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

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

19th June 2025

Dear Andrew,

CPI inflation

Thank you for your letter of 19 June regarding April's Consumer Prices Index (CPI) figure. The twelve-month measure of CPI inflation was 3.5% in April, which triggered an exchange of open letters under the terms of the Monetary Policy Committee (MPC) remit. As the Office for National Statistics (ONS) have clarified, this figure is overstated by 0.1 percentage points due to a data error relating to Vehicle Excise Duty (VED); however, even after correcting for this, an exchange of letters would have still been triggered. The error only affects consumer price indices in April and has been corrected in May. On 18 June, the ONS published data showing that CPI inflation was 3.4% in May.

I note the MPC's May Monetary Policy Report projection is for CPI inflation to peak at 3.5% on average in 2025 Q3 and to return to target in 2027 Q1. I acknowledge your assessment of the reasons for this temporary increase in CPI inflation.

I welcome your assessment that there has been a gradual easing of price pressures in the UK economy and that the recent increase in CPI is expected to be temporary. This has allowed the MPC to cut Bank Rate four times since August 2024, from a peak of 5.25%. Monetary policy is working as it should to return inflation to target sustainably in the medium term.

As set out in the Plan for Change, the government's priority mission is to deliver strong, secure and sustainable economic growth to boost living standards in every part of the UK. Low and stable inflation is an essential part of achieving this mission. It increases certainty for households and businesses, and supports investment in the UK. That is why the MPC has the government's full support as it acts to return inflation to target sustainably.

In the context of global financial market volatility, it is more important than ever to have a robust fiscal framework. At the Budget last year, I stabilised the public finances including my non-negotiable fiscal rules that serve both stability and investment. At the Spending Review, I confirmed how we are allocating spending within the totals set out at the Spring Statement. Taken together, this means our plan to stabilise the public finances and reduce borrowing is grounded in specific policies, on both taxation and expenditure.

As you said in February, it is critical to address the low potential growth rates seen in the UK since the financial crisis. The government increased the capital envelope by over £100 billion at Autumn Budget 2024, a decision the OBR said will raise the level of GDP by over c.0.25% after 10 years and by 1.4% in the long run. The government increased the capital envelope by a further £13 billion at Spring Statement 2025. Taken together, the government is investing an additional £120 billion over the Spending Review period, compared to the plans set out at Spring Budget 2024. The OBR have also said that the government's planning reforms will increase the level of real GDP by 0.2% by 2029-30 and by over 0.4% in 2034-35. In total, the policies announced in Autumn Budget and Spring Statement are expected to raise the level of output in the UK by 0.6% by 2034-35.

In May, the government announced new trade deals with India, the United States and the European Union. The Bank of England's May Monetary Policy Report shows us how increased uncertainty can weigh on economic growth. These trade deals provide certainty to British businesses – which is especially important in an era of global instability – and save thousands of jobs. By unlocking new opportunities for businesses across the UK, these trade deals will help to deliver economic growth and support the Plan for Change.

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

Yours sincerely,

RT HON RACHEL REEVES MP
Chancellor of the Exchequer