



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

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

18 September 2025

Dear Andrew,

### **CPI inflation**

Thank you for your letter of 18 September regarding August's Consumer Prices Index (CPI) figure. The twelve-month measure of CPI inflation was 3.8% in July, which triggered an exchange of open letters under the terms of the Monetary Policy Committee (MPC) remit. On 17 September, the Office for National Statistics (ONS) published data showing that CPI inflation was 3.8% in August, unchanged from July.

I note the MPC's baseline projection for inflation in the August Monetary Policy Report, which is for CPI to peak at 4.0% in September, before falling back to 3.6% by end of 2025. I also note your expectation for inflation to return towards the 2% target next year. I acknowledge your assessment of the reasons for this temporary increase in CPI inflation.

I welcome your assessment that the path of disinflation in underlying domestic price and wages pressures has continued, albeit to different degrees. As you highlight in your letter, CPI inflation has fallen significantly over the past two and a half years. That progress has allowed for gradual reductions in Bank Rate from a peak of 5.25%, which means lower mortgage payments and cheaper borrowing for families and businesses.

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 £70 billion over the period from October 2025 to September 2026, to a total of £488 billion. I welcome that the Asset Purchase Facility (APF), which holds assets purchased during quantitative easing, continues to be unwound in a way that is responsive to market conditions and maximises value for money by minimising cost and risk, subject to the MPC's objectives. It is important that the Bank continues to liaise closely with the Debt Management Office to ensure the Bank's operations do not impact on the government's wider gilt issuance strategy.

The separation of fiscal and monetary policy is a key feature of the UK's economic framework and is essential for the effective delivery of monetary policy. Independent monetary policy is vital to ensure there is stability for businesses to invest and for consumers to have confidence. I respect and fully support the independence of the MPC as it acts to return inflation to target sustainably.

Many people are still struggling with day-to-day living costs. Inflation, although lower than under the previous government when it breached 11%, is still too high. While many prices are influenced by international markets, the Prime Minister and I recognise that we must do everything in our powers to keep costs down and lower them, and we have asked Cabinet to work with their officials to look at what further action can be taken ahead of the Budget in November. Low and stable inflation is essential for long-term economic growth and sustained increases in living standards.

Stability is more important than ever to underpin growth in a volatile global environment. The government continues to manage the public finances responsibly, and this year will see the first significant reduction in the deficit outside of a crisis since 2018-19. I am committed to continue to reduce borrowing, with the Office for Budget Responsibility forecasting in March that the deficit will more than halve as a share of GDP over the next four years and that debt will be on a downward path from 2027-28, giving businesses the stability they need to invest in Britain's renewal.

I am grateful for your work and the work of all members of the Committee. I look forward to continuing to work closely with you.

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.

Yours sincerely,

A handwritten signature in dark ink that reads "Rachel Reeves." The signature is written in a cursive, flowing style.

**RT HON RACHEL REEVES MP**  
Chancellor of the Exchequer