

Dame Meg Hillier MP
Chair, Treasury Committee
House of Commons
Westminster
London SW1A 0AA

Andrew Bailey
Governor

22 September 2026

Dear Chair,

Impact of tariffs on UK inflation

I am writing to provide an answer to the question regarding the impact of global tariffs on UK inflation posed by Dame Harriett Baldwin at our Monetary Policy Report (MPR) hearing on 8 September.

Since early 2025, the United States has raised tariffs on many of its trading partners, and some countries have retaliated with higher tariffs on US goods. This has resulted in some diversion of global trade flows. Trade diversion occurs when exporters respond to lower demand from a country that has imposed tariffs by attempting to shift some of their trade elsewhere, requiring a fall in the prices of those exports to gain market share in the new destination.

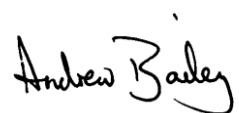
A recent empirical exercise by Bank staff, presented in Box D of the July MPR, suggests that trade diversion in response to tariffs has reduced the level of UK import prices by around 1%–1½% from the start of 2025 through 2026.

Our staff estimates suggest that this has lowered UK CPI inflation by 0.1–0.2 percentage points in 2026. This estimate does not include the effects of other possible channels, such as the impact of tariffs on UK economic slack through reduced global demand.



These findings are consistent with reports from the Bank's Agents, which do not suggest that UK businesses have seen significant increases in their costs because of tariffs that were applied through 2025. Instead, contacts have reported easing in cost pressures for some goods imports, particularly from China, reflecting a combination of spare capacity and some element of trade diversion.

Yours sincerely

A handwritten signature in black ink, reading "Andrew Bailey". The signature is written in a cursive style with a small dot above the 'i' in Bailey.