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

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

11th November 2025

Dear Andrew,

Asset Purchase Facility

Thank you for your letter of 11 November 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. In your letter of 11 November 2025, you confirmed the APF continues to be comprised solely of gilts, authorised to be held for monetary policy purposes, and that the current stock of APF gilt holdings, as of 5 November 2025, was £555 billion. I am therefore writing to reduce the authorised maximum size of the APF from £619.7 billion agreed in the exchange of letters on 13 May 2025 to £555 billion. This amount will be reviewed and confirmed between us again in six months. As of 5 November 2025, the APF has been reduced by £339.9 billion from its peak of £894.9 billion in January 2022. This equates to a 38% reduction in the stock of assets held.

I acknowledge the decision taken by the MPC to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £70 billion over the period from October 2025 to September 2026, to a total of £488 billion. I also note the decision taken by the Bank to sell fewer long maturity sector gilts than at other maturities, to better reflect demand conditions. 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 and is essential for the effective delivery of monetary policy. As I noted in our exchange of letters on 18 September, I welcome that the APF continues to be unwound in a way that is responsive to market conditions and maximises value for money by minimising cost and risk over the lifetime of the APF, subject to the MPC's objectives. It is also important that the Bank continues to liaise closely with the Debt Management Office to ensure the Bank's operations do not impact on the government's wider gilt issuance strategy.

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Thank you for sharing additional analysis on the impacts of QE in the Q3 2025 APF Quarterly Report. The Bank and Treasury will continue to work together to understand the wider impacts of Bank policies, including ensuring that balance sheet operations minimise financial costs and risks to protect public funds, as agreed in the updated Financial Relationship Memorandum of Understanding (MoU).

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, and the Treasury continues to engage with the Bank on these issues. 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. A key point in the transition is the Preferred Minimum Range of Reserves (PMRR). As you have set out previously, at the PMRR the unwinding of the APF will primarily impact the composition of reserve-backing assets on the Bank's balance sheet, rather than the level of reserves itself. The Treasury and Bank will continue to engage on these issues, to understand both the short and long term implications arising from this and other 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

RT HON RACHEL REEVES MP

Chancellor of the Exchequer