# Rachel Reeves faces rising gilt yields and political backlash amid soaring borrowing costs



UK gilt yields are on the rise, creating significant pressure for Chancellor Rachel Reeves as she navigates a precarious economic landscape. Just months into her role, Reeves is facing a perfect storm of political and fiscal challenges that threaten to derail her economic strategy.

The Chancellor recently experienced a public embarrassment when Prime Minister Sir Keir Starmer reversed her decision to abolish winter fuel payments for ten million pensioners. This move, initially framed as a commitment to fiscal discipline, was met with fierce backlash both from within the Labour Party and the public, leading to questions about Reeves' political judgement and authority. The attempted cuts were seen as part of a broader strategy; however, the backlash coincided with Labour's disappointing performance in recent local elections, intensifying scrutiny on her future fiscal plans.

The situation is compounded by alarming developments in the nation's borrowing figures. In April, the public sector net borrowing reached £20.155 billion, exceeding economist forecasts, and signalling the government’s ongoing struggle with a rising budget deficit. This trend points to a fiscal environment escalating beyond expectations, further complicated by rising interest costs. Current borrowing costs are now higher than during the chaotic premiership of Liz Truss, and they have surged to levels not seen since the financial crisis of 2008. Such rising costs threaten to undermine planned spending on essential services, including healthcare and education.

Analysts have noted that the increase in UK gilt yields reflects more than just national issues; it mirrors global economic trends, which are becoming increasingly intertwined. Influences from the US, particularly anxiety over inflation and trade policy under new administration, are making conditions more precarious for the UK economy. The complexities of this global financial landscape are testing Reeves’ ability to maintain fiscal credibility while attempting to stimulate growth.

Reeves' projected path towards a balanced budget by 2029-30 now appears increasingly fraught. Rising interest payments on government debt have escalated, surpassing spending on both defence and housing. The UK's debt-to-GDP ratio is exceeding 98%, creating a significant fiscal burden that exacerbates the challenges posed by persistent inflation rates and sluggish economic growth. Despite modest growth in GDP, much of it is attributed to surges in exports ahead of new tariffs from the US, an indication of deeper vulnerabilities in the domestic economy.

Tensions within the Labour Party further complicate the landscape. While some factions are pushing for tax increases on wealthier citizens as a counter to spending cuts, Reeves appears cautious, leaning towards tighter public spending instead. The ongoing internal discussions underscore significant divisions within Labour regarding the most effective strategies to address the country’s fiscal woes.

As Reeves prepares to address Parliament and present a multi-year spending review, the stakes are exceedingly high. The forthcoming measures are anticipated to include tough decisions on public spending and potential welfare cuts or tax hikes. If the current trajectory continues, her financial strategies may require reassessment in response to bond market pressures.

In this uncertain climate, the Chancellor’s ability to orchestrate a coherent economic strategy that balances fiscal responsibility with growth ambitions will be put to the test, raising questions about the future stability and direction of the UK economy.

### Reference Map

1. Paragraph 1: [[1]](https://www.express.co.uk/finance/personalfinance/2058909/rachel-reeves-faces-meltdown-uk-borrowing-costs-highest-since-2008-financial-crisis)
2. Paragraph 2: [[3]](https://www.ft.com/content/0b593691-6f40-4c04-b2f5-d31a602f021d)
3. Paragraph 3: [[2]](https://www.reuters.com/world/uk/uk-public-finances-show-bigger-than-expected-deficit-april-2025-05-22/)
4. Paragraph 4: [[4]](https://www.ft.com/content/ca4cab92-2596-49a4-9f73-f1f6d10a041e)
5. Paragraph 5: [[5]](https://www.apnews.com/article/697e0cf30347683d31947a8f4e2c745f)
6. Paragraph 6: [[6]](https://www.ft.com/content/d69aa3cb-a474-40b7-87ea-5a652202ff6b)

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## Bibliography

1. <https://www.express.co.uk/finance/personalfinance/2058909/rachel-reeves-faces-meltdown-uk-borrowing-costs-highest-since-2008-financial-crisis> - Please view link - unable to able to access data
2. <https://www.reuters.com/world/uk/uk-public-finances-show-bigger-than-expected-deficit-april-2025-05-22/> - Britain's public finances are under increasing strain as the 2025/26 financial year opens with higher-than-expected borrowing. In April, public sector net borrowing reached £20.155 billion, significantly above economists' forecast of £17.9 billion. This continues a trend of underestimating the budget deficit over the past year. Finance Minister Rachel Reeves is set to present a crucial multi-year spending review on June 11. Her plans depend on a narrow fiscal buffer of less than 1% of annual spending, intensifying scrutiny from investors. Reeves had previously raised employer National Insurance contributions but avoided broader tax hikes. April marked the first month under the new NICs rates, with contributions rising 12.8% based on projections, though actual receipts grew only 7.7%, the lowest April increase since 2020. Due to the one-month lag in NICs payments, more definitive data will be available in the following month. The Office for National Statistics also revised the previous financial year’s deficit down to £148.3 billion, or 5.1% of GDP, still above the Office for Budget Responsibility's March forecast of £137.3 billion. Investors remain cautious amid persistent inflation, high debt costs, and sluggish growth, contributing to bond market volatility.
3. <https://www.ft.com/content/0b593691-6f40-4c04-b2f5-d31a602f021d> - Chancellor Rachel Reeves is under political pressure following a significant U-turn on her initial decision to scrap winter fuel payments for 10 million pensioners, a move that had been intended to demonstrate fiscal discipline. The partial reversal, confirmed by Prime Minister Sir Keir Starmer, has raised concerns about Reeves' political judgment and the potential for further policy backtracking under public and party pressure. The retreat followed fierce internal opposition from Labour MPs and public backlash, which contributed to Labour's poor performance in recent local elections. This has led to intensified scrutiny of Reeves’ upcoming fiscal plans, which include a tough public spending review and potential welfare cuts or tax increases later in the year. A leaked memo from Deputy Prime Minister Angela Rayner proposed raising taxes on the wealthy as an alternative to cuts, highlighting internal divisions. Despite a modest 0.7% GDP growth in Q1, public borrowing remains high, suggesting ongoing fiscal challenges. While some view the U-turn as a strategic adjustment, others question Reeves' authority and fear it may embolden resistance to future financial reforms. The incident has sparked broader concerns about Labour’s policy coherence and leadership ahead of the next election.
4. <https://www.ft.com/content/ca4cab92-2596-49a4-9f73-f1f6d10a041e> - Less than three months after her first Budget, UK Chancellor Rachel Reeves faces increasing borrowing costs, potentially forcing tighter fiscal policy by March to meet her budget constraints. The rise in borrowing costs is partly influenced by anticipation of US inflation and concerns of UK stagflation, which have led to a surge in UK gilt yields and sterling weakness. This situation threatens Reeves' plans to balance the current budget by 2029-30 as higher interest payments could negate her fiscal rule margins. Forecasts from the Office for Budget Responsibility (OBR) in March will be crucial, especially given the recent weaker-than-expected GDP readings. A downgraded forecast could further strain public finances. To address the fiscal challenges, Reeves may resort to tighter spending plans rather than immediate tax rises, though analysts caution that persistent bond market pressure might necessitate additional measures. As a part of her strategy, Reeves aims to promote economic growth, including an upcoming trip to China. However, with relentless bond market sell-offs, sustaining fiscal credibility and reviving growth prospects remain significant challenges.
5. <https://www.apnews.com/article/697e0cf30347683d31947a8f4e2c745f> - Britain's new government is facing significant economic challenges only six months into its term, with higher borrowing costs threatening to undermine its left-leaning agenda. The yield on the UK's 10-year bonds has increased by more than 1.1 percentage points since September, reflecting investor concerns about sluggish economic growth and persistent inflation, which has driven borrowing costs to their highest levels since the 2008 financial crisis. This situation limits government spending on essential services such as healthcare, military, and education. Prime Minister Keir Starmer may need to reconsider his pledges on spending and tax increases. Compounding the issue is the anticipated impact of US President-elect Donald Trump's trade policies on global bond yields. Britain's economic woes are further exacerbated by high levels of government debt, exceeding 98% of GDP, and concerns over inflation and stagnating growth. The government has sought to boost trade ties with China to stimulate growth. A reassessment of economic strategies is expected when Treasury Chief Rachel Reeves updates Parliament and economic forecasts are provided on March 26.
6. <https://www.ft.com/content/d69aa3cb-a474-40b7-87ea-5a652202ff6b> - Interest payments on government debt have reached their highest level since 2007 for wealthier nations, surpassing spending on defense and housing. According to the OECD, debt service costs increased to 3.3% of GDP in 2024 from 2.4% in 2021. For comparison, military spending was 2.4% of GDP in 2023. In the US, debt interest costs reached 4.7% of GDP, while in the UK and Germany, they were 2.9% and 1%, respectively. Rising borrowing costs are due to persistent inflation and increased government spending on defense and other fiscal measures. The OECD highlighted concerns over the sustainability of increased debt issuance, projecting sovereign borrowing to hit a record $17 trillion in 2025. The organization emphasized the need for borrowing to stimulate growth to reduce the debt-to-GDP ratio while noting that higher bond yields complicate refinancing. The evolving profile of bondholders, with central banks reducing their holdings, leaves governments exposed to more market volatility and economic uncertainty.