UK state borrowing costs are close to a 15-year high

The cost of UK state borrowing is close to a 15-year high – levels seen only twice since the global financial crash.

The amount the UK government has to pay – the yield – to borrow money for 10 years via its benchmark 10-year bonds – known as gilts – rose to more than 4.7% on Thursday.

Only twice since the 2008 crash has such a high been reached, both times in August this year. On one of those occasions, the yield topped 4.75%.

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It stood at 4.69% on Friday while yields on 30-year bonds later hit their highest level since 1998, as part of a broader global move over concerns about sticky inflation and rising tensions in the Middle East.

Bonds are a key way that countries access money to fund expenditure and act as an IOU. As the cost of bonds fall, perhaps as investors sell off bonds, the rate that states have to pay to borrow the sums increases.

High yields mean borrowing becomes more expensive, complicating the picture for governments hoping to increase spending, investment or perhaps bring in tax cuts.

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A report published earlier this week by the Institute for Fiscal Studies (IFS) thinktank echoed statements made by Chancellor Jeremy Hunt to Sky News last week. Some £30bn in interest payments could be paid this year, more than expected,

the IFS green budget said.

More expensive borrowing can also mean more state debt increases.

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As the base rate of interest has been increased to 5.25% by the Bank of England, another thinktank, the Resolution Foundation, forecasts state debt as a proportion of GDP (a measure of economic growth) will reach roughly 140% of GDP over the next 50 years if current market expectations are correct – that the UK continues to have high interest rates in the longer term.

High yields are good news for some. Bondholders, such as pension funds, will get higher returns.

It comes as 10-year US bonds, known as Treasury bills or T-Bills, reached similar highs. Earlier in the day they neared 5% (at a day high of 4.973%), not far off the all-time high of

5.145% recorded in June 2006.

Those highs were reached after statements from the head of the US central bank, known as the Fed, saying there was no immediate prospect of interest rate reductions.

Concerns about US government borrowing rippled across the Atlantic to the UK. Longer duration bonds, such as 10-year bonds, are more volatile than shorter duration bonds.

The Fed, like the Bank of England, has been raising interest rates in an effort to dampen economic activity and bring down inflation – the rate of price rises.

Inflation hit highs after energy price rises in the wake of Russia’s invasion of Ukraine and the pandemic-era supply chain difficulties.