



Extract from the Red Book¹:

The Bank's current operations in the sterling money markets

Quantitative Easing

60 The objective of Quantitative Easing is to boost the money supply through large-scale asset purchases and, in doing so, to bring about a level of nominal demand consistent with meeting the inflation target in the medium term. Under this policy approach, the MPC uses the quantity of reserves (as well as the rate earned on them at the Bank) directly as a tool of monetary policy. The MPC sets a target for the stock of asset purchases financed by the creation of reserves. This target is achieved by purchasing or, in the event that the target is reduced, selling assets through the Bank's 'Asset Purchase Facility', which, because of the risks posed to the Bank's balance sheet, is indemnified by HM Treasury.

61 The Bank purchases these assets predominantly from non-banks, but banks act as intermediaries in the process. The Bank pays for the assets purchased by creating central bank reserves and crediting the accounts of the banks that act as intermediaries. Those banks will in turn credit the accounts of the non-banks from whom they obtained the assets. They will either spend the money on goods and services, which directly adds to overall spending, or purchase other assets, which will tend to boost the prices, and hence lower the yields, of those assets more broadly. In the event of asset sales, in response to a reduction in the target, the Bank would debit the accounts of the institutions it sells the assets to, reducing the stimulus to nominal demand.

62 The Bank carries out asset purchase operations in a transparent and non-discretionary manner, transacting in high-quality assets, most commonly gilts. The competitive auction element of the gilt operations is open to all participants in the Bank's gilt purchase OMOs (which are currently suspended) and to firms that are Gilt-Edged Market Makers ('GEMMs'). The Bank also accepts non-competitive offers from other authorised financial institutions. The Bank places no restriction on the number of offers submitted and no restriction on the proportion in each auction that can be allocated to specific counterparties or gilts. Eligibility of individual gilts in specific operations is determined with reference to the maturity of the assets.

63 The competitive elements of gilt auctions use a discriminatory price format, in which every successful participant receives the price they offered to sell at. Each price is converted into a yield, and is then compared to the market yield of that gilt at the end of the auction. The offers are ranked by the spread between the two yields, and are accepted according to the attractiveness of the spread for the Bank, until the amount the Bank wishes to buy has been filled. Any non-competitive offers are allocated at the weighted average price at which the relevant stock was allocated in the competitive auction.

64 To improve the liquidity in, and increase the flow of, corporate credit, the Bank also purchases and sells high-quality private sector assets through the HM Treasury-indemnified Asset Purchase Facility, namely commercial paper, secured commercial paper and corporate bonds. These purchases and sales are an

¹ www.bankofengland.co.uk/markets/sterlingoperations/redbook.htm

example of the Bank acting as market maker of last resort. Although small in scale in comparison to gilt purchases, when financed by the issuance of central bank reserves, these purchases count towards the total amount of asset purchases authorised by the MPC.