



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

5 November 2009

Mervyn King  
Governor  
Bank of England  
Threadneedle Street  
London  
EC2R 8AH

Dear Mervyn

#### **EXTENDING ASSET PURCHASE FACILITY**

Thank you for your letter of 5 November, setting out the MPC's case for raising the limit on purchases that may be undertaken by the Asset Purchase Facility.

In March 2009, I authorised the MPC to purchase up to £150 billion of assets financed by the issuance of central bank reserves, and in August I extended the limit to £175 billion, at the MPC's request. This facility has enabled the MPC to influence monetary conditions in the United Kingdom by influencing the quantity of money in the economy as well as by setting the level of Bank Rate.

Your letter of 5 November explains that the MPC judge that further purchases should be undertaken to enable the MPC to meet its objective of maintaining price stability.

I agree that an increase in the ceiling would provide the MPC with scope to vary the stance of monetary policy to meet the inflation target.

I am therefore writing to authorise an increase in the ceiling from £175 billion to up to £200 billion. As before, this sets a maximum overall limit within which the MPC will determine the scale of its purchases each month.

In my letter of 29 January, I wrote that the objective of the Asset Purchase Facility is to increase the availability of corporate credit, in order to support the Bank of England's responsibilities for financial stability and monetary stability in the United Kingdom. There has been a welcome improvement in the markets for Commercial Paper and for investment grade Corporate Bonds since the

start of the year, partly reflecting the support provided by the Facility. I would welcome an update on the prospective use of the secured commercial paper facility.

I am copying this letter to the Rt. Hon. John McFall MP, and depositing a copy in the library of both houses.

Yours sincerely,

*AD*

**ALISTAIR DARLING**