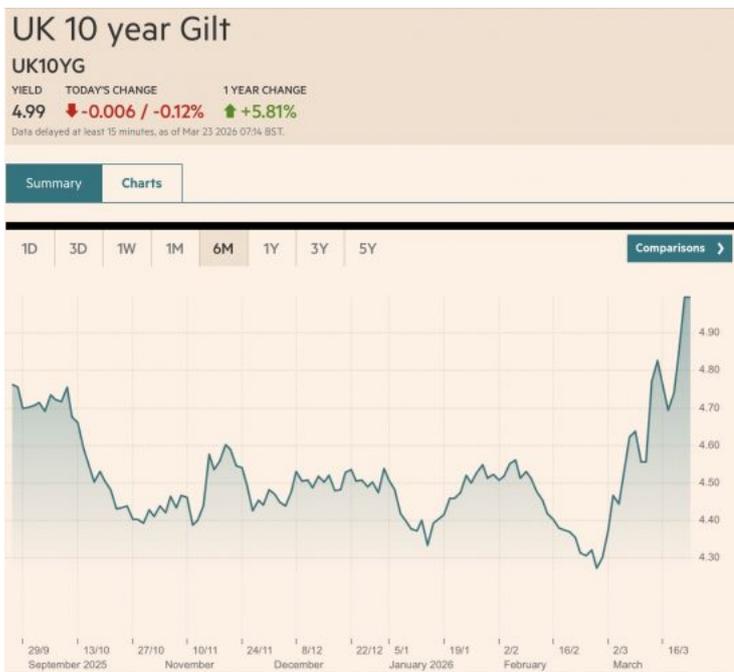


The UK government should be buying bonds

Published: March 23, 2026, 10:28 am

Politicians and economic commentators are obsessing about the view that the cost of UK government borrowing is increasing as a consequence of the war in Iran. This is the relevant chart, reproduced from the Financial Times at around 10 am this morning, and it shows that the current borrowing cost on 10-year gilts is, supposedly, 4.99%.



Let us be clear about this: there is no reason at all for this borrowing cost to be that high.

As a matter of fact, the UK government cannot default on its debts, so why the supposed risk of depositing funds with the UK government, which is all that we are talking about here, should vary significantly as a consequence of the war in Iran is almost impossible to work out, when this will always ultimately be the safest place to deposit sterling.

There is, however, one obvious response to this situation which the UK government

should be taking, but which it clearly is not. When the world wishes to sell UK government bonds, at what must be an undervalue, because that is why the interest rate appears to be so high, the job of the UK government is to buy them in whatever quantity is required until the point is reached where the UK government has achieved the interest rate that it desires, which will be one way lower than 4.99%.

And let us not pretend that the UK government has not got the capacity to do this. When the UK government chooses to buy government bonds, all it does is an asset swap. It replaces bonds in the market, on which it pays an interest rate of 4.99%, with cash in the central bank reserve accounts, on which at present it is paying 3.75%. It is grossly irresponsible for it not to take this action at present, because it is imposing a cost upon us all which is utterly unnecessary.