What are bonds, how are they different to gilts and where do they fit in the mini-budget crisis?

The Bank of England has made the very unusual move of buying 'long-dated gilts' to restore stability after Liz Truss and Kwasi Kwarteng's mini-budget sent the markets plummeting.

Long-dated gilts are a type of government bond that make up a large proportion of pension pots.

Pension funds would have collapsed -follow economy latest

Have we lost you? Here Sky News busts some of the jargon around the current crisis.

What are bonds?

A bond, also known as a fixed income investment, is a debt-based investment.

In terms of risk level, they sit between cash and shares.

Effectively an 'IOU', when you invest in a bond you are lending a company, organisation or government money for a set number of years.

In return, you will get regular fixed interest payments, which are referred to as the 'yield' or 'coupon'.

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When the loan period ends, the bond reaches maturity, and the investor is paid back the original amount in full.

For example, if you invest £10,000 in a 10-year bond with a 5% yield, you will be paid 5% (£500) of your original investment

as interest every year for 10 years. Once the 10 years is up, you will be given back the original £10,000.

How are they different to gilts?

Gilts are the name given to UK government bonds. In the US they are called Treasury Bills or T-Bills.

The government issues bonds to generate money for government spending, which it can then spend on infrastructure.

In the UK they are often used to service pension funds and the life insurance market.

An example of a gilt is the 1½ Treasury Gilt 2047.

This means that if you invest £1,000, you will receive 1.5% (£15) a year until 2047. This is made in two payments of £7.50 each January and July.

Government bonds generally offer low rates of return and are therefore seen as low-risk.

But investing in the government of a country with a strong economy will usually be regarded as an asset to an investor's portfolio.

Banks and large financial institutions who originally buy the gilts from the government at auction can sell them on to smaller financial institutions, traders or investors on the open market.

The price – or rate – at which they are bought and sold will be higher if investors think the government is able to repay the debt when the bond matures.

But when confidence in the UK economy falls, so does the bond price.

This increases the yield – the rate of interest – or cost of borrowing – as investors seek to protect their money.

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Bank of England intervention reaction

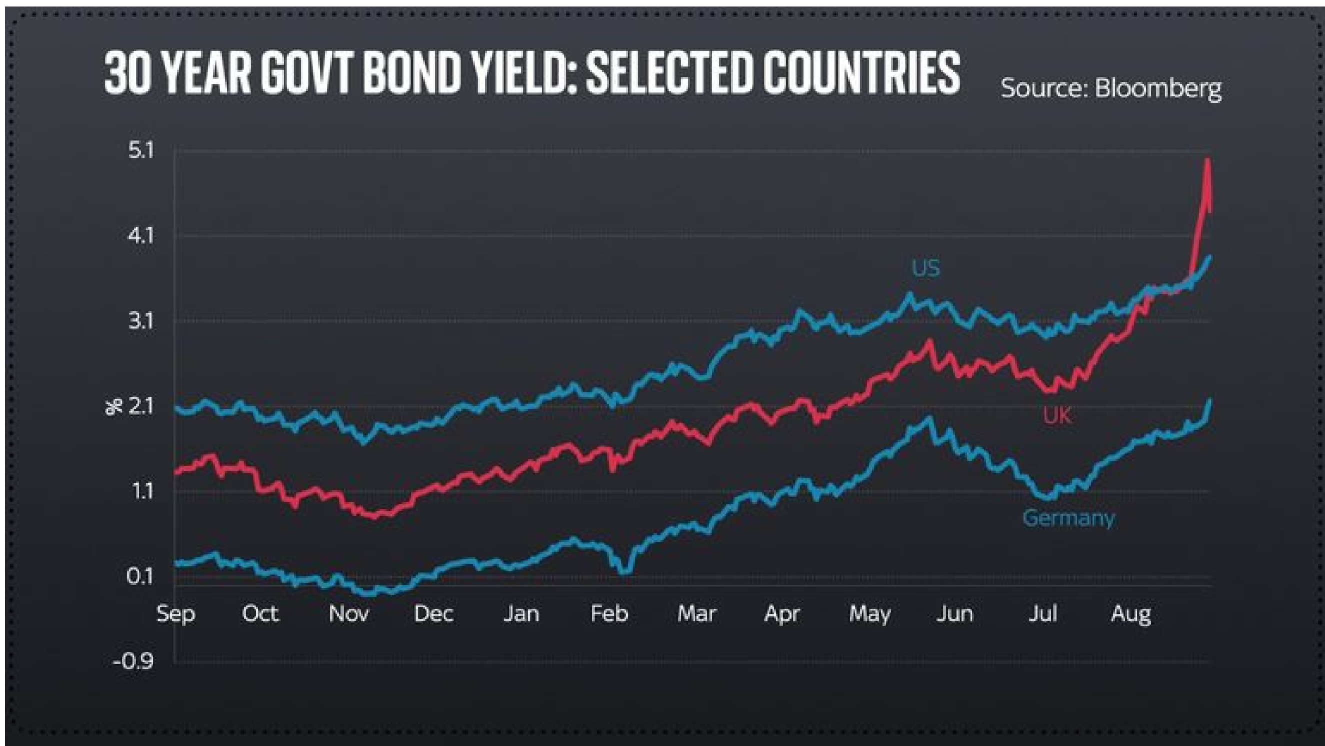
Why is the Bank of England selling long-dated government bonds?

UK financial markets rely heavily on the buying and selling of gilts.

This is partially because pension funds form a large part of the market – and they use long-dated gilts (ones that are near to maturity).

When the government announced £60bn in tax cuts and the £40bn energy cap as part of its **mini-budget**, investors lost confidence in its ability to repay those long-dated gilts on maturity – as government borrowing would soar beyond what it could afford.

This resulted in yields increasing to their highest rate since the 2008 financial crisis – as investors sought to protect their money with higher interest rates – which in turn caused the prices of bonds to fall.



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On Wednesday the Bank of England said it **will buy gilts for a period of two weeks** to "subside risks to market functioning".

The extraordinary move of a central bank buying bonds is designed to restore confidence in the government's finances – increasing bond prices and decreasing the yields they would have to pay on them.

Sky economics and data editor Ed Conway says had they not acted, whole pension funds could have dissolved by Wednesday afternoon.