Treasury Committee

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James Bowler CB
Permanent Secretary
HM Treasury
via email

4 December 2023

Dear James,

The cashflows arising from quantitative easing and tightening

At his evidence session with us on 29 November, we discussed with the Chancellor the impact on the public finances of the Treasury indemnity on the Bank of England's quantitative easing (QE) programme. I would be grateful if you could answer the following further questions:

- On multiple occasions during the life of QE and the Asset Purchase Facility (APF), the Chancellor signed-off increases in the indemnity as additional rounds of QE were authorised by the Monetary Policy Committee. Can you tell us what scrutiny and due diligence the Treasury undertook on these occasions, and in particular whether it undertook any examination of the macro-economic and fiscal impacts of these expansions in the short and long run, and whether the extent of scrutiny changed over time?

- Since 2016, there have been regular risk oversight meetings between Treasury and Bank senior officials as part of the governance arrangements for the APF. Did these oversight meetings anticipate the risk now crystallising that Bank Rate could rise rapidly to over 5 per cent, and push the APF into a ongoing and eventually cumulative loss?

- Following an exchange of letters between the Chancellor and Governor in April 2023, the Bank has been subject "throughout APF unwind [to] the requirement to protect value for money."[1] What practical steps does the Treasury require from the Bank, and does this requirement extend to decisions over the pace of quantitative tightening?

- What impact are APF losses forecast to have on headroom against the fiscal rules and thereby levels of public spending and taxation? Does the Treasury keep under consideration the inclusion of APF indemnity payments in the spending covered by fiscal rules?

- An August 2022 market notice published by the Bank explained that quantitative tightening is likely to be ceased when commercials banks' aggregate holdings of reserves are "somewhat below half the [then] current stock of £950bn," and that the Bank will "need to reflect on the appropriate long-term mix of assets on its own balance sheet".[2] Has the Treasury undertaken

[1] Letter from the Chancellor of the Exchequer to the Governor of the Bank of England regarding 'Asset Purchase Facility', 28 April 2023.

[2] Explanatory Note: Managing the operational implications of APF unwind for asset sales, control of short-term market interest rates and the Bank of England's balance sheet, 4 August 2022

any risk analysis of how the operations associated with ending quantitative tightening and reaching a steady-state level of reserves will affect the annual and cumulative losses arising from the Asset Purchase Facility?

I have also written on this subject to the Governor of the Bank of England.

I would be grateful for answers to these questions by 19 December. In line with our usual practice, this letter, and your reply, will be published by the Committee.

With best wishes,

Harriett Baldwin MP
Chair of the Treasury Committee