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

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

14 December 2023

Dear Andrew,

CPI inflation

Thank you for your letter of 14 December on behalf of the Monetary Policy Committee (MPC) regarding October's Consumer Prices Index (CPI) figure. The twelve-month measure of CPI inflation was 4.6% in October, which triggered an exchange of open letters under the terms of the MPC remit.

I welcome that CPI inflation has fallen 2.1 percentage points since your last letter in September, from 6.7% in August to 4.6% in October. This means the rate of CPI has now halved relative to its peak, having fallen from 11.1% in October 2022. The plan is working to bring inflation down, but we must not be complacent. As you note, services price inflation remains elevated, and it may cause a slight uptick in headline CPI inflation in January 2024. The MPC continues to have my full support as you take action to return inflation to the 2% target through your independent monetary policy decisions, in line with the primacy of price stability in your remit.

In line with our support for the MPC, the Government remains committed to ensuring that fiscal policy remains supportive of monetary policy. This requires keeping borrowing under control and reducing fiscal support for the economy. Following the Autumn Statement, borrowing is lower than it was forecast by the Office for Budget Responsibility (OBR) to be in Spring, both this year and next. The cyclically adjusted primary deficit, a useful measure of the fiscal stance, is expected to fall consistently over the forecast. This means that fiscal policy will continue to support the MPC to bring inflation back to target.

Boosting the supply potential of the economy is vital for sustainable, non-inflationary growth. The Government is focused on delivering long-term economic growth, generating more jobs, and boosting business investment. At Autumn Statement, I built on the ambitious package of labour market measures from Spring Budget by announcing the Back to Work Plan, which will expand the support on offer to help those with long-term sickness or disability and those who are long-term unemployed into the workforce. To unlock business investment the Government will make full expensing permanent, building on our already competitive business tax regime and making sure we have one of the most generous capital allowances regimes in the world.

Together, supply-side policies at Autumn Statement are forecast to increase the economy's potential output in the medium-term by 0.3%, on top of the 0.2% increase to potential GDP resulting from announcements at Spring Budget 2023. The OBR estimates that Government decisions at the Autumn Statement will, by the end of the forecast period, boost business investment by £14 billion and bring a further 78,000 people into employment. Combined with Spring Budget policy measures, this will increase the number of people in work by around 200,000 by the end of the forecast.

The Government recognises the challenges facing households due to elevated costs of living. That is why we will raise Local Housing Allowance rates to the 30th percentile of local market rents in April 2024 and uprate all working age benefits in full, by September 2023 CPI of 6.7%, for 2024-25. The Government is also increasing the National Living Wage (NLW) from 1 April 2024, by 9.8% to £11.44 an hour for eligible workers aged 21 and over. This represents an increase of over £1,800 to the annual earnings of a full-time worker on the NLW and is expected to benefit over 2.7 million low paid workers. These measures provide targeted support to the most vulnerable.

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,

Jeremy Hunt

RT HON JEREMY HUNT MP
Chancellor of the Exchequer