

## *Asset Purchase Facility*

**The Chancellor announced today that the excess cash held at the Bank of England's Asset Purchase Facility (APF) will be transferred to the Exchequer.** More detailed information can be found on HM Treasury's website at [http://www.hm-treasury.gov.uk/ukecon\\_mon\\_index.htm](http://www.hm-treasury.gov.uk/ukecon_mon_index.htm).

This decision means that the cash surpluses and deficits generated by the Bank of England's quantitative easing (QE) facility will be reflected in the public finances on an ongoing basis, rather than as a one-off profit or loss to the Exchequer when QE has been fully unwound and the facility closed.

Capturing the impact quarter by quarter, rather than at some indeterminate date in the future, is more transparent than the current approach. But it is important to bear in mind that while this change will have a positive impact on the public finances in the short term, it will turn negative as and when monetary policy tightens. The ONS has yet to decide how to treat these flows, but we expect that:

- Public sector net borrowing will be lower in the near term than it otherwise would have been, as the Treasury receives the coupon payments on the gilts held by the APF, minus the interest that the APF has to pay the Bank for the loan that allowed it to purchase them.
- Net borrowing is then likely to be higher in future years as the APF moves into deficit and the Treasury has to cover this. The APF's interest payments will increase when Bank Rate starts rising. And the sale or redemption of gilts is likely to leave it facing capital losses, as the amounts received will probably be smaller than the amounts paid for them.

The APF is likely to have accumulated surpluses of almost £35 billion by the end of this financial year. This will be transferred to the Treasury in stages across 2012-13 and 2013-14. The Office for National Statistics may treat most of this transfer as a financial transaction, not revenue. In that case, it would reduce net debt, but not net borrowing. We expect that the ongoing transfers would affect net debt and net borrowing.

Today's decision should not in itself have a significant impact on the eventual aggregate net profit or loss to the Exchequer from QE. That said, the Government is

likely to issue fewer gilts in the near term and more in the longer term than it otherwise would have done. And if government borrowing costs rise over time as the economy recovers, or for other reasons, then debt interest payments will be higher in the future. This may outweigh the lower costs in the preceding years.

The OBR will quantify the possible impact of today's decision on the public finances in its forthcoming *Economic and fiscal outlook* on December 5th. To give a full picture, we will do so over the full potential lifetime of QE and not just over our usual five-year forecasting horizon. The size and timing of the flows between the APF and the Treasury – and the eventual aggregate profit or loss to the Exchequer – will depend on several factors, including the behaviour of gilts prices and when and how QE is unwound. We will make illustrative assumptions for these factors and show how sensitive the results are to alternative assumptions.

## **Notes**

1. The Office for Budget Responsibility will publish an updated forecast for the economy and public finances on 5 December 2012.
2. For any further enquiries regarding this announcement please email [OBRpress@obr.gsi.gov.uk](mailto:OBRpress@obr.gsi.gov.uk).