BANK OF ENGLAND
LONDON EC2R 8AH

6 October 2011

The Rt Hon George Osborne
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

At its meeting today, the Monetary Policy Committee judged that, in order to keep inflation on track to meet the 2% inflation target over the medium term, its programme of asset purchases should be increased to a total of £275 billion and Bank Rate should be maintained at 0.5%. That would take the scale of the Committee's asset purchase programme financed by the issuance of central bank reserves above the £200 billion authorised in your predecessor's letter of 5 November 2009.

The context for that decision can be summarised as follows. The pace of global expansion has slackened, especially in the United Kingdom's main export markets. Vulnerabilities associated with the indebtedness of some euro-area sovereigns and banks have resulted in severe strains in bank funding markets and financial markets more generally. These tensions in the world economy threaten the UK recovery.

In the United Kingdom, the path of output has been affected by a number of temporary factors, but the available indicators suggest that the underlying rate of growth has also moderated. The squeeze on households' real incomes and the fiscal consolidation are likely to continue to weigh on domestic spending, while the strains in bank funding markets may also inhibit the availability of credit to consumers and businesses. While the stimulatory monetary stance and the present level of sterling should help to support demand, the weaker outlook for, and the increased downside risks to, output growth mean that the margin of slack in the economy is likely to be greater and more persistent than previously expected.

CPI inflation rose to 4.5% in August. The present elevated rate of inflation primarily reflects the increase in the standard rate of VAT in January and the impact of higher energy and import prices.

Inflation is likely to rise to above 5% in the next month or so, boosted by already announced increases in utility prices. But measures of domestically generated inflation remain contained and inflation is likely to fall back sharply next year as the influence of the factors temporarily raising inflation diminishes and downward pressure from unemployment and spare capacity persists.

The deterioration in the outlook has made it more likely that inflation will undershoot the 2% target in the medium term. In the light of that shift in the balance of risks, and in order to keep inflation on track to meet the target over the medium term, the Committee judged that it was necessary to inject further monetary stimulus into the economy.

I am therefore requesting the authority to use the Asset Purchase Facility to purchase assets financed by the issuance of central bank reserves totalling £275 billion. The structure and operation of the Asset Purchase Facility would otherwise be unchanged from that described in your predecessor's letter of 3 March 2009.

I am copying this letter to Andrew Tyrie MP, Chair of the Treasury Committee.

Yours sincerely