



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

6 October 2011

Mervyn King
Governor
Bank of England
London
EC2R 8AH

Dear Mervyn

EXTENSION OF ASSET PURCHASE FACILITY

Thank you for your letter of 6 October, setting out the MPC's case for its decision to raise the limit on purchases that may be undertaken by the Asset Purchase Facility (APF).

As I have made clear, monetary policy has a critical role in supporting the economy as the Government delivers on its commitment to fiscal consolidation and should be the primary tool for responding to changes in the economic outlook in order to ensure that inflation remains on track to meet the 2% inflation target in the medium term. Further asset purchases provide the MPC with the appropriate tool with which to address the deterioration in economic conditions described in your letter, particularly in view of the tensions in the world economy that threaten the UK recovery. The Bank of England's analysis, in several publications since 2009, including most recently the Quarterly Bulletin published on 19 September, provides evidence of the effectiveness of asset purchases, in particular in supporting demand.

Your letter explains that the MPC judges that further purchases financed by the issuance of central bank reserves 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 made clear last year that I would continue with the arrangements established by my predecessor for authorising such a request.

I am therefore writing to authorise an increase in the ceiling of asset purchases financed by the issuance of central bank reserves from £200 billion to up to £275 billion. Eligible assets for purchase under this ceiling are set out in my predecessor's letters of 29 January 2009 and 3 March 2009 and include gilts and eligible private sector assets.

The APF continues to include facilities for eligible private sector assets financed by the issuance of central bank reserves, Treasury Bills and the DMO's cash management operations that are authorised up to a maximum of £50 billion. This ceiling remains unchanged.

The risk framework agreed with the Treasury continues to apply to the Bank's management of the APF.

Given evidence of continued impairment in the flow of credit to some parts of the real economy, notably small and medium-sized businesses, the Treasury is exploring further policy options. Such interventions should complement the MPC's asset purchases.

I am copying this letter to Andrew Tyrie, Chair of the Treasury Committee, and depositing a copy in the library of both Houses.

George Osborne

GEORGE OSBORNE