



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

17 May 2011

Mervyn King
Governor
The Bank of England
Threadneedle Street
London EC2R 8HA

Dear Mervyn

CPI INFLATION

Thank you for your letter of 16 May on behalf of the Monetary Policy Committee (MPC) regarding April's CPI inflation figure of 4.5 per cent, written under the terms of the MPC's remit.

As detailed in the May 2011 *Inflation Report*, I note the MPC forecasts CPI inflation to rise further than previously expected this year due to additional increases in energy and import prices and that it is likely to remain above target throughout 2012. However, despite the considerable uncertainties, the Committee's central view continues to be that inflation will fall back through 2012 and into 2013 when the chances of inflation being above or below the target are broadly balanced.

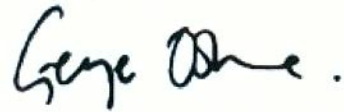
Independent forecasts, including that of the Office for Budget Responsibility in its March *Economic and Fiscal Outlook*, also expect inflation to fall back in the medium term.

For its part, the Government's commitment to delivering its fiscal consolidation plan continues to provide the MPC with the space it needs to target low inflation. In the current context, stepping back from the Government's commitment to fiscal consolidation would, other things being equal, risk prompting an offsetting monetary tightening such that overall there would be little, if any, net support to economic activity even in the short-term.

I recognise the opposing risks to inflation are material, particularly given the recent volatility in energy and commodity prices. I welcome the MPC's continued commitment to respond flexibly to the economic outlook and to set policy to balance the upside and downside risks in order to meet the inflation target in the medium term.

I am copying this letter to the Chairman of the Treasury Select Committee and depositing this letter immediately in the libraries of both Houses and on the Treasury website.

Yours sincerely,

A handwritten signature in black ink that reads "George Osborne." The signature is written in a cursive, slightly slanted style.

GEORGE OSBORNE