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

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

12 November 2024

Dear Andrew,

Asset Purchase Facility

Thank you for your letter of 12 November 2024, setting out the change in the Asset Purchase Facility's (APF) stock of purchased assets.

On 3 February 2022 you jointly agreed with my predecessor that the maximum authorised size of the APF should be updated every six months in line with the reduction in the stock of assets.[1] In your letter of 12 November 2024, you confirmed the APF continues to be comprised solely of gilts, and that the current stock of APF gilt holdings, as of 6 November 2024, was £654.5 billion, all held for monetary policy purposes. I am therefore writing to reduce the authorised maximum size of the APF from £704.2 billion in the exchange of

[1] https://www.gov.uk/government/publications/asset-purchase-facility-apf-ceiling-february-2022

letters on 30 April 2024 to £654.5 billion.[2] This will be reviewed and confirmed between us again in six months.

As of 6 November 2024, the APF has been reduced by £240.4 billion from its peak of £894.9 billion in January 2022. This equates to a 26.9% reduction in the stock of assets held.

I welcome the MPC's assessment that quantitative tightening (QT) continues to proceed smoothly, and note the Committee’s decision to further reduce holdings in the APF by £100bn from October 2024 to September 2025. As you set out [in your letter], different unwind paces are expected to impact the time profile of APF cashflows but are unlikely to have a material impact on the lifetime profit or loss of the APF itself.

Cash management arrangements for the APF are kept under review by the Bank of England and HM Treasury to ensure that they support government cash management objectives of efficiency and that they provide value for money. The Bank and HM Treasury have agreed that the level of cash held in the APF should be slightly recalibrated and reduced, in light of changes to the size and composition of APF holdings. This operational change does not change the overall lifetime position of the APF, as profits and losses from QT are driven in the first instance by movements in gilt prices and Bank Rate. HM Treasury and the Bank will continue to keep cash management arrangements under review, and ensure APF indemnity arrangements continue to support a high standard of governance and transparency in the APF.

The MPC has statutory independence to set monetary policy to pursue its objectives, as set out in law and specified by the government. I would like to reiterate that the separation of fiscal and monetary policy is a key feature of the UK’s economic framework and is essential for the effective delivery of monetary policy. Subject to achieving the MPC’s chosen unwind target in line with its key principles for QT, the Bank has made clear that its operations, as carried out by the Bank Executive, should maximise value for money by minimising cost and risk over the lifetime of the APF.

[2] https://www.gov.uk/government/publications/asset-purchase-facility-apf-ceiling-april-2024

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Measures to maximise value for money in the implementation of QT include designing gilt auctions to maximise demand and competition through conducting multi-stock auctions with built-in price protections, and efficient APF cash management arrangements to support the government's cash management. The Bank will continue to liaise closely with the Debt Management Office (DMO) to ensure the Bank's operations do not impact on the government's wider gilt issuance strategy. These measures are accompanied by comprehensive governance, reporting and transparency arrangements in relation to the APF with the Treasury.

HM Treasury and Bank of England officials will continue to monitor the APF's implementation and risks to the Exchequer. Any future cash transfers will be handled under the terms of the indemnity as has been the case to date.

Finally, as you note in your letter, the unwind of the APF is an important aspect of the future design of the Bank of England's balance sheet. The Treasury is engaging with the Bank on these issues, to understand both the short and long-term implications arising from material changes to the Bank's balance sheet and how the Bank will continue to meet its statutory monetary policy and financial stability objectives.

I am copying this letter to the chairs of the Treasury Committee and the Public Accounts Committee and depositing it in the libraries of both Houses of Parliament and on the HM Treasury website.

Yours sincerely,

Rachel Reeves

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