



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

23 September 2021

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

Dear Andrew,

CPI INFLATION

Thank you for your letter of 23 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 rose from 2.0% in July to 3.2% in August, which has triggered an exchange of open letters under the terms of the MPC remit.

I note that the Committee's latest central case forecast is for inflation to continue 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.

I agree with your assessment that the recent period of above target inflation is driven partially from base effects, rising commodity prices, global supply bottlenecks and shortages (particularly of semiconductors) and the increase in energy prices. I recognise that within this high headline inflation figure, price growth of different types of goods and services has varied, so individuals' experience of inflation may differ.

In the labour market, you note that there are few signs of an increase in redundancies, and that underlying pay growth has picked up.

As our recovery gathers pace, the Government is continuing to help people into work and increase their earning potential – the most sustainable route to financial security – investing a total of £400bn through our Plan for Jobs. We are also supporting people through scheme

such as Kickstart and Restart that helps those at risk of, and in, long term unemployment improve their chances of going on to find long-term, sustainable work.

The Government is taking action to support living standards. We have frozen fuel duty for the past 11 years and increased Local Housing Allowance last year by just over £600 on average for 1.5 million renters on Universal Credit and Housing Benefit.

The Government has also taken direct action to help people manage the cost of living. We increased the National Living Wage by 2.1% in April 2021, a £345 raise before tax for a full-time worker, taking the National Living Wage to 33% higher than the minimum wage level in 2015, when introduced, and the Government is committed to continuing to raise the National Living Wage so that it reaches two-thirds of median earnings.

The UK's strong and credible macroeconomic policy framework and institutions continue to support the economic recovery from Covid-19. The Government is committed to keeping the public finances on a sustainable path underpinned by a strong fiscal framework. 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