



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

23 March 2023

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

Dear Andrew,

CPI Inflation

Thank you for your letter of 23 March on behalf of the Monetary Policy Committee (MPC) regarding February's Consumer Price Index (CPI) figure. The twelve-month measure of CPI inflation was 10.4% in February, which triggered an exchange of open letters under the terms of the MPC remit. This is the seventh consecutive exchange of letters regarding above-target inflation and my second as Chancellor.

The government's commitment to the 2% CPI inflation target, and the independence of the Bank remains absolute. 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 take the necessary steps to achieve this.

Turning to your assessment, I agree that higher inflation in the aftermath of the pandemic mainly reflected large increases in global energy prices and other tradeable goods prices. I note that external factors, namely Russia's invasion of Ukraine, continue to add significantly to inflationary pressures in the UK, but that inflation has increasingly been driven by more domestic factors.

The government understands that increasing prices, particularly for food and energy, are placing challenges on households' ability to meet their living costs. This is why, at Spring Budget, I announced further support to help households with the cost of living, including maintaining the Energy Price Guarantee (EPG) for a further three months, from April 2023. The introduction of the EPG and Energy Bill Relief Scheme has limited energy inflation for households and businesses.

Beyond energy bills, the Spring Budget provides further cost of living support to households by freezing fuel duty and maintaining the 5p cut for a further year and increasing draught relief – freezing duty on a typical pint in a pub. Taken together, the government has provided

total support of over £94bn over 2022-23 and 2023-24 to help UK households and individuals with the cost of living – an average of over £3,300 per UK household. I welcome your assessment that the government's EPG and other measures announced in Spring Budget, such as the freezing of fuel duty, constitute downside news to the inflation forecast, such that inflation is expected to fall significantly in Q2 2023 – to a lower rate than was anticipated in the February Monetary Policy Report.

I share your assessment that inflation has increasingly been driven by factors that are more domestic. These domestic pressures stem from a tight labour market, putting upward pressure on wages, and elevated inflation feeding through into wage and price setting. This is why, at Spring Budget, I announced a labour markets package aimed at bringing parents, older workers, welfare claimants and the long-term sick and disabled back to the workforce.

The government has a clear plan to deliver on its five priorities, which include growing the economy, halving inflation this year, and getting debt falling. The Spring Budget delivers on my plan to boost long-term economic growth – with a package of measures under the 'four Es' of economic growth: Employment, Enterprise, Education, and Everywhere; by boosting labour supply and helping businesses grow. I continue to keep the situation under review and focus support on the most vulnerable, while withdrawing support for the economy at a pace that is well matched to the strength of the economy in the medium term, to ensure fiscal and monetary policy are working together to reduce inflation.

I look forward to continuing to work closely with you in the coming months.

I am copying this letter to the chair of the Treasury Committee and depositing it alongside your letter immediately in the library 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 informal style.

RT HON JEREMY HUNT MP

Chancellor of the Exchequer