



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

15 December 2016

Mark Carney
Governor
The Bank of England
Threadneedle Street
London EC2R 8HA

Dear Mark

CPI INFLATION

Thank you for your letter of 15 December on behalf of the Monetary Policy Committee (MPC) regarding October's CPI inflation figure, written under the terms of the MPC remit.

Inflation fell to 0.9 per cent in October, triggering an open letter for inflation falling more than 1 percentage point below the target. I agree with your assessment that falling commodity prices and the past appreciation of sterling explain most of the deviation from target.

Inflation has since risen to 1.2 per cent in November. Your letter makes clear that the MPC expects inflation to rise above target later in 2017 and through 2018 owing primarily to import price pressures.

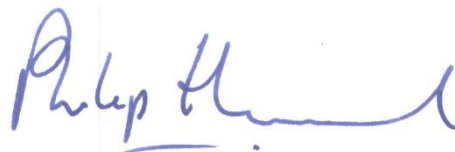
In line with the requirements in the MPC remit, your letter provides a clear assessment of considerations and trade-offs guiding decisions from the MPC when considering the appropriate approach to, and horizon for, bringing inflation back to target, including implications for output volatility.

I welcome that the MPC remains vigilant to both upside and downside risks to its forecast and stands ready to act if these risks materialise, to ensure that inflation expectations remain well anchored and inflation remains likely to return to target on a sustainable basis.

As I have done previously, I can confirm that the government's commitment to the Bank of England's operational independence and the current regime of flexible inflation targeting remains absolute. The target of 2% CPI inflation is symmetric: deviations below the target are treated the same way as deviations above the target. This institutional structure helps to ensure that inflation expectations remain anchored and that monetary policy can play its role fully.

Alongside the actions the Bank has taken, the government believes that sound fiscal policy remains an essential element of macroeconomic stability. The Autumn Statement reaffirmed our commitment to living within our means by setting out the objective of returning the public finances to balance as soon as possible in the next Parliament, while creating the space to invest in the economy to raise productivity.

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

A handwritten signature in blue ink, reading "Philip Hammond". The signature is written in a cursive style with a horizontal line underneath the name.

PHILIP HAMMOND