

Bank of England

The Rt Hon Rachel Reeves
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
SW1A 2HQ

Andrew Bailey
Governor

13 May 2025

Dear Rachel,

Asset Purchase Facility

Stock of holdings in the Asset Purchase Facility

As you are aware, the Bank currently holds a stock of high-quality assets within the Asset Purchase Facility (APF), arising from activities in support of its statutory objectives. The APF's portfolio comprises UK government bonds (gilts) and is being reduced in line with the instructions of the Monetary Policy Committee (MPC).

As agreed when it was established in 2009, the activities of the APF are indemnified by HM Treasury (HMT). As the size of the APF holdings changes, the authorised maximum size of the APF should be periodically adjusted to reflect the size of the portfolio. On 3 February 2022 it was agreed that the maximum authorised size of the APF should be updated every six months in line with the reduction in the stock of assets and that this be detailed by an exchange of letters between us.¹

I can confirm that the stock of APF gilt holdings, as of 7 May 2025, was £619.7 billion.

The maximum size of the APF can therefore now be adjusted downwards from £654.5 billion as agreed in our exchange of letters on 12 November 2024 to a total of £619.7 billion. This will be reviewed and confirmed between us again in six months, alongside the relevant APF Quarterly Report.

¹ [Letter from the Governor to the Chancellor on the Asset Purchase Facility - February 2022](#)



I would be grateful if you could confirm these changes.

The Bank's approach to unwinding the APF

In September 2024 the MPC voted to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the 12-month period from October 2024 to September 2025, comprising both gilt sales and maturities.²

In line with this decision, the Bank has proceeded with the sale of the APF's stock of gilts. Since October 2024, these sales, in addition to the maturity of gilts held by the APF, have led to a reduction in the stock of gilts held for monetary policy purposes of £38.2 billion as of 7 May 2025.

The appropriate pace of gilt stock reduction continues to be guided by a set of key principles. First, the MPC intends to use Bank Rate as its active policy tool when adjusting the stance of monetary policy. Second, sales are to be conducted so as not to disrupt the functioning of financial markets, and only in appropriate market conditions. Third, to help achieve that, sales will be conducted in a gradual and predictable manner over a period of time.

The unwind of the APF has continued to proceed smoothly, and there has been no evidence of gilt sales having a negative impact on market functioning across a range of financial markets measures. In light of recent market volatility, the Bank made an operational amendment to its 2025 Q2 gilt sales schedule, auctioning short maturity bonds on 14 April, instead of long maturity bonds.³ This decision was taken by the Bank's Executive, in line with the principles set out above. The Bank intends to reschedule the long maturity auction to the following quarter, in order to continue to reduce the APF as evenly as possible across maturity sectors, measured in initial proceeds terms.

The Bank will continue to monitor the impact of APF unwind on market conditions.

The Bank's operations, as carried out by the Bank Executive, should maximise value for money by minimising cost and risk over the lifetime of the APF, subject to achieving the MPC's chosen unwind target and in line with the MPC's key principles. That is achieved, amongst other things, through:

- The use of auction mechanisms that are carefully designed to maximise demand and competition.

² [Bank Rate maintained at 5% - September 2024 | Bank of England](#)

³ [Asset Purchase Facility: Gilt Sales Amendment - Market Notice 10 April 2025 | Bank of England](#)

- Close liaison with the Debt Management Office (DMO).
- The application of comprehensive risk management techniques.
- Detailed public information on APF activity, and the design and control of auctions, available in the Bank's [Market Operations Guide](#).
- Comprehensive governance, reporting and transparency arrangements consistent with the indemnity provided by HM Treasury and the HM Treasury Accounting Officer's requirement to protect the rights and assets of the taxpayer including value for money.

The Bank's future balance sheet

The unwind of the APF is an important aspect of the future design of the Bank of England's balance sheet. The Bank's approach to this transition is guided by our mission to maintain monetary and financial stability. In February 2025, the Bank and HM Treasury concluded a 5-yearly review of the parameters of the Bank's capital framework. The review concluded that the existing Bank-HMT financial arrangements, as set out in the [Memorandum of Understanding](#), are sufficient to support the Bank's planned transition to a demand-driven operating framework backed by repo lending. This transition to a growing share of reserves backed by lending through Bank facilities, rather than by asset purchases, will reduce the interest rate risk taken onto the Bank's balance sheet for monetary policy reasons during quantitative easing. As banks will be paying for the reserves they demand in this framework, we expect that our operations will generate positive income in the future. The Bank will continue to engage with HMT on its strategy for, and implications of, managing the transition towards its future balance sheet.

Yours sincerely,

