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9 February 2012

EXTENSION OF ASSET PURCHASE FACILITY

Thank you for your letter of 9 February, setting out the MPC's case for its decision to raise the limit on purchases that may be undertaken by the Asset Purchase Facility (APF).

Your letter explains that the MPC judges further purchases financed by the issuance of central bank reserves should be undertaken to enable the MPC to meet its objective of maintaining price stability. As you note, while some recent business surveys have painted a more positive picture, the pace of expansion in the UK's main export markets has slowed.

I agree that an increase in the ceiling would provide the MPC with the scope to meet the inflation target in the medium term. Monetary policy continues to have a critical role in supporting the economy as the Government delivers on its commitment to fiscal consolidation and it remains the primary tool for responding to changes in the economic outlook. As I noted in my letter to you of 6 October 2011, the Bank of England's analysis has provided evidence on the effectiveness of asset purchases in supporting demand.

I am therefore writing to authorise an increase in the ceiling of asset purchases financed by the issuance of central bank reserves from £275 billion to up to £325 billion. Eligible assets for purchase under this ceiling continue to include gilts and eligible private sector assets, as set out in my predecessor's letters of 29 January 2009 and 3 March 2009.

The APF continues to include facilities for eligible private sector assets financed by the issuance of central bank reserves, Treasury Bills and the DMO's cash management operations that are authorised up to a maximum of £10 billion as I set out in my letter of 29 November 2011.

The risk framework agreed with the Treasury continues to apply to the Bank's management of the APF.

I am copying this letter to Andrew Tyrie, Chair of the Treasury Committee, and depositing a copy in the library of both Houses.

A handwritten signature in black ink, appearing to read 'George Osborne', written in a cursive style.

GEORGE OSBORNE