



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

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

17 September 2020

Dear Andrew,

CPI INFLATION

Thank you for your letter of 17 September on behalf of the Monetary Policy Committee (MPC) regarding August's Consumer Prices Index (CPI) inflation figure. The twelve-month measure of CPI inflation was 0.2% in August, 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, continued weakness of economic activity in the UK and globally, with sectors affected unevenly, and the temporary VAT cut and Eat Out to Help Out scheme. I recognise that within this low headline inflation figure, price growth for different types of goods has varied, so individuals' experiences of inflation may differ.

As you note in your letter, and we acknowledged in our last exchange of inflation open letters in June, the outlook for the economy and inflation is still highly uncertain. It 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 welcome the contribution of monetary policy to limiting any long-lasting damage to the economy, and supporting businesses and households through the crisis. This will help to promote strong, sustainable and balanced growth.

The Government also took swift action to rescue the economy from the shock of the Covid-19 pandemic. In my letter to you on 18 June, I set out the actions the government had taken to support businesses, households and public services. Since then, on 8 July I presented my plan for Jobs to Parliament which will make available up to £30bn to support, protect and create jobs. This Plan for Jobs will help to kickstart the nation's economic recovery ahead of the upcoming Budget and Spending Review.

The UK's strong and credible macroeconomic policy framework and institutions have supported 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 our flexible inflation targeting regime, 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.

Consistent with this approach, I acknowledge that in light of the current uncertainty surrounding the outlook for inflation, the MPC has adopted guidance that it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

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', is centered on the page.

RT HON RISHI SUNAK MP