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

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

17 September 2026

Dear Andrew,

CPI Inflation

Thank you for your letter of 17 September regarding the August Consumer Prices Index (CPI) figure. The twelve-month measure of CPI inflation was 3.1% in August, which triggered an exchange of open letters under the terms of the Monetary Policy Committee (MPC) remit.

I acknowledge your assessment that higher energy prices as a result of the conflict in the Middle East have underpinned the recent increase in inflation. As you note, the direct effect of higher energy prices accounts for 0.7 percentage points of inflation's current deviation from the 2% target. Bringing inflation back to target is vital to help households and businesses across the country manage their finances and plan with confidence.

I respect and fully support the independence of the MPC as it acts to return inflation to target sustainably. The separation of fiscal and monetary policy is a key feature of the UK's economic framework and is essential for the effective delivery of monetary policy. While responsibility for returning inflation to the 2% target rests with the MPC, the government is also taking action to bring down inflation.

Fiscal discipline is my first priority because it is the bedrock for economic stability and national security. The IMF forecast that between 2025 and 2030, the UK will reduce the deficit more than any other G7 country and this year we are forecast to be borrowing less than the rest of the G7 on average. Keeping government finances on a sustainable path reduces the risk that higher borrowing feeds into inflationary pressures, supporting the actions of the MPC to return inflation to target.

This government will continue to work with partners to take the necessary steps to re-open the Strait of Hormuz, alleviating pressures on energy prices. We have also taken further action to provide breathing space for families facing immediate pressures from the cost of living. These decisions are fully funded, with further detail to be set out in the usual way at the Budget.

i. We are reducing energy bills by removing VAT from household electricity from October. This will take around £45 off the yearly Ofgem price cap in October, benefitting millions of households this winter, and is on top of the £150 removed from bills at the last Budget.

ii. In July, we announced a £2 bus fare cap on single tickets in England outside London from 1 January 2027, meaning millions of passengers could save up to a third off a single journey. And the Government has scrapped restrictions on concessionary bus passes for disabled people, meaning eligible pass holders will be able to travel free on local services at any time of day or night from April next year.

iii. The 5p cut to fuel duty has been extended until the end of the year, and we have launched our Fuel Finder service to support motorists to find the most competitive petrol prices.

My first Budget as Chancellor will be held on Wednesday 28 October. The Prime Minister and I are in lockstep in our commitment to meeting the fiscal rules at the upcoming Budget, which means balancing the books with a buffer to protect against uncertainty, controlling borrowing to bear down on inflation and reducing long-term pressures on our public finances. Staying true to our values means being honest about the need to control government spending. Fiscal responsibility is indivisible from growth, so our approach will be rooted in fiscal discipline and the drive for growth in every postcode.

I am grateful for your work and the work of all members of the Committee.

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.

Yours ever,

THE RT HON JOHN HEALEY MP
Chancellor of the Exchequer