

Remit for the Monetary Policy Committee of the Bank of England and the New Inflation Target

The remit for the Monetary Policy Committee sent to the
Governor of the Bank of England on 10 December 2003

HM Treasury
1 Horse Guards Road
LONDON SW1A 2HQ



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

10 December 2003

Mervyn King
Governor
Bank of England
Threadneedle Street
LONDON EC2R 8AH

Dear Mervyn,

REMIT FOR THE MONETARY POLICY COMMITTEE

The Bank of England Act (1998) requires that I specify what price stability is taken to consist of and the Government's economic policy objectives at least once in every period of 12 months beginning on the anniversary of the day the Act came into force. I last wrote to the then Governor on this matter on 9 April this year.

I also wrote on 9 June to give notice of my intention to change the MPC's remit in the Pre-Budget Report to give the Bank of England a symmetric inflation target as measured by the harmonised index of consumer prices – which the National Statistician has now decided will be known as the Consumer Prices Index or CPI in the United Kingdom.

I hereby confirm that, from today, the new operational target for monetary policy will be 2 per cent as measured by the 12-month increase in the CPI. In accordance with the Act, I also confirm that the economic policy of Her Majesty's Government is to achieve high and stable levels of growth and employment by raising the sustainable growth rate and creating economic and employment opportunities for all.



I attach a copy of the new remit and an annex outlining details of the new inflation target.

Yours sincerely

A handwritten signature in black ink that reads "Gordon /".

GORDON BROWN



REMIT FOR THE MONETARY POLICY COMMITTEE

The Bank of England Act came into effect on 1 June 1998. The Act states that in relation to monetary policy, the objectives of the Bank of England shall be:

- (a) to maintain price stability, and
- (b) subject to that, to support the economic policy of Her Majesty's Government, including its objectives for growth and employment.

In order to comply with the Act, this remit sets out what price stability shall be taken to consist of and what the economic policy of the Government shall be taken to be.

Price stability

I confirm that, from today, the operational target for monetary policy is an underlying inflation rate (measured by the 12-month increase in the CPI) of 2 per cent. The inflation target is 2 per cent at all times: that is the rate which the MPC is required to achieve and for which it is accountable.

My intention is to lock into our policy making system a commitment to consistently low inflation in the long term. The real stability that we need will be achieved not when we meet the inflation target one or two months in



succession but when we can confidently expect inflation to remain low and stable for a long period of time.

The framework takes into account that any economy at some point can suffer from external events or temporary difficulties, often beyond its control. The framework is based on the recognition that the actual inflation rate will on occasions depart from its target as a result of shocks and disturbances. Attempts to keep inflation at the inflation target in these circumstances may cause undesirable volatility in output.

But if inflation moves away from the target by more than 1 percentage point in either direction I shall expect you to send an open letter to me, normally on the same day as the publication of the CPI data and referring as necessary to the Bank's Inflation Report, setting out:

- the reasons why inflation has moved away from the target by more than 1 percentage point;
- the policy action which you are taking to deal with it;
- the period within which you expect inflation to return to the target;
- how this approach meets the Government's monetary policy objectives.

You would send a further letter after three months if inflation remained more than 1 percentage point above or below the target. In responding to your letter, I shall, of course, have regard to the circumstances prevailing at the time.



The thresholds do not define a target range. Their function is to define the points at which I shall expect an explanatory letter from you because the actual inflation rate is appreciably away from its target.

Government's economic policy objectives

The Government's central economic policy objective is to achieve high and stable levels of growth and employment. Price stability is a precondition for these high and stable levels of growth and employment, which will in turn help to create the conditions for price stability on a sustainable basis. In the recent past, instability has contributed to the UK's poor growth performance, not least by holding back the long-term investment that is the foundation for a successful economy.

The monetary policy objectives of the Bank of England are to maintain price stability and subject to that, to support the Government's economic policy, including its objectives for growth and employment.

Accountability

The Monetary Policy Committee is accountable to the Government for the remit set out in this letter. The Committee's performance and procedures will be reviewed by the Court on an ongoing basis (with particular regard to ensuring the Bank is collecting proper regional and sectoral information). The Bank will be accountable to Parliament through regular reports and evidence given to the Treasury Select Committee. Finally, through the



publication of the minutes of the Monetary Policy Committee meetings and the Inflation Report, the Bank will be accountable to the public at large.

Restatement of the Remit

The inflation target will be confirmed in each Budget. There is a value in continuity and I will have proper regard to that. But I will also need to consider the case for a revised target at these times on its merits. Any changes to this remit will be set out in the Budget. The Budget will also contain a statement of the Government's economic policy objectives.