Bank of England confirms intervention to stabilise pensions market after mini-budget

The Bank of England has confirmed it intervened to stabilise the pensions market following the chancellor's mini-budget as multiple firms which schemes were reliant on faced the prospect of being wound up within hours.

Responding to a letter from Treasury Select Committee chairman Mel Stride asking for greater clarity on why the Bank intervened at the end of September, Sir Jon Cunliffe, the Bank's deputy governor for financial stability, said it **launched an emergency £65bn bail-out gilt-buying programme** to prevent a "self-reinforcing spiral".

He said the speed and sheer scale of the rise in gilt yields – the cost of government borrowing – was unprecedented and put pressure on pensions funds.

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"The Bank was informed by a number of liability-driven investment (LDI) fund managers that, at the prevailing yields, multiple LDI funds were likely to fall into negative net asset value," said Sir John.

"As a result, it was likely that these funds would have to begin the process of winding up the following morning."

Soon after the Bank's intervention, Sky News' economics and data editor **Ed Conway reported that the dramatic action had been taken in response to a "run dynamic" emerging in the**

British pensions system which could have resulted in the swift collapse of a swathe of institutions.

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His original report said Bank staff worked through the night on Tuesday and into Wednesday morning last week to prepare the unprecedented package which would see it buying up a large number of targeted government bonds in an attempt to head-off that outcome.

It added that, according to those insiders, numerous funds were heading for collapse as soon as Wednesday afternoon.

Sir John reiterated that there had been a risk of severe disruption of core markets and "widespread financial instability".

He added that the bank is now working with the UK's pensions and financial regulators to ensure that liability-driven investment (LDI) funds – an investment strategy used by some pension schemes – are more resilient in light of current financial market volatility.

After **Chancellor Kwasi Kwarteng's announcement of £45bn in tax cuts** the value of the pound plummeted and nearly half of mortgages were pulled.

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Staff at the Bank of England subsequently worked "overnight" to design an intervention strategy, Sir John said.

As a result of its intervention, 30-year gilt yields fell back down by more than 100 basis points.

However, there has been a slight uptick in gilt yields again in recent days.

Sir John's correspondence also revealed that the Bank has spent just a fraction of the £65bn sum: a total of £3.7bn across six operations conducted so far.

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Sir John said the emergency scheme would be unwound in a "smooth and orderly fashion" at its scheduled end on 14 October.

"The approach to unwind will depend, among other things, on the scale of actual purchases, the market conditions during those purchases and the market conditions when the purchases end," he continued.

Speaking a few days after the mini-budget and subsequent economic turmoil, **Prime Minister Liz Truss acknowledged that "there has been disruption"** to the UK economy.

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The Great Debate: The mini-budget

"It was very, very important that we took urgent steps to deal with the costs that families are facing this winter, putting in place the energy price guarantee for which we've had to borrow to cover the cost… but also making sure that we are not raising taxes at a time where there are global economic forces caused by the war in Ukraine that we need to deal with," she told broadcasters.

"I recognise there has been disruption. But it was really, really important that we were able to get help to families as soon as possible – that help is coming this weekend."

Ms Truss defended the decision to deliver the mini-budget without an accompanying forecast from the Office for Budget Responsibility (OBR) due to the need to respond rapidly to rising energy prices.

The lack of such a forecast is blamed by many – including Mr Stride – of contributing to market turmoil.

The OBR said a forecast had been offered to the chancellor but was not commissioned.

Labour had called for the mini-budget to be reversed.