



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

5 July 2012

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

A handwritten signature in blue ink that reads 'Mervyn King'.

EXTENSION OF ASSET PURCHASE FACILITY

Thank you for your letter of 5 July, 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).

Your letter explains that the MPC judges 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. As you note, in spite of the progress made at the latest European Council, concerns remain about the indebtedness and competitiveness of several euro-area economies, and that is weighing on confidence here. The correspondingly weaker outlook for UK output growth means that the margin of economic slack is likely to be greater and more persistent.

I agree that an increase in the ceiling would provide the MPC with the scope to meet the inflation target in the medium term. Monetary policy continues to have a critical role in supporting the economy as the Government delivers on its commitment to fiscal consolidation and it remains the primary tool for responding to changes in the economic outlook. As I noted in my letter to you of 6 October 2011, the Bank of England's analysis has provided evidence on the effectiveness of asset purchases in supporting demand.

I am therefore writing to authorise an increase in the ceiling on asset purchases financed by the issuance of central bank reserves from £325 billion to up to £375 billion. Eligible assets for purchase under this ceiling continue to include gilts and

eligible private sector assets, as set out in my predecessor's letters of 29 January 2009 and 3 March 2009.

The APF continues to include facilities for eligible private sector assets financed by the issuance of central bank reserves, Treasury Bills and the DMU's cash management operations that are authorised up to a maximum of £10 billion as I set out in my letter of 29 November 2011.

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

As announced on 14 June, the soon to be launched Funding for Lending scheme will complement the MPC's asset purchase programme in easing monetary conditions across the economy.

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

A handwritten signature in blue ink, appearing to read 'George Osborne', with a large flourish at the end.

GEORGE OSBORNE