

BANK OF ENGLAND  
LONDON EC2R 8AH

9 February 2012

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 by £50 billion to a total of £325 billion. That would take the scale of the Committee's asset purchase programme financed by the issuance of central bank reserves above the £275 billion authorised in your letter of 6 October 2011.

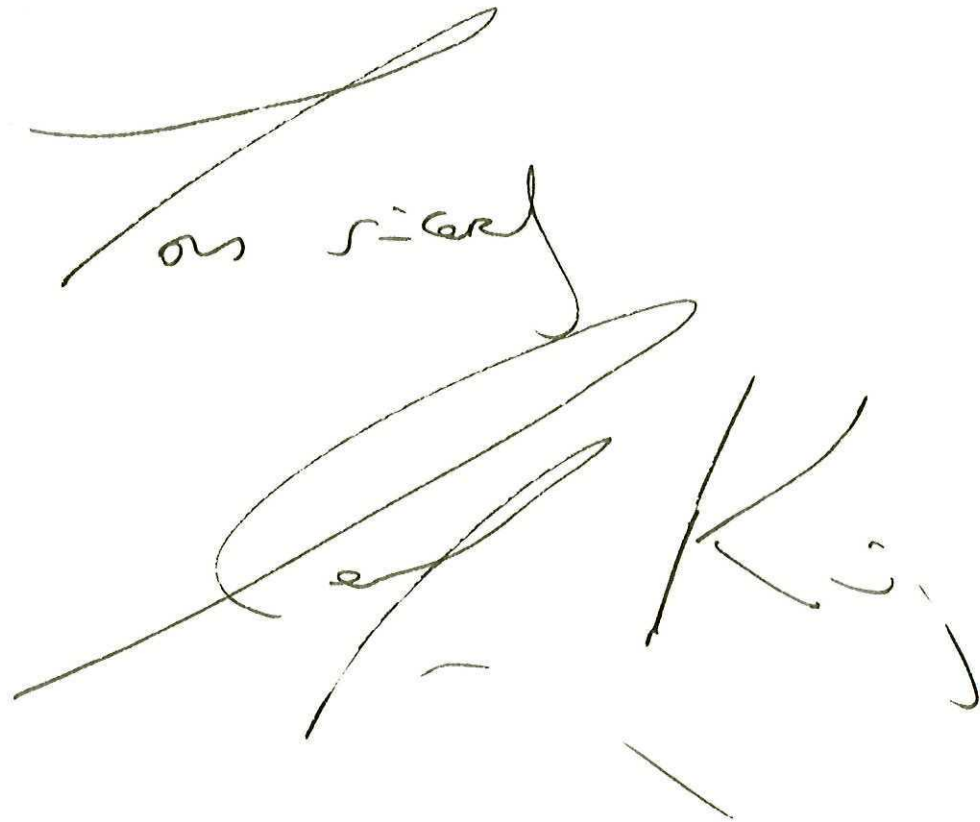
In the United Kingdom, the underlying pace of recovery slowed during 2011, with activity falling slightly during the final quarter. Some recent business surveys have painted a more positive picture and asset prices have risen. But the pace of expansion in the United Kingdom's main export markets has also slowed and concerns remain about the indebtedness and competitiveness of some euro-area countries. A gradual strengthening of output growth later this year should be supported by a gentle recovery in household real incomes as inflation falls, together with the continued stimulus from monetary policy. But the drag from tight credit conditions and the fiscal consolidation together present a headwind. The correspondingly weak outlook for near-term output growth means that a significant margin of economic slack is likely to persist.

CPI inflation has fallen back from its September peak, declining to 4.2% in December. Inflation should continue to fall sharply in the near term, as the increase in VAT in January 2011 drops out of the twelve-month comparison. Inflation is then likely to decline further as the contribution of energy and import prices diminishes, while downward pressure from unemployment and spare capacity continues to restrain domestically generated inflation.

In the light of its most recent economic projections, the Committee judged that the weak near-term growth outlook and associated downward pressure from economic slack meant that, without further monetary stimulus, it was more likely than not that inflation would undershoot the 2% target in the medium term.

I am therefore requesting the authority to use the Asset Purchase Facility to purchase assets financed by the issuance of central bank reserves totalling £325 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.

*as signed*  
A large, stylized handwritten signature in black ink, appearing to read 'Mark Carney', is written over the word 'signed'.