



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

17 March 2022

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

Dear Andrew,

CPI INFLATION

The UK Government stands with the people of Ukraine to uphold our shared values of freedom and democracy. I am grateful to the Bank for its support for the UK Government's response to Russia's invasion.

Thank you for your letter of 17th March on behalf of the Monetary Policy Committee (MPC) regarding January's Consumer Prices Index (CPI) inflation figure. The twelve-month measure of CPI inflation was 5.5%, which triggered an exchange of open letters under the terms of the MPC remit.

I agree with your assessment that inflation continues to be driven by the uneven economic effects of Covid on supply and demand, and global factors as the world economy recovers from the pandemic. I also acknowledge that there has been an increase in inflation since the Bank's Monetary Policy Report was published in February. This increase has been driven by global energy prices, global supply shortages (particularly semiconductors), durable goods, food prices, and consumer services.

I note your expectations that given the material risks around energy price assumptions, developments in energy prices may cause inflation to rise further in Autumn and beyond the level projected for April, which was previously expected to be the peak. I also note your assessment that there are risks to the inflation forecast on both sides. I welcome the Committee's intention to focus on and monitor the medium-term prospects for inflation closely, and take whatever action is necessary to achieve its primary objective of price stability.

The Government knows that people are concerned about the rising cost of living and inflation, which is why the Government has provided support worth more than £20 billion this financial year and next. The Government are helping people on the lowest incomes keep more of what they earn by cutting the Universal Credit taper rate, keeping costs down by freezing fuel and alcohol duties and providing millions of households with £350 to help with rising energy bills. The Government is also supporting millions of workers by increasing the National Living Wage to £9.50 an hour in April 2022 from £8.91.

The UK's strong and credible macroeconomic policy framework and institutions continue to support the economic recovery from Covid-19, which is why at Budget in October I reconfirmed the MPC's remit and the primary objective of price stability as measured by the 2% CPI target. The Government's commitment to the Bank of England's operational independence and the current regime of flexible inflation targeting remains absolute. The target is symmetric: deviations below the target are treated the same way as deviations above the target. This institutional structure helps to ensure that inflation expectations remain anchored, and that monetary policy can play its role fully.

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

Best wishes,



RISHI SUNAK