



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

16 December 2021

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

Dear Andrew,

CPI INFLATION

Thank you for your letter of 16 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 5.1% in November, which triggered an exchange of open letters under the terms of the MPC remit.

I note that in the November forecast, inflation was expected to rise materially above target in 2022, averaging at 4.3%. I also acknowledge that there has been upside news in inflation outturns since the November meeting, and the MPC will update its forecast in February. I note the latest Bank Staff forecast showing that inflation peaks at around 6% in April, higher than expected in the November Monetary Policy Report. I welcome the Committee's intention to focus on and monitor the medium-term prospects for inflation closely, and take whatever action is necessary to achieve its primary objective of price stability.

I agree with your assessment that the recent period of above target inflation has continued to be affected by global developments. This includes the uneven effects of Covid-19 and pandemic-related supply bottlenecks (including semiconductors), high consumer energy prices and the associated increase in the Ofgem price cap, high commodity prices, high household goods inflation, as well as some domestic factors such as high consumer service prices.

Whilst the economic recovery continues, the Government recognises the threat that the Omicron variant poses to public health and the economy. With a resurgence of the virus, the most important thing we can do to safeguard the economic recovery is for everyone to get boosted now, through the Omicron Emergency Booster National Mission.

At the Budget and Spending Review in October, the Government took action worth more than £4.2 billion to support living standards. Over the winter, the Government's new £500 million Household Support Fund is supporting millions of households with essential costs such as food, clothing, and utilities. Families will also continue to benefit from the energy price cap that protects consumers from short-term price spikes and the Warm Home Discount which provides a £140 rebate on energy bills each winter to over 2.2 million low-income households. The Government are also supporting millions of workers by increasing the National Living Wage to £9.50 an hour in April 2022 from £8.91, while cutting the Universal Credit taper rate from 63p to 55p and increasing Universal Credit work allowances by £500 per year. Cutting the taper rate allows 1.9 million households to keep, on average, around £1000 extra per year.

The UK's strong and credible macroeconomic policy framework and institutions continue to support the economic recovery from Covid-19, which is why at Budget I reconfirmed the MPC's remit and the primary objective of price stability as measured by the 2% CPI target. The Government's commitment to the Bank of England's operational independence and the current regime of flexible inflation targeting 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,



RISHI SUNAK