

Joint statement on the Bank of England and HM Treasury financial relationship

The Bank of England and HM Treasury have concluded a 5-yearly review of the parameters of the Bank's capital framework as set out in Section 2B of the Bank and HM Treasury Financial Relationship Memorandum of Understanding (MoU).

The Review concluded that:

- The capital framework has been effective in delivering its intended objectives at inception in 2018: to ensure that the Bank is equipped with capital resources consistent with the monetary and financial stability remits it has been given by Parliament;
- The existing parameters of the capital framework remain adequate to support the Bank's balance sheet;¹
- The existing Bank-HMT financial arrangements, as set out in the MoU, are sufficient to support the Bank's planned transition to a demand-driven operating framework fully backed by repo.²

The Bank and HM Treasury will keep these arrangements under review during the Bank's balance sheet transition to a new steady state in coming years, ensuring close engagement as per the existing governance and information sharing channels set out in the MoU.

The Bank and HM Treasury have [updated the MoU](#) accordingly.

¹ The parameters of the capital framework include a target, a floor, and a ceiling. As set out in the [2018 Letter](#) from the Governor of the Bank of England to the Chancellor, the values of the capital parameters are £0.5bn for the floor, £3.5bn for the target, and £5.5bn for the ceiling.

² Over the past decade, the Bank has operated a supply-driven framework, whereby the Monetary Policy Committee's decisions on Quantitative Easing purchases supplied abundant reserves to the banking system. The Bank committed to move to a demand-driven framework where the stock of reserves will be provided through repo operations against a broad range of collateral. Further detail on the transition of the Bank's operating framework can be found at:

- [Transitioning to a repo-led operating framework | Bank of England](#)
- [The importance of central bank reserves - lecture by Andrew Bailey | Bank of England](#)
- [Let's get ready to repo! - speech by Victoria Saporta](#)