Bank of England

The Rt Hon Rachel Reeves
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
SW1A 2HQ

Andrew Bailey
Governor

11 November 2025

Dear Rachel,

Asset Purchase Facility

Stock of holdings in the Asset Purchase Facility

As you are aware, the Bank currently holds a stock of high-quality assets within the Asset Purchase Facility (APF), arising from activities in support of its statutory objectives. The APF's portfolio comprises UK government bonds (gilts) and is being reduced in line with the instructions of the Monetary Policy Committee (MPC).

As agreed when it was established in 2009, the activities of the APF are indemnified by HM Treasury (HMT). As the size of the APF holdings changes, the authorised maximum size of the APF should be periodically adjusted to reflect the size of the portfolio. On 3 February 2022 it was agreed that the maximum authorised size of the APF should be updated every six months in line with the reduction in the stock of assets and that this be detailed by an exchange of letters between us.[1]

I can confirm that the stock of APF gilt holdings, as of 5 November 2025, was £555.0 billion.

The maximum size of the APF can therefore now be adjusted downwards from £619.7 billion as agreed in our exchange of letters on 13 May 2025 to a total of £555.0 billion. This will be reviewed and confirmed between us again in six months, alongside the relevant APF Quarterly Report.

[1] Letter from the Governor to the Chancellor on the Asset Purchase Facility - February 2022

I would be grateful if you could confirm these changes.

The Bank's approach to unwinding the APF

In September 2025 the MPC voted 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 12-month period from October 2025 to September 2026, comprising both gilt sales and maturities.[2]

Operationally, the Bank will aim to sell fewer long maturity sector gilts than gilts at other maturities, to better reflect demand conditions. This will result in an approximate weighting in which 40% of the MPC's target is met by selling short maturity sector bonds, 40% by medium maturity sector bonds, and 20% by long maturity sector bonds, measured in initial proceeds terms.[3]

The appropriate pace of gilt stock reduction continues to be guided by a set of key principles. First, the MPC intends to use Bank Rate as its active policy tool when adjusting the stance of monetary policy. Second, sales are to be conducted so as not to disrupt the functioning of financial markets, and only in appropriate market conditions. Third, to help achieve that, sales will be conducted in a gradual and predictable manner over a period of time.

Whilst different unwind strategies might affect the timing of cash flows between HMT and the APF, they will not necessarily change the lifetime amount accumulated in the APF. For example, active sales incur upfront costs, but they also reduce lifetime net interest costs from carrying gilts on the APF's portfolio when Bank Rate is higher than coupon payments.

The Bank will continue to monitor the impact of APF unwind on market conditions.

The Bank's operations, as carried out by the Bank Executive, should maximise value for money by minimising cost and risk over the lifetime of the APF, subject to achieving the MPC's chosen unwind target and in line with the MPC's key principles. That is achieved, amongst other things, through:

- The use of auction mechanisms that are carefully designed to maximise demand and competition.
- Close liaison with the Debt Management Office (DMO).
- The application of comprehensive risk management techniques.

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[2] **Bank Rate maintained at 4% - September 2025 | Bank of England**
[3] **Asset Purchase Facility: Gilt Sales – Market Notice 18 September 2025 | Bank of England**

- Detailed public information on APF activity, and the design and control of auctions, available in the Bank's **Market Operations Guide**.
- Comprehensive governance, reporting and transparency arrangements consistent with the indemnity provided by HM Treasury and the HM Treasury Accounting Officer's requirement to protect the rights and assets of the taxpayer including value for money.

Government debt issuance cost savings due to quantitative easing

The Bank has previously noted that an assessment of lifetime cash flows associated with quantitative easing (QE) and quantitative tightening (QT) does not amount to an assessment of the overall fiscal, let alone economic, impacts of QE. By lowering interest rates, QE supported the economy and improved the terms at which the government could raise debt.

The Bank publishes projections of potential paths of cash transfers between the APF and HMT in the APF Quarterly Report, to support public transparency. However, it is likely that the fiscal benefits of QE significantly, or fully, offset the net lifetime transfers from HMT to the APF under the indemnity. The 2025 Q3 Quarterly Report illustrates one way to estimate part of this impact – the fiscal savings from lower government debt issuance costs as a result of QE – and suggests that these benefits amount to £50 billion to £125 billion in net present value terms. While many of these benefits accrued in the past, a significant proportion of the fiscal savings is still to be realised, given the long maturity at which the government issued debt during the period that QE pushed down on yields.

Future APF cashflows are highly uncertain, and the ultimate balance between fiscal costs and benefits will shift over time as the APF remains exposed to significant interest rate risk. While QE and QT have been deployed to meet the MPC's monetary policy objectives, rather than for fiscal reasons, it is important to recognise all the channels through which QE and QT have fiscal implications.

The Bank's future balance sheet

The unwind of the APF is an important aspect of the future design of the Bank of England's balance sheet. To support monetary and financial stability, the Bank is transitioning from a supply-led to a demand-driven reserves framework, primarily through repo operations.

This will allow the Bank to meet the system's actual demand for reserves, in contrast to the previous framework where excess reserves were supplied, primarily via asset purchases.

The Short-Term Repo (STR) and Indexed Long-Term Repo (ILTR) facilities are now supplying a growing share of reserves, ensuring that reserves are supplied flexibly and efficiently against a broad set of collateral. This will help maintain control over money market rates, and supports the provision of liquidity to a broad range of financial institutions, without disintermediating private markets.[4]

This transition to a growing share of reserves backed by lending through Bank facilities, rather than by asset purchases, will reduce the interest rate risk taken onto the Bank's balance sheet for monetary policy reasons during quantitative easing. As banks will be paying for the reserves they demand in this framework, we expect that our operations will generate positive income in the future. The Bank will continue to engage with HMT on its strategy for, and implications of, managing the transition towards its future balance sheet.

Yours sincerely,

Andrew Bailey

[4] The importance of central bank reserves - lecture by Andrew Bailey | Bank of England