4.7% in May. This decline was partly attributed to subdued pass-through of higher employer national insurance contributions and wage growth, providing some reassurance that inflationary pressures may be softening in segments related to consumer services. However, core inflation remains well above the Bank’s comfort zone, sustained by wage growth and elevated business costs.

The economic backdrop is further complicated by growing geopolitical tensions in the Middle East, particularly the conflict between Israel and Iran. Since the escalation of these tensions, oil prices have surged sharply—rising 8.5% in under a week—which threatens to fuel additional inflation through higher energy costs. The increase in gas, electricity, and water prices in April, coupled with continuing uncertainties over energy markets, complicates the Bank’s monetary policy decisions. While inflation slightly moderated in recent months, these external risks inject considerable uncertainty into the economic outlook.

Economists generally concur that the Bank of England will hold rates steady in June, treating the decision as a cautious pause rather than a definitive halt to further easing. Most forecasts project a potential single rate cut later in the year, possibly as soon as August, with two quarter-point reductions anticipated across 2025, contingent on how inflation dynamics evolve and geopolitical risks unfold. The Bank’s challenge remains balancing the need to contain inflationary pressures—particularly given stubborn food and energy price rises—against the risks that higher rates could impede economic growth, which showed signs of contraction in April, influenced by factors like the end of home sales tax incentives and trade tariffs.

Market reactions to the latest inflation figures and Bank of England signals were cautiously optimistic. The FTSE 100 rose modestly following the data, while the British pound appreciated slightly against the US dollar. Yet, investor sentiment remains tentative due to ongoing geopolitical risks and the potential for further shocks to inflation and economic stability. Businesses across sectors such as pharmaceuticals and retail have also felt the strain of recent policy and geopolitical developments, underlining the breadth of uncertainty facing the UK economy.

In summary, the Bank of England’s anticipated decision to keep interest rates on hold reflects a complex interplay of moderating inflation trends, persistent cost pressures from food and energy, and geopolitical uncertainties. The MPC appears poised to adopt a cautious stance, carefully weighing these factors as it navigates the path toward eventual monetary easing later in the year, should inflationary and growth conditions permit.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.irishnews.com/news/uk/bank-of-england-unlikely-to-cut-interest-rates-as-inflation-pressure-grows-VSCPL7TOMZNDDKEJMUFPEUUH7I/), [[3]](https://www.reuters.com/sustainability/sustainable-finance-reporting/bank-england-keep-rates-hold-with-middle-east-conflict-spotlight-2025-06-18/), [[5]](https://www.ft.com/content/fa5f516f-f779-44fa-9a81-efbff5bfde38)
* Paragraph 2 – [[1]](https://www.irishnews.com/news/uk/bank-of-england-unlikely-to-cut-interest-rates-as-inflation-pressure-grows-VSCPL7TOMZNDDKEJMUFPEUUH7I/), [[2]](https://www.reuters.com/world/uk/uk-inflation-was-34-may-ons-says-2025-06-18/), [[4]](https://apnews.com/article/28b8252919cba39e71f5d2e16977fd20), [[5]](https://www.ft.com/content/fa5f516f-f779-44fa-9a81-efbff5bfde38)
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* Paragraph 5 – [[1]](https://www.irishnews.com/news/uk/bank-of-england-unlikely-to-cut-interest-rates-as-inflation-pressure-grows-VSCPL7TOMZNDDKEJMUFPEUUH7I/), [[3]](https://www.reuters.com/sustainability/sustainable-finance-reporting/bank-england-keep-rates-hold-with-middle-east-conflict-spotlight-2025-06-18/), [[6]](https://www.reuters.com/world/uk/ftse-100-rises-after-positive-inflation-data-focus-fed-boe-meetings-2025-06-18/)
* Paragraph 6 – [[1]](https://www.irishnews.com/news/uk/bank-of-england-unlikely-to-cut-interest-rates-as-inflation-pressure-grows-VSCPL7TOMZNDDKEJMUFPEUUH7I/), [[2]](https://www.reuters.com/world/uk/uk-inflation-was-34-may-ons-says-2025-06-18/), [[6]](https://www.reuters.com/world/uk/ftse-100-rises-after-positive-inflation-data-focus-fed-boe-meetings-2025-06-18/), [[7]](https://www.reuters.com/world/uk/sterling-edges-up-after-uk-data-shows-jump-food-inflation-2025-06-18/)

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## Bibliography

1. <https://www.irishnews.com/news/uk/bank-of-england-unlikely-to-cut-interest-rates-as-inflation-pressure-grows-VSCPL7TOMZNDDKEJMUFPEUUH7I/> - Please view link - unable to able to access data
2. <https://www.reuters.com/world/uk/uk-inflation-was-34-may-ons-says-2025-06-18/> - UK inflation eased to 3.4% in May 2025, aligning with Bank of England expectations. Services price inflation cooled to 4.7%, driven by falling airfares post-Easter and corrected tax data. However, food inflation surged by 4.4% year-on-year, the highest increase in over a year, putting pressure on low-income households. Rising gas, electricity, and water charges in April and increasing oil prices due to the Iran-Israel conflict present potential inflationary risks ahead. Despite these pressures, financial markets anticipate no change in the Bank of England’s interest rates during its June policy meeting, with two quarter-point cuts projected by year-end. The Bank of England had reduced rates to 4.25% in May amid divided opinions among policymakers. Chief Economist Huw Pill sees recent rate holds as a pause rather than a halt to future cuts. The central bank forecasts inflation to peak around 3.7% later in 2025, although geopolitical tensions may influence future inflation trends. Sterling saw a slight rise against the US dollar following the inflation report.
3. <https://www.reuters.com/sustainability/sustainable-finance-reporting/bank-england-keep-rates-hold-with-middle-east-conflict-spotlight-2025-06-18/> - The Bank of England (BoE) is expected to maintain interest rates unchanged at 4.25% amid economic uncertainty and heightened geopolitical risk stemming from the Israel-Iran conflict. Although inflation slightly eased in May following an April spike, and wage growth has slowed alongside signs of a weakening job market, the conflict has significantly driven up oil prices by 8.5% in under a week. This energy shock complicates monetary policy since it may raise inflation while dampening economic growth. April saw the UK economy contract the most since 2023, influenced by the end of a home sales tax break and U.S. trade tariffs under President Trump. Despite recent signs of cooling inflation, most economists surveyed by Reuters anticipate that the BoE will delay its next rate cut until August, with a further reduction expected by year-end. The BoE has matched the pace of U.S. rate cuts since mid-2024 but lags behind the European Central Bank, which began cutting earlier. A renewed rise in oil prices and shipping costs adds to inflationary pressures, and economists suggest the BoE will likely adopt a cautious, gradual approach in response to such economic shocks.
4. <https://apnews.com/article/28b8252919cba39e71f5d2e16977fd20> - UK inflation eased slightly in May 2025, with consumer prices rising by 3.4% year-on-year, a marginal decrease from April’s 3.5%, according to the Office of National Statistics. The decline was less than the expected 3.3%, primarily due to a 4.4% increase in food and non-alcoholic drink prices, notably in items like chocolate, sugar, jam, and ice cream. Despite a drop in air fares and transport costs, these were offset by rising food prices, keeping inflation well above the Bank of England's 2% target. The Bank’s Monetary Policy Committee is scheduled to announce a new interest rate decision, with expectations that the rate will remain at 4.25%, continuing the quarterly rate cuts that began in August 2024. Economists foresee inflation staying above target through the end of 2025 due to persistent economic uncertainties, including geopolitical tension in the Middle East and unpredictable U.S. trade policies under President Donald Trump. Analyst Felix Feather from Aberdeen anticipates continued rate reductions but warns that global financial instability could impact this outlook.
5. <https://www.ft.com/content/fa5f516f-f779-44fa-9a81-efbff5bfde38> - UK inflation stood at 3.4% in May 2025, slightly down from an overstated 3.5% in April, according to the Office for National Statistics (ONS). The decline primarily reflected corrected vehicle excise duties and falling transport-related costs, including airfares and fuel. However, inflation remains well above the Bank of England’s 2% target, sustained in part by rising food and household goods prices. Core services inflation also eased to 4.7% from 5.4%, but remains elevated, driven by increased business costs from higher national insurance contributions and minimum wages. With inflation remaining stubborn, particularly in the services sector, economists expect the Bank’s Monetary Policy Committee to maintain interest rates at 4.25% during its upcoming meeting. The Committee, which has already implemented four rate cuts since last summer, remains divided on how to address persistent inflationary pressures. Market forecasts predict two additional quarter-point cuts later in the year. Meanwhile, geopolitical tensions in the Middle East are adding uncertainty through potential increases in oil prices. Chancellor Rachel Reeves emphasized that while inflation has moderated from prior double-digit levels, further efforts are needed to stabilize the economy. The pound rose 0.3% to $1.346 following the data release.
6. <https://www.reuters.com/world/uk/ftse-100-rises-after-positive-inflation-data-focus-fed-boe-meetings-2025-06-18/> - The FTSE 100 index rose by 0.2% on Wednesday following positive UK inflation data for May, while investors turned their attention to upcoming key central bank meetings in the U.S. and the UK. The Bank of England is expected to maintain its base rate, but a decline in services price inflation from 5.4% in April to 4.7% in May aligns with its forecasts and opens the possibility for future rate cuts. Despite this positive data, market sentiment was tempered by ongoing geopolitical tensions, particularly the escalating conflict between Iran and Israel and potential U.S. military involvement prompted by President Trump's demand for Iran's "unconditional surrender."

Pharmaceutical and biotechnology sectors saw declines as GSK and AstraZeneca dropped over 1% following Trump's announcement of impending pharma tariffs. The Personal Goods Price Index also experienced pressure, with mid-cap stocks like Burberry and Dr. Martens among top losers. Meanwhile, AO World shares fell 3.2% despite posting a significant 27% profit increase. Investors are now closely watching the Federal Reserve's decision later in the day for insights into potential U.S. rate cuts. Additionally, UK house price growth was reported to have halved in April. 7. <https://www.reuters.com/world/uk/sterling-edges-up-after-uk-data-shows-jump-food-inflation-2025-06-18/> - On June 18, 2025, the British pound slightly appreciated, rising 0.26% to $1.3462 following recent UK inflation data and amid global market jitters over escalating Middle East tensions. According to the UK’s Office for National Statistics, consumer inflation remained steady at 3.4% in May, aligning with expectations and showing a slight decline from April's 3.5%. The decrease was attributed to a drop in airfares and correction of a tax data error, despite a significant rise in food prices—the fastest increase in over a year. The data diminished prospects for immediate interest rate cuts by the Bank of England (BoE). Notably, services inflation, a key metric for the BoE, fell to 4.7% from April’s 5.4%, aligning with the BoE’s forecast and slightly below market expectations. Market sentiment suggests no rate cuts will occur before September, with a potential single quarter-point reduction by year’s end. Investor focus briefly shifted back to UK monetary policy following the pound's sharp 1.09% drop against the U.S. dollar a day earlier due to heightened geopolitical tensions between Israel and Iran, which had triggered a flight to safe-haven assets like the dollar.