



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

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

30 April 2024

Dear Andrew,

Asset Purchase Facility

Thank you for your letter of 30 April 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 30 April 2024, you confirmed the APF is now comprised solely of gilts, and that the current stock of APF gilt holdings, as of 24 April 2024, was £704.2 billion, all held for monetary policy purposes. I am therefore writing to agree to reduce the authorised maximum size of the APF from £750.9 billion in our exchange of letters on 3 November 2023 to £704.2 billion, which is now comprised entirely of gilts.² This will be reviewed and confirmed between us again in six months.

I note that the APF's remaining stock of sterling non-financial investment-grade corporate bonds fully matured at the start of this month. The authorised maximum size of corporate bond holdings within the APF has now been reduced to zero given the full unwinding of these assets.

As of 24 April, the APF has been reduced by £190.7 billion from its peak of £894.9 billion in January 2022. This equates to a 21.3% reduction in the stock of assets held. As recently noted by the OBR, the steady unwinding of gilts held within the APF is gradually reversing the shortening impact of QE on the effective maturity of public sector liabilities.³ As a result, the effective average maturity of the UK's debt stock is increasing as these assets are being unwound.

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-november-2023>

³ <https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/>

The Treasury Select Committee recently conducted an important and welcome inquiry into quantitative tightening (QT), which raised a wide range of issues relating to the governance, implementation, and fiscal costs of QT. The Committee included a recommendation, among others, regarding the role of value for money during QT. As set out in HM Treasury's response to the Committee, it is important to distinguish between decisions taken by the MPC on QT and the operational implementation of it by the Bank Executive.⁴ The MPC has statutory independence to set monetary policy to pursue its objectives, as set 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 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.

Your letters of 30 April 2024 and 28 April 2023 outline existing measures in place to minimise cost and risk in the implementation of QT. These include designing gilt auctions to maximise demand and competition through conducting multi-stock auctions with built-in price protections, and liaising 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 are accompanied by comprehensive governance, reporting and transparency arrangements in place 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.

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.

Best wishes,

A handwritten signature in blue ink that reads "Jeremy Hunt". The signature is written in a cursive, slightly stylized font.

RT HON JEREMY HUNT MP
Chancellor of the Exchequer

⁴ <https://committees.parliament.uk/publications/44294/documents/220158/default/>