

Gilt Yields Rise as Divided Bank of England Vote Tempers Rate Cut Hopes

August 8, 2025

— Categories: Politics & Government



UK gilt yields move higher after the Bank of England cuts interest rates to 4% in a closely split vote, narrowing prospects for further reductions this year.

The Monetary Policy Committee (MPC) votes 5–4 in favour of a quarter-point reduction, reflecting concerns over slowing economic growth and

persistent inflationary pressures. The tight decision signals disagreement among policymakers, with almost half the committee preferring to keep rates unchanged. The outcome prompts traders to reassess the likelihood of additional cuts before the year's end.

Market reaction is swift, with yields on 10-year government bonds climbing. Analysts attribute the increase partly to the Bank's updated assessment of its quantitative tightening (QT) programme. Officials now estimate that QT has raised 10-year gilt yields by between 0.15 and 0.25 percentage points, up from a previous range of 0.1 to 0.2 points. The revision reflects the scale of the Bank's balance sheet reduction, which has seen gilt holdings fall by around £100 billion over the past year.

Since the QT process began in early 2022, 10-year gilt yields have risen by approximately 3.25 percentage points. This tightening of financial conditions has added to borrowing costs for both the Government and the private sector, potentially limiting the scope for fiscal expansion.

The Bank's decision comes amid a delicate economic backdrop. While growth indicators show signs of weakening, inflation remains above target. This leaves the MPC balancing the need to support the economy against the risk of loosening policy too quickly. The divided vote underscores uncertainty over the pace and scale of any further adjustments.

Financial markets are now pricing in fewer rate cuts for the remainder of the year, with expectations leaning towards a prolonged period of higher borrowing costs. Economists note that global market dynamics, including the outlook for United States interest rates, are likely to influence the Bank's next moves.

For households and businesses, the higher yields could translate into more expensive loans and mortgages, while savers may see improved returns. The developments highlight the interconnected impact of monetary policy decisions on different sectors of the economy.

The Bank of England's next policy meeting will be closely watched for signs of whether the narrow majority favouring cuts can build wider support, or if caution over inflation will keep rates elevated for longer.