



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

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

21 March 2024

Dear Andrew,

CPI inflation

Thank you for your letter of 21 March on behalf of the Monetary Policy Committee (MPC) regarding February's Consumer Prices Index (CPI) figure. The twelve-month measure of CPI inflation was 3.4% in February, which triggered an exchange of open letters under the terms of the MPC remit.

I welcome that CPI inflation has fallen by a further 1.2 percentage points since your last letter in December, from 4.6% in October to 3.4% in February. CPI inflation has more than halved relative to its peak, having fallen from 11.1% in October 2022. The plan is working to bring inflation down, but we must not be complacent. As you note, while external cost pressures have lessened, domestic inflation pressures remain more persistent. The MPC continues to have my full support as you take action to return inflation to the 2% target through your independent monetary policy decisions, in line with the primacy of price stability in your remit.

The Government is continuing to support the Bank of England by making responsible decisions on the public finances and through its commitment to fiscal rules. Sustainable public finances provide the foundations for economic growth, and the Office for Budget Responsibility (OBR) confirmed in their March Economic and Fiscal Outlook that the government is on track to meet its debt and borrowing fiscal rules. The OBR forecasts that Public Sector Net Debt excluding the Bank of England (PSND ex BoE) falls to 92.9% of GDP in 2028-29 and borrowing falls to 2.7% of GDP in 2025-2026, meeting the borrowing rule three years early. Further, the cyclically-adjusted primary deficit, a useful measure of discretionary fiscal policy's impact on the economy, is expected to fall steadily in the coming years as support is withdrawn at a pace well matched to the outlook for the economy.

The economy is beginning to turn a corner, having returned to growth in January. It is in this context that the Government is now able to make further tax cuts responsibly, to boost

growth and ensure working people keep more of their own money while meeting the fiscal rules to ensure sustainable public finances. The OBR expect measures introduced at Spring Budget to reduce CPI inflation by 0.2 percentage points in 2024-25. I welcome your assessment that the temporary 5p cut to fuel duty and cancellation of this year's RPI-linked increase is expected to provide a further reduction in inflation from the second quarter of the year, relative to expectations in your February Report.

The Government is focused on the long-term decisions to strengthen the economy, driving productivity growth, and increasing the number of people in good jobs. Policies announced at the last three fiscal events are forecast by the OBR to increase the size of the economy by 0.7% by 2028-29. The combined impact of the cuts to National Insurance Contributions (NICs) announced in the Autumn Statement and Spring Budget and reforms to the High-Income Child Benefit Charge (HICBC) are forecast by the OBR to increase total hours worked in the economy by the equivalent of almost 200,000 additional full-time workers by 2028-29. Boosting the supply potential of the economy is vital for sustainable, non-inflationary growth.

Moving forward, delivering growth while tackling above-target inflation is the best way to ease cost of living pressures. However, the Government recognises the challenges households continue to face due to elevated costs of living. From 1 April, the National Living Wage (NLW) will increase by 9.8% to £11.44 an hour for eligible workers aged 21 and over. The uprating represents an increase of over £1,800 to the annual earnings of a full-time worker on the NLW.

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.

Best Wishes,

A handwritten signature in blue ink that reads "Jeremy Hunt". The signature is written in a cursive, slightly informal style.

RT HON JEREMY HUNT MP
Chancellor of the Exchequer