



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

Mark Carney  
Governor  
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29 October 2018

Dear Mark,

### **REMIT FOR THE MONETARY POLICY COMMITTEE**

The Bank of England Act 1998 (the Act) requires that I specify the definition of price stability 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 am doing that today by publishing the remit for the Monetary Policy Committee, where the only change is an update to the timing of the open letter process.

I hereby re-confirm the inflation target as 2 per cent as measured by the 12-month increase in the Consumer Prices Index (CPI). The inflation target of 2 per cent is symmetric and applies at all times. This reflects the primacy of price stability and the forward-looking inflation target in the UK monetary policy framework. The government's commitment to price stability remains absolute.

In accordance with the Act, I also confirm that the government's economic policy objective is to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites for strong, sustainable and balanced growth in all regions and sectors of the economy.

Monetary policy has a critical role to play in supporting the economy. It remains a central element of the government's macroeconomic strategy, alongside credible fiscal policy, investment to raise productivity and financial stability.

In recent years, the Government and the Bank of England have taken a number of important steps to enhance transparency and accountability and to ensure that monetary policy can continue to play its role fully. The open letter process is a key element of the Committee's transparency and accountability in communicating its strategy at times when inflation deviates from target. Following changes to the Committee's schedule in recent years, and the potential lags that can now emerge between the publication of the inflation data and an open letter, I am revising the remit. In circumstances where the data is published after a meeting of the Committee

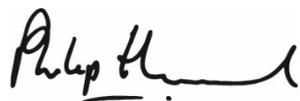
has commenced but before the minutes of that meeting are published, I will expect an open letter within seven days of the publication of the inflation data. This will continue to allow the Committee time to form and communicate its strategy towards returning inflation to the target after consideration of the trade-offs, and in a timely fashion.

The MPC and the Financial Policy Committee should continue to have regard to each other's actions, to enhance coordination between monetary and macroprudential policy. This coordination has enhanced the strength and resilience of the UK's macroeconomic framework. It has performed well through testing times, and is well equipped to address future challenges.

I also confirm that the Asset Purchase Facility will remain in place for the financial years 2018-19 and 2019-20.

I am grateful to you and all the members of the Committee for your continuing good work and dedication.

A copy of the remit is attached.

A handwritten signature in black ink, appearing to read 'Philip Hammond', with a stylized flourish at the end.

Philip Hammond

## REMIT FOR THE MONETARY POLICY COMMITTEE

The Bank of England Act 1998 ("the 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 Consumer Prices Index. The inflation target of 2 per cent applies at all times. This reflects the primacy of price stability and the inflation target in the UK monetary policy framework.

The inflation target is forward-looking to ensure inflation expectations are firmly anchored in the medium term. The government believes that low and stable medium-term inflation is an essential pre-requisite for economic prosperity.

The framework is based on the recognition that the actual inflation rate will on occasion depart from its target as a result of shocks and disturbances. Such factors will typically move inflation away from the target temporarily. Attempts to keep inflation at the inflation target in these circumstances may cause undesirable volatility in output due to the short term trade-offs involved, and the Monetary Policy Committee may therefore wish to allow inflation to deviate from the target temporarily.

Circumstances may also arise in which attempts to keep inflation at the inflation target could exacerbate the development of imbalances that the Financial Policy Committee may judge to represent a potential risk to financial stability. The Financial Policy Committee's macroprudential tools are the first line of defence against such risks, but in these circumstances the Monetary Policy Committee may wish to allow inflation to deviate from the target temporarily, consistent with its need to have regard to the policy actions of the Financial Policy Committee.

In exceptional circumstances, shocks to the economy may be particularly large or the effects of shocks may persist over an extended period, or both. In such circumstances, the Monetary Policy Committee is likely to be faced with more significant trade-offs between the speed with which it aims to bring inflation back to the target and the consideration that should be placed on the variability of output.

In forming and communicating its judgements the Committee should promote understanding of the trade-offs inherent in setting monetary policy to meet a forward-looking inflation target while giving due consideration to output volatility. It should set out in its communication:

- the outlook for inflation and, if relevant, the reasons why inflation has moved away from the target or is expected to move away from the target;
- the policy action the Committee is taking in response;
- the horizon over which the Committee judges it is appropriate to return inflation to the target;
- the trade-off that has been made with regard to inflation and output variability in determining the scale and duration of any expected deviation of inflation from the target; and
- how this approach meets the government's monetary policy objectives.

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, covering the same considerations set out above and referring as necessary to the Bank's latest Inflation Report and forecasts, alongside the minutes of the following Monetary Policy Committee meeting. In the circumstance when the Office for National Statistics releases that inflation data after a meeting of the Committee has commenced and before the minutes of that meeting are published, I shall expect a letter within seven days of the publication of the data. The reason for publishing the open letter at those times is to allow the Committee time to form and communicate its strategy towards returning inflation to the target after consideration of the trade-offs.

You would send a further letter if inflation is more than 1 percentage point above or below the target after three months. A letter would be sent, as before, alongside the minutes of the following Monetary Policy Committee meeting or within seven days of publication of the data if the meeting has already commenced.

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 letters to the Chair of the Treasury Committee.

In responding to your letter and confirming whether an appropriate balance has been struck in the judgements the Committee has made, 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.

## **Unconventional policy instruments**

In the event of exceptional shocks that result in the Monetary Policy Committee's conventional policy instrument having approached its effective lower bound, as has been the case since March 2009, the Committee may judge it necessary to deploy unconventional policy instruments in order to set monetary policy consistent with the requirements of this remit.

Where those instruments involve unconventional interventions in specific markets or activities, with implications for credit risk or credit allocation, I shall expect the Committee to work with the government to ensure the appropriate governance arrangements are in place to ensure accountability in the deployment of such instruments. This was the case with the Bank of England and the Treasury in establishing the Asset Purchase Facility in 2009 and the Funding for Lending Scheme in 2012.

The Committee may also judge it to be appropriate to deploy forward guidance in order to influence expectations and thereby meet its objectives more effectively. The government considers any use of this to be a matter subject to the Committee's operational independence in setting policy.

## **The government's economic policy objective**

The government's economic policy objective is to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites for strong, sustainable and balanced growth in all regions and sectors of the UK economy.

To achieve this objective, the government's economic strategy consists of:

- operationally independent monetary policy, responsible for maintaining price stability and supporting the economy;
- a credible fiscal policy, returning the public finances to health, while providing the flexibility to support the economy;
- addressing long-term economic weaknesses in order to sustain high employment, raise productivity, and improve living standards for people across the UK; and
- continuing to strengthen the financial system, improving the regulatory framework to reduce risks to the taxpayer and building resilience, so that it can provide finance and financial services to the real economy and realise better outcomes for consumers, supporting sustainable economic growth and encouraging productive investment.

## **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 Bank of England's 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**

Any changes to this remit will be set out in future autumn Budgets and the inflation target will be confirmed alongside those events. 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.

## **Coordination between monetary policy and macroprudential policy**

In order to foster coordination between monetary and macroprudential policy, there is overlap between the membership of the Monetary Policy Committee and the Financial Policy Committee. To enhance that coordination, where appropriate, the Monetary Policy Committee should reflect, in any statements on its decisions, the minutes of its meetings and its Inflation Reports, how it has had regard to the policy actions of the Financial Policy Committee. In the same way, the government had also asked the Financial Policy Committee to note in the records of its meetings, its policy statements and its Financial Stability Reports how it has had regard to the policy settings and forecasts of the Monetary Policy Committee.