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

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

13th May 2025

Dear Andrew,

Asset Purchase Facility

Thank you for your letter of 13 May 2025, 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 13 May 2025, you confirmed the APF continues to be comprised solely of gilts, and that the current stock of APF gilt holdings, as of 7 May 2025, was £619.7 billion, all held for monetary policy purposes. I am therefore writing to reduce the authorised maximum size of the APF from £654.5 billion agreed in the exchange of letters on 12 November 2024 to £619.7 billion.[2] This amount will be reviewed and confirmed between us again in six months.

As of 7 May 2025, the APF has been reduced by £275.2 billion from its peak of £894.9 billion in January 2022. This equates to a 30.8% reduction in the stock of assets held.

I note your update on unwind progress, and measures taken in April to amend APF operations to reflect recent market volatility. I also note that unwind will continue to be implemented in line with the principles set out by the MPC, involving the use of Bank Rate as the MPC's active policy tool when adjusting the stance of monetary policy, and conducting sales so as not to disrupt market functioning and to do so in a relatively gradual and predictable manner over a period of time.

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

[1] https://www.gov.uk/government/publications/asset-purchase-facility-apf-ceiling-february-2022
[2] https://www.gov.uk/government/publications/asset-purchase-facility-apf-ceiling-april-2024

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.

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. 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, unwind of the APF is an important aspect of the future design of the Bank of England’s balance sheet. The Treasury continues to engage with the Bank on these issues, including the updated Memorandum of Understanding (MoU) on the Financial Relationship between HM Treasury and the Bank of England published on 13 February 2025. As you and Bank officials have set out in several speeches, the Bank’s plans for a demand-driven operating framework for reserves backed by repo and the transition away from gilts held in the APF, will reduce the public sector’s interest rate risk exposure. Dependent on the evolution of demand for reserves and the design of the Bank’s repo facilities, the transition to repo is expected to generate income for the Bank and broader public sector. We have also agreed in our MoU that subject to meeting the Bank’s statutory policy objectives, the Bank seeks to implement its policy decisions through balance sheet operations that ensure value for money by minimising financial costs and risks to its capital and any future contingent capital exposure, whether that risk is borne by the Bank or indemnified by HMT, thus protecting public funds. The Treasury and Bank will continue to engage on these issues, to understand both the short and long-term implications arising from material changes to the Bank’s balance sheet.

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

THE RT HON RACHEL REEVES MP
The Chancellor of the Exchequer