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

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

21 September 2023

Dear Andrew,

CPI inflation

Thank you for your letter of 21 September on behalf of the Monetary Policy Committee (MPC) regarding August's Consumer Price Index (CPI) figure. The twelve-month measure of CPI inflation was 6.7% in August, which triggered an exchange of open letters under the terms of the MPC remit.

The Government has made it a priority to halve CPI inflation this year, on the path back to the target of 2% CPI. Our commitment to the 2% target remains iron-clad and it applies at all times. High inflation is bad for growth, so sticking to our plan is the right priority to tackle inflation and help the economy grow. The MPC continues to have my full support as you take action to return inflation to target through your independent monetary policy decisions, in line with the primacy of price stability in the Government's monetary policy objective.

I welcome your assessment that CPI inflation is expected to fall significantly further by the end of the year. Further, I welcome that annual inflation for food and non-alcoholic beverages has fallen back from 18.3% in May to 13.6% in August. The expected fall in inflation reflects lower annual energy price inflation, and further declines in food and core goods inflation. The tough action taken by the MPC to squeeze inflation out of the system is working.

Alongside our continued support for the MPC's actions, the Government's fiscal policy remains supportive of monetary policy - by continuing to control public sector borrowing. This will require continued discipline on public spending and tax policy. Increased borrowing would add to inflationary pressures and risk prolonging higher inflation.

The plan is working to bring down inflation, but we must not be complacent. I acknowledge your reference to services price inflation, which has remained elevated, in part reflecting the ongoing strength of nominal pay growth. Government will continue to focus on strengthening the supply-side of the economy, as we did at the Spring Budget through our labour-market measures, and ensure new policies are productivity enhancing. Government remains focussed on increasing business investment as one of the most important ways we can raise productivity across the economy.

Monetary policy is working to bring down inflation and Government is encouraging lenders to pass on changes in the Bank Rate to savings rates as they are doing for mortgage rates. Government is also using targeted measures to support borrowers struggling with their mortgage payments through the new Mortgage Charter and by implementing measures aimed at helping people to avoid repossession. We have shown that we are continuing to be tough on inflation while helping those that are most vulnerable.

I acknowledge the decision taken by the MPC to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100bn over the period from October 2023 to September 2024, to a total of £658 billion.

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 both your letter and this response in the Libraries of both Houses of Parliament.

Best wishes,

RT HON JEREMY HUNT MP
Chancellor of the Exchequer