



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

6 August 2009

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

Dear Mervyn

EXTENDING ASSET PURCHASE FACILITY

Thank you for your letter of 6 August, setting out the Monetary Policy Committee's (MPC) 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. This 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 6 August 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 £150 billion to up to £175 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 said that an 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. As we have discussed over the past month, we agree that the markets for Commercial Paper and for investment grade Corporate Bonds had improved considerably since the start of the year. The recovery in private sector participation has limited the need for APF purchases of these assets. However, I welcome the development of a new APF Facility for Secured



Commercial Paper to further assist the flow of credit to businesses. I also welcome the ongoing consultation into the potential for an APF Facility on Supply Chain Finance.

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

A handwritten signature in black ink, appearing to read 'Alistair Darling'.

ALISTAIR DARLING