



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

22 September 2022

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

Dear Andrew,

CPI Inflation

Thank you for your letter of 22nd September on behalf of the Monetary Policy Committee (MPC) regarding July's Consumer Price Index (CPI) figure. The twelve-month measure of CPI inflation was 10.1% in July, which triggered an exchange of open letters under the terms of the MPC remit. This is the fifth consecutive exchange of letters under the terms of the remit, and the first I have written as Chancellor.

As we discussed during our meeting on my first day as Chancellor, you have my full support in your critical mission to get inflation under control. The government's commitment to the 2% CPI inflation target, and the independence of the Bank remains absolute. It is essential to businesses and households across the country that inflation is brought back to target, and I know and expect that the MPC will continue to take the forceful action necessary to achieve this and to ensure inflation expectations remain firmly anchored. This includes both your decisions on Bank Rate and unwind of the Asset Purchase Facility. In my other letter to you regarding the start of sales of government bonds held in the APF, I confirmed my agreement to the joint approach to reduce the size of the APF's indemnity every six months in line with the reduction in assets.

Turning to your assessment, I agree that higher inflation to date has been pushed up by increases in global energy and tradeable goods prices, exacerbated by the Russian invasion of Ukraine. I also note that not all of the UK's above target inflation can be attributed to global events and that inflationary pressures are becoming more domestically driven,

especially given the tight labour market. I note that consumer services inflation is also elevated, reflecting domestic influences.

I note your outlook for inflation and that you expect CPI to peak at just under 11% in October, and then remain above 10% over the coming months. I welcome your assessment that the Energy Price Guarantee will reduce the near-term risk that a long period of externally generated inflation leads to more persistent domestic price and wage pressures.

Current high inflation is making it hard for households to pay their energy bills and meet their other living costs, whilst placing further costs on businesses and reducing the certainty they need to grow.

The Prime Minister announced that the average energy bill will be frozen at £2,500 a year to help households. By holding energy prices down, the action we are taking will avoid the further rises in inflation that many had predicted this winter. This policy is expected to lower inflation by up to 5 percentage points over the first six months and see typical households save an average of £1,000 a year on energy bills.

This support will come in addition to the £37 billion announced by Chancellor Sunak, including the £400 discount through the Energy Bills Support Scheme and the one-off Cost of Living Payments, which will provide £1200 direct financial support to millions of the most vulnerable households, with additional support for pensioners and those claiming disability benefits.

I am focused unashamedly on growing the economy, which will build stronger capacity to alleviate inflationary pressure. By boosting business investment and innovation the government will deliver growth which is the only sustainable way to improve living standards, reducing cost of living pressures and delivering stronger public finances. Robust medium-term fiscal discipline will ensure that public debt will fall as a share of the economy over time, even if support is needed to help households pay their energy bills in the near term.

We have agreed to stay in close contact to support for the economy 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.

Kind regards,

A handwritten signature in black ink, appearing to read 'Kwasi Kwarteng', written in a cursive style.

RT HON KWASI KWARTENG MP
Chancellor of the Exchequer