



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

18 June 2020

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

Dear Andrew,

CPI INFLATION

Thank you for your letter of 18 June on behalf of the Monetary Policy Committee (MPC) regarding April's Consumer Prices Index (CPI) inflation figure. The twelve-month measure of CPI inflation was 0.8% in April, which triggered an exchange of open letters under the terms of the MPC remit. CPI inflation fell further to 0.5% in May.

As the MPC's latest *Monetary Policy Report* demonstrates, the UK, along with the rest of the world, is facing significant economic disruption as a result of the Covid-19 pandemic. I would like to thank the MPC for their swift response in these unprecedented times.

I agree with your assessment that in the current circumstances, the recent period of below-target inflation has been driven by falling oil and energy prices, accompanied with a sharp drop in economic activity in the UK and globally. As you note in your letter, the outlook for the economy and inflation is unusually uncertain and will depend on the evolution of the pandemic as well as the response of government, businesses and households. I welcome the Committee's contribution to promoting strong, sustainable and balanced growth.

During this difficult time for the country, we recognise the extreme disruption Covid-19 is causing for people's lives, their businesses, their jobs and the nation's economy. That is why the government has announced unprecedented support for public services, jobs and businesses to protect against the current economic emergency.

In the Budget, we set out the first stage of the government's economic response, with £12bn of support to businesses, households and public services, including the £5bn Covid-19 Response Fund to support the NHS and other public services, and said that we would go further if necessary. Since then, we have extended the support available to individuals and businesses, including introducing the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme, changes to Universal Credit and Statutory Sick Pay, business rates holidays, grants to smaller businesses and a package of government-backed and guaranteed loans. These measures aim to protect the productive capacity of our

economy and enable a strong and sustainable recovery from this crisis as we start to gradually and safely reopen our economy.

The UK's strong and credible macroeconomic policy framework and institutions have supported the response to Covid-19. 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.

A handwritten signature in blue ink, appearing to read 'Rishi Sunak', with a stylized flourish at the end.

RISHI SUNAK