



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

24 March 2010

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 you on 22 April 2009.

I re-confirm the target as 2 per cent as measured by the 12-month increase in the Consumer Prices Index (CPI). CPI is currently 1 per cent above the 2 per cent target. As you made clear in your letter to me of 15 February 2010, it is the Monetary Policy Committee's view that the current elevated level of CPI inflation is temporary. I agree with this assessment and the Committee's expectation that CPI inflation will fall back towards the 2 per cent target by the end of the year.

Consistent with meeting the inflation target, the Government is announcing today that it will increase sales of index-linked gilts in 2010-11 by £8.7 billion to £38 billion.

In accordance with the Act, I also confirm that the economic policy of the 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.

A copy of the remit is attached.

When I announced the creation of the Asset Purchase Facility on 29 January 2009, my letter to you set out that I would confirm at each Budget whether or

not the Asset Purchase Facility should continue. I have decided that the Facility should continue in Financial Year 2010-11.

Yours sincerely



ALISTAIR DARLING

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 the operational target for monetary policy remains 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.

Upon coming into office, the Government enshrined in its policy-making system a commitment to consistently low inflation in the long term. This is because the real stability upon which economic prosperity is founded requires that inflation 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, as soon as possible after publication of the CPI data and referring as necessary to the Bank's latest Inflation Report and the forecasts, 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.

In keeping with the principles underpinning the monetary policy framework, and the practice followed in previous inflation open letter exchanges, I suggest that you copy your letter to the Chair of the Treasury Select Committee.

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 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.