



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

06 May 2021

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

Dear Andrew,

CPI INFLATION

Thank you for your letter of 6 May on behalf of the Monetary Policy Committee (MPC) regarding February's Consumer Prices Index (CPI) inflation figure. The twelve-month measure of CPI inflation was 0.4% in February, which triggered an exchange of open letters under the terms of the MPC remit. CPI inflation has since risen slightly to 0.7% in March.

I agree with your assessment that the recent period of below target inflation has been driven by weaker global activity caused by the Covid-19 pandemic, lower energy prices and low price growth in certain sectors such as clothing and footwear. 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 most recent exchange of inflation open letters in December, the outlook for the economy and inflation is still uncertain. However, the success of the Government's vaccine programme means the nations of the UK can now begin to chart a safe clear course out of lockdown, and the Government's unprecedented economic response continues to support our ongoing economic recovery. I note that the Committee's latest central case forecast is for inflation to rise temporarily above target towards the end of 2021 and return to around 2% in the medium term. 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 remit.

At the Budget on 3 March, I set out the next phase of the Government's response to Covid-19, providing a further £65 billion of additional support for people, public services, and businesses most affected by the pandemic. Taking into account the significant support confirmed at Spending Review 2020 and the Budget, total support for the economy is £352bn across this year and next year (or around 17% of 2020 GDP). The Government will

continue to do whatever it takes to support people through the pandemic, protecting jobs and supporting a strong recovery.

The UK's strong and credible macroeconomic policy framework and institutions continue to support the response to Covid-19. 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