



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

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

30 April 2026

Dear Andrew,

### CPI inflation

Thank you for your letter of 30 April regarding the March Consumer Prices Index (CPI) figure. The twelve-month measure of CPI inflation was 3.3% in March, which triggered an exchange of open letters under the terms of the Monetary Policy Committee (MPC) remit.

I acknowledge your projection in the April Monetary Policy Report that CPI inflation is expected to decline to 3.1% on average in 2026 Q2 before rising back to 3.3% in 2026 Q3 as a result of higher energy costs due to the Iran war. As you note, the MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment.

Operationally independent monetary policy is a key feature of the UK's economic framework and vital for maintaining price stability, so the government respects and fully supports the independence of the MPC. While the responsibility for returning inflation to the 2% target rests with the MPC, the government is also taking action to bring down inflation.

My number one mission is to drive growth and increase living standards in every part of our country. Low and stable inflation is a vital part of that - to keep costs low for families, support rising incomes and boost economic growth. The most important thing that the government can do to keep inflation low is to stick to our fiscal rules and get borrowing down. We have already reduced borrowing by nearly 1% of GDP in the last year and we are set to reduce borrowing faster than any other G7 country by 2030.

And at the Budget, I went further to bear down on prices for families – freezing rail fares and prescription charges and taking £150 off energy bills. Those measures, which came into force in April, are forecast to take 0.4ppt off inflation this year. As a result, prior to the Iran war, inflation was forecast to fall to target later this year - sooner than previously expected.

As you note in your letter, the conflict in the Middle East is very likely to put upwards pressure on prices. And so, I have taken further steps to support families with the immediate pressures they face and to support our long-term energy and economic resilience.

- i. **Immediate action:** the government has announced over £50 million to support low-income families and businesses who heat their homes with oil to help tackle surging prices. We have also taken an immediate action to tax excess revenues through the Electricity Generator Levy by raising the rate from 45% to 55%. This will ensure that a proportion of any exceptional revenue that generators may receive because of the conflict in the Middle East is available to support businesses and households.
- ii. **Delivering long-term stability:** the government has announced a suite of measures to go further and faster on electrification and build our energy security, to protect the British people for good. By bringing forward plans later this year to offer voluntary fixed price contracts to existing low-carbon generators, with an intention to run an allocation process next year, it will ensure the consumer is less exposed to volatile gas-linked electricity prices. A rapid de-escalation in the Middle East remains the best way to protect us from rising energy bills. The UK is working extremely closely with the US on de-escalation and on managing the economic implications. I will continue to coordinate through the G7, G20 as shown in my recent discussions around the IMF and World Bank Spring Meetings.

We will continue to deliver growth, even in these challenging times, while supporting the MPC to bring down inflation.

I am grateful for your work and the work of all members of the Committee.

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.

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

RT HON RACHEL REEVES MP  
Chancellor of the Exchequer