



BANK OF ENGLAND

Mark Carney
Governor

The Rt Hon Philip Hammond MP
The Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

20 November 2017

Dear Chancellor,

As a part of the package of monetary policy stimulus measures agreed at the meeting of the Monetary Policy Committee (MPC) ending on 3 August 2016, the Committee announced a Term Funding Scheme (TFS), designed to reinforce the transmission of the low level of Bank Rate to real economy lending rates. Under this scheme, central bank reserves are lent to banks and building societies for an extended period at a rate close to Bank Rate.

The quantity and price of this funding is based on the amount of lending undertaken by eligible banks and building societies. I noted when the TFS was announced that total drawings would be determined by actual usage of the scheme, and could reach £100bn. In August 2016, you authorised an increase in the total size of the Asset Purchase Facility (APF) to £545bn, consistent with £100bn of TFS drawings.¹ In August 2017 you authorised an increase in the total size of the APF to £560bn, consistent with £115bn of TFS drawings, based on an expectation that drawings would exceed £100bn by the end of the drawdown period.² The MPC also confirmed at their August 2017 meeting that the TFS drawdown period will close at end February 2018.

The TFS has been effective at ensuring that the low level of Bank Rate has been passed through to real economy lending rates. Rates on new and existing loans fell after the TFS was launched and have remained low by historical standards. With the stronger economy and lending growth, TFS drawings reached a total of £91bn at mid-November 2017. As the end of the drawdown period approaches, participants have greater certainty over the likely size of their borrowing allowances earned from positive net lending, and we now expect the final level of drawings to exceed £115bn. Consistent with this, I am requesting that you authorise an increase in the total size of the APF of £25bn to £585bn, in order to accommodate expected usage of the TFS by the end of the drawdown period.

The structure and operation of the APF would otherwise be unchanged from that described in my letter of 4 August 2016. The Bank will continue to provide Treasury officials with information to allow them to monitor the operation and financial performance of the facility. There will also be the opportunity for HMT to provide views to the MPC on the design of the TFS and private sector asset purchases, in light of their broader economic objectives and in view of the risks posed to the public sector balance sheet. Any

¹ See <http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/chancellorletter040816apf.pdf>

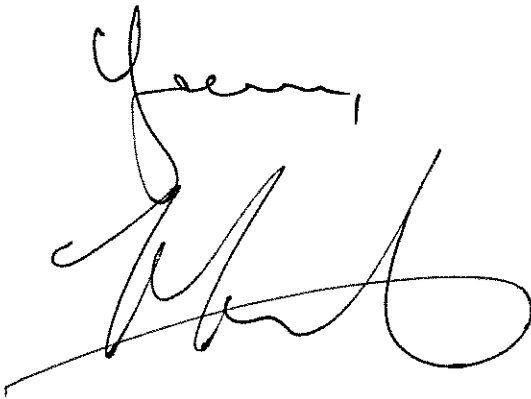
² See <http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter030817apf.pdf>

changes to the maximum size and composition of assets held in the APF will continue to be agreed through an exchange of letters between you and me. Changes to the parameters within the risk control framework will also continue to be agreed between Bank and Treasury officials.

The Bank will also continue to operate the APF in an open and transparent manner. The Asset Purchase Facility Quarterly Report³ includes details of all of the transactions undertaken, as it has done since the Facility's inception.

For the purposes of transparency and accountability, I would be grateful if you could confirm that the Government will continue to indemnify the Bank and the APF from any losses arising out of or in connection with the facility.

I am copying this letter to the Rt Hon Nicky Morgan MP, Chair of the Treasury Committee.

A handwritten signature in black ink, appearing to be 'Mark Carney', written in a cursive style. The signature is positioned above a horizontal line that extends across the page.

Cc: Rt Hon Nicky Morgan MP, Chair of the Treasury Committee

³ See <http://www.bankofengland.co.uk/publications/Pages/other/markets/apf/quarterlyreport.aspx>