Bank of England

The Rt Hon John Healey
Chancellor of the Exchequer
HM Treasury
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Andrew Bailey
Governor

17 September 2026

Dear John,

Today, the Monetary Policy Committee (MPC) and Bank Executive made a set of announcements in relation to the remaining £488bn of gilts held in the Bank's Asset Purchase Facility (APF). I am writing to you to set out the key elements of this package.

1. **The MPC has provided clarity over the future of its quantitative tightening (QT) programme by setting a multi-year path for unwind.** As a part of a forward-looking plan it will fully unwind the stock of UK government bond purchases held henceforth in the APF for monetary policy purposes. This should be conducted such that the remaining stock of bonds held for monetary policy purposes is unwound at an annual average pace of £46bn by the end of 2034, through annual sales of £20bn alongside maturing gilts.[1] This compares with an annual average pace of gilt stock reduction of £87.5bn over the past four years of QT, delivered through annual average gilt sales of £32bn alongside maturities. This replaces the annual process in place from 2022 to 2026.

2. **As a consequence, the Bank will not sell the £222bn of gilts with redemption dates earlier than 2035**, and they will be held to maturity within the APF.

[1] Monetary Policy Summary and minutes of the Monetary Policy Committee meeting - September 2026 | Bank of England

3. **Given the MPC's forward-looking plan, the Bank Executive announced that £120bn of the longest-dated gilts in the APF will remain in the APF.** £120bn of the gilts with redemption dates between 2049-2071 will be held to maturity by the Bank for the purposes of indirectly backing current and future banknote issuance.

4. **The Bank Executive is considering adjusting the way it conducts the remaining £146bn of gilt sales and intends to implement the MPC's multi-year plan via sales to the Government rather than to the market.** Under this model, HM Treasury (HMT) would instruct the Debt Management Office (DMO) to purchase the 2035-2049 APF gilts that the Bank Executive is selling at market prices in its implementation of the MPC's multi-year plan. The Bank Executive has engaged with officials at HMT over the last year, and this is subject to final agreement with HMT. Irrespective of the final decision, the Bank will be announcing by April 2027 the operational details through which it will be implementing the MPC's multi-year plan. Bank APF auctions will pause in the meantime.

This package is consistent with the MPC's QT principles, and the different statutory roles and responsibilities of the MPC, Bank and HMT. It preserves the independence of monetary policy, which is a key feature of the UK's economic framework and is essential for the effective delivery of monetary policy. In developing elements of this package, the Bank has been in close consultation over the past year with HMT, and I am grateful for the work done by HMT officials.

The remainder of this letter sets out how the elements relate, and how the Bank's operations, as carried out by the Bank Executive, will continue to 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.[2]

Quantitative easing and quantitative tightening so far

In 2009, the MPC embarked on a programme of large-scale asset purchases, known as quantitative easing (QE), to ease monetary conditions further when Bank Rate was at its effective lower bound. These purchases were financed by the issuance of central bank reserves via a loan from the Banking Department, with the size of the stock of such assets held in the APF peaking at £895bn at the turn of 2022.

Since February 2022, the MPC has been unwinding this asset portfolio, a process known as quantitative tightening (QT). The MPC's QT programme has comprised both maturities and sales to the secondary market, with gilt sales commencing in November

[2] Letter from the Governor to the Chancellor on the Asset Purchase Facility - November 2025

2022. The APF has so far been unwound from its peak of £895bn and has now reached £488bn.

Since 2022, the MPC has voted on an annual target for the reduction of the APF in September of each year, guided by three key principles:

- First, the MPC has used Bank Rate as its active policy tool when adjusting the stance of monetary policy.
- Second, sales have been conducted so as not to disrupt the functioning of financial markets, and only in appropriate market conditions.
- Third, to help achieve that, sales have been conducted in a gradual and predictable manner over a period of time.

The assets purchased by the Bank under the MPC's QE programme are held in the APF, which is indemnified by HMT. Both QE and QT lead to cash transfers between the APF and HMT. The APF Quarterly Reports set this out in more detail.[3]

The MPC's forward looking plan for quantitative tightening

Today, the MPC has communicated that it sees the full unwind of previous asset purchases under QE as important. Such an approach respects the principle that the stock of assets purchased under quantitative easing (QE) is not permanent. Following four years of unwind at a pace decided annually, the MPC announced a forward-looking plan to continue to reduce the stock of gilts held in the APF until the portfolio henceforth held for monetary policy purposes is unwound in full. This multi-year plan reinforces the MPC's key principles, in particular QT being gradual and predictable. The removal of uncertainty over future QT means that the full intended path for QT can be embedded into financial conditions, which will better enable the MPC to take it into account when setting Bank Rate as the active instrument of monetary policy by ensuring QT remains firmly 'in the background'.

Setting aside the £120bn of longest-dated gilts being held in the APF to maturity by the Bank Executive to back banknotes indirectly (as explained in the section below), the remaining gilts span a range of maturities, with the longest gilt not maturing until 2049. The MPC therefore judged that sales remain necessary for the QE portfolio to be unwound in full in a timely manner.

The MPC has voted to unwind in full the stock of gilts held for monetary policy purposes in the APF at an annual average pace of £46bn through an annual sales pace of £20bn in purchase proceeds terms. Under this plan, the MPC's QE portfolio will

[3]These were first set out in **Asset Purchase Facility Quarterly Report - 2025 Q3 | Bank of England** and updated in subsequent APF Quarterly Reports

be fully unwound by September 2034. There is no need for the Bank to sell any gilts with a maturity date earlier than that. They will be held to mature within the APF. The MPC was guided by its key principles for QT in making this decision. It replaces the annual process in place from 2022 to 2026.

The MPC has confirmed that there will be a high bar for amending the planned reduction in the stock of gilts under its multi-year plan, as had been the case for its annual decisions. This is to remain consistent with the principles that Bank Rate should be the active policy tool when adjusting the stance of monetary policy, and that gilt sales undertaken through QT should be predictable. The Bank envisages amending the sales programme under only two circumstances. First, if the MPC judged that potential movements in Bank Rate alone were insufficient to meet the inflation target. Or, second, if markets were judged by the Bank to be very distressed. The Financial Policy Committee would have a role in this second circumstance through its assessment of financial stability. Outside these circumstances, the removal of uncertainty over future QT means that the intended path for QT is more likely to be embedded into financial conditions shortly after the announcement of the multi-year plan. Going forward, this enables the MPC to take QT into account better when setting Bank Rate as the active instrument of monetary policy.

The Bank Executive's strategy for backing banknotes

In parallel, the Bank Executive has been considering the backing asset arrangements for banknotes and set out its long-term plan today.[4] The Bank Executive has authority over decisions made on the asset portfolio which backs banknotes. However, these decisions are made in consultation with HMT, given it is HMT that bears the risk on the Issue Department, the part of the Bank's balance sheet where banknotes are issued and their backing assets are held. I therefore welcome your agreement with the arrangements I am setting out below.

Since 2009, banknotes have primarily been backed by a deposit from the Issue Department balance sheet to the Banking Department (the "Issue Deposit"), which itself is indirectly backed by gilts held in the APF.[5] Throughout QT, this arrangement has remained appropriate, as the stock of gilts remaining in the APF has significantly exceeded the value of banknotes in circulation. The MPC's intention to continue QT until the stock of gilts held in the APF for monetary policy purposes is unwound in full gives the Bank Executive greater certainty when assessing the long-term implications

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[4] **The promise to pay: what backs banknotes | Bank of England**

[5] The Bank Charter Act 1844 requires the Bank of England to keep the note issuance separate from its other activities. Accordingly, banknotes are held on the Issue Department balance sheet.

of QT on the banknote-backing framework and requires the Bank Executive to set out future arrangements.

The Bank Executive continues to judge that gilts are the appropriate asset to back a stable liability like banknotes, and the MPC were informed of this judgement. The Bank Executive's long term plan to hold these assets on the Issue Department balance sheet is consistent with plans outlined in 2006, before QE began.[6] In the medium term, the Bank Executive has decided to retain £120bn of the longest-dated gilts (maturing between 2049 and 2071) in the APF. This has been calibrated to allow for a continuation of previous trends in banknote demand over the period of active QT, with an additional buffer included in case of stronger demand.

These will no longer be gilts held for monetary policy purposes and will instead remain in the APF to back banknotes indirectly. The balance sheet arrangements and formal accounting will remain as they are: these £120bn of gilts in the APF will back the loan to the APF from Banking Department, which in turn backs the Issue Deposit, which itself will continue to back notes in circulation on the Issue Department balance sheet.

This formalises the existing balance sheet arrangement and ensures notes in circulation continue to have suitable and sufficient backing assets as QT progresses. The use of APF gilts will avoid incurring unnecessary transaction costs and the risk of the Bank simultaneously buying gilts for notes backing purposes onto the Issue Department balance sheet and selling gilts for QT purposes from the APF.

In the longer term, as gilts from this APF notes-backing portfolio mature (from 2049 onwards), the Bank Executive intends to purchase gilts in the secondary market to be held directly on the Issue Department balance sheet. The gilts held in the APF for backing banknotes will continue to be indemnified in full by HMT under the terms of the existing APF indemnity and will continue to be available for the DMO to borrow via the APF gilt lending facility.

The MPC was informed of the Bank Executive's intention ahead of its vote and agreed to transfer responsibility for the portfolio of £120bn of gilts indirectly backing banknotes to the Bank Executive as part of the Bank Executive's management of the Bank's balance sheet.

The Bank Executive's implementation of QT

The responsibility for the implementation of MPC decisions is delegated to the Bank Executive by the Bank's Court of Directors, as has been the case since the inception of

[6] **Bank of England Quarterly Bulletin 2006 Q3**

the MPC. This reflects that responsibility for the risk profile of the balance sheet lies with Court, not the MPC.[7]

As set out in the letters I have previously sent to your predecessors, the Bank's APF 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.[8] To date, one of the ways the Bank Executive has maximised value for money has been the use of auction mechanisms that are carefully designed to maximise demand and competition. Over the past four years, APF auctions have run successfully, achieving good demand and without disrupting market functioning. But some portion of the remaining portfolio of gilts held for monetary policy purposes in the APF will likely become less aligned with market demand as unwind continues.

The MPC's multi-year plan confirms the full path for the monetary policy portfolio in the APF. In light of this, the Bank Executive has also been reviewing its implementation of the MPC's QT decision, to continue to maximise value for money by minimising cost and risk over the lifetime of the APF. In this context, I note that over the course of the year the Bank has engaged with HMT and the DMO to consider a model whereby the MPC's decision could instead be implemented through APF sales to the Government.

Under this model, HMT would instruct the DMO to purchase the APF gilts that the Bank Executive is selling in its implementation of the MPC's multi-year plan. Sales would be conducted at market prices and in a pre-defined manner, pre-announced by the Bank Executive. By selling APF gilts to the DMO, they can be retired and financed through the DMO's aggregate issuance. This model would support overall market efficiency as the DMO would be the sole official sector supplier of government debt to the market, and operational risk would be reduced.

We will review progress before April 2027 such that, subject to a final decision to proceed, implementation could begin in a way that allows this to be incorporated into the DMO's annual financing remit, as set by HMT. Further operational details will be announced in due course. Irrespective of the final decision, the Bank will be announcing by April 2027 the operational details through which it will be implementing the MPC's multi-year plan. Bank APF auctions will pause in the meantime. Regardless of the method of sales, the Bank Executive will ensure that the MPC's agreed sales pace is implemented, subject only to amendments in the circumstances outlined by the MPC and referred to above.

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[7] **Correspondence from the Bank of England to the Chair, relating to quantitative tightening (QT) governance and value, dated 9 January 2026 - Treasury Committee**
[8] **Letter from the Governor to the Chancellor on the Asset Purchase Facility - November 2025**

Financial arrangements between HMT and the Bank regarding the APF

Financial arrangements will remain the same. In particular, cash transfers between the APF and HMT under the APF indemnity will continue on a quarterly basis. The six-monthly exchange of letters to update the maximum authorised size of the APF will continue.[9]

Yours sincerely,

Cc: Dame Meg Hillier MP, Chair of the Treasury Committee.

[9] As first agreed on 3 February 2022.