



BANK OF ENGLAND

Charles Bean
Deputy Governor, Monetary Policy

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Office for National Statistics
Government Buildings
Cardiff Road
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10 January 2014

Dear Derek

RPI: Planned changes at the time of the annual re-weighting and updating of the baskets

I refer to your letter of 18 November 2013 addressed to James Bell, the head of the Bank's Structural Economic Analysis Division. That letter acknowledges the requirement under Section 21 of the Statistics and Registration Service Act 2007 for the ONS to consult the Bank before making any change to the coverage or basic calculation of the index.

You noted that only two routine changes are planned for the Retail Prices Index for 2014. The first is the usual annual update of the basket of goods and services, to ensure it remains properly representative of consumer spending patterns. The second proposed change is to discontinue the use of hedonics to quality adjust digital cameras and pay as you go mobile phones. That is because ONS research has shown them to be mature markets, which means that the more common quality adjustment method of class mean adjustment is now suitable for these items too.

A senior committee under my chairmanship has considered these proposals. The committee agreed that neither change constitutes a fundamental change in the index. The committee further judged that even if they had been considered a fundamental change, they would still not have a materially detrimental impact on the interests of holders of index-linked gilts. So in summary, the Committee judged that the proposed changes can proceed without triggering the redemption clause on relevant index-linked gilts.

A copy of this letter goes to Dave Ramsden and Nicholas Vaughan at H.M. Treasury, to Glen Watson, Caron Walker and Joe Grice at ONS, and to James Bell and Andrew Hauser at the Bank.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'C Bean', with a horizontal line underneath.