BANK OF ENGLAND

Andrew Bailey
Governor

The Rt Hon Rishi Sunak
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
London
SW1A 2HQ

3 February 2022

Dear Rishi,

At its meeting ending on 2 February 2022, the Monetary Policy Committee (MPC) voted to increase Bank Rate to 0.5%, and to begin to reduce the stocks of UK government bonds and sterling non-financial investment-grade corporate bonds held in the Asset Purchase Facility (APF). Details of these decisions, and their impact on the operation of the APF, are set out below.

The use of the APF for monetary policy

Consistent with the MPC's guidance set out in the August 2021 *Monetary Policy Report*[1], the Committee agreed at its February meeting that the Bank of England should cease to reinvest any future maturities falling due from its stock of UK government bond purchases. This reflects the MPC's intention to reduce its holdings of government bonds in a gradual and predictable manner.

The first reduction in the stock of purchased UK government bonds will accordingly take place in March 2022, when £27.9bn of APF-owned gilts are due to mature. In total over 2022 and 2023, just over £70 billion of gilts held by the APF will mature, and over 2024 and 2025 around a further £135 billion will mature. Details of these maturities are set out in an Annex to this letter and the full maturity profile of APF-owned gilts is provided on the Bank's website, which will be kept updated to ensure that the public and financial markets have clear information on how these maturities will impact the size of the APF.[2]

In addition, the Committee agreed at its February meeting that the Bank of England should cease to reinvest any maturities falling due from its stock of sterling non-financial investment-grade corporate bond purchases, and that it should initiate a programme of corporate bond sales to be completed no earlier than towards the end of 2023 that should unwind fully the stock of corporate bond purchases.

The decision to initiate this programme of corporate bond sales reflects the specific characteristics of the corporate bond market and the MPC's involvement in it, and should not be taken as a signal regarding the commencement, scale or duration of any potential future UK government bond sales programme.

The Committee reaffirmed that it will consider beginning the process of actively selling UK government bonds only once Bank Rate has risen to at least 1%, depending on economic circumstances at the time. The

[1] See Box A, Bank of England Monetary Policy Report August 2021 | Bank of England
[2] See Results and usage data | Bank of England

Committee also reaffirmed its preference in most circumstances to use Bank Rate as its active policy tool when adjusting the stance of monetary policy. If potential movements in Bank Rate are judged insufficient to achieve the inflation target, or if prevailing conditions are ones in which asset purchases might be particularly effective, the reductions in the stock of purchased assets could be amended or reversed.

Looking ahead, the overall stance of monetary policy will, as required by the Committee's remit,[3] continue to be set to meet the 2% inflation target, and in a way that helps to support the government's economic policy objective of strong, sustainable and balanced growth.

Operational considerations

As the size of APF holdings reduces, it is also appropriate for the associated Government indemnity to reduce in size. Accordingly we have agreed that the terms of the indemnity should be adjusted to reflect the size of portfolio every six months, confirmed through an exchange of letters between us, beginning in April 2022. Should the MPC deem it necessary to recommence asset purchases in the future, I would expect to notify you and – if necessary – to request a corresponding increase to the indemnity via a public exchange of letters between ourselves, as was the case in November 2020.[4]

Any decision on whether, when and how to commence gilt sales from the APF will be for the MPC in the context of achieving its statutory objective. It has been a longstanding principle that, when a reduction in the monetary stimulus provided by the APF becomes appropriate, the MPC will take every step to ensure such a reduction is implemented in an orderly fashion. Were gilt sales judged to be appropriate in the future, these would be conducted in a predictable manner over a period of time so as not to disrupt the functioning of financial markets. As I noted in my letter of 18 June 2020,[5] the Bank would liaise with the UK Debt Management Office (DMO) in order to minimise interference with the DMO's own issuance programme, and would consider the views of market participants as to how best to minimise disruption in private asset markets.

As you are aware, the Bank and HMT also agreed in 2012[6] to transfer gilt coupon payments received by the APF, net of interest costs and other expenses, to the Exchequer in order to facilitate more efficient cash management across the public sector as a whole. It was recognised that this arrangement would result initially in payments from the APF to the Government, and indeed to date a cumulative £119.7bn of cash transfers have been made from the APF to HMT. It was also agreed that reverse payments from the Government to the APF were likely to be needed in the future as Bank Rate increases and as the APF's gilt holdings are unwound by the MPC, and that these reverse payments would be met by the Government on a timely basis. Our officials will continue to discuss the size and direction of future cashflows regularly as the portfolio begins to shrink.

Yours sincerely

Andrew Bailey

[3] Remit for the Monetary Policy Committee - March 2021 | Bank of England
[4] Exchange of letters between the Governor and the Chancellor on the Asset Purchase Facility - November 2020 | Bank of England
[5] Governor letter to Chancellor on APF, June 2020 | Bank of England
[6] Exchange of letters regarding the transfer of excess cash from the Asset Purchase Facility to HM Treasury | Bank of England

Annex – Upcoming gilt maturities in the APF

Gilt	Maturity Date	Total Purchase Proceeds (£bn)	Remaining stock of APF gilt holdings (£bn)
4% Treasury Gilt 2022	07-Mar-2022	27.9	847.0
0½% Treasury Gilt 2022	22-Jul-2022	3.2	843.8
1¾% Treasury Gilt 2022	07-Sep-2022	5.9	837.9
0¾% Treasury Gilt 2023	22-Jul-2023	14.2	823.7
2¼% Treasury Gilt 2023	07-Sep-2023	21.1	802.5
0 ⅛% Treasury Gilt 2024	31-Jan-2024	2.9	799.6
1% Treasury Gilt 2024	22-Apr-2024	20.4	779.3
2¾% Treasury Gilt 2024	07-Sep-2024	26.3	753.0
0¼% Treasury Gilt 2025	31-Jan-2025	6.0	747.0
5% Treasury Stock 2025	07-Mar-2025	23.2	723.8
0 ⅝% Treasury Gilt 2025	07-Jun-2025	29.6	694.1
2% Treasury Gilt 2025	07-Sep-2025	28.3	665.8

These data illustrate the impact of gilt maturities on the outstanding stock of gilts held in the APF over the coming years. A full maturity profile of APF gilt holdings can be found on the Bank's website. The total size of the APF over this period will also depend (to a lesser extent) on the progress of corporate bond sales.