



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

15 December 2022

Andrew Bailey, Governor,
The Bank of England,
Threadneedle Street,
London,
EC2R 8HA

Dear Andrew,

CPI Inflation

Thank you for your letter of 15 December on behalf of the Monetary Policy Committee (MPC) regarding November's Consumer Price Index (CPI) figure. The twelve-month measure of CPI inflation was 10.7% in November, which triggered an exchange of open letters under the terms of the MPC remit. This is the sixth consecutive exchange of letters regarding above-target inflation, but my first as Chancellor.

The government's commitment to the 2% CPI inflation target, and the independence of the Bank remains absolute. As I set out in my letter updating the remit of the MPC at Autumn Statement, in order to provide stability, this government will not change the definition of price stability. As you know, it is essential to businesses and households across the country that inflation is brought back to target, and I know that the MPC will continue to take the action necessary to achieve this.

Turning to your assessment, I agree that higher inflation in the aftermath of the pandemic mainly reflects large increases in global energy prices and other tradeable goods prices. I also note that external factors, namely Russia's invasion of Ukraine, continue to add significantly to inflationary pressures in the UK.

However, I also acknowledge your assessment that inflation has increasingly been driven by factors that are more domestic, including the tightness in the labour market. I note the role that inactivity is having in reducing labour supply. Though inactivity fell on the quarter in this week's data, there remains a marked increase since the onset of the pandemic. That is why I have asked the Department for Work and Pensions to thoroughly review workforce participation and to conclude on this in early 2023.

I acknowledge that food price inflation has increased to a high of 16.4% and note your assessment that the rise in food prices experienced in the UK is part of a global phenomenon, exacerbated by adverse climate conditions, supply constraints caused by Russia's invasion of Ukraine and rising energy costs in food production. The government understands that increased food prices, alongside rising energy bills are placing challenges on households' ability to meet their living costs. This is why at the Autumn Statement I announced further support for next year designed to target the most vulnerable households. The Government will provide households on means-tested benefits with an additional Cost of Living Payment of £900 in 2023-24. In the same year, pensioner households will receive an additional £300 Cost of Living Payment, and individuals on disability benefits will receive an additional £150 Disability Cost of Living Payment.

This targeted support in 2023-24 is in addition to benefits uprating, which is worth £11 billion to working age households and people with disabilities. This is in addition to the Energy Price Guarantee (EPG) and follows £37 billion of support for the cost of living in 2022-23. I continue to keep the situation under review and focus support on the most vulnerable whilst ensuring I act in a fiscally responsible way.

I note that the MPC's latest projections suggest that inflation has reached its peak, but that it is expected to remain very high in the next few months before falling into the spring of next year. I welcome your assessment that the Government's Energy Price Guarantee has significantly reduced household energy prices and note the projections from the November Monetary Policy Report, and the upside risks around these.

I look forward to continuing to work closely with you in the coming months, to provide businesses and households with vital support over the coming months.

I am copying this letter to the chair of the Treasury Committee and depositing it immediately in the libraries of both Houses of Parliament.

Best wishes,

A handwritten signature in blue ink that reads "Jeremy Hunt". The signature is written in a cursive, slightly stylized font.

RT HON JEREMY HUNT MP
Chancellor of the Exchequer