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

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

18 December 2025

Dear Andrew,

CPI inflation

Thank you for your letter of 18 December regarding October's Consumer Prices Index (CPI) figure. The twelve-month measure of CPI inflation was 3.6% in October, which triggered an exchange of open letters under the terms of the Monetary Policy Committee (MPC) remit. On 17 December the Office for National Statistics published data showing that CPI inflation was 3.2% in November, 0.4 percentage points lower than October.

I welcomed your assessment in the November Monetary Policy Report that CPI inflation had passed its peak of 3.8% in August and September. I acknowledge your assessment of the reasons that inflation is above target and welcome your judgement that underlying price pressures have continued to ease. That progress has allowed the MPC to reduce Bank Rate again today, its sixth reduction in Bank Rate since August 2024, and will be welcome news to anyone taking out a new mortgage and businesses taking out new loans.

Operationally independent monetary policy is a key feature of the UK's economic framework and vital for maintaining price stability, so the government respects and fully supports the independence of the MPC. While responsibility for returning inflation to the 2% target rests with the MPC, the government is also taking action to bring down inflation, through our fiscal stance and through our wider policy choices.

The government has a credible, front-loaded strategy to reduce borrowing and inflationary pressure. The primary deficit is forecast to fall by 0.7% of GDP in 2025-26 and by 1.4% between 2025-26 and 2027-28. According to the IMF's October 2025 World Economic Outlook, the UK is set to consolidate more than any other G7 country from 2025 to 2030, and a higher proportion of that consolidation happens in the first two years. This will help reduce inflationary pressures, supporting the actions of the MPC to return inflation to target sustainably.

In addition to this, the government announced a package of measures at the Budget to bear down on prices and ease the cost of living for working people in the short term. The Budget delivered a set of measures to remove around £150 of costs on average from household energy bills from April next year. The Budget introduced a one-year freeze on regulated rail fares. The government is also extending the 5p fuel duty cut until the end of August 2026 and implementing a one-year freeze on prescription charges.

Government action to reduce some prices, funded within the fiscal rules, will support households and bring down headline CPI inflation by 0.5 percentage points in the second quarter of 2026, supporting monetary policy in returning inflation sustainably to target. This is the biggest near-term reduction in inflation due to government policy ever forecast by the Office for Budget Responsibility at a single fiscal event, outside of a crisis.

I am grateful for your work and the work of all members of the Committee. I look forward to continuing to work closely with you.

I am copying this letter to the chair of the Treasury Committee and depositing both your letter and this response in the Libraries of both Houses of Parliament.

Rachel Reeves.

RT HON RACHEL REEVES MP
Chancellor of the Exchequer