



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

21 March 2012

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

A handwritten signature in blue ink, appearing to read 'George Osborne'.

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 hereby re-confirm the inflation target as 2 per cent as measured by the 12-month increase in the Consumer Prices Index (CPI). CPI is currently more than 1 per cent above the 2 per cent target. As you made clear in your letter to me of 13 February 2012, while the outlook for inflation in the medium term remains uncertain, the Monetary Policy Committee's best collective judgement is that inflation will continue to fall back to around the target by the end of 2012, reflecting declining contributions from petrol prices and any remaining VAT impact, cuts to domestic energy prices, as well as dissipating pressure from past rises in energy and import prices. I welcome the Committee's determination to set policy to ensure inflation is on track to meet the target in the medium term.

In accordance with the Act, I also confirm that the economic policy objective of Her Majesty's Government is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries.

A copy of the remit is attached.

Finally, I also confirm that the Asset Purchase Facility, created on 29 January 2009, will remain in place for the financial year 2012-13.

A handwritten signature in blue ink, appearing to read 'George Osborne'.

GEORGE OSBORNE

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 inflation rate of 2 per cent (measured by the 12-month increase in the CPI). 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.

The Government believes that low and stable medium-term inflation is a prerequisite for economic prosperity. 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 forecasts, setting out:

- the reasons why inflation has moved away from the target;
- the policy action you are taking to deal with it;
- the period within which you expect inflation to return to the target; and
- 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 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 economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. This objective recognises that over a number of years preceding the recent financial crisis, economic growth in the UK was driven by unsustainable levels of private sector debt and rising public sector debt. This pattern of unbalanced growth and excessive debt helped to create exceptional economic challenges in the UK.

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 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.