Gilts

Gilt investors brace for nearly £310bn in debt sales

Near-record total will be a test of market confidence in chancellor Rachel Reeves' spending plans

Gilt issuance above consensus, or a worse than expected picture of the public finances in the Spring Statement, could roil the market © Financial Times

Ian Smith in London

Published MAR 20 2025

UK bond sales are forecast to rise to almost £310bn next year, a near record sum that will provide the latest test of market confidence in Rachel Reeves' spending plans.

Alongside the chancellor's Spring Statement on public finances on March 26, the UK's Debt Management Office will announce its intended issuance for the coming fiscal year.

City investment banks expect the Treasury to increase its so-called net financing requirement for the year to March 2026 to £308bn, according to an average of 10 estimates gathered by the Financial Times. That would surpass the upgraded £300bn figure for 2024-25 set out at the October Budget and set a new high outside the 2020-21 Covid-19 issuance surge.

Craig Inches, head of rates and cash at Royal London Asset Management, said the market could absorb the estimated sum without incident as long as it was "accompanied with significant spending cuts and a prudent approach to the fiscal headroom".

But "any signs that the chancellor is prepared to throw caution to the wind . . . could prove fatal for a gilt market that is already on life support", he added.

The UK's borrowing costs have risen over the past year

Ten-year gilt yield (%)

Source: LSEG

A rise in global bond yields since the October Budget — as a bond sell-off combined with concerns over the UK's public finances — pushed UK 10-year borrowing costs to a 16-year high in January at 4.93 per cent.

These have since fallen back to 4.65 per cent, but economists have warned that the overall rise in interest costs over the past year has wiped out a large part of Reeves' headroom against her self-imposed fiscal rules.

Some investment firms are forecasting £10bn in spending cuts as Reeves seeks to put the public finances on a sound footing.

Issuance above consensus, or a worse than expected picture of the public finances, could roil the market. Investors will also pay close attention to the broad shape of issuance set out by the DMO, in terms of how much it intends to issue in various buckets such as short-term conventional gilts and longer-term index-linked debt.

At a meeting in January between officials and gilt-edged market makers, primary dealers pushed for a further reduction in the proportion of long-term debt sales.

Barclays strategist Moyeen Islam said the DMO should radically speed up a trend towards issuing more short-term debt, believing that such a move could help stabilise volatile long-term yields and reduce interest costs.

"If you can manage your debt interest bill as well as all the other spending items . . . that has a role to play in meeting your fiscal rules," he added.

A Treasury spokesperson said that "the chancellor has made clear that meeting the fiscal rules is non-negotiable".

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