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The Rt Hon. Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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26 May 2021

Dear Rishi,

On 18 May 2021, the Economic Affairs Committee took oral evidence on quantitative easing from the Governor and Deputy Governors of the Bank of England. There are questions arising from the evidence session that fall within HM Treasury's responsibilities.

The Governor of the Bank of England told us that during some periods of the COVID-19 pandemic you and he were "talking daily"[1] and sharing assessments of the UK economy. Please could you set out:

1. **In what ways did HM Treasury and the Bank of England ensure their respective policies were consistent and complementary?**

We have received a great deal of evidence on the risk of higher interest rates to the public finances if the Bank of England needed to respond to sustained inflation over the target rate. We also received evidence that said the Bank of England could cease paying interest on reserves, or on tiers of reserves, to reduce risks to the public finances. I would be grateful if you could set out:

2. **What assessment you have made of risks to the public finances if the Bank had to raise interest rates in response to sustained inflation?**
3. **Whether you agree that proposals to cease paying interest on reserves constitute fiscal policy and would therefore be a decision for HM Treasury?**
4. **What assessment you have made of such proposals?**

When we asked whether the Governor would object to publishing the Deed of Indemnity for the Asset Purchasing Facility, he said:

[1] Q 185

> "I could not see anything in it when I read it that I think would excite people if it were published, but it is not my decision—it is the Treasury's."[2]

During an oral evidence session on 27 April 2021, Lord Macpherson of Earl's Court, who was Permanent Secretary to HM Treasury at the time the Deed of Indemnity was agreed, was asked why the Deed of Indemnity had not been published. Lord Macpherson said:

> "I saw some reference to this, and I was quite puzzled. I seem to remember that, at that time, we were pretty focused on being as transparent as we could be."[3]

> "I would hope that, if we forgot in some way to publish it, we could publish it, because it will add to the sum of human knowledge and therefore create a better debate about these things."[4]

Please could you set out:

5. **Will HM Treasury publish the Deed of Indemnity for the Asset Purchasing Facility?**

Finally, I would be grateful if you would provide more information on the recent environmental sustainability update to the Bank of England's mandate:

6. **Did HM Treasury provide any guidance or instructions to the Bank of England on how it should interpret and implement the update to the mandate?**
7. **How do you expect the update to affect the Bank of England's corporate bond purchasing scheme? How should the Bank avoid accusations of 'picking winners'?**

Please could you provide answers to our questions by Friday 4 June 2021. I intend to place a copy of this letter, along with your response, in the public domain.

Yours ever

Michael.

Lord Forsyth of Drumlean
Chairman of the Economic Affairs Committee

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[2] Q 189
[3] Q 169
[4] Q 169