Bank of England

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House of Commons
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Andrew Bailey
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Dear Chair,

We are writing in response to a request made by the Treasury Committee on 9 December for an explanation of the division of responsibilities between the Monetary Policy Committee (MPC) and the Bank Executive in relation to the unwind of the stock of gilts held in the Asset Purchase Facility (APF), known as quantitative tightening or QT. We have also taken the opportunity to set out how value for money is taken into account within the QT process, given the Committee's interest on this issue too.

The Principles of Engagement for the Bank's balance sheet

The Bank of England uses its balance sheet[1] to achieve its policy goals, in line with its statutory objectives, which include maintaining price stability. Different decision-makers within the Bank have different interests in the balance sheet, and the division of responsibilities for governance of the Bank's balance sheet is set out in the Principles of Engagement.[2]

The MPC is responsible for keeping inflation sustainably to the 2% target. The MPC has sole statutory responsibility within the Bank for formulating monetary policy, so the MPC must have sufficient control at the margin, of sufficient instruments capable of affecting overall monetary conditions in order to maintain price stability. The Principles reflect this.

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[1] In this context, this refers to the balance sheets of the Issue and Banking Departments of the Bank of England, and also its wholly owned subsidiary, the Bank of England Asset Purchase Facility Fund Limited (BEAPFF)

[2] Governance of the Bank of England's balance sheet: principles of engagement | Bank of England

The Bank's Court of Directors has statutory responsibility for managing the Bank's affairs, including the risk profile of the Bank's balance sheet. Responsibility for the operation of the Bank's balance sheet is delegated to the Bank Executive, which consists of the Bank's Governors and Executive Directors. Within the Executive, this responsibility ultimately rests with the Governor, but onward delegations are made to other members of the Executive for day-to-day management of the Bank's balance sheet.

This means that the Bank Executive is responsible for the implementation of MPC decisions. This has been a long-standing division of responsibilities, reflecting the fact that responsibility for the risk profile of the balance sheet lies with Court, not the MPC; it allows the MPC to focus on the monetary policy impact of its decisions. In terms of individual committee members, there is also some overlap between the MPC and the Bank Executive, as several members of the Bank Executive (including the three of us) are also MPC members and therefore have different responsibilities under the two roles.

Division of responsibilities for QT between the MPC and Bank Executive

The MPC has decision making authority over the volume of asset purchases financed by the issuance of bank reserves for monetary policy purposes, also known as quantitative easing (QE), and over the unwind of these purchases, known as quantitative tightening (QT).[3]

The MPC's decision on the pace of QT is guided by three key principles first set out in August 2021. They are that the MPC uses Bank Rate as its active tool when adjusting the stance of monetary policy; sales are conducted so as to not disrupt the functioning of financial markets, and only in appropriate market conditions; and to help achieve that, sales are conducted in a gradual and predictable manner. The MPC have judged that reducing the size of the APF has the benefit of reducing the risk of a ratchet upwards in the size of the Bank's balance sheet – increasing the headroom and flexibility available for the Bank's balance sheet to be used in the future if needed.

The Executive's responsibilities include the scheduling and sizing of auctions conducted over the year to implement the MPC's annual decision. It also includes the composition of the bonds across maturity sectors that are sold in order to meet the MPC's annual unwind target. These operational details are set out in APF market notices, which are published quarterly by the Bank.[4] In September 2025, the Bank Executive changed the composition of bonds that were sold across the auctions.

[3] The Principles of Engagement state that "The MPC has decision making authority at the margin, in respect of the deployment of instruments and facilities that are varied over time with the primary intention of affecting overall monetary conditions in order to maintain price stability…[which includes] the volume of asset purchases financed by the issuance of bank reserves"

[4] For example: **Asset Purchase Facility: Gilt Sales – Market Notice 19 December 2025 | Bank of England**

This decision was taken to better reflect demand conditions for long maturity gilts, as described in the August Monetary Policy Report (MPR) and the September MPC minutes.[5]

Value for money in Quantitative Tightening

We now turn to address how value for money is accounted for in the QT process. These comments build on other communications between the Bank and the Treasury Committee on the APF, most notably the response from the Bank to the Committee's report on QT, as well as several other reports on the APF that have been published by the Bank. [6]

As outlined above, the current stock of gilts is held in the APF for monetary policy purposes, and decisions on the stock are monetary policy decisions for the MPC.[7] While the separation of fiscal and monetary policy is a key feature of the UK's macroeconomic framework and essential for the credible and effective delivery of monetary policy, it has long been recognised that QE and QT have implications for the fiscal position through several channels.

Firstly, QE was deployed by the MPC to meet the inflation target in the face of multiple large shocks to the UK economy since the onset of the global financial crisis. In doing so, QE sustained employment and growth, and reduced the tail risks of severe economic downturns, while also supporting gilt market functioning. This macroeconomic support was the most significant effect of QE and generated fiscal benefits.

Secondly, QE reduced the interest rates that the government pays on its debt. The Q3 2025 Quarterly Report provided an estimate of the scale of this channel and suggested that the combined effects of QE and QT resulted in lower borrowing costs by £50-125 billion on net.[8] Noting the Bank's estimates of the fiscal savings from reduced debt issuance costs, it is likely that the fiscal benefits of QE significantly, or fully, offset the net lifetime transfers under the indemnity.[9]

Finally, the indemnification of the APF by HMT means that the assets held in the APF generate a range of cashflows between HMT and the APF. These cashflows are regularly reported on in the APF Quarterly Report and public accounts.

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[5] The September 2025 MPC minutes noted that: "In common with other advanced economies, term premia on long-term government bonds had risen through 2025. That had reflected global economic policy uncertainty, high issuance of government bonds across countries and structural changes within the UK bond market that had reduced demand for long-term government debt. Although the UK gilt market had continued to function in an orderly manner, these factors could pose a risk that QT would have a greater impact on market functioning than previously." **Bank Rate maintained at 4% - September 2025 | Bank of England**

[6] **Quantitative Tightening: Government, Bank of England and Debt Management Office Reponses to the Committee's Fifth Report - Treasury Committee**

[7] While QE and QT are both monetary policy decisions, QT is not being used as an active policy tool by the MPC to meet the inflation target. In line with the MPC's key principles, Bank Rate remains the active monetary policy tool. In this respect, it differs from QE, which was used as an active policy tool when Bank Rate was constrained at the lower bound.

[8] **Asset Purchase Facility Quarterly Report - 2025 Q3 | Bank of England**

[9] **Letter from the Governor to the Chancellor on the Asset Purchase Facility - November 2025**

The stock of assets held for monetary policy purposes is decided by the MPC to meet the 2% inflation target sustainably. Value for money considerations do not determine the policy stance chosen by the MPC, but they do play an important role in how the MPC's decisions on QT are implemented by the Executive.

As set out in the regular letters between the Governor and Chancellor, 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.[10] The letters explain that this is achieved, amongst other things through:

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

These mechanisms are a core part of the design and implementation of QT, and ensure that operations minimise cost and risk over the lifetime of the APF.

It is important to note that the Bank does not aim to minimise near term cashflows, for example by choosing to sell only the most valuable bonds, to achieve value for money. This is because the concept of value for money encompasses both cost and risk and covers the *lifetime* of the APF, so minimising near-term cashflows from HMT to the APF does not necessarily deliver value for money. For the same reason, different paces of unwind set by the MPC would also not necessarily lower cost and risk over the life of the APF.

The APF quarterly reports illustrate this point. Since 2023, in the interests of transparency, the Bank has published a range of different projections for cashflows that include different unwind paces and interest rate scenarios. On a discounted net present value (NPV) basis, different sales paces do not materially alter the lifetime cashflow position. While holding onto bonds rather than selling them does reduce near-term cashflows, there is a cost of carry from keeping bonds within the APF, which offsets shorter term benefits from lower near-term cashflows. The main determinant of lifetime cashflows is interest rates, and whether yields will rise or fall in future.

It is, however, possible to say with certainty that holding onto bonds for a longer period increases the risk, in terms of the range of possible outcomes for lifetime cashflows, a point which is illustrated in the Q3 2025 APF Quarterly Report. A relatively faster pace of QT therefore has the benefit of reducing the interest rate risk borne by the public sector.

[10] **Letter from the Governor to the Chancellor on the Asset Purchase Facility - November 2025**
Letter from the Chancellor to the Governor on the Asset Purchase Facility - November 2025

We hope these observations are helpful, and clarify the division of responsibilities between the MPC and the Bank Executive in relation to unwind of the APF, as well as the role of value for money in decisions around the APF.

Yours sincerely,