



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

17 December 2020

Andrew Bailey
Governor
The Bank of England
Threadneedle Street
London, EC2R 8HA

Dear Andrew,

CPI INFLATION

Thank you for your letter of 17 December on behalf of the Monetary Policy Committee (MPC) regarding November's Consumer Prices Index (CPI) inflation figure. The twelve-month measure of CPI inflation was 0.3% in November, which triggered an exchange of open letters under the terms of the MPC remit.

I agree with your assessment that the recent period of below target inflation has been driven by low oil prices, low price growth in clothing and footwear and continued weakness of economic activity in the UK. I recognise that within this low headline inflation figure, price growth for different types of goods has varied, so individuals' experience of inflation may differ.

As we acknowledged in our previous exchanges of inflation open letters in June and September, the outlook for the economy and inflation is still highly uncertain, and as you noted the outlook will depend on the evolution of the pandemic and the response of government, businesses and households, as well as the transition to the new trading arrangements between the European Union and the United Kingdom. I note that the Committee's latest central case forecast is for inflation to be 2% in two years' time and welcome that the Committee stands ready to monitor and respond, as necessary, to developments as they unfold to ensure a sustainable return of inflation to target.

Since our last exchange of inflation open letters, government support has evolved as measures to control the virus have changed. On 24 September, I presented our Winter Economy Plan, and on 31 October I announced an extension to the Coronavirus Job Retention Scheme and other additional support to provide certainty for businesses, local authorities and households affected by the pandemic. And on 25 November, I delivered my Spending Review, which prioritised funding to support the government's response to Covid-19 and invest in the UK's economy. It confirmed an additional £38 billion for public

services to continue to fight the pandemic this year, and £100 billion of capital spending next year to kickstart growth and support. The Government will continue to do whatever it takes to protect lives and livelihoods.

The UK's strong and credible macroeconomic policy framework and institutions continue to support the response to Covid-19, with monetary and fiscal policy objectives aligned and policies working in the same direction to support the economy. The government's commitment to the Bank of England's operational independence and the current regime of flexible inflation targeting, with an operational target of 2% CPI inflation, remains absolute. The target 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.

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

Best wishes,

A handwritten signature in blue ink, appearing to read 'Rishi Sunak', with a stylized flourish at the end.

RISHI SUNAK