



Treasury Chambers, Parliament Street, London, SW1P 3AG
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12 June 1997

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Governor
Bank of England
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Dear Governor,

REMIT FOR THE MONETARY POLICY COMMITTEE

In my letter of 6 May I said that the monetary policy objective of the Bank of England will be to deliver price stability (as defined by the inflation target) and, without prejudice to this objective, to support the Government's economic policy, including its objectives for growth and employment. Tonight, at the Mansion House, I will explain how I intend the new framework for monetary policy to work. This letter sets out the Government's remit for the Monetary Policy Committee and explains how the MPC will be held to account for meeting the target.

The Open Letter system

My intention is to lock into our policy making system a commitment to consistently low inflation in the long term. The real stability that we need will be achieved not when we meet the inflation target one or two months in succession but when we can confidently expect inflation to remain low and stable for a long period of time. To this end, I propose a new more rigorous and more precise framework for achieving the inflation target.



Of course, I have to take into account that any economy at some point can suffer from external events or temporary difficulties, often beyond its control. The framework I propose is based on the recognition that the actual inflation rate will on occasions depart from its target as a result of shocks and disturbances. Attempts to keep inflation at the inflation target in these circumstances may cause undesirable volatility in output.

But if inflation moves away from the target by more than 1 percentage point in either direction I shall expect you to send an open letter to me, following the meeting of the Monetary Policy Committee and referring as necessary to the Bank's Inflation Report, setting out:

- the reasons why inflation has moved away from the target by more than 1 percentage point;
- the policy action which you are taking to deal with it;
- the period within which you expect inflation to return to the target;
- how this approach meets the Bank's monetary policy objectives.

You would send a further letter after three months if inflation remained more than 1 percentage point above or below the target. In responding to your letter, I shall, of course, have regard to the circumstances prevailing at the time.

The thresholds *do not* define a target range. Their function is to define the points at which I shall expect an explanatory letter from you because the actual inflation rate is appreciably away from its target.



The operational target for monetary policy is an underlying inflation rate (measured by the 12-month increase in the RPI excluding mortgage interest payments) of 2½ per cent.

In setting in place this new framework, I believe we have a better chance of achieving consistently low inflation.

Accountability

The Monetary Policy Committee will be accountable to the Government for the remit set out in this letter. The Committee's performance and procedures will be reviewed by the reformed Court on an ongoing basis (with particular regard to ensuring the Bank is collecting proper regional and sectoral information). The Bank will be accountable to the House of Commons through regular reports and evidence given to the Treasury Select Committee. Finally, through the publication of the minutes of the Monetary Policy Committee meetings and the Inflation Report, the Bank will be accountable to the public at large.

Restatement of the Remit

The inflation target will be confirmed in each Budget. There is a value in continuity and I will have proper regard to that. But I will also need to consider the case for a revised target at these times on its merits. Any changes to the remit will be set out in the Budget.

W.M. 29th Nov 01
Gordon

GORDON BROWN