

Bank of England

The Rt Hon Jeremy Hunt
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
SW1A 2HQ

Andrew Bailey
Governor

30 April 2024

Dear Jeremy,

Asset Purchase Facility

Stock of holdings in the Asset Purchase Facility

As you are aware, the Bank currently holds a stock of high quality assets within the Asset Purchase Facility (APF), arising from activities in support of its statutory objectives. The APF's portfolio now solely comprises UK government bonds (gilts) and is being reduced in line with the instructions of the Monetary Policy Committee (MPC).

As agreed when it was established in 2009, the activities of the APF are indemnified by HM Treasury (HMT). As the size of APF holdings changes, the authorised maximum size of the APF should be periodically adjusted to reflect the size of the portfolio.

I can confirm that the stock of APF gilt holdings, as of 24 April 2024, was £704.2 billion.

The maximum size of the APF can therefore now be adjusted downwards from £750.9 billion as agreed in our exchange of letters on 3 November 2023 to a total of £704.2 billion. This will be reviewed and confirmed between us again in six months, alongside the relevant APF Quarterly Report.

I would be grateful if you could confirm these changes.

Bank of England

The Bank's approach to unwinding the APF

As outlined in my letter of 3 November 2023, the MPC voted to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the period from October 2023 to September 2024, to a total of £658 billion, comprising both maturing gilts and sales.

In line with this decision the Bank has proceeded with the sale of the APF's stock of gilts. Gilts have been sold in auctions across the short, medium and long-dated maturity sectors, defined as gilts with a residual maturity of between 3–7 years (short), 7–20 years (medium) or over 20 years (long). These sales, in addition to maturities of gilts held by the APF, have led to a reduction in the stock of gilts held for monetary policy purposes of £53.1 billion so far as at 24 April 2024, in the year October 2023 to September 2024.

In April 2024, the APF's remaining stock of sterling non-financial investment-grade corporate bonds fully matured. At its peak the stock of corporate bonds held by the APF was £20 billion. Beginning in September 2022, the Bank commenced a sales programme for these corporate bonds, which concluded as planned in June 2023. After this, the APF held a small portfolio of very short maturity corporate bonds through to maturity.¹ The conclusion of the corporate bond portfolio has been in line with the Bank's overall approach to unwinding the APF, as set out in 2022.²

The Bank welcomes the Treasury Committee's recent report on quantitative tightening (QT) and its broad finding that the Bank's strategic framework for QT is reasonable. As outlined in my recent response to the report, decisions on the target stock of assets held for monetary policy purposes in the Bank's Asset Purchase Facility (APF) are taken independently by the MPC.³ These decisions are taken solely to meet the 2% inflation target. The APF is indemnified by HM Treasury to ensure that the MPC can take its decisions in this way, in line with its statutory price stability objective and the remit given to it by the Government.

The Bank's operations, as carried out by the Bank Executive, should maximise value for money by minimising cost and risk over the lifetime of the APF, subject to achieving the MPC's chosen unwind target and in line with the MPC's key principles. That is achieved, amongst other things, through:

¹ [Asset Purchase Facility: Bank of England concludes corporate bond sales programme – Market Notice 6 June 2023 | Bank of England](#)

² [Monetary Policy Summary, August 2022](#)

³ committees.parliament.uk/publications/44294/documents/220158/default/

Bank of England

- The use of auction mechanisms that are carefully designed to maximise demand and competition.
- Close liaison with the DMO.
- The application of comprehensive risk management techniques.
- Detailed public information on activity on the APF, and the design and control of auctions, available in the Bank's [Markets Operations Guide](#).
- Comprehensive governance, reporting and transparency arrangements consistent with the indemnity provided by HM Treasury and the HM Treasury Accounting Officer's requirement to protect the rights and assets of the taxpayer including value for money.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Bailey". The signature is written in a cursive style with a small dot above the letter 'i' in Bailey.